

## Jobs, Jobs, Jobs

Nothing else impacts real estate fundamentals more. How are we doing?

Recently, there has been tremendous coverage of the Occupy Wall Street protests. It is obvious that this is not a political movement but merely a way for some disgruntled Americans to express their frustrations. It is unfocused and really has no coherent agenda. Ask 50 demonstrators why they are there and what they hope to achieve and you get 50 different answers.

I was particularly amused by the recent college grad who postulated that he should not have to pay back his school loans because "the banks were bailed out. Where's my bailout?" Someone should explain to him that the banks were lent money that they paid back with interest, yielding a substantial profit to the taxpayer, notwithstanding all of the other tangential benefits of keeping the banking system afloat. He was already given his bailout by virtue of the loan itself. Not wanting to pay it back is what differentiates this student from the banks.

I certainly don't mean to make light of the plight of the unemployed today, which is a significant problem for far too many of our citizens. While not many people take O.W.S. itself too seriously, there are, however, two important takeaways from these protests. The first is that it is likely to be an early iteration of things to come as discontent with current economic conditions and the unsustainability of our economic "promises" become all too clear. The second takeaway is derived from interpreting the timing of these demonstrations.

Things were much worse economically in the fall of 2008. Companies that were thought to be AAA credits had either failed or were on the brink. People were running around opening bank accounts at several different banks out of fear that A.T.M. machines might stop spitting cash. Why didn't O.W.S. rise up then? The reason the demonstrators are here today is due to the unfortunate

economic reality that many people believe things aren't going to get tangibly better for a long time.

The economy appeared to be getting better many months ago but recent economic indicators have been trending downward and job creation has been well below expectations. European defaults are on the way (whether they are called defaults or not), Obamacare hasn't kicked in yet and Dodd Frank has only started to be understood and felt by those who reside under its heavy thumb. Is it any wonder that we haven't seen job

creation gain much traction and have, in fact, observed acceleration in the number of announcements about pending layoffs in the financial sector?

The unfortunate thing, for both our economy and our commercial real estate market, is that many of our leaders today including the Fed, Congress, the president and his economic advisers have no idea what to do to make things better. The administration's recent attempt at a third round of stimulus, a.k.a. the American Jobs Act, is another Keynesian mechanism that would have little chance of working. Moreover, it has no chance of even passing. During lunch with an Obama insider last week, it was divulged that the bill was nothing more than a campaign stunt so the president could vilify the "do-nothing" Republicans who did not pass a piece of legislation that would have saved everyone. Unfortunately, for the administration, the bill did not even make it through the Democrat-controlled Senate last week. The media really made little mention about this, likely because few actually thought it had a chance to pass.

Even John Maynard Keynes himself would not have endorsed this jobs bill. During the time Keynes developed his theories, governments balanced budgets each year. Sometimes there were

deficits and sometimes there were surpluses but, cyclically, there was balance. This allowed for "savings" during surplus years and these savings could be spent during recessionary periods to stimulate demand without adding to deficits. However, we run chronic deficits. This standard operating procedure has been symptomatic of legislators on both sides of the aisle. During the eight years George W. Bush was in the white house, G.D.P. grew by 15 percent and government spending grew by a whopping 58 percent. When you borrow from yourself in good times, you can't do it during bad times when you really need to without harmful side effects.

So now we have deficits that have grown to record levels and national debt that has ballooned from \$10 trillion two and a half years ago to \$14 trillion today. How this condition will be dealt with is a key question. Will we inflate our way out? Tax the rich? Tax everyone? Cut spending? Implement a value-added tax? Adopt Herman Cain's 9-9-9 plan? At the end of the day the music will stop and someone will be left with no chair.

During the previous stimulus packages, businesses hired some workers for projects they knew were going to be short term. Local governments and households used savings to pay down debt and knowing that the stimulus was temporary, few people changed their long-term behavior. The government essentially wasted billions of dollars on projects that did little economic good. Impactful for commercial real estate, job creation has been too slow to impact the economy as demonstrated by the September jobs report.

In September, the unemployment rate remained at 9.1 percent even though 103,000 net new jobs were added. This included 137,000 private-sector jobs being created, which is seemingly positive, while 34,000 government jobs were eliminated. However, if we look into these numbers further, the details are telling.

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One-third of the 137,000 private-sector jobs "created" were those attributed to 45,000 striking Verizon workers who returned to work and were counted as unemployed the prior month. This means that 92,000 private-sector jobs were really created. If we subtract the 34,000 government workers that were terminated, the net gain to the economy was just 58,000 jobs, far short of the 100,000 to 150,000 needed per month just to keep pace with population growth.

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This growing length of time out of work tangibly increases the required growth of the economy to absorb these people and get them back to work. The average duration of unemployment grew again to 40.5 weeks, indicating that the average unemployed worker has been without a job for nine months.

Also in September, the labor force participation rate increased 0.2 percentage points, to 64.2 percent. Hourly wages increased by four cents and average weekly hours increased by 0.1 hours. These numbers by themselves are positive. Unfortunately, these improvements are coming off unexpected reductions in August and

merely return these numbers to July levels.

Stresses in the jobs market are the source of much of the frustration Americans are feeling. It is also the reason why our commercial real estate recovery nationally has been well below expectations coming out of a downturn. In New York, we have been relatively lucky. Job losses have been lower than what was experience during the Savings and Loan crisis in the early 1990s and we have already gained back a significant percentage of the jobs that were lost. Unfortunately, recent announcements from financial firms mean that this trend may encounter challenging times ahead.

The government simply cannot plan the entrepreneurial innovation that leads to significant job creation but it can encourage it. The government can directly control tax and regulatory policies it imposes on businesses and Congress could act quickly to alleviate them. Unfortunately, in an election year, it is unlikely that fundamental change will be adopted. Given the magnitude of our problems, fundamental changes are indeed required. For commercial real estate, we hope that change occurs, as it would accelerate job creation and, for real estate, it's all about jobs. Let's hope some leadership emerges to get us there.

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