

Economic Forces That Shape Montgomery County Annual Update 2003

2003 Conclusions

- Local economy exhibits strengths in face of national downturn
- Job growth: flat overall, tech sectors among hardest hit
- Federal impact: leasing & employment outlook still strong
- Commercial market: short, mild recession ending
- Housing market: still strong but leveling off.

Pluses & Minuses

- + Jobs: biotech up, unemployment rate declines, assistance caseload still low
- + Federal government retains strong role as employer and tenant
- + County in good position to weather commercial space recession
- + Housing market still strong

Pluses & Minuses

- Job growth weak overall, tech and high-wage industries decline
- Commercial construction: exiting short, mild recession phase; vacancy rates are up

Federal procurement data

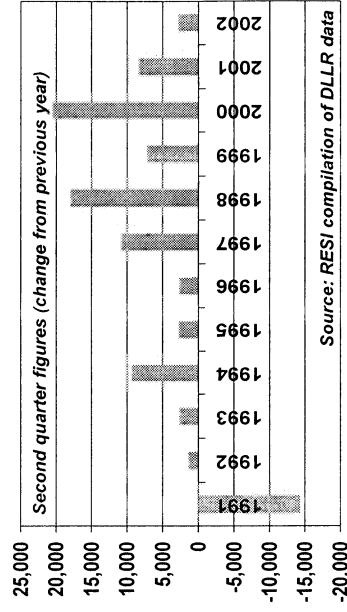
The Federal Procurement Data Center has not yet released procurement data for FY 2002. They expect to release the information within the month. As soon as it is available, staff will prepare and distribute our annual analysis of Montgomery County's federal procurement trends.

Job Growth Performance

Job growth themes

- Job growth slowed to 2,159 - just 0.5%.
- Most sectors saw little change, but high technology lost 6.8%.
- Biotech shines among tech sectors.
 - Aerospace: down 10.4%
 - Biotechnology: up 10.8%
 - Information technology : down 17.4%
 - Telecommunications: down 6.8%
- Higher income industries lost jobs.

Annual job growth: 2,159 jobs



Between the second quarters of 2001 and 2002, Montgomery County added 2,159 jobs, growing 0.5 percent.

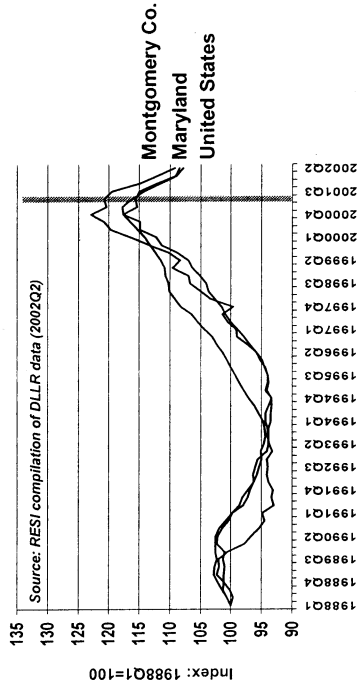
Little change in most sectors

2001 2002 Change

Natural Resources and Mining	460	487	5.9%
Construction	27,883	29,220	4.8
Manufacturing	19,034	17,514	-8.0
Trade, Transportation and Utilities	65,312	65,377	0.1
Information	17,060	16,063	-5.8
Finance Activities (incl. Real Estate)	33,429	33,304	-0.4
Professional & Business Services	96,338	96,015	-0.3
Education & Health Services	49,801	52,051	4.3
Leisure & Hospitality Services	38,103	38,015	-0.2
Other Services	21,251	21,543	1.4
Private Sector	368,801	369,632	0.2
Public Sector	81,426	83,505	2.6
Federal Government	40,075	40,753	1.7
State and Local Government	41,351	42,752	3.4
Non-classifiable	1,809	1,058	-41.5

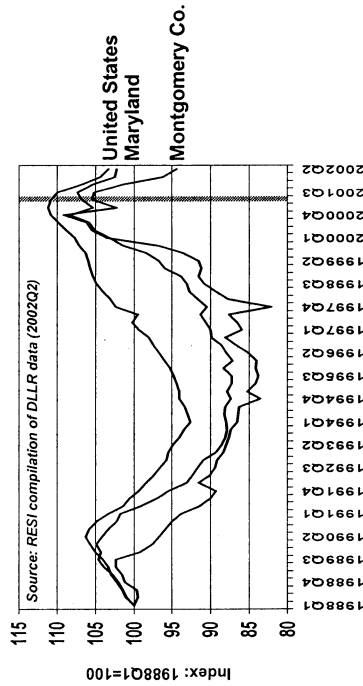
Source: RESI compilation of DLLR data (2002Q2)

Tech jobs drop to 1997 levels



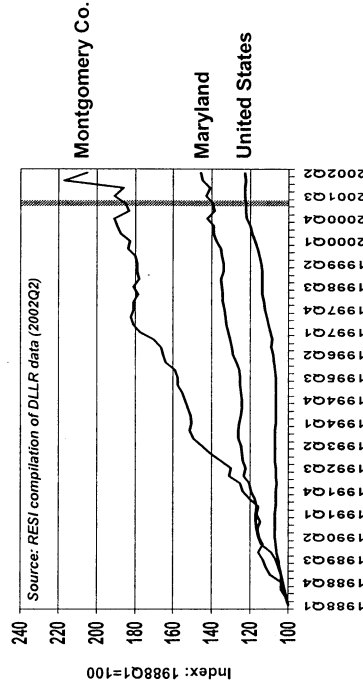
There are 71,400 high tech jobs in Montgomery County.

Aerospace rebound falters



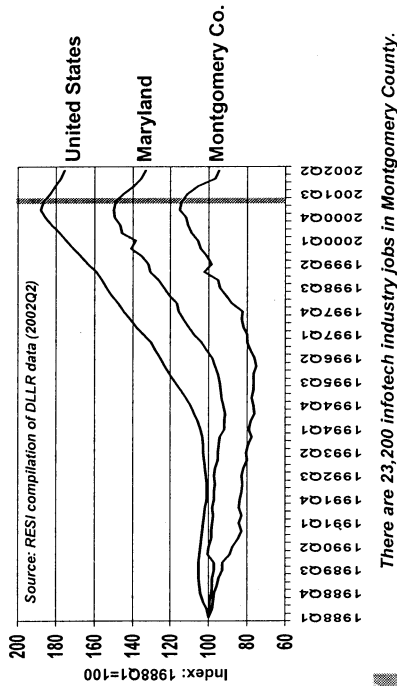
There are 16,325 aerospace industry jobs in Montgomery County.

Biotech grows 11%

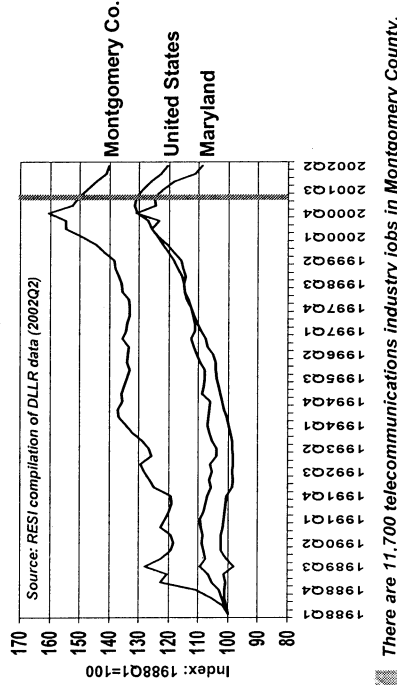


There are 13,300 biotech industry jobs in Montgomery County.

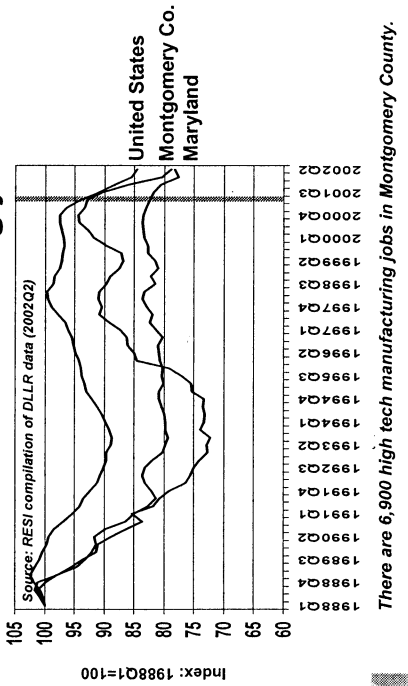
County Infotech jobs down 18%



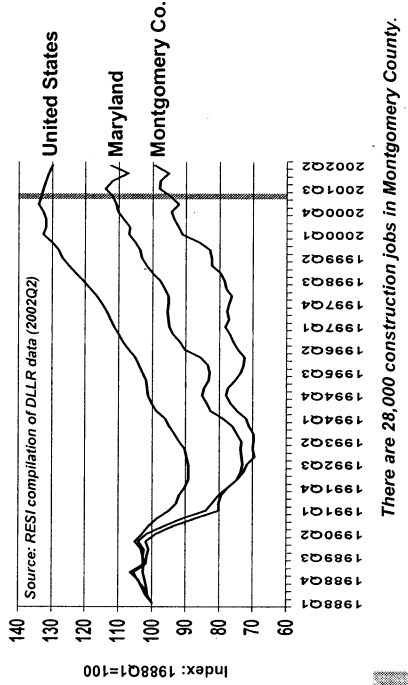
Telecom: County down 7%



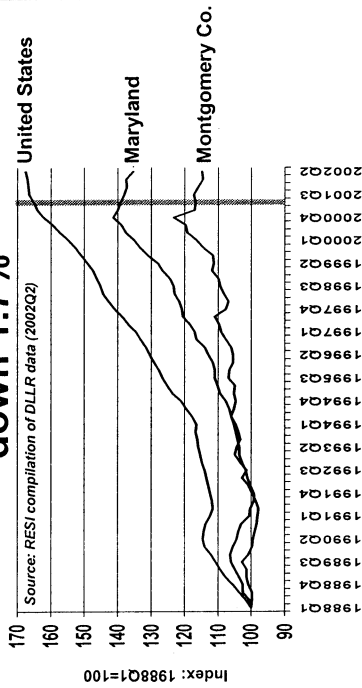
County has 1,100 fewer high tech manufacturing jobs



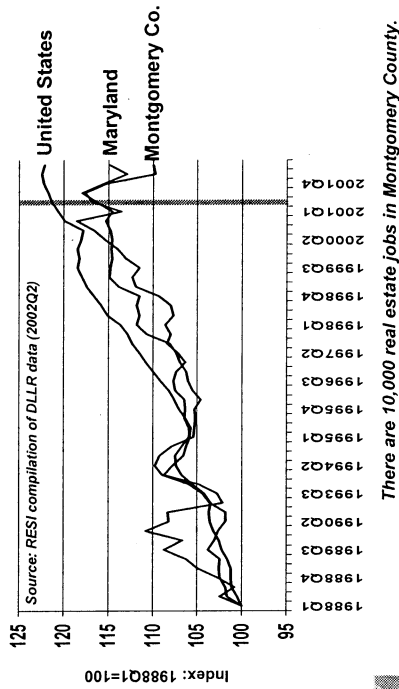
County construction job growth rate accelerates to 5.8%



Engineering & management services down 1.7%



Real estate jobs down 6%

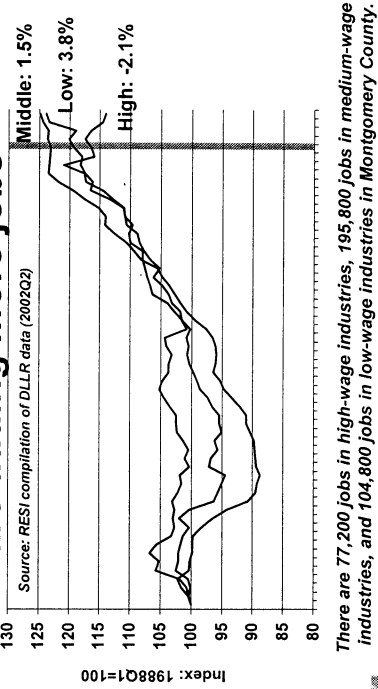


How well do the new jobs pay?

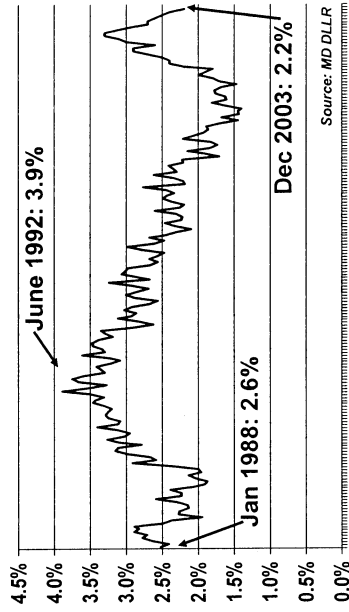
We track job growth by average salary to show how well new jobs are paying:

- High: Industries with jobs that pay an average of \$50,000
- Medium: Industries with jobs that pay an average of \$30,000 to \$49,999
- Low: Industries with jobs that pay an average of less than \$30,000

Lower income industries are adding more jobs

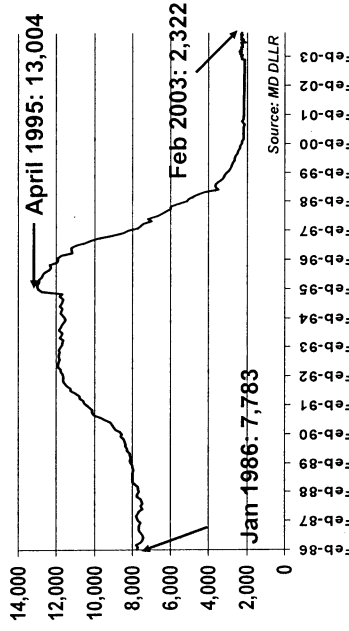


Jobless rate falls to 2.2%



There are 11,500 unemployed persons in Montgomery County.

TCA caseload still low



There are 2,322 recipients of temporary cash assistance in Montgomery County.

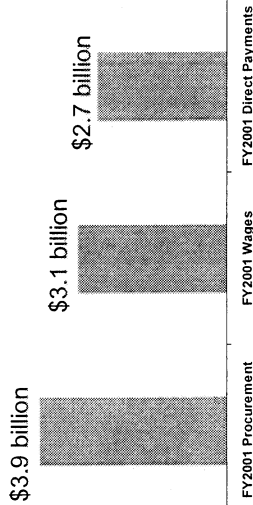
Federal Government Role

The federal government is a major component of Montgomery County's economy

- As an employer,
- Almost 60,000 workers are in federal space,
 - In FY2001, the federal government paid \$3.1 billion in wages to jobs in Montgomery County
- As a tenant,
- The General Services Administration leases 6.7 million square feet of commercial space in the County,
- As a purchaser of goods and services,
- FY01's federal procurement is \$3.9 billion the County's all-time high.

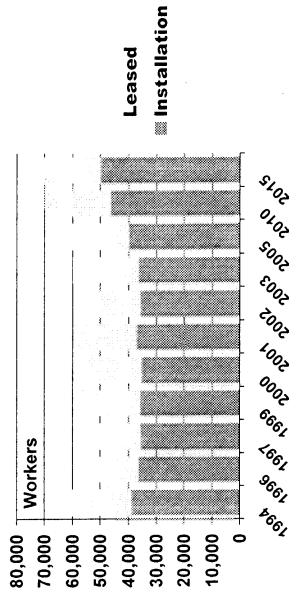
Worth \$10.6 billion

- The federal government pumps billions of dollars into the County's economy.



Source: Consolidated Federal Funds Report

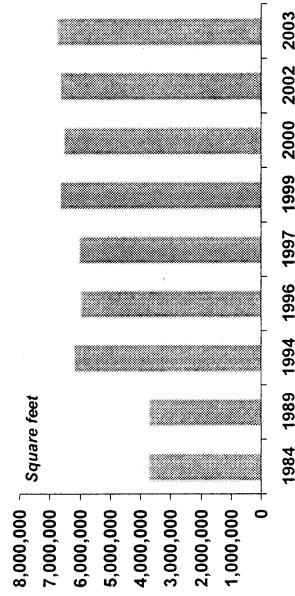
Federal jobs expected to exceed 1994 levels by 2005



By 2015, jobs at installations are expected to grow by 38 percent above current levels. Jobs in leased space are expected to fluctuate between 22,300 and 25,500.

Source: M-NCPPC analysis of US government data

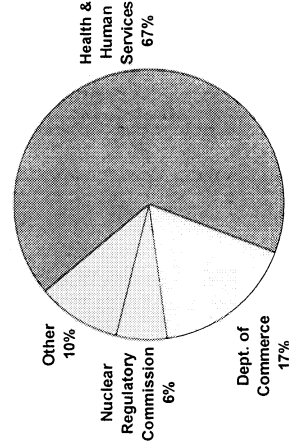
Federal leasing reaches 6.7 million s.f.



Since 1994, GSA has leased between 6.0 and 6.7 million square feet of commercial space in Montgomery County

Source: General Services Administration (GSA)

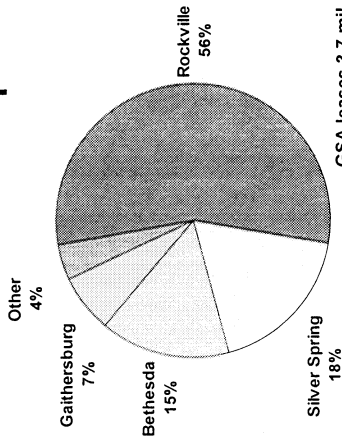
Health & Human Services leases the most space



HHS & Commerce account for 84 percent of the County's federal leased space, 5.6 million sq. ft. out of a total of 6.7 million sq. ft.

Source: General Services Administration (GSA)

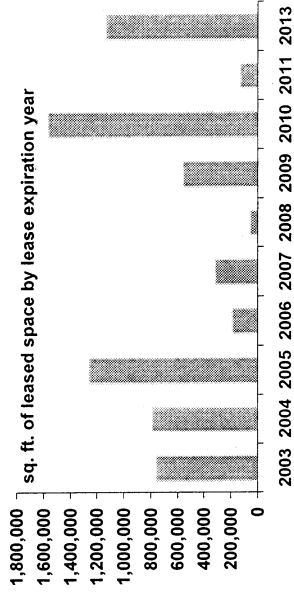
Rockville area home to most federal leased space



GSA leases 3.7 mil. sq. ft. in Rockville (which includes most of North Bethesda), 1.2 mil. sq. ft. in Silver Spring, and 1.0 mil. sq. ft. in Bethesda.

Source: General Services Administration (GSA)

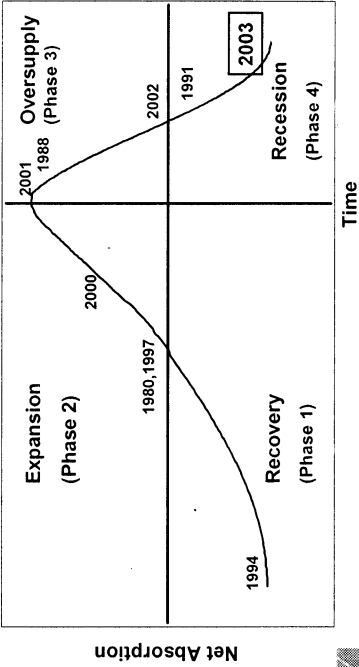
Leases for 2.8 million s.f. up for renewal in 2003-2005



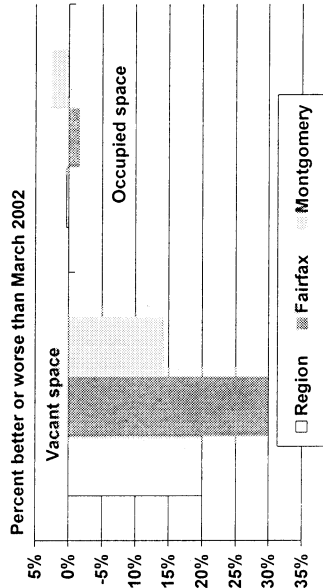
Source: General Services Administration (GSA) 41 percent of GSA's leased space in Montgomery County is renewable in the next 3 years (2003-2005)

Where Is the County's Office Market Headed?

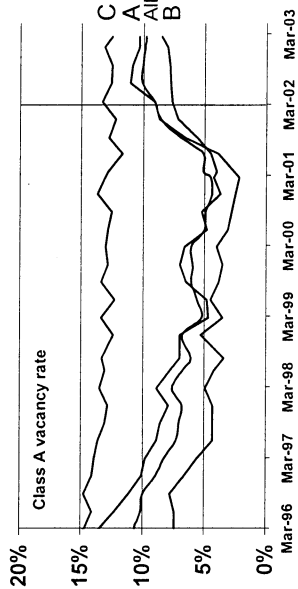
The real estate cycle provides a framework for understanding



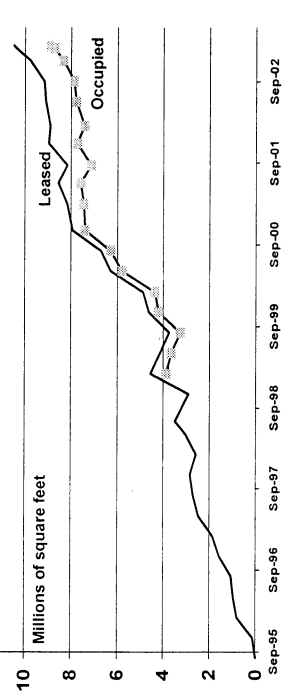
Montgomery fared better than Fairfax and region



Class A Office Vacancy Rates Have Started to Decline

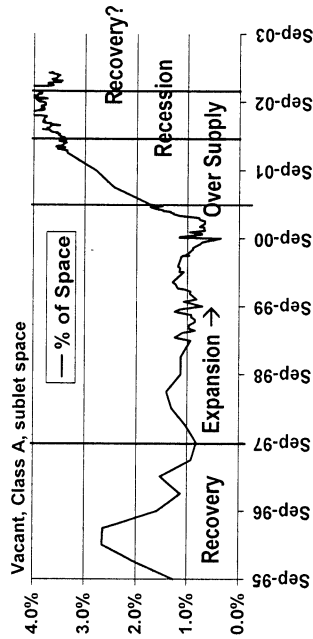


Office leasing & occupancy continue to grow

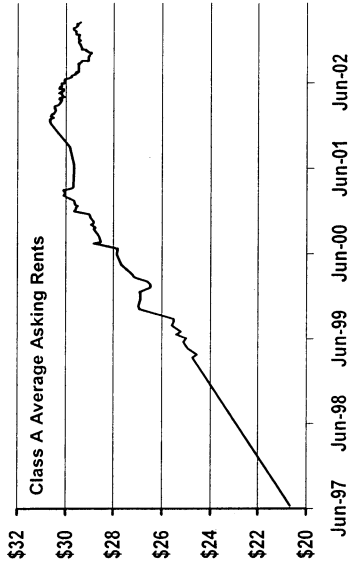


Office leasing and occupancy growth in Montgomery County since 1995. The symbols show sublet vacancy subtracted

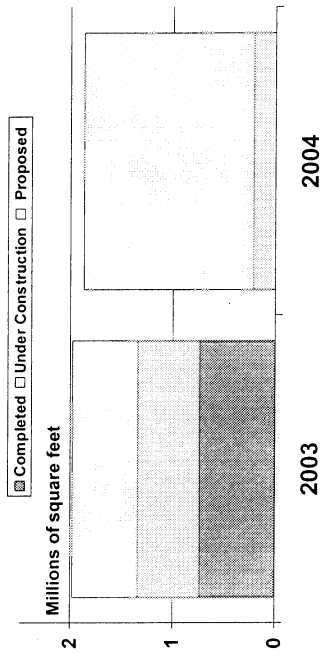
Vacancy rate sign of possible recovery



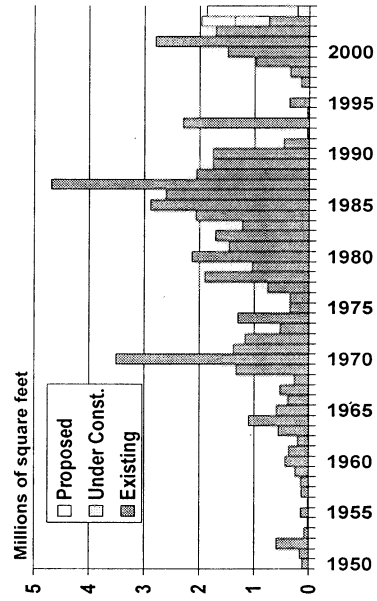
Class A rents have rebounded some since October



Looking ahead – office under construction is 69% leased



Montgomery County Office Construction Cycles



Office Market Recovery Positive Indicators

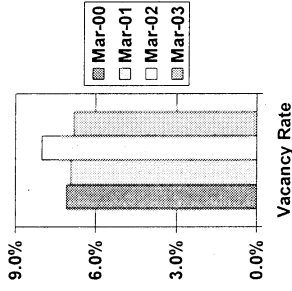
- Office space under construction now is already 69% leased.
- Buildings not yet started have almost no preleasing so are unlikely to be started.
- There is positive space absorption.

Office Market Recovery Negative Indicators

- Leasing of new buildings often leaves sublet space vacant.
- U.S. economy is in the doldrums, undermining confidence.
- There are still 800,000 sq. ft. under construction.
- 4.5 million sq.ft. available for economic growth (to get to 5% vac.).

Flex & Industrial Space Is Doing Better Than Office

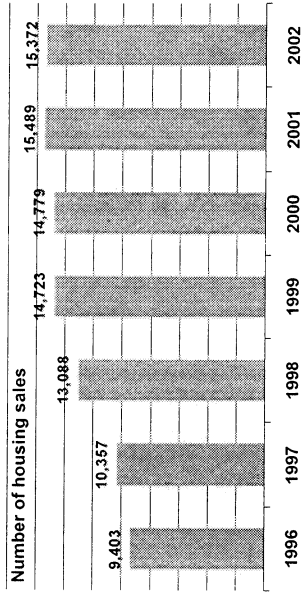
- Declining vacancy rate now at 6.8%
- Positive absorption
- Increasing rents



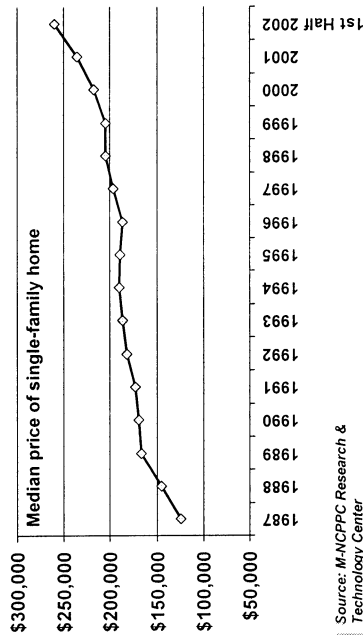
Residential Market Indicators Are Strong

Growth in Some Indicators
Appears to Slow

Number of housing sales high and steady

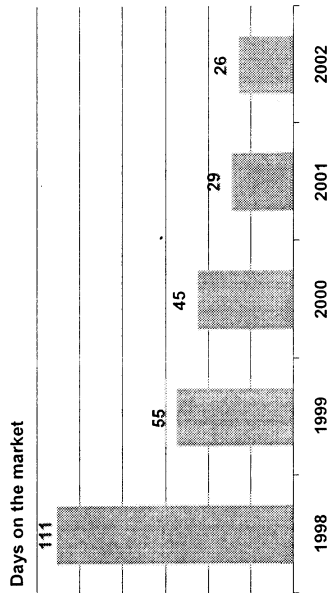


Housing prices continue to rise



Source: M-NCPPC Research & Technology Center

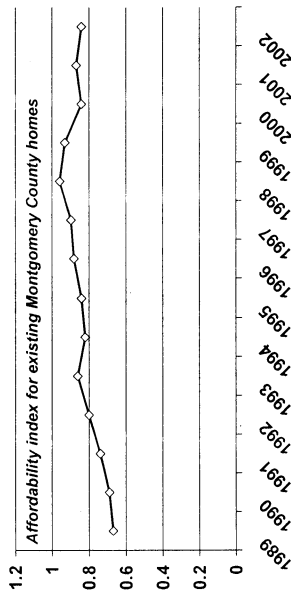
Housing units continue to sell quickly



Sources: MRIS, COG

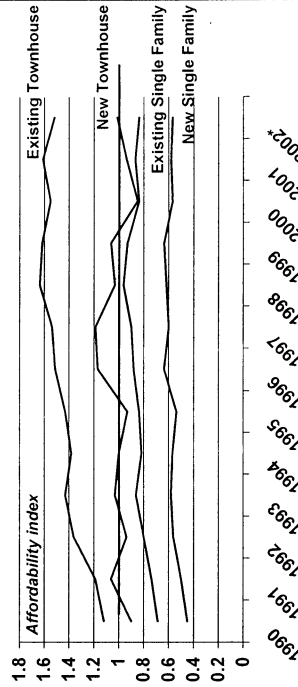
Housing affordability shows slight decline

But a rise in interest rates could increase this.



Source: M-NCPPC Research & Technology Center

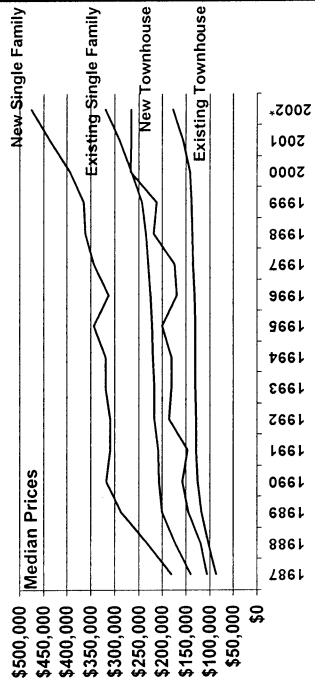
The median income household can afford the median priced townhouse



Source: M-NCPPC Research & Technology Center

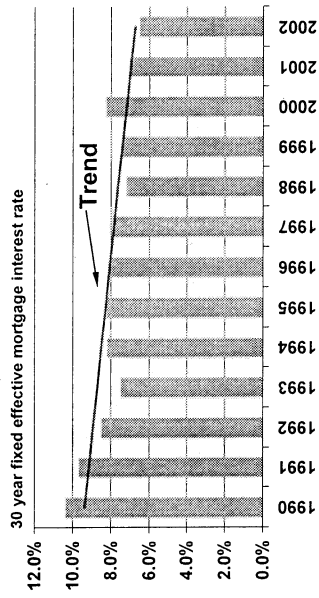
2002 brings marked increase in most prices

New townhouse prices stabilize



Source: M-NCPPC Research & Technology Center

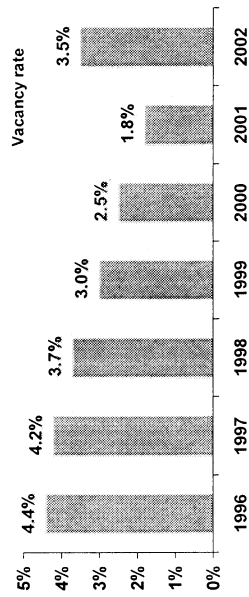
Mortgage rates continue to fall



Source: Federal Home Loan Bank Board.

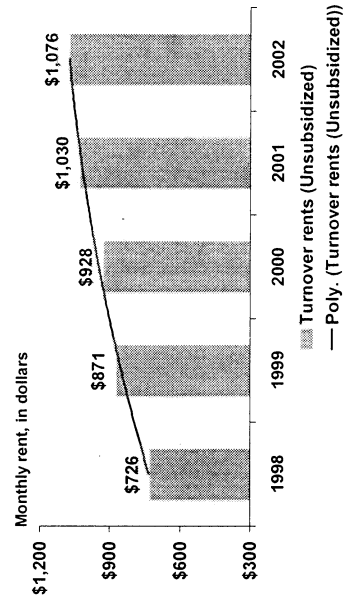
Apartment vacancy rates rise

Economic downturn, new units reduce pressure



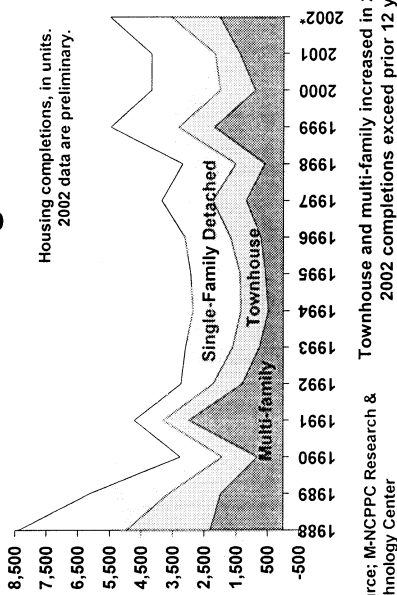
Source: Montgomery County Office of Landlord-Tenant Affairs

Rents continue upward trend



Source: Montgomery County Office of Landlord-Tenant Affairs

About 65,500 new units were built from 1988 through 2002



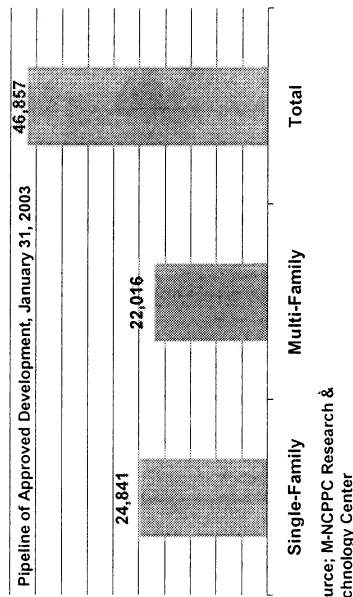
Source: M-NCPPC Research & Technology Center
Townhouse and multi-family increased in 2002; 2002 completions exceed prior 12 years

Major 2001 completions include:

- King Farm 542
- Fallsgrove 439
- Avalon Bay 386
- Kingsview Village 289
- Kings Crossing 289
- American University Housing* 250
- Pinnacle (Germantown Town Center) 211

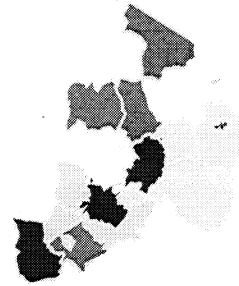
Source: M-NCPPC Research & Technology Center
*Conversion from office to residential use.

Single-family approvals exceed multi-family, reversing recent trends



Source: M-NCPPC Research & Technology Center

I-270 Corridor focus of approved residential development



5,000+
4,000-4,999
2,000-3,999
1,000-1,999
500-999
>500

Source: M-NCPPC Research & Technology Center
Pipeline of Approved Development, January 31, 2003