

University of Chicago Booth School of Business



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Dr. Peter Linneman
Linneman Associates
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Two Years into the Recovery

- Growth is anemic
- Getting weaker
- Way below growth potential
- Far below even bearish forecasts

Economic Problems

- No rules
- A belief in bureaucrats rather than entrepreneurs
- Excessive intervention
- Failure to assign “the loss” burden

2011 Budget Debacle Says It All

- Passed a budget twice months apart
- Both indicated breaching debt ceiling mid-year
- Threatened to shut down government over a \$10 billion difference
- “Solved” by kicking down the road

Don't Kid Yourself

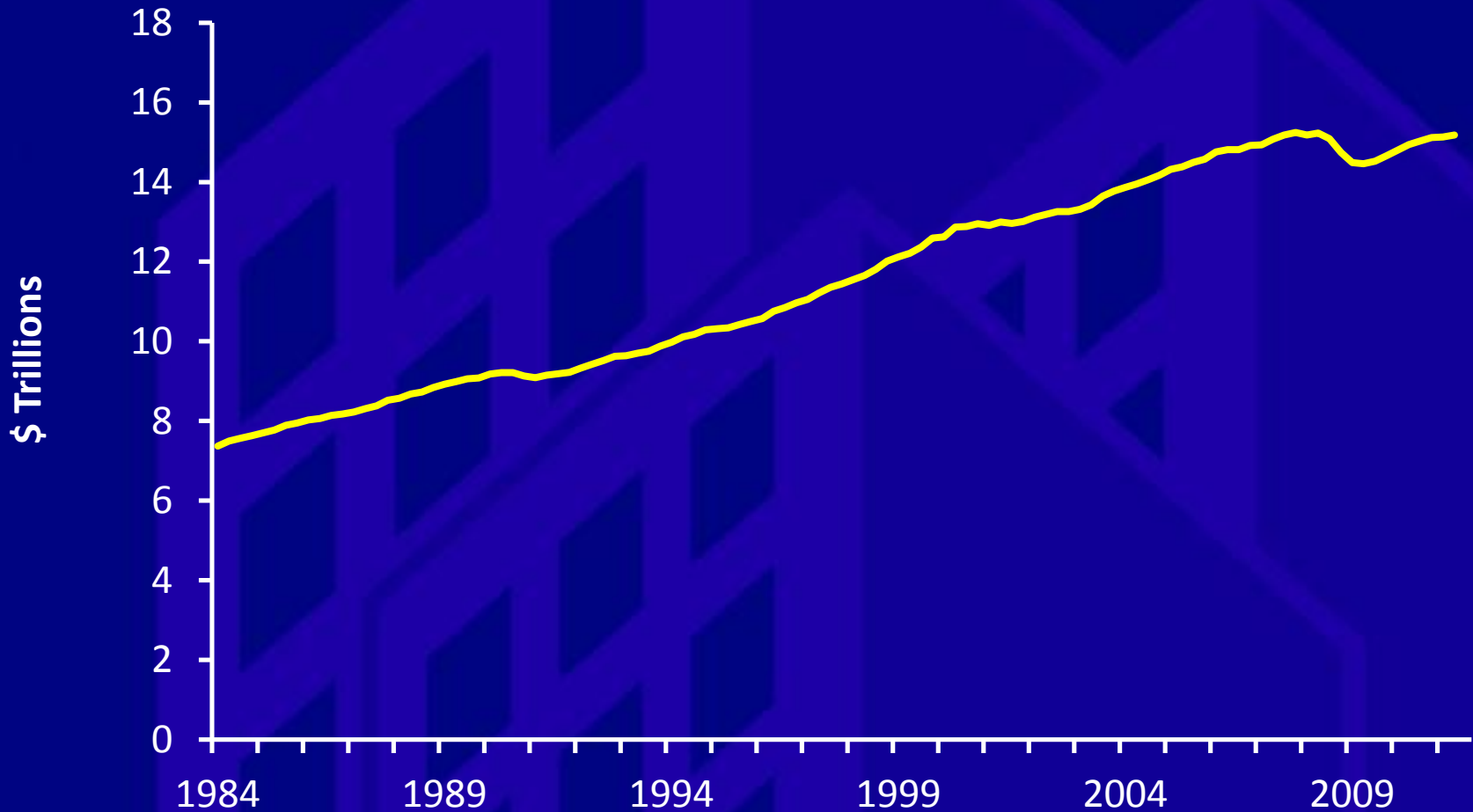
- They have no idea what to do
- They have tried “orthodoxy” and then some
- Keynes myth
- Austerity myth
- “No Rules” destroys growth
- “Give stability a chance”

A Giant Game of Old Maid

- US losses
- Europe losses
- Different than Dotcom losses
- Who will be stuck with the Old Maid?

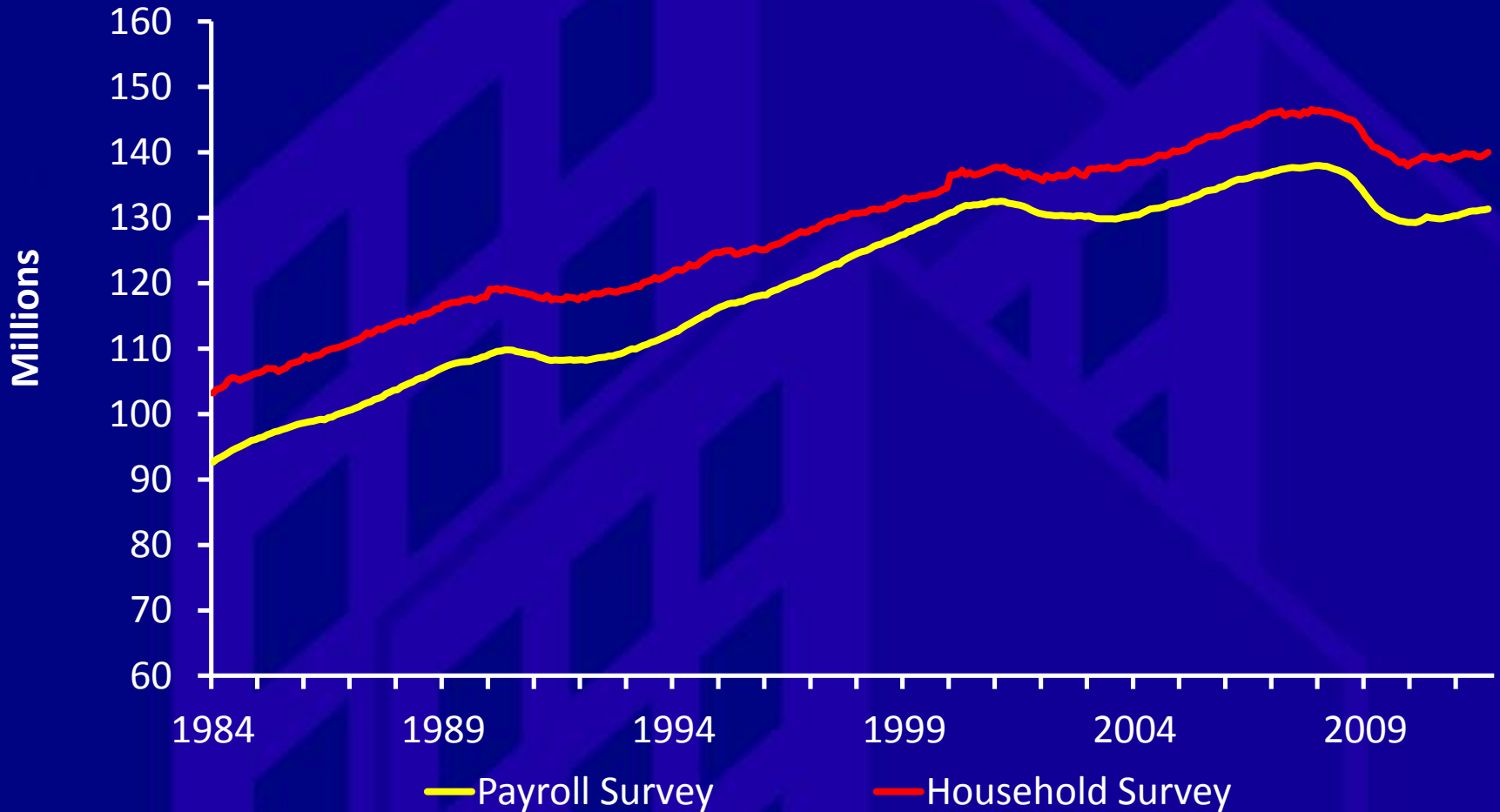
U.S. Gross Domestic Product

(Real - 2011 \$)



U.S. Employment

Number of Persons Employed



Effects of Recession

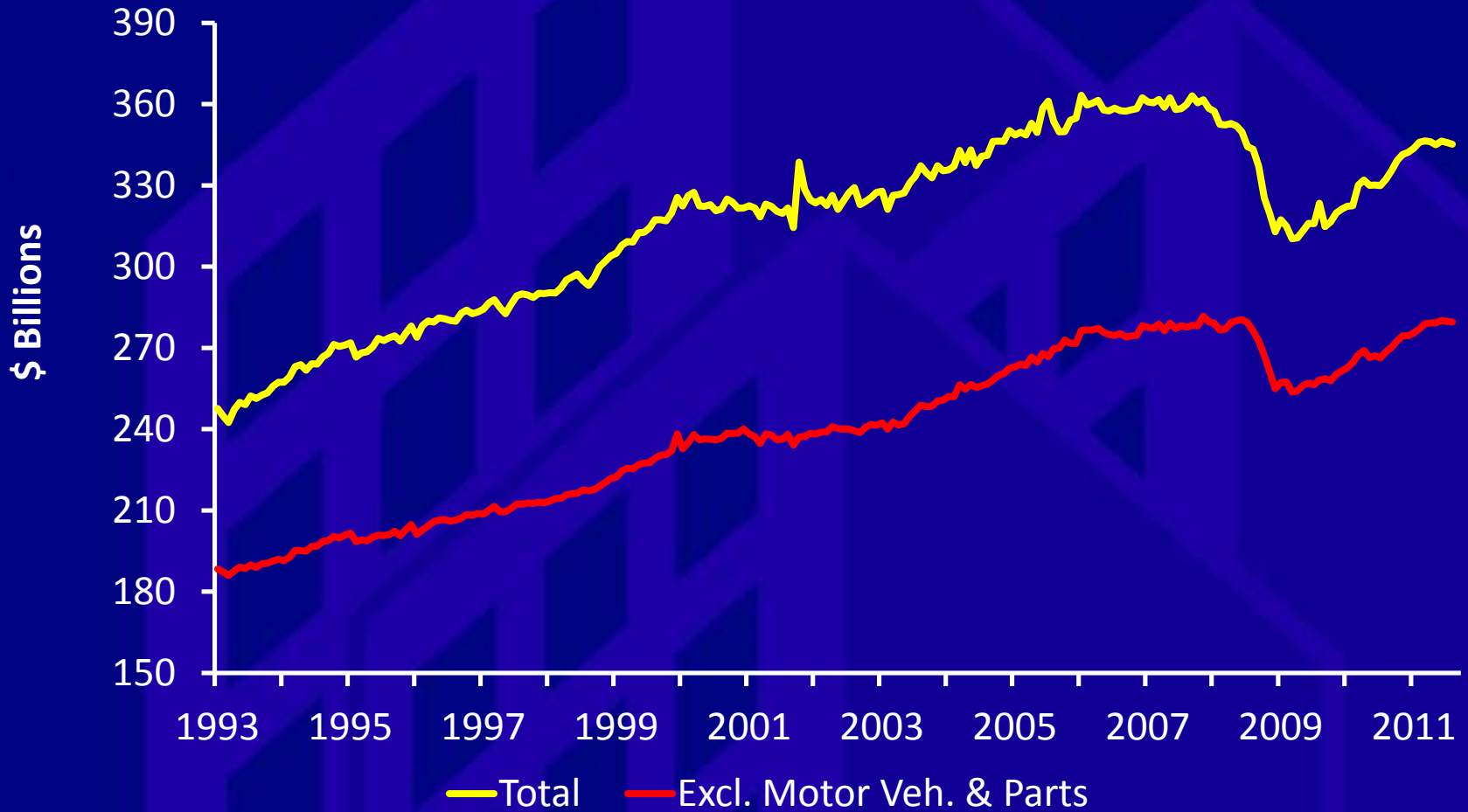
	Jobs Lost	Jobs Regained	% Regained
United States	8,750,000	2,088,000	23.9
New York MSA	341,900	142,100	41.6
DC MSA	152,300	91,000	59.8
San Francisco MSA	90,000	26,200	29.1
Texas	562,700	474,700	84.4
Chicago MSA	431,900	126,900	29.4
Los Angeles MSA	454,200	8,200	1.8
Rest of US	6,717,000	1,218,900	18.1

U.S. Unemployment

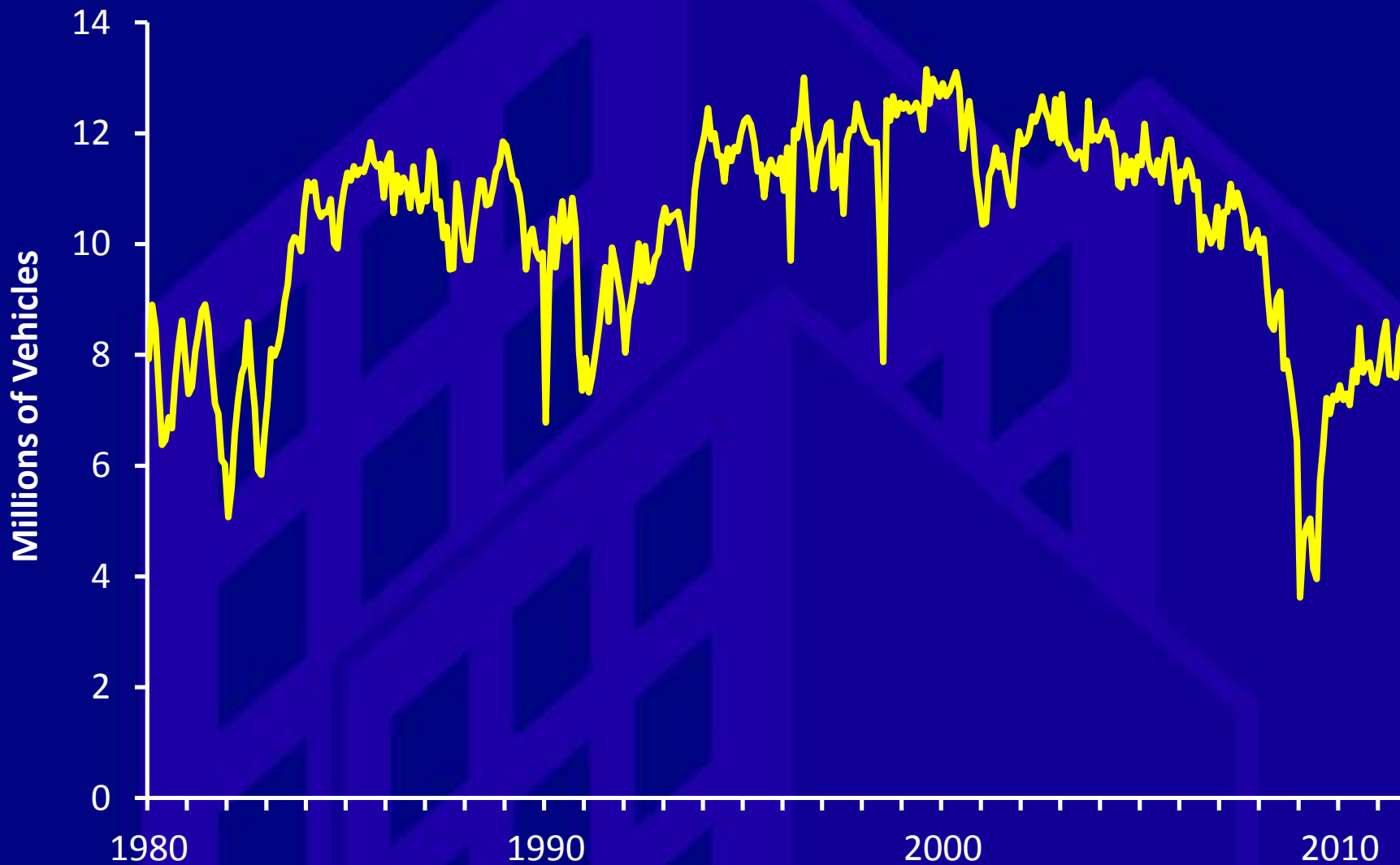
	Jan 2008	Peak	Sept 2011
College Degree or Higher	2.2	5.2	4.2
Some College	4.5	10.0	9.1
High School Degree	5.4	11.9	9.1
Lower than High School Degree	9.0	17.9	13.0
16-19 Years	18.2	29.1	24.5
20-24 Years	9.8	17.1	14.3
25-29 Years	6.4	11.8	10.3
Total U.S.	5.4	10.6	8.8

U.S. Retail Sales

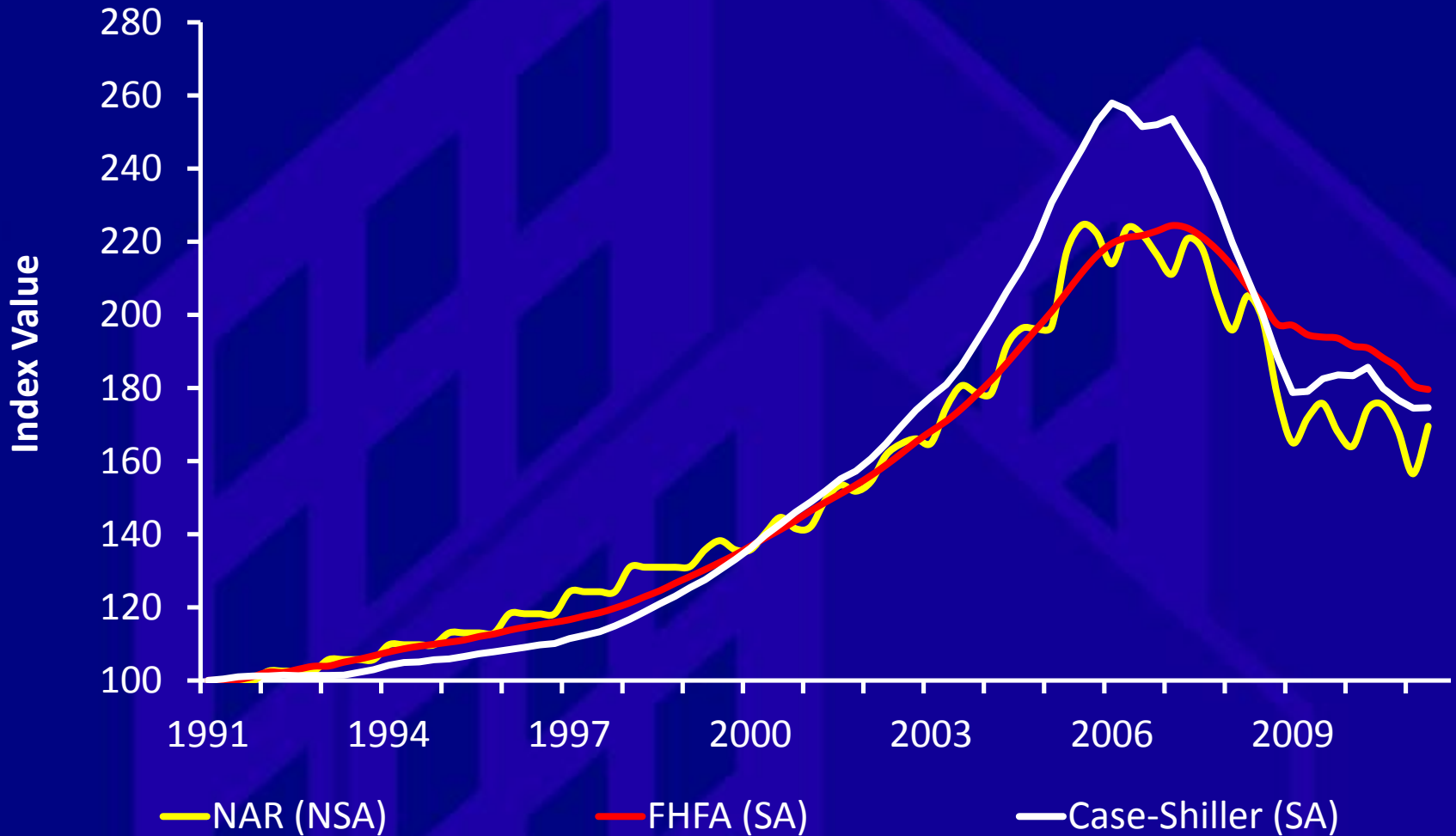
(Real - 2011 \$)



Auto Production

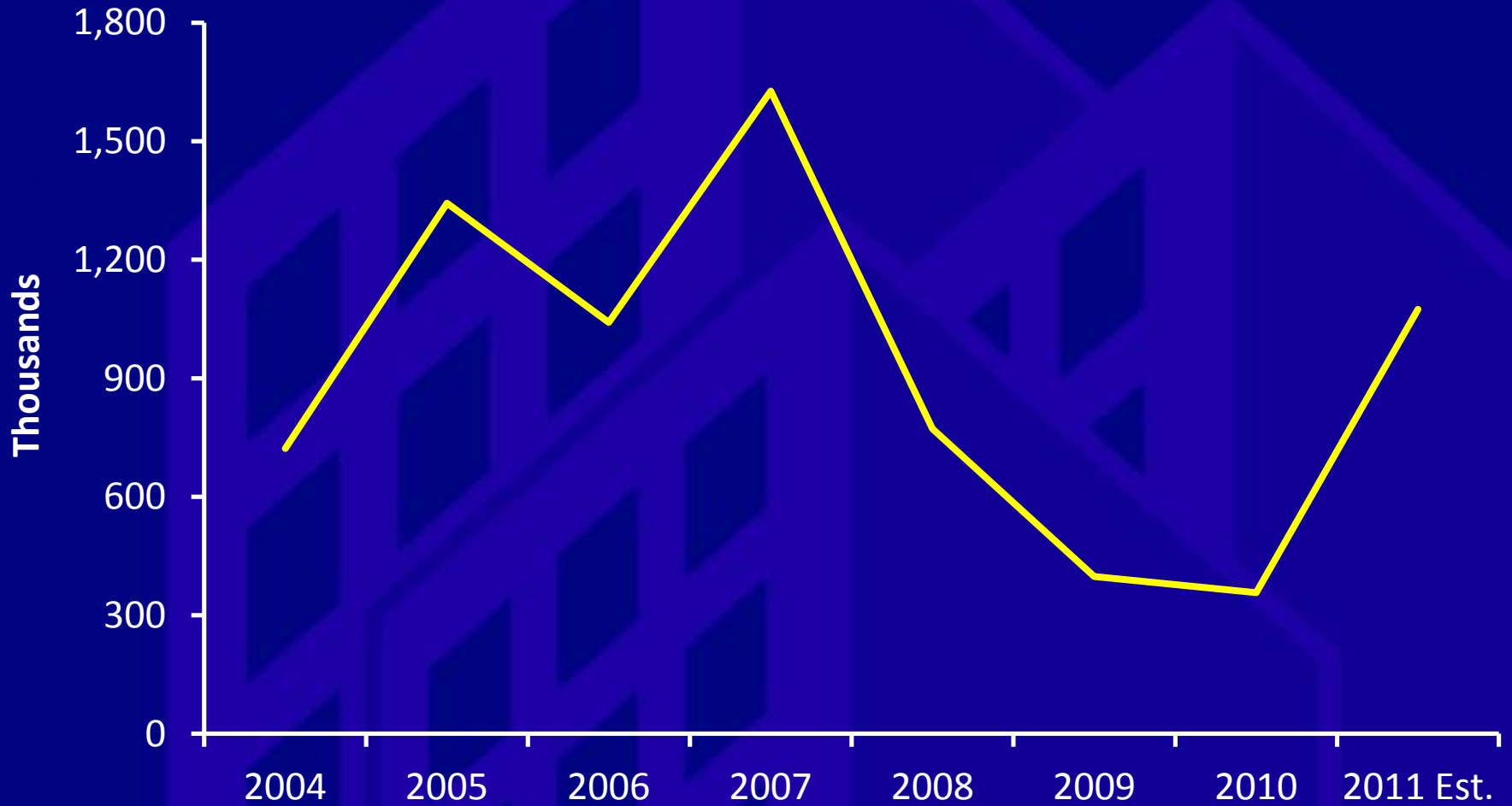


U.S. National Home Price Indices



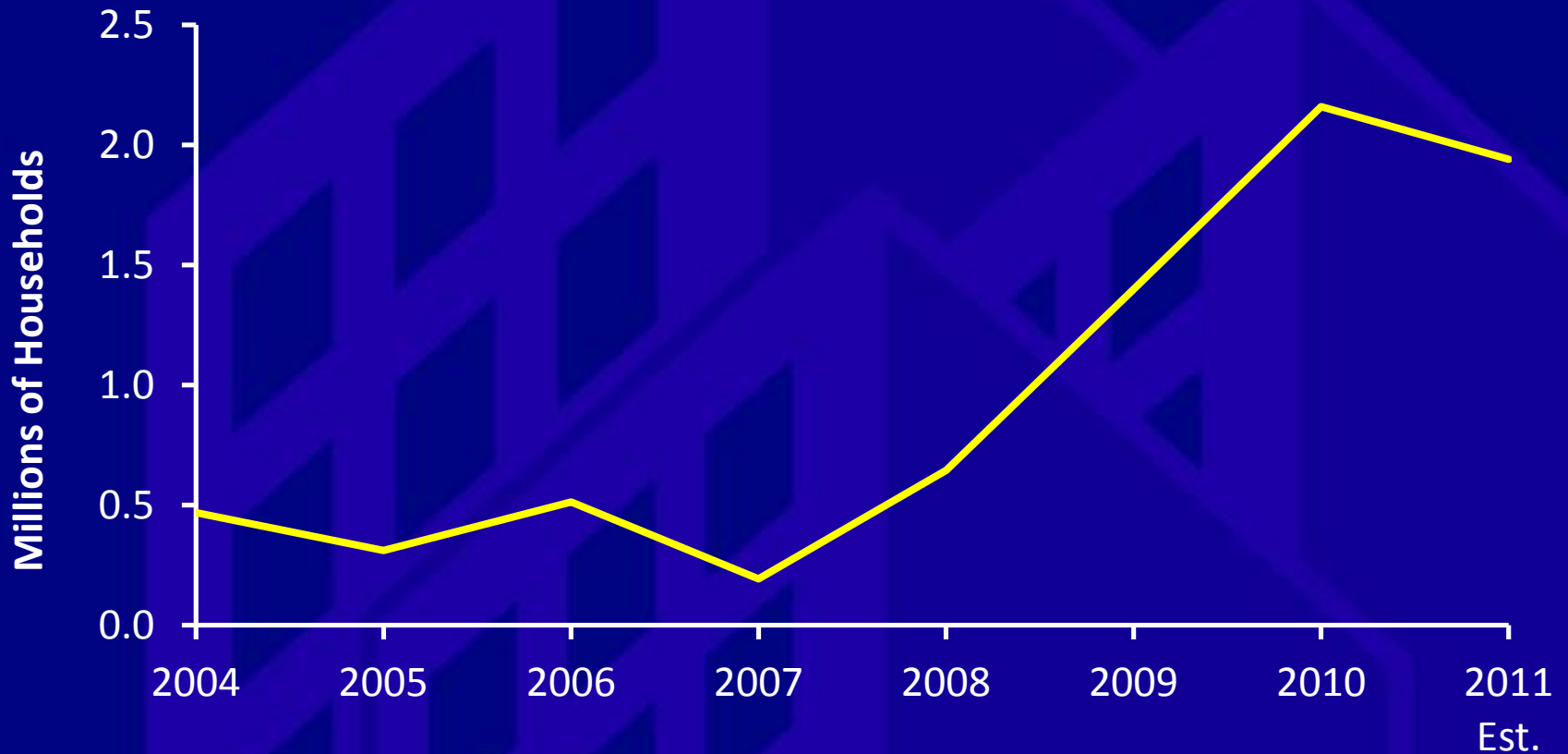
Household Formation

New Households Per Year



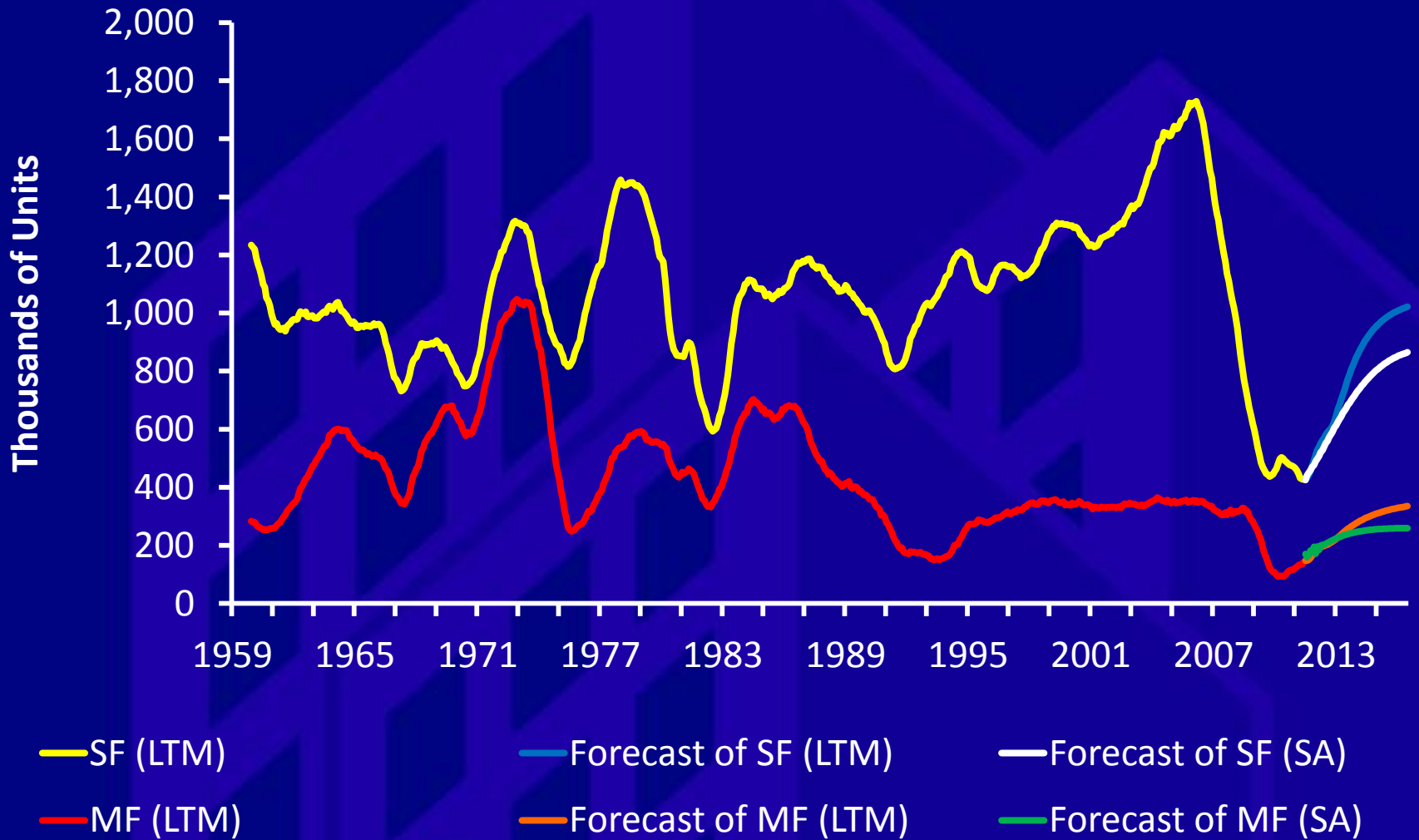
Pent-up Households

(Cumulative Difference Between Expected & Actual HH Change)



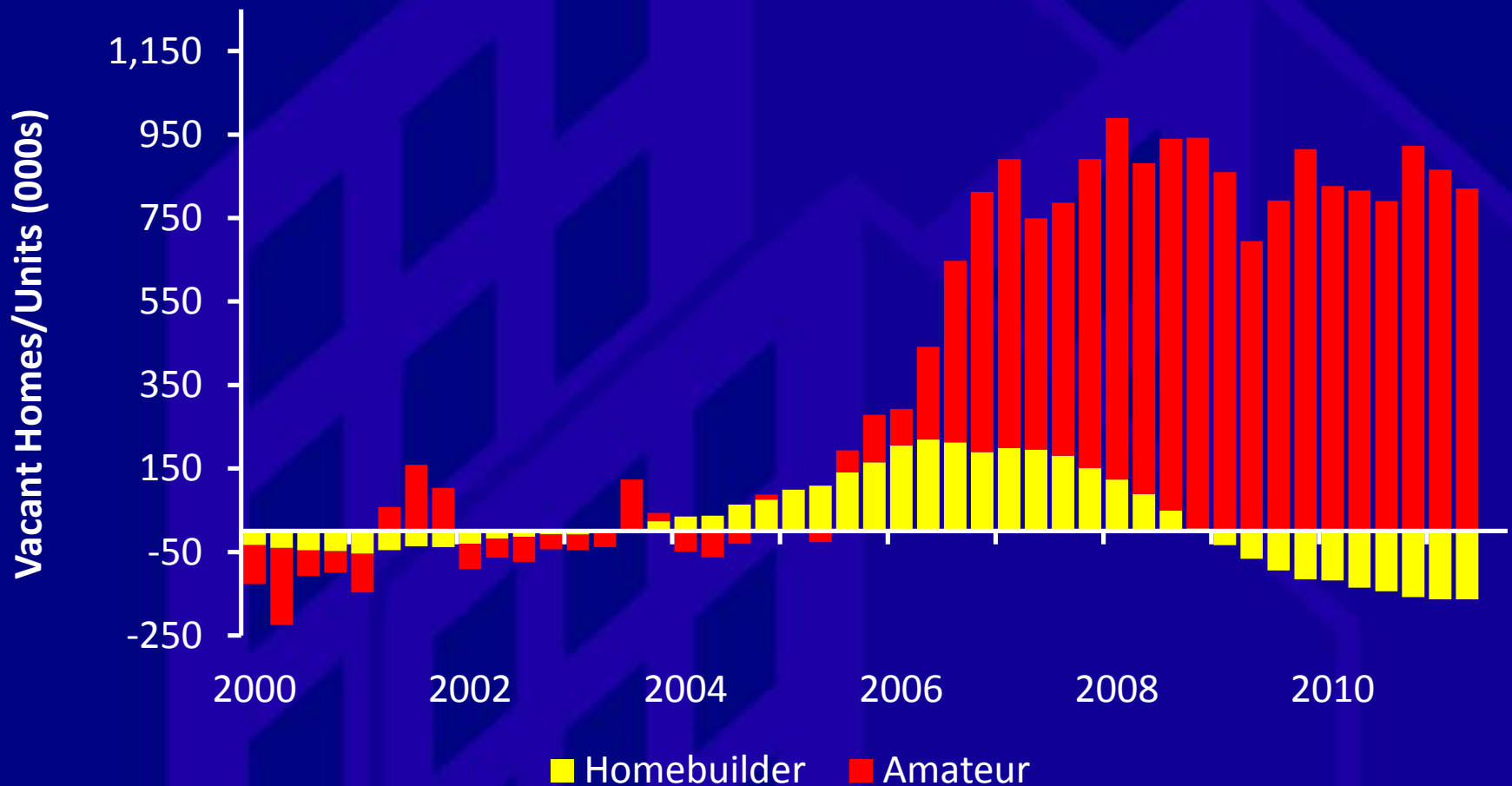
Note: Figures are relative to 1985-2010 average.

Housing Starts



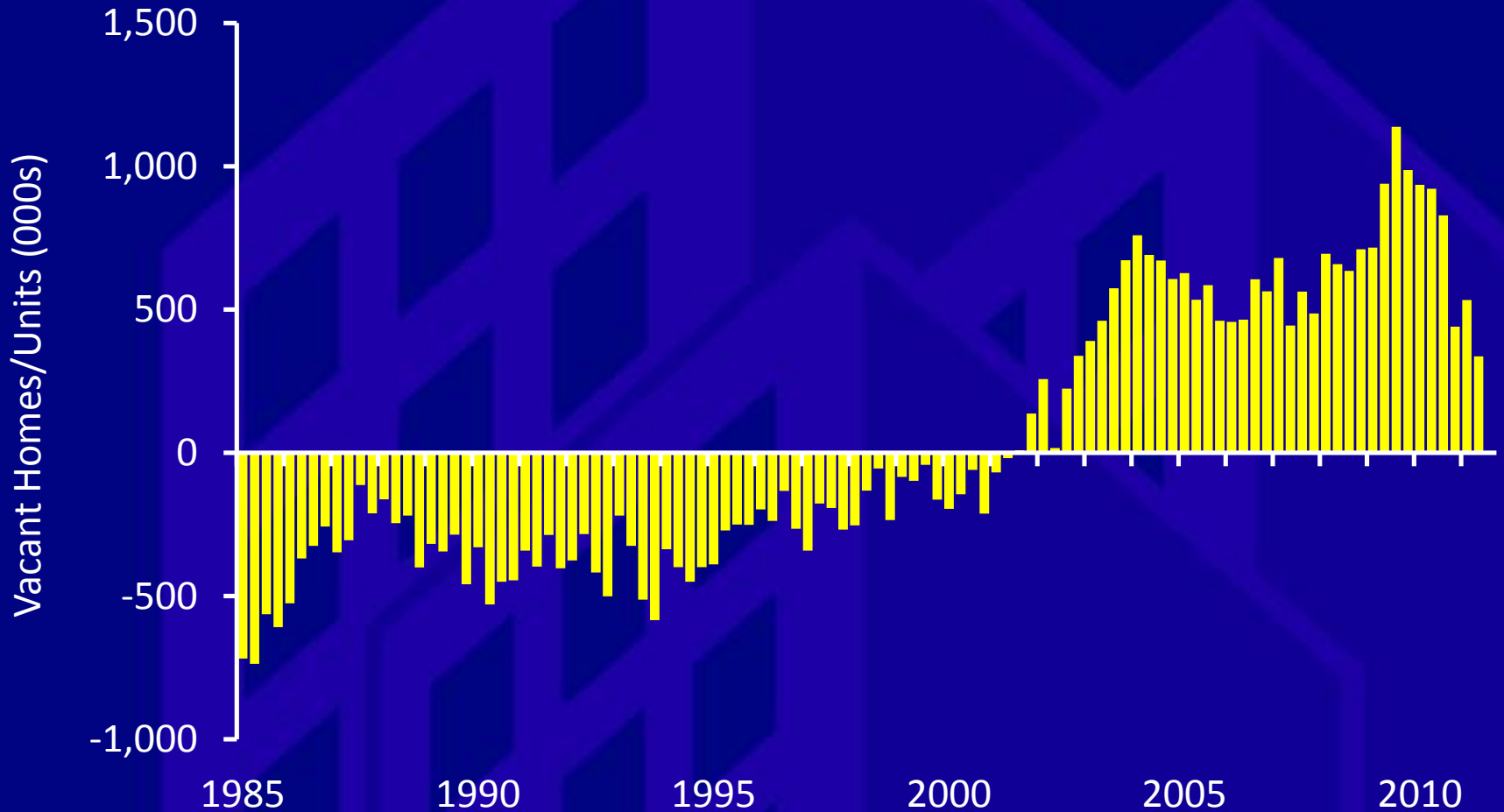
Excess Single Family Housing

Homebuilder vs. Amateur Excess Owned Unit Vacancy



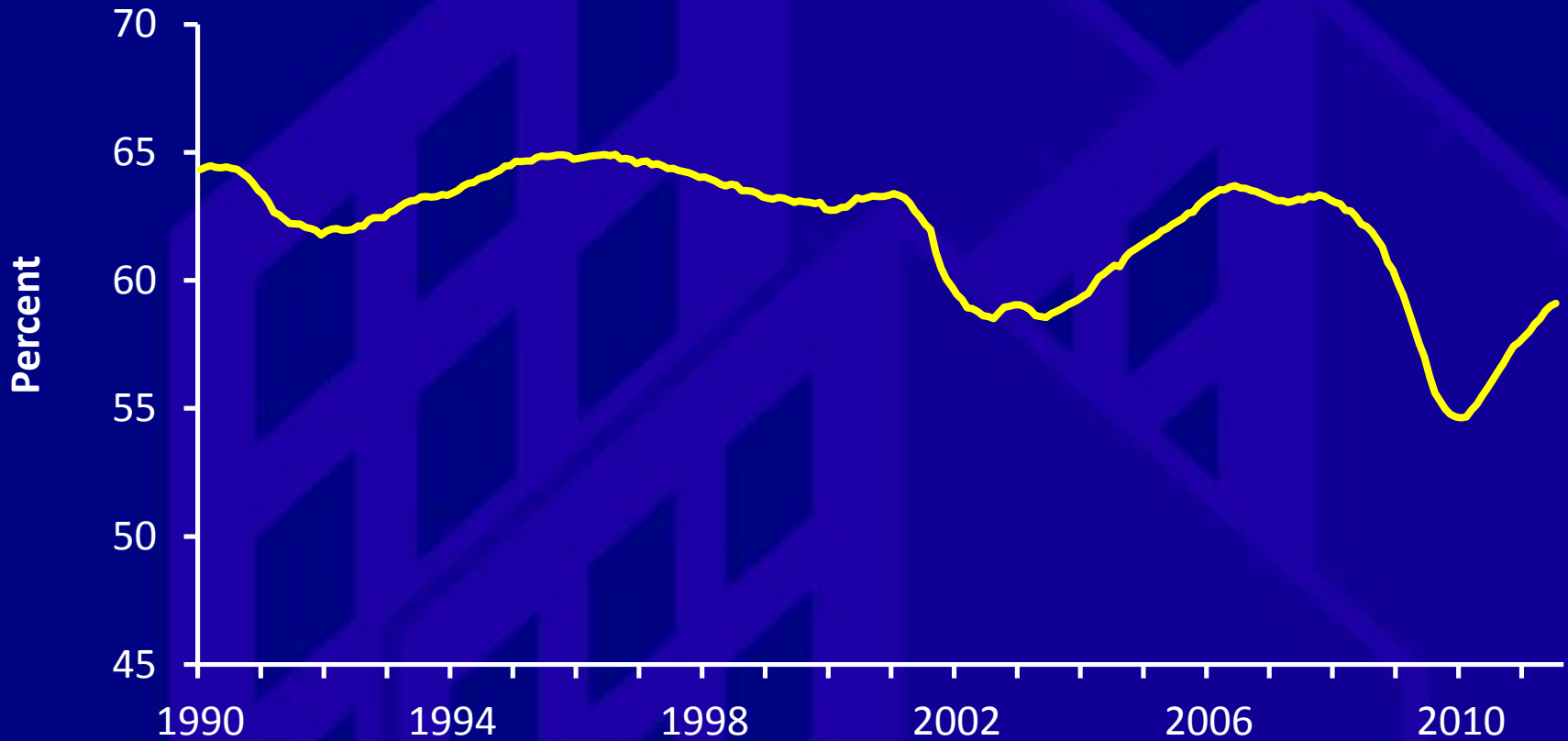
Excess Multi-Family Housing

Excess Rental Unit Vacancy



U.S. Hotel Occupancy

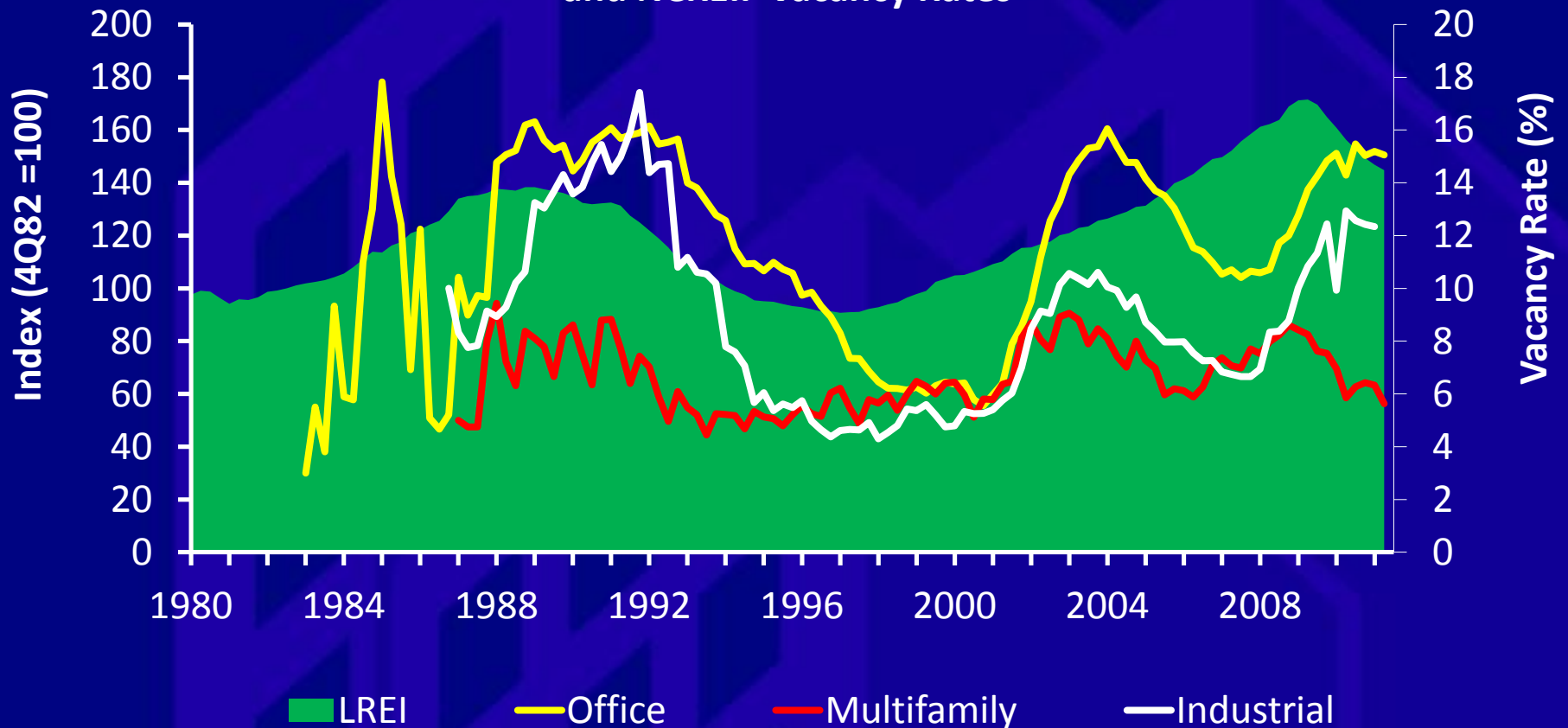
(12-Month Moving Average)



Source: Smith Travel Research

Linneman Real Estate Index

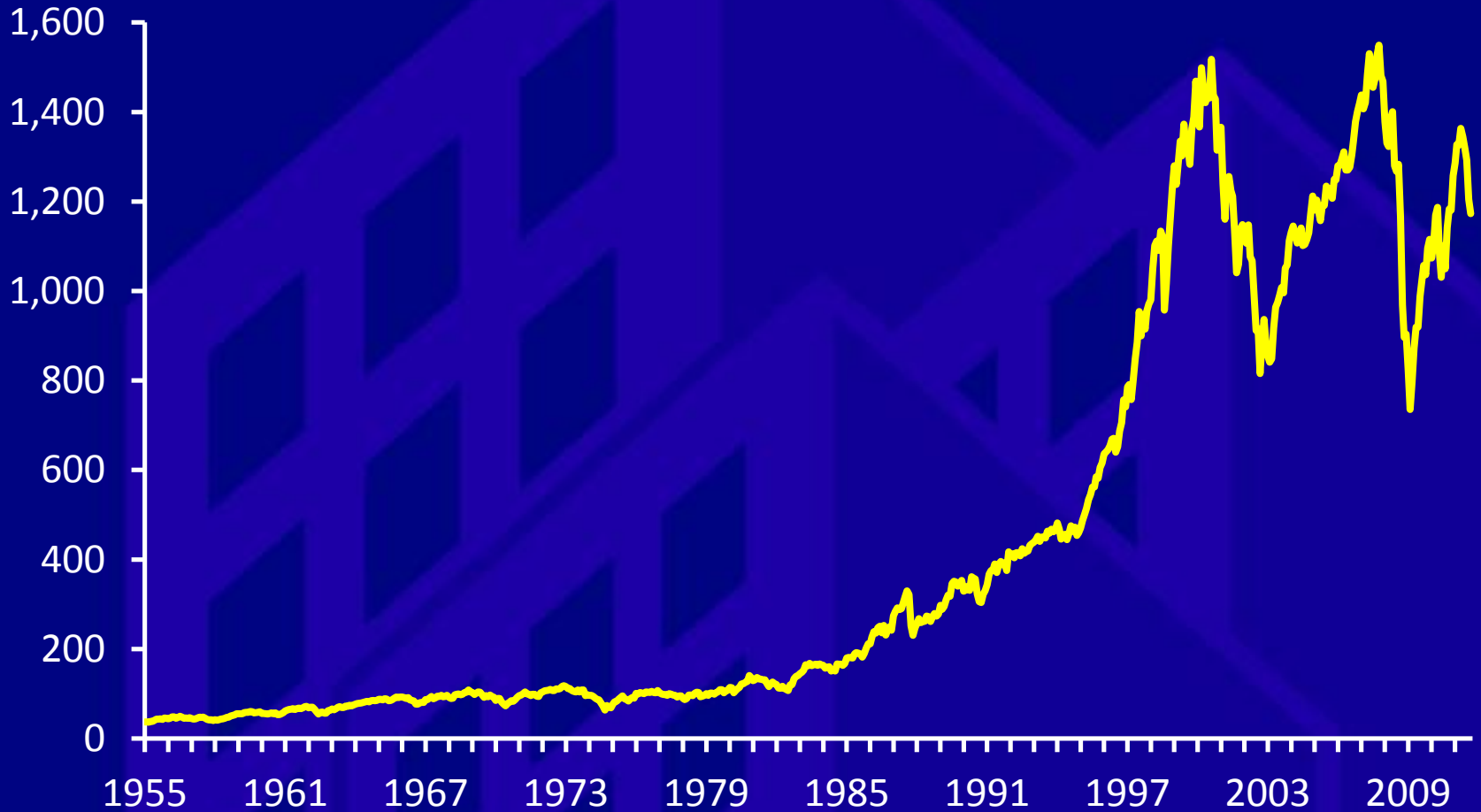
Linneman Real Estate Index and NCREIF Vacancy Rates



Capital Flows

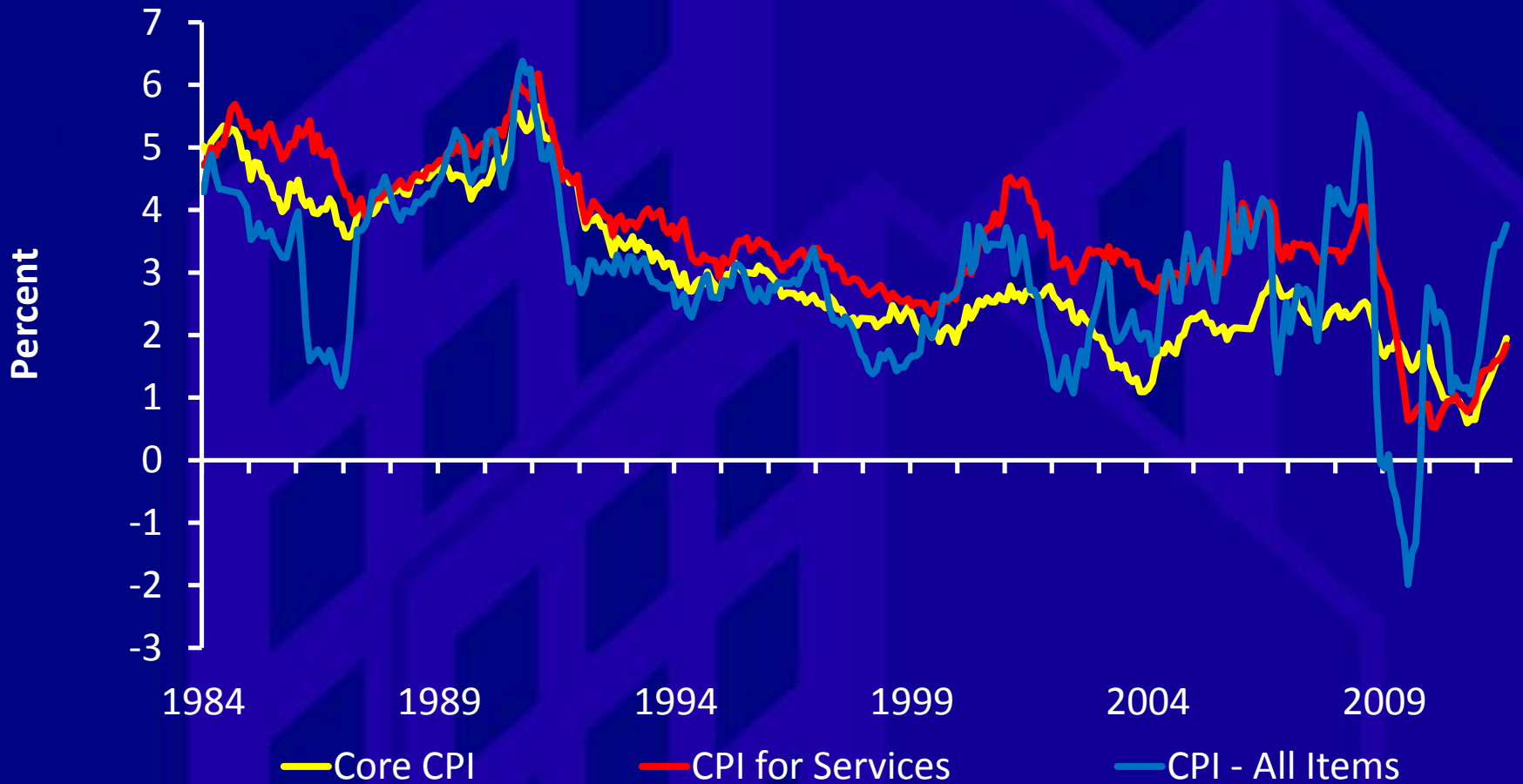
- Inflation rising
- Deficits unsustainable
- Record low for US sovereign rates
- Fed rate setting
- Search for yield

S&P 500 Index



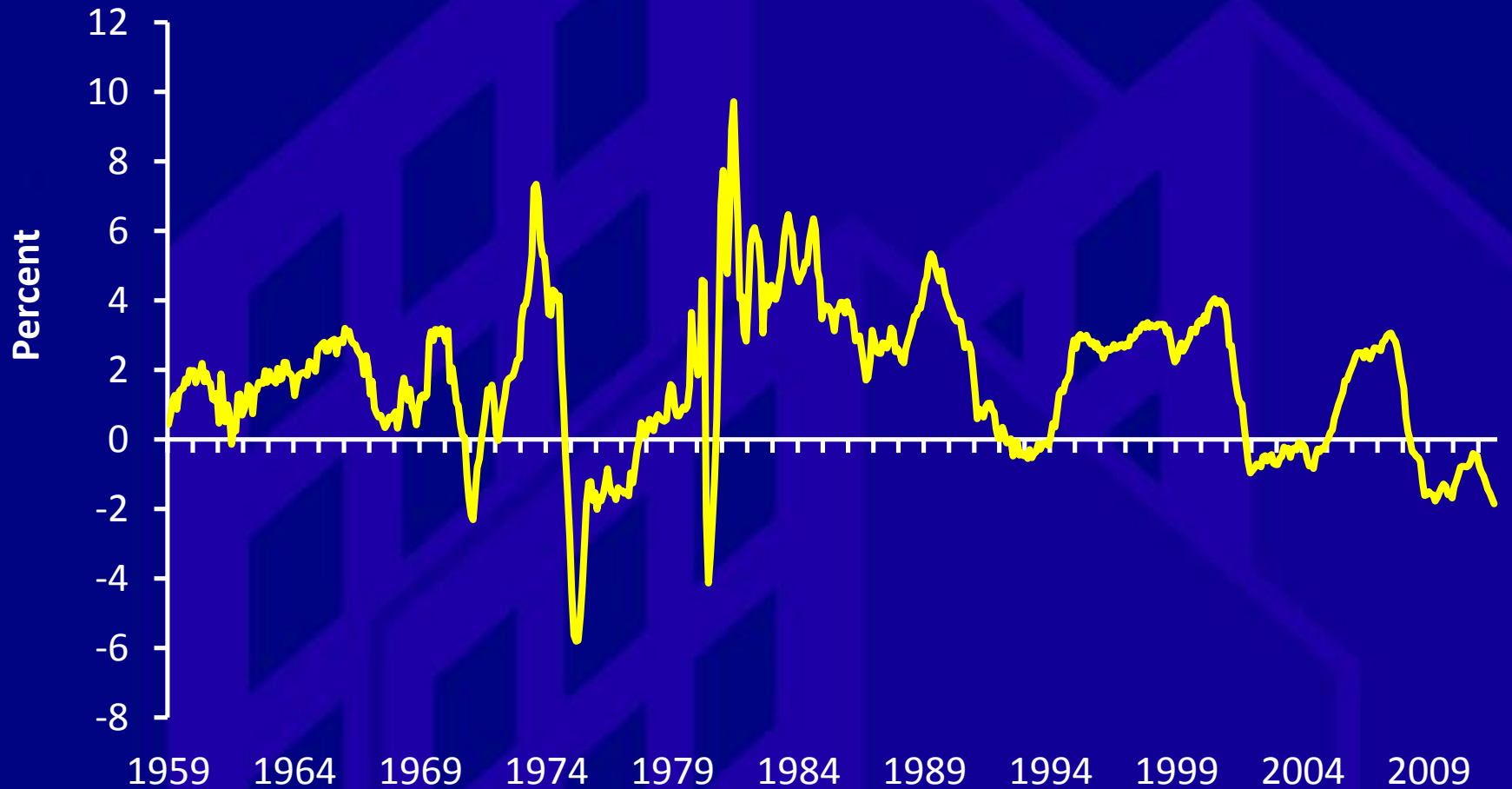
Inflation

Consumer Price Index
Year-Over-Year Percent Change

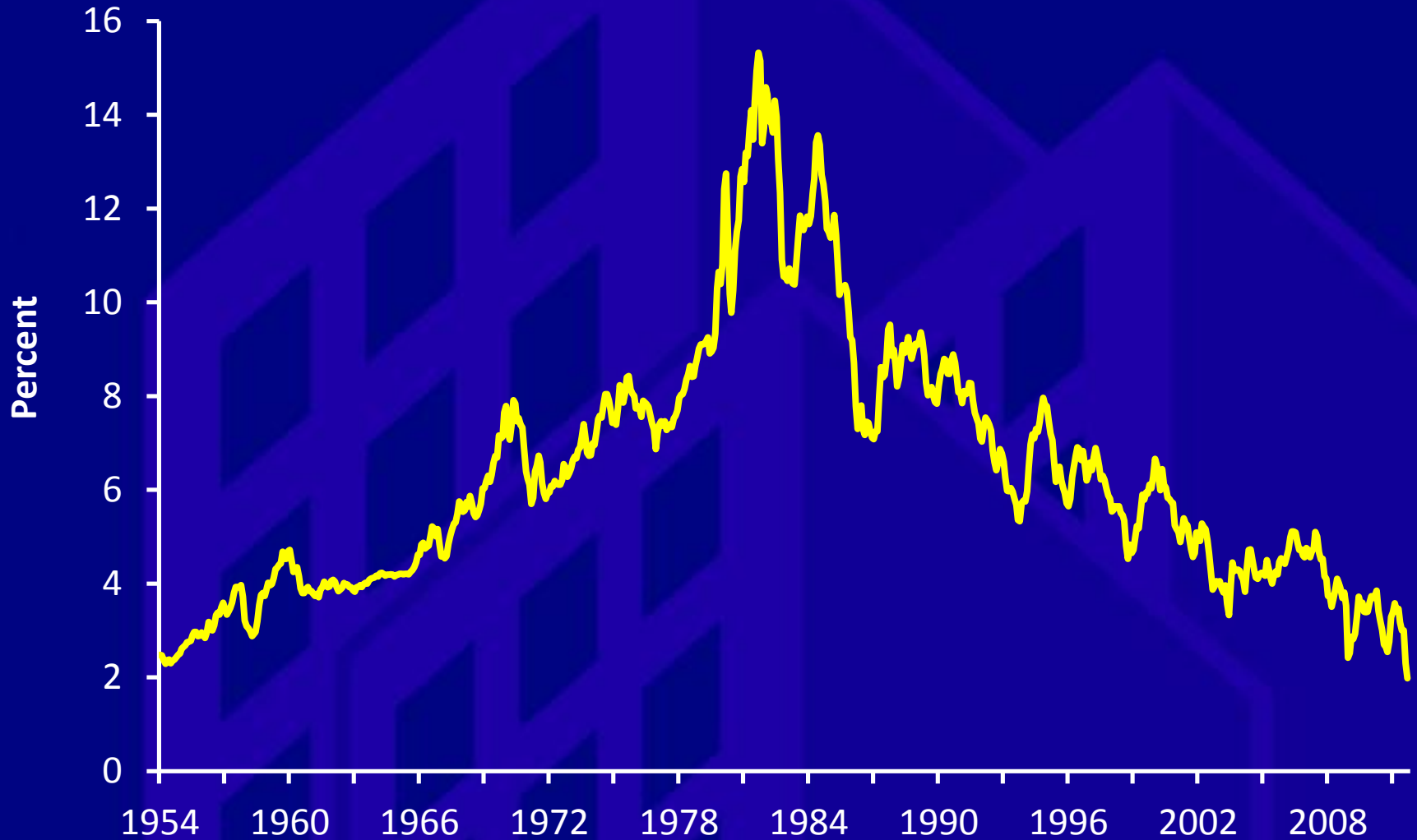


Real Fed Funds Rate

(Net of Core CPI)

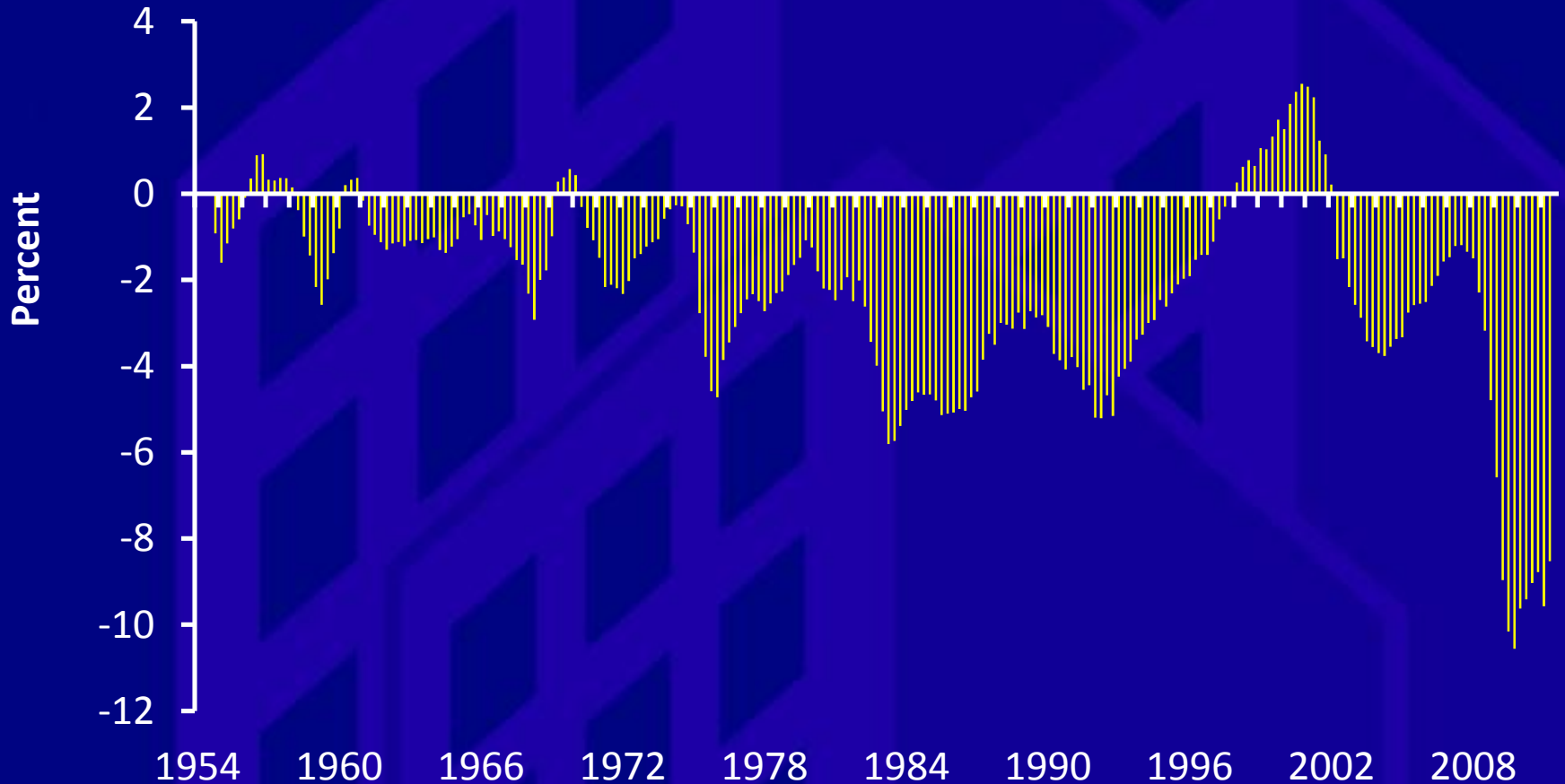


Interest Rates of U.S. 10-Year Treasuries



Federal Deficit

Federal Surplus as a Percentage of GDP
(4-Qtr Trailing Avg.)



What Does It All Mean?

- Mainly population driven growth
- Election cycle uncertainty
- Old Maid uncertainty
- Improved opportunities in the absence of CMBS