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More Wall Street worries over jobs: In addition to lower bonuses, job losses spell trouble for real estate market

By Alison Gregor

As the rules of real estate financing continue to be rewritten, some wonder how the job outlook among struggling companies on Wall Street may affect the real estate market in New York City.

The credit crunch has already caused layoffs nationwide in the securities industry, with some cuts affecting New York City, putting annual bonuses for many Wall Street workers in a precarious position.

Over a dozen large securities firms said job cuts were in the works that would affect the roughly 188,200 employees who work in New York City. According to State Comptroller Thomas DiNapoli's office, the seven largest financial firms headquartered in New York City saw their profits fall nearly 65 percent from the year-ago quarter. As a result, bonuses will be trimmed.

Typically, news about bonuses creates as many headlines as news about job cuts. Why the focus on bonuses? Because financial firms drive the New York City economy, and annual bonuses on Wall Street are much bigger than salaries. But that's not the whole story when it comes to the real estate market.

"To a large extent, the big bonuses on Wall Street really only affect the very top of the market," said Stuart Saft, a partner at the law firm Dewey & LeBoeuf and the executive committee chairman of the New York City Workforce Investment Board, which tracks employment. [On The Real Deal Webcast, a panel of experts including Saft discusses the future of the residential market in New York City.]

While the real estate market is indisputably affected by conditions on Wall Street, some market analysts such as Saft believe it's tied more closely to the overall employment rate in the city.

"Of course, Wall Street is an important economic engine for the city, but the overall employment issue has more of an impact" on the real estate market, he said. "The balance of the market is affected by what the ordinary person is doing -- whether or not they have jobs."

And that means the ordinary person may eventually be losing their job.

An analysis done by the State of New York comptroller's office released in October shows that for each job added in the securities industry between 2003 and 2006, two jobs in other industries were created. During that period, Wall Street employment increased by 18,100 jobs, and thus, 36,500 jobs were created in other industries, according to the report, with 30,700 jobs in industries that do business with Wall Street and 30,700 jobs due to increases in household consumption.

Also, according to the report, Wall Street may account for only 5 percent of the jobs in New York City; however, it also accounts for a disproportionate amount of the wages, at 23 percent.

While Wall Street grew by 9,500 jobs last year and 10,000 jobs during the first three quarters of 2007, the securities industry has announced that that type of growth will not continue. There will be layoffs, even in New York City.

Though nobody knows for sure, analysts are not predicting fallout as gloomy as that following the crash of 1987, when some 50,000 Wall Street jobs were lost in subsequent years.

Still, any job losses now may have more impact on the city's overall economy. Before the 1987 crash, Wall Street's share of employment was 4.6 percent, which is similar to current conditions, but its share of the city's wages at 9.7 percent was less than half of its current level, according to the comptroller's office.

Since Wall Street provides nearly 9 percent of New York City's personal and business tax revenues, the city has revised its four-year financial plan to lower its tax revenue expectations. The real estate industry might do well to do the same, analysts said.

Wall Street "does have a ripple effect," said Fernanda Forman, managing director at Bond New York. "The lower echelon will also be affected, because the personal assistant of the high-powered Wall Street executive will also be making less money or will also perhaps even lose their jobs; therefore, they will not be buying the \$500,000 apartment."

How will that affect the residential real estate market? Stan Ponte, president of the Previews international luxury marketing division of Coldwell Banker Hunt Kennedy in New York, said that he believes Wall Street bonuses will still be relatively strong in early 2008, perhaps falling by up to 15 percent, since the first three quarters of 2007 were strong in the securities sector.

The New York Times offered a similar range. Bonuses could be flat to down 15 percent, a recent article said, because some firms, such as those in the mortgage industry, fared worse than others, such as those in investment banking.

Even with bonuses down 15 percent in 2008, it shouldn't make much of a dent in the residential market, Ponte said. But, he said, he anticipates bonuses will plummet in 2009, after securities companies go through perhaps a full year of poor returns. Paradoxically, that may have a buoying effect on this spring's residential market.

"At a time with oil prices going through the roof, and gold going high, and some stocks performing badly and some losing serious value, it's a bricks-and-mortar time," he said.

Last month, for the first time in four years, Standard & Poor's 500-stock index and the Dow Jones industrial average dropped more than 10 percent below their October all-time highs, which is the standard definition of a correction.

"It's not just the bonuses, it's also the underlying value of the stocks, because if somebody has a portfolio that was half a billion dollars and now it's down to \$100 million, they're feeling pretty poor," said Ronald Kremnitzer, a partner and co-head of the real estate department at the law firm Pryor Cashman.

Kremnitzer said he expected the \$3 to \$5 million apartment market, perhaps even apartments as expensive as \$10 million, to be hurt most this spring by reduced bonuses. New development may also take a hit.

"People will buy fewer four- and five-unit blocks, which they've been doing to combine them into mega-residences, with that phenomenon driving in significant part the new construction sales," Kremnitzer said.

Some of those people may even shift into rentals, he said.

"If you now have a class of people that were looking to buy expensive apartments and can no longer afford to do that, and they have to move into rentals, you may see the rentals of the premium buildings may be strong," Kremnitzer said.

However, if there are job losses at the entry level on Wall Street or in some of the industries it deals with, that may affect the rental market as well, and not for the better.

JEMB Realty owns Herald Towers at 34th Street and Sixth Avenue, which has 690 rental apartments that often serve employees in entry-level positions at financial companies, law firms and accounting firms. It may take a hit if there are layoffs at securities firms.

"Candidly, if there are layoffs at the entry level, it will affect the rental marketplace and the lower tier, but maybe not the purchase marketplace as much, with the higher bonuses that the top people get," said Joseph Jerome, principal of JEMB Realty, which also owns 150 Broadway and 75 Broad Street.

Still, the upper end of the residential market should continue to get a boost from foreign buyers, who are pouring into New York City due to the weak dollar, Forman said.

"The movement of foreign money to New York is unprecedented right now," Ponte agreed. "Part of that is a change in the supply side. Fifteen years ago, there were not all these \$12 and \$14 million condos to buy; they were co-ops, and you weren't seeing too many co-ops approving deals from overseas," he said.

In the commercial real estate market, office landlords can anticipate having to compete with space put on the market for sublease by securities companies, said Jerome.

"If financial services firms, which are the driving factor in leasing space, or one of the top three, start faltering a bit and having layoffs, they're going to have excess space," he said.

"The space they put on the sublet market is at lower rates, because, in the past at least, what they've tried to do is just recoup as much as they can. That affects direct rents with landlords, so we're competing against a cut-rate price."

Jerome said that JEMB Realty is a low-leverage company, so he anticipates riding out any possible downturn in the real estate market, but that highly leveraged firms might have more trouble.

"We've been through the downturns since the late 1980s, and we're not pressed to have full occupancy," he said.