



## Wall Street Welfare, Part II: The Fallout

February 18, 2009

An article in the Wall Street Journal, “For Toll, Bet on Big Apple Turns Sour,”<sup>1</sup> triggered yet another thought on TARP.

The home builder admits to have targeted “hedge fund Johnny” to purchase its luxury condos, but now home sales in New York last quarter were down 50% from a year ago, and the supply is up 39%. Toll Brothers is looking at serious declines that will continue over the next two to three years as more and more banking industry employees are cut back.

I estimate that Bank revenues worldwide will shrink from 15-25% over the next two years. Securitized products that ran rampant throughout the past decade will be “dead meat” for years to come. Investors won’t swallow model-based securitization, and for good reason!

Meanwhile, a taxpayer revolt – if not a shareholder revolt – is taking place and there is little likelihood that meaningful Wall Street welfare will continue going forward. While arguments rage on regarding strict new pay caps<sup>2</sup>, and Bank executives threaten to return funds to the government (we should be so lucky!), they know the jig is up. The bankers who are reluctant to lend and eager to borrow, are

symptomatic of a rapidly decaying environment brought on by their own pursuit of quantity regardless of quality. As reported on CBS’ *60 Minutes*<sup>3</sup>, agents of World Bank not only stopped verifying the income of loan applicants, but actually invented levels of household income for presentation to their underwriters.

A return to saner lending practices means a reduction in business volume for the Banking industry. While this reduction has begun, the impact to date has been minimal. I expect further, and far deeper headcount reductions to continue, and compensation levels to be substantially reduced.

This impact is going to be felt the hardest in Finance-centric markets. In the U.S., that means New York City. The following is a list of companies that are highly dependent on the health of the New York Real Estate Market. To date, New York Metropolitan single family housing has dropped 13.5% from peak (June, 2006) to trough (November, 2008), while the average price nationwide has dropped 31.5% according to the Case-Shiller Index. The New York Commercial Real Estate market continues to decline, with both occupancy rates and rents rapidly softening.

### Sample Companies Impacted by Real Estate Downturn

<u>Name</u>	<u>Ticker</u>	<u>Market Cap</u>	<u>Price</u>	<u>Current Quarter AGR</u>	<u>Prior Quarter AGR</u>	<u>AGR Score</u>	<u>AGR Percentile</u>
Alexander’s, Inc.	ALX	1,049.904	\$161.76	Aggressive	Very Aggressive	57	27%
Boston Properties, Inc.	BXP	5,804.673	\$41.22	Conservative	Conservative	82	89%
CB Richard Ellis Group, Inc.	CBG	1,085.644	\$3.51	Aggressive	Very Aggressive	52	20%
Dime Community Bankshares, Inc.	DCOM	431.350	\$9.62	Average	Average	77	75%
Goldman Sachs Group, Inc.	GS	28,887.025	\$96.45	Aggressive	Very Aggressive	43	10%
Hudson City Bancorp, Inc.	HCBK	6,927.356	\$11.85	Average	Average	75	69%
Jones Lang LaSalle Incorporated	JLL	911.925	\$23.10	Aggressive	Aggressive	48	15%
Morgan Stanley	MS	16,337.887	\$22.93	Very Aggressive	Very Aggressive	22	1%
New York Community Bancorp, Inc.	NYB	4,291.980	\$11.33	Very Aggressive	Very Aggressive	33	4%
Provident Financial Services, Inc.	PFS	885.733	\$9.95	Average	Average	76	72%
Valley National Bancorp	VLY	2,088.920	\$12.17	Average	Average	64	41%
Vornado Realty Trust	VNO	8,256.397	\$42.79	Average	Average	69	53%

<sup>1</sup> The Wall Street Journal, February 12, 2009

<sup>2</sup> “Bankers Face Strict New Pay Cap,” The Wall Street Journal, February 14, 2009

<sup>3</sup> “World of Trouble,” 60 Minutes, February 15, 2009

It is important to note that many of the companies listed rank high in AGR<sup>®</sup> scores. Unfortunately, regardless of their transparency and integrity, each of these companies will be buffeted by declining employment and compensation in the financial sector. Already, merchants and restaurateurs in lower Manhattan are finding themselves alone in a lunar landscape not unlike the months after 9/11 – but more permanent.

Taxpayers are not willing to support a continuation of the level of welfare provided to Wall Street. Faced with this fact, Finance-centric markets have farther to fall. One can only hope that a more measured approach in the use of TARP funds, and the new stimulus package, will slow the economic descent.

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