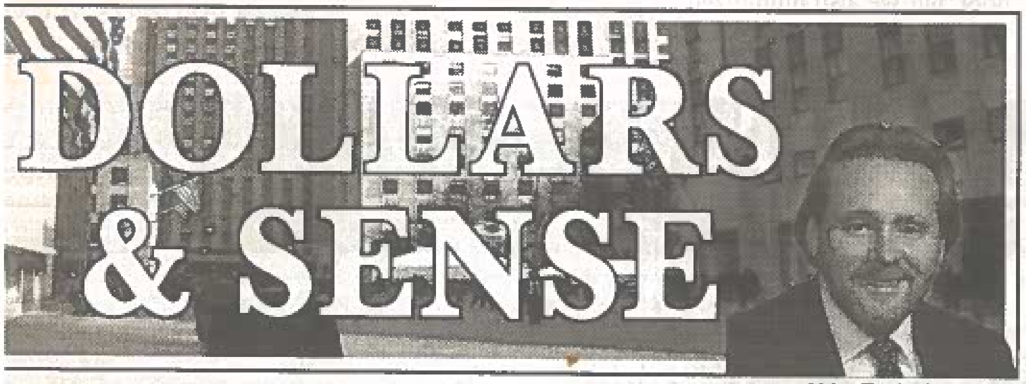

with Bob Knakal

Working out the jobs impact

Q: How impactful do you think recent employment gains will be on the investment sales market?

A: There is no doubt that employment is the most important factor that affects the underlying fundamentals of both the commercial and residential real estate markets.

The recent gains in employment are certainly positive, but it is important to look into the numbers a bit further.

I put very little emphasis on the reported unemployment rate. This is due to the fact that we have seen months when there has been a net loss of jobs and the unemployment rate has gone down and months when there have been net job gains and the rate has increased.

The official unemployment rate does not take into consideration discouraged unemployed workers who have abandoned the search for a job for more than 30 days and also does not count underemployed workers who are in part-time positions who would rather be working full time.

The rate also includes seasonal adjustments which are just statistical guesswork. These are the reasons why adjustments are often made to the data months down the line. In February, the unemployment rate dropped to 8.9%, the lowest level since April of 2009. While this is a positive development, the actual number of jobs created is much more important than the unemployment rate itself.

Last month, non-farm payrolls grew by 192,000 jobs. Going back to November, the labor market has grown by an average of 136,000 jobs per month.

While these gains seem positive, it is important to remember that, depending upon which report you read, we need 100,000 to 150,000 jobs per month just to keep up with population growth and new entrants into the jobs market.

After these gains in February, the number of workers on U.S. payrolls remained at about 7.5 million jobs less than peak levels in December of 2007. The unemployment rate is artificially low due to the participation rate remaining at historically low levels.

The participation rate measures the number of people who have jobs or are looking for them. In February, this rate stood at 64.2%, down from 66% in December of 2007. The 64.2% rate is the lowest it has been in the last 25 years. If today's participation rate was back at 66%, the unemployment rate would be about 11.5%.

If all people who would like to be working but abandoned the search for a job are counted, along with all underemployed workers, the rate skyrockets to about 16%.

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Working out jobs impact

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Interestingly, the private sector added about 220,000 jobs last month. This was the highest total in over a year and was the 12th consecutive month of positive job gains.

The reason that net jobs gained was only 192,000 was that states and local governments shed 30,000 jobs in February after cutting 8,000 jobs in January. Expect this trend to continue as cash strapped state and local governments are generally opposed to raising taxes and must bridge budget deficits. States have eliminated 82,000 jobs since their peak in August of 2008 while localities have vaporized 377,000 jobs since this sector peaked in September of 2008.

State and local financial shortfalls will likely continue as the federal government works to bridge its own massive deficit which has now reached about 12% of gross domestic production.

The feds are focused on cutting non-security discretionary spending and about one-third of these funds flow to state and local governments. As this funding is cut and state and local deficits are addressed, additional public sector jobs will be slashed.

The overly generous compensation structures for public sector union employees have become unsustainable and are exerting tremendous pressure on expanding deficits. Unions have always served worthy purposes in America, fighting for the proverbial "little guy" and providing a counterpoint to the demands of management.

However, given the way collective bargaining takes place, politicians have given in to union demands far too frequently to the detriment of states and cities.

To have politicians negotiate in a collective bargaining process with unions makes no sense. The unions possess large blocks of voters and can provide significant financial support. When unions negotiate with politicians, they are negotiating with someone they can essentially hire or fire. Union support often transparently impacts the positions taken by elected officials. This is clearly seen in the positions taken by the anti-Walmart legislators in New York City. When an employee negotiates with their potential employer the process resembles collusion more that collective bargaining.

This dynamic has created a public sector employment and compensation levels which are unsustainable, therefore, it is likely that we will continue to see significant layoffs in this sector.

Fortunately, in New York, our employment outlook has been much more positive than we have seen nationally. Given this, we expect New York's commercial real estate market to continue to lead the nation out of the downturn.