Northern Virginia's Economic Transformation

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During the past thirty years Northern Virginia* has undergone an economic transformation that has shifted it from a bedroom community to an employment center. Since 1980, Northern Virginia has generated almost as many new jobs as new residents of working age and has accounted for most than half of all the Washington metropolitan area's growth. This transformation has established the foundation for its future. But before this future can be forecast, the past needs to be understood.

Growth and Change in Northern Virginia

Suburbs grow by adding new residents and households; economies grow by adding new jobs and producing increased output value. Northern Virginia did both simultaneously during past 30 years. In the process, it transformed itself from a residentially based economy to a diversified technology-intensive and knowledge-based economy and it also transformed the Washington metropolitan area economy from one that was DC-centric and government-based to one in which job and income growth was driven by private sector expansion.

The scale of this transformation is evident in the accompanying table. Over the 1980-2010 period, Northern Virginia's population (and households) more than doubled and its employment base increased by 162.3 percent. For every new resident added in Northern Virginia, its economy generated one-half a one new job (0.52 or 52 jobs per 100 residents). Considering that one-third of the new residents were children or persons not actively in the labor force (e.g., retired persons, stay-at-home moms), the Northern Virginia economy actually generated almost as many net new jobs than new resident workers.

As a result of its rapid job growth, Northern Virginia has become a net importer of workers commuting in from the District of Columbia, Suburban Maryland and from outside of the Washington metropolitan area. The result of this increased long-distance commuting has been growing traffic congestion on the major arterials connecting Northern Virginia to its non-resident workforce. While this growing dependency on non-resident workers has become a major transportation problem in Northern Virginia, it will increasingly become an economic problem limiting Northern Virginia's ability to supply the workers the economy will require to sustain its future vitality.

Northern Virginia By The Numbers, 1980-2010

Descriptor	1980	2010	Change	% Change
Population	1,155,360	2,623,079	1,467,719	127.4
Households	421,570	960,077	538,507	127.7
Employment (1)	470,315	1,233,850	763,535	162.3
Per Capita Income (2010$s)	$34,900	$65,278	$30,378	87.0
Gross Regional Product (2)	$41.8	$188.6	$146.8	351.2

Source: GMU Center for Regional Analysis,
(1) includes payroll jobs plus self-employed, part-time and contract workers
(2) in billions of 2010 dollars

Northern Virginia's population growth accounted for 65.0 percent of the Washington metropolitan area's total population growth, while is rapid job growth accounted for 60.9 percent of all of the new jobs added in the metropolitan area. But more important than rapid growth alone has been the shift in the quality of the jobs being generated by the Northern Virginia economy compared to other portions of the Washington area. This growth of higher quality jobs has shifted the area's economic growth center into Northern Virginia from its traditional center in the District of Columbia creating a second but different major employment center for the Washington metropolitan area.

This evolution of the Northern Virginia economy, from one supported largely by resident spending—a retail-based economy—to one supported by professional and business services, export-based businesses and technology-intensive federal contractors, changed the economic structure of Northern Virginia. These changes are seen in the growth of the economy's output, its gross regional product (GRP), and its growth in per capita income. From 1980 to 2010, the value of goods and services produced in Northern Virginia, its GRP, grew from $41.8 billion to $188.6 billion in inflation-adjusted dollars for a real gain of 351 percent. In comparison, the Washington regional economy (GRP) grew by 214 percent over this 30-year period and the US economy (GDP) gained 127 percent.

As a result of its disproportional economic growth, Northern Virginia's share of the metropolitan area economy increased from 32 percent to 46 percent over this 30-year period while the District of Columbia's share declined from 34 percent to 23 percent. Suburban Maryland's economy growth rate over this period closely mirrored the overall metropolitan growth rate with its share of the regional economy holding relatively steady at about 33 percent.

Why has Northern Virginia 's Economy Grown So Rapidly?

The Northern Virginia economy's strong performance over the past thirty years has not been accidental. Certainly having a relatively lower tax burden than the District of Columbia or Suburban Maryland has been helpful and having a more positive business climate with less regulation and lower development costs have helped to attract investment to Northern Virginia at the expense of its neighboring jurisdictions. The favorable quality-of-life and the availability of the infrastructure needed to support growth has been important, too.

But most important has been Northern Virginia's success in attracting federal contractors to locate or expand their operations there. From 1980 through 2009, federal contracting in Northern Virginia increased from $1.7 billion to $38.5 billion. Over this period, businesses located in Northern Virginia captured approximately 49 percent of all federal procurement spending in the Washington metropolitan area, $389 billion out of the total $796 billion, with the other two sub-state regions roughly splitting the other half.

The epicenter of federal contracting in the Washington metropolitan area is Fairfax County. Federal contractors located in Fairfax County received contracts valued at $23.3 billion in 2009, the greatest dollar value of any county in the nation. While federal contract in DC was significant at $20 billion in 2009, a large percentage of this contracting was for office space rental and personnel services (training and travel) where the federal contracting in Northern Virginia and in Fairfax County was largely for professional and technical services and supported a large private sector payroll. This payroll is subsequently re-spent generating further positive economic impacts across the breadth of the local economy.

What is it about Northern Virginia that has made its so attractive to federal contractors? While there are many factors that have contributed to Northern Virginia's competitive edge, its access to federal markets has given Northern Virginia a clear advantage over Suburban Maryland and even the District of Columbia. However, easy access to the federal establishment is only half of the equation. The second half is access to national and international markets and especially to the headquarters of local federal contractors located elsewhere in the U.S.

Dulles Airport provides this connection and Dulles is also linked to Downtown Washington and the Pentagon by a limited-access highway without traffic signals. The concentration of federal contractors halfway between the Pentagon and Dulles Airport (that is where Tysons Corner is) reflects these locational advantages. Other locations in Arlington and Fairfax Counties and into Loudoun County (the Dulles Toll Road and Rt. 28) all offer combinations of transportation advantages that have attracted federal contractors and other related businesses. While Montgomery County offers many of the same quality-of-life assets as found in Arlington, Fairfax and Loudoun Counties, its major disadvantages are a direct connection to Downtown Washington (where the federal markets are concentrated) and to an international airport. This transportation advantage that links the federal markets and Dulles Airport in combination with Northern Virginia's other business-friendly and qualities-of-live assets is what has differentiated economic growth in the Washington metropolitan area over the past thirty years favoring Northern Virginia relative to Suburban Maryland and the District of Columbia.

The Future Outlook

The Washington area economy is expected to continue growing. However, the drivers of this economic growth will be different from the past. Where the growth of federal contracting has been the principal driver of the region's economic growth for the last thirty years, its will be less important in propelling the region's future economic expansion. In 2010, federal spending of all types in the Washington metropolitan area economy accounted for approximately 35 percent of gross regional product and in Northern Virginia, federal spending is estimated at have accounted for 37 percent of GRP. With the growth of federal spending projected to slow and possibly even decline in future years, Northern Virginia's economy could be more vulnerable than the District of Columbia or Suburban Maryland economies.

However, Northern Virginia's economy also has become an attractive location for non-federally dependent businesses. Many of these firms have the potential for rapid growth and this could take up the slack as federal procurement spending slows and, in the process, reshape the Northern Virginia's economy of the future. What are these new markets and businesses that will drive Northern Virginia's economy in the future? The future of the Northern Virginia economy is explored in the companion article.

*Northern Virginia includes: Arlington, Fairfax, Loudoun, Prince William, Stafford, Spotsylvania, Fauquier, Clark and Warren Counties and the Independent Cities of Alexandria, Fairfax, Falls Church, Manassas, Manassas Park and Fredericksburg.