

Economic Forces That Shape Montgomery County Annual Update 2001



2001 Conclusions

- **Robust economic performance in 2000**
- **Most likely 2001: Mild slowdown, but better off than state, nation**
- **Pace picks up by 4th quarter.**



Pluses & Minuses

- + Recent job growth very strong
- + Federal role is a cushion: procurement, jobs up
- + Commercial development: adding & absorbing new space, vacancies low, rents still rising
- + Housing market still strong
- + Temporary cash assistance cases low



Pluses & Minuses

- Federal role: procurement lags region
- Confidence: reverse wealth effect, uncertainty
- Commercial development: sublease vacancies up
- Ripple effects of dot-com losses elsewhere in region.
- Housing affordability worsens



Economic Forces That Shape Montgomery County

Job Growth Performance

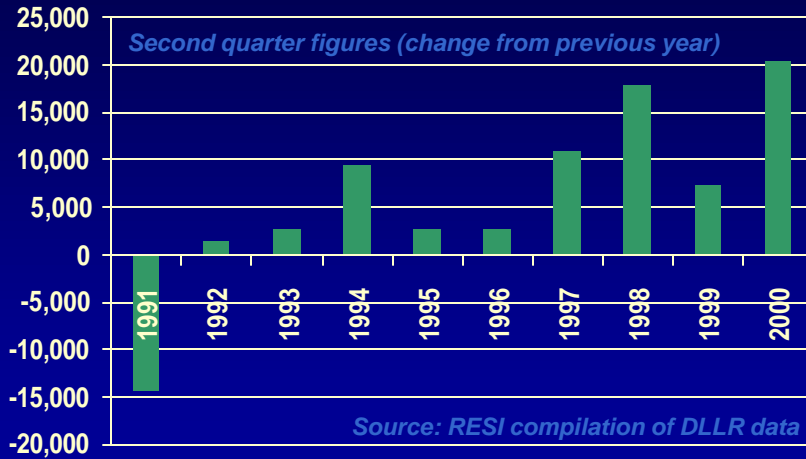


Job growth themes

- Overall job growth strongest in over a decade
- High technology job growth up 12%
 - Aerospace: *up 15%*
 - Biotechnology: *up 14%*
 - Information technology : *up 10.5%*
 - Telecommunications: *up 12%*
 - High tech manufacturing: *up 14.6%*
- Other major sectors healthy
- Caveat: second half 2000 statistics may show slowdown



Annual growth: 20,000 jobs



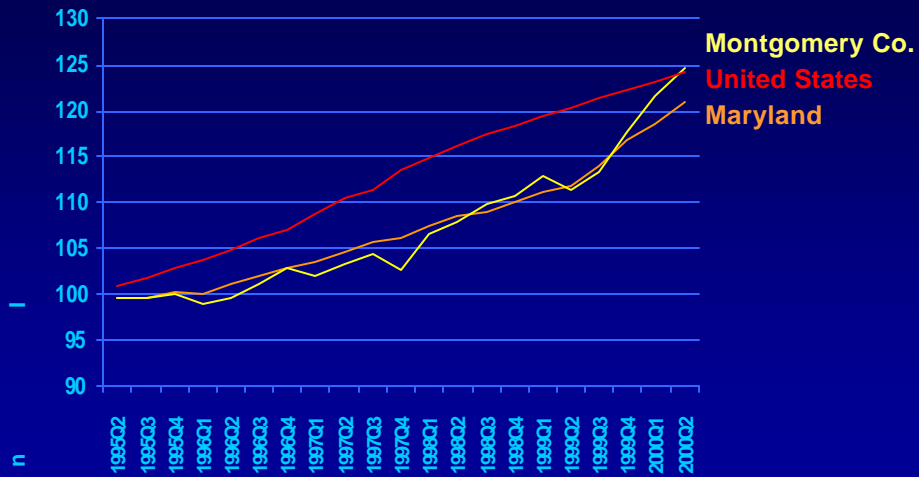
Between the second quarters of 1999 and 2000, Montgomery County added 20,464 jobs, growing 4.8 percent.

Private sector leads job gains

	2000	1999	Change	%
Construction	26,015	23,247	2,768	
Manufacturing	19,960	18,531	1,428	
TCPU	13,350	12,703	647	
Wholesale Trade	13,413	13,380	34	
Retail Trade	73,149	70,516	2,632	
FIRE	31,466	30,706	2,768	
Services	183,332	172,790	10,542	
Other	4,511	4,119	392	
Total Private	365,195	345,995	19,203	5.6%
Local	36,969	36,358	612	
State	1,105	1,079	26	
Federal	39,558	38,934	623	
Total Public	77,632	76,371	1,261	1.7%
Total	442,827	422,363	20,464	4.8%

Source: RESI compilation of DLLR data

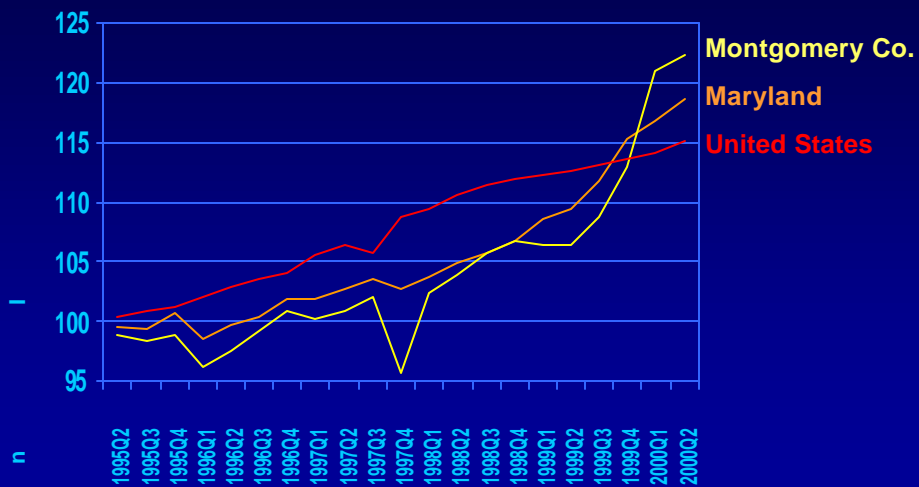
High tech jobs up 12%



There are 78,000 high tech jobs in Montgomery County.

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Aerospace continues rebound

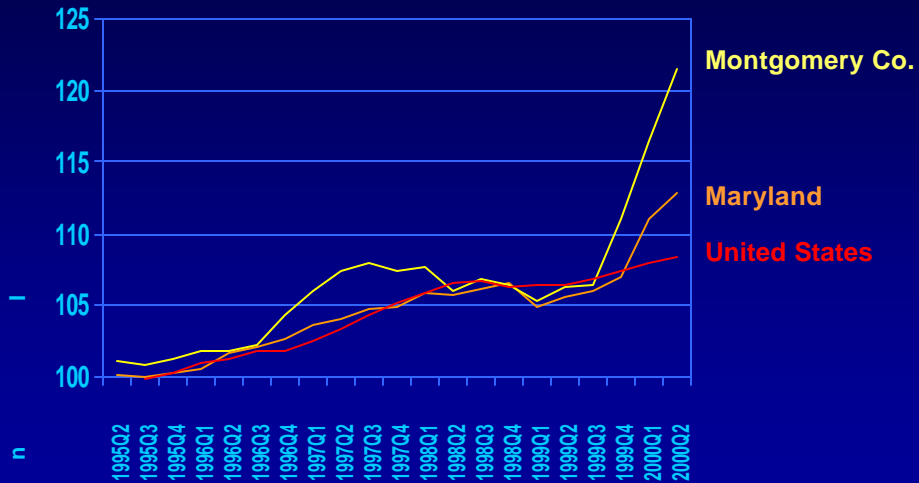


There are 18,148 aerospace industry jobs in Montgomery County.

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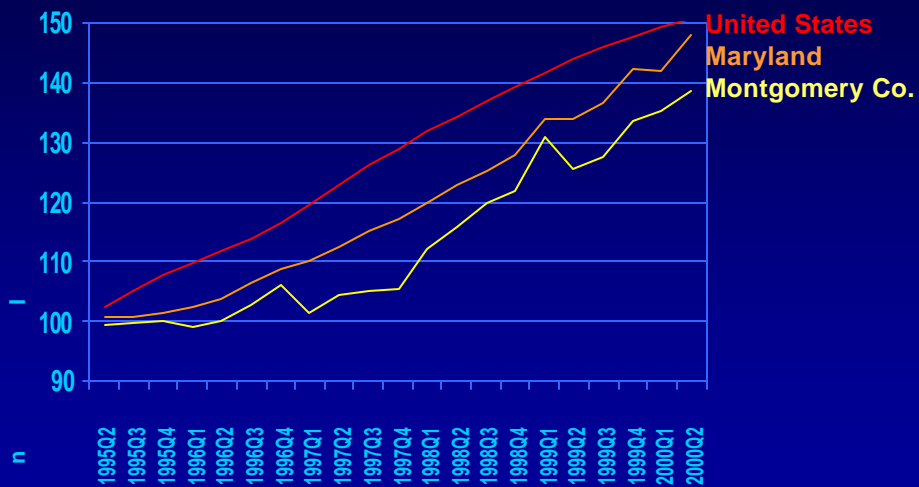
Biotech surges 14%



There are 12,166 biotech industry jobs in Montgomery County.

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Infotech: County, State up 10%

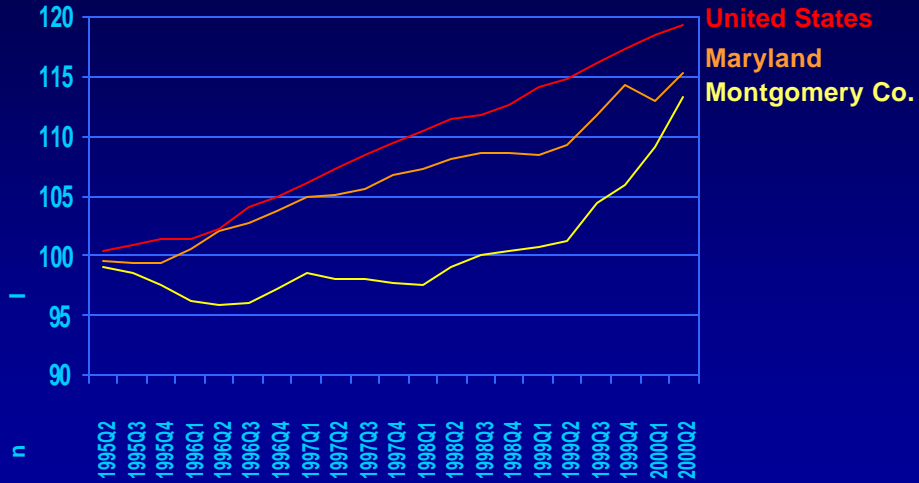


There are 26,700 infotech industry jobs in Montgomery County.

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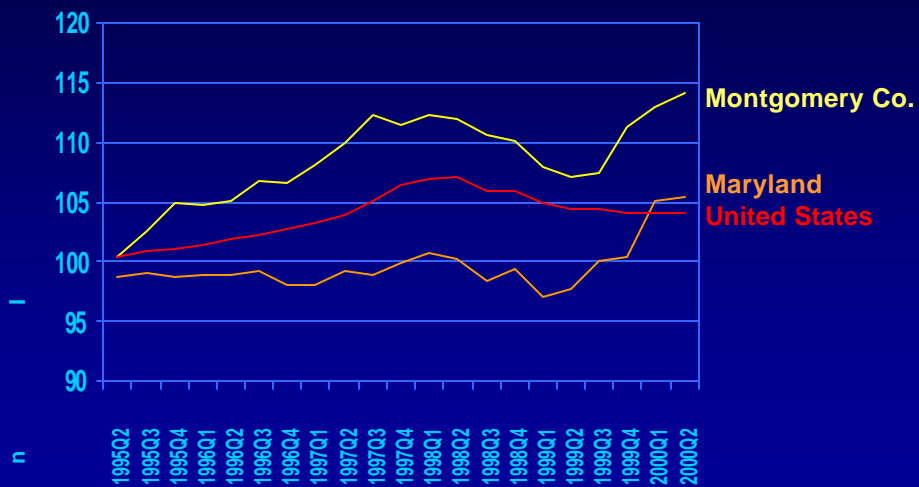
Telecom up 12% - outpacing MD, US



There are 12,900 telecommunications industry jobs in Montgomery County.

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High tech manufacturing rebounds

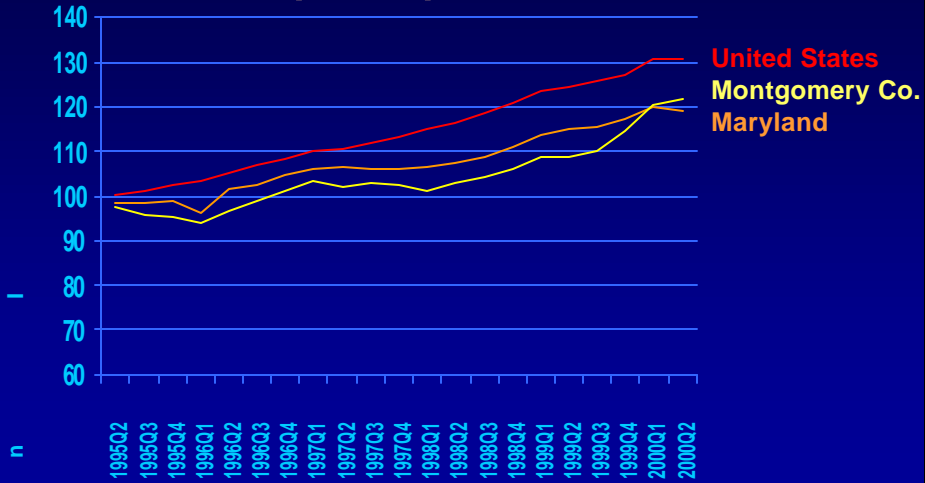


There are 8,100 high tech manufacturing jobs in Montgomery County.

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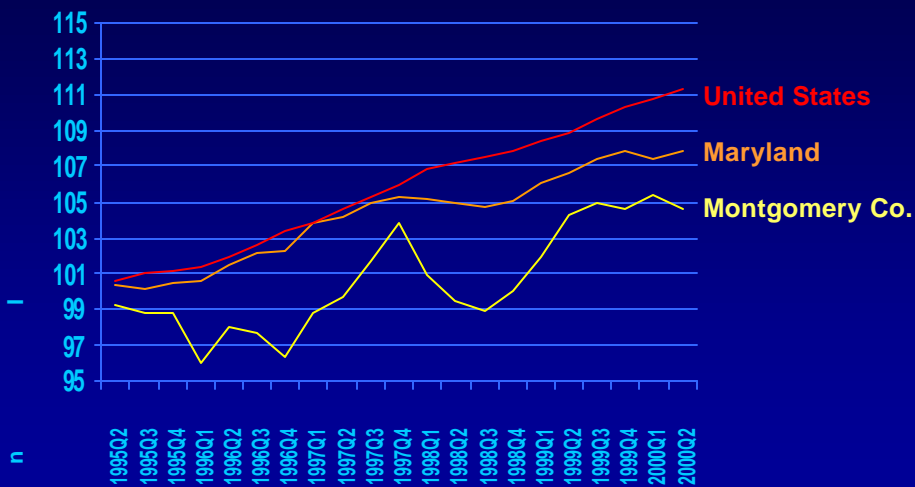
Construction jobs return to peak (1988) levels



There are 26,000 construction jobs in Montgomery County.

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Wholesale trade steady

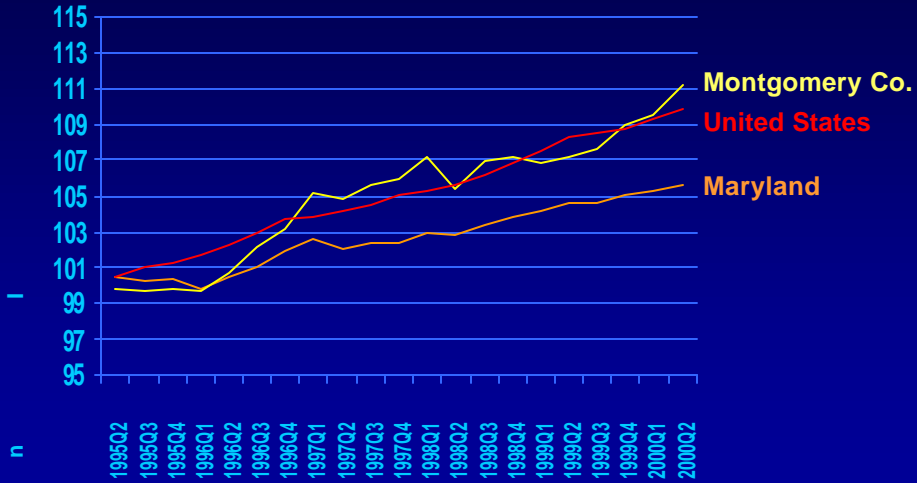


There are 14,400 wholesale trade jobs in Montgomery County.

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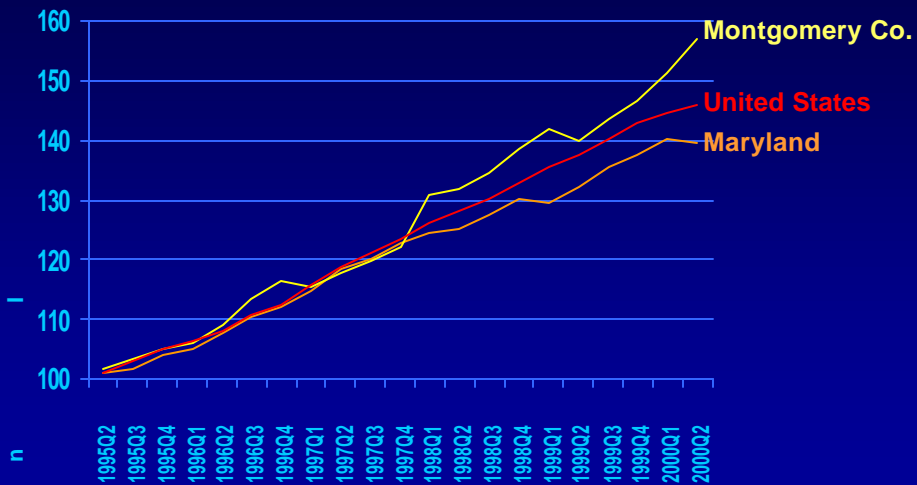
Retail trade up 4%



There are 73,000 retail trade jobs in Montgomery County.

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Business services climbs 12%

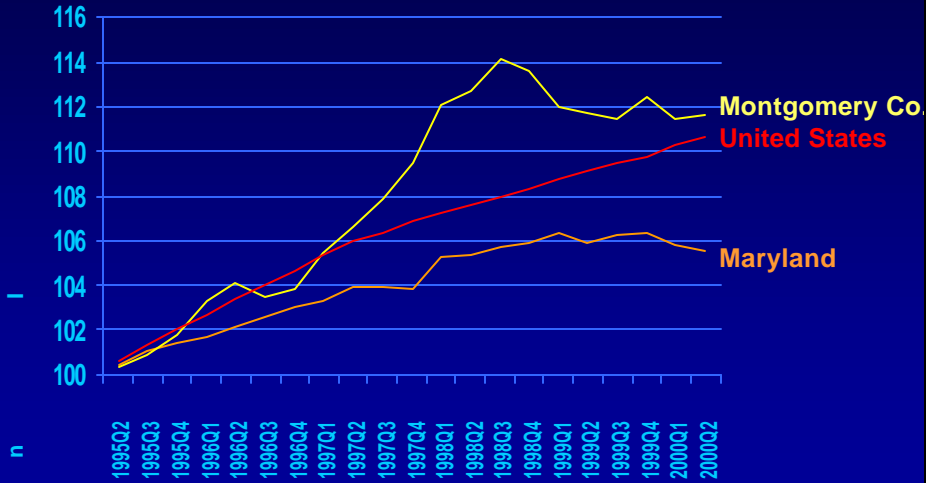


There are 60,000 business services jobs in Montgomery County.

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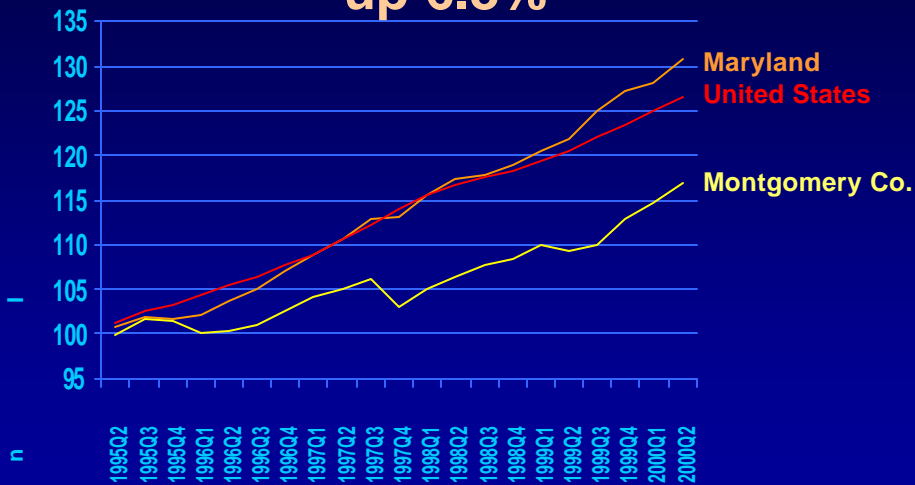
Health services back to US trend



There are 32,500 health services jobs in Montgomery County.

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Engineering & management services up 6.8%

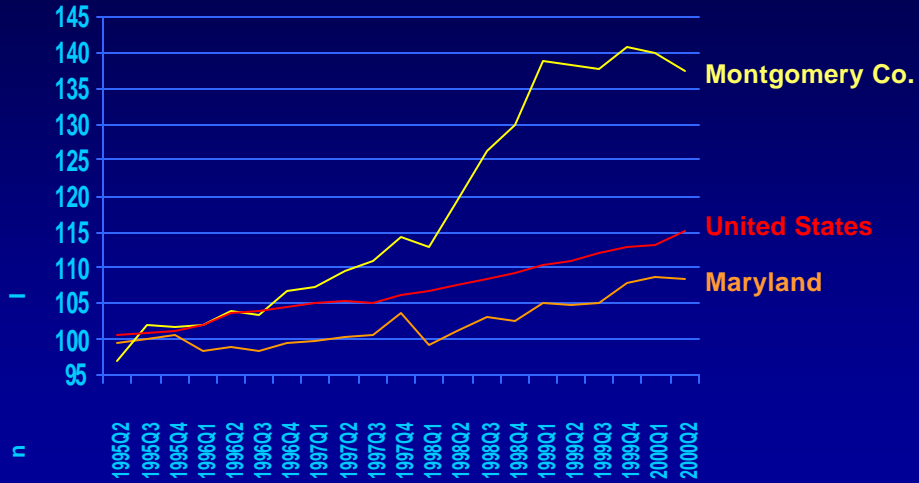


There are 34,000 engineering & management services jobs in Montgomery County.

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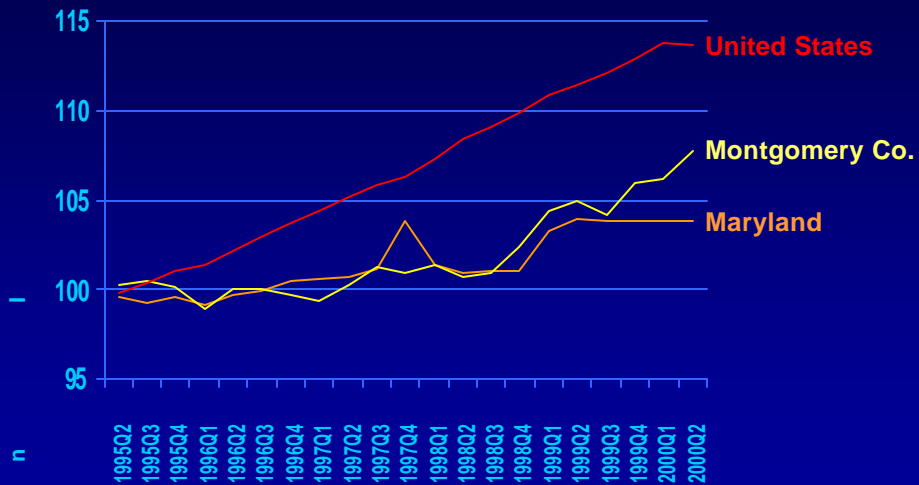
Lodging: rapid growth slows



There are 8,400 hotel & lodging jobs in Montgomery County.

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Real estate edges upward



There are 10,500 real estate jobs in Montgomery County.

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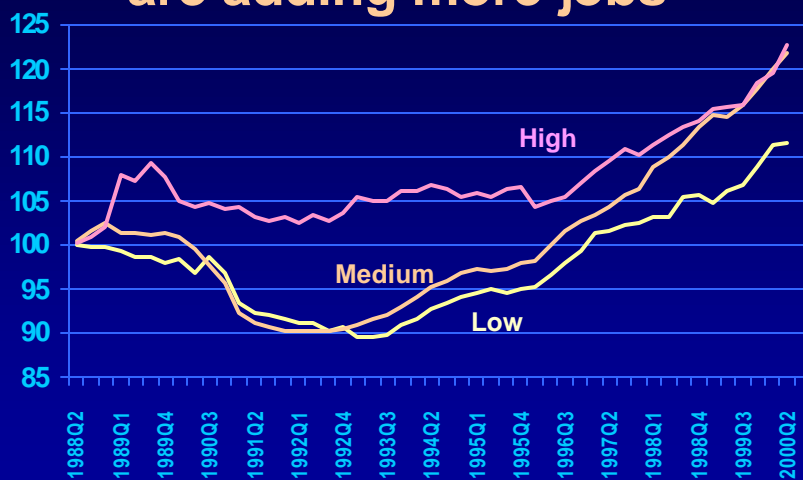
How well do the new jobs pay?

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



Higher income industries are adding more jobs



There are 73,000 jobs in high-wage industries, 190,000 jobs in medium-wage industries, and 105,000 jobs in low-wage industries in Montgomery County.



Economic Forces That Shape Montgomery County Federal Impact



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

As an employer,

- About 60,000 workers are in federal space,
- In FY99 the federal government paid \$2.7 billion in wages to jobs in Montgomery County

As a tenant,

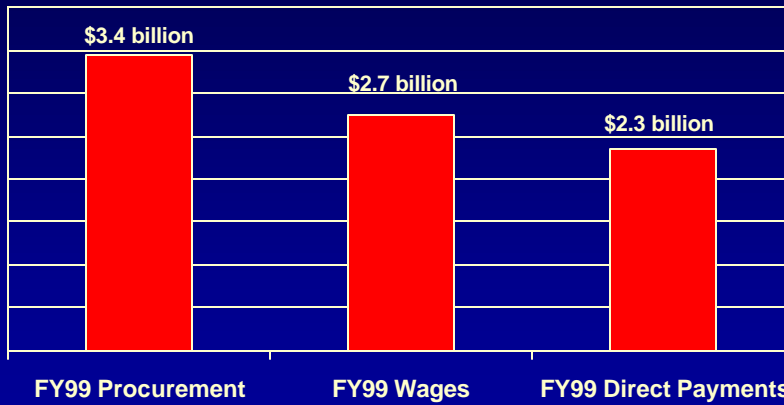
- The General Services Administration leases 6.5 million square feet of commercial space in the County,

As a purchaser of goods and services,

- FY00's federal procurement of \$3.8 billion is the County's all time high.



Federal role worth \$9 billion to Montgomery County

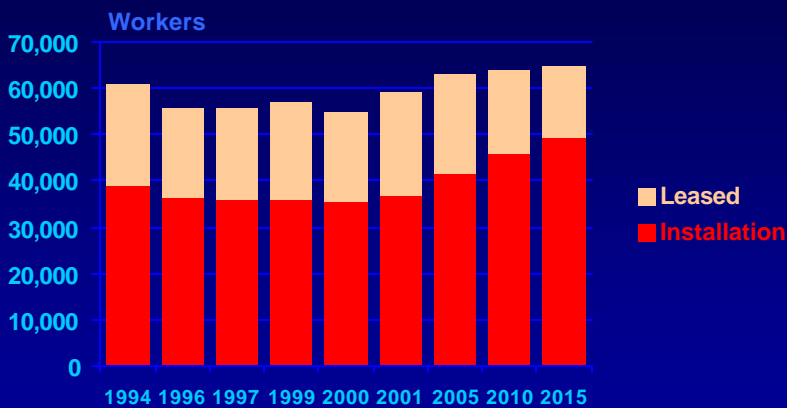


The federal government pumps billions of dollars into the County's economy.

Source: Consolidated Federal Funds Report

Federal jobs increase between 2000 & 2001

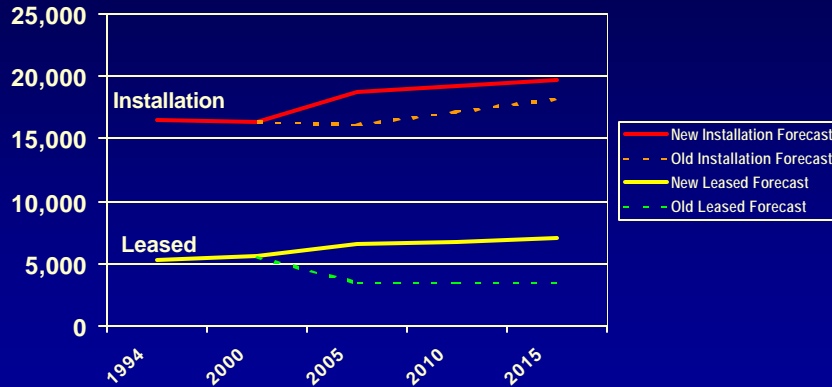
More growth expected in coming decades.



The number of federal jobs continues progress toward recovery of 1994 levels. By 2015, jobs at installations are expected to grow by 33 percent above current levels

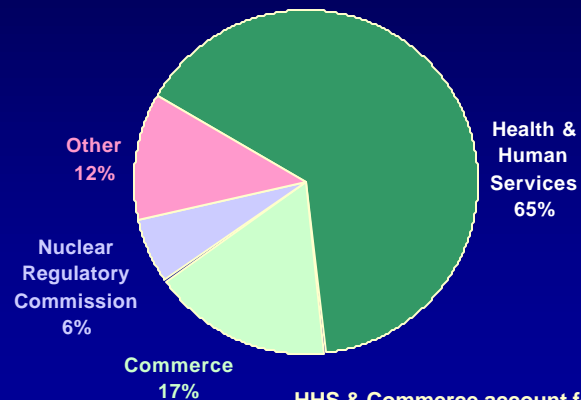
Source: M-NCPPC analysis of US government data

NIH is projecting 23% more workers by 2015 than in past surveys



In past surveys, NIH projected more modest increases at their installation and worker reductions in leased space.

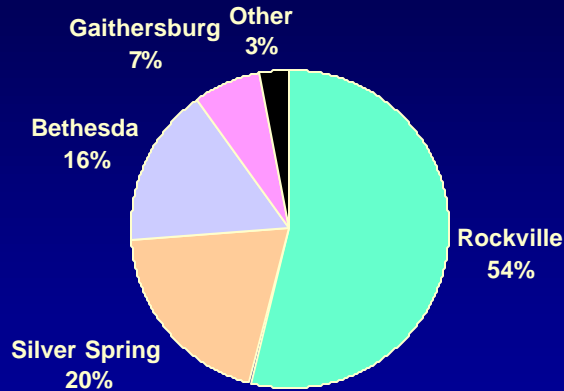
Federal leased space Health & Human Services leases more space than all other agencies combined



HHS & Commerce account for 82 percent of the County's federal leased space, 5.4 million sq. ft. out of a total of 6.5 million sq. ft.

Source: General Services Administration

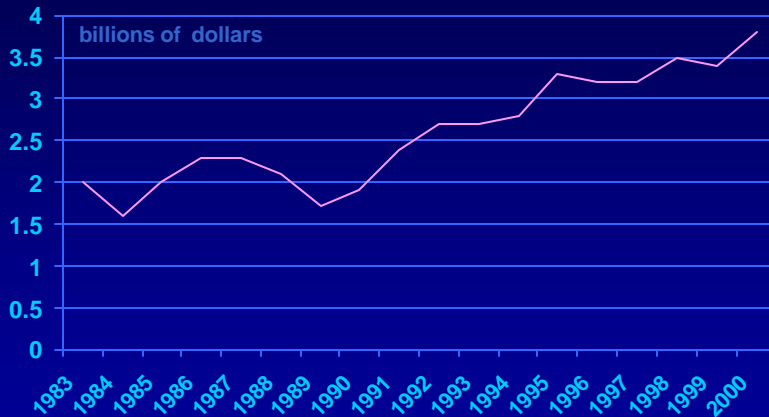
Federal leased space Rockville area leads the County



GSA leases 3.5 million sq. ft. in Rockville (which includes most of North Bethesda), 1.3 million sq. ft. in Silver Spring, and 1.0 million sq. ft. in Bethesda

Source: General Services Administration

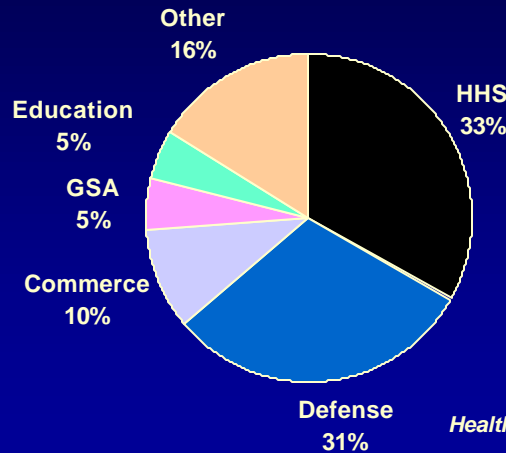
FY 2000 federal procurement is the highest ever, \$3.8 billion.



Montgomery County's federal procurement reached an all time high of \$3.8 billion in FY2000.

Source: M-NCPPC analysis of Federal Procurement Data Center data

Health and Human Services and Defense Dominate Montgomery's federal procurement



FY 2000 Federal Procurement

Health & Human Services spent \$1.2 billion procurement dollars in Montgomery County, the Defense Department spent \$1.1 billion.

Source: Federal Procurement Data Center

Largest procurement gains and losses by agency FY1999 to FY2000

- | • Gains in \$ millions | • Losses in \$ millions |
|------------------------------------|---------------------------|
| – Health & Human Services
\$351 | – Transportation
\$247 |
| – Commerce
\$217 | – Justice
\$ 96 |

Source: Federal Procurement Data Center

Over half the County's procurement was spent on business services (31%) and engineering and management services (23%)

\$1.2 billion spent on Business Services

- \$528 mil. – Computer Related Services
- \$210 mil. – Computer Systems Design

\$856 million spent on Engineering & Management Services

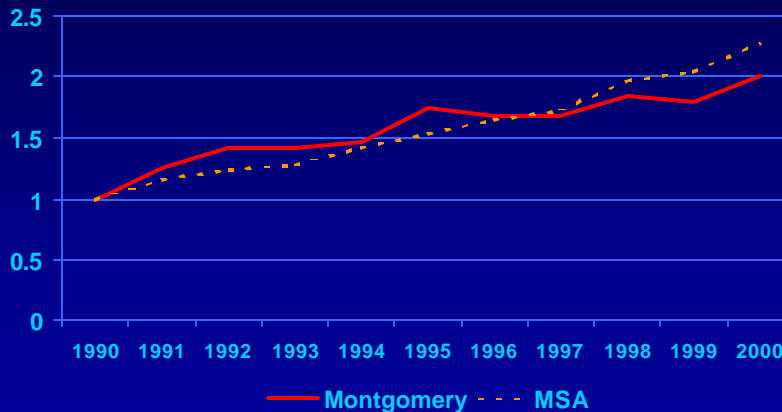
- \$231 mil. – Engineering Services
- \$214 mil. – Management Services
- \$115 mil. – Management Consulting Services
- \$110 mil. – Commercial Physical Research



Source: Federal Procurement Data Center

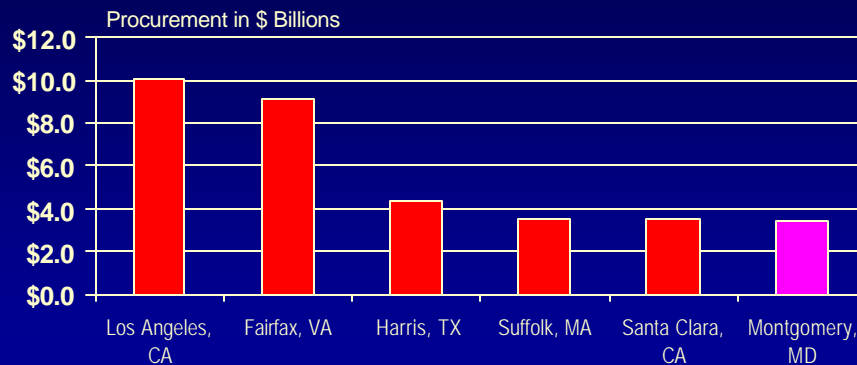
Index of procurement shows lag

Earlier in the 1990s, Montgomery County and the MSA had comparable growth in federal procurement, but the County has lagged since 1998.



Compound growth rate: Montgomery=7.2% Washington MSA=8.6%

Only 5 counties in the U.S. topped Montgomery's FY99 federal procurement



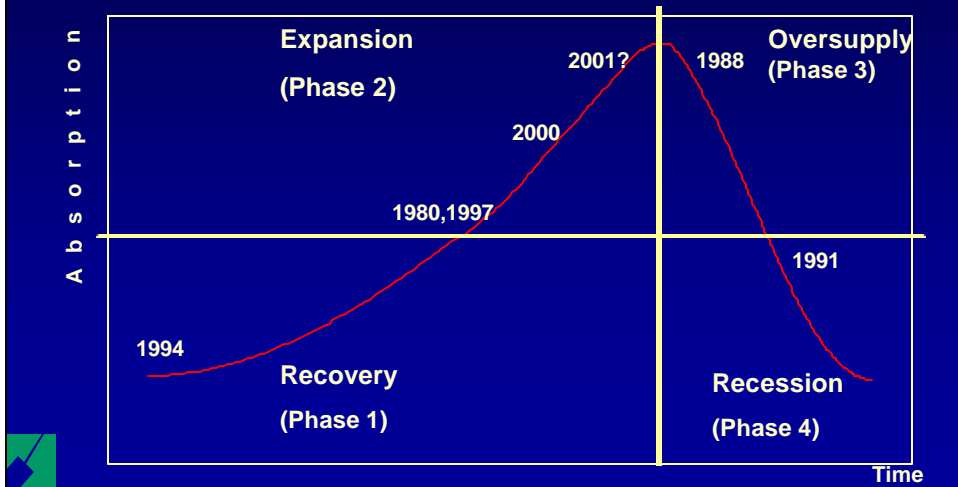
Total for Fairfax County includes the independent Cities of Fairfax and Falls Church.

Source: Consolidated Federal Funds Report

Economic Forces That Shape Montgomery County Where is the Real Estate Economy Headed?

Montgomery County & the Region

The Real Estate Cycle Expansion Phase Continues Since 1997



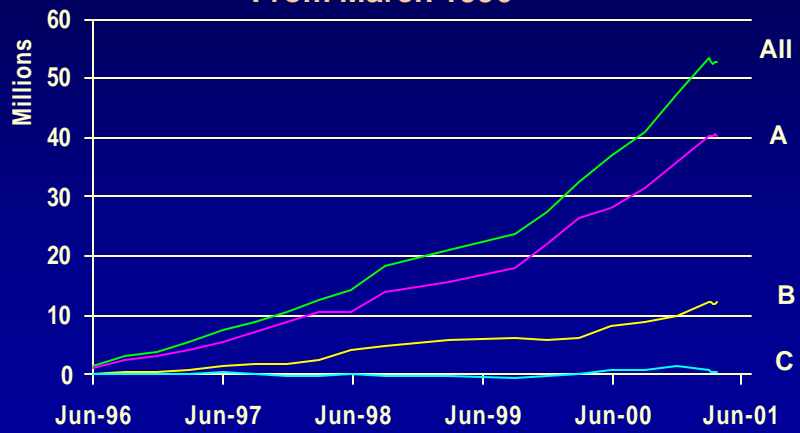
Four Phases of the Cycle

- **Recovery:** Vacant space is absorbed & rents start to increase.
- **Expansion:** Renovation then new construction, vacancy rates are low, new supply is absorbed, rents increase. This phase may last for a long time.
- **Over Supply:** Completions continue, supply increases faster than demand, vacancy rates increase & rents start to fall.
- **Recession:** Vacancies still increase, rents fall, construction stops at bottom.

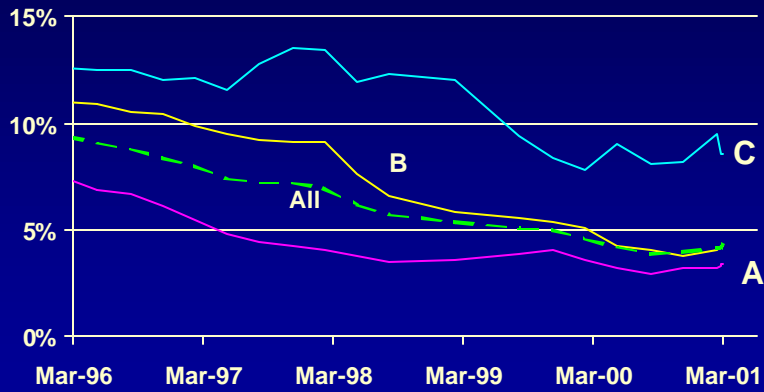
The Washington Region



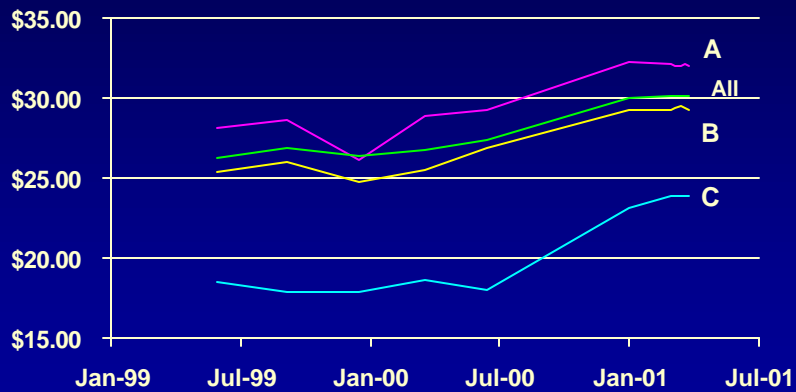
Cumulative Absorption of Office Space From March 1996



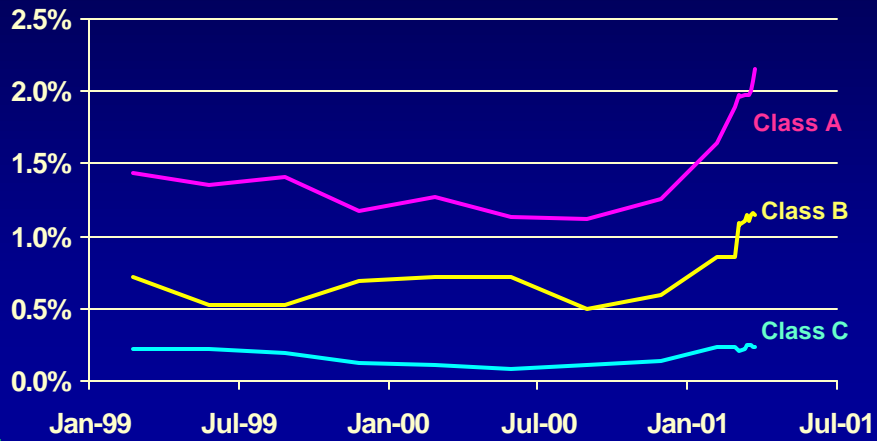
Office Vacancy Rates Down for the Washington Region



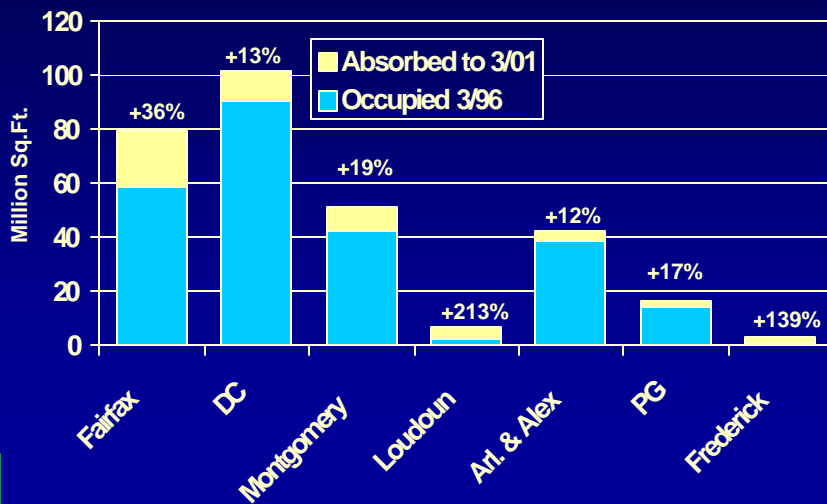
Regional Office Rents Rise



Regional Office Sublet Vacancy As % of Space



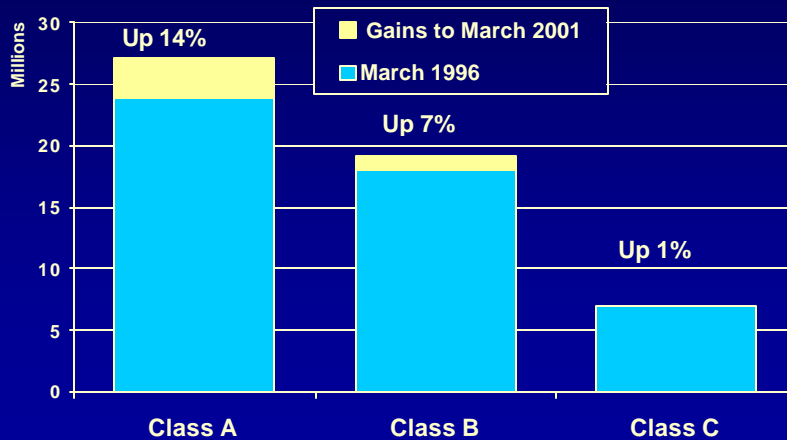
Occupied Office Space Absorption by Jurisdiction



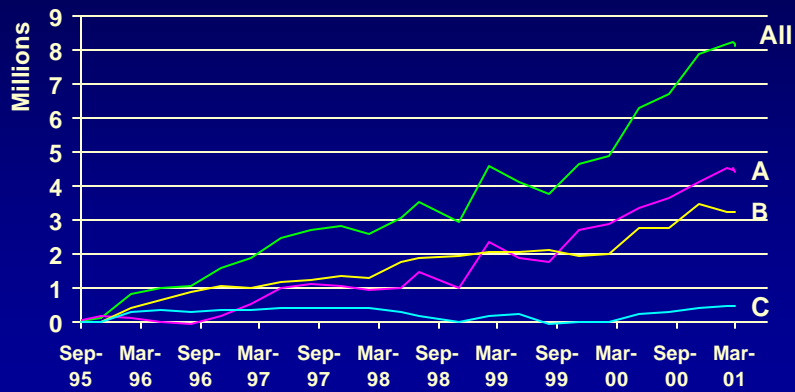
Montgomery County



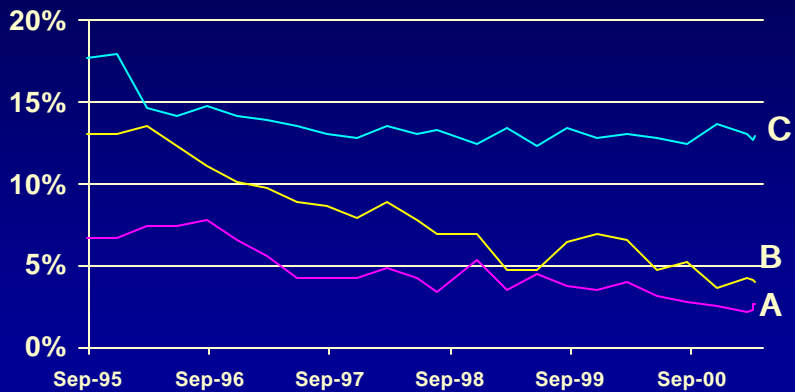
Office Floor Area: Class A Up 14%, Class B Up 7%, Class C Up 1%



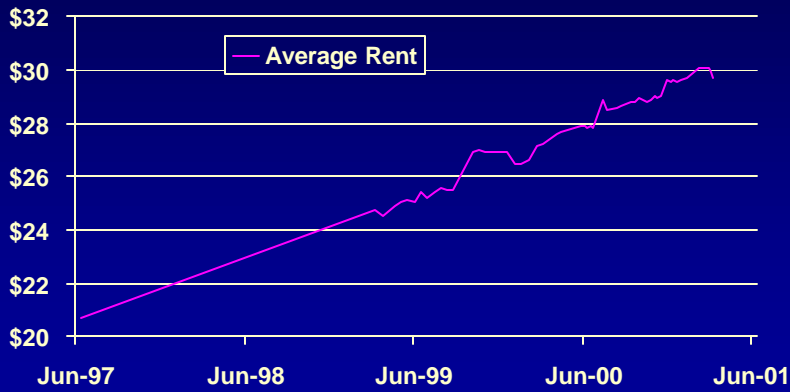
Office Space Absorption in the Recovery & Expansion



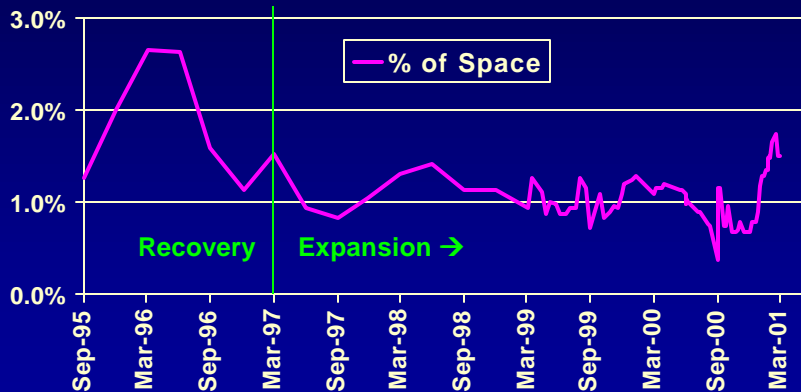
A & B Office Vacancy Rates Have Declined to Low Levels



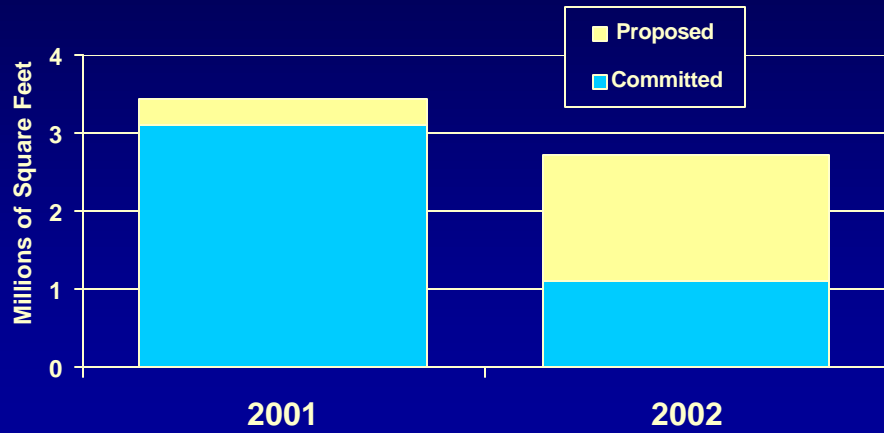
Class A Rents May Be Leveling Off



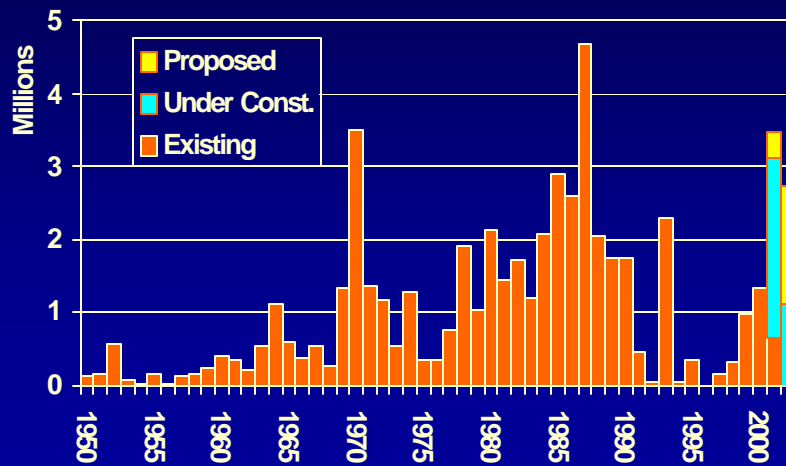
Vacant, Class A, Sublet Space Is an Early Indicator



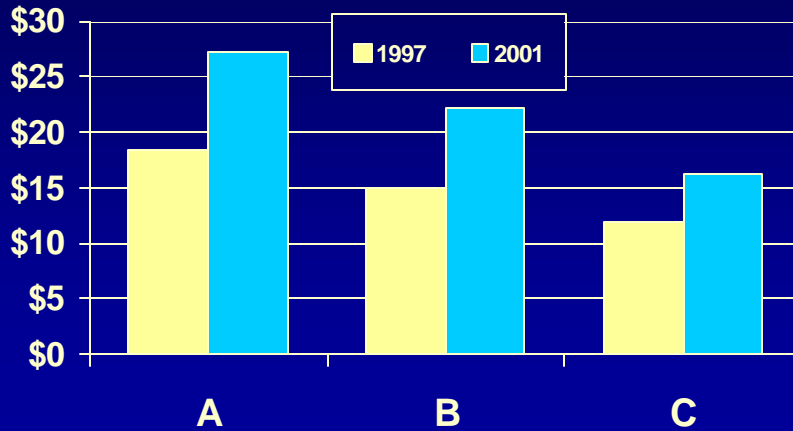
Committed Office Is 50% Leased



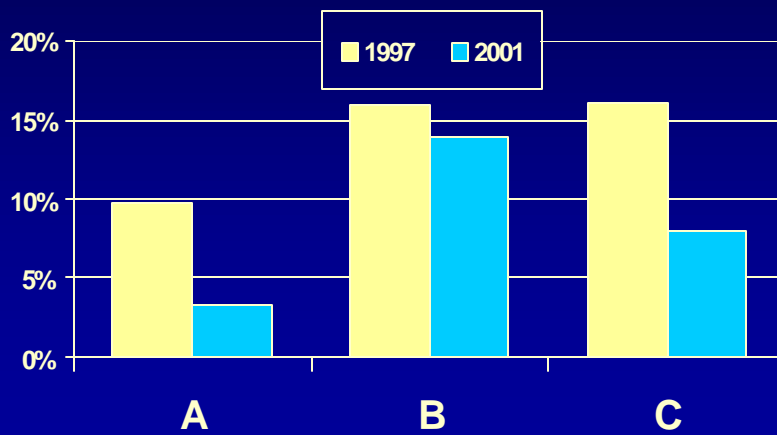
Montgomery County Office Construction Cycles



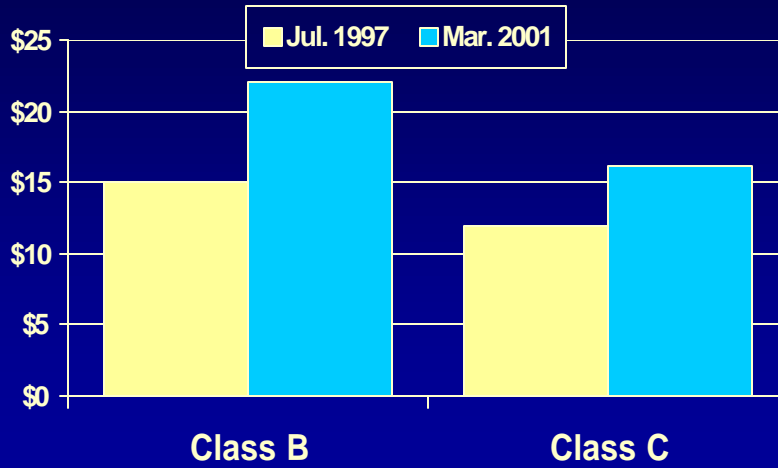
Silver Spring's Rebirth Includes the Office Market Office Rents 1997 & 2001



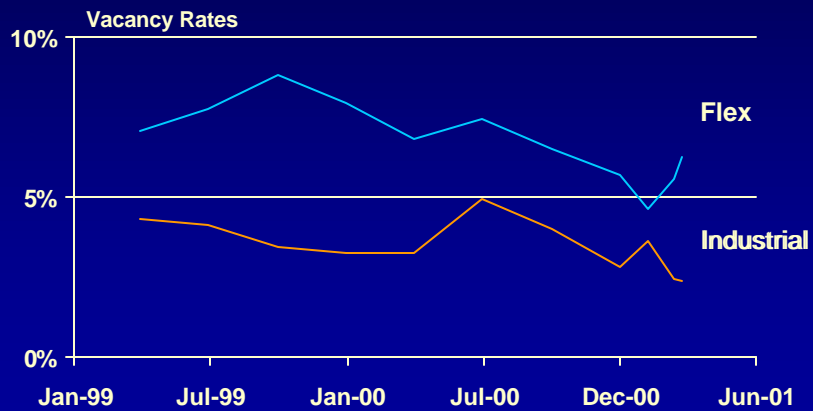
Silver Spring Office Vacancy Rates



B&C Office Rents Revive Montgomery County



Industrial & Flex Vacancy Rates Have Also Declined



In the 1997- Present Expansion Many Major Sites Are Under Development:

- Tower Oaks
- King Farm
- Fallsgrove
- Belward
- Danac
- Traville
- Seneca Meadows
- 270 Gateway

Pluses and Minuses

- + Low Vacancies
- + High Rents
- + Expansion Has Strengthened All Commercial Real Estate Markets
- Rising Sublet Vacancies May Signal a Downturn
- Large Undeveloped Sites are Getting Scarce

Economic Forces That Shape Montgomery County Measuring Well-Being

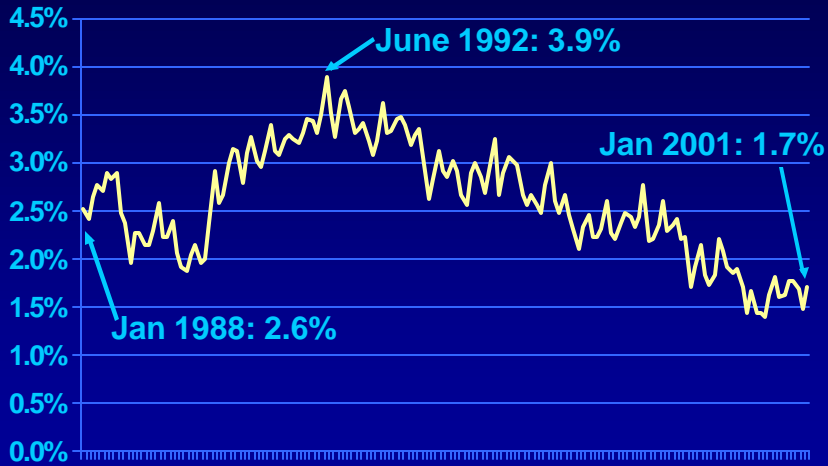


Well-Being Pluses and Minuses

- + **Jobless rate: *under 2.0%***
- + **Temporary cash assistance: *record lows***
- + **Real income growth: *0.4%***
- + **Crime rates: *down 15%***
- **Housing affordability: *declines to 1.02***
- **Rental housing: *tight market sees rents rise***
- **Vehicle miles of travel: *up slightly***

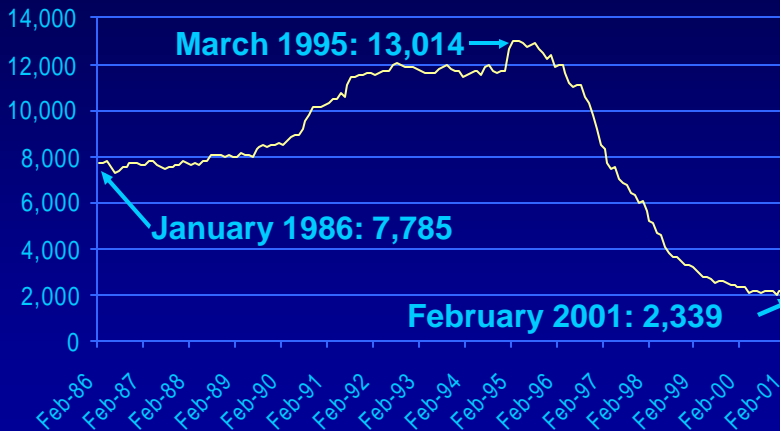


Jobless rate under 2%



There are 8,363 unemployed persons in Montgomery County.

Temporary cash assistance cases at new lows



In November 2000, temporary cash assistance cases in Montgomery County hit a two-decade low of 2,026.

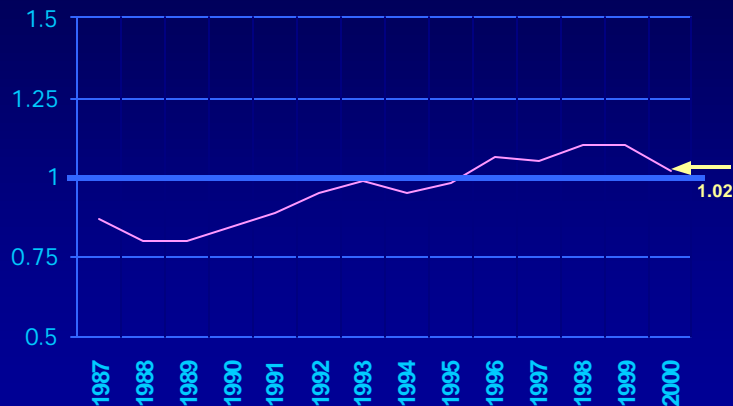
Real income grows 0.4%



The 2000 median household income in Montgomery County is \$73,980.

Source: Bureau of Labor Statistics; M-NCPPC.

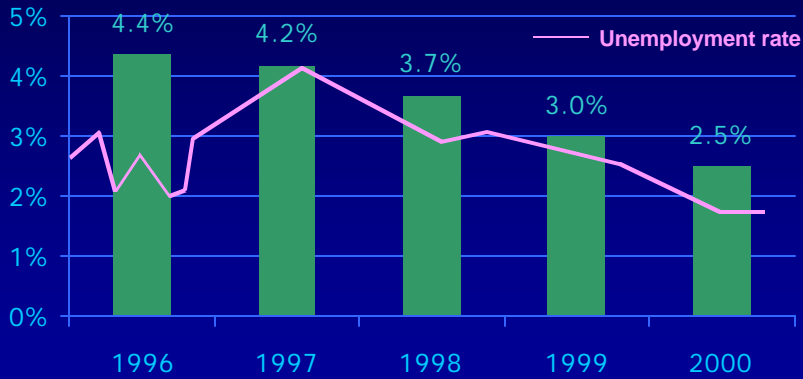
Housing affordability declines



The higher the score, the more affordable the housing is. A score of 1 means the monthly cost of buying a home equals 30% of gross income.

Source: M-NCPPC

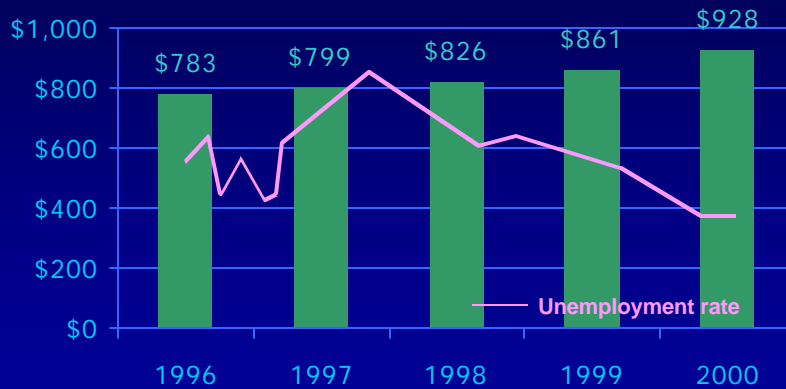
Apartment vacancy rates show very tight market



A vacancy rate of 2.5% is considered very low and suggests that residents will have difficulty finding the apartment they want.

Source: Office of Landlord-Tenant Affairs

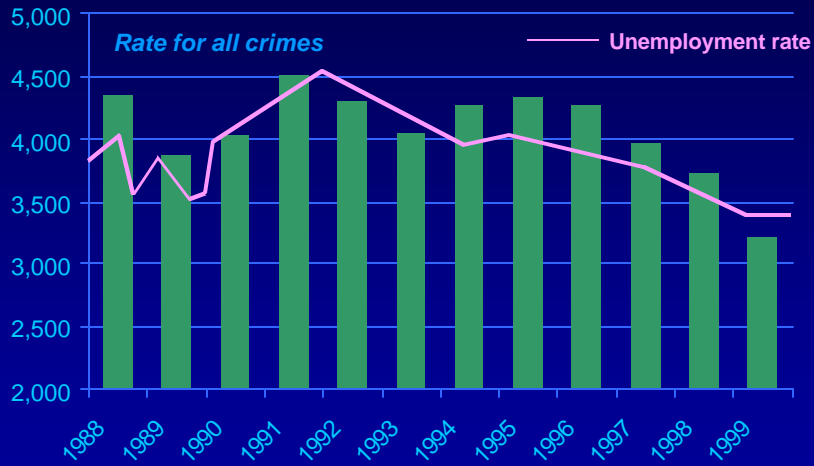
Apartment rents are high and rising



Apartment rents in Montgomery County rose by almost 8 percent between 1999 and 2000.

Source: Office of Landlord-Tenant Affairs

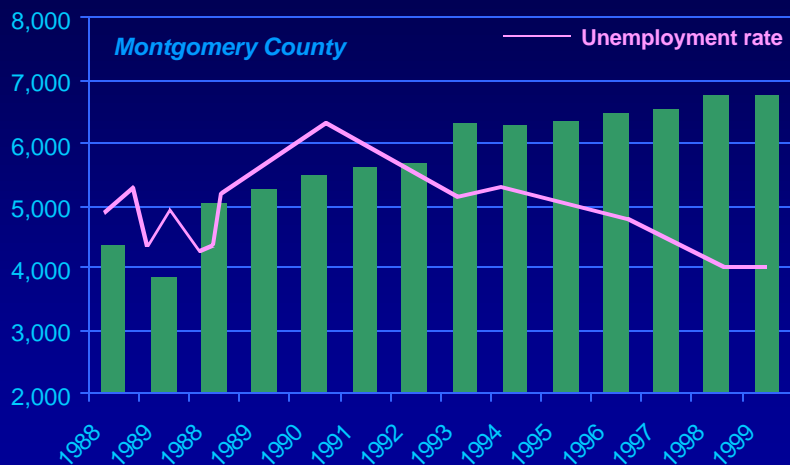
Crime rate continues decline



Violent crime dropped 17% while property crime dropped 15%.

Source: Maryland State Police Central Records, Uniform Crime Reports.

Vehicle miles of travel up 0.2%



In 1999, VMT increased by 11 million miles to almost 6.8 billion.

Source: Highway Information Services Division, SHA