

SPOTLIGHT ON U.S. EMPLOYMENT: A Tale of 35 MSAs

JUNE 2019



Executive Summary

While the U.S. economy has added jobs at a steady pace in what is soon to be the longest expansion in history, the growth in employment has not been evenly distributed. This report examines the performance of 35 metropolitan statistical areas (MSAs) in terms of job growth, office rent growth and change in office property values.

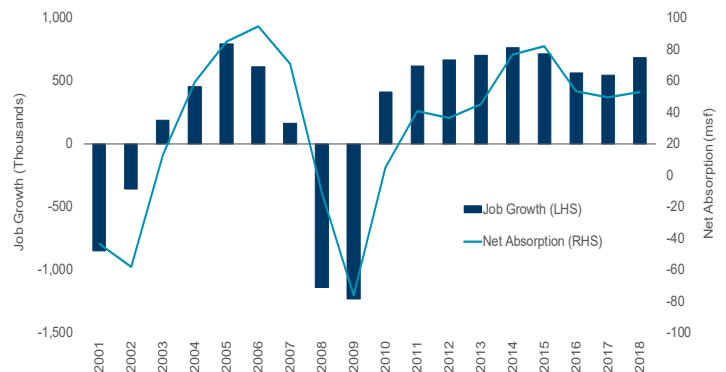
Across the U.S. there have been hotspots—MSAs and metropolitan areas that have outperformed the national average in terms of job growth while others have been more average. The local office markets in these metros tend to reflect job growth, although there are variations based on local office market factors.

The “All Stars” and “Overachievers”—defined below—are likely to remain the best performers. For occupiers there may be some opportunities in metros that have been more average in terms of job growth, but have the labor force characteristics that make them attractive to global occupiers.

Introduction

Jobs are the lifeblood of commercial real estate. When employment rises, so does demand for office space. This is best illustrated by comparing the change in office-using employment with office- space absorption. Since 2001 the correlation between job growth and space absorption has been strong; whenever employment has declined, absorption has been negative. U.S. nonfarm payrolls have increased every month since September 2010. Subsequently, the U.S. has added jobs for 103 consecutive months—8.5 years—the longest sustained period of job growth in the post WW-II period. This is an exceptional record. The previous record for consecutive months of job growth was 48 months in the 1980s.

Office-using Job Growth and Net Absorption



Office-using employment= Financial services, Professional and business services and Information.
Source: U.S. Bureau of Labor Statistics

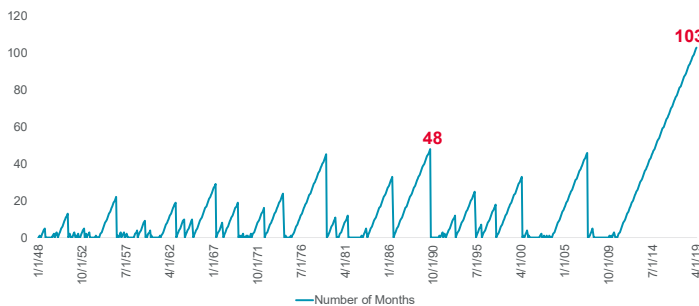
But this job growth has not been evenly distributed. We analyzed job growth in the current economic expansion in 35 MSAs which together account for 48.0% of total employment in the U.S. All of these MSAs have a population of at least 1.0 million people. They have seen employment increase, on average, 18.5% in the nine years from 2009 to 2018. Within this set of MSAs employment growth has ranged from a high of 38.1% to a low of 7.6%. The median increase is 21.2%. Both the average and median outpace the 13.5% increase for the entire United States. Such results support the argument that this expansion has been characterized by a revival of urban cores throughout the nation.

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A Record for Consistency

MONTHS OF CONSECUTIVE JOB GROWTH



Source: U.S. Bureau of Labor Statistics

For this analysis, we took the approach of a performance review for these MSAs over the nine full years of economic growth since the recession ended. We organized the MSAs into four groups based on their ranking in two metrics: (1) the percentage change in total employment from 2009 to 2018 and (2) the number of jobs added over that same time period. Using these two metrics, we can account for both the rate of growth (percentage change) and the actual number of jobs—which is the true driver of demand. For example, Austin, TX registered the largest percentage increase from 2009 to 2018 at 38.1%; however, Austin added a total of 295,000 jobs, which ranks it 16th among these MSAs. We averaged the two rankings for each MSA to arrive at a composite ranking.

Based on this composite, we broke the MSAs into four groups:

- **All Stars:** MSAs that have added jobs at a breakneck pace throughout the current expansion.
- **Overachievers:** MSAs that just missed “all star” status, but have consistently performed well above the U.S. average.
- **Middle of the Road:** MSAs in which job growth is close to the national average.
- **Late Bloomers:** MSAs in which job growth strengthened later in the expansion. Some of these MSAs are above average, others are below average.

For each MSA, rent growth, absorption and office space price per square foot are provided for a sense of how the metro's job growth impacts office markets. While these real estate metrics can be influenced by factors other than local job growth, in general strong job growth tends to be associated with better-than-average rent growth, absorption and property pricing.

Here are the groupings.

All Stars: As the moniker suggests, these are the MSAs that were the “best of the best” in terms of the number of jobs added and the growth rate between 2009 and 2018. They are the job growth engines of the U.S. in the current expansion.

MSA	COMPOSITE RANK <i>LOWER IS BETTER</i>	ASKING RENT CHANGE 2009-2018	TOTAL ABSORPTION (SF) 2010-2018	PROPERTY VALUE CHANGE CARG 2009-2018
Dallas	5.0	29.8%	26,438,484	10.3%
New York City	7.5	22.3%	36,668,853	8.5%
San Francisco	7.5	92.6%	21,544,728	7.4%
Riverside/San Bernardino	8.0	-7.6%	2,983,523	5.3%
Austin	8.5	40.5%	12,224,383	11.6%
Orlando	9.0	3.1%	4,076,785	1.6%

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These top six job-creating cities have experienced extraordinary growth. From 2009 to 2018, employment in the six MSAs increased by 3.0 million jobs. That accounts for 26% of the job growth in the 35 MSAs tracked for this study even though they represent only 20% of total employment across the 35 metros. For the most part, they also generated outsized increases in office asking rents and property values. Nationally, asking rents rose 20.2% and property values increased an average 3.7% per year. The exceptions were Riverside/San Bernardino and Orlando, where most of the job growth has not been office-related.

It's Not All Tech

Although many of these metros are among the top tech centers in Cushman & Wakefield's [Tech 25](#), such as San Francisco and Austin, there are several areas in which the local economy is driven by other factors including tourism (Orlando) or transportation and distribution (Riverside/San Bernardino). Not surprisingly, the Orlando MSA boasts the largest increase in employment in leisure

All Stars

JOB GROWTH 2009 TO 2018



Source: U.S. Bureau of Labor Statistics

and hospitality—20.5%—of any major metropolitan area over the past nine years, far outpacing number-two ranked Orange County CA (13.5%) and almost double the national average of +11.0%. Employment growth in Riverside/San Bernardino, which has become a major distribution hub, has been driven in part by the transportation and utilities sector (+8.8%). Employment

Overachievers: These MSAs, while not “all stars,” are outperforming the U.S. as a whole. Employment growth from 2009 to 2018 ranged between 18.5% and 22.5% in these metros, all well above the national average.

MSA	COMPOSITE RANK <i>LOWER IS BETTER</i>	ASKING RENT CHANGE 2009-2018	TOTAL ABSORPTION (SF) 2010-2018	PROPERTY VALUE CHANGE CARG 2009-2018
Nashville	10.5	31.2%	7,342,590	6.8%
Phoenix	10.5	4.5%	16,675,050	6.1%
Denver	11.0	32.3%	14,208,696	8.1%
Atlanta	11.5	23.7%	13,599,173	5.3%
Houston	13.0	22.1%	7,934,351	12.7%
San Jose	13.0	45.9%	31,665,423	11.6%
Miami	13.5	26.6%	5,800,431	2.8%
Charlotte	14.0	30.1%	13,314,693	3.2%
Seattle	14.5	26.1%	23,972,729	6.2%
Los Angeles	15.5	22.8%	12,757,864	7.5%
San Antonio	18.5	21.6%	2,759,775	-1.6%

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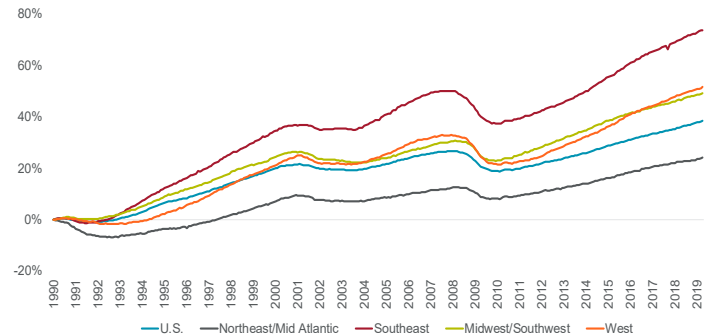
growth in that sector was more than double the national average of +4.0% during the timeframe studied. It is also notable that three of the 11 fastest growing MSAs in the U.S. are in Texas, which has been one of the fastest growing states in the nation since the current expansion began in 2009.

The metrics for these MSAs reflect two major trends in the U.S. economy during the current expansion: the strength of the technology sector (“tech” growing everywhere) and the continuing long-term growth of the Southeast; four of the 11 metros in this group are located in the Southeast.

The Southeast has long been the fastest growing region in the nation. There are nine MSAs in the Southeast region in this study comprising nearly 13 million workers. Since 1990, employment in these areas has increased more than 73%, making it the fastest growing region in the nation. The Southeast has long been a magnet for people looking for a more favorable climate than that of the Northeast and Midwest. As the population has moved

Regional Employment Growth Since 1990

SOUTHEAST OUTPERFORMS



south, so have jobs. With those jobs have come healthy levels of absorption, rent growth and office property values. Two of the MSAs with the strongest price appreciation in the nation during the current expansion are in this group.

Middle of the Road: These are the “average” MSAs. Combined, these 11 metros represent 26% of the employment in the 35 MSAs studied. Employment in this group increased 15.4% from 2009 to 2018, close to the 18.5% average for all 35 MSAs. There was, however, a wide range in growth rates—from a low of 11.1% to a high of 24.6%.

MSA	COMPOSITE RANK <i>LOWER IS BETTER</i>	ASKING RENT CHANGE 2009-2018	TOTAL ABSORPTION (SF) 2010-2018	PROPERTY VALUE CHANGE CARG 2009-2018
Boston	20.5	2.7%	12,453,970	5.0%
Orange County CA	20.5	27.9%	9,786,460	8.0%
Portland	21.0	34.5%	5,778,203	10.2%
Raleigh/Durham	21.0	22.2%	8,661,524	-3.0%
Salt Lake City	22.0	26.0%	7,824,733	0.4%
Detroit	22.5	18.2%	7,420,165	-0.6%
Chicago	23.0	13.8%	15,917,942	11.0%
San Diego	23.5	21.2%	10,566,454	4.5%
Washington, DC	24.5	6.8%	10,663,653	1.4%
Minneapolis	25.5	6.4%	4,675,933	8.1%
Indianapolis	28.5	11.7%	1,752,693	-4.1%

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The MSAs in this group fall into three categories.

- First there are large metros that have experienced below-average job growth including Chicago, Detroit and Washington, DC.
- Second, there are several smaller MSAs that have experienced strong employment growth such as Portland, Raleigh/Durham, Orange County CA and Salt Lake City.
- The third group is moderately sized metros that have experienced moderate job growth, including Boston, Indianapolis, Minneapolis and San Diego.

While the U.S. economy has added jobs at a steady pace, the growth in employment has not been evenly distributed.

Not surprisingly, these MSAs have seen rent growth and property appreciation very close to the national averages.

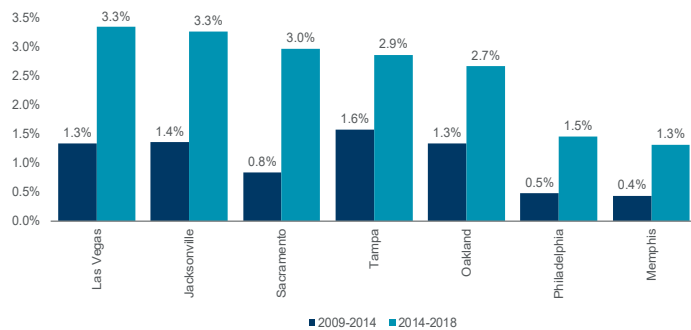
Late Bloomers. Some MSAs experienced relatively modest job growth early in the expansion, only to see that growth accelerate as the economy continued to expand. To capture this upshift in employment growth we looked at the change in employment in each of these MSAs in the first five years of the expansion compared to the most-recent four years. For each metro, growth in the last four years has far outperformed that in the first five years of the expansion. On average, the acceleration has been about 140 basis points (bps) per year. In every MSA except Tampa, growth more than doubled.

MSA	COMPOSITE RANK 2009-2014 <i>LOWER IS BETTER</i>	COMPOSITE RANK 2014-2018 <i>LOWER IS BETTER</i>	TOTAL RANK	ASKING RENT CHANGE 2009-2018	TOTAL ABSORPTION (SF) 2010-2018	PROPERTY VALUE CHANGE CARG 2009-2018
Las Vegas	30.5	14.5	22.0	-17.8%	3,838,730	-1.3%
Tampa	23.5	15.5	22.5	11.7%	5,895,441	4.5%
Jacksonville	31.5	19.5	26.0	3.2%	2,932,145	5.4%
Oakland	29.5	24.0	26.5	48.5%	9,014,206	4.0%
Sacramento	38.0	19.5	29.5	-8.1%	5,605,505	-1.6%
Philadelphia	36.0	24.5	31.5	15.2%	3,769,136	9.0%
Memphis	43.5	39.0	41.0	7.5%	1,505,564	-4.0%

Source: Cushman & Wakefield Research, Real Capital Analytics

Late Bloomers

JOB GROWTH PER YEAR (2009-2014 VS. 2014-2018)



Source: U.S. Bureau of Labor Statistics

This diverse group of metros does not appear to have much in common in terms of geographic location or employment structure. Most had an unemployment rate above the national average in the first half of the expansion, suggesting that they were more severely impacted by the recession. As their economies mended, job growth accelerated.

Currently, these MSAs are all experiencing healthy growth in employment. In addition, because they started off more slowly, there may be more room for them to grow than other metros.

In terms of real estate performance, the MSAs in this group have seen a wide range of performance. All have experienced positive absorption, but the change in rents has ranged from negative for some MSAs to very strongly positive for others. The same is true of property values.

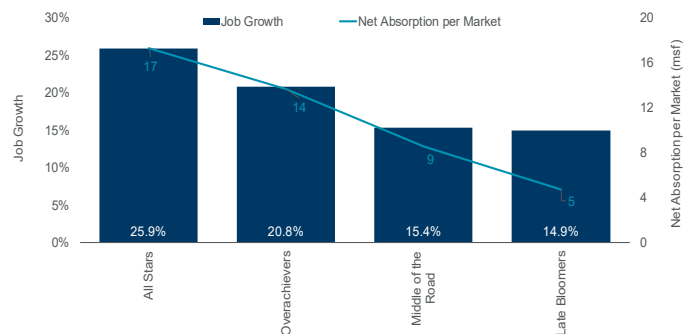
How Are the Office Markets Reacting?

As one might expect there is a strong correlation between job growth and absorption. The MSA groups that have experienced the strongest job growth have also seen the highest pace of absorption on a per market basis. Groups that have had more moderate job growth have also seen less absorption.

As always, real estate is a local business. Rents and property values are determined by a range of local factors. But the local economy is a key driver of demand. Understanding the local labor market and what is driving job growth goes a long way to explaining the performance of the market.

Job Growth and Absorption by Group

JOB GROWTH VS. OFFICE ABSORPTION PER MARKET PER YEAR 2009-2018



Source: U.S. Bureau of Labor Statistics

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