



May 22, 2006

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* 2006 Annual Update

Attached please find a copy of the 2006 Annual Update to *Economic Forces That Shape Montgomery County*. This report finds the County's economy healthy, with accelerated job growth, sustained federal government activity, and continued recovery in the commercial space market.

The for-sale housing market, very "hot" in 2004, was at least as strong in 2005. Home prices continue to accelerate. Most single-family homes are priced out of the range of households earning the area median income of \$89,300. A household earning the median income can still afford the median-priced existing townhouse (but just barely) and the median-priced existing condominium, but that will not be true in a few years if current trends continue.

The Planning Board is undoubtedly aware that there are numerous reports of the national and regional housing market cooling off in 2006. Staff has included some first quarter 2006 home sales data in the report, and will further update the Board during our presentation.

MAY 2005

Economic Forces That Shape Montgomery County



THE RESEARCH & TECHNOLOGY CENTER

serving the

Montgomery County Department of Parks & the Montgomery County Department of Planning
THE MARYLAND-NATIONAL CAPITAL PARK & PLANNING COMMISSION

Economic Forces That Shape
Montgomery County
Annual Update 2006

May 2006

Produced by

The Research & Technology Center
serving the
Montgomery County Department of Parks *and the*
Montgomery County Department of Planning
of the
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 2006
- Author: Research & Technology Center, serving the Montgomery County Department of Parks and the Montgomery County Department of Planning of the 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: May 2006
- 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 2006

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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. In 2004, 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 with 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 9,792 jobs between the second quarter of 2004 and the second quarter of 2005, an increase of 2.1 percent. This compares with a job growth figure of 4,109 in last year's report and 1,921 in the previous year's report. This is the first time since 2001 that job growth has been greater than 1 percent.

Although the *Economic Forces* report focuses on second quarter data, the state is expected to release third quarter 2005 job statistics prior to the *Economic Forces* presentation to the Montgomery County Planning Board and County Council.

Between the second quarters of 2004 and 2005, private sector jobs grew by 9,826, or 2.6 percent. Industries that added the most jobs were *Professional and Technical Services* (up 2,265 jobs), *Administrative and Support Services* (up 1,922 jobs), and *Clothing Stores* (up 1,051 jobs). Major industries with the greatest percentage increases were *Internet Publishing and Broadcasting* (up 25 percent), *Chemical Manufacturing* (up 17 percent), and *Management of Companies and Enterprises* (up 10 percent).

Public sector lost 34 jobs, essentially no change from last year. About 820 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.

The Technology Sector: Growth in High Tech Clusters Mixed

The county's economic base consists of three main pillars, the public sector (represented, in large part, by the federal government), the technology sector, and other private businesses. Based on an extensive review of the literature and following discussions with the Department of Economic Development, staff presents its analysis of the technology sector not just in terms of individual industries, but also as clusters.

A cluster is a concentration of companies and industries in a geographic region that are interconnected by the markets they serve and the products they produce as well as by the suppliers, trade associations, and educational institutions with whom they interact. There are four principal clusters that staff analyzed: Biotech, InfoCom, Aerospace and Other High Tech Services. Each cluster is comprised of production-oriented industries or businesses, research, development, and design-oriented businesses, and consumer-oriented businesses.

The Technology sector, as per this new definition, accounts for 23 percent of the County's employment. That share, however, 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.

There are 105,300 jobs in the County's high tech clusters: 7 percent of high tech jobs are in production, 45 percent in research, development and design, and 48 percent in consumer services. There is effectively no change in the number of technology sector jobs between 2nd Quarter 2004 and 2nd Quarter 2005. However, 964 high tech production and research-oriented jobs were lost—a 1.6 percent decline from last year.

The *Aerospace* cluster lost around 600 jobs. While the trend at the national and state level has remained steady, at the local level, decline continues.

Biotechnology continues to outshine the other technology clusters in the County in terms of percentage growth. The Biotechnology cluster (not including consumer-oriented businesses) grew by 9 percent. Nationally, the biotechnology cluster (not including consumer-oriented businesses) showed a 2.1 percent increase.

Biotech production industries (e.g. pharmaceutical makers and medical equipment manufacturers) added 754 jobs to their payrolls: a 47 percent increase over last year. Biotech companies in the research, development, and design segment of this market (i.e., testing labs, consulting services, and r&d firms) grew 6.6 percent over last year.

Health Care Services (hospitals, ambulatory health care, nursing and residential care facilities)—the upper end of the biotech cluster's consumer market— added 10,311 jobs.

The *InfoCom* cluster continues to lose jobs, over 2100 jobs between 2004 and 2005. The nation and state, on the other hand, gained jobs: 5400 and 1300, respectively.

Other High Tech Services cluster in Montgomery County consists of companies in architectural services, engineering services, surveying and mapping, testing labs (not including biotech labs), research and development services (not including biotech and infocom), technical consulting services (not including biotech and infocom), and social

science and humanities. This cluster increased 3.4 percent. The cluster also gained jobs at the national and state levels.

Other Major Industries

Professional and Technical Services is a major component of the County's economy, comprising over 63,000 jobs. The County's *Professional and Technical Services* jobs increased 3.7 percent between the second quarters of 2004 and 2005.

Construction jobs in the County increased 0.3 percent. This low rate of growth may be explained by the decline in permits issued for multifamily construction in the county in 2005.

The highest-paying industries (employing more than 500 people) in Montgomery County are: *securities and commodities brokers* (average wage: \$110,906), *computer and electronic product manufacturing* (average wage: \$104,985), *broadcasting* (average wage \$98,437), *management of companies and enterprises* (average wage: \$84,924), and *chemical manufacturing* (average wage: \$84,727). The largest industry with an average wage in excess of \$60,000 per year is "professional, scientific, and technical services" with an average wage of \$71,078 and 63,165 jobs. Of the major private sectors, the "food services and drinking places" sector pays the lowest average wages, about \$16,500 per year.

The average salary paid by a Montgomery County job in the second quarter of 2005 was \$51,435 per year, an increase of 8.0 percent over the previous year. The average private sector job pays about \$48,278 while the average public sector job pays \$66,639. The comparatively higher salaries paid by the public sector are due to federal government salaries, which average \$79,800.

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 2004, the federal government pumped \$15.3 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 \$7.5 billion to purchase goods and services, paid \$3.6 billion in wages and salaries to County workers, paid County residents \$3.0 billion in direct payments to individuals for retirement and other benefit programs, and spent \$1.2 billion on grants.

Federally Leased Space

The General Services Administration (GSA) currently leases almost 6.9 million square feet of space in Montgomery County, a decrease of 179,000 square feet compared to 2005. Between January 2005 and 2006, GSA did not renew 12 leases totaling 853,000 square feet of space, but added 8 new leases to their inventory totaling 674,000 square feet of space. GSA leases about 11 percent of the County's existing rental office space and pays an annual rent totaling \$159 million, an increase of \$6 million over the previous year.

GSA no longer provides information on which federal agencies occupy their leased space. In the past, about two-thirds of GSA's inventory was occupied by the Department of Health and Human Services (HHS).

Over half of GSA's leased space is in the Rockville area, which includes most of North Bethesda. GSA leases 3.9 million square feet of space in the Rockville area, 56 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 (19 percent) and Bethesda has 1.1 million square feet (15 percent).

About 6 percent of GSA's leased space, 432,000 square feet, is up for renewal in 2006. Based on last year's data, seven agencies occupy this space. HHS occupies about 58 percent of this space, mainly in the Rockville area. The Food and Drug Administration (FDA) is the tenant in 137,600 square feet of this space about 32 percent. The Treasury Department, 16 percent, and the Department of Commerce (NOAA), 12 percent, are the only other agencies occupying more than 10 percent of the space up for renewal in 2006.

About 83 percent, 5.7 million square feet, of GSA's space is leased beyond 2008 940,000 square feet more than last year. This marks the first year GSA has leases extending to 2015. About 546,000 square feet of space is leased through 2015.

In general, however, history indicates that GSA typically renews most of these leases. GSA would like to renew most leases because 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 64,700 workers in 2006, 100 workers less than last year. Agencies reporting increases are: FDA reports 770 more workers, National Institutes of Health (NIH) reports 200 more workers and the Nuclear Regulatory Commission reports 170 more workers. The National Institute of Standards and Technology, Department of Energy,

and Walter Reed Army Medical Center report more modest gains. Agencies reporting decreases are: National Oceanic and Atmospheric Administration (NOAA) reports 528 fewer workers (NOAA reported an increase of 540 workers last year), Health and Human Services (other than NIH and FDA) reports 448 fewer workers, and the Naval Surface Warfare Center at Carderock reports 271 fewer workers.

The consolidation of FDA on the White Oak campus that was the site of the former Naval Ordnance Laboratory is progressing. The first two phases of the consolidation, the 128,900 square-foot Life Sciences Lab and the 555,100 square-foot Center for Drug Evaluation and Research are complete and occupied by 1,850 workers. Phases 3 through 5, about 1.6 million square feet to be occupied by about 4,200 workers, is scheduled to be finished in 2010. A 778,000 square-foot phase 6 will follow adding about 1,700 workers.

We asked the surveyed agencies how they would be affected by the 2005 Base Realignment and Closure (BRAC) Commission recommendations that were approved by the President and U.S. Congress. The 2005 BRAC requires that all actions be completed by 2011. The National Geospatial Intelligence Agency (NGA) will be moving from Montgomery County to Fort Belvoir in Northern Virginia. NGA indicated that their move would likely occur between 2009 and 2011. For this survey NGA decided to count their 2,800 employees in Montgomery County in 2010 and show no NGA employees in the County beyond 2010. As a result of BRAC, the Walter Reed Army Medical Center (WRAMC) estimates a transfer of about 970 military and civilian personnel from their District of Columbia facility to the Bethesda Naval Medical Center (BNMC) in 2010 and estimates a transfer about 250 employees to their Forest Glen Annex. BNMC expects a BRAC related increase of about 2,000 personnel, mainly coming from the WRAMC and from the Office of Naval Research in Ballston Virginia. They do not expect the full 2,000 personnel to transfer until 2011.

Collectively, the agencies surveyed anticipate job levels increasing by almost 18 percent, 11,500 jobs, between 2006 and 2020 when workers at these agencies will number about 76,200.

Given the federal policy of shifting workers from leased space to owned space, workers at federally owned space are expected to increase by about 13,800 between 2006 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 24,700 workers in leased space, 2,300 fewer than 2006 but similar to 2002 levels. NIH anticipates adding about 5,400 workers in leased space between 2006 and 2020.

Commercial Space Market

The positive trend, begun last year, continues. Montgomery County's commercial space market shows improvement: vacancy rates declined, absorption of new space increased and office rents held steady.

In the past year, the amount of occupied Class A office space in Montgomery County increased to 26.9 million square feet from 26.1 million square feet a year ago. The total amount of vacant Class A office space declined from 3.0 million square feet in 2005 to 2.4 million square feet in March of 2006. The total Class A office space vacancy rate is now 7.2 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 in 2004, but have since rebounded hitting \$28 in March 2006. Montgomery County's average rents for Class A office space have held steady at \$29.

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 2006 has declined by 109,000 square feet from the first quarter of 2005. The amount of vacant sublet Class A office space is now 435,000 square feet. Vacant sublet Class A space is now half of what it has averaged this decade.

Direct vacancy rates for Montgomery County's Class B office space fell from a high 9.8 percent in March 2005 to a low 7.9 percent in March 2006. The direct vacancy rate for Class C space fell from 7.6 percent in March 2005 to 6.9 percent.

There is about 961,338 square feet of office space under construction now in Montgomery County for completion in 2006, almost half of what was under construction at this time last year. Developers and leasing agents have proposed about 2 million square feet of space for completion in 2007/2008.

Finally, the flex and industrial space markets are still solid, vacancy rates have fallen from 10 percent in 2005 to 6.8 percent in March 2006. Rents are more affordable, falling from \$13.73 to \$13.31 per square foot: the flex market is more competitive and attractive to tenants.

Housing Market

The housing market in Montgomery County continued to be very strong throughout 2005. Low interest rates, regional job growth, and a continued belief in the investment value of real estate pushed prices higher and kept the number of housing sales at 2004's high levels. The low interest rates, however, are not enough to counterbalance the effect of rapidly rising home prices, so housing affordability continued to suffer during 2005.

For the first time in 15 years, the median income household could barely afford the median priced existing townhouse in 2005, according to the Department of Planning's Affordability Index. Median prices for new townhouses and for new and existing single-family detached homes remain 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 \$455,250 in the first three quarters of 2005, compared to a median price of \$395,000 at the end of 2004. The median price of new detached home rose from \$666,540 to over \$760,000 while the price of an existing detached home increased from \$450,000 to \$527,000. The median price of new townhouses climbed sharply from \$428,000 to \$476,000, while the median price of an existing townhouse rose from \$283,000 to \$335,000.

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 2005 dropped by 6,000: from 23,000 sales in 2004 to 17,000 in 2005.

Rental housing vacancies continued to ease, according to the latest Office of Landlord-Tenant Affairs survey. Rental vacancy rates decreased from 5.1 percent to 4.6 percent in 2005. This vacancy rate is indicative of a tightening rental market. It is still considered healthy, however, 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 \$1,167 in 2005). Rents averaged \$1,154 in 2004. 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 2005, residential completions totaled 3,700 units. Multi-family led the way with 1,722 units, down from 2,033 units the year before. Townhouse

ECONOMIC FORCES THAT SHAPE MONTGOMERY COUNTY
ANNUAL UPDATE 2006

completions fell from 791 in 2004 to 712 in 2004. Construction of single-family detached units also fell from 1,450 to 1,216.

Economic Forces That Shape Montgomery County

2006

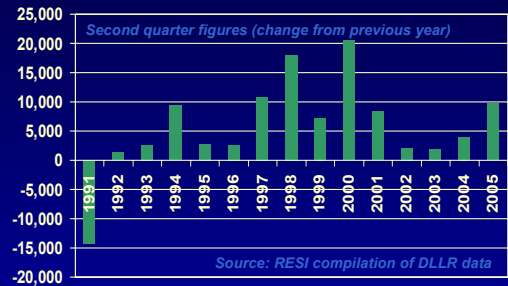
Job Growth Performance

2nd Quarter 2004 to 2nd Quarter 2005

Job growth themes

- The number of jobs increased by 9,792 to 460,681
- December unemployment below 3 percent
- Growth in Technology Sectors Mixed
 - Aerospace: down 4.6%
 - Biotechnology: up 5.1%
 - InfoCom: down 5.7%
 - High tech services: up 3.4%
- High Wage Industries added jobs

Total jobs increased by 9,792



Between the second quarters of 2004 and 2005, Montgomery County added 9,792 jobs, or 2.1 percent.

Professional services add most jobs.

	2004	2005	Change
Natural Resources and Mining	725	813	10.8%
Construction	29,434	29,512	0.3
Manufacturing	15,445	14,767	-4.6
Trade, Transportation and Utilities	63,622	64,348	1.1
Information	14,993	14,936	-0.4
Finance Activities (incl. Real Estate)	34,382	36,200	5.0
Professional & Business Services	96,593	101,074	4.4
Education & Health Services	55,534	57,026	2.6
Leisure & Hospitality Services	39,097	40,381	3.2
Other Services	21,327	21,728	1.8
Private Sector	371,656	381,482	2.6
Public Sector	79,233	79,199	0.0
Federal Government	40,667	39,850	-2.1
State Government	1,083	1,039	-4.1
Local Government	37,483	38,310	2.2

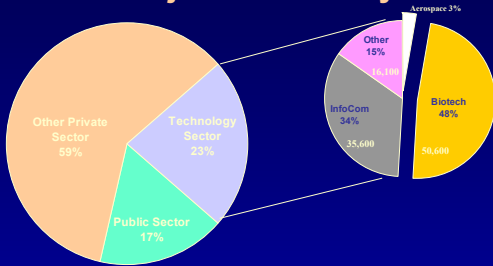
Source: RESI compilation of DLLR data (2005Q2)

Adventist Hospital tops list of private sector employers

Rank	Company/Agency	Jobs
1	Adventist Hospital	6,851
2	Giant Food	3,847
3	IBM Federal Unit	3,400
4	Marriott International	3,000
5	Holy Cross Hospital	2,900
6	Lockheed Martin	2,704
7	Red Coats Inc.	2,700
8	Global Exchange Services	2,360
9	Westat Inc.	2,170
10	BAE Systems Applied Technologies	1,700
11	Kaiser Permanente Health Plans	1,622
12	Suburban Hospital	1,600
13	GEICO Insurance	1,500
14	Montgomery General Hospital	1,283
15	Human Genome Sciences Inc.	825
16	Aspen Systems	800
17	MG-Atlantic Medical Services	800
18	General Conference Corporation	750
19	B.F. Saul Company	670
20	Celera Genomics Corporation	590
21	Otsuka American Pharmaceutical	570
22	Adema	500
23	Manugistics Group	500
24	United Communications Group, LP	500
25	Discovery Communications	470

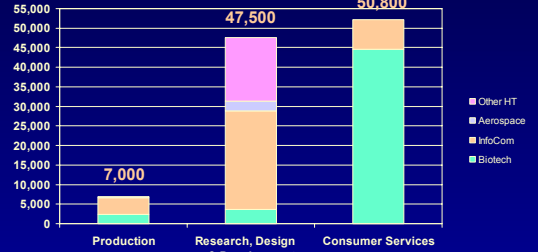
Source: Dun and Bradstreet, Selectory Online; Interview with Corporate Relations Officers.

Technology sector comprises 23% of jobs in County



Source: RESI compilation of DLLR data (2005Q2)

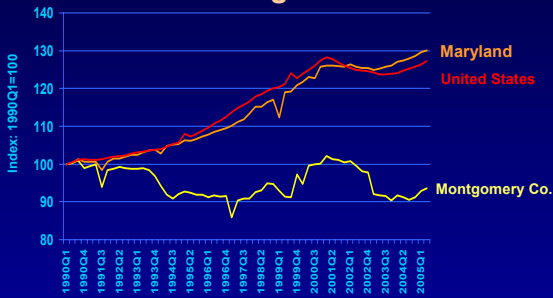
52% of jobs in technology sector are production and research-oriented



There are 105,300 jobs in the County's high tech clusters: 7% of jobs are in production, 45% in research, design, & development, and 48% in consumer services

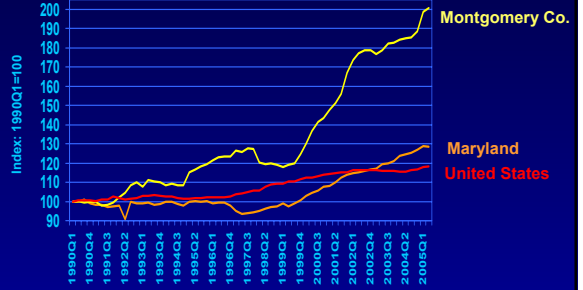
Source: RESI compilation of DLLR data (2005Q2)

Total number of Technology jobs show growth



Source: RESI compilation of MD Dept of Labor, Licensing, and Regulation data (2005Q2)

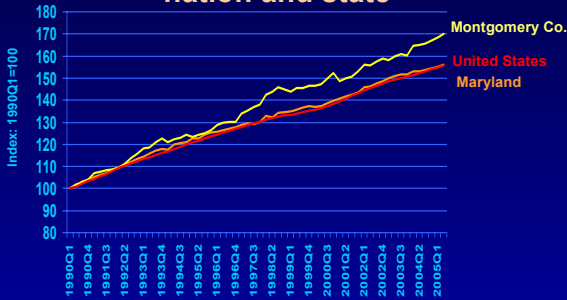
Biotech grows 9%



6,000-persons work in biotech research, development, and production.

Source: RESI compilation of MD Dept of Labor, Licensing, and Regulation data (2005Q2)

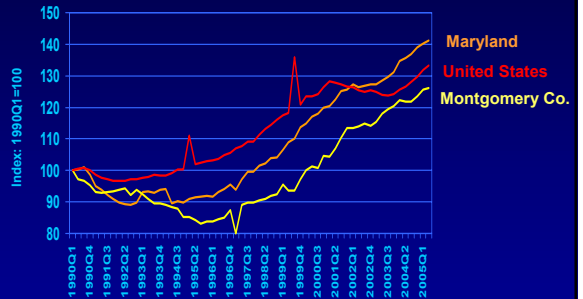
County trend in Health Services leads nation and state



There are 41,065 health services jobs in Montgomery County.

Source: RESI compilation of MD Dept of Labor, Licensing, and Regulation data (2005Q2)

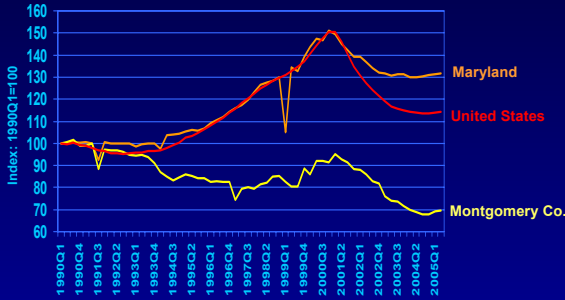
High Tech Services Up 3.4 %



Other high tech services jobs increased by 538 persons to 16,148.

Source: RESI compilation of MD Dept of Labor, Licensing, and Regulation data (2005Q2)

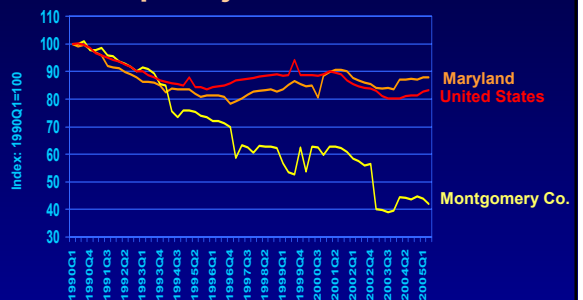
County InfoCom jobs down 5.7%



The County's information and communications technology cluster employs 4,200 workers in the manufacture of communications technology and 25,300 in systems design and software development.

Source: RESI compilation of MD Dept of Labor, Licensing, and Regulation data (2005Q2)

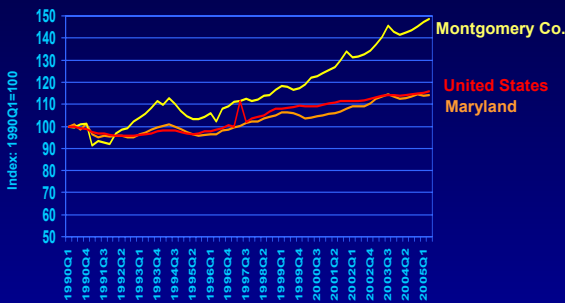
Aerospace jobs continue slide



There are 3,064 aerospace industry jobs in Montgomery County.

Source: RESI compilation of MD Dept of Labor, Licensing, and Regulation data (2005Q2)

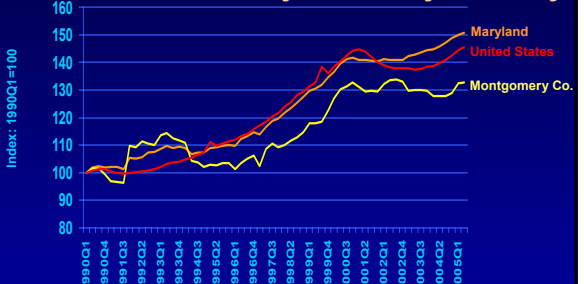
Finance & Insurance add 760 Jobs



There are 22,996 persons employed in the County's finance and insurance businesses.

Source: RESI compilation of MD Dept of Labor, Licensing, and Regulation data (2005Q2)

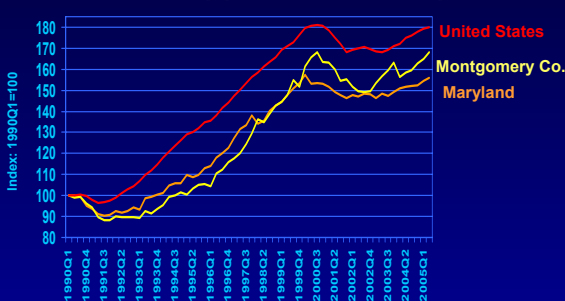
Professional, Scientific, & Technical Services adds most jobs of any industry



Professional, Scientific, & Technical services added 2,265 jobs between 2004 and 2005

Source: RESI compilation of MD Dept of Labor, Licensing, and Regulation data (2005Q2)

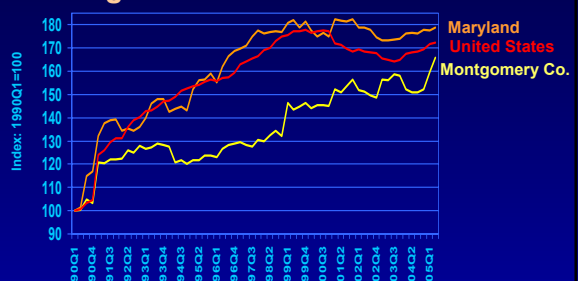
Admin. & Support Services up 6.0%



2,000 administrative and support services jobs were added to Montgomery County payrolls up from 32,157 last year.

Source: RESI compilation of MD Dept of Labor, Licensing, and Regulation data (2005Q2)

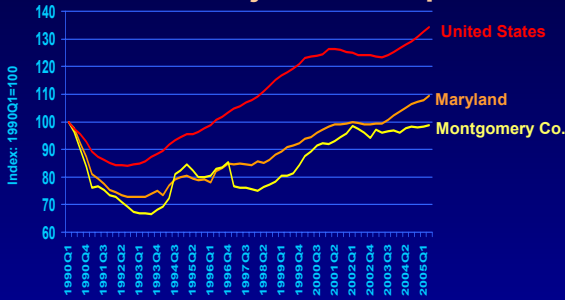
Corporate Headquarters and Management Offices increase staff



Employment in Management of Companies and Enterprises increased 10 percent: from 2,767 to 3,064 workers

Source: RESI compilation of MD Dept of Labor, Licensing, and Regulation data (2005Q2)

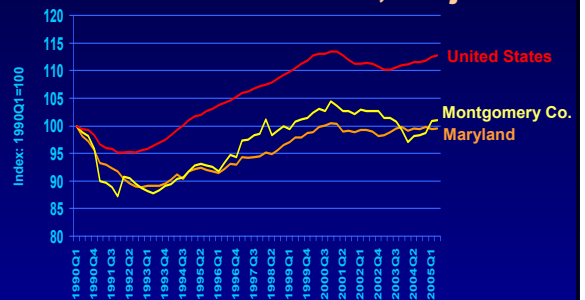
Construction jobs inch up 0.3%



There are 29,512 construction jobs in Montgomery County.

Source: RESI compilation of MD Dept of Labor, Licensing, and Regulation data (2005Q2)

Retail Trade climbs 1,400 jobs



There are 48,903 retail trade jobs in Montgomery County.

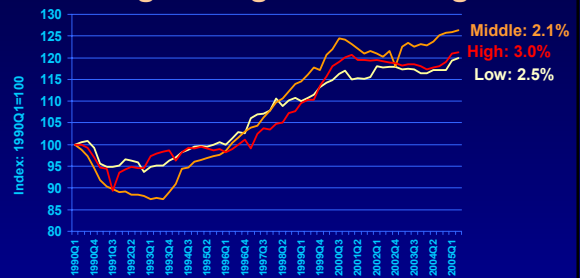
Source: RESI compilation of MD Dept of Labor, Licensing, and Regulation data (2005Q2)

How well do County 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 (\$26/hr and up)
- **Medium:** Industries with jobs that pay an average of \$30,000 to \$49,999 (\$15.62 - \$26.0/hr)
- **Low:** Industries with jobs that pay an average of less than \$30,000 (\$15.62/hr and less)
- 20 percent of workers earn \$10.60/hr or less

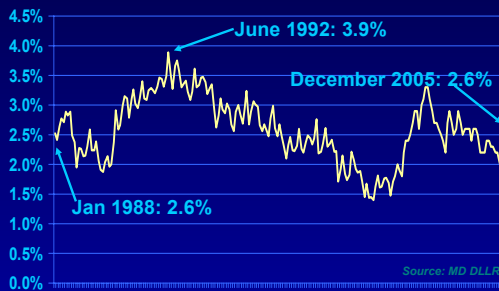
All wage categories show gain.



There are 98,018 jobs in low-wage industries, 108,855 jobs in medium-wage industries, and 174,000 jobs in high-wage industries in Montgomery County.

Source: RESI compilation of MD Dept of Labor, Licensing, and Regulation data (2005Q2)

Unemployment rate returns to 1988 levels



Source: MD DLLR

There are 13,434 unemployed persons 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 FY2004, the federal government paid \$3.6 billion in wages to jobs in Montgomery County

As a tenant,

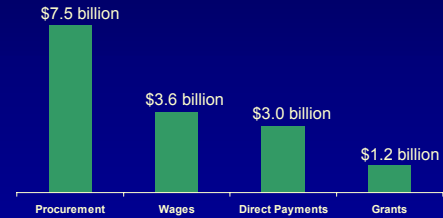
- The General Services Administration leases 6.9 million square feet of commercial space in the County,

As a purchaser of goods and services,

- FY2004's federal procurement was \$7.5 billion the County's all-time high.

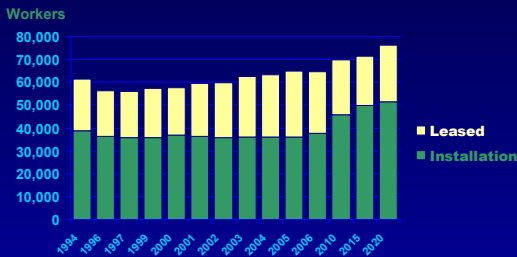
Federal expenditures in Montgomery County worth \$15.3 billion in FY2004

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



Source: Consolidated Federal Funds Report

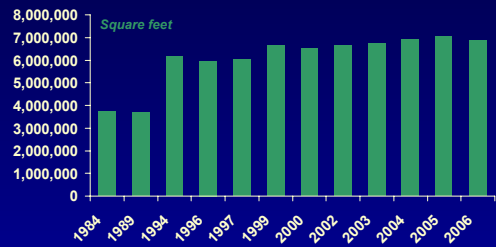
Workers at federal installations are beginning to increase due to FDA's consolidation



Between 2006 & 2020, jobs at installations are expected to grow by 36 percent above current levels. Jobs in leased space are expected to fluctuate between 21,500 and 24,700.

Source: M-NCPPC analysis of US government data

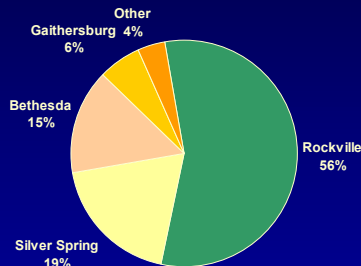
Federal leased space dropped by 2.5 percent during the past year.



Since January 2005, GSA's inventory of leased space has declined by 178,800 sq. ft.

Source: General Services Administration (GSA)

Rockville area is home to most federal leased space



GSA leases 3.9 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 80 percent of GSA's leased space is up for renewal after 2008

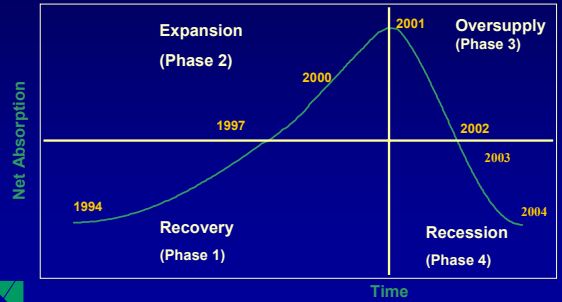


For the first time, GSA has leases extending to 2015.

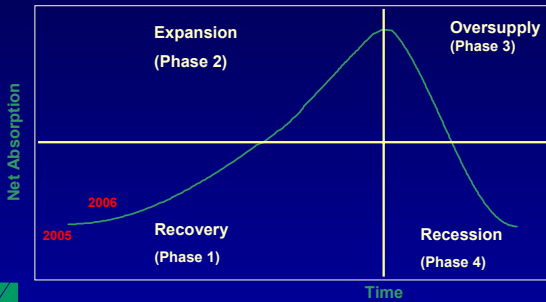
Source: General Services Administration (GSA)

Where Is the County's Office Market Headed?

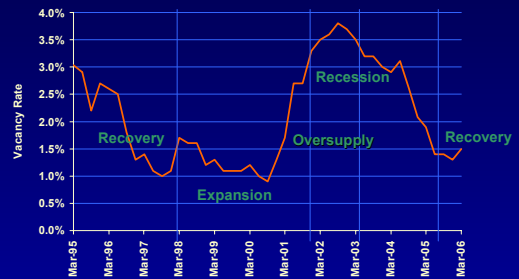
The real estate cycle provides a framework for understanding



A new real estate investment cycle is beginning



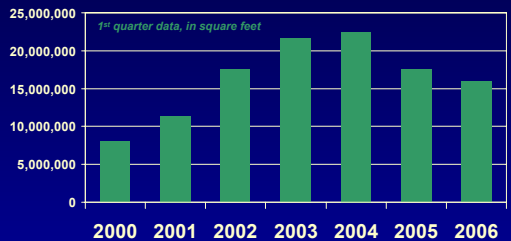
Declining sublet vacancy rates indicate recovery



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

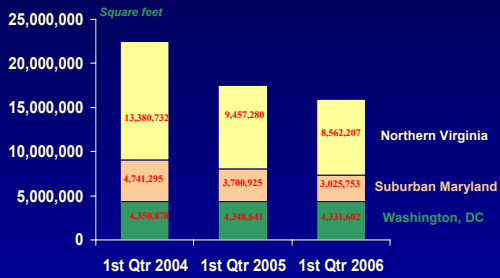
The Washington, DC Region Class A Office Market

The region's vacant Class A office space falls



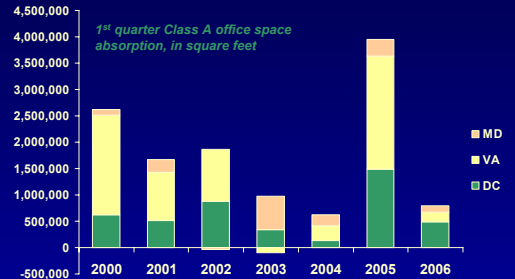
Source: CoStar Group, Property Professional Database, Analytical Search, Historical Trends

Vacant space in all regional submarkets continues to fall



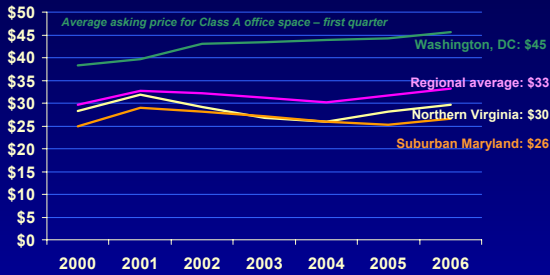
Source: CoStar Group, Property Professional Database, Analytical Search, Historical Trends

First quarter 2006 shows little absorption of Class A office space



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

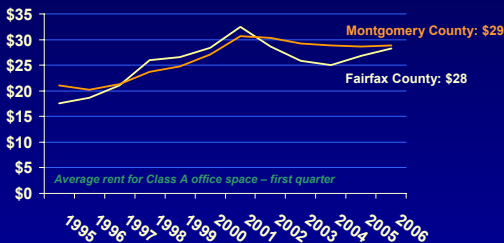
Rents rise throughout the region



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

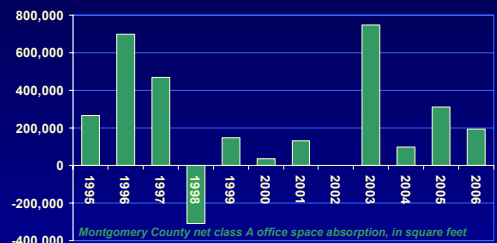
The Montgomery County Office Market

County's Class A office rents remain stable



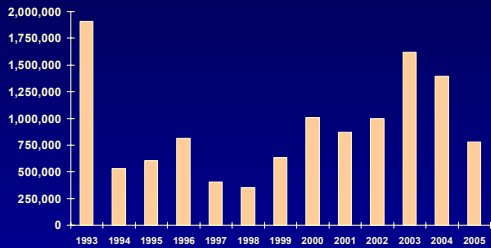
Source: CoStar Group, Property Professional Database, Analytical Search, County snapshot

194,000 sf of Class A space absorbed in 1st quarter 2006



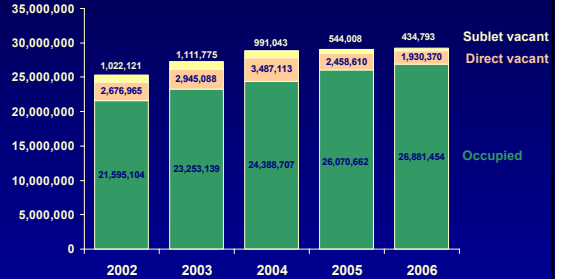
Source: CoStar Group, Property Professional Database, Analytical Search, County snapshot

Annual net absorption of Class A office space falls in 2005



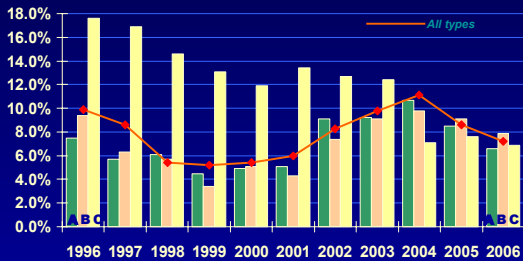
Source: CoStar Group, Property Professional Database, Analytical Search, County Snapshot

Less vacant Class A space available in first quarter 2006



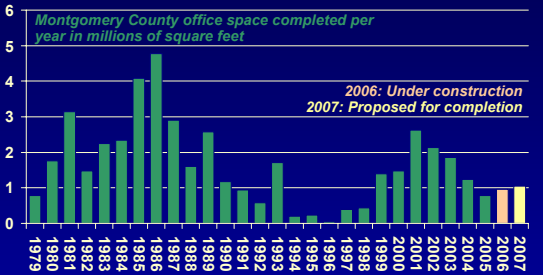
Source: CoStar Group, Property Professional Database, Analytical Search, Historical Trends

Class A vacancy rates lowest in four years



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

961,338sf under construction in 2006



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

Largest office projects are continuations of multi-phase developments

Project	Square Ft.	Location
Mid-Atlantic Federal Credit Union	27,000	Germantown
Sandy Spring Plaza Phase I	36,000	Rockville
Montgomery County Teachers FCU	43,000	Rockville
Belward II	54,000	Rockville
MedImmune Phase II	218,650	Gaithersburg
Genomic Research Bldg 5	290,910	Rockville

Source: M-NCPPC Research & Technology Center; Maryland State Tax Assessor; CoStar Group, Property Professional Database.

Nine development projects under construction in '06

Name	Location	SF	Leased	Expected Delivery
Chevy Chase Center	Chevy Chase	412,000	97.8 %	May 2006
Opus Center – Phase I	Bethesda	197,403	0.0%	Nov 2006
Lakefront @ Washingtonian	Gaithersburg	108,574	4.3%	June 2006
Seneca Meadows - 10	Germantown	60,000	0.0%	Sep 2006
Pershing Court Condominiums	Silver Spring	34,000	11.8%	May 2006

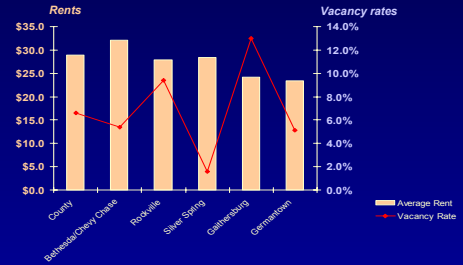
Source: CoStar Group, Property Professional Database, Property Search

Several large office development projects are planned for 2007/ 2008

SF	Proposed Development	Location	Delivery
750,000	Monument Corporate Center	Gaithersburg	2007
585,000	Wisconsin Place	Chevy Chase	2008
450,000	Milestone Business Center	Germantown	2008

Source: CoStar Group, Property Professional Database, Property Search

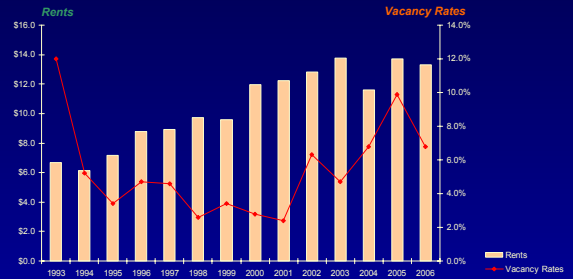
Gaithersburg Class A vacancy rate higher than other County submarkets



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

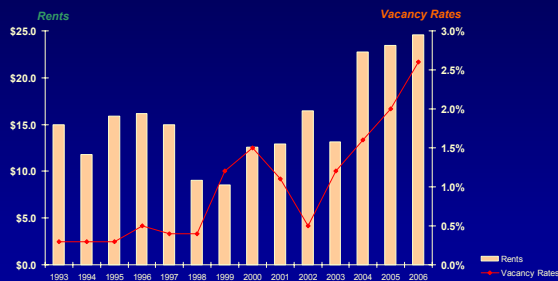
Other Commercial Space: Flex & Retail

Flex & Industrial space: vacancy rates fall, rents dip slightly



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

Retail space: vacancy up, rents up



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

WHITE FLINT CROSSING

Located at Rockville Pike & Executive Boulevard, Rockville, MD

MONTGOMERY COUNTY

PROJECT DESCRIPTION
600,000 square foot mixed-use development

SPACE AVAILABLE
2008

GROSS LEASABLE AREA
230,000 square feet of retail
433 Residential Units



M-NCPPC Research & Technology Center

TWINBROOK COMMONS


Located at Twinbrook Metro Station, Rockville, MD

MONTGOMERY COUNTY

PROJECT DESCRIPTION
2 million square foot mixed-use development

SPACE AVAILABLE
Phase IA - First Quarter 2007
13,500 square feet
Phase IB - Third Quarter 2007
41,450 square feet
Phase II - First Quarter 2008
163,200 square feet

GROSS LEASABLE AREA
220,000 square feet of retail
325,000 square feet of office
1,593 Residential Units



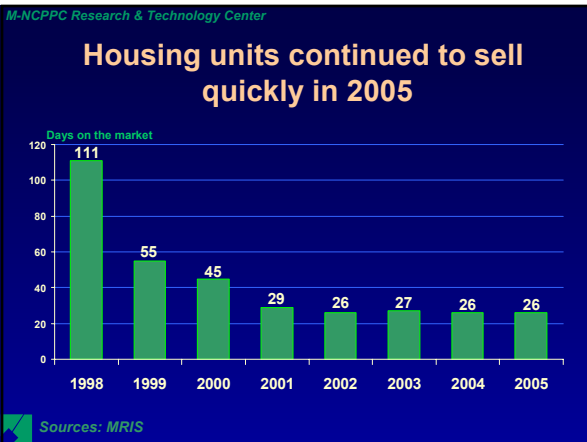
M-NCPPC Research & Technology Center

Montgomery County's Housing Market

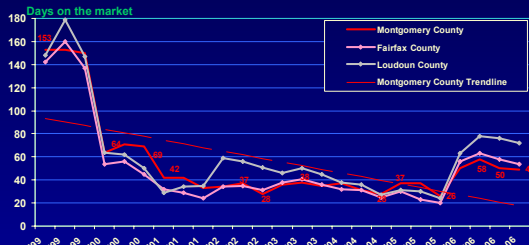
M-NCPPC Research & Technology Center

2006 – Housing Update

- Price increases continue to increase as affordability suffers.
- 2005 data show hot market; some signs of cooling in 2006.
- Rental vacancy rates tighten.
- Fewer units, larger units.



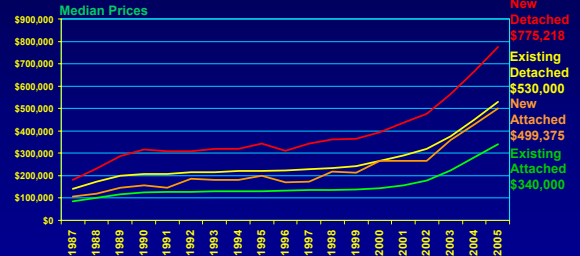
Average time on market increasing slightly during 1st Qtr 2006



In 1999, the average days on the market peaked at 153 days in February, compared to 58 days in Feb of 2006.

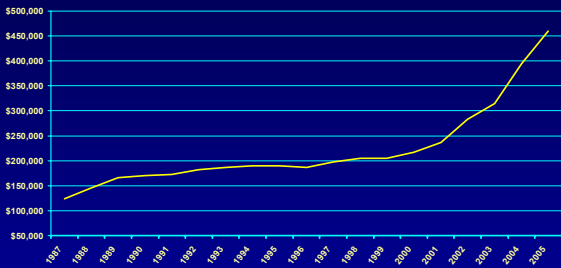
Sources: MRIS

Marked increases continued for single-family home prices



Source: STAR

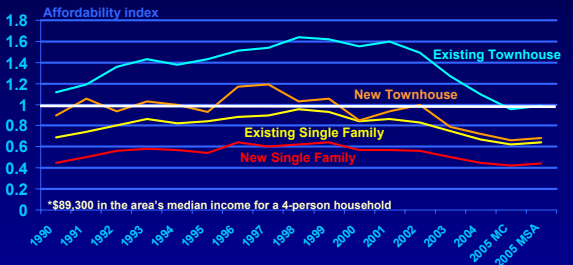
Half of single-family homes sold for \$460,000



2005's figure represents a 16.5 percent increase over 2004's median of \$395,000.

Source: STAR

In 2005, resale townhomes were the sole single-family option for households earning \$89,300*

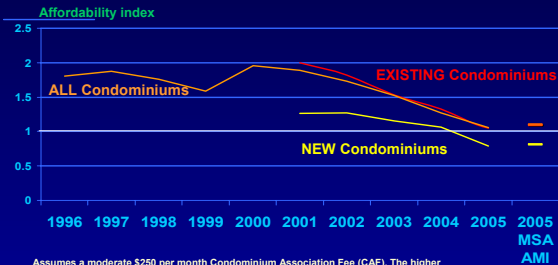


*\$89,300 in the area's median income for a 4-person household

The higher the score, the more affordable the housing is. A score of "1.0" means the monthly cost of buying a home equals 30% of gross median income.

Source: STAR

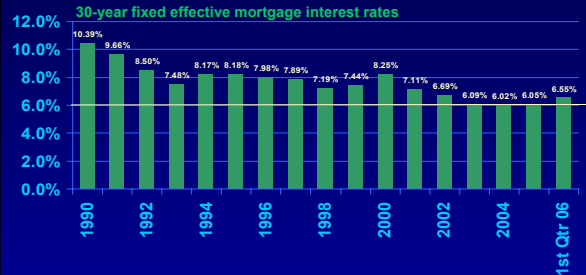
Condominiums are still considered affordable to households earning the median wage.



Assumes a moderate \$250 per month Condominium Association Fee (CAF). The higher the score, the more affordable the housing. A score of "1.0" means the monthly cost of buying a home equals 30% of gross median income.

Source: M-NCPPC Research & Technology Center

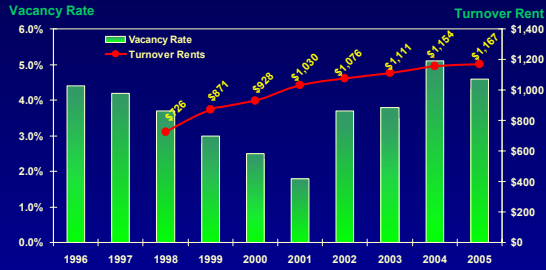
Mortgage rates are still lower than pre-2003 rates.



1st Quarter data for Metro Washington-Baltimore-Northern Virginia DC-MD-VA-WV

Source: Federal Housing Finance Board

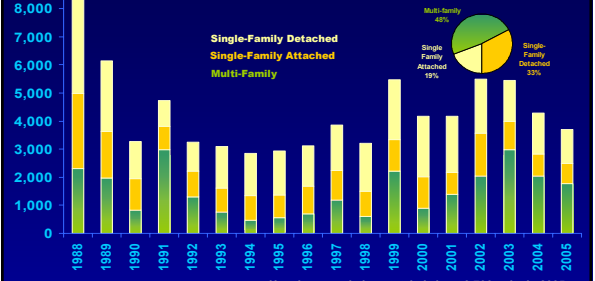
Apartment market is tightening, with vacancy rates now below 5%.



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

Source: Montgomery County Office of Landlord-Tenant Affairs

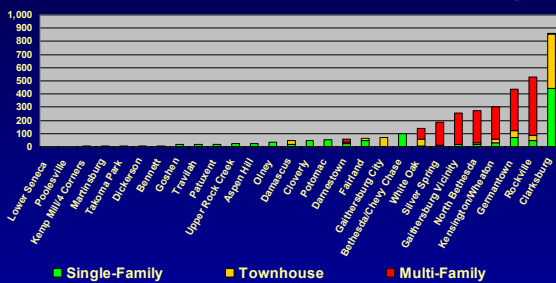
The ratio of single-family to multi-family completions was about 1:1



Housing completions totaled about 3,700 units in 2005, down from 4,300 units in 2004 and 5,500 units in both 2002 and 2003

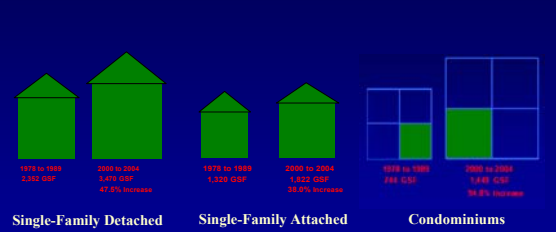
Source: M-NCPPC Research & Technology Center

Over 77 percent of single family completions were in Clarksburg.



Source: M-NCPPC Research & Technology Center. Completions in 2005 by units.

Home sizes increased significantly from 1978 to 2004



Single-Family Detached Single-Family Attached Condominiums