



March 14, 2003

## Memorandum

To: The Montgomery County Planning Board

From: Karl Moritz, Research Manager, 301-495-1312  
Fred Peacock, Research Master  
Sally Roman, Research Supervisor  
Wayne Koempel, Research Planner

Re: *Economic Forces That Shape Montgomery County*, 2003 Annual Update

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### *Introduction*

Each year the staff of the Research & Technology Center update our report, *Economic Forces That Shape Montgomery County*. In the past, the report focused on three aspects of the County economy: job growth, the federal role, and commercial space. Last year we included a discussion of the housing market, which we have decided to make a permanent feature.

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 2001, the federal government purchased \$3.8 billion worth of goods and services from Montgomery County firms. Unfortunately, the Federal Procurement Data Center has not yet released the FY 2002 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 to slow down. Job growth totaled just 2,159 between the second quarters of 2001 and 2002. Much of that job

growth was in the public sector, as private sector job growth was just 831 jobs over the one-year period.

When we reported that job growth was slowing last year, we noted that the higher-wage and high-tech sectors were outperforming the economy as a whole. That is no longer the case. Jobs in high technology industries fell by 6.8 percent between the second quarters of 2001 and 2002, and jobs in industries paying an average of \$50,000 or more fell by 3.8 percent.

Two employment-related indicators were positive, however. The unemployment rate fell from 3.3 percent in January 2002 to 2.2 percent in December 2003. The temporary cash assistance caseload in Montgomery County held steady over the year at historically low levels, with the February 2003 caseload at 2,322. 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 6.6 million square feet to 6.7 million square feet. Our survey of federal installations shows little change in federal agency employment expectations for slow but steady growth. The main change from last year is that the Food and Drug Administration is now expecting that their consolidation at the White Oak site will take longer than previously thought.

Our **commercial space analysis** reveals some evidence that the "short and mild" recession we predicted last year may be ending. Class A office space vacancy rates are beginning to decline and rents are beginning to rise. Overall, Montgomery County is faring better than the region as our inventory of vacant office space has grown more slowly than the region, and our inventory of occupied office space is growing more quickly. County office space that is under construction now is 69 percent pre-leased, which is a healthy figure. In addition, our industrial and flex space shows signs of recovery, with the vacancy rate falling to 6.8 percent, positive absorption of vacant space, and increasing rents.

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 putting significant amounts of sublet space on the market. In order to achieve a healthy 5 percent vacancy rate, about 4.5 million square feet would have to be absorbed.

The **housing market** continues to be very strong, and although the number of sales appears to be leveling off, home prices continue to increase. Using data from the first half of 2002, the median price of a single-family home in Montgomery County rose to \$260,000. Five years ago, that figure was \$197,000. Housing units continue to sell quickly, with on average, a housing unit spending only 26 days on the market in 2002.

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 slightly in 2002 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 townhouse in Montgomery County, but not the median-priced single-family detached home.

A positive factor is that the very tight apartment vacancy rates in the County have eased. The overall apartment vacancy rate climbed from 1.8 percent to 3.5 percent between 2001 and 2002.

In 2002, the number of single-family housing units in the pipeline of approved development exceeds the number of multi-family units for the first time in several years. This is due to a stepped-up pace of multi-family construction, as well as to an increase in the proportion of single-family housing approvals.

***County Council Presentation March 25***

With the Planning Board's approval, Research & Technology Center staff will present the *Economic Forces* report to the County Council on March 25