CONCRETE THOUGHTS

What Works for Putting People Back to Work

And, more to the point, what doesn't—a few ideas on that most important barometer for commercial real estate: jobs

I would like to begin this week's column by thanking my editor, Tom Acitelli, for allowing me to take the past few weeks off to spend some additional summer time with my family. Tom and everyone at *The Commercial Observer* have been great to work with and, while I truly enjoy writing Concrete Thoughts, it is a time commitment that I needed a short break from. My last column was July 26 and much has happened in the world since then.

New Yorkers made it through Hurricane Irene and an earthquake. My beloved New York Yankees have regained first place in the American League East, ahead of the dreaded Red Sox. The stock market has performed more like a yo-yo than anything else. The Dow Jones Industrial Average has dropped 1,600 points since. Remarkably, the 15 up days totaled 2,530 points and the 17 down days totaled 4,130 points. It is rare to have the market move more than 2 percent in a day, yet it happened 13 times in the past 32 trading days.

Moammar Khadafy is on the run in Libya and general turmoil in that region is changing the world as we knew it. New Yorkers bid au revoir to a frisky Frenchman; and, proving that the apocalypse may be upon us, ex-Governor David Paterson and Al Sharpton have each taken on a formal position in the media. Mr. Paterson will host a talk show on WOR radio and Mr. Sharpton will host *Politics Nation* on MSNBC.

In yet another example of the pay-to-play standard operating procedure that has plagued Albany for decades, it was alleged that LIBRE, a nonprofit established and supported by ex-State Senator Hiram Monserrate, had accepted bribes from Lawrence Carr Amusements to secure contracts to operate amusement parks in New York despite a questionable operating record. This reinforces my position that any nonprofit organization linked in any way to an elected official should be investigated by the state attorney general. How many of these groups have received substantial taxpayer money only to see the official's cronies, related or otherwise, getting large, six-figure salaries for jobs that may not even exist? This is one of the biggest scams around. Just think Pedro Espada and the allegations made against him and his Soundview Healthcare Center.

Robert Knakal

Unions were busy during the past seven weeks. In New York, the Communication Workers of America went on strike for 16 days at various Verizon locations. The interesting thing was that few people even noticed; media coverage was practically nonexistent. The union's primary grievance was the company's demand that employees contribute something toward their health insurance—welcome to the new world where the burden of ever escalating health care costs will have to be shared by all, even if you have a union contract that says otherwise. With things changing as rapidly as they have, survival for many of these groups will be based upon their ability to adapt. There are worse things than contributing toward your health benefits.

At the Port of Longview in Washington State, the International Longshore and Warehouse Union striked violently, rampaging through a grain terminal and causing significant property damage. Longshoremen then walked out at nearby ports in Seattle and Tacoma. The N.L.R.B. had no choice but to issue a complaint against this "violent and aggressive" action. There is concern that these strikes could spread to other major U.S. ports, which would make this a national issue and would be a real pebble in the shoe of President Obama as he desperately tries to hold onto his union base. Stay tuned.

In a stunning, but not entirely unexpected development, S.&P. downgraded long-term U.S. debt from AAA to AA+. With projections for ever increasing deficits and spending continuing to rise as a percentage of G.D.P. (which is actually much more important that the actual magnitude), how could it not have made this move? Dysfunction in Washington was illustrated brilliantly during the debt-ceiling debate, which added ammunition to S.&P.'s position. Clearly, because the government can simply continue to print money (as they have demonstrated a keen proficiency for doing), the U.S. will not default on debt payments, but the revelation focused a magnifying glass on our fiscal house.

Given the downgrade, intuitively one would surmise that interest rates would rise. Interest rates and who the next mayor of New York is going to be are perhaps two of the biggest issues impacting our commercial real estate market moving forward. Or course, as I obsessively write, job creation is the most important issue, but we will address that momentarily. While the downgrade indicates that we have a worm in our apple, fortunately, other apples around the world have far more worms than we do. The economic turmoil around the globe actually sent capital flowing into the Treasuries markets as investors demonstrated significant risk aversion. This drove the 10-year Treasury down to a remarkably low 2 percent. In fact, during intraday trading on Sept. 12, it hit a new all-time low of 1.879 percent.

The apparently economically fractured European Union was a major contributor to this flight to safety. As I described to a colleague, member nations in Europe right now are like a bunch of old pals who go out to dinner every month. Each time, they go out to a more lavish restaurant and, each time, the richest guy at the table (Germany) picks up the tab. At the most recent meal, the rich guy said he either can't pay or won't pay, leaving everyone else at the table looking at each other in horror—particularly Greece, Italy, Ireland, Portugal and Spain, which are still trying to figure out what to do. It would be surprising if the union and the euro were still intact 12 months from now. You simply cannot have hairdressers (considered a

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"dangerous" profession in Greece) retiring on full pensions after only 20 years and expect things to be rosy. These labor policies are sinking European economies and they don't even have anywhere near the defense budgets of the U.S. This is something we should be mindful of.

It is this type of employment policy that is helping to undermine the U.S. Postal Service, which recently announced that it is on the verge of bankruptcy (do you smell another bailout?). Granted, mail volume is down 20 percent from four years ago as nearly 200 million Americans use email or other online options instead. However, while competitors like FedEx and UPS have labor costs below 50 percent of total expenses, the U.S.P.S.'s labor costs approach 80 percent as they are crushed by onerous labor contracts and an exorbitant level of government regulation. It cannot afford to make a congressionally mandated $5.5 billion health care-benefits payment for future retirees that is due at the end of September. The largest burden for the U.S.P.S. is health care benefits for retirees, which have increased by almost 500 percent since 1972, when benefits alone were about 8 percent of the budget. Today, they are 30 percent. The result is that the U.S.P.S. lost $3.7 billion in 2009 and $8.3 billion last year, and is presently operating at a budget deficit of $9.5 billion. This is why they are talking about ceasing mail delivery on Saturdays, closing 3,700 post offices, and firing up to 120,000 workers even though layoffs are prohibited under the current union contract. Bankruptcy would allow these moves to be implemented.

We have never in history seen a major government agency simply vanish, but the unsustainability of its health care and pension burdens nearly guarantees the vaporization of the storied U.S. Postal Service. Privatization appears likely and these fiscal burdens are an issue at almost all levels of U.S. government. This is why we have seen consistent job contraction in the public sector over the past several months. Since we are on the subject of jobs, let's take a look at today's employment picture, which isn't pretty.

There is no economic metric that more profoundly impacts the underlying fundamentals of our real estate market than employment. Last month, the Department of Labor announced that there were no jobs created in August. None, nada, zilch! The unemployment rate remained at 9.1 percent and the true rate, called U6, which includes part-timers who would like to work full-time and the discouraged who have given up their search, has climbed to over 16 percent. Hardly what you would expect after this administration has pumped trillions of dollars of stimulus into the economy.

Keynesian economists must be despondent as recent fiscal policy

…asures have demonstrated and confirmed the shortcomings of this theory. Not only were no jobs created in August, but the Labor Department also admitted that in June and July the actual number of jobs created was 58,000 fewer than reported. On Sept. 29, the department will provide an estimated correction to the number of jobs that have been announced thus far in 2011. And, in February, it will provide a formal measure of its miscalculation. In 2010, the Labor Department's correction was an incredible 902,000 jobs, or about two-thirds of what the government thought was created.

In the face of the malaise in the labor market, last week the president, after 32 months in office, decided to "pivot to jobs" and took to the airwaves to announce a new jobs bill that he urged Congress to pass right away. He proposed approximately $447 billion of additional stimulus, which he said would be "fully paid for" by cuts in spending by the super committee.

Does anyone really buy that? To you and me, and most people in the world, spending cuts mean that if you were spending $10,000 on something and you spend $9,000 the following year, you have cut spending by $1,000. In Washington, if you were spending $10,000 on something and thought you would spend $11,000 next year and spend only $10,800, you believe you have cut spending by $200. This is the case even if you spend $800 more. Moreover, with these cuts set to be made years in the future, they are subject to future congressional action, so they may actually never get implemented.

To really create a tangible number of jobs and give the economy the traction it needs, there is no way to avoid substantive tax reform and substantial entitlement reform. Unfortunately, there is currently little political will to do so and, particularly given that we are entering an election year, it is very unlikely anything significant will happen on these fronts. Repealing Obamacare and Dodd Frank would be a good start but these measures have no chance of passing until a new administration takes over.

Here are a few other ideas that would kick job creation into gear and, therefore, would be significantly beneficial to our commercial real estate market:

- Sign the free trade agreements with South Korea, Colombia and Panama. The president indicated he would do this, but it is interesting to note that these agreements have been collecting dust on his desk since he took office.
- Pass the Freedom to Invest Act, which would allow U.S. firms operating abroad to repatriate some of the $1.2 trillion in profits made overseas at advantageous tax rates.
- Reduce or eliminate the duties U.S. producers pay on imported raw materials and components they need for manufacturing. This would make U.S. products more competitive at home and abroad.
- Tell the N.L.R.B. to streamline the decision making process to allow Boeing to open its 787 Dreamliner assembly plant in South Carolina. This might upset the president's union buddies, but it's time to start creating jobs and not tempting companies to ship jobs elsewhere. Perhaps this would encourage other companies to follow suit and opt to open new facilities here as opposed to going overseas.
- Direct the Department of the Interior to encourage more oil exploration in the Gulf of Mexico and Canada (which would create the need for a pipeline down into the U.S.), and more natural gas exploration. Many industry leaders believe we have enough natural gas to significantly reduce our dependence on foreign oil. Some estimates put the potential of these industries at an additional 450,000 jobs.
- Limit those who are allowed to speculate in the energy futures market. The volatility in this market greatly impacts the cost of gasoline. Remember, a 50 cent drop in the cost of a gallon of gas gives Americans an additional $70 billion to spend on other things.
- Allow Americans to use I.R.A., 401(k) and Keogh money to purchase houses without incurring penalties or taxes. This would dramatically help the ailing U.S. housing market.
- Spend on infrastructure projects as the president has suggested, but only those that pay for themselves through tolls or usage fees.
- Supercharge small businesses by allowing access for immigrant entrepreneurs who will hire American workers, reducing the cost of capital by limiting capital gains taxes on early-stage investments, and encouraging I.P.O.'s by allowing shareholders to opt out of Sarbanes-Oxley, which has proved to be very cumbersome and has provided few positive results.
- Unclog the log jam in the Patent Office by allowing applicants to pay higher fees for faster action.

These ideas may not be the best ideas out there, but they are certainly better than reproposing the same old Keynesian government "investments" that have failed time and time again and have significantly increased the debt burden on future generations. Our real estate market needs jobs for a sustainable recovery. Let's hope we get some before 2013.

rknakal@masseyknakal.com

Robert Knakal is the chairman and founding partner of Massey Knakal Realty services and in his career has brokered the sale of more than 1,150 properties totaling over $7.4 billion in value.

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