

Economic Forces That Shape Montgomery County

**Annual Update
2007**

Produced by the

Research & Technology Center

of the

**Montgomery County Planning Department
Maryland-National Capital Park & Planning Commission**

with

Towson University

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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:

- 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.
- The acquisition, development, operation and maintenance of a public park system.
- 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.

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ABSTRACT

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- Abstract:** *Economic Forces That Shape Montgomery County* is an annual review of key economic statistics by the staff of the M-NCPPC Research and Technology Center. 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.

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ABOUT *ECONOMIC FORCES THAT SHAPE MONTGOMERY COUNTY*

PURPOSE

The M-NCPPC Research & Technology Center has published *Economic Forces That Shape Montgomery County* since the mid-1990s. The study supports the Montgomery County Council's needs for economic analysis, particularly during preparation of the budget and evaluation of economic development initiatives and regulatory proposals.

Developing the in-house expertise required to prepare the annual *Economic Forces* report has strengthened the Research & Technology Center's capacity to support master plan development. It also has enabled Research staff to respond quickly and thoroughly to an array of complex policy issues, including the County's Growth Policy, affordable housing and senior housing. Research staff also work with County government agencies to identify economic trends and topics that may warrant further analysis; this collaboration avoids duplication of effort while ensuring that the information underlying the analysis is consistent and valid.

CORE INDICATORS

This report analyzes trends over the past year in four core indicators of Montgomery County's economic health: job growth, federal government impacts, commercial space activity and housing.

Job Growth

Montgomery County's economy has three pillars: the public sector (primarily the federal government), the technology sector and other private sector businesses.

In collaboration with RESI at Towson University, Research staff review the number of jobs that were created or lost, and assess the wage and salary performance of key sectors over the past year.

Federal Impact

As a major employer, landowner, tenant and purchaser of local goods and services, the U.S. federal government has a significant impact on Montgomery County's economy.

For this report, Research staff track federal purchasing and contracting activity, and conduct an annual survey of every federal installation in the County to identify current and expected employment changes, construction plans and leasing activities.

Commercial Space Activity

The first *Economic Forces* report focused in large part on understanding the collapse of the commercial space market during the 1990-91 recession. Subsequent reports have continued monitoring the impact of economic trends on the pace and character of commercial development in order to gauge the health of the local market and look for any signs of pending weakness.

Housing

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. Each year, *Economic Forces* includes a report on the County's housing market from the perspective of those who are or intend to be homeowners or tenants in the County.

SPECIAL TOPICS

From time to time, the *Economic Forces* report includes a section covering a specific topic in depth. This may occur when the data reveal trends and issues meriting closer review, or when other agencies or outside groups suggest topics. Past examples of special focus topics include:

- a study of Class B & C office space;
- an inventory of commercial site characteristics;
- in-depth reports on the County's information technology and biotechnology industries;
- housing market studies;
- a retail space analysis;
- an inventory of land available for non-residential construction; and
- a review of the economic impact of associations on the Montgomery County economy.

There are no special studies included in this year's report.

CURRENT ECONOMIC INDICATORS

JOB GROWTH

Employment is growing at a moderate pace in Montgomery County. Between the second quarters of 2005 and 2006, the County added 5,783 jobs, a 1.3 percent increase. This is well below the 9,792 jobs added the year before, but more than the 4,109 jobs added between 2003 and 2004.

Job Performance by Sector

Public Sector

In the past year, the public sector gained 398 net jobs, with growth in state and local government sectors offsetting a decline in federal employment. The federal government continued to trim its workforce, albeit at a slower pace: local employment in the federal sector fell by only 0.8 percent in 2006, compared to 2.1 percent in 2005. (Additional details on federal employment trends are discussed in the *Federal Impact* section of this report.)

Private Sector

Total private sector employment grew by 5,419 (1.4 percent). Industries adding the most jobs were: *Management of Companies & Enterprises* (up 4,000 jobs), *Professional & Technical Services* (up 1,891 jobs); *Nursing & Residential Facilities* (up 1,292 jobs); and *Specialty Trade Contractors* (up 1,039 jobs). Among major industries, the greatest percentage increases were in *Plastics & Product Manufacturing* (up 45 percent), *Furniture & Related Product Manufacturing* (up 29 percent) and *Warehousing & Storage* (up 23 percent).

The data also show significant job losses in consumer-related industries, particularly in *Accommodations* (down 46 percent or 3,300 workers) and *General Merchandise Stores* (down 18 percent or 1,400 workers). Negative growth in these and similar industries is due in part to the recent downturn in the residential housing market as well as a general slowdown in consumer spending.

Technology Sector

Private technology establishments employed 106,614 workers in 2006, accounting for 23 percent of Montgomery County's total job base. Montgomery County's technology job base is highly concentrated in consumer services (49 percent) and research, development &

design (44 percent) activities. An additional 7 percent of technology jobs are in production establishments. (The data do not capture the significant numbers of technology workers employed at major government installations such as the National Institutes of Health (NIH), the National Institute for Standards & Technology (NIST) or the Food & Drug Administration (FDA).)

Montgomery County's technology sector created 3,500 jobs between the 2nd quarters of 2005 and 2006. The production segment showed the largest gains, with 703 new jobs—a 10 percent increase. Employment in both the research, development & design and consumer services segments increased by 3 percent.

Montgomery County's technology sector contains four principal clusters: *Biotech*, *InfoCom*, *Aerospace* and *Other High Tech Services*. (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.) For this analysis, business establishments and industries in each cluster are segmented into production, research, development & design, and consumer-oriented activities.

Technology job growth performance between the 2nd quarters of 2005 and 2006 varied by cluster, as follows:

- The **Aerospace** cluster added 360 jobs. Proxy Aviation and Smith's Aerospace, both located in Germantown, are responsible for most of the growth in this cluster.
- Excluding consumer-oriented businesses, Montgomery County's **Biotechnology** cluster grew 3.8 percent. This was far slower than last year's 9.0 percent, but faster than the steady 2 percent pace nationwide.
 - Biotech production industries, including pharmaceutical and medical equipment manufacturers, added 258 jobs to their payrolls in Montgomery County, a 14 percent increase over last year.
 - Jobs in Biotech research, development, and design-oriented establishments (such as testing labs, consulting services, and R&D firms) grew 5 percent over the past year.
 - At the upper end of the Biotech consumer market, *Health Care Services* (including hospitals, ambulatory health care, nursing and residential care facilities) added 1,713 jobs.
- The County's **InfoCom** cluster turned a corner in 2006 with a net gain of 200 jobs. Nearly all were in the Infocom research, design & development segment.

- Employment in **Other High Tech Services** increased 5.0 percent. Robust hiring by engineering services firms, which added 433 jobs, drove expansion in this cluster, which includes architectural services; engineering services; surveying and mapping; social science and humanities; and testing labs, R&D and technical consulting services not included in the Biotech or Infocom clusters.

Other Private Sector Employers

Professional & Technical Services is Montgomery County's largest private industry, employing more than 65,000 workers. Job growth in this industry was 3 percent, twice the pace of the private sector as a whole.

The *Construction* industry, another major County employer, added 1,300 jobs (a 4.3 percent increase) between the second quarters of 2005 and 2006. Reflecting the seasonal nature of this industry, construction employment fell 2.3 percent between the first and second quarters of 2006 despite the positive year-over-year change.

Wage & Salary Trends

In 2006, the average salary paid by a Montgomery County job was \$53,872 per year, an increase of 4.7 percent over the previous year. Average pay in the private sector was \$50,544, compared to \$70,148 in the public sector. The County's large base of high-end federal jobs accounts for the higher public versus private sector salary average; in 2006, the average annual federal salary in Montgomery County was \$91,676.

Montgomery County's largest high-paying industry (defined as paying in excess of \$50,000 per year) is *Professional & Technical Services*, with 65,000 jobs paying an average annual salary of \$75,256.

Average annual pay rates are highest in the following major industries (defined as those employing more than 500 people in the County): *Securities & Commodities Brokers* (\$106,860), *Chemical Manufacturing* (\$102,128), *Broadcasting* (\$98,436), *Management of Companies & Enterprises* (\$95,108), and *Computer & Electronic Product Manufacturing* (\$92,768).

The *Food Services & Drinking Places* industry pays the lowest average wages at about \$17,280 per year.

About Job Growth Data

Job growth and wage statistics reviewed in this report are from the *ES-202* series compiled by the Maryland Department of Labor, Licensing and Regulation (DLLR) and reported to the U.S. Bureau of Labor Statistics. *ES-202* data are collected from firms submitting information for unemployment insurance purposes. Therefore, this data set excludes jobs that are not covered by unemployment insurance, including sole proprietorships, farm workers, some domestic workers, unpaid family workers, some individuals working on commission (such as realtors or insurance salespersons); some students or spouses of students working for educational institutions; and employees of certain non-profit institutions.

Despite these limitations, *ES-202* is a standard data series for measuring job growth. Because comparable information is reported for every county in the nation, the series makes it possible to compare trends in Montgomery County with state and national trends. Although access to *ES-202* data is more restricted in Maryland than in other states (such as Virginia), state universities may obtain this data (with some records suppressed for confidentiality reasons) for research purposes, and release limited customized analyses to outside groups. The Research & Technology Center staff has a long partnership with RESI at Towson University to compile and analyze confidential *ES-202* survey data from the Maryland Department of Labor, Licensing & Regulation (DLLR).

The Research Team also obtains advice and insight on these employment statistics and other factors affecting the County's labor market from the Montgomery County Department of Finance.

FEDERAL IMPACT

In fiscal year 2004 (the most recent year for which data are available) the federal government pumped \$15.3 billion dollars into Montgomery County's economy—23 percent of all federal expenditures statewide. It paid \$3.6 billion in wages and salaries to the County's federal workforce; \$3.0 billion in direct payments to individuals for retirement and other benefit programs; \$1.2 billion on grants; and \$7.5 billion to purchase goods and services from County businesses.

Recent trends in leasing activity, employment and space consolidation among federal agencies in Montgomery County are reviewed below.

Employment

The thirteen federal agencies and installations that Research staff surveyed reported an estimated combined employment of 68,200 workers in 2007. This is an increase of 1,500 workers over last year. Only the National Institute of Standards and Technology (NIST) reported a job decrease, with 50 fewer workers than the year before.

Agencies reporting employment increases are the following:

- National Oceanic and Atmospheric Administration (NOAA) added 620 workers (compared to a decrease of 528 jobs the year before);
- Nuclear Regulatory Commission (NRC) had 440 additional workers;
- Food and Drug Administration (FDA) added 260 workers; and
- National Institutes of Health (NIH) had 200 new workers.

Collectively, federal agencies anticipate that between 2007 and 2020, the federal workforce in Montgomery County will increase by 10,300 jobs (18 percent) to 78,500.

Federal Leased Space

Inventory

The General Services Administration (GSA) accounts for about 11 percent of Montgomery County's leased office space. GSA no longer identifies which federal agencies occupy specific leased spaces; in the past, the Department of Health and Human Services (HHS) (which includes NIH and FDA) occupied around two-thirds of federal leased space in the County.

About 57 percent (3.8 million square feet) of the County's GSA-leased space inventory is in the Rockville area (which includes most of North Bethesda). Two other areas have 1 million or more square feet of GSA leased space: Silver Spring has 1.3 million square feet (19 percent) and Bethesda has 1.0 million square feet (14 percent).

Leasing Trends

GSA currently leases almost 6.7 million square feet of space in the County, a decrease of 125,500 square feet compared to 2006. GSA paid \$157 million in office rents in 2006, down \$2 million from the previous year. Between January 2006 and March 2007, GSA did not renew 11 leases totaling 356,400 square feet of space, but added 4 new leases totaling 232,900 square feet of space to their inventory.

Outlook

About 5 percent of GSA's leased space (309,000 square feet) is up for renewal in 2007. Based on 2-year old data, two departments occupy nearly all of this renewable leased space. About 81 percent (250,700 square feet) is HHS-leased space in Rockville and Silver Spring, including 153,700 square feet that currently is occupied by the FDA. In Germantown, an additional 16 percent (48,200 square feet) of leased space that is up for renewal this year is currently occupied by the Department of Commerce.

An additional 2.1 million square feet of GSA's leased space inventory (about 31 percent) is up for renewal in 2010, with more than half of this space is in the Parklawn Building in Twinbrook.

GSA historically has preferred to renew leases to avoid the cost of relocations. Reasons for non-renewal typically include consolidation of government-owned space, changes in work programs or employment levels, and outdated or obsolete buildings.

Over the next few years, however, the federal government will be moving workers out of leased space and into government-owned space. Between 2007 and 2020, the workforce located in federally-owned space in Montgomery County is expected to grow by 13,500. The majority of this workforce shift will be due to FDA's White Oak consolidation, BRAC-related workforce increases at the Naval Medical Command, and the federal government's anticipated purchase of the NOAA buildings in Silver Spring.

Even with these large scale relocations from leased to owned space, the federal government expects to remain a major tenant in Montgomery County's office market. The agencies that were surveyed by staff project that by 2020 there will be 24,700 workers in leased space,

3,200 fewer than in 2007. NIH anticipates that it will add about 5,000 workers in leased space between 2007 and 2020.

FDA Consolidation at White Oak

FDA's consolidation on the White Oak campus (on 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.
- Phase 3 through Phase 5, constituting about 1.6 million square feet to be occupied by about 4,200 workers, is scheduled to be finished in 2010.
- Phase 6 will follow with 778,000 square feet and about additional 1,700 workers.

Impacts of 2005 Base Realignment and Closure Commission recommendations

We asked the surveyed agencies how they would be affected by the 2005 Base Realignment and Closure (BRAC) Commission recommendations. All 2005 BRAC-required actions must 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 counted their 2,800 employees in Montgomery County in 2010, and showed no NGA employees in the County beyond 2010.)
- The *Walter Reed Army Medical Center (WRAMC)* estimates that in 2010 it will transfer about 970 military and civilian personnel to the National Naval Medical Center (NNMC) and about 250 employees to the Forest Glen Annex from its current facility in the District of Columbia.
- The *National Naval Medical Center (NNMC)* expects a BRAC-related increase of about 1,400 personnel by 2011, including both staff movements (primarily from the WRAMC) and additional support staff hiring. After 2011, NNMC expects to hire an additional 1,100 researchers, teachers, students, support and other staff, including 600 new personnel between 2011 and 2015, and 500 new personnel between 2015 and 2020.

COMMERCIAL SPACE ACTIVITY

In a commercial space market that has been on a strengthening trend since last year, the first quarter of 2007 appears to have been a hiccup, with vacancy rates ticking up and less new space absorbed. Office rents, however, have held steady.

Class A Office Space

Inventory

Between March of 2006 and March of 2007, the amount of occupied Class A office space in Montgomery County increased to 26.9 million square feet from 26.6 million square feet a year ago.

There are about 1.6 million square feet of office space under construction and expected for delivery in 2007. Developers and leasing agents have proposed about 890,000 square feet of space for completion in 2008.

Lease Rates

Class A office rents in Montgomery County have been much less volatile than in some other markets in the region. In 2001, average rents in Fairfax County were higher than in Montgomery County, but the dot.com meltdown created a glut of vacant office space and drove rents down. Increased federal spending, particularly from Homeland Security and the Pentagon, has helped Fairfax County's office market recover, with rents inching up from a low of \$25 a square foot in 2004 to \$28 in 2006 and \$31 in 2007. In contrast, over this same period Montgomery County's average Class A office space rents held steady at \$30.

Vacancy Rates

The total amount of vacant Class A office space increased from 1.8 million square feet in 2006 to 1.9 million square feet in March of 2006. The total Class A office space vacancy rate is now 6.6 percent.

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 that does not need some or all of the space they have rented in a building. Some fluctuation in this inventory can be merely a reflection of individual tenant circumstances. Overtime, however, increases in sublet space can be an early signal of recession while decreases in sublet space can signal recovery.

The amount of Class A office space available for sublet in the first quarter of 2007 grew by 3,700 square feet from the first quarter of 2006. The amount of vacant sublet Class A office space is now 418,839 square feet. Vacant sublet Class A space in the County is still lower than its historical average.

Other Office Space

Direct vacancy rates for Montgomery County's Class B office space inched up from 8 percent in March 2006 to 9 percent in March 2007. The direct vacancy rate for Class C space rose from 6.9 percent in March 2006 to 8.3 percent.

Flex and Industrial Space

In the flex and industrial space markets, vacancy rates have climbed from 6.8 percent in 2006 to 8.0 percent in March 2007. Rents are more affordable, falling from \$14.11 to \$14.00 per square foot, making the flex market more competitive and attractive to tenants.

HOUSING MARKET

Affordability

For the first time in 15 years, a household earning the County's median income could barely afford to purchase a median-priced existing townhouse, according to the Planning Department's Housing Affordability Index. Median prices for new and existing single-family detached homes as well as new and existing single-family attached homes (townhouses) are out of reach for most households in Montgomery County.

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

Home Sales Prices

The median price of all single-family housing (including both detached and attached units) increased by nearly 7 percent, reaching a new high of \$485,000 in 2006 compared to a median price of \$455,250 at the end of 2005.

- The median price of a new single-family detached home climbed sharply by 14 percent from \$775,000 to more than \$881,000.
- The price of an existing detached single-family home rose 4 percent from \$530,000 to \$553,000.
- The median price of new single-family attached homes (townhouses) climbed 4 percent from \$499,000 to \$520,000.
- The median price of an existing single-family attached home (townhouse) rose 3 percent from \$340,000 to \$350,000.

Home Sales Volume

Housing sales appear to be weakening from the high volumes seen in 2003. Between 1996 and 2005, 21,083 housing units were sold each year in Montgomery County. In 2006, only 19,246 units were sold—a 9.5 percent decrease.

The entire region experienced a slowdown in 2006. Homes stayed on the market for a longer period of time than in recent years: Montgomery County witnessed a high of 96 days on

market in February 2007 compared to 113 days for Fairfax County and 135 days for Loudoun County. The number of home sales in 2006 dropped by 6,000: from 23,000 sales in 2005 to 17,000 in 2006. However, market conditions are beginning to improve.

Rental Market

Rental housing vacancies continued to fall, according to the latest Office of Landlord-Tenant Affairs survey. Rental vacancy rates decreased from 4.6 percent to 3.9 percent in 2006. This vacancy rate is indicative of a tight rental market, which typically benefits landlords. However, current vacancy rates provide 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 \$1,212 in 2006). Rents averaged \$1,167 in 2005. 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.

Residential Construction Activity

Fewer residential units were completed in 2006 than in the previous four years. Residential completions dropped from an average of 5,500 units in 2002 and 2003 to 3,451 units in 2006. Multi-family led the way with 1,751 units. Townhouse completions fell from 712 in 2005 to 618 in 2006. Construction of single-family detached units also fell from 1,146 to 1,108.