



THE MARYLAND-NATIONAL CAPITAL PARK & PLANNING COMMISSION

MCPB
Item #3
March 31, 2005

March 25, 2005

Memorandum

To: Montgomery County Planning Board

From: Research & Technology Center staff
Karl Moritz, 301-495-1312
Krishna Akundi, 301-495-4561
Wayne Koempel, 301-495-4718
Sharon Suarez, 301-495-4720

Re: *Economic Forces That Shape Montgomery County 2005 Annual Update*

Attached please find a copy of the 2005 Annual Update to *Economic Forces That Shape Montgomery County*. This report finds the County's economy healthy, with modest job growth, sustained federal government activity, and continued recovery in the commercial space market.

The for-sale housing market, very strong last year, is even stronger this year. Home prices continue to accelerate. Most single-family homes are priced out of the range of households earning the County's median income of \$84,446. A household earning the median income can still afford the median-priced existing townhouse and the median-priced condominium, but that will not be true in a few years if current trends continue.

MARCH 2005

Economic Forces That Shape Montgomery County



RESEARCH & TECHNOLOGY CENTER
MONTGOMERY COUNTY DEPARTMENT OF PARK & PLANNING
THE MARYLAND-NATIONAL CAPITAL PARK & PLANNING COMMISSION

Economic Forces That Shape Montgomery County

Annual Update 2005

March 2005

Produced by

Research & Technology Center
Montgomery County Department of Park and Planning
Maryland-National Capital Park and Planning Commission

with

Towson University

THE MARYLAND-NATIONAL CAPITAL PARK & PLANNING COMMISSION

The Maryland-National Capital Park & Planning Commission is a bi-county agency created by the General Assembly of Maryland in 1927. The Commission's geographic authority covers most of Montgomery and Prince George's counties. The Commission's planning jurisdiction, the Maryland-Washington Regional District, comprises 1,001 square miles; its parks jurisdiction, the Metropolitan District, comprises 919 square miles.

The Commission has three major functions:

- (1) The preparation, adoption, and, from time to time, amendment or extension of The General Plan (On Wedges and Corridors) for the Physical Development of the Maryland-Washington Regional District Within Montgomery and Prince George's Counties.
- (2) The acquisition, development, operation and maintenance of a public park system.
- (3) In Prince George's County only, the operation of the entire County public recreation program.

The Commission operates in each county through a Planning Board appointed by and responsible to the county government. The Planning Boards are responsible for preparation of all local master plans, recommendations on zoning amendments, administration of subdivision regulations, and general administrations of parks.

The Maryland-National Capital Park & Planning Commission encourages the involvement and participation of individuals with disabilities, and its facilities are accessible. For assistance with special needs (e.g., large print materials, listening devices, sign language interpretation, etc.), please contact the Community Relations Office, 301-495-4600 or TDD 301-495-1331.

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Abstract

- Title: Economic Forces That Shape Montgomery County: Annual Update 2005
- Author: Montgomery County Department of Park and Planning
Maryland - National Capital Park and Planning Commission
- Subject: Economic Indicators of the Health of Montgomery County's Economy, Focusing On Job Growth, Federal Impact, Commercial Space Activity, and the Housing Market
- Source of Copies: The Maryland-National Capital Park & Planning Commission
8787 Georgia Avenue, Silver Spring, Maryland, 20910
301-495-4700
<http://www.mc-mncppc.org>
- Date: March 2005
- Number of Pages: 40
- Abstract: *Economic Forces That Shape Montgomery County* is an annual report started in the mid-1990s when there was concern about Montgomery County's slow recovery from the 1991 recession. The report includes information not available elsewhere, especially: trends in high-technology employment sectors; trends in federal government activity as an employer, as a landlord and tenant, and as a purchaser of goods and services; trends in the commercial space market; and trends in the housing market.

Economic Forces That Shape Montgomery County Annual Update 2005

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About *Economic Forces That Shape Montgomery County*

Economic Forces That Shape Montgomery County is an annual report started in the mid-1990s when there was concern about Montgomery County's slow recovery from the 1991 recession. The first report found slow growth but very healthy fundamentals. Since then, each subsequent report has found somewhat more rapid growth, whereupon last year we were able to conclude that the economy was very healthy, growing at a rapid but manageable pace.

The *Economic Forces* studies seek to support the Montgomery County Council's economic analysis needs, particularly during preparation of the budget and when evaluating economic development initiatives or regulatory proposals. To accomplish this, the Research & Technology Center has worked with County government agencies to identify economic trends and for suggestions on how to improve the usefulness of the report. Such collaboration helps eliminate duplication of effort while helping to assure that even though opinions may differ, the information underlying those opinions is consistent and valid.

A major value of each *Economic Forces* update is that a review of the trends indicates issues that deserve more in-depth study. In the past, such studies have included a study of Class B & C office space, a commercial sites characteristics inventory, in-depth reports on Montgomery County's information technology and biotechnology industries, and housing market studies. Other recent projects include an update to a 1993 analysis of retail space and an update of our inventory of land available for non-residential construction. Last year, a special focus of the *Economic Forces* report was a review of the economic impact of associations on the Montgomery County economy. This analysis was performed at the suggestion of the Montgomery County Department of Economic Development and the Association Council of Montgomery County.

This year there are no "special studies" included in the *Economic Forces* report.

Developing the in-house expertise required to complete the *Economic Forces* update has strengthened the Research & Technology Center's ability to support master plan development and to respond quickly and thoroughly when policy questions arise, such as debates on the County's Growth Policy, affordable housing, elderly housing, and other issues.

Review of Economic Indicators

Each annual update of *Economic Forces That Shape Montgomery County* contains four core areas that are updated each year:

- **Job Growth:** This section consists of a review of statistics on jobs created or lost by each industry in Montgomery County, compared to the state and the nation, with special emphasis on the County's technology sectors. This section relies on ES-202 data compiled by the Maryland Department of Labor, Licensing and Regulation (DLLR) and reported to the U.S. Bureau of Labor Statistics. Although these data are confidential, state universities have access to the full database and are permitted to release custom analyses as long as they do not compromise confidentiality. The Research & Technology Center staff has a long partnership with Towson University to conduct this analysis for us. In addition, the Research & Technology Center depends greatly on the Montgomery County Department of Finance for advice and insight on these job statistics and for their perceptive analysis of the variety of other factors affecting the County's economy.
- **Federal Impact:** By far, the largest single influence on Montgomery County's economy is the federal government: as an employer, as a landowner, as a tenant, and as a purchaser of goods and services. Each year, Research & Technology Center staff survey each federal installation in the County about current and expected employment changes, construction plans, and space leasing activities. Typically, Research staff also analyze federal purchasing and contracting activity – however, again this year the federal procurement data are not yet available. Staff will provide the Planning Board and County Council will an analysis of federal procurement trends when the data are available.
- **Commercial Space Activity:** The relationship of economic trends to the pace and character of development is of particular interest to officials and staff making land use decisions. One of the major questions addressed by the first *Economic Forces That Shape Montgomery County* report focused on understanding the collapse of the commercial space market that occurred during the 1990-91 recession. Subsequent reports have focused on tracking and understanding the market's recovery as well as looking for signs of pending weakness.
- **The Housing Market:** Each year, *Economic Forces* includes a report on the County's housing market from the perspective of County residents – those who are, or intend to be, homeowners or tenants in the County. Housing continues to be one of the strongest aspects of the economy and housing issues are the focus of considerable public attention at this time.

Job Growth

Montgomery County added 4,019 jobs between the second quarter of 2003 and the second quarter of 2004, an increase of 0.9 percent. This compares with a job growth figure of 1,921 in last year's report and 2,159 in the previous year's report. Job growth has not been greater than 1 percent since 2001.

Although the *Economic Forces* report focuses on second quarter data, the state is expected to release third quarter 2004 job statistics prior to the *Economic Forces* presentation to the Montgomery County Planning Board and County Council.

Between the second quarters of 2003 and 2004, private sector jobs grew by 4,869, or 1.3 percent. Industries that added the most jobs were *Healthcare and Social Assistance* (up 2,111 jobs), *Management of Companies and Enterprises* (up 1,244 jobs), and *Construction* (up 941 jobs). Major industries with the greatest percentage increases were *Management of Companies and Enterprises* (up 81 percent), *Transportation and Warehousing* (up 22 percent), and *Healthcare and Social Assistance* (up 4.7 percent).

Public sector jobs decreased by approximately 850 jobs, or 1.1 percent. This approximately reversed last year's gain in the public sector of 947 jobs, or 1.2 percent. About 550 of the jobs lost were federal government jobs.

About the Data

The job growth statistics reviewed in this report are from the Maryland Department of Labor, Licensing and Regulation (DLLR) and the data series is known as the "ES-202 series." The data is collected from firms submitting information for unemployment insurance purposes. Therefore, jobs that are not covered by unemployment insurance are not included in this jobs series. These include sole proprietorships, farm workers, some domestic workers, and unpaid family workers. Certain non-profit employers, such as churches, may not be counted. Some students and spouses of students in the employ of schools, colleges, and universities are also excluded. Although there are these gaps, this is a standard data series for measuring job growth and, because the information is reported for every county in the nation, the series allows us to compare Montgomery County trends with those of the state and nation.

For the period covered by this report, second quarter 2003 to second quarter 2004, DLLR made a 5,300-job "non-economic change" to Montgomery County's job statistics. In essence, DLLR is indicating that there are 5,300 jobs in the state of Maryland that have, in the past, been erroneously attributed to Montgomery County when they were actually in another jurisdiction in the state. This follows a similar, although smaller, "non-economic change" DLLR made last year to the local government job totals.

DLLR has indicated that this year's non-economic changes are in the private sector and spread among various industries. This *Economic Forces* report adjusts all job growth statistics to account for these non-economic changes using a method developed by the Montgomery County Department of Finance after consultation with DLLR.

The High Tech Sectors: Holding Steady Following Declines

The number of high-tech jobs in Montgomery County remained unchanged between the second quarter of 2003 and the second quarter of 2004. Last year we reported that Montgomery County's high tech sectors fell by 9.2 percent between the second quarters of 2002 and 2003, losing about 4,700 jobs. During the previous one-year period, high tech jobs fell by 6.9 percent.

Private sector high tech jobs are about 13 percent of the County's economy. That does not include the many *public sector* high tech jobs in Montgomery County, including those at federal installations such as the National Institutes of Health, the National Institute for Standards and Technology, and the Department of Energy.

The lack of change in the number of high-tech jobs in Montgomery County was mirrored at the state and national levels.

After two successive years of sharp decreases, the *Aerospace* industry in Montgomery County held steady at about 15,000 jobs. Trends in the County's *Aerospace* jobs are similar to those affecting Aerospace jobs in the state and nation, although the shifts are more pronounced at the local level.

Biotechnology continues to outshine the other tech sectors in the County in terms of percentage growth. Biotechnology grew by 5 percent for the second year in a row. Nationally, biotechnology jobs showed a very slight decline over the same period.

In previous years, Montgomery County's *information technology* and *telecommunications* industry had been performing about the same as the state and the nation. Unfortunately, in the past couple of years, this has meant a decline in jobs. This year is different: "*Infocom*" in Montgomery County added jobs at a rate of 1.4 percent while the state and nation continued to show job losses. The state lost about 6 percent of *Infocom* jobs between the second quarter of 2003 and the second quarter of 2004, while the US lost about 0.3 percent of *Infocom* jobs over the same period.

High tech manufacturing in Montgomery County consists of companies manufacturing industrial machinery, electronic equipment, transportation equipment, and instruments and measuring devices. The sector is relatively small (8,200 jobs) and somewhat volatile. Between the second quarters of 2003 and 2004, Montgomery County's high tech manufacturing sector lost 500 jobs (6 percent), compared to a 2 percent decline in the state and a 1 percent decline for the nation.

Other Major Sectors

“*Business services*” is a major component of the County’s economy, comprising over 95,000 jobs. The County’s *Business Services* jobs increased by 2.2 percent between the second quarters of 2003 and 2004. This follows almost four years of little change.

Construction jobs in the County increased 3.3 percent and are now at their highest levels since 1990. This increase mirrors trends at the state and national level.

The highest-paying sectors (employing more than 500 people) in Montgomery County are: *chemical manufacturing* (average wage: \$106,500), *broadcasting* (average wage: \$103,200), *securities and commodities brokers* (average wage \$97,300), *computer and electronic product manufacturing* (average wage: \$88,300), and *support activities for transportation* (average wage: \$82,000). The largest sector with an average wage in excess of \$60,000 per year is the “professional, scientific, and technical services” sector with an average wage of \$67,000 and 60,900 jobs. Of the major private sectors, the “food services and drinking places” sector pays the lowest average wages, about \$16,000 per year.

The average salary paid by a Montgomery County job in the second quarter of 2003 was \$49,400 per year, an increase of 3.6 percent over the previous year. The average private sector job pays about \$46,200 while the average public sector job pays \$64,500. The comparatively higher salaries paid by the public sector are due to federal government salaries, which average \$76,500.

Federal Impact

The federal government plays three very important roles in Montgomery County’s economy: it is an employer, it is a tenant and landowner, and it is a purchaser of goods and services.

During fiscal year 2003, the federal government pumped \$13.3 billion dollars into the County’s economy in the form of federal expenditures, 23 percent of all the federal expenditures in Maryland. The federal government spent \$5.7 billion to purchase goods and services, paid \$3.6 billion in wages and salaries to County workers, paid County residents \$2.8 billion in direct payments to individuals for retirement and other benefit programs, and spent \$1.2 billion on grants.

Federally Leased Space

Federally leased space has been increasing by almost 2 percent per year since 2000. The General Services Administration (GSA) currently leases 7.0 million square feet of space in Montgomery County, an increase of 126,000 square feet compared to 2004. GSA leases about 11 percent of the County’s existing rental office space and pays an annual rent totaling \$153 million, an increase of \$6 million over the previous year.

Over half of GSA's inventory, 68 percent (4.8 million square feet), is occupied by the Department of Health and Human Services (HHS). During the past year, HHS is the only agency that appreciably increased their leased space, increasing their inventory by 168,100 square feet, a 3.6 percent increase. The Department of Commerce is the only other agency occupying more than 1 million square feet of GSA leased space; its 1.1 million square feet is 16 percent of GSA's inventory in the County.

Over half of GSA's leased space is in the Rockville area, which includes most of North Bethesda. GSA leases 4.0 million square feet of space in the Rockville area, 57 percent of their County inventory. Two other areas have over 1 million square feet of GSA leased space: Silver Spring has 1.3 million square feet (18 percent) and Bethesda has 1.1 million square feet (15 percent).

About 19 percent of GSA's leased space, 1.3 million square feet, is up for renewal in 2005. HHS occupies about 79 percent of this space, mainly in the Rockville area. The Food and Drug Administration (FDA) is the tenant for about 23 percent of the space that is up for renewal in 2005 – about 307,000 square feet. During the past year, GSA renewed six FDA leases for five more years (2004-2009). During 2004, GSA did not renew six other leases totaling 209,900 square feet. Of the space that GSA did not renew, HHS occupied about 81 percent, but none of it was FDA space. Since HHS is the only agency that increased its leased space during the past year, we believe it is likely HHS will renew these leases or relocate these offices within the County.

About 67 percent, or 4.7 million square feet, of GSA's space is leased beyond 2008. This is 800,000 square feet more than last year. Lease space up for renewal in 2009 almost doubled during the past year, increasing from 588,000 square feet in 2004 to 1.1 million square feet in 2005, an increase of 94 percent increase. Much of this increase was the result of GSA signing new five-year leases on leases that were to expire in 2004.

In general, history indicates that GSA typically renews most of these leases. Among the reasons GSA prefers to renew most leases is that moving means relocation costs. The main reasons for not renewing leases are: consolidating into government owned space, not needing the space due to changes in work programs or employment levels, and buildings becoming too old and outdated.

Survey of Agencies

Collectively, the thirteen agencies and installations surveyed estimate they have about 65,400 workers in 2005, an increase of about 3.5 percent, or 2,200 workers, compared to 2004. Most of the increase is the FDA reporting 1,450 more workers and the National Oceanic and Atmospheric Administration (NOAA) reporting 540 more workers. The Department of Energy, National Institutes of Health (NIH), Health and Human Services (other than NIH and FDA), and the Consumer Product Safety

Commission all reported more modest gains. The Nuclear Regulatory Commission and the Naval Surface Warfare Center at Carderock reported modest declines.

Collectively, the agencies anticipate job levels increasing between about 5 and 6.5 percent in the three 5-year periods between 2005 and 2020. This is the first time we have asked the agencies to project their job levels to 2020. They anticipate job increases of 18.5 percent, or 12,100 jobs, between 2005 and 2020, when workers at these agencies will number about 77,500.

Given the federal policy of shifting workers from leased space to owned space, workers at federally owned space are expected to increase by about 14,400 between 2005 and 2020. The main shift from leased to owned space is the Food and Drug Administration's consolidation at their facility in White Oak and the anticipated purchase by the federal government of the NOAA buildings in Silver Spring. Even with these major shifts from leased to owned space, the federal government expects to remain a major tenant in the County's office market. In 2020, the agencies project 24,800 workers in leased space, 2,300 fewer than 2005 but similar to 2002 levels. NIH anticipates adding about 6,100 workers in leased space between 2005 and 2020.

Commercial Space Market

Over the past year, Montgomery County's commercial space market strengthened its recovery, with vacancy rates declining, absorption of new space increasing, and office rents holding steady. At the same time last year, vacancy rates were still edging higher and absorption of new space was slow.

In the past year, the amount of occupied Class A office space in Montgomery County increased to 26.1 million square feet from 24.4 million square feet a year ago. The total amount of vacant Class A office space declined from 3.5 million square feet in 2004 to 3.0 million square feet in March of 2005. The Class A office space vacancy rate is now 8.5 percent.

Class A office rents in Montgomery County have been much less volatile than some other markets in the region. This is particularly true when comparing Montgomery County to Fairfax County, where average rents exceeded those in Montgomery County as recently as 2001 but are now lower. Fairfax County average Class A office space rents declined from a high of \$33 to an average of \$25 a year ago, but have now rebounded a bit to \$27. Montgomery County's average rents for Class A office space, which have held steady over the past year at \$29, peaked at \$30 a few years ago.

There are two types of vacant space: direct and sublet. Direct vacant space is available directly from the landlord. Sublet space is available from a tenant in a building that finds that they do not need some or all of the space they have rented. Over time, increases in sublet space can be an early signal of recession while decreases in sublet

space can signal recovery. However, some fluctuation is simply due to the individual tenant circumstances.

The amount of Class A office space available for sublet in the first quarter of 2005 has declined by about 450,000 square feet from the first quarter of 2004. The amount of vacant sublet Class A office space is now 544,000 square feet. Vacant sublet Class A space is now half of what it has averaged this decade.

Vacancy rates for Montgomery County's Class B office space reversed last year's increase from 9.1 percent to 9.8 percent. Class B vacancy rates are back at 9.1 percent in the first quarter of 2005.

The vacancy rate for Class C space edged higher over the past year after a dramatic decline in 2003. In last year's report, we noted that the Class C office vacancy rate fell from 12.4 percent to 7.1 percent. This year, the vacancy rate rose to 7.5 percent. Again this year, Class C office space has a healthier vacancy rate than Class A or Class B office space.

There is about 490,000 square feet of office space under construction now in Montgomery County for completion in 2005, about half of what was under construction at this time last year. There is another 660,000 square feet proposed for completion in 2006.

Finally, the flex and industrial space markets are still solid, even though vacancy rates continue to increase (from 9.2 percent in 2004 to 10.5 percent in 2005). Rents have also increased over the same time period by about \$1 per square foot, showing strength in the market.

Housing Market

The pace of the housing market in Montgomery County continues to accelerate. Low interest rates, regional job growth, and a continued belief in the investment value of real estate have helped push housing sales to new heights. The low interest rates, however, are not enough to counterbalance the effect of rapidly-rising home prices, so housing affordability continue to suffer during 2004.

The median income household could afford the median priced existing townhouse in 2003, according to the Department of Park and Planning's Affordability Index. However, median prices for new townhouses and for new and existing single-family detached homes were out of reach for most households.

Existing condominiums are also still relatively affordable, but if current trends continue, within two years the median income household will not be able to afford the median priced existing condominium.

The median price of all single-family housing reached a new high of \$380,000 in the first three quarters of 2004, compared to a median price of \$315,000 at the end of 2003. The median price of new detached home rose from \$563,000 to over \$600,000 while the price of an existing detached home increased from \$376,000 to \$450,000. The median price of new townhouses climbed sharply from \$358,000 to \$414,000, while the median price of an existing townhouse rose from \$223,000 to \$274,000.

In spite of rising prices, time on the market before a house is sold continued to be short: 27 days on average, which is the same as a year ago. The number of home sales in the first three quarters of 2004 was on track to be just under the 2003 pace of 18,400 single-family homes and 5,400 condominiums.

Rental housing vacancies continued to ease, according to the latest Office of Landlord-Tenant Affairs survey. Rental vacancy rates increased from 3.8 percent to 5.1 percent in 2004. This vacancy rate is still considered healthy for landlords and provides some relief to tenants after the very tight markets of the past (in 2001, the rental vacancy rate was just 1.8 percent).

Apartment rents are continuing their upward trend (to an average of \$1,154 in 2004) although the increase continues to slow. Rents average \$1,111 in 2003. The upward pressure on the rental market has been reduced a bit by a combination of renters moving to home ownership to take advantage of low interest rates and an increase in apartment construction.

In 2003, residential completions dropped from two consecutive years at a pace of 5,500 units per year. In 2004, residential completions totaled 4,300 units. Multi-family led the way with 2,033 units, down from 2,986 units the year before. Townhouse completions fell from 1,105 in 2003 to 791 in 2004. Construction of single-family detached units held constant at 1,450 units.

Multi-family units were also popular with developers seeking approval from the County and municipal planning boards. The number of multi-family units approved outpaced single-family approvals by about 250 percent.

Economic Forces That Shape Montgomery County Annual Update 2005



2005 Conclusions

- **Overall: healthy.**
- **Jobs: private sector up slightly, but mostly low- and mid-wage industries.**
- **Federal impact: leasing & employment outlook still strong**
- **Commercial market: still in “recovery” phase but absorption is up.**
- **Housing market: price increases continue to accelerate and affordability suffers.**



Notes on the data

- **Federal procurement data:** The Federal Procurement Data Center moved to a new system for releasing procurement data that has interrupted our reporting of federal procurement activity. Although some data are available, there are not yet reliable figures for federal procurement in Montgomery County for FY2004. As soon as we are able to access the data, staff will prepare and distribute our annual analysis of Montgomery County's federal procurement trends.
- **State reporting of job growth:** This report's job growth analysis relies on figures provided by the Maryland Department of Labor, Licensing, and Regulation (DLLR). In recent years DLLR has made "non-economic adjustments" or corrections to the job statistics that make it difficult to be sure that our characterization of past job trends is accurate. This year, DLLR reported non-economic adjustments for Montgomery County of more than 5,300 jobs in the private sector. The Research & Technology Center is grateful to the Montgomery County Department of Finance for their guidance in how to address the DLLR adjustments. This report uses the Department of Finance adjusted figures.
- **Jobs data limitations:** Jobs that are not covered by unemployment insurance are not included in this jobs series. These include sole proprietorships, farm workers, some domestic workers, and unpaid family workers. Certain non-profit employers, such as churches, may not be counted. Some students and spouses of students in the employ of schools, colleges, and universities are also excluded.



Job Growth Performance

2nd Quarter 2003 to 2nd Quarter 2004

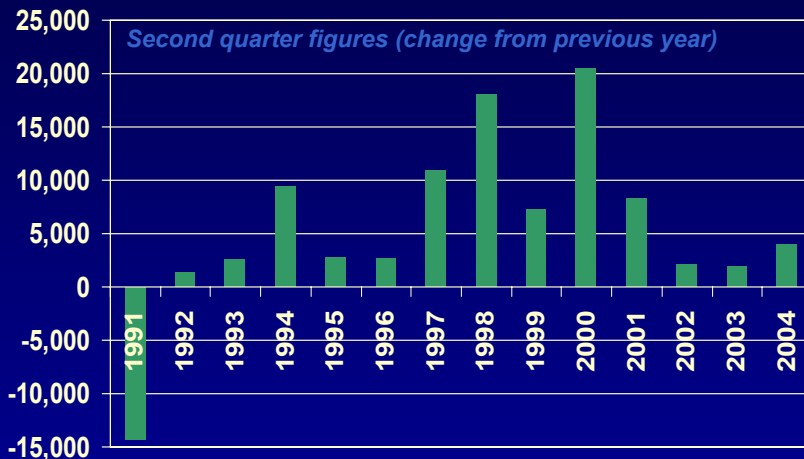


Job growth themes

- The number of jobs increased by 4,019 to 450,888
- Technology jobs held steady after previous declines.
 - Aerospace: *unchanged*
 - Biotechnology: *up 5%*
 - Infotech & telecom (infocom): *up 1.4%*
 - High tech manufacturing: *down 1.4%*
- Industries in all wage categories added jobs.
- Unemployment rate “rebenchmarked” to 2.9%.



Total jobs increased by 4,000



Between the second quarters of 2003 and 2004, Montgomery County added 4,019 jobs, or 0.9 percent.



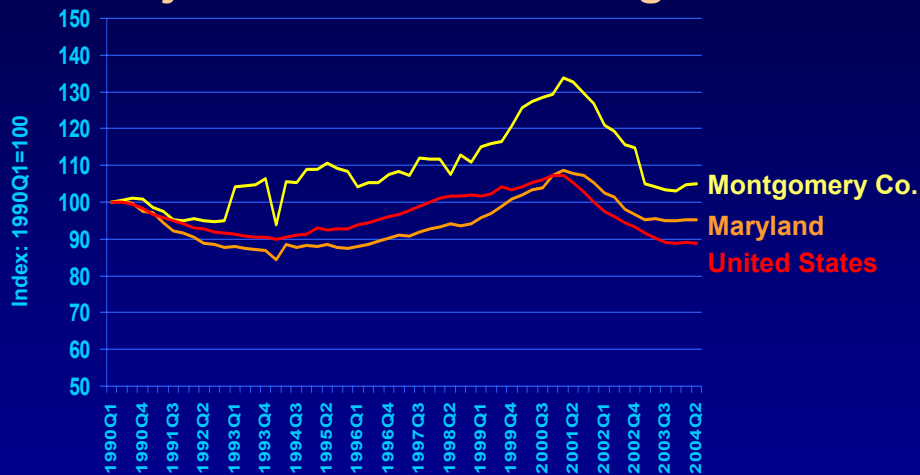
Source: RESI compilation of DLLR data (2004Q2); modified in consultation with Department of Finance and DLLR.

Health services adds most jobs.

| | 2003 | 2004 | Change |
|--|----------------|----------------|-------------|
| Natural Resources and Mining | 675 | 725 | 7.4% |
| Construction | 28,493 | 29,434 | 3.3 |
| Manufacturing | 16,003 | 15,445 | -3.5 |
| Trade, Transportation and Utilities | 63,603 | 63,622 | 0 |
| Information | 15,047 | 14,993 | -0.4 |
| Finance Activities (incl. Real Estate) | 34,703 | 34,382 | -0.9 |
| Professional & Business Services | 94,666 | 96,593 | 2.0 |
| Education & Health Services | 52,908 | 55,354 | 4.6 |
| Leisure & Hospitality Services | 38,489 | 39,097 | 1.6 |
| Other Services | 21,700 | 21,327 | -1.7 |
| Private Sector | 366,787 | 371,656 | 1.3 |
| Public Sector | 79,627 | 80,325 | -1.1 |
| Federal & State Government | 41,865 | 42,377 | -1.5 |
| Local Government | 37,270 | 37,715 | -0.6 |

Source: RESI compilation of DLLR data (2004Q2); modified in consultation with Department of Finance and DLLR.

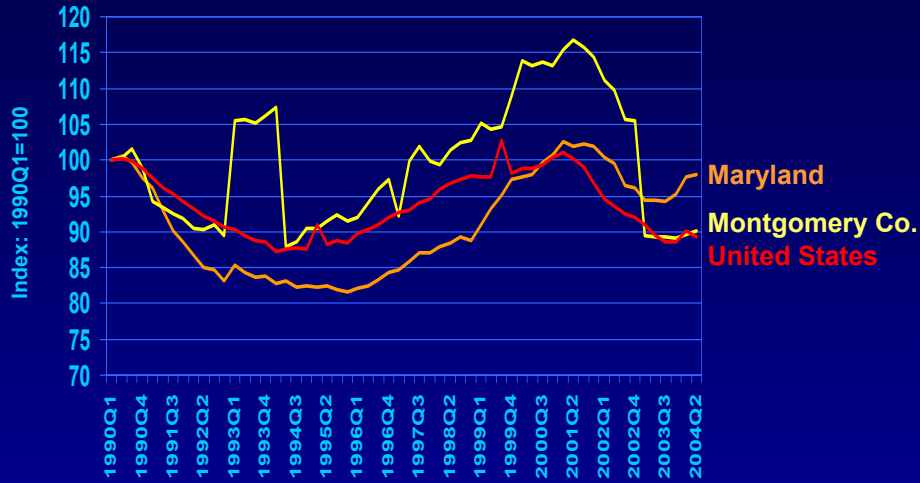
Tech jobs show little change overall



There are 51,000 high tech jobs in Montgomery County.

Source: RESI compilation of MD Dept of Labor, Licensing, and Regulation data (2004Q2), modified in consultation with Montgomery County Department of Finance and DLLR.

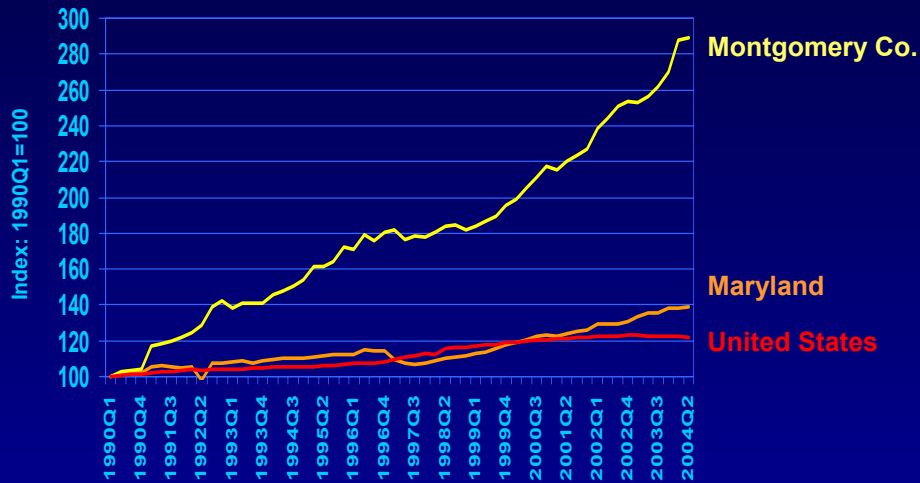
Aerospace jobs steady after drop.



There are 14,700 aerospace industry jobs in Montgomery County.

Source: RESI compilation of MD Dept of Labor, Licensing, and Regulation data (2004Q2), modified in consultation with Montgomery County Department of Finance and DLLR.

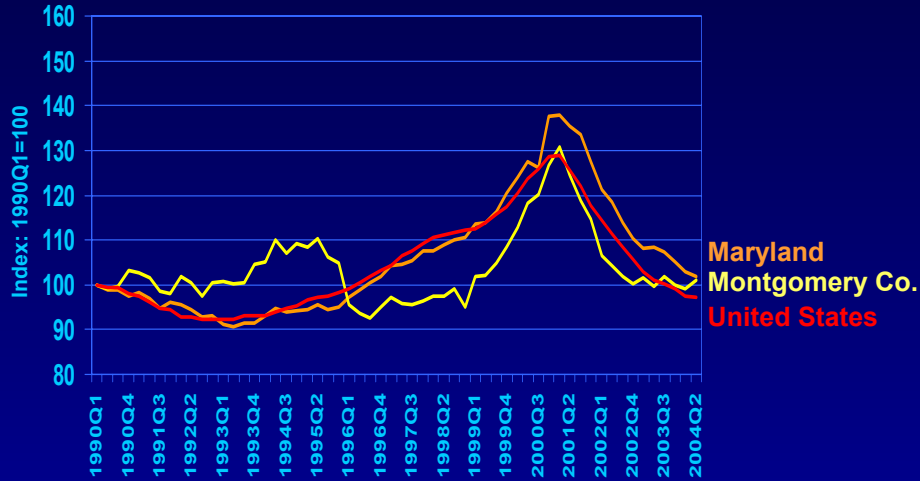
Biotech grows 5%



There are 8,500 biotech industry jobs in Montgomery County.

Source: RESI compilation of MD Dept of Labor, Licensing, and Regulation data (2004Q2), modified in consultation with Montgomery County Department of Finance and DLLR.

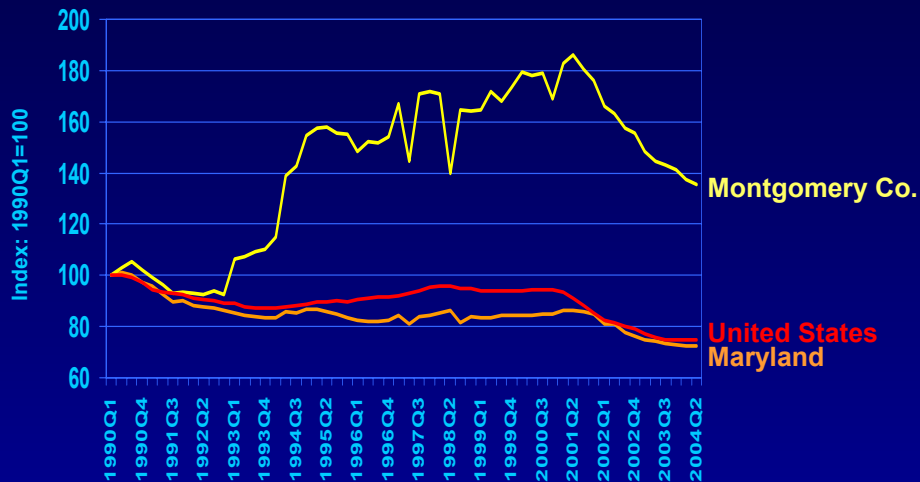
County infocom jobs up 1.4%



There are 14,600 information technology and telecommunications industry jobs in Montgomery County.

Source: RESI compilation of MD Dept of Labor, Licensing, and Regulation data (2004Q2), modified in consultation with Montgomery County Department of Finance and DLLR.

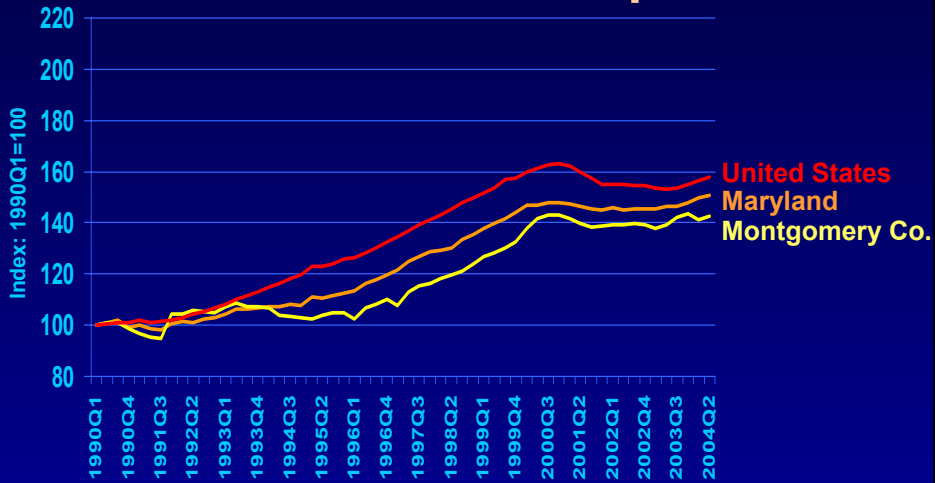
High tech mfg jobs fall by 500



There are 8,200 high tech manufacturing jobs in Montgomery County.

Source: RESI compilation of MD Dept of Labor, Licensing, and Regulation data (2004Q2), modified in consultation with Montgomery County Department of Finance and DLLR.

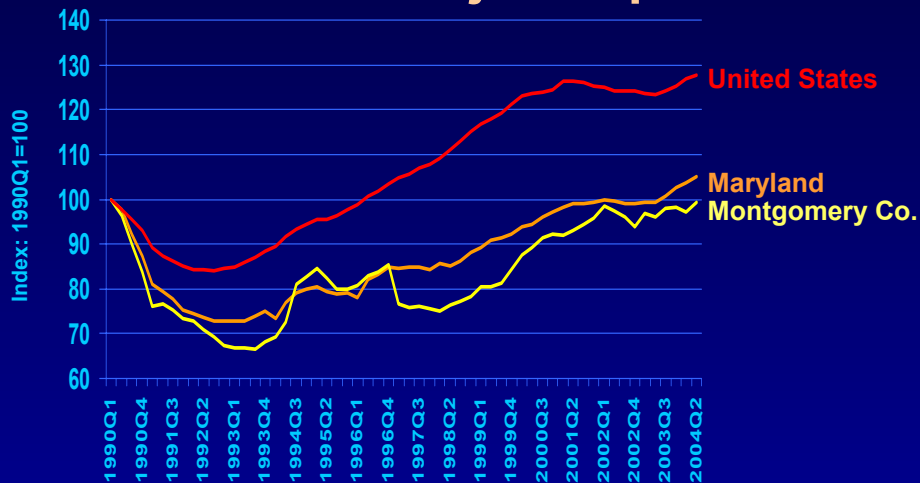
Business services up 2.2%



There are 95,600 business services jobs in Montgomery County.

Source: RESI compilation of MD Dept of Labor, Licensing, and Regulation data (2004Q2), modified in consultation with Montgomery County Department of Finance and DLLR.

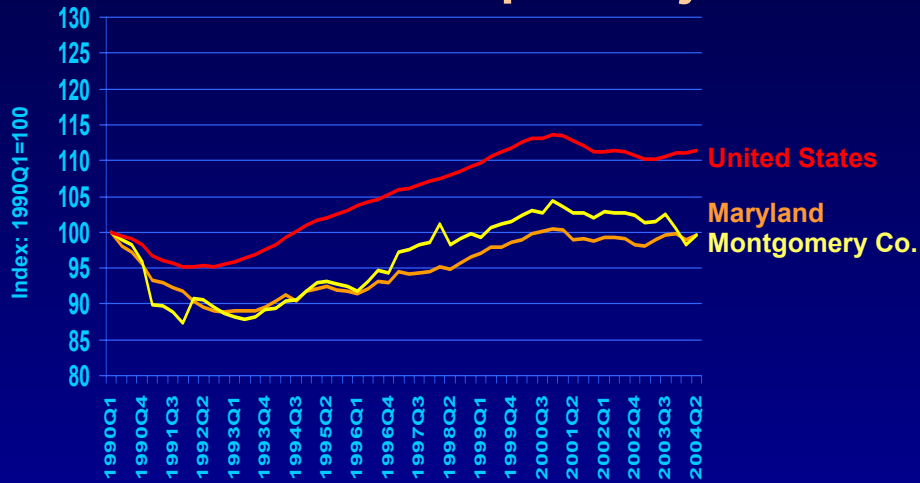
Construction jobs up 3.3%



There are 29,400 construction jobs in Montgomery County.

Source: RESI compilation of MD Dept of Labor, Licensing, and Regulation data (2004Q2), modified in consultation with Montgomery County Department of Finance and DLLR.

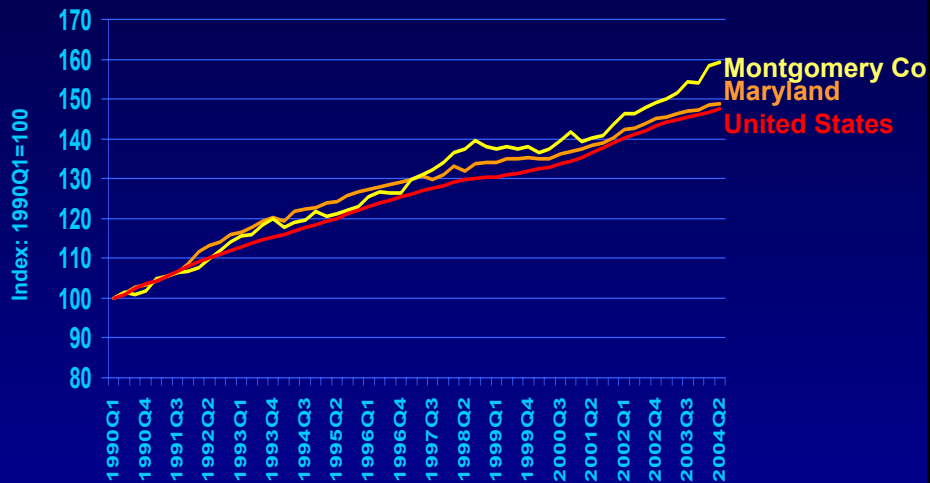
Retail trade drops 900 jobs



There are 47,500 retail trade jobs in Montgomery County.

Source: RESI compilation of MD Dept of Labor, Licensing, and Regulation data (2004Q2), modified in consultation with Montgomery County Department of Finance and DLLR.

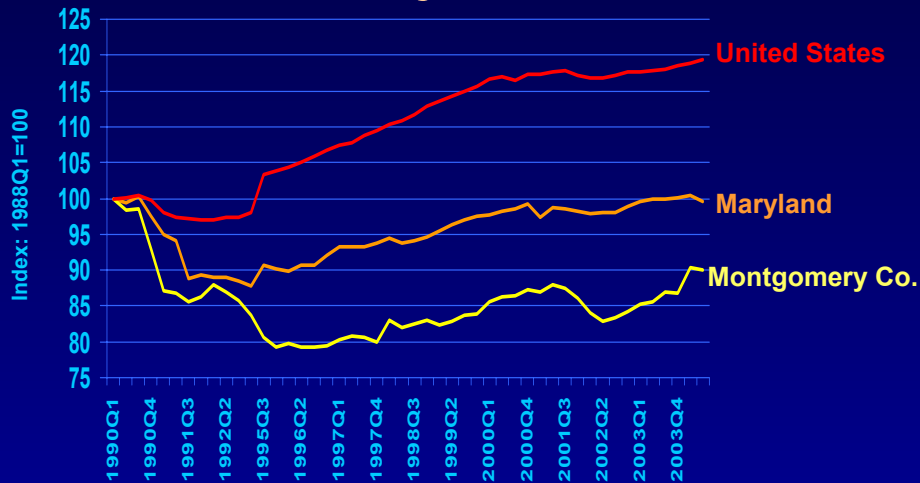
Health services follows US trend



There are 39,800 health services jobs in Montgomery County.

Source: RESI compilation of MD Dept of Labor, Licensing, and Regulation data (2004Q2), modified in consultation with Montgomery County Department of Finance and DLLR.

Real estate jobs climb 5%



There are 12,100 real estate jobs in Montgomery County.

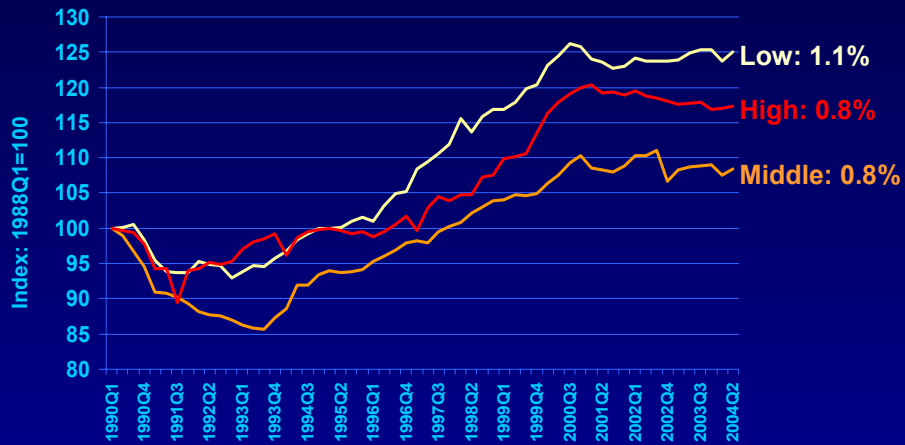
Source: RESI compilation of MD Dept of Labor, Licensing, and Regulation data (2004Q2), modified in consultation with Montgomery County Department of Finance and DLLR.

How well do the new jobs pay?

We track job growth by average salary to show how well new jobs are paying:

- **High:** Industries with jobs that pay an average of \$50,000
- **Medium:** Industries with jobs that pay an average of \$30,000 to \$49,999
- **Low:** Industries with jobs that pay an average of less than \$30,000

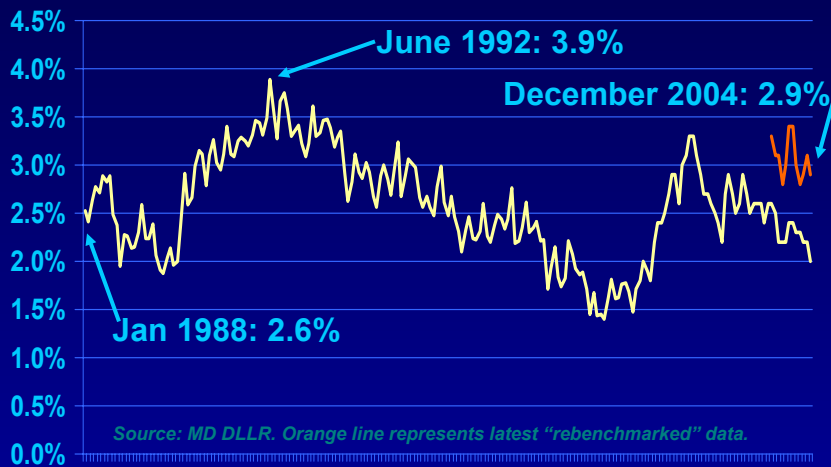
All wage categories show gain.



There are 70,800 jobs in high-wage industries, 179,100 jobs in medium-wage industries, and 121,700 jobs in low-wage industries in Montgomery County.

Source: RESI compilation of MD Dept of Labor, Licensing, and Regulation data (2004Q2), modified in consultation with Montgomery County Department of Finance and DLLR.

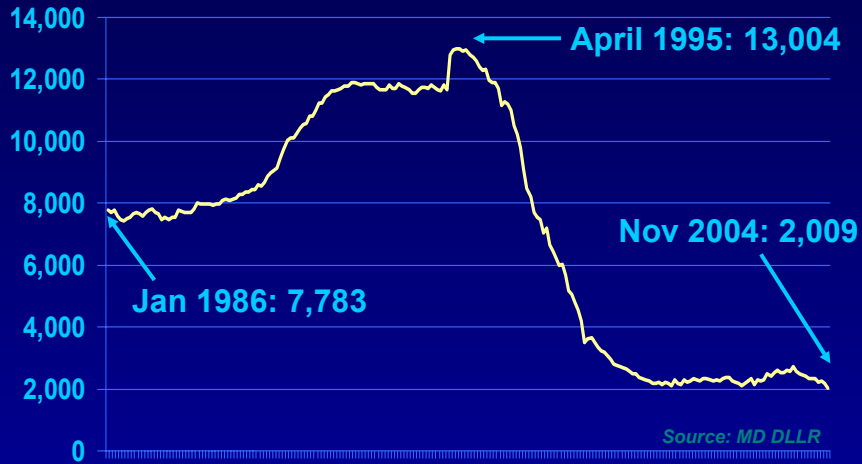
Revised jobless rate: 2.9%



Source: MD DLLR. Orange line represents latest "rebenchmarked" data.

There are 15,700 unemployed persons in Montgomery County according to latest (March 2005) revision to 2004 figures.

TCA caseload falls to 2,000



There are 2,009 recipients of temporary cash assistance in Montgomery County.

Federal Government Role

The federal government is a major component of Montgomery County's economy

As an employer,

- About 65,000 workers are in federal space,
- In FY2003, the federal government paid \$3.6 billion in wages to jobs in Montgomery County

As a tenant,

- The General Services Administration leases 7.0 million square feet of commercial space in the County,

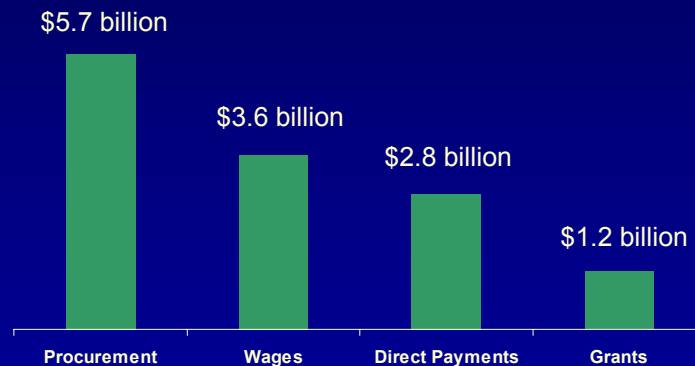
As a purchaser of goods and services,

- FY2003's federal procurement was \$5.7 billion the County's all-time high.

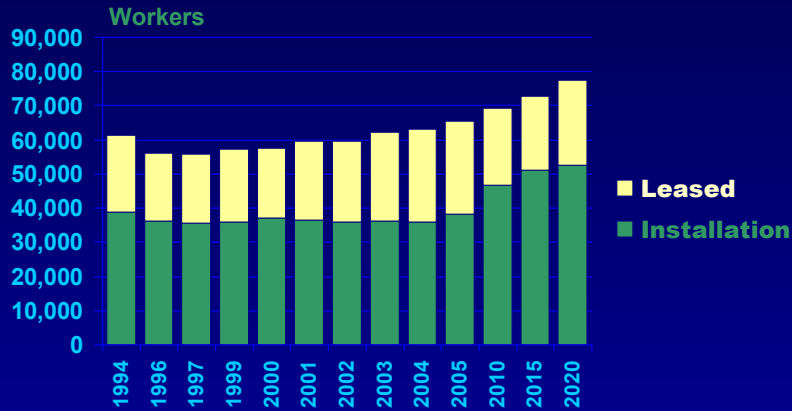


Federal expenditures in Montgomery County worth \$13.3 billion in FY2003

The federal government pumps billions of dollars into the County's economy.



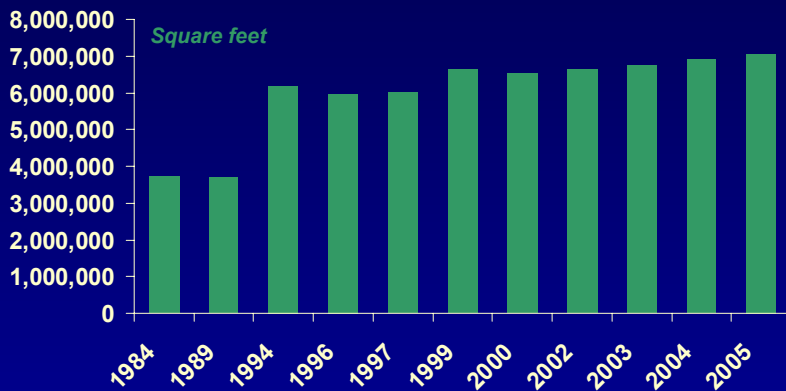
Workers at federal installations are beginning to increase due to FDA's consolidation



Between 2005 & 2020, jobs at installations are expected to grow by 38 percent above current levels. Jobs in leased space are expected to fluctuate between 21,600 and 24,800.

Source: M-NCPPC analysis of US government data

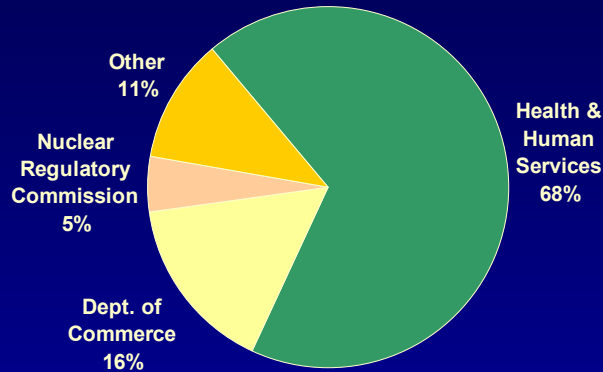
Federal leasing reaches 7 million sq. ft.



Since 1994, GSA has leased between 6.0 and 7.0 million square feet of commercial space in Montgomery County

Source: General Services Administration (GSA)

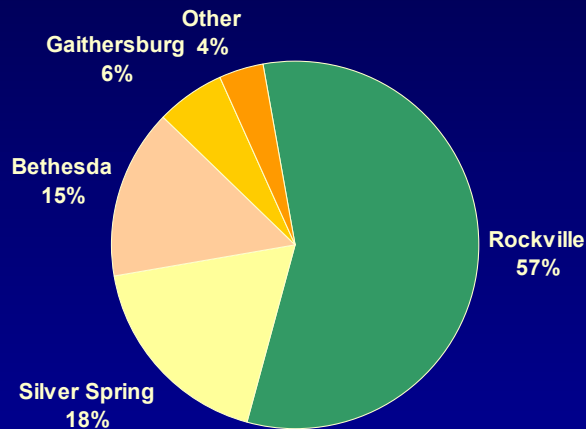
Health & Human Services leases the most space



HHS & Commerce account for 84 percent of the County's federal leased space, 5.9 million sq. ft. out of a total of 7.0 million sq. ft.

Source: General Services Administration (GSA)

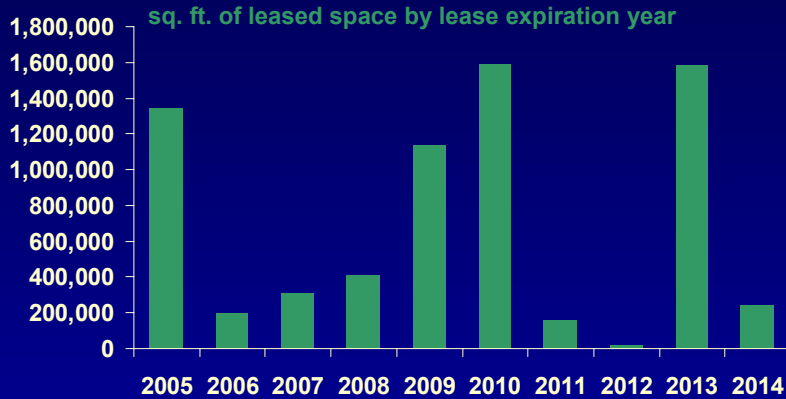
Rockville area is home to most federal leased space



GSA leases 4.0 mil. sq. ft. in Rockville (which includes most of North Bethesda), 1.3 mil. sq. ft. in Silver Spring, and 1.1 mil. sq. ft. in Bethesda.

Source: General Services Administration (GSA)

Over 2/3 of GSA's leased space is up for renewal after 2008



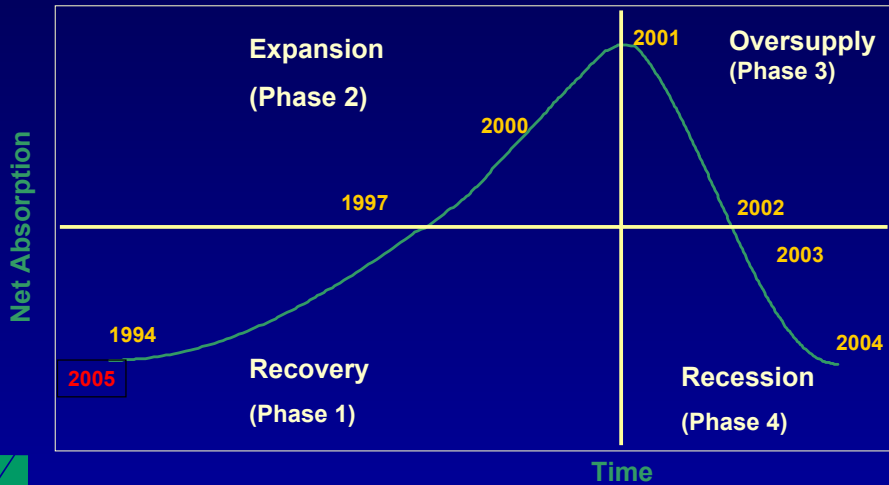
GSA's leased space up for renewal in 2009 nearly doubled over the past year, increasing by 551,000 sq. ft.

Source: General Services Administration (GSA)

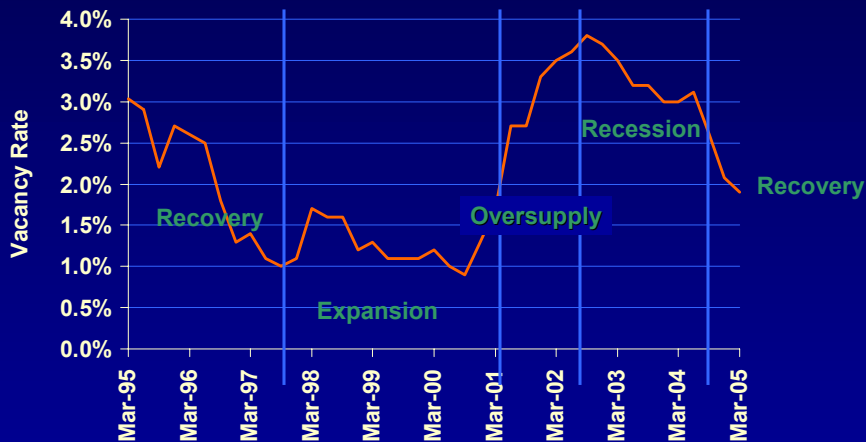
Where Is the County's Office Market Headed?



The real estate cycle provides a framework for understanding



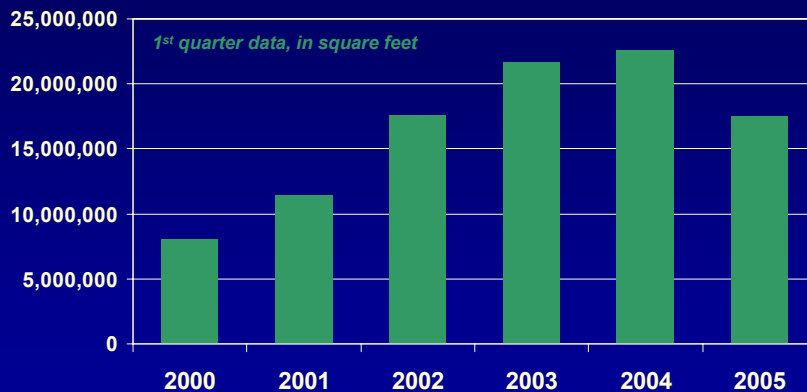
Sublet vacancy rates indicate recovery



The Washington, DC Region Class A Office Market

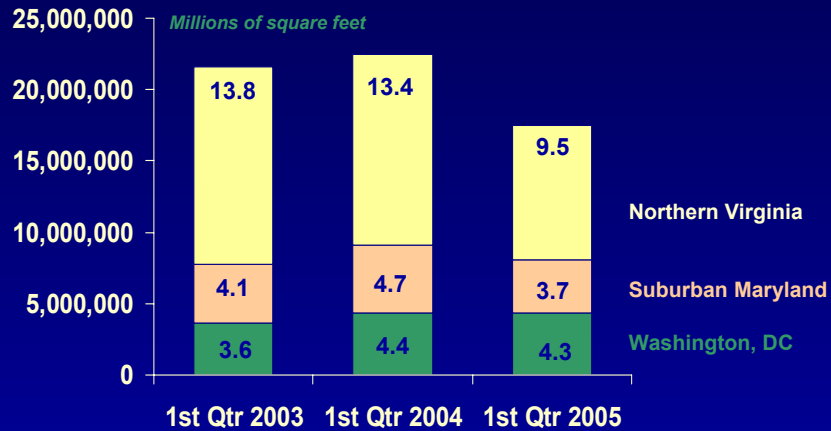


The region's vacant Class A office space falls



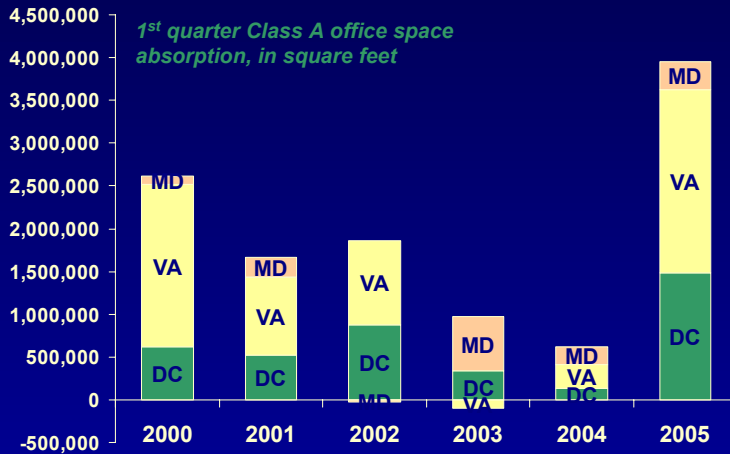
Source: CoStar Group, Property Professional Database, Analytical Search, Historical Trends

Vacant space in all regional submarkets has decreased since 2004



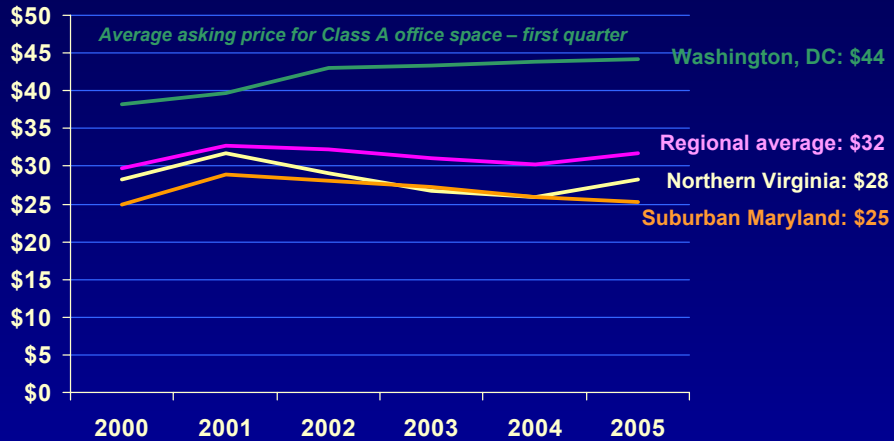
Source: CoStar Group, Property Professional Database, Analytical Search, Historical Trends

First quarter 2005 shows increase of Class A office space absorption



Source: CoStar Group, Property Professional Database, Analytical Search, Historical Trends

Suburban Maryland asking rents more affordable

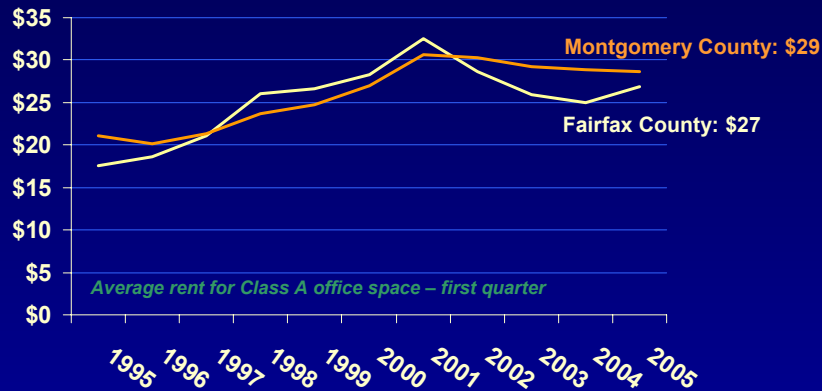


Source: CoStar Group, Property Professional Database, Analytical Search, Historical Trends

The Montgomery County Office Market

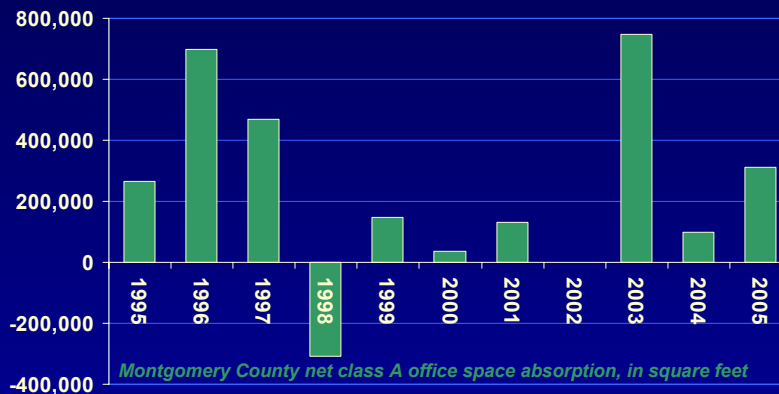


County's Class A office space rents steady compared to Fairfax



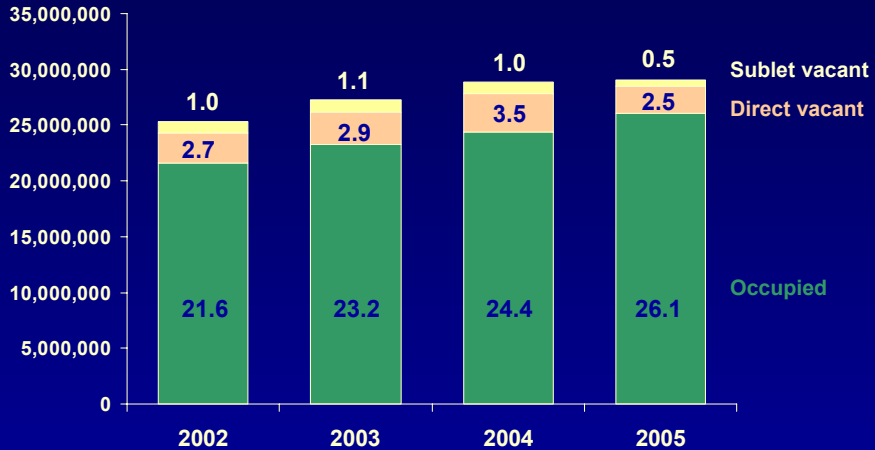
Source: CoStar Group, Property Professional Database, Analytical Search, County snapshot

310,000 sf of Class A space absorbed in 1st quarter 2005



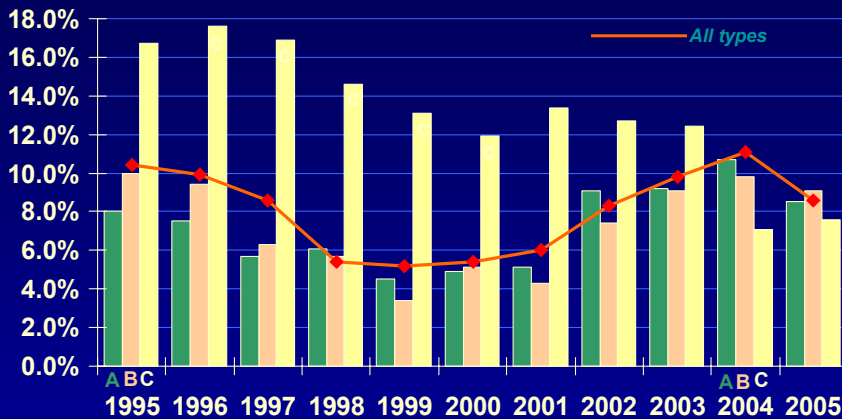
Source: CoStar Group, Property Professional Database, Analytical Search, County Snapshot

Less vacant Class A space available in First Quarter 2005



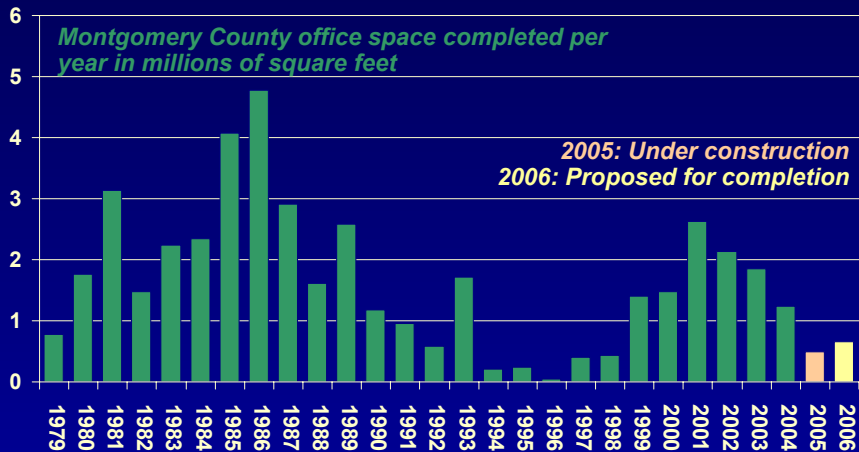
Source: CoStar Group, Property Professional Database, Analytical Search, Historical Trends

Vacancy rates return to 1995 levels; Class C space has lowest rate



Source: CoStar Group, Property Professional Database, Analytical Search, Historical Trends

About 490,000 sq. ft under construction in First Quarter 2005



Source: Completions: M-NCPPC Research & Technology Center; under construction and proposed: CoStar Group, Property Professional Database.

Major Montgomery County Class A Office completions in 2004

| <u>Project</u> | <u>Square Ft.</u> | <u>Submarket</u> |
|----------------------------------|-------------------|----------------------|
| Market Square @ Shady Grove | 282,020 | I-270 Corridor |
| 8515 Georgia Avenue | 183,000 | Silver Spring |
| Washingtonian Center Phase II | 145,805 | I-270 Corridor |
| Shady Grove LSC Bldg. 3 | 115,691 | I-270 Corridor |
| FASEB Office Bldg | 55,000 | Bethesda/Chevy Chase |
| MC Teachers Federal Credit Union | 43,500 | I-270 Corridor |
| Silver Spring Innovation Center | 20,000 | Silver Spring |

Source: CoStar Group, Property Professional Database, Property Search

Fewer projects under way in 2005 suggest developer caution

| <u>Development</u> | <u>Square Ft.</u> | <u>Submarket</u> | <u>Expected Delivery</u> |
|------------------------|-------------------|--------------------------|--------------------------|
| Belward Campus Bldg II | 54,000 | I-270 Corridor | June 2005 |
| One Firstfield Place | 19,740 | I-270 Corridor | December 2005 |
| Chevy Chase Center | 412,000 | Bethesda/ Chevy Chase | May 2006 |



Source: CoStar Group, Property Professional Database, Property Search

Flex space: vacancy rates and rents edge higher

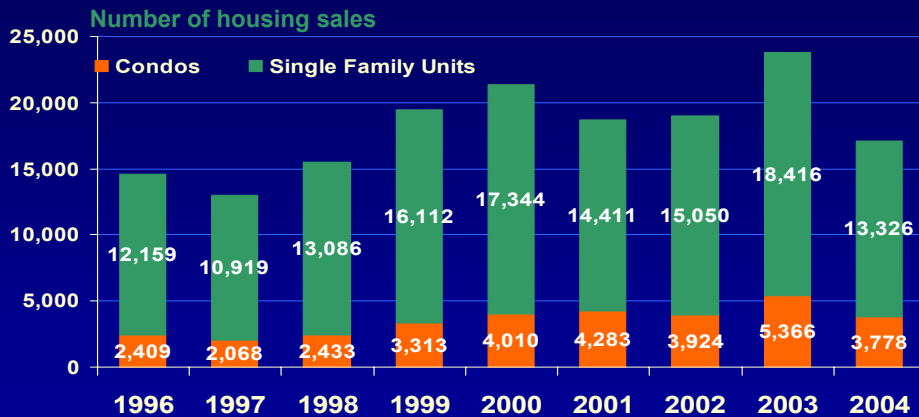


Source: CoStar Group, Property Professional Database, Analytical Search, Historical Trends

Residential Market Indicators Are Strong



Number of housing sales continues strong trend

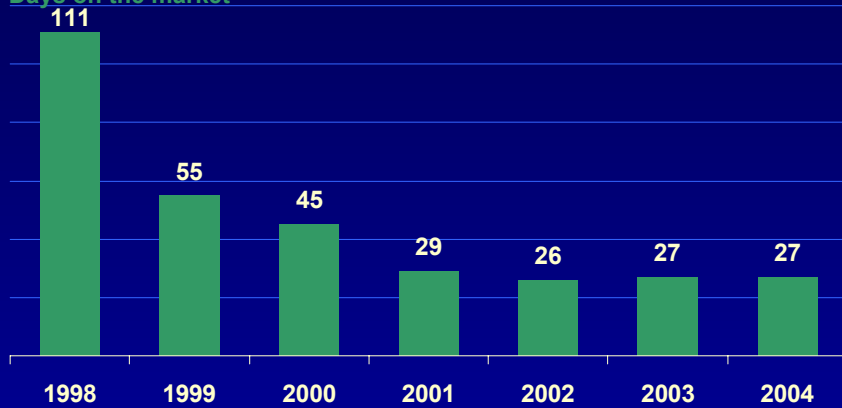


Source: MRIS.

Sales through 3rd Quarter 2004.
Includes sales of new and existing condominium units and single-family attached and detached units.

Housing units continue to sell quickly

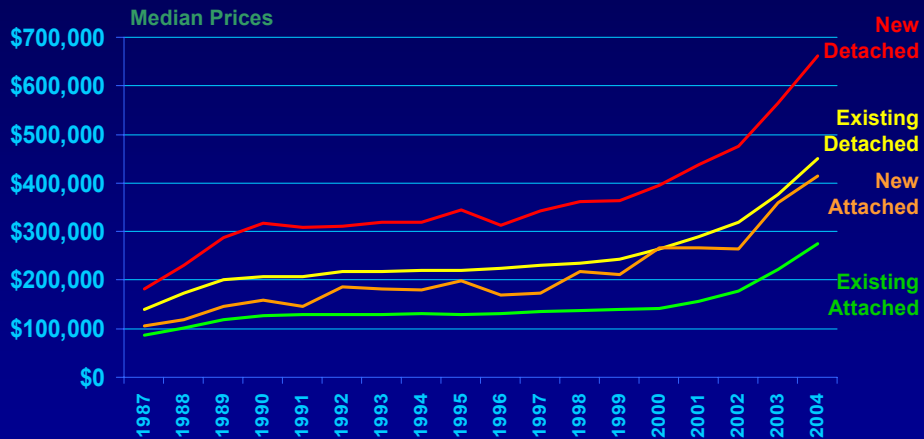
Days on the market



Sources: MRIS, COG, Mont. Co. Dept. of Finance

Preliminary data for 2004

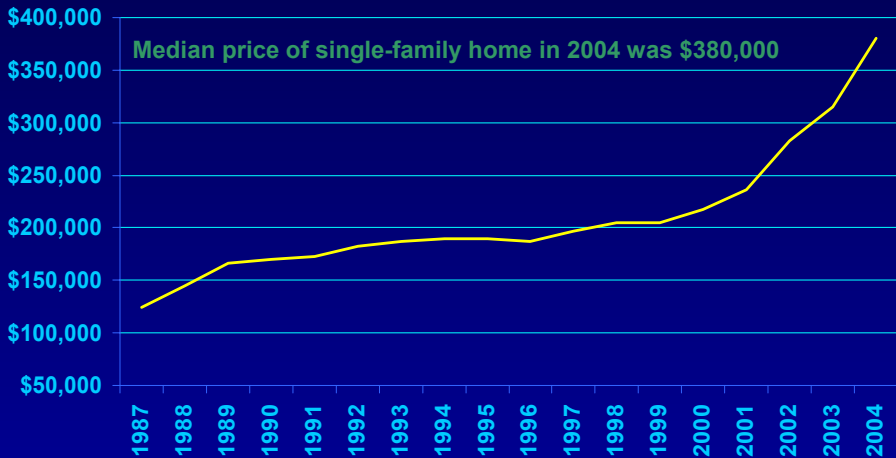
2004 continues marked increase in all single-family home prices



Source: M-NCPPC Research & Technology Center

Median prices through 3rd Quarter 2004.

Half of single-family homes sell for over \$380,000

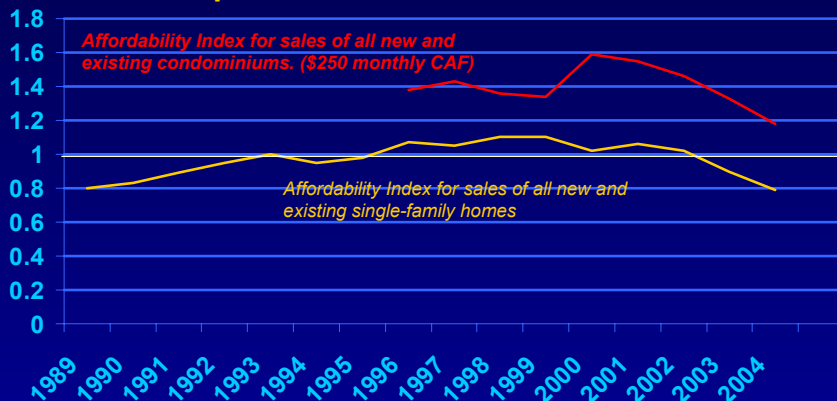


Source: M-NCPPC Research & Technology Center

Median prices through 3rd Quarter 2004.

Overall, housing is less affordable

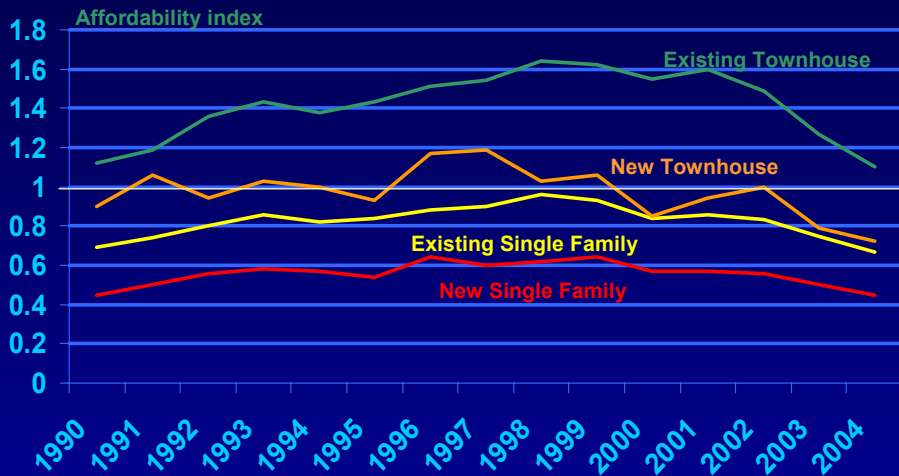
Low interest rates help,
but price hikes continue to dominate.



The higher the score, the more affordable the housing is.
A score of "1.0" means the monthly cost of buying a median priced home equals 28% of gross median income. (Prices 3rd Quarter 2004.)

Source: M-NCPPC Research & Technology Center

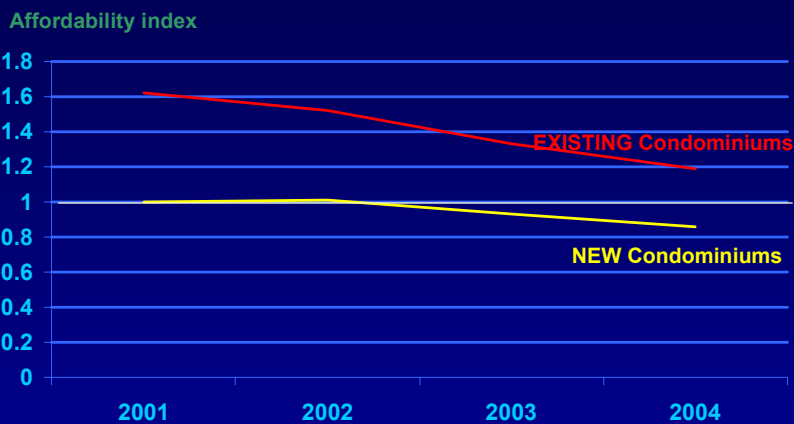
Existing townhouses still affordable



The higher the score, the more affordable the housing is.
A score of "1.0" means the monthly cost of buying a home equals 28% of gross median income.
(Prices 3rd Quarter 2004.)

Source: M-NCPPC Research & Technology Center

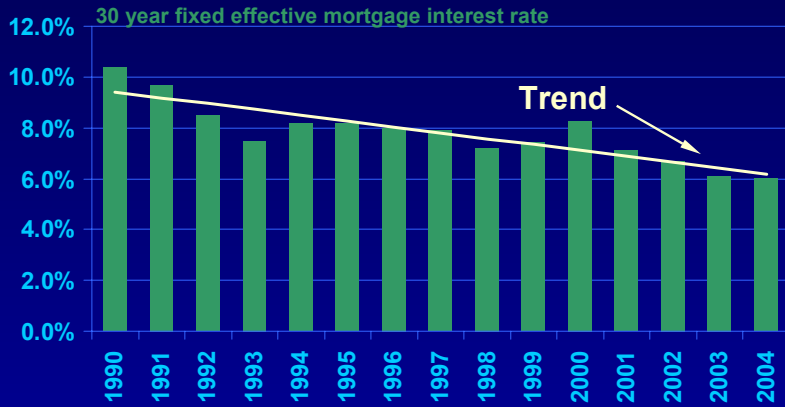
Existing condominiums still affordable



Assumes a \$250 per month Condominium Association Fee (CAF).
The higher the score, the more affordable the housing is.
A score of "1.0" means the monthly cost of buying a home equals 28% of gross median income.
(Prices through 3rd Quarter 2004.)

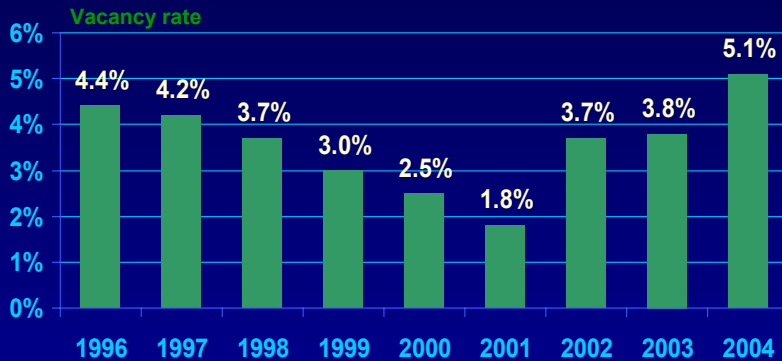
Source: M-NCPPC Research & Technology Center

Mortgage rates continued to fall



Source: Federal Home Loan Bank Board.

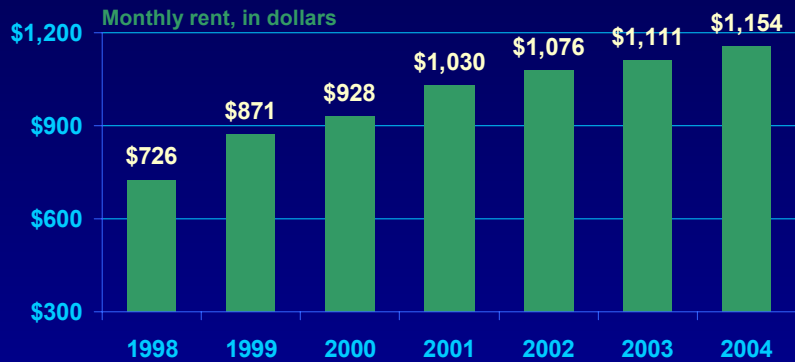
Apartment market not as tight, with vacancy rates now over 5%



Source: Montgomery County Office of Landlord-Tenant Affairs

Vacancy rate for all units – market rate and subsidized, combined.

Rents continued upward trend



Source: Montgomery County Office of Landlord-Tenant Affairs

Turnover rents

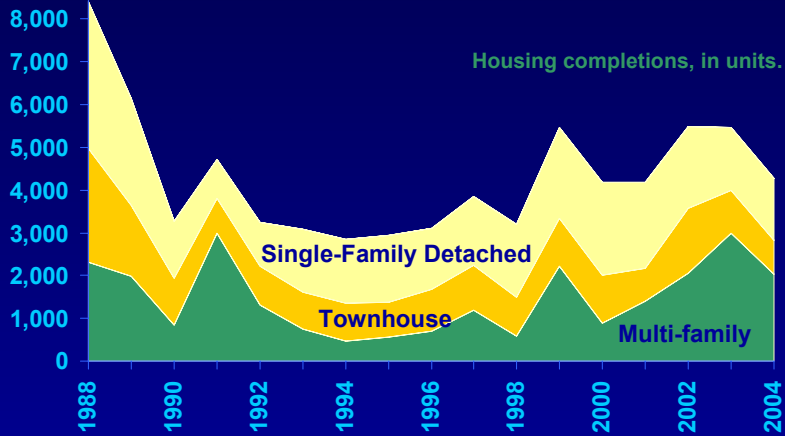
Major 2004 completions included:

| | <i>In units</i> |
|----------------------------------|-----------------|
| • Traville | 312 |
| • King Farm | 262 |
| • Overlook at Rossmoor | 260 |
| • Fallsgrove | 260 |
| • Clarksburg Town Center | 217 |
| • Silver Spring Metro Ctr (NOAA) | 190 |



Source: M-NCPPC Research & Technology Center

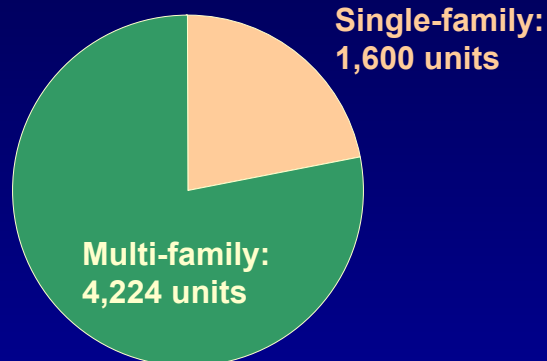
Multi-family units remain largest share of home construction



Source: M-NCPPC Research & Technology Center

Housing completions totaled almost 4,300 units, down from almost 5,500 units for both 2002 and 2003

2.5 times more multi-family approvals than single-family units



Subdivision approvals by the Montgomery County Planning Board and County municipalities. Source: M-NCPPC Research & Technology Center

Acknowledgments

Montgomery County Department of Park and Planning

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MARCH 2005

Economic Forces That Shape Montgomery County



RESEARCH & TECHNOLOGY CENTER
MONTGOMERY COUNTY DEPARTMENT OF PARK & PLANNING
THE MARYLAND-NATIONAL CAPITAL PARK & PLANNING COMMISSION