

# State of the Region report: Hampton Roads economy faces a decade of 'shared sacrifice'

By [Peter Frost](#)

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NORFOLK — If the 2000s was the decade of shared prosperity in Hampton Roads, the 2010s will be the decade of shared sacrifice.

A painfully slow economic recovery coupled with projected declines in defense spending threaten to dampen the region's outlook over the short term, according to Old Dominion University's annual State of the Region Report released Tuesday.

"We thought we were in an economic recovery, but the football sort of got snatched away from us, and it appears as if we're in somewhat of a double-dip," said James Koch, an economist and former president of ODU who edited the report.

[PDFs: State of the Region 2011](#)

In a breakfast speech sponsored by LEAD Hampton Roads, an arm of the Hampton Roads Chamber of Commerce, Koch warned more than 700 business and community leaders that a sustained recovery "is going to take a decade of hard slogging and painful choices."

For now, many of those painful choices are not the region's to make, he said. Hampton Roads is nothing more than a "spectator in a larger drama."

Because the region's economy is dependent on federal defense spending, which comprises nearly 46 percent of Hampton Roads' economic output, its short-term fate hinges on decisions that will be made by Congress and President Barack Obama, Koch said.

The Pentagon is seeking to slash at least \$450 billion from the defense budget over the next decade, and another round of cuts likely are on the way.

A dozen members of Congress have a Nov. 23 deadline to devise a plan to cut \$1.5 trillion from the federal budget deficit over the next 10 years, an amount that almost certainly will include money from the Defense Department.

In Hampton Roads, where the department will spend about \$20.7 billion in 2011, "that will effect everyone here in a very, very major way," Koch said.

Other economic factors beyond the region's control include actions taken by the Federal Reserve Bank and the ripple effect of a prolonged financial crisis in Europe.

Koch's speech came on the same day the central bank's chairman, Ben Bernanke, told Congress that the nation's economic recovery "is close to faltering" and the Fed is considering taking further steps to support it.

"We need to make sure that the recovery continues and doesn't drop back and that the unemployment rate continues to fall downward," Bernanke said.

While the unemployment rate in Hampton Roads has fared much better than the nation as a whole, the region has 40,000 fewer jobs today than it did in 2008.

## Defense spending

If the defense budget is subjected to significant cuts, "There will be many fewer pizzas purchased, homes bought, newspapers bought, higher education bought — you can go right across the (local) economy," he said.

At the same time the defense budget is facing downward pressure, the cost of major weapons systems like fighter jets, aircraft carriers and submarines continues to rise.

"These things are simply getting too expensive," and it's all but inevitable that the Navy won't be able to buy as many as they have in the past, Koch said.

He also raised the specter that Norfolk will lose a carrier, either through the relocation of a strike group to Florida or the Pacific, or through an overall reduction to the fleet.

The loss of a carrier strike group would cost the region between \$800 million and \$900 million in annual economic activity, a loss two times as painful as the closing of the Ford assembly plant in Norfolk four years ago, Koch said.

"The danger here, of course, is that we're more dependent on defense spending now than we ever have been in the past," he said.

### **Housing market**

The real estate bubble and subsequent bust remains a significant problem in the local economy.

The region's housing stock has lost 23.4 percent of its value over the past four years, below the national average of 29.4 percent, but enough to inflict long-term damage on the market.

More than a quarter of single-family home sales in Hampton Roads in 2010 were classified as "distressed," meaning they were sold through foreclosure or short sale. In the first five months of 2011, the percentage of distressed sales jumped to 37.5 percent. That compares with just 0.27 percent in 2006.

Last year, new home construction in Hampton Roads plummeted to a 30-year-low.

With prices low, the market also is flush with so-called "hidden inventory," where people haven't put their homes on the market because they don't think they can sell it at the right price, Koch said.

Until excess housing inventory is cleared, "I think we'll continue to see prices trend downward, not dramatically, but a couple of percentage points in a year or so," Koch said. "We're probably in for a couple of years for stagnation" with a full recovery likely several years away.

### **Tourism**

While the region's tourism industry bucked a nationwide trend during the first two years of the recession with steady growth, it has "all of the sudden come to a halt," Koch said.

Hotel revenue growth in Hampton Roads stagnated in 2010, growing 0.6 percent. That compares with 4.2 percent growth in Virginia and 7.5 percent growth nationwide, according to the report.

The Historic Triangle – Williamsburg, Jamestown and Yorktown — "is really suffering," Koch said.

He said historic attractions may need to reinvent themselves and modernize to reach younger audiences.

### **Transportation**

The vast majority of Hampton Roads workers are commuters, according to the report. In fact, in only one city — Virginia Beach — do more than half of its workers come from within its borders.

In Newport News and Hampton, about a third of each city's jobs are filled by people who live there.

For that reason, Koch cautioned against the state's movement toward implementing a series of tolls on Hampton Roads highways and bridge-tunnels, saying they could "reduce mobility and may, in fact, isolate our entire region."

While he acknowledged that transportation improvements need to be made and they'll have to be paid for, Koch said "we are taking a risk if we put tolls up too high."

Instead, he advocated raising the state's gas tax, which has been 17.5 cents per gallon since 1986, to help pay for construction projects.

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