Strategic Advantage
Real Estate Insights, Forecasts & Strategies
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It's All About Jobs

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Friends & Colleagues:

As Stephen Covey once said, "If there's one thing that's certain in business, it's uncertainty." **While the real estate industry places daily bets on the expected, it is regularly reminded of the unexpected**. However, there is one constant upon which the real estate industry is 100% dependent…that is jobs. The more jobs created; the bigger demand for space. The more jobs created; the greater demand for places to live, shop, visit and recreate. Jobs create individual, community, regional and national economic wealth and vitality. The income/wages received by those employed have an exponential economic impact ("multiplier effect") on other jobs and financial opportunities. While real estate has traditionally been far more asset- or event-centric than customer-centric in its business model execution, **the bottom line has been and continues to be about jobs**. Markets that have vibrant job growth; exhibit a stable workforce environment; attract creative class and higher paying employment opportunities; encourage entrepreneurism and innovation; and invest in the future will perform far better than those that don't. Indeed, **real estate is all about jobs!**

However, **the nature of work and jobs is rapidly changing. It is no longer *about the job*, it is about *how the jobs* will be performed**. It is no longer about "jobs for life," it is about "jobs for the moment." It is no longer about "build it and they will come;" it is now **"build it so they will stay."** Buildings must be designed, developed and managed based upon what goes on *inside* the four walls. Buildings are where Americans go to work, where they create income and wealth, where they call home, where they shop and seek entertainment, and where they receive needed services. **The crucible upon which all of these real estate opportunities depend…is jobs.** Job creation is built on a level of trust and confidence between employers and employees (corporations), and those who regulate their activities (government). A lack in trust by society at the corporate and/or government level will absolutely mean fewer jobs and lower investments in new job-creating ventures. To quote Albert Einstein, "**If you always do what you always did, you will always get what you always got**."

America's Anemic Job Recovery Continues

The labor force participation rate is now 62.8%, (while last month's rate of 62.7% matched a 37-year low, December 1977). Since 2010, the employment-to-population ratio has been hovering around 59%, the lowest since 1983. The U6 employment rate is around 11.5%. From January 1, 2008 through June 30, 2014, the U.S. working age population has increased by 19.3 million, but the net number of jobs in America has grown by only 1.82 million. There has been no meaningful full-time job recovery since the recession officially ended in June 2009. Today the number of Americans 16 years and older who are not working is more than 92 million. Data released by the U.S. Census Bureau indicates **more than 100 million Americans receive some form of "means-tested" welfare assistance** (nearly 35% of the U.S. population). There are over 46 million Americans now receiving nutrition assistance from SNAP (formerly known as food stamps). These figures do not include the millions recently added to the ranks of Medicaid due to the Affordable Care Act. According to the Cato Institute, when all programs are put together, a family can receive $35,000 a year in benefits in 11 states, and $60,000 a year if you live in Hawaii. What incentive is there to work?

What Is the U6 Unemployment Rate?

The U6 unemployment rate counts not only people without work seeking full-time employment (the more familiar (Official unemployment) U-3 rate), but also counts "marginally attached workers and those working part-time for economic reasons." Note that some of these part-time workers counted as employed by U-3 could be working as little as an hour a week. And the "marginally attached workers" include those who have gotten discouraged and stopped looking, but still want to work.

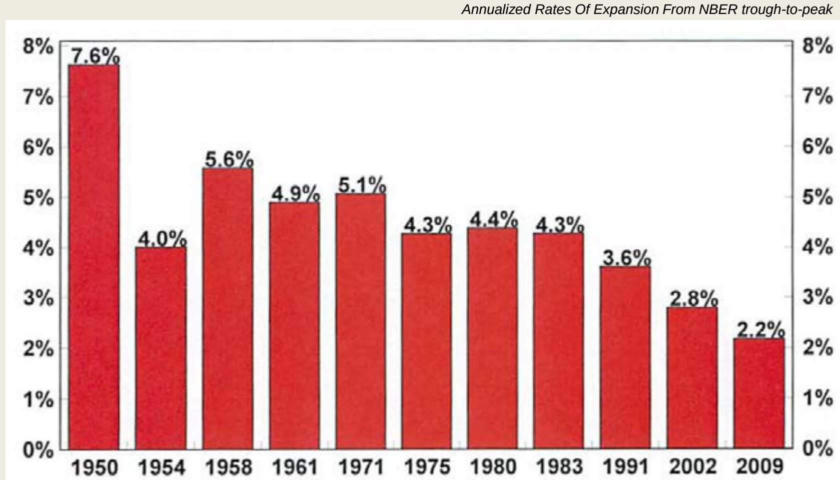
There are now around 7.0 million part-time workers for economic reasons, and 19.8 million part-time workers for non-economic reasons in the U.S. The average number of weekly hours worked for private sector employees is 34.6 (October 2014). Wages (including benefits) in the private sector (around 85% of the U.S. workforce) average around $30 per hour vs. slightly more than $43 for public sector employees, according to the U.S. Department of Labor. According to a new report by the U.S. Conference of Mayors, jobs that have rebounded after the recession are paying 23% less than those lost during the recession. U.S. small business loans are still 17% less than **their peak of $711 billion in 2008, according to the FDIC**. Remember, small businesses accounted for approximately 63% of all net new jobs created between 1993 and 2013. In contrast, loans to all business totaled $2.48 trillion through 1Q 2014, up 9% since 2008. A shift to "pay-as-you-go" and a reluctance to take on debt dampens new job creation.

Since December 2012, private industries paying up to around $14.50 per hour have added, on net, approximately 972,000 non-supervisory positions with an average work week of only 17.7 hours. Low-wage industries, which employ around 30 million workers, have reduced the average work week to 27.3 hours, with much of the decline attributed to provisions in the Affordable Care Act. For all recession recoveries since WW II, cumulative job growth has averaged 12.5%. Since the 2007-08 recession, cumulative job growth is averaging 6.2%. Today, there are over 42 million freelance workers in the U.S., up from 10.3 million in 2005. The number of freelance workers is projected to outpace full-time workers by 2020.

Slow economic growth is also having employment impact on the growing tech and healthcare sectors. Uncertainty at home and abroad is causing some firms to restructure and reposition. Microsoft and Cisco Systems expect to terminate a combined 9,000 employees. Hewlett-Packard stated that it will be terminating 16,000 employees by the end of the year as part of its restructuring. **Seventeen tech companies have announced that their earnings will be *lower* than expected. The long-term ramifications for the real estate industry from this growing income inequality will likely mean a reduced and different demand for space**. Interestingly, without the over 1 million jobs added in

Real GDP Growth During Expansions

Annualized Rates Of Expansion From NBER trough-to-peak



Source: BEA, NBER and A. Gary Shilling & Co.

Texas since the recession started in December 2007, the rest of the U.S. employs around 350,000 fewer people than at pre-recession level. **Since 2011, Texas, which has 8% of the U.S. population, has added approximately 14% of all U.S. jobs**. The demand for office, retail and residential real estate has been and will continue to be impacted significantly by this dramatic shift.

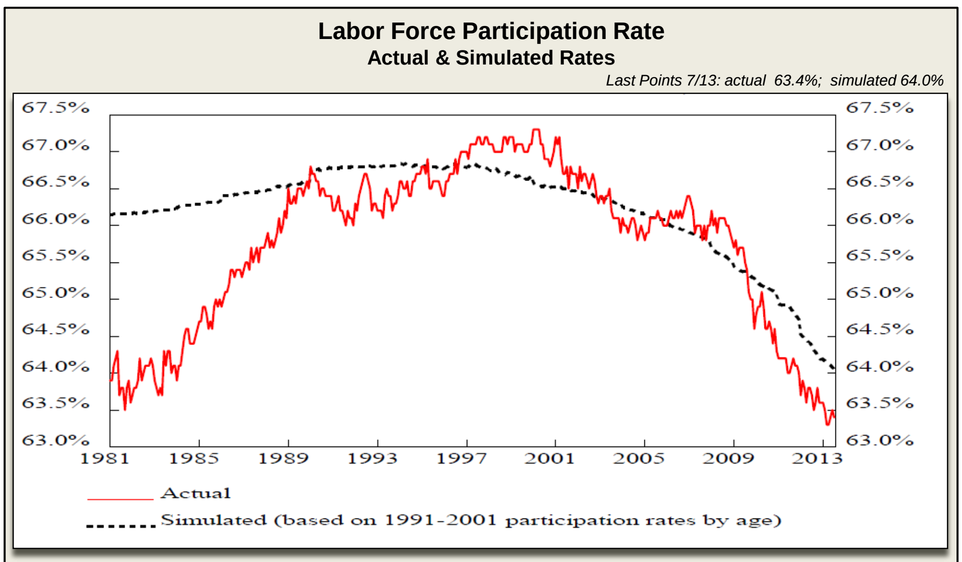
Overall GDP Growth Rate Low By Historical Standards

The 2Q GDP growth rate of 4.6% was a welcome sign of an improving economy, combined with an advance 3Q estimate of 3.5%. This growth news is great; however it is relative to the first quarter when GDP declined 2.1%. **In the first six months of 2014, the economy rose at around a 1.0% annual rate…hardly enough to move the employment needle**. Growth in nominal wages and salaries dropped from 7% to 6.1% from 1Q to 2Q. Nonfarm payroll increased 214,000 in October. The good news is that the private sector has added 10.6 million jobs over 56 consecutive months. Average hourly earnings were flat through the first six months of 2014, and up only 2% from October 2013. Did you know that median weekly earnings in the private sector are only $850? Remember, the **GDP increases were 1.6% in 2011, 2.3% in 2012 and 2.2% in 2013, reflecting the weakest economic recovery since the WW II era**. **I also do not expect inflation rising above 2.0% until the unemployment rate nears the 4.5% level.**

CBO Real GDP Growth Forecast			
2014	1.5%	2019	2.3%
2015	3.2%	2020	2.3%
2016	3.5%	2021	2.2%
2017	3.0%	2022	2.1%
2018	2.4%	2023	2.1%

CBO Forecast of Public Debt ($ = Trillion)			
2014	$12.797	2020	$16.642
2016	$13.927	2022	$18.520
2018	$15.135	2024	$20.554

Source: CBO.

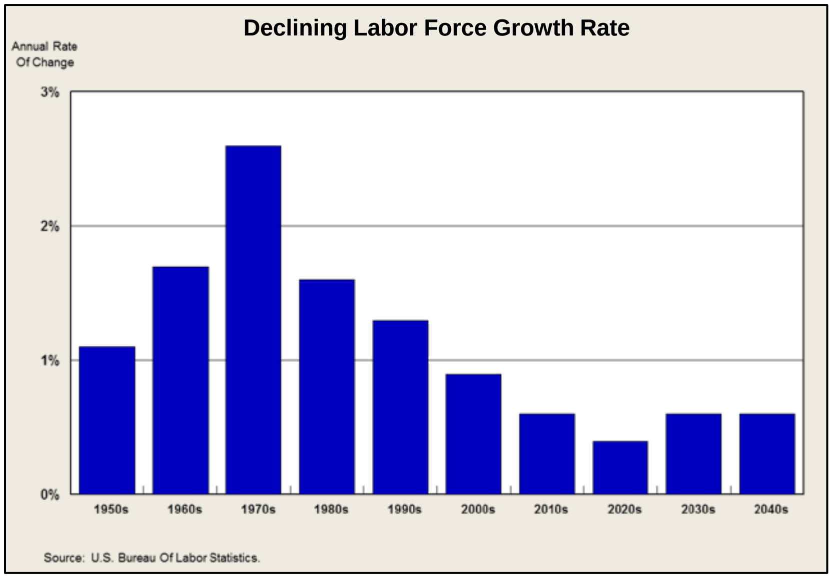


Source: Bureau of Labor Statistics and A. Gary Shilling & Co.

Perhaps the New Normal is fewer workers, lower wages, depressed productivity and more part-time positions. That dynamic would dramatically change the demand for real estate space.

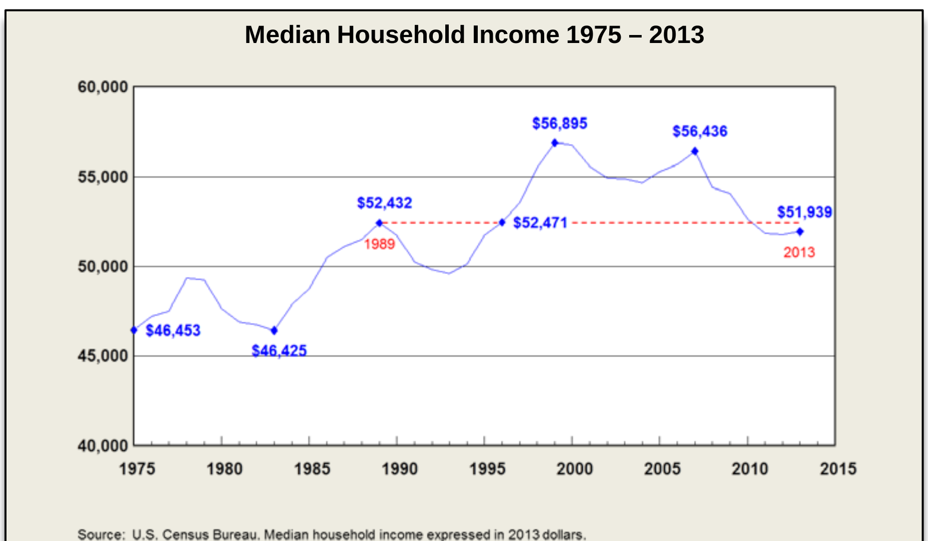
To replace separating workers and provide job opportunities for incoming workers, the U.S. needs around 5.2 million hires per month. Before the recession, the hiring peaked at 5.5 million per month, averaging 5.1 million per month from 2000 through 2007. Based on current trending data, while the U.S. economy is getting stronger, it is not translating into the level of job creation recovery to return to normal levels. Also remember that the labor force is 8% larger than it was 13 years ago.

In an economy with little growth in income and wages, consumer purchasing power is constrained. These consumers, representing 70% of GDP, are deleveraging, tapping into savings and retirement accounts and looking for discounts and bargains. In addition, the growth in part-time versus full-time workers further depresses consumer purchases. For example, in June 2014, total employment rose 407,000, but full-time jobs dropped 708,000 and part-time employment increased by 1.1 million jobs. Without a growing population of full-time workers, the demand for various real estate assets will slow down in many markets. When the impact of a growing number of U.S. firms embracing corporate inversions is added to the mix, job growth will be somewhat muted. Also, **the U.S. has one of the highest maximum corporate tax rates in the developed world**…hardly an incentive to create jobs.



The U.S. may have another eight to 10 years of deleveraging, and economic growth will remain subdued. It is important to remember that since the recession ended in 2009, real GDP growth has been *below* that in any previous post-WW II recovery. Slow growth (lower 2%) will not negate rising Federal expenditures, nor will it create the requisite job growth to keep pace with increasing entitlement programs. Inflation will increase the number of taxpayers in higher tax brackets, increasing Federal tax revenues, but on a nominal basis it will not create the level of economic demand needed for a consumer-based economy.

In 2003, the inflation-adjusted net worth for a typical household was $87,992, according to a study financed by the Russell Sage Foundation. **Ten years later, that same index was only $56,335, or a 36% decline**. Median household income has declined since peaking in 1999 and is now on par with 1989 totals. Income and wealth inequality is rising dramatically, with lasting impacts on the real estate industry. The U.S. is becoming poorer and has been doing so for a long time.



Jobs and net worth are not created by economic models; they are created by human behavior responding to incentives and dis-incentives. Nearly 25% of middle class households are classified as “liquid asset poor.” Markets which have a lower regulatory environment, lower taxes, responsible fiscal policies, reduced barriers to success, a diversified economic base, encourage individual entrepreneurism and celebrate/reward achievement will thrive in the years ahead. States like Texas, Tennessee, Oklahoma, Virginia, South Carolina, Georgia, Utah and Colorado will prosper.

Consumers Continue To Retrench

Sales of new single-family homes in September were at a seasonally-adjusted annual rate of 467,000, far below the 1.02 million average annual rate between 2000 and 2007. In the 3Q 2014, there were 8.1 million U.S. residential properties "seriously" underwater. **The share of new housing being built as rental apartments is at the highest level in 40 years**.

Single-family home starts were only around two-thirds of housing starts in 2013, down from the peak of 87% in 1993. While total outstanding household debt is now around $13.3 trillion, Americans appear to be borrowing to buy cars before buying homes.

A **survey sponsored by Zillow is predicting that median home values in the U.S. will not reach their 2007 peak level until 2017.** The age of the typical first-time homebuyer is expected to rise, perhaps to 34 years or older by 2017.

Top AGI Winners & Losers 1996 – 2010

State	Net AGI* Gain	Cumulative Population Gain
Winners		
1. Florida	$86.4 b	905,856
2. Arizona	$24.5 b	441,749
3. Texas	$22.1 b	543,557
4. North Carolina	$21.6 b	419,636
5. Nevada	$16.0 b	274,991
6. South Carolina	$13.0 b	176,053
7. Georgia	$12.4 b	519,998
8. Colorado	$11.0 b	202,515
Total	**$207.0 b**	**3,484,355**

State	Net AGI* Loss	Cumulative Population Loss
Losers		
1. New York	- $58.6 b	-771,736
2. California	- $31.8 b	-340,662
3. Illinois	- $26.1 b	-299,889
4. New Jersey	- $18.5 b	-238,174
5. Ohio	- $17.1 b	-242,039
6. Michigan	- $15.6 b	-247,878
7. Massachusetts	- $10.8 b	-98,869
8. Pennsylvania	- $ 6.9 b	-123,072
Total	**-$185.4 b**	**-2,362,319**

*AGI: Adjusted gross income from IRS data.

Source: *How Money Walks*, by Travis H. Brown

According to the Joint Center for Housing Studies at Harvard University, **the share of households under age 35 owning their own home in 2010 was 39.1%, the lowest since 1995**. It means that Gen Xers and Ys want mobility when it comes to jobs and career development opportunities. Interestingly, a May 2013 study by the Peterson Institute for International Economics suggests that **high homeownership may interfere with the efficient functioning of a labor market**. High homeownership areas have lower labor mobility.

Growing Industry Sectors

- Industries Serving Seniors
- Software Development
- Healthcare/Medical
- Life Sciences/Biotech
- Technology
- Government/Government Related
- Defense/Security
- Telecommunications
- Trade/Logistics
- Data Centers
- Research & Development
- Full Service Grocery
- Personnel Management
- Consulting
- Electronic Media
- Wireless Technology
- Nanotechnology
- Batteries/Energy Storage
- Advanced Manufacturing
- Waste & eWaste Management
- Emerging Technologies
- Colleges/Universities
- Legal/Accounting
- STEM
- Green Industries/Clean Tech
- Pharmaceutical
- F.I.R.E.
- Entertainment
- Energy & Alternative Energy
- Internet-Based Entities
- Financial Management
- Computer Programming
- Nonprofits
- Medical Devices
- Network Security
- Robotics

Source: CEL & Associates, Inc.

The U.S. is moving to a renter-based society. The reason why San Francisco, New York City, Dallas, Houston, Washington, D.C., Austin and Boston have among the nation's highest percentage of apartments in overall housing units? It's jobs, jobs, jobs.

According to the Federal Reserve Bank of San Francisco, the vast majority of recession job losses were middle-income occupations. **Since 2010, those positions have been replaced by lower-wage**

jobs. Nearly 40% of the jobs gained since the recovery began have come from low-wage sectors: food services, retail and employment services (including jobs like office clerks and sales representatives).

Fastest Job Growth Segments
2012 – 2022

Job	% Growth	Jobs Added Thru 2022	Degree/Diploma
1. Industrial/Organizational Psychologist	53.4%	900	Master's
2. Personal Care Aide	48.8%	580,800	Less Than High School
3. Home Health Aide	48.5%	424,200	Less Than High School
4. Insulation Worker, Mechanical	46.7%	13,500	High School or Equivalent
5. Interpreter and Translator	46.1%	29,300	Bachelor's
6. Diagnostic Medical Sonographer	46.0%	27,000	Associate's
7. Masons, Marble Setter Helper	43.0%	10,500	Less Than High School
8. Occupational Therapy Assistant	42.6%	12,900	Associate's
9. Genetic Counselor	41.2%	900	Master's
10. Physical Therapist Assistant	41.0%	29,300	Associate's
11. Physical Therapist Aide	40.1%	20,100	High School or Equivalent
12. Skincare Specialist	39.8%	17,700	Post-Secondary/Non-Degree
13. Physician Assistant	38.4%	33,300	Master's
14. Segmental Paver	38.1%	700	High School or Equivalent
15. Electrician Helper	36.9%	22,400	High School or Equivalent
16. Information Security Analyst	36.5%	27,400	Bachelor's
17. Occupational Therapy Aide	36.2%	3,000	High School or Equivalent
18. Health Specialties Teacher, Postsecondary	36.1%	68,600	Doctoral/Professional
19. Medical Secretary	36.0%	189,200	High School or Equivalent
20. Physical Therapist	36.0%	73,500	Doctoral/Professional

Source: Bureau of Labor Statistics.

Further highlighting the challenges facing the real estate industry is the changing diversity and demographics of Americans. Aging Baby Boomers who are retiring and spending less, a rapidly growing Hispanic population seeking the American dream, risk of deflation followed by inflation risk, coming-of-age Millennials, a growing technology gap among generations and global and domestic uncertainty mean all bets on growth opportunities must be carefully considered. The percentage of Americans age 55 years and older who are not retiring is on the rise. In 1993, the percent of 55+ in the workforce was 29.4%. By 2013, that percentage had increased to 40.3%.

A recent survey from the **Employee Benefits Research Institute found that 14% of people aged 65 and older have no retirement savings**; as well as 26% of those 50 to 64 years; 33% of those 30 to 49 years; and 69% 18 to 29 years. About 36% of workers who have some savings, have less than $1,000 in savings and **60% of workers have less than $25,000 in savings** (excluding their primary residence and defined benefits plans). **Older workers are crowding out opportunities for younger people**. Furthermore, according to Pew Research, in 2012 57 million Americans lived in multi-generational households. In another survey, **only 50% of Americans expect to retire at age 65**.

More than 35% of Americans have debt and unpaid bills that have been reported to collection agencies, according to the Urban Institute. The average debt for credit cards that normally carry a balance is $8,220. There are 391.2 million open credit card accounts in the U.S.

STEM Job Growth Through 2020

Profession / Job	Projected Job Growth Rate Through 2020
Biomedical Engineer	62%
Medical Scientist	36%
Software Developer - Systems	32%
Biochemist And Biophysicist	31%
Database Administrator	31%
Network / Systems Administrator	28%
Software Developer – Applications	28%
Actuary	27%

Source: Kelly Services.

Thirty-nine percent of credit card holders carry debt month to month. Shockingly, about 50% of Las Vegas residents have debt in collections. Where and when will the consumer recovery begin for all Americans?

Between 2001 and 2006, the number of household formations averaged around 1.35 million per year. From 2007 – 2013 the average of household formations declined to 569,000 annually.

Today's Millennial generation is the first age cohort since WW II with higher unemployment or a greater percentage living in poverty than their parents at the same age. Today nearly 31% of people age 18 to 34 are living with their parents. Younger Gen Xs and older Gen Ys (ages 29 - 37) have watched average net worth drop 21% between 1983 and 2010, comparing people of the same age in 1983 and 2010.

According to a recent study, **the impact of the highly unemployed 16 – 24 year olds will cost that group around $20 billion in earnings over the decade**. The labor force participation rate for teenagers (ages 16 to 19) dropped from a high of 60% in 1978 to an all-time low of 33.5% in 2012. Forecasters believe that the college graduating classes of 2014, 2015 and 2016 will face continued poor employment options. The **more than $1.1 trillion in student loan debt is restraining consumption**. In 2012, more than 70% of college graduates had student loan debts, averaging slightly less than $30,000. Interestingly, in the 2013 – 2014 academic year, the typical U.S. family paid around 22% of college costs by borrowing (vs. 27% in each of the previous two years). Those families paid 42% of college costs by using income or savings from parents and/or the student. Of concern is the **7% of families who withdrew monies from retirement savings to pay college bills**.

It is very difficult to replace retirement savings as one nears retirement age. The consequence of this prolonged unemployment will mean lower job creation and lower demand for real estate. The outlook for higher taxes, higher healthcare costs and funding the rapid expansion of Federal and State entitlement programs will leave little monies to fuel a consumption-based economy. The real estate industry is going to look dramatically different if these current trends continue. **Today, 42% of 18 – 29-year-olds receive some form of financial help from their parents**.

Further exacerbating this lack of job growth is recent Federal legislation (e.g., the Affordable Care Act) that discourages full-time job creation. The Congressional Budget Office ("CBO") recently announced that the Affordable Care Act will reduce full-time equivalent workers by 2.5 million jobs by 2024.

Country-Wide Shifts Are Underway

1. New Jersey	1. North Dakota
2. Illinois	2. District of Columbia ✓
3. West Virginia	3. Wyoming
4. New York	4. South Carolina ✓
5. New Mexico	5. Texas ✓
6. Michigan	6. Colorado
7. Connecticut	7. Arizona ✓
8. Maine	8. Florida ✓
9. Kentucky	9. South Dakota
10. Wisconsin	10. Nevada ✓

✓ = Sunbelt

Source: U.S. Census Bureau.

The average annual healthcare premium for a family plan is now $16,834, according to the Kaiser Family Foundation (http://kff.org). The share of the family-plan premium, according to a recent study, borne by employees was $4,823. The total annual cost of employer coverage for an individual, according to Kaiser, was $6,025. Other studies have shown that for every dollar increase in the minimum wage, there has been a 1.48 percentage point increase in unemployment and a 0.18 percentage point decrease in the net job growth rate.

U.S. Spends $1.2 Trillion Annually On Human Capital

Annual Expenditures:

- ✓ $536 billion on primary and secondary education
- ✓ $248 billion on four-year colleges and universities
- ✓ $454 billion on employee-based training

Source: Georgetown University, Sept. 2012

Generational shifts also are having an impact. **The U.S. Bureau of Labor Statistics forecasts that 54.7 million jobs must be filled by 2020**. Of these, 33.7 million (62%) are replacement positions for retiring Baby Boomers, and 20.5 million are new jobs. Between 2010 and 2030, nearly 79 million Baby Boomers will exit the workforce, and yet there are only 40 million or so Generation Xers available to replace those retiring Boomers. And while current studies show that some Boomers will continue to work into their late 60s, **an emerging talent gap is on the horizon**.

Technology Is Reshaping The Job Landscape

Technology will also have an impact. Erik Brynjolfsson (a professor at the Sloan School of Management at MIT) and Andrew McAfee's recent study on the impact of computer technology on jobs reveals that **"technology change is destroying jobs faster than it is creating them."** Technology is advancing at a pace faster than the talent needed to fill the positions. Robotics, digital technologies, advanced automation, big data, artificial intelligence and improved analytics are filling the talent void. **Routine tasks are being replaced as America shifts to a more digital, cyber-like economy, and the need for "more space" to house workers is rapidly changing**. Technological advances are eliminating many traditional middle-class jobs.

The need for analytical, critical thinking, problem-solving and creative-class jobs is accelerating, while lower paying jobs that cannot be automated are growing. Very soon everything in the physical world will be connected wirelessly to everything else (via SigFox, Neura, Jasper software or others) making communications more digital than human-based. **The U.S. is in a 10 – 15 year transition from jobs that require people to tasks than can be done by technology**. The retirement of Boomers represents the beginning of the end of this transition. This transition is not temporary; it will be disruptive and will dramatically impact the demand for and the type of real estate needed in the years and decades ahead.

Young People On The Move To Jobs

Austin, Texas ✓	Houston, Texas ✓
Denver, Colorado	Boston, Massachusetts
Dallas, Texas ✓	Silicon Valley, California ✓
Washington, D.C. ✓	San Diego, California ✓
New York City, New York	Raleigh, North Carolina ✓
Seattle, Washington	Minneapolis, Minnesota

✓ = Sunbelt

Source: CEL & Associates, Inc.

Amazon is a bellwether of what may lie ahead. In 2012, Amazon bought Kiva Systems. **Kiva has a robot that can handle four times as many orders as a non-automated warehouse. Robots are increasingly doing the repetitive, dull or unattractive jobs most Americans do not want to do**. In this robotic transition period, shipping jobs overseas to China, Japan, India or south to Mexico has grown. According to some analysts, approximately 2.5 million jobs have been sent outside the U.S. over the past decade. **IBM is creating computer technology that will replace jobs in medicine, finance and customer service**. Called "cognitive computing," IBM's new software is an attempt to create an automatic "customer service agent" that will use an updated capability for natural language processing. **U.S. online retail sales could reach $370 billion or 10.3% of total retail sales by 2017**, according to Forrester Research, up from $231 billion in 2012. Forrester Research also concludes that 60% of all U.S. retail sales will involve the Internet in some way. **Technology and the Internet are contributing to the rapid decline of many jobs**.

Growing Knowledge Cities

- Alexandria, VA
- Ann Arbor, MI
- Arlington, VA
- Atlanta, GA
- Austin, TX
- Baltimore, MD
- Bellevue, WA
- Bethesda, MD
- Boston, MA
- Boulder, CO
- Brentwood, TN
- Cambridge, MA
- Chapel Hill, NC
- Charlotte, NC
- Chicago, IL
- Cincinnati, OH
- Colorado Springs, CO
- Dallas-Ft. Worth, TX
- Denver, CO
- Hartford, CT
- Houston, TX
- Jacksonville, FL
- Kansas City, MO
- Los Angeles, CA
- Louisville, KY
- Madison County, AL
- Madison, WI
- Miami, FL
- Milwaukee, WI
- Minneapolis, MN
- Newton, MA
- Norfolk, VA
- Oklahoma City, OK
- Pittsburgh, PA
- Potomac, MD
- San Antonio, TX
- Stamford, CT
- Wellesley, MA
- Westport, CT

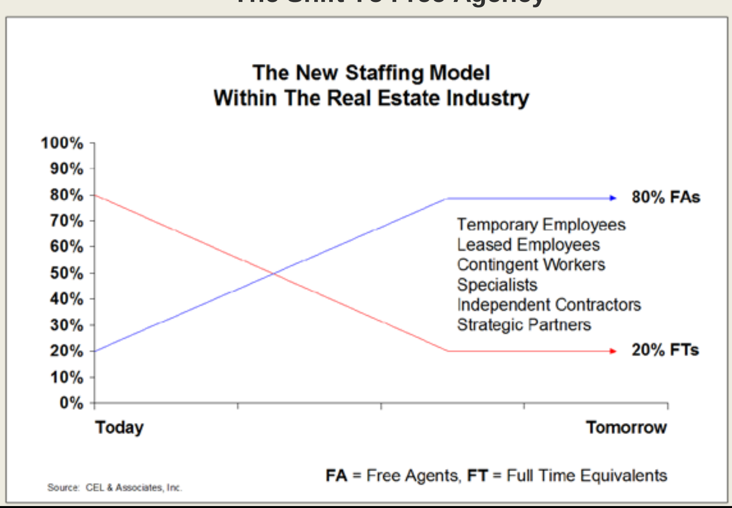
Source: CEL & Associates, Inc.

According to the U.S. Bureau of Labor Statistics, ("BLS"), **many of the fastest growing jobs in America between 2012 and 2022 do not require a college degree**; and even jobs requiring a degree are struggling. The median salary for the fastest growing occupations is $30,000 vs. the 2013 average first year out of college salary of $44,928. **Incomes for many Americans are going down, staying low or starting lower**. Only 57% of the 2013 law school graduates are employed full-time. Architecture graduates face a bleak future (nearly 14% of recent architectural graduates are unemployed). There are now around 165,000 architects vs. 190,000 in 2006. According to a recent study, 20% of employees "can't stand their job" and 42% feel that their job is just "ok." Only 14% of employees are in their "dream career."

The Economic Policy Institute ("EPI") reported that approximately **8.5% of college graduates between ages 21 and 24 were unemployed** (based on the April 2013 through March 2014 period). The EPI also found that **16.8% of new college grads were under-employed**. The Federal Reserve Bank of New York found that roughly 44% of recent college graduates (ages 22 – 27 with a B.A. degree or higher) were in jobs that *did not* require a bachelor's degree.

Overall college enrollment dropped in 2013 for the second consecutive year, from 20.2 million in 2012 to 19.9 million in 2013. **Eleven of 12 states in the Midwest experienced enrollment declines**. While the U.S. Department of Education expects 3 million more people will be in college in 2022, than in 2012, enrollment growth (13.9%) will be far slower than the nearly 45% growth experienced between 1997 and 2011.

The Shift To Free Agency



Office and administrative jobs, which tend to be lower wage positions, are expected to add 2.3 million between 2010 and 2020 (however, that sector lost 1.7 million jobs from 2006 – 2010). Sales occupations are expected to add 1.9 million jobs through 2020, but most are just recovery of the 1.1 million jobs lost from 2006 – 2010.

The bright spot for jobs…STEM occupations (Science, Technology, Engineering and Mathematics). Through 2018, STEM employment will grow by 17%, compared with less than 10% growth for non-STEM occupations. Between 2008 and

2018 there will be 2.4 million STEM job openings. Computer and mathematical scientists will have 1.5 million job postings through 2018. Engineers and related professions will have 522,000 jobs openings by 2018. Life and physical scientists will have 263,000 job openings by 2018. Additional jobs in energy, alternative energy, healthcare, medical, tech and environmental sciences also will prosper. **The real estate places to be for these opportunities are around major colleges and universities, and in "Knowledge Cities"** (please refer to the listing on page 9).

The Impacts On The Real Estate Industry Are Significant

The real estate industry faces many challenges: the perfect storm of technology advancements, anemic job growth, disincentives for hiring, offshoring and a very slow growth economy with rapidly rising taxes and flat-to-declining household incomes and the ongoing uncertainty of tax reform, global unrest and interest rate increases. The U.S. currently does not have a wave of returning GIs from WW II to drive residential demand, a 1957 Sputnik moment that later became a national priority to put a man on the moon or the information and telecommunications revolution that changed the way we live and work. **As a country, the U.S. is not sure what its consensus economic priority should be. So while some industries flourish, others fail or remain stagnant. These employment characteristic changes are and will continue to have a significant impact on the type, design, functionality, location and demand for real estate assets. This is the New Normal…better get used to it! Today we are in that middle zone between what was, what is and what could be**.

Closing Comments

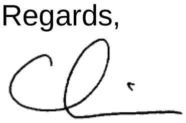
The type, location and growth of jobs is the fuel that drives the real estate engine. Anemic job growth, stagnant or declining household income and net worth and increasing government intrusion in regulating, taxing and defining "how" real estate is to be acquired, financed, developed, managed and disposed of will mandate strategic thinking and a new business model. **Ten years from now, the real estate industry will look, feel and operate very differently than it does today**. In the hundreds of strategic planning sessions I have been involved with over the past few years, it is evident that dramatic change is just around the corner. While CEOs or firms cannot change job growth patterns, they can create business models that take advantage of the situation. Waiting for someone else to do it first is not an option. **If one thing is certain in the real estate industry, it is the uncertainty of the economic and market environments in which opportunities exist**.

To survive and prosper can be a daunting assignment in today's and tomorrow's rapidly-changing, and often challenging real estate marketplace amid dramatic shifts in employment and employee characteristics. However, with a clear vision, a stated purpose, an aligned value proposition and core strategies, these "labor" challenges can be converted from a problem to an opportunity.

There is a great deal to celebrate within the real estate industry today; but tomorrow will likely be far more challenging and competitive. Understanding the impact of job creation is a good first step…what, where and why. As Abraham Lincoln said, "The best thing about the future is that it comes one day at a time." Another view of the future as stated by William Jennings Bryan, "Destiny is no matter of chance. It is a matter of choice. It is not a thing to be waited for, it is a thing to be achieved." So…what are you waiting for?

I would welcome comments, insights or ideas; please email them to newsletter@celassociates.com.

Regards,



Christopher Lee

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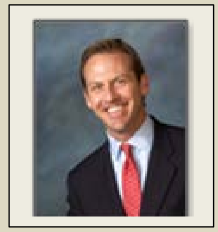
SPECIAL ANNOUNCEMENT



Due to an increasing number of requests from Owners and Boards of Directors to assist:

- Finding secure/stable long-term financial partners.
- Owners wishing to sell all or a portion of their company.
- Finding a long-term source of capital to facilitate growth.

CEL & Associates, Inc. has formed: **CEL Capital Advisors**

For small to mid-size real estate companies, including: developers, service providers, owners/operators and investors who want to secure their future, monetize enterprise value, develop succession planning, and/or accelerate growth strategies, contact **CEL Capital Advisors**. A conversation regarding your current business strategy and need for capital may provide the optimal solution. **CEL Capital Advisors** can be reached by calling 310.571.3113. (Jeff Hawkins, Managing Director)

COMPENSATION SURVEY RESULTS ARE NOW AVAILABLE

The full **2014-2015 National Real Estate Compensation & Benefits Survey Results** are now available for purchase. Covering nearly 200 positions and incorporating data from over 400 firms, this 450+ page report is a very valuable tool for everyone who is involved with setting compensation and benefits for the coming year. This year's report was done in partnership with NAIOP, the Commercial Real Estate Development Association and NAA, the National Apartment Association.

To purchase a copy of the current and **most comprehensive compensation survey in the real estate industry**, go to ***http://www.naiop.org/en/E-Library/Business-Trends/2014-CEL-Associates-Compensation-Report.aspx***

Give Us Your Opinion: We want to hear from you and to have future issues reflect your needs and questions. Please email your comments, ideas, suggestions and insights to newsletter@celassociates.com.

For More Information: For more information regarding our services (Strategic Planning, Compensation, Opinion Surveys, Benchmarking, Performance Improvement, Succession Planning and Governance/Management), please email us at newsletter@celassociates.com or call 310.571.3113.

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