

The following is an excerpt from the Fall 2025 edition of The Linneman Letter.

## The U.S. Stands Strong

Independence Day on July 4, 2026 will mark 250 years since the beginning of an amazing experiment in freedom and liberty. The Declaration of Independence made official the revolution (which was already underway) that lasted seven more years before achieving independence. Here is a link to the extraordinary [declaration](https://www.archives.gov/founding-docs/declaration-transcript) (https://www.archives.gov/founding-docs/declaration-transcript).

It took an additional six years after the colonies achieved independence to form the United States of America, with George Washington sworn in as the first President. George Washington was an amazing man. The General of the Revolutionary Army, who after the revolution was won, told his soldiers to go back home and refused to become king. He chaired the Constitutional Convention that formed the United States. He was elected unanimously to be President twice, for a total of eight years. When they again asked him to become king, he declined. When the people asked him to be president for life, he declined. Whereas almost all revolutions in world history either failed miserably or resulted in a dictator, Washington paved the way to a lasting (if imperfect) democracy. This Declaration created something unique: a country based not on tribe, force, or religion. It created a country based on the belief in striving for individual liberty, freedom, and the primacy of the individual.

Is the U.S. at risk of losing its prized positions as the world's reserve currency and the place to invest and innovate? The answer is simply no. At the end of the day, the U.S. is the only viable choice. For the U.S. to lose its status, another alternative must exist. France? China? Brazil? Russia? Germany? The UK? Italy? Spain? Turkey? Canada? Saudi Arabia? All of these are

laughable alternatives. They are too small, too unstable, too politically fragile, and have too little growth, too frail legal systems, and excessive socialism. These factors combine to make each of these nations impossible alternatives. Watching people complain about the problems of the U.S. is like watching children complain about their parents: they whine and complain but they still come home to eat and sleep every day.

Economists generally note that people respond to financial incentives. Raise taxes and at least some people will invest and work less is a classic example of incentives at work. Those on the far left have historically argued that the rich will do the same thing irrespective of incentives. Hence the famous Marxist dictate, "from each according to their ability to each according to their need." Stated bluntly, the leftist belief is that the size of the economic pie is the same irrespective of distributional government policies.

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Interestingly, when the Trump administration announced plans to cut university funding, campus, political, and media organizations quickly said that less research will be done and that many researchers will leave the country. So apparently, while they believe the most economically productive in society will not reduce their efforts or move in the face of reduced incentives, they believe that scientific researchers will quickly do so. Were their general perspective on incentives correct, the same amount of scientific research would occur absent government spending, as these researchers would do the same research either way.

A question we ask people who say researchers will leave the U.S. is “exactly where will they go to receive better funding and compensation?” Germany, France, the UK, Japan, Italy, Spain, etc. have historically been research funding deserts. So migrating researchers would face the usual social adjustments as well as salary reductions and funding challenges were they to move abroad. While an effort is underway across the EU to capitalize on the potential U.S. brain drain, including modestly increasing research funding, fast-tracking visas, increasing post-doctoral positions, and improving academic freedom, we doubt large numbers of U.S. researchers will leave the U.S. This is particularly true given notably lower salaries and higher taxes abroad.

We suspect that the most impactful research will find funding, while much of the marginal research will not get funded. This funding may come from redirected foundation priorities, private companies (remember that GE and Bell Labs were once centers of path-breaking privately funded basic research), and better targeted government funded research. While we are unable to opine on the value of all government funded research, we can unambiguously say that some of it is nonsense (e.g., “why do children fall off bikes?”).

While mistakes and systemic problems must be acknowledged, those who endlessly dwell on the many failings of the U.S. over its history ignore the amazing things that have been achieved. If the U.S. were really so bad, so many from so many places over the past 250 years would not have come here seeking a new life. Focusing only on the nation’s failings is like only focusing on the interceptions thrown, passes overthrown, and the games lost by Tom Brady. It misses the point of Brady’s truly monumental and unprecedented success. Similarly, Michael Jordan missed over half of the shots

he took. Yet he was still the greatest player of his era. Like Tom Brady and Michael Jordan, what makes the U.S. amazing is not that it achieved perfection but rather how it achieved unparalleled success. Just as we celebrate the successes of Tom Brady and Michael Jordan when they enter the Hall of Fame, the 250th anniversary is the time to focus on our nation’s successes, not our failures. So make your reservations now to be in Philadelphia for the July 4th celebration where it all began. See you at Independence Hall on July 4, 2026!

### **A New Tool:**

#### **Alpha-Beta Analysis by Employment Sector**

We have regularly discussed a covariance analysis that examines how employment behaves in individual metropolitan areas (MSA) based on national economic changes. We applied the same analysis to major employment sectors (as defined by the Current Employment Statistics coding system). The analyses are based on monthly employment data from January 1980 through June 2025 (534 time periods for each regression). Specifically, for each employment sector, we estimate a statistical equation, which summarizes how a 100-bp percentage change in total national employment affects sectoral employment growth rates. The equation consists of a constant (“alpha”) for each market and a “beta,” which is a multiplier applied to the national percent change in employment.

Before discussing the alpha and beta coefficients, it is important to understand the relative strength of the models. The R-squared statistic represents the portion of the dependent variable (sector growth) explained by the independent variable (total employment) in each regression model. In other words, R-squared indicates how well the model “fits” the data and is therefore able to explain historical performance and predict future performance. Both goods and service-producing sectors have high R-squared statistics, with the highest (most desirable) seen in the private service-producing sector (highlighted in “go” green) in Figure 1. The regression models for trade, transportation, and utilities (including wholesale and retail trade) and professional and business services also have high explanatory values. However, mining and logging, utilities, and government (highlighted in cautionary yellow) all have low R-squared values, indicating little explanatory power.

The alpha indicates sectoral growth that is independent of national growth. If there is no national job growth, then the alpha is the expected annual percentage change in sectoral MSA employment. Thus, higher alpha sectors have built-in employment growth dynamics. The high alpha sectors, with green highlighting include financial activities, professional and business services, private education and health services, and state government. In contrast, low alpha sectors are highlighted in yellow and are dominated by goods-producing

*When the national employment outlook is strong, expect sectors with high alphas and high betas to do well. However, when the national outlook is weak, sectors with high alphas and low betas will best hedge against an economic downturn.*

sectors such as mining and logging and manufacturing.

The beta for the U.S. is definitionally equal to 1.0. A sector with a beta of 1.0 registers (on average) an increase of 100 bps in employment growth (plus its alpha) when national employment rises by 100 bps. A beta that is less than 1.0 indicates that the sector does not boom (or bust) to as great an extent as the national economy, while a beta of greater than 1.0 indicates that such a sector experiences swings of greater magnitude (around its trend) than percentage changes at the national

**Correlation Analysis Between U.S. Total and Sectoral Employment**

| Sector                                        | Intercept (Alpha) % | Slope (Beta) % | Breakeven % | R-Squared |
|-----------------------------------------------|---------------------|----------------|-------------|-----------|
| Goods-producing                               | -1.8995             | 1.2291         | 1.5454      | 0.7709    |
| Service-providing                             | 0.5670              | 0.7921         | -0.7158     | 0.9256    |
| Private service-providing                     | 0.6055              | 0.9265         | -0.6536     | 0.9502    |
| Mining and logging                            | -2.3844             | 1.0691         | 2.2304      | 0.1206    |
| Mining, quarrying, and oil and gas extraction | -2.2912             | 1.0791         | 2.1233      | 0.1031    |
| Construction                                  | -0.6650             | 1.5819         | 0.4204      | 0.6219    |
| Manufacturing                                 | -2.3520             | 1.1129         | 2.1133      | 0.7490    |
| Durable good mfg                              | -2.6715             | 1.3547         | 1.9720      | 0.7313    |
| Nondurable good mfg                           | -1.8117             | 0.7195         | 2.5179      | 0.6187    |
| Trade, transportation, and utilities          | -0.0815             | 0.8154         | 0.0999      | 0.9052    |
| Wholesale trade                               | -0.4210             | 0.8236         | 0.5112      | 0.8043    |
| Retail trade                                  | -0.1486             | 0.8014         | 0.1854      | 0.7757    |
| Transportation and warehousing                | 0.5461              | 0.9719         | -0.5619     | 0.6494    |
| Utilities                                     | -0.2209             | 0.0246         | 8.9616      | 0.0012    |
| Information                                   | -0.9974             | 1.1269         | 0.8851      | 0.4956    |
| Financial activities                          | 0.7302              | 0.4727         | -1.5447     | 0.4035    |
| Professional and business services            | 1.0592              | 1.0574         | -1.0018     | 0.7952    |
| Private education and health services         | 2.4760              | 0.4234         | -5.8473     | 0.3693    |
| Leisure and hospitality                       | -0.3855             | 1.9196         | 0.2008      | 0.6823    |
| Other services                                | 0.4580              | 0.9740         | -0.4702     | 0.6611    |
| Government                                    | 0.5045              | 0.2328         | -2.1672     | 0.1905    |
| Federal government                            | 0.3076              | -0.1962        | 1.5677      | 0.0340    |
| State government                              | 0.7414              | 0.1581         | -4.6886     | 0.0855    |
| Local government                              | 0.5082              | 0.3463         | -1.4673     | 0.2762    |

Source: Linneman Associates, Bureau of Labor Statistics

Indicates most desirable values within each column

Indicates least desirable values within each column

Indicates most desirable beta values in a growing economy

Indicates most desirable beta values in a shrinking economy

figure 1

level. The high beta sectors (highlighted in blue) are again dominated by goods-producing segments, such as construction and durable goods manufacturing, but also include the leisure and hospitality sector. In contrast, the most stable, low-beta sectors include utilities and government (highlighted in gray). Note that unlike the other metrics, the desirability of beta values depends on the economic outlook, with higher betas sought when the economy is growing.

The breakeven statistic reflects the interaction between the alpha and the beta, indicating the level of U.S. employment growth required to sustain positive job growth within a specific sector. In general, lower breakeven points (highlighted in green), indicate greater resiliency within a sector relative to changes at the national level. For example, the private

education and health services sector has the lowest breakeven point of -5.8%. This means that as long as U.S. employment growth is greater than -5.8%, sector growth is expected to be positive. State and local government and the financial activities sectors also have low breakeven points. In contrast, utilities, mining and logging, and manufacturing have high breakeven points (highlighted in yellow), indicating that total U.S. employment growth must be relatively high in order for those sectors to see contemporaneous positive growth.

When the national employment outlook is strong, expect sectors with high alphas and high betas to do well. However, when the national outlook is weak, sectors with high alphas and low betas will best hedge against an economic downturn.

### About Dr. Peter Linneman

Dr. Linneman, who holds both Masters and Doctorate degrees in economics from the University of Chicago, is the Principal of Linneman Associates. For nearly four decades, he has provided strategic and financial advice to leading corporations. Through Linneman Associates, he provides strategic and M&A analysis, market studies, and feasibility analysis to a number of leading U.S. and international companies. In addition, he serves as an advisor to and a board member of several public and private firms.

Dr. Linneman is the author of the leading real estate finance textbook, *Real Estate Finance and Investments: Risks and Opportunities*, edition 5.3. His teaching and research focuses on real estate and investment strategies, mergers and acquisitions, and international markets. He has published over 100 articles during his career. He is widely recognized as one of the leading strategic thinkers in the real estate industry. Most recently, Dr. Linneman co-authored (with Dr. Michael Roizen and Albert Ratner) the best-selling book *The Great Age Reboot: Cracking The Longevity Code For A Younger Tomorrow*.

He also served as the Albert Sussman Professor of Real Estate, Finance, and Business and Public Policy at the Wharton School of Business at the University of Pennsylvania until his retirement in 2011. A member of Wharton's faculty since 1979, he served as the founding chairman of Wharton's Real Estate Department and the Director of Wharton's Zell-Lurie Real Estate Center for 13 years. He is the founding co-editor of *The Wharton Real Estate Review*.

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