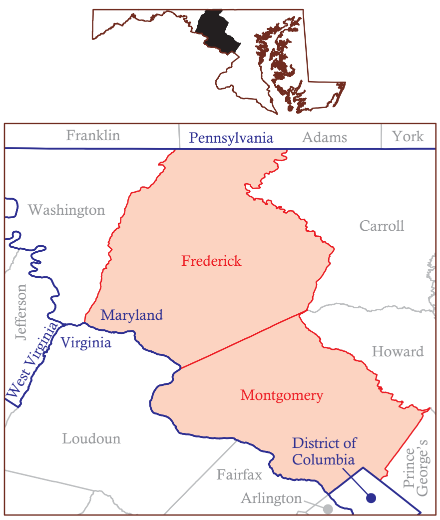
Montgomery-Frederick, Maryland

U.S. Department of Housing and Urban Development | Office of Policy Development and Research | As of January 1, 2016

Housing Market Area



The Montgomery-Frederick Housing Market Area (HMA), which is coterminous with the Silver Spring-Frederick-Rockville, MD Metropolitan Division within the Washington-Arlington-Alexandria, DC-VA-MD-WV Metropolitan Statistical Area (MSA), comprises Montgomery and Frederick Counties in Maryland. This report examines each county as a separate submarket. An established biotechnology industry is a particular economic strength for the HMA, which boasts a highly educated workforce and high household incomes relative to national averages.

Market Details

Summary

Economy

Nonfarm payrolls in the Montgomery-Frederick HMA increased an average of 1.0 percent annually during the past 5 years, culminating in a gain of 8,300 jobs, or 1.4 percent, during 2015. Nearly every sector of the economy added jobs during 2015, with significant contributions from the scientific research, healthcare services, and food services industries. During the next 3 years, nonfarm payrolls are expected to increase annually by an average of 6,450 jobs, or 1.1 percent.

Sales Market

The sales housing market in the Montgomery-Frederick HMA is slightly tight. An increase in sales of existing homes and limited homebuilding activity have contributed to a tightening of the sales market since 2010. During the 3-year forecast period, demand is expected for 8,675 new homes (Table 1). The 970 single-family homes under construction and a portion of the 11,700 other vacant units that may reenter the sales market will satisfy some of the forecast demand.

Rental Market

The rental housing market in the Montgomery-Frederick HMA is balanced, with a vacancy rate of 5.2 percent. Conditions are softer in areas of concentrated apartment construction activity, including the Reis, Inc.-defined Bethesda/Chevy Chase, Rockville, and Frederick County market areas. Demand is estimated for 7,250 new market-rate rental units in the HMA (Table 1). The 2,575 apartments under construction will meet some of the demand.

Table 1. Housing Demand in the Montgomery-Frederick HMA During the Forecast Period

	Montgomery-Frederick HMA		Montgomery County Submarket		Frederick County Submarket	
	Sales Units	Rental Units	Sales Units	Rental Units	Sales Units	Rental Units
Total demand	8,675	7,250	5,900	6,500	2,775	750
Under construction	970	2,575	570	2,225	400	350

Notes: Total demand represents estimated production necessary to achieve a balanced market at the end of the forecast period. Units under construction as of January 1, 2016. A portion of the estimated 11,700 other vacant units in the HMA will likely satisfy some of the forecast demand. The forecast period is January 1, 2016, to January 1, 2019.

Source: Estimates by analyst

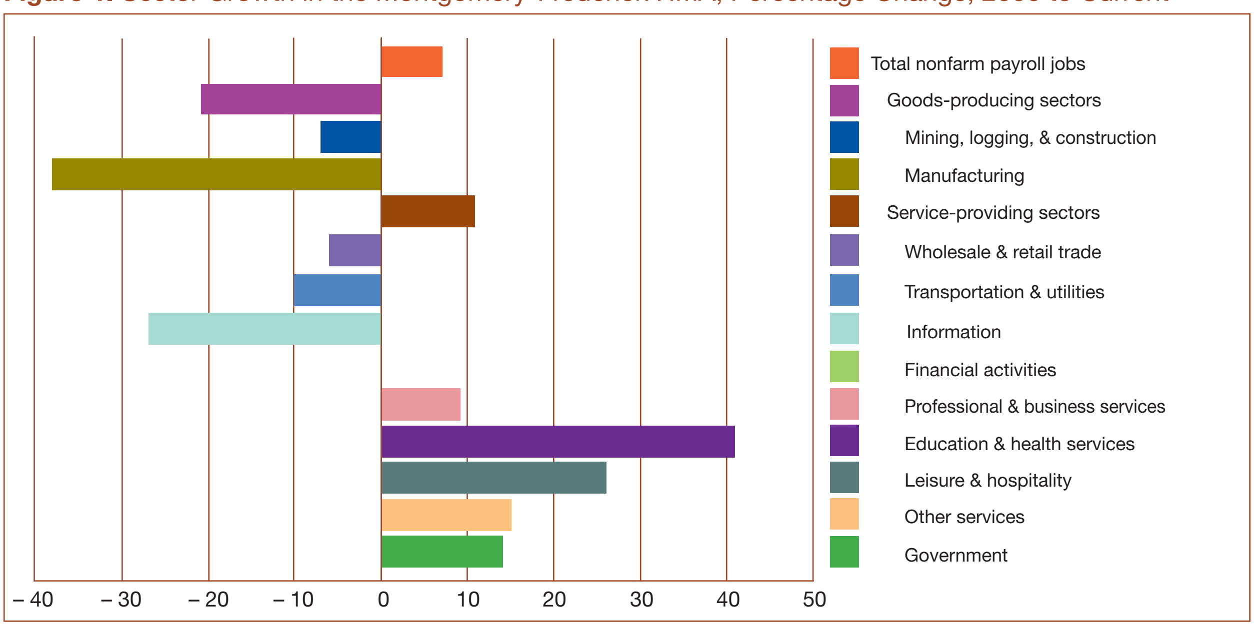
Economic Conditions

Economic strengths of the Montgomery-Frederick HMA include an established biotechnology industry and an emerging cybertechnology industry. These industries are supported by a number of federal government agencies, private manufacturing and research firms, and a highly educated workforce. Approximately 55 percent of the population ages 25 years and older has obtained a bachelor's, graduate, or professional degree compared with only 30 percent nationally (2014 American Community Survey [ACS] 1-year data).

The economy of the HMA has added payrolls during 12 of the past 15 years, mostly because of growth in service-providing sectors. Among all sectors in the HMA, the greatest percentage gain in jobs from 2000 through 2015 was in the education and health services sector (Figure 1). From 2001 through 2007, payrolls in the HMA increased by an average of 4,300 jobs, or 0.8 percent, annually, and the largest gains were in the education and health services and the professional and business services sectors. After the onset of the national recession in December 2007, nonfarm payrolls in the HMA declined by an average of 5,700 jobs, or 1.0 percent, annually from 2008 through 2010. Job losses in most sectors of the economy during this period more than offset gains in the education and health services sector and the federal government subsector. From 2011 through 2014, nonfarm payrolls increased by an average of 4,700 jobs, or 0.8 percent, annually. The sectors that contributed most to gains from 2011 through 2014 were the education and health services and the leisure and hospitality sectors. Holy Cross Germantown Hospital opened in the Montgomery County submarket in October 2014, adding approximately 600 jobs to the education and health services sector.

Payroll growth accelerated to 1.4 percent in 2015 with the addition of 8,300 jobs (Table 2), the most jobs added year over year since 2005.

Figure 1. Sector Growth in the Montgomery-Frederick HMA, Percentage Change, 2000 to Current



Notes: Current is based on 12-month averages through December 2015. During this period, payrolls in the financial activities sector showed no net change.

Source: U.S. Bureau of Labor Statistics

Table 2. 12-Month Average Nonfarm Payroll Jobs in the Montgomery-Frederick HMA, by Sector

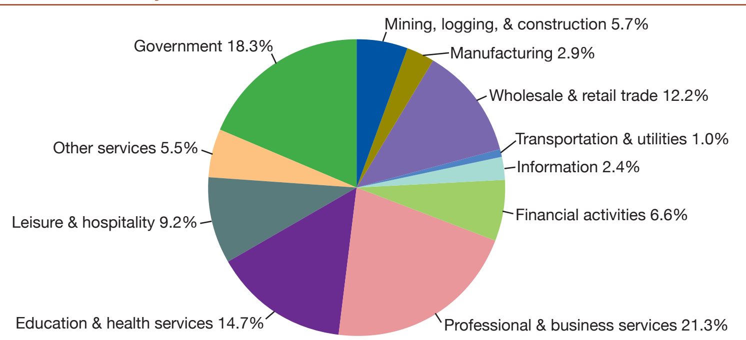
	12 Months Ending December 2014	12 Months Ending December 2015	Absolute Change	Percent Change
Total nonfarm payroll jobs	577,600	585,900	8,300	1.4
Goods-producing sectors	49,700	50,600	900	1.8
Mining, logging, & construction	33,200	33,700	500	1.5
Manufacturing	16,500	17,000	500	3.0
Service-providing sectors	527,900	535,300	7,400	1.4
Wholesale & retail trade	71,500	71,700	200	0.3
Transportation & utilities	5,900	6,000	100	1.7
Information	14,400	14,200	– 200	– 1.4
Financial activities	38,700	38,900	200	0.5
Professional & business services	123,400	125,000	1,600	1.3
Education & health services	83,500	86,300	2,800	3.4
Leisure & hospitality	52,300	53,800	1,500	2.9
Other services	31,800	31,900	100	0.3
Government	106,400	107,400	1,000	0.9

Notes: Numbers may not add to totals because of rounding. Based on 12-month averages through December 2014 and December 2015.
Source: U.S. Bureau of Labor Statistics

The education and health services sector led job growth, increasing by 2,800 jobs, or 3.4 percent. Holy Cross Health, one of the largest healthcare employers in the HMA, completed the construction of a 232,000-square-foot patient tower in Silver Spring, in the Montgomery County submarket, in November 2015. The leisure and hospitality sector gained 1,500 jobs, or 2.9 percent, including an increase of 1,200 jobs, or 3.1 percent, in the food services and drinking places industry. The new 140-room Cambria hotel & suites in the city of Rockville, in the Montgomery County submarket, also added jobs to the leisure and hospitality sector. The hotel is part of a $130 million mixed-use development that also includes the recently completed 263-unit The Upton apartment community and 16,000 square feet of retail space.

The professional and business services sector is the largest in the HMA, with 21 percent of total nonfarm payroll jobs (Figure 2). In 2015, the sector added 1,600 jobs, an increase of 1.3 percent, including a gain of 1,400 jobs, or 8.8 percent, in the scientific research and development services industry. The HMA is home to about 330 biotechnology firms, including GlaxoSmithKline plc and MedImmune, Inc. (Maryland Department of Commerce). GlaxoSmithKline established a vaccine research center in Rockville in late 2015, adding approximately 600 jobs to the professional and business services sector. Other expansions anticipated to add jobs to this sector include those at the National Cybersecurity Center of Excellence, which is currently under construction in the Montgomery County submarket and expected to add 20 jobs on completion in early

Figure 2. Current Nonfarm Payroll Jobs in the Montgomery-Frederick HMA, by Sector



Note: Based on 12-month averages through December 2015.
Source: U.S. Bureau of Labor Statistics

2016, and at VariQ Corporation, a cybersecurity services firm in the Montgomery County submarket that plans to add 250 employees through 2020.

The government sector, which accounts for approximately 18 percent of total nonfarm payrolls, is the second largest sector in the HMA. The National Institutes of Health and the U.S. Food and Drug Administration are major employers in the federal government subsector and are the two largest employers in the HMA, with 17,300 and 13,130 employees, respectively (Table 3). From 2007 through 2012, the federal government subsector increased by an average of 1,400 jobs, or 2.9 percent, annually. Across-the-board federal spending cuts mandated by the Budget Control Act of 2011 (also known as sequestration) led to declines of 400 jobs, or 0.7 percent, annually in the federal government subsector during 2013 and 2014. The budget agreement signed in 2015 contributed to a gain of 600 jobs, or 1.4 percent, in federal government payrolls in the HMA during the past year.

The financial activities sector represents less than 7 percent of nonfarm payroll jobs in the HMA but is one of the highest-paying sectors. Employers in the sector paid average weekly wages of $1,745 and $1,335 in the Montgomery County and Frederick County submarkets, respectively, as of the third quarter of 2015, ranking as the second highest wage by sector in the Montgomery County submarket and the highest wage by sector in the Frederick County submarket. From 2001 through 2007, the financial activities sector added an average of 800 jobs, an increase of 2.0 percent, annually. The sector subsequently declined by 1,200 jobs, or 2.7 percent, annually from 2008 through 2010 because of the national recession. The sector continued to lose jobs from 2011 through 2014 because of losses in the finance and insurance industry, including layoffs of approximately 70 employees at RoundPoint Mortgage Servicing Corporation in the Montgomery County submarket in late 2014. Jobs in the financial activities sector increased during 2015, however, by 200 jobs. An expanding apartment inventory in the HMA led, in part, to a gain of 300 jobs, or 2.4 percent, in the real estate and rental and leasing industry that more than offset a decline of 100 jobs in the finance and insurance industry.

The manufacturing sector is also among the highest-paying sectors in the HMA. With average weekly wages of $1,947 and $1,072, manufacturing is the highest-paying sector in the Montgomery County submarket and the fourth highest-paying sector in the Frederick County submarket. Manufacturing jobs declined 41.5 percent overall from 2001 through 2013 but increased by an average of 400 jobs, or 2.8 percent, annually during 2014 and 2015. MedImmune, a pharmaceutical research and development firm with approximately 2,900 employees

Table 3. Major Employers in the Montgomery-Frederick HMA

Name of Employer	Nonfarm Payroll Sector	Number of Employees
National Institutes of Health	Government	17,300
U.S. Food and Drug Administration	Government	13,130
Naval Support Activity Bethesda	Government	11,690
Fort Detrick	Government	6,400
Marriott International	Leisure & hospitality	5,500
Lockheed Martin Corporation	Manufacturing	4,690
National Oceanic and Atmospheric Administration	Government	4,600
Adventist Healthcare	Education & health services	4,290
Holy Cross Hospital	Education & health services	3,900
Giant Food Stores, LLC	Wholesale & retail trade	3,150

Notes: Excludes local school districts. Data include military personnel, who are generally not included in nonfarm payroll survey data.

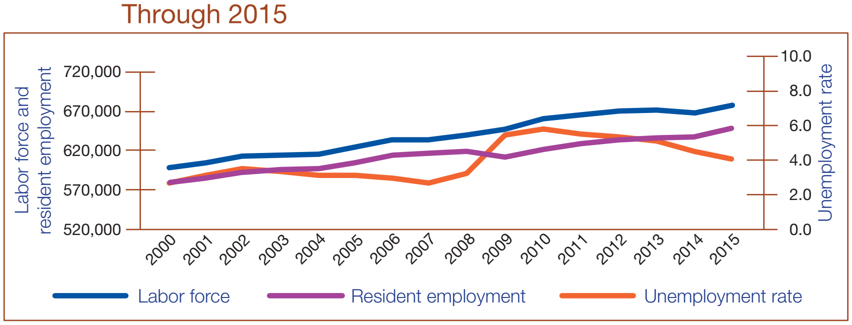
Source: Maryland Department of Commerce in the HMA, added 160 employees at its manufacturing facility in the Frederick County submarket during 2014. In addition, MedImmune is investing $200 million to expand the facility, which is expected to add 300 jobs to the manufacturing sector by the time it is complete in 2017.

The wholesale and retail trade sector increased by 200 jobs, or 0.3 percent, during 2015. The increase included the addition of 300 jobs, an increase of 0.5 percent, in the retail trade subsector and the loss of 100 jobs, or 0.7 percent, in the wholesale trade subsector. The opening in December 2015 of a new Safeway Inc. grocery store in Rockville added 150 jobs to the retail trade subsector. The construction of Clarksburg Premium Outlets began in the Montgomery County submarket in September 2015 and is anticipated to add 800 jobs to the wholesale and retail trade sector when it opens in October 2016.

The unemployment rate in the HMA declined for the past 5 years because gains in resident employment outpaced growth in the labor force (Figure 3). Resident employment has increased each year since 2010, 1 year before the recovery in nonfarm payroll jobs began in the HMA, mostly because of the proximity of the HMA to the District of Columbia. The percentages of residents who commute to jobs in the District of Columbia are 15 percent for the HMA as a whole and 33 percent for Bethesda and Silver Spring, which directly border the national capital (U.S. Census Bureau). Because of economic expansion in the District of Columbia since 2010 and job growth in the HMA since 2011, the unemployment rate declined from a peak of 5.9 percent during 2010 to 4.1 percent during 2015. The average during 2015 was 1 percentage point higher than the average of 3.1 percent during the previous expansion period from 2001 through 2007.

During the 3-year forecast period, nonfarm payrolls are expected to increase by 6,450 jobs, or 1.1 percent, annually. The professional and business services, education and health services, and wholesale and retail trade sectors are expected to lead job growth. The unemployment rate is expected to return to the low levels of the early-to-mid 2000s. Two significant projects in planning are expected to add jobs to the mining, logging, and construction sector. The construction of the $3.3 billion commuter rail line, known as the Purple Line, connecting Bethesda and Silver Spring with Prince George's County to the east is expected to begin in late 2016. It is estimated that the project will create thousands of jobs related to the design and construction of the line and add 420 jobs to the transportation and utilities sector when it is operational in 2022. In addition, The Universities at Shady Grove expects to begin construction in July 2016 on a $162 million biomedical sciences and engineering facility, with completion expected in 2018.

Figure 3. Trends in Labor Force, Resident Employment, and Unemployment Rate in the Montgomery-Frederick HMA, 2000 Through 2015

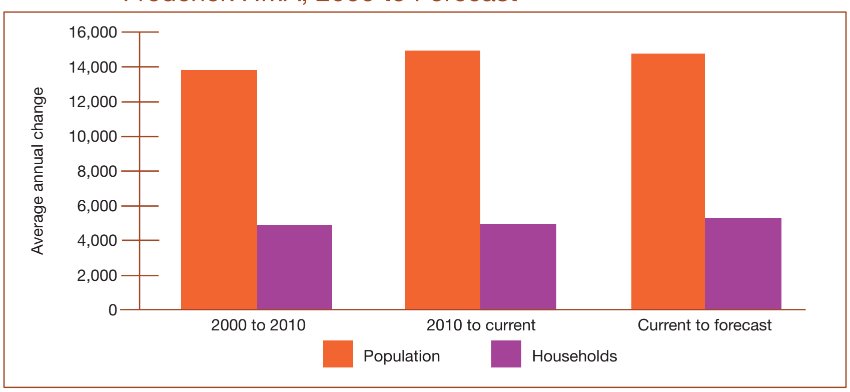


Source: U.S. Bureau of Labor Statistics

Population and Households

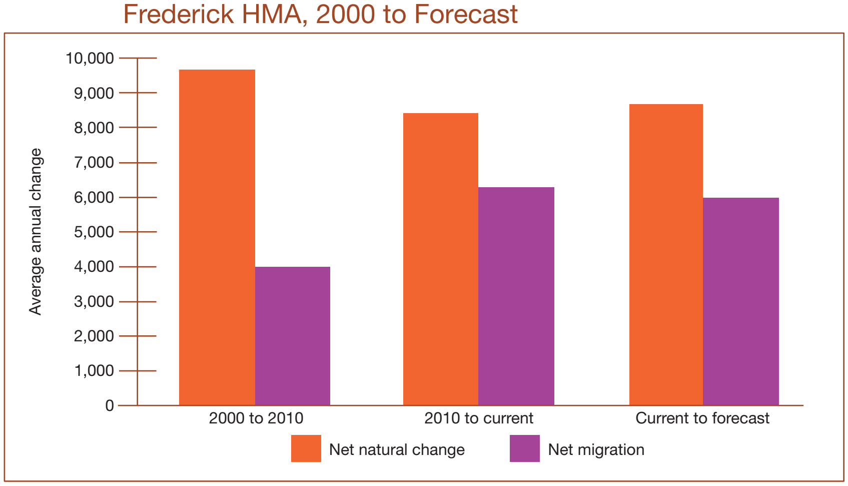
As of January 1, 2016, the population of the Montgomery-Frederick HMA is an estimated 1.29 million. From 2010 through the current date, population growth averaged 14,750 people, or 1.2 percent, annually (Figure 4). From 2000 to 2007, a period of economic expansion in the HMA, population growth averaged 12,500, or 1.1 percent, annually (U.S. Census Bureau decennial census counts and population estimates as of July 1). During this time, growth peaked at 1.9 percent from 2000 to 2001 but slowed to an average of 0.7 percent annually from 2005 to 2007, in part because rapidly increasing home prices deterred in-migration. From 2007 to 2010, population growth averaged 16,750, or 1.4 percent, annually. Growth was relatively strong during this period because of job gains in the District of Columbia, which, along with North Dakota and Alaska, was one of the few areas in the nation that added jobs overall from 2008 through 2010. During the 3-year forecast period, population growth is expected to average 14,650 people, or 1.1 percent, annually.

Figure 4. Population and Household Growth in the Montgomery-Frederick HMA, 2000 to Forecast



Notes: The current date is January 1, 2016. The forecast date is January 1, 2019.
Sources: 2000 and 2010—2000 Census and 2010 Census; current and forecast—estimates by analyst

Figure 5. Components of Population Change in the Montgomery-Frederick HMA, 2000 to Forecast



Notes: The current date is January 1, 2016. The forecast date is January 1, 2019.
Sources: 2000 and 2010—2000 Census and 2010 Census; current and forecast—estimates by analyst

Since 2010, net in-migration has averaged 6,300 people annually, accounting for approximately 43 percent of population growth (Figure 5). From 2000 through 2007, net in-migration was relatively low, at an average of 2,825 people annually and only 23 percent of population growth. The rapid increase in home sales prices during the period contributed to the low level of net in-migration. In the Montgomery County submarket, where price increases were the greatest, net in-migration averaged 5,550 people annually from 2000 to 2002 and net out-migration averaged 2,500 people annually from 2002 to 2007. All the net in-migration to the HMA during the 2000-to-2007 period accrued to the Frederick County submarket. From 2007 through 2010, net in-migration to the HMA averaged 6,925 people annually. Net in-migration to the Montgomery County submarket was strong, at an average of 6,300 people a year, because of job growth in the District of Columbia. During the forecast period, net in-migration to the HMA is expected to average 6,000 people annually. Tables DP-1 through DP-3 at the end of this report contain demographic data for the HMA and submarkets from 2000 to the current date.

The population of the Montgomery County submarket is an estimated 1.04 million. Since 2010, population growth has averaged 12,550 people, or 1.3 percent, annually. The submarket accounts for about 80 percent of the population of the HMA, and, since 2010, 85 percent of the population growth. Net in-migration averaged 5,250 people annually from 2010 through the current date. International migration is a significant portion of net in-migration in the submarket, where 33 percent of residents were born outside the United States (2014 ACS 1-year data). From 2010 to 2015, a net average of 9,975 people moved each year into the submarket from outside of the country (U.S. Census Bureau). Within the Washington-Arlington-Alexandria, DC-VA-MD-WV MSA, this figure was second only to Fairfax County, Virginia, where international net in-migration averaged 10,600 people annually. Domestic in-migration to the Montgomery County submarket is most commonly from the District of Columbia, whereas out-migration occurs to most nearby counties in Maryland and Virginia (2009–2013 ACS 5-year data). The population of the submarket is expected to increase by an average of 12,000, or 1.1 percent, annually during the forecast period.

The population of the Frederick County submarket is an estimated 246,200, reflecting an average annual increase of 2,225, or 0.9 percent, since 2010. Net in-migration during that period has averaged 1,075 people annually, mostly from the Montgomery County submarket and from Howard and Carroll Counties to the east. Population growth in the Frederick County submarket is expected to increase from the current rate to an average of 2,800 people, or 1.1 percent, annually, during the forecast period, in part because of the relative affordability of housing in the county compared with the Montgomery County submarket and Howard County.

An estimated 469,900 households currently reside in the Montgomery-Frederick HMA. Since 2010, the number of households has increased by an average of 4,875, or 1.1 percent, annually. The increase from 2000 to 2010 was similar, at 4,725, or 1.1 percent, annually. Renter households have accounted for 57 percent of household growth since 2010 compared with 37 percent during the 2000s. The increase was mostly because of a decline in owner household growth since 2010, especially among householders ages 25 to 54. This increase in renter households has contributed to a decline in the rental vacancy rate since 2010. Since 2010, population growth in the HMA has been relatively strong in the population ages 55 to 74, which supported an increase in existing home sales in recent years. During the forecast period, it is anticipated that the number of households in the HMA will increase by an average of 5,100, or 1.1 percent, annually.

Sales Market—Montgomery County Submarket

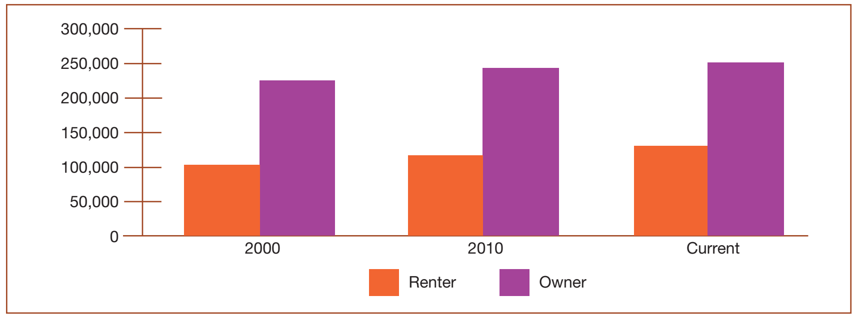
The sales housing market in the Montgomery County submarket is slightly tight. The sales vacancy rate is currently estimated at 0.9 percent, down from 1.5 percent in 2010. The inventory of available homes averaged a 3-month supply during 2015, unchanged from the average during 2014 and down from an average supply of 4 months during 2010 (Metropolitan Regional Information Systems [MRIS®]).

During 2015, existing home sales in the submarket reached the highest level since 2006. Approximately 12,200 existing single-family homes, townhomes, and condominiums sold during 2015, up 11 percent from the number sold during 2014 (MRIS®). The total during 2015 was 31 percent less than the peak of 17,550 existing homes sold during 2004. Existing home sales reached a low of 8,525 homes in 2008 before increasing an average of 5 percent annually from 2009 through 2015. Home sales increased year over year in all but 2 years during the period. In 2011, existing home sales declined 9 percent from 2010 because of new statewide foreclosure procedures implemented in mid-2010 that provided greater protection for homeowners facing foreclosure and also lengthened the foreclosure process. In the submarket, sales of foreclosed homes fell from 2,000 in 2010 to 400 in 2011 (Metrostudy, A Hanley Wood Company). The second decline was 4 percent in 2014 from the year before, in part because of a rise in mortgage interest rates.

During 2015, existing home sales prices averaged $501,300, down 1 percent from the average during 2014 (MRIS®). The average price had increased an average of 3 percent each year from 2010 through 2014. By comparison, the average existing home sales price in the submarket doubled from 2000 through 2005, an average increase of 15 percent annually. The rapid increase in home prices contributed to net out-migration from the submarket in the mid-2000s, and price gains subsequently slowed during 2006 and 2007 to an average of 4 percent annually. The average price peaked at $550,200 during 2007. Because of weakening economic conditions in the HMA, the average existing home sales price fell rapidly during 2008 and 2009, declining an average of 11 percent annually to $434,200 during 2009.

Sales of foreclosed and real estate owned (REO) properties comprised 30 percent of existing homes sold in the HMA during 2008 and 2009 (Metrostudy, A Hanley Wood Company). Because average sales prices for REO homes are typically 45 percent less than for nondistressed existing homes, the large share during this period weighed on home prices. During 2015, foreclosure and REO sales were 17 percent of existing home sales in the Montgomery County submarket, down from the share in 2008 and 2009 but significantly greater than the 1-percent share of existing home sales in 2005 and 2006. The higher share of foreclosures has contributed to a decline in the homeownership rate since 2010; the estimated 250,100 owner households currently residing in the submarket represent 66.0 percent of total households, down from 67.6 percent in 2010 (Figure 6). Mortgage delinquency has improved, however, in recent years. As of December 2015, 2.0 percent of home loans in the submarket were seriously delinquent (90 or more days delinquent or in

Figure 6. Number of Households by Tenure in the Montgomery County Submarket, 2000 to Current

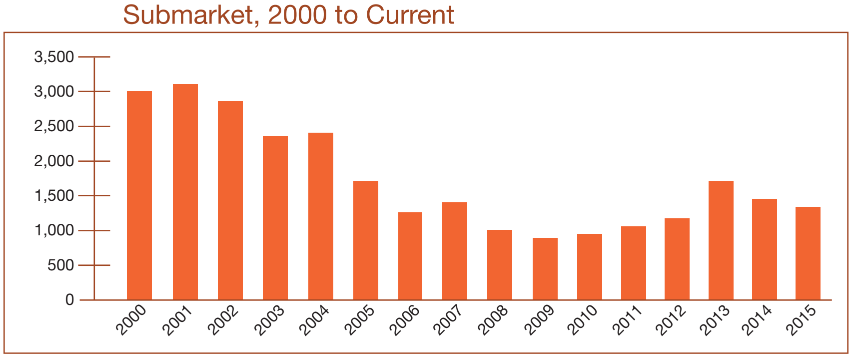


Note: The current date is January 1, 2016.
Sources: 2000 and 2010—2000 Census and 2010 Census; current—estimates by analyst

foreclosure) or had transitioned into REO status, down from 2.7 percent a year earlier and a peak of 6.1 percent in January 2010 (CoreLogic, Inc.).

Sales of new homes totaled 1,125 during 2015, down 15 percent from the number sold during 2014 (Metrostudy, A Hanley Wood Company). New home sales reached a low of 1,000 units sold during 2011, partly because of job losses during the previous 3 years. From 2012 through 2013, new home sales increased an average of 17 percent annually; sales of new single-family detached homes and townhomes increased, while sales of new condominiums declined. New home sales declined 5 percent in 2014. The declines in 2014 and in 2015 are partly because of a relatively high volume of apartment completions in the submarket.

Figure 7. Single-Family Homes Permitted in the Montgomery County Submarket, 2000 to Current



Notes: Includes townhomes. Current includes data through December 2015.
Sources: U.S. Census Bureau, Building Permits Survey; estimates by analyst

Townhomes, single-family detached homes, and condominiums represented 48, 41, and 11 percent of new homes sold during 2015, respectively. Sales prices during 2015 for new single-family detached homes and townhomes averaged $824,100 and $494,100, respectively. New lowrise and midrise condominium sales prices averaged $477,400, while new highrise condominium prices averaged $1.2 million. The highrise condominium units sold during 2015 were exclusively at The Darcy, an 88-unit luxury building in Bethesda that was completed in June 2015.

Homebuilding activity, as measured by the number of single-family homes permitted, generally has coincided with the rise and fall in new home sales since 2010. Homebuilding activity increased by an average of 210 units, or 18 percent, annually from 2010 through 2013 but declined by 260 homes, or 15 percent, during 2014 (Figure 7). During 2015, 1,325 single-family homes were permitted in the Montgomery County submarket, down 9 percent from the number permitted during 2014 (preliminary data). Approximately 140 single-family homes were started during 2015 at Clarksburg Village, a large, multiphase community of 2,400 homes in the northwestern portion of the submarket that has been under construction since 2004, with prices currently starting at $543,000 (Metrostudy, A Hanley Wood Company). The construction of 142 townhomes began in mid-2015 at Grosvenor Heights, in Bethesda, with prices for a three-bedroom elevator unit with a two-car garage starting at $1.17 million.

Table 4. Estimated Demand for New Market-Rate Sales Housing in the Montgomery County Submarket During the Forecast Period

Price Range ($)		Units of Demand	Percent of Total
From	To		
250,000	349,999	590	10.0
350,000	449,999	1,175	20.0
450,000	549,999	890	15.0
550,000	649,999	1,175	20.0
650,000	749,999	890	15.0
750,000	and higher	1,175	20.0

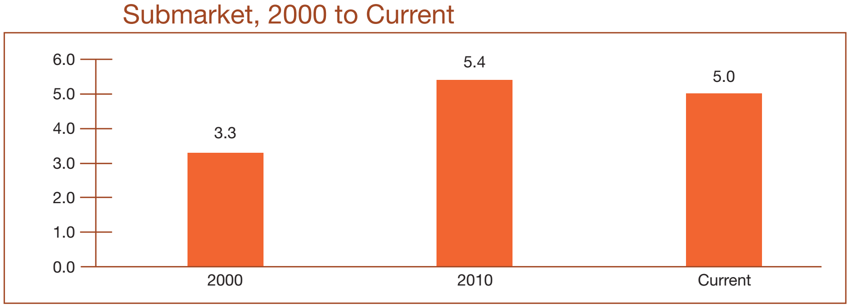
Notes: The 570 homes currently under construction and a portion of the estimated 9,250 other vacant units in the submarket will likely satisfy some of the forecast demand. The forecast period is January 1, 2016, to January 1, 2019.
Source: Estimates by analyst

During the next 3 years, demand is expected for 5,900 new homes in the submarket (Table 1). The 570 homes currently under construction will meet a portion of the demand. New home sales prices are expected to start at $250,000 (Table 4). Because the median household income in the submarket is among the highest in the nation, 20 percent of the forecast demand is expected for homes priced at $750,000 and above, which are typically found in the Bethesda and Chevy Chase areas bordering the District of Columbia. A portion of the estimated 9,250 other vacant units in the submarket may reenter the market and satisfy an additional segment of the forecast demand.

Rental Market—Montgomery County Submarket

The rental housing market in the Montgomery County submarket is currently balanced. The overall vacancy rate is estimated at 5.0 percent, down from 5.4 percent in 2010 (Figure 8). Strong population growth and a relatively high number of foreclosures has contributed to the decline in the vacancy rate since 2010. The overall rate includes single-family homes and mobile homes, which constitute 25 percent of occupied rental units in the submarket (2014 ACS 1-year data). Single-family homes in the submarket are typically rented by larger, higher-income households than the households that rent apartments. Households that moved into a rented single-family home in 2013 or 2014 (the most recent data available) had an average income of $114,700, had an average of 3.2 people in the household, and paid a monthly rent of approximately $2,175. By comparison, households that moved into an apartment during the same period had an average income of $70,300, had an average of 2.0 people in the household, and paid a monthly rent of $1,525.

Figure 8. Rental Vacancy Rates in the Montgomery County Submarket, 2000 to Current



Note: The current date is January 1, 2016.
Sources: 2000 and 2010—2000 Census and 2010 Census; current—estimates by analyst

Apartment market conditions in the submarket range from tight to slightly soft. Of the six Reis, Inc.-defined market areas that comprise the submarket, vacancy rates were lowest in the Northeast Montgomery and

Kensington/Wheaton areas, with rates of 1.7 and 2.7 percent, respectively, during the fourth quarter of 2015 (Reis, Inc.). Vacancy rates were slightly higher in the Gaithersburg/Germantown and Silver Spring areas, at 4.3 and 5.4 percent, respectively, during the fourth quarter of 2015. In the Bethesda/Chevy Chase and Rockville areas, vacancy rates were highest, at 6.0 and 9.2 percent, respectively; each rate was up from a year earlier because of concentrated construction activity in these areas. Approximately 70 percent of apartments completed in 2015 in the Montgomery County submarket are in Bethesda or Rockville.

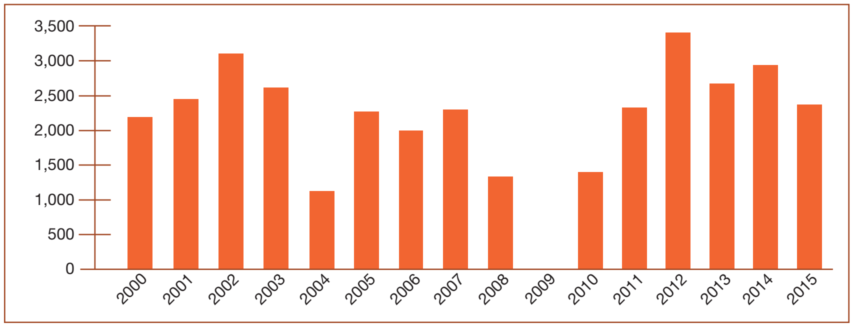
During the fourth quarter of 2015, the increase in effective rents from the fourth quarter of 2014 ranged from 1 to 3 percent in the six market areas. At $2,176, the effective rent in the Bethesda/Chevy Chase area is the highest in the Montgomery County submarket (Reis, Inc.). About 25 percent of apartment properties in the market area are highrise buildings compared with 9 percent for the submarket as a whole (Montgomery County Department of Housing and Community Affairs). Highrise apartments completed in 2015 in the Bethesda/Chevy Chase market area include Pallas at Pike & Rose, with 319 apartments starting at $1,800 and $1,960 for one- and two-bedroom apartments, respectively. Since construction was completed in June 2015, 30 percent of the units have been leased (Axiometrics Inc.).

The Silver Spring area is directly north of the District of Columbia. The effective rent in the market area was $1,564 during the fourth quarter of 2015. In terms of average weekday passengers, the Silver Spring station had the highest level of ridership in 2015 of any Washington Metropolitan Area Transit Authority (metro) station in the Montgomery County submarket. In close proximity to the Silver Spring metro station, construction began in September 2015 on Central, a 243-unit apartment building that is expected to be complete in mid-2017.

The Rockville area is near the geographic center of the Montgomery County submarket. Along with the city of Gaithersburg to the northwest, Rockville is a major hub for jobs related to scientific research. With an effective rent of $1,766 as of the fourth quarter of 2015 (Reis, Inc.), apartments in the Rockville area are generally less expensive than those closer to the District of Columbia in the Bethesda/Chevy Chase area. Mallory Square Phase I is a 365-unit apartment community completed in 2015 in the Rockville area, with rents for studio, one-bedroom, and two-bedroom apartments starting at $1,350, $1,575, and $1,990, respectively. Nearly one-half of the units at Mallory Square Phase I have been rented since leasing began in the second quarter of 2015 (Axiometrics Inc.). Permits were issued in July 2015 for an additional 315 units at Mallory Square Phase II, with completion expected in mid-2016.

Multifamily construction activity, as measured by the number of multifamily units permitted, was strong in the submarket in recent years. During 2015, 2,350 multifamily units were permitted, down 19 percent from the 2,925 units permitted in 2014 (preliminary data, with adjustments by the analyst). From 2011 through 2013, the number of units permitted averaged 2,800 annually (Figure 9), more than three times the average of 900 units permitted annually from 2008 through 2010. By comparison,

Figure 9. Multifamily Units Permitted in the Montgomery County Submarket, 2000 to Current



Notes: Excludes townhomes. Current includes data through December 2015.
Sources: U.S. Census Bureau, Building Permits Survey; estimates by analyst

multifamily units permitted from 2000 through 2007 averaged 2,225 annually. Approximately 27 percent of units permitted from 2000 through 2007 were condominiums, but only 7 percent were condominiums from 2010 through 2015.

During the next 3 years, demand is expected for 6,500 new rental units in the Montgomery County submarket (Table 1). Demand is expected to decrease slightly each year with improvement in the sales market and household income growth. The estimated 2,225 apartments currently under construction, all of which are expected to be complete by the end of 2017, will satisfy a portion of the demand. In addition, approximately 580 apartments are expected to begin construction in early 2016, fulfilling an additional portion of the forecast demand by the end of 2017. Table 5 illustrates the demand for new market-rate rental housing in the submarket by number of bedrooms and rent level.

Table 5. Estimated Demand for New Market-Rate Rental Housing in the Montgomery County Submarket During the Forecast Period

Zero Bedrooms		One Bedroom		Two Bedrooms		Three or More Bedrooms	
Monthly Gross Rent ($)	Units of Demand	Monthly Gross Rent ($)	Units of Demand	Monthly Gross Rent ($)	Units of Demand	Monthly Gross Rent ($)	Units of Demand
1,300 to 1,499	230	1,350 to 1,549	1,550	1,650 to 1,849	1,475	1,900 to 2,099	260
1,500 to 1,699	65	1,550 to 1,749	390	1,850 to 2,049	730	2,100 to 2,299	200
1,700 or more	35	1,750 to 1,949	260	2,050 to 2,249	290	2,300 to 2,499	65
		1,950 or more	390	2,250 or more	440	2,500 or more	130
Total	330	Total	2,600	Total	2,925	Total	650

Notes: Numbers may not add to totals because of rounding. Monthly rent does not include utilities or concessions. The 2,225 units currently under construction will likely satisfy some of the estimated demand. The forecast period is January 1, 2016, to January 1, 2019.
Source: Estimates by analyst

Sales Market—Frederick County Submarket

The sales housing market in the Frederick County submarket is currently balanced. Increasing levels of home sales and limited homebuilding activity during the past 5 years contributed to a decline in the sales vacancy rate from 1.8 percent in 2010 to a current estimate of 1.4 percent. The inventory of available homes averaged slightly less than a 4-month supply during 2015, down from a 4-month supply during 2014 and a 6-month supply during 2010 (MRIS®).

Existing home sales activity in the submarket has increased in nearly every year since 2009. Approximately 3,850 existing homes sold during 2015, a 19-percent increase compared with the number sold during 2014. Home sales activity in 2015 was 19 percent less than the peak of 4,750 homes sold during 2004 but was 78 percent more than the 2,150 homes sold during 2008. Home sales increased an average of 7 percent annually from 2009 through 2014, including a 4-percent decrease during 2011. The decline in 2011 was related to new statewide foreclosure procedures. In the submarket, sales of foreclosed homes totaled 1,600 homes in 2010 and 740 in 2011 (Metrostudy, A Hanley Wood Company).

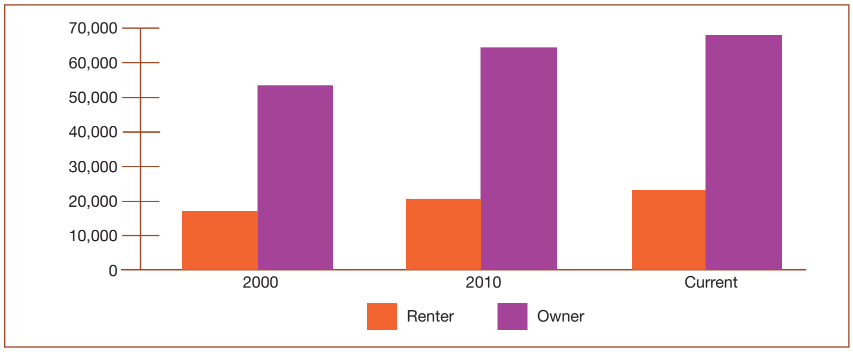
During 2015, the average price for existing homes sold in the submarket increased 1 percent, to $296,700, compared with the average sales price during 2014 (MRIS®). The increase during 2015 was less than the average increase of 5 percent annually from 2012 through 2014. By comparison, home sales prices increased an average of more than 13 percent annually from 2001 through 2006 but declined an average of 7 percent annually from 2007 through 2011. The average existing home sales price during 2015 remained 18 percent less than the peak of $363,700 for homes sold during 2006.

The presence of distressed properties contributed to the decline in the existing sales price at the peak of the local economic contraction, but the effect has attenuated in recent years. During 2009 and 2010, sales of foreclosed and REO properties were 45 percent of existing home sales in the Frederick County submarket (Metrostudy, A Hanley Wood Company). Distressed sales declined to 26 percent of existing sales during 2015. Likewise, the percentage of mortgage-delinquent homeowners declined during the past 5 years. The percentage of home loans that were seriously delinquent or had transitioned into REO status in the submarket peaked at 6.9 percent in January 2010 before falling to 3.9 percent in December 2014 and 3.0 percent in December 2015 (CoreLogic, Inc.).

Sales of new homes totaled 630 during 2015, up 20 percent from the number sold during 2014 and the highest annual total since 725 new homes sold during 2010 (Metrostudy, A Hanley Wood Company). Townhomes, single-family detached homes, and condominiums represented 53, 37, and 10 percent of new homes sold during 2015, respectively. Townhomes and condominiums have garnered an increasing share of new home sales each year since 2013. Sales prices during 2015 for new single-family detached homes, townhomes, and condominiums averaged $511,400, $372,500, and $255,800, respectively.

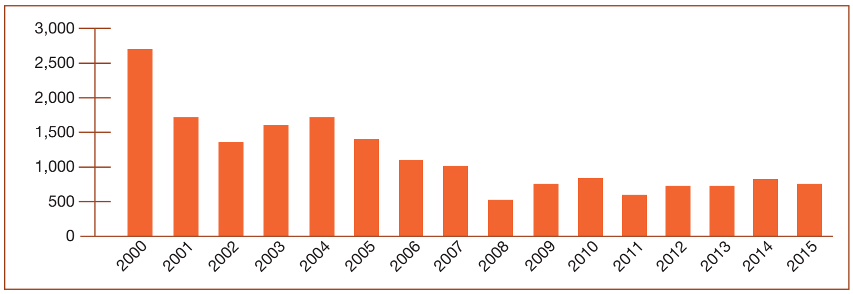
Single-family construction activity, as measured by the number of single-family homes permitted, was relatively modest in recent years compared with building in the early-to-mid 2000s. Although the homeownership rate in the Frederick County submarket is higher than in the Montgomery County submarket, owner household growth since 2010 in the Frederick County submarket has been less than one-half the rate during the 2000s. The number of owner households in the submarket is currently estimated at 67,700 (Figure 10). From 2008 through 2014, an average of 710 single-family homes were permitted annually, less than one-half of the 1,575 homes permitted annually from 2000 through 2007 (Figure 11).

Figure 10. Number of Households by Tenure in the Frederick County Submarket, 2000 to Current



Note: The current date is January 1, 2016.
Sources: 2000 and 2010—2000 Census and 2010 Census; current—estimates by analyst

Figure 11. Single-Family Homes Permitted in the Frederick County Submarket, 2000 to Current



Notes: Includes townhomes. Current includes data through December 2015.
Sources: U.S. Census Bureau, Building Permits Survey; estimates by analyst

During 2015, 740 single-family homes were permitted, down 7 percent from the number permitted during 2014 (preliminary data). About 80 percent of the 3,250 homes planned at Villages of Urbana, in the southeastern portion of the submarket, have been completed since construction began in 2003 (Metrostudy, A Hanley Wood Company). Construction began on approximately 90 townhomes at Villages of Urbana in 2015.

Major subdivisions that began construction in 2015 include Jefferson Place, near the center of the submarket to the southwest of the city of Frederick, with prices for 825 townhomes and condominiums starting at $274,990 and $252,990, respectively. The construction of 600 single-family homes, townhomes, and condominiums began in November 2015 at Westview South, also in the center of the submarket, to the south of the city of Frederick. Sales prices for single-family homes, townhomes, and condominiums at Westview South start at $449,990, $322,990, and $266,990, respectively.

During the 3-year forecast period, demand is expected for 2,775 new homes in the Frederick County submarket (Table 1). The 400 homes currently under construction will meet a portion of the demand. New home sales prices are expected to start at $200,000, and the most demand is expected for homes priced from $300,000 to $399,999 (Table 6). A portion of the estimated 2,450 other vacant units in the submarket may reenter the market and satisfy some of the forecast demand.

Table 6. Estimated Demand for New Market-Rate Sales Housing in the Frederick County Submarket During the Forecast Period

Price Range ($) From	Price Range ($) To	Units of Demand	Percent of Total
200,000	299,999	420	15.0
300,000	399,999	1,125	40.0
400,000	499,999	840	30.0
500,000	599,999	280	10.0
600,000	and higher	140	5.0

Notes: The 400 homes currently under construction and a portion of the estimated 2,450 other vacant units in the submarket will likely satisfy some of the forecast demand. The forecast period is January 1, 2016, to January 1, 2019.

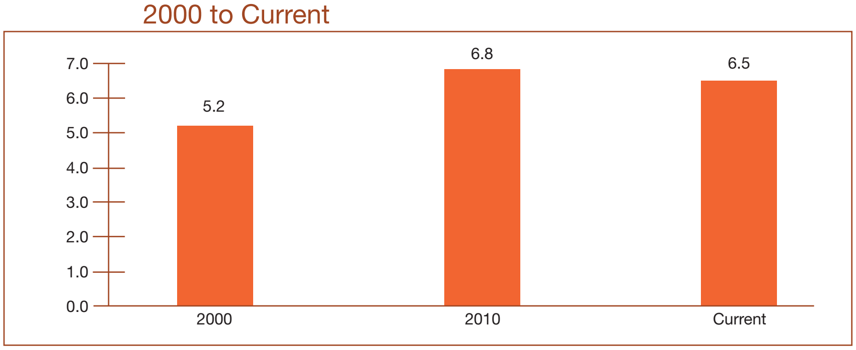
Source: Estimates by analyst

Rental Market—Frederick County Submarket

The rental housing market in the Frederick County submarket is currently slightly soft. The overall rental vacancy rate is estimated at 6.5 percent, down from 6.8 percent in 2010 (Figure 12). In the submarket, single-family homes and mobile homes comprise 47 percent of occupied rental units (2014 ACS 1-year data). As in the Montgomery County submarket, single-family homes in the Frederick County submarket are typically rented by larger, higher-income households than the households that rent apartments. Households that moved into a rented single-family home in 2013 or 2014 had an average income of $83,200, had an average of 2.7 people in the household, and paid a monthly rent of approximately $1,500. By comparison, households that moved into an apartment during the same period had an average income of $47,700, had an average of 1.8 persons in the household, and paid a monthly rent of $1,025.

The apartment market is slightly soft. The completion in 2015 of two market-rate apartment communities totaling nearly 540 units contributed to a rise in the apartment vacancy rate from 5.1 to 8.4 percent from the fourth quarter of 2014 to the fourth quarter of 2015 (Reis, Inc.). From early 2008 through mid-2010, a moratorium was placed on major new residential developments in unincorporated areas of the Frederick County submarket, which covers most land area in the submarket. The moratorium limited apartment construction activity, as measured by the number of multifamily units permitted, from 2009 through 2011 to an average of 80 units permitted annually. The apartment vacancy rate descended from 6.7 percent during 2009 to 3.2 percent during 2012. Multifamily construction activity increased significantly in 2012, when 420 multifamily units were permitted. The 204-unit Park at Walnut Ridge opened in early 2013, the first market-rate apartment community built in the submarket since 2007.

Figure 12. Rental Vacancy Rates in the Frederick County Submarket, 2000 to Current



Note: The current date is January 1, 2016.

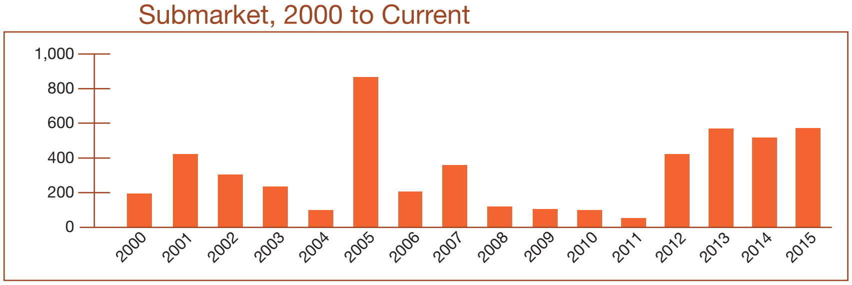
Sources: 2000 and 2010—2000 Census and 2010 Census; current—estimates by analyst

Construction activity remained relatively strong in 2013 and 2014, with an average of 540 multifamily units permitted annually (Figure 13). As new units became available, the vacancy rate increased to 4.4 percent during 2013 and again to 5.1 percent during 2014 (Reis, Inc.). East of Market, with 160 apartments in the city of Frederick, opened in April 2015 with rents starting at $1,395 and $1,680 for one- and two-bedroom apartments, respectively (Axiometrics Inc.). Prospect Hall, with 376 units and also in the city of Frederick, opened in June 2015 with rents starting at $1,224 and $1,299 for one- and two-bedroom units, respectively; 50 percent of the units at Prospect Hall are currently leased. The relatively high number of apartments completed during 2015 contributed to a flattening of rents in the submarket. From 2010 through 2014, the average asking rent increased an average of 3 percent annually (Reis, Inc.). The average rent was unchanged, however, from the fourth quarter of 2014 to the fourth quarter of 2015, at $1,126.

Despite the continued increase in apartment vacancies in 2015, the number of multifamily units permitted increased further, to 560 units permitted (preliminary data). Permits were issued for the first five buildings and 229 units at Urban Green Apartments, in an area of the Frederick County submarket bordering the Montgomery County submarket. In addition, the first building of 36 units at Jefferson Place Apartments was permitted in December. Urban Green and Jefferson Place are each expected to be complete in 2017. Rents are not yet available for either development.

During the next 3 years, demand is expected for 750 new rental units in the Frederick County submarket (Table 1). Demand is expected to remain relatively stable each year. The 350 units currently under construction, as well as the remaining units available for lease at Jefferson Place Apartments, will meet more than one-half of this demand. In addition, approximately 450 apartments are expected to begin construction in 2016, satisfying the remainder of the forecast demand. Apartments in planning include the balance of units at Urban Green and Jefferson Place and 137 age-restricted, market-rate apartments at Worman's Mill Village in the city of Frederick. Table 7 shows forecast demand by number of bedrooms and rent level.

Figure 13. Multifamily Units Permitted in the Frederick County Submarket, 2000 to Current



Notes: Excludes townhomes. Current includes data through December 2015.
Sources: U.S. Census Bureau, Building Permits Survey; estimates by analyst

Table 7. Estimated Demand for New Market-Rate Rental Housing in the Frederick County Submarket During the Forecast Period

One Bedroom		Two Bedrooms		Three or More Bedrooms	
Monthly Gross Rent ($)	Units of Demand	Monthly Gross Rent ($)	Units of Demand	Monthly Gross Rent ($)	Units of Demand
1,225 to 1,424	240	1,300 to 1,499	300	2,050 to 2,249	60
1,425 or more	60	1,500 or more	75	2,250 or more	15
Total	300	Total	380	Total	75

Notes: Numbers may not add to totals because of rounding. Monthly rent does not include utilities or concessions. The 350 units currently under construction will likely satisfy some of the estimated demand. The forecast period is January 1, 2016, to January 1, 2019.
Source: Estimates by analyst

Data Profiles

Table DP-1. Montgomery-Frederick HMA Data Profile, 2000 to Current

	2000	2010	Current	Average Annual Change (%) 2000 to 2010	Average Annual Change (%) 2010 to Current
Total resident employment	581,382	621,789	648,600	0.7	0.8
Unemployment rate	2.7%	5.9%	4.1%		
Nonfarm payroll jobs	545,800	558,800	585,900	0.2	1.0
Total population	1,068,618	1,205,162	1,290,000	1.2	1.2
Total households	394,625	441,886	469,900	1.1	1.1
Owner households	276,175	305,780	317,800	1.0	0.7
Percent owner	70.0%	69.2%	67.6%		
Renter households	118,450	136,106	152,100	1.4	2.0
Percent renter	30.0%	30.8%	32.4%		
Total housing units	407,649	466,041	493,200	1.3	1.0
Owner vacancy rate	1.0%	1.6%	1.0%		
Rental vacancy rate	3.6%	5.6%	5.2%		
Median Family Income	$78,900	$102,700	$107,000	2.7	0.8

Notes: Numbers may not add to totals because of rounding. Employment data represent annual averages for 2000, 2010, and the 12 months through December 2015. Median Family Incomes are for 1999, 2009, and 2014. The current date is January 1, 2016.

Sources: U.S. Census Bureau; U.S. Department of Housing and Urban Development; estimates by analyst

Table DP-2. Montgomery County Submarket Data Profile, 2000 to Current

	2000	2010	Current	Average Annual Change (%) 2000 to 2010	Average Annual Change (%) 2010 to Current
Total population	873,341	971,777	1,044,000	1.1	1.3
Total households	324,565	357,086	379,000	1.0	1.0
Owner households	223,017	241,465	250,100	0.8	0.6
Percent owner	68.7%	67.6%	66.0%		
Rental households	101,548	115,621	128,900	1.3	1.9
Percent renter	31.3%	32.4%	34.0%		
Total housing units	334,632	375,905	397,300	1.2	1.0
Owner vacancy rate	0.9%	1.5%	0.9%		
Rental vacancy rate	3.3%	5.4%	5.0%		

Notes: Numbers may not add to totals because of rounding. The current date is January 1, 2016.

Sources: U.S. Census Bureau; U.S. Department of Housing and Urban Development; estimates by analyst

Table DP-3. Frederick County Submarket Data Profile, 2000 to Current

	2000	2010	Current	Average Annual Change (%) 2000 to 2010	Average Annual Change (%) 2010 to Current
Total population	195,277	233,385	246,200	1.8	0.9
Total households	70,060	84,800	90,850	1.9	1.2
Owner households	53,158	64,315	67,700	1.9	0.9
Percent owner	75.9%	75.8%	74.5%		
Rental households	16,902	20,485	23,150	1.9	2.1
Percent renter	24.1%	24.2%	25.5%		
Total housing units	73,017	90,136	95,850	2.1	1.1
Owner vacancy rate	1.5%	1.8%	1.4%		
Rental vacancy rate	5.2%	6.8%	6.5%		

Notes: Numbers may not add to totals because of rounding. The current date is January 1, 2016.

Sources: U.S. Census Bureau; U.S. Department of Housing and Urban Development; estimates by analyst

Data Definitions and Sources

2000: 4/1/2000—U.S. Decennial Census
2010: 4/1/2010—U.S. Decennial Census
Current date: 1/1/2016—Analyst's estimates
Forecast period: 1/1/2016–1/1/2019—Analyst's estimates

The metropolitan division and metropolitan statistical area definitions in this report are based on the delineations established by the Office of Management and Budget (OMB) in the OMB Bulletin dated February 28, 2013.

Demand: The demand estimates in the analysis are not a forecast of building activity. They are the estimates of the total housing production needed to achieve a balanced market at the end of the 3-year forecast period given conditions on the as-of date of the analysis, growth, losses, and excess vacancies. The estimates do not account for units currently under construction or units in the development pipeline.

Other Vacant Units: In the U.S. Department of Housing and Urban Development's (HUD's) analysis, other vacant units include all vacant units that are not available for sale or for rent. The term therefore includes units rented or sold but not occupied; held for seasonal, recreational, or occasional use; used by migrant workers; and the category specified as "other" vacant by the Census Bureau.

Building Permits: Building permits do not necessarily reflect all residential building activity that occurs in an HMA. Some units are constructed or created without a building permit or are issued a different type of building permit. For example, some units classified as commercial structures are not reflected in the residential building permits. As a result, the analyst, through diligent fieldwork, makes an estimate of this additional construction activity. Some of these estimates are included in the discussions of single-family and multifamily building permits.

For additional data pertaining to the housing market for this HMA, go to huduser.gov/publications/pdf/CMARtables_Montgomery_FrederickMD_16.pdf.

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This analysis has been prepared for the assistance and guidance of HUD in its operations. The factual information, findings, and conclusions may also be useful to builders, mortgagees, and others concerned with local housing market conditions and trends. The analysis does not purport to make determinations regarding the acceptability of any mortgage insurance proposals that may be under consideration by the Department.

The factual framework for this analysis follows the guidelines and methods developed by HUD's Economic and Market Analysis Division. The analysis and findings are as thorough and current as possible based on information available on the as-of date from local and national sources. As such, findings or conclusions may be modified by subsequent developments. HUD expresses its appreciation to those industry sources and state and local government officials who provided data and information on local economic and housing market conditions.

For additional reports on other market areas, please go to huduser.gov/portal/ushmc/chma_archive.html.