IN THE CIRCUIT COURT OF MARYLAND
FOR PRINCE GEORGE'S COUNTY

CITY OF BOWIE, MARYLAND v. MIE, INC. et al. Case No. CAE 02-25274

Market Conditions and Dynamics in the Washington Metropolitan Area: 1990-2003

By Stephen S. Fuller, Ph.D.*

The Washington metropolitan area has one of the nation's strongest and most resilient economies in the nation. In term s of total output—the value of goods and services produced locally—it ranks fourth following New York, Los Angeles, and Chicago. It has the fifth largest employment base and ranks sixth by population count. Its economy has out-performed the national economy (grown faster) in each of the last five years and has had the best performing economy of the nation's ten largest metropolitan areas during the 2000-2003 period. In 2000, it generated 114,000 new jobs, tied with New York for the most new jobs. In 2001, it was the only metropolitan area among the top ten to generate net new jobs, and in 2002, it ranked second behind Houston. In 2003, it is estimated that job growth will total about 35,000. The Washington area has had the lowest unemployment rate of any of the ten largest metropolitan areas. In December, unemployment for 3.0 percent compared to the nation's 5.6 percent. The next closest metropolitan area was Atlanta with a 4.0 percent unemployment rate.

This pattern of job growth has a long history with average annual gains of 55,000 over the 1980-2002 period. In fact job growth during the 1980's exceeded gains generated in the 1990's with job growth averaging 4% gains annually, the second fastest following Los Angeles. Still, the gains in the nineties (Table 1) confirm that the Washington area economy continued to grow strongly with gains in both federal spending as well as private sector employment. This pattern of employment growth is important as jobs shifted from government—the federal work force declined by almost 60,000 workers between 1993 and 2000—to knowledge- and technology-intensive services. Understanding these dynamics and their underlying causes is important to marketing real estate development that benefits from these trends and opportunities.

Job Growth Patterns: 1990-2003

The Washington metropolitan area added 455,000 net new jobs during the 1990-2002, a period that included a recession and two years of job decreases (1991 and 1992), downsizing of the federal government (60,000 jobs lost), and the rise and fall of the tech sector. During this period, the principal force behind the economy's re-structuring was the shift in federal policy towards contracting for services. In 1980, total federal procurement outlays in the Washington metropolitan area for work done locally was $4 billion. In 2002, federal procurement outlays in the Washington metropolitan area totaled $36 billion. The economic impact of this increased procurement spending has been documented (NCPC, 2002 and 2003; Brookings Institution, 2002 and 2003). These studies have also documented the shift of procurement outlays in the Washington area to

research and development and to technology-intensive services with total outlays for these services estimated in 2002 at $25 billion up from $19 billion in 2001. The employment impacts resulting since 1990 are presented in Tables 1 and 2.

Table 1

Employment Growth in the Washington Metropolitan Area: 1990-2002
(in thousands)

Year	Area	Change	% Change	SubMD*	Change %	Change
1990	2344.5			778.4		
2002	2799.5	455.0	19.4	927.4	149.0	19.1
2003**	2864.8	38.5	1.4	945.1	0.8	0.1

Source: US Department of Labor. *Calvert, Charles, Frederick, Montgomery and Prince George's County; **December 2002 to December 2003; not average annual.

Table 2

Employment Change by Major Sector
in the Washington Metropolitan Area, 1990-2002
(in thousands)

Sector	Job Change	Percent of Total Job Change
Professional & Business Services	194.9	42.8
Education & Health Services	82.8	18.2
Other Services	46.2	10.2
Leisure % Hospitality	45.0	9.9
Information/Media	23.3	5.1
Financial Services	13.9	3.0
Total Services	406.1	89.2

Source: US Department of Labor

With 455,000 new jobs in the area economy and with 89 percent of these in services and half of these service jobs in professional and business services, the office building

development implications are easily seen. This pattern of job growth continued in 2003, with professional and business services adding 19,000 new jobs between December 2002 and December 2003, accounting for 49 percent of the 38,500 new jobs region-wide. Job growth among all services in 2003 accounted for 77 percent of the job gains. These service sector jobs are a major source of office space demand and accounted for the major improvement in office space absorption (5 million square feet) during 2003.

The Office Market

The office market in the Washington metropolitan area ranks 2nd following New York. In 2002, there was 370 million square feet of office space (A and B Class). The distribution of this space by sub-state jurisdiction and by ownership is presented in Table 3.

The sectoral shifts in the area economy over the past twenty years has favored jobs that utilize office-type spaces with this share increasing from approximately 40 percent in 1980 to almost 50 percent in 2002 (this percentage is higher in the District of Columbia than in the suburbs). The implications of increasing federal spending in the Washington area on its office market and on the health of the economy are clear.

Table 3

Office Space Ownership and Use in the Washington Metropolitan Area
By Sub-state Areas, 1992 and 2002
(in millions of square feet)

Sub-State Area	Privately Owned		Federal Owned	Total Space
	Private Use	Federal Use		
District of Columbia				
1992	82	13	20	115
2002	89	18	32	139
Suburban Maryland				
1992	58	5	2	65
2002	67	8	6	81
Northern Virginia				
1992	93	13	6	112
2002	127	16	7	150
Totals				
1992	233	31	28	292
2002	283	42	45	370
% Change	21.4	35.5	60.7	26.7

Source: Delta Associates, Inc. Federally owned space is inclusive of the Pentagon, Navy Annex, and CIA Headquarters reflecting net useable footage.

Core Industries and Federal Spending

The Washington area economy is different than any other metropolitan area economy in the nation. Federal spending is what differentiates it from the others. As seen in Table 4, the area's principal core industry is the federal government and federal procurement spending it the most important type of this spending. Federal procurement spending in the area (Tables 5 and 6) supports the technology sector and influences the building industry. The area's national capital functions link the international and hospitality sectors to the presence of the federal government with all core industries being significantly interdependent. This dependency on the federal government and interdependences among core industries protects the area economy from the full impact of the business cycle and explains why unemployment in the area peaked at only 4 percent (the US rate peaked at 6.4%) and why the tech sector managed to grow even as the bubble was busting elsewhere.

Table 4

Washington Area Core Industries
(in billions of 2003 dollars, and annual percent change)

Core Sector	Direct Value*			Annual Percent Change		
	2002**	2003	2004	2002	2003	2004
Federal Govt Total	$87.5	$93.6	$99.7	10.4	7.0	6.5
Fed Procurement	36.1	39.7	42.9	14.9	10.0	8.0
Technology	41.5	42.1	44.0	1.0	1.5	4.5
Building Industry	20.5	19.6	19.0	- 8.0	- 3.0	- 3.0
International	15.8	16.2	16.7	1.5	2.0	3.0
Hospitality	6.4	6.6	6.8	17.0	3.0	3.5
Overall GRP	$264.6	$274.2	$284.9	2.8	3.6	3.9

Source: GMU Center for Regional Analysis.
*does not include indirect or induced outlays, **actual
Notes: direct spending by core industries are not mutually exclusive (e.g., federal Procurement is included in the federal government total and also is included technology and in the building industry; international visitors are included in both international and the hospitality industry). The output of the core sectors do not add up to total gross regional product as it also includes the indirect and induced effects of all externally generated income within the Washington metropolitan area. Last percent include in 2002 for the hospitality industry reflects its recovery from the effects of 9/11 the previous year that depressed its annual output by an estimated 20 percent.

Table 5

Trends in Federal Procurement in the NCR*, 1990-2000
(in billions of current dollars)

Indicators	District of Columbia	Suburban Maryland	Northern Virginia	NCR
Number of Contractors				
1990				6,451
2000				9,111
% Change				41.2
Places of Performance				
1990	4,015	3,477	4,046	11,538
2000	6,990	4,348	7,251	18,589
% Change	74.1	25.0	79.2	62.1
Value of Awards				
1990	$3.65	$3.67	$5.21	$12.54
2000	7.56	6.11	14.74	28.41
% Change	107.1	66.6	182.8	126.6
% Change in Real GRP**				
1990-2000	13.2	34.7	54.2	35.6

Sources: FPDC; GMU Center for Regional Analysis
*National Capital Region, excludes some Virginia counties that are part of the Primary Metropolitan Statistical Area
**change in inflation adjusted gross regional product

The importance of federal spending to the metropolitan area economy is seen clearly in Tables 4 and 5. Federal spending is projected to total $100 billion in 2004 with federal procurement awards to local businesses totaling almost $43 billion. The Washington area received 16% pf federal procurement spending national wide so as the budget grows the prospects for increased local growth is good. A comparison of federal contractor activity during the nineties (Table 5) shows the number of contractors increasing by 2,660 or 41 percent. Stated another way, there were at least 2,660 new federal contractors moving into the metropolitan area during the 1990's and many located in more than one place. As reported by "place of performance" the metropolitan area had 7,051 more locations (addresses) in which federal contractors were working in 2000 than in 1990, 871 of these were in Suburban Maryland. No only were there more contractors working in more places but the value of their contracts increased by even a greater percentage.

Table 6 presents the jurisdictional distribution of federal contracting during the 1990's.

While the region's total number of federal contractors was increasing by 61 percent and the value of contracting grew by 126 percent, the number of federal contractors working in Prince George's County increased by only 9 percent and the value of their contracts

Table 6

Federal Procurement Awards in the National Capital Region, By Jurisdiction: 1990 and 2000
(in millions of current-year $s)

Jurisdiction	1990	2000	Change	
			Actual	Percent
District of Columbia				
Contractors*	4,015	6,990	2,975	74.1
Award Value	$3,653.1	$7,562.2	$3,909.1	107.0
Montgomery County				
Contractors*	1,947	2,681	871	44.7
Award Value	$2,138.9	$3,917.0	$1,778.1	83.1
Prince George's County				
Contractors*	1,530	1,667	137	9.0
Award Value	$1,529.0	$2,192.1	$663.1	43.4
Alexandria				
Contractors*	599	851	252	42.1
Award Value	$601.3	$1,172.1	$570.8	94.9
Arlington County				
Contractors*	938	1,942	1,004	107.0
Award Value	$907.4	$3,143.8	$2,236.4	246.5
Fairfax County**				
Contractors*	2,140	3,973	1,833	85.6
Award Value	$3,098.6	$9,752.3	$6,653.7	214.7
Loudoun County				
Contractors*	96	243	147	153.1
Award Value	$72.3	$408.8	$336.5	465.4
Prince William County**				
Contractors*	273	241	- 32	- 11.7
Award Value	$535.8	$261.6	- $274.2	- 51.2
NCR				
Contractors*	11,538	18,589	7,051	61.1
Award Value	$12,536.4	$28,409.9	$15,873.5	126.6

Sources: FPDC and GMU Center for Regional Analysis
*contractors are reported by where they are performing the contracted work; when a contractor is performing contract work in more than one jurisdiction, it is counted separately for each jurisdiction of performance. Hence the

number of contractors reported by jurisdiction is larger than the number reported in Table 1 for the National Capital Region.
**includes independent cities

increased by 43 percent, both well below the area's trends. Still, the distribution of this work was wide spread in the metropolitan area. The procurement market is large and growing. Understanding how to market to federal vendors and aggressively seek these locations would appear to be fundamental to successfully marketing a office park for technology-intensive tenants.

Employment Outlook

The patterns of employment growth occurring in the Washington metropolitan area in previous decades are projected to continue for at least several decades. Employment forecasts by the Metropolitan Washington Council of Governments (Round 6.3) for the 2000-2030 period project employment growth of 1.3 million for a 46.3 percent increase. In its February 2004 forecast, NPA Data Services, Inc., a private forecasting organization that prepares projections for all jurisdictions nationwide, projects employment in the Washington metropolitan area to grow by 1.9 million jobs for a 54.9 percent increase over this same period. Job projections for Suburban Maryland by the Council and Governments and NPA Data Services report gains of 489,300 and 560,100 respectively. For Prince George's County, thirty-year employment forecasts by the Council of Governments indicate a gain of 222,500 new jobs. This projected gain represents 45 percent of total job growth in Suburban Maryland over this period. NPA Data Services forecasts Prince George's County jobs to increase by 153,020 or 27.3 percent of Suburban Maryland's total.

While these forecasts vary, they suggested continuing local, sub-state and metropolitan area employment gains that will support substantial building development. If just 50 percent of these new jobs require office-type development, a percentage reflecting job growth patterns in the 1990's, the projected job growth in Suburban Maryland would require office building development ranging from 50 to 56 million square feet (assuming 200 sf per worker). At the metropolitan level, accommodating the projected levels of job growth over the next 30 years would require from 130 to 190 million square feet of new office construction.

The dynamics of the Washington area economy and its disproportional orientation toward technology- and knowledge-intensive services will support significant magnitudes of office-type development over the next three decades continuing a pattern that was established in the 1980's and accelerated in the 1990s. Federal contracting and R&D outlays will continue to be the principal driver behind the area's economic growth with the growth of these functions requiring building sites with good multi-directional transportation access, amenities, and security. These attributes are consistent with the features of the Maryland Science and Technology Center. Consequently, it should be able to penetrate this market with appropriate proactive marketing strategies and targets. The technology-based office market in the metropolitan area is strong, building off of its

well-documented performance in the nineties, and its projected continue growth will require substantial office-type capacity going forward.

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