Job Growth: Rocket Fuel for CRE Fundamentals

One of the economic metrics that I watch very closely is the monthly jobs report. Nothing impacts the underlying fundamentals of commercial real estate more than jobs do. People who get a new job move out of mom and dad's basement to rent or buy a home, companies that are hiring people need more office space and folks who get new jobs are more likely to go spend money in a retail store. The implications for commercial real estate are obvious.

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In a trend that has been extraordinarily positive for commercial real estate, our job market has been adding new jobs for 102 months in a row, since 2010. In March of this year, 196,000 new jobs were added and February's total was adjusted upward to reflect the 14,000 jobs that were not included in that month's report. This performance drove the unemployment rate down to 3.8 percent, a 49-year low.

Thus far in 2019, we have increased jobs by an average of 180,000 per month, less than the 223,000 monthly average last year, but still very positive nonetheless. The 2018 jobs numbers benefited greatly from the tax cuts that went into effect in 2017. With more profit potential, given lower tax rates, employers were quick to implement growth strategies and bring on more workers.

Since the middle 2018, job growth has been coupled with wage growth. This was the case for the first time in many years as wage growth was previously flatlining. The March numbers showed wages growing at 3.2 percent on a year-over-year basis. This is well in excess of the 1.5 percent increase in the consumer price index. A combination of lower inflation and wage growth coupled with a reduction in taxes provides more disposable income for consumers. And consumers are so important because they make up 70 percent of our GDP. Consumer spending has been strong and consumer sentiment even stronger. This has led to steady GDP growth, well above the recent trend line for the past decade.

The Fed is happy with inflation within its 1 percent to 2 percent target range, which current inflation is squarely in the middle of. Given that the economy is growing moderately, and not quickly accelerating, this will help keep interest-rates in check which is also critically important for our capital markets businesses. Last year, the Fed raised rates four times. Based upon how the economy is performing, the Fed is not expected to raise rates at all in 2019 unless something were to change significantly. This would be very beneficial to all market participants including buyers, borrowers and sellers.

Even U-6, which is the rate of unemployment including those Americans who are too discouraged to look for work as well as those who have part-time jobs but would preferred to be working full-time, is at just 7.3 percent. This is significantly below the almost 25 percent level that we observed during the great recession.

This tangible traction in the economy has employers feeling extremely bullish about the future. In fact, the Small Business Optimism Index increased yet again last month. With employers looking favorably upon future economic conditions, it leads them to want to grow their business and hire more people. Our economy has now reached a point where there are 6.2 million unemployed Americans but almost 7.6 million jobs available. This dynamic illustrates the significant importance of job training and education to prepare those who are looking for work for the jobs that exist. Technologies have changed the nature of many jobs today and training in these areas is necessary.

This consistent job growth is a major contributing factor to the record office leasing year that occurred last year and the flying start that the market is off to in 1Q19. It is also a major reason why the underlying fundamentals in the residential market appear to be firming and the reasons why even retail rents appear to have reached stabilization.

To the extent job growth continues, it will continue to positively impact the underlying fundamentals of our real estate markets. With enhanced fundamentals come better market conditions and with better market conditions come better property values. These dynamics are positive for all of us.