

## ECONOMIC COMPETITIVENESS

Montgomery County is in the 99<sup>th</sup> percentile of all counties in the United States in terms of household income, household net worth and educational attainment, and the county's gross economic output exceeds \$81 billion a year - more than 13 states. These statistics, however, do not tell the whole story. The County's economic performance has been mixed at best since the Great Recession of 2008. Job growth over the past two decades has been slow and household incomes have been flat. These trends, if unaddressed, threaten Montgomery County's future success. The county has several mechanisms to address these issues. Thrive Montgomery 2050 complements economic development initiatives developed by other organizations, such as the Economic Development Strategic Plan developed by Montgomery County Economic Development Corporation (MCEDC)<sup>1</sup> and business-supportive legislation adopted by the Montgomery County Council.

Thrive Montgomery 2050 is primarily focused on land use, so it addresses only the aspects of economic development with a strong connection to real estate and public infrastructure. Thrive's recommendations are designed to strengthen the County's ability to compete for economic opportunities by creating great places. Employers want to locate and expand in places where their employees want to live and work. Well-designed "complete" communities that include a mix of uses and forms with safe and attractive walking and biking infrastructure along with public amenities such as parks and recreational facilities are essential to ensuring the quality of life that employers want and that residents deserve. Quality of place is not a comprehensive economic strategy, but it is a solid foundation for success.

Thrive Montgomery 2050 emphasizes quality of place, amenities, and infrastructure instead of focusing on policies to attract specific types of employers or development designed to accommodate certain employment uses. There is limited value in trying to predict how factors such as technological change or a pandemic, might impact the demand for office space or other aspects of land use and transportation planning. The county has an excess of office space in existing buildings, and flexible zoning already in place in major business districts to accommodate just about any demand that that may emerge for development or redevelopment of office buildings in the near to intermediate term. This puts the County in a position to respond and adapt to market changes.

It is also vital to recognize that housing is a critical form of infrastructure that supports efforts to attract and retain the workforce that employers need. Thrive Montgomery 2050 recognizes the importance of abundant housing choices and convenient regional transportation options to maintaining a competitive workforce and workforce development has been recognized as key to making Montgomery County economically strong. By providing attractive housing options that are physically and economically accessible to people with a wide range of incomes, skills, and

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<sup>1</sup> The Montgomery County Economic Development Strategic Plan aligns its vision and priorities with the four pillars of the County's Economic Development Platform in its four strategic priorities: (1) Accelerate innovation, economic drivers, and entrepreneurship; (2) Provide greater workforce and educational opportunities; (3) Build livable communities that connect residents to jobs; and (4) Create an inclusive economy for shared prosperity. The plan is slated to be updated every two years.

preferences, we can help ensure that the workers that employers need will find housing that they find appealing, convenient, and affordable. In addition, by investing in transportation and communications networks, we can help our residents take advantage of all of the economic and educational opportunities the county and region have to offer.

## **Montgomery County's Economic Performance: the Good, the Bad, and the Future**

Montgomery County continues to benefit from proximity to the nation's capital, which draws skilled, educated, and motivated people from all over the world, but the total number of jobs in Montgomery County grew by only five percent between 2004 to 2019 even as 20 similarly sized counties grew their employment base by an average of 21 percent.

Household incomes in Montgomery County grew by 14% from 2009 to 2019, a slower rate than the rest of the region. Despite a median household income of \$111,812, more than one-fifth of households make less than \$50,000 and almost two-fifths of public school students qualify for free or reduced meals.

This weak growth in household incomes and the number of high-paying jobs shrinks the County's tax base, limiting the County's ability to provide and maintain high quality infrastructure, amenities, and services. It also limits the ability of many county residents to buy homes, a key tool for building household wealth and investing in the community. This is particularly the case for younger households and households earning less than the median household income, who struggle to afford a home and put down roots. Montgomery County is capturing a smaller share of young adults than similar jurisdictions across the country.

### **The Aging of the Workforce and Implications for the Tax Base**

All of this is happening at a time when large numbers of residents are reaching retirement age, creating the region's highest elder-adult dependency ratio. Unless the County can attract and retain more young adults, the aging of the workforce will put pressure on the tax base as the proportion of Montgomery County residents in retirement grows and the percentage of residents in their peaking earning years shrinks.

This demographic shift means that the county's economic performance will have to get better just to maintain current levels of tax revenue and the services it funds, thus making economic competitiveness an even more pressing concern.

### **Strength in Hospitality and Life Sciences**

Despite our challenges, Montgomery County retains significant assets that will help us compete for economic opportunities in the future. For example, Montgomery County is home to companies representing 50 percent of the market capitalization of the entire national hospitality sector, and the Washington area is consistently ranked as one of the top life science clusters in

the nation, with bio-health businesses located in the Great Seneca Science Corridor and in several transit-oriented downtowns throughout the County.

Our strength in pharmaceutical research and related fields has sparked a wave of investment in vaccine development. The University of Maryland is leading ground-breaking research in emerging fields such as quantum computing, the National Institutes of Health and Food and Drug Administration are overseeing development of new drugs and medical devices, and several local companies stand to benefit from a focus on testing, prevention, and treatment of infectious disease.

### **Human Capital: Montgomery County's Ace in the Hole**

Perhaps even more important than Montgomery County's strengths in any particular sector is our diverse workforce. Montgomery County has a highly educated workforce. Among adults in the county age 25 and over, 58% of people have a bachelor's degree, compared to 41% in Maryland, and only 31% in the United States overall in 2019. The County also has residents who work in service industries that support all kinds of businesses and residents, from restaurant workers and landscapers to laboratory and clerical staff. The future of employment and the prospects for growth in any particular field are difficult to predict, so the availability of people with a wide range of knowledge and skills may prove to be our most valuable asset of all.

## **Thrive Montgomery Establishes the Building Blocks for Places that Prosper**

How can a land use plan support economic competitiveness? Thrive focuses on three specific areas: quality of place; transportation; and housing.

### **Great Places are Magnets for People, Businesses, and Jobs**

People are instinctively drawn to vibrant centers of activity that have a sense of place with lots of things to do. They enjoy living and working in places that facilitate social interaction and where walking and biking feels safe and appealing and where travel between their homes and other destinations is accessible and easy - be it by car, bike, or transit. Employers making decisions about where to locate are increasingly responsive to these preferences, giving communities that can satisfy them a crucial competitive edge.

Developing neighborhoods and districts with the features and qualities that support the emergence of more vibrant communities is easier said than done. Even the most progressive policies on land use, transportation, housing and public amenities are likely to fall short unless they are integrated into a cohesive framework. That's why Thrive Montgomery 2050 recommends strategies that reinforce each other, using compact form as the foundation, "complete communities" and 15-minute living as basic orienting objectives, attention to the aesthetic and functional aspects of design, and the importance of increased housing and transportation options as important criteria for implementation. Each of these topics is discussed at length in the policy chapters of Thrive Montgomery 2050.

In addition, Thrive considers parks to be infrastructure for economic development. World-class places require world-class parks, recreation, and cultural amenities. Look to Central Park in New York, Golden Gate Park in San Francisco, Millennium Park in Chicago, or Hyde Park in London and the significance of great urban parks becomes clear. In fact, parks and related amenities are regularly cited as among the most important factors influencing business decisions about where to relocate or expand. Multiple studies have shown that parks increase adjacent property values by 5 percent to 20 percent, providing incentives for property owners to contribute to the creation of public parks or to build privately-owned, publicly-accessible spaces for recreation and gathering. Likewise, taxpayer-funded investment in parks and related programming and amenities delivers strong economic returns to the public. These topics are discussed in greater detail in Thrive’s chapter on Parks and Recreation.

Finally, the forms of growth and the creation of quality places promoted by Thrive are economically sustainable. The intuition that compact development leads to efficient use of infrastructure—and has the potential to reduce both private household and infrastructure costs—has been supported by decades of research. Almost all high-quality studies comparing the infrastructure and service costs of spread out development to those of compact communities have shown that compact urbanism reduces cost burdens on the public sector. For example, a study comparing infrastructure expenditures of 283 counties over a ten-year period found that counties with compact growth patterns spent less than less densely developed counties (controlling for size and property values) on total direct infrastructure costs and capital facilities, as well as several subcategories of infrastructure and services including roads, trash collection, police, fire, parks and recreation, education, and libraries.<sup>2</sup> In addition to lowering costs, compact development also tends to increase municipal revenues,<sup>3</sup> strengthening the case for focusing growth in nodes and along corridors.

### **Walkable, Bikeable, Transit-Connected Places Expand Economic Opportunity**

Just about any other form of daily transportation—walking, biking, or riding a bus or train—is potentially less expensive (monetarily) than driving a single-occupancy vehicle, both on a personal basis and in terms of public spending. The two comprehensive reviews of the voluminous literature on the relationship between the built environment and travel behavior conducted in the past decade agree that features of compact development such as household density, job accessibility, and intersection and street network density, reduce driving.<sup>4</sup>

In addition, better transit connections to job centers make the County a more attractive choice for employers by making it easier for their current and future employees to get to work. With drive times and pass-through automobile traffic predicted to continue growing, investments in transit can significantly increase our “commute shed” and avoid ever-longer drives to and from work, which makes Montgomery County economically competitive.

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<sup>2</sup> Carruthers, J. I., & Ulfarsson, G. F. (2003). Urban sprawl and the cost of public services. *Environment and Planning B: Planning and Design*, 30(4), 503-522.

<sup>3</sup> Litman, T. (2021). *Understanding smart growth savings*. Victoria Transport Policy Institute. [https://www.vtpi.org/sg\\_save.pdf](https://www.vtpi.org/sg_save.pdf)

A higher priority for investments in transit, walking, rolling, and bicycling infrastructure is critical to building complete communities that have the amenities, sense of place, and level of activity that more and more people of all backgrounds and ages seek. Transit improvements exert a kind of gravitational pull on real estate development by creating incentives and opportunities to locate a variety of uses, services, and activities close to station locations – and to each other.

### **Housing for the Workforce Needed for a Strong Economy**

Increasing the supply of new housing near transit, jobs, and amenities may help to improve the quality of life for everyone in the county while helping to attract and retain the broadly skilled workforce that employers need, making the county more economically competitive. The increased demand for walkable neighborhoods with a mix of uses – especially near transit – is well documented. Housing in “Walkable Urban Places (WalkUPs)”, command prices 71 percent higher per square foot than other locations in the Washington area, reflecting both the desirability and relative shortage of these kinds of places. By concentrating more housing of different sizes and types near high-quality transit corridors, we can provide housing that will help keep the most productive workers in the county, curb escalating prices in the most desirable locations, and improve accessibility of jobs, transportation, and services while being mindful not to displace current residents.

Conversely, if we don’t have enough housing, workers will continue bidding up the cost of existing residences until only the very affluent will be able to afford decent housing in convenient locations. Lower-and middle-income residents will either be priced out entirely or face crowded, substandard housing conditions in remote locations with long and difficult commutes. Without affordable and attainable housing dispersed throughout the county, we will never be able to attract and retain the broadly skilled workforce needed to effectively run businesses, regardless of their scale or economic sector.

### **Conclusion: Great Places as a Common Denominator for Economic Performance**

Thrive Montgomery 2050 is a comprehensive land use plan, not a comprehensive economic development plan, so it focuses on ways to help create the kind of places where people with diverse choices want to live and work rather than workforce development, financial incentives for business relocation and retention, or other important topics related to economic competitiveness. *It is not intended as a substitute for the county’s broader economic programs, policies and plans, but in an era with limited demand for new office construction and a strong market preference for locating businesses in high-quality, mixed-use, walkable, and transit-oriented areas, it is one of the best strategies available to local government for growing our workforce and our tax base.*

In making decisions about how to allocate scarce resources available for subsidies, incentives and workforce development, the tension between reinforcing existing strengths and looking for ways to diversify into new sectors often presents difficult choices. Fortunately, the kinds of infrastructure, services and amenities that make a place appealing to employees and employers are generally not sector-specific. Put another way, the things that will make Montgomery County attractive to people working in life sciences or hospitality are the same things that draw people in other fields and at a variety of skill-levels.

The recommendations in the following chapters lay the groundwork for economic development initiatives undertaken by other entities. For example, the County's Capital Improvement Program (CIP) should be aligned with Thrive Montgomery 2050's recommendations to make our neighborhoods more attractive for private development by providing high quality transit, sidewalks and a walkable grid of streets, great urban parks, and high-performing and racially integrated schools. The combination of these kinds of investments is a reliable long-term method for attracting workers and their employers to well-designed and planned complete communities.

*The purpose of the various policy recommendations in this plan is less about identifying new locations for large government or corporate tenants and more about making parts of the county that already have been developed or planned more attractive and accessible to residents and workers, which in turn will help attract employers.*

### **The Role of Regionalism in Strengthening and Diversifying Our Job Base**

Even as we focus on bolstering our competitive position in sectors such as hospitality and life sciences, we also need to diversify our job base, and improve connections to centers of employment and innovation throughout the region. Montgomery County is part of a dynamic regional economy with a rich mix of public institutions and private companies.

Many residents of the Washington region travel to, from or through Montgomery County to reach jobs or homes in other jurisdictions within the region. The effects of decisions about housing, environmental stewardship, economic development, and other issues in any DC-area jurisdiction are felt by its neighbors. We enjoy many benefits from cooperation with our neighbors, but also compete against them for opportunities, and consensus on how to address regional problems is often elusive. Montgomery County is an integral part of the larger region and must find ways to work more effectively with other area governments to make us all stronger.