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A Robust Job Recovery is Underway

Through August 2008, we were in a typical recession concentrated in housing, autos, and a financial sector that financed the overexpansion of these sectors. Then the government caused a complete panic-induced collapse, which resulted in the needless loss of at least 6.2 million jobs. The needless job losses are underscored by the fact that only 4.6 million (about 55%) of the total 8.4 million lost jobs since year-end 2007 were in manufacturing (including autos), construction, or finance.

Historically, you need about six quarters of prolonged profit growth before companies hire aggressively. A robust job recovery is underway, with profitable employers finally replacing employees who died, retired, took extended maternity leave, or went back to school. Unfortunately, many small firms were needlessly destroyed as the government artificially channeled scarce capital to large, politically-connected firms. As we have said repeatedly, “too big to fail” is code for “too small to succeed.”

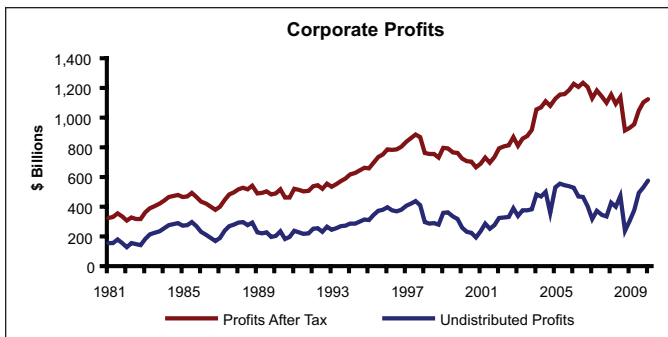


figure 1

According to the March 2010 Job Openings and Labor Turnover Survey, 40.8% of industries are adding workers on a 12-month moving average basis, versus the 9-year average of 49%. This is massively improved from 27.5% eight months ago.

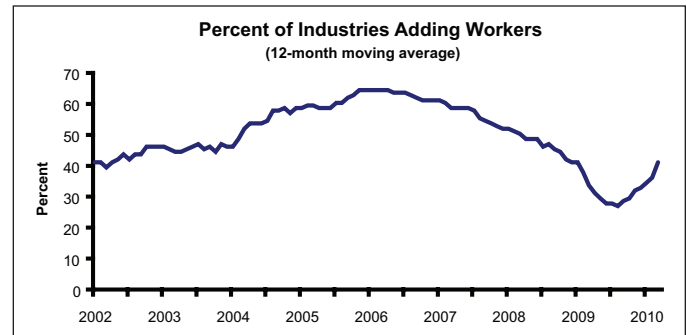


figure 2

Based on the Payroll Survey, all sectors by major SIC code (except the government, which added 591,000 jobs) experienced losses from the beginning of the recession in December 2007 through May 2010. It is clear that most sectors have posted very modest gains from their respective troughs, but are still significantly below their peaks. On an absolute basis, the biggest losers were: manufacturing (2.1 million); trade, transportation, and utilities (2 million); construction (1.9 million); and professional and business services (1.4 million). On a percentage basis, construction (-25.4%) and manufacturing (-15.1%) were the worst performers.

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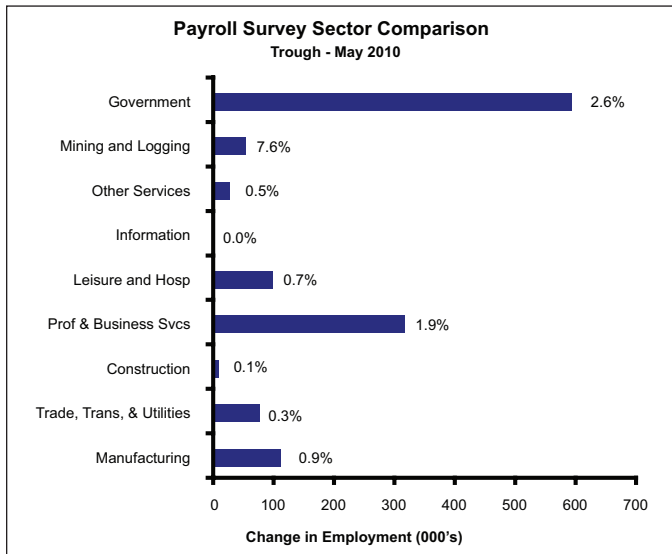


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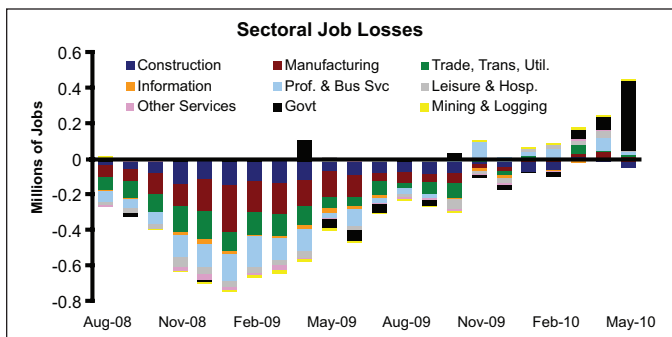


figure 4

The good news is that all major industries except the information sector have registered employment gains from their respective troughs. Aside from the government sector (591,000), the largest absolute job increases were in professional and business services (314,000), manufacturing (108,000), leisure and hospitality (95,000), and trade, transportation, and utilities (74,000). On a percentage basis, the largest gains were made in mining and logging (7.6%), government (2.6%), professional and business services (1.9%), and manufacturing (0.9%).

An improving job market is also evidenced by: increases in the number of weekly hours worked; a 12% decline in “marginally attached” workers from 2.5 million in February 2010 to 2.2 million in May; a year-over-year increase in Temporary Help Service workers; and an increase in the number of employees quitting (because they have improved options). Marginally

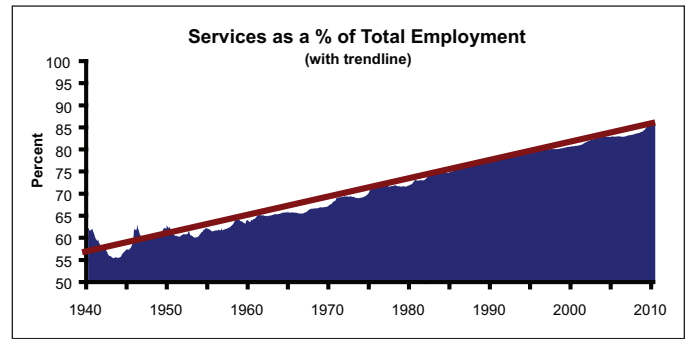


figure 5

attached workers include those who want a job, have searched for work during the prior 12 months, and were available to take a job, but had not looked for work in the past four weeks. Declining levels are an indication that more people are either getting jobs or are actively looking. The increased use of temp workers reflects a rebounding workforce, as temp workers are a flexible means of increasing employment in the early stages of a recovery. Temporary help services increased employment by 175,000 jobs over the first five months of 2010.

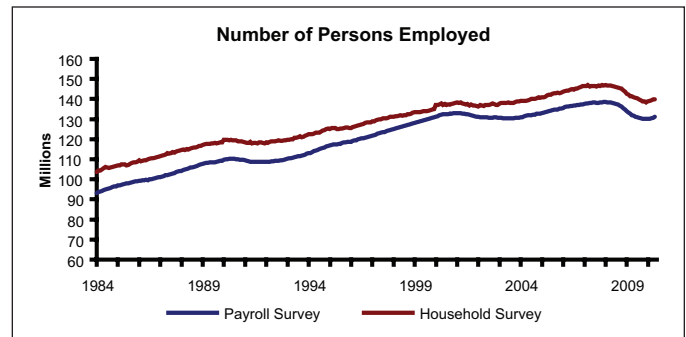


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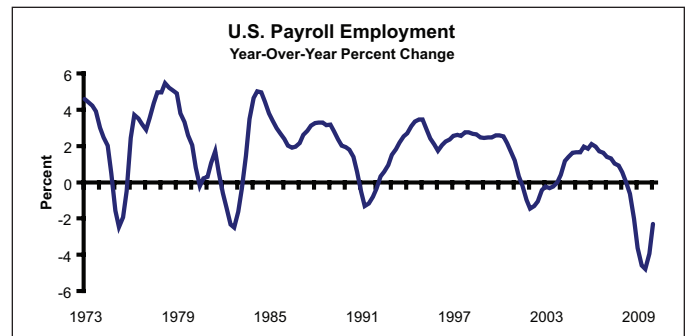


figure 7

Based on the Payroll Survey, total employment peaked in December 2007 with nearly 138 million jobs, and bottomed two years later with 8.36 million fewer jobs. Since year-end 2009, we have gained back 982,000 jobs through May. In comparison, the Household Survey, from which unemployment statistics are calculated, indicates that employment peaked in November 2007 at just under 146.5 million jobs, bottomed in December 2009 at almost 8.7 million lower, and has since grown by over 1.6 million. The key for the real estate sector is job growth, as a recovery without jobs does not fill buildings. Total non-farm payroll employment has grown every month in 2010 through the first five months of the year.

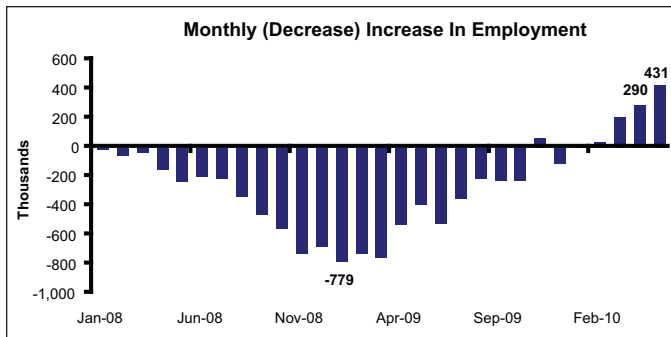


figure 8

We project that for the next three years, we can add 3-3.5 million jobs each year, consisting of the normal 1.8 million new jobs associated with the additional 3 million people entering the economy, plus 1.5 million of the 8.4 million lost jobs being recovered. In fact, this is roughly the rate at which jobs have been added since March 2010. However, this rate of job creation must be viewed in the context of the nearly 8.4 million jobs lost during the recently concluded recession, and the 1.8 million jobs normally added annually to the U.S. economy.

Stated differently, if we recreate 1.5 million of the lost 8.4 million jobs each year, in addition to population-driven job growth, for the next three years, we will have restored only 4.5 million of the 8.4 million lost jobs. This is hardly a rapid return of the lost jobs, as 45% will not have been made up after three years.

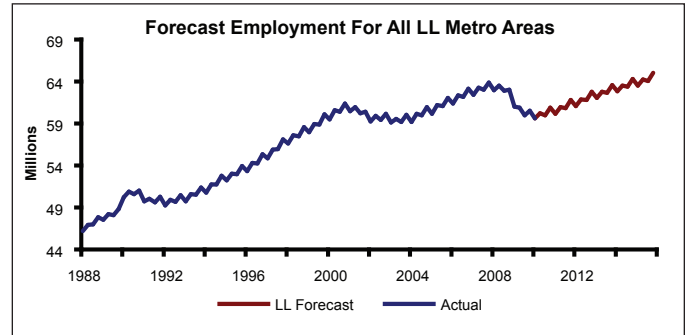


figure 9

This recovery will be due primarily to the restocking of jobs vacated during the panic, rather than a net employment expansion. While this robust job growth may seem overly optimistic, it is important to remember that our forecast would leave us with almost the same number of jobs in mid-2013 as existed at the beginning of September 2008, in spite of a population that will have grown by 15 million people. In fact, employment today is at the same level as in September 1999, despite the fact that population has grown by more than 25 million people.

Many of those who lost their jobs were highly productive individuals who took maternity leave, went back to school, retired, or died. Employers did not replace these workers in the face of panic. However, as panic has receded and profits rebounded over the past six quarters, employers will bring these positions back

Industry	Dec-07	Trough Date	Trough	May-10	Peak to Trough		Trough to Present	
					Change	% Change	Change	% Change
Manufacturing	13,726	Nov '09	11,552	11,660	-2,174	-15.8%	108	0.9%
Trade, Trans. & Utilities	26,709	Dec '09	24,653	24,727	-2,056	-7.7%	74	0.3%
Construction	7,491	Feb '10	5,585	5,591	-1,906	-25.4%	6	0.1%
Prof & Business Svcs	18,051	Sep '09	16,349	16,663	-1,702	-9.4%	314	1.9%
Leisure and Hosp	13,535	Dec '09	12,991	13,086	-544	-4.0%	95	0.7%
Information	3,023	Mar '10	2,728	2,728	-295	-9.8%	-	0.0%
Other Services	5,514	Feb '10	5,310	5,334	-204	-3.7%	24	0.5%
Mining and Logging	739	Oct '09	669	720	-70	-9.5%	51	7.6%
Government	22,377	Dec '07	22,377	22,968	0	0.0%	591	2.6%

figure 10

online. The simplest example is a woman who was not replaced when she took maternity leave 14 months ago. When she now returns to work, this will be counted as a newly created job.

We believe that 3-3.5 million jobs a year for the next three years is almost a certainty, as otherwise the U.S. economy must register about 4% annual productivity growth increases. That is, everyone in the economy must be able to achieve with “96” next year what they can achieve with “100” today. This may be achievable for a year, but does not pass the smell test of long-term achievability. The prevailing U.S. business model over the last two years has been that “the beatings will continue until morale improves.” That is, employees have done whatever was required because they have had no alternative. But as profits have rebounded over the past 18 months and demand has grown, more employees are needed, lest workers refuse to endure further beatings.

U.S. real GDP is approximately the same size today as it was in early 2008. Historically, if the economy does not grow, there ensues a loss of approximately 1.5-2 million jobs. Thus, we lost at least 6.2 million more jobs than normal. These excess job losses will be relatively easy to regenerate, and will be driven by the growing sectors of health care, pharmaceuticals, and education. Another way of viewing this phenomenon is that in the past 2.5 years, we have added 7.5 million people to the

U.S. population, yet have the same output, produced with 8.4 million fewer workers. That is not sustainable. And over the next three years, we will add another 9 million people. These 16.5 million people will require at least 9 million more workers.

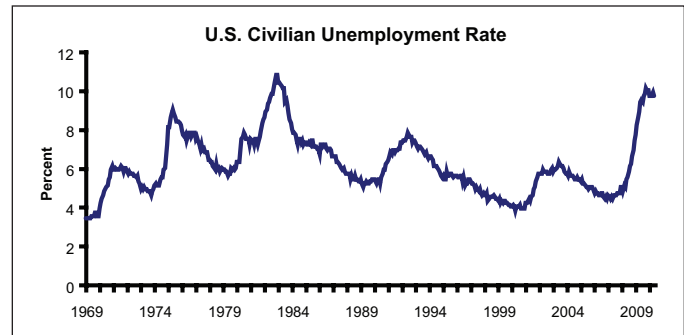


figure 11

Ironically, our audiences generally greet our forecast of 3-3.5 million new jobs for each of the next three years with great skepticism, as most believe that the U.S. unemployment rate will still be approximately 7% three years from now. But in order for the unemployment rate to be approximately 7% in three years, we must add 3-3.5 million jobs each year for the next three years! That is to say, much as was the case in 1975-77 and 1982-84, we expect a robust employment recovery to a very mediocre job market.

About Dr. Peter Linneman

Dr. Linneman, who holds both Masters and Doctorate degrees in economics from the University of Chicago, is the Principal of Linneman Associates. For over 25 years he has provided strategic and financial advice to leading corporations. Through Linneman Associates, he provides strategic and M&A analysis, market studies, and feasibility analysis to a number of leading U.S. and international companies. In addition, he serves as an advisor to and a board member of several public and private firms.

Dr. Linneman is the author of the leading real estate finance textbook, *Real Estate Finance and Investments: Risks and Opportunities*. His teaching and research focuses on real estate and investment strategies, mergers and acquisitions, and international markets. He has published over 100 articles during his career. He is widely recognized as one of the leading strategic thinkers in the real estate industry.

He also serves as the Albert Sussman Professor of Real Estate, Finance, and Business and Public Policy at the Wharton School of Business, the University of Pennsylvania. A member of Wharton’s faculty since 1979, he served as the founding chairman of Wharton’s Real Estate Department and the Director of Wharton’s Zell-Lurie Real Estate Center for 13 years. He is the founding coeditor of *The Wharton Real Estate Review*.

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