



Economic Forces that shape **Montgomery County**

2007



Economic Forces that shape **Montgomery County 2007**

- **Job Market**
- **Federal Government Activity**
- **Commercial Real Estate Activity**
- **Housing Market**



Job Market

**Job Growth, Wages, Employment
by Industry and Unemployment**

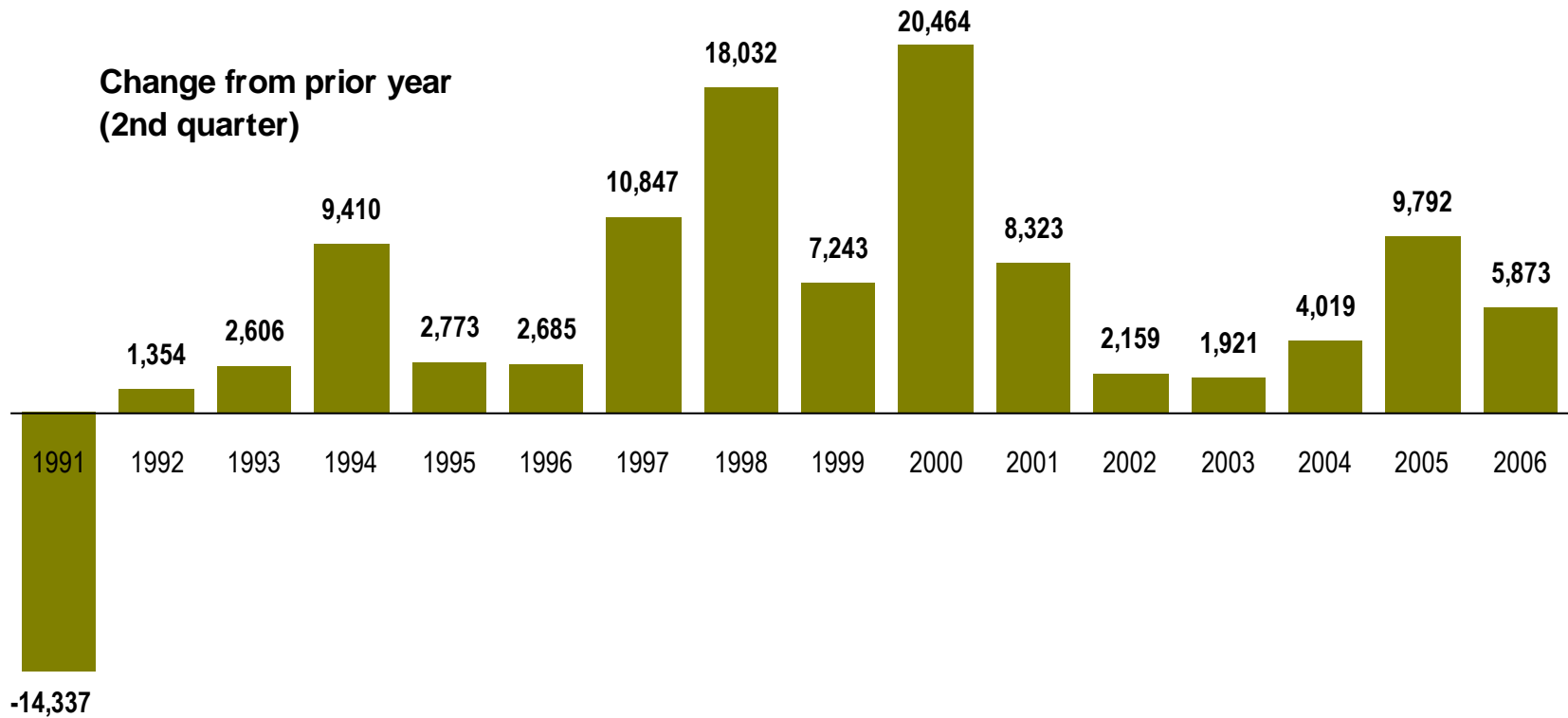


Job Market Themes

- Net new jobs: **+5,783**
- Current employment: **466,666**
- Performance varied by sector:
 - Consumer-related industries lost jobs.
 - Technology sectors grew steadily.
- Unemployment spiked in mid-2006, then fell in early 2007:
 - July, 2006 **3.5** percent
 - January, 2007 **3.2** percent
 - March, 2007 **2.6** percent

Job growth has slowed.

Montgomery County added 5,873 jobs from 2005 to 2006—a 1.3 percent growth rate.

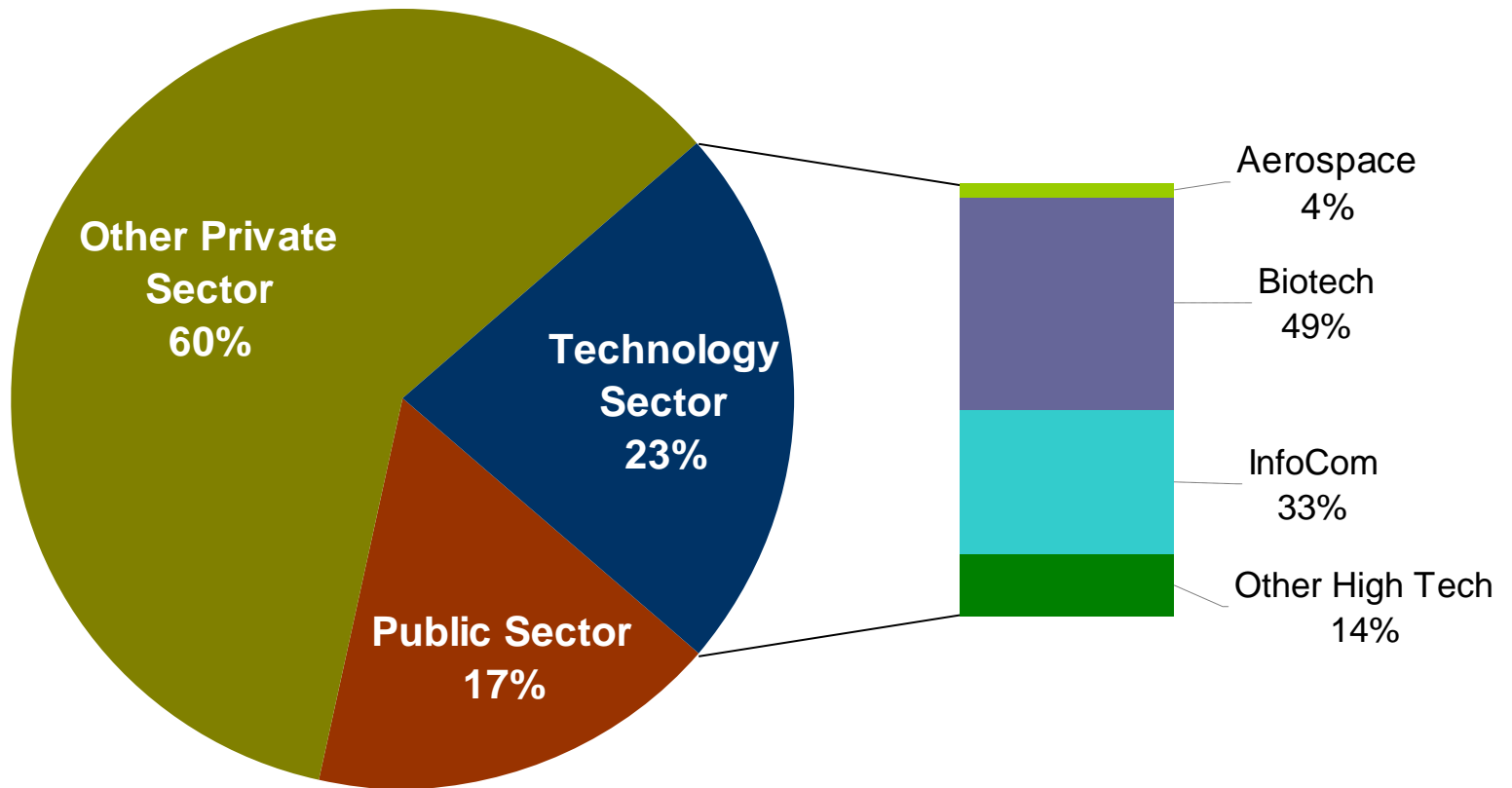


The County lost 2,260 jobs in Financial & Consumer Services.

	2005	2006	Change
Natural Resources and Mining	813	849	4.4%
Construction	29,519	30,799	4.3%
Manufacturing	14,768	14,252	-3.5%
Trade, Transportation & Utilities	64,354	63,780	-0.9%
Information	14,938	15,353	2.8%
Finance Activities (including Real Estate)	36,230	35,784	-1.2%
Professional & Business Services	101,071	106,551	5.4%
Education & Health Services	57,031	58,402	2.4%
Leisure & Hospitality Services	40,380	38,563	-4.5%
Other Services	21,794	22,067	1.3
Private Sector	381,594	387,069	+1.4%
Public Sector	79,199	79,597	+0.5%
Federal Government	39,850	39,544	-0.8%
State Government	1,039	1,068	2.7%
Local Government	38,310	38,985	1.8%

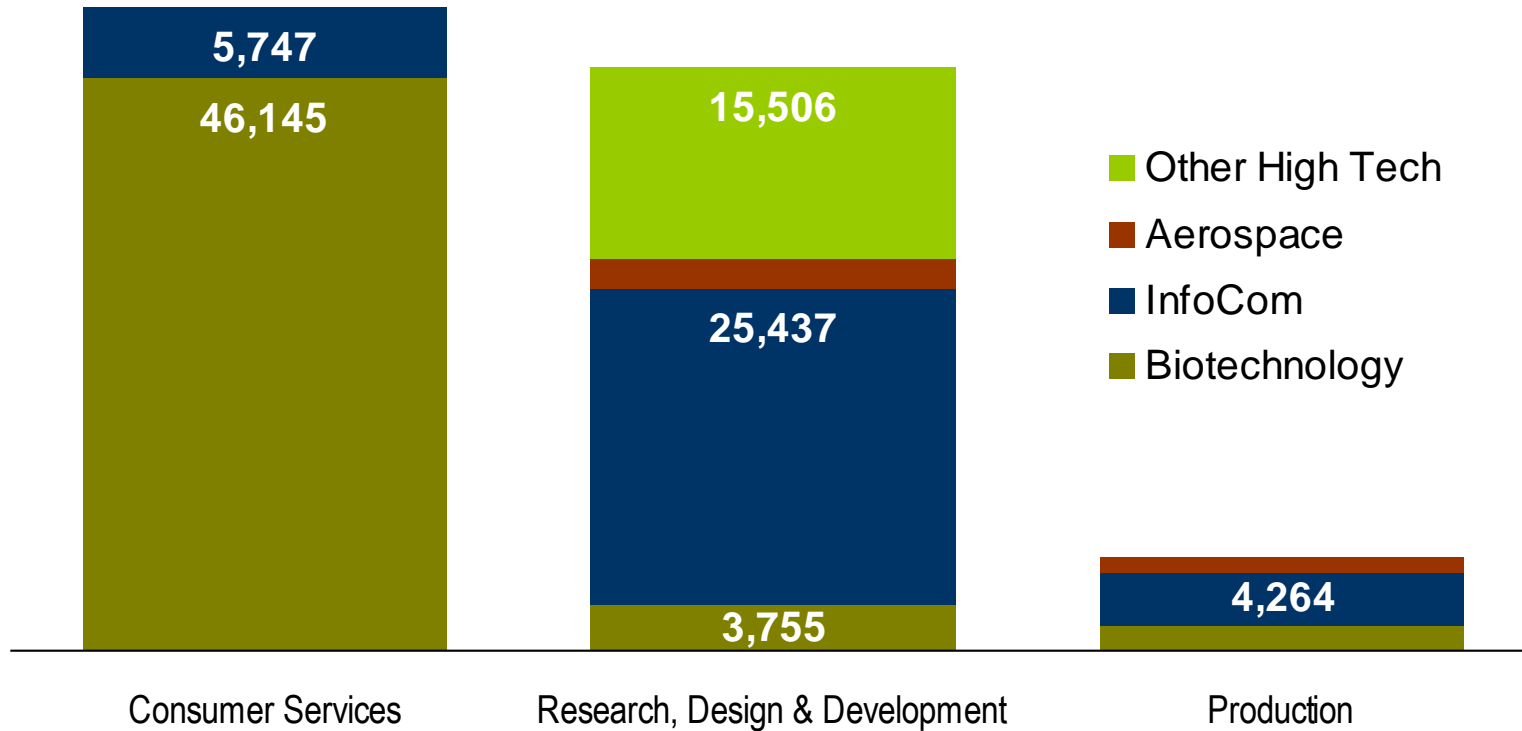


The Technology Sector supplies 23 percent of jobs in the County.

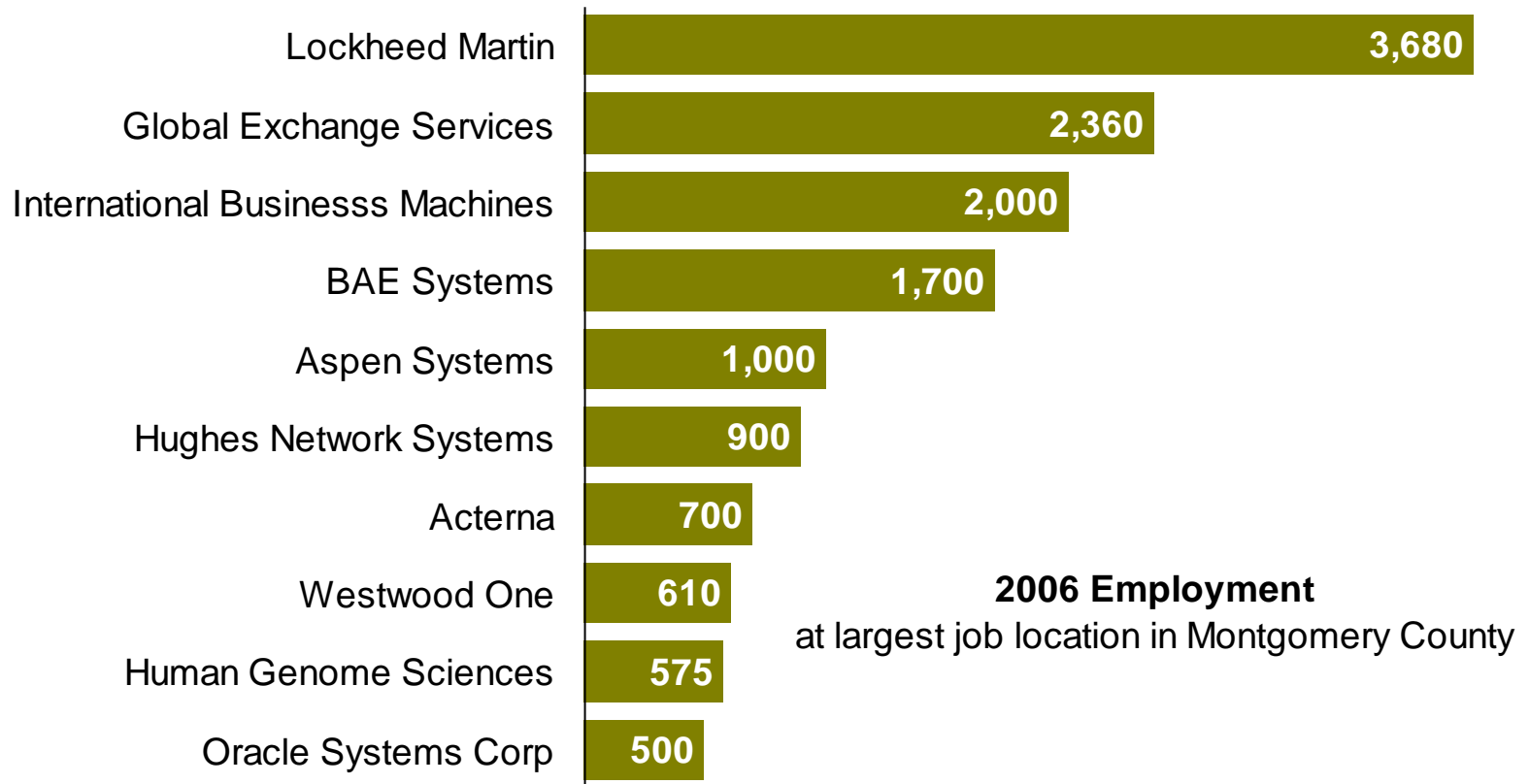


The County added jobs in Aerospace manufacturing.

The County's 106,614 tech jobs are in *Consumer Services* (49 percent); *Research, Design & Development* (44 percent); and *Production* (7 percent).

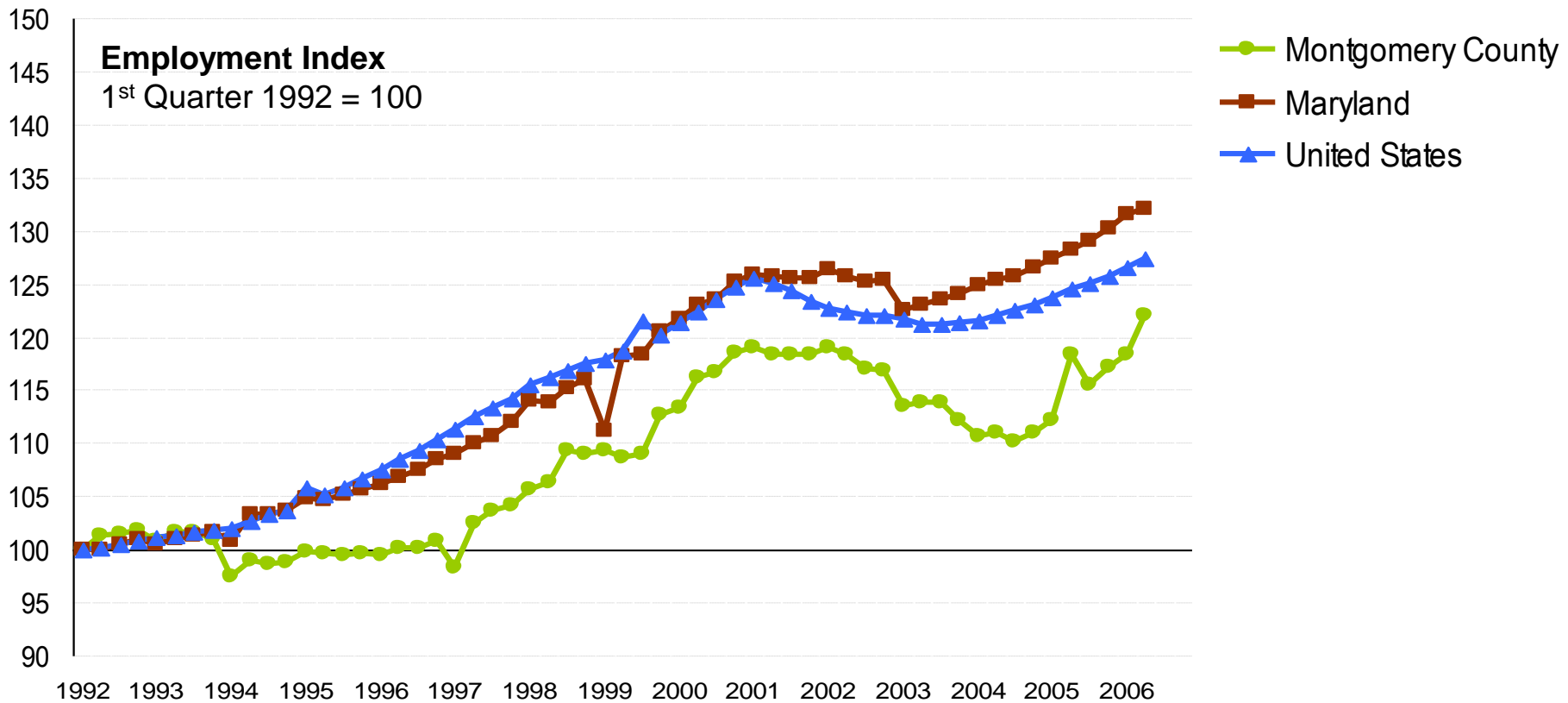


Lockheed Martin is the County's largest Tech Sector employer.



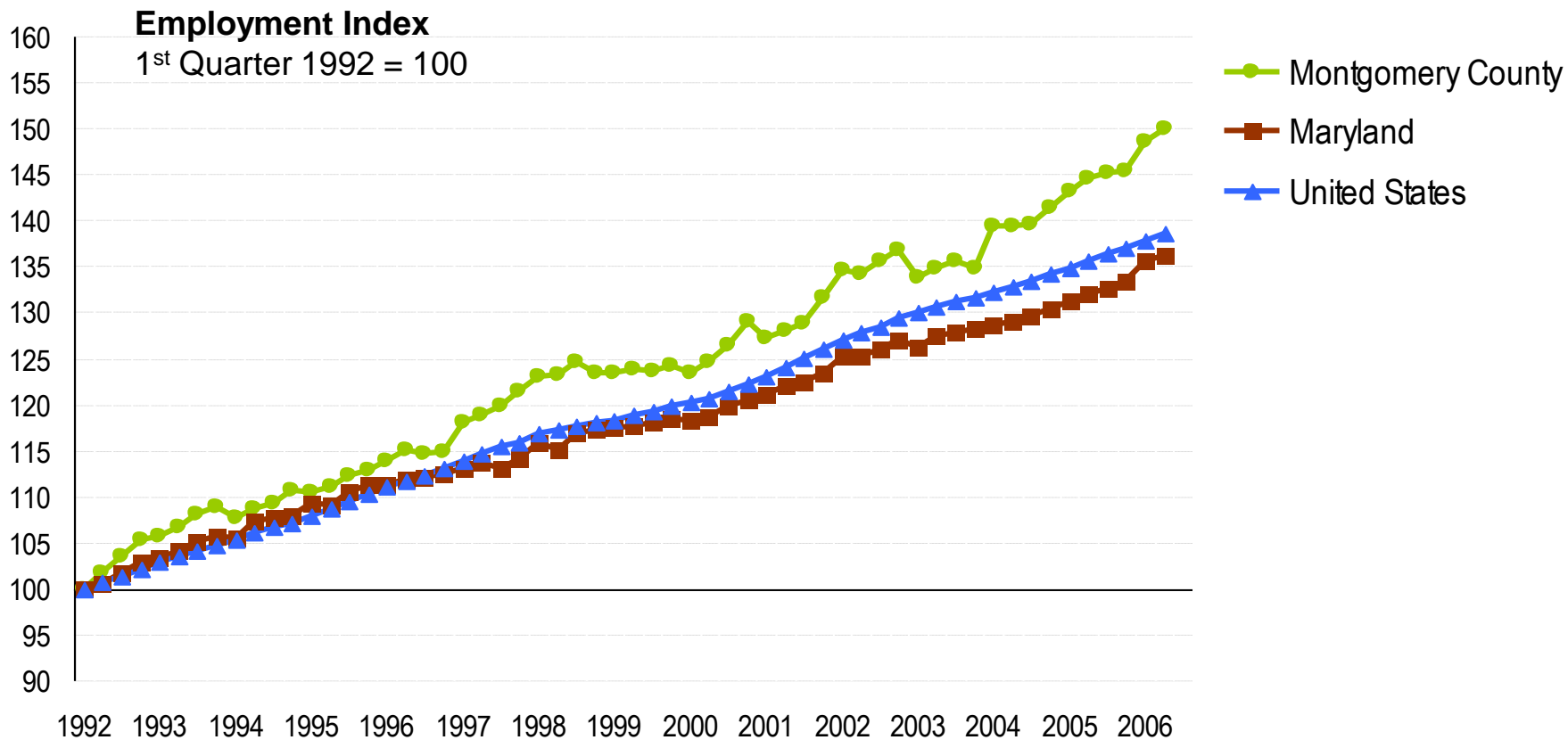
Tech Sector job growth was steady at 3.4 percent.

The tech sector grew at a more robust pace than the overall economy, gaining four points from 2Q 2005 to 2Q 2006.



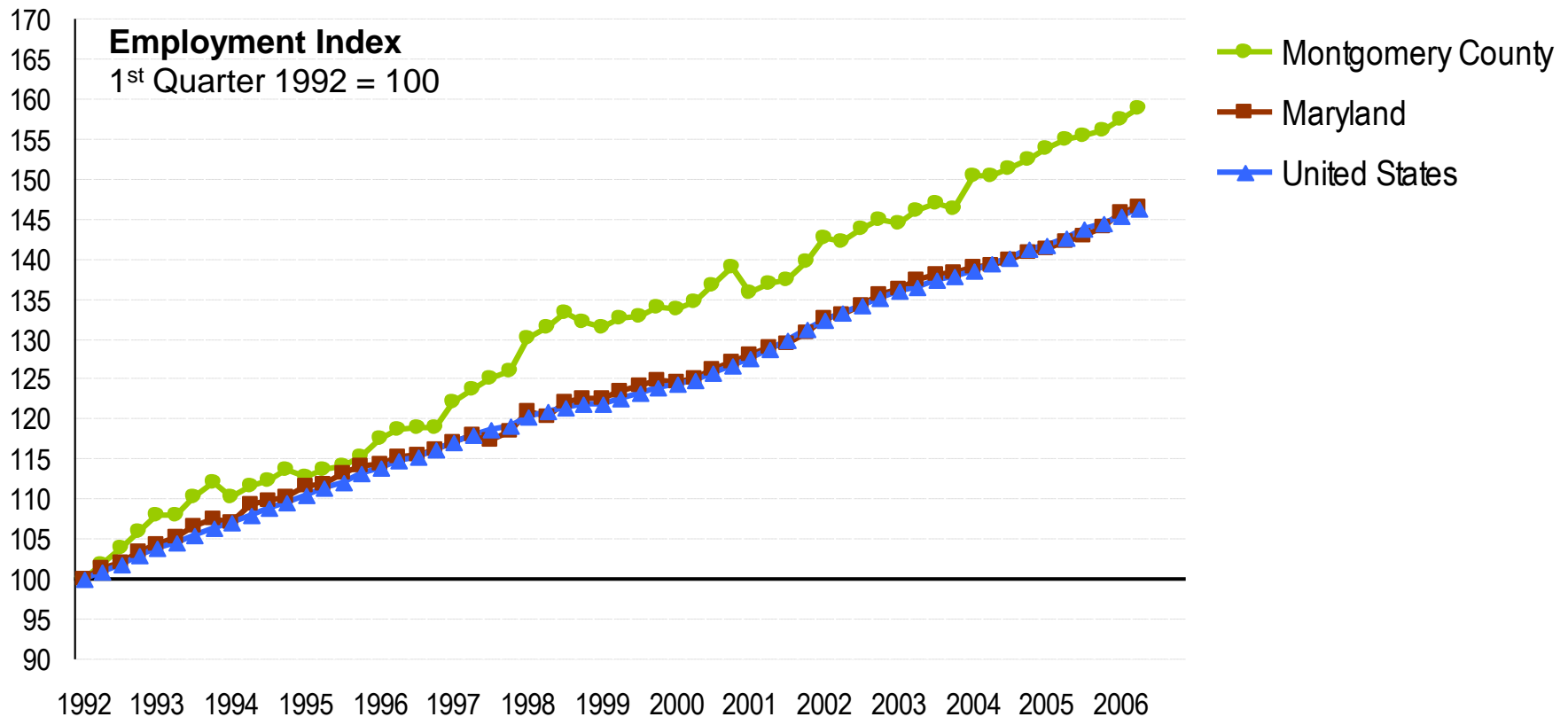
Biotech jobs grew 3.8 percent.

Employment in R&D grew 14.8 percent. Production jobs increased 14.2 percent. Together, these two biotech segments employ 5,800 people in Montgomery County.



Health Services job growth outpaced the state and nation.

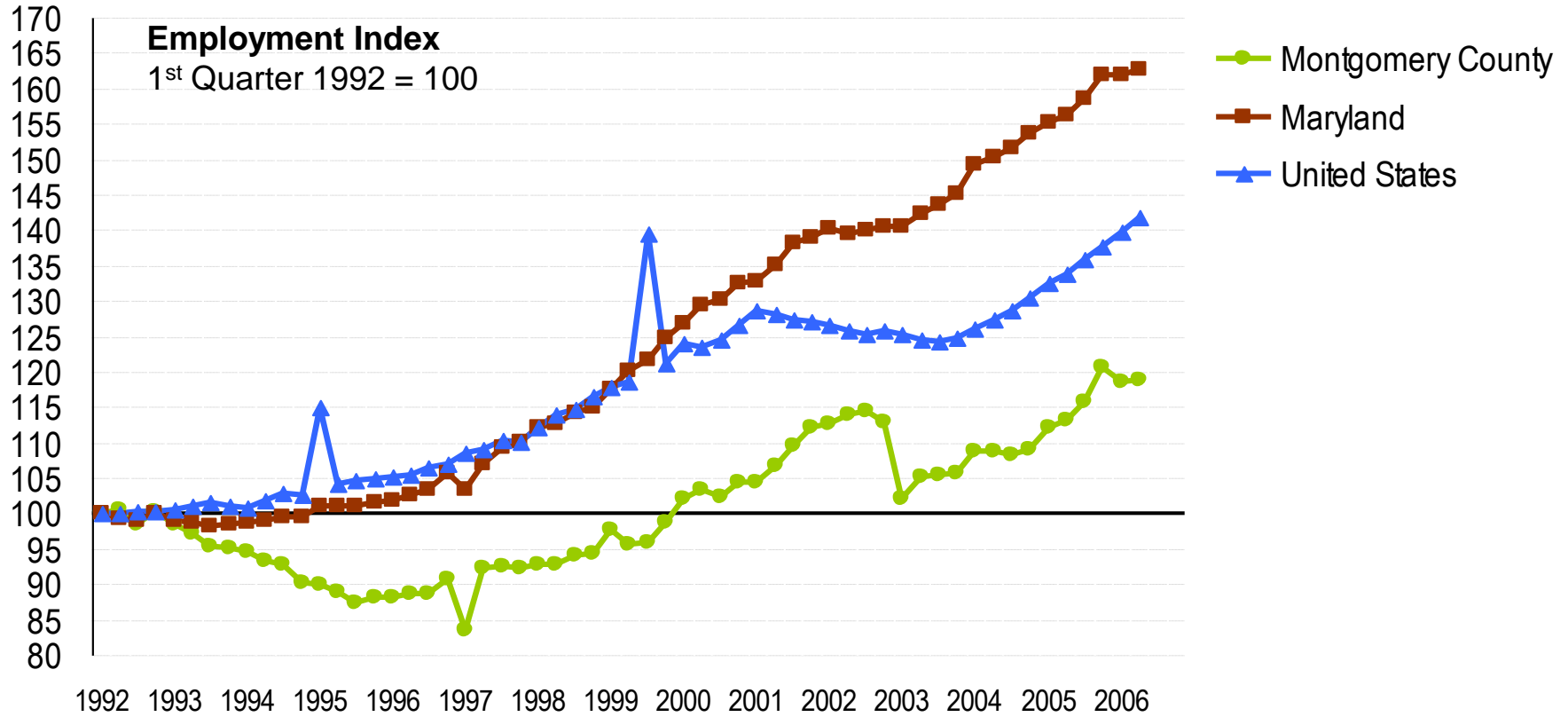
The Healthcare & Social Assistance industry employs 49,938 workers
 –a 2.6 percent increase over last year.





High Tech Services jobs grew 5 percent.

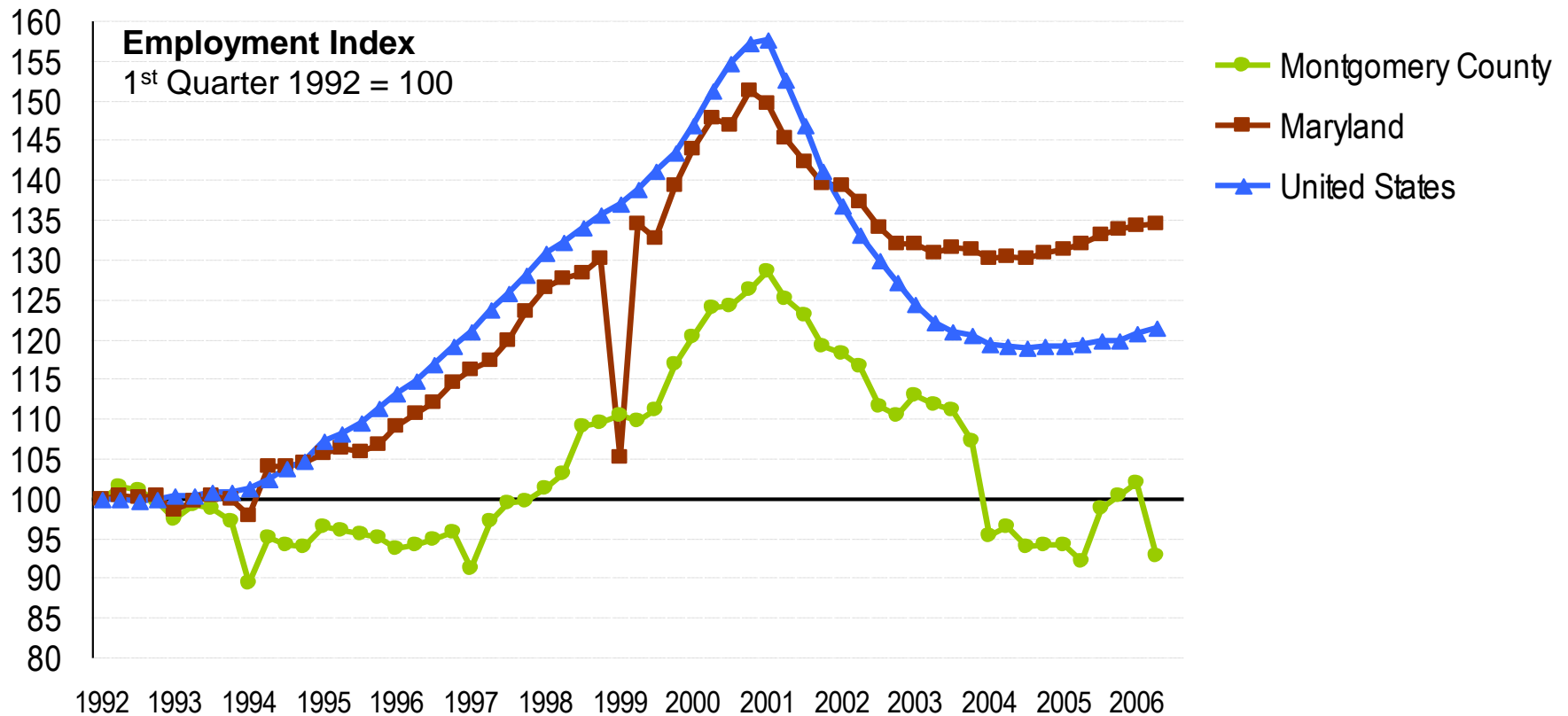
After peaking at 16,000 at the end of 2005, employment in high tech services settled at 15,500 in mid-2006, for a total gain of 320 jobs.





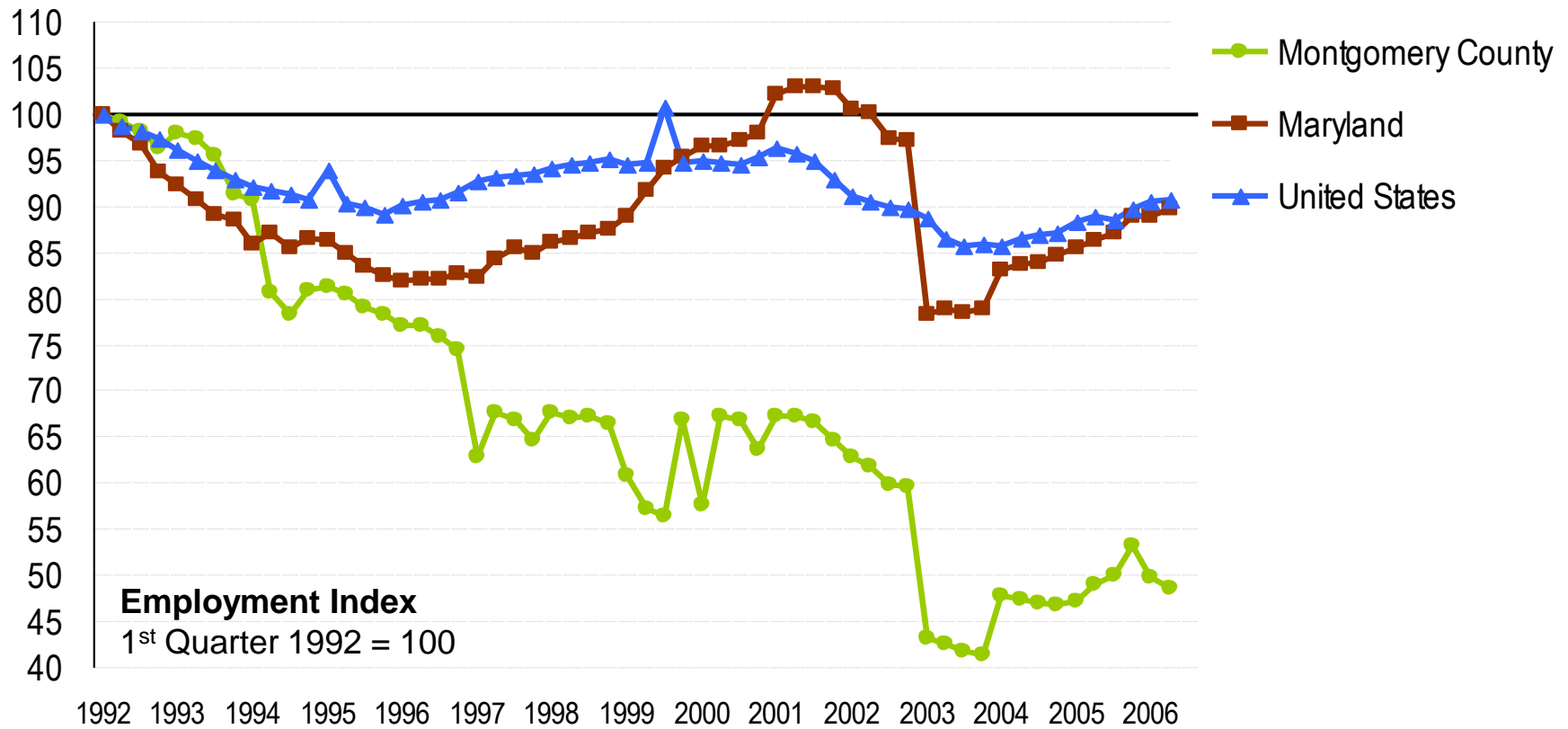
InfoCom employment was unchanged.

Within the InfoCom cluster, 25,440 people work in *systems design & software development*, and 4,260 people work in *communications technology manufacturing*.



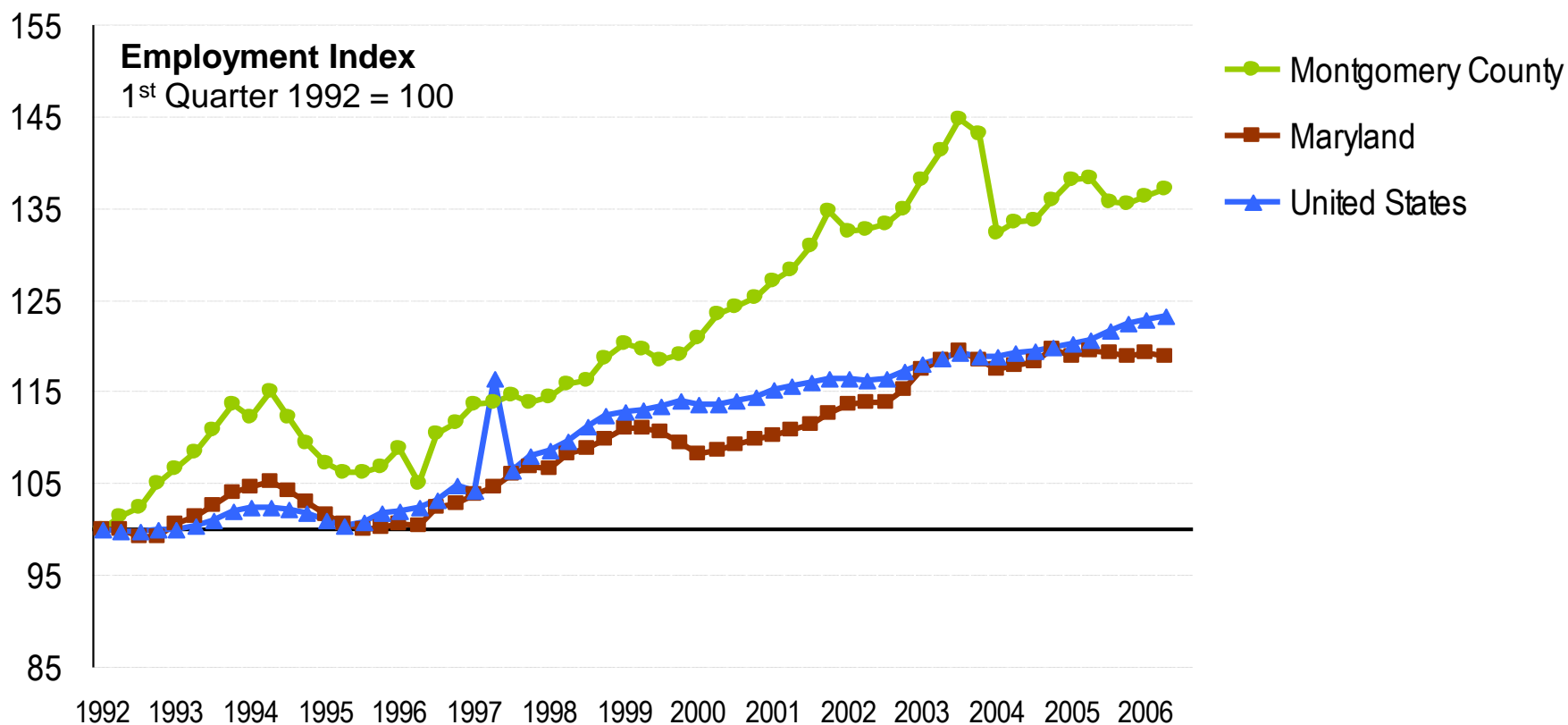
Aerospace jobs climbed 11 percent.

The County's defense & aerospace industries added 350 net new jobs, with employment peaking in the 4th quarter of 2005.



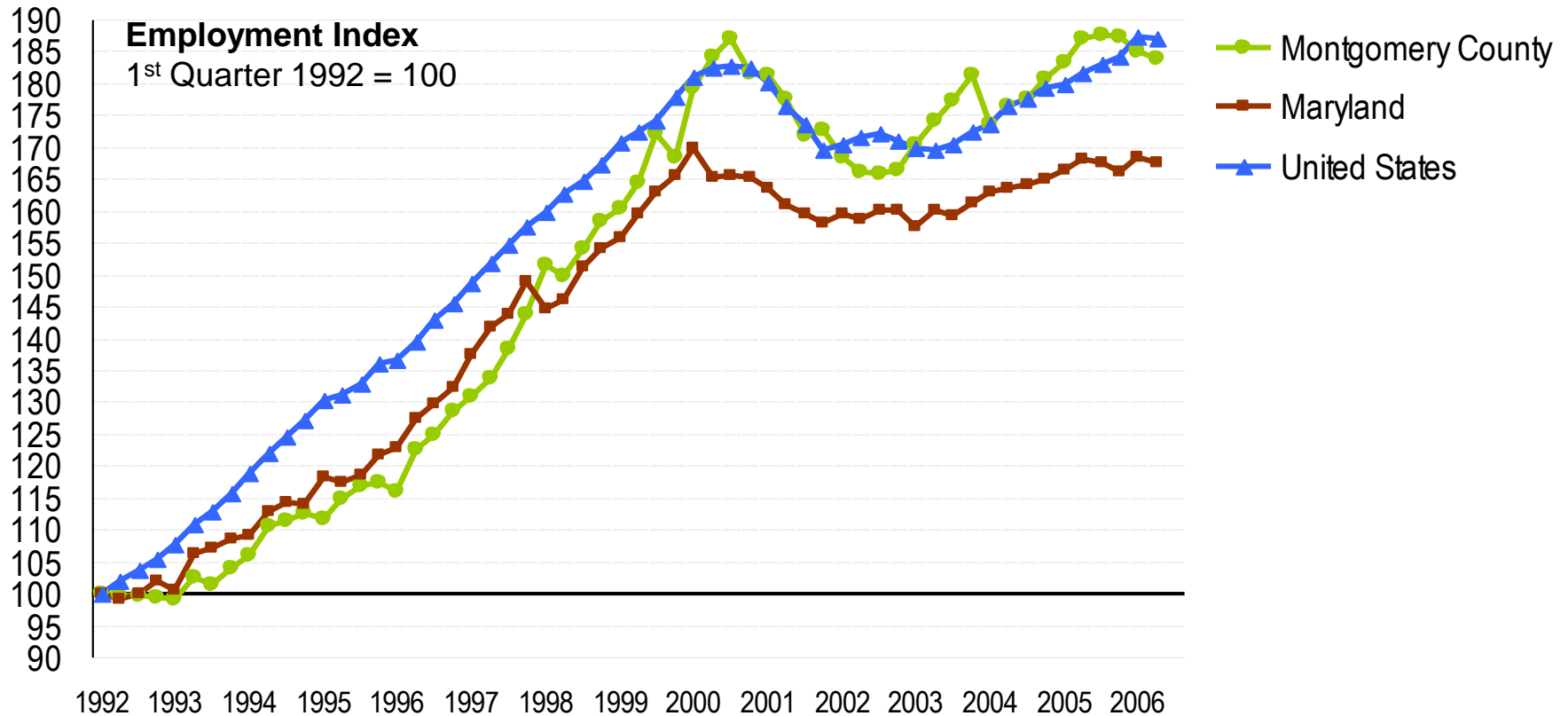
Finance & Insurance industry employment fell by 200 jobs.

22,943 people work in Montgomery County's Finance & Insurance sector.



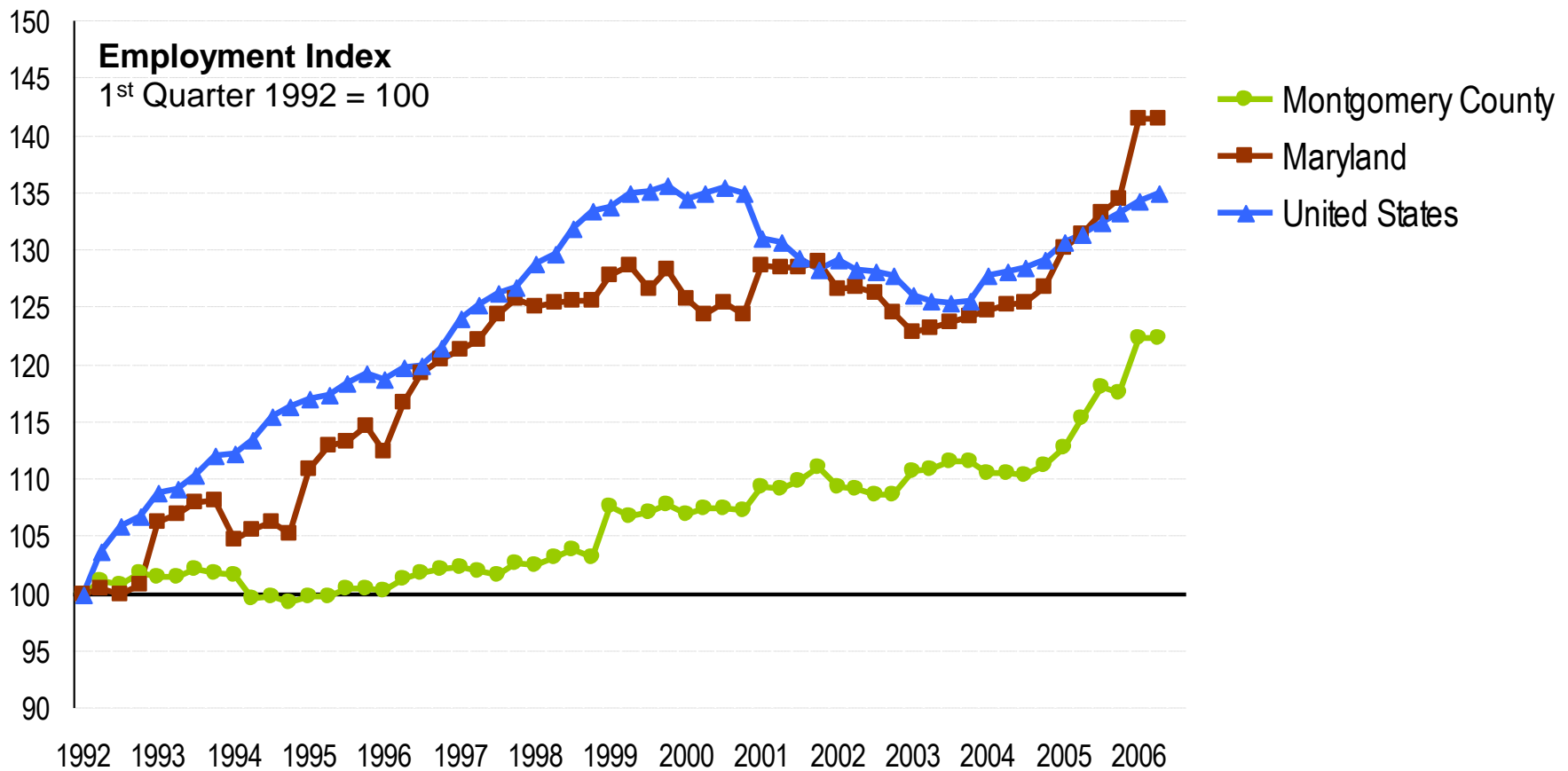
Administrative & Support Services employment declined.

Following last year's peak of 33,572 jobs, Montgomery County lost 566 administrative & support service industry jobs.



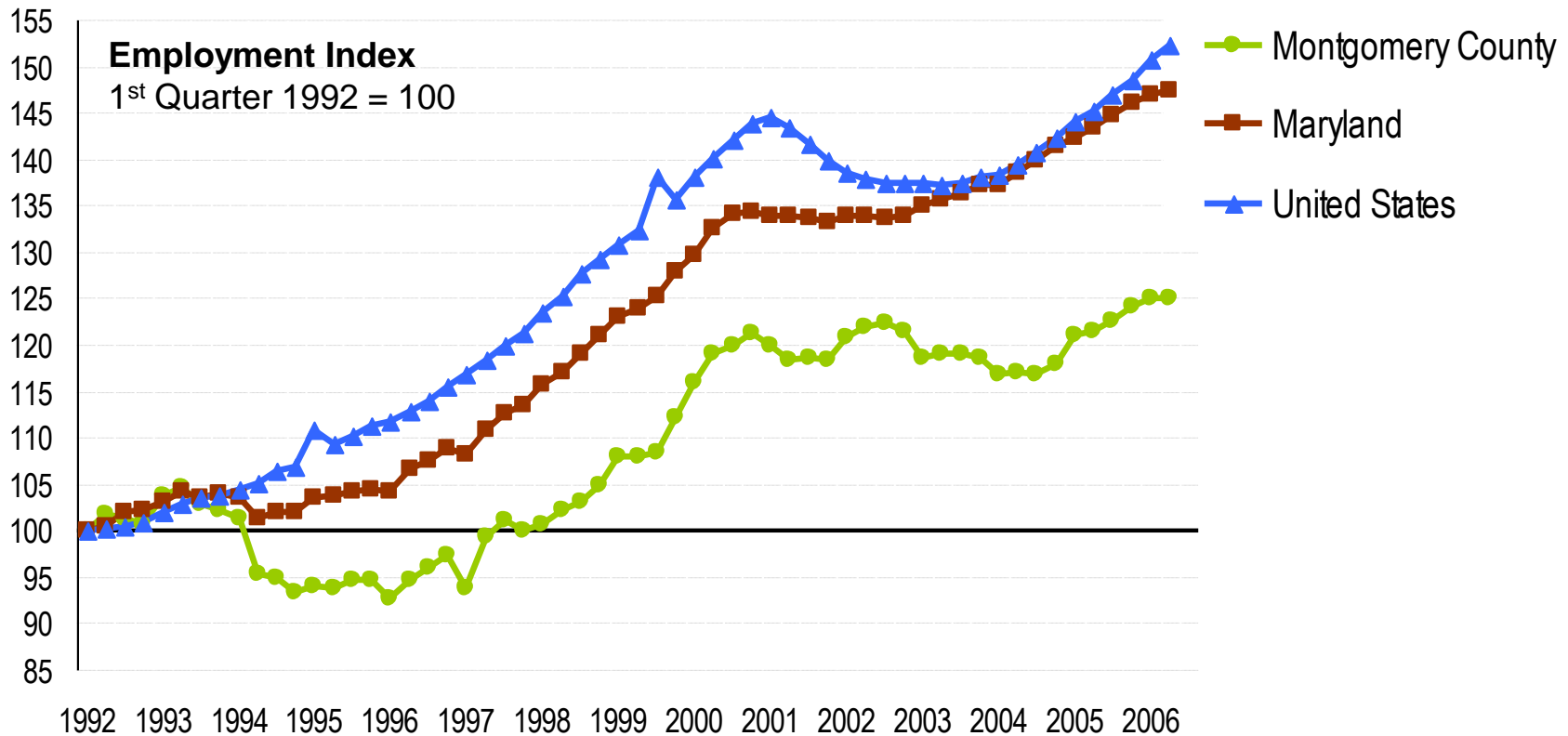
Corporate offices added staff.

Employment in the Management of Companies & Enterprises sector grew 6 percent to 3,064.



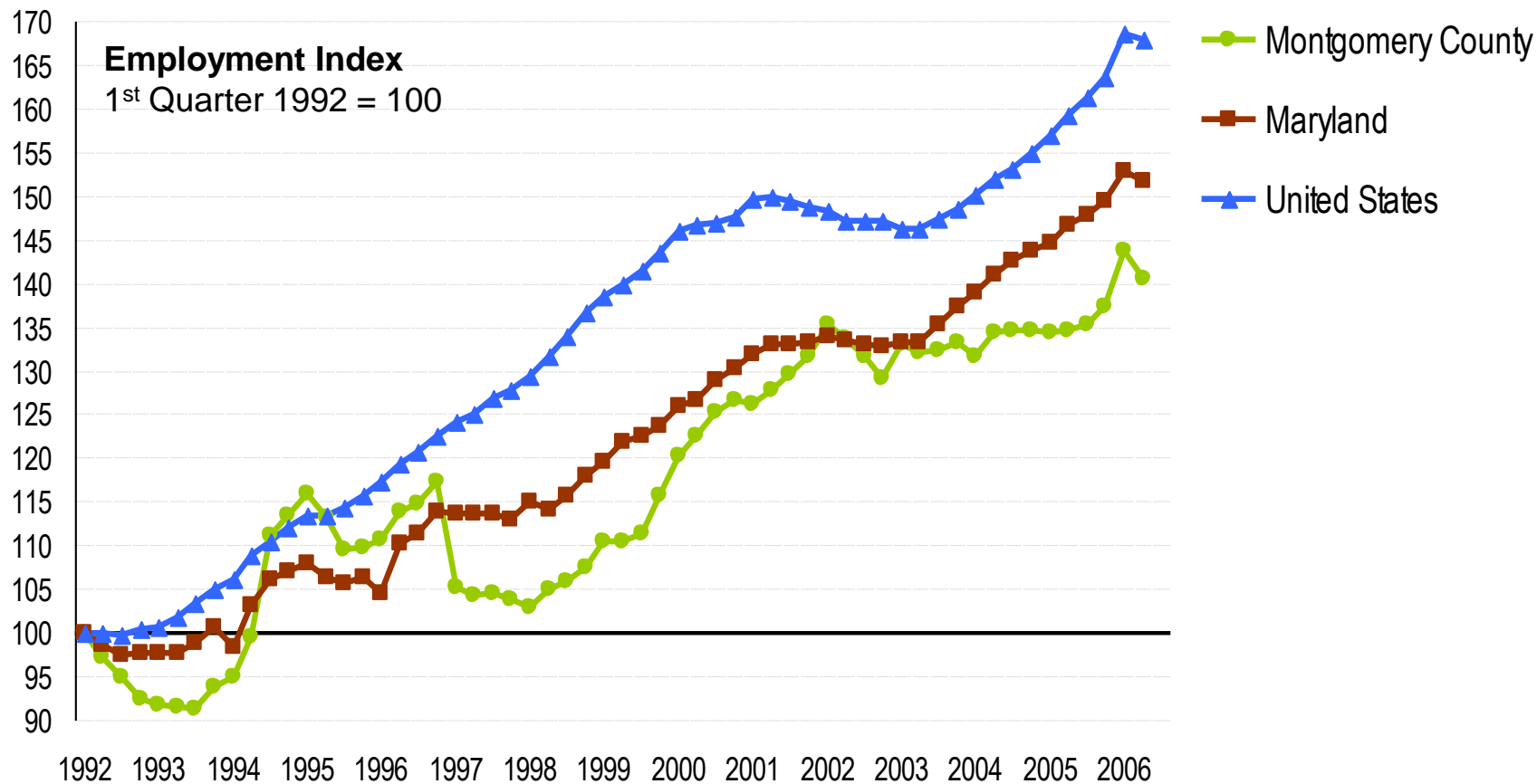
Professional, Scientific & Technical Services jobs grew 3 percent.

From 2005 to 2006, the County added 1,930 Professional, Scientific & Technical Services industry jobs.



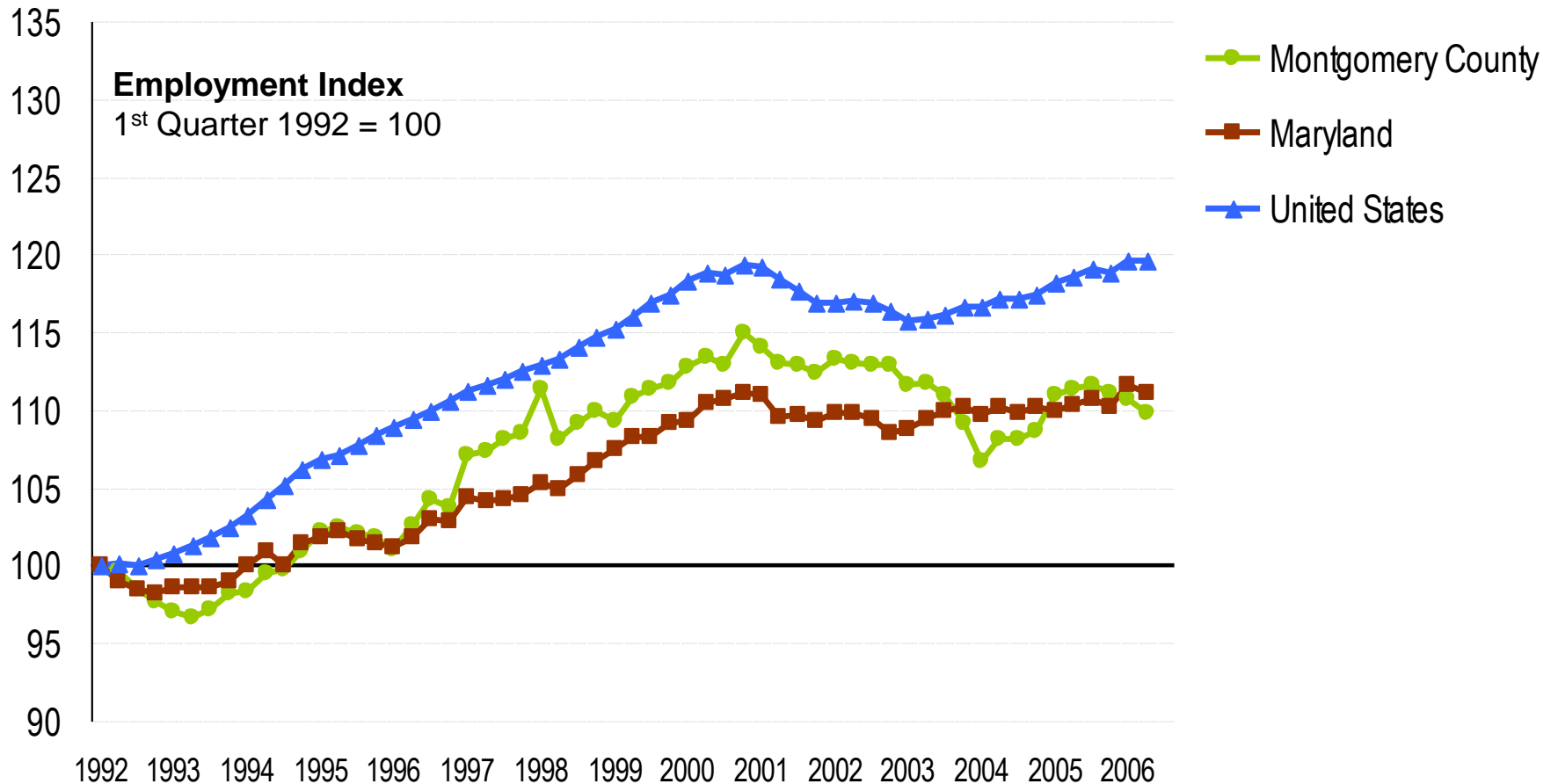
The housing market correction has hit Construction industry jobs.

The Construction industry employs 30,551 people in Montgomery County.



The Retail sector lost 678 jobs.

Retail employment in Montgomery County is 49,000.



How well do jobs pay in Montgomery County?

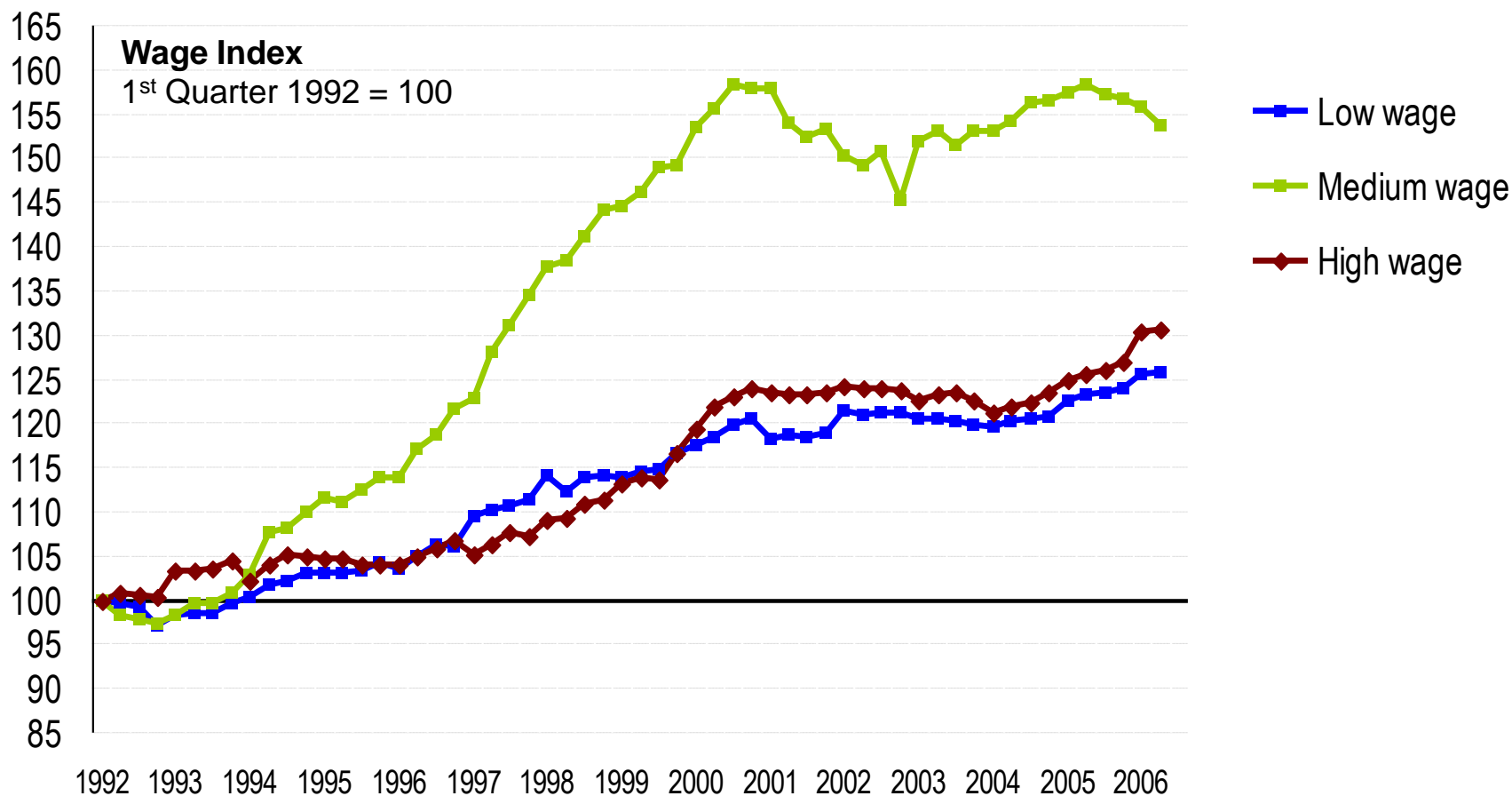
20 percent of people who work in Montgomery County earn \$10.60 per hour or less.

Wage Category	Average Annual Salary	Average Hourly Wage
High	\$50,000 and up	\$26.00 and up
Medium	\$30,000 to \$49,999	\$15.62 to \$25.99
Low	less than \$30,000	less than \$15.62



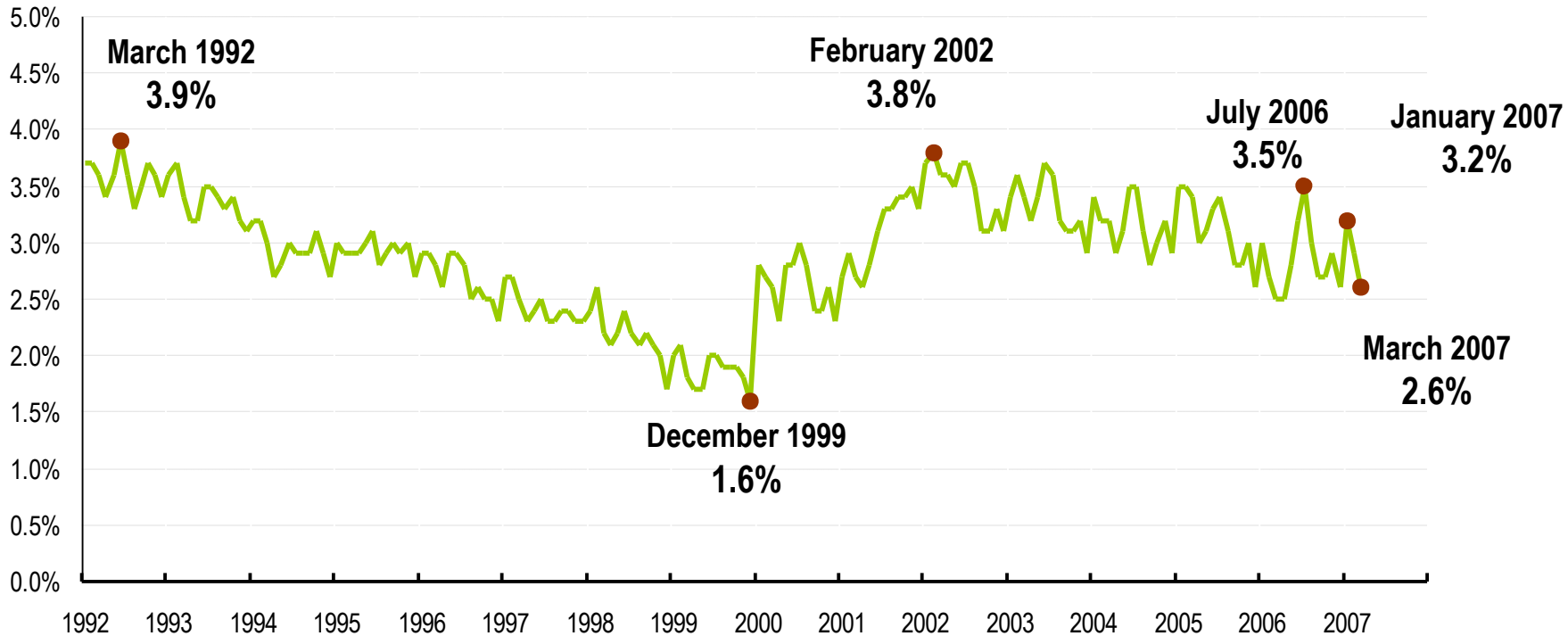
Fewer people work in mid-wage jobs.

There was growth in high-wage and low-wage jobs.
 Employment in medium-wage jobs continues to decline.



Unemployment fell to 2.6 percent in March, 2007.

There are 13,434 unemployed persons in Montgomery County.





Federal Government

**Procurement, Employment
& Leasing Activity**



The Federal Government is a key economic driver in the County.

Employer:

- 68,000 people are working in federal space.
- \$3.6 billion payroll in Montgomery County (FY 2004).

Tenant:

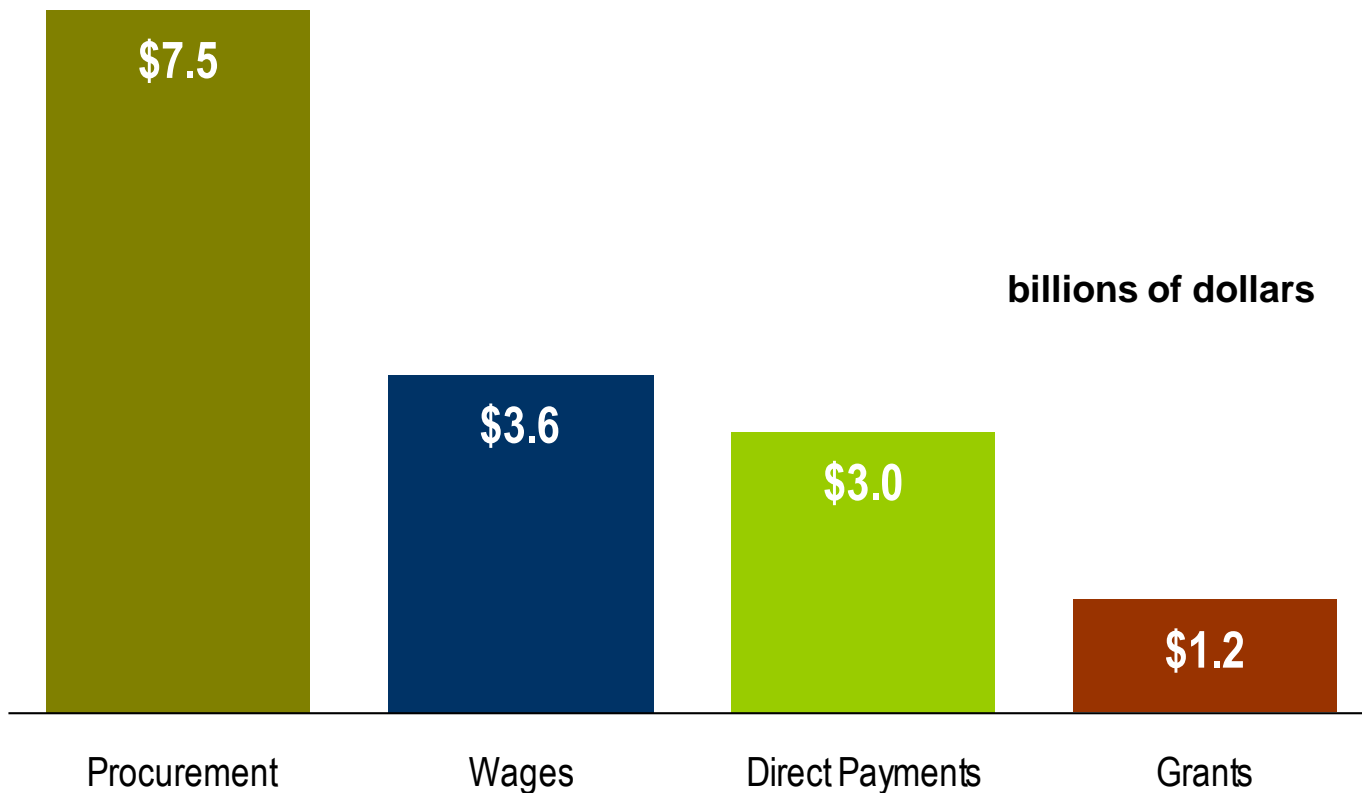
- 6.7 million square feet of leased commercial space.

Customer Base:

- \$6.8 billion in goods and services purchased by the Federal Government from Montgomery County businesses (FY 2006).

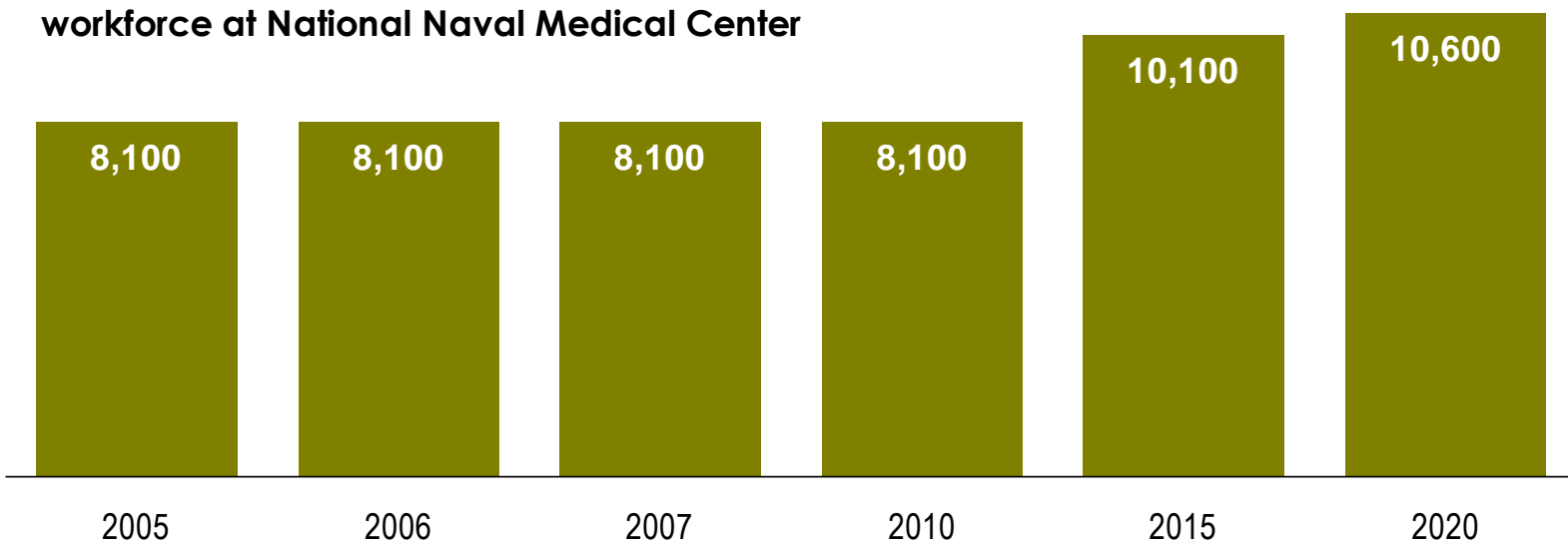
The federal government pumps \$ billions into the County economy.

In FY 2004, the U.S. government spent \$15.3 billion in Montgomery County.



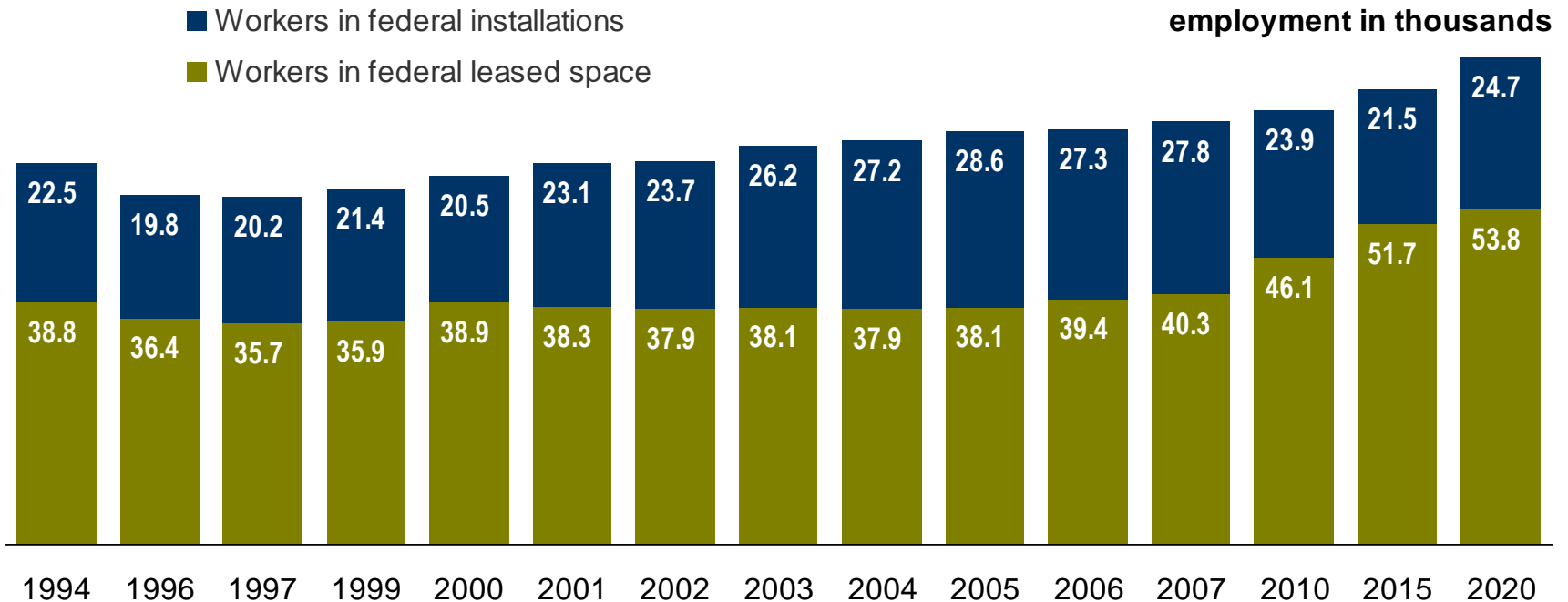
BRAC will add 2,500 personnel to National Naval Medical Center.

Most of the BRAC-related workforce expansion will occur in years 2010 and 2011.



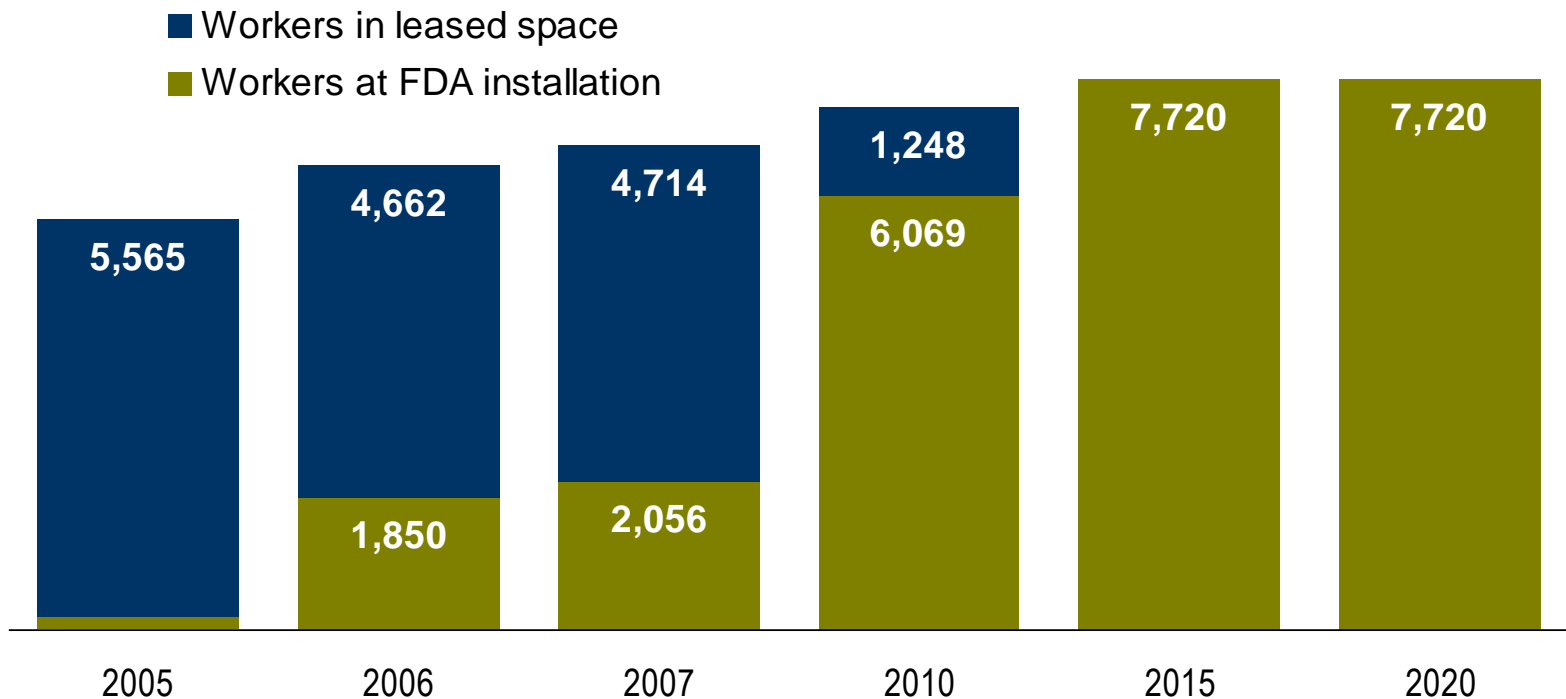
FDA-White Oak consolidation will boost installation-based jobs.

From 2007 to 2020, jobs at federal installations are expected to grow 33 percent and jobs in federal leased space are expected to fluctuate between 21,500 and 24,700.



By 2010, most FDA-White Oak workers will be in place.

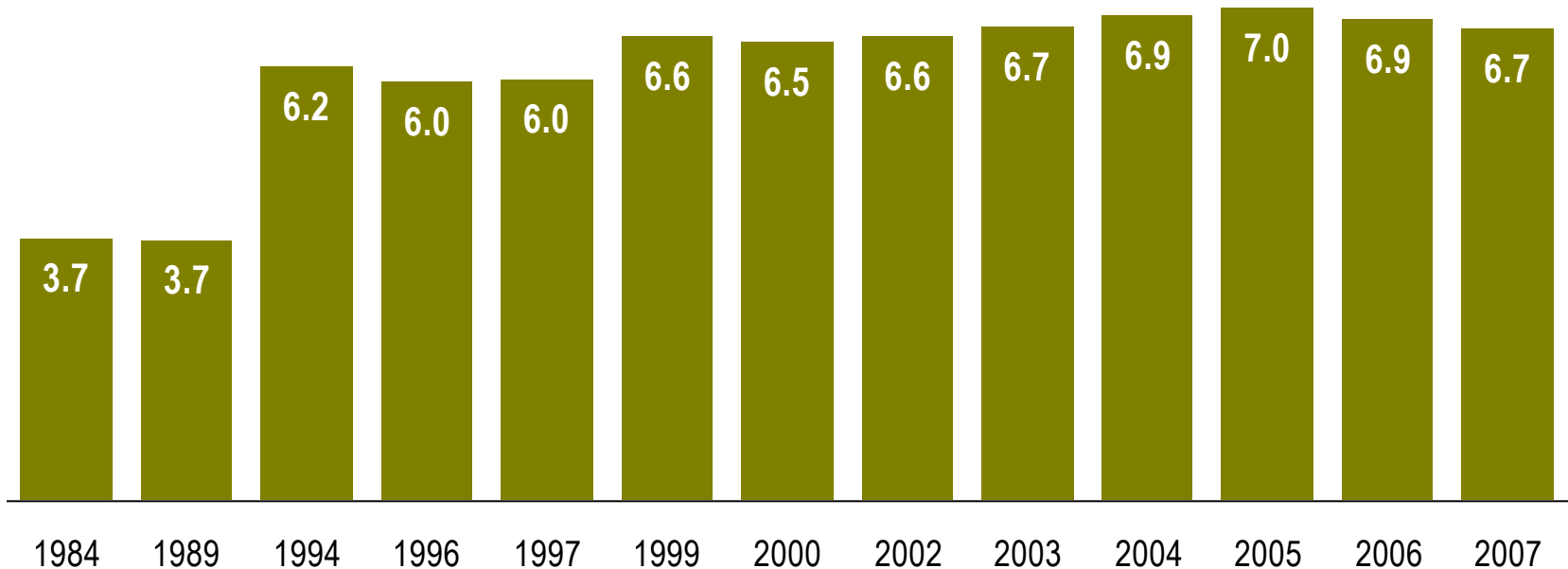
FDA expects to have 7,720 workers at White Oak when consolidation is complete.



GSA federal leased space fell by 1.8 percent in the past year.

GSA's inventory of leased space has declined by 123,500 square feet since January 2006.

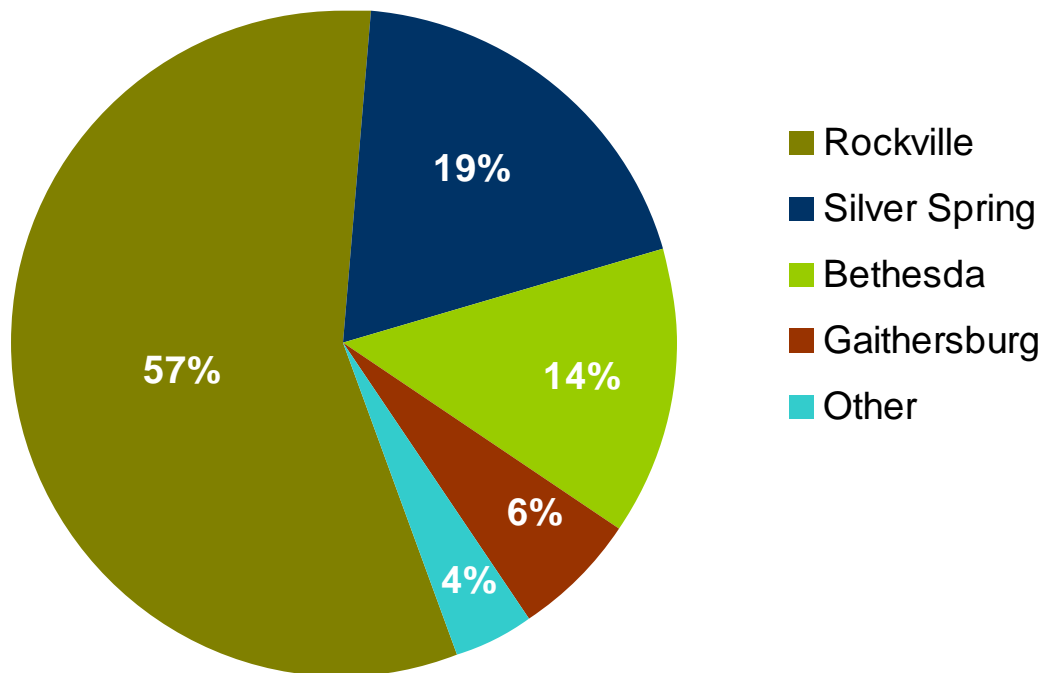
Millions of Square Feet





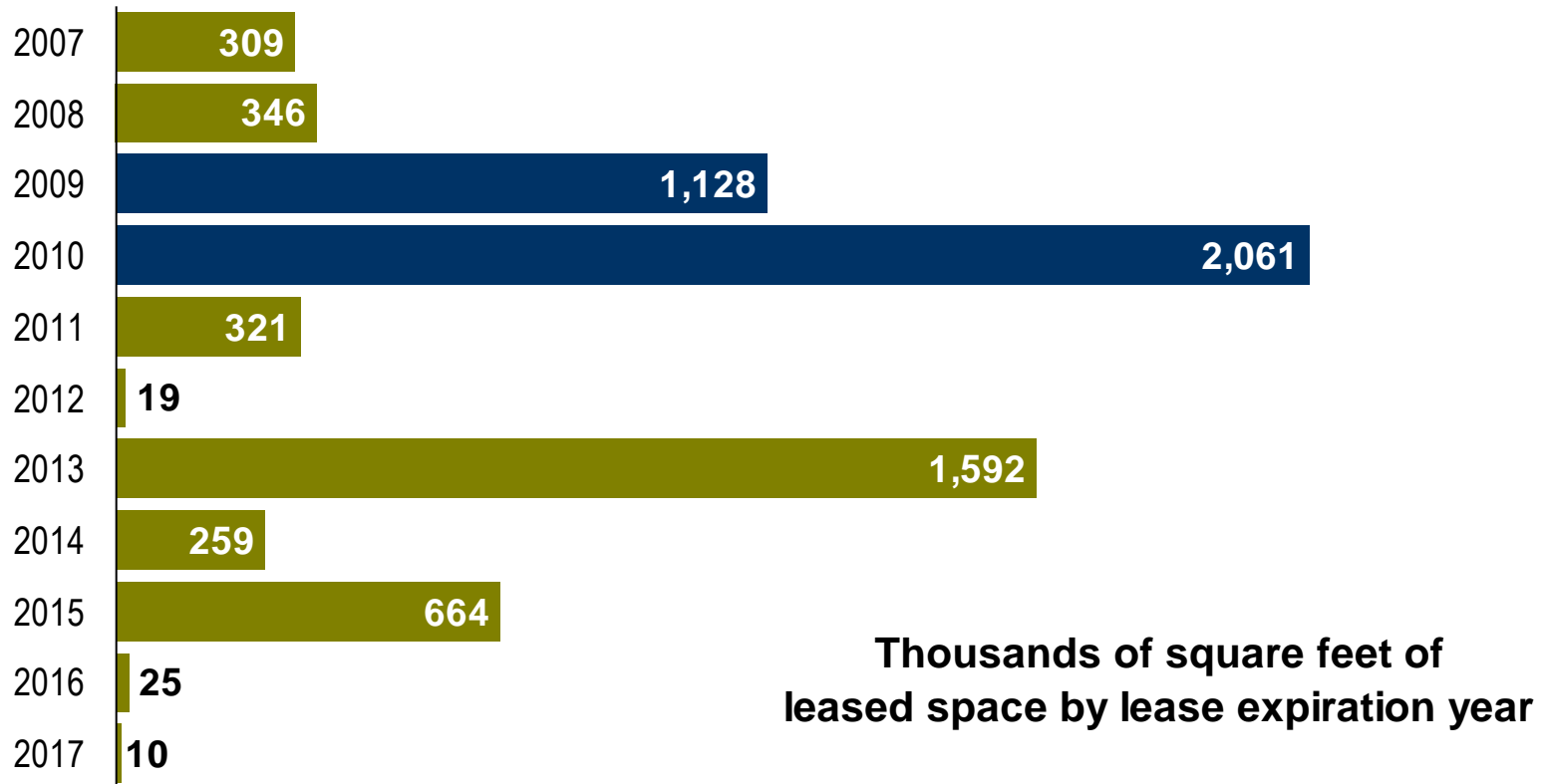
Most of Montgomery County's federal leased space is in the Rockville area.

GSA leases 3.8 million square feet in Rockville (which includes most of North Bethesda)
1.3 million square feet in Silver Spring and 1.0 million square feet in Bethesda.



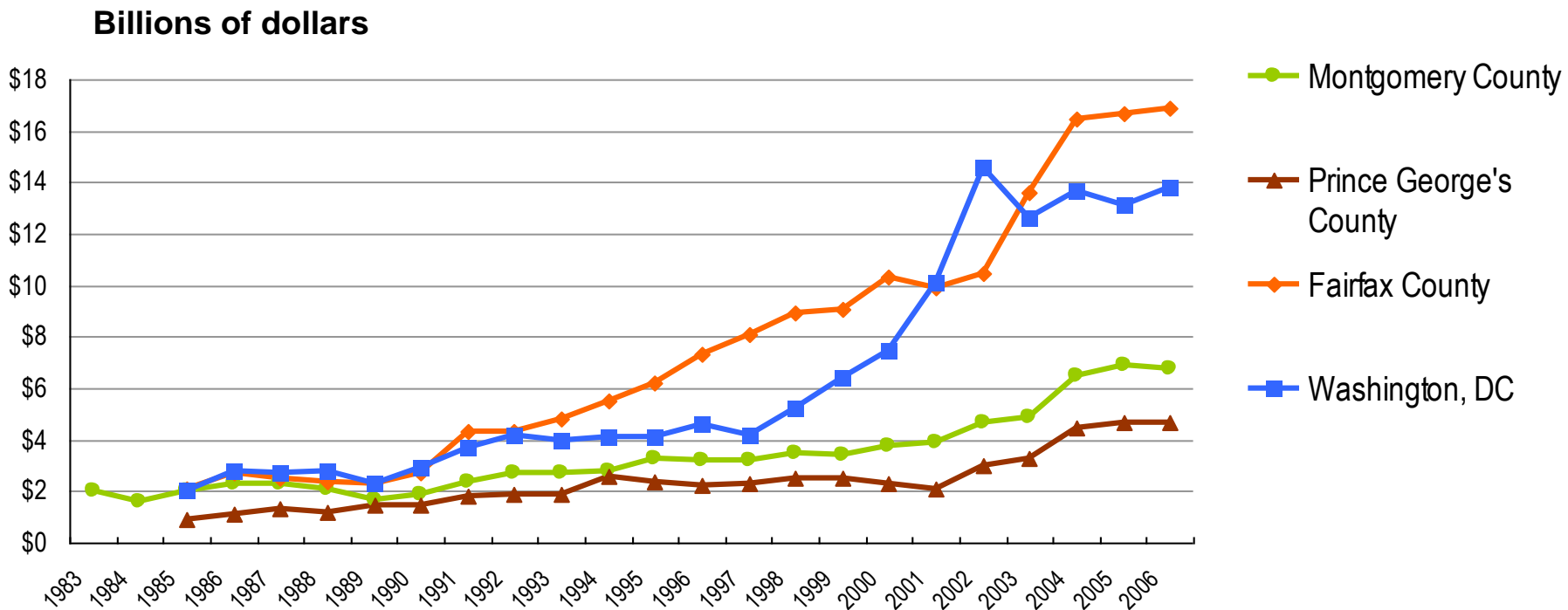
47 percent of GSA-leased space is up for renewal in 2009 and 2010.

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



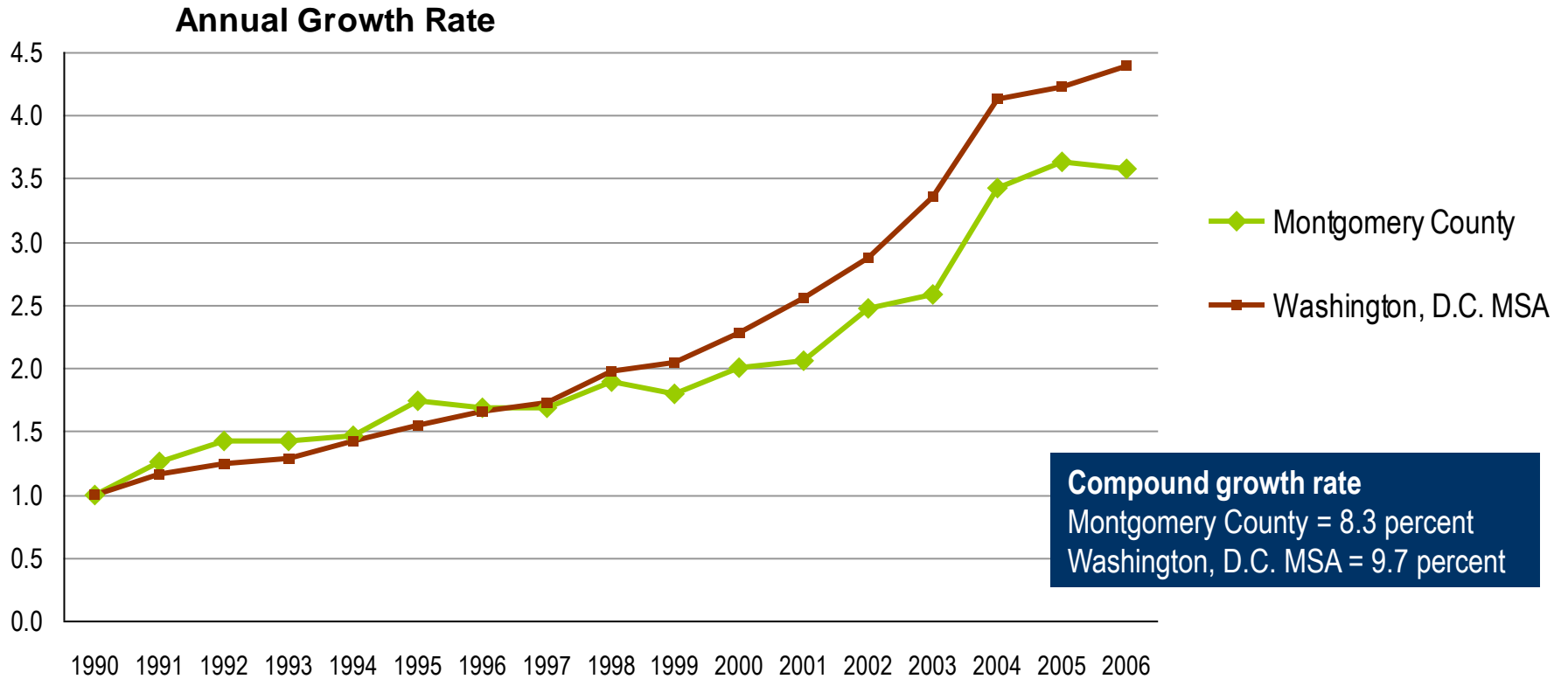
FY 2006 procurement was \$6.8 billion, a \$100 million drop from FY 2005.

Procurement increased moderately in Fairfax County and rebounded in Washington, D.C. Federal procurement peaked at \$6.9 billion in Montgomery County in FY 2005.



Montgomery County lagged the region in procurement growth.

In the early 1990s, Montgomery County and the Washington, D.C. MSA had comparable growth rates in federal procurement, but the County has lagged the region since 1998.

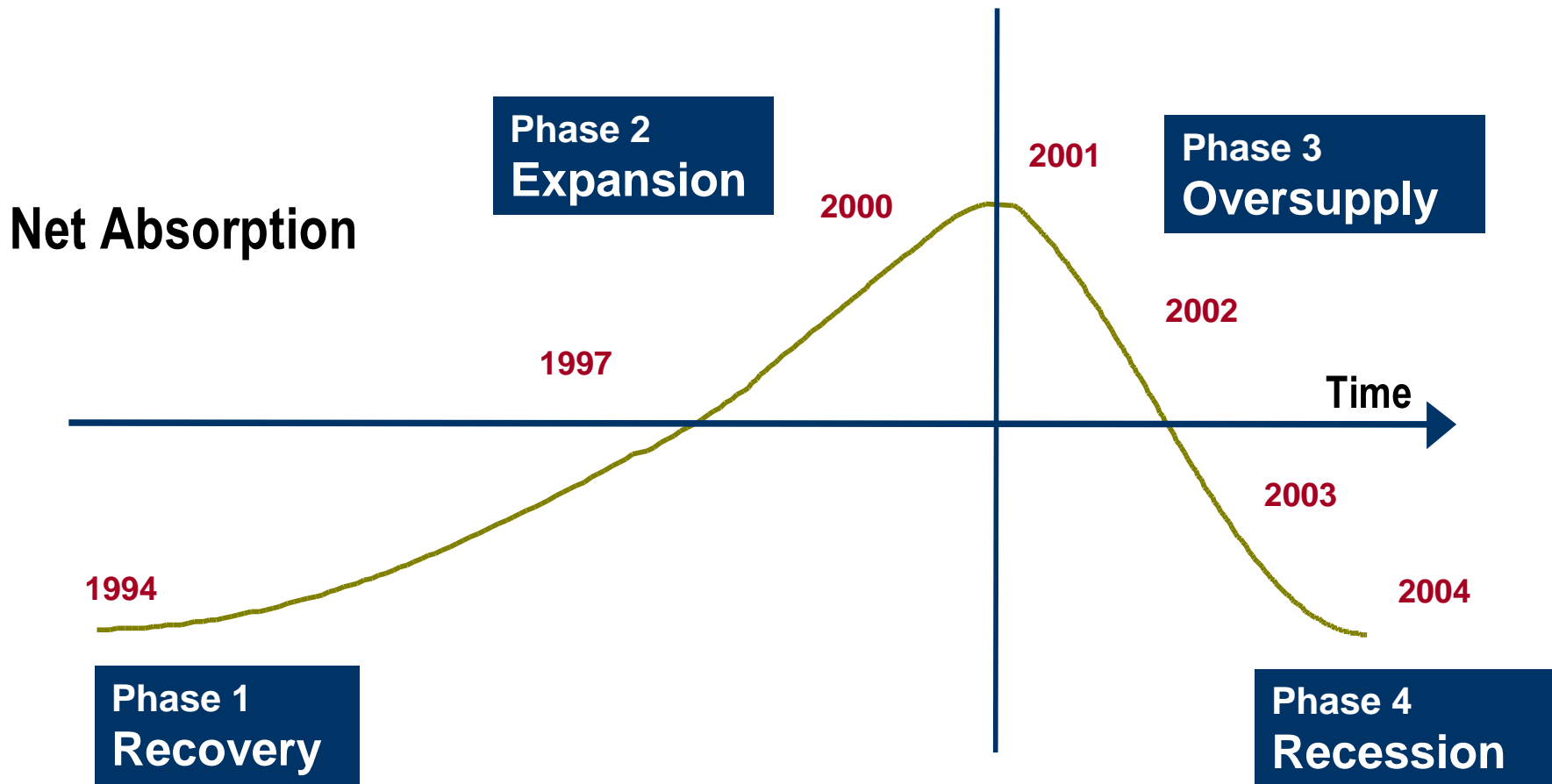




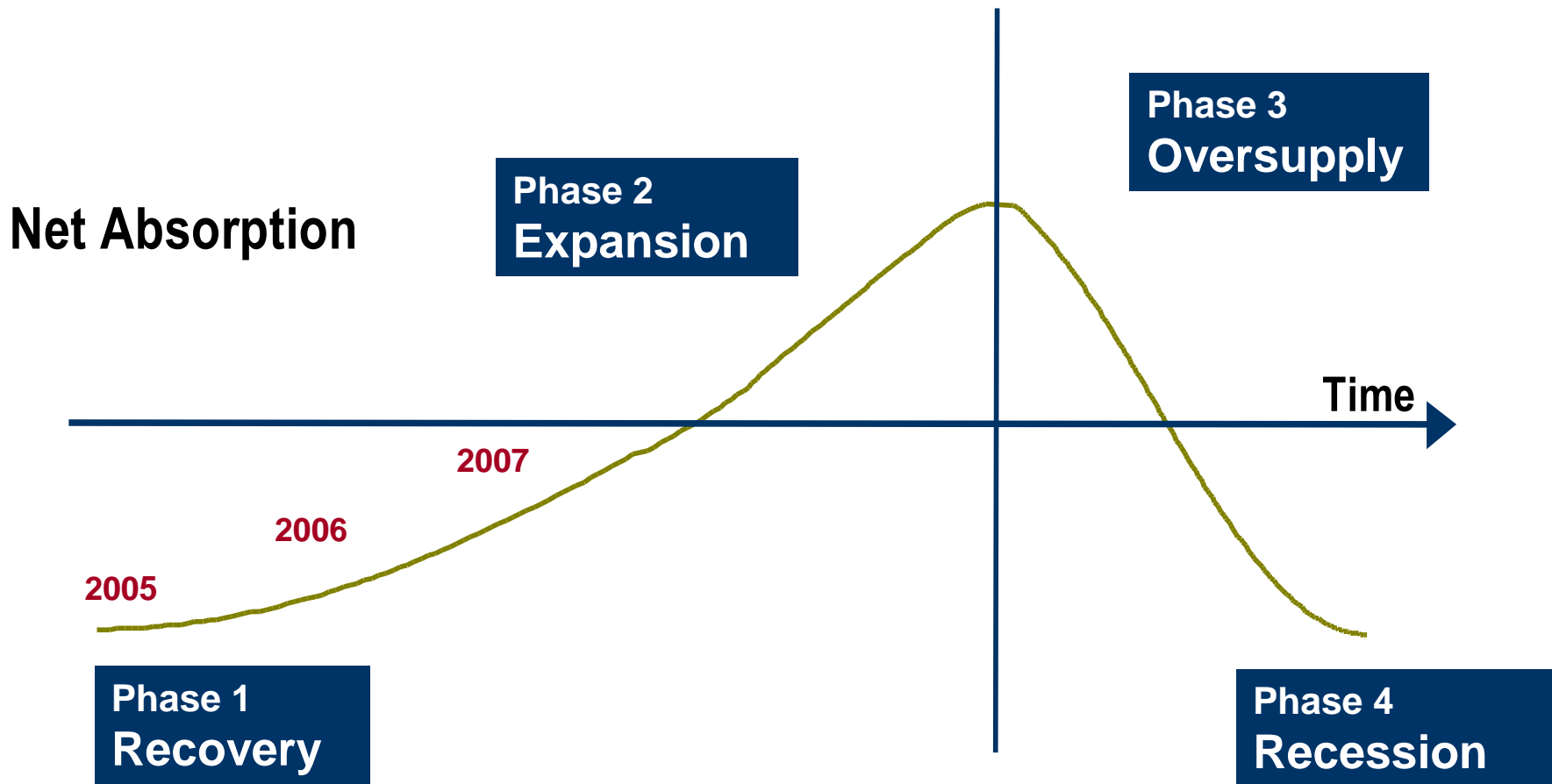
Commercial Real Estate

**Where Is Montgomery County's
Office Market Headed?**

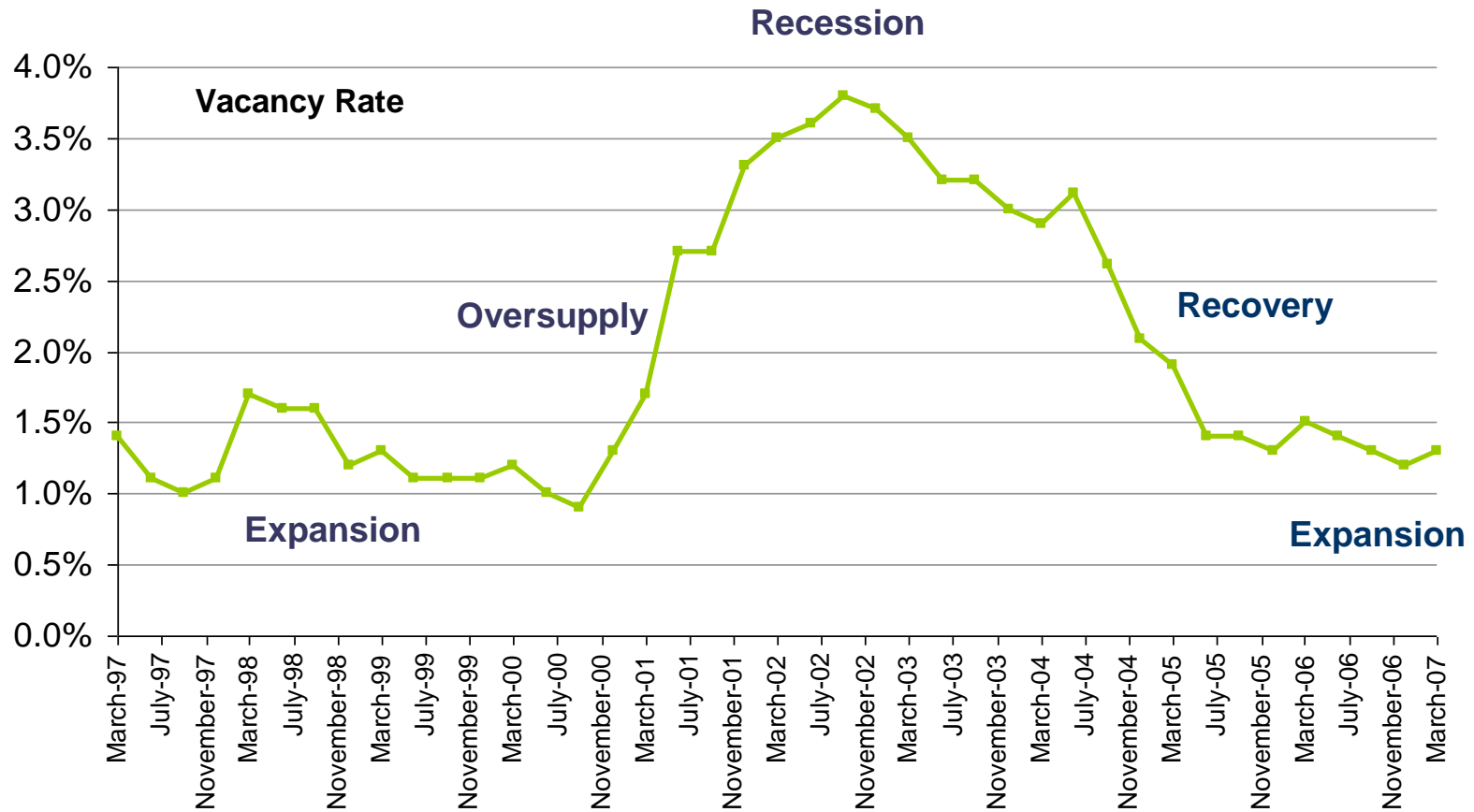
The real estate cycle provides a framework for understanding.



A new investment cycle begins.



Sublet vacancy rates show that office market expansion has stalled.

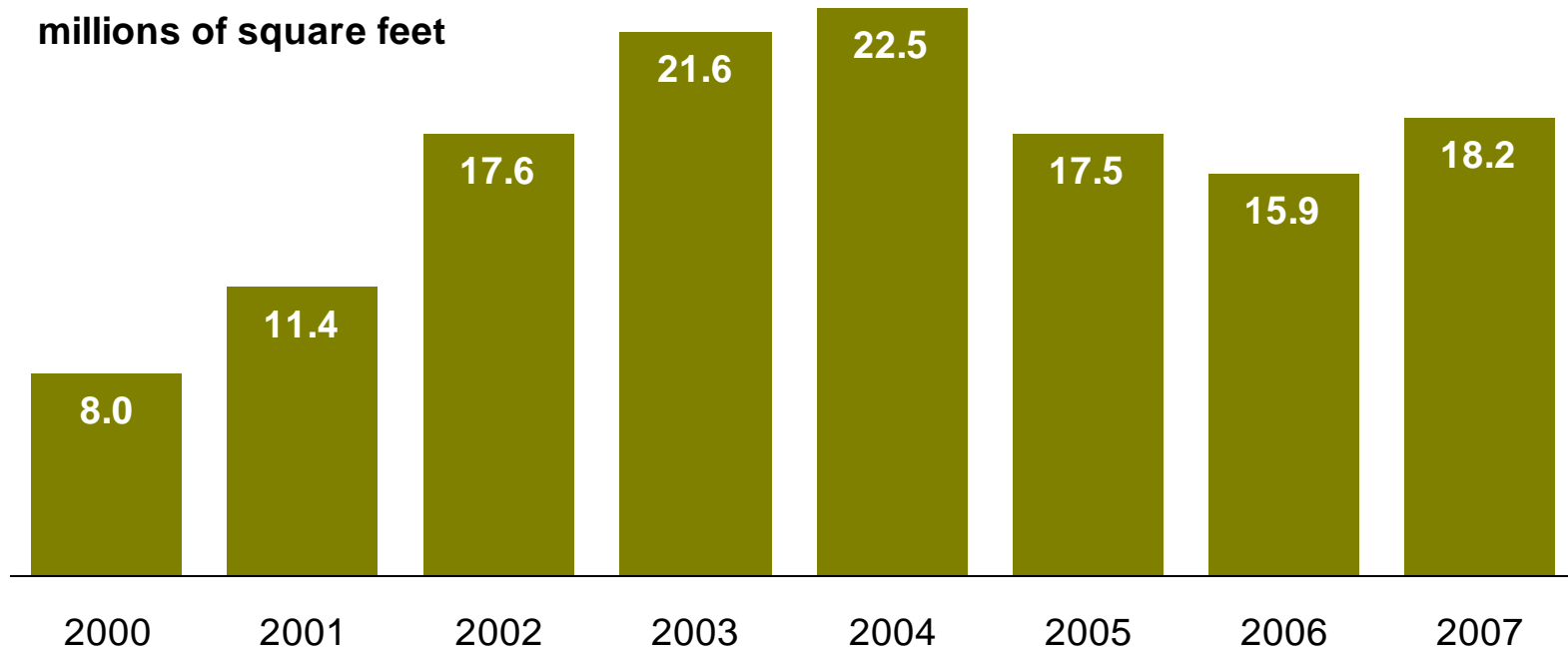




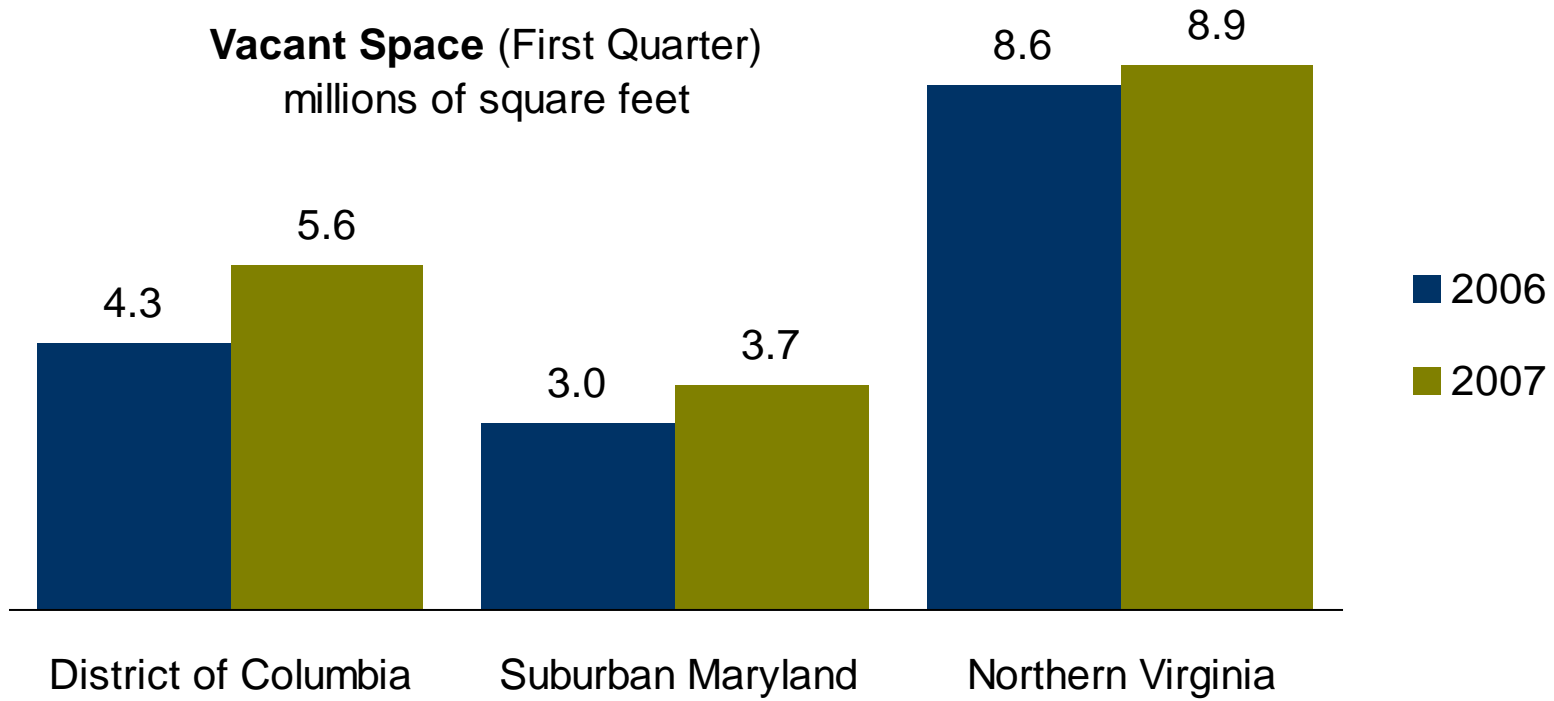
Class A Office Space

Metropolitan Washington, D.C. Region

Class A office space vacancies are climbing in the region.

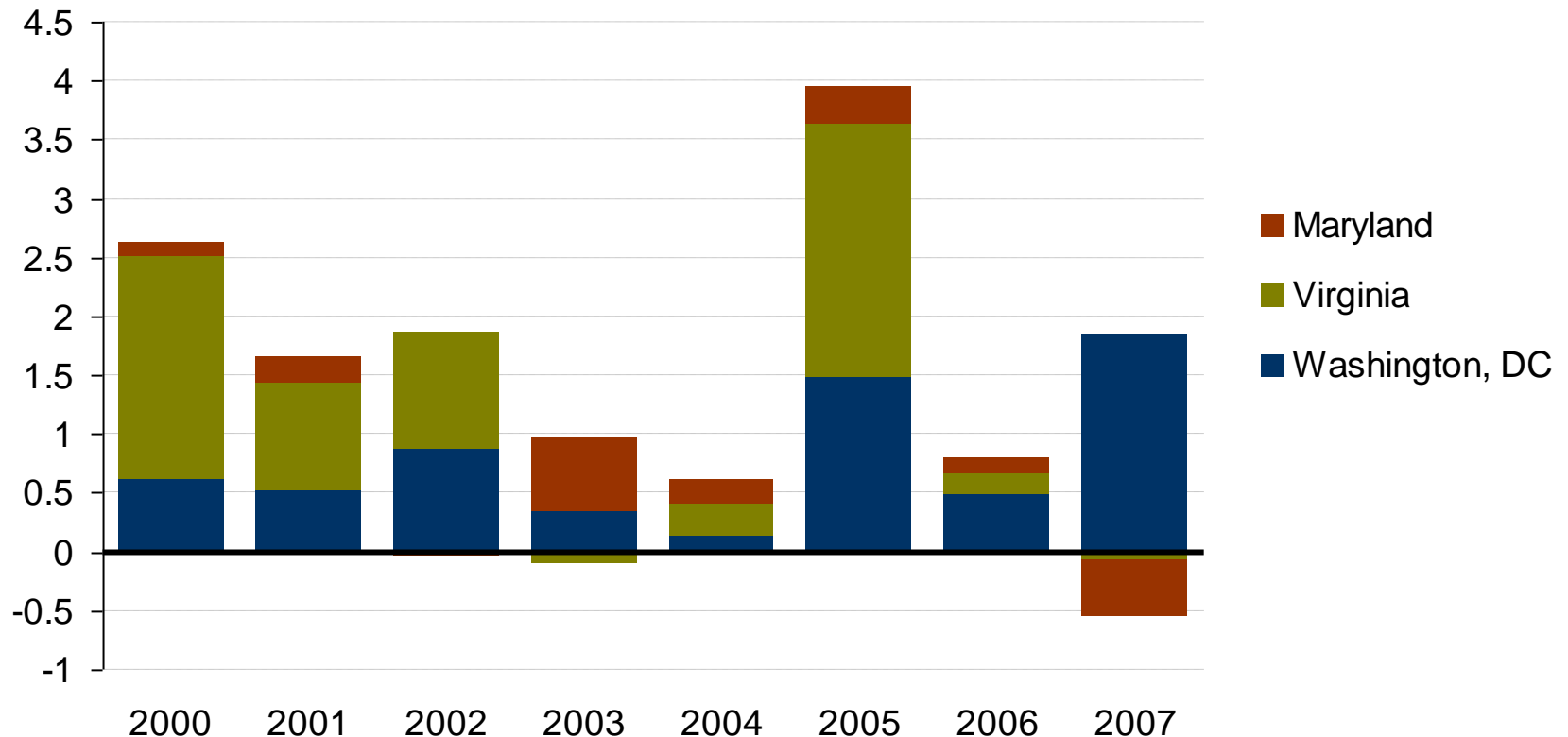


Vacancies have risen in all regional submarkets.



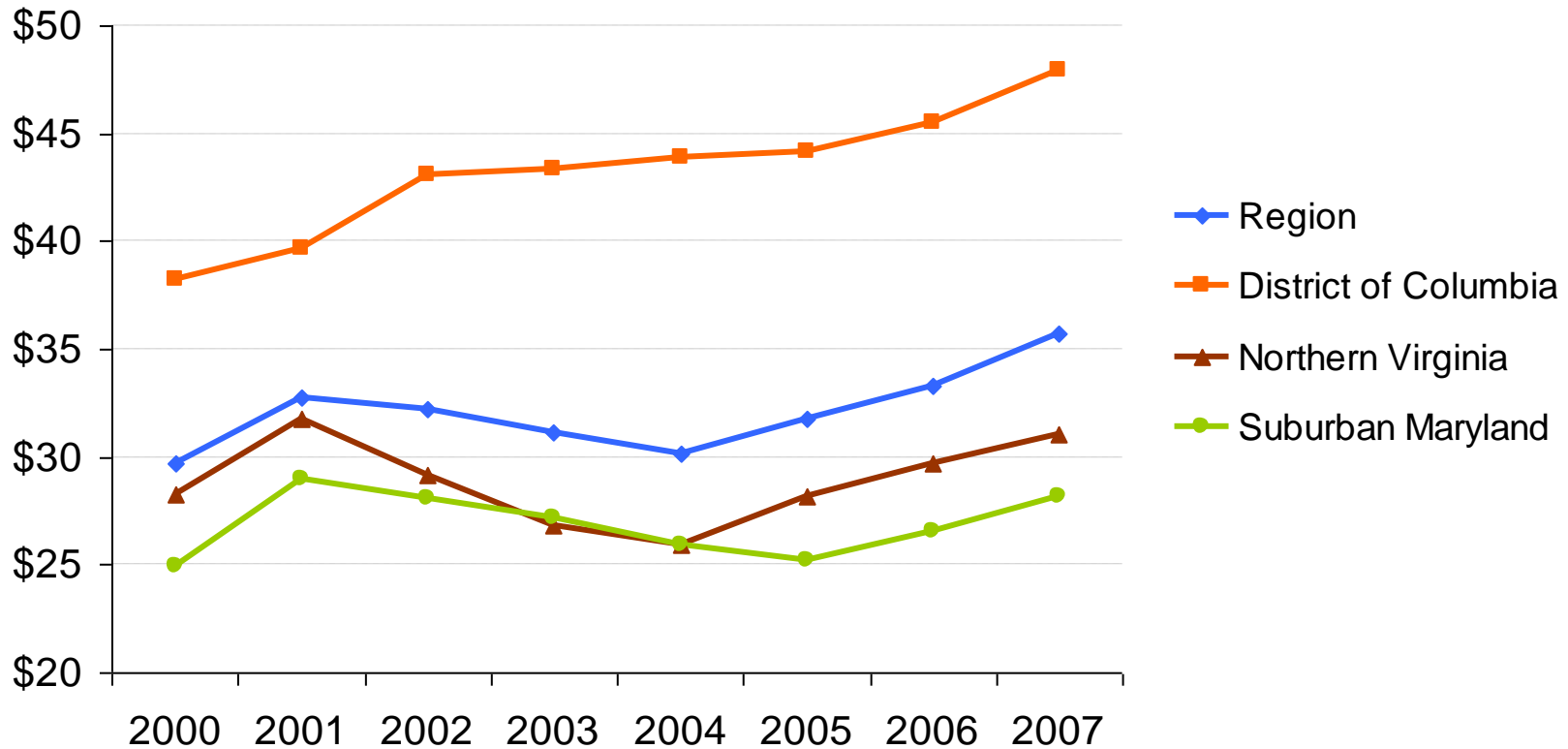
The District absorbed significant Class A office space in 1Q 2007.

1st quarter Class A office space absorption
(millions of square feet)





Rents are rising in all submarkets.

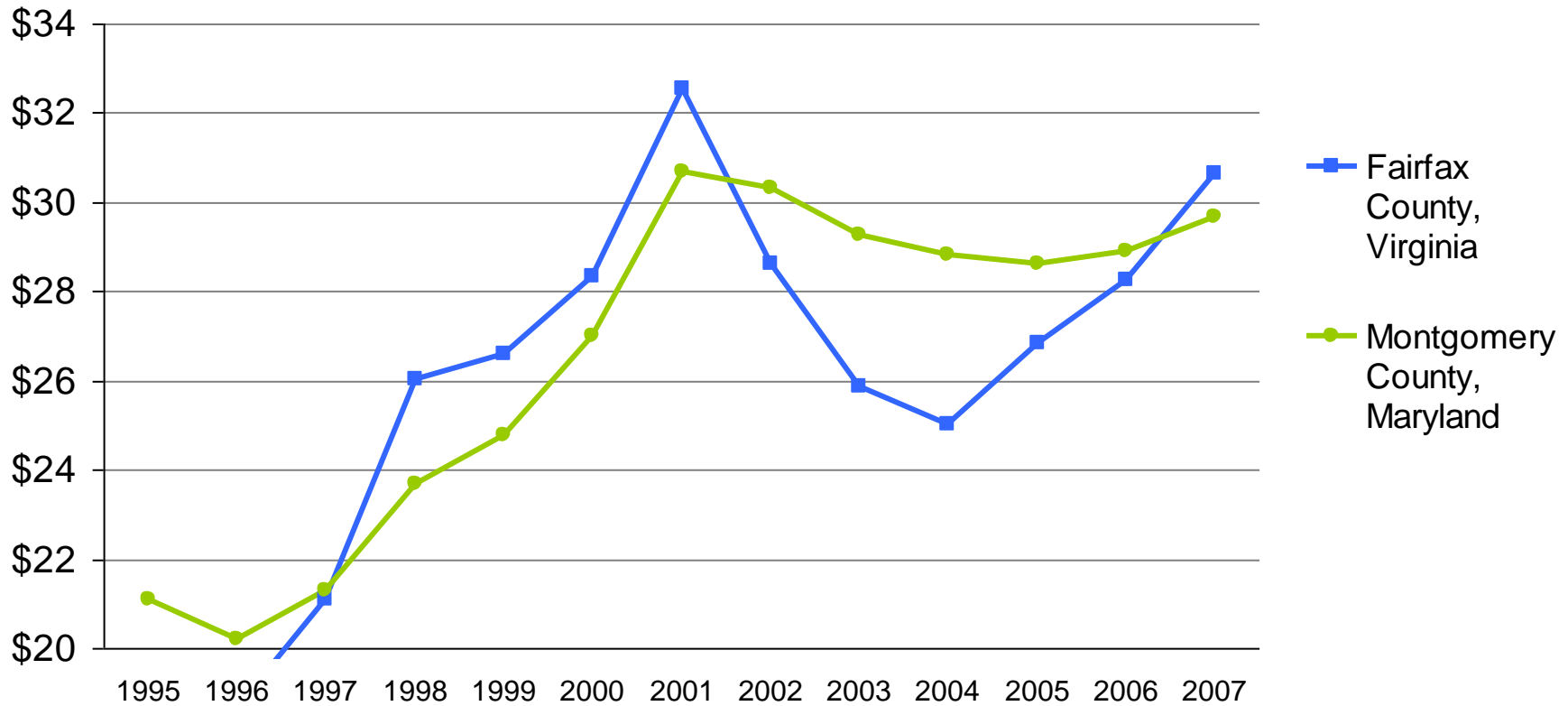




Class A Office Space

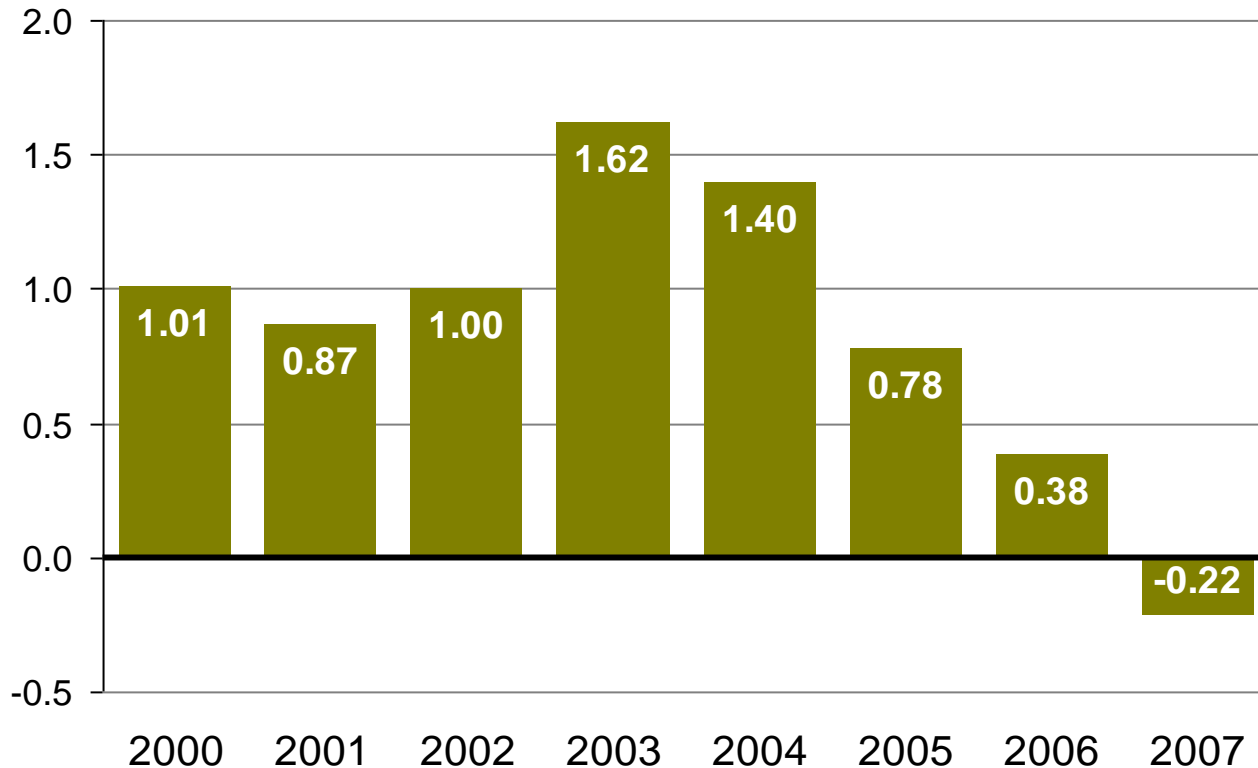
Montgomery County, Maryland

Montgomery County's Class A office rents were stable.



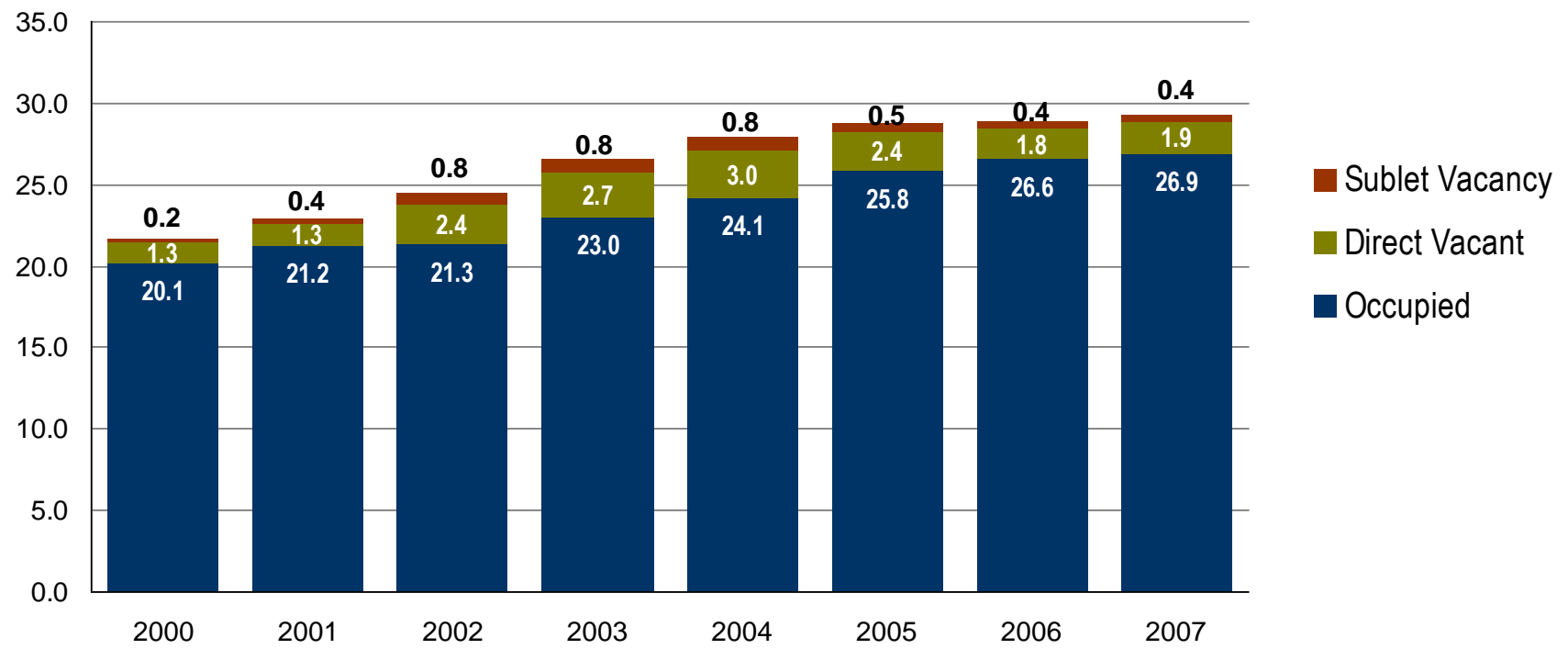
Class A office space data in 1Q 2007 shows negative net absorption.

1st quarter Class A office space absorption
(millions of square feet)



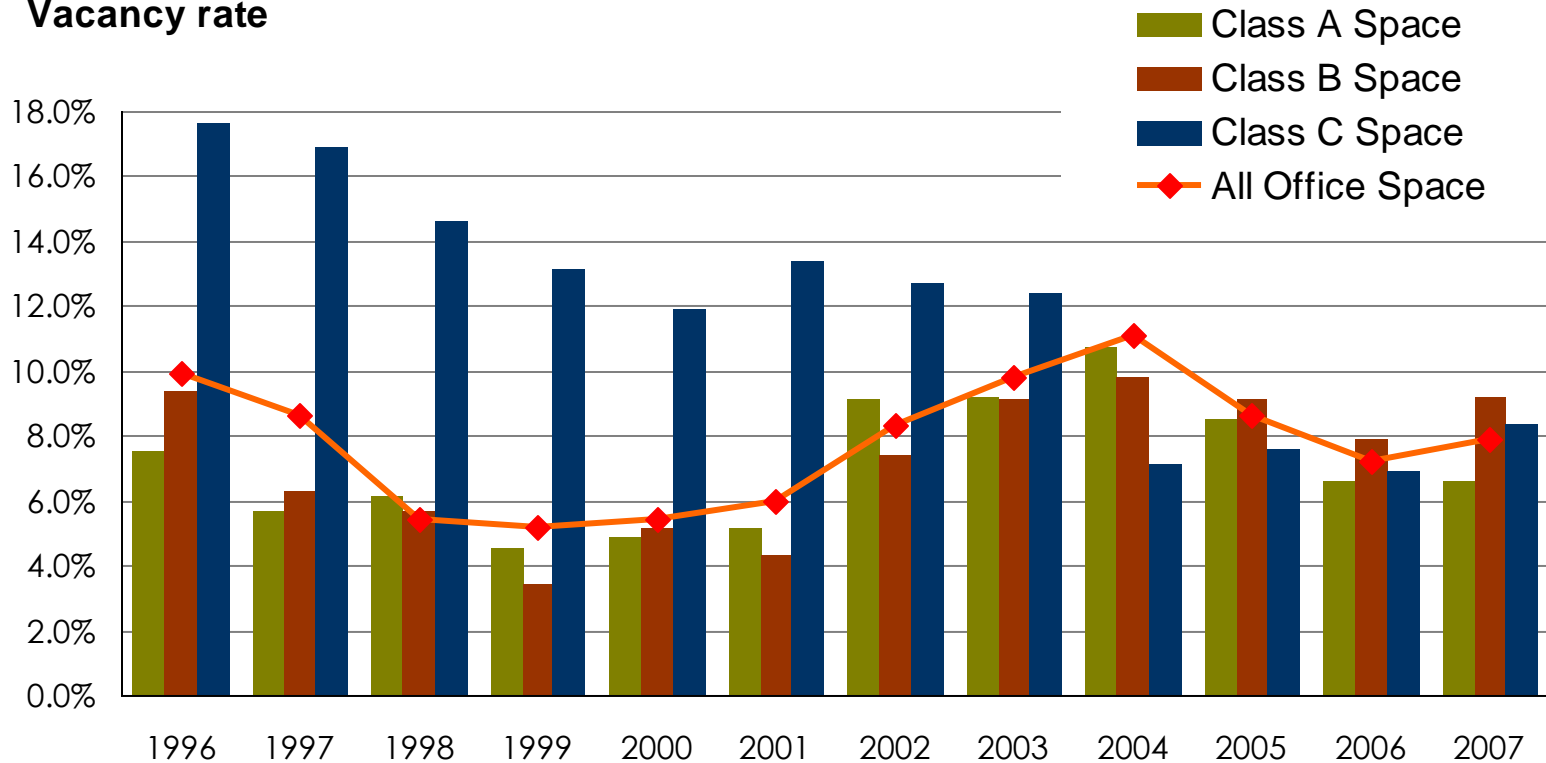
The County's sublet vacancy rate is unchanged from last year.

1st quarter Class A office space
(millions of square feet)



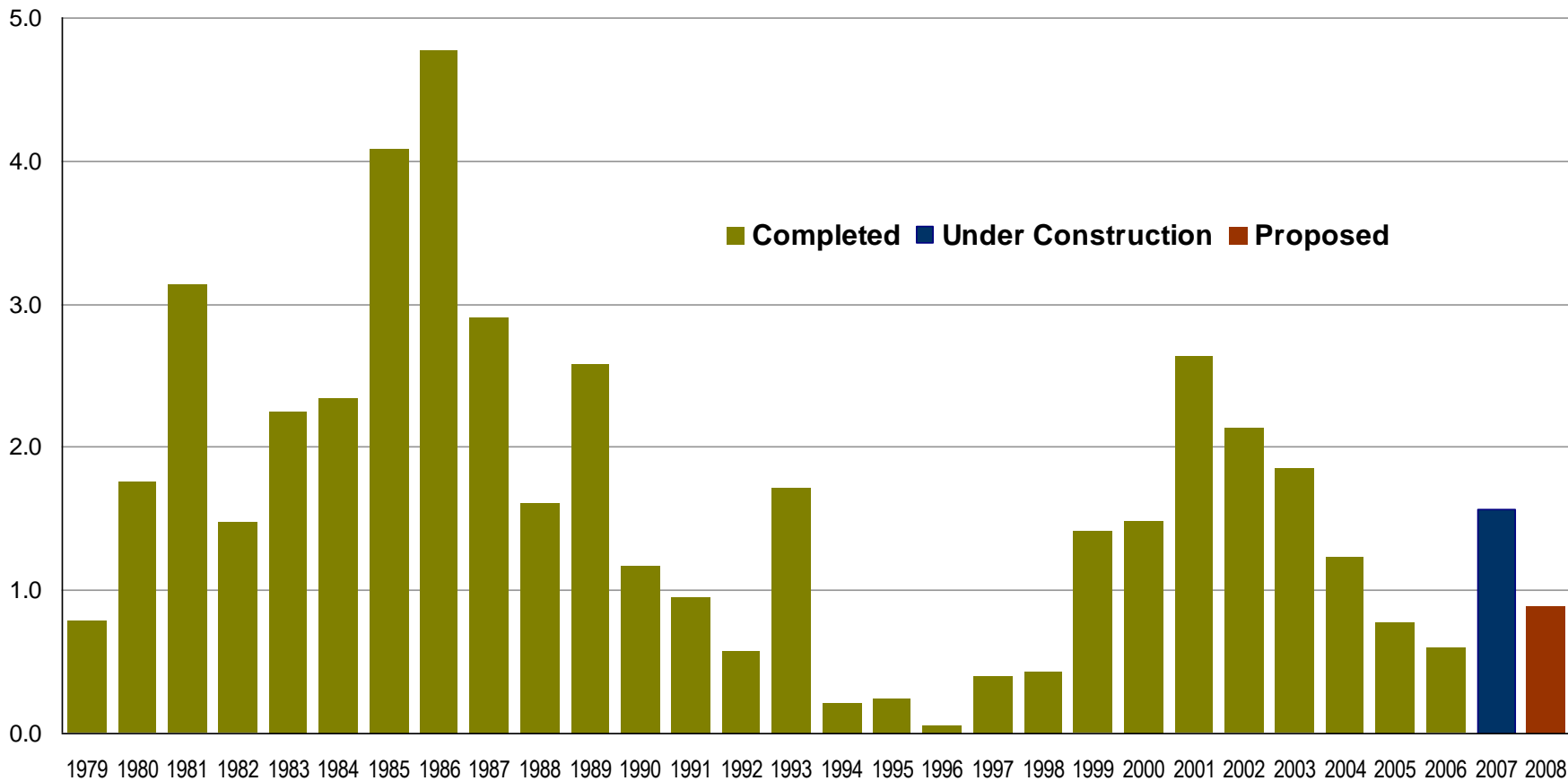
Class A vacancy rate is unchanged; Class B vacancies are up 9 percent.

Vacancy rate



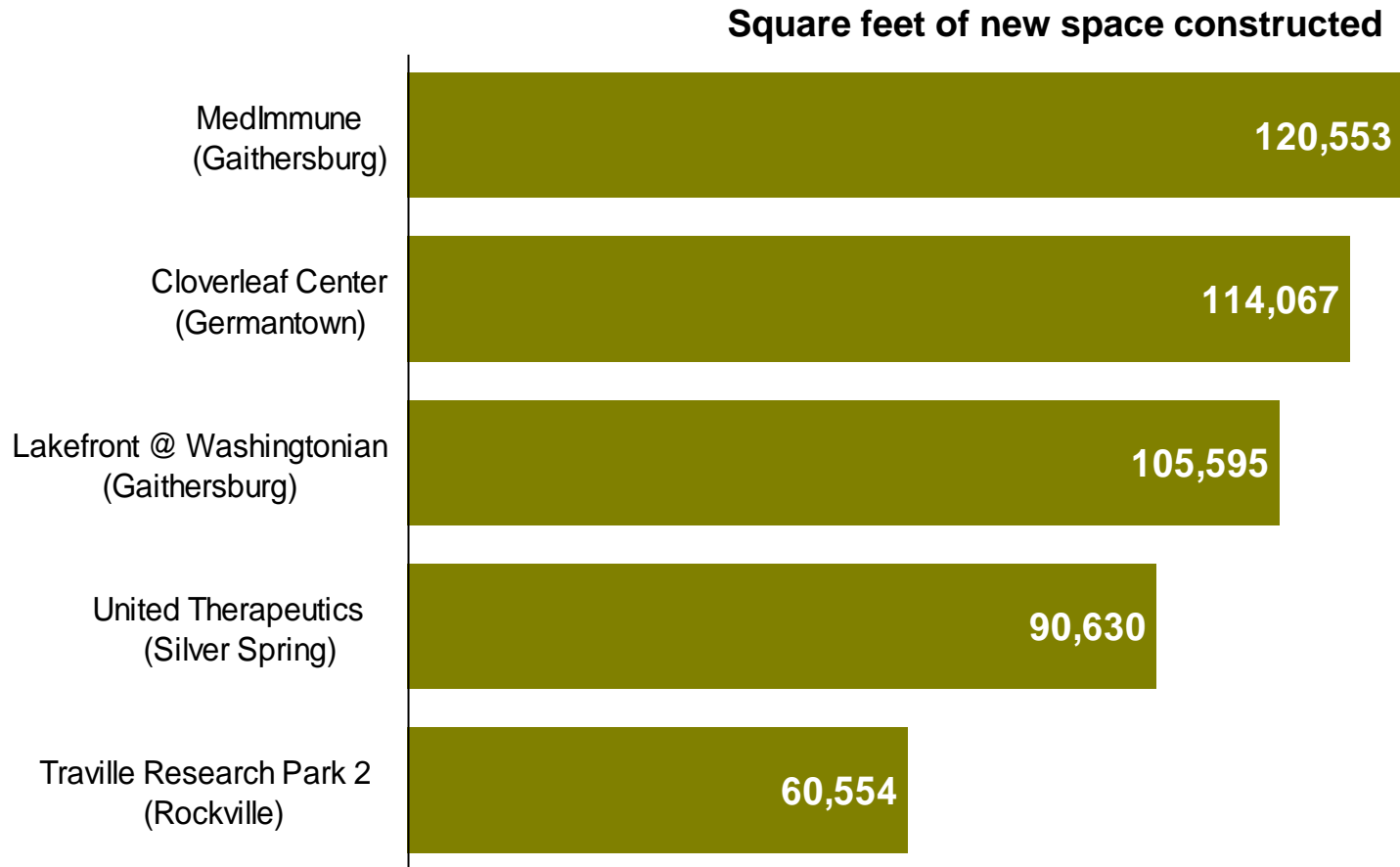
1st Q 2007 office space construction surged by 1.6 million square feet.

Millions of square feet constructed



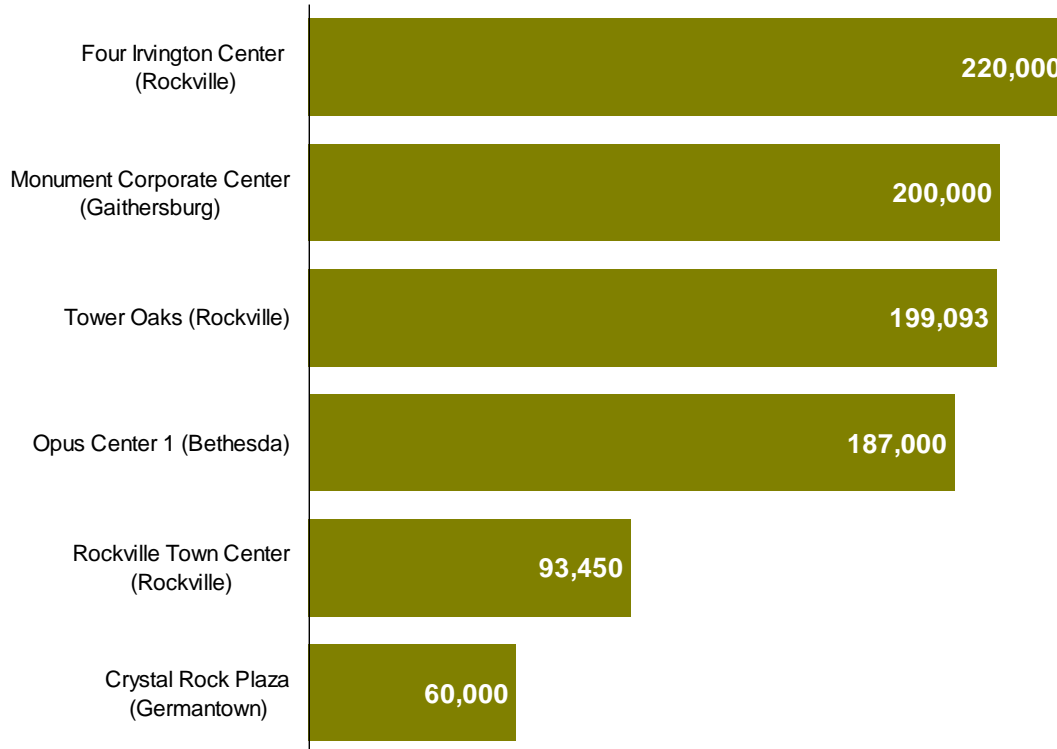


Phased expansions account for largest new office spaces.



Six 60,000+ square foot office projects will deliver in 2007.

Square feet of new space delivered



Four Irvington Center is 84 percent pre-leased. Developer delivered 6-story project in May 2007.

Monument Corporate Center is expected to be delivered in July but no space has been pre-leased.

Tower Oaks is 36 percent pre-leased. Developer expects to deliver project January 2008.

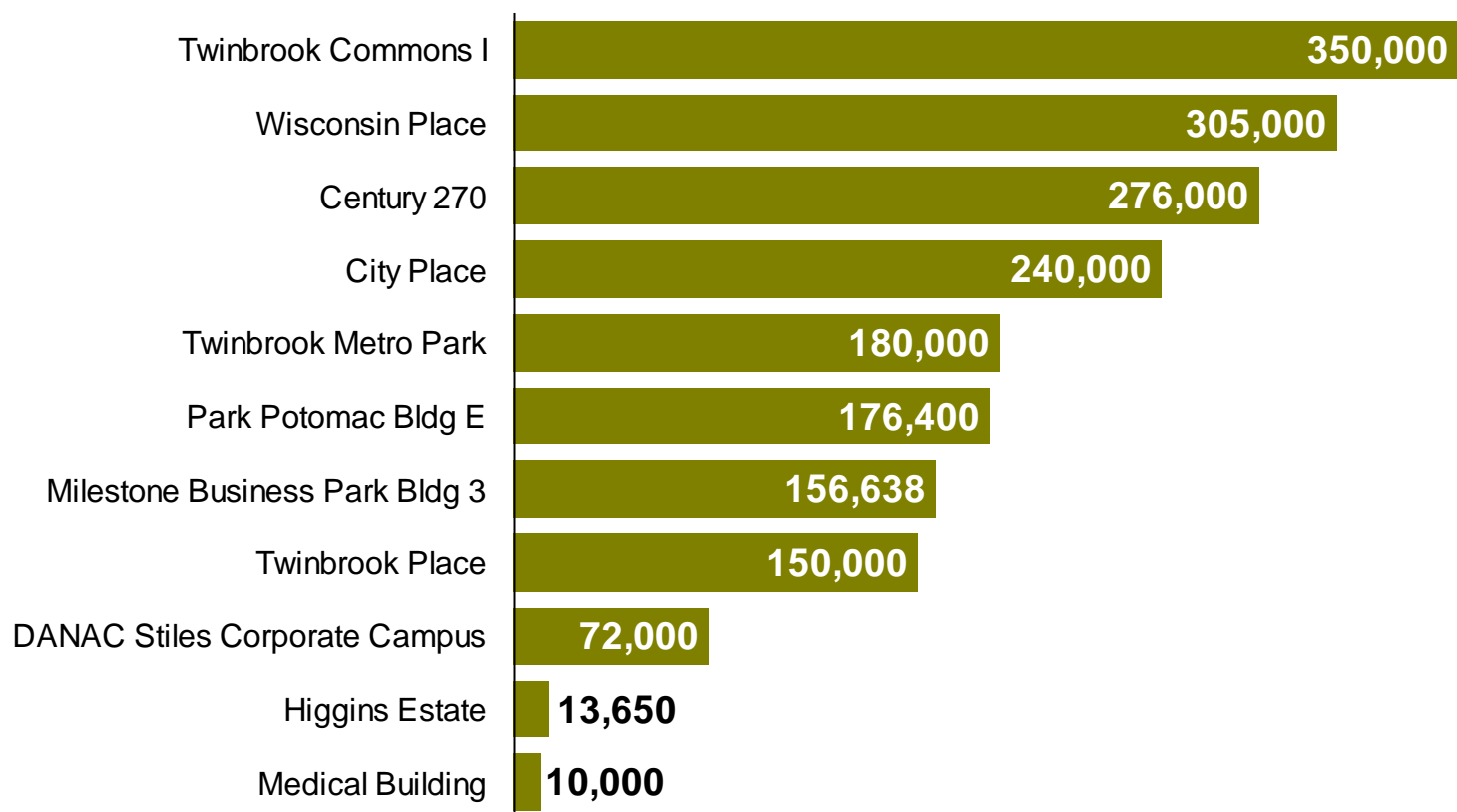
Opus Center completed in April 2007 was only 2 percent pre-leased.

The premiere office building in the Rockville Town Center is expected to be delivered in September 2007 but about 4 percent of this new space is pre-leased.

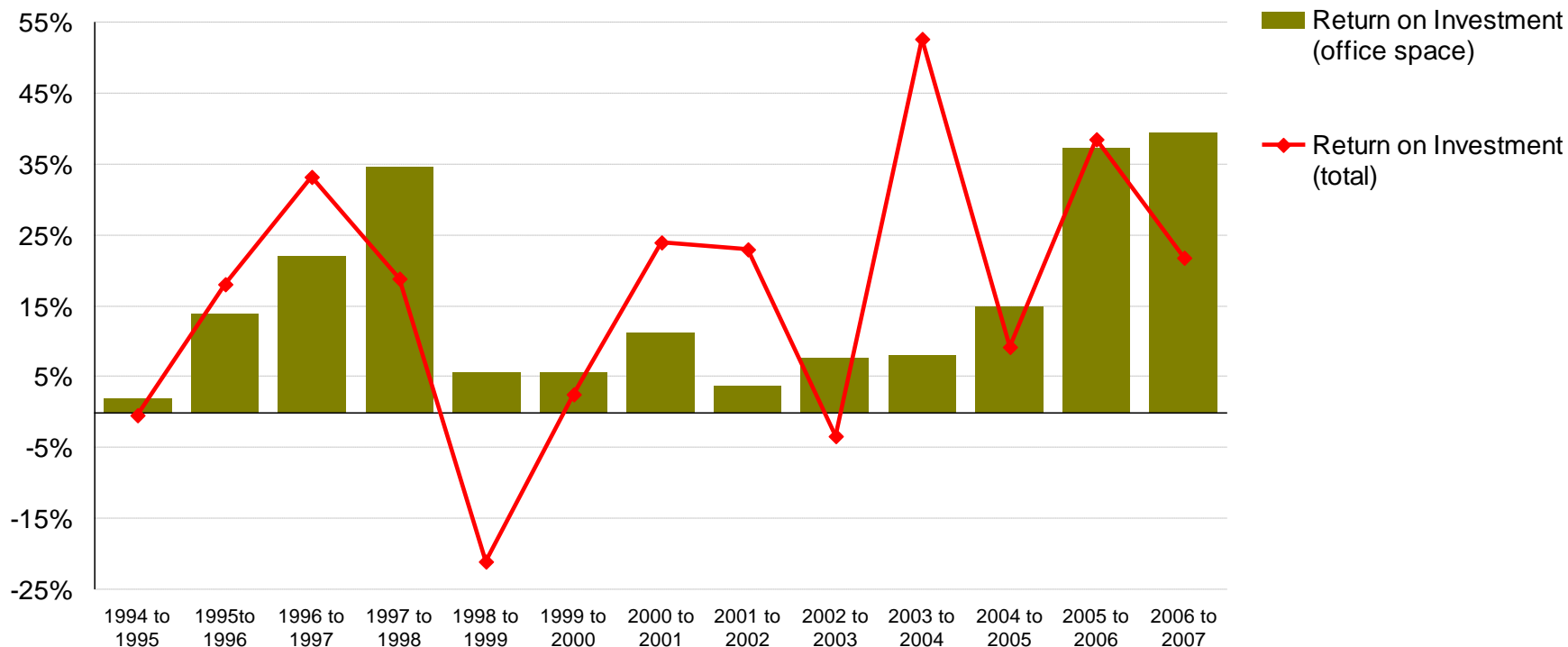
Germantown's Crystal Rock Plaza will open its doors in August with nearly all its space leased to tenants.

+2 million square feet of office space proposed in the next 2 years.

Square feet of planned space



Capital flows into the U.S. are driving regional commercial construction.



Newsworthy notes on leasing activity

- Bethesda-based financial services firm **Capital Source** will move from its current location as a tenant in the six-year old Chase Tower to the new Wisconsin Place where it will occupy 160,00 square feet. Capital Source might end up paying \$50 per square foot.
- **Boston Properties Inc.** is selling its 688,493 square foot multi-tenant office complex known as Democracy Center at 6901-6905 Rockledge Drive. The complex, which is 85 percent leased, includes such premiere tenants as HMS Host and USEC. The buildings could sell somewhere in the \$22.0 million to \$26.0 million range.
- **BAE Systems**, currently leasing space in a 150,000 square foot multi-tenant Class B office building located at Research Boulevard, rumored to be moving. It has asked broker CRESA Partners to find 400,000 square feet in the county.

News-worthy notes on leasing activity

- The **Lakefront@Washingtonian**, a 105,600 square foot Class A multi-tenant office building completed late last year has leased space to real estate developer Buchanan Partners, financial services firm Ameriprise, and biotech company Sigma Tau Pharmaceuticals. There are still 55,000 square feet available.
- The **Twinbrook Metro Park**, a multi-tenant Class A office building completed in 2004 is fully leased. Earlier this year the Regulatory Affairs Professionals Society occupied the remaining 14,000 square feet.

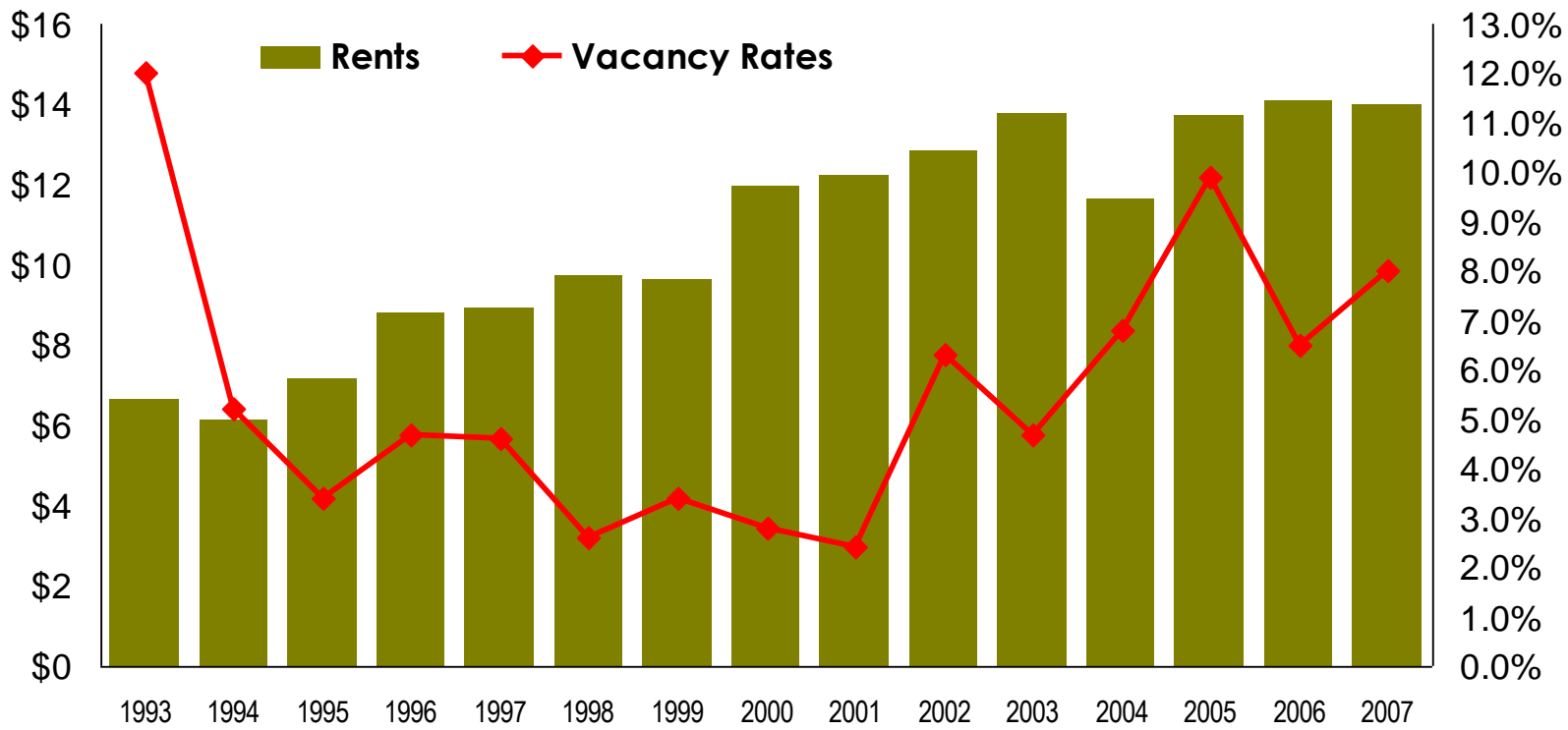


Other Commercial Space

Flex & Retail

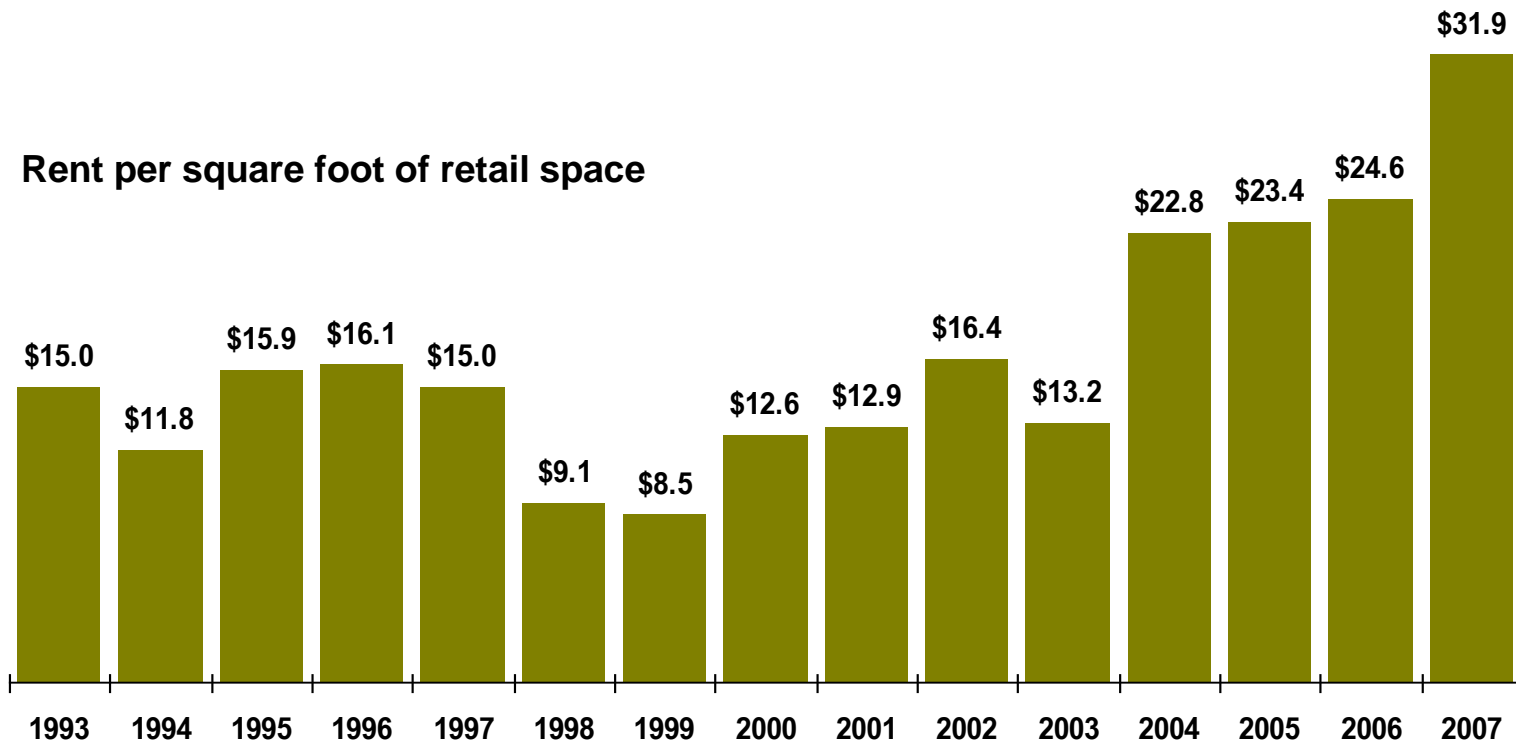


Vacancies in flex and industrial space are up but rents have dropped, slightly.



Rents for retail space in Montgomery County have grown every year since 2003.

Rent per square foot of retail space

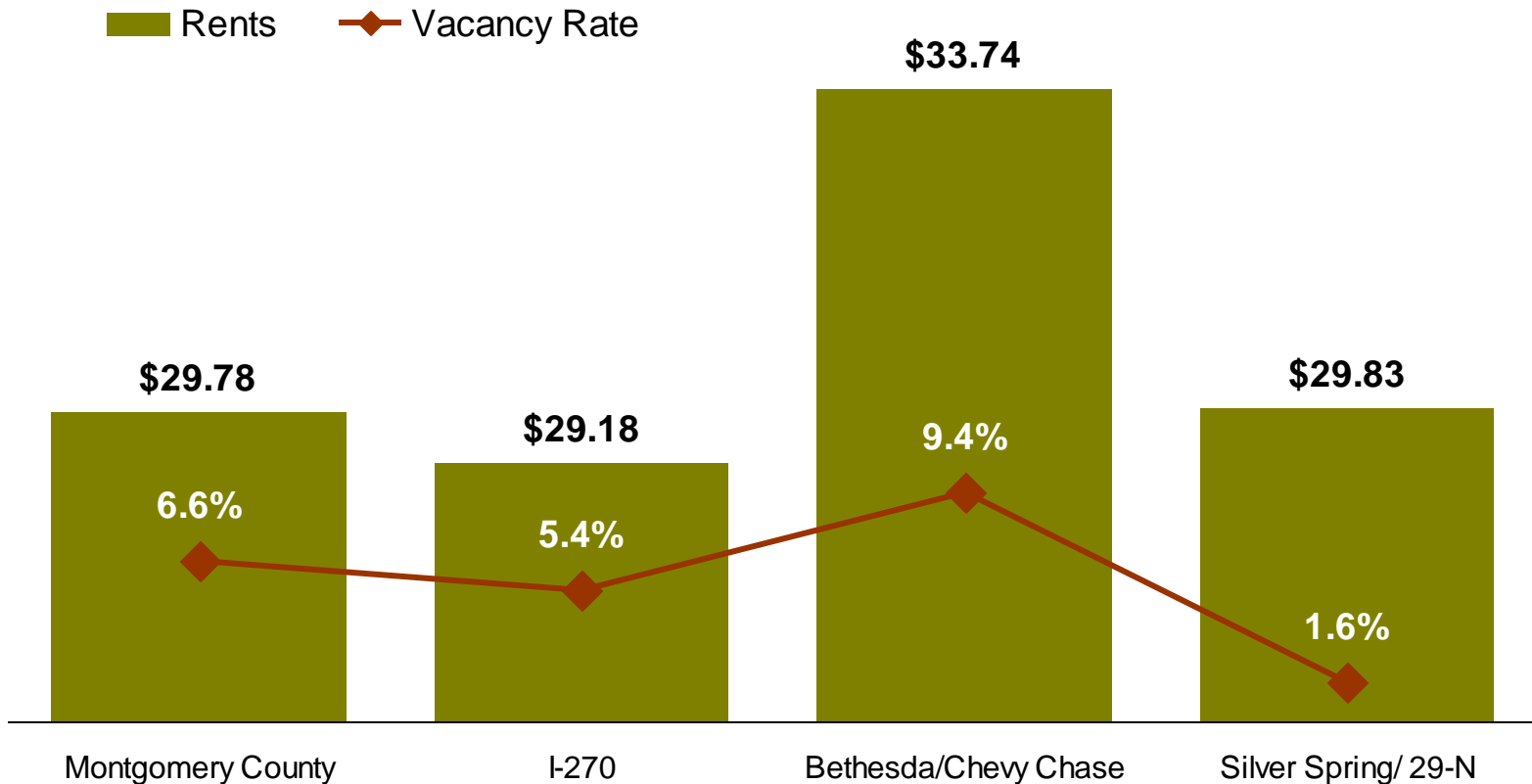




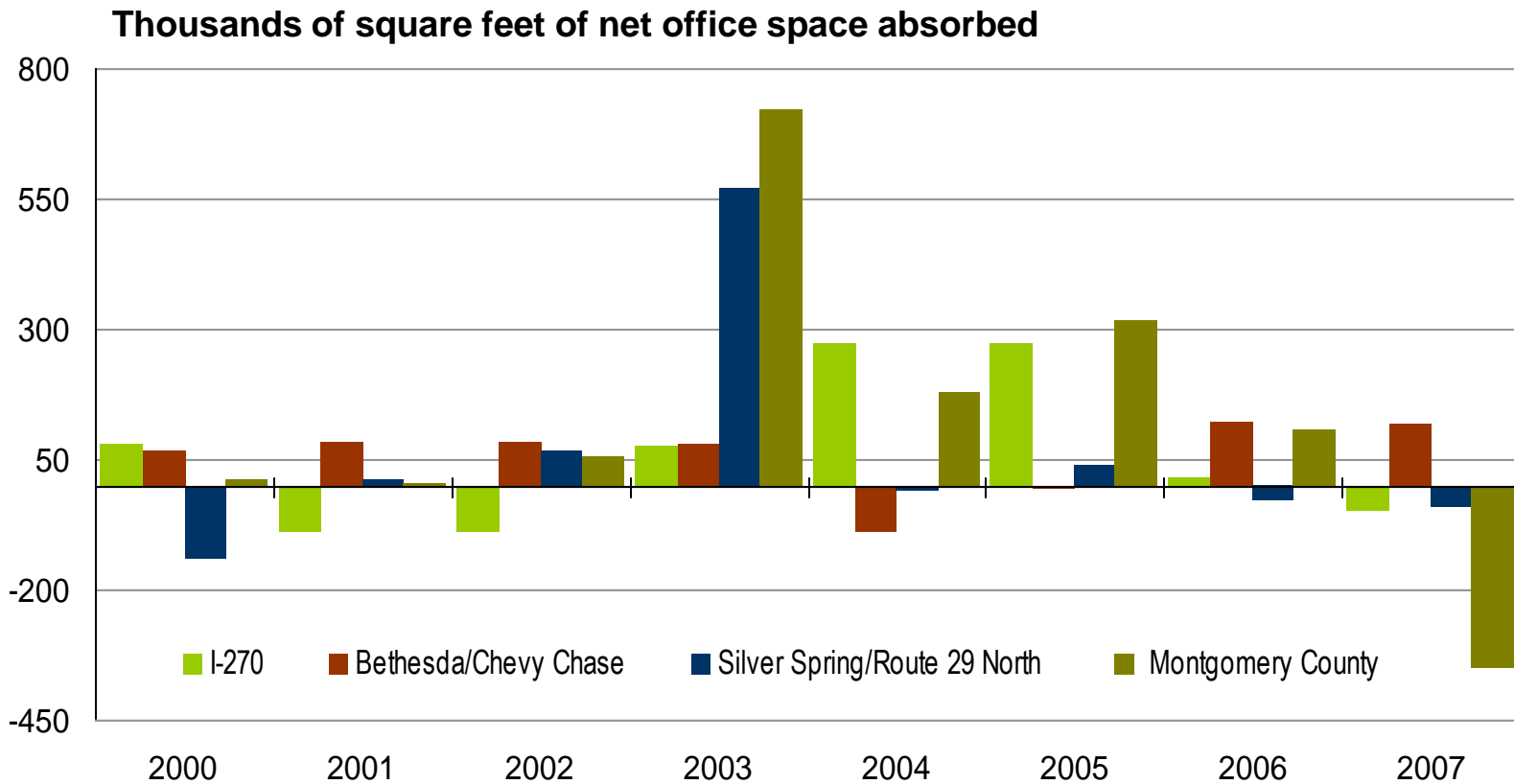
Class A Office Space Trends

Montgomery County SubMarkets

Silver Spring has low office vacancies. I-270 Corridor has affordable space.



More empty office space in the County and the I-270 and Silver Spring sub-markets.





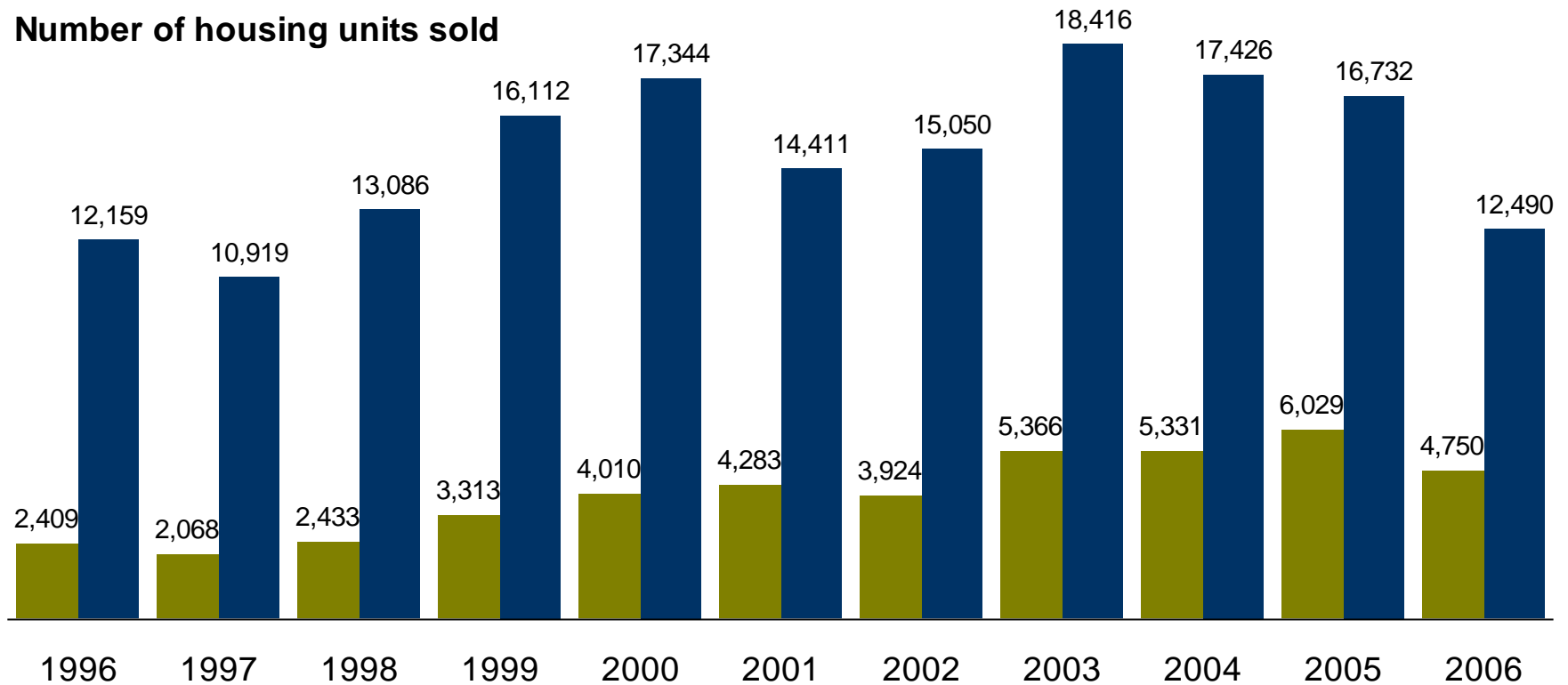
Housing Market

Montgomery County

Housing sales eased in 2006.

■ Condominiums ■ Single Family Units

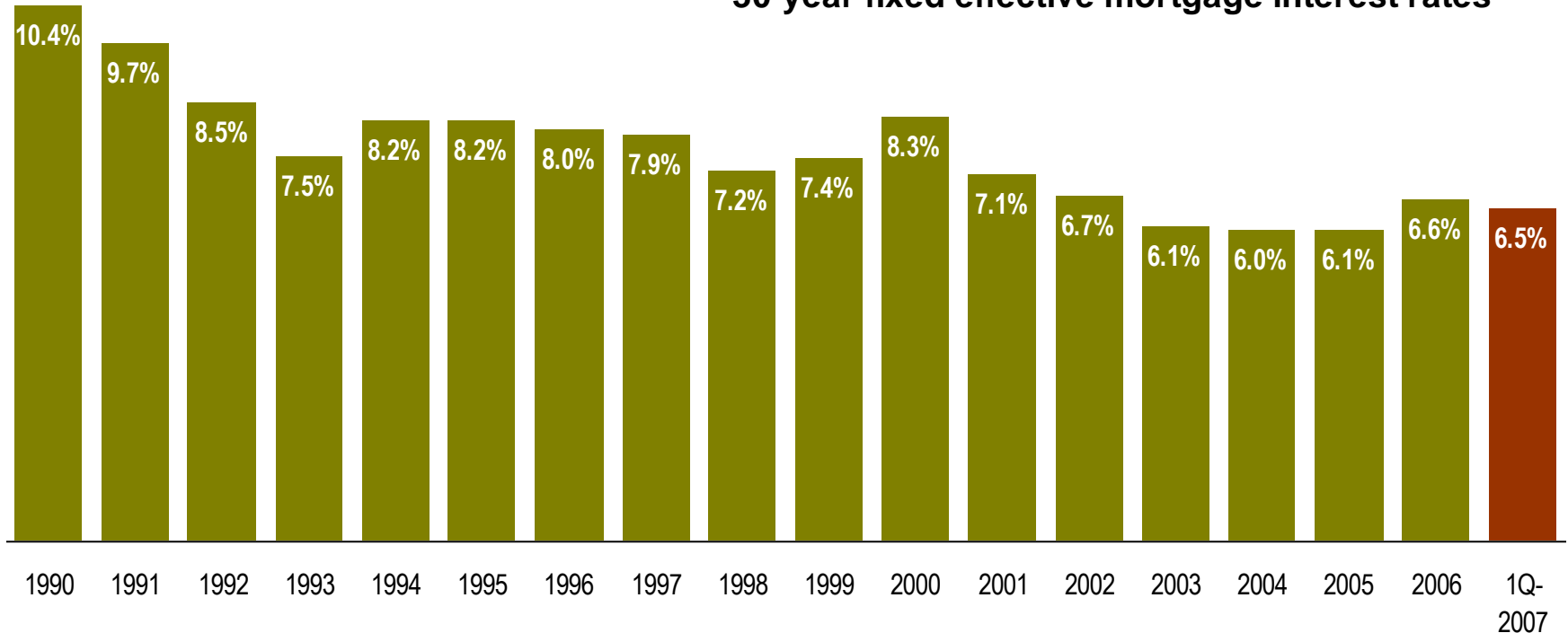
Number of housing units sold



Mortgage rates remain below pre-2003 levels.

Effective interest rates for Metro Washington-Baltimore-Northern Virginia DC-MD-VA-WV.

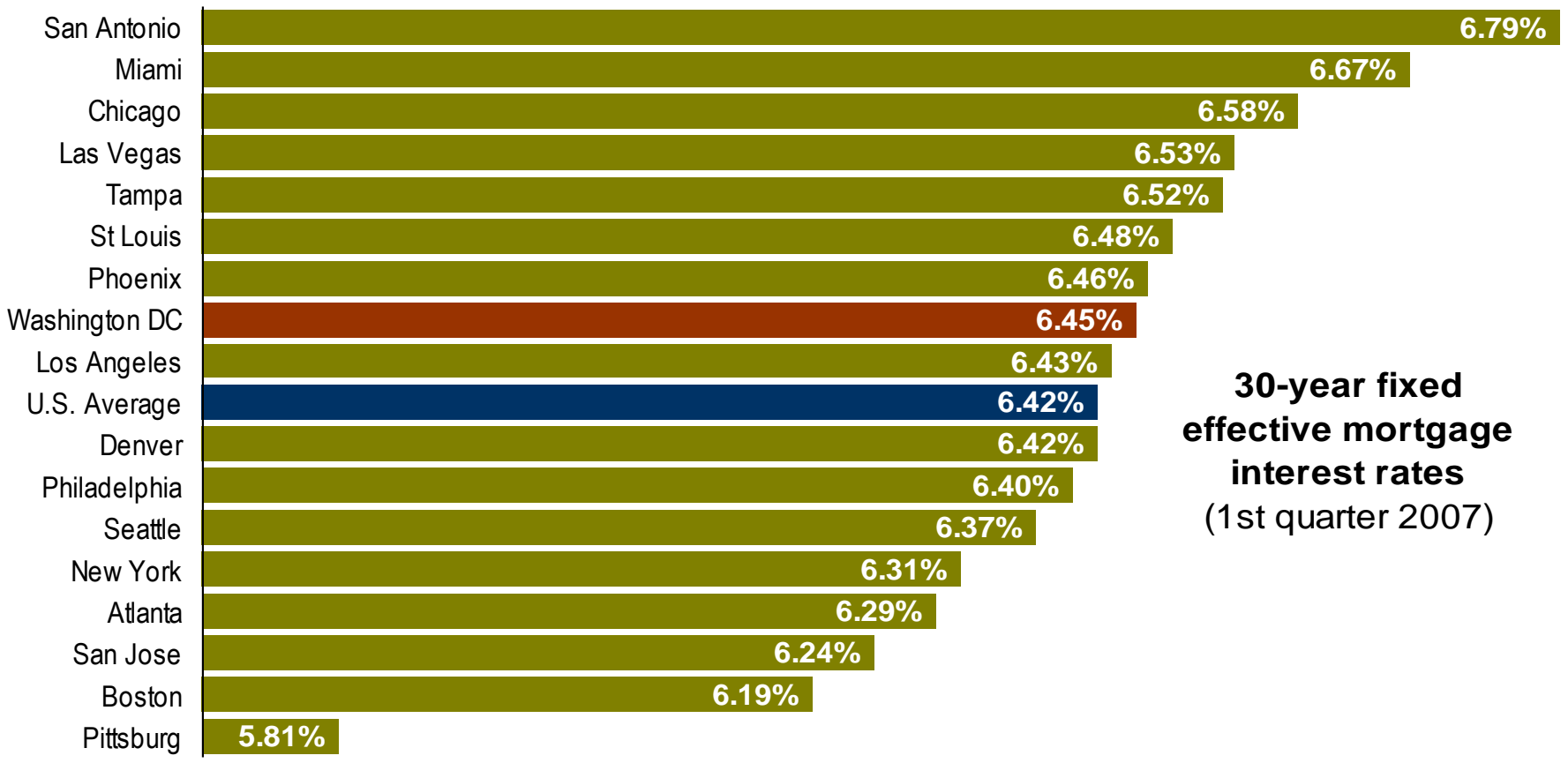
30-year fixed effective mortgage interest rates





Mortgage interest rates in the DC region are close to the U.S. average.

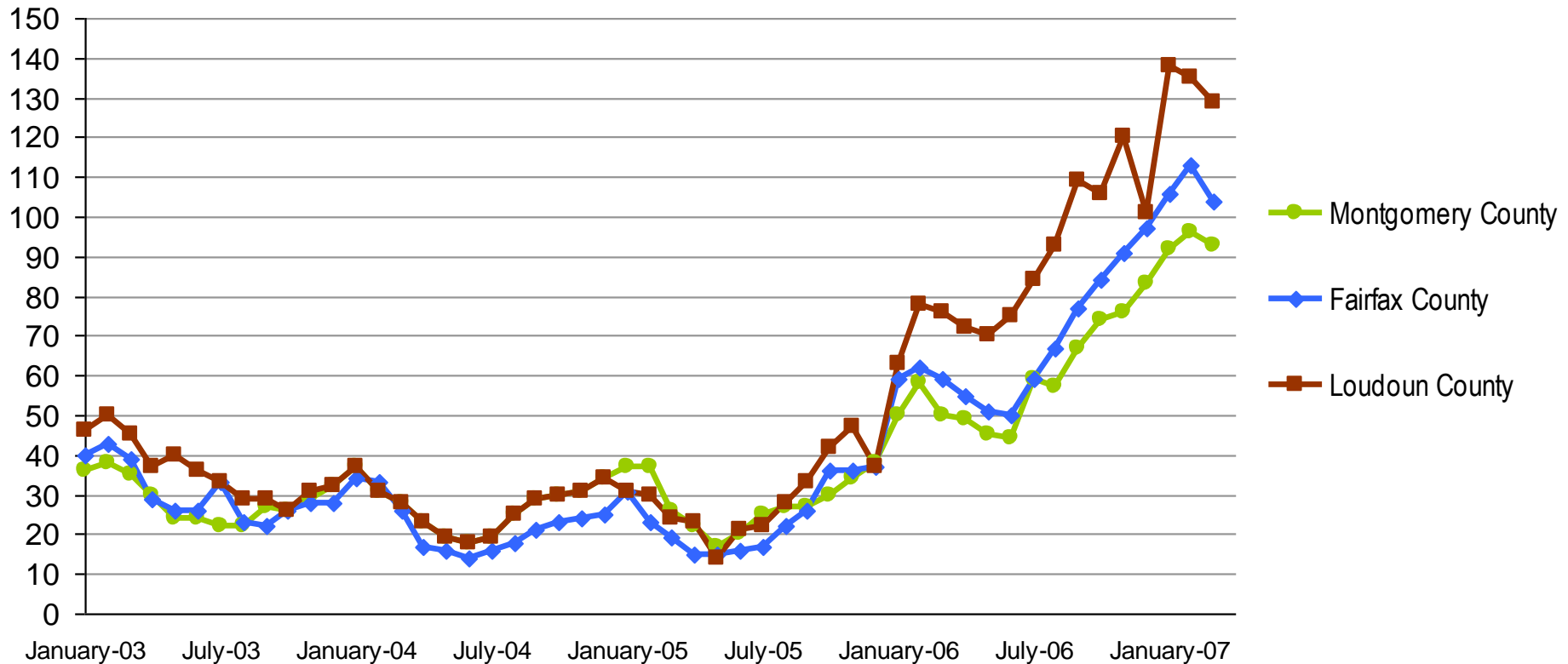
For a 30-year conventional loan, the national average interest rate was 6.42 percent.



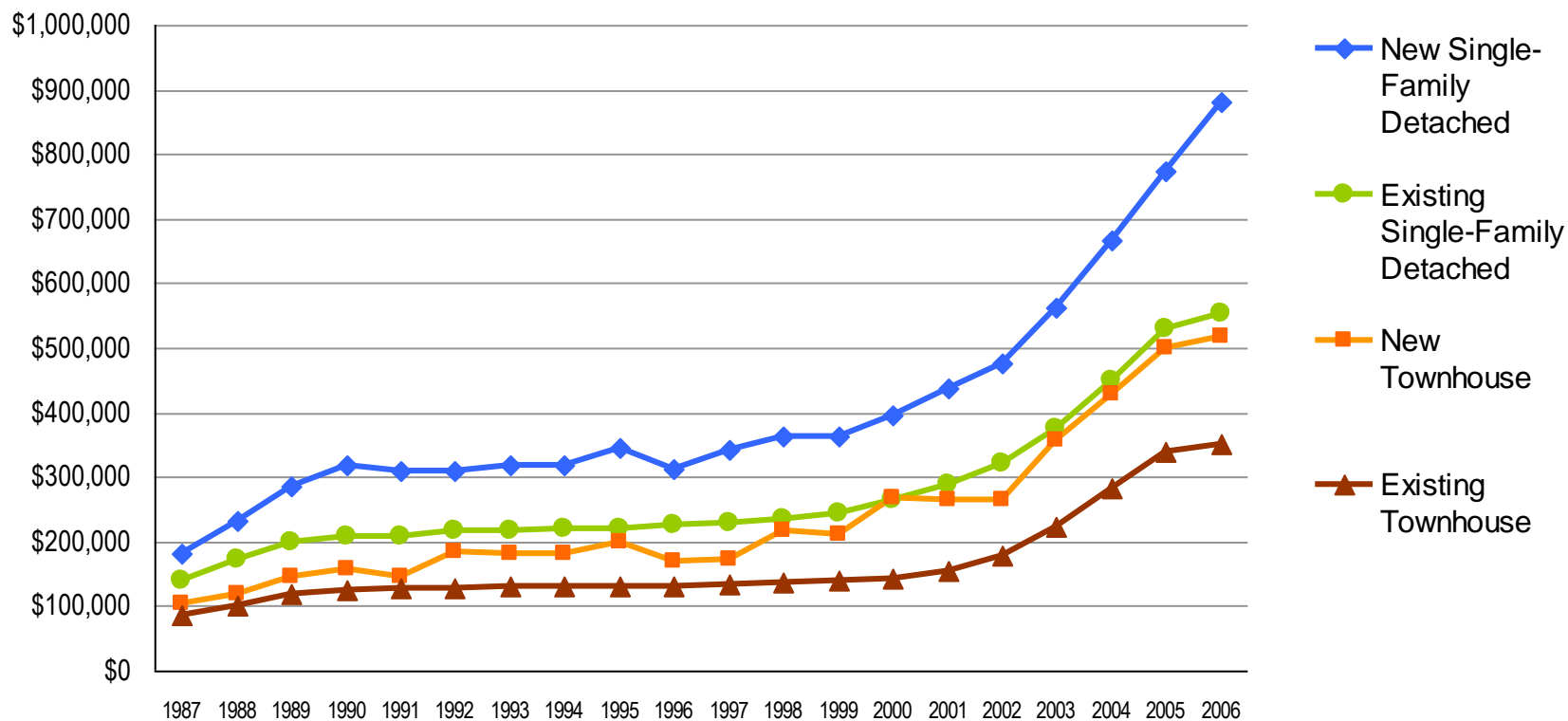
30-year fixed effective mortgage interest rates
(1st quarter 2007)

Time-on-the-market peaked in February 2007.

Days on the market

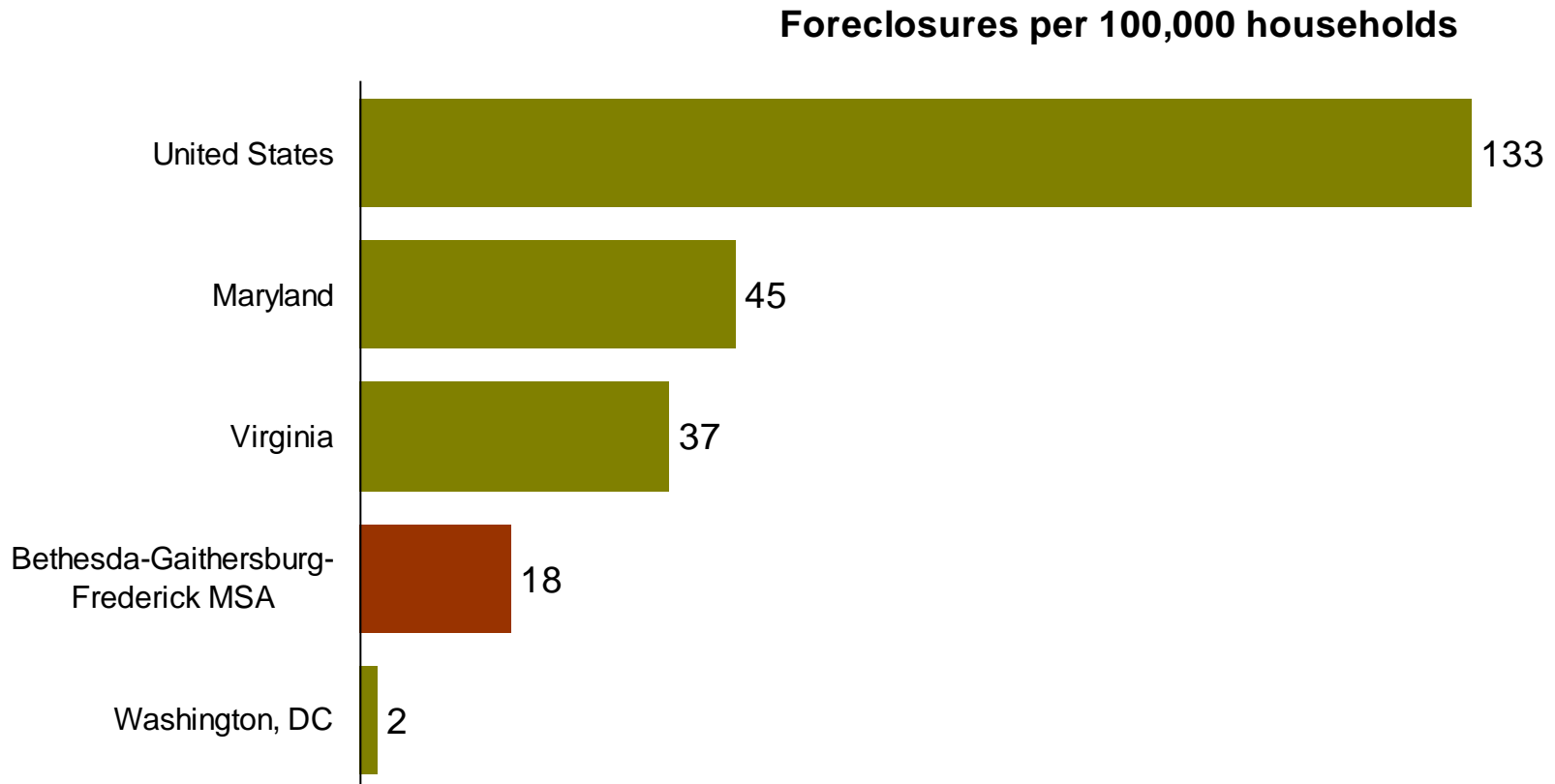


Single-family home prices have continued to rise.





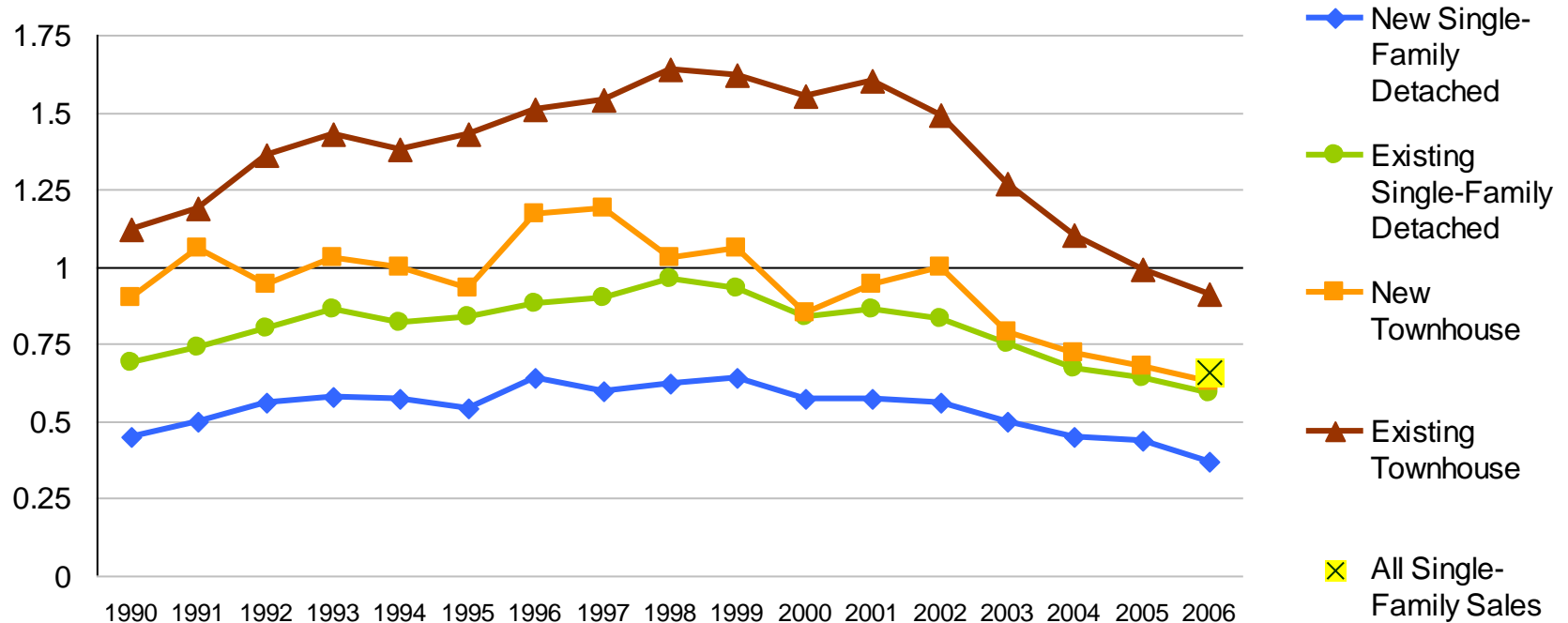
Local foreclosure rates are below state-wide and national rates.



A median income won't buy a median-priced single-family home.

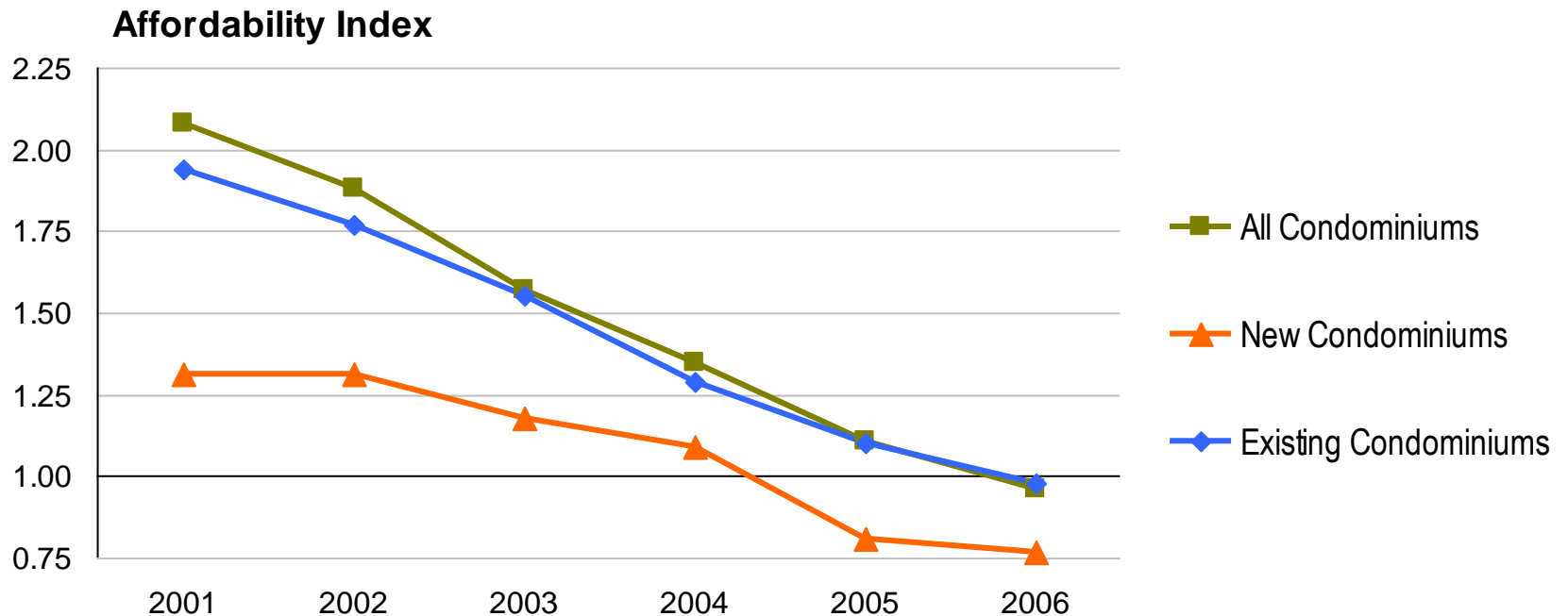
A 4-person households earning the \$90,300 Washington, D.C. metro area median income (AMI) could not afford a median-priced single-family home in 2006.

Affordability Index



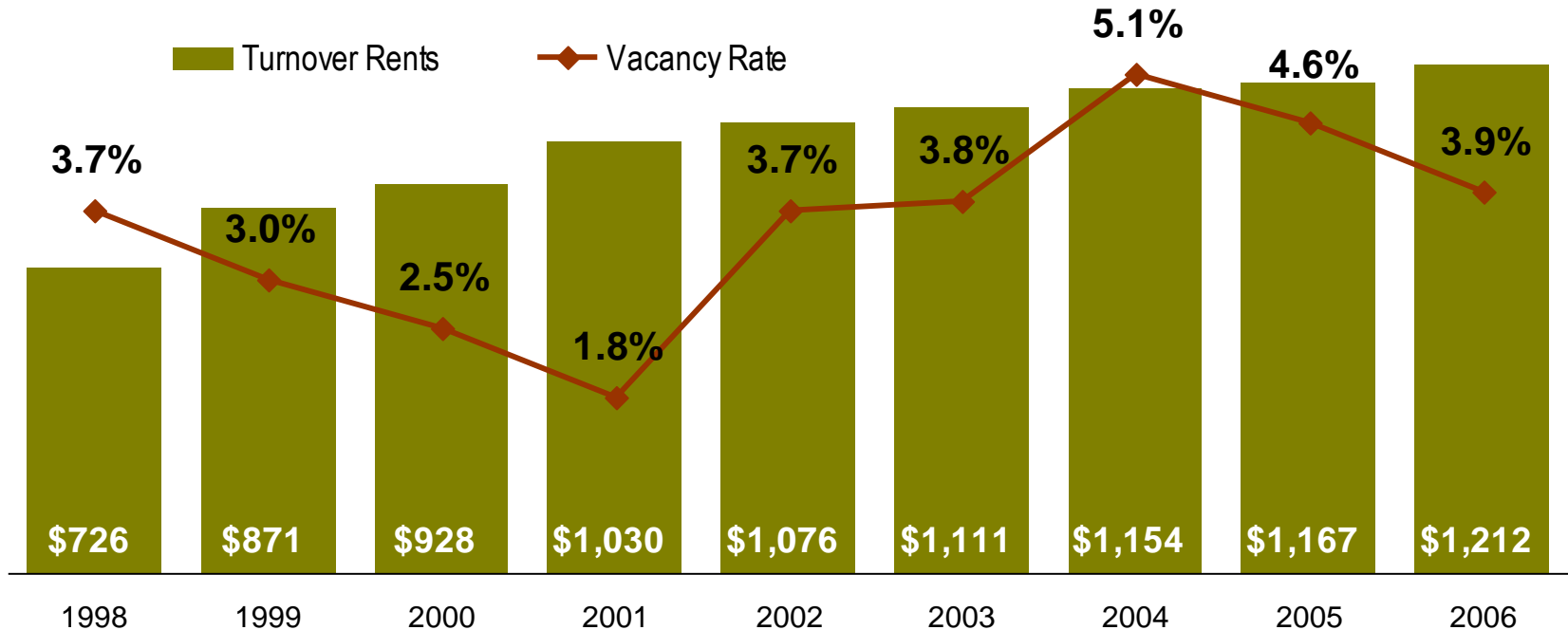
A median income won't buy a median-priced condominium.

A 4-person households earning the \$90,300 Washington, DC metro area median income (AMI) could not afford a median-priced condominium in 2006.



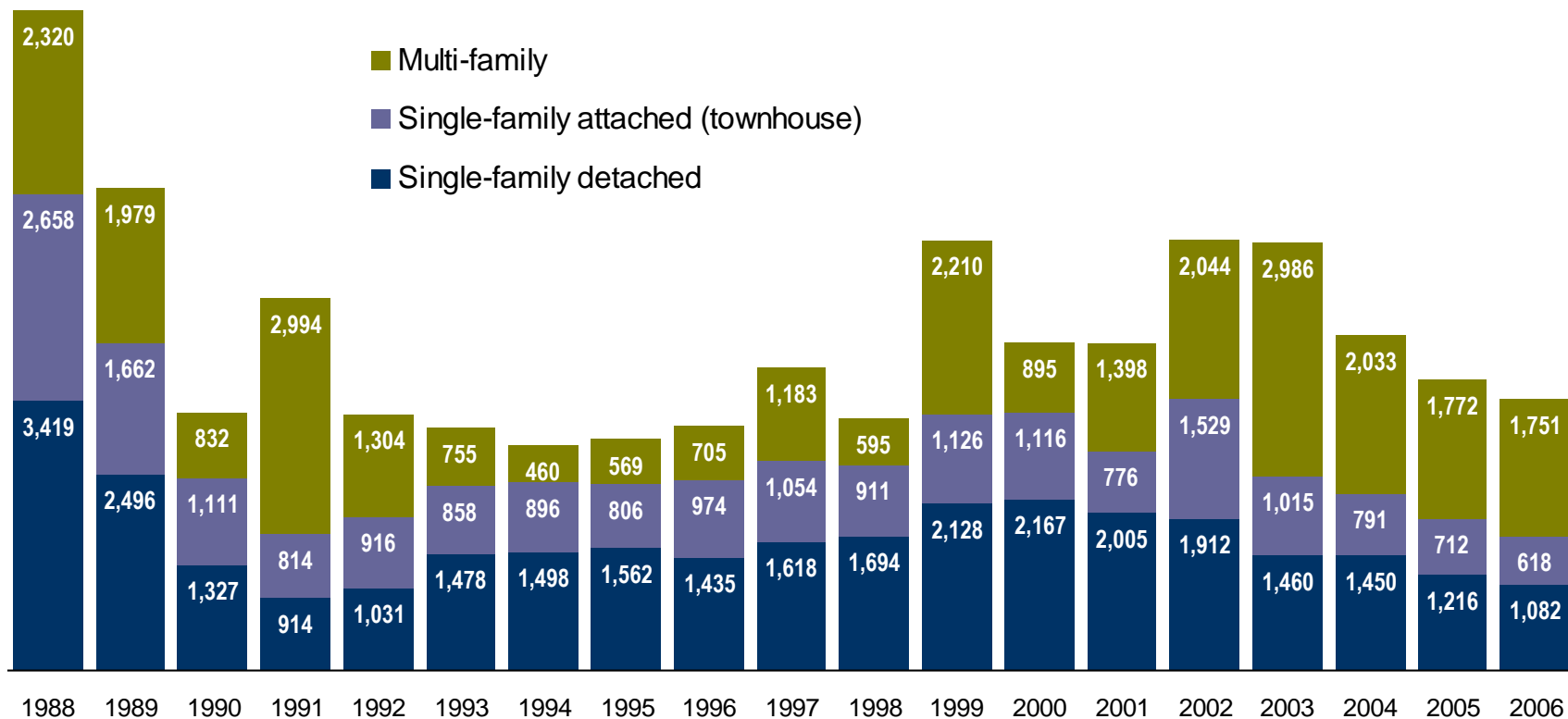
The apartment market is tightening, with a 3.9 percent vacancy rate.

Vacancy rate for all units
(market rate and subsidized units combined)

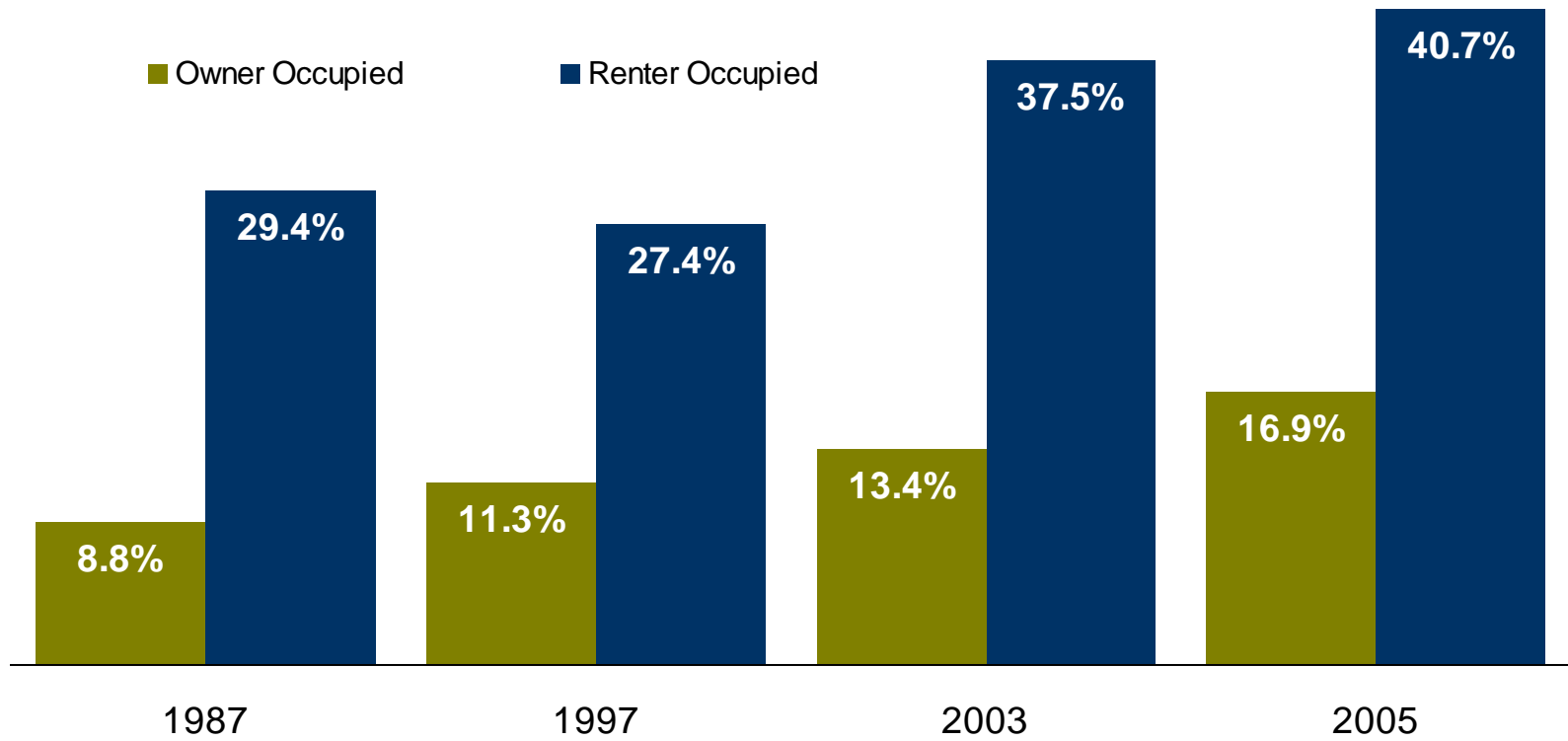


In 2006, single-family & multi-family completions were roughly 1:1.

3,451 housing units were completed in 2006—down from 3,700 units in 2005, 4,300 units in 2004 and 5,500 units in both 2002 & 2003.

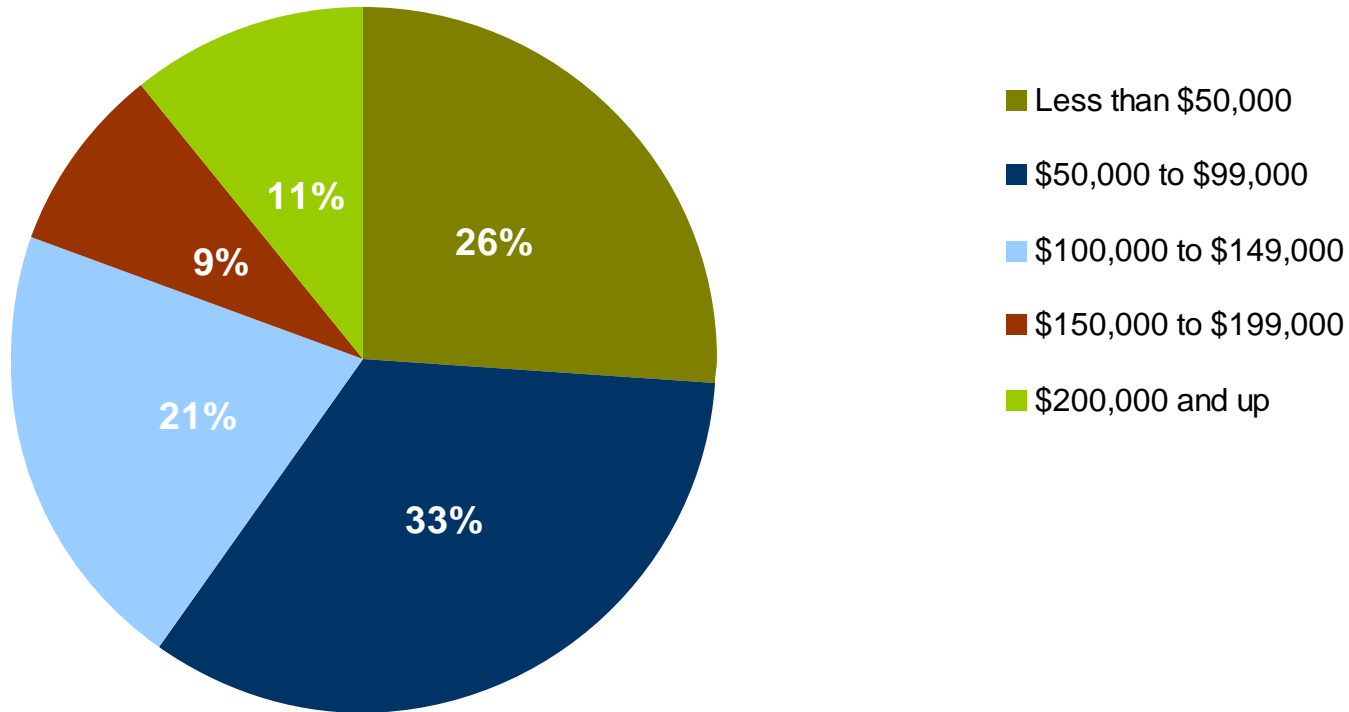


More households are spending +30 percent of income on housing.



More than 40 percent of households have incomes above \$100,000.

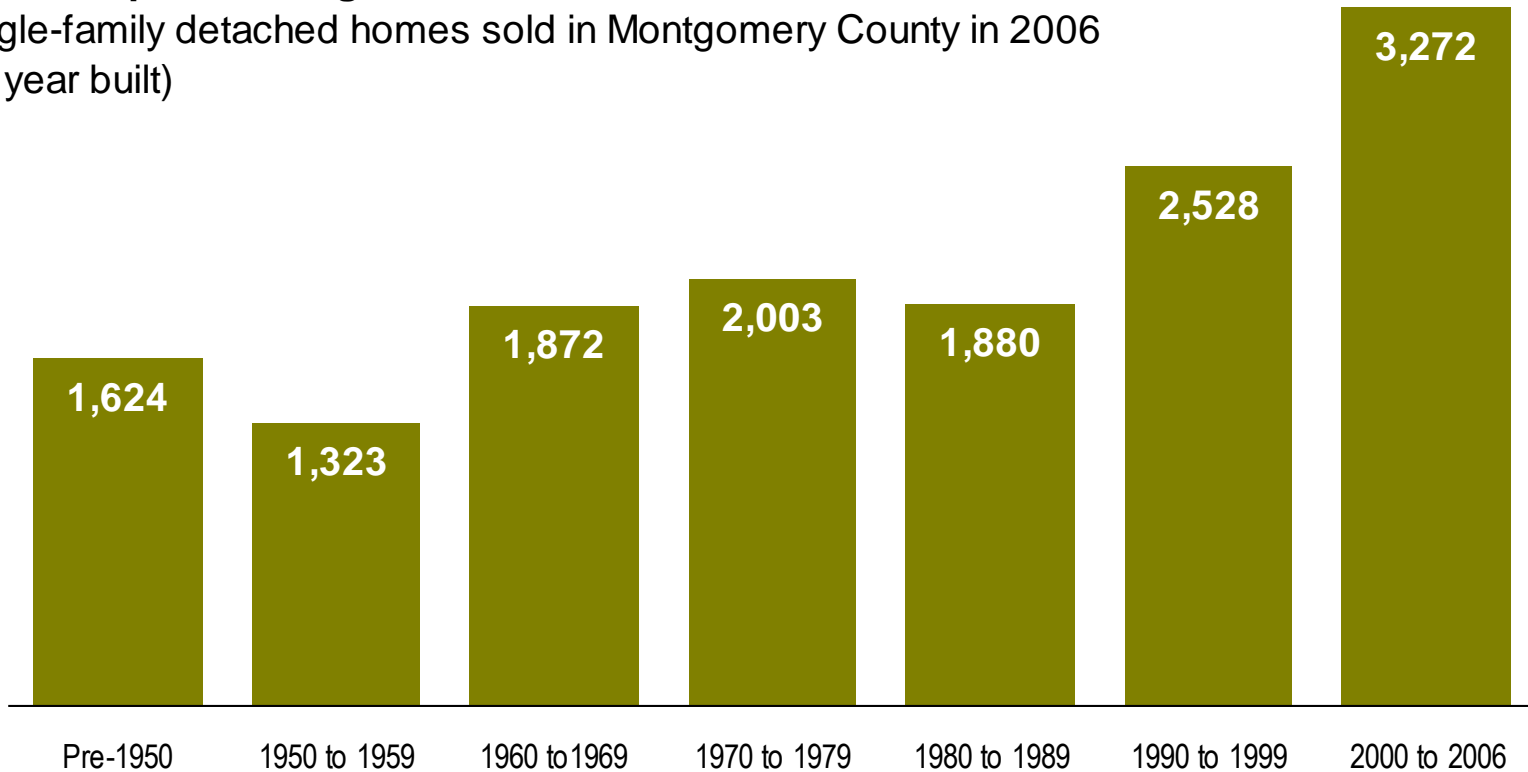
Median Household Income (2005)



Single-family homes continue to get larger.

Median square footage

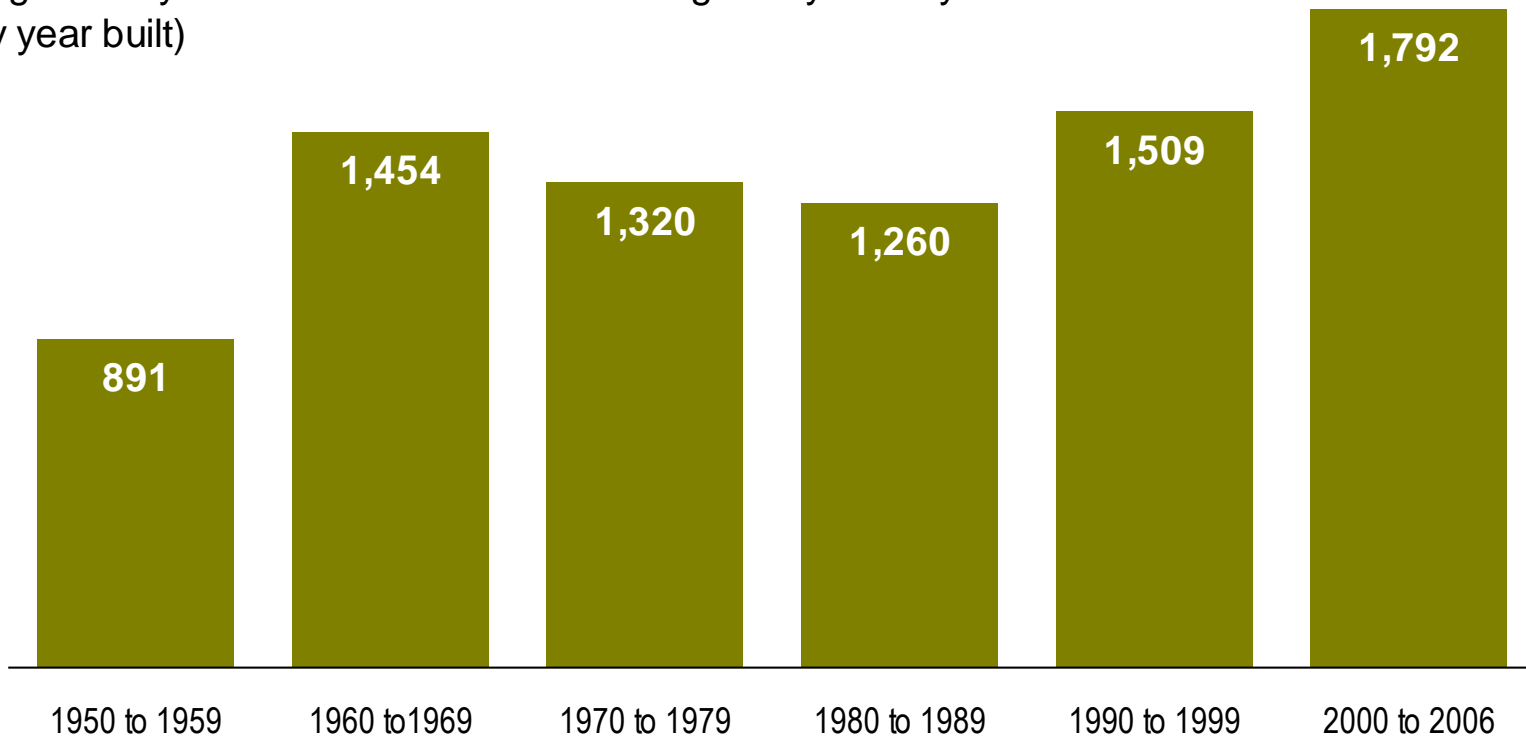
Single-family detached homes sold in Montgomery County in 2006
(by year built)



Townhomes continue to get larger.

Median square footage

Single-family attached homes sold in Montgomery County in 2006
(by year built)



Condominiums continue to get larger.

Median square footage

Condominiums sold in Montgomery County in 2006
(by year built)

