

Economic Forces That Shape Montgomery County

Annual Update 2003

March 2003

Produced by

Research & Technology Center
Montgomery County Department of Park and Planning
Maryland-National Capital Park and Planning Commission

with

RESI Research & Consulting
Towson University

Abstract

Title: Economic Forces That Shape Montgomery County: Annual Update 2003

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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
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<http://www.mc-mncppc.org>

Date: March 2003

Number of Pages: 55

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.

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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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 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 works closely with the Department of Finance and the Department of Economic Development, relying upon them for guidance in identifying 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.

Possibly the 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, a just-completed in-depth look at Montgomery County's biotechnology industry, and an upcoming housing study.

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 Annual Growth Policy, affordable housing, elderly housing, and other issues.

At the request of the Department of Economic Development – a request that has been echoed by others – the Research & Technology Center completed last year an in-depth report on the information technology and telecommunications industries, similar to the previous year's biotechnology industry report. This year the research & Technology Center is preparing an update to our 1993 Shopping Center directory and our inventory of land available for non-residential construction.

Review of Economic Indicators

Each annual update of *Economic Forces That Shape Montgomery County* contains four core areas that 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 each state and reported to the U.S. Bureau of Labor Statistics. These data are tabulated by RESI at Towson University for the Research & Technology Center staff in a format that RESI originally developed to for their own analyses of state and regional economies.
- **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, the Federal Procurement Data Center has not yet released these data for FY 2002. Staff will provide the Planning Board and County Council will 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:** Last year, *Economic Forces* included 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. We have decided to include the housing analysis in this year's report as well, since housing continues to be one of the strongest aspects of the economy and because housing issues are the focus of considerable public attention at this time.

Job Growth

Montgomery County added 2,159 jobs between the second quarter of 2001 and the second quarter of 2002 for a growth rate of 0.5 percent. That is less than one-third the 1.9 percent growth rate (8,323 jobs) recorded between the second quarters of 2000 and 2001. Virtually all of these jobs – 2,079 – were created by the public sector.

Between the second quarters of 2001 and 2002, private sector jobs grew by just 831. The sectors that performed best included construction (up 1,337 jobs; professional, scientific, and technical services (up 1,741 jobs); and health care and social assistance (up 1,692 jobs). Sectors with the largest losses include manufacturing (down 1,520 jobs); administrative, support, and waste (down 2,071 jobs); and real estate, rental and leasing (down 697 jobs).

In last year's report, we noted that public sector job growth was accelerating as private sector job growth slowed. At that time, public sector jobs were growing at a 2.8 percent rate, compared to a 1.7 percent growth rate for private sector jobs. As we now look at job growth between the second quarters of 2001 and 2002, we see that public sector jobs are still growing by about the same rate (2.6 percent), while, as noted the private sector grew by just 0.2 percent.

Montgomery County At-Place Employment

	2001	2002	Change
Private Sector	368,801	369,632	0.2%
Public Sector	81,426	83,505	2.6%
Non-classifiable	1,809	1,058	41.5%
Total jobs	452,036	454,195	5.0%

“Non-classifiable” jobs – jobs for which there was insufficient information to assign them to a particular sector – fell from 1,809 to 1,058, a 41.5 percent decline.

The High Tech Sectors: No Longer Outperforming the Economy

Last year, as the overall job growth rate slowed, Montgomery County's high technology sectors – aerospace, biotechnology, information technology, telecommunications, and high-tech manufacturing – grew more than twice as fast as the economy as a whole. This is no longer true. High tech jobs fell by 6.9 percent between the second quarters of 2001 and 2002 to 71,406 from a high of 80,341 in the fourth quarter of 2000. High tech jobs are about 19 percent of all private sector jobs in the County.

The 71,406 figure 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.

Montgomery County's 6.9 percent decline in high tech jobs is somewhat greater than the state's 8.9 percent decline but less than the national decline of 7.5 percent.

Information technology was the hardest hit of the technology sectors in Montgomery County. Information technology in Montgomery County fell by 17.4 percent, or 4,887 jobs. This compares to a decline of 10.6 percent for the state and a decline of 5.9 percent for the United States. There are now 23,200 information technology jobs in Montgomery County, slightly less than 1988 levels.

Biotechnology is the one bright spot among County tech sectors, growing by 10.8 percent between the second quarters of 2001 and 2002. This is well ahead of the 4.5 percent growth for biotechnology jobs in the state. Nationally, biotechnology jobs grew by just 0.2 percent. Montgomery County now has about 13,300 biotechnology jobs.

Reversing a several-year trend, Montgomery County's aerospace industry lost jobs in the past year, declining 10.4 percent. As in several other high tech sectors, jobs in aerospace peaked in the fourth quarter of 2004, when Montgomery County had 18,852 aerospace jobs. Montgomery County's aerospace industry now has 16,325 jobs.

In last year's report, telecommunications was a high-growth sector for Montgomery County, growing by about 7 percent between the second quarters of 2000 and 2001. That trend just about reversed between the second quarters of 2001 and 2002, with telecommunications jobs declining by 6.9 percent. This was a smaller decline than the 12.8 percent decline for the state and the 8.0 percent decline for the nation as a whole. There are 11,700 telecommunications jobs in Montgomery County.

High tech manufacturing in Montgomery County consists of companies manufacturing industrial machinery, electronic equipment, transportation equipment, and instruments and measuring devices. The sector is relatively small (6,900 jobs) and volatile. Between the second quarters of 2001 and 2002, Montgomery County's high tech manufacturing sector lost 15 percent of its jobs, compared to a 5 percent decline in the state and a 10 percent decline for the nation.

Other Major Sectors

"Business services" is a major component of the County's economy, comprising over 58,000 jobs. Business services jobs peaked in the first quarter of 2001 at 62,126 jobs. Between the second quarters of 2001 and 2002, business services jobs in Montgomery County declined 6 percent, compared with an 8.2 percent drop in the state and a 3.3 percent drop nationally.

Engineering and management services is a sector that includes engineers, architects, accountants and management consultants. Engineering and management services jobs fell by 1.7 percent in Montgomery County between the second quarters of 2001 and 2002, compared to a 2.7 percent decline at the state level and a 1.6 percent decline nationally. There are now 32,612 engineering and management services jobs in Montgomery County.

Another Montgomery County “signature” industry is the hotel and lodging sector because we are home to the headquarters of two of the nation’s leading hotel corporations, Marriott and Choice. This industry was hit very hard by September 11 and the economic downturn. Lodging industry jobs declined by 17 percent between the second quarters of 2001 and 2002. There are 6,533 lodging industry jobs in Montgomery County.

The highest-paying sectors (employing more than 500 people) in Montgomery County are: security and commodity brokers (average wage: \$89,100), broadcasting (average wage: \$86,100), chemical manufacturing (average wage: \$81,400), telecommunications services (average wage: \$81,200), computer and electronic product manufacturing (average wage: \$78,800), utilities (average wage: \$76,600), wholesale durable goods (average wage: \$75,700), and professional, scientific, and technical services (average wage: \$65,300),

The average salary paid by a Montgomery County job in the second quarter of 2002 was \$46,500 per year, about \$500 more than the previous year. The average private sector job pays about \$43,600 while the average public sector job pays \$59,400. The comparatively higher salaries paid by the public sector are due to federal government salaries, which average \$74,400. Of the major private sectors, the “arts, entertainment and recreation” sector pays the lowest average wages, about \$17,500 per year.

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 2001, the federal government pumped \$10.6 billion dollars into the County’s economy in the form of federal expenditures, 22 percent of all the federal expenditures in Maryland. The federal government spent \$3.9 billion to purchase goods and services, paid \$3.1 billion in wages and salaries to County workers, and paid County residents \$2.7 billion in direct payments to individuals for retirement and other benefit programs.

Federally Leased Space

Federally leased space has remained relatively unchanged since December 1999. The General Services Administration (GSA) leases 6.7 million square feet of space in Montgomery County, an increase of almost 2 percent compared to the 6.6 million square feet leased in March 2002. GSA leases about 11 percent of the County’s existing rental office space and pays an annual rent totaling \$135 million.

Over half of GSA’s inventory, 67 percent or 4.5 million square feet, is occupied by the Department of Health and Human Services. The Department of Commerce is the

only other agency occupying more than 1 million square feet of GSA leased space, its 1.1 million square feet is 17 percent of GSA's inventory in the County.

Over half of GSA's leased space is in the Rockville area, which includes most of North Bethesda. GSA leases 3.7 million square feet of space in the Rockville area, 55 percent of their County inventory. Two other areas have over 1 million square feet of GSA leased space: Silver Spring has 1.2 million square feet (18 percent) and Bethesda has 1 million square feet (15 percent).

About 80 percent of GSA's leased space, 2.8 million square feet, is up for renewal in the next 3 years (2003-2005). Health and Human Services occupies about 80 percent of this space, mainly in the Rockville area. If recent history is any indication, GSA will likely renew most of these leases. GSA renewed all the 11 leases up for renewal in 2002. 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 59,900 workers in 2003, an increase of about 2 percent or 1,300 workers compared to 2002. The increase in workers is almost evenly split between owned and leased facilities. Most of the increase is at the National Institutes of Health and the National Imagery and Mapping Agency. The National Institute of Standards and Technology, the Nuclear Regulatory Commission, and the U. S. Army Adelphi Laboratory Center reported more modest gains. The Department of Energy reported a slight decline.

Collectively, the agencies anticipate job levels increasing by about 9 percent (5,600 jobs) in the next 2 years reaching a total of about 65,500 workers in 2005. If this forecast holds, it would be the first time workers at these agencies would exceed 60,000 since 1994 when they reported 61,400 workers. They anticipate job increases of 11 percent between 2005 and 2015 when workers at these agencies will number about 72,400.

Given the federal policy of shifting workers from leased space to owned space, workers at federally owned space are expected to increase by about 13,700 between 2003 and 2015. The main shift from leased to owned space would be the Food and Drug Administration's consolidation at their facility in White Oak and the anticipated purchase by the federal government of the National Oceanic and Atmospheric Administration's 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. NIH anticipates adding about 5,700 workers in leased space between 2003 and 2015. Other Health and Human Service agencies might also increase workers in leased space and most of the other agencies anticipate workers in leased space remaining at current levels.

Commercial Space Market

Last year at this time we said that the office market was about to enter a mild recession that should last about a year. That recession has lasted until now and appears to be ending as predicted.

In the past year office vacancies in the County have increased by 2.7 million square feet from 10.8 percent to 12.8 percent including sublet vacancies. Occupied office space increased by 1.2 million square feet, indicating expansion of about 2.5 percent in office use. Class A occupancy increased 5.9 percent.

The amount of space available for sublet has declined from its highs of December of 2002 but has slipped back up a little in the past month. Discovery's office space in Bethesda may add to the sublet vacancy rate as they move more employees into their new Silver Spring headquarters.

Class A office rents have rebounded some since October but have slipped back a little in the past month. The 800,000 square feet of office space under construction is 69 percent pre-leased, a strong indicator.

Buildings proposed for completion in 2003 and 2004, but not under construction yet, have almost no pre-leasing so they are unlikely to be started until an economic recovery is clear. This will enable office market recovery to proceed without added new space to hold down rents.

Finally, the flex and industrial space markets are solid with added space, declining vacancies near 6 percent and increasing rents.

Housing Market

Record low interest rates have kept housing comparatively affordable despite rising prices. The effects of the continued downturn in many sectors of the economy on other investment opportunities may also have contributed to the attractiveness of housing. The median income household could afford the median priced townhouse in mid-2002, new or existing, according to the Department of Park and Planning's Affordability Index. New single-family detached housing, however, remained far out of reach for most households at a median price of \$475,700 for the first two quarters of 2002.

The median price of all single-family housing reached a new high of \$260,000 at the end of the second quarter of 2002. The median price of new townhouses remained basically flat, while new and existing detached and existing townhouses all increased substantially. The level townhouse price probably reflects a shift to more construction in the I-270 corridor compared to the more expensive down-County areas, rather than a flattening of prices.

In spite of rising prices, time on the market before a house is sold continued to decline, dropping to 26 days from 29 the previous year. Time on the market increased in the last quarter of the year to 29 days, but an increase is typical of the fourth quarter. Meanwhile, the number of units sold declined slightly, one of the few single-family indicators to remain essentially unchanged.

Rental housing vacancies and rents moderated somewhat according to the 2002 Department of Housing and Community Affairs (DHCA) survey. Vacancies rose from a record low of 1.8 percent to a still very low 3.5 percent between 2001 and 2002. Rents rose 4.5 percent to an average of \$1,076, following an 11 percent increase in 2001. This modest improvement in the rental market stems from a combination of renters moving to home ownership to take advantage of low interest rates and an increase in apartment construction.

Residential completions reached a 12-year high of 5,485 units. Multi-family led the way with 2,044 units, 46 percent above the previous year. Townhouse completions almost doubled from 776 in 2001 to 1,529 in 2002, while single-family detached completions declined slightly from 2,005 to 1,912.

The number of single-family units in the pipeline of approved development edged ahead of multi-family approvals for the first time in several years. The shift appears to reflect the market's response to the booming single-family sales market.