



April 2, 2004

Memorandum

To: The Montgomery County Planning Board

From: Karl Moritz, Research Manager, 301-495-1312
Krishna Akundi, Research Planner
Wayne Koempel, Research Planner
Sharon Suarez, Planner Coordinator – Demographics and Housing

Re: *Economic Forces That Shape Montgomery County*, 2004 Annual Update

Introduction

Each year the staff of the Research & Technology Center update our report, *Economic Forces That Shape Montgomery County*. As in the past, the report focuses on four aspects of the County economy: job growth, the federal role, the commercial space market and the housing market.

The *Economic Forces* series focuses on information that is not available elsewhere, and one of our “exclusive” reports is on federal procurement trends. In fiscal year 2002, the federal government purchased \$4.7 billion worth of goods and services from Montgomery County firms. Unfortunately, the Federal Procurement Data Center has not yet released the FY 2003 data. As soon as it is available, we will prepare and distribute our analysis of procurement trends to you.

Summary of Findings

Montgomery County’s economy has demonstrated resilience in the face of a national economic downturn, but it has not been unaffected. In last year’s report we started seeing those effects as job growth began to slow and commercial space vacancy rates began to rise. However, the housing market was exceptionally strong and the federal government increased its procurement, leasing, and employment activity.

This year’s report shows that **job growth** continued at a modest pace. Job growth totaled just 1,921 between the second quarters of 2002 and 2003 – about the same figure

as the previous year-long period. Private sector jobs grew by 1,394 while public sector jobs grew by 947.

Two years ago, we reported that job growth was but the higher-wage and high-tech sectors were outperforming the economy as a whole. Last year we noted that situation had changed: jobs in technology sectors fell, as did jobs in industries with an average wage over \$50,000 per year. This year, high-tech and high-wage sectors continue to lag the economy as a whole.

Two employment-related indicators were positive, however. The unemployment rate fell to 2.6 percent in January 2003. The temporary cash assistance caseload in Montgomery County is still close to historically low levels, with the January 2004 caseload at 2,693. The County's temporary cash assistance caseload peaked in April 1995 at just over 13,000 cases.

Our update of **federal government employment and leasing trends** shows little change from last year. The federal government's leasing of space in Montgomery County climbed from 6.7 million square feet to 6.9 million square feet. Our survey of federal installations shows 63,000 workers in 2004, an increase of about 2 percent or 1,500 workers compared to 2003. Collectively, the agencies anticipate job increases of 10 percent between 2005 and 2015 when workers at these agencies will number about 73,700.

Our **commercial space analysis** last year showed some evidence that the "short and mild" recession might be ending. That prediction turned out to be premature, as office space absorption slowed and vacancy rates rose. However, Class A office rents in Montgomery County have been much less volatile than some other markets in the region.

Historically, the County's Class C office space market has had the highest vacancy rates. However, the Class C market has been tightening for several years and in the past year, the Class C office space vacancy rate dropped to 7.1 percent. 2004 is the first year that Class C office space had a healthier vacancy rate than Class A or Class B office space.

There is about 1 million square feet of office space under construction now in Montgomery County for completion in 2004. There is another 1.7 million square feet proposed for completion in 2005.

Some negative factors for the office market include a national economy that is still in the doldrums and the fact that some of the new leasing activity is keeping the amount of sublet space on the market fairly high.

The **housing market** continues to be very strong. Our previous report showed some "leveling off" as the number of home sales declined slightly. Since then, however, home sales and prices have increased sharply. The median price of all single-family housing reached a new high of \$315,000 at the end of 2003. Five years ago, that figure

was \$205,000. Housing units continue to sell quickly, with on average, a housing unit spending only 27 days on the market in 2003.

A feature of the *Economic Forces* report is our update of the Research & Technology Center's Housing Affordability Index for Montgomery County. The affordability index worsened again in 2003 as the increase in home prices was only partially mitigated by continued declines in mortgage interest rates. This year's index shows that a household earning the median income can afford a median-priced existing townhouse in Montgomery County, but not the median-priced new townhouse, or the median-priced new or existing single-family detached home.

Apartment vacancy rates, which eased in 2002, held steady in 2003. Average rents increased (to \$1,111) but at a slower pace than in the past. Part of the reason is that multi-family development was particularly strong in 2003. The number of multi-family units completed reached its highest figure since 1991.

There were 6,063 housing units in subdivisions approved in 2003. Of these, 4,871 units were multi-family. This high proportion of multi-family approvals is another indicator that the multi-family market was very strong in 2003.

Economic Contribution of Associations to Montgomery County

Often the *Economic Forces* report will include a subject area of special focus. This year, the Montgomery County Department of Economic Development and the Association Council of Montgomery County asked us to look at the economic impact of associations. On March 29, 2004, the County Council's Planning, Housing and Economic Development Committee held a roundtable discussion on the issues facing Montgomery County associations.

According to US bureau of Labor statistics data, Montgomery County had 235 association "establishments" employing 3,349 people with \$170,298,000 in wages in 2002. These data are not yet available for the full year of 2003. Over the past 5 years, the number of jobs in Montgomery County associations has increased faster than the region as a whole. In addition, the wages at association jobs in Montgomery County have increased faster than the region as a whole.

The Research & Technology Center estimated the economic impact of associations and determined that for every \$1 million spent by Montgomery County associations, the County's economy increases by an additional \$720,000. For every three Montgomery County association jobs, one additional job is created in the County's economy. For every \$1 increase in the wages of an association employee, the wages in the "additional" jobs increase by 45 cents. This indicates that the 2002 Montgomery County association payroll of \$170,298,000 raised wages in other County jobs by \$76,600,000.

County Council Presentation April 13

With the Planning Board's approval, Research & Technology Center staff will present the *Economic Forces* report to the County Council on April 13.