The Hampton Roads Economy

HAMPTON ROADS FORECAST: THE ECONOMIC WINDS BEGIN TO BLOW

Our regional economy has performed extremely well over the past five years, even though it slowed its pace last year. In 2006-07, it is likely that the Hampton Roads economy will expand at a rate comparable to that of the national economy. However, it appears that our boom days are over, at least for the next several years.

In this section, we look at the sources of Hampton Roads' extraordinary performance in the first half of this decade and assess our less-attractive prospects for the next few years. We also examine the probable effects of pending plant and military base closures, as well as that perennial topic of interest, housing prices and housing markets.

OVERALL ECONOMIC PERFORMANCE

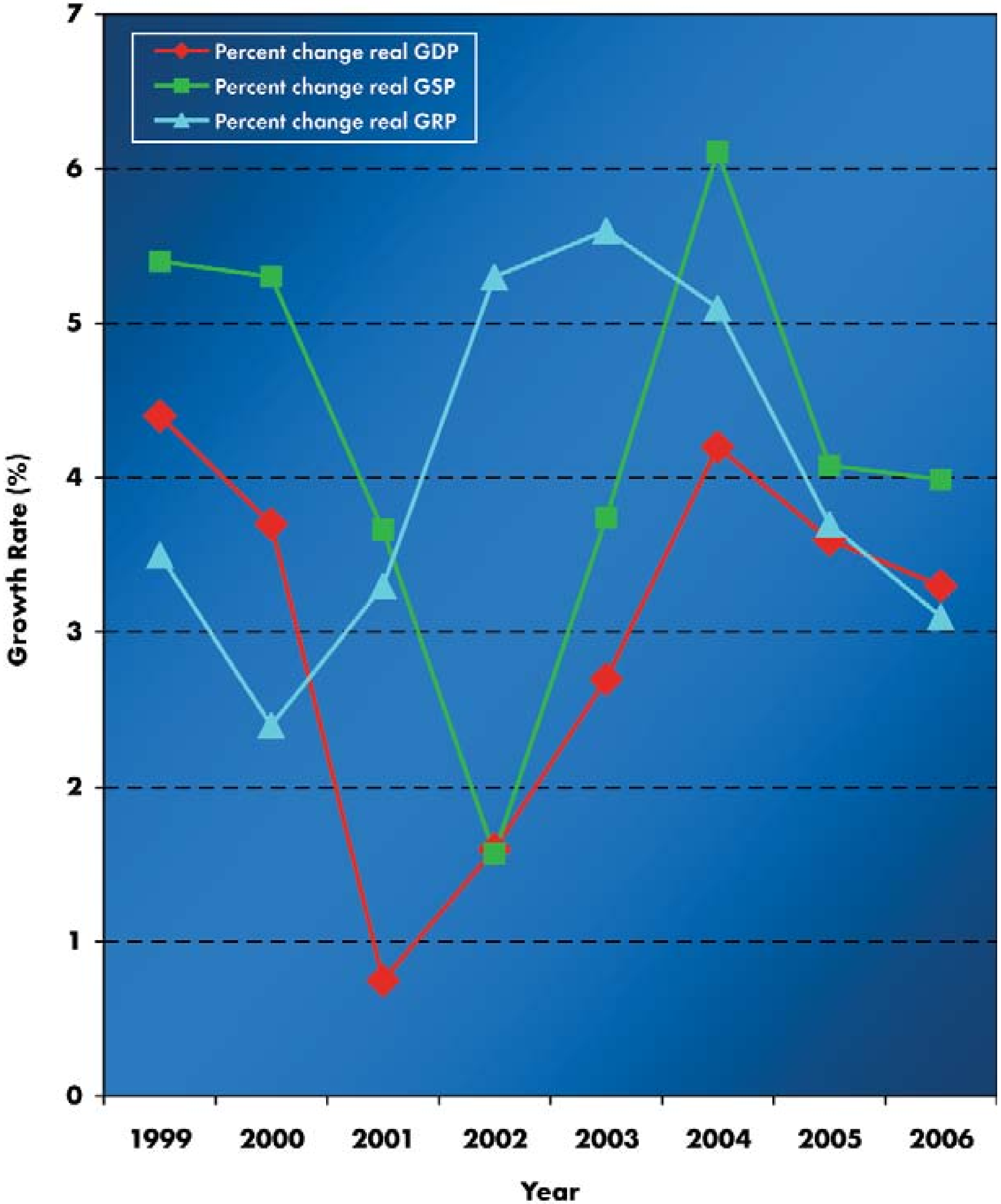
In May 2006, the U.S. Department of Commerce released revised personal income data for Hampton Roads. Personal income is a key component in the estimation of our gross regional product (GRP), which measures the dollar value of the goods and services we produce. The latest data show higher levels of regional personal income in 2002 and 2003 than previously reported. When we incorporate these new data in the Old Dominion University Economic Forecasting Project's model of the Hampton Roads economy, the result is higher economic growth rates over the same period and higher GRPs in several years. In effect, the Department of Commerce told us, "You've done even better than we thought."

The major contributor to the stronger than previously estimated regional income growth was the Department of Commerce's revised upward estimate of military earnings, the growth of which we discuss below.

During the first half of this decade, the Hampton Roads economy typically outpaced both the Virginia economy and the national economy. Graph 1 reflects this superb performance. Only in 2006 will the growth of the regional economy fall slightly below the national average.

The latest data indicate that Hampton Roads' high GRP growth rates in 2002 and 2003 kept Virginia out of potential recession and, together with Northern Virginia, stimulated the Commonwealth's economic revival in 2004. In 2005, our regional economic growth rate fell below that of Virginia, but still exceeded the national rate. In 2006, the region's rate of growth again is below Virginia's and also is slightly less than that of the nation.

GRAPH 1
GROWTH IN (US) GDP, (VA) GSP AND (HR) GRP



Source: Old Dominion University Economic Forecasting Project

Table 1 supplies specific data for the Hampton Roads economy for 1990-2006. **It is apparent that economic growth is decelerating within the region, though our 3.2 percent real (price-adjusted) economic growth rate in 2006 is still very respectable and will be close to the national economic growth rate.**

Note that the value of our gross regional product in 2006 will reach $71.86 billion. This is larger than the gross product of 15 states! To put this into perspective, think of the Hampton Roads economy as being slightly smaller than the economy of Nebraska and about one-third larger than the economy of West Virginia. Table 2 presents comparative data for 2005.

Why is the regional economy now growing less rapidly? The primary reason is a decline in the rate of growth in defense spending.

TABLE 1

GROWTH IN OUR REGIONAL PRODUCT, 1990-2006

Year	Nominal GRP Billions $	Real GRP (2000=100) Billions $	Real GRP Growth Rate Percent
1990	31.60	38.70	0.4
1991	33.02	39.10	1.0
1992	34.78	40.26	3.0
1993	36.40	41.18	2.3
1994	37.96	42.06	2.1
1995	38.90	42.23	0.4
1996	40.74	43.41	2.8
1997	42.72	44.78	3.1
1998	44.04	45.65	1.9
1999	46.22	47.22	3.5
2000	48.36	48.36	2.4
2001	51.16	49.96	3.3
2002	54.83	52.63	5.3
2003	59.09	55.59	5.6
2004	63.73	58.41	5.1
2005	67.95	60.59	3.7
*2006	71.86	62.51	3.2

* Forecast
Source: Old Dominion University Economic Forecasting Project. Data incorporate U.S. Department of Commerce personal income revisions through May 2006.

TABLE 2

COMPARING THE HAMPTON ROADS ECONOMY TO SELECTED STATES

State or Area	Value of Gross Product (2005)
West Virginia	$51.2 billion
Hawaii	$52.5 billion
Delaware	$53.4 billion
New Hampshire	$56.8 billion
Hampton Roads	$67.9 billion
Nebraska	$69.3 billion
District of Columbia	$78.8 billion

Sources: Bureau of Economic Analysis, U.S. Department of Commerce; Old Dominion University Economic Forecasting Project

DEFENSE SPENDING IN HAMPTON ROADS

Graph 2 reports the yearly rate of change in Department of Defense (DOD) spending in Hampton Roads between 1990 and 2006. In previous State of the Region reports, we established that defense spending accounted for roughly three-quarters of the economic growth we have experienced in Hampton Roads since 2001. Hence, ups and downs in defense spending tend to propel or stall our regional economy. For example, declines in real defense spending of the 1990s acted as a drag on our rate of growth. However, 10 percent increases in defense spending in 2001 and 2002 supercharged our economy.

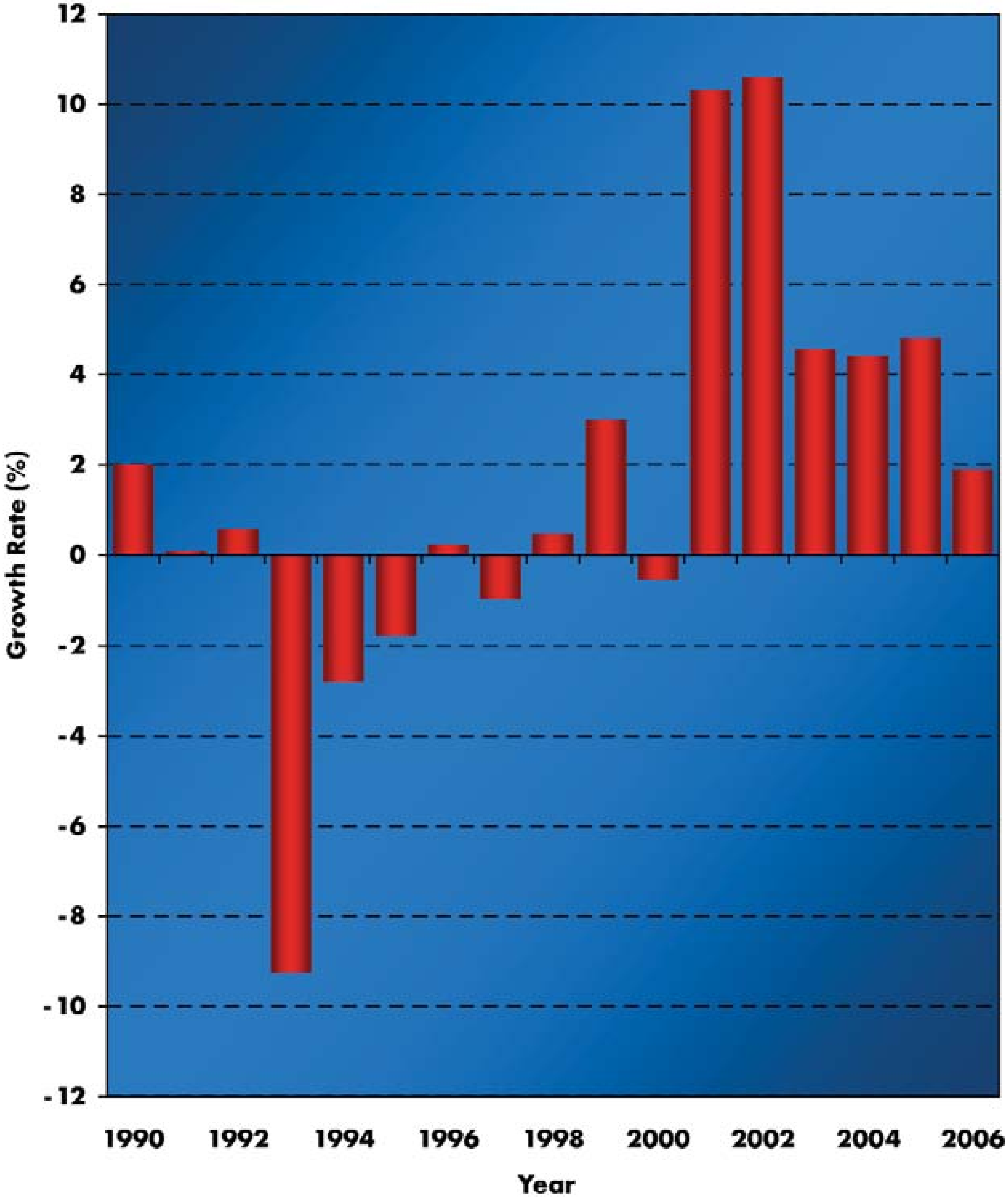
An *additional* $2.8 billion of defense spending was infused into the Hampton Roads economy over the two-year period, 2001-02. This relatively large exogenous spending shock created a tremendous impetus for growth for several years, though the ripple effects of this spending injection were largely exhausted by 2004.

After growing more than 4 percent in 2005, defense spending in the region will grow only 2 percent in 2006. Many regions would love to have such an increase, which will amount to more than $330 million. **However, like an automobile that is moving forward at a high rate of speed, though slowing down, our regional economy also will slow down in 2006, although only about to the national average growth rate.**

THE ANATOMY OF DEFENSE SPENDING IN HAMPTON ROADS

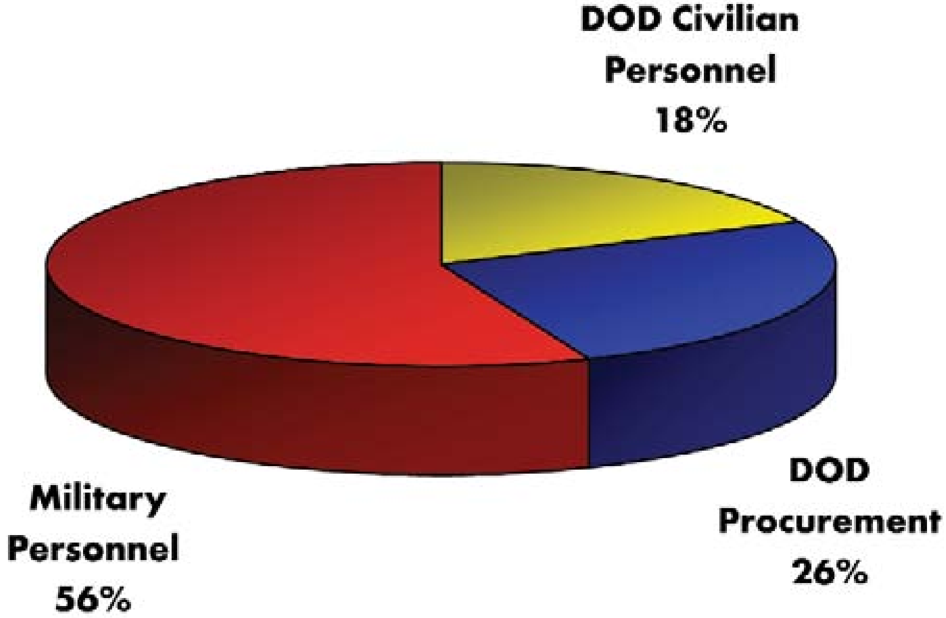
Department of Defense spending in Hampton Roads is approximately $16.8 billion for 2006. Graph 3 shows that the earnings of military personnel account for 56 percent of DOD spending within our region, followed by procurement spending and the earnings of DOD civilian personnel. Total earnings for both military and DOD civilian personnel are $12.3 billion; this is almost three-quarters of total DOD spending in Hampton Roads.

GRAPH 2
REAL (PRICE-ADJUSTED) GROWTH IN DEFENSE SPENDING IN HAMPTON ROADS, 1990-2006



Sources: U.S. Department of Commerce, U.S. Department of Defense and the Old Dominion University Economic Forecasting Project

GRAPH 3
DISTRIBUTION OF DEFENSE SPENDING IN HAMPTON ROADS BY CATEGORY



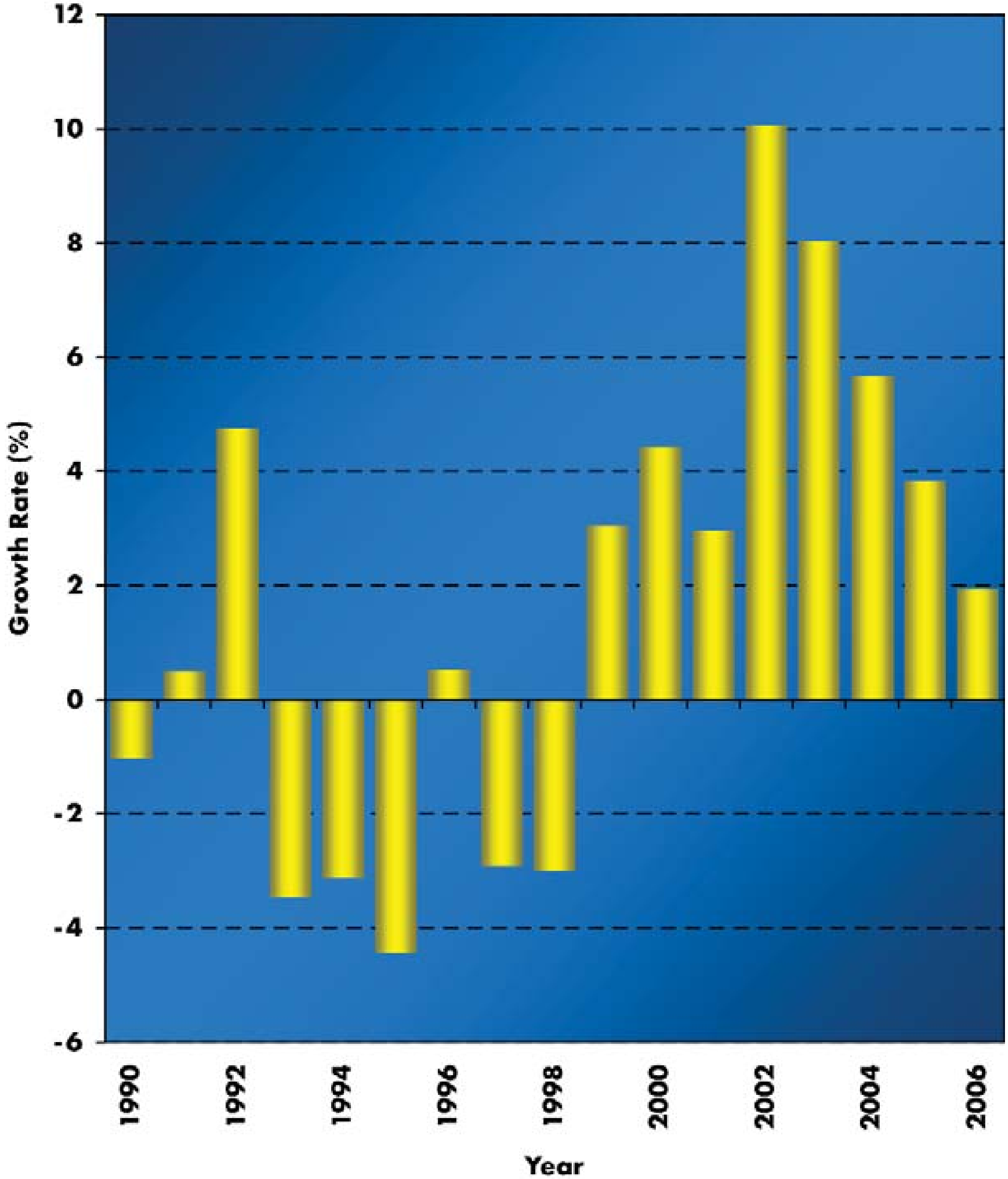
Sources: U.S, Department of Commerce, U.S. Department of Defense and the Old Dominion University Economic Forecasting Project

Graphs 4 - 6 demonstrate year-to-year changes in the level of military earnings, DOD procurement spending and the compensation of DOD civilian personnel (which is labeled by the U.S. Department of Commerce as "earnings"), after price inflation has been removed. Graph 4 shows that the real growth rate of military compensation peaked in 2002 and has declined since then, though even in 2005 it was 2 percent above the rate of price inflation. It's important to note that this does not mean that the wage rates of military personnel were increasing 2 percent faster than the cost of living. Instead, it reflects the DOD's programs to increase retention via higher housing allowances, proficiency and specialty pay, and one-time-only re-enlistment bonuses. Thus, while overall military compensation has increased, wage rates, per se, typically have not risen as rapidly.

Graph 5 depicts the sharp upward spike in DOD procurement that occurred in 2001 (an amazing 40 percent). This was followed by another 10 percent increase in 2002. Recently, those rates have diminished substantially.

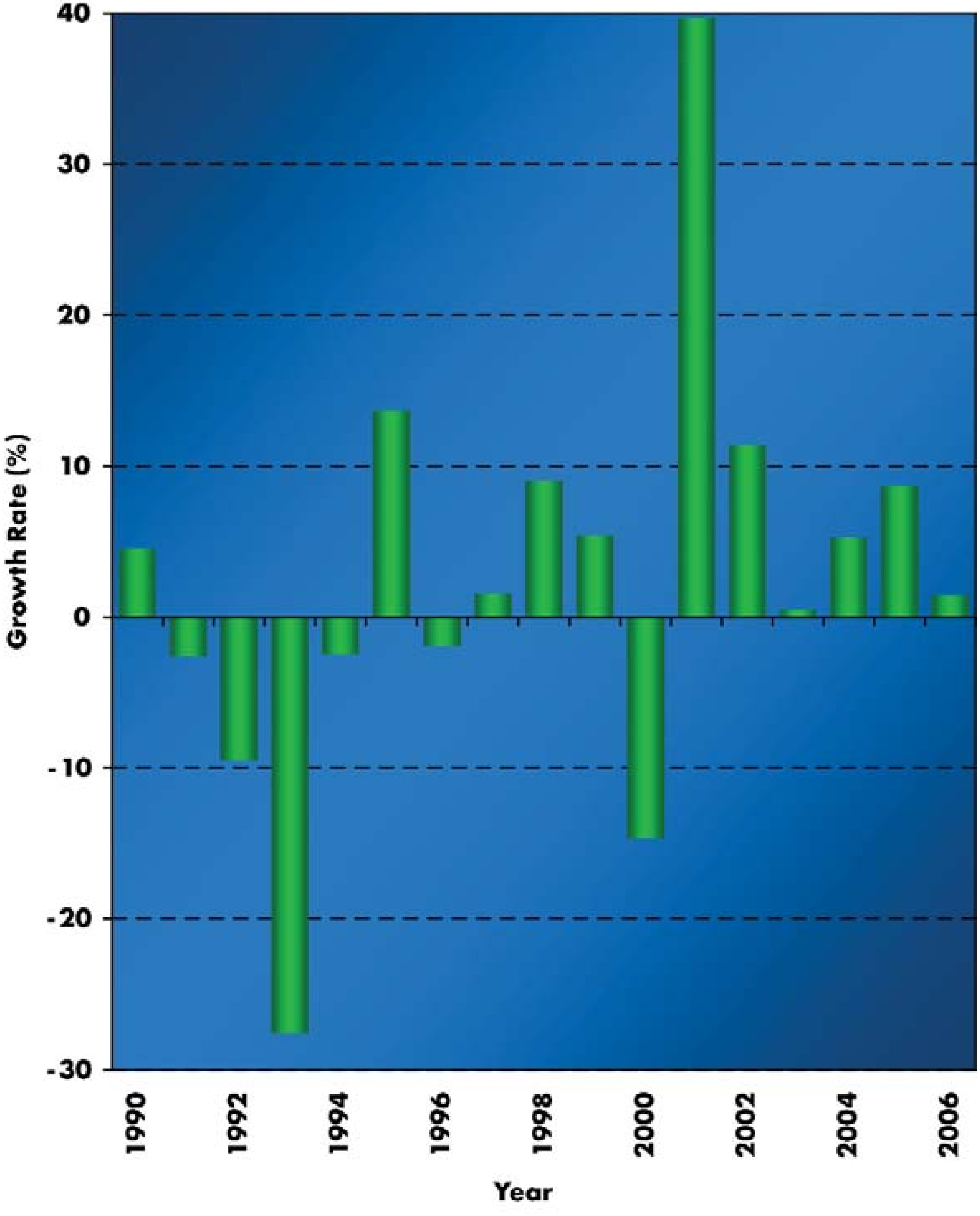
Graph 6 reflects growth in the total compensation paid to DOD civilian employees in the Hampton Roads region. The lesson here is that the amount the DOD spends on its civilian employees is more variable than the compensation of uniformed personnel. Civilian compensation fell by about 8 percent in 1995, but grew by about 11 percent in 2002. The DOD tends to utilize its civilian employees as an economic buffer. When times are tough, cuts often are made there first. When times are good, many civilian employees are added. Simply put, the DOD has more flexibility to adjust these employment levels than it does for many uniformed personnel.

GRAPH 4
GROWTH RATE OF MILITARY COMPENSATION, ADJUSTED FOR PRICE INFLATION, 1990-2006



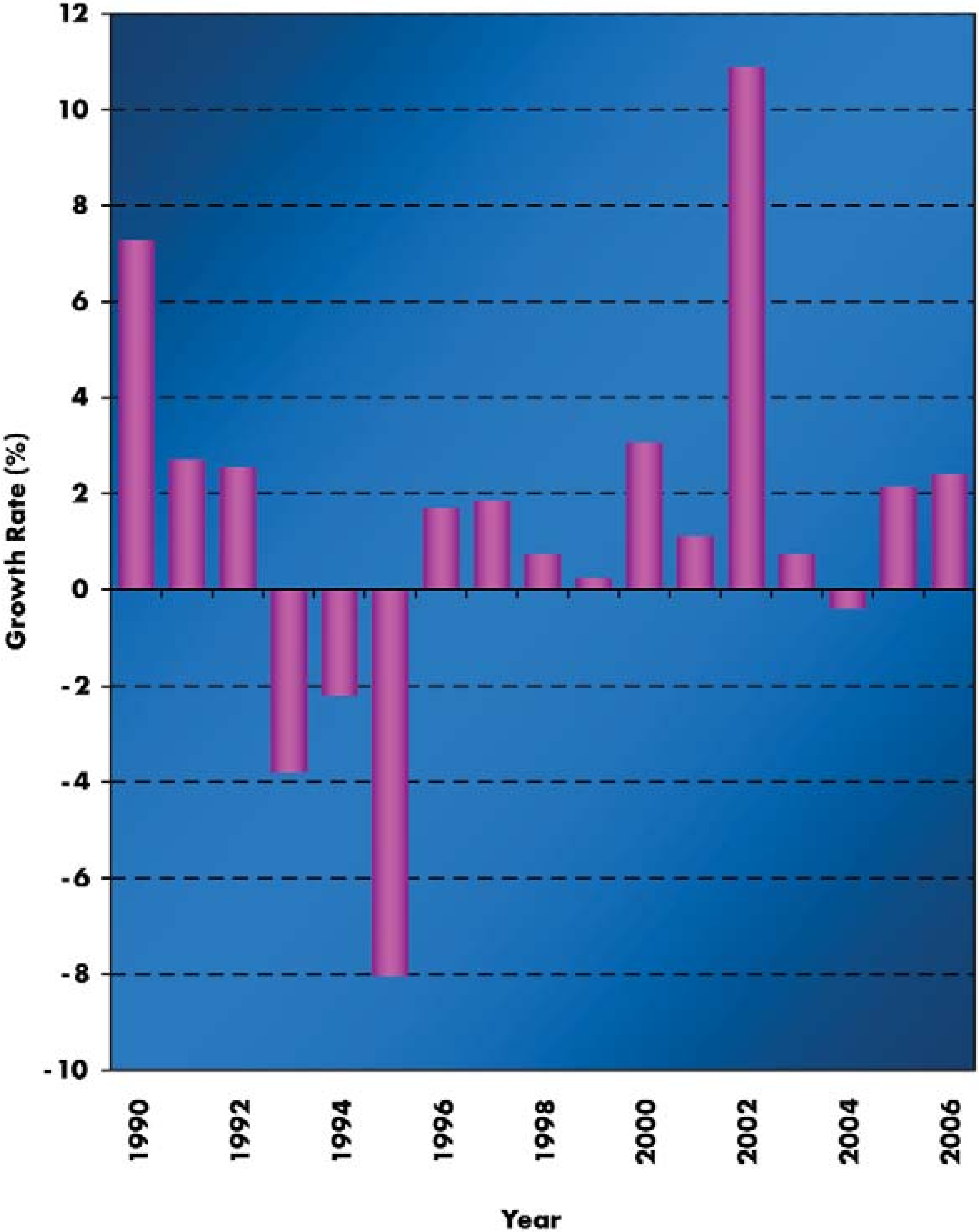
Sources: U.S. Department of Commerce and the Old Dominion University Economic Forecasting Project

GRAPH 5
GROWTH RATE OF DOD PROCUREMENT OBLIGATIONS, ADJUSTED FOR PRICE INFLATION, 1990-2006



Sources: U.S. Department of Defense and the Old Dominion University Economic Forecasting Project

GRAPH 6
GROWTH RATE OF DOD CIVILIAN COMPENSATION, ADJUSTED FOR PRICE INFLATION, 1990-2006



Sources: U.S. Department of Commerce and the Old Dominion University Economic Forecasting Project

A significant portion of the increased military compensation that has occurred recently represents "catch-up" in response to a series of years in the 1990s when compensation actually declined after price inflation was taken into account. **In any case, the recent growth in per-person earnings in the military has been almost four times as large as that of the average American worker and more than double that of the typical private-sector worker in Hampton Roads (Table 3). These compensation increases vaulted the average per-person pretax earnings of military personnel upward by more than a third between 2001 and 2004. Needless to say, this was a major driver of economic growth in Hampton Roads over this time frame. But, that bolt has been shot.**

TABLE 3 PERCENTAGE INCREASES IN WAGES PER WORKER IN HAMPTON ROADS, 2001-2004	
Hampton Roads Military Personnel	34.6%
Hampton Roads Private-Sector Employees	13.5%
U.S. Private-Sector Employees	9.3%
Sources: U.S. Department of Commerce and the Old Dominion University Economic Forecasting Project	

Meanwhile, between 2001 and 2004, total DOD procurement obligations in Hampton Roads increased by 25.8 percent. This also provided a major spur to the regional economy. However, as Graph 5 reveals, recent growth rates have been much more modest and this also contributes to the deceleration of our economy.

When one puts all of this together, it is apparent that the region experienced a highly unusual injection of additional defense spending in the 2001-04 time period and this produced regional economic growth rates that easily exceeded those of Virginia and the nation. The bad news is this stimulus is over; we're now dealing with much more modest growth rates in DOD spending plus the removal of DOD assets and personnel from the region. The economic picnic is over.

BASE REALIGNMENT AND CLOSURE

The 2005 State of the Region report appeared in the midst of the Base Realignment and Closure (BRAC) proceedings. The final outcome of BRAC was unknown then and perhaps still is. Relative to summer 2005, here is how things have changed.

- We do not yet know the fate of Naval Air Station Oceana. However, it does appear that in the worst case, the base will not be closed, but instead "realigned" by transferring some F-18 squadrons to other locations. A residual force would remain at Oceana. But, even that loss is uncertain and, if it occurred, would take place in the next decade.
- The original BRAC recommendations would have moved several large contingents of civilian and military personnel to Hampton Roads from bases at New London, Conn., and the Portsmouth, N.H., Naval Shipyard. Those recommendations were reversed.
- Substantive movements of personnel away from Hampton Roads will not occur until 2008. The main economic effect on the region will be spread out over 2008 and 2009, with all moves completed by 2011.

Table 4 updates the economic impact of the BRAC decisions. Note that the impact of actual (rather than potential) BRAC reductions in Hampton Roads is considerable. The reductions are centered on the Peninsula,

TABLE 4
BASE REALIGNMENT AND CLOSURE: ECONOMIC IMPACT (2006 DOLLARS)

	GRP Loss	Job Loss	Jobs as a Percent of MSA Total	Percent GRP Loss
Oceana GRP Loss (Realign.)	$1.4 Billion	15,600	1.57%	2.10%
Other R&C Net GRP Loss	$0.9 Billion	9,099	0.92%	1.40%
Total	$2.3 Billion	24,699	2.49%	3.50%

Source: Old Dominion University Economic Forecasting Project

with Fort Monroe and Fort Eustis taking the brunt. Relatively speaking, the Peninsula stands to suffer far more than the Southside from BRAC.

The major total economic impact of the base closings in Hampton Roads is likely to be spread over a five-year period, beginning in 2008. The largest impact will be concentrated in 2008 and 2009 and will especially hit the Peninsula. These reductions are not sufficient by themselves to cause an economic recession in Hampton Roads, but they definitely will reduce our economic growth and perhaps introduce economic stagnation such that unemployment rates will rise and per capita income growth will stall. All things considered, our economic prospects for the remainder of this decade are much less favorable than they have been over the past few years. The "good old days" have passed.

THE CLOSURE OF NORFOLK'S FORD MOTOR CO. PLANT

The announcement by Ford Motor Co. on April 13, 2006, that it will close its truck assembly plant in Norfolk in 2008 came as a surprise to plant workers, union officials and civic leaders, as well as many observers of the automobile industry. The announcement was especially surprising since the Norfolk plant is considered one of Ford's most efficient and Ford had recently invested about $400 million for upgrades and expansion. For example, in 2005 the company invested $37 million for a new Vehicle Sequencing Automotive Storage and Retrieval System.

NORFOLK FORD BY THE NUMBERS

The Norfolk Ford plant currently employs 2,433 workers, including 2,275 hourly workers represented by United Auto Workers (UAW) Local 919. The remaining 158 workers are salaried employees. According to the city of Norfolk, the assembly plant has an annual payroll of $160 million.

Where do Ford employees live within the region? **Graph 7 discloses that the economic effect of the plant closing will be shared across Hampton Roads communities. Indeed, cities such as Chesapeake and Virginia Beach boast far more Ford employees than Norfolk, and hence will feel a considerable portion of the economic impact from the closing. Approximately 900 of the 2,275 hourly employees reside in Chesapeake, 600 in Virginia Beach, 250 in northeastern North Carolina, 250 in Norfolk, 200 in Portsmouth and 150 in Suffolk. Thus, only 11 percent of Ford hourly employees reside in Norfolk.**

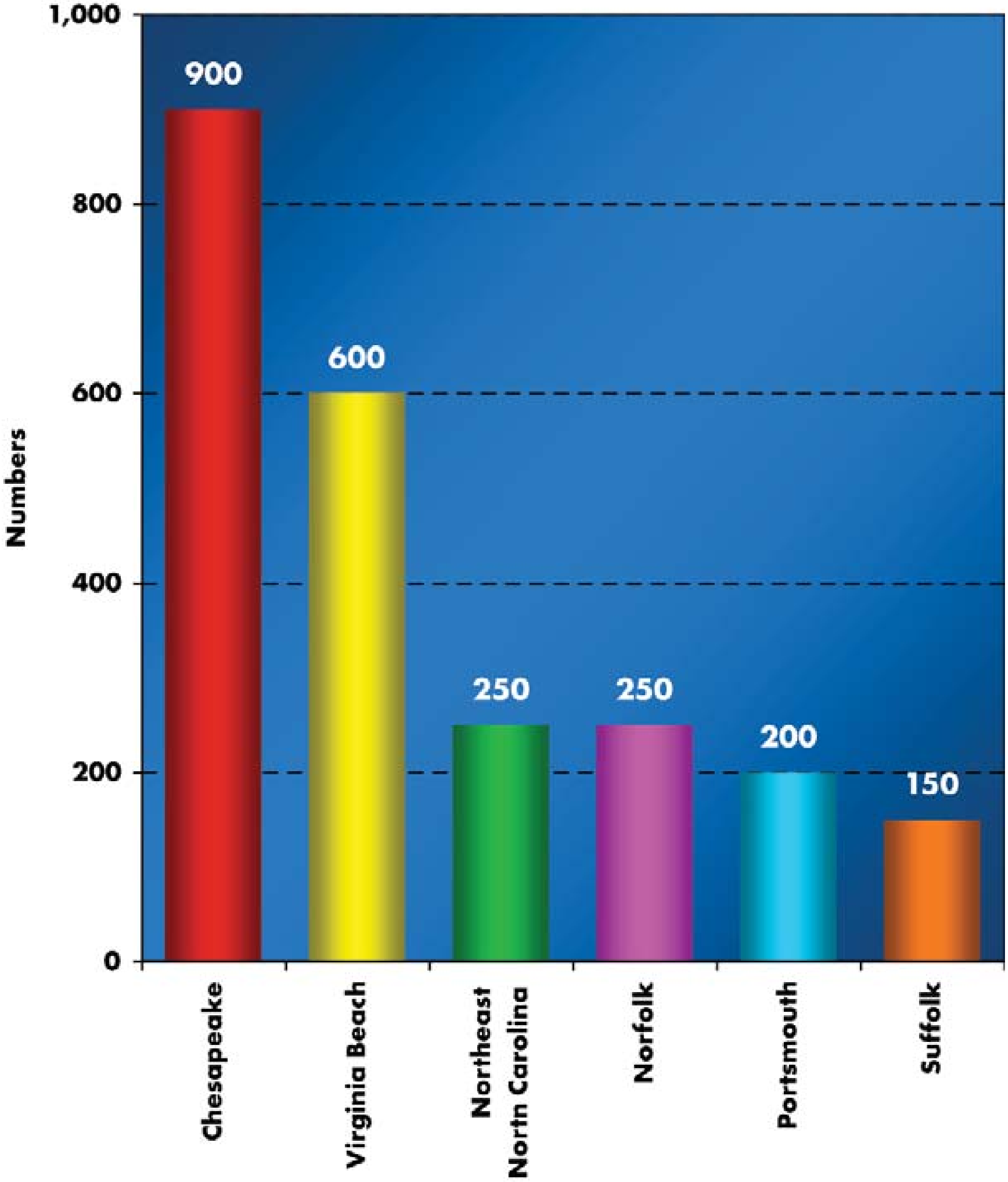
The Ford plant pays the city of Norfolk slightly more than $6 million in tax revenue annually. The city of Chesapeake receives roughly $200,000 in tax revenue from three businesses that exist to supply the Ford plant. The taxes generated include real estate property taxes, personal property taxes, machinery and tool taxes, and utility taxes.

The city of Norfolk and the Hampton Roads Economic Development Alliance have identified 17 automotive suppliers in the Hampton Roads area that together employ 2,517 workers. A survey of these firms revealed that only four of them have significant business relationships with the Ford plant. Unfortunately, all four of these suppliers are expected to shut down when the Ford plant ceases operations. Three of these four companies are located in Chesapeake and employ 507 workers; the fourth company is located in Virginia Beach and employs 25 workers.

Two additional firms, although they supply some parts to the local Ford plant, believe they will not be affected substantially because they anticipate their current business with the local plant will be supplanted by other Ford plants around the country. Ten of the 17 firms surveyed indicated that closure of the Ford plant would not have any impact on their business; one firm could not be reached. **In sum, the survey results indicate that 532 people, or about 21 percent of all workers employed in the local firms supplying the Norfolk Ford plant, will lose their jobs when the plant closes its doors.**

The current contract between the UAW and Ford provides that hourly workers who are laid off receive 75 percent of their wages as a company unemployment benefit; however, this contract expires in September 2007 and it is unlikely this provision will survive. The pre-plant closing expiration of the union contract creates uncertainty for workers and makes it more difficult to

GRAPH 7
RESIDENCES OF THE FORD PLANT'S HOURLY EMPLOYEES



Source: The Virginian-Pilot

estimate the total economic impact of the Ford plant closing. Although Ford officials currently are reluctant to discuss all of the possibilities that could result from the plant closing, one can infer what will likely occur by examining the closing of other Ford plants around the nation.

The following array of severance packages seems plausible based on Ford's previous actions:

- Workers 55 and older with more than 30 years of service will receive a one-time check of $35,000, along with full retirement benefits.
- Workers with at least 28 years of service will have the opportunity to go on leave with 85 percent of their pay for two years until they reach 30 years of service, after which they will receive normal retirement benefits.
- Workers 55 and older with 10 or more years of service might receive a fixed income for life (like an annuity), depending on how long they have worked for Ford.
- Workers with at least one year of service with Ford might receive up to $15,000 in reimbursement for college tuition for four years and while enrolled receive one-half pay and keep their health benefits.
- Other workers who voluntarily leave Ford might receive a $100,000 buyout, but thereafter forfeit the other benefits noted above.

TRANSLATING THESE BENEFITS TO INDIVIDUALS

Given the above discussion, it should be apparent that one of the keys to estimating the economic impact of the Ford plant closing is to estimate accurately the distribution of workers at the plant by years of service. This distribution will determine severance income and retirement benefits. Note that most of the financial benefits Ford employees will receive will flow into the region and therefore will partially offset the loss of employee earnings resulting from the plant closing.

Our *estimates* of years of service by employees at the Norfolk Ford plant for 2006 are:

- 400 workers have more than 30 years of service
- 300 have worked between 28 and 30 years
- 150 have worked between 26 and 28 years
- 1,390 have between one and 25 years of service
- 35 have less than one year of service.

Let's assume the following: that all employees having more than 28 years of service by 2008 will receive the one-time payment of $35,000 in addition to full retirement benefits; those with one to 27 years of service will receive only educational benefits and one-half of their pay for the four years they attend a college or university; and workers with less than one year of service will receive no benefits.

Currently, a worker 55 or older with 30 or more years of service receives about $2,750 per month until the age of 62, if he/she is laid off. After the age of 62, the worker receives, in addition to Social Security, a monthly payment from Ford equal to $52 times years of service. Therefore, a retiree 62 years or older, in return for 30 years of service, will receive $1,560 per month from Ford plus Social Security, which is roughly $1,500 per month in today's dollars.

With the above scenarios in mind, we estimate that Ford workers will receive in today's dollars about $109 million in compensation and benefits in 2009, or 68 percent of Ford's estimated payroll in Norfolk for 2006. They will receive $78 million in benefits from 2010 through 2012, or 49 percent of the 2006 payroll. They will receive $32 million in 2013 and subsequent years, or about 20 percent of 2006 earnings.

REGIONAL ECONOMIC IMPACT

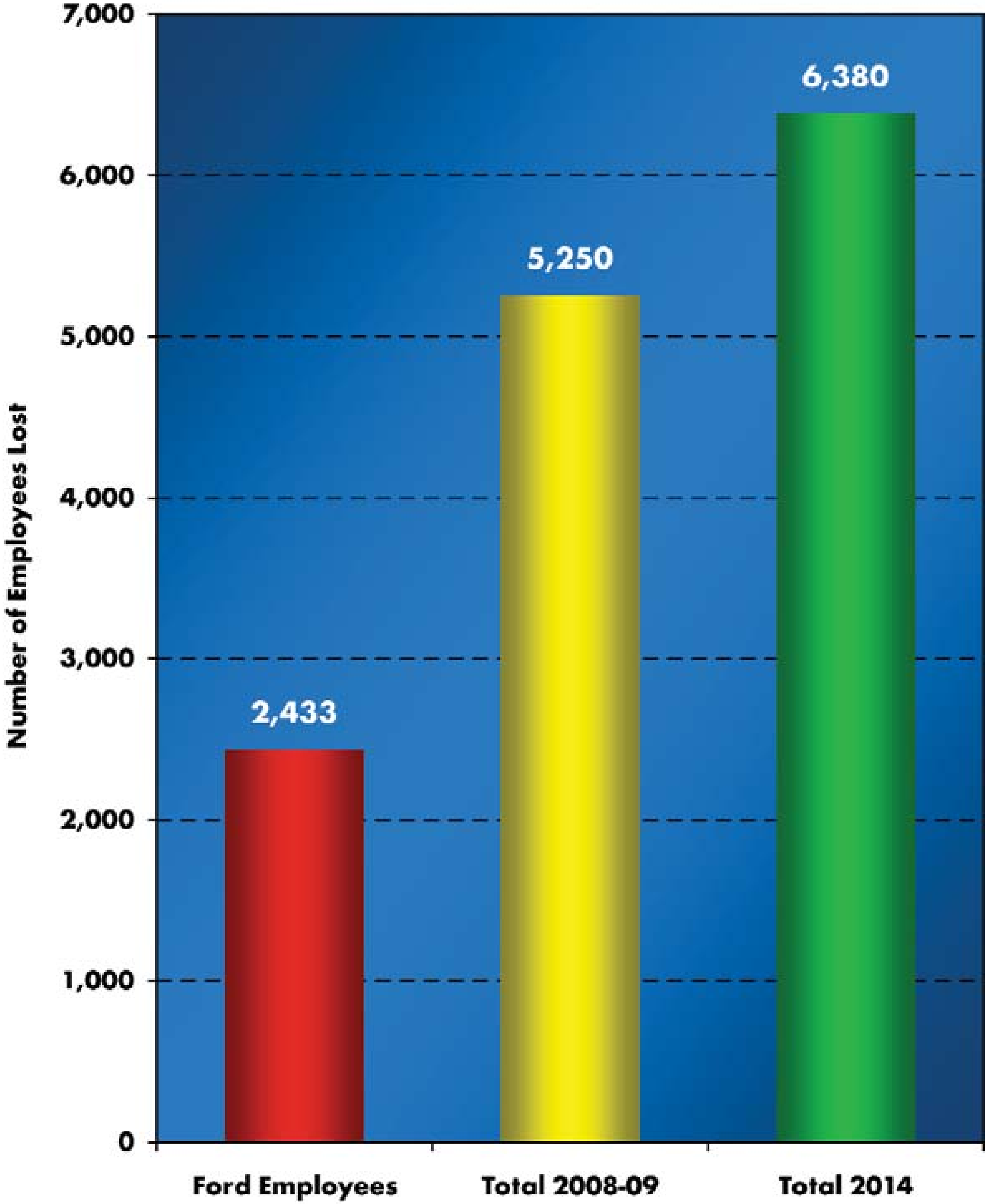
We estimate, as shown in Graph 8, that Hampton Roads will lose, due to ripple effects, approximately 5,250 jobs between 2008 and 2009 as a result of the Ford plant closing. Six years after the closing, it is estimated that the regional economy will have lost a total of 6,380 jobs.

Graph 9 addresses the estimated loss of earnings that will result when the Ford plant closes. We project this loss to be $342 million in 2006 dollars between 2008 and 2009. By 2014, the estimated earnings loss rises to $379 million.

What does this mean regionally? The shuttering of the doors of the Ford plant will destroy, ultimately, an estimated 6,380 jobs in the region, which is about half of 1 percent of total employment. Because of the relatively high level of earnings of both Ford plant workers and those who work for local Ford suppliers, the earnings loss to the region will be proportionately larger than the employment loss and will constitute .8 of 1 percent of total earnings in Hampton Roads.

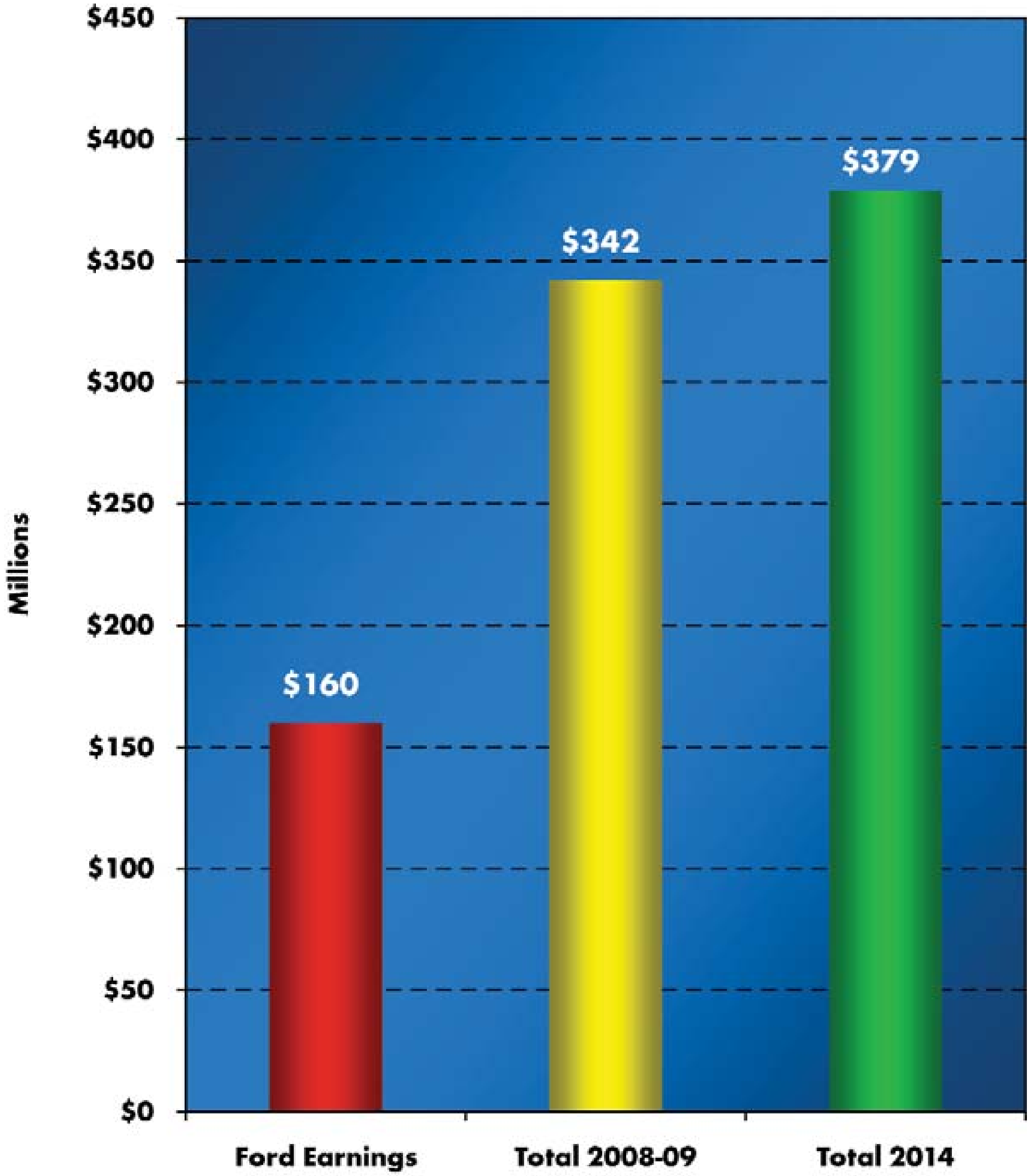
The preceding analysis has provided a focused answer to the question, "What will happen to the regional economy if Ford shuts down completely and no substitute economic activity takes its place?" If the Ford plant itself, or its workers, are shifted to other tasks that generate economic value, then the impacts we have estimated will be reduced accordingly. We would be surprised if some of this did not occur.

GRAPH 8
EMPLOYMENT IMPACT OF CLOSING THE FORD PLANT



Sources: City of Norfolk and the Old Dominion University Economic Forecasting Project

GRAPH 9
EARNINGS LOSSES DUE TO CLOSING THE FORD PLANT



Sources: City of Norfolk and the Old Dominion University Economic Forecasting Project

HOUSING MARKETS IN HAMPTON ROADS

We examined the housing markets of Hampton Roads extensively in the 2005 State of the Region report. Most of our key findings in that report continue to apply in 2006-07 and in fact will be accentuated by the slowdown in the regional economy.

- **The rate of increase in overall housing prices will slow significantly.**
- **The prices of detached single-family houses as a whole in Hampton Roads will not decline, but declines might occur for specific houses in specific locations.**
- **Any actual price reductions that occur are most likely to appear in the condominium market, where there are signs of overbuilding relative to anticipated demand, particularly in downtown Norfolk.**
- **Builders and condominium owners will find it difficult to sell their inventory and increasingly will rent, rather than sell, that inventory.**
- **Rental price increases likely will moderate.**
- **Building permit applications will slow. We expect to see a major decline in condominium building permits.**
- **Sellers of homes will resort to a variety of incentives and marketing devices, including builder buy-downs, seller-paid closing costs and the cutting of real estate agent commissions.**

These conclusions rely heavily on two important measures of the Hampton Roads housing market's economic fundamentals. **First, as Table 5 reveals, the ratio of the cost of owning a home to the price of renting a home shifted dramatically in favor of renting in 2005.** (The cost of owning a home here is approximated by the monthly principal and interest payment on a home with a 30-year mortgage.) Rising mortgage rates and house prices are the major source of this shift.

The owning versus renting tradeoff is critical, since renters have provided an estimated two-thirds of Hampton Roads house buyers since 2000. Now, in 2006, renting has become more attractive and hence this source of demand for single-family housing is likely to decline significantly. Further, the Hampton Roads housing market received an invigorating spurt of energy from the additional housing incentives the DOD began to provide its employees in recent years. We have worked our way through these incentives and there is nothing similar on the horizon.

TABLE 5

COMPARING THE PRICE OF RENTING A HOUSE TO THE COST OF BUYING IT IN HAMPTON ROADS, 2000-2005

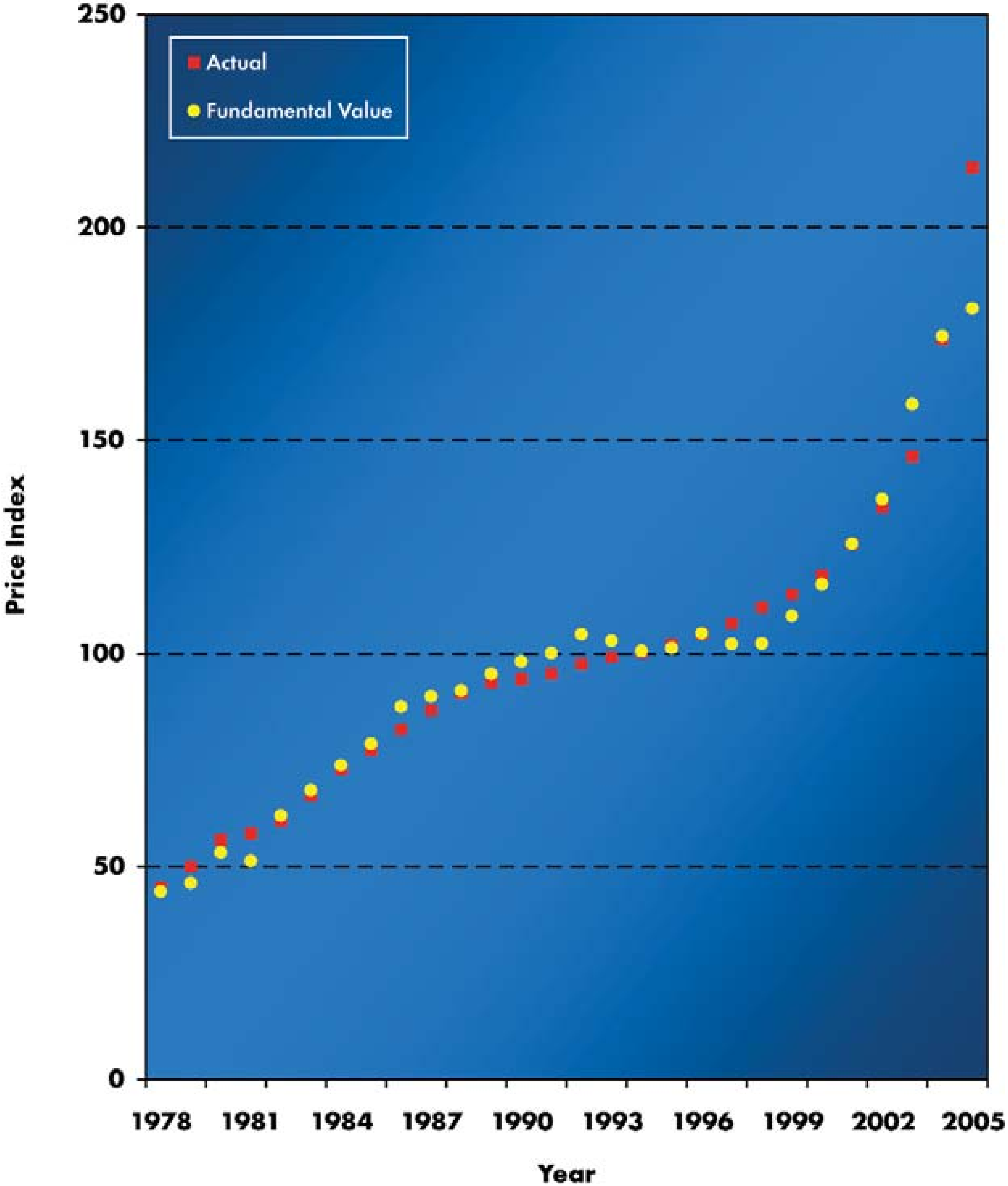
	Median Monthly Rent for a Three-Bedroom House	P&I Monthly for a Median House	Ratio of Monthly P&I to Rent
2000	$882	$854	0.97
2001	911	809	0.89
2002	1,037	827	0.80
2003	1,044	809	0.77
2004	1,087	1,065	0.98
2005	1,130	1,341	1.19

Sources: U.S. Department of Housing and Urban Development (HUD) and the Old Dominion University Economic Forecasting Project

Second, consider the update in Graph 10 of our econometric comparison of actual housing prices to the prices we would predict based on market fundamentals. **According to our latest estimate, the average house in the Hampton Roads housing market continues to be overpriced relative to those economic fundamentals, which include household incomes, unemployment rates, building costs and mortgage interest rates.** Historically, they have determined the price of housing in the context of supply and demand.

As of June 2006, we believe the average house in Hampton Roads is overpriced by an estimated 20 percent. This is 10 percent above our estimate last year at this time. Does this constitute a price bubble that will burst and cause housing prices to tumble? Probably not, overall, though condominium prices are more vulnerable.

GRAPH 10
ACTUAL HOUSING PRICES IN HAMPTON ROADS VS. PRICES BASED ON ECONOMIC FUNDAMENTALS



Source: Old Dominion University Economic Forecasting Project

The process of actual housing prices realigning themselves with economic fundamentals is, we believe, inexorable. As one can see in Table 6, housing prices in Hampton Roads have deviated from time to time from the underlying economic fundamentals, but eventually returned to those fundamentals, usually in a space of about two years.

TABLE 6

IS HOUSING OVERVALUED IN HAMPTON ROADS? ACTUAL PRICES VS. THE FUNDAMENTALS

Period	Residential Real Estate Market Condition
1981-1982	Overvalued by @ 15%
1986-1988	Overvalued by @ 10%
1991-1994	Undervalued by @ 6%
1997-1999	Overvalued by @ 5%
2001-2003	Undervalued by @ 9%
2006 (June estimated)	Overvalued by @ 20%

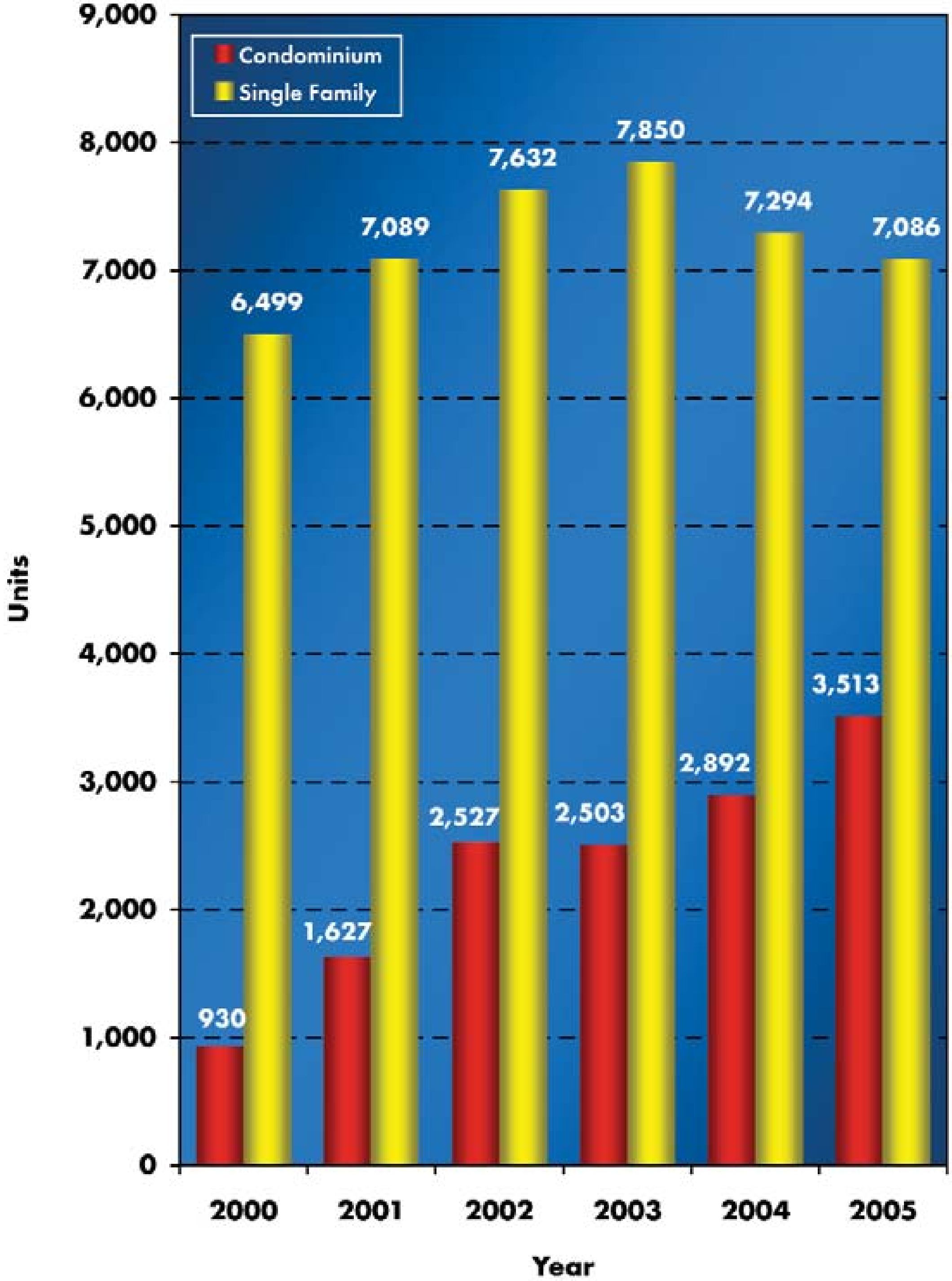
Source: Old Dominion University Economic Forecasting Project

We predict the same phenomenon will occur in housing markets in Hampton Roads. This does not mean that the average price of a house in Hampton Roads will decline. Some house prices actually may decline, but most won't. It does mean that the prices of many types of houses will stagnate; houses will remain on the market longer and sellers will have to make more price concessions and offer additional incentives. But they'll typically sell their house for more than it cost them to purchase or build it.

ADDITIONAL COMMENTS ON THE CONDOMINIUM SUBMARKET

Graph 11 compares building permits, an indicator of supply, for *new* single-family houses to those of condominiums. Since 2003, builders have reduced their output of single-family homes by roughly 10 percent. However, over the same period, the supply of condominiums has increased by about 40 percent. By themselves, these data suggest that there is not a serious oversupply of new single-family homes. However, given the market demand conditions described above, the condominium market appears to be headed for problems and is much more vulnerable to price declines. The next few years could be a bad time to sell a condominium, but a good time to purchase one, in Hampton Roads.

GRAPH 11
BUILDING PERMITS FOR DETACHED SINGLE-FAMILY HOMES AND CONDOMINIUMS IN HAMPTON ROADS, 2000-2005



Sources: U.S. Bureau of the Census and Old Dominion University Economic Forecasting Project

SUMMARIZING OUR ECONOMIC SITUATION

The Hampton Roads economy has performed very well over the past five years, especially during the period from 2002 to 2004. Recent U.S. Department of Commerce data revisions indicate that the regional economic performance was even stronger than we had thought at the time. Our growth rate easily exceeds that of Virginia and the nation. In addition, our per capita income rose above the national average.

The primary cause of these laudable feats was increased DOD spending. Defense spending increases were heavily concentrated in 2001 and 2002. These injections infused the region with economic energy, the lagged effects of which were largely exhausted by 2004.

The major source of the large yearly DOD spending increases in the region was the compensation of military personnel, although procurement increases also were substantial. From 2001 to 2004, the compensation of a typical Hampton Roads uniformed individual increased at almost four times the rate of the U.S. mean for private-sector employees.

The effect of the 2005 BRAC decisions on Hampton Roads will be significant even if Oceana remains in operation as a U.S. Navy Master Jet Base. In the worst case, which includes a realignment of Oceana and the loss of some jets, the economic effect on the region of the base closures and realignments will be spread out over a number of years. Potential job losses would reach 25,000 over a five-year period. This is hardly good news, but would constitute only 2.5 percent of our current job base.

The effect of the Ford assembly plant closing is also likely to be spread across Hampton Roads over a five-year period, beginning in 2008. The closing is likely to eventually cost us roughly half of 1 percent of our total job base (including the military). Nevertheless, because these jobs are well-paid, this will cost us .8 of 1 percent of our current gross regional product.

Our estimates indicate that in June 2006, the average house in Hampton Roads was overvalued by roughly 20 percent relative to prices based on economic fundamentals. Despite our high home prices, we do not anticipate a marked decline in the price of single-family housing across the region. Instead, we anticipate market sluggishness that will generate rising seller and agent costs and larger inventories. The condominium market is another story. Significant building (increased supply) in this market leaves it more vulnerable than the single-family market to price declines.