

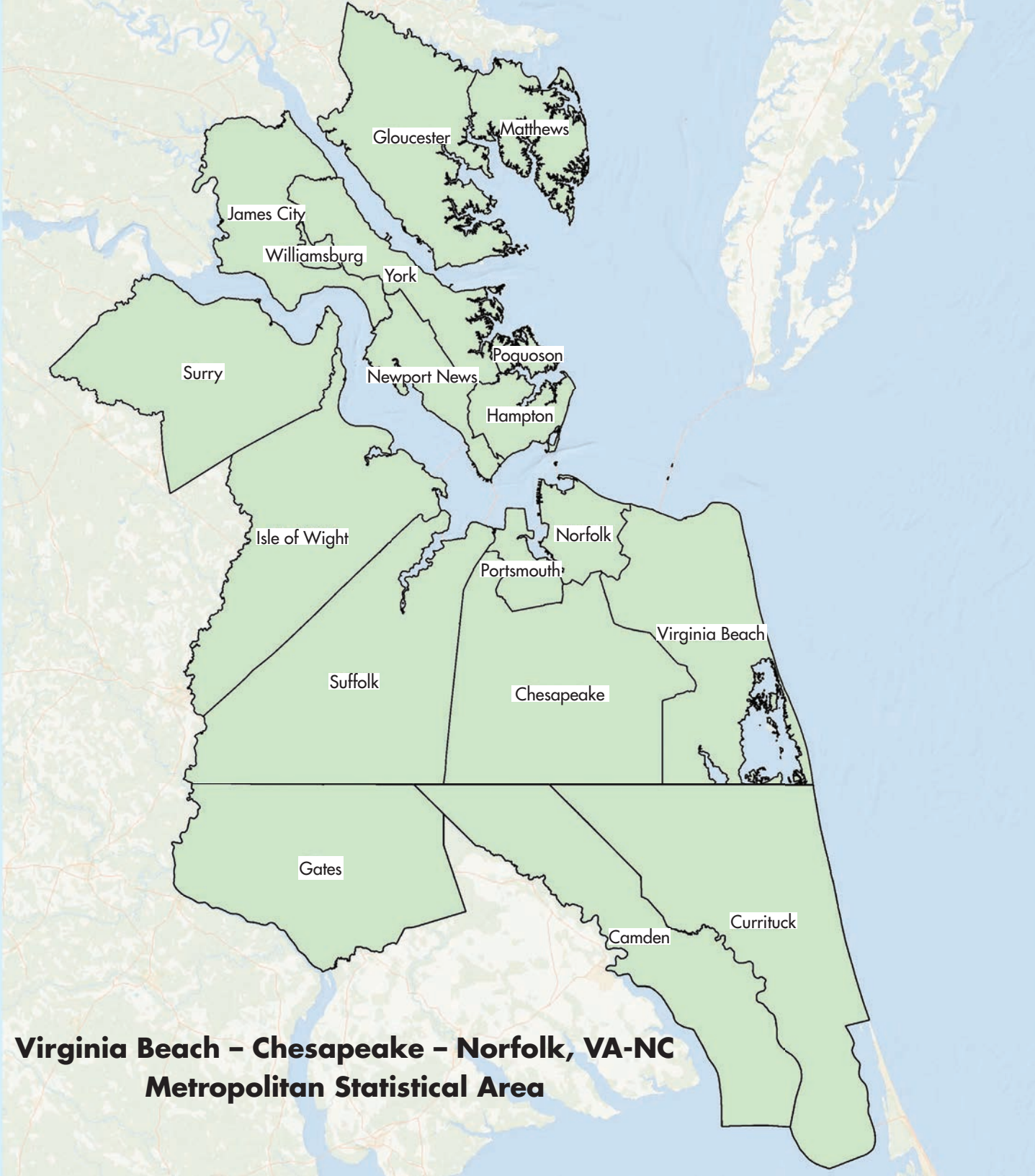


The State of the Region

HAMPTON ROADS 2026

DRAGAS CENTER FOR ECONOMIC ANALYSIS AND POLICY | STROME COLLEGE OF BUSINESS | OLD DOMINION UNIVERSITY

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**Virginia Beach – Chesapeake – Norfolk, VA-NC
Metropolitan Statistical Area**

Dear Reader:

This is Old Dominion University's 27th annual *State of the Region: Hampton Roads Report*. While it represents the work of many people connected in various ways to the university, the report does not constitute an official viewpoint of Old Dominion, its president, Brian Hemphill, Ph.D., the Board of Visitors, the Strome College of Business, or the generous donors who support the activities of the Dragas Center for Economic Analysis and Policy.

This year's report provides an opportunity to reflect on the region's recent economic performance and ask how changes in federal trade, immigration, civilian employment, and spending policy have impacted Hampton Roads over the last two years. There is good news to report as the region's economy has grown for five consecutive years and is expected to grow in 2026. Defense spending in the region continues to rise and will likely reach record levels in 2026 and 2027. Federal spending fuels the regional economy but also increases our dependency on decisions made in the halls of Congress and the White House.

The good news, however, is tempered by declines in federal civilian employment, a sector long thought immune to changes in policy. Higher tariffs have lowered the dollar volume of trade through the Port of Virginia and inflation has eroded the purchasing power of many residents of Hampton Roads. Declines in legal immigration may undermine population growth in the latter half of the current decade.

Since its inception in 1999, the *State of the Region: Hampton Roads Report* has sought to inform without minimizing the challenges facing the region or downplaying the opportunities that could spur economic growth. We opine that now is the time to increase efforts to diversify the region's economic base to bolster private sector growth over the remainder of the decade.

The 2026 State of the Region Report is divided into six parts.

Rough Seas and Quartering Winds: Can Hampton Roads Grow in Uncertain Times?

We discuss the region's economic performance in 2025 and provide an assessment of the prospects for growth in 2026 and beyond. We discuss how the resident population of Hampton Roads has grown this century and explore the components of population change. We examine measures of the region's labor market, including its civilian labor force, individual employment, and nonfarm payrolls (jobs). While the evidence points to a continued expansion in 2026, we also note that the challenges to growth continue to mount.

Divergent Paths? Rising Defense Spending and Headwinds for the Port and Tourism

The most recent economic data shows that the three-legged stool is tilting under the weight of conflicting economic policies. National defense spending has continued to expand, and we expect that, as a result, defense spending in Hampton Roads will also rise in the coming years. Declines in federal civilian employment will limit these gains, and the defense industrial base in the region faces an existential threat from the rise of uncrewed systems on the modern

battlefield. The Port of Virginia performed well, gaining market share, but higher tariffs have negatively impacted the dollar volume of trade flowing through the Port. While the travel and tourism industry outpaced the post-pandemic national recovery, revenue growth has slowed, and real (inflation-adjusted) revenues have remained flat for several years.

Early Childhood Care and Education in Hampton Roads

The economic and social consequences of inadequate early childhood care and education (ECCE) are, by now, well known—but the problem is notoriously difficult to solve. To many working families, the quest for affordable, high-quality care seems hopeless. However, it is also true that our regional leaders are increasingly prioritizing this issue and are working together with early childhood experts to develop viable solutions. This chapter discusses ECCE from an economic perspective and explores why this market is so challenging to reform.

**Arts and Culture in Hampton Roads:
Exploring a Challenging Future**

Hampton Roads hosts a remarkably vibrant and dynamic arts and culture ecosystem. It includes not only high-caliber professional institutions such as the Virginia Arts Festival, Virginia Opera, Virginia Symphony Orchestra, and Chrysler Museum of Art—but many other museums and galleries, theaters and performance spaces, open-air festivals, creative districts, public art, independent artists and creators, large performance venues for outside talent, and a wide array of professional and amateur arts organizations. This chapter discusses the arts in Hampton Roads and explores its impact on the region.

The Value of Water

In this chapter, we examine how the Hampton Roads Sanitation District (HRSD), in collaboration with localities, changed the regional approach to wastewater

treatment, saving ratepayers from billions of dollars in additional costs. We discuss the SWIFT project and how it will inject treated, drinking quality water into the aquifer, partially offsetting the losses from residential and business use. We estimate the economic impacts associated with HRSD and SWIFT and note how HRSD serves as an example of how regional collaboration can produce innovative benefits to the residents of Hampton Roads.

Housing in Hampton Roads

In this chapter, we discuss the state of housing in Hampton Roads. We focus on the supply side of the market for reasons that will become apparent throughout the chapter. We start with single-family housing and then discuss multi-family housing. We then explore factors that influence the supply of housing across the region. We conclude with actions that Hampton Roads can take to address the supply and, by extension, the affordability of housing in the region.

The Strome College of Business and Old Dominion University continue to provide support for the *State of the Region Report*. However, it would not appear without the vital backing of the private donors whose names appear below. They believe in Hampton Roads and the power of rational discussion to improve our circumstances but are not responsible for the views expressed in the report.

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Vinod Agarwal
Josh Andrews
Andrea Barcenas
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Ashley Russ

All 27 State of the Region Reports are available at www.ceapodu.com. A limited number of printed copies of the 2026 *State of the Region Report* are available for purchase for \$50 each. If you have comments or suggestions, please email us at rmcnab@odu.edu.

Sincerely,



Robert M. McNab, Ph.D.
Professor and Chair, Department of Economics
Director, Dragas Center for Economic Analysis and Policy | Strome College of Business | Old Dominion University

ABOUT TOWNEBANK

Founded in 1999, TowneBank is a Virginia-based community bank focused on serving others and enriching lives. Today, the bank has more than 70 locations throughout Hampton Roads and Central Virginia, Eastern and Central North Carolina, the Greenville and upstate region of South Carolina, and Charleston, South Carolina. TowneBank is a local leader in promoting the social, cultural, and economic growth in the communities it serves. Striving to serve as a community asset, TowneBank and the TowneBank Foundation have contributed more than \$144 million by supporting hundreds of charitable organizations through donations, scholarships, grants, and volunteering. Recognized as one of Forbes Best Banks in America for eight consecutive years and by American Banker as a Best Bank to Work For, TowneBank has maintained a personal style of community banking as one of the largest banks headquartered in Virginia.

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Table of Contents

Rough Seas and Quartering Winds:

Can Hampton Roads Grow in Uncertain Times? . . . 3

**Divergent Paths? Rising Defense Spending
and Headwinds for the Port and Tourism . . . 41**

**Early Childhood Care and
Education in Hampton Roads . . . 73**

**Arts and Culture in Hampton Roads:
Exploring a Challenging Future . . . 93**

The Value of Water . . . 117

Housing in Hampton Roads . . . 139





Rough Seas and Quartering Winds: Can Hampton Roads Grow in Uncertain Times?



ROUGH SEAS AND QUARTERING WINDS: CAN HAMPTON ROADS GROW IN UNCERTAIN TIMES?

*"We men and women are all in the same boat, upon a stormy sea.
We owe to each other a terrible and tragic loyalty."*
—G. K. Chesterton, *The Illustrated London News*, 1908-1910

As we draw near the end of 2026, the economy of the Virginia Beach – Chesapeake – Norfolk Metropolitan Statistical Area (MSA) faces numerous challenges that, in aggregate, will shape the trajectory of the region known as 'Hampton Roads' over the coming decade. After weathering the COVID-19 economic shock, the region's economic trajectory appeared to improve. The last 18 months, however, have seen a pause, if not a partial reversal, of this progress. As the proverbial economic seas become rougher, the open question remains: how can Hampton Roads improve its economic fortunes and compete with its peers for the industries of the future?

Over the last two-plus decades, we have argued that the region must leverage its distinctive nature to diversify its economy. Hampton Roads plays a vital role in the nation's defense, from building one of the first frigates of the nascent U.S. Navy to being the home to more than 80,000 active-duty servicemembers. The flow of federal dollars into the region has fueled economic growth, but it has also, in some eyes, created a dependence that reduces innovation and entrepreneurship. In times of change, leaning into the status quo may appear to be the safe alternative, but the appearance of certainty is by no means a guarantee of it. If there is one revelation of the past two years, it is that leaving our economic fortunes in the hands of others is to surrender those same fortunes to the whims of those who may not have the best interests of Hampton Roads at heart.

Our effort in this chapter is to gauge the state of the regional economy and attempt, to the best of our ability, to discern the path forward. We admit that we are much like the prisoners in Plato's cave, looking at shadows cast by puppeteers and trying to discern what is real and what is merely a shadow of reality. We must unshackle ourselves of opinion and walk into the sunlight of data to see what is real and accept this reality.

If we are to change the economic trajectory of Hampton Roads, we must objectively examine the data and ask what is to be done, not merely why we have ended up where we stand. These examinations and conversations may challenge our strongly held beliefs about the nature of our region; this we acknowledge. If we are confident in our belief that we want the best for the region we call home, then we can face uncomfortable truths, and traverse the waves before us.

There is some good news to report. The economy of Hampton Roads grew for the fourth consecutive year in 2024, and we estimate that the economy continued to expand in 2025. We forecast that the regional economy will also grow in 2026, however, the pace of economic growth slowed in 2025 and will diminish again in 2026. From a glass half-full perspective, this will be the first time the Hampton Roads economy has grown in six consecutive years since the start of the century. From the opposing viewpoint, the relatively anemic pace of growth means that Hampton Roads continues to fall behind its peer and aspirant metropolitan areas. We should not diminish or dismiss either opinion, but look to move forward together.

The value of final goods and services, however, is a broad measure of economic activity and may conceal how residents of Hampton Roads are faring in an environment characterized by higher inflation and slower growth. In the first half of 2026, the number of individuals looking for work or at work fell across the region. The unemployment rate climbed as well, a signal that economic conditions deteriorated in Hampton Roads in the first six months of the year. Federal civilian employment, which was thought by some to be insulated from changes in policy in Washington, D.C., was approximately 10% lower in 2026 compared to 2024.

If Hampton Roads is to diversify its economy, it must attract firms to the region. The region must also retain talent, for firms cannot expand or relocate if employees cannot afford to live in the region. While the growth in housing prices moderated in 2025 and into 2026, single-family home values reached record levels in the first half of 2026. Multifamily rental prices have also climbed over the last 24 months. As a result, the proportion of households that were cost-burdened (paying more than 30% of their income in housing costs) rose in Hampton Roads and across Virginia. Without concerted, regional action to increase the supply of housing, affordability will remain at the forefront of the minds of employers and residents of the region.

In this chapter, we review the state of the Hampton Roads' economy in 2025 and in the first half of 2026. We discuss how the resident population of Hampton Roads has grown this century and explore the components of population change. We then discuss the level of economic activity in the region and how it may fare in 2026 and into 2027. We examine measures of the region's labor market, including its civilian labor force, individual employment, and nonfarm payrolls (jobs). While the evidence points to a continued expansion in 2026, we also note that the challenges to growth continue to mount. As the proverbial economic seas become rougher, the region's leaders must work together to navigate the stormy seas else the regional economy may flounder.

The Office of Management and Budget (OMB) defines a Core Based Statistical Area (CBSA) as a geographical region anchored by an urban center of at least 10,000 residents plus adjacent counties that have socioeconomically integrated with the urban center through commuting ties.¹

In July 2023, OMB revised the delineations for the nation's MSAs. As part of this revision, the Virginia Beach – Norfolk – Newport News MSA became the Virginia Beach – Chesapeake – Norfolk MSA. The change in nomenclature reflects how population and commuting patterns have changed over time. Franklin city and Southampton County, Virginia, were removed from the metro area while Surry County, Virginia was added to the MSA as part of the July 2023 change. There are 387 MSAs in the United States and six in Puerto Rico.

The Virginia Beach – Chesapeake – Norfolk MSA now consists of the independent cities of Chesapeake, Hampton, Newport News, Norfolk, Poquoson, Portsmouth, Suffolk, Virginia Beach, and Williamsburg. The counties included in the MSA are Camden County (North Carolina), Currituck County (North Carolina), Gates County (North Carolina), Gloucester County, Isle of Wight County, James City County, Mathews County, Surry County, and York County. Where possible, we will present data using the new definition of the Virginia Beach – Chesapeake – Norfolk MSA; however, some agencies and departments continue to use older delineations of metropolitan and micropolitan areas.

¹ Office of Management and Budget, *OMB Bulletin No. 20-01*, appendix, March 6, 2020; and *OMB Bulletin No. 23-01*, appendix, July 21, 2023, <https://www.whitehouse.gov/wp-content/uploads/2023/07/OMB-Bulletin-23-01.pdf>

Will Hampton Roads' Population Decline?

One signal of economic vitality is population growth. Jobs attract people, and the influx of people attracts more jobs. Rapid population growth may strain public school systems, transportation infrastructure, and the capacity of local public services, but these are often offset by a growing tax base, increasing revenues, and an influx of employers. On the other hand, areas with sluggish growth and those with a declining population often observe slow to negative job growth, stagnant or declining tax bases, and mismatches between public services and the remaining population.

In 2010, the United States Census Bureau estimated there were approximately 1.72 million residents in Hampton Roads (Table 1). By 2019, according to the U.S. Census' Population Estimates Program (PEP), there were approximately 1.79 million residents in the region, approximately 4.4% more than in 2010.

The 2020 decennial Census 'reset' the population estimates to approximately 1.78 million.² Table 1 shows that Hampton Roads' population grew more slowly than Virginia or the nation from 2010 to 2019, that is, for every new resident of the region, about one and a half were added to the population of the Commonwealth and the United States.

Population growth in Hampton Roads has slowed this decade, not only relative to the previous decade but also relative to Virginia and the United States. The average annual rate of population growth in Hampton Roads was 0.2%, significantly lower than the state (0.6%) and nation (0.6%). In the current decade, for every new resident of Hampton Roads, about three were added to the population of the Commonwealth and the nation. If people vote with their feet about economic conditions, this is a clear signal about the relative attractiveness of the region.

TABLE 1						
POPULATION AND AVERAGE ANNUAL POPULATION GROWTH HAMPTON ROADS, VIRGINIA, AND THE UNITED STATES 2010, 2019, 2020, AND 2025						
	2010 Population	2019 Population	2020 Population	2025 Population	Average Annual Population Growth 2010-2019	Average Annual Population Growth 2020-2025
Hampton Roads	1,717,618	1,792,612	1,781,673	1,797,213	0.5%	0.2%
Virginia	8,025,105	8,597,508	8,637,303	8,880,107	0.8%	0.6%
United States	309,378,227	330,226,227	331,578,104	341,784,857	0.7%	0.6%
Sources: U.S. Census Bureau, Population Estimates Program, 2010–2020 Intercensal Estimates, Vintage 2025 Population Estimates and Dragas Center for Economic Analysis and Policy. Population estimates as of July 1st of the corresponding year. Average annual population growth is calculated as the compound annual growth rate (CAGR) between the beginning and ending population estimates for each period.						

² Population growth is compared separately for 2010–2019 and 2020–2025, as the data are consistent within, but not across, periods.

In Graph 1, we present the annual change in the resident population of Hampton Roads this decade. On July 1, 2020, the resident population of Hampton Roads was 1,781,673. On July 1, 2025, the resident population of the region was 1,797,213, an increase of 15,540 individuals (0.9%). The increase, however, masks an absolute decline in the population between 2021 and 2022. This raises an important question for the regional outlook: what were the factors that led to the decline in 2022, and were these factors transitory or structural headwinds that will emerge again in the second half of this decade?

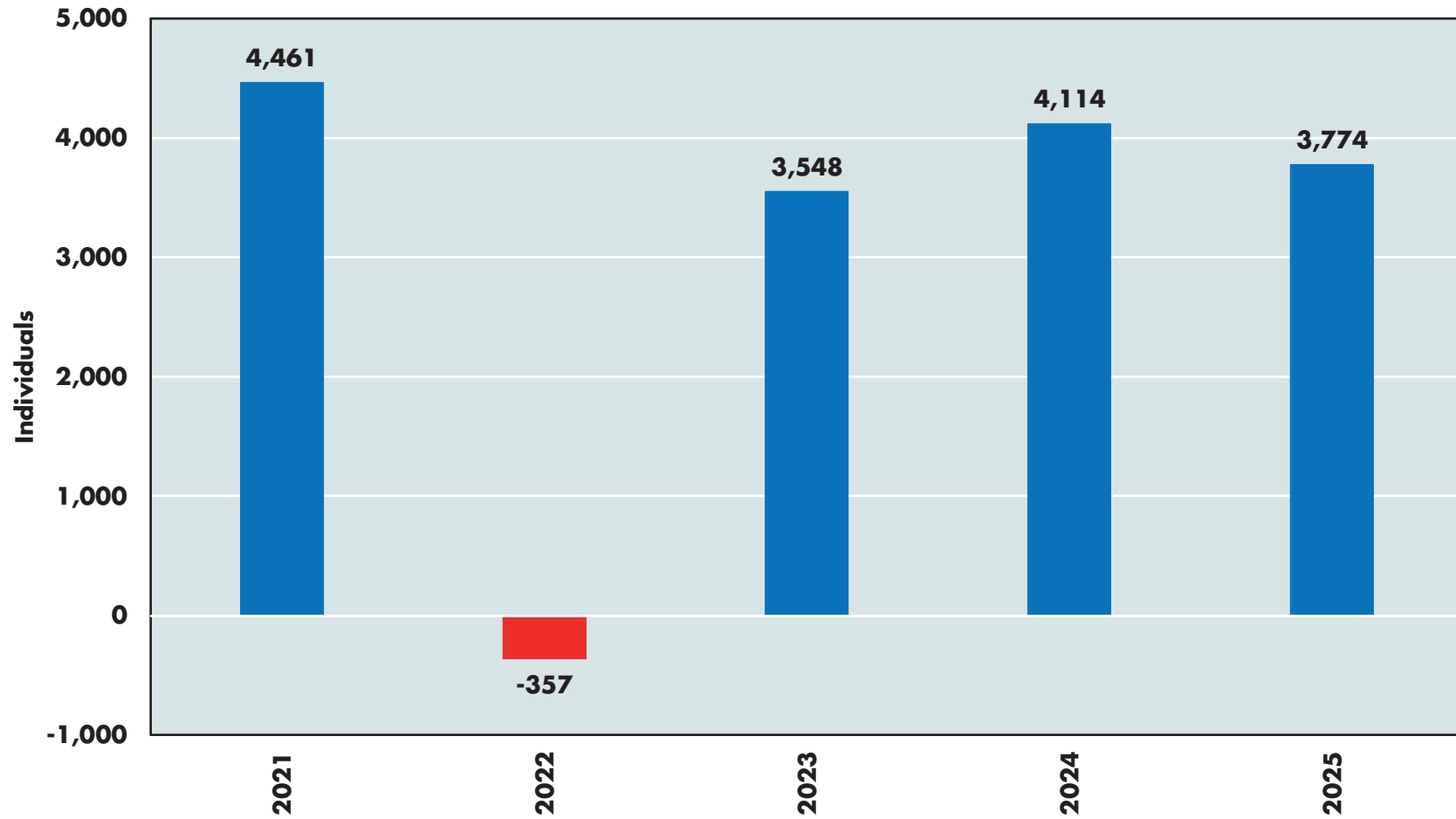
Graph 2 illustrates the components of population change in Hampton Roads from July 1, 2020 to July 1, 2025. Population change is driven by the natural change in the population (births minus deaths), net domestic migration (departures of residents to other areas of the United States and arrivals of new residents from other parts of the nation), and net international migration (international departures and international arrivals) to the region. The first observation is that net domestic migration has been negative for each year in Graph 2. More residents have moved out of Hampton Roads to other locations in the United States than have moved into Hampton Roads from other domestic locations. The second observation is that net international migration has been positive for each year this decade. Net international inflows completely offset net domestic outflows in 2021, 2023, 2024, and 2025 and partially offset domestic outflows in 2022.

In 2022, Hampton Roads lost population because net domestic migration fell sharply to -6,563 individuals, and net international migration (3,810) and the natural increase in the population (2,558) were insufficient to offset the surge of individuals leaving the region. Could such conditions repeat themselves over the coming years? Changes in federal immigration policy will likely reduce the flow of new residents to Hampton Roads from overseas locations in coming years. If international migration into the region slows and people continue to leave for domestic locations outside the metro area, it is possible that Hampton Roads may lose population in the coming years.

Table 2 provides population estimates for localities in Hampton Roads for 2020 and 2025 and the cumulative estimates for the components of population change. The city of Suffolk observed the largest absolute increase in its resident population (9,881, 10.4%) over this period, followed by Chesapeake (5,677, 2.3%), and James City County (4,840, 6.2%). Currituck County saw the largest percentage change in its resident population (16.7%) as it gained 4,753 residents from 2020 to 2025. For Suffolk, James City County, and Currituck County, net domestic migration was the largest contributor to population growth. For Chesapeake, the natural change in the population and net international migration largely contributed to the change in the resident population. In fact, most of the international migration gains for the region were concentrated in Chesapeake, Hampton, Newport News, Norfolk, and Virginia Beach.

GRAPH 1

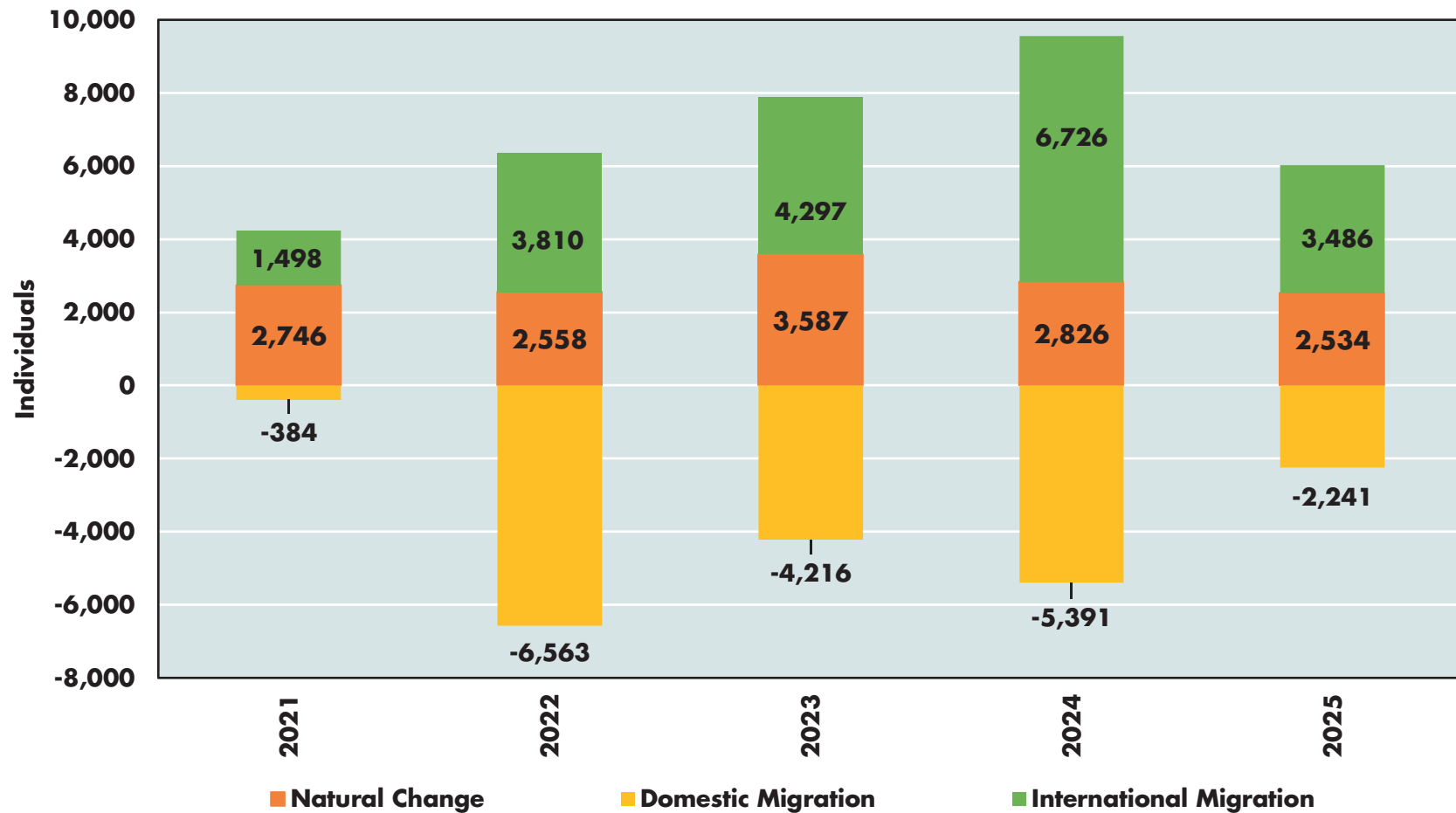
**ANNUAL CHANGE IN THE RESIDENT POPULATION
HAMPTON ROADS, 2021 - 2025**



Source: U.S. Census Bureau, Population Estimates Program, Vintage 2025 Population Estimates. Population estimates as of July 1st of the corresponding year. Annual change is calculated as the difference between the July 1 population estimate for a given year and the July 1 population estimate for the prior year.

GRAPH 2

**ESTIMATED COMPONENTS OF POPULATION CHANGE
HAMPTON ROADS, 2021 - 2025**



Sources: U.S. Census Bureau, 2025 Vintage Estimates, and Dragas Center for Economic Analysis and Policy. Population estimates as of July 1st of the corresponding year. The 2021 population estimates, for example, represent the change in population from July 1, 2020 to June 30, 2021. Residual estimates are not included, and sums will not equal estimates of population change in Graph 1.

TABLE 2
POPULATION AND COMPONENTS OF POPULATION CHANGE
CITIES AND COUNTIES IN HAMPTON ROADS
2020 - 2025

Location	2020 Population	Natural Change	Domestic Migration	International Migration	Population Residual	2025 Population	Population Change	Percent Change
Camden County*	10,405	-68	949	39	-10	11,315	910	8.7%
Currituck County*	28,405	-45	4,648	139	11	33,158	4,753	16.7%
Gates County*	10,450	-362	135	11	0	10,234	-216	-2.1%
Gloucester County	38,723	-742	2,119	-7	4	40,097	1,374	3.5%
Isle of Wight County	38,711	-434	2,854	183	7	41,321	2,610	6.7%
James City County	78,486	-832	4,947	749	-24	83,326	4,840	6.2%
Mathews County	8,520	-409	422	0	-4	8,529	9	0.1%
Surry County	6,548	-127	182	-1	1	6,603	55	0.8%
York County	70,236	28	699	425	-14	71,374	1,138	1.6%
Chesapeake city	249,655	3,354	437	1,868	18	255,332	5,677	2.3%
Hampton city	137,279	268	-1,277	1,031	14	137,315	36	0.0%
Newport News city	186,030	3,170	-8,912	3,005	-63	183,230	-2,800	-1.5%
Norfolk city	237,859	3,741	-15,736	5,191	-42	231,013	-6,846	-2.9%
Poquoson city	12,472	-56	870	23	-17	13,292	820	6.6%
Portsmouth city	97,991	239	-1,896	440	3	96,777	-1,214	-1.2%
Suffolk city	94,818	956	8,149	695	81	104,699	9,881	10.4%
Virginia Beach city	459,626	5,817	-17,665	5,698	261	453,737	-5,889	-1.3%
Williamsburg city	15,459	-247	280	328	41	15,861	402	2.6%
Hampton Roads	1,781,673	14,251	-18,795	19,817	267	1,797,213	15,540	0.9%

Source: U.S. Census Bureau, 2025 Vintage Estimates. Population estimates as of July 1st of the corresponding year. Natural change is equal to births minus deaths. Domestic and international migration are net flows. *Camden County, Currituck County, and Gates County are located in North Carolina. All other listed cities and counties are located in Virginia.

The largest population losses occurred in some of the largest cities in Hampton Roads. Norfolk experienced a loss of 6,846 residents (-2.9%), followed by Virginia Beach (-5,889, -1.3%), Newport News (-2,800, -1.5%), and Portsmouth (-1,214, -1.2%). The only exurban locality to lose population was Gates County (-216, -2.1%). For the urban cities, net domestic migration was negative and not offset by net international migration and the natural change in the population. For Gates County, the natural change in the population was negative while net domestic migration and net international migration were positive but insufficient to offset the natural decline in the resident population.

That the highest migration flows are located in the urban core of Hampton Roads should not be surprising as the military servicemembers are captured in this measure. A U.S. Navy sailor stationed at Naval Station Norfolk who receives permanent change of station orders to Japan, for example, would be counted as a resident leaving Hampton Roads for an overseas location. An Air Force servicemember moving from the United Kingdom to Joint Base Langley-Eustis would be counted an international migrant to Hampton Roads. The same logic applies when servicemembers in Hampton Roads move to an installation in another state, for example, from Naval Air Station Oceana to San Diego or Honolulu. These movements within the United States are reflected in the region's net domestic migration totals.

Given that the number of active duty servicemembers in Hampton Roads has been roughly constant this decade, the inflow and outflow of military servicemembers should also be in balance. Over the 2020 to 2025 period, the region's net loss of 18,795 residents to domestic locations was offset by the net gain of 19,817 residents from overseas locations. These numbers are influenced by the movement of military servicemembers, but, we opine, are driven more by choices of private individuals.

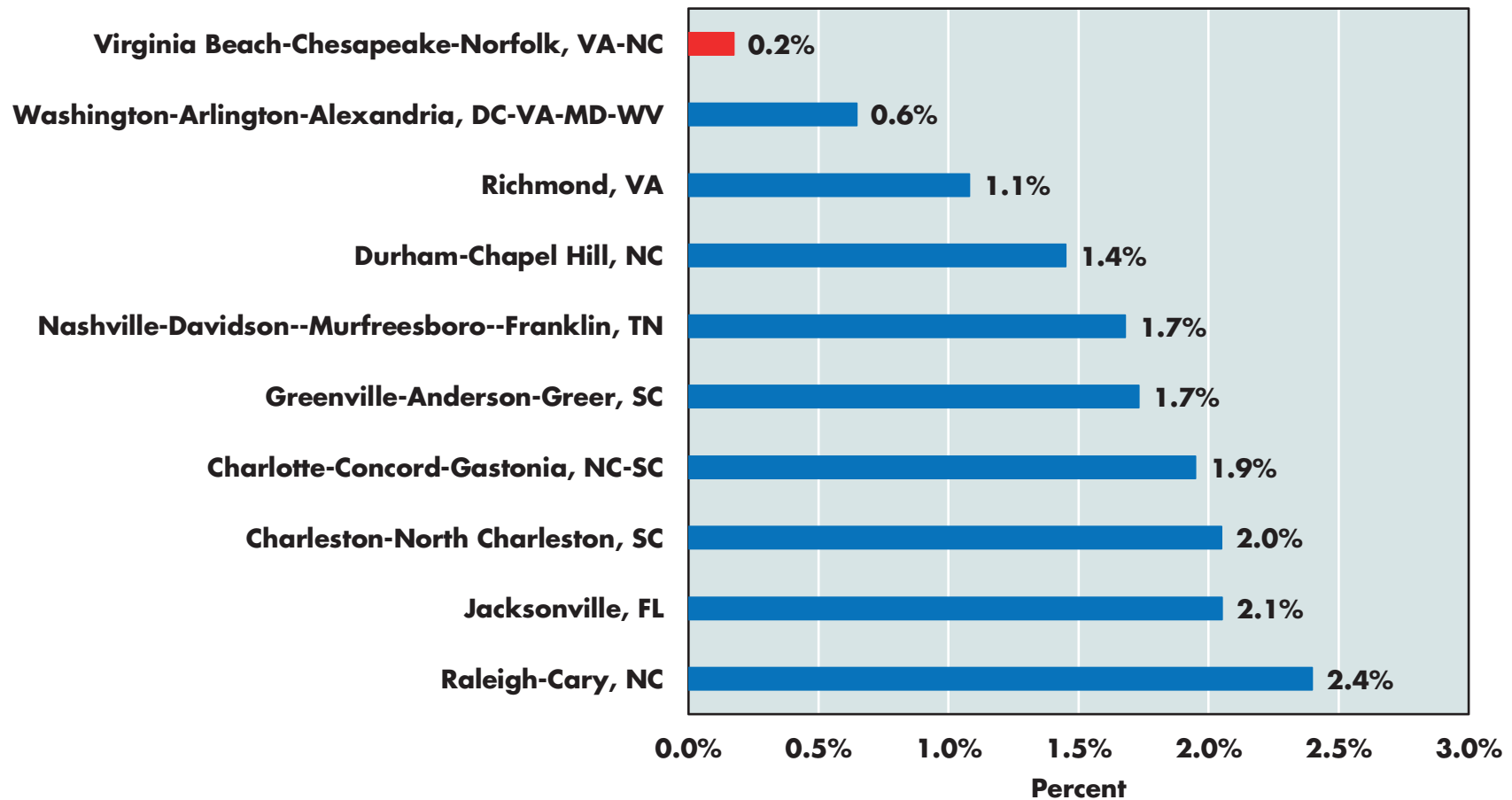
Graph 3 compares the population growth in Hampton Roads from 2020 to 2025 with peer and aspirant metropolitan statistical areas in the southeastern United States. Over this period, Hampton Roads' resident population grew by approximately 0.2% per year. Population growth in the Raleigh-Cary, North Carolina, metropolitan area was more than 10 times higher. For every new resident of Hampton Roads from 2020 to 2025, the Raleigh-Cary region added more than 10 new residents. People make choices where to live, and the data in Graph 3 highlight how many people have chosen to live elsewhere. The question we turn to is how regional economic conditions may influence these choices.

What then might the future hold for population growth in Hampton Roads? Outside of changes in the number of military personnel stationed in Hampton Roads, the two largest drives of population change are domestic migration and international migration. We now have sufficient evidence at the national level to opine that international migration slowed in 2025 and is likely to slow again in 2026. International migration to Hampton Roads will likely slow in 2026 as well.

Domestic migration is a complex mixture of economic and social conditions, however, the trends remain clear: more residents are moving away from the region than moving into the region. Invigorating growth is one piece of the puzzle. We must also look at quality of life issues, including the supply of housing and childcare. Here, regional action is necessary so we all may benefit.

GRAPH 3

**ANNUAL AVERAGE POPULATION GROWTH RATE
SELECTED METROPOLITAN STATISTICAL AREAS, 2020 - 2025**



Source: U.S. Census Bureau, 2025 Vintage Estimates. Population estimates as of July 1st of the corresponding year. Metropolitan statistical area population estimates. Compound annual growth rate for annual average population growth estimates.

Growth Slows, Will It Last?

The Bureau of Economic Analysis produces regular estimates of economic activity at the national, state, and county level. Gross Domestic Product (GDP) measures the value of final goods and services produced within a geographic area by private industry and the government.³ GDP subtracts the value of goods and services used in production and is also equal to the sum of personal consumption expenditures, gross private domestic investment, government consumption and gross investment, and net exports of goods and services. It does not capture non-market activities (volunteer work, childcare, housework), leisure and quality of life, environmental quality, or illicit activities. GDP is a useful measure of economic activity but should not be confused with the quality of life, distribution of income or wealth, or overall happiness.

Graph 4 illustrates the evolution of nominal and real (inflation-adjusted) GDP for Hampton Roads from 2001 to 2026 while Table 3 provides detailed estimates of nominal and real GDP for the same period.⁴ At the beginning of the century, the regional economy grew for six consecutive years, with real GDP increasing from \$79.6 billion in 2001 to \$93.8 billion in 2007. After 2005, however, real GDP growth tapered considerably, falling from 3.7% in 2005, to 1.0% in 2006, and 1.5% in 2007. Regional economic growth was essentially flat (0.2%) in 2008 before falling by 1.4% in 2009 during the Great Recession of 2007 - 2009. Growth rebounded slightly (0.8%) in 2010 before turning negative again in 2011 (-0.5%) and 2012 (-1.0%). Real GDP did not return to pre-Great Recession levels until 2016. In 2019, real GDP was approximately \$95.3 billion, only 1.3% larger than 2008. For all intents and purposes, the Hampton Roads economy stalled for a decade.

In 2021, the regional economy rebounded sharply from the 2020 COVID-19 economic shock, growing by 4.6%. We estimate that the regional economy grew for the fifth consecutive year in 2025, and we forecast a sixth consecutive year of growth in 2026. Even if we set the outsized gains of 2021 aside, the performance of the Hampton Roads economy markedly improved post-COVID relative to the previous decade. From 2010 to 2019, the regional economy grew at an annual average pace of 0.2% per year. From 2022 to 2026, we estimate the regional economy will grow at an annual average rate of 2.1% per year. This good news, however, must be tempered by the fact that regional economic growth has moderated recently and will likely continue to slow in 2026 and into 2027.

Graph 5 compares the performance of the Hampton Roads economy with that of the Commonwealth and the United States from 2010 to 2025. We create an index that is equal to 100 in 2010 and measures cumulative economic growth from 2010 to 2025. In 2025, for example, we estimate the index for Hampton Roads to be 115.7, that is, the economy of the region, after accounting for inflation, was 15.7% larger in 2025 than it was in 2010. Likewise, the economy of Virginia was 31.2% larger in 2025 than 2010, trailing the United States which was 42.1% larger in 2025 relative to 2010. Graph 5 tells two stories. First, is the cost of the region's lackluster performance last decade where it fell behind the Commonwealth and the nation. Second, even though regional economic growth has improved this decade, this improved performance was insufficient to close the gap created by a lost decade of economic growth. If Hampton Roads was running a race, it was running faster this decade, but still a lap behind because of its poor performance last decade.

³ As we have noted in previous reports, substate GDP estimates should be viewed with caution. The BEA estimates at the metropolitan statistical area and county level are significantly lagged and subject to frequent revision. The BEA released the advanced estimates for 2024 in December 2025 and will revise these estimates with the release of the 2025 advance estimates in December 2026.

⁴ The BEA, with its 2025 release, stopped publishing GDP estimates at the metropolitan statistical level. GDP estimates for metropolitan areas are obtained by aggregating county-level estimates of GDP.

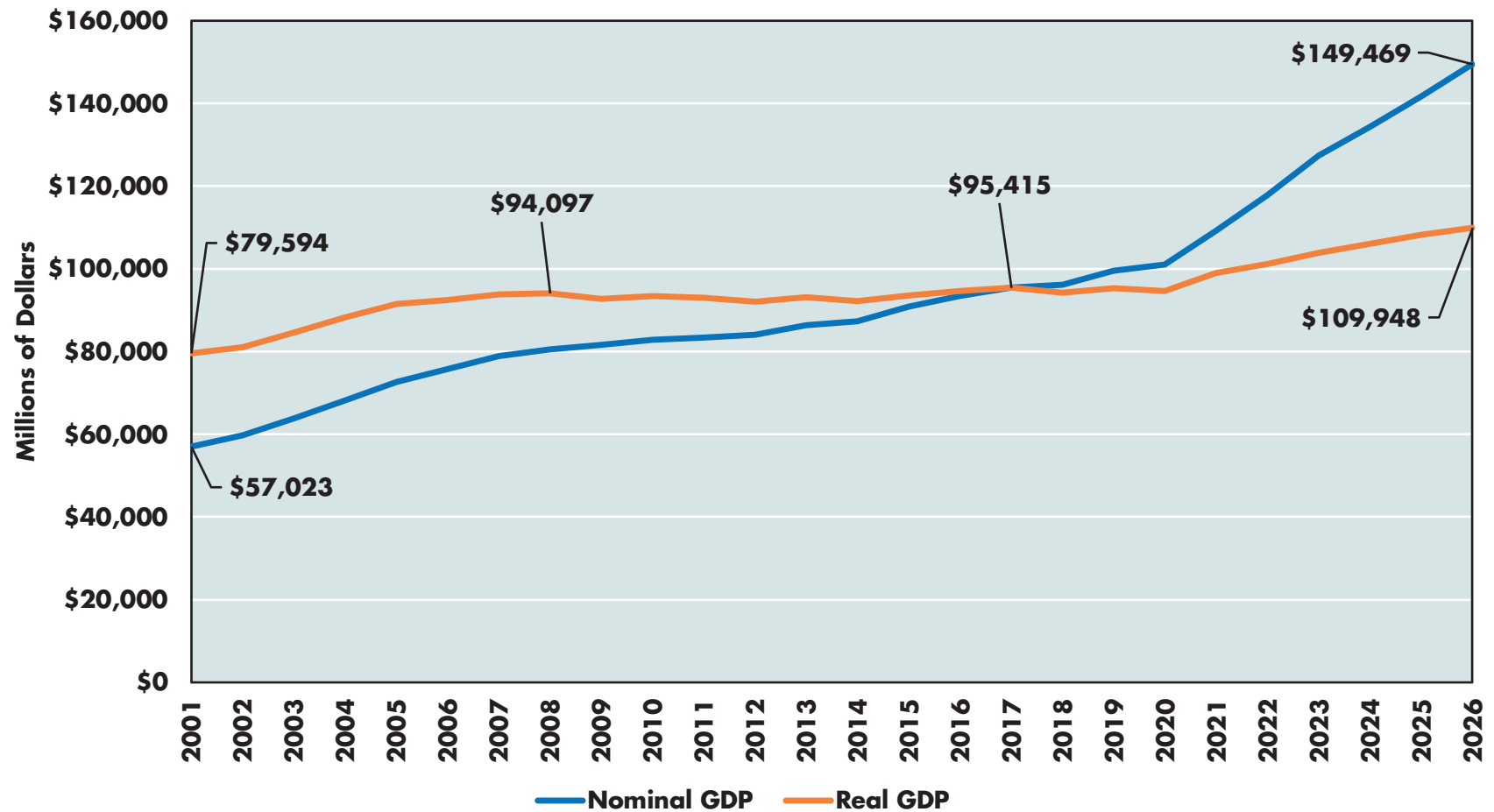
TABLE 3

**NOMINAL AND REAL GROSS DOMESTIC PRODUCT IN MILLIONS OF DOLLARS
HAMPTON ROADS, 2001 - 2026***

Year	Nominal GDP	Real GDP	Annual Change in Real GDP	Year	Nominal GDP	Real GDP	Annual Change in Real GDP
2001	\$57,023	\$79,594	---	2014	\$87,355	\$92,163	-1.1%
2002	\$59,743	\$81,124	1.9%	2015	\$90,911	\$93,587	1.5%
2003	\$63,817	\$84,619	4.3%	2016	\$93,434	\$94,724	1.2%
2004	\$68,129	\$88,236	4.3%	2017	\$95,415	\$95,415	0.7%
2005	\$72,706	\$91,501	3.7%	2018	\$96,198	\$94,209	-1.3%
2006	\$75,760	\$92,457	1.0%	2019	\$99,533	\$95,299	1.2%
2007	\$78,960	\$93,872	1.5%	2020	\$101,083	\$94,637	-0.7%
2008	\$80,600	\$94,097	0.2%	2021	\$109,194	\$98,986	4.6%
2009	\$81,619	\$92,794	-1.4%	2022	\$117,769	\$101,161	2.2%
2010	\$82,828	\$93,499	0.8%	2023	\$127,367	\$103,913	2.7%
2011	\$83,398	\$93,055	-0.5%	2024	\$134,290	\$106,094	2.1%
2012	\$84,027	\$92,103	-1.0%	2025*	\$141,676	\$108,216	2.0%
2013	\$86,327	\$93,148	1.1%	2026*	\$149,469	\$109,948	1.6%

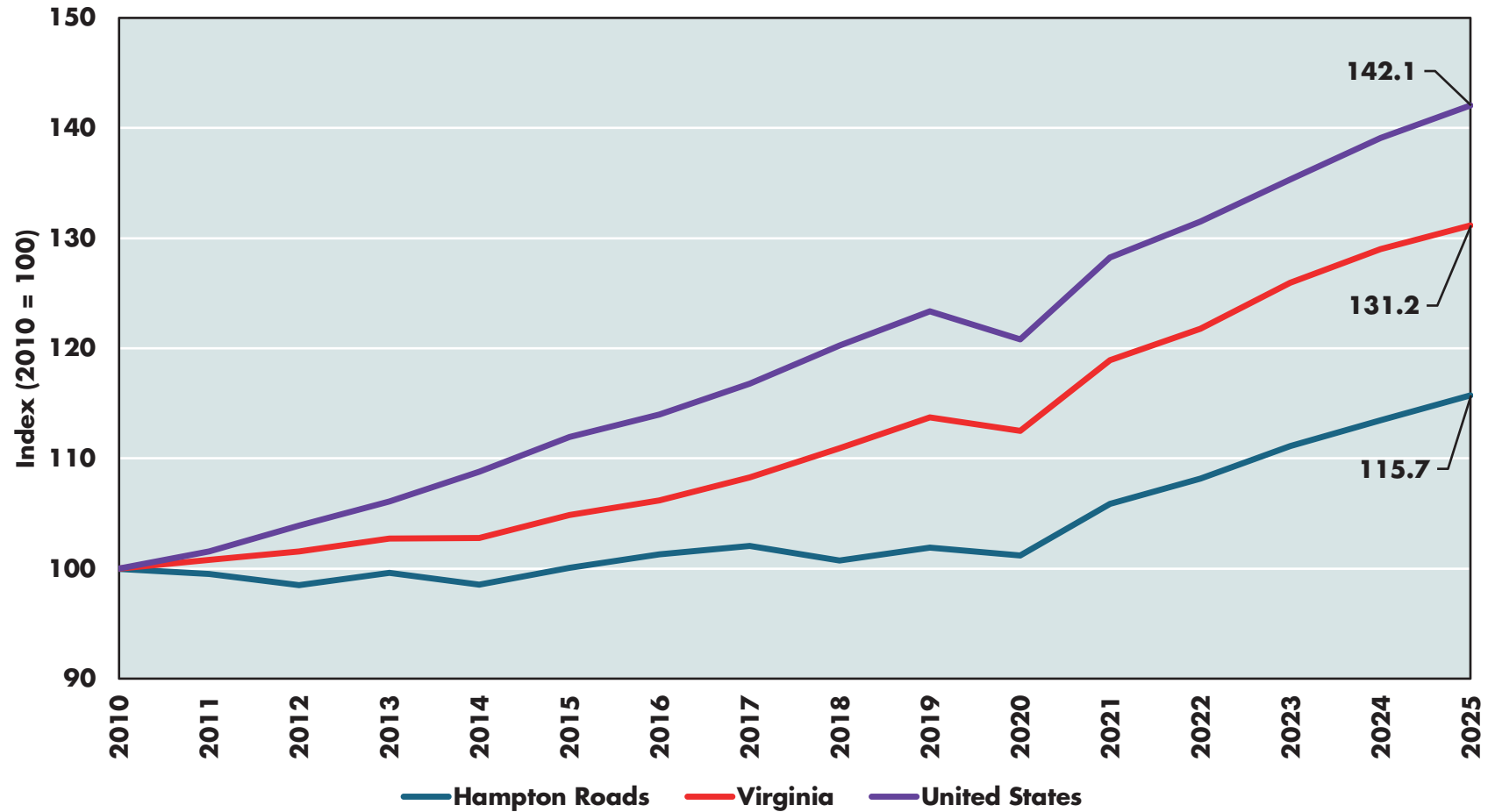
Sources: Bureau of Economic Analysis and Dragas Center for Economic Analysis and Policy. Data on GDP incorporate BEA revisions in December 2025. Real GDP is in 2017 Chained Dollars. *2025 represents our estimate and 2026 represents our forecast. Metropolitan-level estimates are equal to the sum of county-level estimates and use the U.S. Census 2023 delineation file to assign counties to metropolitan areas. Historical definitions of metropolitan areas are not captured by these estimates.

GRAPH 4
NOMINAL AND REAL GROSS DOMESTIC PRODUCT
HAMPTON ROADS, 2001 - 2026*



Sources: Bureau of Economic Analysis and Dragas Center for Economic Analysis and Policy. Data on GDP incorporate BEA revisions in December 2025. Real GDP is in 2017 Chained Dollars. *2025 represents our estimate and 2026 represents our forecast. Metropolitan-level estimates are equal to the sum of county-level estimates and use the U.S. Census 2023 delineation file to assign counties to metropolitan areas. Historical definitions of metropolitan areas are not captured by these estimates.

GRAPH 5
INDEX OF REAL GROSS DOMESTIC PRODUCT
HAMPTON ROADS, VIRGINIA, AND THE UNITED STATES
2010 - 2025*



Sources: Bureau of Economic Analysis and Dragas Center for Economic Analysis and Policy. Real GDP is in 2017 Chained Dollars. *2025 represents our estimate for Hampton Roads. Metropolitan level estimates are equal to the sum of county-level estimates and use the U.S. Census 2023 delineation file to assign counties to metropolitan areas. Historical definitions of metropolitan areas are not captured by these estimates.

Another measure of how the Hampton Roads economy is growing is its performance relative to other metropolitan statistical areas in the United States. If the pace of economic activity is faster in Hampton Roads when compared to other metro areas, its ranking will climb over time. On the other hand, if Hampton Roads' growth is paltry by comparison, its ranking will fall. There are 387 MSAs in the United States, and Graph 6 displays the ranking of Hampton Roads relative to these regions from 2010 to 2024 based on real GDP growth.

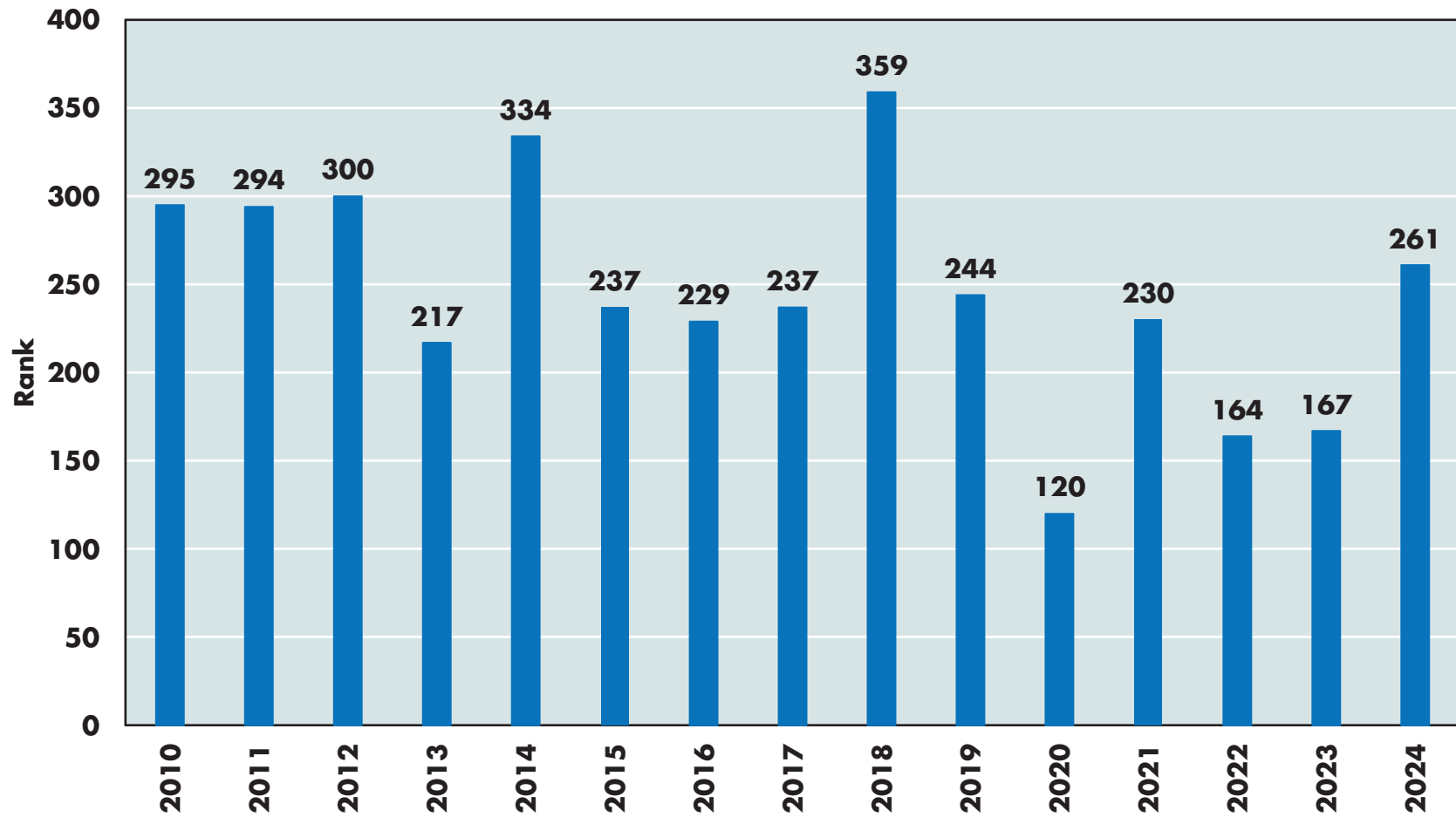
Throughout most of the last decade, Hampton Roads fell in the bottom half of metropolitan areas in terms of real GDP growth. Even though regional GDP declined by 0.7% in 2020, this performance was markedly better than many other MSAs that suffered more severe economic shocks. As a result, Hampton Roads' ranking rose to 120, its best performance this century. In 2021, despite the regional economy growing by 4.6%, many other metro areas grew faster (because their performance in 2020 was relatively worse), so Hampton Roads' ranking fell to 230. In 2022 and 2023, Hampton Roads was, essentially, in the middle of the pack, ranking 164 and 167, respectively. In 2024, as the pace of regional economic growth slowed to 2.1%, Hampton Roads fell into the bottom third of metropolitan areas in terms of economic growth.

What if we compared the performance of Hampton Roads to that of its peer and aspirant metropolitan areas in the southeastern United States? In Graph 7, we estimate the average annual real GDP growth rate from 2019 to 2024. We choose this period to avoid the shocks associated with the COVID-19 pandemic in 2020 and the rebound in economic activity in 2021. Graph 7 reveals that, among the selected metropolitan areas, Hampton Roads has performed slightly better than the Richmond and Washington, D.C., metro areas. This is more of a troubling sign for the Commonwealth as a whole as these metropolitan areas account for approximately 7 out of every 10 dollars in economic activity across Virginia.

Turning to the pace of economic activity to the south, we find that each of the selected metropolitan areas outperformed Hampton Roads from 2019 to 2024. The closest in terms of momentum was the Greenville-Anderson MSA which grew at an annual average rate of 2.7% over the period. The metro areas of Charlotte, Charleston, Durham-Chapel Hill, Raleigh, Jacksonville, and Nashville all experienced average annual growth that was approximately (if not more) than double that observed in the Hampton Roads region. It should be no surprise that the regions experiencing higher rates of growth also outpaced Hampton Roads in terms of population growth over the same window.

GRAPH 6

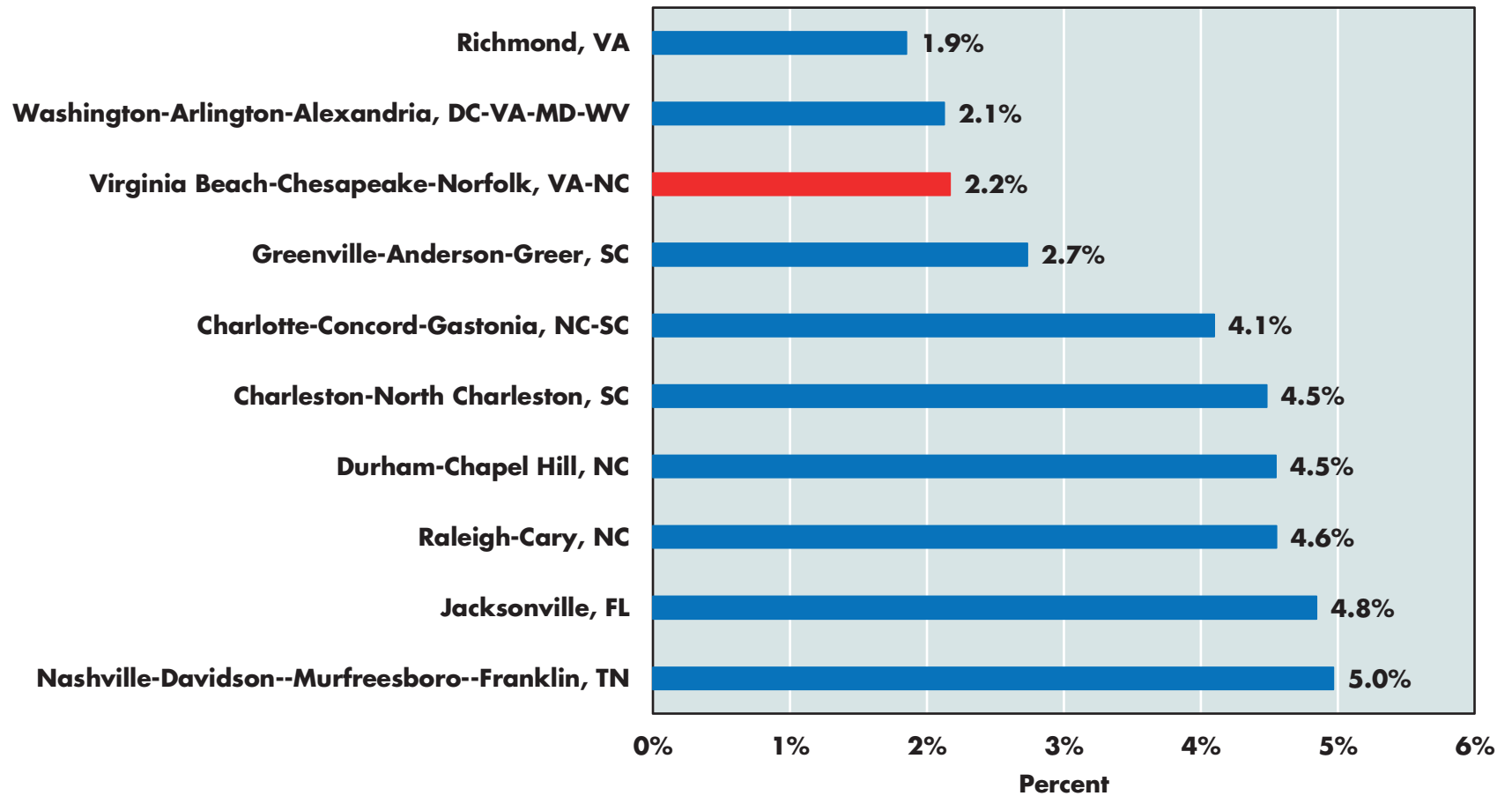
**HAMPTON ROADS RANKING: REAL GDP GROWTH
2010 - 2024**



Sources: Bureau of Economic Analysis and Dragas Center for Economic Analysis and Policy. Data on GDP incorporate BEA revisions in December 2025. Real GDP is in 2017 Chained Dollars. Metropolitan-level estimates are equal to the sum of county-level estimates and use the U.S. Census 2023 delineation file to assign counties to metropolitan areas. Historical definitions of metropolitan areas are not captured by these estimates.

GRAPH 7

**AVERAGE ANNUAL REAL GDP GROWTH
SELECTED METROPOLITAN STATISTICAL AREAS, 2019 - 2024**



Sources: Bureau of Economic Analysis and Dragas Center for Economic Analysis and Policy. Data on GDP incorporate BEA revisions in December 2025. Real GDP is in 2017 Chained Dollars. Metropolitan-level estimates are equal to the sum of county-level estimates and use the U.S. Census 2023 delineation file to assign counties to metropolitan areas. Historical definitions of metropolitan areas are not captured by these estimates. Average annual rate of real GDP growth is the compound annual growth rate (CAGR) between 2019 and 2024.

Labor Force and Employment: Reversal of Fortune

Every month, the Bureau of Labor Statistics (BLS) surveys approximately 60,000 eligible households regarding their employment status. The BLS asks respondents in the surveyed households whether they are employed or unemployed and actively looking for work. The civilian labor force includes all people aged 16 and older who respond in the affirmative to this question. Respondents who are unemployed and not actively looking for work are not considered as part of the civilian labor force.⁵ **These results are known as the household survey.**

We must draw the reader's attention to the federal government's lapse in appropriations from October 1, 2025 to November 12, 2025. Unlike previous federal government shutdowns, federal departments and agencies responsible for the collection of economic data did not continue to operate as normal. As the BLS and the Census Bureau did not collect survey data for October 2025 and collected a limited amount of data for November 2025, the BLS did not report household survey data for October 2025. We were left with two choices: maintain the gap in the data or interpolate using the adjacent data. For the purposes of this report, we linearly interpolate the missing October 2025 data using the September and November 2025 data points. We estimate October 2025 when using monthly data. When estimating annual averages, however, we follow the BLS and use the 11 available months of data for 2025. This choice allows us to present a continuous level of data for 2025 while generating the same annual estimates for 2025 as the BLS.

Graph 8 illustrates the annual levels of the civilian labor force and individual employment in Hampton Roads from 2000 to 2026. The number of people actively looking for work or working in Hampton Roads peaked at 883,053 in 2024 and declined to 876,710 in 2025. This decline in the civilian labor force continued into 2026, with the average level of the civilian labor falling to 869,620. Individual employment reached a record 856,270 individuals in 2023 before falling slightly to 855,706 in 2024. In 2025, however, individual employment fell sharply, declining by 9,985 individuals to 845,721. In 2026, employment continued to fall, reflecting weakening labor market conditions in the region.

The headline unemployment rate is equal to the ratio of the number of unemployed people to the number of individuals in the civilian labor force. Graph 9 displays the annual unemployment rate in Hampton Roads from 2000 to the first several months of 2026. Prior to the Great Recession of 2007-2009, the regional unemployment rate declined to 3.3% in 2007. By 2010, the unemployment rate in Hampton Roads was 7.3% and then declined to 3.1% in 2019. After spiking during the COVID-19 pandemic in 2020 to 7.4%, the unemployment rate declined to 2.9% in 2023.

After 2023, however, regional labor markets weakened, and the unemployment rate rose to 3.1% in 2024. In 2025, the unemployment rate in Hampton Roads rose to 3.5% and continued to rise into 2026. For the first several months of 2026, the average unemployment rate in Hampton Roads was 3.9%. The average unemployment rate in Hampton Roads has remained below the national unemployment rate, but higher than the statewide unemployment rate in 2026.

⁵ According to the BLS, individuals who are self-employed, unpaid family workers in family businesses, agriculture and related workers, workers in private households, and workers on unpaid leave are included in the employment estimates. The BLS excludes individuals who are on furlough the entire reference week, even if they received pay for the furlough week. These individuals are considered unemployed for the purposes of the household survey.

The recent rise in the unemployment rate is particularly noteworthy. Not only did the civilian labor force decline, on average, in 2025 and 2026, but the number of unemployed individuals also rose. In other words, the total pool of people either working or actively looking for work has shrunk, and, of those remaining in the pool, a larger share have been unable to find a job.

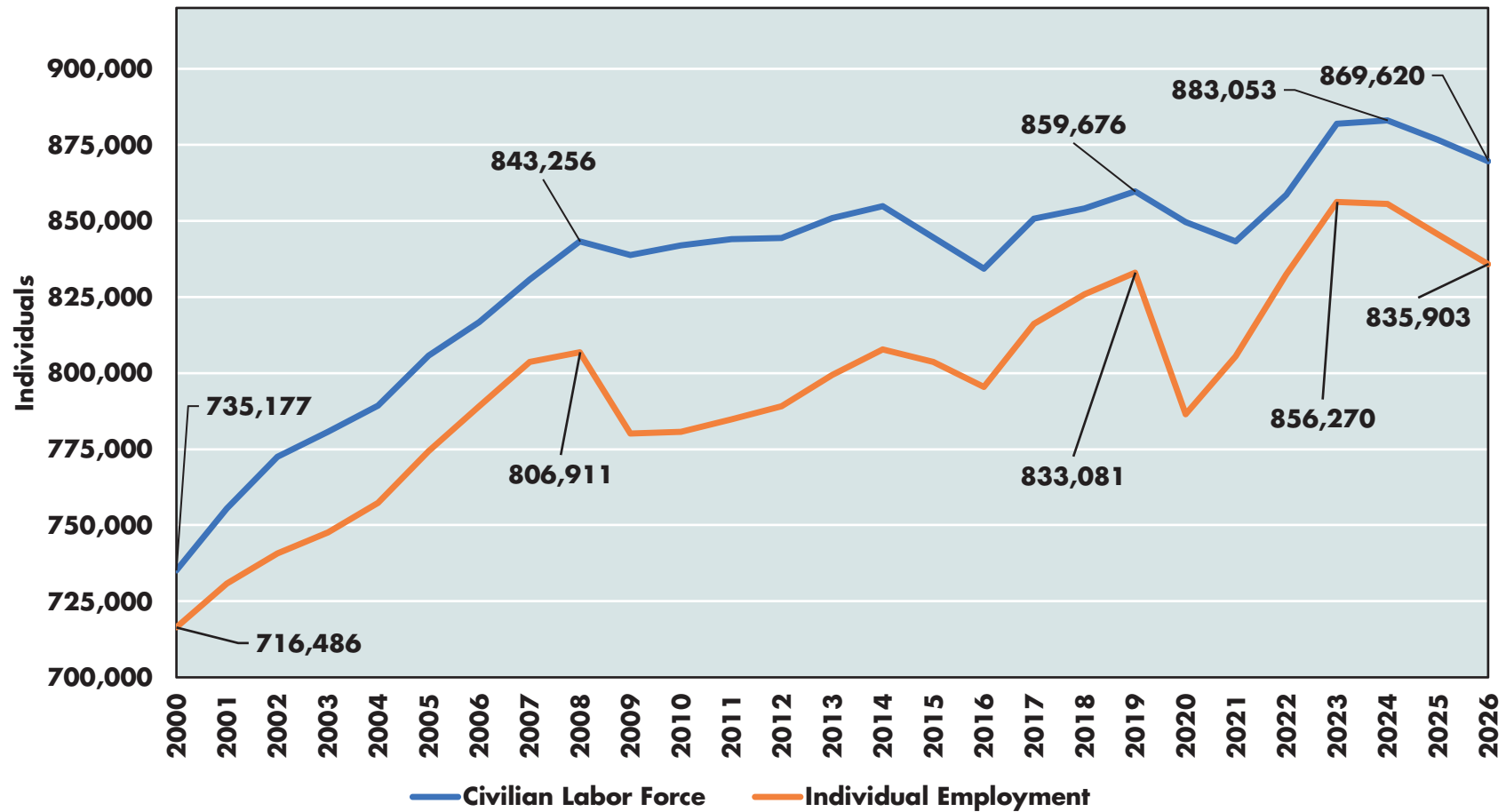
How does Hampton Roads fare when compared to its peer and aspirant metros? Graph 10 displays the percent change in the civilian labor force from 2019 to 2025, and Graph 11 illustrates the percent change in individual employment for the same period. The same story emerges from the civilian labor force and individual employment data that were illustrated with the GDP data: Hampton Roads has grown, but the pace of growth has lagged many of its peers.

We can compare Hampton Roads with the Charleston-North Charleston, South Carolina metropolitan area to gain some perspective on the relative performance of our region. From 2019 to 2025, the civilian labor force in Hampton Roads grew by 2.0%. Over the same period, the civilian labor force in the Charleston-North Charleston metropolitan area grew by 18.5%. For every new worker joining the civilian labor force in Hampton Roads from 2019 to 2025, over nine joined the labor force in the Charleston-North Charleston. If we focus instead on individual employment, for every additional worker reporting to the BLS that they were employed in Hampton Roads, there were over 11 individuals reporting the same for the Charleston-North Charleston metro area.



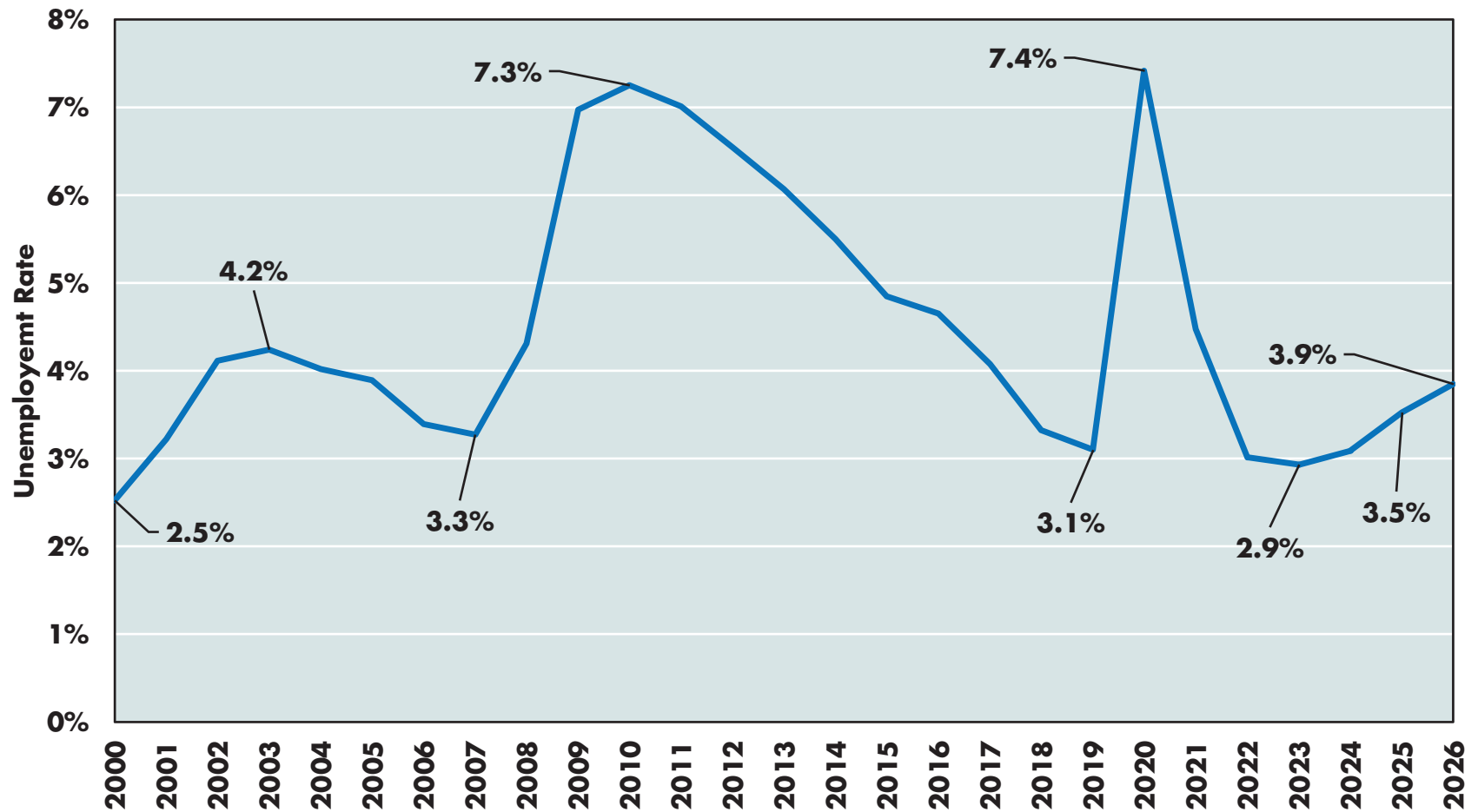
GRAPH 8

**ANNUAL CIVILIAN LABOR FORCE AND INDIVIDUAL EMPLOYMENT
HAMPTON ROADS, 2000 - 2026***



Sources: Bureau of Labor Statistics and Dragas Center for Economic Analysis and Policy. Annual averages of non-seasonally adjusted data. *Data for 2026 represent the year-to-date average of available monthly data at the time of writing. Annual estimates for 2025 are 11-month averages that exclude October due to federal government shutdown.

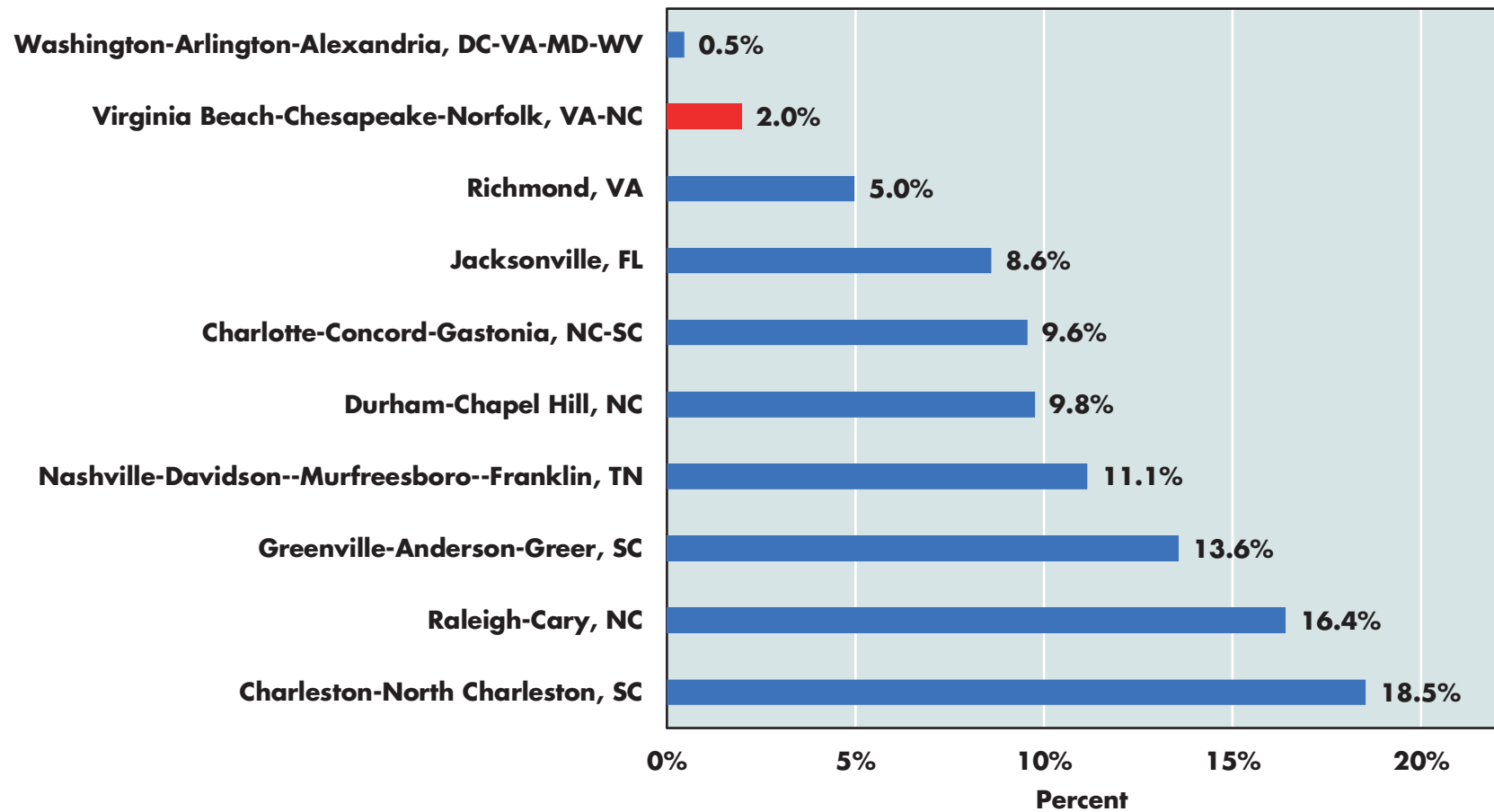
GRAPH 9
UNEMPLOYMENT RATE
HAMPTON ROADS, 2000 - 2026*



Sources: Bureau of Labor Statistics and Dragas Center for Economic Analysis and Policy. Annual averages of non-seasonally adjusted data. Data for 2026 represent the year-to-date average of available monthly data at the time of writing. Annual estimates for 2025 are 11-month averages that exclude October due to federal government shutdown.

GRAPH 10

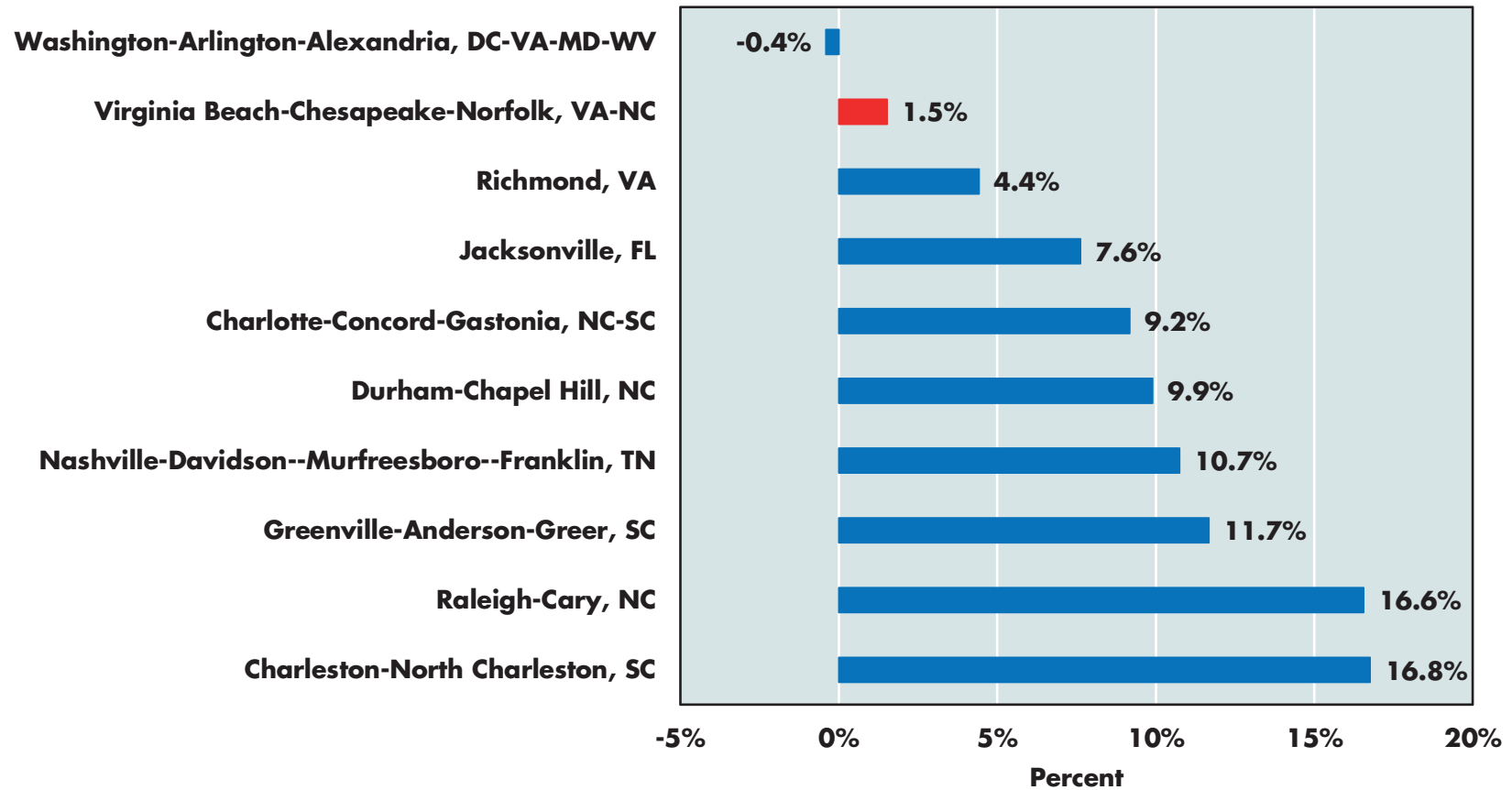
**PERCENT CHANGE IN CIVILIAN LABOR FORCE
SELECTED METROPOLITAN STATISTICAL AREAS, 2019 - 2025**



Sources: Bureau of Labor Statistics and Dragas Center for Economic Analysis and Policy. Annual averages of non-seasonally adjusted data. Annual estimates for 2025 are 11-month averages that exclude October due to federal government shutdown. Estimates represent the change in the labor force from 2019 to 2025.

GRAPH 11

**PERCENT CHANGE IN INDIVIDUAL EMPLOYMENT
SELECTED METROPOLITAN STATISTICAL AREAS, 2019 - 2025**



Sources: Bureau of Labor Statistics and Dragas Center for Economic Analysis and Policy. Annual averages of non-seasonally adjusted data. Annual estimates for 2025 are 11-month averages that exclude October due to federal government shutdown. Estimates represent the change in the individual employment from 2019 to 2025.

More Jobs but Uncertainty Clouds the Outlook

If one side of labor markets is the supply of available labor (the civilian labor force) and its utilization (individual employment), the other side is the demand for labor by employers. Each month, the BLS surveys employers on their payrolls, and the results form what is referred to as the establishment survey.⁶ Every year, the BLS releases annual revisions to these estimates to incorporate data from Unemployment Insurance (UI) programs and the Quarterly Census of Employment and Wages (QCEW). These 'benchmark' revisions provide the most accurate measure of nonfarm payrolls and are a normal part of the data reporting process.

Graph 12 illustrates annual nonfarm payrolls from 2000 through the first several months of 2026. Prior to the Great Recession of 2007 to 2009, the number of jobs in Hampton Roads peaked in 2007 at 779,775. The region's relatively slow recovery from the Great Recession and caps on discretionary federal spending meant that this record was not eclipsed until 2017 (788,217). The region continued to add jobs and, in 2019, the number of jobs in Hampton Roads set a record at 803,283.

The record number of jobs in 2019 was a mixture of good and bad news. Hampton Roads had fully recovered from a series of significant economic shocks and employers continued to add jobs at the end of the previous decade. In 2019, however, there were only 23,508 more jobs in the region than in 2007. In other words, over 12 years, the number of jobs in Hampton Roads had only increased by 3.0%. Another way to think about this is that the number of jobs in the region grew by approximately 0.3% a year from 2007 to 2019. If there was a signal of the relatively slow pace of economic growth, this was it.

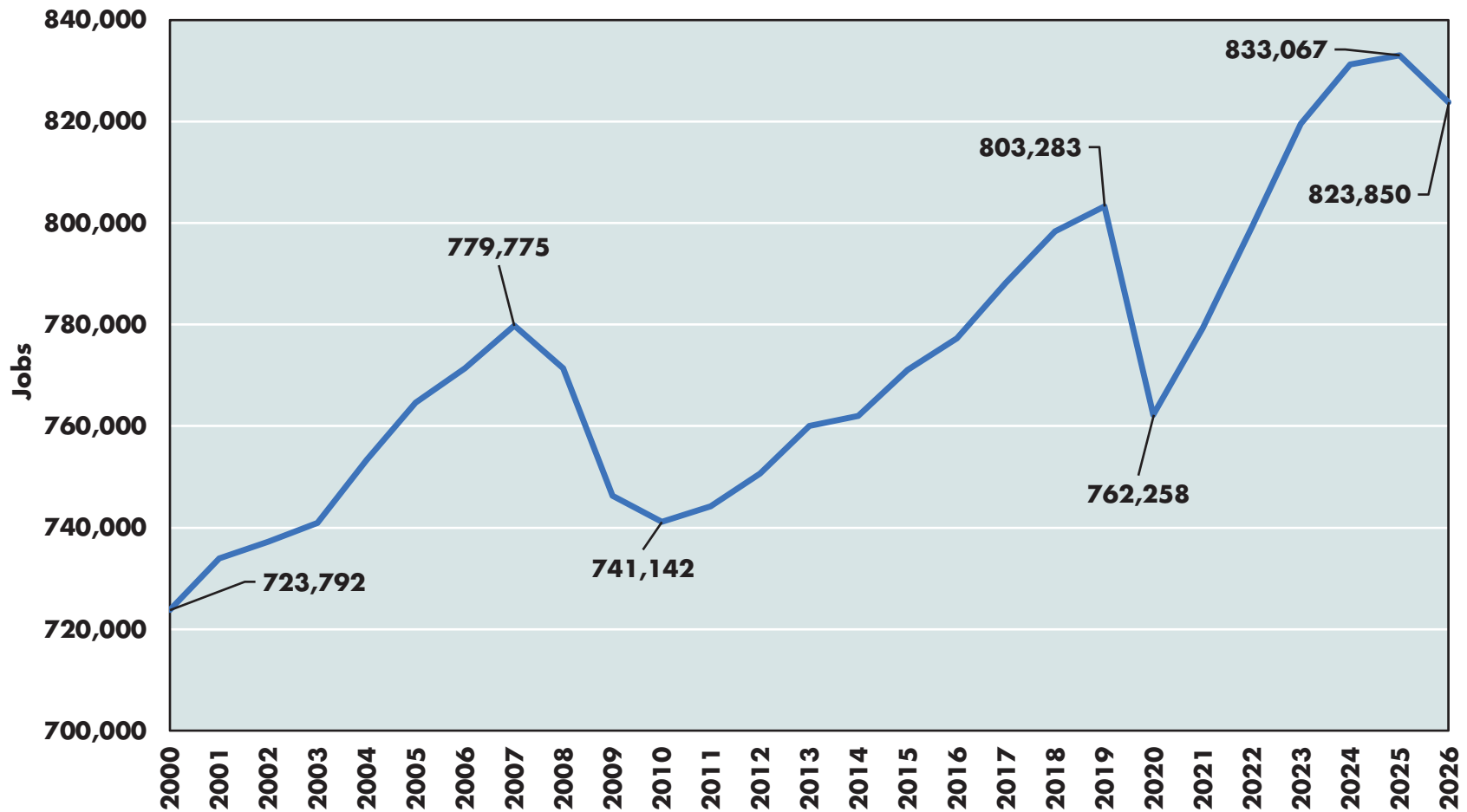
In 2025, there were an average of 833,067 jobs in Hampton Roads, 29,783 more than 2019. In other words, there were 3.7% more jobs in 2025 than 2019, illustrating the faster pace of job creation after the COVID-19 pandemic. The first months of 2026, however, have seen a partial reversal of economic fortune. On average, there were 9,217 fewer jobs in 2026 than in 2025. As we discuss later in this report, declines in federal civilian employment, tariffs on imports flowing through the Port of Virginia, and slowing economic growth across Virginia and the nation have created headwinds. These conditions will likely reduce the number of jobs in the region in 2026 and, should current conditions persist, into 2027.

Graph 13 presents the percent change in monthly, seasonally adjusted nonfarm payrolls for Hampton Roads and a selection of metropolitan areas from February 2020 to April 2026. The Raleigh, North Carolina, metro area had 18.4% more jobs in April 2026 than February 2020, followed by the Charleston, South Carolina, metro area (15.0%) and the Nashville, Tennessee, metro area (12.9%). While Hampton Roads (2.7%) fared better than the Washington, D.C., metropolitan area (-1.5%), it performed markedly worse than Richmond, Virginia (5.6%) or Durham-Chapel Hill, North Carolina (9.2%). The overarching story remains the same: Hampton Roads has grown, but its growth has left much to be desired.

⁶ The Current Employment Statistics Program surveys approximately 119,000 businesses and government agencies representing almost 630,000 worksites across the United States.

GRAPH 12

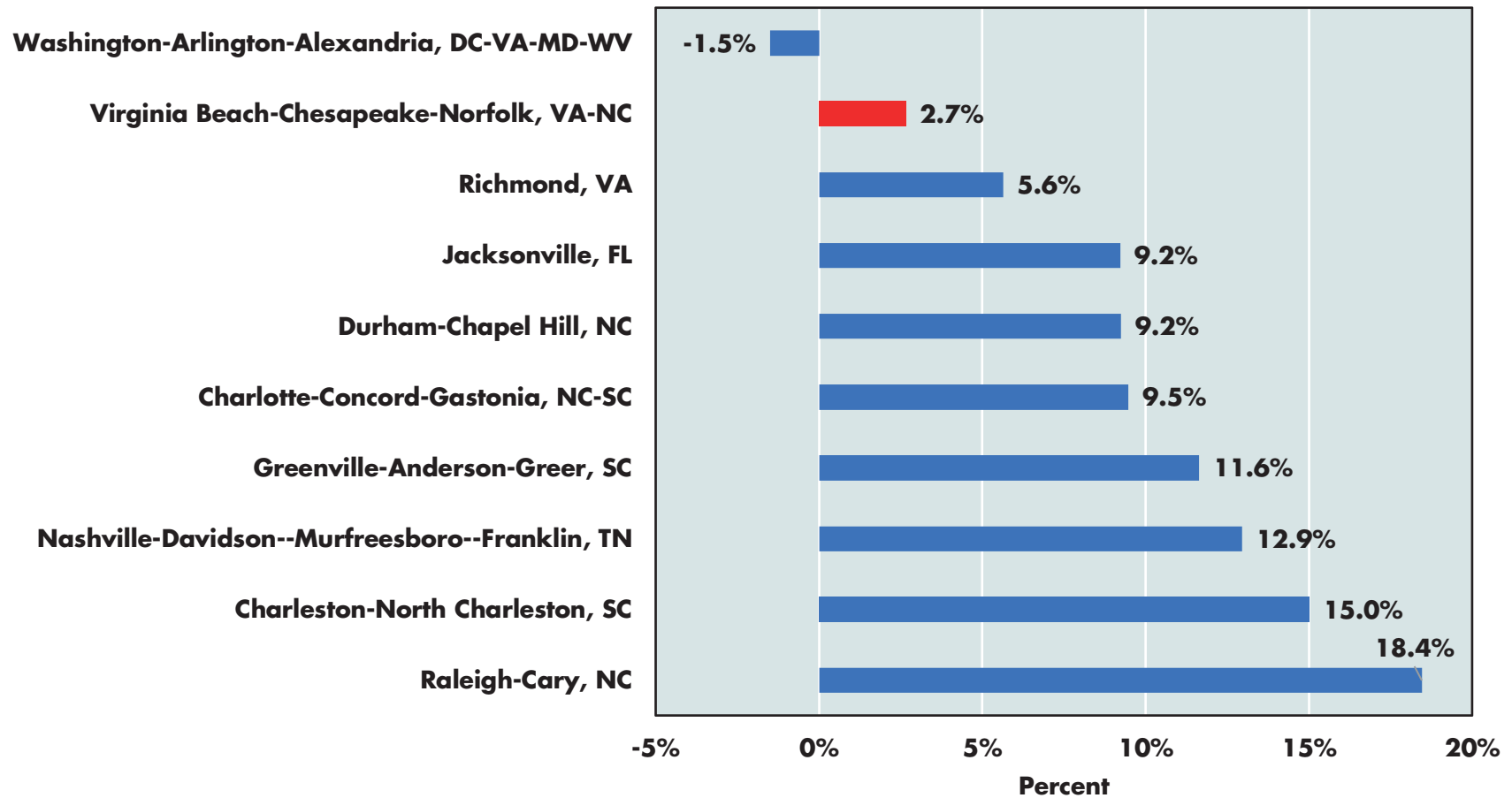
**ANNUAL NONFARM PAYROLLS (JOBS)
HAMPTON ROADS, 2000 - 2026***



Sources: Bureau of Labor Statistics and Dragas Center for Economic Analysis and Policy. Annual averages of non-seasonally adjusted data. *Data for 2026 represent the year-to-date average of available, non-seasonally adjusted monthly data at the time of writing.

GRAPH 13

**GROWTH IN NONFARM PAYROLLS (JOBS)
SELECTED METROPOLITAN STATISTICAL AREAS, FEBRUARY 2020 - APRIL 2026**



Sources: Bureau of Labor Statistics and Dragas Center for Economic Analysis and Policy. Data are seasonally adjusted.

Wage Growth in Hampton Roads

Are jobs paying more in Hampton Roads? Graph 14 compares nominal and real average weekly wages for establishments in Hampton Roads from 2000 to 2025. If one were merely to look at nominal average weekly wages, the answer to the previous question would be a resounding 'yes,' as average weekly wages have risen from approximately \$945 a week in 2019 to \$1,245 in 2025.

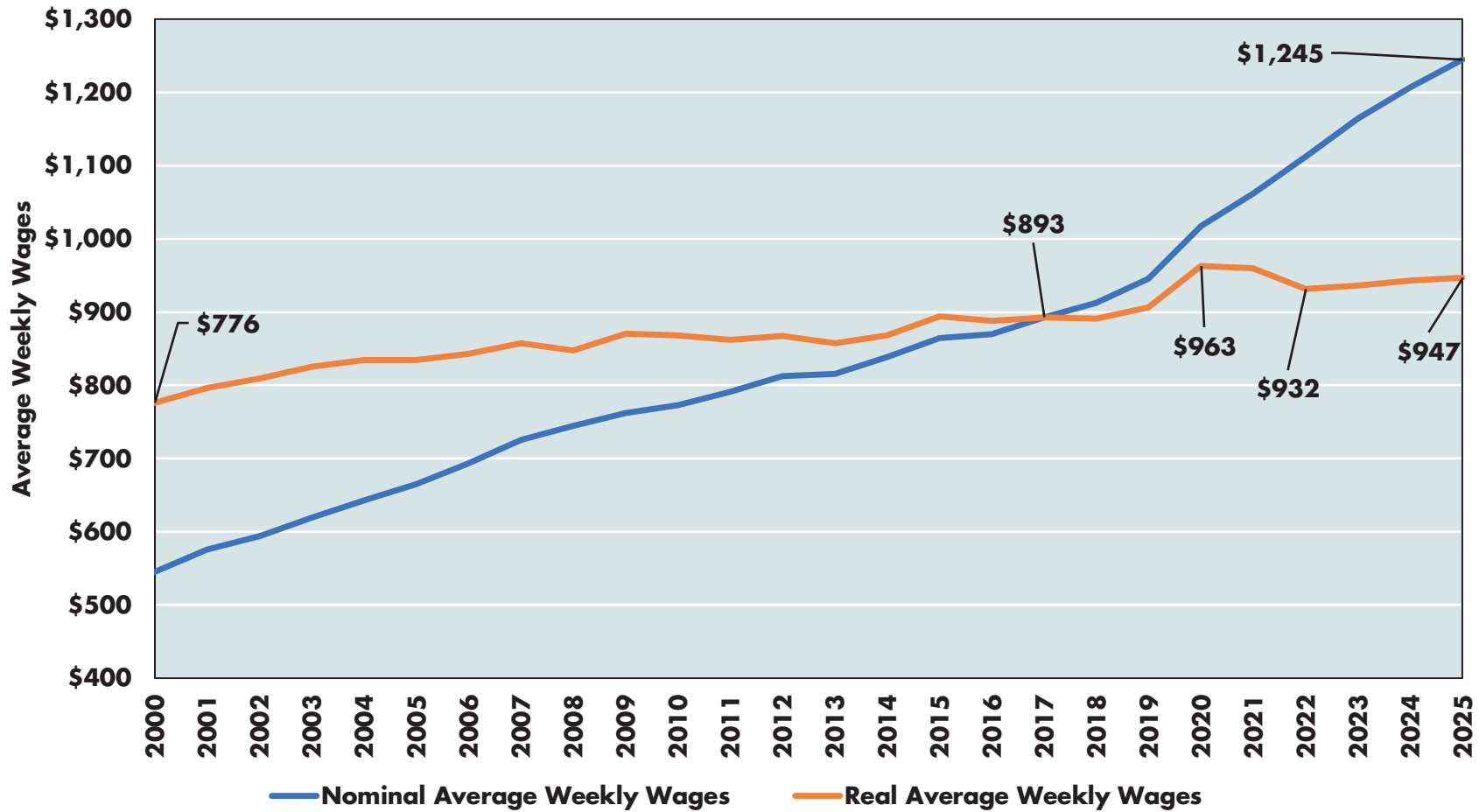
However, we need to consider the impact of inflation on average weekly wages. Real average weekly wages in 2017 constant dollars were \$906 in 2019. Real average weekly wages rose to \$963 in 2020, but this rise was driven by significant layoffs concentrated in lower wage industries. As workers returned to work in 2021 and 2022, real average weekly wages fell but were still higher than levels observed in 2019. In 2025, real average weekly wages rose to \$947. In nominal terms, the average annual wage in Hampton Roads was \$64,727 in 2025. In real terms, however, a different story emerges. Real average annual wages in the region in 2025 were \$49,245 in 2017 dollars. Real average annual wages rose in 2025, but wage gains were paltry once one accounts for the impact of inflation.

While real average weekly wages grew in 2023, 2024, and 2025, we caution that this may not hold for 2026. While real average weekly wages increased by 0.7% in 2024 relative to 2023, growth decelerated to 0.4% in 2025. As the headline rate of inflation rose in the first half of 2026, national real wage growth weakened as prices began to rise faster than wages. Given that regional wage data typically lag by two quarters, we can only opine that a similar phenomenon, where price increases have outpaced wage gains, has occurred in the region in the first half of 2026.



GRAPH 14

**NOMINAL AND REAL AVERAGE WEEKLY WAGES
HAMPTON ROADS, 2000 - 2025**



Sources: Bureau of Labor Statistics and Dragas Center for Economic Analysis and Policy. Annual averages of non-seasonally adjusted data. Average weekly wages are the wages paid by unemployment insurance-covered employers during the calendar quarter, regardless of when the services were performed. Included in wages are pay for vacation and other paid leave, bonuses, stock options, tips, the cash value of meals and lodging, and in some cases, contributions to deferred compensation plans (such as 401(k) plans). Real wages are estimated using the Consumer Price Index for All Urban Consumers with a base year of 2017.

Job Gains and Losses by Industry

Graph 15 illustrates the change in average annual nonfarm payrolls (jobs) by industry in Hampton Roads from 2019 to 2025. Over this period, the largest decline in jobs occurred in the Retail Trade (-6,258), Information (-3,008), and Manufacturing (-2,150) industries. Job gains have been led by the Transportation, Warehouse, and Utilities (14,025), Education and Health Services (11,692), and Professional and Business Services (6,267) industries. Mining, Logging, and Construction (3,499) and Local Government (1,894) also added jobs from 2019 to 2025.

However, we must also note that looking at job gains from 2019 to 2025 may conceal information about recent developments. Graph 16 compares the average number of jobs in each industry in 2024 and 2025. Education and Health Services (4,100), Transportation, Warehouse, and Utilities (2,458), Local Government (1,367), and Leisure and Hospitality (1,008) were industries that added jobs from 2024 to 2025.

The job gains were offset by losses in other industries. Professional and Business Services (-1,950), Manufacturing (-1,842), Financial Activities (-1,325), Federal Government (-1,217), and Retail Trade (-1,192) all experienced job losses between 2024 and 2025. Information shed an additional 750 positions. These job losses are troubling because, with the exception of retail trade, average wages in these industries tend to be higher than the regional average. One example of how the region has lost higher paying jobs relates to the federal civilian workforce.

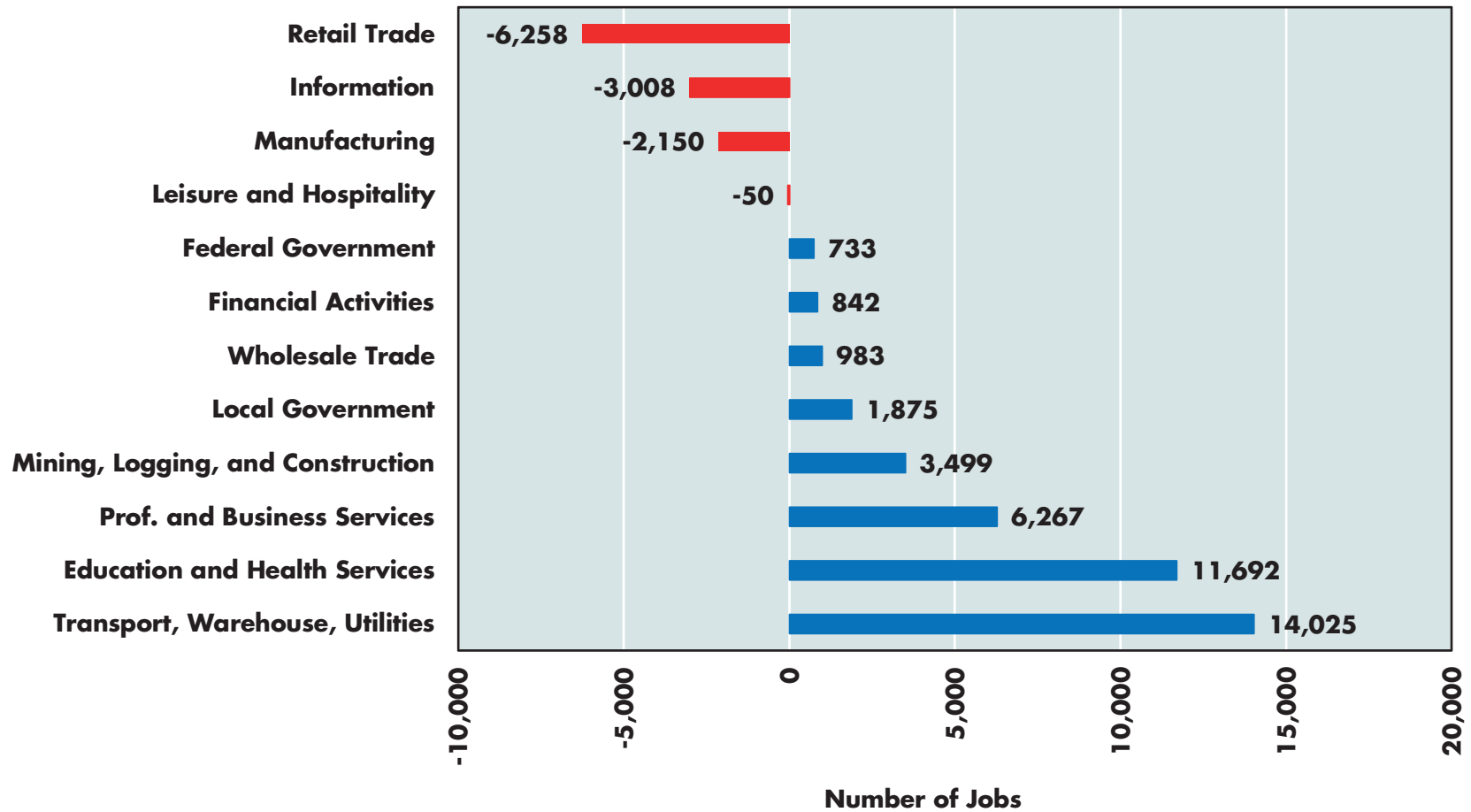
Graph 17 presents the monthly number of federal civilian employees in Hampton Roads from January 2016 to April 2026. In 2019, there were approximately, on average, 58,620 federal civilian employees in the region. By 2024, the average number of federal civilian employees had climbed to 60,568. These federal civilian jobs were mostly defense-adjacent jobs but also included workers at National Aeronautics and Space Administration (NASA), U.S. Department of Energy's (DOE) Thomas Jefferson National Accelerator Facility, Federal Bureau of Investigation (FBI), and a host of other federal departments and agencies.

In January 2025, the BLS reported there were 61,220 federal civilian employees (jobs) in Hampton Roads. The number of employees slowly declined through September 2025 when there were a reported 60,016 employees in the region. On October 1, 2025, those employees who took the 'fork in the road' left federal service. In October 2025, the number of federal civilian employees fell to 55,745. The number of federal civilian employees has continued to decline and was 54,373 in April 2026. In all likelihood, the number of federal civilian jobs will continue to fall through 2026.

The loss of 11.2% of all federal civilian jobs in Hampton Roads since January 2025 has firmly put to rest the notion that the region's role in national security would shield it from changes in federal employment and spending policy. As we have noted in previous reports, federal civilian workers earn, on average, 1.6 times the wages of their private-sector counterparts. When benefits are included, this compensation ratio is likely closer to 2-to-1, that is, for every federal civilian job lost, the private sector would need to generate two new jobs to make up for the lost compensation. As private sector job growth has slowed in Hampton Roads, the loss of federal civilian jobs highlights the need to diversify economic activity to improve growth and resiliency in the face of changes to federal government policy.

GRAPH 15

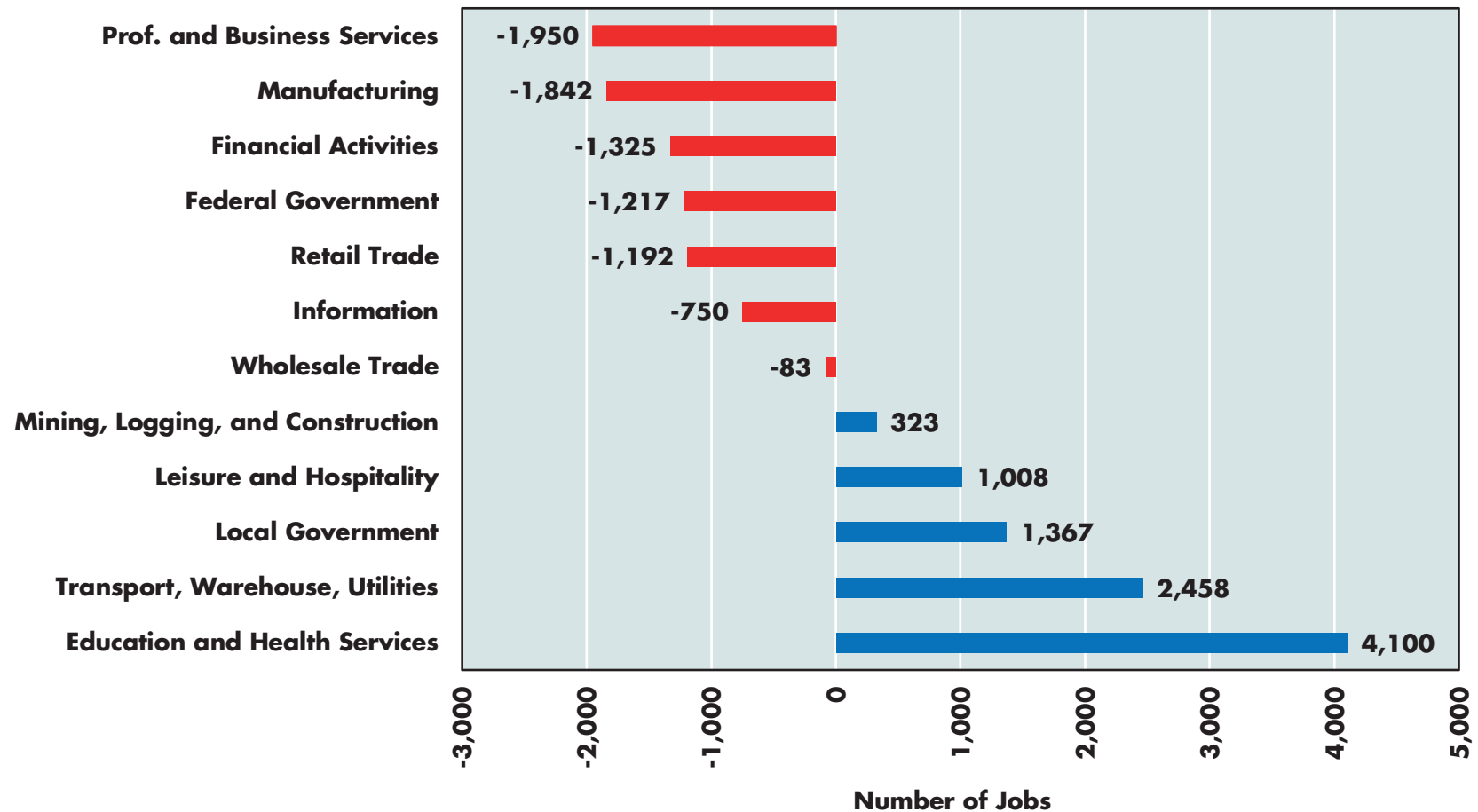
**CHANGE IN AVERAGE ANNUAL NONFARM PAYROLLS
HAMPTON ROADS, 2019 - 2025**



Sources: Bureau of Labor Statistics, Federal Reserve Bank of St. Louis, and Dragas Center for Economic Analysis and Policy. Annual averages of non-seasonally adjusted data.

GRAPH 16

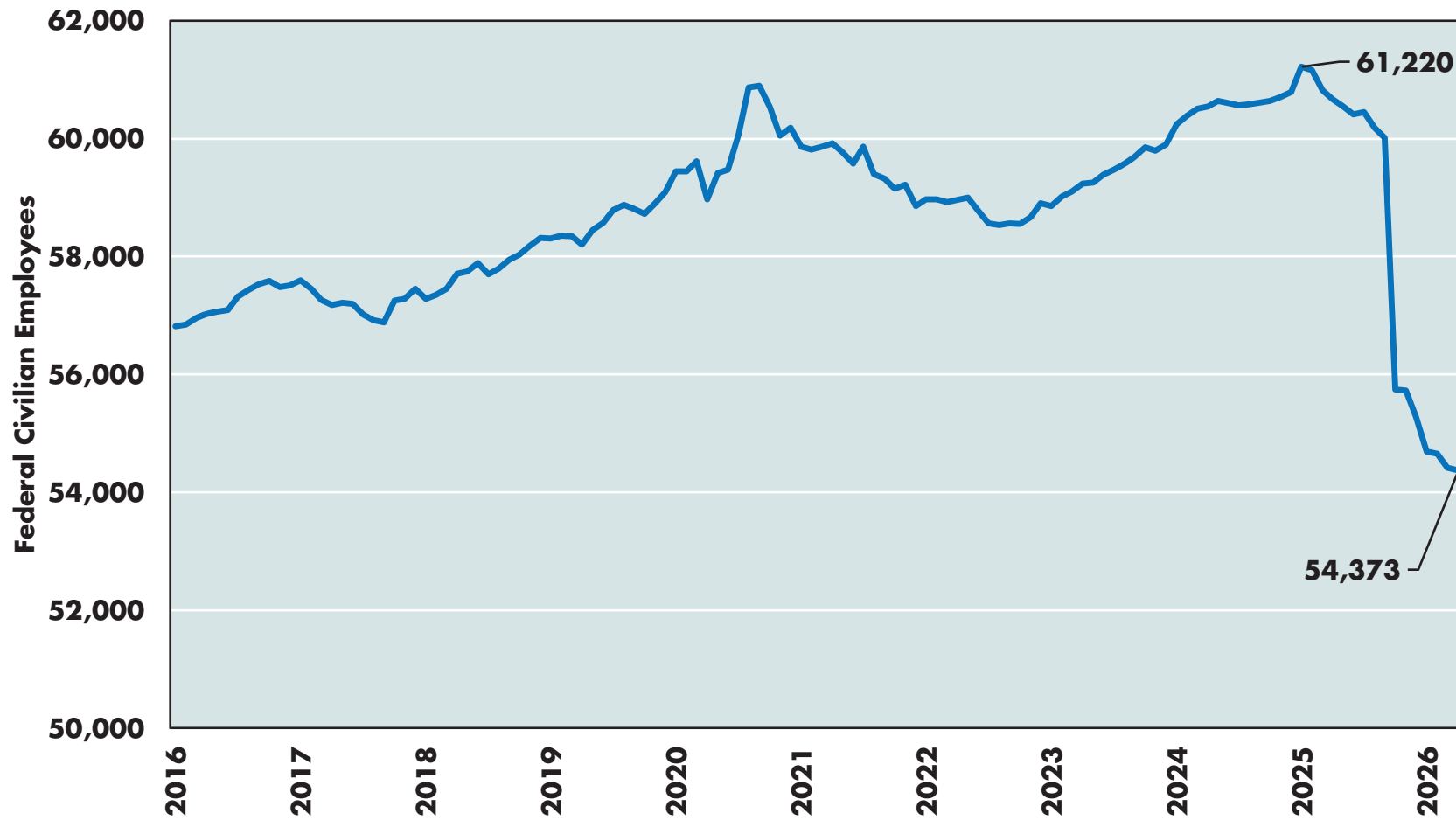
**CHANGE IN AVERAGE ANNUAL NONFARM PAYROLLS
HAMPTON ROADS, 2024 - 2025**



Sources: Bureau of Labor Statistics, Federal Reserve Bank of St. Louis, and Dragas Center for Economic Analysis and Policy. Annual averages of non-seasonally adjusted data.

GRAPH 17

FEDERAL CIVILIAN EMPLOYEES (JOBS)
HAMPTON ROADS, JANUARY 2016 - APRIL 2026



Source: Bureau of Labor Statistics, Federal Reserve Bank of St. Louis. Data are seasonally adjusted.

Median Household Income

To understand how households are faring financially in Hampton Roads, we can examine median household income (Graph 18). Median household income represents the midpoint of households in Hampton Roads, that is, half of the households in the region earn more than this estimate, and half of households earn less. In 2010, nominal median household income in the region was \$57,315, which fell to \$55,997 in 2012. By 2019, median household income in Hampton Roads had risen to \$69,329, approximately 21.0% higher than its value in 2010. In 2021, median household income was \$72,686. By 2023, median household income had reached \$79,325. In 2024, median household income was \$82,402, 43.8% higher than 2010. However, this value of median household income included the overall increase in prices.

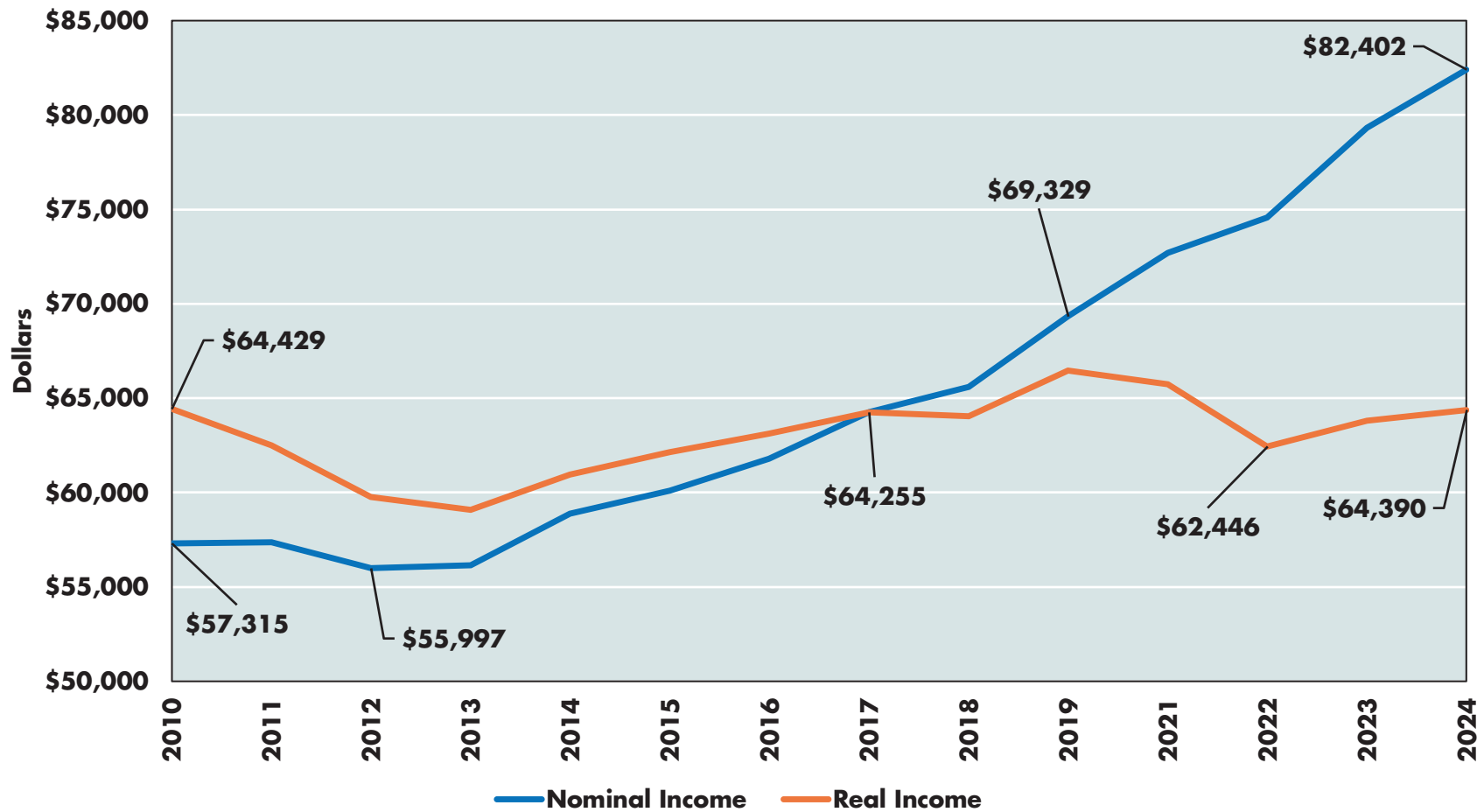
To estimate real median household income, we use the annual average of the Consumer Price Index to remove the influence of inflation. Examining real median household income reveals a much different story. In 2010, real median household income in Hampton Roads was \$64,429 in 2017 dollars. In 2024, real median household income in Hampton Roads was \$64,390 in 2017 dollars. In other words, from 2010 to 2024, real median household income in the metropolitan area did not change. After we account for the impact of inflation, the median household in Hampton Roads saw no increase in their income over a span of 14 years.

Drawing back, the impact on the median household in Hampton Roads is striking. The typical family saw their paycheck grow by 43.8% from 2010 to 2024. However, because of the cost groceries, housing, gas, and other goods and services rose just as fast (or faster), their paycheck in 2024 bought slightly less than it did in 2020. For the median household in Hampton Roads, the standard of living essentially stagnated between 2010 and 2024.

Graph 19 compares the performance of real median household income in Hampton Roads with Virginia and the United States from 2010 to 2024. The story in Graph 19 is one that has been told throughout this chapter: Hampton Roads has fallen behind the Commonwealth and the nation. From 2010 to 2024, real median household income was essentially unchanged in the metropolitan area. Over the same period, real median household income increased by 5.5% for Virginia and 13.3% for the United States. Now, with Hampton Roads losing approximately 1 in 10 federal civilian workers, it is likely that the region will fall even further behind the state and nation with respect to median household income. A relatively stagnant economy only increases the incentive for higher-income households to depart for more economically robust regions. If anything, Graph 19 shines a bright light on the argument that defense dollars will continue to fuel future growth because, while the overall economy grew from 2010 to 2024, these benefits did not materialize to many households in Hampton Roads.

GRAPH 18

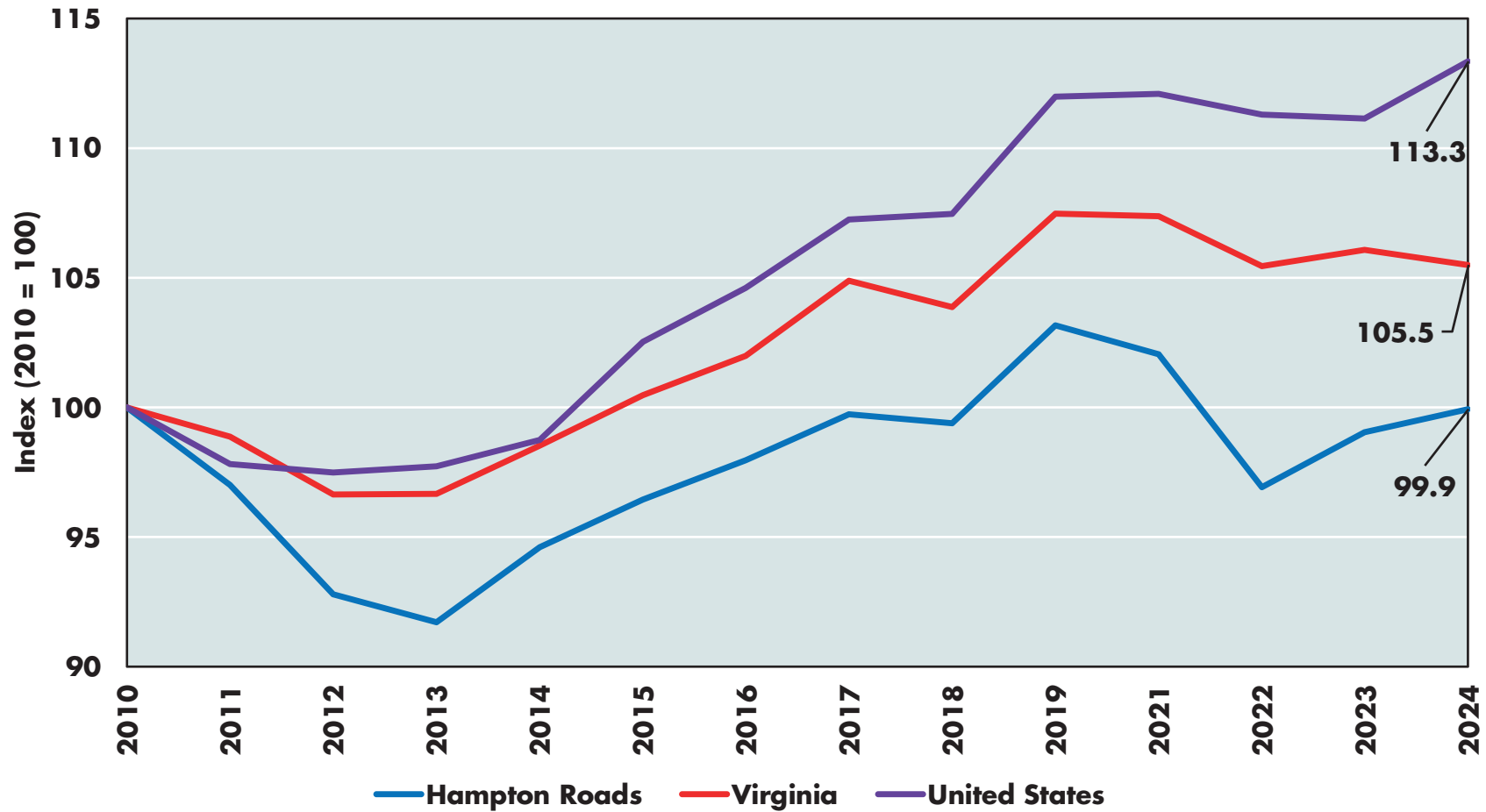
NOMINAL AND REAL MEDIAN HOUSEHOLD INCOME
HAMPTON ROADS, 2010 - 2024*



Source: U.S. Census Bureau. *Estimates for 2020 are not available. Nominal median household income obtained from the 1-year American Community Survey. Real median household income estimated using the annual average of the Consumer Price Index with a base year of 2017.

GRAPH 19

INDEX OF REAL MEDIAN HOUSEHOLD INCOME
HAMPTON ROADS, VIRGINIA, AND THE UNITED STATES, 2010 - 2024*



Sources: U.S. Census Bureau, Bureau of Labor Statistics, and Dragas Center for Economic Analysis and Policy. *Estimates for 2020 are not available. Nominal median household income obtained from the 1-year American Community Survey. Real median household income estimated using the annual average of the Consumer Price Index with a base year of 2017.

Final Thoughts

As Hampton Roads navigates the stormy seas of 2026, the regional economy stands at an inflection point. While it is encouraging to report that the regional economy is poised to achieve its sixth consecutive year of real GDP growth (a feat not accomplished since early this century), the headline measure masks vulnerabilities that threaten the prospects for future growth. The data reveals that our current path is characterized by anemic growth relative to our neighbors, a shrinking labor pool, an unsettling loss of higher-paying federal civilian positions, and a higher cost of living. These factors may combine to squeeze growth and reinforce the flow of residents to other regions in the search of better economic opportunities.

Altering this trajectory means challenging the status quo. If the cuts to federal civilian employment, higher tariffs, and constraints on legal immigration make one thing clear, it is this: leaving our regional economic fates in the hands of those outside the region is no longer a safe course of action. The assumption that the inflow of defense dollars would provide a floor for economic growth and employment no longer seems a defensible proposition. The marginal (incremental) gains from each additional federal dollar appear to have diminished over time. To spur growth, we must seek out new channels on which to sail.

Hampton Roads must lean into, not shy away from, high-value private industries, including advanced manufacturing, supply chain logistics to leverage the presence of the Port of Virginia, and renewable energy technologies. Health care and health care-related research and uncrewed systems are two other industries of note where Hampton Roads has expertise and capacity to expand. We can maintain our distinctive role in the national security of the nation, but we must put our hands on the tiller of our economy to navigate these stormy seas.

Housing, as we discuss later in this report, is a linchpin of any economic development strategy. Local governments must move beyond localized zoning

conflicts and form a unified, regional housing task force with real authority. Municipalities must streamline zoning processes, establish inclusionary zoning provisions, and clear regulatory hurdles to increase the supply of workforce housing. The default should be to build more housing rather than to create well-intentioned hurdles that inevitably delay, deny, and raise costs to consumers. Without more housing, rents will continue to rise and Hampton Roads will find itself at an increasing disadvantage to regions that build housing.

Lastly, we do not argue that the federal government could be more efficient. In fact, there have been numerous efforts in the past to align the federal workforce with the needs of the American people (see the National Performance Review of 1993, for example). These multi-year efforts often led to reductions in the federal workforce in some areas and increases in the workforce in other areas. The current reduction in the federal workforce has been less targeted and has not produced the initially announced savings and rebate checks to consumers. The shuttering of the Consumer Financial Protection Bureau, for example, eliminated an activity that returned more than \$26 billion to taxpayers, significantly more than the total \$7.3 billion appropriated to the agency.⁷ Federal civilian employment is lower, but the degradation of services may be an invisible tax that Americans have to pay for years to come.

Hampton Roads remains, in the eyes of some, economically balkanized. We applaud the progress on regional collaboration, but much work remains to be done. There are excellent examples of how regional collaboration in water and sanitation (Hampton Roads Sanitation District) and transportation (Hampton Roads Transportation Planning Organization) can reap economies of scale. Our workforce and economic development agencies are now headed to the same port, and we need to build upon their successes. We are all in the same boat sailing the rough seas, so we must pull together in the same direction. We should be bold enough to look at the multiplicity of police, fire, library, and other systems and ask what gains are possible by reducing administrative overhead. We have local success stories to emulate, but to do so, we need to give up control of the pennies to gain control of the dollars. To do nothing less is to be driven by winds of chance and misfortune. The choice remains ours. The only question is whether we can, together, sail boldly to arrive at the port of our, not others, choosing.

⁷ <https://www.citizensforethics.org/reports-investigations/crew-reports/doges-big-illusion-the-heavy-costs-of-the-trump-administrations-so-called-efficiency/>



Divergent Paths? Rising Defense Spending and Headwinds for the Port and Tourism



DIVERGENT PATHS? RISING DEFENSE SPENDING AND HEADWINDS FOR THE PORT AND TOURISM

"We stand now where two roads diverge. But unlike the roads in Robert Frost's familiar poem, they are not equally fair."

—Rachel Carson, Author

The economy of the Virginia Beach – Chesapeake – Norfolk Metropolitan Statistical Area (MSA) is often described as a three-legged stool. Federal spending, and more specifically, defense-related spending, is the oldest and, by most measures, the strongest leg of the stool. Billions of dollars of goods flow through the Port of Virginia each year, powering the economy of the region and Commonwealth. Visitors to the metropolitan area create tens of thousands of jobs and add billions of dollars to the regional economy. How each of these legs fares determines, to a large extent, how fast the economy of Hampton Roads grows and its prospects for the future.

Recent economic history illustrates how the health of each pillar influences the economic trajectory of the region. When budget sequestration and caps on federal discretionary spending limited the growth of defense expenditures in the early part of the last decade, tepid growth characterized the Hampton Roads economy. In the second half of the last decade, increases in defense spending fueled growth. Likewise, post-pandemic increases in international trade through the Port of Virginia helped lift regional economic activity. Tariffs negatively impacted the value of goods flowing through the Port in 2025 and into 2026, weighing on the region's economic prospects. In the aftermath of the pandemic, Hampton Roads' relatively strong tourism performance brought billions of dollars into the regional and state economies. Higher gas prices and limits on international tourism, however, threaten to undermine this success story. When these pillars move together, the regional economy accelerates. When these pillars diverge, the regional economy slows.

The most recent economic data shows that the three-legged stool is tilting under the weight of conflicting economic policies. National defense spending has continued to expand, and we expect that, as a result, defense spending in Hampton Roads will rise in the coming years. Declines in federal civilian employment will limit these gains, and the defense industrial base in the region faces an existential threat from the rise of uncrewed systems on the modern battlefield. The Port of Virginia performed well post-pandemic, gaining market share, but higher tariffs have negatively impacted the dollar volume of trade flowing through the Port. While the travel and tourism industry outpaced the post-pandemic national recovery, revenue growth has slowed, and real (inflation-adjusted) revenues have remained flat for several years. The prospects of each pillar show how fortunes can change as defense, trade, and immigration policies change at the national level.

What might happen if Hampton Roads continues on its current course? As the region becomes more dependent on the influx of federal dollars, its ability to diversify its economy will wane. Like many countries dependent upon the export of a single commodity, the region's fortunes will rise and fall based on decisions made elsewhere, including battlefields around the world. The Port and tourism would still be important parts of the economy, but these are also impacted by changes in federal government policy. In the short-term, the status quo maintains an influx of federal dollars but leaves the region more vulnerable to changes in federal government policy or developments on the modern battlefield.

Change, of course, is difficult. To paraphrase a well known saying, the best day to make a change was yesterday, but the next best time is today. We are not arguing for abandoning the region's role in the national security of the nation, but, rather, to increase our efforts to diversify our economy. Otherwise, we fear, change will be imposed upon us, and we may not like the results.

In the next section, we will discuss the level of national defense spending, the prospects for future increases in defense procurement, and defense spending in the region and how it reverberates through the regional economy. We then turn to the Port of Virginia and evaluate its performance relative to other major ports across the United States. The succeeding section examines the hotel industry and how it has fared when compared to state and national markets. We then wrap up with final thoughts about the prospects for growth in 2026 and beyond.

On September 5, 2025, President Trump signed Executive Order 14347, authorizing the use of the historical name "Department of War" (DoW) as a secondary title for the Department of Defense (DoD). The order authorizes the Secretary of Defense, the Department of Defense, and subordinate officials to use secondary titles such as "Department of War" in public communications, correspondence, ceremonial contexts, and non-statutory documents within the executive branch.¹

The Department of Defense designation and position titles DoD are legally defined in U.S. Code (specifically Titles 10, 32, and 37). The DoD, in its Fiscal Year (FY) 2027 legislative request, requested Congress to modify the U.S. Code to align with President Trump's Executive Order. If Congress adopts this name change in the FY 2027 National Defense Authorization Act (NDAA) and it is signed into law, then the official, primary name will transition to the Department of War. At the time of writing, the official name remained the Department of Defense. Accordingly, this report follows statutory convention and uses the Department's legal, primary designation, DoD, throughout the analysis.

¹ Matthew Olay, "Trump Renames DOD to Department of War," U.S. Department of War, September 5, 2025, <https://www.war.gov/News/News-Stories/Article/Article/4295826/trump-renames-dod-to-department-of-war/>

Will Increases in Defense Spending Help Hampton Roads?

Before we discuss the level of defense spending in Hampton Roads, we must first digress to provide the reader with some background. In most years, the Department of Defense (DoD) released the Future Years Defense Program (FYDP) alongside its budget request.² The DoD FYDP is a 5-year spending plan that provides explicit, programmatic linkages among the National Security Strategy (NSS), National Defense Strategy (NDS), and other service-specific strategies.

The DoD, however, did not release a FYDP to accompany its FY 2027 budget submission. At the same time, Congress relinquished authority by providing the DoD with reconciliation funds to supplement its base budget appropriation.³ While Congress provided DoD with \$152 billion in reconciliation funds to be spent over several fiscal years, current outlays indicate that the DoD will expend all of these funds by the end of FY 2026.⁴ Furthermore, the FY 2027 DoD budget request assumes that the DoD will receive an additional \$350 billion via a new reconciliation bill on top of a base budget request of \$1.1 trillion.⁵ We use the DoD's budget request because budget amounts approved by various committees and the House and Senate will need to be reconciled into a final appropriations package and passed into law before we know the actual FY 2027 base and total budget.

The lack of a FYDP and the expanded use of reconciliation funding for base defense budget functions cloud budget transparency. These practices also heighten uncertainty regarding future appropriations. For these reasons, we do not attempt to forecast future levels of defense spending nationally or for Hampton Roads. Instead, we focus on historical data, current appropriations, and discussions regarding the FY 2027 NDAA.

Graph 1 displays Department of Defense funding in nominal dollars from FY 2000 to FY 2027, based on the DoD's FY 2025 Future Years Defense Program (FYDP), FY 2026 appropriations, and the DoD's FY 2027 budget submission. The DoD's base budget represents funds appropriated for normal, peacetime operations and other operations that are anticipated during the regular budget process. The total budget includes base budget funding and supplemental funding for overseas contingency operations and unanticipated emergencies. In FY 2025 and 2026, the total budget includes appropriations made through the budget reconciliation process.

Historically, the gap between the base budget and total DoD funding has been supplemental appropriations. In 2010, for example, the base DoD budget was \$767.1 billion with a total budget of \$1,007.3 billion. The difference was largely attributable to supplemental funding for Overseas Contingency Operations (OCO), particularly Operation Enduring Freedom in Afghanistan and Operation Iraqi Freedom/Operation New Dawn in Iraq. As combat operations in Iraq ended and the American presence in Afghanistan diminished, the need for supplemental appropriations declined. In FY 2021, the DoD base budget was \$859.6 billion, and its total budget was \$860.8 billion.

² Congressional Budget Office, "How CBO Projects the Long-Term Costs of the Department of Defense's Future Years Defense Program," November 20, 2024, <https://www.cbo.gov/publication/60518>.

³ Congressional Budget Office, "DoD's 2026 Budget Request and Plan for Funding Provided by the 2025 Reconciliation Act," April 30, 2026, <https://www.cbo.gov/publication/62301>.

⁴ Anastasia Obis, "DoD Plans to Spend Entire \$152 Billion from Reconciliation Bill in One Year," Federal News Network, February 24, 2026, <https://federalnewsnetwork.com/defense-main/2026/02/dod-plans-to-spend-entire-152-billion-from-reconciliation-bill-in-one-year/>.

⁵ Under Secretary of War (Comptroller), Overview – FY 2027 Department of War Budget, April 2026, <https://comptroller.war.gov/Budget-Materials/Budget2027/>.

In FY 2025, the base (\$881.4 billion) and total (\$885.5 billion) budgets were roughly the same. The same cannot be said for FY 2026. In FY 2026, the use of the budget reconciliation process to add funding to base budget functions widened the gap. In FY 2026, the base budget was \$857.6 billion, and the total budget was \$1,009.1 billion, a difference of \$151.5 billion, the amount passed by Congress through budget reconciliation. The FY 2027 budget request contains an increase of the base budget to \$1,100 billion and a total budget of \$1,450 billion, or an additional \$350 billion through an assumed reconciliation bill.

What might the future hold for DoD spending? The Office of Management and Budget's (OMB) FY 2027 budget materials estimate that DoD outlays for military programs will continue to increase through FY 2031. In FY 2031, the OMB estimates that DoD outlays will exceed \$1,306 billion. These estimates do not include future appropriations made through the reconciliation process. These estimates are also subject to the winds of political fortune. A change in majorities in the House or Senate or an increase in geopolitical tensions could swing outlays in either direction. The only certainty appears to be that the DoD base budget will increase in FY 2027 and there is a distinct likelihood that the total budget will increase as well.

Of interest to Hampton Roads is the composition of defense spending. Given the region's role in building and maintaining ships, for example, planned increases in the U.S. Navy's force structure would likely flow into the shipyards in Hampton Roads. The DoD's FY 2027 budget submittal includes a request for \$65.8 billion for shipbuilding and conversion. These funds would continue full funding for two Virginia Class Submarines (VCS), advance procurement for four VCS future ships, as well as additional ships and submarines.⁶ A portion of this funding, if realized, would flow into the region. Portions of the Columbia and Virginia class submarines, for example, are built by Huntington Ingalls Industries in Newport News.⁷ The FY 2027 budget request also notes that the Navy combat force structure will grow by one ship to 288 in FY 2027. The DoD is also proposing an increase in end strength by 40,100, of which 12,000 would be in the U.S. Navy. In all likelihood, given the size of the

active-duty force in Hampton Roads, some portion of the end strength would be stationed in the region.

Graph 2 displays nominal and real (inflation-adjusted) defense spending in Hampton Roads from 2000 to 2027. In nominal dollars, defense spending in the region doubled from approximately \$10.0 billion in 2000 to about \$20.8 billion in 2018. More recently, we estimate that defense spending in the metropolitan area reached \$28.9 billion in 2025 and will exceed \$30 billion in 2027. Defense spending may rise even higher depending on the composition of the final appropriations bill for FY 2027. In nominal terms, defense spending continues to rise and these inflows of dollars appear to be good news for Hampton Roads.

We must, as we do in other chapters, account for the impact of inflation. When we adjust for inflation, the impact of defense dollars in the metropolitan area becomes more muted. In 2017, for example, we estimate that defense spending in the region was about \$19.9 billion. If we keep prices constant in 2017 dollars, then defense spending increased in real terms, peaking at \$23.4 billion in 2023. While the absolute amount of defense dollars flowing into Hampton Roads has continued to increase, when we account for inflation, the real value appears to be constant, if not lower, since 2023. We estimate that the real value of defense spending will remain between \$21.0 and \$22.0 billion in 2017 constant dollars in 2026 and into 2027.

How defense spending in Hampton Roads will evolve over the coming decade will be influenced by the rise of uncrewed weapons systems and Artificial Intelligence (AI) on the modern battlefield. Hampton Roads builds, maintains, and deploys relatively large and expensive weapons systems. These systems, however, are also costly to build, maintain, and operate and give rise to asymmetries in cost structure. We now have ample evidence from Ukraine and other global conflicts that uncrewed air, sea, and ground systems have rewritten tactics on the battlefield.⁸ Ukraine has aptly demonstrated the ability to integrate relatively low-cost uncrewed systems with AI to create defense and offense in depth, that is, drones are now the frontline.

⁶ Under Secretary of War (Comptroller), Overview – FY 2027 Department of War Budget, April 2026, https://comptroller.war.gov/Portals/45/Documents/defbudget/FY2027/FY2027_Budget_Request_Overview_Book.pdf

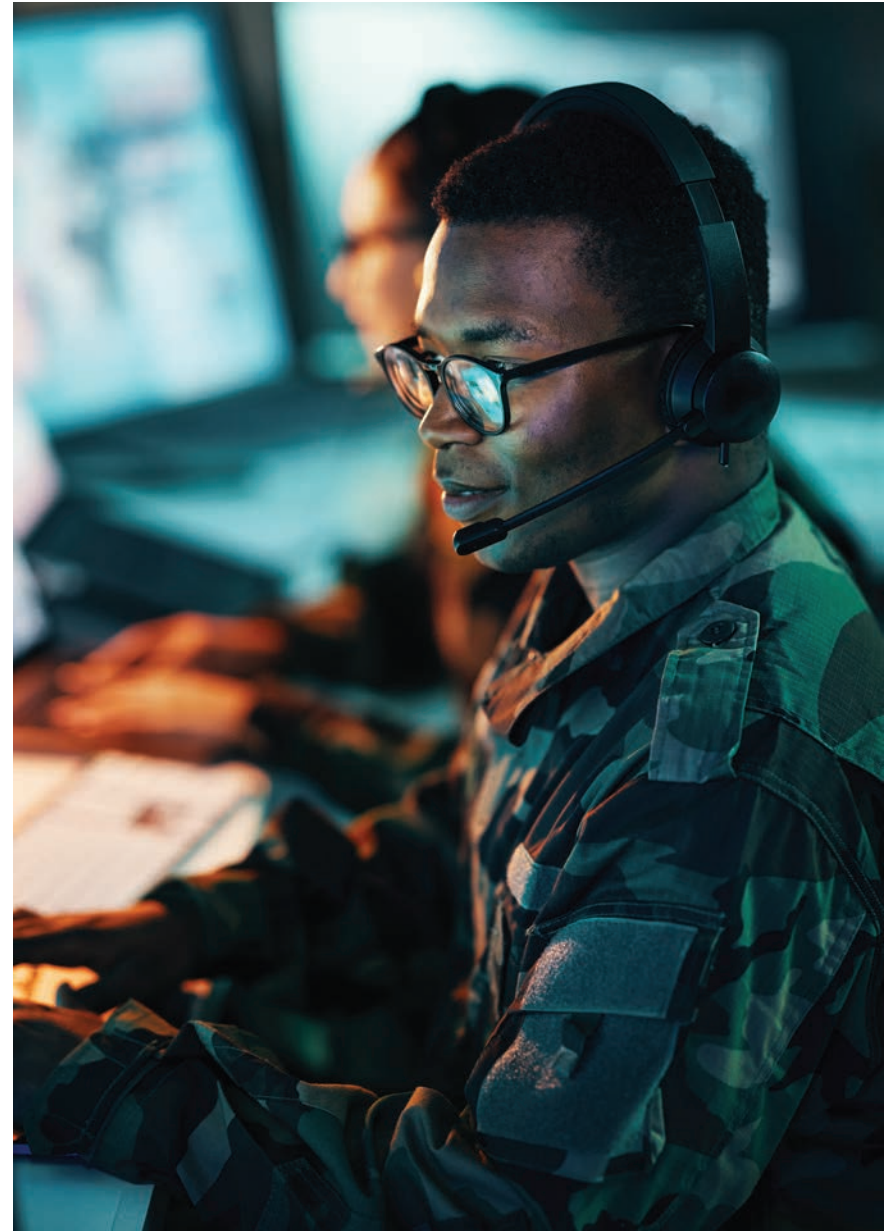
⁷ Huntington Ingalls Industries, "Submarines," <https://www.hii.com/capabilities/submarines>.

⁸ Center for Strategic & International Studies, "Lessons from the Ukraine Conflict: Modern Warfare in the Age of Autonomy, Information, and Resilience," <https://www.csis.org/analysis/lessons-ukraine-conflict-modern-warfare-age-autonomy-information-and-resilience>.

As the costs of legacy platforms continue to rise, the DoD will inevitably face a stark choice: maintain current weapons systems or pivot aggressively toward modernization. The DoD will have to pivot toward autonomous systems that are cheaper, faster to build, and, ultimately, are expendable. When this happens, the military services will need fewer personnel. Instead of a multi-billion dollar aircraft carrier with 5,000 sailors, imagine a drone carrier with only a few hundred personnel launching hundreds of uncrewed, expendable aircraft. The cost equation favors such a transition. The open question is how will Hampton Roads fare when this change occurs?

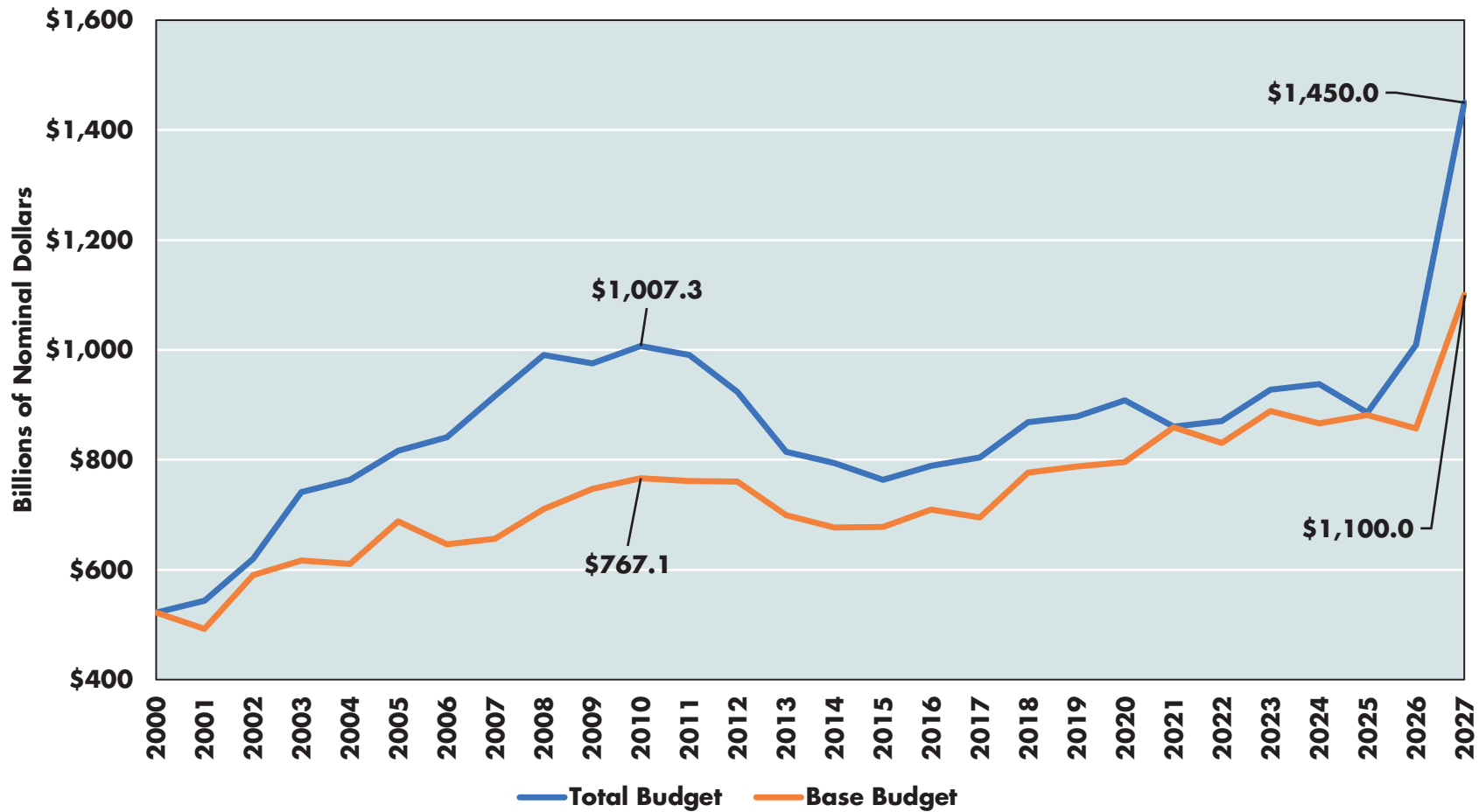
These changes suggest a road forward for Hampton Roads. Build the region's attractiveness in uncrewed systems, artificial intelligence, and, yes, renewable energy. Uncrewed systems and artificial intelligence will work with advanced manufacturing to produce new systems for the DoD. Renewable energy is needed to insulate the region from energy shocks associated with increased geopolitical tensions. These industries are not new to the region, now is the time to lean into them to foster future growth.

For now, the defense pillar of the regional economy remains strong. In the short run, billions of dollars will continue to flow into Hampton Roads through this channel. Tens of thousands of active-duty service members, federal civilian workers, and contractors will continue to work in the region because of its distinctive role in the national security of the nation. We caution, however, that change is coming. We should not hope that federal spending will save us but create the conditions that foster growth regardless of what happens in the corridors of power in Washington, DC. To do otherwise is to hope forlornly that what worked yesterday will continue to sustain the region for the indefinite future.



GRAPH 1

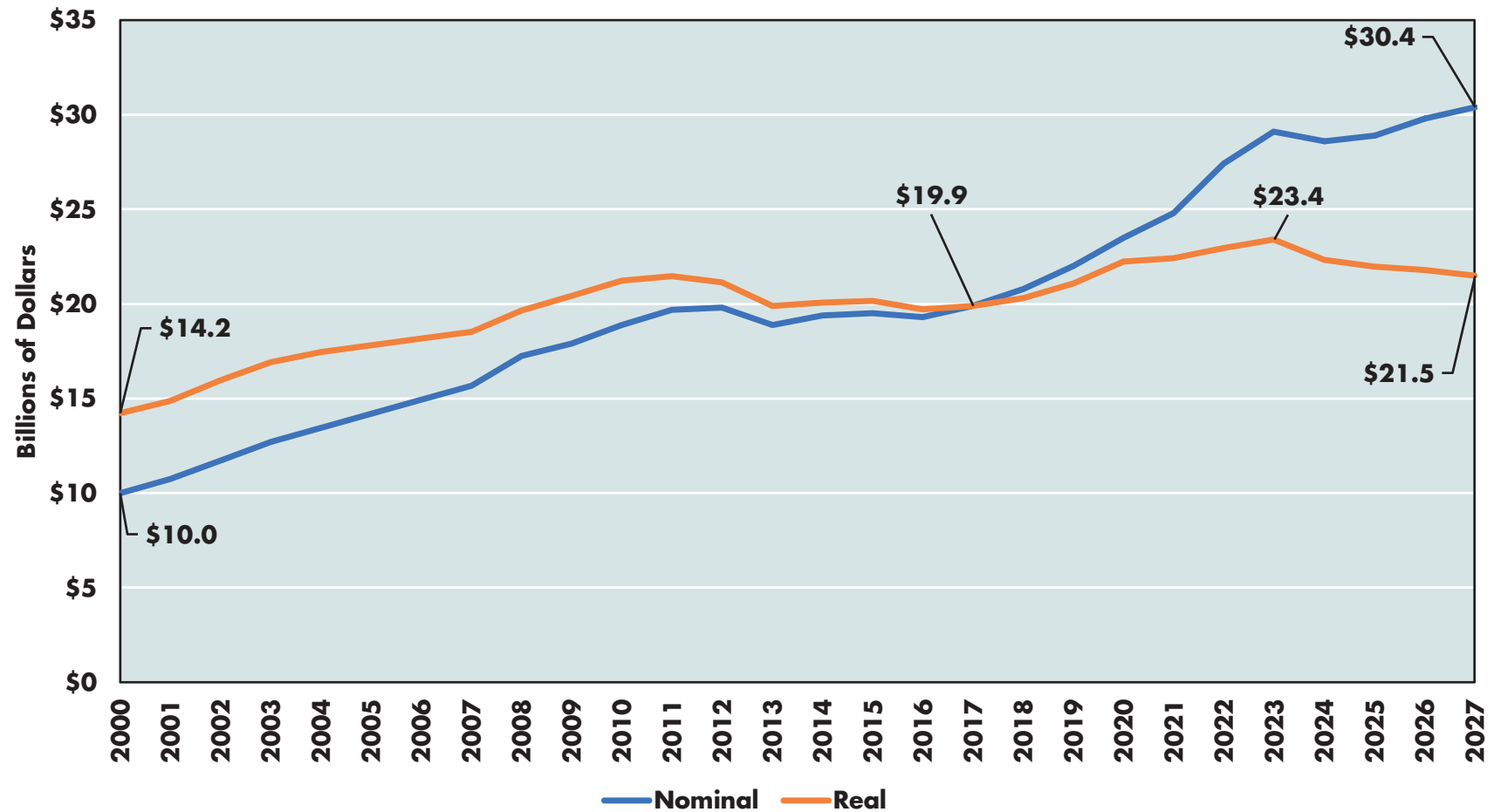
NOMINAL DEPARTMENT OF DEFENSE TOTAL AND BASE BUDGET FUNDING
UNITED STATES, FISCAL YEARS 2000 - 2027*



Sources: Congressional Budget Office (2025), DoD's 2026 Budget Request and Plan for Funding Provided by the 2025 Reconciliation Act. *FY 2027 levels are projected using FY 2027 Department of War Budget request materials.

GRAPH 2

**NOMINAL AND REAL DEPARTMENT OF DEFENSE DIRECT SPENDING
HAMPTON ROADS, FISCAL YEARS 2000 - 2027***



Sources: Congressional Budget Office (2025), DoD's 2026 Budget Request and Plan for Funding Provided by the 2025 Reconciliation Act, Bureau of Labor Statistics, and Dragas Center for Economic Analysis and Policy. *FY 2027 levels are projected using FY 2027 Department of War Budget request materials. Real Spending is expressed in 2017 dollars using the Consumer Price Index for All Urban Consumers.

The Port of Virginia: Tariffs Make an Impact

According to the U.S. International Trade Administration, a tariff is a tax levied on the value, including freight and insurance, of imported goods.⁹ Tariffs are levied at the port of entry and are collected at the time of customs clearance. Tariffs may vary by commodity, that is, the tariff on imported steel may differ from the tariff on copper which may differ from the imported energy. While the “Liberation Day” tariffs of 2025 were struck down as unconstitutional,¹⁰ at the time of writing, 10% global import surcharges continue to be levied under Section 122 of the Trade Act of 1974. As with the “Liberation Day” tariffs, the constitutionality of the Section 122 tariffs remains open to debate.

Given the evolving nature of the tariffs, we focus instead on how the tariffs have affected trade through the Port of Virginia. For the interested reader, detailed analyses of the composition of tariffs and the estimated impacts of tariffs on economic growth are available from the Yale Budget Lab (<https://budgetlab.yale.edu/>), the Peterson Institute for International Economics (<https://www.piie.com/>), the Tax Foundation (<https://taxfoundation.org/>), and numerous private investment firms. While the estimates of impact vary, the consensus is that higher tariffs lowered Gross Domestic Product (GDP) growth, increased prices, and reduced employment.

Graph 3 illustrates the amount of general cargo tonnage flowing through the Port of Virginia from 2000 to 2025. Cargo traffic through the Port peaked at 17.8 million tons during the Great Recession of 2007 – 2009. After falling by 16.4% in 2009, traffic rebounded and had completely recovered by 2013. Cargo traffic continued to grow and, in 2019, approximately 21.9 million tons of cargo flowed through the Port of Virginia. After falling by 3.9% in 2020 due to the COVID-19 pandemic, traffic surged in 2021 and increased to 26.2 million tons in 2022. The surge in cargo abated in 2023 and then reached a new record of 26.7 million tons in 2024. In 2025, however, cargo traffic fell to 24.7 million tons (-7.5%).

Graph 4 displays the total number of Twenty-Foot Equivalent Container Units (TEUs) moved through the Port of Virginia from 2000 to 2025. In 2000, the Port moved approximately 1.35 million TEUs. In 2007, TEU movement through the Port peaked at about 2.13 million before falling to 1.75 million in 2009. By 2013, total TEUs recovered from the Great Recession and continued to grow, reaching 2.94 million in 2019. Total TEUs set consecutive records in 2021 (3.52 million) and 2022 (3.70 million). TEU volume declined in 2023 to 3.29 million but recovered in 2024 to 3.52 million. As with cargo tonnage, TEU traffic declined in 2025 to 3.24 million, an 8.1% decline from 2024.

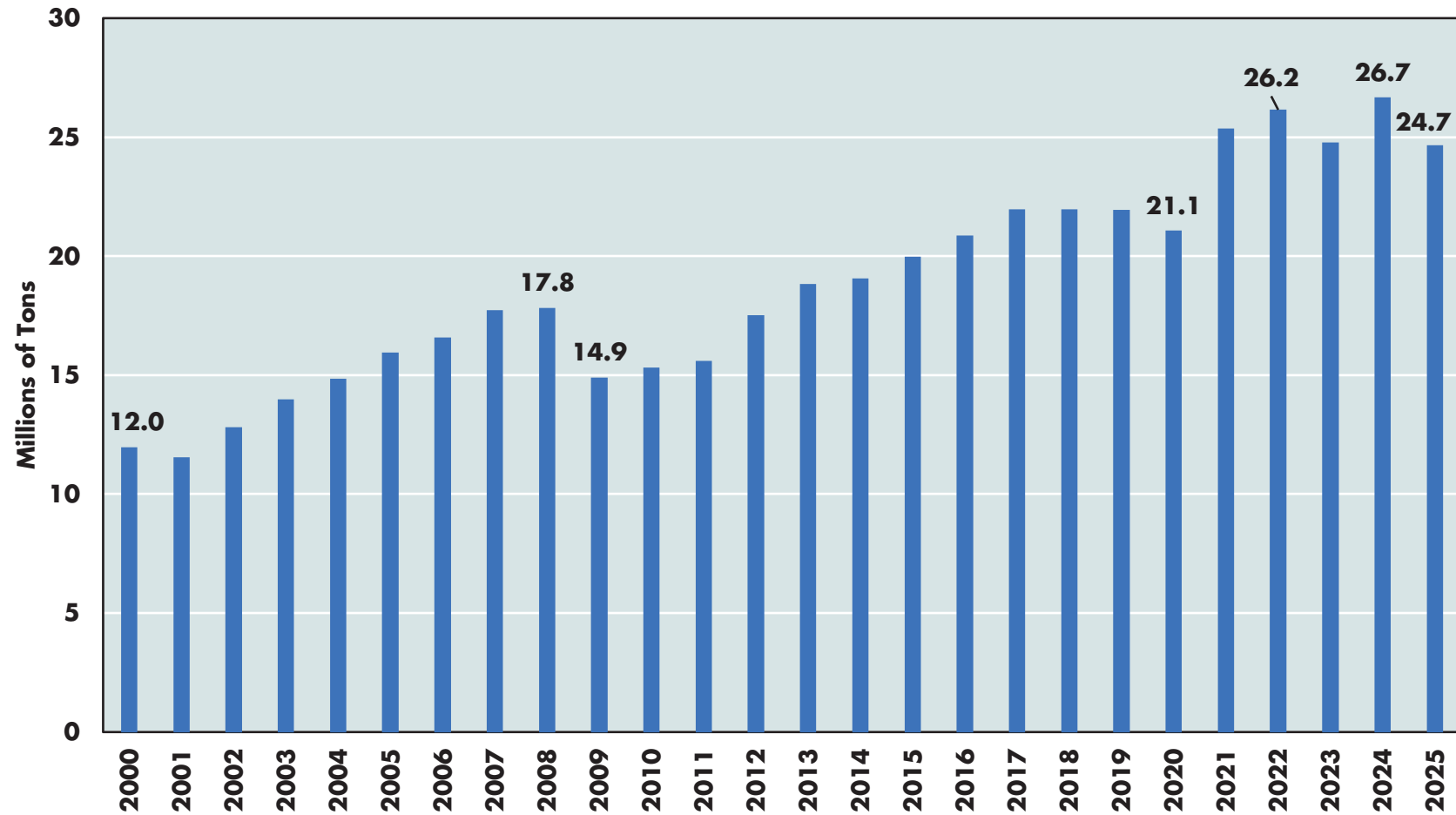
Graph 5 sheds light on the sources of TEUs growth in 2024 by illustrating trends in inbound and outbound loaded containers from 2010 through 2025. Prior to 2015, the volume of inbound and outbound loaded TEUs remained relatively balanced. While outbound loaded TEUs remained relatively stable, growing on average annually by 1.1% from 2015 through 2022, inbound loaded TEUs grew from 1.08 million in 2015 to 1.37 million in 2019 and to 1.73 million in 2022. In other words, while outbound loaded TEUs were only 7.9% higher in 2022 compared to their levels in 2015, inbound loaded TEUs were 59.7% higher.

After decreasing to 1.53 million in 2023, the number of inbound loaded TEUs increased to 1.63 million in 2024. The number of outbound loaded TEUs also increased from 1.08 million in 2022 to 1.14 million in 2024. In 2025, however, the number of inbound loaded TEUs declined to 1.53 million (6.2%) while the number of outbound loaded TEUs declined to 1.06 million (7.0%). Regardless of the measure, cargo and container traffic through the Port of Virginia declined in 2025.

⁹ U.S. International Trade Administration, “Import Tariffs & Fees Overview and Resources,” <https://www.trade.gov/import-tariffs-fees-overview-and-resources>

¹⁰ Learning Resources, Inc. v. Trump, 24-1287, Supreme Court of the United States, February 20, 2026, https://www.supremecourt.gov/opinions/25pdf/24-1287_4gcj.pdf.

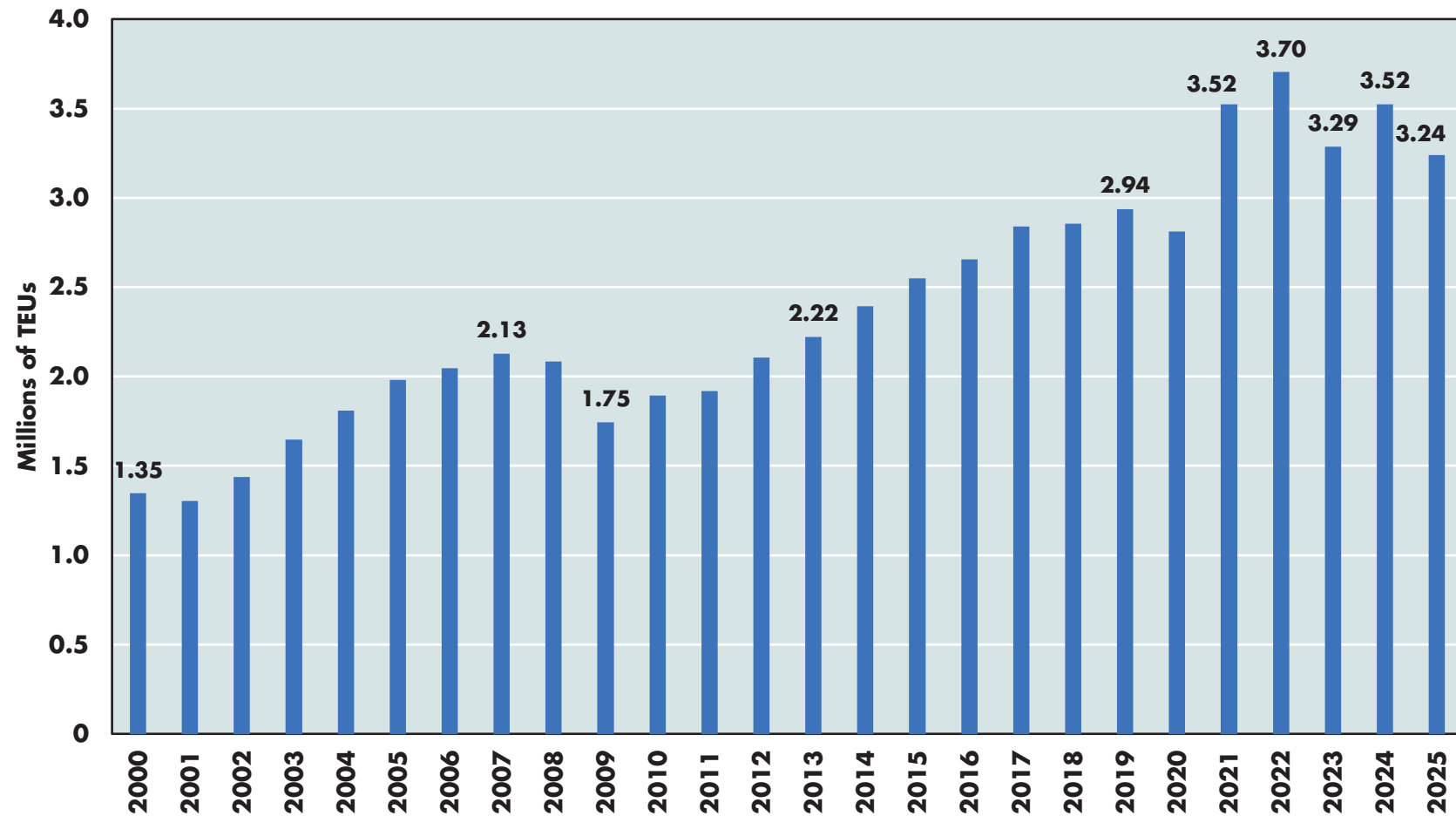
GRAPH 3
GENERAL CARGO TONNAGE
PORT OF VIRGINIA, 2000 - 2025



Sources: Virginia Port Authority (2026) and Dragas Center for Economic Analysis and Policy.

GRAPH 4

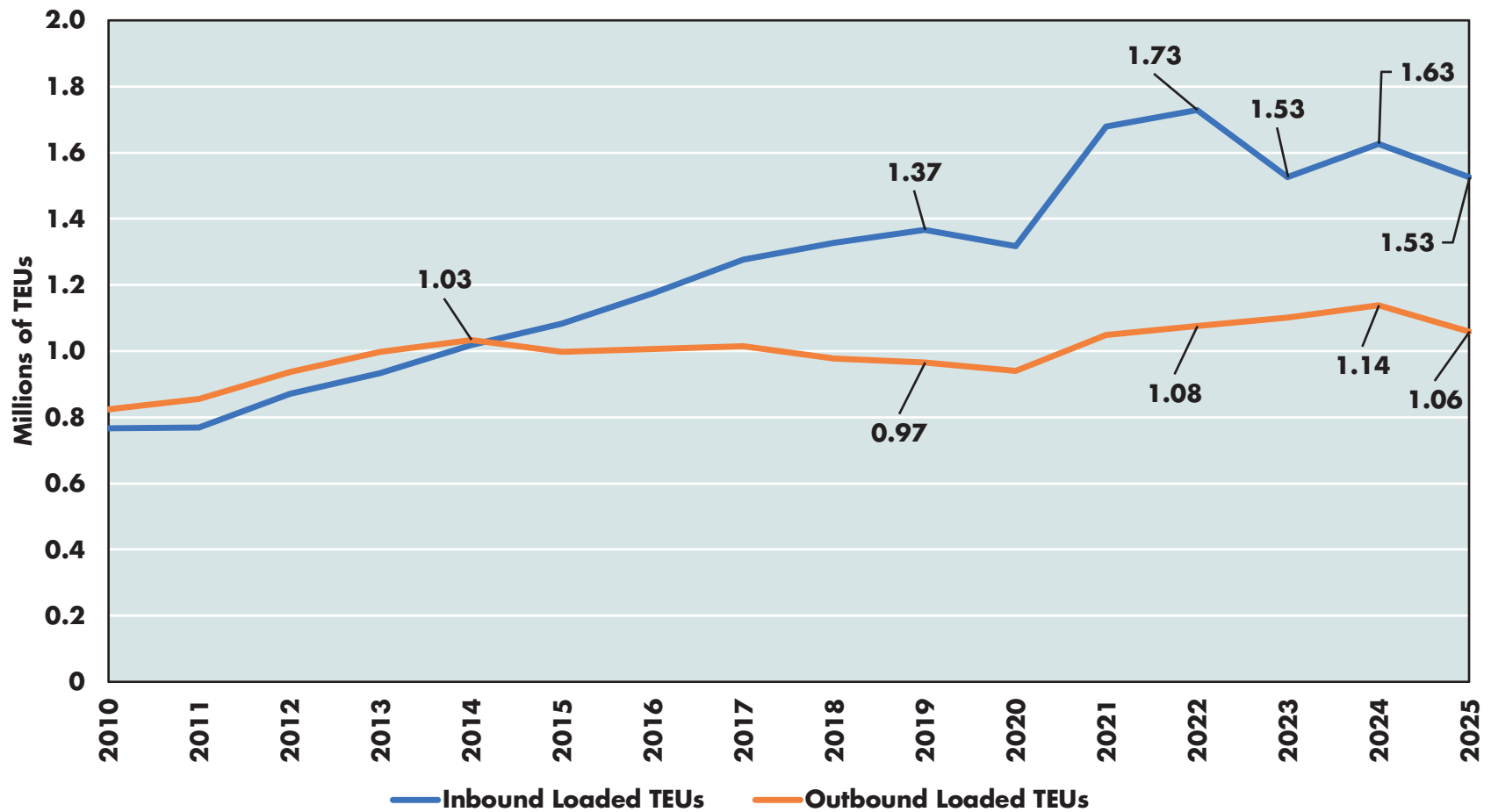
**TWENTY-FOOT EQUIVALENT CONTAINER UNITS (TEUs)
PORT OF VIRGINIA, 2000 - 2025**



Sources: Virginia Port Authority (2026) and Dragas Center for Economic Analysis and Policy.

GRAPH 5

**LOADED TWENTY-FOOT EQUIVALENT CONTAINER UNITS (TEUs)
PORT OF VIRGINIA, 2010 - 2025**



Sources: Virginia Port Authority (2026) and Dragas Center for Economic Analysis and Policy.

Tariffs, however, are not levied on containers but on the dollar value of goods being imported into the United States. Businesses must pay tariffs (customs duties) to the U.S. Treasury for goods to clear customs. Anyone who has received a surprise bill for a good bought online that originated in China, for example, understands how tariffs are a tax on American consumers and businesses. One argument for higher tariffs was that the revenue generated by the tariffs could be used to pay for a variety of federal programs, lower taxes, or reduce the national debt. Another argument was that higher tariffs would promote onshoring and revitalize American manufacturing activity.

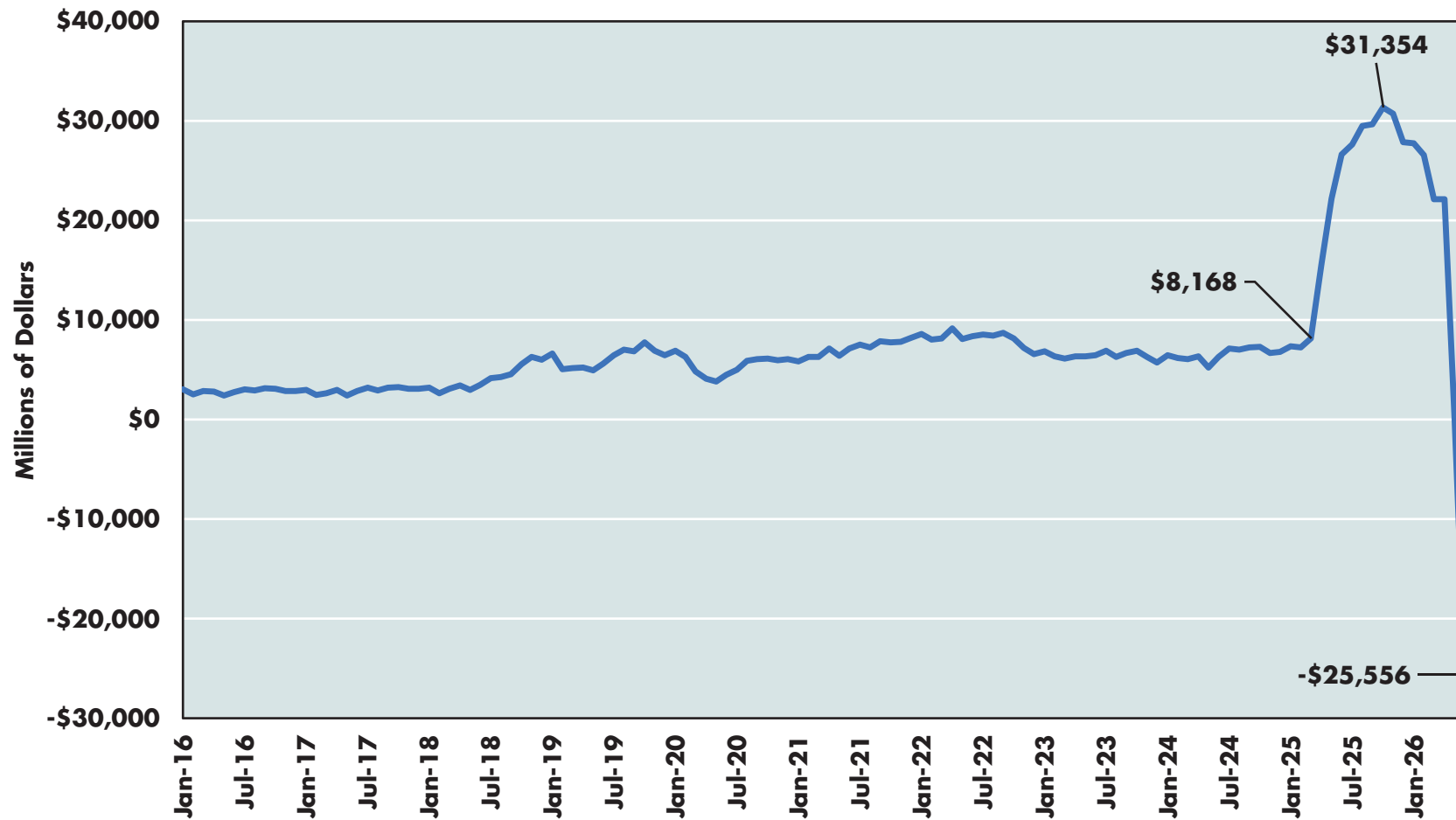
Graph 6 shows the dollar amount of net customs duties (gross receipts minus refunds) collected by the U.S. Treasury from January 2016 to June 2026. Two observations can be made. First, net collections increased significantly in 2025 after the imposition of the “Liberation Day” tariffs. In 2024, average monthly net collections were approximately \$6.6 billion. In 2025, average monthly net collections increased sharply to \$22.0 billion. However, given that the “Liberation Day” tariffs were deemed unconstitutional by the Supreme Court of the United States and refunds must be issued, the additional collections disappeared from the U.S. Treasury. In an ironic twist, the tariffs that were supposed to create additional revenue for the federal government will, instead, create additional debt for the American taxpayer as the federal government will need to borrow (by issuing debt) money to pay for refunds. In May 2026, for example, net customs duties were effectively \$0 as the \$21.9 billion in collections was offset completely by approximately \$22.0 billion in refunds.

In June 2026, the U.S. Treasury collected \$23.6 billion in gross customs duties but also paid out \$49.2 billion in refunds. Net customs duties for June were -\$25.6 billion. However, these refunds are paid to the holders of customs duties’ receipts, not to the businesses and consumers who paid for higher tariffs in the form of higher prices. Refunds are expected to continue, erasing much of the increased revenue resulting from higher tariffs.

Graph 7 presents the dollar volume of international trade through the Port of Virginia from January 2010 to April 2026. Graph 8 presents the annual averages of monthly trade value through the Port of Virginia from 2010 through the first several months of 2026. In 2019, an average of \$4.2 billion in imported goods and \$2.1 billion in exported goods flowed through the Port of Virginia monthly. By 2022, the monthly imports and exports averaged \$5.9 billion and \$2.9 billion, respectively. The average dollar volume of goods transiting through the Port remained higher than pre-pandemic levels in 2024. In 2024, the monthly average dollar volume of imports was \$5.8 billion, and the monthly average dollar volume of exports was \$3.3 billion. In other words, the average monthly dollar value of imports and exports in 2024 were 40.1% and 60.1% higher, respectively, when compared to 2019.

After the “Liberation Day” in April 2025, it should be no surprise that the dollar volume of imports through the Port of Virginia declined as higher tariffs increased the post-tax price of imported goods. It should have also been no surprise that other countries would impose retaliatory tariffs, lowering export volumes through the Port. In 2025, the average monthly dollar volume of imports through the Port declined to \$5.4 billion (7.2%) while the average monthly dollar volume of exports declined to \$2.9 billion (13.6%) (Graph 7).

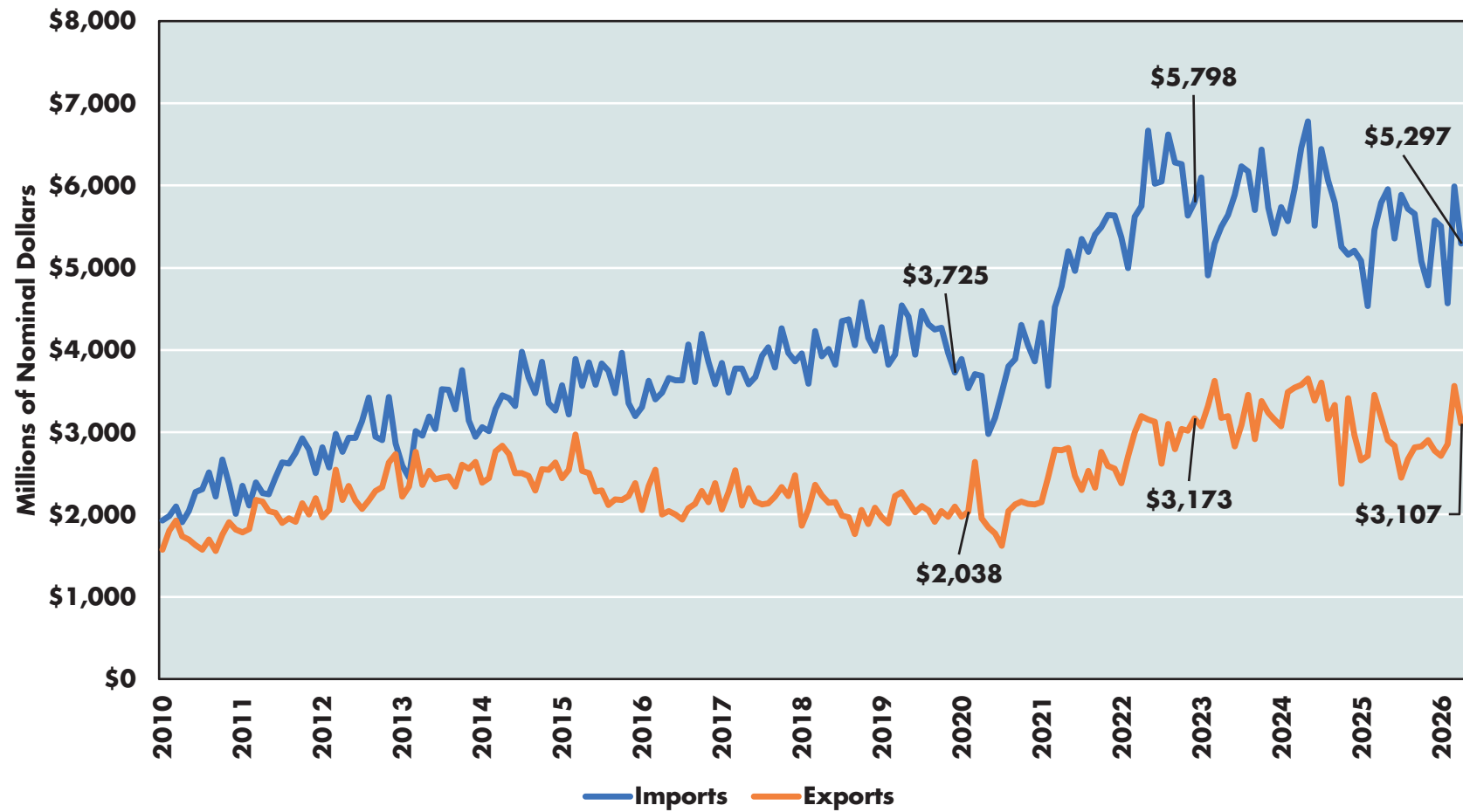
GRAPH 6
MONTHLY NET CUSTOMS DUTIES
UNITED STATES, JANUARY 2016 - JUNE 2026



Sources: U.S. Department of the Treasury (2026), Bureau of the Fiscal Service, Monthly Treasury Statement, Table 4: Receipts and Refunds. Values represent current-month net customs duties, equal to customs duties receipts less refunds, in millions of current dollars.

GRAPH 7

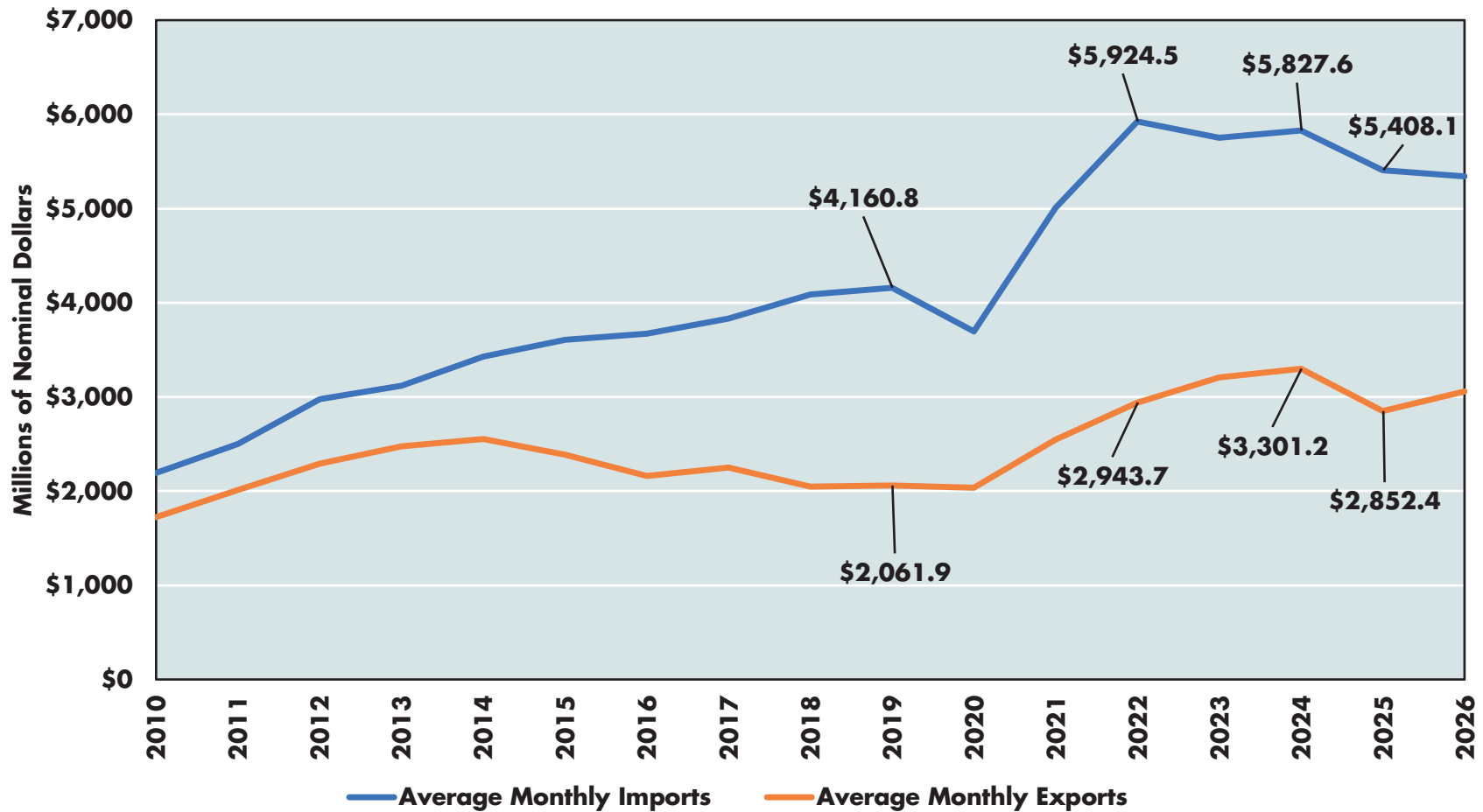
**DOLLAR VALUE OF IMPORTS AND EXPORTS
PORT OF VIRGINIA, JANUARY 2010 - APRIL 2026**



Sources: U.S. Census Bureau (2026), USA Trade Online, and Dragas Center for Economic Analysis and Policy.

GRAPH 8

AVERAGE MONTHLY DOLLAR VALUE OF IMPORTS AND EXPORTS
PORT OF VIRGINIA, 2010 - 2026*



Sources: U.S. Census Bureau (2026), USA Trade Online, and Dragas Center for Economic Analysis and Policy. *Average monthly imports and exports for 2026 represent the average of January through April 2026.

Table 1 provides insight into how trade flows have changed in response to higher tariffs. In the first quarter of 2025, the dollar volume of imports surged for the West Coast ports of Long Beach, Los Angeles, and Seattle. The Port of Oakland also observed small increases in imports relative to the first quarter of 2024. On the East Coast, the ports of Charleston and Virginia experienced double-digit declines in the value of imports; Savannah saw a smaller decrease of 1.8%, while Newark saw a very small increase of 1.6%. At the national level, imports surged in the first quarter of 2025 as firms sought to increase inventories ahead of the imposition of higher tariffs. In the second, third, and fourth quarters of 2025, each of the ports listed in Table 1 experienced either declines or no growth in the dollar volume of imports relative to the same quarters in 2024.

What does the evidence say about the impact of the recent tariffs? A recent working paper from the National Bureau of Economic Research (NBER) found the tariffs caused significant consumption losses and that 90% of tariffs were passed through prices paid by U.S. importers.¹¹ Another study by the Kiel Institute called the higher tariffs an “own goal.” Using shipment-level data covering almost \$4 trillion in transactions, the authors found that foreign exporters only absorbed approximately 4% of the tariff burden.¹² The remaining 96% of the tariff burden was passed through to American importers and, ultimately, American consumers and businesses. The Tax Foundation estimated in July 2026 that, in 2025, higher tariffs amounted to a average tax increase of \$1,000 per US household. In 2026, US households will likely pay another \$900 as a result of higher tariffs and retaliatory actions.¹³ While estimates vary, the consensus across public and private studies is that the tariffs reduced incomes, increased prices, decreased import quantities, and have not led to the onshoring of manufacturing jobs.

TABLE 1
YEAR-OVER-YEAR QUARTERLY PERCENT CHANGE IN THE
DOLLAR VALUE OF IMPORTS
SELECTED MAJOR PORTS IN THE UNITED STATES,
2024 Q1 - 2025 Q4

Port	Percent Change 2024 Q1 – 2025 Q1	Percent Change 2024 Q2 – 2025 Q2	Percent Change 2024 Q3– 2025 Q3	Percent Change 2024 Q4– 2025 Q4
Charleston	-12.9%	-14.1%	-7.0%	-10.2%
Long Beach	21.7%	-8.5%	-18.4%	-24.8%
Los Angeles	11.5%	-7.1%	-11.8%	-24.4%
Newark	1.6%	-4.6%	-10.0%	-9.0%
Port of Virginia	-12.6%	-8.8%	-5.6%	-1.1%
Oakland	0.7%	-16.9%	-12.7%	-28.4%
Savannah	-1.8%	0.0%	-3.0%	-8.6%
Seattle	17.3%	-6.7%	-18.9%	-20.4%

Sources: U.S. Census Bureau (2026), International Trade Online, and Dragas Center for Economic Analysis and Policy.

11 Pablo D. Fajgelbaum and Amit Khandelwal, “Tariffs in 2025: Short-Run Impacts on the U.S. Economy,” NBER Working Paper 35064 (2026), <https://doi.org/10.3386/w35064>

12 Julian Hinz, Aaron Lohmann, Hendrik Mahlkow, and Anna Vorwig, “America’s Own Goal: Who Pays the Tariffs?” Kiel Policy Brief No. 201, Kiel Institute for the World Economy, January 2026, <https://www.kielinstitut.de/publications/americas-own-goal-who-pays-the-tariffs-19398/>

13 Erica York and Alex Durante, “Tracking the Impact of the Trump Tariffs & Trade War,” Tax Foundation, May 5, 2026, <https://taxfoundation.org/research/all/federal/trump-tariffs-trade-war/>

The Impact of Visitors

The Virginia Tourism Corporation (VTC) releases annual estimates of the economic impact of visitors in Virginia. Tourism Economics, a firm that specializes in estimating the economic impacts associated with travel and tourism, generates these reports to inform decision-makers at the local, regional, and state levels. The data are publicly available, and interested readers can find more information on VTC's Economic Impact of Travel webpage.¹⁴

While the VTC's definition of Coastal Virginia does not exactly match the U.S. Census Bureau's definition of the Virginia Beach – Chesapeake – Norfolk MSA, the estimates capture, in large part, the major cities and counties of the MSA. Graph 9 presents the evolution of estimated direct visitor spending in Coastal Virginia from 2016 to 2024. From 2019 to 2024, direct visitor spending in Coastal Virginia increased by 28.2%, from approximately \$5.5 billion to \$7.0 billion.

Graph 10 presents the breakdown of direct visitor spending in Coastal Virginia in 2024. The approximately \$7.0 billion in total direct visitor spending in Coastal Virginia represented 19.9% of all direct visitor spending in the Commonwealth. The direct visitor spending created approximately 54,260 jobs in Coastal Virginia and contributed \$215.7 million in state taxes and \$350.0 million in local taxes. The most significant spendings were in Food and Beverage (\$2.3 billion) and lodging (\$1.6 billion), followed by transportation (\$1.3 billion) and recreation (\$1.1 billion). These estimates show that visitor spending is more than lodging and food and drinks, it reaches across the regional economy and contributes to employment and economic activity.

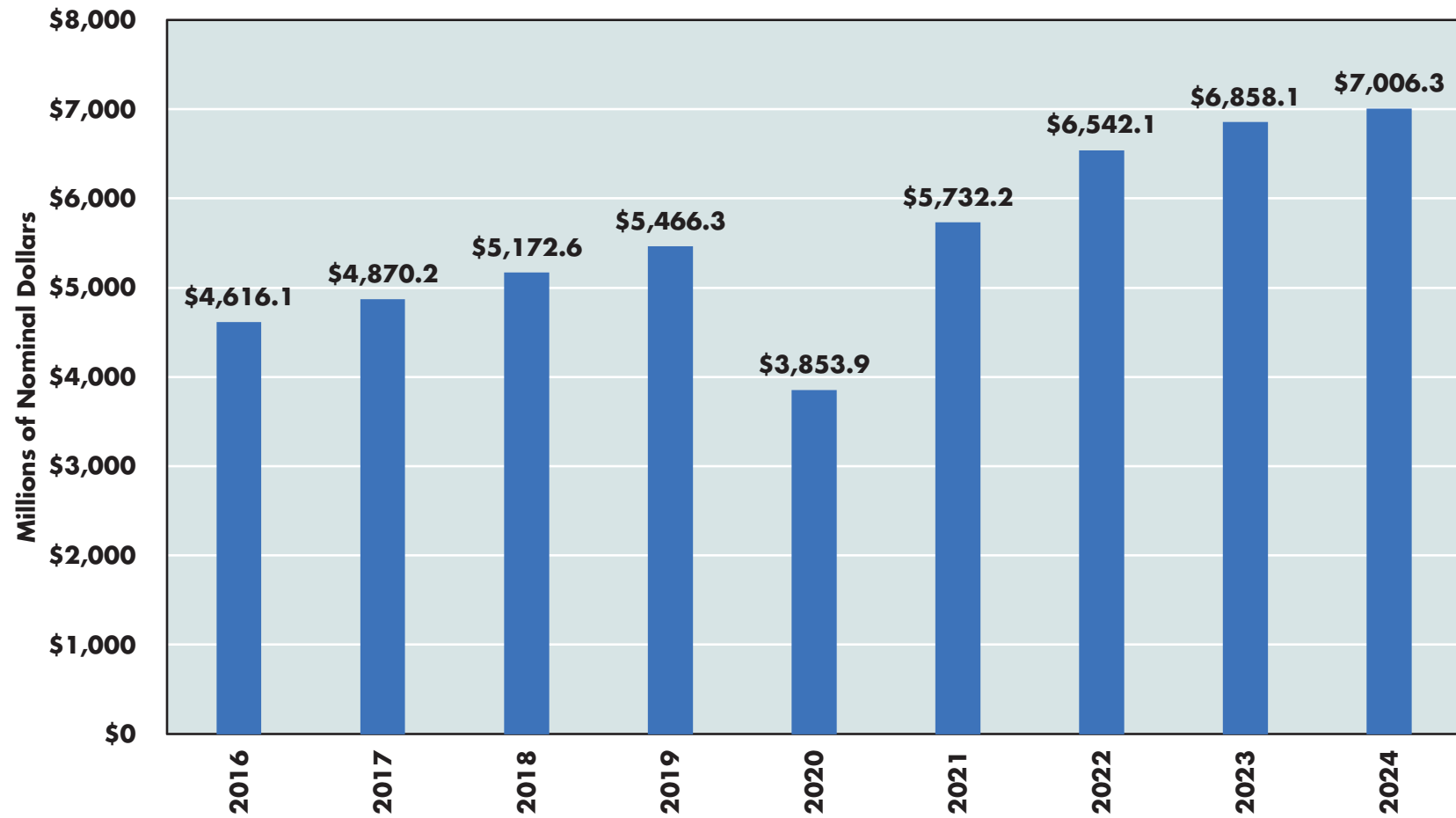
Tourism Economics estimates that the \$7.0 billion in direct visitor spending generated approximately \$3.4 billion in indirect and induced economic impacts in 2024. Indirect economic impacts are business-to-business (supply chain) impacts that result from direct visitor spending. Induced economic impacts are economic activity associated with household spending as a result of higher wages due to direct visitor spending. Tourism Economics estimated that visitors to Coastal Virginia had a total economic impact of approximately \$10.4 billion in 2024. In other words, visitors to Coastal Virginia generated about 1 out of every 11 dollars of economic activity in the region in 2024.

The data in Graphs 9 and 10 highlight the contributions of visitors to Hampton Roads and how changes in the macroeconomic environment could negatively impact the flow of visitors. Higher inflation erodes disposable income, reducing the ability of lower and middle-income households to take vacations to Hampton Roads. We have observed some tourist destinations pivot to higher-income visitors (Las Vegas) while others have struggled as costs have continued to rise. We may see increased flows of visitors inside the Commonwealth and decreased flows from other parts of the nation in 2026 and 2027 as many households try to adapt to higher fuel and other costs.

¹⁴ Virginia Tourism Corporation, "Economic Impact of Travel," <https://vatc.org/research/economicimpact/>

GRAPH 9

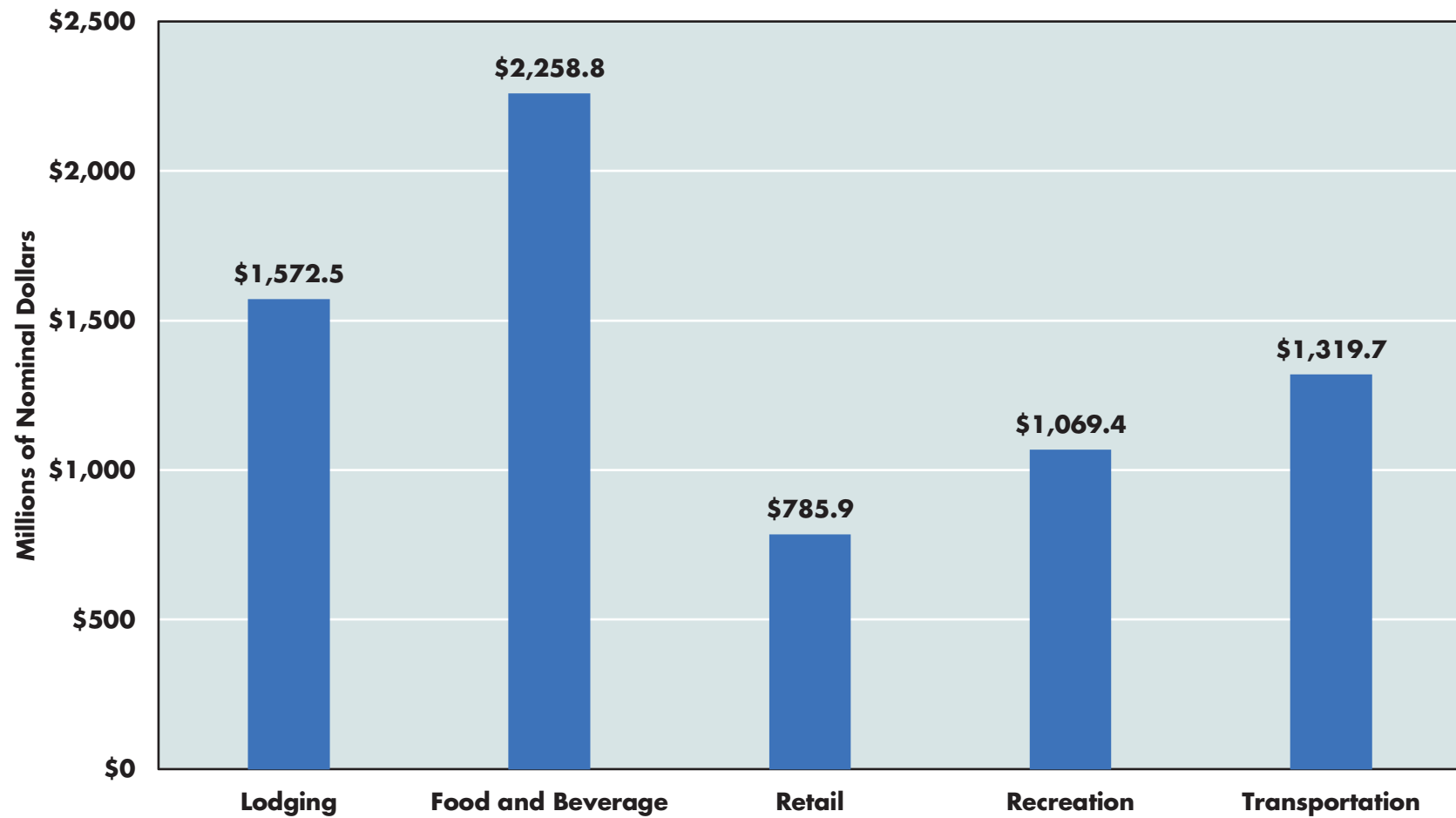
**DIRECT VISITOR SPENDING IN COASTAL VIRGINIA
HAMPTON ROADS*, 2016 - 2024**



Source: Virginia Tourism Corporation and Tourism Economics. *VTC's Coastal Virginia: Hampton Roads region includes the cities of Chesapeake, Franklin, Hampton, Newport News, Norfolk, Poquoson, Portsmouth, Suffolk, Virginia Beach, and Williamsburg, as well as Charles City, Isle of Wight, James City, New Kent, Southampton, Surry, and York counties.

GRAPH 10

COMPOSITION OF DIRECT VISITOR SPENDING IN COASTAL VIRGINIA
HAMPTON ROADS*, 2024



Source: Virginia Tourism Corporation and Tourism Economics. Lodging includes short-term rentals and second home spending. Transportation includes both ground and air transportation. *VTC's Coastal Virginia: Hampton Roads region includes the cities of Chesapeake, Franklin, Hampton, Newport News, Norfolk, Poquoson, Portsmouth, Suffolk, Virginia Beach, and Williamsburg, as well as Charles City, Isle of Wight, James City, New Kent, Southampton, Surry, and York counties.

The Hotel Industry

The tourism industry represents the third pillar of the Hampton Roads economy. It generates significant employment and tax revenues and also serves as a reliable indicator of visitor activity, corporate travel trends, and seasonal tourism flows. Data for the hotel industry are available on a more timely basis than data regarding visitor spending.

The data for the hotel industry are based on available rooms, room nights sold, and the rate at which rooms were sold. Demand for hotel rooms in Hampton Roads is tightly correlated with how many tourists (and business visitors) visit the region. Graph 11 illustrates the average annual supply of hotel rooms in Hampton Roads from 2000 to 2025. Average annual supply increased from 2021 to 2024 and then declined slightly in 2025. In 2025, there were an average of 38,916 hotel rooms available across Hampton Roads, an increase of 1,133 rooms since 2019.

Graph 12 presents the average occupancy rate for hotel rooms in Hampton Roads from 2000 to 2025. Not surprisingly, the occupancy rate is highly correlated with economic conditions. In the 2000s, the occupancy rate peaked in 2003 at 62.8% and was at 59.5% prior to the Great Recession. The occupancy rate then declined during the Great Recession, reaching a low of 51.8% in 2010. Over the subsequent years, the occupancy rate climbed and was 62.7% in 2019. During the shutdowns of the COVID-19 pandemic in 2020, the average occupancy rate was 48.1% before rebounding in 2021 (61.0%). Of note is that the average occupancy rate in Hampton Roads has been above 60% from 2021 to 2025. In terms of occupancy, the hotel industry has performed better this decade than the previous two decades.

Graph 13 displays nominal and real (inflation-adjusted) hotel revenues for Hampton Roads from 2000 to 2025. At first glance, it would appear that 2025 was a record year, with nominal hotel revenues nearing 1.2 billion dollars. When we account for the impact of inflation, however, a different story emerges from the data. In 2019, real hotel revenues were equal to \$888.6 million in 2017 constant dollars. After falling in 2020 to \$557.5 million, real hotel revenues rebounded to \$914.0 million in 2021. In 2022, real hotel revenues set a record at \$923.8 million. Since 2022, real hotel revenues have

declined in Hampton Roads as the pace of inflation has been faster than the pace of hotel revenue growth. Real hotel revenues declined by 1.0% in 2023 (\$914.9 million), 2.5% in 2024 (\$891.8 million), and 1.8% in 2025 (\$876.0 million).

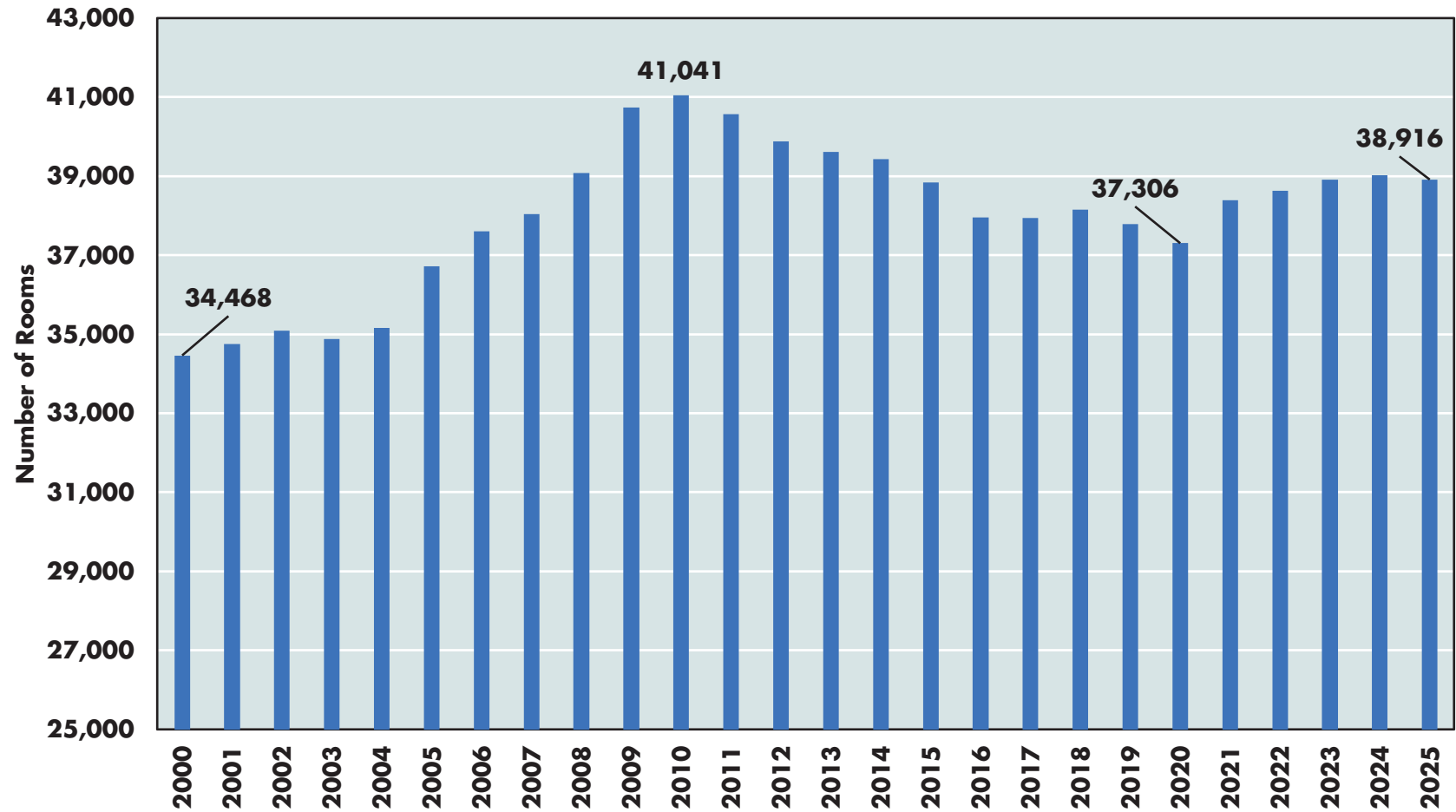
To assess whether the hotel industry is experiencing growth or contraction, we need to use a comprehensive performance metric known as Revenue per Available Room (RevPAR). This industry-standard measure is calculated by multiplying a hotel's Average Daily Rate (ADR) by its occupancy rate, or alternatively, by dividing total room revenue by the number of available rooms over a given period. An increase in RevPAR signifies improved hotel performance. This can occur because more rooms are being sold (higher occupancy), room rates have increased, or a combination of both, provided that the supply of rooms remains stable. On the other hand, RevPAR can still decrease even when total revenue rises if the supply of rooms grows at a faster pace than demand. This is particularly relevant in markets undergoing rapid expansion of new hotel construction, where the influx of new rooms can dilute per-room revenue performance.

Graph 14 presents nominal and real RevPAR for Hampton Roads from 2001 to 2025. As with nominal hotel revenue, nominal RevPAR set a record in 2025 at \$81.00 per available room. Real RevPAR, however, illustrates that hoteliers are not earning more per available room after accounting for the impact of inflation. In 2017, hoteliers earned \$62.60 per available room. By 2025, hoteliers, after accounting for inflation, were earning \$61.70 per available room. In other words, inflation has eroded RevPAR in Hampton Roads over the previous decade.

How has Hampton Roads fared relative to the Commonwealth and the nation? Hampton Roads performed particularly well in terms of RevPAR, but the region did not experience the highest growth in all four indicators. Graph 15 summarizes widely used performance indicators for the hotel industry. From 2019 to 2025, the hotel industry in Hampton Roads generally outperformed the state and the nation. While growth in room supply was slightly lower than in Virginia and the United States, Hampton Roads experienced stronger growth in hotel rooms sold and RevPAR and higher ADR growth than Virginia.

GRAPH 11

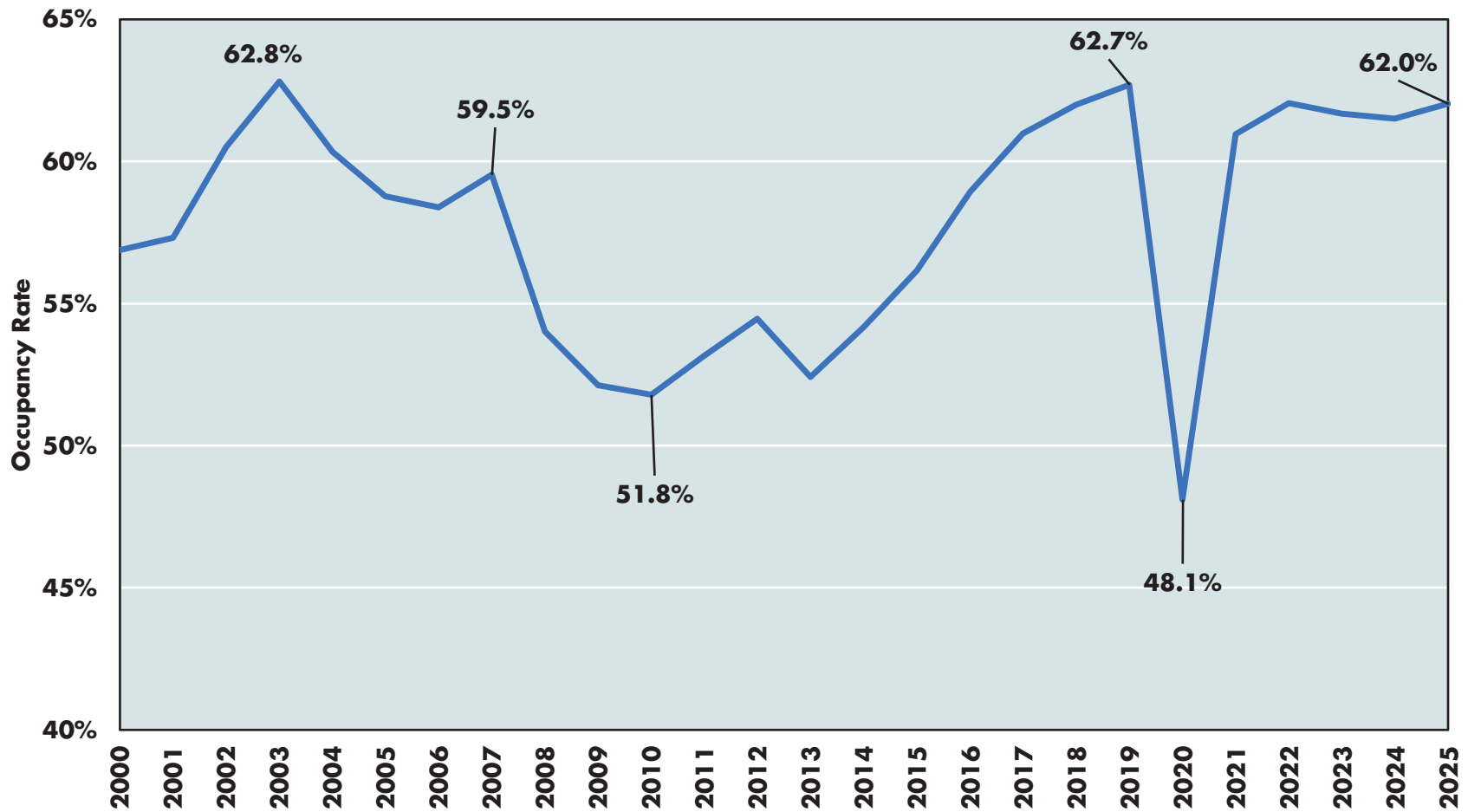
AVERAGE ANNUAL SUPPLY OF HOTEL ROOMS
HAMPTON ROADS, 2000 - 2025



Source: STR Trend Report, February 2026.

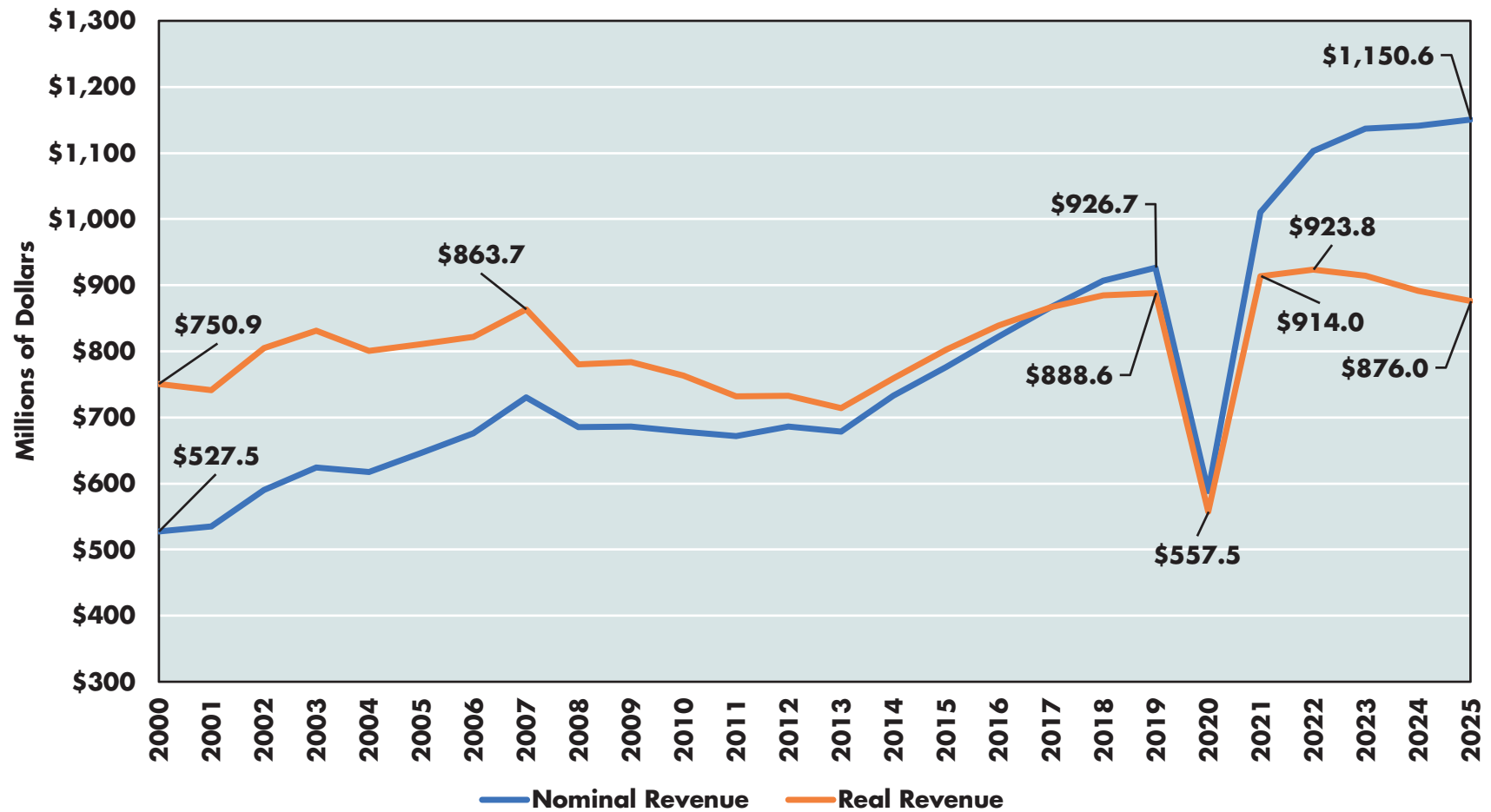
GRAPH 12

**AVERAGE OCCUPANCY RATE
HAMPTON ROADS, 2000 - 2025**



Source: STR Trend Report, February 2026.

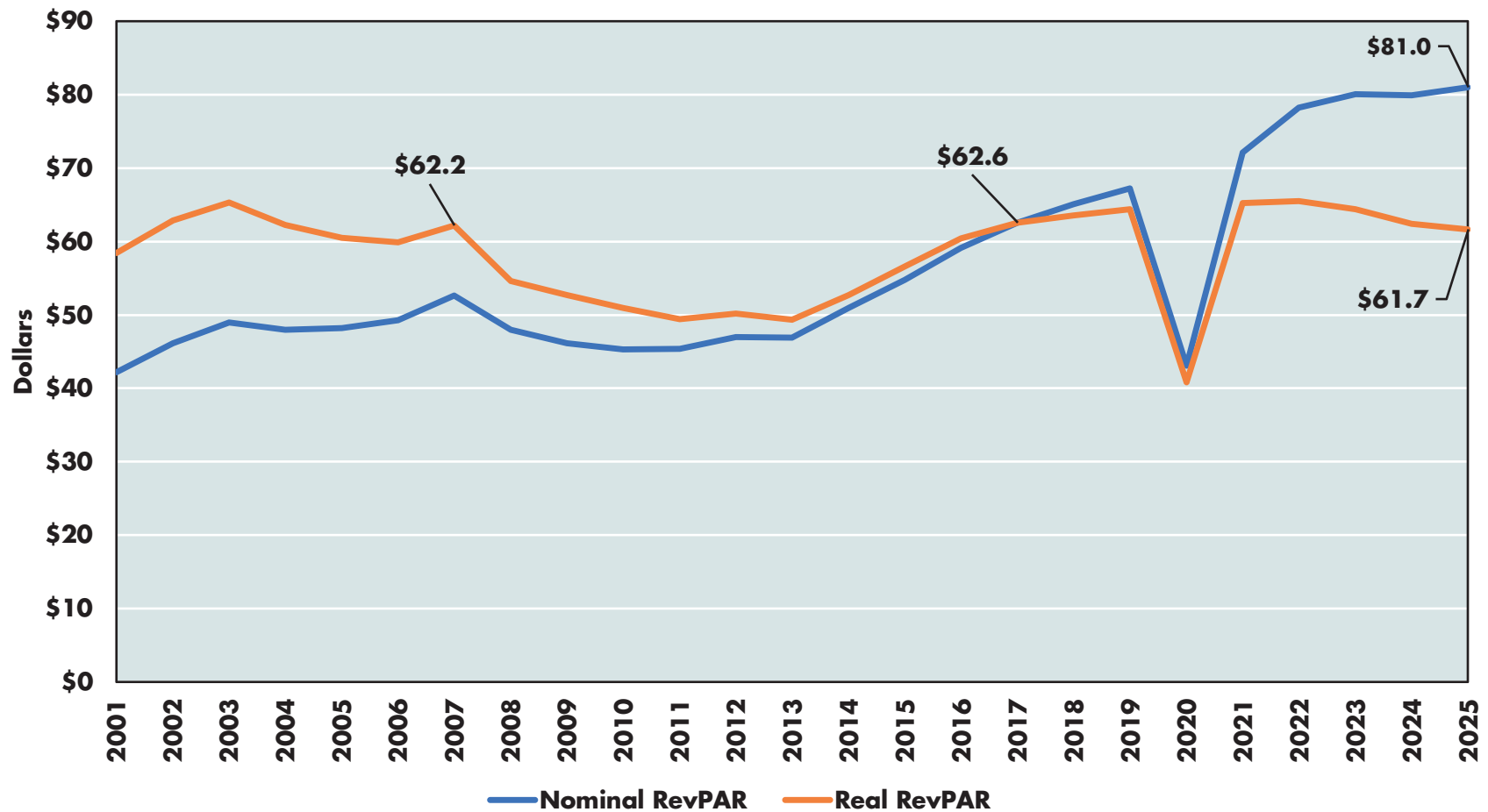
GRAPH 13
NOMINAL AND REAL HOTEL REVENUE
HAMPTON ROADS, 2000 - 2025



Sources: STR Trend Report, February 2026, Bureau of Labor Statistics, Consumer Price Index for all Urban Consumers (Base Year = 2017), and Dragas Center for Economic Analysis and Policy.

GRAPH 14

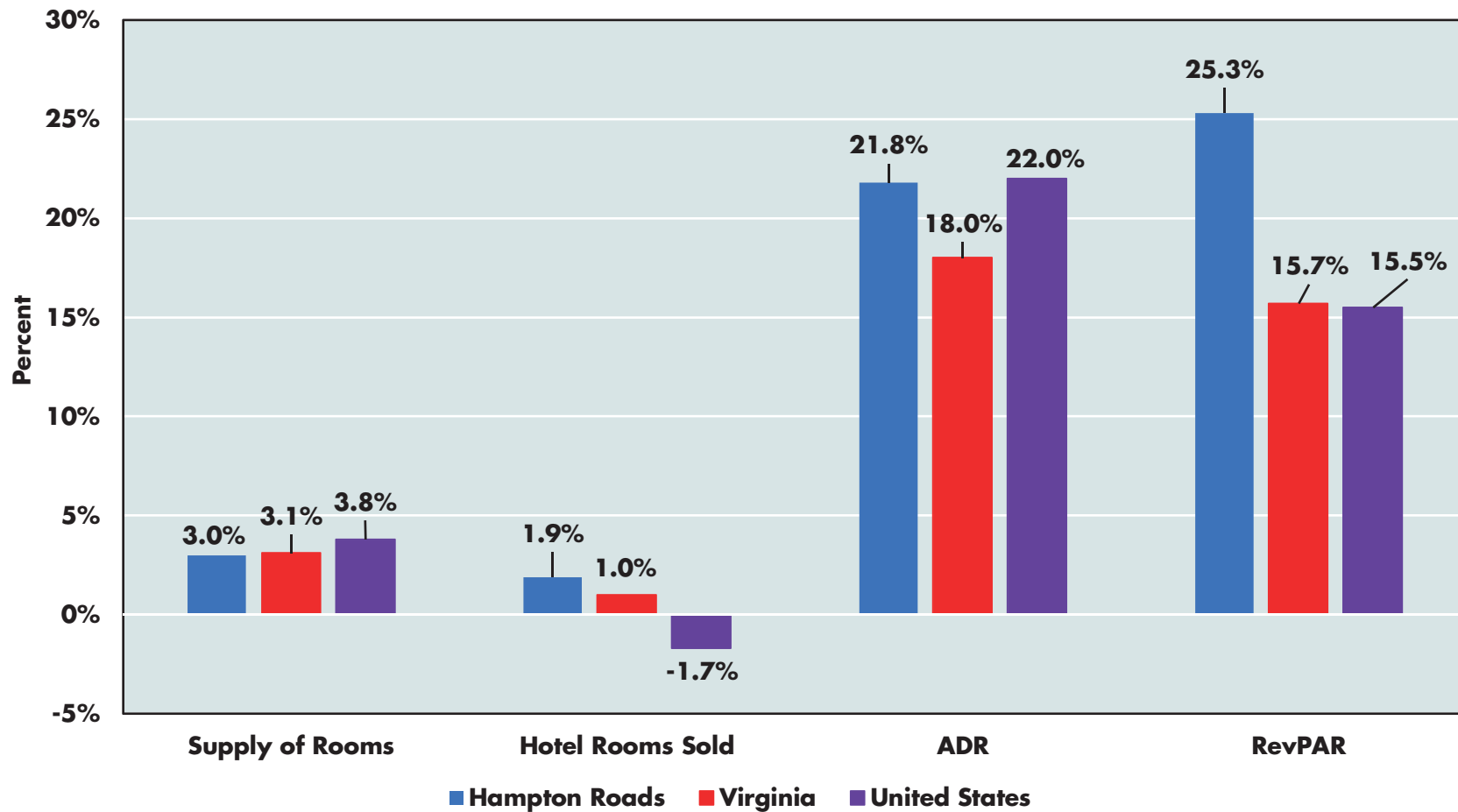
NOMINAL AND REAL REVENUE PER AVAILABLE ROOM
HAMPTON ROADS, 2001 - 2025



Sources: STR Trend Report, February 2026, Bureau of Labor Statistics, Consumer Price Index for all Urban Consumers (Base Year = 2017), and Dragas Center for Economic Analysis and Policy.

GRAPH 15

PERCENT CHANGE IN SELECTED HOTEL INDUSTRY INDICATORS
HAMPTON ROADS, VIRGINIA, AND THE UNITED STATES, 2019 - 2025



Sources: STR Trend Report, February 2026, and Dragas Center for Economic Analysis and Policy. ADR is Average Daily Rate. RevPAR is Revenue per Available Room.

Let's turn to how the local submarkets are faring in Hampton Roads compared to Virginia and the nation (Table 2). Our first observation is that every submarket in Hampton Roads, except for the Williamsburg and Newport News/Hampton sub-markets, experienced higher hotel revenue growth than the state or the nation from 2019 to 2025. When we focus on RevPAR, only the Williamsburg submarket underperformed relative to the Commonwealth and the nation. In terms of hotel rooms sold, Newport News/Hampton remained relatively stable, Williamsburg declined, and the remainder of submarkets experienced growth superior to that of the state.

TABLE 2 PERCENT CHANGE IN SELECTED HOTEL PERFORMANCE INDICATORS HAMPTON ROADS, VIRGINIA, AND THE UNITED STATES 2019 - 2025				
Submarkets	Hotel Revenue	Revenue per Available Room	Supply of Rooms	Hotel Rooms Sold
Chesapeake/Suffolk	29.6%	25.5%	3.2%	3.4%
Newport News/Hampton	19.6%	21.1%	-1.3%	0.1%
Norfolk/Portsmouth	30.1%	22.6%	6.2%	3.8%
Virginia Beach	33.5%	20.6%	10.7%	7.2%
Williamsburg*	4.1%	11.0%	-6.2%	-7.8%
Hampton Roads	24.2%	20.6%	3.0%	1.9%
Virginia	19.2%	15.7%	3.1%	1.0%
United States	19.9%	15.5%	3.8%	-1.7%
Sources: STR Trend Report, February 2026, and Dragas Center for Economic Analysis and Policy. *Williamsburg submarket includes the City of Williamsburg and James City County.				

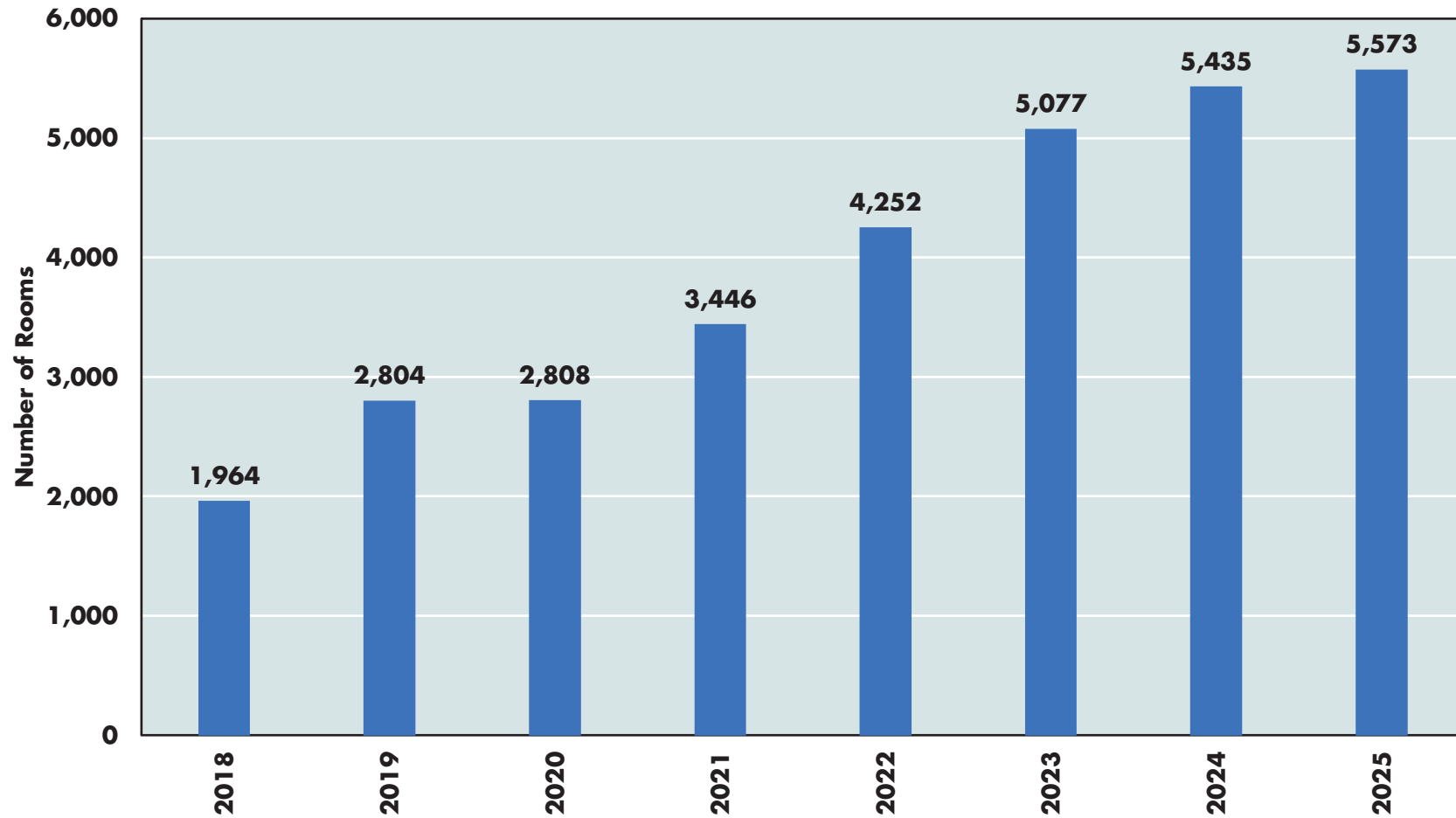
Examining the performance of the hotel industry in Hampton Roads area, or any market for that matter, without accounting for the impact of the short-term rental industry on hotel revenue and market share is incomplete and potentially misleading. The rapid expansion of short-term rental platforms like Airbnb (Air Bed and Breakfast) and Vrbo (Vacation Rentals by Owner) has introduced significant new competitors into the accommodations industry, altering demand patterns, pricing models, and consumer expectations.

Graph 16 displays the number of occupied Airbnb and Vrbo rooms in Hampton Roads from 2018 to 2025. In 2018, there were 1,964 rooms occupied in Hampton Roads. By 2020, this number had increased to 2,808. The number of occupied Airbnb and Vrbo rooms did not decline during the pandemic and growth continued through 2023. In 2024, however, the growth in short-term rentals moderated from 19.4% year-over-year in 2023 to 7.1% in 2024. In 2025, short-term rental growth slowed yet again. The number of occupied short-term rental rooms only increased by 2.5% in 2025. The declining pace of short-term rental growth may be a result of increasing regulations and oversight by local governments. As rental prices of short-term lodgings have neared (if not passed) traditional hotels, the open question is what is the advantage of short-term rentals, especially if you have to pay a cleaning fee or clean the property before departure?

Graph 17 displays nominal and real Airbnb and Vrbo revenues for Hampton Roads from 2018 to 2025. In 2018, nominal revenues were merely \$65.2 million, rising to \$106.6 million in 2019. Nominal revenue rose post-pandemic and reached \$203.8 million in 2025. In other words, nominal short-term rental revenues rose by 91.2% from 2019 to 2025. If we adjust for inflation, we can first note that real short-term rental revenues were 51.8% higher in 2025 than 2019. The pace of growth, however, has slowed more recently. In 2022, real short-term rental revenues increased by 15.5%. In 2023 and 2024, real revenues increased by 7.3% and 9.5%, respectively. In 2025, real short-term rental revenues were, for all intents and purposes, stagnant.

GRAPH 16

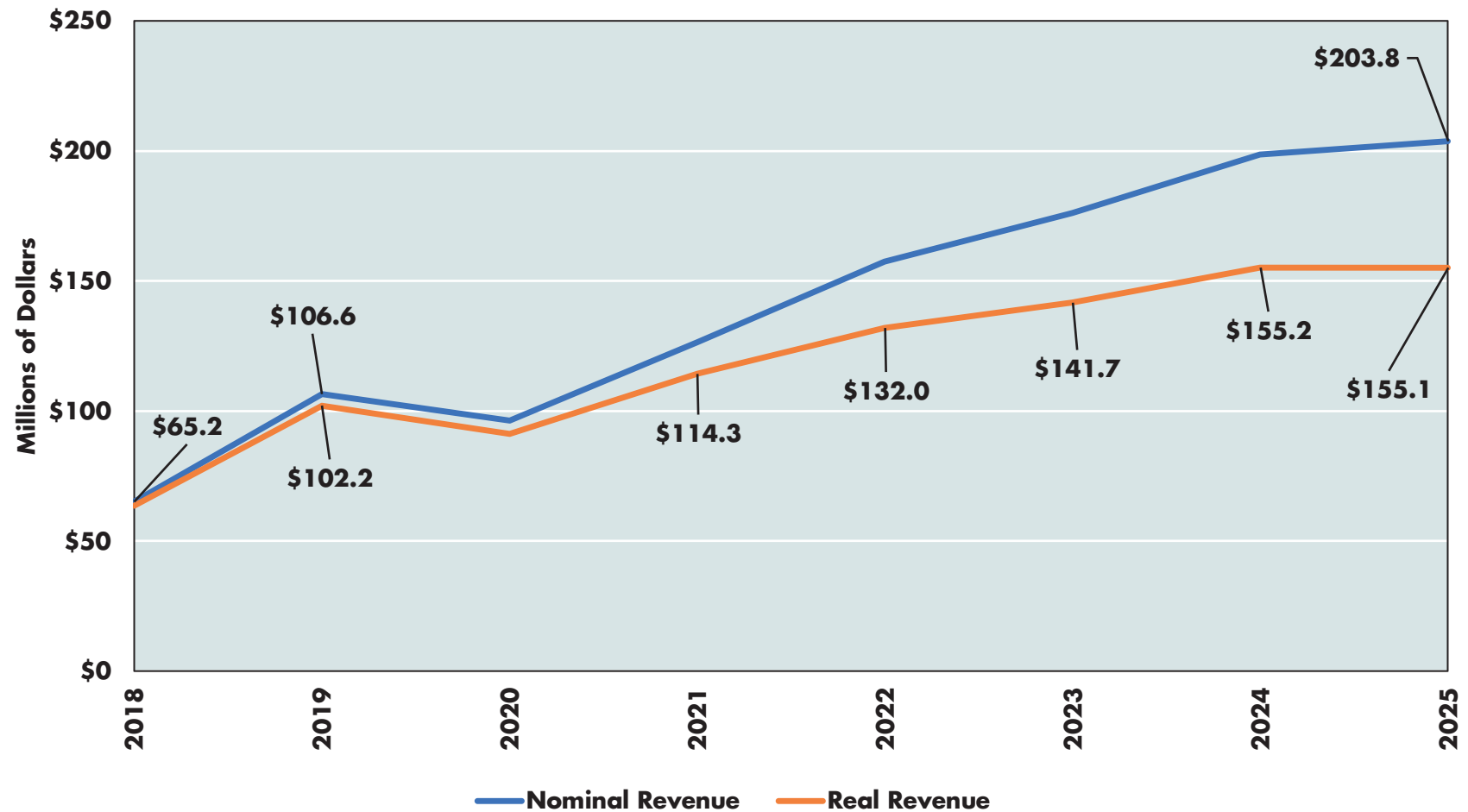
**AIRBNB AND VRBO ROOMS OCCUPIED
HAMPTON ROADS, 2018 - 2025**



Sources: AirDNA (2026) and Dragas Center for Economic Analysis and Policy. Data includes entire homes and private rooms.

GRAPH 17

NOMINAL AND REAL AIRBNB AND VRBO REVENUES
HAMPTON ROADS, 2018 - 2025



Sources: AirDNA (2026), Bureau of Labor Statistics, Consumer Price Index for all Urban Consumers (Base Year = 2017) and Dragas Center for Economic Policy and Analysis.



Final Thoughts

We stand at a juncture when the pillars of the Hampton Roads economy appear to be moving along distinctly divergent paths. For decades, the region's economic fortunes have been dictated by the stability of federal defense expenditures, international trade through the Port of Virginia, and a vibrant travel and tourism sector. Historically, when these cylinders of the regional economic engine worked in harmony, the regional economy accelerated. When these cylinders were 'out of time,' the regional economy sputtered and, in some cases, failed to start at all. The evidence suggests that throughout 2025 and into 2026, these pillars were out of sync, creating a complex balancing act for the region's near-term outlook.

A recurring theme across the economy is the divergence of nominal and real (inflation-adjusted) data. Taken at face value, the nominal data suggest that defense outlays will pass at least \$30.0 billion in 2027, hotel revenues will likely exceed \$1.2 billion in 2026, and short-term rental revenues should climb past \$210 million in the coming year. When the distorting effects of inflation are removed, however, a more muted story emerges. Constant-dollar defense spending in the region is flat, real hotel revenues have declined, and the explosive growth of the short-term rental industry appears to be stagnating. If we add the decline in trade volumes through the Port of Virginia into the mix, the path forward presents a stark choice: hope that federal policies and spending reverse these conditions or seek a new way forward to improve growth outside sectors touched by the federal government.

Hampton Roads enters the latter half of the decade supported by a defense pillar that provides a baseline level of economic activity. Yet this stability should not be mistaken for a recipe for dynamic growth. The roads before us are not equal nor are they fair. To cultivate long-term economic resilience, Hampton Roads must work to leverage its capabilities in maritime logistics, shipbuilding, advanced manufacturing, health sciences, and renewable energy. Navigating the paths before us will be difficult, but allowing others to choose our path will not produce an outcome that is desirable for the residents that call Hampton Roads home.



Early Childhood Care and Education in Hampton Roads



EARLY CHILDHOOD CARE AND EDUCATION IN HAMPTON ROADS

"It's easier to build strong children than to repair broken men."

—Frederick Douglass

Parents, employers, educators, and policymakers all know: There is a profound shortage of high-quality, affordable childcare for working families in the United States. The “infant-toddler child care crisis” has been estimated to cost the country \$122 billion in lost earnings, productivity, and revenues every year—a financial impact that has more than doubled since the COVID-19 pandemic. The annual cost to Virginia is \$3.1 billion.¹

According to a recent statewide survey by the Virginia Early Childhood Foundation (VECF), Federal Reserve Bank of Richmond, and Virginia Chamber Foundation, 86% of Virginia employers say their employees “struggle with child care expenses,” and 65% report that their employees “can’t find child care programs with open seats.” These circumstances have caused their employees to report late or miss work (88%), reduce hours (65%), decline job offers or promotions (41%), and even leave their jobs (34%).²

The University of Virginia, meanwhile, has surveyed parents who are on the waitlist for Virginia’s Child Care Subsidy Program (CCSP), 76% of whom reported that they were working less than they wanted because they lacked access to affordable care.³ The respondents worried about food insecurity, running out of money, and leaving their young children in makeshift circumstances. As reported by researcher Daphna Bassok, “Parents described their kids being in front of a TV or an iPad for a whole day . . . described

being concerned about their children’s development, talking about their speech and social skills not developing the way they were hoping they would.”⁴

The economic and social consequences of inadequate early childhood care and education (ECCE) are, by now, well known—but the problem is notoriously difficult to solve. To many working families, the quest for affordable, high-quality care seems hopeless. However, it is also true that our regional leaders are increasingly prioritizing this issue, and are working together with early childhood experts to develop viable solutions.

This chapter discusses ECCE from an economic perspective. We explore why this market is so challenging to reform and why affordable, high-quality care ought to be regarded as a critical long-term investment in human capital. We provide an overview of publicly subsidized ECCE options in Hampton Roads, and we introduce some of the most promising recent initiatives to expand ECCE access.

1 ReadyNation, “\$122 Billion: The Growing, Annual Cost of the Infant-Toddler Child Care Crisis,” February 2, 2023, <https://www.strongnation.org/articles/2038-122-billion-the-growing-annual-cost-of-the-infant-toddler-child-care-crisis>.

2 Virginia Early Childhood Foundation, Federal Reserve Bank of Richmond, and Virginia Chamber Foundation, Child Care is the Foundation of Virginia’s Economy, <https://vecf.org/wp-content/uploads/2025/12/One-Pager-VA-Employer-Survey-Summary-December-2025.pdf>.

3 Study of Early Education through Partnerships and Virginia Department of Education, 2025 Virginia Child Care Subsidy Waitlist Survey: Preliminary Findings, <https://files.elfsightcdn.com/eafe4a4d-3436-495d-b748-5bdce62d911d/bcce9a37-574c-47b5-9e06-09bf510e307b/2025-Waitlist-Survey-One-Pager-Prelim-Findings.pdf>.

4 Virginia Employer Survey Summary, December 2025, <https://vecf.org/>; and Megan Pauly, “Long waitlists for subsidized child care taking economic toll on families,” Virginia Public Media, October 24, 2025, <https://www.vpm.org/news/2025-10-24/child-care-waitlists-economic-toll-families-uva-study-bassok-conway>.

Investing in Our Future

The science is clear: The earliest years of life are a uniquely consequential period in human development. Brain development begins early in the prenatal period, from birth through age 5 neural connections are built at an astonishing speed, “forming the bedrock for lifelong health, intellectual ability, emotional well-being, and social functioning.”⁵ This understanding of human development also inspired the name of Minus 9 to 5, a “collective impact initiative” that was incubated by the Hampton Roads Community Foundation and formally established in 2016, “to help ensure that each family in Hampton Roads will be equipped and supported to raise children who are healthy, thriving, and ready to learn.”⁶

Recognizing the importance of early childhood means thinking about childcare as more than just an enabling convenience for the “workforce of today”—but also as an investment in human capital and the “workforce of tomorrow,” as an influential U.S. Chamber of Commerce Foundation report notably put it in 2017.⁷ The value of this investment has been famously championed by Nobel Prize-winning economist James Heckman. The “Heckman Curve” illustrates how returns on human investment (such as schooling and professional training) tend to be highest early on and slacken over time, in part because early investments can improve the return of all later ones (Figure 1). Heckman argues that both individuals and society benefit from high-quality early childhood programs, which contribute to “lifelong success, increased productivity, and reduced social costs.”⁸

Recognizing the importance of early childhood also means rethinking the notion of “childcare” as something separate from, and lesser than, “education.” As ECCE advocate Dan Wuori argues: “For young children, all environments are learning environments . . . early childhood classrooms are humankind’s most important learning laboratories.”⁹ From this perspective, early childhood programs are not merely a custodial arrangement for working parents, but sites where all young children can potentially develop age-appropriate skills, interact positively with peers and caring adults, and literally build their brains. This explains the growing preference for the term “early childhood care and education” (ECCE) over “daycare” or “preschool.” In line with this reorientation, state oversight of early childhood programs shifted from the Virginia Department of Social Services to the Virginia Department of Education (VDOE) in 2020.

In 2024, the Virginia portion of Hampton Roads was home to around 100,000 children under the age of 5. Just over two-thirds of our youngest residents have “all available” parents in the workforce, a proportion that resembles Virginia (Table 1). Our region’s ECCE providers have close to 67,000 slots, or the potential capacity to serve around two-thirds of children under 5 (Table 2). But any parents who have infants or toddlers know that capacity for this younger age group is much more limited—and also that infant and toddler care, which appropriately requires more intensive staffing, is much more expensive.

5 U.S. Chamber of Commerce Foundation, “Workforce of Today, Workforce of Tomorrow: The Business Case for High-Quality Childcare,” (2017), 1, <https://www.uschamberfoundation.org/education/workforce-of-today-workforce-of-tomorrow>.

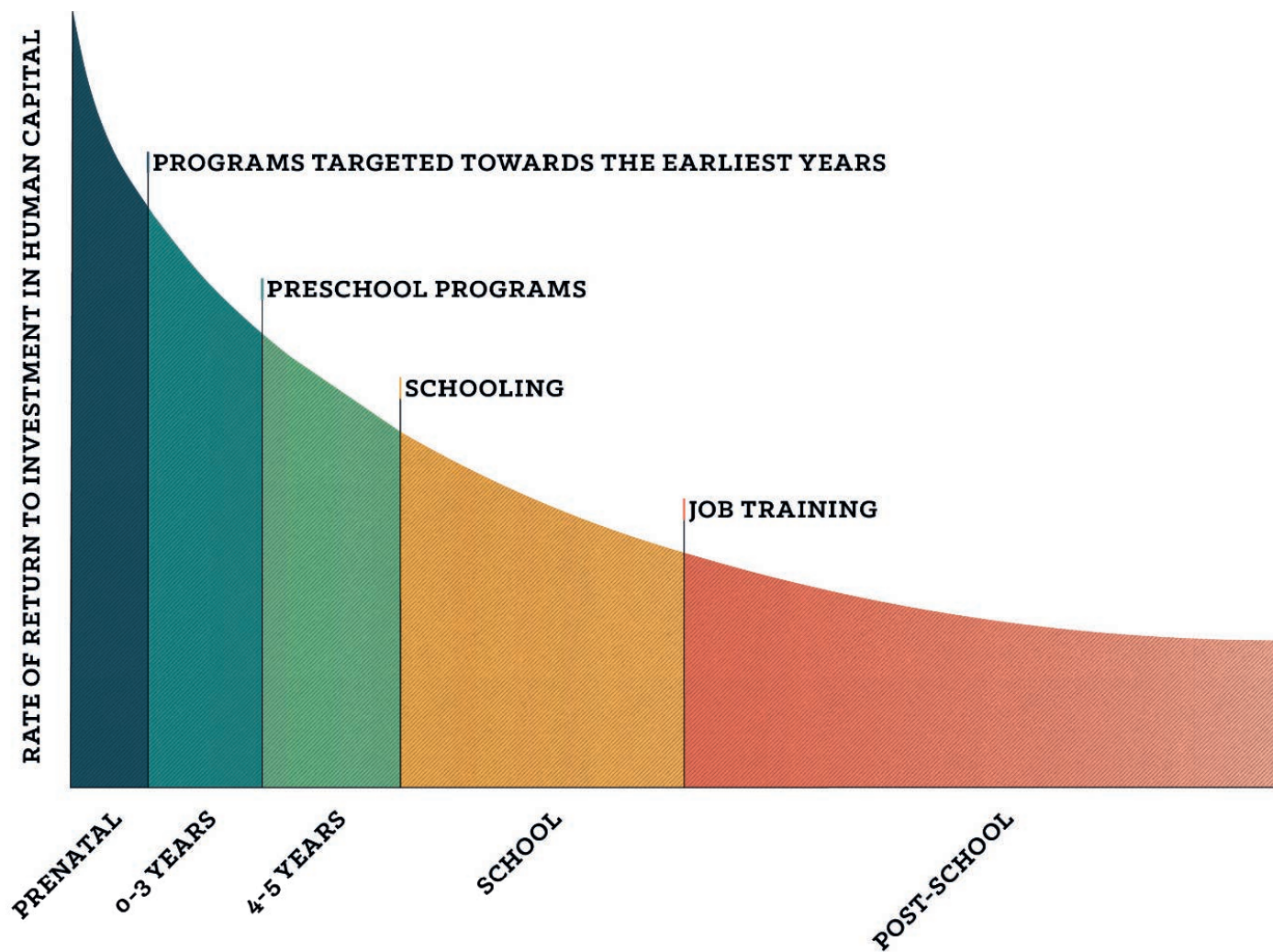
6 “Minus 9 to 5: Our Journey over the Years 2016–2023,” https://www.minus9to5.org/about/our_impact.

7 U.S. Chamber of Commerce Foundation, “Workforce of Today.”

8 “What is the Heckman Curve?”, <https://heckmanequation.org/>.

9 Dan Wuori, *The Daycare Myth: What We Get Wrong about Early Care and Education (And What We Should Do about It)* (Teachers College Press, 2024), 7.

FIGURE 1
THE HECKMAN CURVE



Source: Heckman, James J. (2008). "Schools, Skills and Synapses," *Economic Inquiry*, 46(3): 289-324 and <https://heckmanequation.org/>.

TABLE 1
POPULATION UNDER THE AGE OF 5 YEARS
CITIES AND COUNTIES IN HAMPTON ROADS, 2020 AND 2024

	Number of Children Under 5 2024	Number of Children Under 5 2020	Total Change 2020-2024	Percent Change 2020-2024	Children Under 5 with all Available Parents in Labor Force 2024	Proportion of Children with all Parents in Labor Force 2024
Chesapeake	14,870	15,515	-645	-4.2%	9,707	65.3%
Hampton	7,986	8,463	-477	-5.6%	5,605	70.2%
Newport News	12,215	13,230	-1,015	-7.7%	8,557	70.1%
Norfolk	14,254	15,914	-1,660	-10.4%	9,649	67.7%
Poquoson	637	564	73	12.9%	256	40.2%
Portsmouth	6,351	6,968	-617	-8.9%	4,168	65.6%
Suffolk	6,507	5,953	554	9.3%	4,502	69.2%
Virginia Beach	25,100	27,991	-2,891	-10.3%	17,271	68.8%
Williamsburg	402	513	-111	-21.6%	345	85.9%
Gloucester County	1,973	1,926	47	2.4%	1,246	63.1%
Isle of Wight County	2,086	1,986	100	5.0%	1,721	82.5%
James City County	3,863	3,653	210	5.7%	2,464	63.8%
Mathews County	347	297	50	16.8%	192	55.4%
Surry County	309	306	3	1.0%	173	55.9%
York County	3,401	3,771	-370	-9.8%	1,823	53.6%
Hampton Roads	100,301	107,050	-6,749	-6.3%	67,679	67.5%
Virginia	482,882	504,689	-21,807	-4.3%	334,486	69.3%

Source: Virginia Early Childhood Foundation (2026), at: <https://vecf.org/supply-and-demand-data/>. Hampton Roads totals include Virginia localities only; North Carolina localities are excluded.

TABLE 2

**SUPPLY OF EARLY CHILDHOOD CARE AND EDUCATION (ECCE)
CITIES AND COUNTIES IN HAMPTON ROADS, 2025**

	Total Number of ECCE Sites	Total ECCE Capacity	Number of Centers	Center Capacity	Number of Family Day Homes	Family Day Home Capacity	Number of Public Schools	Public School Capacity
Chesapeake	139	10,786	87	9,849	32	225	20	712
Hampton	87	5,453	53	4,768	23	164	11	521
Newport News	81	8,015	60	7,022	11	53	10	940
Norfolk	150	8,048	76	6,205	43	284	31	1,559
Poquoson	4	340	3	326	0	0	1	14
Portsmouth	86	4,490	49	3,760	34	279	3	451
Suffolk	56	3,478	21	2,629	24	163	11	686
Virginia Beach	242	18,303	155	16,537	44	356	43	1,410
Williamsburg	6	514	6	514	0	0	0	0
Gloucester County	16	1,152	10	1,015	1	12	5	125
Isle of Wight County	21	1,055	12	896	5	40	4	119
James City County	31	2,817	22	2,474	4	17	5	326
Mathews County	3	70	2	41	0	0	1	29
Surry County	3	65	1	17	1	12	1	36
York County	31	2,307	21	2,156	2	10	8	141
Hampton Roads	956	66,893	578	58,209	224	1,615	154	7,069
Virginia	5,952	335,550	2,805	285,278	2,273	16,941	874	33,331

Source: Virginia Early Childhood Foundation (2026), at: <https://vecf.org/supply-and-demand-data/>. Hampton Roads totals include Virginia localities only; North Carolina localities are excluded.

According to data compiled by the VECF, the median annual rate of care in an infant classroom in Hampton Roads ranged between \$14,300 and \$19,500 in 2025. While complete data are not available for each city and county in Hampton Roads, Graph 1 illustrates the median cost of care for infants (0 to 15 months). Hampton had the lowest observed median cost at \$14,300 per infant, while Chesapeake had the highest median cost at \$19,500 per infant annually. If a standard working year is 2,080 hours, then an adult parent would have to devote between \$6.88 an hour (Hampton) to \$9.38 an hour (Chesapeake) to pay for care for one infant.

Graph 2 highlights the median annual cost of preschool care for some of the largest cities in the region. Hampton was the least expensive, with a median annual cost of \$10,660 per preschool-age child. Virginia Beach was the most expensive city for preschool care in 2025, with a median annual cost of \$14,820. Returning to our standing working year example, a parent with one child in preschool would have to set aside between \$5.13 an hour (Hampton) and \$7.13 an hour (Virginia Beach) for this care.

Because these figures derive from programs that receive at least some public funds, they likely exclude some more expensive private providers and understate actual rates. In any case, many Hampton Roads families now pay more for one year of early childhood care than for two semesters of university tuition and fees. At Old Dominion University, the estimated annual expected cost of tuition and fees for an in-state undergraduate student taking 30 credit hours was \$13,370 in 2025 – 2026, assuming the student received no scholarships or financial aid.¹⁰

The U.S. Department of Health and Human Services recommends that families pay no more than 7% of their income for childcare.¹¹ By this measure, the affordability threshold for the full-time care of just one child in Hampton Roads starts at an annual income of around \$152,000. In 2024, the median household income in Hampton Roads was \$82,402. Approximately 29.8% of households earned between \$100,000 and \$200,000, and 11.2% earned more than \$200,000 in 2024. In other words, more than half (and likely more than two-thirds) of Hampton Roads households fall short of the affordability guidelines. It is not uncommon for young families, in Hampton Roads and elsewhere in the United States, to spend 20% or more of their income on childcare.¹²

Virginia does offer subsidized ECCE options for lower-income families, and we discuss these programs more fully later in this chapter. In 2026, 13,829 publicly funded slots were available in Hampton Roads through the Child Care Subsidy Program (CCSP), Virginia Preschool Initiative (VPI), Mixed Delivery, and Head Start/Early Head Start (Table 3). These slots served 20.9% of all income-eligible children in our region, a slightly lower percentage than Virginia as a whole (22.6%).

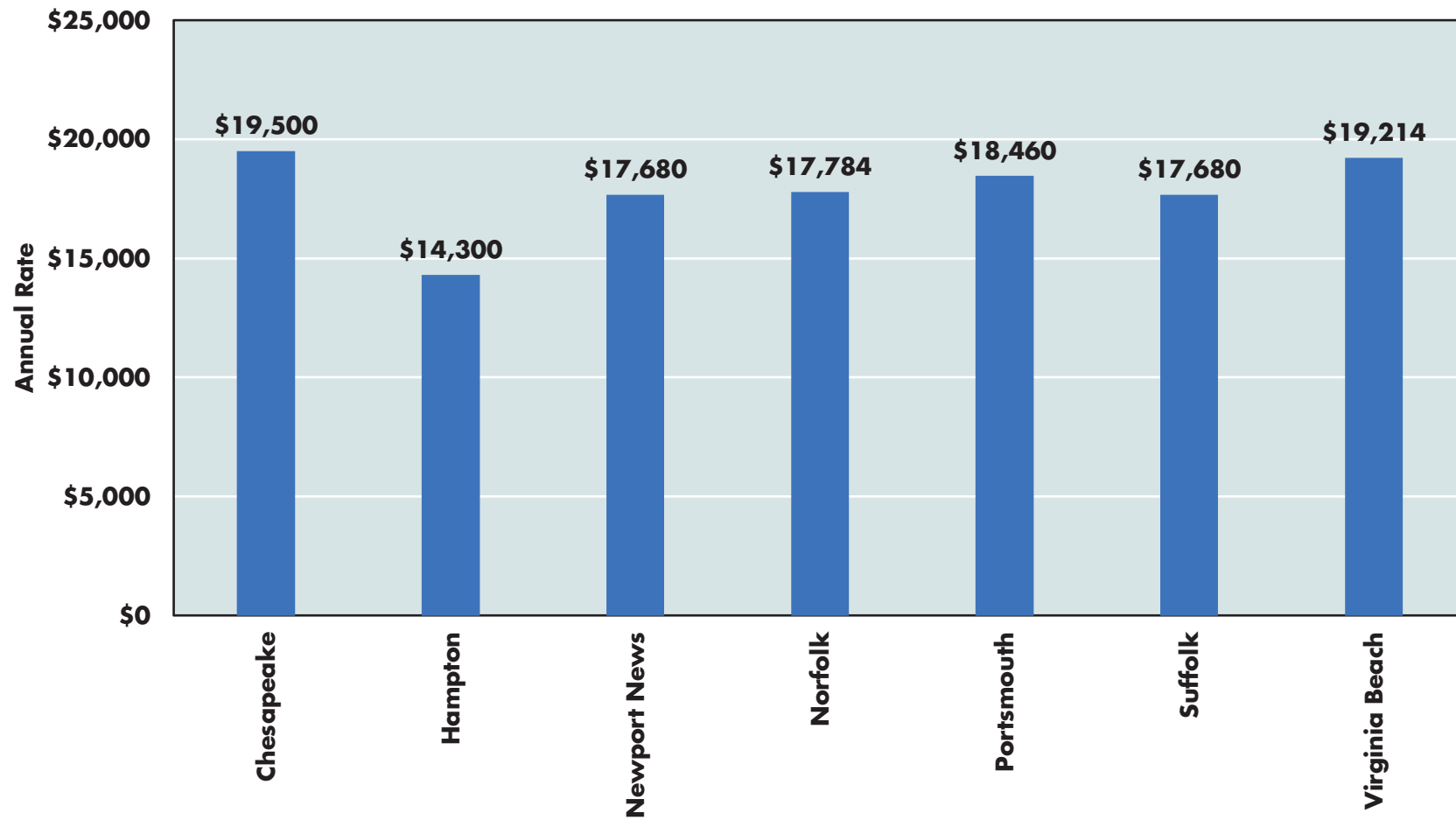
¹⁰ Old Dominion University, Tuition and College Cost Estimator, ODU Cost Estimator - Old Dominion University.

¹¹ U.S. Department of Health and Human Services, Administration for Children and Families, "Child Care and Development Fund (CCDF) Program," Federal Register 81, no. 190 (September 30, 2016): 67,515, <https://www.govinfo.gov/content/pkg/FR-2016-09-30/pdf/2016-22986.pdf>.

¹² U.S. Department of Labor, "Childcare Prices as a Share of Median Family Income by Age of Children and Care Setting 2022," <https://www.dol.gov/agencies/wb/topics/childcare/median-family-income-by-age-care-setting-2022>; and Maressa Brown, "2026 Cost of Care Report," Care.com, February 2, 2026, <https://www.care.com/c/cost-of-care-report/>.

GRAPH 1

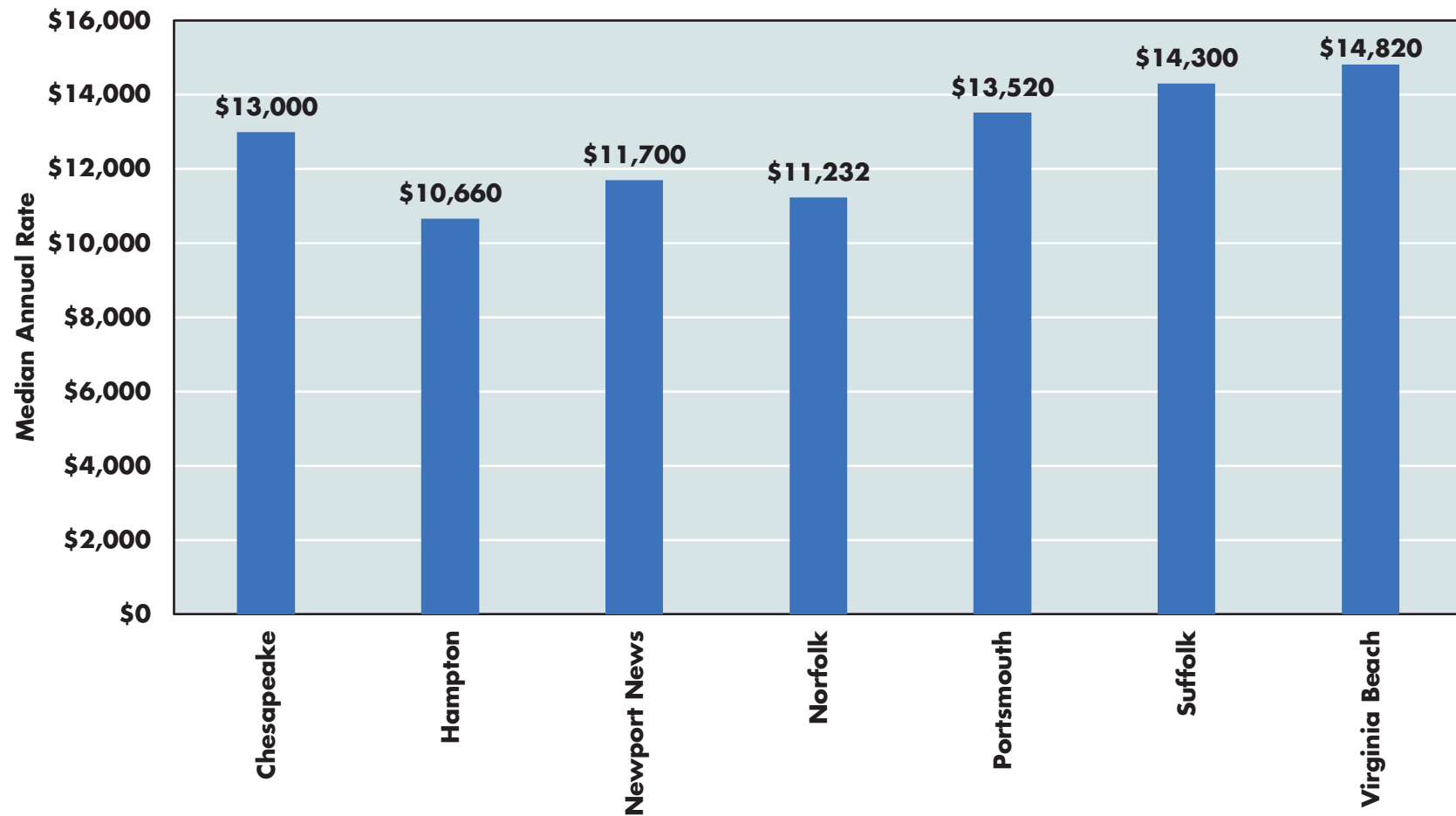
**MEDIAN ANNUAL COSTS OF INFANT CHILD CARE
SELECTED CITIES IN HAMPTON ROADS, 2025**



Source: Virginia Early Childhood Foundation (2026), at: <https://vecf.org/supply-and-demand-data/>.

GRAPH 2

**MEDIAN ANNUAL COSTS OF PRESCHOOL CLASSROOM EDUCATION AND CARE
SELECTED CITIES IN HAMPTON ROADS, 2025**



Source: Virginia Early Childhood Foundation (2026), at: <https://vecf.org/supply-and-demand-data/>.

TABLE 3

**PUBLICLY FUNDED ECCE SLOTS
CITIES AND COUNTIES IN HAMPTON ROADS, FY 2026**

	Child Care Subsidy Program (CCSP)	Virginia Preschool Initiative (VPI)	Head Start/Early Head Start	Mixed Delivery	Total
Chesapeake	979	360	140	25	1,504
Hampton	601	511	148	123	1,383
Newport News	1,155	838	191	47	2,231
Norfolk	1,105	1,234	88	142	2,569
Poquoson	0	3	0	0	3
Portsmouth	864	442	184	106	1,596
Suffolk	246	442	183	9	880
Virginia Beach	1,268	889	227	60	2,444
Williamsburg	29	21	0	0	50
Gloucester County	77	92	21	12	202
Isle of Wight County	73	94	32	0	199
James City County	92	113	139	0	344
Mathews County	13	18	0	0	31
Surry County	15	19	17	0	51
York County	121	71	140	10	342
Hampton Roads	6,638	5,147	1,510	534	13,829
Virginia	26,003	23,699	9,852	2,722	62,276

Source: Virginia Early Childhood Foundation (2026), at: <https://vecf.org/supply-and-demand-data/>. Hampton Roads totals include Virginia localities only; North Carolina localities are excluded.

The geographic sprawl of Hampton Roads means that many working parents have long daily commutes. Home, work, and childcare can be miles apart or in different localities altogether. The availability of care is uneven. A recent study undertaken by the Reinvestment Fund, in cooperation with Minus 9 to 5 and the VECF, has mapped ECCE supply, demand, and shortages across South Hampton Roads, considering both the population of children under 5 and the location of parents' jobs. The results show an overall supply of 27,917 seats and a demand for 61,187 seats (or roughly 46% capacity), with shortages concentrated in northern Norfolk and western Virginia Beach. These same geographic areas also have some of the highest concentrations of children in households that earn less than 300% of the Federal Poverty Guideline. In the entire mapped region, 16,580 publicly funded ECCE slots are available for 32,352 income-eligible children (51% capacity).

Finally, we note that all of these statistics do not capture many of the real-life circumstances that can make finding care so difficult. Providers' hours rarely align neatly with individual families' needs. Many parents work nights or weekends, and they may have children of various ages who need different kinds of care. Families often rely on multiple providers: not only centers, day homes, or schools—but also unpaid relatives and other unregulated caregivers. And the quest for ECCE is much more challenging for children with special needs, even those with relatively common conditions such as autism spectrum disorder, attention deficit hyperactivity disorder, asthma, or diabetes.

Troubled Market/Public Good?

Taken together, these statistics show that (not just) Hampton Roads has a childcare dilemma—which is most punishing for lower-income families, but by no means exclusive to them. The data in this chapter shows that ECCE is inaccessible and/or unaffordable to many Hampton Roads parents. Economists and policy experts sometimes call the U.S. childcare system a “broken” market—which is to say, there is a seemingly intractable tension between the cost of ECCE services and what families can afford to pay for them.

Most ECCE providers have very thin margins—as Wayne Bell (CEO of Children's Harbor, a multisite provider in Hampton Roads) aptly presented at Minus 9 to 5's second executive briefing on early childhood in 2025. Regulatory compliance and facility costs are high, and there are limited economies of scale. State licensing requirements appropriately mandate low staff-to-child ratios, which means that labor expenses often represent 50–70% of providers' total costs—even though ECCE teachers and caregivers are usually not highly compensated, despite their great responsibilities. According to one recent estimate, average childcare teacher wages in Virginia are \$17 an hour, “on par with fast food jobs in many parts of the state.”¹³

Parents want to leave their children in the hands of skilled caregivers, in safe and enriching environments—but as the quality of care increases, so do costs. This is why participation in formal ECCE increases with family income. Parents with fewer resources are more likely to turn to unregulated care, reduce their working hours, or leave the labor force altogether. And the childcare squeeze tends to come early in most parents' careers, when they earn less than later in life. The burdens of this situation fall disproportionately on women.

¹³ Brad Kutner, “After big changes in Virginia's child care industry, candidates for governor offer more fixes,” Radio IQ, June 10, 2025, <https://www.wvtf.org/news/2025-06-10/after-big-changes-in-virginias-child-care-industry-candidates-for-governor-offer-more-fixes>; and “Minus 9 to 5's 2nd Annual Executive Briefing,” May 22, 2025, <https://www.youtube.com/watch?v=Z9V4oolwBKo>.

As the cost of care goes up, their participation in the labor force goes down, particularly among single and lower-income mothers—who also happen to be the backbone of the ECCE labor force itself. Turnover in the field is high (about 40% a year in Virginia)—which reduces the quality of care, exacerbates existing pressures on providers, and further reduces ECCE supply.¹⁴

All too often, childcare is inaccessible, unaffordable, and unprofitable. This economic observation, combined with the expanding body of knowledge about the importance of early childhood, has led many observers to argue that ECCE ought to be treated as a public good—that is, as something that benefits society at large but is too costly for individual consumers to pay for on their own. Indeed—the argument goes—since we consider services like road maintenance, fire and police departments, and K-12 education as public goods, why not also care and education for children under age 5?

In 2025, New Mexico became the first U.S. state to move decisively toward universal childcare access, allowing residents of all income levels (with some work requirements and other eligibility restrictions) to receive ECCE subsidies—a step that came after years of building up the state’s funding for early childhood programs by drawing upon revenue from its booming oil and gas industry. Prominent New York lawmakers have also recently made universal childcare access central to their policy agendas.

Although Virginia seems unlikely to take this step anytime soon, it is also true that the Commonwealth is now investing more resources in ECCE than at any other point in its history. State funding for early childhood programs increased significantly under both the Northam and Youngkin administrations. Indeed, the prioritization of ECCE has been a rare point of bipartisan consensus in Richmond—although Virginia still lags behind the U.S. average in publicly funded preschool enrollment and state spending per child enrolled (Graph 3).

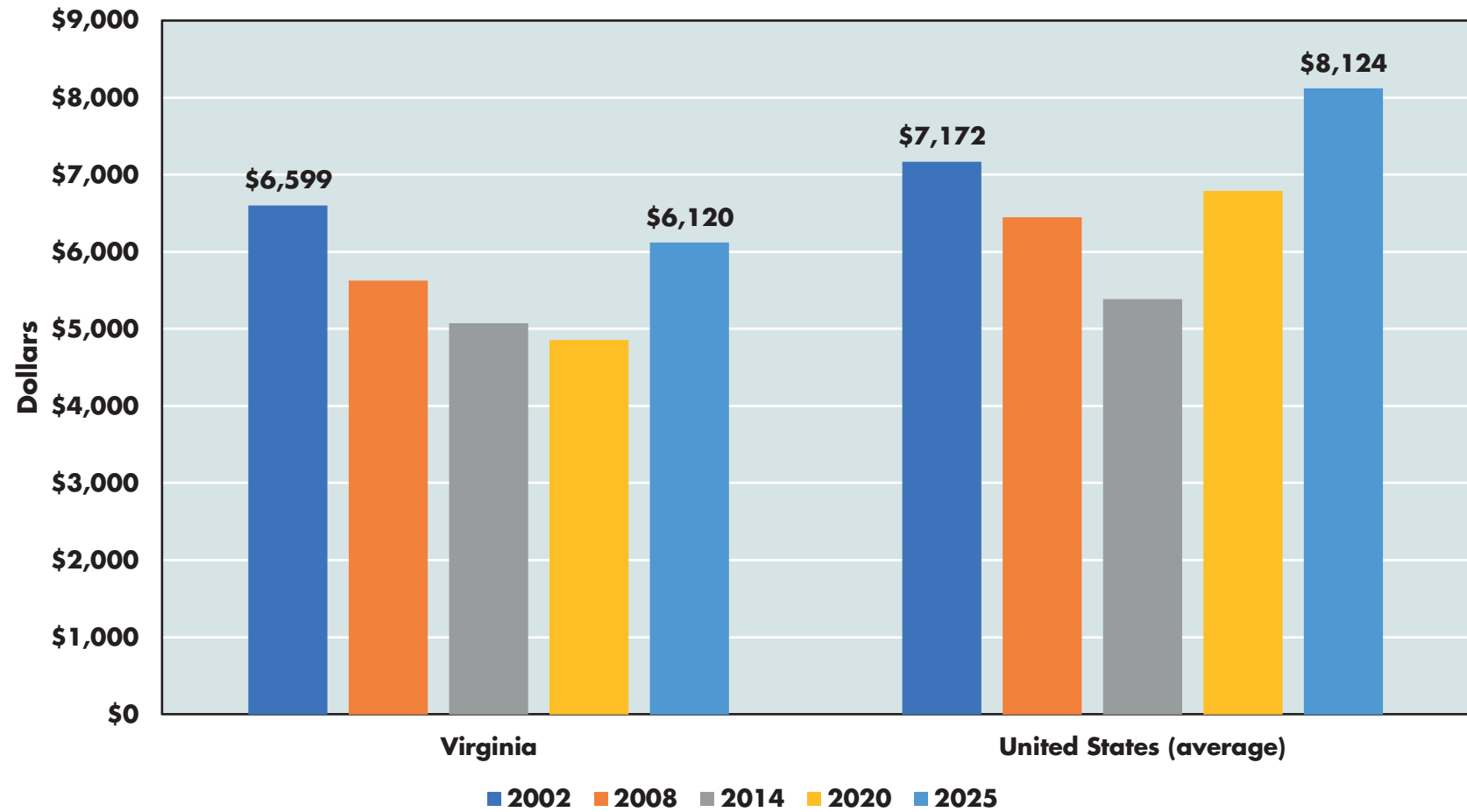
Virginia’s recent investment in ECCE (not just in its preschool initiative, but also and especially in childcare subsidies) has been a proactive policy response to longer-term trends—specifically, the increase in households with all available parents in the workforce, and the rising costs of care relative to family incomes.

The challenges associated with the ECCE market intensified during the COVID-19 pandemic. Almost 40% of childcare centers in Virginia closed, at least temporarily, in 2020. As parents lost their jobs or worked from home, they withdrew their children from ECCE programs, which then had to contend with new financial stresses and rigorous health guidelines all at once. Virginia ultimately directed \$1.1 billion of its federal relief money toward ECCE—not only for emergency stabilization measures, but also as an opportunity for thoughtful long-term investment. Facing the expiration of federal relief funds in 2024, Virginia lawmakers passed a biennial budget with a landmark \$1.1 billion earmarked for ECCE.¹⁵

14 Casey Eggleston et al., “Most Parents Don’t Have Any Formal Child Care Arrangements,” United States Census Bureau, November 29, 2023, <https://www.census.gov/library/stories/2023/11/child-care.html>; Janet Nguyen, “Why is child care so expensive when child care providers are paid so little? Let’s do the math,” Marketplace, December 7, 2023, <https://www.marketplace.org/story/2023/12/07/why-is-child-care-so-expensive-when-child-care-providers-are-paid-so-little-lets-do-the-math/>; and the Federal Reserve’s Early Care and Education (ECE) Work Group, “Child care: An economic issue,” Fed Communities, June 3, 2025, <https://fedcommunities.org/child-care-an-economic-issue>.

15 Kate Masters, “Nearly 40 percent of Virginia’s child care centers closed during the pandemic,” Virginia Mercury, July 17, 2020, <https://virginiamercury.com/2020/07/17/nearly-40-percent-of-virginias-child-care-centers-closed-during-the-pandemic-its-a-problem-for-parents-going-back-to-work/>; Prenatal-to-3 Policy Impact Center, “Early Investment, a Lifetime of Returns: Articulating the Value of Early Childhood Investments in Virginia” (September 2023), 11, <https://pn3policy.org/early-investment-a-lifetime-of-returns-articulating-the-value-of-early-childhood-investments-in-virginia/>; and Allison Gilbreath, “Investing in the Future: Virginia’s Commitment to Early Care and Education,” August 14, 2024, <https://vakids.org/posts/investing-in-the-future-virginias-commitment-to-early-care-and-education>.

GRAPH 3
STATE SPENDING ON PRESCHOOL PER CHILD ENROLLED
VARIOUS YEARS



Source: Friedman-Krauss et al. (2026), The State of Preschool 2025: State Preschool Yearbook, National Institute for Early Education Research, <https://nieer.org/yearbook/2025>. Dollar values expressed in 2025 dollars.

Public Investment in ECCE: An Overview

How are state and federal dollars currently being invested in our youngest children? Here's an overview of the current landscape of publicly subsidized ECCE in Virginia, which is characterized by public-private partnerships and a commitment to family choice between different kinds of care options.

HEAD START AND EARLY HEAD START

These federally funded programs began as part of President Lyndon Johnson's War on Poverty in the late 1960s. Today, 28 sites across Hampton Roads serve around 1,500 children from low-income families (generally, those earning less than 100% of the federal poverty guideline) (Table 3). Our region's largest grantee, Hampton Roads Community Action Program (HRCAP), oversees 12 sites in the core cities of Hampton, Newport News, Portsmouth, Chesapeake, and Norfolk. Head Start serves 3- and 4-year olds; Early Head Start (a smaller program, which began in 1995) is for younger children from 6 weeks to 3 years old. Together, these programs have long been considered the 'gold standard' of ECCE; the full-day, year-round programs are offered at no cost and include extensive family engagement outside the classroom. Wait lists are considerable but vary by location.

In August 2026, the Trump administration announced its intention to eliminate most federal regulations that govern Head Start – including requirements for curricula, class sizes, medical screenings, and home visits. Touted as a cost-cutting plan that will give states and localities more control over the program, the proposed changes have not yet been finalized and are open to public comment this fall.

VIRGINIA PRESCHOOL INITIATIVE (VPI)

The Virginia Preschool Initiative (VPI) was launched in 1995 to serve at-risk 4-year-olds who are not enrolled in Head Start. A few VPI sites now also serve a smaller number of 3-year-olds (in Hampton Roads: Norfolk, Williamsburg/James City County, Gloucester County, and York County). The goal of the

VPI is to prepare children for kindergarten. VPI classrooms are usually located in public elementary schools, and thus follow public school calendars and attendance zones. As shown in Table 3, the number of VPI slots varies considerably across our region, as participating localities must apply for state funding and share program costs. The VPI's funding formula has historically overestimated demand, resulting in unused slots and funding that had to be returned to the Commonwealth's general fund. Recent legislation allows unused VPI funding to be repurposed for other ECCE needs, most notably by opening up more slots for the Child Care Subsidy Program.

CHILD CARE SUBSIDY PROGRAM (CCSP)

The CCSP subsidizes the cost of care for working parents. Eligible families may enroll a child (up to age 12) in any participating full-day or afterschool program with an opening. The state reimburses that program at a set rate (currently defined as 75% of the "cost of quality" care), for an approved number of hours. Family copayments are currently set at about 5% of family income. The CCSP has grown substantially in the last decade, and it is now Virginia's largest ECCE program. Before the pandemic, eligibility was set at 150–250% of the federal poverty level, but now families who earn up to 85% of state median income (around \$98,000 for a family of four) are also eligible to participate. A side effect of expanded eligibility has been long waitlists, as the number of available slots has not kept pace with demand. (Legislation passed by the 2026 Virginia General Assembly seeks to address this problem by establishing an ECCE funding formula—comparable to what is already in place for K-12 education—so that state funding and reimbursement rates will better keep pace with the rising costs of care.) Another major change since the pandemic is how the CCSP is funded. Although federal funds once covered around 90% of its costs, Virginia now pays for two-thirds of the expanded program—a significant increase in the Commonwealth's commitment to subsidizing care.

MIXED DELIVERY

The Commonwealth's newest ECCE program is Mixed Delivery, which was launched in 2016 "as an innovative pilot to test out how communities can effectively engage private childcare providers in the delivery of public

preschool services.”¹⁶ Eligibility for the program resembles the Virginia Preschool Initiative, but care is provided by private grantees who enter into contracts with their “Ready Region” agency (Minus 9 to 5 in South Hampton Roads, and FirstSpark on the Peninsula). Mixed Delivery providers also offer full-time care for infants and toddlers. As with the CCSP, families contribute an affordable copayment, and providers are reimbursed by the state at a set rate (in this case, 100% of the “cost of quality” care). The program is small but growing, and slots are in high demand. There are currently 24 Mixed Delivery providers who serve over 500 children across Hampton Roads.

VQB5

Since 2023, all ECCE providers in Virginia who receive public funds must participate in the Unified Virginia Quality Birth to Five System (VQB5). This is our state’s version of a quality rating and improvement system (QRIS), which promotes quality standards in early childhood classrooms while also giving parents readily accessible, comparative information. Participating providers now receive annual quality ratings, which are derived from the use of a VDOE-approved curriculum (worth 100 points) and “quality interactions” between teachers and students (worth up to 700 points). Trained observers measure these classroom interactions at least twice a year, watching for teachers’ responsiveness to children’s needs, behavioral guidance, language modeling, and numerous other factors that contribute to a positive classroom climate. Providers who need additional support receive coaching and training, while high scorers are recognized publicly on quality and improvement honor rolls.¹⁷

U.S. DEPARTMENT OF DEFENSE

No discussion of publicly subsidized care in Hampton Roads would be complete without recognizing the Department of Defense (DoD), which “operates the largest employer-sponsored child care program in the U.S., which it views as essential to the overall mission readiness, retention, and recruitment in the military.”¹⁸ In Hampton Roads, this program includes 18 on-base child development centers in Chesapeake, Hampton, Newport News,

Norfolk, Portsmouth, Virginia Beach, and York County, which collectively enroll almost 4,000 children on an income-based sliding scale. Military Child Care in Your Neighborhood (MCCYN) fee assistance is available for families who use community-based care instead. Some on-base centers operate during non-traditional and overnight hours; all meet the high accreditation standards of the National Association for the Education of Young Children (NAEYC). In January 2026, the Navy broke ground at Joint Expeditionary Base Little Creek–Fort Story on what will become its largest child development center in the region, part of a worldwide effort to address the long waitlists at all DoD facilities. In the spring of 2026, according to the Hampton Roads Military and Federal Facilities Alliance, around 2,400 military families in Hampton Roads were on waitlists for on-base child care.¹⁹

New Initiatives

The panelists at Minus 9 to 5’s executive briefings on the economics of early childhood have underscored the systemic nature of the ECCE dilemma. Some well-intentioned reforms—more stringent regulations to enhance the quality of care, tax credit programs for childcare expenses—can have unintended consequences (driving more parents into unregulated care, favoring higher-income families) if overall market effects are not fully considered. Tara Ramsey, CEO of Instant Systems and president of the Greater Norfolk Corporation, has observed that solving the ECCE puzzle means not only understanding how its pieces fit together, but bringing together key stakeholders around the same table. Although no one “silver bullet” solution exists, there is a good deal of “silver buckshot” (as Minus 9 to 5’s director Jane Glasgow aptly noted) that can begin to address different aspects of the problem. In this spirit, we highlight some of the most promising recent initiatives in Hampton Roads and Virginia:

¹⁶ Virginia Early Childhood Foundation, “Mixed Delivery Program Expanded to Increase Access and Choice to Early Childhood Care & Education for Families,” June 26, 2023, <https://vecf.org/mixed-delivery-program-expanded/>.

¹⁷ Parents can search for providers and quality ratings at: <https://earlychildhoodquality.doe.virginia.gov/>.

¹⁸ United States Government Accountability Office, “Military Child Care: DOD Efforts to Provide Affordable, Quality Care for Families,” February 2023, <https://www.gao.gov/products/gao-23-105518>.

¹⁹ Hampton Roads Military and Federal Facilities Alliance, Virginia Legislative Priorities for 2026, “Improving Childcare Access for Military Families,” 2026 Virginia Legislative Priorities - Approved.

HARNESSING THE POWER OF VIRGINIA BUSINESS

New forms of organized collaboration and dialogue between the early childhood education and business communities have coalesced in just the last few years, including Minus 9 to 5's executive briefings, which have provided an annual forum for this dialogue since 2024.

The VECF's Board of Directors convened the Virginia Business Roundtable for Early Education (VBREE) in 2023, with support from the Virginia Chamber of Commerce, GO Virginia, the Virginia Economic Development Partnership, and the Virginia Economic Developers Association. A cross-section of leaders from the business, higher education, and military communities now participate in this body, which seeks to use "strategic financing and innovation" to increase the supply of high-quality, affordable, and accessible childcare. VBREE also enabled the Shovel Ready Virginia Task Force, a group of nine top executives who released key findings and recommendations in July 2025. The Virginia Chamber's Blueprint Virginia 2035 includes similar recommendations on behalf of early childhood care and education.²⁰

The collective support of these interest groups played a significant role in successfully shepherding the proposal for an Employee Child Care Assistance Program through the 2026 General Assembly. The goal of this new program, which will be administered by the VECF, is to incentivize and provide a pathway for employers to contribute to their own workers' childcare costs. While specifics have not yet been finalized, the program should allow employers to make supplemental contributions to an approved Mixed Delivery provider on behalf of their employees—thereby bringing more dollars into the system and (presumably) facilitating the creation of new childcare slots.

ENABLING FAMILY DAY HOMES

Family day homes are a small but essential part of the childcare ecosystem. Home-based providers are particularly well suited to offer flexible or non-traditional hours and other personalized arrangements. In Virginia, anyone who provides care for more than four children (not counting those in their own household) must obtain a state license. Maintaining this license involves regular

health and safety inspections, background checks, orderly recordkeeping, professional training, and mandatory fees. This process is essential, but the start-up costs and procedures can be daunting for would-be caregivers without previous business experience.

In 2025, a Minus 9 to 5 pilot program helped to launch five new family day homes in Suffolk and Chesapeake. For a \$6,000 investment per program, Minus 9 to 5 helped applicants navigate the licensing process, provided business training and fee assistance, and furnished start-up equipment like laptops, software, fire extinguishers, baby gates, cribs, and highchairs. Twenty-four childcare slots were created, and the new business owners were primed for success. Suffolk's Economic Development Authority has since created a grant program to assist more home-based providers with permit fees. Minus 9 to 5's child care capacity coordinator, Ja'Ron Vanderhall, notes that the original pilot program's "blueprint" is easily transferrable to other localities, and that a similar program is now being planned in Virginia Beach.

Another recent development that has smoothed the path for family day homes in Hampton Roads is a licensing exemption for providers who have already been certified by a branch of the Armed Forces, and who serve military families. Before new legislation enabled this exemption in 2024, military spouses and other home-based providers who were new to Virginia still had to obtain a Virginia license on top of their existing credentials.

Family day homes are eligible to participate in both Military Child Care in Your Neighborhood (MCCYN) fee assistance and Virginia's Child Care Subsidy Program (CCSP). These subsidy programs aim to support fair wages for providers, also requiring that they participate in the VQB5 quality measurement and improvement system—a helpful synergy that seeks to facilitate high-quality care within a home setting.

PAID FAMILY LEAVE

Early childhood policy expert Elliot Haspel notes that the first weeks of a child's life "pose an extreme child-care challenge." Even in the best of circumstances, without unforeseen challenges or emergencies, new parents need time to

²⁰ Virginia Early Childhood Foundation, Shovel Ready Virginia Task Force Findings and Recommendations, July 2025, <https://vecf.org/virginia-business-roundtable/>; Virginia Chamber of Commerce, Blueprint Virginia 2035, <https://blueprintvirginia.org/>.

recuperate and bond with fragile newborns. Formal care does not exist for infants younger than six weeks, and paid family leave has long been the exception, rather than the rule, for working parents. Haspel describes a baby's first weeks as "the first leg of the child-care marathon"—one that hobbles many young families financially and emotionally right out of the gate.²¹

This situation is about to change in Virginia. Legislation passed by the 2026 General Assembly will make Virginia the fourteenth U.S. state to enact a mandatory paid family leave system. Beginning in 2028, eligible workers in Virginia will be entitled to receive up to 80% of their wages for 12 weeks if they are caring for a new child or a seriously ill family member (or if they themselves are ill). The Paid Family and Medical Leave (PFML) program will be funded by a payroll contribution shared by covered employers and employees. Even before this new legislation, some Virginians already had access to at least some paid leave—either because their employers offered it voluntarily, or because they worked for the federal government. (The Federal Employee Paid Leave Act, which was passed in 2019, grants federal workers 12 weeks of paid parental leave.)

Shifting attitudes around this issue may have to do with growing awareness about the importance of early childhood development and investments in ECCE. The Family and Medical Leave Act of 1993 was a notable milestone, allowing eligible U.S. employees to take up to 12 weeks of *unpaid*, job-protected leave. However, the United States remains the only OECD country—and one of just six countries in the entire world (alongside Papua New Guinea and smaller Pacific island nations)—without any kind of national *paid* parental leave policy.²²

Final Thoughts

This is not the first State of the Region report to cover ECCE in Hampton Roads. In 2015, we wrote that "investments in early childhood programs constitute a superior development strategy in terms of societal benefits received per dollar spent," especially when compared to "more conventional approaches to promote economic development that involve tax incentives and attempts to attract businesses."²³ But it seemed as if the long-time horizon for investments in early childhood programs, and their advocates' comparative lack of economic and political clout, still made this argument a tough sell for many state and regional leaders.

Eleven years later, the ECCE dilemma is still with us. However, a shift in thinking is palpable and was certainly accelerated by the upheavals of the COVID-19 pandemic. In 2015, the Hampton Roads Community Foundation had just begun to ask how a "collective impact initiative" might improve the lives of our youngest residents. Minus 9 to 5, which is now housed in the Macon & Joan Brock Virginia Health Sciences at Old Dominion University, has just celebrated its 10th anniversary. In addition to enabling informational campaigns like Sleeptight Hampton Roads (a response to the high numbers of sleep-related infant deaths in our region), developmental screenings, and numerous other resources for families with young children, the organization has become a solutions-oriented advocate for high-quality childcare in our region. By partnering with local governments and the business and military communities, Minus 9 to 5 has worked to expand ECCE capacity and access, and has made a powerful case for care as "critical infrastructure" that supports growth and competitiveness.

The Virginia Early Childhood Foundation (VECF)—which acts as a "trusted intermediary, incubator of innovation, and steward of accountability for Virginia's early childhood system"²⁴—has likewise expanded its reach considerably since 2015. It has partnered with the state (most notably, in

21 Elliot Haspel, *Raising a Nation: 10 Reasons Every American Has a Stake in Child Care for All* (Oxford University Press, 2025), 103–4.

22 Bipartisan Policy Center: "Paid Family Leave Across OECD Countries," March 2, 2022, <https://bipartisanpolicy.org/explainer/paid-family-leave-across-oecd-countries/>; "State Paid Family Leave Laws Across the U.S.," January 16, 2024, <https://bipartisanpolicy.org/explainer/state-paid-family-leave-laws-across-the-u-s/>; and "The Family and Medical Leave Act (FMLA): The Basics," February 19, 2026, <https://bipartisanpolicy.org/explainer/the-family-and-medical-leave-act-fmla-the-basics/>.

23 "Early Childhood Care and Education: Should They Be Our No. 1 Economic Development Strategy?," *The State of the Region: Hampton Roads* 2015, 94, <https://ceapodu.com/reports/sor-reports/>.

24 Virginia Early Childhood Foundation, 2025 Annual Report to Stakeholders, <https://vecf.org/annual-reports/>.

establishing and coordinating the Mixed Delivery program and Ready Regions network), and with the business community to develop innovative approaches and public-private partnerships. Both the VECF and Minus 9 to 5 have enabled data-driven research and provided key resources for this State of the Region chapter.

The ECCE landscape is shaped largely by funding decisions at the state and federal levels. Federal dollars are the primary source of funding for Head Start/Early Head Start and for the Child Care and Development Block Grant that enables many of Virginia's ECCE programs. The Commonwealth of Virginia has significantly expanded its financial commitment to early childhood in the last six years—a notable bipartisan achievement across the Northam, Youngkin, and Spanberger administrations. Changes include a larger Child Care Subsidy Program, Mixed Delivery, the VQB5 quality rating and improvement system, and—since the most recent General Assembly session—a new Employee Childcare Assistance Program and paid family leave.

Despite the importance of decision-making in Richmond and Washington, D.C., local and regional leaders also have a role to play in facilitating access to high-quality care. Business-oriented coalitions have pointed the way. Minus 9 to 5 has assembled a toolkit that offers Hampton Roads employers concrete ideas and resources for instituting family-friendly practices and policies.²⁵ And the family day home project in Suffolk shows how local governments can offer institutional support and other cost-effective incentives to alleviate “childcare deserts” and encourage new providers.

²⁵ The toolkit is available at: https://www.minus9to5.org/resources/family_friendly_businesses.





Arts and Culture in Hampton Roads: Exploring a Challenging Future



ARTS AND CULTURE IN HAMPTON ROADS: EXPLORING A CHALLENGING FUTURE

"We believe that a thriving culture is the heartbeat of any city, of any community."

—C. Arthur "Brother" Rutter

Norfolk attorney and patron of the arts in Richmond Law, Autumn 2024.

Hampton Roads hosts a remarkably vibrant and dynamic arts and culture ecosystem. It includes not only high-caliber professional institutions like the Virginia Arts Festival, Virginia Opera, Virginia Symphony Orchestra, and Chrysler Museum of Art—but many other museums and galleries, theaters and performance spaces, open-air festivals, creative districts, public art, independent artists and creators, large performance venues for outside talent, and a wide array of professional and amateur arts organizations. Our colleges and universities have distinguished arts programs, the Hurrah Players provide specialized training for young performing artists, and we are home to Virginia's only academic year Governor's School for talented high school students that is dedicated solely to the arts.

Three outstanding institutions—the Chrysler Museum and the Perry Glass Studio, the Barry Art Museum at Old Dominion University, and the Perry Glass Art Collection at the Glass Light Hotel & Gallery—have made the city of Norfolk a nationally renowned hub of glass art. The Virginia Museum of Contemporary Art (MOCA), an expansive, state-of-the-art facility, recently opened on the Batten University, formerly known as Virginia Wesleyan University, campus in Virginia Beach. And organizations like the Zeiders American Dream Theater and ROUGE: Theater Reinvented serve as innovative outlets for our region's creative talent, working collaboratively with other institutions and expanding the possibilities of theatrical and musical performance.

Perhaps more than any other indicator of the state of the arts and culture in our region is the remarkable popularity and reach of the Virginia Arts Festival. The festival sponsors an amazingly broad and well-attended selection of arts performances and events that number more than 250 annually. The festival's

2025-2026 schedule, for example, featured five acclaimed performances by portions of the Virginia Symphony Orchestra, spanning Stravinsky's *Firebird* to the movie thriller *Top Gun: Maverick*. Total attendance at the festival's events routinely exceeds 100,000 annually.¹

Chrysler Hall in Norfolk hosts 150 cultural events each year, and its busy schedule includes symphony presentations, Broadway theater hits such as *Chicago The Musical*, ballet performances including *Swan Lake*, drama, and a diverse collection of speakers. Norfolk has become an acknowledged center for its glass collections, headlined by the active Perry Glass Studio at the Chrysler Museum and supported by the Barry Art Museum at Old Dominion University. On the Peninsula, the Ferguson Center for the Arts is a whirl of activity with an admirable schedule of concerts, theater, dance, and speakers that included no fewer than 20 ticketed performances in December 2025.

¹ Virginia.org, "Virginia Arts Festival," <https://www.virginia.org/listing/virginia-arts-festival/19526/>.



Photo Credit: Art on the Oceanfront in Virginia Beach. Virginia MOCA.

The October 2025, the Virginia MOCA Boardwalk Art Show attracted fine artists and exhibitors from around the world, offering a unique and well-attended venue to show their work. An estimated 250,000 individuals enjoy the arts scene with the Atlantic Ocean as a scenic backdrop each fall and spend more than \$58 million while doing so.²

Indeed, if attendance at cultural events and the breadth of those events are appropriate measures of the health of our arts and cultural enterprise in Hampton Roads, then, like Voltaire's *Candide*, we might label the first quarter of the 21st century "the best of all worlds." Where the arts are concerned, the region's residents benefit from elevated levels of accessibility, notably high-quality artists and presentations, and, when compared to larger metropolitan areas, relatively low prices. This is a remarkably favorable array of circumstances.

² Predict HQ, <https://www.predicthq.com/major-events/top-events/boardwalk-art-show>.

³ "Culture and Arts: Culture as Currency: How Arts Drive Economic Growth," <https://fastercapital.com/content/Culture-and-arts--Culture-as-Currency--How-Arts-Drive-Economic-Growth.html>.

The Economic Argument for the Arts

This report concludes that the fine arts are both an important economic engine that increases our region's per capita income and also (and more obviously) an asset that enhances our quality of life. As one national analysis put it, "The arts enrich the economy by fostering innovation, attracting tourism, and creating employment opportunities..."³

With respect to the arts and culture as an economic engine, cultural organizations and fine and performing arts participants spend dollars that have an economic impact. There are measurable economic bounces that the arts transmit to expenditures, employment, personal incomes, and governmental tax receipts. These are quantifiable real-world phenomena. **Dollars spent at an art gallery, at a local theater production, or for tickets to the Virginia Symphony are no less real than those spent at the neighborhood hardware store, grocery store, or an athletic event.** Indeed, because these dollars are spent locally and not sent externally to vendors such as Amazon and eBay, their local economic impact usually exceeds that realized from online Amazon-type expenditures. The latter represent 'leakages' of funds from the region. Such expenditures are not 'bad' or a waste as they usually satisfy consumer needs at competitive prices and are convenient, but they transfer much of the economic clout of the expenditure to other regions. Our arts and cultural activities keep it here.

While many arts activities have an intense neighborhood or local focus (for example, the performances of the Maury High School Orchestra in Norfolk, the Visual and Performing Arts Academy at Salem High School in Virginia Beach, or the Versatile 100, the Marching Band at Portsmouth's I.C. Norcom High School), other arts and cultural activities are more regional. The Young Singers Project of the Virginia Chorale, for example, is a valuable training vehicle and draws high school vocalists from throughout the region who perform in a variety of venues. Some organizations also 'export' their artistic performances to audiences outside of Hampton Roads. In 2025, for example,

the Chesapeake Chorale performed in locations such as Middlesex County and Kilmarnock. These are ticketed performances that generate economic benefits, some of which are brought back to Hampton Roads.

The arts can also influence the development of new products and services.⁴ The design characteristics of many Apple products, for example, were inspired by Germany's Bauhaus art school in the 1920s.⁵ Skyscraper buildings undeniably have artistic roots. Urban renewal projects frequently contain a core of early commitment artistic endeavors. Norfolk's NEON (New Energy of Norfolk) District is a paradigm in this regard, breathing energy into that city and reviving a previously deteriorating area.

Cultural products frequently are salable, either as performances that attract attendees or as products that can be delivered to consumers. The delivery modes vary and include physical products (perhaps a painting of the Virginia Beach coastline at the Oceanfront), performances (a performance by the Masters of Soul at the American Theater in Hampton), and distribution via the internet.

One cannot discuss the arts and culture in Hampton Roads without mentioning the Governor's School for the Arts, whose reach extends throughout South Hampton Roads and focuses on six disciplines: dance, instrumental music, musical theatre, theater/film/design tech, visual arts, and vocal music. The Governor's School, whose students earn academic diplomas from high schools across the region, builds partnerships that stimulate creativity. "It is a hot house for ideas," noted a local elected official. Impressively, in 2025, the 103 seniors at the Governor's School earned \$18.9 million in higher education scholarships and awards and are now pursuing higher education opportunities at prestigious institutions including the Boston Conservatory, Eastman School of Music, and the Juilliard School.⁶



Photo Credit: Dwight Yoakam Performs at the Chrysler, 2019. Seven Venues.

The individuals who live and work on artistic and cultural endeavors might be thought of as economic kindling wood. They generate ideas even as they speak to the human need to express one's thoughts and influence the world around us. But undeniably, they usually end up serving as employees, either directly as performers at art, music, and theatre venues such as the Wells Theatre, or as employees of organizations and businesses that require their creative contributions to shape their public image. **We are well advised to remember that products such as potato chips, Listerine, Post-it Notes, Play-Doh, Bubble Wrap, microwave ovens, and, yes,**

4 A good summary of this argument may be found at <https://fastercapital.com/content/Culture-and-arts--Culture-as-Currency--How-Arts-Drive-Economic-Growth.html#The-Financial-Impact-of-Cultural-Industries>.

5 Smithsonian Magazine, "How Steve Jobs' Love of Simplicity Fueled a Design Revolution," <https://www.smithsonianmag.com/arts-culture/how-steve-jobs-love-of-simplicity-fueled-a-design-revolution-23868877/>.

6 Governor's School for the Arts, "Executive Summary, 2024-2025," https://fe40b732-e154-4dd7-9e57-df2d3553ce08.filesusr.com/ugd/4e8a30_3b3b20251704480a8048eb4fa67a8457.pdf.

Coca-Cola, languished until artistic talent refashioned them to match consumer needs and tastes.

We would be wise to view the wider arts and cultural ecosystem in Hampton Roads as a powerful, versatile economic asset. First, the arts and culture enhance our quality of life beyond their dollar-generating capacity in ways that are not always quantifiable, but nonetheless present. Most citizens agree that the performing arts, museums, community festivals, public art, and other outlets for creativity are a vital element in making Hampton Roads somewhere individuals would like to live, work, and play—and this, in turn, influences individuals' and companies' decisions whether to move or stay here. A lively cultural scene enhances a region's reputation, visual appearance, and sense of community. The arts entertain, challenge, and provoke important conversations, and in doing so, help to define a place's distinctive character. **Quite simply, one cannot name a major metropolitan region in the United States that does not host a thriving artistic and cultural community. The arts and culture are a *sine qua non* where regional prosperity is concerned.**

Further, we note that arts organizations and the creative people who populate them can enhance lives (and the well-being and stature of our region) in sometimes innovative ways. Some successful examples in South Hampton Roads follow.

The Virginia Arts Festival created the *Rhythm Project*, one of its many educational outreach initiatives, as a means of bringing world percussion and steel pan music into Norfolk, Portsmouth, and Virginia Beach public schools. Each spring, Oceanfront beachgoers are entertained by free open-air performances at the Virginia International PANFest, and young students have the opportunity to build their skills over several years and perform with nationally renowned musicians.



Photo Credit: Teens with a Purpose, Norfolk.

Longtime Virginia Symphony chorus master Robert Shoup established the *Norfolk Street Choir Project* in 2016, giving persons experiencing homelessness a regular opportunity to make music together. The project formed collaborative relationships with the Norfolk Community Services Board, local churches, and EVMS/ODU art therapy and counseling programs. Our regional public broadcaster, WHRO, produced an Emmy Award-winning short feature about the choir in 2019.

Teens with a Purpose (TWP), founded by Deirdre Love in 1996, empowers young people to develop their own creative voices and enact positive change. The organization partners with our schools, local arts commissions, and major arts institutions. A signature event is the annual Youth Poetry Festival, which includes the competition for Virginia Youth Poet Laureate. TWP alumni have gone on to successful university careers and have become community leaders.

Most of our nonprofit arts and cultural organizations strive to be accessible to a broad audience. Notably, entrance to the Chrysler Museum of Art is free to all visitors, and Virginia MOCA is free to children and in-state residents. Free entrance is a model worthy of emulation because it vastly increases attendance and artistic reach. In particular, it enables organizations to broaden their audiences and participation beyond the stereotypical upper income patron. And free admission generates and motivates the next generation of adults to attend, participate, and give.

Performing arts groups engage our youngest residents in a variety of ways—by bringing artists and arts educators into schools, coordinating mentorships, providing special access to performances, and offering creative programming that aligns with Virginia’s Standards of Learning. Thus, a lively arts scene is not only an indicator of our economic well-being, but also an investment in our future.

But the standout arts and cultural organization in terms of its size and economic impact may be the Virginia Arts Festival, originally founded in 1997 as an initiative of the City of Norfolk. Indeed, City of Norfolk leaders’ successful plan was to bolster arts-driven tourism. Under Executive Director Rob Cross’s able leadership, the Virginia Arts Festival has grown into a region-wide powerhouse that highlights internationally renowned artists in multiple localities. The 2026 festival features (among many others) violinist Joshua Bell and the Academy of St. Martin in the Fields, the Dance Theatre of Harlem, cabaret star Meow Meow, and a commemoration of the 250th anniversary of American Independence by the Virginia International Tattoo. The Virginia Arts Festival spends one-third of

its advertising budget outside our region. In 2025, 32% of Festival audiences came from outside the region (from 45 different states and nine foreign countries), to attend a total of 62 performances.⁷

The Arts Festival draws upon a regional artistic and cultural infrastructure that makes its work possible. This infrastructure includes the large stages of Chrysler Hall (Norfolk), the Ferguson Center for the Arts (Newport News), the Sandler Center for the Performing Arts (Virginia Beach), and other distinctive locations like the Attucks Theatre (Norfolk) and the lawns of the Art Museums of Colonial Williamsburg. Further, the festival regularly showcases homegrown talent such as the Virginia Symphony Orchestra and the John Toomey Jazz Trio, and it relies on a committed base of community support. In recent years, the Festival’s offerings have commenced in December and continued through mid-June.

Demonstrably, the Festival has been an artistic success, and its ability to attract audiences from outside our region is unparalleled within the region’s arts and culture arena. If the region wants an almost foolproof way to extend the arts and simultaneously generate economic impact, then extending the Festival (starting earlier than December, finishing at the end of the summer) and scheduling additional events must be given consideration. The Festival is a critical success. It is well-managed and does not run chronic financial deficits as have several major Hampton Roads arts organizations. Its artistic tastes are sufficiently eclectic to satisfy many different audiences. It attracts guests from outside our region, and its events are priced reasonably. Providing funding to Director Rob Cross and the Festival to experiment with extended seasons, highly accomplished artists, and additional events during the regular season may not be a ‘can’t miss’ proposition; very few things are. But the Festival has a demonstrated track record of success.

City and regional authorities who seek to “get more bang for the buck from our arts investments” (as one regional political figure put it) should give strong consideration to investing additional funds in the Festival. It is an attractive, low-risk economic opportunity staring the region in its face.

⁷ The Virginia Arts Festival, 2025 Annual Report, 18. For more information about the Virginia Arts Festival see: <https://www.virginia.org/listing/virginia-arts-festival/19526/>. <https://vafest.org/about-us/our-mission-and-more/>.

Putting Numbers to the Arts

Everything in the world is not reducible to a number, but numbers and data frequently help us place a phenomenon in perspective. This is one of the driving assumptions underpinning the *State of the Region Report*.

The national nonprofit organization Americans for the Arts is a well-known advocate for the arts and culture as drivers of economic activity. Its most recent economic and social impact study, *Arts & Economic Prosperity 6*, drew upon nationwide survey data derived from 297 research partners in 373 participating communities, including South Hampton Roads.⁸

Relying on a conventional economic input-output statistical model, the Americans for the Arts study estimated that the arts and culture sector of the United States economy generated an estimated \$151.7 billion of economic activity in 2022, \$73.3 billion of which consisted of direct spending by arts and culture organizations, and an additional \$78.4 billion in event-related expenditures by those in attendance. This spending supported 2.6 million jobs, generated \$101.0 billion in personal income to individuals, and resulted in tax payments of \$29.1 billion to various governments.⁹

Our Arts Alliance commissioned its own economic impact study for South Hampton Roads, and such a report was generated in Fall 2024 by the well-regarded William N. Ferris LLC firm located in Raleigh, North Carolina. This study utilized a conventional “input-output” mathematical model to produce its estimates. Where input-output analysis is concerned, we ask readers to visualize representing the entire economy with a large set of equations that show where and how economic inputs enter the economy and subsequently what outputs result. One equation might depict the actions of, say, the American automobile industry by showing where auto producers obtain their inputs (aluminum, computer chips, tires, etc.) and how these translate into the production of finished automobiles. Another equation might show how those newly produced automobiles become inputs for other industries and consumers who drive them. Accordingly, there also are equations that show how artistic and cultural organizations are related to all the other sectors of the economy,



Photo Credit: TADA School of Performing Arts, Suffolk.

ranging from shipbuilding activity to state and local governments. A raft of these equations allows researchers to estimate the importance of one segment of the economy relative to others. This is the task that Ferris LLC undertook for our regional artistic and cultural organizations, though only for South Hampton Roads, which it defined as the five major south side cities (Norfolk, Virginia Beach, Chesapeake, Portsmouth, and Suffolk) plus the City of Franklin, Isle of Wight County, and Southampton County. Because of its recent nature (Fall 2024), there is little to be gained from replicating this work, and therefore we accept it as the most recent information available.

⁸ Arts and Economic Prosperity 6, Local & Regional Findings, <https://aep6.americansforthearts.org/local-regional-findings>.

⁹ Arts and Economic Prosperity 6, National Findings, https://aep6.americansforthearts.org/resources/media/user/1696872054-AEP6_National_Findings_Full_Report-Proof_final-web.pdf.

In its activities, Ferris LLC used the *Arts & Economic Prosperity 6* data for South Hampton Roads and plugged these numbers into the input-output modeling software produced by IMPLAN, whose models are frequently used when input-output analysis is utilized. The mathematical assumptions made by input-output models are worthy of note, but technical, and we invite interested readers to explore several of those assumptions in an accompanying footnote.¹⁰

To provide perspective, Ferris LLC compared the artistic and cultural activities of South Hampton Roads to those of six more or less comparable regions: Cuyahoga County, OH, Durham County, NC, Greater Jacksonville, FL, Mecklenburg County, NC, Richmond/Tri Cities, VA, and Wake County, NC. Their report focused on four major economic impacts generated by artistic and cultural organizations and activities in South Hampton Roads—expenditures by arts organizations and those who attend their performances, incomes generated, jobs created, and tax payments that flow to local, state, and federal government units.

Expenditures

Let us begin with expenditures. Ferris LLC appropriately differentiated between arts and culture expenditures made by arts and culture organizations themselves and those made by audiences attending arts and culture events. Table 1 relays this information and one can see that our region ranks low among the seven regions by this measure. Nonetheless, Ferris LLC estimated that arts and cultural organizations and their audiences in Hampton Roads spend about \$270.4 million in 2022.

Our regional expenditure performance as depicted in Table 1 may strike one as mediocre and therefore constitute a negative. In truth, most individuals would prefer to see higher numbers and a better ranking compared to the other metropolitan regions. However, there is an upside attached to this situation because it reflects two other important realities. **First, it demonstrates that our arts organizations are not spendthrifts**

in terms of the expenditures they make. Second, these numbers also show that our arts and cultural offerings are more affordable to patrons than holds true in comparable regions. This is a simple demonstration that our artistic and cultural activities are more accessible in financial terms than holds true in most of the comparative regions. This is part of what one out-of-region arts official termed our “secret sauce” and should be mentioned when presentations are made to donors. We obtain rather amazing results from comparatively modest expenditures.

Separate from the spending undertaken by artistic and culture audiences is the spending of audiences at artistic and cultural events. Ferris LLC estimated this to be \$129.6 million on an annual basis. While this amounted to more than \$109 per capita (not an inconsiderable amount), it was lower than that recorded in five of the six comparative regions. Why so? The primary reason is that South Hampton Roads tends to attract smaller percentages of out-of-region guests and visitors to its events than do the comparative regions. But there are two major exceptions to this general rule. The first is Virginia Beach oceanfront boardwalk events and the second is events sponsored and arranged by the Virginia Arts Festival. These two event categories attract outside visitors who spend money patronizing our hotels, motels, bed-and-breakfasts, and restaurants. Both are magnets and are worthy of support by donors and governmental units because they attract outsiders who outspend the locals.

INCOMES AND JOBS

There is still another upside to the restrained spending of our artistic and cultural organizations. Expenditures generate both income and jobs. Ferris LLC estimated that the spending of artistic and cultural organizations in South Hampton Roads was responsible for the creation of 2,836 jobs in 2022. While this number trails the estimated job creation in four of the six comparative regions, the cost of generating these jobs in Hampton Roads was comparatively low. Graph 1, which is based upon Ferris LLC data, demonstrates that point.

¹⁰ For example, IMPLAN's input-output models assume constant returns to scale. Thus, levels of activity could double in size without this affecting the proportionate relationships that exist between the arts and any other economic sector. Also, changes in prices and costs are not considered. Both these assumptions can be problematic during periods of rapid economic change that include price inflation and rapidly changing tariffs. For more information, see <https://implan.com>.

TABLE 1

COMPARING ARTS AND CULTURE PER CAPITA EXPENDITURES SELECTED AREAS, 2022

Locality	Per Capita Audience Spending	Per Capita Organizational Spending
Cuyahoga County, OH	\$116.04	\$315.64
Durham County, NC	\$252.98	\$446.29
Greater Jacksonville, FL	\$120.82	\$84.31
Mecklenburg County, NC	\$212.49	\$196.21
Richmond and Tri Cities, VA	\$99.21	\$181.18
Wake County, NC	\$300.03	\$164.01
South Hampton Roads, VA	\$109.19	\$118.37
Average	\$172.97	\$215.14

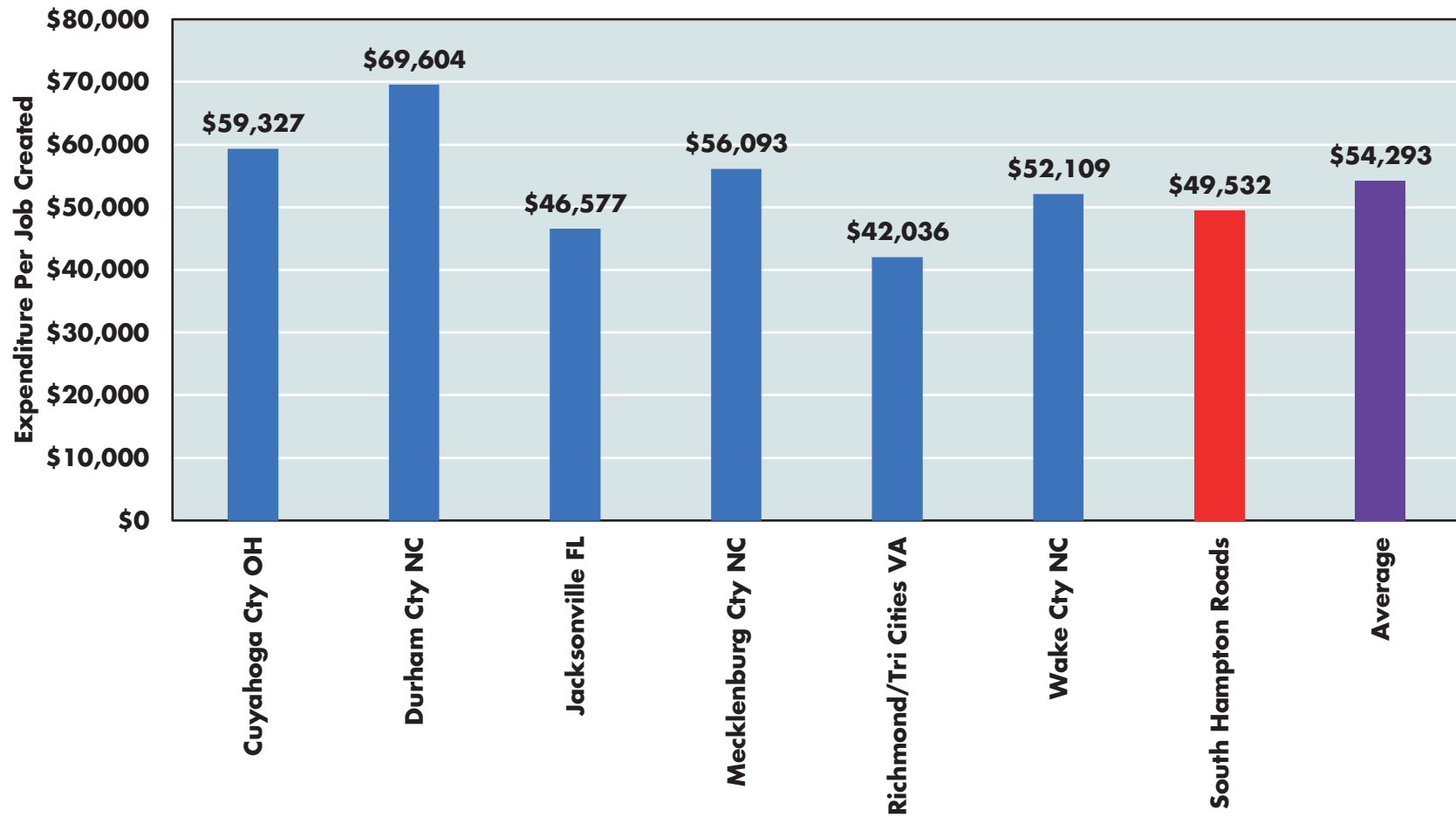
Source: Ferris LLC Report (2024). Average figures represent the average per-person respective spending across the seven reported localities. Dollar values are expressed in 2022 dollars.



Photo Credit: The Virginia Opera's Production of Loving v. Virginia. Dave Pearson.

GRAPH 1

COMPARING THE ARTS AND CULTURE EXPENDITURES REQUIRED TO GENERATE A JOB
SELECTED METROPOLITAN AREAS, 2022



Source: Ferris LLC Report (2024). Average represents the average expenditure per job created across the seven reported localities. Dollar values are expressed in 2022 dollars.

TAXES RECEIVED BY GOVERNMENTS

Governments at all levels are assiduous in taxing activities, and arts and cultural events are no exception in this regard. The Ferris LLC report provided reasonable estimates of tax payments generated by arts and cultural activities within South Hampton Roads as well as tax payments generated when arts and culture dollars are re-spent. Based on the report, Ferris LLC estimated that in 2022 the spending by arts and cultural organizations in our region resulted in the payment of \$3.8 million in taxes to local governments, \$4.1 million in taxes to the Commonwealth (and perhaps other states), and \$21.8 million in taxes to agencies of the federal government.

Left largely unaddressed by the simple presentation of these data is the matter of tax incidence. Do those who are being taxed have the ability to pass on the burden of that tax to other parties? The individual who writes a check to the government or pays a tax electronically may not be the party who ultimately bears the burden because he/she can pass that tax on to someone else. Do some corporations, for example, pass on the burden of the corporate income tax or a tariff to their customers via higher prices, altered products, or changes in their terms of service? The point is that it is not entirely clear (economically speaking) whether artistic and cultural organizations effectively bear the burden of the taxes imposed upon them, or instead it is their customers, or some other parties, who do so.

There is an additional positive aspect to the economic impact of the arts that is often overlooked. In addition to the income earned by arts and culture participants, thousands of volunteer hours of labor are supplied free of charge to arts and culture endeavors nationwide. On average, each volunteer provided 31.1 hours of free labor annually to arts and culture organizations.¹¹ We see these motivated individuals in Hampton Roads at venues such as the Chrysler Museum where they serve the wider community even while they derive personal satisfaction from their activities. These arts-motivated individuals are the glue that keep communities together and improve our quality of life.

¹¹ Arts and Economic Prosperity 6, National Findings.

SOME CAVEATS

It is appropriate at this point for us to provide some qualifying comments relating to the financial numbers we have just reported. While input-output analyses similar to that presented by Ferris LLC are commonplace and widely cited, there are several well-known potential problems associated with them, especially in cases where the study estimates the economic impact of specific activities that are primarily regional in character and do not attract outsiders.

A first consideration is that studies of this genre may gloss over the reality that many expenditures counted as economic impact would have been made anyway in the same locality or region but instead for some different collection of goods and services. Thus, \$100 spent at a concert in Virginia Beach likely might have been spent in or around Virginia Beach on alternative goods and services if that concert had not been held. Hence, we must ask, is there an economic impact from such expenditures? Yes. But should it be characterized as an addition to the regional economy? Probably not, because Virginia Beach would have received the same economic impact in any case but derived that impact from something else.

In the case of Hampton Roads, apparently less than one-third of those who attend performances in Hampton Roads come to that performance or venue from outside of the region. Knowledge of this should inspire interpretive caution when we assess economic impact. This does not mean that arts and cultural events are not 'big deals,' so to speak. They are because they involve large crowds and lots of money is spent. Further, their existence usually results in some individuals 'staying local' and spending their money here rather than leaving to go to Richmond, Washington, D.C., or Raleigh-Durham for entertainment, or perhaps paying for entertainment over the internet. This should not be ignored. However, while local attendees may simply redirect dollars that would have been spent elsewhere in the region, visitor event-related spending is roughly double that of locals and represents an inflow into the regional economy. But at the end of the day, relatively few economic impact studies adjust their estimates to consider where the attendees are coming from and to what extent an event causes individuals to 'stay home' rather than leave the region when they spend their money.

Potential Challenges Confronting Our Region's Arts

Already appearing on the horizon are challenging demographic and economic conditions that bode to alter the captivating artistic and cultural environment we now enjoy. As we will see, some of the most important changes in our environment are beyond our control while others are amenable to our own actions and decisions.

However, as is often the case, time counts. Prompt, vigorous, well-charted actions by the region today will avert more significant problems down the road. Our region is not famous for cooperative, unified policy thrusts, but as the material below reveals, the time for such is readily apparent in 2026.

Let us consider the major challenges that are building on our horizon or seemingly already have arrived. These constitute circumstances that we ignore at our joint peril.

LAGGING PHILANTHROPY?

In the past decade, the annual dollar value of philanthropy in the United States that has been directed to the arts often has declined once one adjusts the overall level of gifts for price inflation.¹² Reality is that some of the funding the arts have received in recent years represented temporary upward bumps attached to the federal government's COVID-19 financial stimuli packages, and these payments have lapsed. Further, not only has this funding disappeared, but targeted reductions below pre-COVID levels have been imposed, often by the DOGE (Department of Government Efficiency). The National Endowment

for the Arts (NEA), for example, has seen its budget decline by 35%,¹³ and in May 2025, it terminated hundreds of grants to art organizations around the United States.¹⁴

Even worse times may be on the proverbial horizon. Key members of the national administration have expressed their desire to zero fund the NEA and its companion, the National Endowment for the Humanities (NEH). The CATO Institute, whose studies and opinions often undergird and precede subsequent administrative actions, has labeled the NEA "an obvious target for elimination."¹⁵ However, such an action would not save the federal government huge amounts of money; in 2024, the NEA's budget was \$207 million, only 0.003 percent of the \$6.8 trillion of the total expenditures of the federal government in the same year.¹⁶ The NEA money, of course, is very valuable to the arts and culture, but at least as important is the negative message such a cut would send to the American public about the encouraging roles and responsibilities government should assume in the world of the arts and culture.

Historically, major charitable gifts have been quite sensitive to the stock market and fortuitously the Russell 2000, a broad indicator of the entire American equity market, increased by 126.7% between January 1, 2016, and January 1, 2026.¹⁷ Charitable giving during this interval increased by a substantial, though noticeably smaller amount, an estimated 69%.¹⁸ **Further, as Graph 2 reveals, the percentage of households, either affluent or ordinary, that made any annual charitable contributions has declined by slightly more than 20 percentage points since 2000 (from 66.2% in 2000 to an estimated 44.0% in 2024).¹⁹ Thus, the arts appear to be gradually losing their financial sway with ordinary households. Now, consistently fewer than one-half of all households report making any charitable contribution on an annual basis.²⁰** This may not have a large negative impact upon total charitable giving because of the quantitative importance of

12 For more information, see <https://givingusa.org/5-takeaways-and-next-steps-from-the-giving-usa-2024-report> and <https://www.culturaldata.org/national-trends-2024/bottom-line-and-working-capital>.

13 "Recent Cuts to the National Endowment for the Arts," <https://artsalliance.org/advocacy/federal/>.

14 Heather Hitchens, "What's at Stake in the NEA's Quiet Retreat from the Arts," *Observer* (June 3, 2025), NEA Slashes Arts Funding, Threatening Local Cultural Lifelines | *Observer*.

15 Ryan Bourne, "End the National Endowment for the Arts," CATO Institute (April 9, 2025), <https://www.cato.org/briefing-paper/end-national-endowment-arts>.

16 Ryan Bourne.

17 US:RUT, Market Watch, https://www.marketwatch.com/investing/index/rut/charts?mod=mw_quote_tab.

18 Giving USA, "Giving USA 2025 Report Insights," www.bwf.com/giving-usa-2025-report-insights.

19 Peter Gratton, "Are Tax Laws Making Us Stingier? Why Americans Give So Much Less to Charity Now," Investopedia (September 11, 2025), Are Tax Laws Making Us Stingier? Why Americans Give So Much Less to Charity Now.

20 Giving USA.

major donors, but it does not portend well either for future political support or for attendance at arts events.

Artistic and cultural fund-raising efforts also must take account of the changing demographic and economic complexion of what sometimes is termed the “donor class.” Today’s wealth holders and prospective major donors “aren’t activists, they’re entrepreneurs, business leaders, and legacy builders. If we alienate them, who’s going to fund our future?”²¹

Gradually, but noticeably, philanthropy has become more concentrated in the hands of wealthy Americans. This does not suggest disaster is on the horizon if many wealthy Americans remain attuned to the arts and culture. However, as we will see below, there is reason for concern in this regard within Hampton Roads and nationally because the current grouping of very generous wealthy donors is aging, and it is not immediately obvious who will assume their roles.

Some view the current situation as a momentary phenomenon that will disappear in a few years; however, the declining percentage of “giving” households data noted above suggests that it will be challenging to restore previous levels of beneficence.

THE PURPOSE AND FOCUS OF OUR ARTS ALLIANCE

As Graph 3 reveals, Hampton Roads has not been exempted from the general conditions just described. For example, the inflation-adjusted value of the contributions made to Arts Alliance (formerly the Business Consortium for the Arts) and that beneficent group’s subsequent grants to arts organizations have declined over the past decade (though this downward trend has been reversed in 2025 and 2026). This is a matter of concern because the Alliance has been a lifeblood of more than a few arts and cultural organizations, some of whom have a limited ability to approach major donors on their own. In response, the Alliance has appointed a new, energetic, and perceptive executive officer for Arts Alliance, Michael Berlucchi, and hopefully, he will find ways and means to counter these circumstances. But escaping national trends seldom is an easy task. Can Mr. Berlucchi and board members attract new contributors and

new contributions to the Alliance that do not represent in the final analysis a redirection and reallocation of existing individuals and gifts?

By no means is Arts Alliance the only player in the arts and cultural funding game, but it benefits from influential leadership and a history of good deeds. That its activities have shrunk is a worrisome signal, however. This contraction could imply broadly that financial support for artistic and cultural activities is tapering off because individuals prefer to spend their money on other things. Or it could reflect the reality that the Alliance has not boasted full-time personnel to pursue the task of fundraising. Or it could signal that the Alliance’s particular financial model of collecting and distributing does not fit the desires of major donors, some of whom might prefer that the Alliance focus on supporting major established artistic endeavors such as symphony, opera, and stage rather than provide sustenance to less well established and sometimes very local artistic thrusts. Expressing it in unmistakable terms, one major donor/board member opined that he wanted his money to support the symphony rather than a budding neighborhood actors alliance. He left no doubt that this attitude was in the end a business judgment for him because he perceived a payoff for his firm related to the symphony but not from other less well established and sometimes struggling artistic thrusts.

However, if one examines the financial support provided by Arts Alliance, even though foundational organizations such as the Virginia Symphony, the Chrysler Museum, the Virginia Museum of Contemporary Art (MOCA), the Virginia Opera, and the Virginia Stage Company receive significant funding, vital financial sustenance in the \$0 to \$10,000 range has been provided to organizations such as the D’Art Center, Tidewater Winds, the Virginia Chorale, the Hermitage, and Young Audiences of Virginia.²² Some of the latter organizations clearly depend upon such support and might contract or even disappear without it. They do not have the organizational bandwidth necessary to approach major donors on their own and therefore depend upon Arts Alliance to do this on their behalf. And, recently, the funding distributions of Arts Alliance have responded in kind to these needs.

²¹ Viken Mikaelian, “A \$65 Billion Wake-Up Call for Nonprofits: Why Donors are Pulling Back,” <https://philanthropy.org/a-65-billion-wake-up-call-for-nonprofits-why-donors-are-pulling-back>.

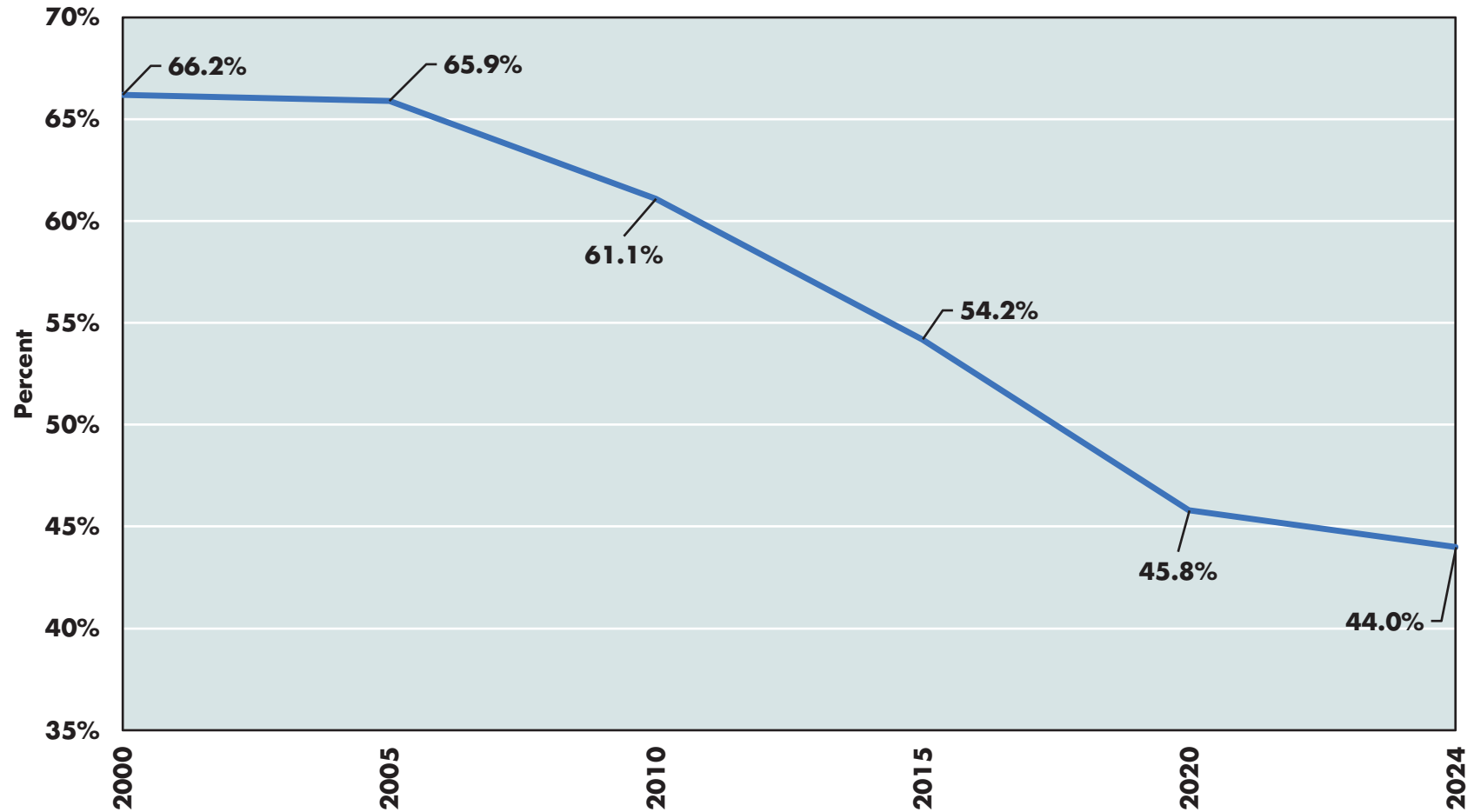
²² IRS Form 990 filings for the Alliance. <https://projects.propublica.org/nonprofits/organizations/541437382/202503169349307880/full>.

Arts Alliance is aware that not all its donors share the same vision with respect to how their financial gifts to the Alliance should be utilized and similarly, it is aware that many small, vibrant artistic and cultural organizations might languish or disappear without its support. We have no magic funding formula to offer but note that Arts Alliance must think carefully when addressing these circumstances. The future of artistic and cultural endeavors in our region depends upon Arts Alliance finding the optimal mixture and explaining the virtues of that choice to donors.



Photo Credit: The Splendid Chrysler Museum Serves Many Purposes. Chrysler Museum of Art

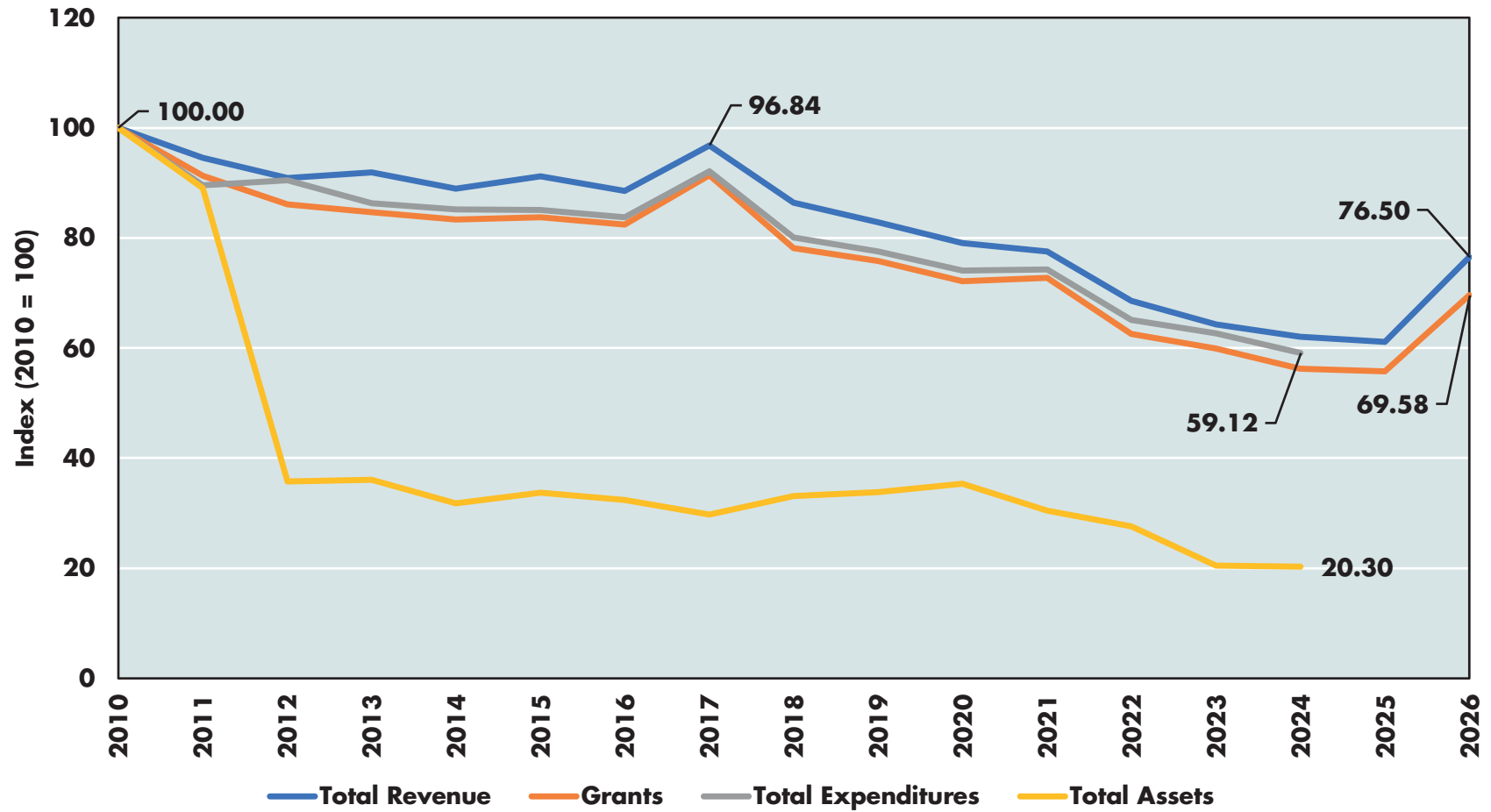
GRAPH 2
PERCENTAGE OF AMERICAN ADULTS WHO MADE ANY CHARITABLE CONTRIBUTION
UNITED STATES, 2000 - 2024*



Source: NonProfit PRO(October 2, 2025); *2024 is estimated. Retrieved from www.nonprofitpro.com/article/affluent-americans-give-more-strategically-but-fewer-are-donating.

GRAPH 3

**PRICE-ADJUSTED INDICES OF ARTS ALLIANCE ACTIVITIES
HAMPTON ROADS, 2010 - 2026**



Source: Data taken from the Internal Revenue Service Form 990 provided by the Business Consortium for the Arts, the predecessor of the Arts Alliance. Arts Alliance had not yet filed its 2025 or 2026 Form 990 as of the date of this writing.

AGING MAJOR DONORS AND THE NEXT GENERATION

Viewed historically, the fine and performing arts in Hampton Roads have benefited from the immensely generous giving of a small circle of major donors. The names of many of our major artistic venues and activities (Barry, Batten, Brock, Ferguson, Goode, Harrison, Perry, Sandler, Zeiders) appropriately reflect their support. But this elite group of donors is gradually aging, as is the population overall. This is consistent with national trends, where the percentage of the United States population aged 65 years or older increased from 12.19% in 2000 to 17.93% in 2024.²³ **The average age of a major donor nationally has increased by about ten years since the turn of the century.**²⁴ Thus, one cannot avoid asking: who will replace these generous individuals when they are no longer with us? Is there a group of wealthy, arts-minded younger donors waiting in the wings to assume the roles that the current group of donors have filled so well?

The business community of Hampton Roads has been notably generous in its support of the arts and culture. A non-exhaustive list of publicly known donors includes businesses such as Bank of America, Birdsong Peanuts, The Breeden Company, Capital Group, Christian Broadcasting Network/Regent University, Clearstead Advisory Solutions, Dollar Tree, Kaufman & Canoles, Sentara, and Towne Bank, as well as the Hampton Roads Community Foundation and several other charitable foundations. We have identified these entities because they appear among the top tiers of sponsors who are thanked on the websites of multiple fine arts organizations in South Hampton Roads; each has given many thousands of dollars to the arts and culture in the past year alone. The relevant point is that the leadership of these organizations also ages as the years pass and then is replaced by a group of younger managers, directors, and owners. The challenge is to maintain or increase their financial support. Considering national trends, this cannot be taken for granted.

LABELS AND OUR SENSE OF PLACE

Artistic and cultural participation and giving are tied to a strong sense of place. To cite a few obvious examples, most philanthropic support for the Virginia Beach Neptune Festival, the NEON Festival in Norfolk, and the Suffolk Peanut Festival likely comes from parties located within those localities. However, the same principle may apply (if to a lesser degree) to other kinds of artistic and cultural organizations—which typically serve all or part of Hampton Roads, even if they have geographic and/or financial ties to one locality. It might not be immediately evident to a business or wealthy individual in Chesapeake or Portsmouth—let alone in Hampton or Newport News—why they should sponsor an arts organization that they associate with Norfolk or Virginia Beach. Making this case would seem to be a challenging portion of the mission of a regionally minded advocate like the Arts Alliance.

If we want the arts and culture in Hampton Roads to thrive for years to come, then broader private and public investment will be necessary, particularly in those organizations that serve multiple localities. The Virginia Arts Festival stands out as a distinctively regional arts institution that benefits all of Hampton Roads. But even place-bound institutions like theaters and museums contribute to our regional identity and quality of life, and they invariably attract and employ residents from more than one locality.

Not unreasonably, the cities of Hampton Roads want to fund activities that take place within their boundaries. However, this creates challenges for artistic and cultural organizations, particularly smaller ones, which must shuttle between localities to stay afloat. Even organizations with comparatively small budgets must interact with multiple administrations and school divisions; they also write grants for multiple local arts commissions, all of which have their own rules and expectations. **(“I feel like I live in a big city that is a bunch of villages,” one arts administrator told us.)** Smoothing these processes and coordinating between localities is an area where the Arts Alliance has been active and yet could do more.

²³ “Population ages 65 and above for the United States,” Federal Reserve Bank of St. Louis, <https://fred.stlouisfed.org/series/SPPOP65UPTOZUSA>.

²⁴ For more information, see <https://givingusa.org/5-takeaways-and-next-steps-from-the-giving-usa-2024-report>.

Many of our artistic and cultural organizations are not exclusively affiliated with one locality. This comes with certain advantages: Musical ensembles perform for audiences all over the region, and a group like ROÜGE creates theater in “unexpected places” like the Military Aviation Museum and the Hermitage Museum and Gardens. But these advantages also come with logistical burdens, and they leave some arts organizations without a ‘home base’ and perhaps the chance to build a more dedicated local following. The Virginia Symphony is the largest professional orchestra in the United States without its own home stage; it also serves a larger geographic area than most of its peers. The Virginia Opera is headquartered at the Harrison Opera House in Norfolk, but it also serves Richmond and northern Virginia—a three-site presence that is unique nationwide.

Breaking down artistic and cultural silos seems essential to the prosperity of our arts community overall. The Zeiders American Dream Theater has been a notably generous regional citizen—collaborating with many different arts groups, hosting common casting calls, and even using its own website to publicize its partners’ events (“The Tidewater Hub for All Things Arts”). And, as we note below, some artistic and cultural leaders have mused that the opportunity to share office space, staff, or human resources functions with other organizations could have considerable cost-saving potential, although the bureaucratic hurdles in realizing this vision are daunting.

We note that no major arts organization identifies by name with “Hampton Roads”—one manifestation of the identity crisis that has long perplexed our region. We do, however, have the Tidewater Winds, Tidewater African Cultural Alliance, and Tidewater Classical Guitar Society. “Coastal Virginia” resonates well with many but has not caught fire. Most of our arts organizations aspiring to regional or broader significance have chosen to identify with “Virginia”: the Virginia Arts Festival, Virginia Symphony Orchestra, Virginia Opera, Virginia Museum of Contemporary Art, Virginia Stage Company, and Virginia Musical Theatre. We note that these “Virginia” labels were more accurate descriptors prior to the dynamic growth of Northern Virginia. Regardless, and at the same time, these organizations typically reference “Hampton Roads” or “Southeastern Virginia” in their mission statements and promotional materials.



Steve Walsh, WHRO

The USS Truxtun left Norfolk Tuesday, 3 months after returning from the Middle East

Steve Walsh, 1 hour ago

The destroyer is expected to go to Southern Command, which has been embroiled in operations around Venezuela.



Matthew Murphy/Matthew Murphy

Tony-winning musical 'Shucked' brings 'corny' comedy to Chrysler Hall

Peyton Tattersfield, 2 hours ago

The national tour of "Shucked" opens Tuesday and runs through Sunday at Chrysler Hall.

Photo Credit: WHRO Offers Local News Updates Via the Internet. WHRO's Local News on Feb. 2, 2026, <https://www.whro.org/news/local-news>.

We are not here to advocate that longstanding and celebrated institutions should change their names. But our somewhat unusual labeling circumstance should give pause to those concerned with the branding and marketing of our region. Our top-tier artistic and cultural organizations are one of our region's major assets, but their association with “Virginia” does not readily convey this and to some might even suggest a location in the Commonwealth's capital city, Richmond.

We will be bold and say that a regional champion such as Arts Alliance potentially could play a much larger role in generating excitement about the arts across genres and city borders—whether by developing its own social media presence, collaborating with members and arts groups on shared initiatives, or by partnering further with media (such as WHRO and Veer Magazine) that already have a regional cultural emphasis. The future of the arts will depend ultimately on local governments, businesses, and philanthropists literally knowing what is going on.

ARTS ALLIANCE AS THE REGION'S ARTISTIC AND CULTURAL LEADER

There is general agreement that the arts and culture in Hampton Roads have suffered because they have lacked a unified, identifiable advocate and spokesperson. Thus, both business and governmental agencies often must deal with a myriad of voices and supplicants. This has inspired a bit of confusion and reduced fundraising. And, as often is the case in such circumstances, South Hampton Roads and the Peninsula have gone their separate ways.

We believe Arts Alliance is well situated to function as the region's primary arts and culture spokesperson and advocate. However, to do so, three things will be required. First, the Alliance will necessarily have to increase its fundraising. Few endeavors succeed in the long-term without adequate funding, and those who have dollars usually find receptive audiences.

Second, individual arts and culture constituents must be willing to trust a respected someone else speak for them. This need will be satisfied much more easily if the Alliance turns out to be a prolific fundraiser. That will guarantee attention but must, of course, be followed by effective joint advocacy.

Third, the degree of participation and cooperation between arts and culture endeavors, both Southside and Peninsula, must increase. Rather than 'going it alone,' these two geographic entities must 'go it together' in areas such as fundraising, publicity, and event scheduling. **The United States government regards Hampton Roads as one entity, not two, and our arts and cultural activities should reflect the same. The next Arts & Economic Prosperity study should include both the Peninsula and Southside.**

At the end of the day, however, the ancient maxim of "actions speak louder than words" likely will apply in this arena. The Arts Alliance must raise money and demonstrate the virtues of united approaches to the arts and culture in our region. Then, organizations and individuals will climb aboard.

THE DEPARTURE OR REPOSITIONING OF MAJOR ORGANIZATIONS

Compounding funding and leadership circumstances within Hampton Roads has been the departure of major organizations and their national or regional headquarters, headlined by the relocation of Norfolk Southern from Norfolk to Atlanta. Norfolk Southern not only was a highly significant contributor to the arts, but also even assembled its own art collection.

Significant major regional banking organizations have also downgraded our region by transferring certain banking operations to competing vistas such as Charlotte. The Commonwealth's non-competitive banking regulations merit major blame here and the arts unfortunately turned out to be collateral damage.

What is non-debatable is that the Richmond, VA, metropolitan region now hosts five *Fortune 500* headquarters while Hampton Roads boasts only three (Dollar Tree, Ferguson Enterprises and Huntington Ingalls). Among these, Huntington Ingalls is heavily dependent upon government defense contracts and is therefore understandably oriented in the direction of Washington, D.C. Meanwhile, Charlotte, NC, hosts seven *Fortune 500* enterprises, Jacksonville, FL, four; and Raleigh-Durham, NC, three. Thus, the arts establishments in those metropolitan areas benefit from substantially larger possibilities for corporate financial support. This is a damaging circumstance if it is coupled with the declining tendencies of regular households to make even a single charitable gift.

OUT-MIGRATION AND TEPID ECONOMIC GROWTH

In a nutshell, while the population of Hampton Roads has been growing slowly, this has been due primarily to international immigration from other countries into our region. In fact, in most recent years, more existing residents of Hampton Roads have left our region to move to other regions than have come in our direction. We have been hemorrhaging existing residents. This has not been good for population growth, but even this situation is likely to deteriorate because the federal government has slammed the brakes on international migration into the United States. These two developments—net domestic out-migration from Hampton Roads and declining international immigration into Hampton Roads—now make it possible that our total regional population could decline in coming years.

Related to this are momentous cuts that have occurred both in the Commonwealth of Virginia and in Hampton Roads in terms of the number of federal government employees. In early January 2026, Governor Youngkin announced that Virginia had lost approximately 22,400 federal civilian employees from its apex employment level.²⁵

Hampton Roads suffered about 5,400 of those civilian job losses.²⁶ Note that federal employees, on average, are compensated about twice as much as the typical private sector employee in Hampton Roads. Thus, this 5,400 federal job loss is equivalent in its economic impact to the departure of more than 10,000 typical private sector jobs for our region.

Hopefully, counteracting this adverse job trend will be the planned robust increase in military expenditures inside Hampton Roads. Military-related expenditures currently account for roughly two-fifths of our region's economic activity. Shipbuilding and repair, vital parts of the economy of Hampton Roads, are scheduled to expand as a part of this thrust. On the other hand, the increasing number of international military commitments in far-flung locations that are being made by the United States suggest that ships and personnel will be berthed inside Hampton Roads less often. Further, during 2025, the Port



Photo Credit: The New Virginia MOCA at Batten University, formerly known as Virginia Wesleyan University. Virginia MOCA.

of Virginia experienced an 8.1% decline in the total number of the ubiquitous twenty-foot equivalent units (TEUs) that it handled.²⁷

And, finally, military strategists internationally may be moving away from reliance upon large vessels and instead emphasizing smaller, much less expensive systems that involve heavier use of drones, both in the air and below the waves.

The most likely jobs scenario according to the Economic Forecasting Project at Old Dominion University is that over the next year or two, we will see a gradual overall decline in the number of jobs in our region. However, it may be a fool's errand to attempt to foresee aggregate regional jobs markets because of the unpredictable character of federal government policies. Consider, for example, the Norfolk-based Atlantic Headquarters of the North American Treaty Organization (NATO). Will it still be here five years from today?

²⁵ Michael Martz, "Revenues up, but forecast not all sunny," *Richmond Times Dispatch* (January 15, 2026), pp. 1, ff.

²⁶ These estimates come from the Old Dominion Economic Forecasting Project.

²⁷ Port of Virginia, Port Statistics, TEUs.

Viewed cumulatively, the portent of these developments for the arts is not auspicious. **Contracting economies drag down multiple sectors of societies, and therefore it is reasonable to project that we could observe downward pressure both on gifts to the arts and attendance at regional arts events.**

Declining populations, economic stagnation, and rising unemployment rates represent an environment that is unlikely to stimulate financial support for the arts, whose existence is heavily dependent on financial support from businesses and governmental units whose revenues are sensitive to economic conditions. These supportive parties seem likely to experience mediocre or even negative growth in their revenues over the next few years after one accounts for inflation. And as a consequence, diminishing financial gifts to the arts are certainly a possible outcome.

Is this our inevitable destiny? By no means. Attractive programs, skillful advocacy, effective publicity and advertising, and the recruitment of wealthy donors could change this picture. But there is much work to be done.

One final point needs to be made about the net out-migration of individuals from Hampton Roads. **We should recognize that the individuals who choose to depart from our region are not a random selection of individuals, and we often lose younger, creative voices with fresh ideas—today’s artists and entrepreneurs, and the philanthropists of tomorrow.** Net out-migration therefore is both a cause and an effect of the flabby annual economic growth rates reported for Hampton Roads; we have consistently trailed roughly comparable metropolitan regions such as Charlotte and Jacksonville, and the United States for most of the past decade.²⁸ Regions that are growing slowly and experiencing net out-migration predictably generate lower financial support for the arts and culture than regions that are growing robustly and experiencing inflows of talent.

²⁸ U.S. Census Bureau, Population Estimates Program, 2024 Vintage Estimates.

COMBINING/MERGING OF OFFICES

Organizations of the magnitude of the Virginia Symphony and the Opera do not run themselves and require offices that schedule, advertise events, sell tickets, manage events, pay rentals, compensate performers and staff, etc. Analogously, each of the major cities in Hampton Roads either maintains its own arts and cultural affairs office with accompanying budgets and expenses or has dedicated employees in other offices that perform these tasks.

Only an uninitiated individual does not already know why these separate offices continue to exist. Old-fashioned pride, political sensitivities, strong local identification, and sheer distances militate against such mergers occurring. Nevertheless, arts organizations and artists should be aware that administrative merger considerations are on the minds of some major donors and political leaders. The possibility of office mergers saving money (which then could be reinvested in the arts) should not be discarded.

FEDERAL POLICY CHANGES

Astride the previous developments are the unpredictable signals to the arts emanating from Washington, D.C. Funding levels, funding criteria, and support for funding for the arts has declined. At the same time, changes in tax laws and regulations appear to make it a bit less attractive financially for wealthier donors to make significant gifts to arts organizations.

There is not, however, any uncertainty about the changes in federal individual income tax laws that took effect in January 2026. They may exacerbate the arts funding situation. One significant move is that charitable gifts equal to the first 0.5% of an individual's adjusted gross income (AGI) will no longer be deductible. In addition, federal income tax filers who take the standard deduction will face limits on charitable deductions of \$1,000 for single filers, and \$2,000 for joint filers. These two changes seem more likely to affect donors who might make smaller gifts. A third change likely will have more impact on higher income individuals. It dictates that for taxpayers who occupy the highest federal income tax bracket, charitable deductions (and any other itemized deductions) henceforth will diminish tax liabilities only at a 35% rate rather than the previous 37% rate. Pragmatically, this means that a donor making a \$1.0 million gift now might pay \$20,000 in additional federal income tax.²⁹

Hope on the Horizon? The Hampton Roads Alliance Playbook

While not endorsing the Hampton Roads Alliance's encouraging *Playbook*³⁰ here, we agree that its agenda offers our region hope that the economic growth-discouraging factors we have outlined above can be mitigated or reversed. For example, the *Playbook* describes eight "transformative projects" that might thrust the region's economy forward. An example is a proposed Defense Efficiency and Production Center that would emphasize underseas defense innovation, an increasingly relevant topic.

Interestingly, however, the notion that the arts might have something to do with the underseas project, or other proposed initiatives on the list, receives no attention. Further, when the Alliance's web site lists regional assets, no arts organizations receive mention. More than fifteen asset categories relating to economic growth are cataloged in the *Playbook*, but the region's impressive arts establishment is not among those cited.

Final Thoughts

A business executive who is a committed supporter of the arts in Hampton Roads assessed our regional artistic situation this way: *"We have superb products for a region of our size, but right now we are operating in a declining market. But I think this is reversible. If we have the right leaders, get into the schools, and get more buy-in from our city governments for a regional approach, then I think we can succeed."*

The preceding quotation does not constitute a complete prescription for curing any ills that might exist within the arts and culture sector of Hampton Roads, not the least because some of the challenges confronting the arts and culture currently are being dictated by parties and events over which we have no control. But it would constitute an auspicious start, albeit a solution that would require some established parties and participants to be more flexible in their thinking and decision-making. Our Arts Alliance is ideally situated to play a leadership role in this metamorphosis.

²⁹ Katrina R. Samarin and Rachel E. McIntyre, "Important 2026 Tax Changes—Why 2025 Is a Key Year for Charitable Giving," Kreisler Miller (September 22, 2025), www.kmco.com/insights/important-2026-tax-changes-why-2025-is-a-key-year-for-charitable-giving.

³⁰ Hampton Roads Alliance, *The Hampton Roads Playbook*, www.hamptonroadsplaybook.com.



The Value of Water



THE VALUE OF WATER

"When the well is dry, we know the worth of water."

—Benjamin Franklin

The story of Hampton Roads is one often told through the lens of its three pillars: national defense, tourism and hospitality, and the Port of Virginia. Connecting each of these pillars, however, is water. One of the first frigates of the nascent United States Navy was built in Hampton Roads and, to this day, many of the Navy's largest ships are built and maintained in the region. The tourism and hospitality industry is intertwined with the region's many beaches while cargo ships ply the Chesapeake Bay as they transit to and from the Port of Virginia. The pillars of the region are also threatened by too much water, that is, sea level rise and recurrent flooding are an existential threat of the infrastructure and economic livelihoods across Hampton Roads.

Less visible, but as (if not more) important, is how the residents and businesses of Hampton Roads use water and what happens to that water once it has been used. To many, the treatment of wastewater is an afterthought, if it is even thought about at all. A toilet is flushed, dishes are washed, laundry is completed, and, in each instance, where the water comes from and where it goes to is merely part of the process. Stormwater runoff is a nuisance, often only thought of when a street floods. Yet, while wastewater treatment may not have the glamor or appeal of a headliner concert, it is a foundational element in the lives of those who call Hampton Roads home.

The Hampton Roads Sanitation District (HRSD) treats wastewater for 20 cities and counties in southeastern Virginia. Created in 1940 as a political subdivision of the Commonwealth of Virginia, HRSD serves over 1.9 million Virginians with more than 500 miles of pipes, 100 pumping stations, and 14 treatment plants.¹ HRSD removes more than 200 million pounds of pollutants annually from wastewater which, when treated, is discharged into local waterways. Much of what HRSD does is driven by federal and state regulations and court actions to limit the discharge of specific pollutants into the Chesapeake Bay. Without HRSD, the cities and counties of Hampton Roads would face billions of dollars in additional wastewater treatment costs.

While wastewater treatment may not seem exciting on its surface, HRSD has undertaken an effort that is gaining in national prominence: the Sustainable Water Initiative for Tomorrow (SWIFT). SWIFT is an innovative approach to groundwater replenishment and treated wastewater discharge. The pilot SWIFT research center located in Suffolk, Virginia, takes treated wastewater and, through additional advanced water treatment, produces drinking quality water. The resulting water is then added to the Potomac Aquifer. The pilot SWIFT plant treats approximately 1 million gallons of water daily with construction underway to expand this capacity to 50 million gallons of water daily.

In this chapter, we discuss the history of HRSD. We examine how HRSD, in collaboration with localities, developed a regional approach to wastewater treatment, saving ratepayers billions of dollars in additional costs. We then examine the SWIFT project and its impact of injecting treated, drinking quality water into the aquifer.

¹ For more information, see <https://www.hrsd.com/about-us>.

HRSD: A Brief History

On November 5, 1940, voters approved the creation of the Hampton Roads Sanitation District (HRSD) as a political subdivision of the Commonwealth of Virginia to ‘provide for the public health and welfare.’ In 1947, HRSD’s first treatment plant in Norfolk began operation, serving approximately 288,000 residents. Currently, HRSD’s service area encompasses approximately 1.9 million residents with the objective of reducing pollution, the construction of wastewater treatment facilities, and the installation of interceptors throughout HRSD’s service area.²

HRSD’s service area includes the independent cities of Chesapeake, Hampton, Newport News, Norfolk, Poquoson, Portsmouth, Smithfield, Suffolk, Virginia Beach, and Williamsburg and the counties of Gloucester, Isle of Wight, James City, Mathews, Surry, and York (Figure 1). These independent cities and counties make up the Virginia portion of the Virginia Beach – Chesapeake – Norfolk Metropolitan Statistical Area (MSA)³, more commonly known as Hampton Roads. HRSD’s service area also includes localities outside of the Hampton Roads MSA, including Accomack County (service areas are Onancock, Wachapreague, and Chincoteague), King William County (service areas are Central Garage area, Town of West Point, and Mt. Olive), King and Queen County (no service area), Middlesex County (service areas include Urbanna, Saluda, and Cooks Corner), and Northampton County (service areas include Exmore and Nassawadox).

HRSD’s geographical boundaries encompass approximately 5,000 square miles and its service area is approximately 950 square miles. In addition to wastewater treatment services, in the counties of Accomack, King William, King and Queen, Mathews, Middlesex, Northampton and Surry, HRSD also provides collection and conveyance services which carry wastewater from industries, homes, apartments, and businesses to the HRSD’s wastewater treatment system.⁴ In total, localities and HRSD operate more than 5,800 miles of gravity sewer, 1,100 miles of force main and almost 1,600 pumping stations. HRSD operates 14 sewer treatment plants (STPs) with a combined design permitted capacity of treating 225 million gallons per day (MGD).⁵

The HRSD service area is entirely within the Eastern Virginia Groundwater Management Area, an area of Virginia extending eastward from the Fall Zone (approximately along the I-95 corridor) to the Chesapeake Bay. Groundwater in this region is primarily contained in aquifers (porous layers of sands, shells and gravels) that are confined by layers of impermeable soils (clays and silts). The layers of impermeable soil prevent rainwater from seeping into the ground to replenish these deeper aquifers. The largest of the aquifers in this area is the Potomac aquifer, located along the Virginia coast, which is several thousand feet thick and contains hundreds of trillions of gallons of pressurized water.

With insufficient ability to recharge naturally, the water within the Potomac aquifer is a limited natural resource. As water is withdrawn, the pressure in the aquifer decreases. For more than 100 years, Virginians have been withdrawing water from this confined aquifer, significantly lowering the pressure. The reduced pressure has caused the aquifer to compact, resulting in land subsidence, and has also increased the potential for saltwater contamination.

² For more information, see <https://law.lis.virginia.gov/authorities/hampton-roads-sanitation-district-commission/>.

³ The three North Carolina counties in the Virginia Beach – Chesapeake – Norfolk MSA are Camden County, Currituck County, and Gates County. HRSD does not provide services to these counties.

⁴ HRSD does not provide water, solid waste disposal, or stormwater management services.

⁵ HRSD operates eight large sewage treatment plants at Williamsburg, James River, York River, Boat Harbor, Nansemond, Army Base, Virginia Initiative Plant (VIP), and Atlantic. HRSD also operates six smaller plants operating in Onancock, West Point, Central Middlesex, Urbanna, King William, and Chincoteague.

FIGURE 1

HRSD Service Area

A Political Subdivision of the Commonwealth of Virginia

Serving the Cities of Chesapeake, Hampton, Newport News, Norfolk, Poquoson, Portsmouth, Suffolk, Virginia Beach and Williamsburg.

Serving the Counties of Accomack, Gloucester, Isle of Wight, James City, King and Queen, King William, Mathews, Middlesex, Northampton, Surry* and York.

*Excluding the Town of Claremont



Source: Hampton Roads Sanitation District (2026).

The Importance of Sanitary Sewer Overflows (SSOs)

Currently, localities and HRSD have no formal flow agreements that govern sewage flows delivered from the localities to the HRSD system. HRSD bills customers based on their water consumption. As the wastewater system has aged in Hampton Roads, wastewater collection system defects have formed (e.g., cracks, offset joints, leaking manholes, root intrusion) which allowed rainwater runoff, groundwater infiltration, and in some locations, substantial amounts of tidal inflow into the sewage pipes. During certain wet weather events, the additional external flow has exceeded the capacity of the existing wastewater infrastructure leading to Sanitary Sewer Overflows (SSOs). SSOs have occurred in localities' systems as well as HRSD's system.

Since early 2000, the Virginia Department of Environmental Quality (VDEQ) and the U.S. Environmental Protection Agency (EPA) determined that the frequency and magnitude of SSOs within HRSD's service area were likely to result in increased enforcement actions. HRSD and localities entered into Consent Orders (COs) with the Virginia State Water Control Board (SWCB), administered by VDEQ, for the reduction of unpermitted discharges from locality and HRSD sewer systems. The COs included a separate 2001 CO between the SWCB, the City of Norfolk and HRSD, and a 2007 regional CO between HRSD, the 13 other Hampton Roads localities, and the SWCB. HRSD and the 13 localities also entered into a Memorandum of Agreement (MOA) under which HRSD and the localities agreed to work cooperatively in developing and implementing a Regional Wet Weather Management Plan (RWWMP) to reduce unpermitted discharges from sewer systems.

HRSD, the U.S. Department of Justice (DOJ), and the EPA entered into a Consent Decree (CD) in 2010. While the 2010 CD was similar to the 2007 CO, HRSD was the only local signatory to the CD in contrast to the 2007 CO. The 2010 CD required HRSD to produce a RWWMP by November 26, 2013, extendable to July 31, 2014, if all parties to the CD agreed to the extension. The CD also provided for penalties should HRSD fail to meet the milestones and due dates specified by the document.

In early 2012, HRSD proposed a regionalization of services to reduce capital and operational costs and comply with the terms of the 2010 CD. The regionalization of services would allow for a more effective integration of services, economies of scale in the provision of services, and improved rehabilitation of existing systems, regardless of jurisdictional boundaries. The Hampton Roads Planning District Commission (HRPDC) hired consultants to complete a Regionalization Study to evaluate the issues and make a recommendation to HRSD and the localities on whether regionalization would be beneficial to the customers.

HRSD and the EPA subsequently negotiated a schedule modification to the 2010 CD that allowed schedule relief to complete the Regionalization Study. EPA agreed to the extension for the RWWMP from November 2013 to July 2014, as specified in the existing CD. This modification also allowed for an extension of the RWWMP to April 2015 if the Regionalization Study did not recommend consolidation; October 2015 if the Regionalization Study recommended consolidation but the localities or HRSD decided against it; or October 2016 if regionalization was agreed to by the localities and HRSD. As a part of a comprehensive program to mitigate the occurrence of SSOs, HRSD and localities began to work on a two-pronged approach: a rehabilitation program to reduce the peak wastewater flows by reducing infiltration and inflow, and a RWWMP to convey and treat the peak flows to meet an agreed-upon level of service (LOS).

Table 1 displays the cost estimates to meet the requirements of the 2010 CD with a non-regionalized approach in 2024 dollars. HRSD would have to spend \$887.9 million to implement the RWWMPs by increasing the capacity of HRSD infrastructure to handle peak flows. Localities would have to expend \$453.2 million to improve local capacity. In addition, localities and HRSD would have to spend \$2,634.7 million to rehabilitate existing capacity, that is, fixing locality gravity sewer pipes to abate leakages. Further, approximately \$389.5 million would be allocated for private sewer laterals coming from homes or commercial shopping areas. In total, the Regionalization Study estimated costs would be approximately \$4,365.4 million in 2024 dollars. Table 2 contains a summary of the estimated capital costs HRSD and the localities would have to incur to meet 2010 CD requirements.

TABLE 1
NON-REGIONALIZED APPROACH CAPITAL COSTS
HRSD AND LOCALITIES
MILLIONS OF 2024 DOLLARS

Jurisdiction	Regional Wet Weather Improvements Plans	Locality Capacity Improvements	Locality /HRSD Rehabilitation	Private Property I/I Abatement	Total Capital Costs	Implementation Schedule Years
Chesapeake		\$65.0	\$365.9	\$0.0	\$431.0	30
Gloucester		\$10.3	\$10.1	\$0.0	\$20.4	25
Hampton		\$63.4	\$209.6	\$0.0	\$273.0	25
HRSD	\$887.9	\$0.0	\$233.4	\$389.5	\$1,510.9	10/20*
Isle of Wright		\$0.0	\$0.2	\$0.0	\$0.2	25
James City Service Area		\$26.9	\$85.7	\$0.0	\$112.6	20
Newport News		\$72.4	\$169.4	\$0.0	\$241.8	25
Norfolk		\$22.0	\$572.3	\$0.0	\$594.3	25
Poquoson		\$1.8	\$18.9	\$0.0	\$20.6	25
Portsmouth		\$72.3	\$333.2	\$0.0	\$405.5	30
Smithfield		\$0.0	\$5.1	\$0.0	\$5.1	20
Suffolk		\$20.1	\$39.5	\$0.0	\$59.6	15
Surry		\$0.0	\$0.0	\$0.0	\$0.0	-
Virginia Beach		\$93.5	\$470.8	\$0.0	\$564.2	30
Williamsburg		\$5.5	\$22.9	\$0.0	\$28.4	20
York		\$0.0	\$97.6	\$0.0	\$97.6	25
TOTAL	\$887.9	\$453.2	\$2,634.7	\$389.5	\$4,365.4	-

Source: Comparative Analysis Report prepared by Brown and Caldwell, August 2013, page xiii. Data displayed includes Norfolk's estimated \$425 million in 2013 dollars for rehabilitation costs related to their individual Consent Order, which are not covered by the 2007 Regional Order and not included in the Comparative Analysis capital improvements estimates. *HRSD Rehab and private property inflow an infiltration (I/I) Abatement Plans had a 10-year implementation schedule and the RWWMP schedule was assumed to be 20 years.

HRSD and localities, however, also agreed to evaluate the possible regionalization of the sanitary sewer system. A regionalized approach would derive cost estimates based on each treatment plant’s service area instead of jurisdictional boundaries. These costs remain broken out by “Regional Wet Weather Improvements” for comparative purposes between approaches and include improvements to upstream lift stations, gravity collection systems (not currently owned by HRSD), and terminal pumping stations (not currently owned by HRSD). As there would be only one entity, presumably HRSD, the costs are presented at the system-wide level. The implementation period for the regionalized approach is assumed to be 20 years. Table 3 shows the total estimated capital improvements costs associated with the regionalized framework in 2024 dollars.

While full regionalization did not happen, as localities did not agree to transfer their sewer assets and operations to HRSD, a regional approach was undertaken for the RWWMP. HRSD assumed full regulatory and financial obligation to comply with the 2010 CD and for regional wet weather capacity into the future. For localities, this meant their sewer rates could be customized to meet the needs of their individual Management, Operations and Maintenance (MOM) programs, their only remaining regulatory component of the 2007 CO. These MOM programs essentially meant localities needed to focus on operating and maintaining their sanitary sewer systems to eliminate significant defects and transport sewage to HRSD. **Table 4 illustrates that, relative to the non-regionalized approach, semi-regionalization saved ratepayers \$1,436.4 million in 2024 dollars.**

TABLE 2 COMPLIANCE DECREE: NON-REGIONALIZED SCENARIO CAPITAL COSTS MILLIONS OF 2024 DOLLARS				
Locality	Capacity Improvements	Rehabilitation	Private I/I Reduction	Total CIP Cost
Locality Total	\$453.2	\$2,401.2	\$0.0	\$2,854.5
HRSD	\$887.9	\$233.4	\$389.5	\$1,510.9
TOTAL	\$1,341.2	\$2,634.7	\$389.5	\$4,365.4
Source: Regionalization of Sewer Systems Study, Final Report August 2013, page ES-8, Prepared by HDR and McGuire Woods for Hampton Roads Planning District Commission. This table includes Norfolk’s estimated \$425 million in 2013 dollars for rehabilitation costs related to their individual Consent Order, which are not covered by the 2007 Regional Order and not included in the Comparative Analysis capital improvements estimates. “Private I/I Reductions” mean private inflow and infiltration reductions. CIP is Capital Improvement Program.				

TABLE 3 COMPLIANCE DECREE: REGIONALIZED SCENARIO CAPITAL COSTS MILLIONS OF 2024 DOLLARS					
Locality	Locality Rehab	Private I/I Reductions	Regional Wet Weather Improvements	Upstream Capital Improvements	Total CIP Cost
HRSD	\$1,353.7	\$283.5	\$855.3	\$436.5	\$2,929.0
Source: Regionalization of Sewer Systems Study, Final Report August 2013, page ES-8, Prepared by HDR and McGuire Woods for Hampton Roads Planning District Commission. “Private I/I Reductions” mean private inflow and infiltration reductions. “Upstream Capacity Improvements” mean larger/additional infrastructure in the locality systems required to handle peak flow. CIP is Capital Improvement Program.					

TABLE 4

CAPITAL COSTS FOR NON-REGIONALIZED AND SEMI-REGIONALIZED SCENARIOS
MILLIONS OF 2024 DOLLARS

	Non-Regionalized	Semi-Regionalized	Savings in Dollars	Savings in Percentage
Rehabilitation	\$2,634.7	\$1,353.7	\$1,281.0	48.6%
Regional Wet Weather Improvements	\$887.9	\$855.3	\$32.7	3.7%
Locality/Upstream Capacity Improvements	\$453.2	\$436.5	\$16.7	3.7%
Private Property I/I Abatement Program	\$389.5	\$283.5	\$106.1	27.2%
Grand Total	\$4,365.4	\$2,929.0	\$1,436.4	32.9%

Source: Comparative Analysis Report prepared by Brown and Caldwell, August 2013, page xiv. Includes Norfolk's estimated \$425 million in 2013 dollars for rehabilitation costs related to their individual Consent Order, which are not covered by the 2007 Regional Order and not included in the Comparative Analysis capital improvements estimates.

What Are Stormwater Overflows?

In addition to the costs required to comply with the 2010 CD, HRSD and localities were also required to deal with issues related to stormwater overflows and pollutants discharged into the Chesapeake Bay. The EPA established the Chesapeake Bay Total Maximum Daily Load (TMDL) for Nitrogen, Phosphorus, and Sediment, a historic and comprehensive “pollution diet,” on December 29, 2010. This TMDL included rigorous accountability measures to drive actions to restore clean water in Chesapeake Bay and the region’s streams, creeks, and rivers. TMDL was based largely upon Watershed Implementation Plans (WIPs) prepared by Delaware, Maryland, New York, Pennsylvania, Virginia, West Virginia, and the District of Columbia.

The Chesapeake Bay TMDL applied to all localities having a Municipal Separate Storm Sewer System (MS4). This system is a network of drainage systems, including pipes, ditches, and other conveyances, designed to carry stormwater runoff directly to nearby streams, rivers, and other bodies of water. MS4s are multi-phase and distinct from sanitary sewers, which carry sewage and industrial wastewater to treatment facilities. Individual or Phase I permits were issued to localities with populations over 100,000. These localities had to implement policies to control the discharge of pollutants from their storm sewer system to the maximum extent practicable in a manner that protects the water quality in nearby streams, rivers, wetlands and bays. Phase II permits applied to smaller municipalities, typically those with populations between 10,000 and 100,000 and other operator entities not covered under Phase I. Chesapeake, Hampton, Newport News, Norfolk, Portsmouth, and Virginia Beach received Phase I MS4 permits, and Poquoson, Suffolk, Williamsburg, James City County and York County received Phase II MS4 permits.

MS4 permittees were required to develop and implement comprehensive stormwater management plans. These plans detailed strategies to control and mitigate the impacts of stormwater runoff on water quality. MS4 programs included measures to regulate and manage runoff from construction sites to prevent soil erosion and the transport of sediment and pollutants into storm drains as well as the long-term maintenance of stormwater infrastructure, and the implementation of measures to minimize the impacts of development on water quality. All MS4 permittees, as a Special Condition of their permit, were also required to develop and implement a TMDL Action Plan. TMDL Action Plans ensured MS4 permittees addressed all pollutants of concern for which the permittee has been assigned a Waste Load Allocation (WLA) under an approved TMDL.

The TMDL Action Plan for the Chesapeake Bay TMDL requires that MS4 permittees reduce the portion of the nutrient load associated with urban developed land use. These nutrients enter local waters and the Chesapeake Bay via stormwater runoff from impervious surfaces such as roads, parking lots and buildings. Nutrient reductions are achieved through the implementation of Best Management Practices (BMPs) that have identified nutrient removal benefits per Chesapeake Bay Program and state guidelines.

The magnitude of the load reductions within the urban areas of Hampton Roads would have required Hampton Roads localities to implement costly urban stormwater controls in heavily developed communities. These retrofits, according to Hampton Roads Planning District Commission (HRPDC), were originally estimated to cost localities \$1,807.0 million over 15 years in 2017 dollars or \$2,312.5 million in 2024 dollars (Table 5).

TABLE 5
ESTIMATED MS4 RETROFIT COSTS OVER 15 YEARS
HAMPTON ROADS LOCALITIES
MILLIONS OF 2024 DOLLARS

Localities	Millions of 2024 Dollars
Chesapeake	\$326.3
Gloucester County	\$42.2
Hampton	\$253.4
Isle of Wight Conty	\$51.2
James City County	\$111.3
Newport News	\$286.7
Norfolk	\$358.3
Poquoson	\$17.9
Portsmouth	\$160.0
Suffolk	\$139.5
Surry County	\$9.0
Virginia Beach	\$413.4
Williamsburg	\$23.0
York County	\$120.3
TOTAL	\$2,312.5

Source: HRPDC November 2017 and Consumer Price Index for All Urban Consumers: All items in U.S. City Average (1982-84=100).

Watershed and Compliance Costs

Virginia's strategy for meeting the overall nutrient reductions required by the Chesapeake Bay TMDL is documented in its Watershed Implementation Plan (WIP). The most recent version of the WIP, the Phase 3 WIP, incorporated Virginia's Enhanced Nutrient Removal Certainty Program (ENRCP) which identified nutrient reduction targets for all of the HRSD facilities that discharge into the lower James River. The costs associated with implementing this level of control at each individual facility owned by HRSD are detailed in Table 6.

A summary of costs required to comply with SSOs by localities and HRSD, costs required to comply with Chesapeake Bay TMDL MS4 retrofits by localities, and costs required of HRSD to reduce nutrient loads per TMDL requirements are summarized in Table 7 in 2024 dollars. Compliance costs to meet all requirements were estimated to be approximately \$8.2 billion in 2024 dollars if localities and HRSD were to work on these requirements individually. However, if one entity under a regionalized approach, HRSD, took responsibility for administering and complying with all requirements, costs would have been reduced to \$6.8 billion, a savings of approximately \$1.4 billion or 17.4 %. As stated earlier, while full regionalization did not happen, the RWWMP was regionalized, and HRSD assumed full regulatory and financial obligation to comply with the 2010 Consent Decree (CD) and for regional wet weather capacity into the future.

TABLE 6 ESTIMATED COSTS TO BE INCURRED BY HRSD TO UPGRADE ITS PLANTS MILLIONS OF 2024 DOLLARS	
Plants Owned and Operated by HRSD	Capital Cost
Army Base Plant in Norfolk (AB)	\$80.4
Williamsburg Plant (WB)	\$80.4
Virginia Initiative Plant in Norfolk (VIP)	\$160.8
York River Plant (YR)	\$26.8
James River Plant (JR)	\$293.7
Boat Harbor Plant (BH)	\$576.7
Nansemond Plant in Suffolk (NP)	\$342.0
TMDL Compliance by HRSD	\$1,560.9
Source: HRSD internal estimates based on previous upgrades. These costs would have appeared in their capital program as budgetary planning numbers.	

TABLE 7 CONSENT DECREE AND CHESAPEAKE BAY TMDL COMPLIANCE COSTS MILLIONS OF 2024 DOLLARS		
Regulatory Program	Non-Regionalized Approach	Semi-Regionalized Approach
TMDL Compliance by HRSD	\$1,560.9	\$1,560.9
MS4 Compliance by localities	\$2,312.5	\$2,312.5
CD Compliance by HRSD and localities	\$4,365.4	\$2,929.0
TOTAL	\$8,238.8	\$6,802.4
Source: Dragas Center for Economic Analysis and Policy.		

SWIFT: An Innovative Approach to Groundwater Replenishment

In 2016, HRSD announced the launch of its Sustainable Water Initiative for Tomorrow (SWIFT) at its York River Treatment Plant in Seaford, Virginia. This program offered the opportunity to address multiple compliance challenges throughout the region for the same investment dollars, representing lower compliance costs for the communities served by HRSD. The multi-year initiative was to take already highly treated wastewater that would otherwise be discharged into the Elizabeth, James or York rivers and purify it through additional rounds of advanced water treatment to produce drinking-quality water, SWIFT Water®. In March 2017, HRSD broke ground on the new SWIFT Research Center (SRC) that later opened in May 2018 at its Nansemond Treatment Plant in Suffolk. The SRC can purify one million gallons of water per day using advanced treatment processes and then recharge the depleted Potomac aquifer via specially designed wells.

In developing the SWIFT initiative, HRSD worked closely with leading agencies and experts such as the Virginia Department of Health, Virginia Department of Environmental Quality, and a panel of scientific experts to help oversee the project. SWIFT has also benefitted from positive engagement with the Chesapeake Bay Foundation, the U.S. Environmental Protection Agency and the United States Geological Survey. With this insight from diverse leaders, the SWIFT initiative focused on a process that provides high-quality, purified water to sustain a growing population, improve local ecology, and create positive economic returns in long run.

HRSD broke ground for its first full-scale SWIFT facility at the James River Treatment plant on July 21, 2022, in Newport News. This facility is expected to be in operation in 2026 and will be able to replenish the Potomac aquifer with up to 16 million gallons of drinking-water quality SWIFT Water® per day using advanced treatment processes. The project also includes advanced nutrient reduction improvements for the James River Treatment Plant.

The EPA had approved HRSD's Integrated Plan (IP) in August 2021. This plan comprises measures that involve other Clean Water Act programs, including the Municipal Separate Storm Sewer System (MS4) programs and TMDLs relevant to HRSD's Wastewater Treatment Facilities. In addition to SWIFT, the managed aquifer recharge program was permitted under the Safe Drinking Water Act's Underground Injection Control program. The inclusion of SWIFT also prioritized work intended to counter risks of sea-level rise and inundation ahead of additional SSO-related work required by the Clean Water Act. The Integrated Plan also identifies efficiencies from separate wastewater and storm water programs to prioritize capital investments and achieve EPA's human health and water quality objectives. As a requirement of the Chesapeake Bay TMDL, Hampton Roads MS4 localities are required to achieve 100% of their required nutrient reductions from stormwater runoff by 2028. HRSD, through SWIFT, is able to provide the necessary credits to localities at no cost. Had this not been done, localities would have been required to implement costly urban stormwater controls in heavily developed communities in order to meet this deadline. New capital costs associated with the Integrated Plan replace costs needed to meet all regulatory requirements of localities as well as HRSD (SSOs and TMDL) and are shown in Table 8.

In August 2024, HRSD broke ground for its second full-scale SWIFT program at the Nansemond Treatment plant in Suffolk. This facility is expected to be in operation in 2029 and will be able to replenish the Potomac aquifer with up to 34 million gallons of drinking-water quality SWIFT Water® per day by 2032 using advanced treatment processes. The project also includes advanced nutrient reduction improvements for the Nansemond Treatment Plant. The implementation of SWIFT at each of these two facilities, James River and Nansemond, in addition to Tertiary SWIFT at Virginia Initiative Plant (VIP), represent Phase I SWIFT. The VIP Tertiary SWIFT project will add the initial stages of advanced water treatment (tertiary filtration) to achieve phosphorus reductions and set the stage for a future full-scale SWIFT facility at VIP. Full implementation of Phase I SWIFT, which supports compliance with Virginia's Enhanced Nutrient Removal Certainty Program, will reduce nitrogen discharge by more than 70% and phosphorus discharge by more than 50% from their 2021 levels in the lower James River basin.

The residents of Hampton Roads send approximately 145 million gallons of sewage water for treatment to HRSD each day; approximately 100 million gallons flow into the Chesapeake Bay (87 million in the James River and 12 million in the York River in 2024), the remaining 44 million gallons of treated water go into the Atlantic Ocean. HRSD cleans the water and returns it to area waterways. The cost of cleaning water is rising as new stricter regulatory requirements, like more nutrient removal, are implemented to address environmental issues that continue to be further refined.

Taking water out of the ground at the current rate has led to sinking of land, or land subsidence, in some parts of eastern Virginia. This makes us more vulnerable to rising sea levels and the associated impacts. Replenishing the aquifer with HRSD's SWIFT Water® can help slow or even reverse the sinking of land due to withdrawal. Scientists believe that overuse of the aquifer causes about 25 percent of the sinking of land in parts of eastern Virginia. Replenishing our overdrawn aquifer can improve the environment and help our communities adapt to rising sea levels, contributing to the resiliency of our region. Restoring the health and productivity of the Chesapeake Bay largely depends on reducing the amount of nutrients and sediment that enter Chesapeake Bay waters. According to HRSD, Virginia has met the sediment reduction goals and MS4 permittees no longer have to demonstrate any further reduction in Total Suspended Solids. Virginia's focus is now on reductions in Nitrogen and Phosphorous. HRSD's Phase I SWIFT program is projected to effectively eliminate nearly 50% of HRSD's discharges to the Chesapeake Bay. This will significantly reduce the total amount of nutrients, such as phosphorus and nitrogen, reaching the receiving streams and, ultimately, the Bay.

TABLE 8 ESTIMATED CAPITAL COSTS OF SWIFT (INTEGRATED PLAN) MILLIONS OF 2024 DOLLARS	
Plants Owned and Operated by HRSD/ Regulatory Program	Capital Costs
Army Base Plant in Norfolk (AB)	\$0.0
Williamsburg Plant (WB)	\$1.5
Virginia Initiative Plant in Norfolk (VIP)	\$306.7
York River Plant (YR)	\$2.3
James River Plant (JR)	\$729.3
Boat Harbor Plant (BH)	\$489.6
Nansemond Plant in Suffolk (NP)	\$1,139.4
TMDL Compliance	\$2,668.7
MS4 Compliance	\$0.0
CD Compliance	\$420.0
TOTAL	\$3,088.7
Source: HRSD CIP Plan Budget Estimates and HRSD's SWIFT Budget.	

Comparing the Alternatives

Table 9 summarizes costs required to comply with regulations with a non-regionalized approach, a semi-regionalized approach, and costs with a SWIFT Integrated Plan in 2024 dollars. Costs associated with SWIFT Integrated Plans are much lower (\$3.1 billion) than costs associated with the non-regionalized approach (\$8.2 billion) or the semi-regionalized approach (\$6.8 billion). Regional collaboration reduced costs by \$1.4 billion (17.4%). The SWIFT Integrated Plan reduces costs by an additional \$3.7 Billion (45.4%) relative to the semi-regionalized approach.

If we accept the non-regionalized approach as the base case (do-nothing case), then the semi-regionalized approach avoids approximately \$1,436.4 million in compliance costs relative to the base case. SWIFT avoids approximately \$5,150.1 million from the base case and \$3,713.7 million from the semi-regionalized case. The question is one of perspective. Localities and HRSD were facing \$8,238.8 million in potential costs in 2024 dollars and found that regionalization (or semi-regionalization) would reduce outlays. After agreeing to embark on semi-regionalization, the parties then explored how to further reduce costs, ultimately embarking on SWIFT. Regardless of the perspective, SWIFT initiative has saved localities and rate payers from having to make significant capital outlays.

In summary, through a collaborative effort, led by HRSD, rate payers in Hampton Roads were able to avoid about \$5.15 billion in costs associated with regulatory requirements. Total estimated savings due to semi-regionalization were \$1.44 billion, and the remaining \$3.71 billion can be attributed to the SWIFT initiative led by HRSD.



TABLE 9 REGIONAL REGULATORY BURDEN OF THE THREE APPROACHES MILLIONS OF 2024 DOLLARS			
Plants Owned and Operated by HRSD/Regulatory Program	Non-Regionalized Approach	Semi-Regionalized Approach	SWIFT: Integrated Plan
Army Base Plant in Norfolk (AB)	\$80.4	\$80.4	\$0.0
Williamsburg Plant (WB)	\$80.4	\$80.4	\$1.5
Virginia Initiative Plant in Norfolk (VIP)	\$160.8	\$160.8	\$306.7
York River Plant (YR)	\$26.8	\$26.8	\$2.3
James River Plant (JR)	\$293.7	\$293.7	\$729.3
Boat Harbor Plant (BH)	\$576.7	\$576.7	\$489.7
Nansemond Plant in Suffolk (NP)	\$342.0	\$342.0	\$1,139.4
TMDL Compliance by HRSD	\$1,560.9	\$1,560.9	\$2,668.7
MS4 Compliance by localities	\$2,312.5	\$2,312.5	\$0.0
CD Compliance	\$4,365.4	\$2,929.0	\$420.0
TOTAL	\$8,238.8	\$6,802.4	\$3,088.7
Sources: HRSD internal estimates based on previous upgrades, including budgetary planning estimates from HRSD's CIP and SWIFT budget and Dragas Center for Economic Analysis and Policy.			

METHODOLOGY FOR ESTIMATING ECONOMIC IMPACT

This section briefly discusses the modeling approaches, assumptions, and the measures of economic impact. We first define direct, indirect, and induced economic impact. We then discuss different measures of economic impact. The section concludes with a discussion of the inputs for the generation of economic impacts.

Total economic impact consists of three measures: direct economic impact, indirect economic impact, and induced economic impact. Quantifying the **economic impact** of HRSD and SWIFT in satisfying regulatory requirements is an important element in local, regional, and state economic development efforts. Capital investment and the cost mitigation for ratepayers contributes to the growth in jobs across the region and state. The task of this study is to estimate **how much** HRSD and SWIFT increases economic activity across the Commonwealth of Virginia and **how many** more jobs exist in Virginia because of HRSD's and SWIFT's compliance with the regulatory burden.

While the term **economic impact** is generally used to present estimates of the influence of an activity, organization, or policy on an economy, there are actually several measures of economic impact to consider. The most straightforward measure of economic impact is **employment**, which is typically measured in terms of nonfarm payrolls (jobs) or individual employment (people). **Earnings** or **compensation** is a measure of wages, salaries, and benefits associated with employment impacted by the activity, organization, or policy. In this case of this study, we estimate the change in nonfarm payrolls (jobs) associated with increases in household income because of HRSD and SWIFT.

Value added or **Gross Domestic Product (GDP)** is a measure of the value of final goods and services in the study area for a given period of time. Value added is net of the cost of **intermediate inputs**, that is, goods and services used to produce the final product or service in question. Value added represents the level of economic activity in an area. Why is it important not to include the value of intermediate inputs? If a manufacturer in Virginia Beach buys \$1 million in goods from outside the area and uses these goods to create final products for sale worth \$3 million, we want to capture the additional value created by the manufacturer. In other words, economic activity increased

by \$2 million (the value added), not \$3 million (the value added and the value of intermediate inputs).

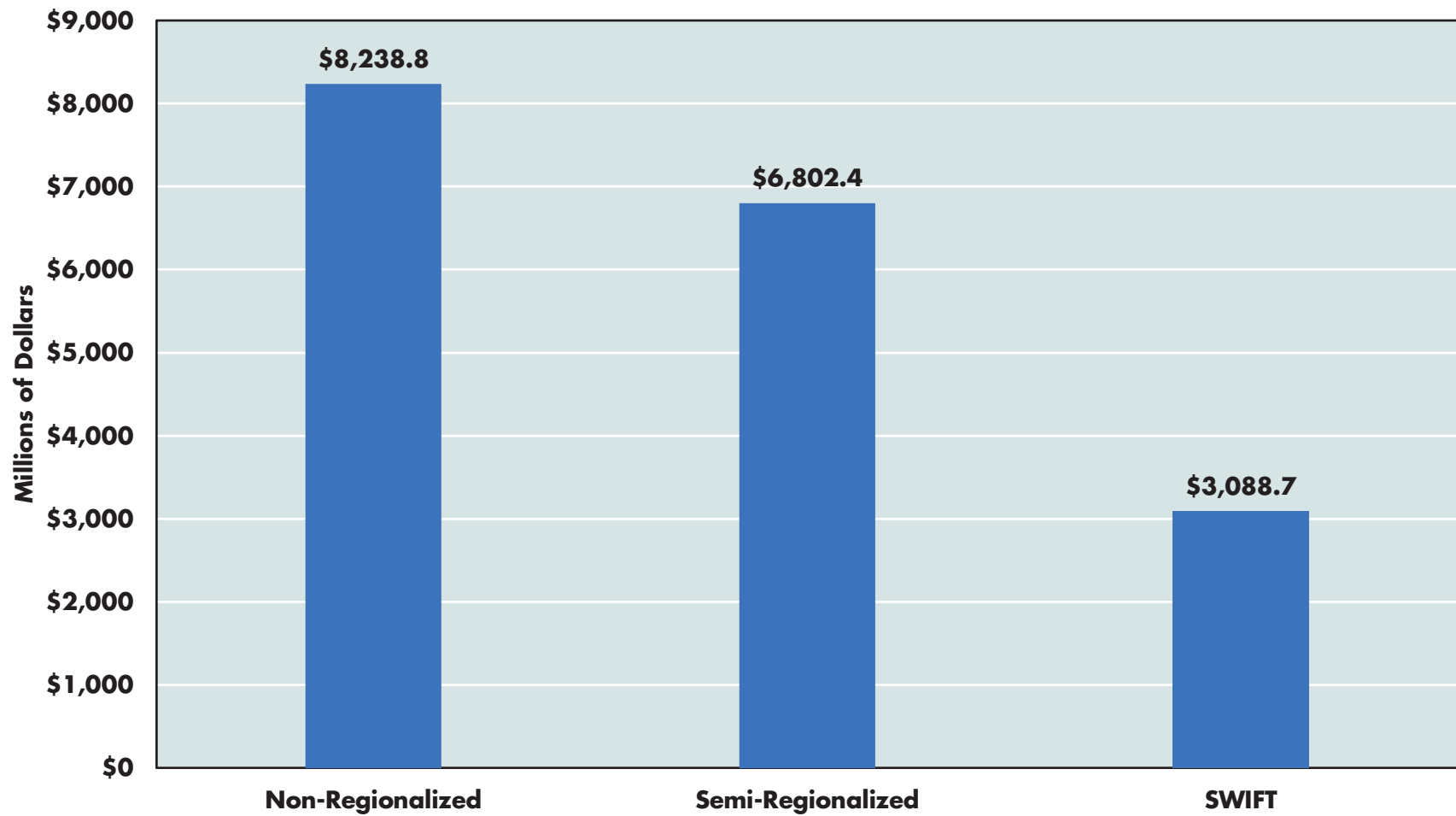
Economic output or **industry output** is equal to the sum of value added and intermediate inputs. For analyses focused on a specific industry, output captures the impact of a spending or policy change on industry activity. Output is typically considered the total value of production and is equal to the sum of intermediate inputs and value added. As output includes the value of intermediate inputs, it encompasses parts of the value of other industries' outputs.

We are limited in our ability to compare capital expenditures across the different scenarios. The non-regionalized and semi-regionalized approach estimates were developed in 2013 and did not include the schedule of expenditures. While we have actual and projected expenditures for SWIFT, the lack of detail regarding the non-regionalized and semi-regionalized estimates requires us to compare aggregate expenditures for each alternative in 2024 dollars.

Graph 1 presents the regulatory compliance costs for each approach in millions of 2024 dollars. The non-regionalized approach would have cost ratepayers \$8,238.8 million in 2024 dollars, while the semi-regionalized approach would have cost ratepayers \$6,802.4 million in 2024 dollars. We note that these estimates are likely a lower bound on the cost of these plans as construction and material costs have increased at a faster rate than the overall pace of inflation since 2013. SWIFT's total regulatory compliance costs are equal to \$3,088.7 million in 2024 dollars.

From an economic impact perspective, we need to estimate the **marginal benefit** of the semi-regionalized and SWIFT approaches. The marginal benefit, or reduction in costs to ratepayers, captures the avoided costs due to a policy change. The marginal benefit of the semi-regionalized approach represents the change in regulatory compliance costs relative to the non-regionalized approach, or \$1,436.4 million (\$8,238.8 million minus \$6,802.4 million). In other words, because of the implementation of the semi-regionalized approach, ratepayers in HRSD service area avoided \$1,436.4 million in costs relative to the non-regionalized baseline. Table 10 contains these estimates.

GRAPH 1
REGULATORY COMPLIANCE COSTS
MILLIONS OF 2024 DOLLARS



Source: Dragas Center for Economic Analysis and Policy.

TABLE 10
REGULATORY COMPLIANCE COSTS AND
MARGINAL CHANGE IN COSTS
MILLIONS OF 2024 DOLLARS

Approach	Regulatory Compliance Cost	Reduction in Ratepayer Costs	Reduction in Loan Costs	Total Reduction in Costs
Non-Regionalized Approach	\$8,238.8	---	---	---
Semi-Regionalized Approach	\$6,802.4	\$1,436.4	---	\$1,436.4
SWIFT	\$3,088.7	\$3,713.7	\$321.6	\$4,035.3
Totals		\$5,150.1	\$321.6	\$5,471.7

Source: Dragas Center for Economic Analysis and Policy. The reduction in ratepayer costs represents the marginal reduction in costs relative to the previous approach. The reduction in ratepayer costs for the semi-regionalized approach is relative to the non-regionalized approach while the reduction in ratepayer costs for SWIFT is relative to the semi-regionalized approach.

The development and implementation of SWIFT also allowed HRSD to obtain loans at a reduced interest rate relative to prevailing markets. We estimate the present value of these savings to be \$321.6 million in 2024 dollars relative to the semi-regionalized approach. SWIFT saved ratepayers \$3,713.7 million in regulatory compliance costs and \$321.6 million in loan costs, for a total savings of \$4,035.3 million relative to the semi-regionalized approach. In total, HRSD's semi-regionalization and SWIFT saved ratepayers \$5,471.7 million relative to the non-regionalized approach.

We model the avoided costs of each approach as an increase in household income for ratepayers in HRSD's service area. The avoided costs in Table 10 represent the present value of historical and future costs in 2024 dollars. In other words, ratepayers "saved" \$1,436.4 million because of semi-regionalization. The development and implementation of SWIFT will save ratepayers an additional \$4,035.3 million relative to semi-regionalization.

We do not, however, have information on the distribution of ratepayers by income decile. We assume that the distribution of ratepayers by income can be proxied by the distribution of households by income decile in the Virginia Beach – Chesapeake – Norfolk MSA. We obtain 1-year estimates from the U.S. Census 2024 American Community Survey (ACS) on the distribution of households by income in the past 12 months.

As we use IMPLAN to estimate the economic impacts associated with the avoided costs, we must map the 2024 ACS 1-year estimates income categories to the IMPLAN income categories. In some instances, there is a direct correspondence between the ACS and IMPLAN income categories. In other cases, we assume the household distribution is constant within categories by each \$1,000 of income and map ACS to IMPLAN categories accordingly. We then distribute the avoided marginal costs for semi-regionalization and SWIFT to each of the IMPLAN income categories based on the percentage of Virginian households in each income category. We treat the avoided costs, displayed in Table 11, as an injection of household income which, in turn, is spent in the economy according to the spending patterns of each income category.

Table 12 presents the estimates of economic impact for semi-regionalization, SWIFT, and the total economic impacts associated with both approaches. We note that the economic impacts are for the economy of Virginia and likely represent a lower bound on the impacts associated with semi-regionalization and SWIFT as the costs have increased since the 2013 regionalization study.

Semi-regionalization's economic impacts included almost 7,500 jobs across Virginia with compensation equal to \$446.3 million. Semi-regionalization increased industry output by \$1,447.9 million. Semi-regionalization also increased Virginia's GDP by \$924.5 million. SWIFT's economic impacts will include more than 21,000 jobs across Virginia with compensation equal to \$1,286.9 million. SWIFT will increase industry output across the Commonwealth by \$4,179.0 million, and will increase Virginia's GDP by \$2,669.0 million.

TABLE 11					
DISTRIBUTION OF INCOME AND AVOIDED COSTS					
Household Income Past 12 Months	Distribution of Virginia Households	IMPLAN Household Income Categories	Distribution of Virginia Households	Avoided Costs Semi-Regionalization Millions of 2024 Dollars	Avoided Costs SWIFT Millions of 2024 Dollars
Less than \$10,000	4.3%	Less than 15k	7.0%	\$100.6	\$282.5
\$10,000 to \$14,999	2.7%	15k-30k	7.8%	\$112.0	\$314.8
\$15,000 to \$24,999	5.1%	30k-40k	5.7%	\$81.4	\$228.7
\$25,000 to \$34,999	5.4%	40k-50k	5.9%	\$85.2	\$239.4
\$35,000 to \$49,999	8.9%	50k-70k	11.8%	\$168.9	\$474.6
\$50,000 to \$74,999	14.7%	70k-100k	15.2%	\$218.9	\$614.9
\$75,000 to \$99,999	12.3%	100-150k	18.0%	\$258.6	\$726.4
\$100,000 to \$149,999	18.0%	150k-200k	11.1%	\$159.4	\$447.9
\$150,000 to \$199,999	11.1%	200k or Above	17.5%	\$251.4	\$706.8
\$200,000 or more	17.5%				
Totals	100.0%		100.0%	\$1,436.4	\$4,035.3
Sources: U.S. Census, 2024 American Community Survey, 1-Year estimates and Dragas Center for Economic Analysis and Policy. The reduction in ratepayer costs represents the marginal reduction in costs relative to the previous approach. The reduction in ratepayer costs for the semi-regionalized approach is relative to the non-regionalized approach, while the reduction in ratepayer costs for SWIFT is relative to the semi-regionalized approach.					

TABLE 12				
ECONOMIC IMPACTS OF SEMI-REGIONALIZATION AND SWIFT ON VIRGINIA MILLIONS OF 2024 DOLLARS				
	Employment	Labor income	Value Added	Outputs
Semi-Regionalization	7,480	\$446.3	\$924.5	\$1,447.9
SWIFT	21,013	\$1,286.9	\$2,669.0	\$4,179.0
Totals	28,492	\$1,733.2	\$3,593.5	\$5,626.9
Source: Dragas Center for Economic Analysis and Policy				

Final Thoughts

In total, semi-regionalization and SWIFT will result in the creation of almost 28,500 jobs by increasing household income relative to the non-regionalized baseline. In other words, if HRSD had not undertaken semi-regionalization and SWIFT, there would have been 28,500 fewer jobs across the Commonwealth. The total contribution of semi-regionalization and SWIFT to Virginia's GDP is \$3,593.5 million. As we noted previously, given the increases in construction and materials costs since the 2013 regionalization study, our estimates represent a lower bound on the economic impacts associated with semi-regionalization and SWIFT.

The collaboration between the Hampton Roads Sanitation District and local municipalities serves as a powerful case study for regional economic development, proving that environmental stewardship can be a driver of cost savings. By moving away from a fragmented, city-by-city approach to wastewater management, the region successfully leveraged economies of scale to avoid redundant infrastructure and administrative overhead. This shift reduced regulatory burdens and fostered a regional operation, demonstrating that complex challenges like nutrient reduction and sewer overflows are managed most efficiently through consolidated financial and regulatory obligations rather than through isolated local efforts.

Beyond simple utility management, the initiative functions as a long-term economic stimulus by directly addressing the environmental risks that threaten the region's core industries. By treating wastewater as a valuable resource to replenish the Potomac Aquifer, the project mitigates land subsidence and helps protect the critical infrastructure of the Port of Virginia, the national defense sector, and the tourism and hotel industry from the existential threats of sea-level rise and recurrent flooding. Furthermore, the billions of dollars in avoided costs acts as an injection of disposable income for residents and businesses. Lastly, HRSD and SWIFT provide an innovative cluster that can attract investment from the state and across the nation, helping diversify the economy of Hampton Roads.





Housing in Hampton Roads



HOUSING IN HAMPTON ROADS

“We shape our buildings, and afterwards our buildings shape us.”

—Winston Churchill, House of Commons, October 28, 1943

For many years, advocates for the Virginia Beach – Chesapeake – Norfolk metropolitan statistical area (MSA) have touted the region’s affordability. Median housing values and multifamily rents have been lower in Hampton Roads than, for example, Northern Virginia. A lower cost of living coupled with the region’s attractive quality of life should, in theory, be attractive to individuals and employers alike. In economics, however, we examine relative prices, that is, how do housing costs compare to income, and when we do this, Hampton Roads’ affordability argument weakens. Approximately 1-in-3 homeowners in the region with a mortgage paid more than 30% of their household income in housing costs in 2025. The picture is bleaker for households who rent. In 2025, more than half of renters in Hampton Roads paid more than 30% of their income in housing costs.

The challenges facing Hampton Roads, however, are not unique. The U.S. Census Bureau reported the national homeownership rate nationally was 65.3% in the first quarter of 2026, roughly in line with the long-term average.¹ The National Association of Realtors (NAR) estimated, however, that the share of first-time homebuyers fell to a record low of 21.0% in 2025. The NAR also reported that the median age of first-time homebuyers rose to 40 years, an all-time high this century.² While homeownership is the goal of many Americans, it appears to be increasingly out of reach for first-time homebuyers.

Similar conditions appear to be in play across the Commonwealth. In March 2026, the median sales price for single-family homes reached \$425,000, 1.7% higher than March 2025. The median sales price increased even though active listings in March reached 20,979, a 6.3% increase from March 2025.³ The total number of private housing units authorized by building permits for Virginia declined to 31,641 in 2025, lower than the 32,770 permits issued in 2019.⁴ Fewer permits will reduce future supply, further constraining the ability of Virginians to buy single-family homes.

Younger households that cannot purchase homes remain renters for longer periods, increasing rental demand. What housing is being built appears to be concentrated in higher-priced units, further decreasing housing mobility. Delayed home purchases translate to slower wealth formation as the largest source of wealth for many Americans is the single-family home. Without an increase in the supply of housing, prices will continue to increase, further constraining the ability of individuals to transition out of multifamily into single-family housing.

In this chapter, we discuss the state of housing in Hampton Roads. We focus on the supply side of the market for reasons that will become apparent throughout the chapter. We start with single-family housing and then discuss multi-family housing. We then explore factors that influence the supply of housing across the region. We conclude with actions that Hampton Roads can take to address the supply and, by extension, the affordability of housing in the region.

1 U.S. Census Bureau. Quarterly Residential Vacancies and Homeownership, First Quarter 2026. <https://www.census.gov/housing/hvs/files/currenthvspress.pdf>.

2 National Association of REALTORS®. 2025 Profile of Home Buyers and Sellers. <https://www.nar.realtor/magazine/real-estate-news/nar-2025-profile-of-home-buyers-sellers-reveals-market-extremes>.

3 Virginia REALTORS®, March 2026 Virginia Home Sales Report, April 23, 2026. <https://virginiarealtors.org/2026/04/23/key-takeaways-march-2026-virginia-home-sales-report/>.

4 U.S. Census Bureau. New Private Housing Units Authorized by Building Permits for Virginia [VABPPRIV]. Retrieved from FRED, Federal Reserve Bank of St. Louis. <https://fred.stlouisfed.org/series/VABPPRIV#>.

Single Family Housing in Hampton Roads

In March 2026, the median sale price of a single-family home in Hampton Roads was \$360,000, \$65,000 lower than the statewide median price of \$425,000.⁵ While the \$65,000 gap made the region appear more affordable when compared to the statewide median sale price, it did not necessarily make it affordable in reality. With a 30-year fixed mortgage rate of 6.38% as of March 2026, the monthly principal and interest (P&I) on a loan for a house costing \$360,000 with a 20% down payment would equal \$1,798.⁶ Adding property taxes and homeowners insurance would raise the monthly payment by hundreds of dollars per month. If the property was in a flood zone, additional payments for flood insurance would be required. As many first-time homebuyers do not have sufficient liquidity to put 20% down, their payments would be even higher.

Why are single-family home prices rising in Hampton Roads? While there are many factors that influence the demand for housing, including population and income growth, we focus on the supply of housing. Graph 1 presents the number of private housing units authorized by building permits in the region from 1993 to 2025. There are two distinct eras of private housing building permits in the region: prior to the Great Recession and after the Great Recession. From 1993 to 2005, more than 8,900 building permits were authorized annually, on average, in Hampton Roads. The peak of permits was in 2004, when 10,846 building permits were issued across the region. The number of permits fell prior to the Great Recession and reached a low of 4,294 permits in 2010. This represented a 60.4% decline in building permits relative to permits issued in 2004.

If we examine the average number of annual permits issued each decade, the structural decline becomes even more evident. From 1993 to 1999, an average of 8,448 permits were issued each year. In the 2000s, because of the Great Recession, the average number of permits fell to 7,772. In the 2010s, the annual average number of permits declined to 5,726. In the 2020s, the annual average stood at 5,741 permits. Even though Hampton Roads experienced its fifth consecutive year of economic growth in 2025, housing permits fell to the lowest level in the modern record. Given there is a lag between receiving a permit, construction, and the new single-family home becoming available for sale, this phenomenon does not bode well for the future of single-family housing supply in Hampton Roads.

What about the number of existing single-family residences that are listed for sale? Graph 2 reveals that the number of active listings in Hampton Roads declined significantly this decade. In 2017 and 2018, there were, on average, more than 10,000 active listings a month in the region. In 2019, there was an average of 9,008 active listings a month in the metro area. In 2020, the average number of active listings fell to 5,815, a decline of 35.4% from 2019. In 2021, average active listings fell another 36.1% relative to 2020 and a 58.8% decline when compared to 2019. After reaching a low of 3,067 in 2022, active listings, on average, increased in 2023 and 2024. In 2025, there was an average of 4,553 active listings in Hampton Roads, 49.5% lower than 2019. Even though the number of active listings increased in the first months of 2026, the average number of active listings was half that observed at the end of the last decade.

⁵ REIN. Hampton Roads Market Summary: March 2026. <https://www.rein.com/Article/Hampton-Roads-Market-Summary-March-2026-13012>.

⁶ Freddie Mac, 30-Year Fixed Rate Mortgage Average in the United States [MORTGAGE30US], retrieved from FRED, Federal Reserve Bank of St. Louis. <https://fred.stlouisfed.org/series/MORTGAGE30US>.

With fewer homes being built and fewer existing homes coming to market, it should be no surprise that median listing prices in Hampton Roads have increased over the last decade (Graph 3). In July 2016, the median listing price was \$257,490. We can observe the seasonality of listing prices in the data, with annual peaks typically occurring in the summer months. From July 2016 to July 2020, the median listing price increased from \$257,490 to \$324,900, a jump of 26.2%. Median listing price growth accelerated in 2022 and 2023, reaching a peak of \$399,000 in June 2023. Median listing prices did not return to this level until March 2025 and reached \$415,000 in May, June, and July of 2025. In 2026, the median listing price surpassed the 2025 high, reaching \$436,000 in May.

In Graph 4, we construct an index that captures the growth in median listing prices and private average hourly earnings in Hampton Roads from July 2016 to April 2026. The index is equal to 100 in July 2016. We use nominal values of each variable to construct the index as we want to illustrate the changes in listing prices and earnings experienced by consumers and workers over this period. What becomes clear from Graph 4 is that median listing prices have grown faster in Hampton Roads than private average hourly earnings. In other words, what the average private-sector worker earns in Hampton Roads has not kept up with single-family housing prices. From July 2016 to April 2026, nominal private average hourly earnings increased by 48.4% while median listing prices increased by 65.1%. The data tell a simple, stark story: single-family homes have become less affordable for the residents of Hampton Roads.

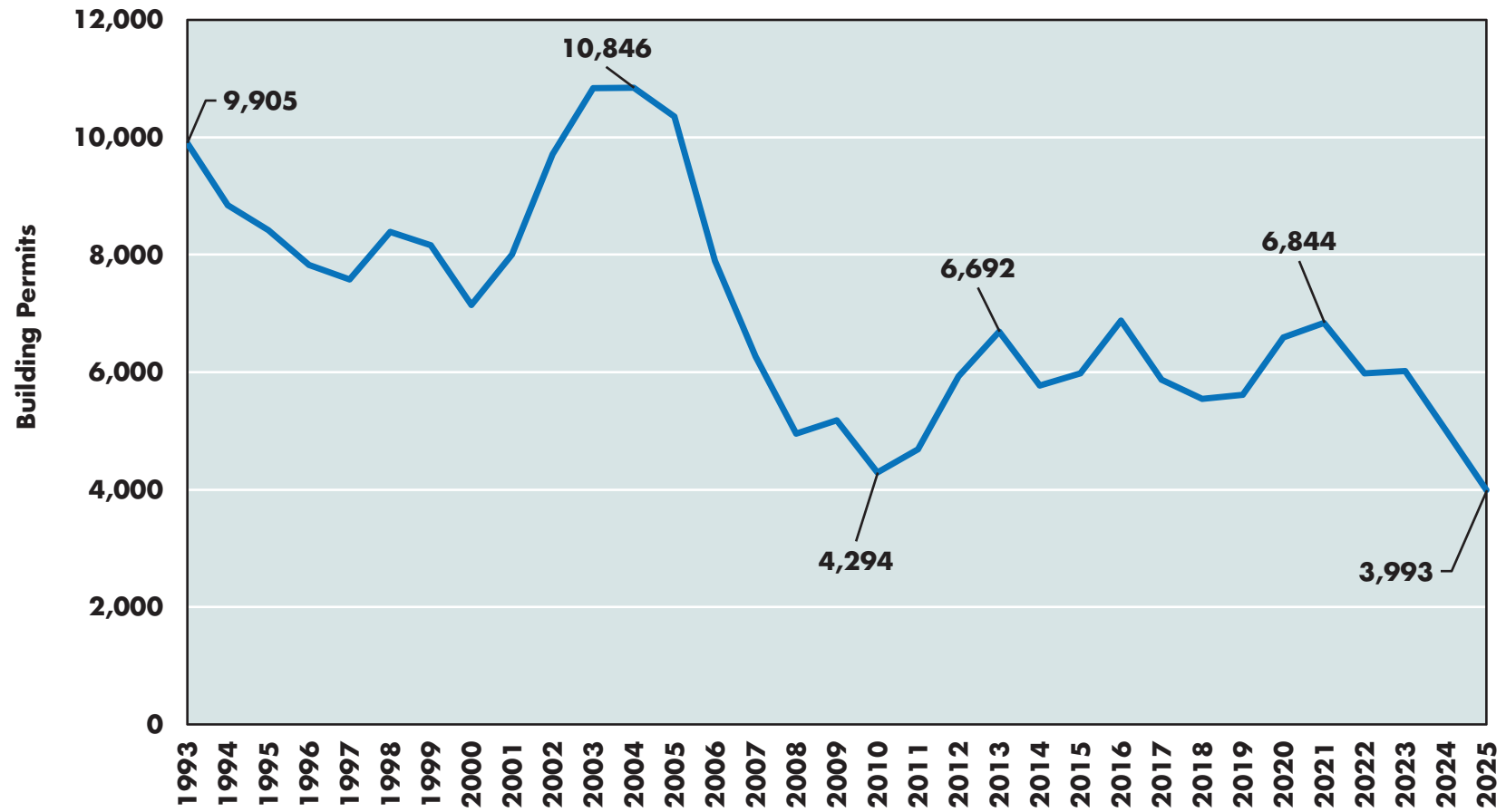
Graph 5 presents the Federal Housing Finance Agency (FHFA) House Price Index (HPI) for Hampton Roads and Virginia from 2000 to 2025. The HPI measures average price changes in repeat sales or refinancings on the same properties.⁷ From 2000 Q1 to 2007 Q2, housing prices increased by 119.7% in Hampton Roads and 104.3% across the Commonwealth. By 2012 Q2, housing prices were 19.2% and 17.4% lower in Hampton Roads and Virginia, respectively. When we compare housing prices in 2012 Q2 with 2000 Q1, however, prices were still 77.5% higher in Hampton Roads and 68.8% higher across the state.

Housing prices grew more slowly in the last decade when compared to the first decade of the century. From the low of 2012 Q2 to 2019 Q4, housing prices increased by 16.5% in Hampton Roads and 24.0% in Virginia. Price growth accelerated during the COVID-19 pandemic. From 2020 Q1 to 2021 Q1, prices increased by 7.2% in Hampton Roads and 6.9% statewide. From 2021 Q1 to 2022 Q1, prices jumped 15.5% in Hampton Roads and across the Commonwealth. In 2023 and 2024, prices increased by more than 7% in the region and statewide. In 2025, price growth decelerated, but prices still increased by 6.9% in Hampton Roads and 6.1% across Virginia. From 2020 Q1 to 2025 Q4, housing prices, as measured by the HPI, increased by 57.1% in Hampton Roads and 57.7% across Virginia.

⁷ Federal Housing Finance Agency. House Price Index (HPI), All-Transactions Index. <https://www.fhfa.gov/data/hpi>.

GRAPH 1

**ANNUAL PRIVATE HOUSING UNITS AUTHORIZED BY BUILDING PERMITS
HAMPTON ROADS, 1993 - 2025**



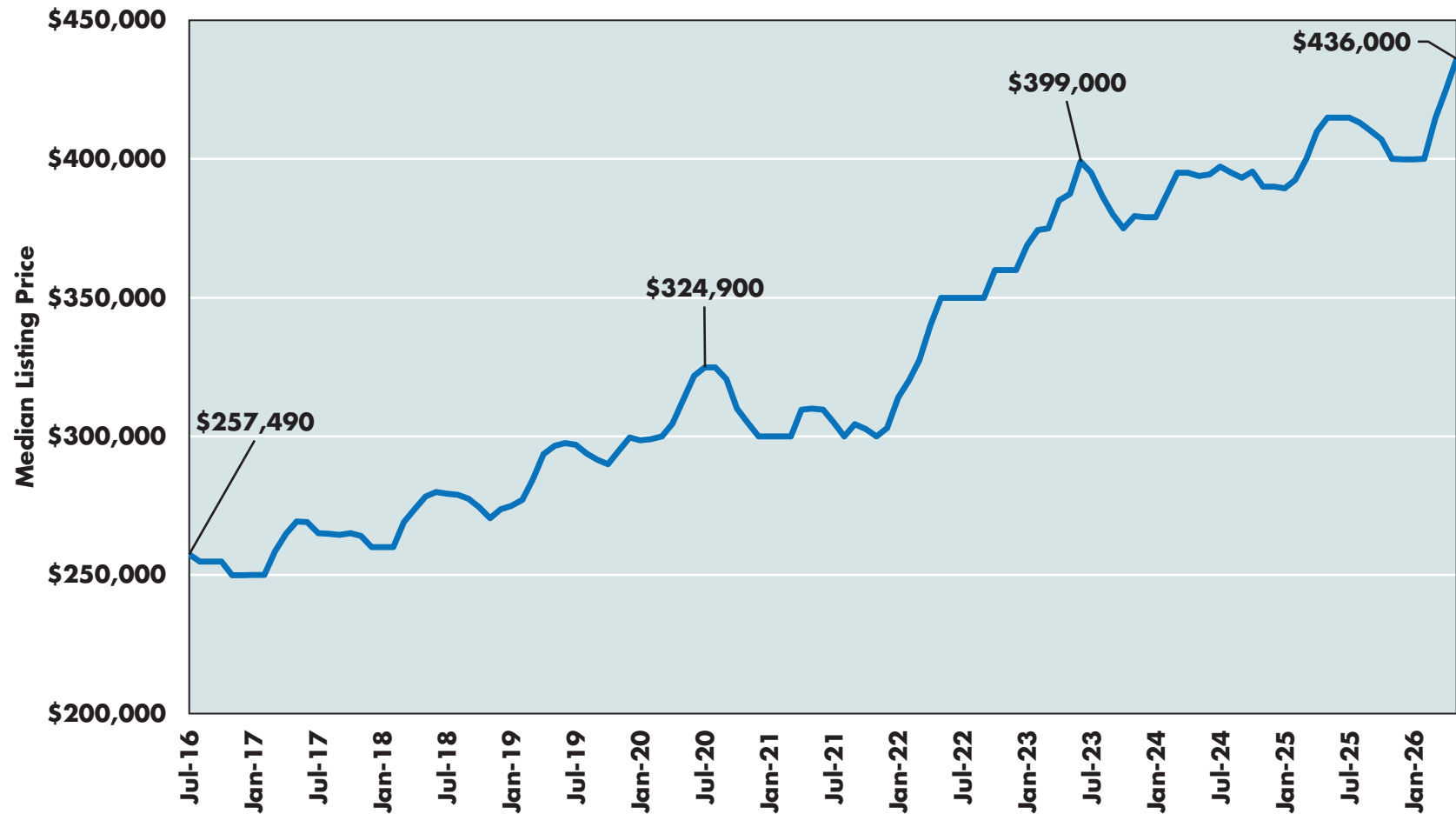
Sources: U.S. Census Bureau, retrieved from FRED, Federal Reserve Bank of St. Louis and Dragas Center for Economic Analysis and Policy. Annual totals were calculated by summing monthly observations. The series includes all private housing units authorized by building permits, including 1-unit, 2-unit, 3-unit, 4-unit, and 5-unit-or-more structures. Data are seasonally adjusted.

GRAPH 2
ACTIVE LISTINGS
HAMPTON ROADS, JULY 2016 - MAY 2026



Sources: Realtor.com, Housing Inventory: Active Listings Count in Virginia Beach-Norfolk-Newport News, VA-NC (CBSA), retrieved from FRED, Federal Reserve Bank of St. Louis.

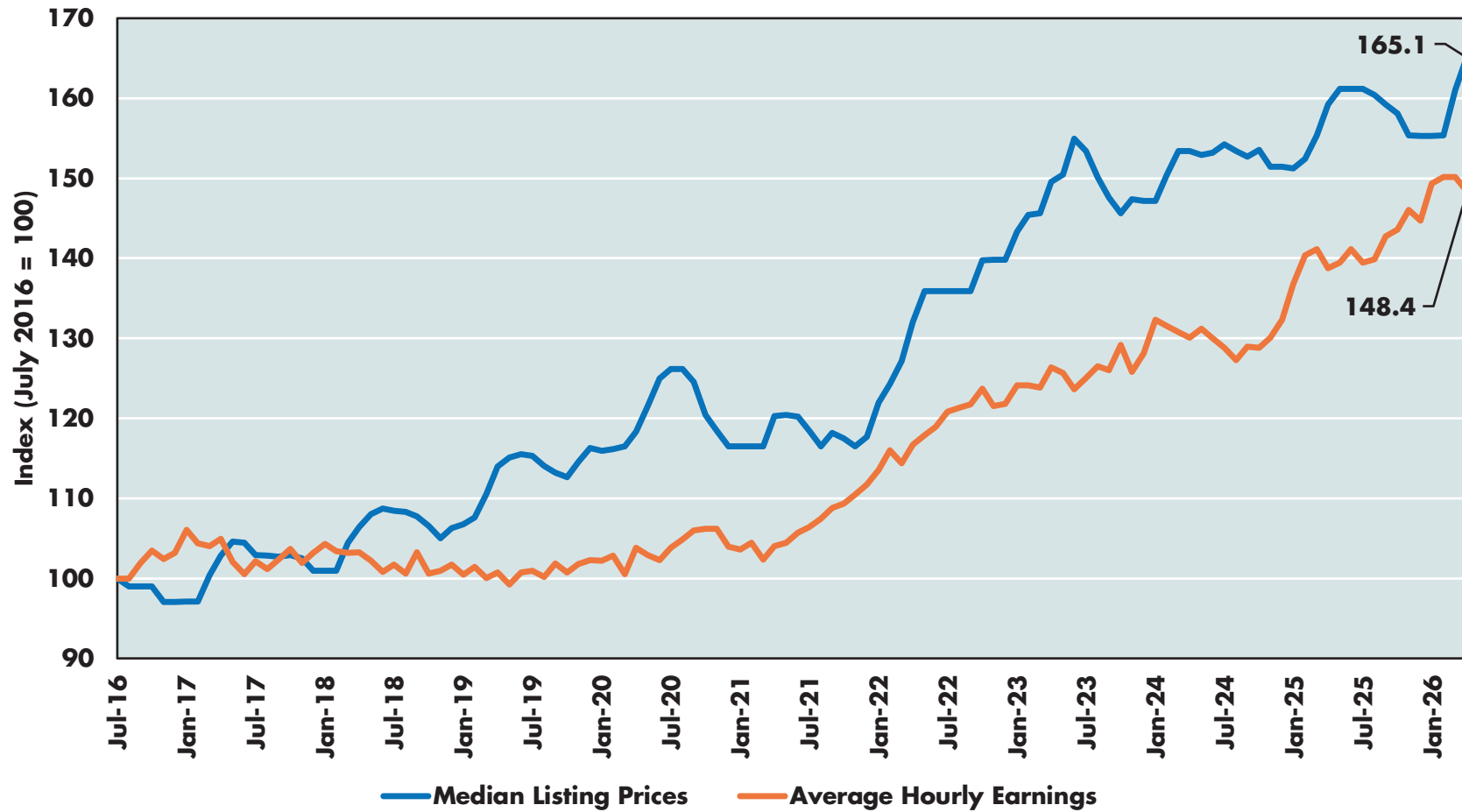
GRAPH 3
MEDIAN LISTING PRICE
HAMPTON ROADS, JULY 2016 - MAY 2026



Source: Realtor.com, Housing Inventory: Median Listing Price in Virginia Beach-Norfolk-Newport News, VA-NC (CBSA), retrieved from FRED, Federal Reserve Bank of St. Louis. Data are not seasonally adjusted, and measured in current U.S. dollars.

GRAPH 4

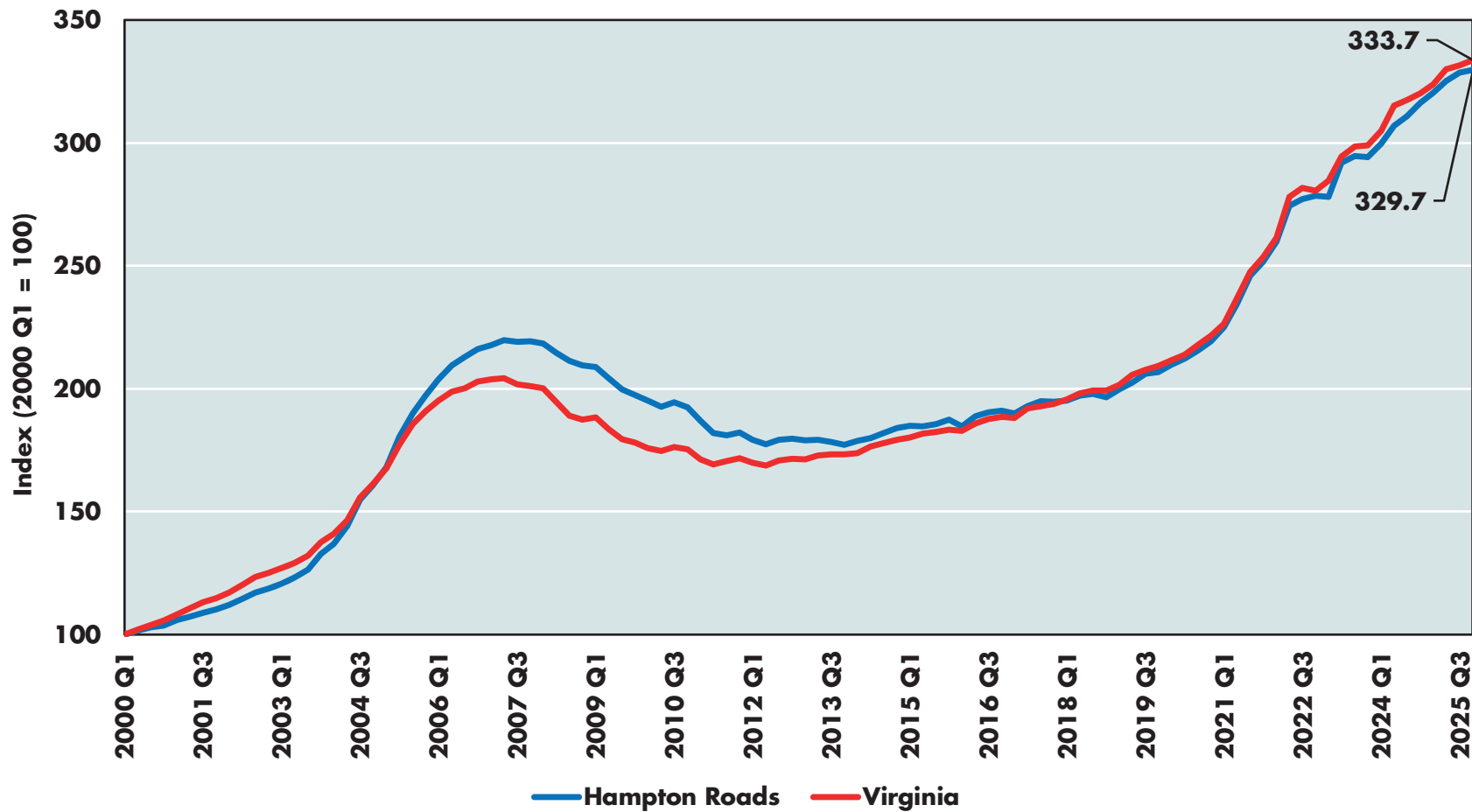
INDEX OF MEDIAN LISTING PRICE AND PRIVATE AVERAGE HOURLY EARNINGS
HAMPTON ROADS, JULY 2016 - APRIL 2026



Sources: Realtor.com, Housing Inventory: Median Listing Price in Virginia Beach-Norfolk-Newport News, VA-NC (CBSA), Bureau of Labor Statistics, retrieved from FRED, Federal Reserve Bank of St. Louis and Dragas Center for Economic Analysis and Policy. Data are not seasonally adjusted. Median listing prices are measured in U.S. dollars, and average hourly earnings are measured in dollars per hour. The median listing price series includes all residential homes listed for sale, including single-family homes and condo/townhome listings.

GRAPH 5

ALL-TRANSACTIONS HOUSE PRICE INDEX
HAMPTON ROADS AND VIRGINIA, 2000 Q1 - 2025 Q4



Sources: U.S. Federal Housing Finance Agency, retrieved from FRED, Federal Reserve Bank of St. Louis and Dragas Center for Economic Analysis and Policy. The all-transactions HPI measures average price changed from repeat sales and refinancings on the same single-family properties.

The Multifamily Market in Hampton Roads

Graph 6 illustrates the number of multifamily construction start units in Hampton Roads from 2005 to 2025. As one might expect, the number of multifamily units started declined before the Great Recession of 2007 – 2009. In the 2010s, an average of 1,932 multifamily units started construction each year. In the current decade, multifamily construction start peaked in 2021 at 2,451 units. By 2023, only 1,781 construction units were started and in 2024, the number of units started fell precipitously to 671. While the number of multifamily construction starts units recovered slightly to 941 in 2025, this level was 61.6% lower than the level observed in 2021.

Graph 7 displays net new multifamily deliveries in Hampton Roads. These are new multifamily units being added to the existing stock minus multifamily units that are taken out of inventory. In Graph 8, we show where multifamily inventory increased in Hampton Roads from 2023 Q4 to 2025 Q4. Localities with no increase in multifamily inventories are excluded from the graph. Norfolk, with an increase of 1,511 units, and Virginia Beach, with an increase of 1,352 units, experienced the largest absolute changes in inventory. However, as a percentage of existing inventory, Norfolk and Virginia Beach's increases were 6.0% and 4.0%, respectively. Poquoson's increase of 176 units represented a 70.4% increase in multifamily inventory. Isle of Wight, at 25.2%, and York County, at 13.7%, also experienced notable percentage increases in multifamily inventory from 2023 Q4 to 2025 Q4.

Graph 9 shows the effect of the annual change in multifamily housing supply and demand in Hampton Roads from 2006 to 2025. Supply refers to annual net multifamily deliveries and demand refers to annual net absorption, we see that net supply was negative from 2015 to 2021 with the exception of 2016. In other words, renters demanded more multifamily units than were added to inventories, constraining the number of units available for rent. This created an incentive for landlords to increase rents and for developers to build more multifamily homes. From 2022 to 2024, new deliveries outpaced demand, so net supply was positive. In 2025, however, there were only 1,191 new

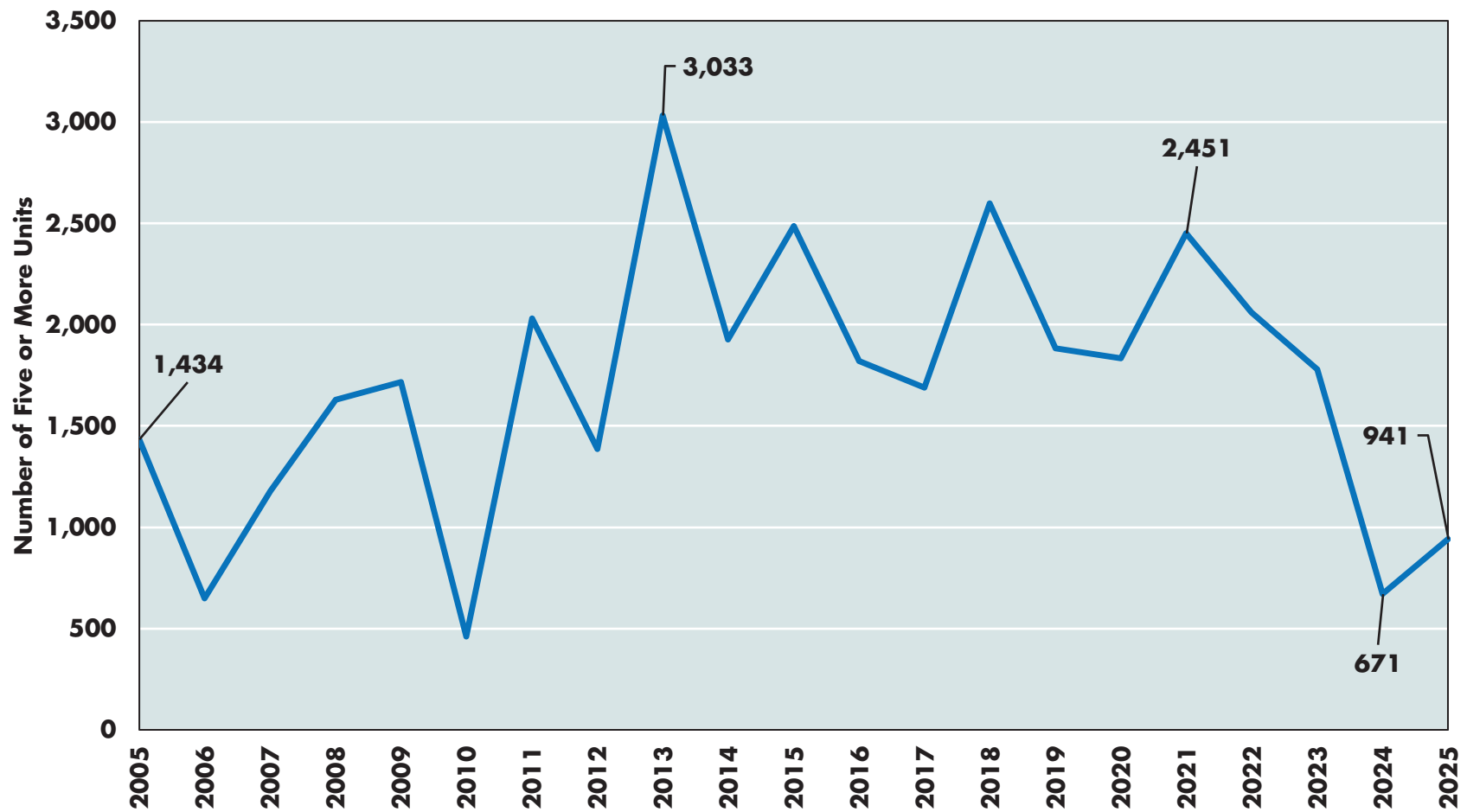
deliveries and net absorption was 2,253, resulting in a negative net supply. In all likelihood, this structural deficit will intensify moving forward as the volume of new units under new construction (Graph 6) in 2025 was significantly lower than historical averages.

Graph 10 highlights the multifamily vacancy rate in Hampton Roads and the United States from 2006 to 2025. Multifamily vacancy rates were higher in Hampton Roads in the early years of the previous decade. In 2019, however, the multifamily vacancy rate in Hampton Roads dipped to 5.9%, 0.5 percentage points lower than the nation. The vacancy rate continued to decline and reached a low of 3.4% in 2021 before increasing to 6.6% in 2024 (1.5 percentage points lower than the nation). In 2025, the multifamily vacancy rate in Hampton Roads was 5.9%, 2.5 percentage points lower than the United States. While CoStar forecasts the vacancy rate will continue to rise in Hampton Roads in 2026, its forecast also notes that Hampton Roads will continue to experience relatively more constrained multifamily market conditions when compared to the United States.

The confluence of demand and supply is displayed in Graph 11 showing nominal asking rents per unit in Hampton Roads from 2010 Q1 to 2027 Q1. Graph 12 provides the Q4 to Q4 percent change in nominal asking rents per unit in the region. From 2018 Q4 to 2019 Q4, asking rents increased by 2.9%, accelerating by 5.2% from 2019 Q4 to 2020 Q4. As the multifamily vacancy rate fell to a low of 3.4% in 2021, multifamily asking rents jumped by 10.2% from 2020 Q4 to 2021 Q4. As new supply entered the market and net supply became positive, asking rent growth eased but still remained higher than observed at the start of the previous decade. If CoStar's forecast is reasonably correct, the 2.6% increase in asking rents in 2026 would match the lowest rate observed since 2018.

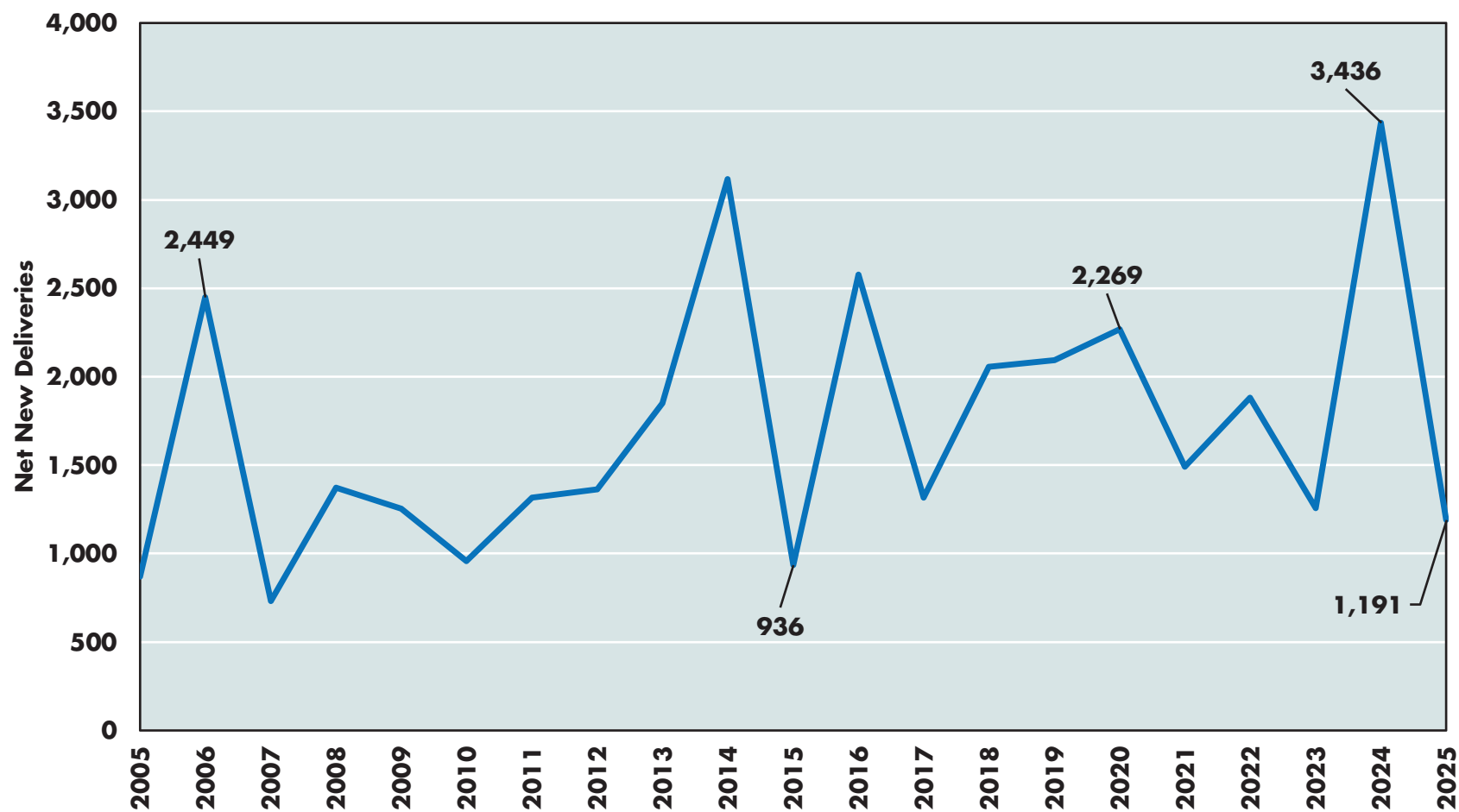
GRAPH 6

**NEW MULTIFAMILY CONSTRUCTION START UNITS
HAMPTON ROADS, 2005 - 2025**



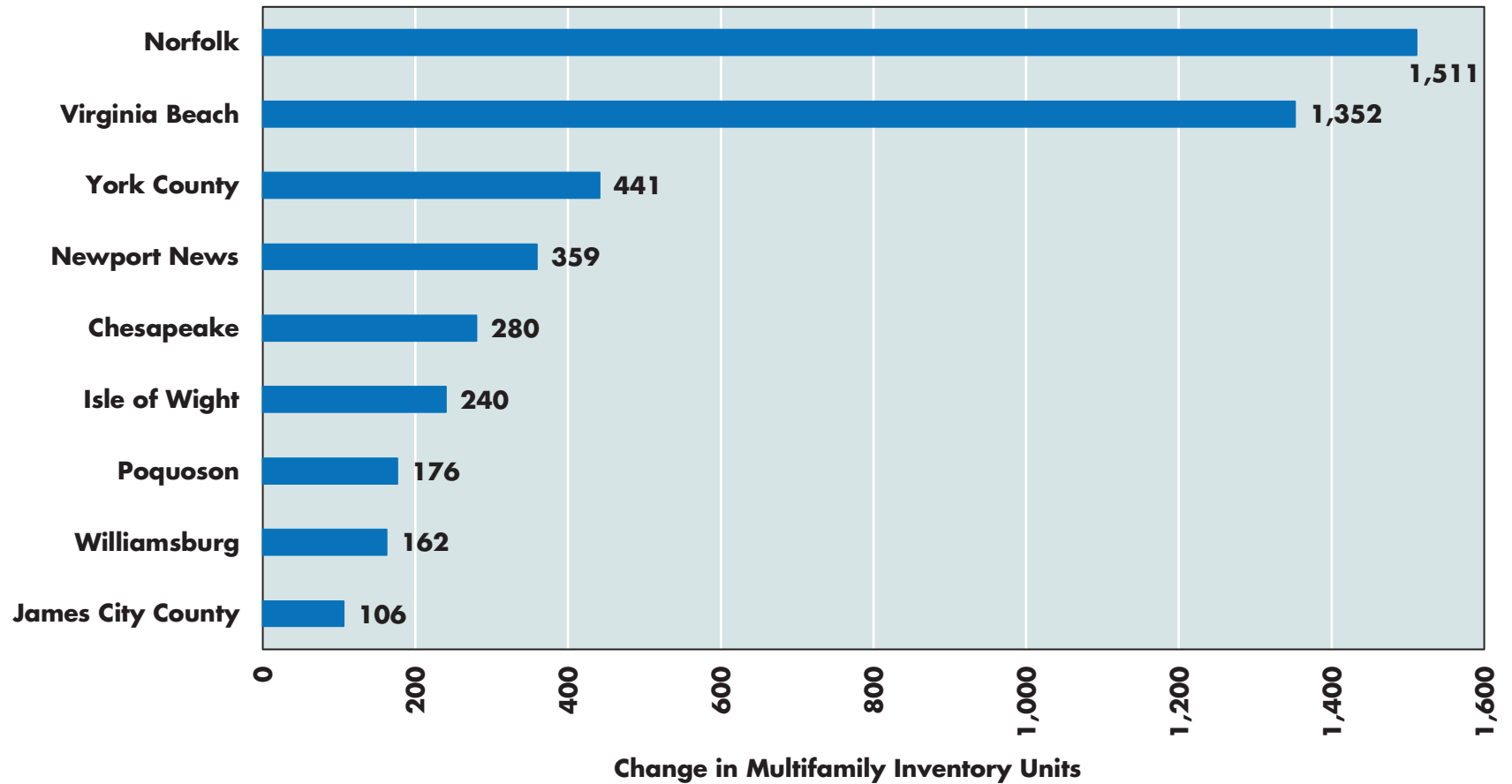
Sources: CoStar Market Analytics and Dragas Center for Economic Analysis and Policy.

GRAPH 7
NET NEW MULTIFAMILY DELIVERIES
HAMPTON ROADS, 2005 - 2025



Sources: CoStar Market Analytics and Dragas Center for Economic Analysis and Policy.

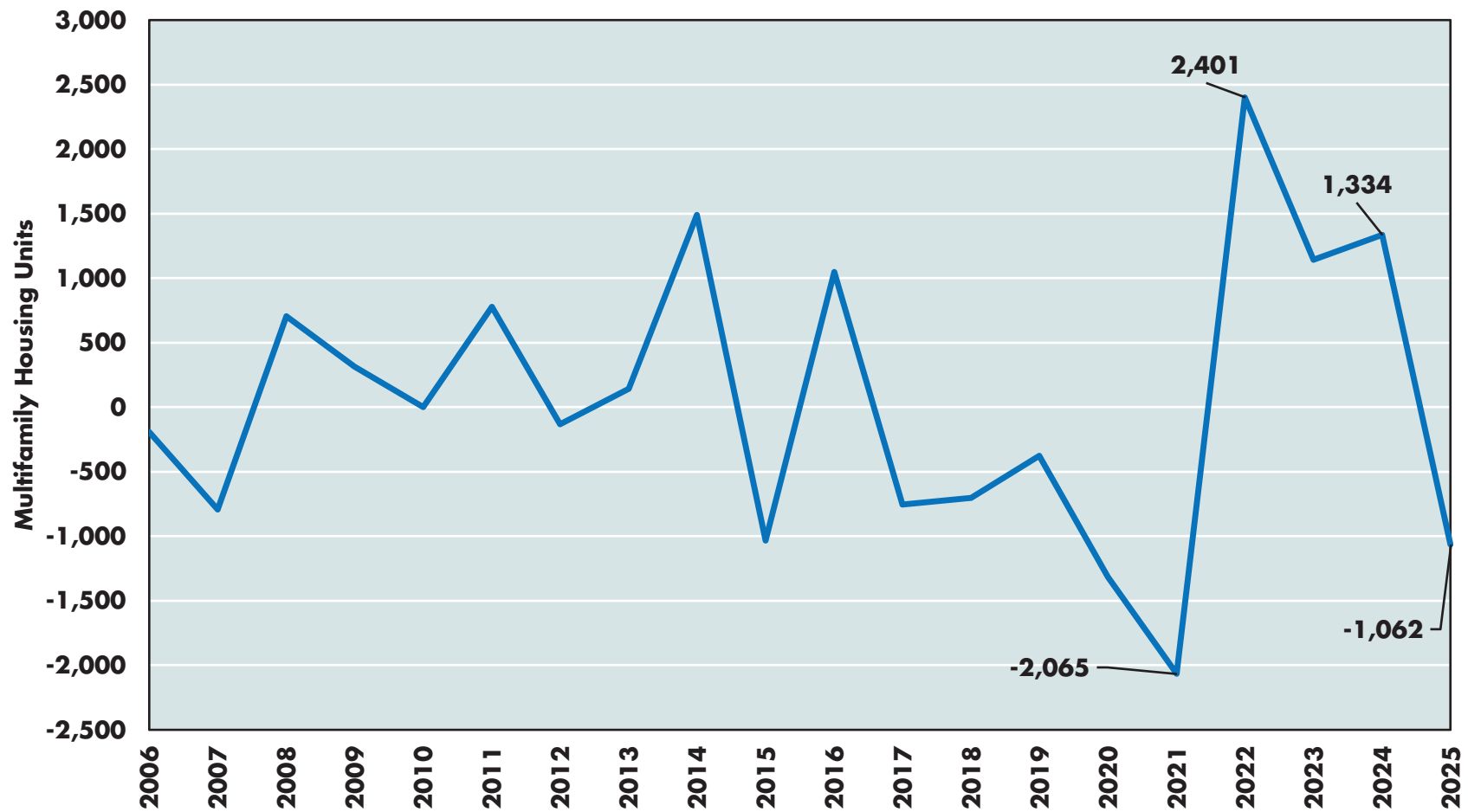
GRAPH 8
CHANGE IN MULTIFAMILY INVENTORY UNITS
SELECTED HAMPTON ROADS LOCALITIES Q4 2023 - Q4 2025



Sources: CoStar Market Analytics and Dragas Center for Economic Analysis and Policy. The graph shows selected Hampton Roads localities with positive inventory growth over the period.

GRAPH 9

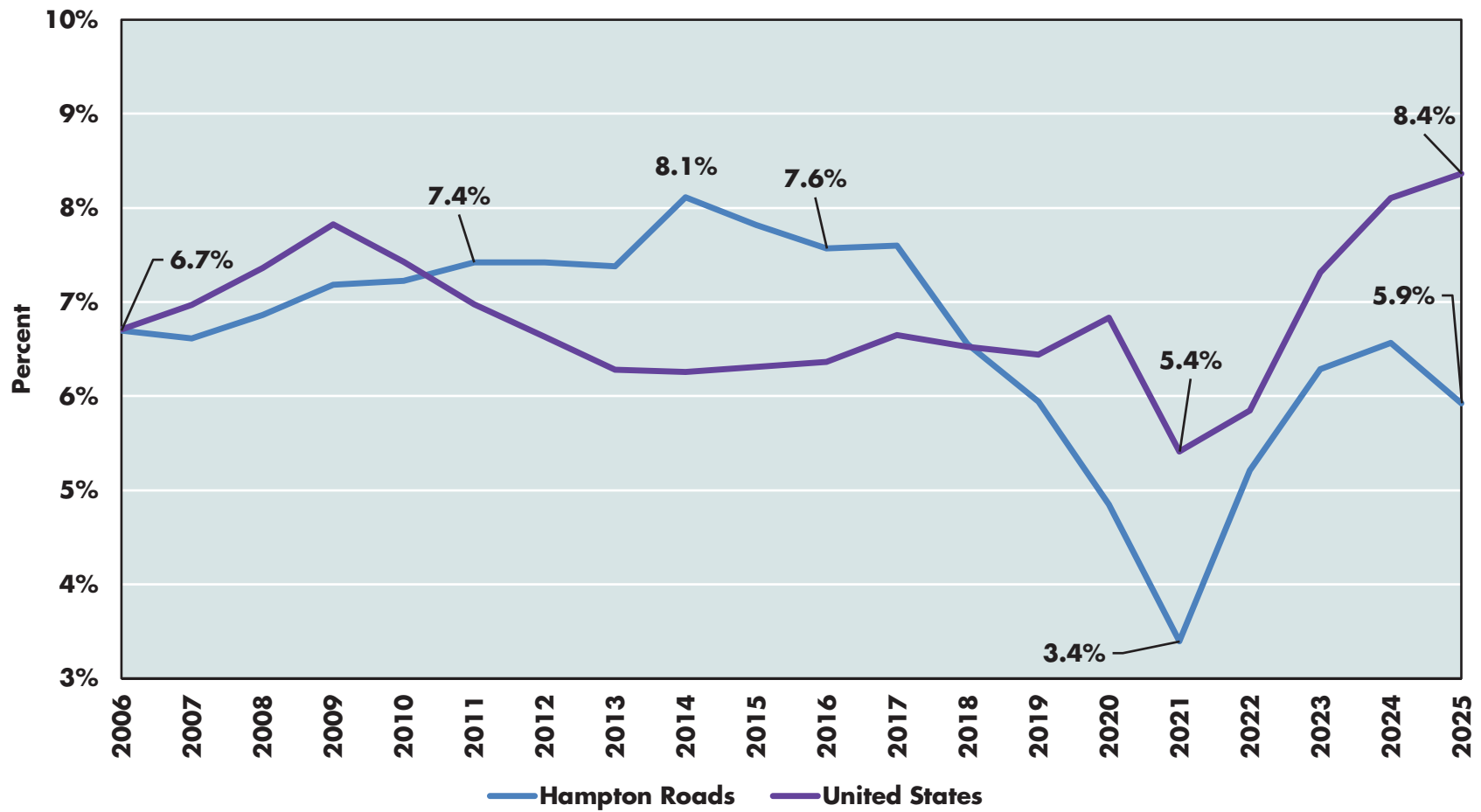
NET CHANGES IN SUPPLY AND DEMAND FOR MULTIFAMILY HOUSING
HAMPTON ROADS, 2006 - 2025



Sources: CoStar Market Analytics and Dragas Center for Economic Analysis and Policy.

GRAPH 10

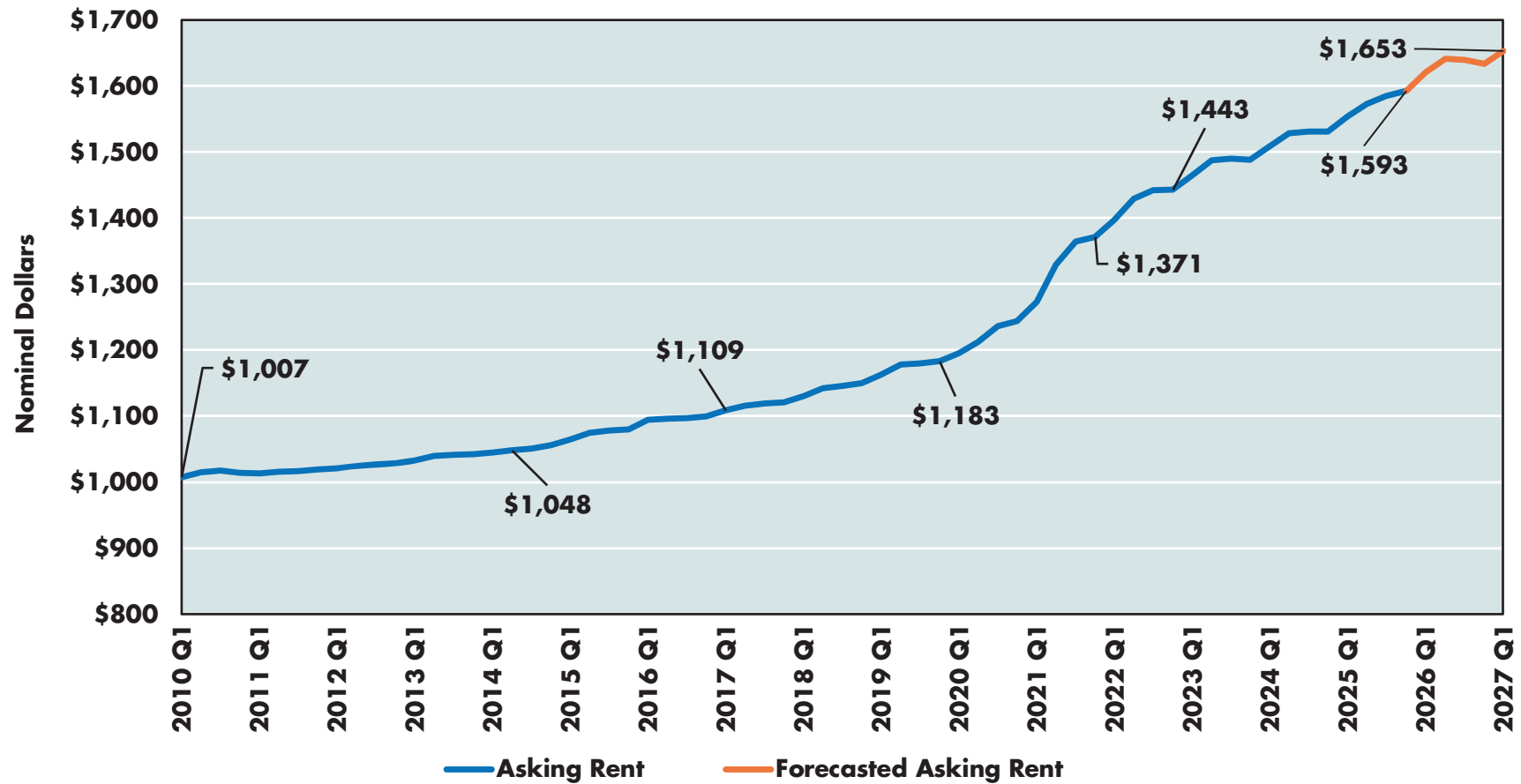
ANNUAL AVERAGE MULTIFAMILY VACANCY RATE
HAMPTON ROADS AND THE UNITED STATES, 2006 - 2025



Sources: CoStar Market Analytics and Dragas Center for Economic Analysis and Policy. Data represent annual average multifamily vacancy rates, calculated from quarterly vacancy rates.

GRAPH 11

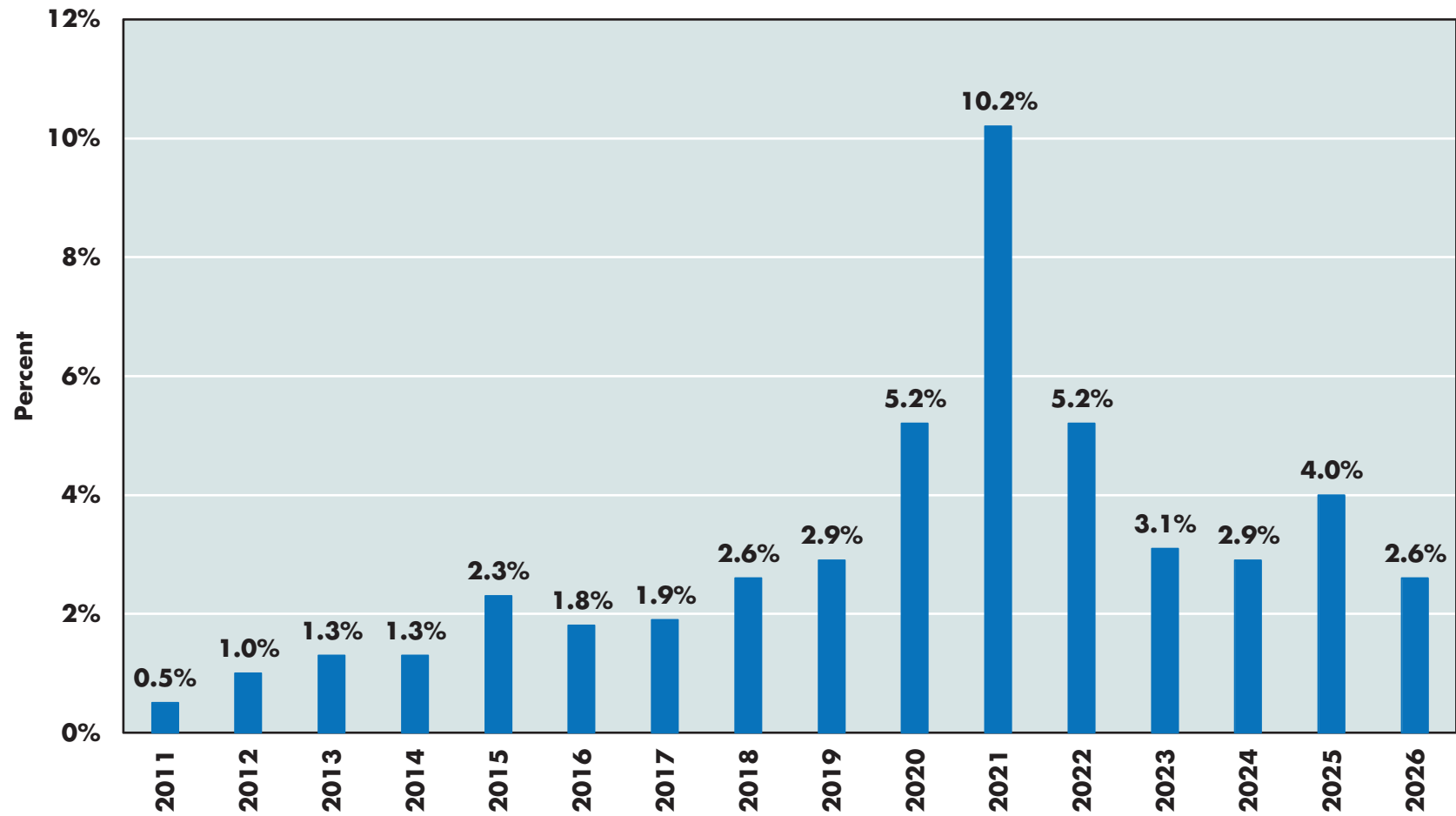
QUARTELY MULTIFAMILY MARKET ASKING RENT PER UNIT
HAMPTON ROADS, 2010 Q1 - 2027 Q1*



Sources: CoStar Market Analytics and Dragas Center for Economic Analysis and Policy. Asking rent is measured as market asking rent per unit for multifamily properties in the Hampton Roads metro area. *Forecasted values reflect CoStar's Base Case forecast. 2025 Q4 is shown as the transition point between actual and forecasted asking rent.

GRAPH 12

**CHANGE MULTIFAMILY ASKING RENTS PER UNIT
HAMPTON ROADS, 2011 Q4 - 2026 Q4***



Sources: CoStar Market Analytics and Dragas Center for Economic Analysis and Policy. *The 2026 value reflects CoStar's Base Case forecast. Percent change is the Q4 quarterly year-over-year change in asking rents per unit

Why Can't We Build More Housing?

Zoning exacerbates the geographic limitations on development and makes housing more costly and difficult to build. HousingForward Virginia, in cooperation with the National Zoning Atlas, mapped the rules applicable to residential housing in Hampton Roads, including minimum lot sizes, limits on how many homes can fit on a parcel, which housing types are allowed, and whether accessory dwelling units are permitted. The mapping project shows that residential zoning rules in Hampton Roads generally favor large-lot single-family homes, even in areas where the market, jobs, and roads could support townhomes, duplexes, or apartment buildings.⁸

Land itself has become a serious limitation that makes it difficult to expand housing supply. According to the REALTORS® Land Institute's 2024 Land Market Survey, the Southeast region, which includes Virginia, is the most expensive in terms of land price per acre with an average rate of \$47,500 per acre, a figure that is significantly higher than most regions of the country.⁹ Not surprisingly, Hampton Roads Habitat for Humanity's chapters stopped accepting applications for new construction in 2025 due to insufficient land at an affordable price.¹⁰

Since 2021, material prices have continued to increase. The Turner Building Cost Index (an 80-year composite index of construction prices, labor rates, and competitive market conditions) grew from 1,177 in 2020 to 1,485 in 2025. This change translates into a 26.2% increase in construction costs in

just five years.¹¹ In 2025, the cost of softwood lumber was 29.0% higher than pre-COVID levels, and the cost of hardwood lumber had also increased by 35.2%.¹² Ready-mix concrete prices grew by 10.3% in 2022 and 11.2% in 2023 (the two largest increases since 2000).¹³ Steel mill products soared by approximately 90.0% in 2021 with an additional 13.1% tariff-related increase in 2025.¹⁴ A developer has no option but to embed a significant portion (if not all) of these cost increases into the price of every new home constructed.

In addition to rising material costs, the labor market has tightened considerably in recent years. Hourly rates for residential construction workers increased by approximately 12.0% from 2019 to 2021 and increased to \$38.76 in 2025 (about 58.0% compared to the pre-COVID rate).¹⁵ Nationwide, approximately 80.0% of contractors report difficulty in filling labor vacancies,¹⁶ and 59.0% builders in the southern region of the United States in 2025 identified labor costs and labor availability as key concerns.¹⁷ The Associated Builders and Contractors estimated that the nationwide construction market requires 439,000 additional laborers.¹⁸

The topic of insurance requires special consideration in the Hampton Roads area. Nationally, the price for homeowners' insurance grew significantly after 2021 in connection with the increase in construction costs (rebuilding), reinsurance rates (insuring the insurer due to multiple catastrophe years),¹⁹ and insured damage of storms that has exceeded \$50 billion in each of the last three years.²⁰ In other words, a Virginia homeowner effectively subsidizes part of the insured loss incurred somewhere else, say, from hurricanes in Florida, California wildfires, or Midwest tornadoes, as the latter is covered by

8 HousingForward Virginia and Virginia Zoning Atlas. <https://www.zoningatlas.org/virginia>.

9 REALTORS® Land Institute, 2024 Land Market Survey Report. <https://www.rliland.com/Portals/0/2024%20Land%20Market%20Survey%20Report%20FINAL.pdf>.

10 Ryan Murphy "How Habitat for Humanity of South Hampton Roads Is Navigating Rising Land Prices, Economic Uncertainty," WHRO, May 20, 2025. <https://www.whro.org/business-growth/2025-05-20/how-habitat-for-humanity-of-south-hampton-roads-is-navigating-rising-land-prices-economic-uncertainty>.

11 Turner Construction Company, Turner Building Cost Index, annual averages. <https://www.turnerconstruction.com/cost-index>.

12 Advanced Building Corporation, "How Rising Material Costs are Hitting Construction Hard," December 18, 2025. <https://www.advancedbuildingcorporation.com/blog/rising-material-costs-impacting-construction-projects>

13 National Association of Home Builders, "Building Materials Price Growth Plummet in 2023," January 16, 2024, citing BLS Producer Price Index data. <https://www.nahb.org/blog/2024/01/building-materials-prices-plummet-in-2023>.

14 National Association of Home Builders, "How Soaring Prices for Building Materials Impact Housing," July 26, 2024; Associated General Contractors of America, "Construction Materials Costs Continue To Accelerate In August Amid 'Extreme' Price Hikes," September 10, 2025. <https://www.nahb.org/blog/2024/07/how-soaring-prices-building-materials-impact-housing>.

15 NAHB Eye on Housing, "Residential Building Worker Wage Growth Slows Amid Softer Labor Market," May 2025. <https://eyeonhousing.org/2025/05/residential-building-worker-wage-growth-slows-amid-softer-labor-market/>.

16 Construction Coverage, "Construction Jobs With the Fastest-Growing Wages," October 23, 2025. <https://constructioncoverage.com/research/construction-jobs-with-the-fastest-growing-wages>.

17 NAHB Eye on Housing, "Builders' Top Challenges for 2026," February 5, 2026. <https://eyeonhousing.org/2026/02/builders-top-challenges-for-2026/>.

18 Associated Builders and Contractors, press release, January 24, 2025. <https://www.abc.org/News-Media/News-Releases/abc-construction-industry-must-attract-439000-workers-in-2025>.

19 Why Home Insurance Premiums in the U.S. Are Still Rising in 2026. <https://homebuyinginstitute.com/mortgage/why-home-insurance-premiums-are-rising/>.

20 Insurance Information Institute (Triple-I), April 14, 2026. <https://www.iii.org/press-release/triple-i-severe-convective-storms-generate-more-than-50b-in-insured-losses-for-third-consecutive-year-041326>.

the reinsurance component of their own premium, whether or not any of those losses occurred near their property.

Homeowners' insurance premiums in Virginia rose by almost one-third between 2021 and 2024.²¹ Average homeowner premiums for Virginia Beach, for example, ranged from \$2,451 to \$2,793 in 2025, significantly above the statewide average. Other cities with increased insurance costs were Norfolk and Chesapeake.²² Virginia has been listed with the steepest rate increases in 2026 alongside states such as Louisiana, Michigan, and Kentucky.²³ In addition, Hampton Roads' sea-level rise, driven by both rising oceans and land subsidence, means that flood insurance, which requires a separate National Flood Insurance Program policy, adds more to insurance costs.²⁴

Construction Financing: The Hidden Cost Layer

In addition to construction material costs, labor, and insurance expenses, there is another invisible cost, which is rarely discussed in regional markets, yet it is embedded in the price of every new home. This is the acquisition, development, and construction (AD&C) financing loan that turns land into ready-to-sell property. When AD&C financing is plentiful and relatively inexpensive, homebuilders build more, price competitively, and push supply higher. When it becomes expensive and scarce, construction activity falls, homebuilding projects are delayed, supply decreases, and housing prices rise. Through its quarterly survey, the National Association of Home Builders (NAHB) has tracked the financing conditions of AD&C since 2018.

The Four Loan Stages: From Raw Land to Family Home

The NAHB AD&C Financing Survey tracks financing conditions of four types of residential development and construction loans: land acquisition loans to purchase raw land, land development loans to turn raw land into buildable parcels, speculative single-family construction loans to finance homes for which no buyer has signed a contract, and pre-sold single-family construction loans to finance homes already under contract with a specific buyer.²⁵

In Hampton Roads, large-scale national builders, such as Ryan Homes, have a significant share of the new-construction market. Ryan Homes led the market with 653 closings in 2025 across 34 active communities. Larger builders typically require a signed contract before building a spec property. Smaller local builders are more likely to rely on speculative construction financing. As a result, they play an important role in adding unsold inventory, yet they are also exposed to some of the highest financing rates in recent years.

EFFECTIVE RATE, POINTS, AND THE TRUE COST OF BUILDING

Understanding construction financing is complicated by the issue of calculating costs because, in addition to contract rates (which is a measure of the loan interest rate), lenders charge points (fees paid to obtain the loan), which can significantly increase cost. A point equals 1% of the loan value. For example, 0.75 points on a \$500,000 loan equals a \$3,750 fee. The effective interest rate accounts for both the contract interest rate and the cost of points. Since AD&C loans often last only one or two years, even a relatively small increase in points makes the effective interest rate substantially higher than the contract rate. For instance, charging 0.75 points makes the effective rate almost 0.64% higher than the rate shown on the contract.²⁶

21 Consumer Federation of America, "Overburdened," April 2025. https://consumerfed.org/media/legacy/post_30876/OverburdenedReport.pdf#page=13.

22 Strange Insurance Agency, "Cheapest Home Insurance in Virginia," 2025. <https://strangeins.com/cheapest-home-insurance-in-virginia/>.

23 Leslie Kasperowicz, "The State of Home Insurance in 2026: Increasing Rates, Climate Change, and Consumer Frustration," Insurance.com, February 9, 2026, <https://www.insurance.com/state-of-home-insurance/>.

24 Tier One Coastal, "Coastal Resiliency & Sea Level Rise," April 2026. <https://www.tieronecoastal.com/flood-zones-hampton-roads-2026/>.

25 National Association of Home Builders, Survey on Acquisition, Development & Construction Financing, First Quarter 2026. <https://www.nahb.org/news-and-economics/housing-economics/indices/adc-financing-survey>.

26 National Association of Home Builders, Survey on Acquisition, Development & Construction Financing, First Quarter 2026. NAHB's effective-rate calculation accounts for both the contract interest rate and points charged at origination.

Graph 13 depicts the quarterly annualized contract rate, points, and effective rate in the United States from the first quarter of 2018 through the fourth quarter of 2025. During this period, the contract interest rate for speculative single-family loans ranged from as low as 4.49% in the first quarter of 2021 to as high as 8.98% in the second quarter of 2024. Initial points for the loans varied from a low 0.34% in the fourth quarter of 2025 to a high of 0.93% in the third quarter of 2023. The effective rate ranged from a low of 7.31% in the first quarter of 2021 to 14.32% in the second quarter of 2024. The difference between contract interest rate and effective rate spanning from 2.75 percentage points in the first quarter of 2022 to 5.34 percentage points in the second quarter 2024, is the hidden gap that is omitted from the discussion when we focus solely on the contract rate.

Interpreted collectively, the three series give rise to four analytical arguments that are directly relevant to the Hampton Roads housing supply challenge. First, the contract rate is a misleading indicator of construction financing cost. Consequently, any policy analysis, market forecast, or affordability study based on contract rates significantly understates the actual cost burden and the extent to which financing costs impacted the five-year decline in new-construction closings in Hampton Roads.

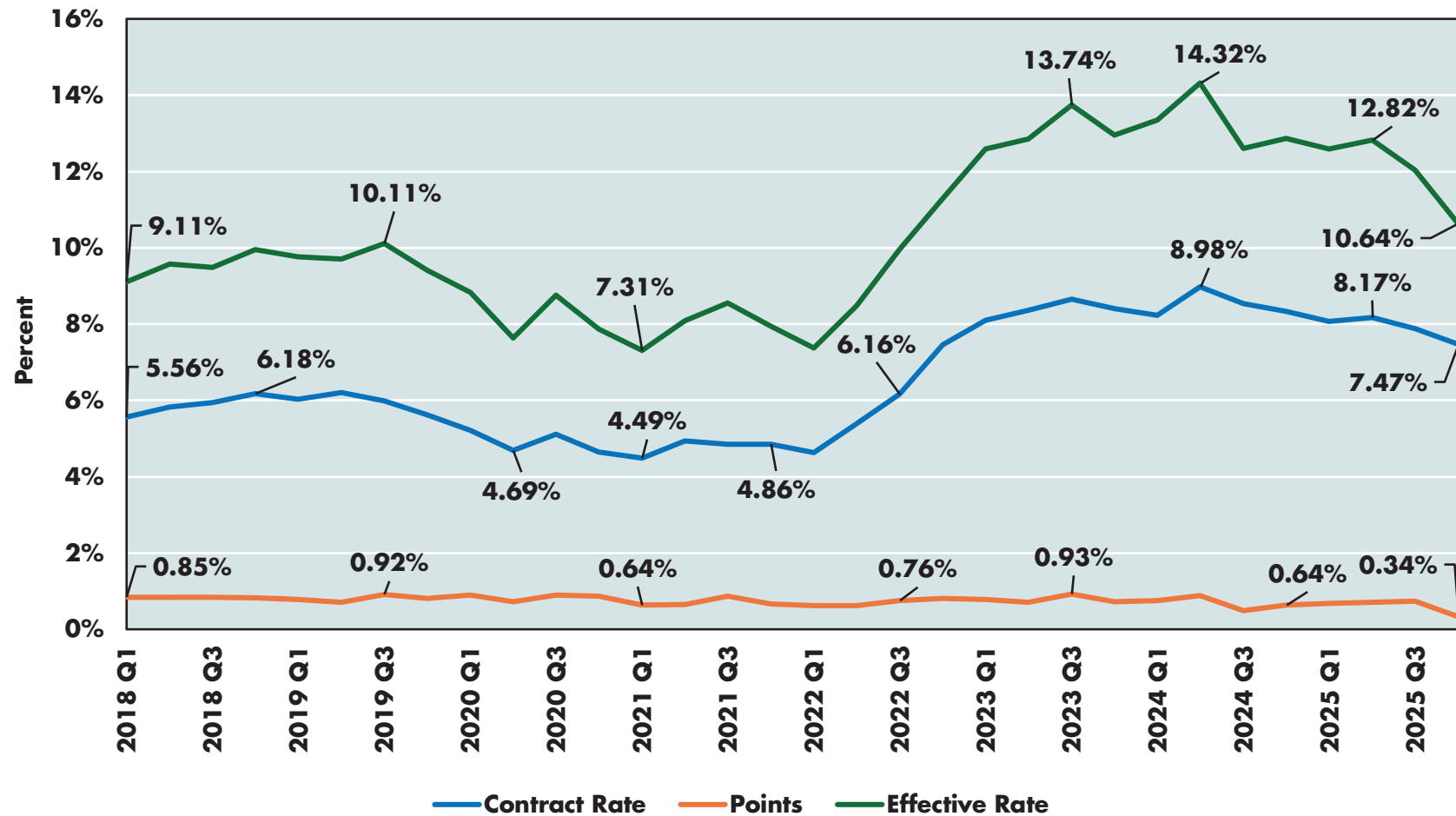
Second, the improvement in financing costs during the pandemic years proved to be temporary and reversed relatively quickly. Builders who expanded their speculative pipelines during 2020 and 2021 in response to low effective rates found those economies eliminated within 12 months of the Federal Reserve's first rate increase. The supply response to the Hampton Roads need for more housing should not depend on the expectation that the financing conditions would resemble those of the early post-COVID-19 era.

Third, the increase in the gap between contract rate and effective rate during the compression of 2022 - 2024 shows that lenders' risk aversion works independently of rate policy, implying that even if the Fed had stopped increasing rates earlier, the cost of speculation would remain high due to the tightening of loan terms and points. Thus, for a successful supply recovery, a region requires both lower contract rates and a return to a pre-pandemic lender risk-aversion level of approximately 0.6 to 0.7 percentage points.

Finally, the improvement seen in the period after the second quarter of 2024 is genuine. If the Federal Reserve continues following the current trajectory and lenders' attitude toward speculative construction starts normalizing, the economics of speculative housing building in Hampton Roads may come close to viability for smaller builders as soon as in 2027.

GRAPH 13

**SINGLE-FAMILY CONSTRUCTION
SPECULATIVE CONTRACT RATE, POINTS, AND EFFECTIVE RATE
UNITED STATES, Q1 2018 - Q4 2025**



Sources: NAHB Survey on Acquisition, Development & Construction Financing, First Quarter 2026, <https://www.nahb.org/-/media/NAHB/news-and-economics/docs/housing-economics/adc-survey/adc-survey-report.pdf> and Dragas Center for Economic Analysis and Policy.

Luxury Construction Starts and the Shift in Multifamily Supply Composition

Graph 14 captures the share of luxury multifamily construction start units from 2001 Q4 to 2026 Q1 in Hampton Roads.²⁷ Because developers often start construction months after they have secured construction funds and permits, a change in interest rate today would most likely affect the number of construction start units a year later. For this reason, we assume a four-quarter lag interest rate effect on the supply side of multifamily units construction starts. We focus our analysis over three subperiods: the pre-tightening period before the Fed began raising rates in March 2022, the tightening (increasing interest rate) period from 2022 Q2 to 2024 Q3, and the post-tightening (decreasing interest rate) period 2024 Q4 to 2026 Q1. With a four-quarter lag, the corresponding multifamily supply-response periods are: pre-tightening response from 2021 Q1 to 2023 Q1, tightening response from 2023 Q2 to 2025 Q3, and post-tightening response from 2025 Q4 to 2026 Q2.

From 2001 Q4 to 2026 Q1, the luxury share of construction units was very volatile, oscillating between a low of 28.58% in 2003 Q1 and a high of 99.14% in 2007 Q2. Starting 2008 Q3 and up to 2019 Q3, luxury multifamily units became the dominant form of construction at the expense of mid-tier multifamily units with the share of total supply exceeding 80% for most of the period and at times it was a 100% such as in 2010 Q1. New multifamily construction units in Hampton Roads were heavily concentrated in higher-end units during that period.

During the pre-tightening response period from 2021 Q1 to 2023 Q1, the luxury share of multifamily starts units remained high with 92.98% in 2021 Q2, above 98% in 2021 Q3 and Q4, before dropping to 92.43% in 2022 Q4, and 76.25% in 2023 Q1. The high luxury share of construction starts units during this period reflected luxury projects that were previously planned, financed, and permitted before the Fed's interest rate increase.

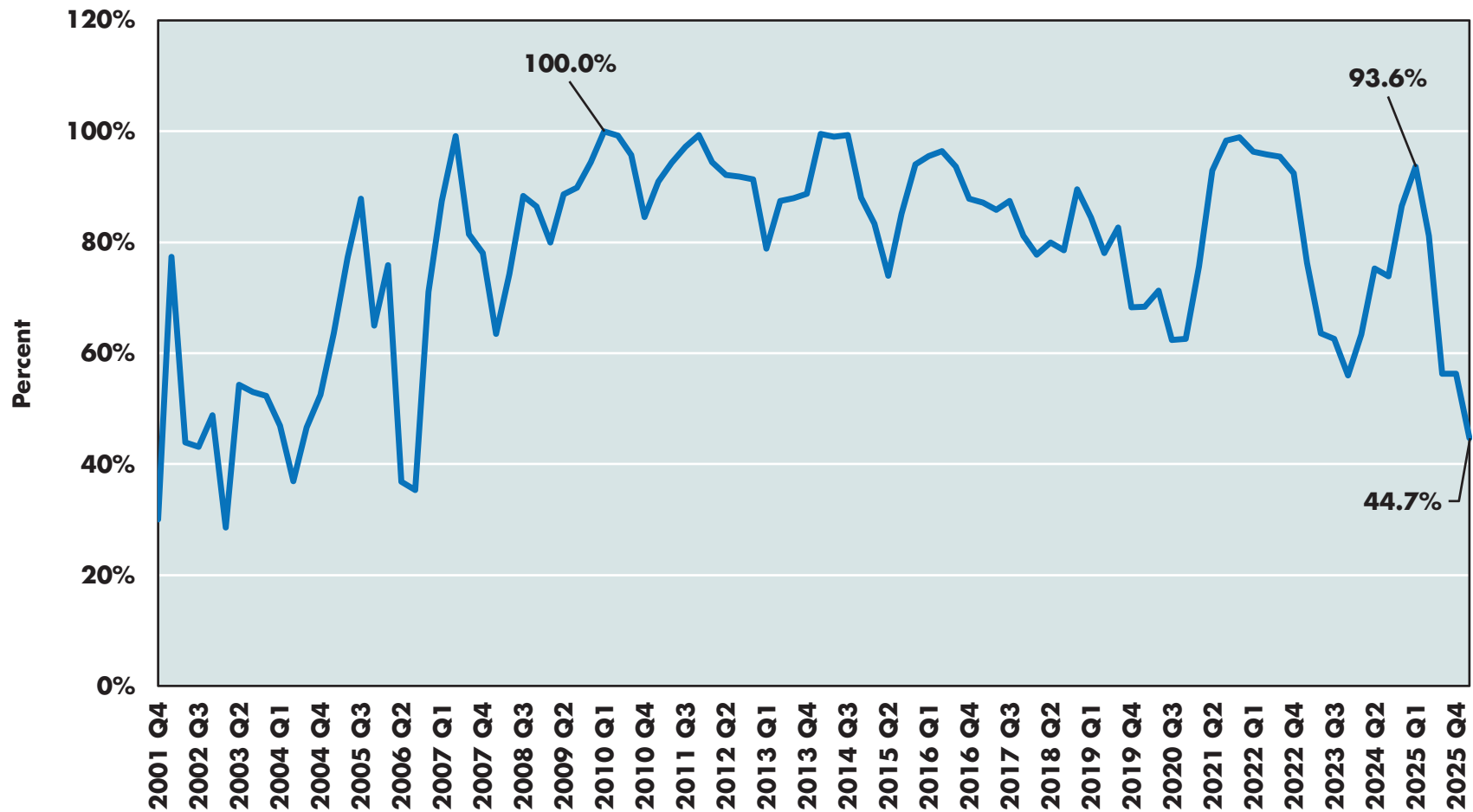
The reaction to the Fed interest rate tightening measures is depicted in the level of construction units during the period 2023 Q2 to 2025 Q3. The share of luxury construction starts fell to 63.55% in 2023 Q2, reached a bottom of 55.98% in 2023 Q4, briefly bounced back to 75.28% in 2024 Q2 and 93.62% in 2025 Q1, before declining again to 56.32% in 2025 Q3 and remaining at that level in 2025 Q4. The broader downward and volatile share of luxury multifamily construction units during this period suggests that higher financing costs did not produce a shift in supply towards more luxury construction units. In fact, the graph shows a gradual shift toward mid-tier multifamily starts units with luxury share dropping even further to 44.72% at the start of 2026.

From an economic perspective, when interest rates increase, the construction financing costs increase, banks tighten their underwriting standards, and investors require higher rate of returns. As a result, multifamily construction projects become more risky and less viable to undertake. Because luxury multifamily projects are associated with higher land acquisition and development costs, higher construction costs, and more expensive amenities, they generally require higher rents to be financially viable. If developers do not foresee an increase in rent as a possibility, they may shift their development towards less expensive construction projects which may explain why the four-quarter lag analysis shows a shift away from luxury starts and toward mid-tier starts.

²⁷ Luxury share of multifamily construction starts unit = $\text{Luxury construction starts units} \div (\text{luxury} + \text{mid-tier construction starts units})$. Luxury construction starts units is the 4 and 5 stars-rated properties by CoStar Market, smoothed over 12 months. Mid-tier construction starts units is the 3 stars-rated properties by CoStar Market, smoothed over 12 months. Lower-tier construction units with 1 and 2 stars are considered by CoStar Market as existing old properties.

GRAPH 14

LUXURY SHARE OF CONSTRUCTION STARTS UNITS SMOOTHED OVER 12 MONTHS
HAMPTON ROADS, Q4 2001 - Q1 2026



Sources: CoStar Market Analytics and Dragas Center for Economic Analysis and Policy.

Luxury Supply Deliveries Persistent, Despite Tightened Financing Conditions

Graph 15 presents the luxury share of net multifamily deliveries in Hampton Roads, smoothed over 12 months.²⁸ The variable measures the share of luxury net delivered units (4-5 Star) relative to total luxury and mid-tier net deliveries units (3-5 Star). As opposed to the luxury share of construction units, the luxury share of net deliveries captures completed multifamily units after accounting for additions and losses in the stock. As such, it is possible that in some periods, the luxury share of net deliveries may exceed 100% because mid-tier net deliveries may be very small or even negative.

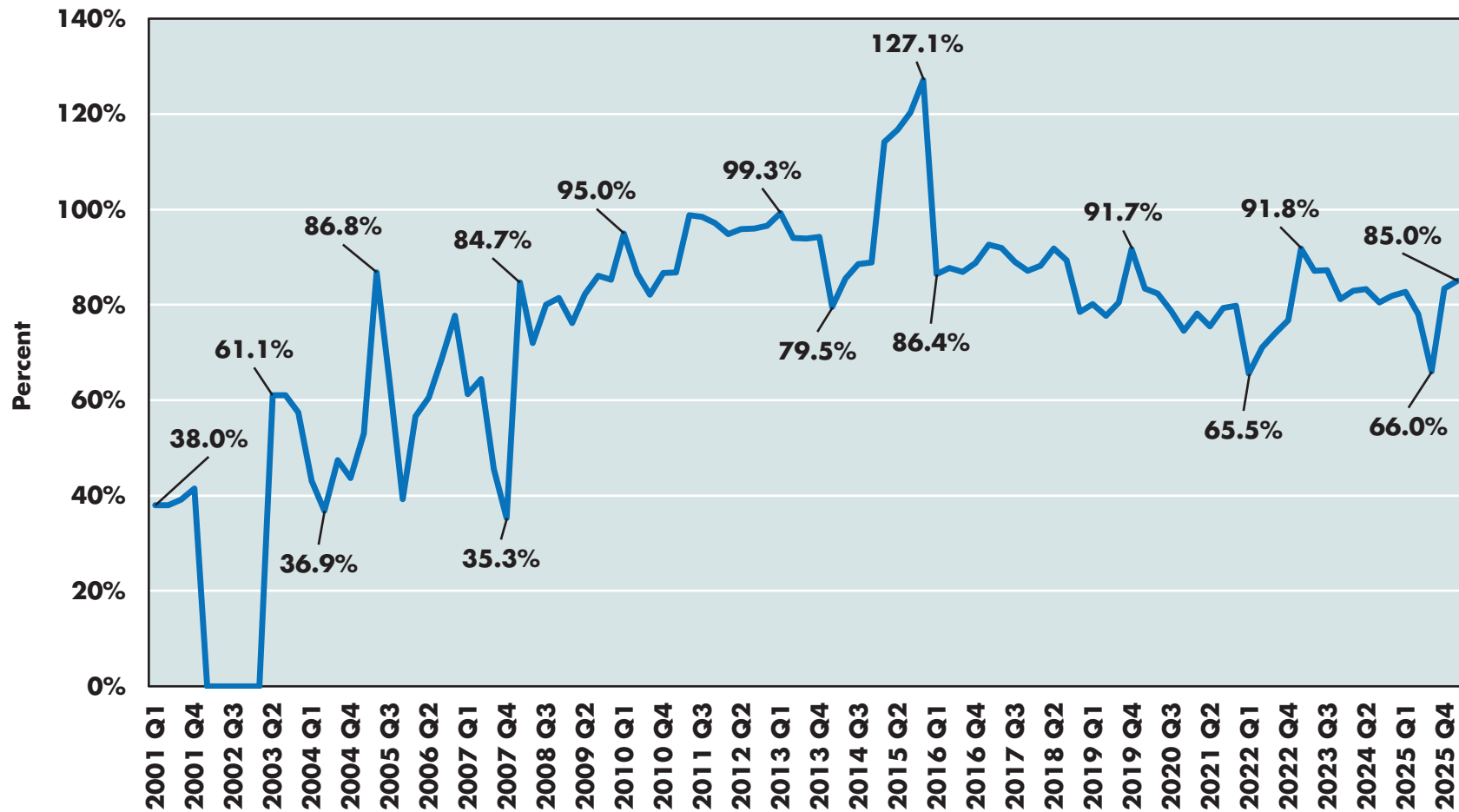
After a period of volatility from 2001 Q1 to 2008 Q1, where the luxury share of net deliveries fluctuated from a low of 0% in 2002 Q1 and 2003 Q1 to a high of 86.84% in 2005 Q2, the share of luxury multifamily units delivered stabilized above 80% for most of the remaining period from 2008 Q1 to 2021 Q4. In particular, in the four quarters lagged pre-tightening response period from 2021 Q1 to 2023 Q1, the share of luxury net deliveries remained high with 78.18% in 2021 Q1, dropping to 65.55% in 2022 Q1, and rising again to 91.83% in 2023 Q1. Likewise, in the tightening response period from 2023 Q2 to 2025 Q3, the share of luxury net deliveries remained above 80% on average, with 81.16% in 2023 Q4, 80.50% in 2024 Q3, and dropping to 66.03% in 2025 Q3, before bouncing back to a high of 85.03% in 2026 Q1.

The graph supports the four quarters lagged supply adjustments for multifamily net deliveries. At the start, an increase in interest rates primarily influences the share of multifamily constructions starts units because it affects construction permits and finance decisions directly. On the other hand, multifamily deliveries occur later because these are the projects that were already started. Furthermore, developers face a great incentive to continue building once the luxury unit is under construction since all land, finances, planning and construction expenses are already paid. Therefore, the high luxury net deliveries share during the interest-rate tightening response period is not contradictory to the decline in luxury construction starts. Instead, it suggests that Hampton Roads continued to receive luxury units from an earlier pipeline.

²⁸ Luxury share of net multifamily deliveries = Luxury net delivered units, 12 months ÷ (total luxury + mid-tier net delivered units, 12 months)

GRAPH 15

LUXURY SHARE OF NET DELIVERIES SMOOTHED OVER 12 MONTHS
HAMPTON ROADS, Q1 2001 - Q1 2026



Sources: CoStar Market Analytics and Dragas Center for Economic Analysis and Policy.

Luxury Cap-Rate Spread and the Valuation Premium of Luxury Multifamily Properties

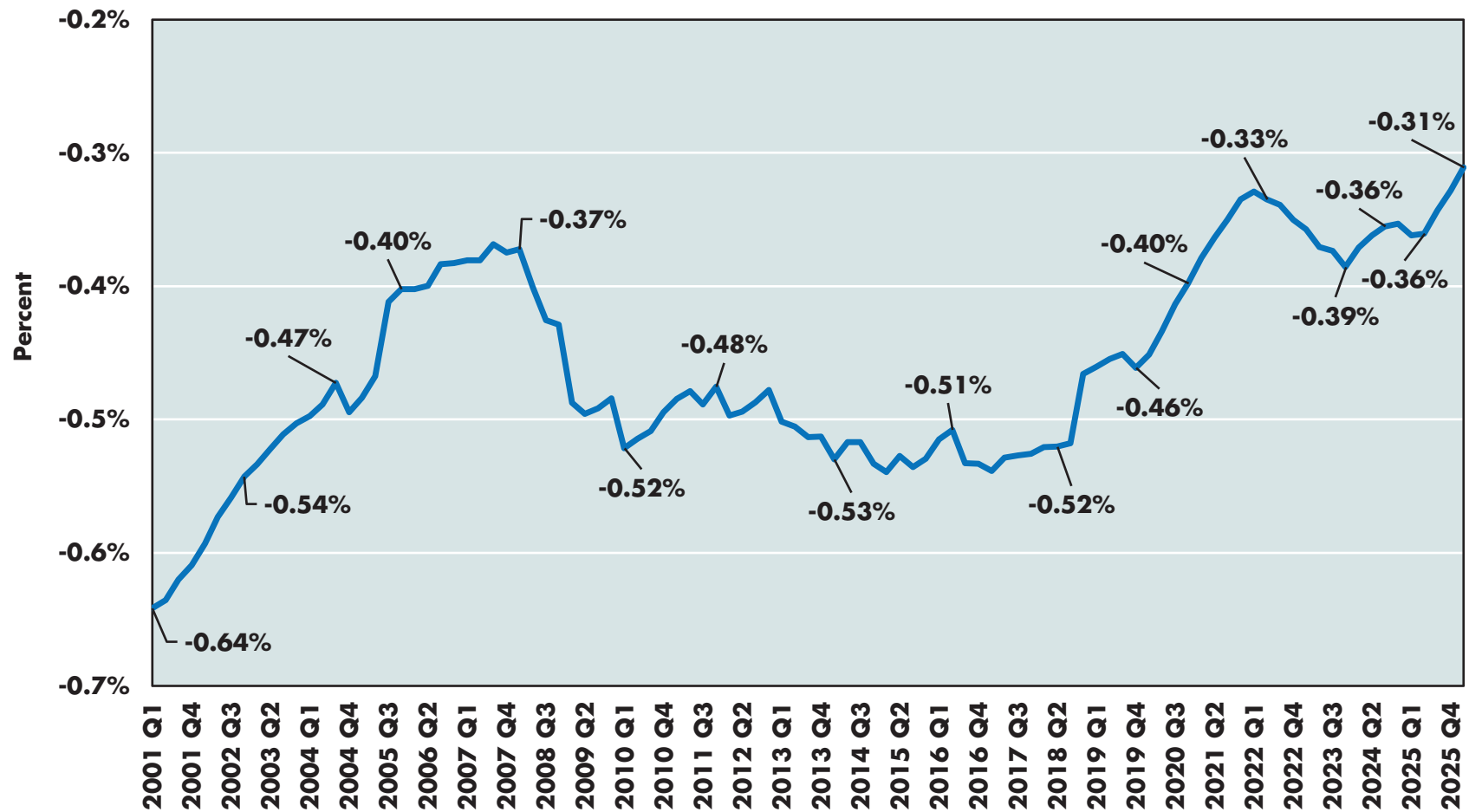
In commercial real estate, the Market Capitalization Rate (Cap-Rate) is one of the main valuation measures used to estimate an investor's potential annual rate of return on an income producing property. It is calculated as ratio of the commercial property's annual net operating income to its current market value or selling price. For example, a cap-rate equal to 5% means the property generates an annual net operating income equal to 5% of its market value. The lower the cap-rate, the higher the premium investors are willing to pay for each dollar of net operating income generated by the commercial property. This usually means that the property is viewed by investors as a safer real estate investment, with a higher quality, a better location, and is more likely to experience future income growth.

Graph 16 shows the luxury cap-rate spread, calculated as the annualized quarterly market cap-rate for luxury (4 & 5 Star) multifamily properties minus the annualized quarterly market cap-rate for mid-tier (3 Star) multifamily properties in Hampton Roads over the period 2001 Q1 to 2026 Q1. Over the entire 25 years period the luxury cap-rate spread remained negative indicating that luxury multifamily properties consistently have lower cap rates. In other words, investors are willing to pay more for each dollar of net operating income generated by luxury properties, than they are willing to pay for the same dollar of net operating income generated by mid-tier properties.

The first two quarters of 2001 registered the largest negative spread in the entire series with -0.64%. The spread then gradually narrowed from -0.54% in 2002 Q4, to -0.40% in 2005 Q4, and -0.37% in 2008 Q1. After the Great Recession, the luxury cap-rate spread widened again to -0.52% in 2010 Q1, -0.53% in 2014 Q1, and -0.52% in 2018 Q1. During the Fed tightening period, the luxury cap-rate spread narrowed down to -0.33% in 2022 Q2, then widened slightly to -0.39% by 2023 Q4, before narrowing again to -0.36% by 2024 Q3. In the post-tightening period, the luxury cap-rate spread continued to narrow further down to -0.31% by 2026 Q1.

Economically, Graph 16 shows that investors continued to value luxury multifamily projects over mid-tier projects before, during, and after the Fed tightening cycle, even though the luxury cap-rate gap narrowed in high interest rates financing periods. From an investor perspective, the explanation is straightforward: luxury multifamily projects represent a less risky investment and offer a better future return even during periods of tight financial conditions. The implication from an affordability argument is also straight forward, if policymakers in Hampton Roads want to increase the supply of mid-tier multifamily projects, they cannot just wait for financial credit market conditions to improve. That alone will not do it; they have to financially incentivize investors to do so.

GRAPH 16
LUXURY CAP-RATE SPREAD
HAMPTON ROADS, Q1 2001 - Q1 2026



Sources: CoStar Market Analytics and Dragas Center for Economic Analysis and Policy.

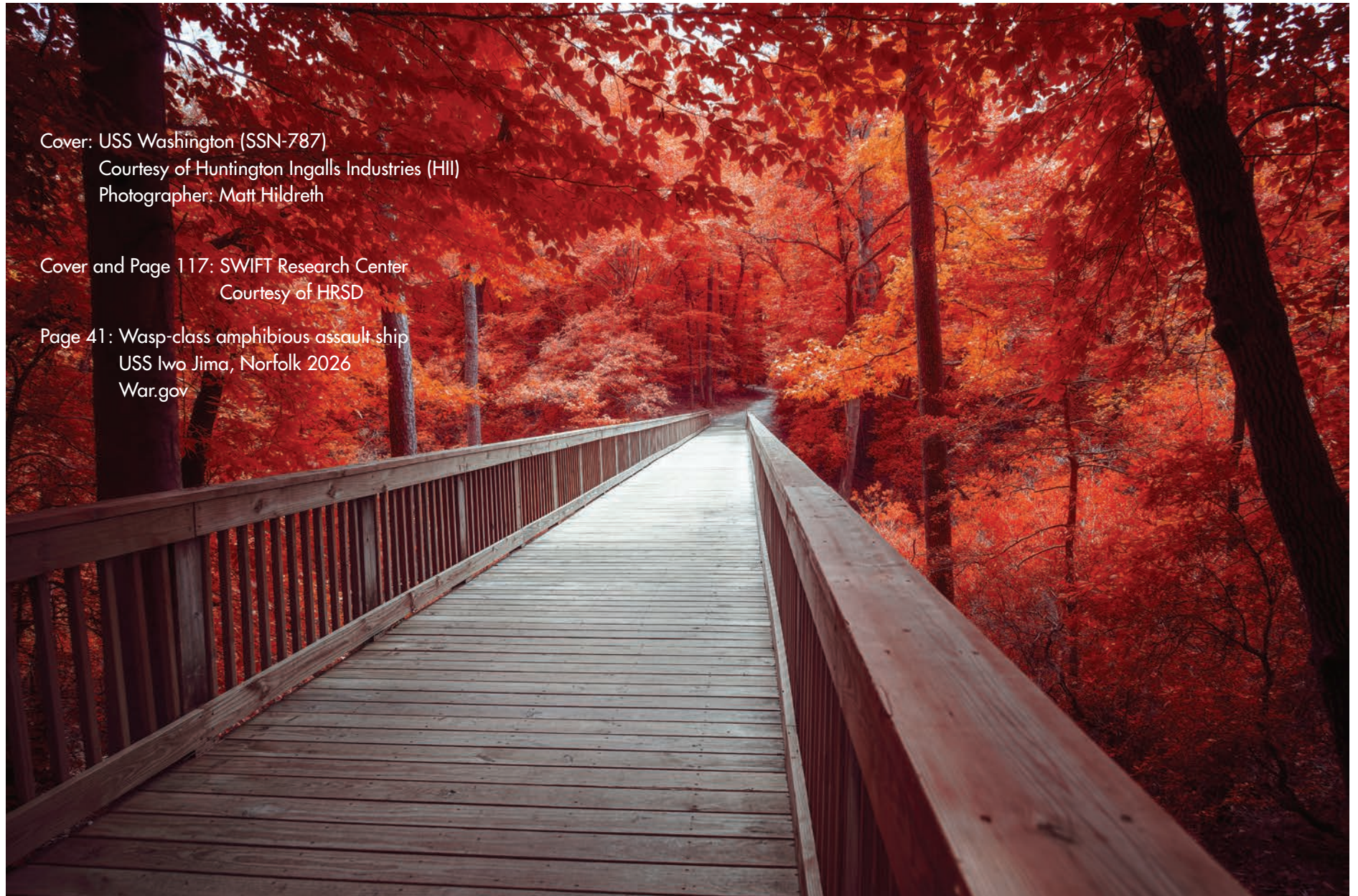
Final Thoughts

Starting off the second half of the 2020s, Hampton Roads is equipped with the tools and the institutional capacity to address its housing challenge effectively. The combination of the information and data laid out in this chapter, at the national level, then at the state level, and finally within the regional market and at the level of financing mechanisms driving construction decisions, presents a clear call to action for Hampton Roads policymakers. Supply constraints are the central problem. They exist on multiple levels. They create tangible impacts on real families. And most importantly, they are responsive to policy decisions.

The starting point in solving this problem lies in the strength of the region's defense economy. The scale of Hampton Roads' defense economy is both the region's primary competitive advantage and its unique housing market challenge. The defense spending economy serves as the demand floor that shields Hampton Roads from housing market collapse. The defense industry serves as the talent pipeline, the resident labor force, and the political connection to the federal government. What Hampton Roads needs to do is match this demand floor with an adequate supply response that meets the needs of this unique demographic profile.

Finally, we would like to end this chapter with a truly optimistic note rooted in data. While construction financing cost pressures remain high, the trends indicate that they have declined from their peak. Early signs of easing are evident among lenders. Virginia's housing inventory has begun to increase. The NAHB's net easing index for AD&C lending is near zero, as close as we've seen since early 2022.²⁹ Builders that survived the pressure are better capitalized and have gained valuable experience. Policymakers watching the tightening housing market have learned invaluable lessons. Businesses struggling with recruitment and retention have greater motivation than ever to engage in the conversation on housing as a workforce issue. This is the region's next major infrastructure challenge.

²⁹ NAHB Survey on Acquisition, Development & Construction Financing, Q4 2025 Report, February 2026. <https://www.nahb.org/-/media/NAHB/news-and-economics/docs/housing-economics/ad-c-survey/ad-c-survey-report.pdf>. The NAHB's net easing index is a single number that summarizes whether credit conditions for residential builders and developers are getting better, getting worse, or staying the same, quarter by quarter. Every quarter, NAHB surveys builders and developers about whether the availability of new loans for land acquisition, land development, and single-family construction has improved, worsened, or stayed the same compared to the prior quarter. For each loan category, the survey calculates the share of respondents who said conditions got better and subtracts the share who said conditions got worse. The results across the three loan categories are then averaged into a single index reading. The formula is simply: Net easing index = % saying Better – % saying Worse. A positive reading means more respondents reported improving credit conditions than worsening ones. Lenders are competing for builder business, offering more generous terms, and making credit more accessible. This is an easing environment, favorable for housing supply. A zero reading is the break-even point. Exactly as many respondents reported improving conditions as reported worsening ones. Credit conditions are essentially unchanged from the prior quarter. A negative reading means more respondents reported worsening credit conditions than improving ones. Lenders are pulling back, tightening standards, reducing loan amounts, raising rates and points, or simply declining more applications. This is a tightening environment that suppresses builder activity and constrains housing supply.



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Page 41: Wasp-class amphibious assault ship
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