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How Wall Street Layoffs Will Affect The Housing Market

Investment banks including Goldman Sachs, JPMorgan Chase, Citigroup and Morgan Stanley may slash and burn dozens of jobs as soon as next month, as my colleague Halah Touryalai reports. And these positions may never be replaced. It's the latest round of layoffs for Wall Street, which let thousands of workers, particularly traders, go in 2011.

Wall Streeters have already suffered some discouraging news this year, as cash bonuses for work done in 2011 were cut and capped. A February report estimated that Wall Street bonuses dropped 14% from 2010 to 2011. For staffers at firms like Bank of America and Citigroup, the cuts were as high as 30% and bonuses at Morgan stanley were capped at $125,000.

All that cost-cutting has had repercussions that fan out past that eight-block swath of downtown Manhattan street where smocked traders scream in pits and analysts calculate risk. In years past, Wall Street has always affected Main Street. Literally.

"The finance sector plays a very large role in New York City and as a result of that, those people play an overall role in the residential real estate market," explains Gary Malin, president of Citi Habitats, a New York City-based realty firm.

On a grand scale, we saw all too painfully how intertwined Wall Street and real estate were as the housing bubble deflated and the global economy plunged into a recession in early 2009. Locally, Wall Street residential enclaves like the Financial District and New Jersey's Hoboken emptied out as finance folk packed their bags, newly out of work at companies where balance sheets were rapidly deteriorating and jobs disappearing. In the Tri-State area around the Big Apple residential projects stalled and homes fell into foreclosure.

Now less than four years later, as bonuses shrink and another spate of layoffs roll out, how will that affect the housing market? The answer, like all things in housing today, depends on location and a variety of factors.

In Manhattan, brokers remain positive about the housing market despite compensation woes on Wall Street. Malin, for example, explains that the market has become much more diversified since the days of Lehman Brothers and bankruptcy filings. Wall Street doesn't represent the bulk of the buying base that it did a decade ago, he says. Foreign buyers have re-entered the market, clocking some of the priciest sales since the downturn, and burgeoning industries like tech have helped inject Manhattan's residential market with income streams that aren't tied to investment firms.

“We have been affected by Wall Street bonuses being lower, however, inventory is really low as well,” adds Jarrod Guy Randolph, a vice president at CORE Group. Randolph, who has represented developers’ new condo projects directly for the past decade, says the market has not only been recovering but booming, particularly for new higher-end apartments. He says these “premiere properties” have welcomed multiple bids, bids over asking price, even wait lists in recent months. “People still have to move…so it’s yet to be seen what the layoffs will do to the marketplace, if much.”

But while Manhattan agents remain confident in the city, the neighboring suburbs may be harder hit by labor pains felt on Wall Street. Take the so-called hedge fund capital of the world, Greenwich, Conn., where smaller bonuses are already affecting home sales this year.

“The recovering economy has given us a good real estate market if you are looking at houses under $2 million; but over $2 million, which is primarily the area of the market fueled by Wall Street bonuses, sales are significantly down,” says Mark Pruner, an agent with Prudential Connecticut Realty and author of the Greenwichstreets.com blog. He calculates that sales were up 39% for homes under $2 million and down 31% for pricier properties in the first quarter of 2012.

“What you are seeing is that people are getting smaller cash bonuses and being more conservative about spending them,” Pruner asserts. It has also meant that sales in the tony town often associated with Wall Street have been, like New York City, fueled increasingly by buyers hailing from other industries. He is seeing more advertising and consumer goods executives come to Greenwich — as well as foreign buyers. Pruner notes that 25% of his clients currently hail from Southeast Asia.

Other expensive ZIP codes where wealthy Wall Streeters have long taken up residence saw both sales and prices slip down last year. In February The Real Deal looked at home values in New York’s Nassau County and Westchester County, as well as New Jersey’s Bergen County and Connecticut’s Fairfield County. The real estate publication found that:

“…The real estate markets in these wealthy tri-state area suburbs mostly softened in 2011 compared to 2010 in terms of prices and sales activity amid national and global economic turmoil.”

Even so, realtors and economists believe these markets will continue to bottom and stabilize in 2012, even as bankers lose their jobs. Westchester County, for example, already welcomed a 28% increase in luxury home sales (priced $2 million or higher) in the first quarter, compared to the first three months of 2010, according to Houlihan Lawrence. The median sales price was down 10% and the majority of those sales remained under $5 million, a 5% decrease from last year.