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Brokers see uptick in residential deals as stock market rallies

Despite correlation, data does not confirm causation between Dow Jones Industrial Index and demand for real estate

By Katherine Clarke


From left: Town Residential's David Salvatore, Prudential Douglas Elliman's Sonia Stock and Fredrik Eklund, UrbanDigs' Noah Rosenblatt and Gary Malin, president of Citi Habitats

With the stock market posting its best first quarter in 14 years, real estate agents and brokers are beaming about the effect it's having on interest, sales volume and open house attendance in their day-to-day business, despite little data to definitively confirm a causation relationship between the performance of stocks and the real estate market (see charts prepared for *The Real Deal* by Miller Samuel after the jump).

The success of the Standard & Poor's 500-stock index, which was up 3.3 percent year-over-year for March and 12 percent for the first quarter compared to the first quarter of 2011, is having a direct impact on the number of calls brokers receive, they said. Meanwhile, the brokers claimed, the decreasing threat of a European collapse is boosting confidence in the real estate market.

When people see their portfolios rise, said Gary Malin, president of Citi Habitats, "their confidence goes up and they think maybe they can stretch a little further. For some people, it's their guide on how to transact."

At the beginning of this month, Fredrik Eklund, a broker with Prudential Douglas Elliman, sold seven units totaling $24 million into contract in eight days, he said, attributing the rush in sales to how buyers responded to the positive news about the stock market and the onset of tax season.

Elliman's Eklund Gomes Group, which Eklund co-heads with partner John Gomes, even added stock exchange tickers for New York, London and Stockholm on the group's website to capitalize on the psychological impact the positive figures were having.

Other brokers agreed that the rallying of stocks is having a direct impact on their amount of business.

"During the period of big fluctuations in the latter part of 2011, buyers were a little skittish," said Sonia Stock, a senior vice president at Elliman. "Generally speaking, however, the recovery of the stock markets over the last couple of years has benefited sales activity. Obviously, the recovery of the financial services industry has helped, especially in Lower Manhattan."

She joked: "When the stock market is good, that's when I start kicking off my high heels and putting on my [sneakers] because that's when I begin to do more and more business."

But despite a general consensus among a handful brokers about the correlation between stocks and demand for real estate, analysts argue that causation between the stock market and closed deals is almost entirely coincidental.

While data provided to *The Real Deal* by Jonathan Miller of Miller Samuel shows that sales correlate with the fluctuations of the Dow Jones Industrial Index over the last 20 years, the appraiser said the results display a similar pattern of growth in the index and sales volume but may not have a causative relationship.

Pre-crash, in 2007, the Dow Jones industrial average for the first quarter was 12,354.35, while Manhattan residential sales totaled 3,474 and the average sales price was $1.29 million. Post crash, in the first quarter of 2010, the Dow Jones average was 7,776.18, while sales totaled 1,195 and the average sales price was $1.42 million, Miller's data shows. The number of sales correlated with the strength of the index.

More recently, in the first quarter of 2011, the average was 12,220.59, while the number of sales came in at 2,394 and the average price was $1.33 million. By comparison, in the first quarter of this year, the average was 13,197.73, with a volume of sales of 2,311 and an average price of $1.34 million. The two quarters were consistent in terms of sales, despite the jump in the index.

"Twenty-five percent of New York City wages come from financial services," Miller said. "It's part of the fiber of being here and so there's always been a propensity to correlate the Dow Jones industrial average with housing here. I don't ascribe to that belief. Housing is not a stock. [Rather,] if you have a robust and actively traded market, in theory, employment is more likely to be stable, which consummates sales transactions."

Noah Rosenblatt, publisher of UrbanDigs, a Manhattan real estate data site and brokerage, agreed, saying: “I don’t think you can make statements to quantify daily market activity, unless there is a noticeable change in equities and accompanying fear headlines that happen. You would have to see a 15 to 20 percent correlation in equities sustained over a couple of months [to guarantee any correlation.]”

Still, while it cannot be measured exactly, brokers maintain there is a psychological impact of stock market movement on real estate consumers.

“We are much busier now, compared to last year, and we’re seeing pent up demand for the last quarter of 2011 because concern over Europe [has decreased,]” said Naomi Muramatsu, director of sales for Bond New York. “At open houses, we have triple the people attending than we had in the last quarter of 2011.”

Stock said buyers are often more hesitant in a down market.

“In a bad market, people become more and more cautious and are afraid to pull the trigger on something that could work for them. The stock market is a very big deal for us brokers downtown so close to Wall Street. Good news means more business and quicker deals bad news means long hours of deals that don’t make it to the closing tables.”

Eklund argued that the perception of the buyer’s own wealth contributes to how quickly a deal will go through.

“I check the markets on my phone a couple of times a day,” he said, “and it does make you feel a certain way — poorer or richer. It’s all perception. It’s about how you view your wealth. When the stock exchange is up 2 percent, the phones are ringing off the hook.”

When Apple stock slid a couple of days ago, David Salvatore, a broker with Town Residential, said some of his clients got spooked. On April 20, Apple had dropped 9.9 percent since reaching a record April 9, the biggest nine-day slide since August.

“It sort of surprised some of [my clients,]” Salvatore said. “It was very surprising to them that something so seemingly foolproof would suddenly back up a little.”

News such as Apple’s slide is often a worry for house hunters with investments in stocks, Salvatore said, and news outlets often spin it more negatively than is realistic.

“It might be a product of how their news is delivered,” he said. “[If the Dow Jones drops,] it’s something of a negative for the day. You have to act like a filter for clients. You need to calm people down and help them think clearly and not micro manage the news. I often think it would have helped me if years ago I’d gotten a degree in psychology.”

Often, clients can misinterpret the information they receive from news outlets and blogs, one Sotheby’s International Realty broker added, saying it cannot occasionally lead to nervous delays in sales.

“I do have customers that quote the stock market on occasion,” said Lisa Verdi, a vice president at Sotheby’s. “I think they think the real estate market will reflect what the stock market is doing, which is really not true at all.”

The most reasonable way to view the correlation, Malin said, is to recognize that there are multiple factors at play in people’s buying decisions.

“All the things that are going on in the economy affect people’s psyche and how confident they are to transact,” he said. “All of these things together paint a picture and have a cumulative effect on people’s decisions.”