



MONTGOMERY COUNTY ECONOMIC INDICATORS BRIEFING

2022 | Q4



ECONOMIC INDICATORS BRIEFING 2022 Q4

This is the 14th edition of the quarterly joint publication between the Montgomery County Economic Development Corporation and Montgomery Planning. Each edition explores a range of indicators, including resident labor force, employment, commercial real estate, and venture capital information. This briefing explores trends observed in Q4 2022, along with a report detailing annual trends in the commercial real estate sectors.

EMPLOYMENT OVERVIEW

This section focuses on Montgomery County labor force participation regardless of where the job is located.

RESIDENT LABOR FORCE¹

	Dec. 2022 (p)	Dec. 2021	Change from Dec. 2021	Change from Dec. 2019 (before pandemic)
Labor Force	546,421	547,420	-999	-30,939
Employment	531,391	524,366	7,025	-30,608
Unemployment	15,030	23,054	-8,024	-331
Unemployment Rate	2.8%	4.2%	-1.4%	0.1%

Note: BLS county figures were statistically adjusted in April 2022 and should not be compared to prior releases of this report. Figures are non-seasonally adjusted

Total employment has continued to make strides since December 2021. Total employment grew by 7,000 and unemployment is 1.4 percentage points lower. Still, the county's total labor force and total employment remains smaller than it was in December 2019, prior to the pandemic. However, the December 2022 preliminary unemployment rate is only 0.1% above December 2019.

The following table lists the **20 fastest growing occupations in Montgomery County**. These come from across the wage continuum. Software developers and waiters and waitresses added the most jobs. Four higher-paying occupations – software developers, project management specialists, general and operations managers, and business operations specialists — were in the **top ten for growth**. The highest percentage increases among the top 20 were among restaurant and bar occupations – bartenders, cooks, servers, and restaurant hosts and hostesses – as the food serving sector continues to recover.

¹ US Bureau of Labor Statistics, Local Area Employment and Unemployment (Dec. 2022 preliminary)

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TWENTY HIGHEST GROWTH OCCUPATIONS IN MONTGOMERY COUNTY IN 2022 Q3²

Occupation Group	Employment Q3 2022	1-Year Change	% Change	Annual Mean 2021 Wage
Software Developers	8,577	886	11.5%	\$139,300
Waiters and Waitresses	5,277	855	19.3%	\$39,500
Restaurant Cooks	3,148	601	23.6%	\$38,700
Project Management Specialists	5,664	530	10.3%	\$119,100
General and Operations Managers	10,650	494	4.9%	\$153,400
Fast Food/Counter Workers	8,569	488	6.0%	\$32,800
Business Operations Specialists	7,856	470	6.4%	\$102,700
Personal Care Aides	7,153	424	6.3%	\$32,700
Food Prep. And Serving Supervisors	3,049	324	11.9%	\$48,700
Retail Salespersons	10,453	269	2.6%	\$37,900
Bartenders	1,272	251	24.6%	\$43,000
Preschool Teachers	2,045	250	13.9%	\$46,400
Elementary School Teachers	5,075	242	5.0%	\$93,400
Software Quality Assurance Analysts	2,346	236	11.2%	\$110,900
Managers (Other)	3,639	234	6.9%	\$150,200
Teaching Assistants	3,725	228	6.5%	\$43,000
Restaurant Hosts and Hostesses	1,038	189	22.3%	\$33,700
Dining Room Attendants/Bartender Helpers	1,299	189	17.1%	\$34,200
Shuttle Drivers, Chauffeurs	1,298	178	15.9%	\$40,500
Secondary School Teachers	3,607	159	4.6%	\$93,300

Note: Q3 2022 (Q4 NA at time of publication).

EMPLOYMENT BY MAJOR INDUSTRY SECTOR

This section focuses on employment in significant industry sectors, regardless of employees' county of residence.

Montgomery and Frederick Counties have **gained about 9,000 jobs since December of last year**, a 1.5% increase. The total labor force remains slightly behind December 2019 (pre-pandemic) primarily due to changes in the leisure and hospitality sector. Nonetheless, the important professional, scientific and technical services sector has seen gains from both YOY last year (2,400 jobs, or 2.6%) and December 2019 (up 9.7%). **Systems Design and Services** gained 4.8% over December 2021 and 14.9% from December 2019. **Scientific Research and Development** is up 1.5% YOY and 13.0% since December 2019.

Additionally, the leisure and hospitality sector continued recent YOY gains (4.5%). Much of this sector is comprised of food services and drinking places, which is still about 12% below the comparable month of December 2019, pre-pandemic.

Retail sector jobs are about even YOY (-0.2%) and are a estimated 2,300 below December 2019.

² JobsEQ; Q3 2022 (Q4 NA at time of publication)

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JOBS BY INDUSTRY IN MONTGOMERY & FREDERICK COUNTIES³

Employment in Select Industries	Dec. 2019	Dec. 2021	Dec. 2022	% Change Dec. 2019	% Change Dec. 2021
Total Employees	605,300	592,400	601,200	-0.7%	1.5%
Professional/Scientific/Tech Services	84,800	90,600	93,000	9.7%	2.6%
Systems Design & Services	24,900	27,300	28,600	14.9%	4.8%
Scientific R&D	18,500	20,600	20,900	13.0%	1.5%
Health Care & Social Assistance	82,300	78,700	81,400	-1.1%	3.4%
Retail	59,300	57,100	57,000	-3.9%	-0.2%
Leisure & Hospitality	56,000	48,500	50,700	-9.5%	4.5%
Food Services & Drinking Places	47,200	41,100	41,600	-11.9%	1.2%

Note: BLS county figures are non-seasonally adjusted.

REAL ESTATE AND DEVELOPMENT⁴

REAL ESTATE

Office Real Estate	Q4 2021	Q4 2022	YOY
Gross Rent per sq. ft.	\$30.41	\$30.70	\$0.29
Vacancy	15.5%	16.4%	0.9%
Availability Rate	19.2%	20.6%	1.4%

Montgomery County continues to experience increasing office vacancy rates, reaching 16.4% in Q4, an increase of 0.9 percentage points YOY.



RETAIL

	Q4 2021	Q4 2022	YOY
Gross Rent per sq. ft.	\$28.75	\$31.61	\$2.86
Vacancy	6.3%	5.4%	-0.9%
Availability Rate	7.2%	5.3%	-1.9%

Retail vacancies were 0.9 percentage point lower than they were the previous year. Retail rents, after falling below \$30 per square foot in 2020 and 2021, were \$31.61 in the fourth quarter, for a YOY percentage point increase of about 10%.

MULTI-FAMILY RENTALS⁴

	Q4 2021	Q4 2022	YOY
Effective Gross Rent per Unit	\$1,885	\$1,972	\$87
Vacancy	4.9%	5.1%	0.2%

Effective gross rent is \$87 above the level in the fourth quarter of last year, a YOY increase of 4.6%. The vacancy rate was 5.1%.

³ U.S. Bureau of Labor Statistics, CES (State and Metro)

⁴ CoStar reports pulled by MCEDC

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HOMES SALES

HOME SALES UPDATE⁵

	Dec. 2021	Dec. 2022	YOY
Median Sold Price	\$519,000	\$530,000	2.1%
Closed Home Sales	1,250	669	-46.5%
Active Listings	590	763	29.3%
Average Sold Price to Listing Price Ratio	99.7%	97.8%	-1.9%

Note: data are for all housing sale types, not inflation adjusted.

- **Active Listings:** Shows the number of homes on the market for sale in the month of December 2022, with the change from December 2021. December 2022 showed more active listings (+29.3%) than December 2021.
- **Average Sales Price to List Price Ratio:** Shows the ratio of the sold price to the listing price. A ratio of 100% means that the price of the home sold for was the same as the listing price. This fell slightly (-1.9%) from last December to 97.8% of list.
- **Closed Home Sales:** Shows the number of homes sold in the months of December 2022 and December 2021. There were 46.5% fewer closings in December 2022 than in December 2021.

BUILDING PERMITS

Over the last four years of fourth quarters, single-family home permits peaked in the fourth **quarter of 2020**, during the first fall of the COVID-19 pandemic. Fourth quarter multi-family permits have yet to match their 2019 high of 383 units. Commercial permits had their strongest fourth quarter in 2021, with 512,111 permitted square feet. The fourth quarter of 2022 is the weakest fourth quarter of the last four years in all metrics.

BUILDING PERMITS ISSUED⁶

Permit Type	Q4 2019	Q4 2020	Q4 2021	Q4 2022
Single-Family Permits Issued	221	329	265	205
Duplex Permits Issued	0	2	0	0
Multi-Family Permits Issued (numbers represent units)	383	172	224	164
Commercial Building Permits Issued	33	23	34	8
Commercial Building Permits Sq. Feet	293,335	192,164	512,111	70,226

⁵ GCAAR Monthly Market Reports

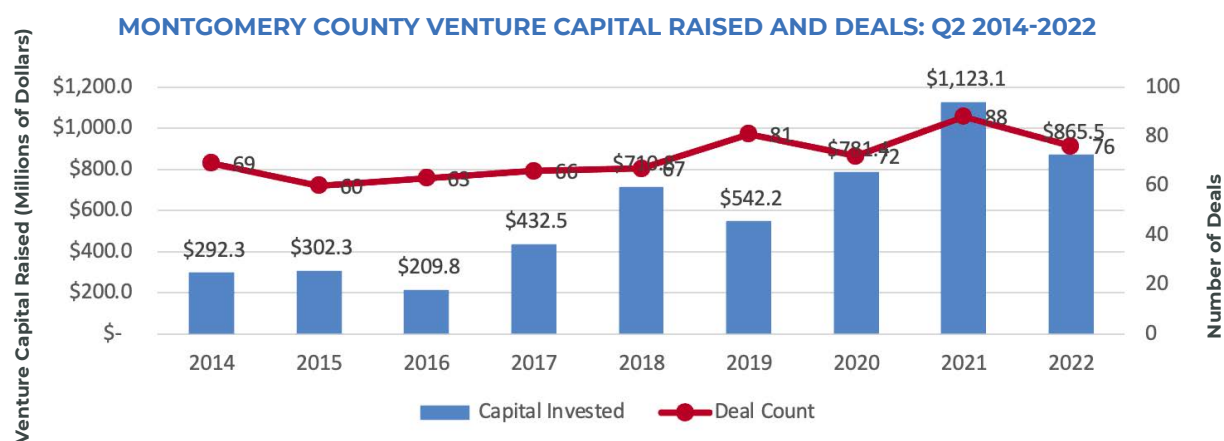
⁶ Department of Permitting Services, pulled by Montgomery Planning

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VENTURE CAPITAL

Investment⁷

This reports annual venture capital investment trends from 2014-2022. The number of annual deals ranged from 60 to 70 through 2018, but have ranged from 72 to 88 subsequently. 2022 venture capital investment was second only to 2021 over the period at \$865.5 million. However, most of that (\$683.1 million) occurred in the first two quarters of the year.



The largest deals in 2022 were Robotic Research (a developer of robotic technology for the transportation and mission-critical sectors), and Aledade (a healthcare technology developer providing quick access to integrated data across the care continuum).

LARGEST VENTURE CAPITAL DEALS IN MOCO IN 2022

Company	Deal Date	Deal Size (Millions)	Industry
Robotic Research	4/1/2022	\$243.0	Business Productivity Software
Aledade	6/6/2022	\$123.0	Healthcare
Adaptive Phage Therapeutics	4/4/2022	\$61.0	Healthcare
RNAimmune	3/29/2022	\$27.0	Healthcare
The Collage Group	9/2/2022	\$25.5	Business Productivity and Services

Robotic Research was by far the largest investment in the business productivity software sector in 2022, while Aledade accounted for all of the Healthcare Enterprise Systems sector. These two deals accounted for more than four in ten venture capital investment dollars in 2022.

VENTURE CAPITAL ACTIVITY IN MOCO IN 2022 BY INDUSTRY

Industry	Total Capital Invested (Millions)	Number of Deals
Business Productivity Software	\$275.1	13
Enterprise Systems (Healthcare)	\$123.0	1
Drug Discovery	\$101.5	12
Non-Financial B2C Services	\$98.2	3
Energy Production	\$90.6	3
Other Industries	\$176.7	44
Total Investment	\$865.5	76

⁷ Pitchbook

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COMMERCIAL REAL ESTATE SUMMARY 2017 TO 2022

This section is a high-level summary of commercial real estate in Montgomery County over the past six years (2017 to 2022), leading into and following the major disruptions caused by the COVID-19 pandemic.

The COVID-19 pandemic posed a significant shock to commercial real estate, and the long-term future of commercial space—especially office space—remains unclear. However, by the end of 2022, the outlook for commercial real estate has significantly improved from its low point during the pandemic. Demand is strong for retail and industrial space, and signs are mixed for office space.

Office

Although the office market faces strong headwinds as employers continue to experiment with and adjust telework and hybrid work policies, office activity in Montgomery County has not been uniformly discouraging. At the same time Montgomery County experienced a net loss of 16 office buildings since 2017, it gained over 1.6 million square feet of space. Almost 1.2 million square feet of office space were built in 2022 alone. This loss of buildings combined with an increase in space suggests that existing buildings were demolished or converted to other uses, while new deliveries are on average larger than the county's existing office inventory.

OFFICE REAL ESTATE TRENDS IN MONTGOMERY COUNTY, 2017-2022⁸

Quarterly	Q4 2017	Q4 2021	Q4 2022	% Change	
				2017-2022	2021-2022
Inventory (Buildings)	1,538	1,515	1,516	-1.4%	0.1%
Inventory (sf)	74,134,862	75,406,125	75,743,507	2.2%	0.4%
Vacant Inventory (sf) (a)	8,636,601	10,947,135	11,330,938	31.2%	3.5%
Vacancy Rate (%)	11.6%	14.5%	15.0%	29.3%	3.4%
Avg. Asking Rent (Gross) (b)	\$28.46	\$30.33	\$30.70		

Annual	2017	2021	2022
Annual Deliveries (sf)	119,263	687,283	1,180,799
Annual Net Absorption (sf)	39,135	(856,174)	(364,340)

(a) Vacant inventory refers to vacant available space, not total vacant space.

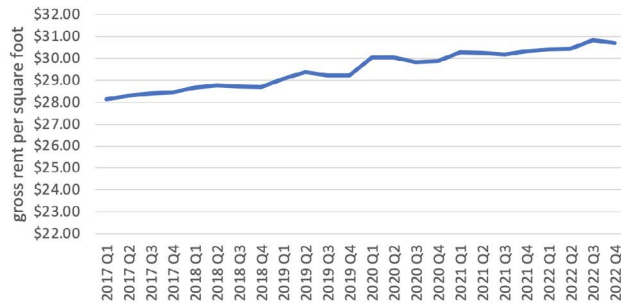
(b) Gross rent refers to rent that includes tenant improvement, common area maintenance, taxes, and utilities costs. Office rents are typically reported as gross rents.

⁸ CoStar, 2023; Montgomery Planning, 2023.

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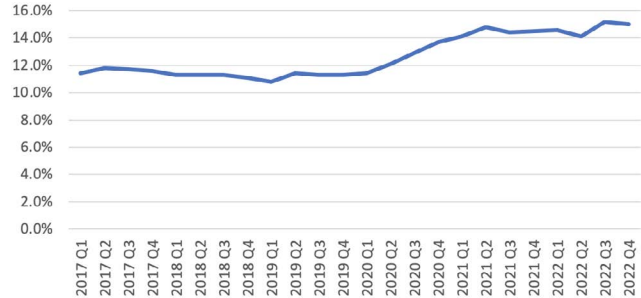
Rents and vacancy rates also tell a mixed story. On one hand, rents are increasing, signaling a stable office real estate market. The average asking rent for Montgomery County has steadily increased at an annualized rate of 1.2% through the pandemic, from \$28.46 in 2017 to \$30.70 per square foot in 2022.

**OFFICE GROSS RENT
IN MONTGOMERY COUNTY, 2017-2022⁹**



On the other hand, the vacancy rate (measured by available vacant inventory as a percentage of all inventory) trend indicates a weakening market. The vacancy rate increased by about two percentage points during the pandemic and has remained elevated above pre-pandemic averages. The rate does appear to have leveled off over the last two years, hovering between 14.8% and 15.2%, suggesting a degree of stability—albeit with persistently high vacancy rates. Net absorption (square footage that became occupied minus square footage that became vacant in a year) was negative in 2022, indicating that the year produced on balance more vacant than occupied space. But absorption was less negative in 2022 than in 2021, suggesting that office space may be finding a new equilibrium.

**OFFICE VACANCY RATE
IN MONTGOMERY COUNTY, 2017-2022¹⁰**



Vacancy and rents usually move in opposite directions; increasing vacancy rates should be a sign that demand is decreasing, which should also cause rents to decrease. But this traditional relationship between vacancy and rents has not been evident in Montgomery County's office sector over the last six years. One possible explanation for this discrepancy is that the county's robust life sciences market, which is a subset of the overall office market, has been strong enough to spur increases in overall square footage and average rents even though it accounts for only about one quarter of the county's total office space. In other words, the especially high rent growth in one relatively small sector of the office market could be disproportionately pulling up the average rents of the entire market. Life science labs generally require workers to be physically present, meaning office inventory is resistant to telework trends. Research labs have also seen increased demand through and since the pandemic, in contrast to traditional office space.

Factors other than the life science industry's expansion may also be contributing to rising office rents during a period of increased vacancy. First, high inflation in recent years may be adding to rents across all sectors. Second, some high-end traditional (i.e. non-life science) office space near urban amenities may still be leasing up at relatively high rents. Finally, offices tend to have 10-year leases, so many organizations have not yet had to make decisions about their future space needs. More research is needed to determine exactly which factors are causing this dynamic in the office market.

⁹ CoStar; Gross rent refers to rent that includes tenant improvement, common area maintenance, taxes, and utilities costs. Office rents are typically reported as gross rents.

¹⁰ CoStar; Vacant inventory refers to vacant *available* space, not *total* vacant space.

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Retail

Trends for retail are more coherent and uniformly optimistic than those for office space. Average rents bottomed out in the last quarter of 2021, on the heels of the pandemic, and then rapidly rebounded to their highest levels in five years by the end of 2022. Similarly, vacancy rates hovered above 5% through the pandemic-induced closures and then sharply declined over 2022 to their lowest levels since 2018. The uncertainty of the last few years may be part of the reason why fewer than 300,000 square feet have been added to the inventory since 2017. Either way, the retail real estate market does not appear to be hampered by lingering effects of the pandemic and may be in a stronger position than it was prior.

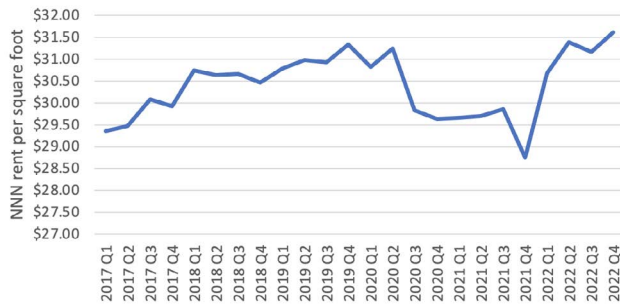
RETAIL REAL ESTATE TRENDS IN MONTGOMERY COUNTY, 2017-2022¹¹

Quarterly	Q4 2017	Q4 2021	Q4 2022	% Change	
				2017-2022	2021-2022
Inventory (Buildings)	2,407	2,406	2,407	0.0%	0.0%
Inventory (sf)	37,124,7	37,171,95	37,408,42	0.8%	0.6%
Vacant Inventory (sf) (a)	1,270,84	1,923,648	1,160,073	-8.7%	-39.7%
Vacancy Rate (%)	3.4%	5.2%	3.1%	-8.8%	-40.4%
Avg. Asking Rent (NNN) (b)	\$29.93	\$28.75	\$31.61	5.6%	9.9%

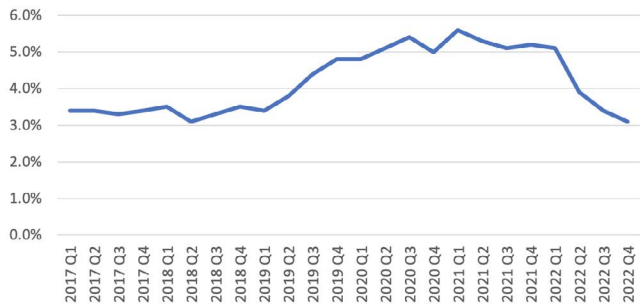
Annual	2017	2021	2022
Annual Deliveries (sf)	291,313	87,914	282,641
Annual Net Absorption (sf)	210,327	(377,002)	562,819

(a) Vacant inventory refers to vacant available space, not total vacant space.
 (b) NNN or Triple-Net rent refers to rent without any tenant improvement, common area maintenance, taxes, and utilities costs included. Retail rents are typically reported in terms of NNN.

RETAIL TRIPLE-NET RENT IN MONTGOMERY COUNTY, 2017-2022¹²



RETAIL VACANCY RATE IN MONTGOMERY COUNTY, 2017-2022¹³



¹¹ CoStar, 2023; Montgomery Planning, 2023.

¹² CoStar; NNN or Triple-Net rent refers to rent without any tenant improvement, common area maintenance, taxes, and utilities costs included. Retail rents are typically reported in terms of NNN.

¹³ CoStar; Vacant inventory refers to vacant *available* space, not *total* vacant space.

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Industrial

Montgomery County's industrial real estate inventory is significantly smaller than either its office or retail inventory. Industrial inventory had been contracting in the years prior to 2022, but with 450,000 square feet under construction in 2022, it is **poised to see its first net gain in five years**. Even as Montgomery County lost two industrial buildings industrial rents continued to rise and vacancy rates continued to decline. Industrial space appears to be in high demand considering the more than 25% increase in rents since 2017 and significant new construction poised to hit the market.

Adding new industrial inventory in a place with relatively high land costs like Montgomery County is difficult, because office, retail, and residential space all command significantly higher rents than industrial space; builders generally opt for the larger returns of these other sectors even when there is observable demand for industrial space. However, the recent industrial indicators suggest that some industrial submarkets are very strong and competitive with other types of commercial and residential real estate.

INDUSTRIAL REAL ESTATE TRENDS IN MONTGOMERY COUNTY, 2017-2022¹⁴

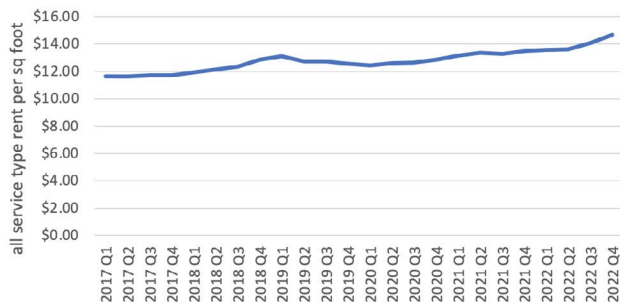
Quarterly	Q4 2017	Q4 2021	Q4 2022	% Change	
				2017-2022	2021-2022
Inventory (Buildings)	659	657	657	-0.3%	0.0%
Inventory (sf)	15,907,5	15,865,32	15,865,32	-0.3%	0.0%
Vacant Inventory (sf) (a)	874,316	661,843	501,272	-42.7%	-24.3%
Vacancy Rate (%)	5.5%	4.2%	3.2%	-41.8%	-23.8%
Avg. Asking Rent (Gross) (b)	\$11.73	\$13.49	\$14.68	25.1%	8.8%

Annual	2017	2021	2022
Annual Deliveries (sf)	330,000	0	0
Under Construction	n.a.	n.a.	450,000
Annual Net Absorption (sf)	253,188	34,331	108,245

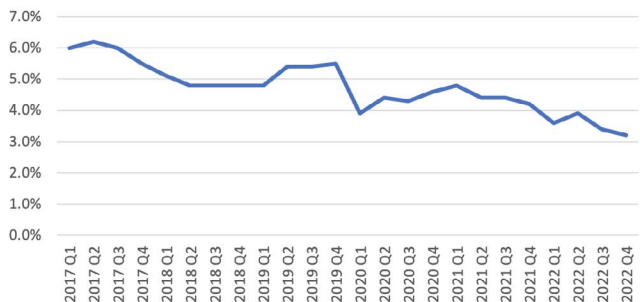
(a) Vacant inventory refers to vacant available space, not total vacant space.

(b) All Service Type Rents is an average of all observed rents regardless of differences in what is included (taxes, utilities, etc.). Industrial rents are typically reported as All Service Type.

INDUSTRIAL ALL SERVICE TYPE RENT IN MONTGOMERY COUNTY, 2017-2022¹⁵



INDUSTRIAL VACANCY RATE IN MONTGOMERY COUNTY, 2017-2022¹⁶



14 Data: CoStar, 2023; Montgomery Planning, 2023.

15 CoStar; all service type rent is an average of all observed rents regardless of whether rent includes tenant improvements. Industrial rents are typically reported this way.

16 CoStar; Vacant inventory refers to vacant *available* space, not *total* vacant space



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ABOUT MONTGOMERY PLANNING

Montgomery Planning helps to improve quality of life by conserving and enhancing the natural and built environments for current and future generations. The Planning Department creates great communities by developing master plans, reviewing applications for development and analyzing various types of information to help public officials plan for Montgomery County's future. Each community within Montgomery County has a master plan that creates a comprehensive view of land use trends and future development.

ABOUT MCEDC

The Montgomery County Economic Development Corporation (MCEDC) is a nonprofit organization created in 2016 to help promote economic development in Montgomery County. A public/private partnership, MCEDC helps to accelerate business growth and retention in Montgomery County. The team connects business decision makers to market intelligence, promotes the County as a prime business location for companies of all sizes to thrive and identifies available incentives and top talent.

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