

# Employment Data Adds to the Confusion

As I have written in these pages over the past several months, trying to figure out where the commercial real estate investment sales market is heading has been increasingly difficult. Some property segments, like land and hotels, have faced value headwinds while others, like office and multifamily properties, have remained strong. While values here have remained in fairly good shape, reports have been increasingly frequent about downward pressure being exerted on rents, particularly in the apartment and retail store sectors. Determining the direction of key underlying fundamentals would be critical to determining the direction of the market, but there is a lot of noise in the data today.

Perhaps the key underlying fundamental is job growth. When people have jobs, they shop in stores. Those jobs fill offices and industrial buildings. Folks with jobs move out of mom and dad's house and rent apartments. To the extent they get a better job, they move out of a rental apartment and purchase a co-op, condo or single-family residence. Jobs are key to commercial real estate growth.

Because of the importance of jobs on our

market, one might think that the reduction in the unemployment rate to 4.7 percent last month was a very positive development. After all, this is the lowest unemployment rate seen since November 2007. However, as I have stated many times, the rate itself is an almost

meaningless measure of health in the employment sector. For example, if everyone in the workforce decided not to work anymore, the unemployment rate would be 0 percent, but that wouldn't reflect a healthy market. The reason the rate dropped the way it did was because 458,000 Americans gave up their search for work. This drove the participation rate (the percentage

of working age citizens who have jobs) down to 62.6 percent a nearly 40-year low.

The weak May jobs numbers are of great concern for commercial real estate nationally. Last month, payrolls grew by just 38,000 jobs, far below the expected 162,000 (which was a weak forecast to begin with). This anemic number is the lowest it has been since September 2010. For the first five months of 2016, job gains have averaged 149,600 per month, the worst start to a year since 2009. In addition to the weak May results, numbers

for March and April were revised lower by 59,000 jobs, indicating declining results for three months in a row.

More troubling is the nature of the jobs that have been created. A new study by Harvard and Princeton universities concluded that, from 2005 through 2015, new full-time jobs grew by a smaller number than part-time jobs. Before the recession began, there were about 4.2 million part-time workers who wanted full-time work. Presently, there are 6.4 million of these workers. This is part of the explanation for the lack of real wage growth over the past decade. Improvement in the labor market has apparently stalled in the U.S. The general frustration of the average American worker (or those who would like to work but have given up their search for a job) is one of the ingredients that has propelled the campaigns of Donald Trump and Bernie Sanders.

A short-term benefit of this weak employment data is that the expected June interest rate hike by the Fed will likely be averted, keeping rates low. This is a short-term benefit because low interest rates for too long have proven to create asset bubbles and at some point we need to see rates rise. Weak economic data will prevent the Fed from raising rates. Last week, Chairwoman Janet Yellen

gave a speech in which she pretty much took an immediate rate hike off the table.

Weak business surveys and reduced capital spending by corporations have resulted in broad based weakness in corporate decision-making and is at least partly due to a relatively uncertain environment. This uncertainty is coming in three main areas: 1) weakness in global demand, 2) contentious U.S. election campaigns and 3) the potential disintegration of the European Union if Britain votes to exit the EU later this month. These conditions are also creating speed bumps to traction in the economy.

These national numbers would explain why the national commercial real estate market may be cooling. What is perplexing is why the fundamentals are slowing in New York City when employment here is booming. More than 620,000 jobs have been created here since the recession ended. That has helped prop up the office sector and should be propping up retail and residential rents as well, but this has not been the case.

We hope that the weakness in the job market turns around and turns around soon. That could provide some clarity. "More of the same" will simply keep us in the dark even longer.



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