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Towns That Could Be Hit Hardest by the Financial Crisis

The upheaval shaking Wall Street will hurt privileged enclaves as well as working-class neighborhoods from coast to coast. Find out which will fare the worst

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How many former Lehman Brothers bankers or AIG (AIG) executives are likely to be buying a Park Avenue apartment or a home in Darien, Conn., this year? Most likely answer: not many at all.

As anyone who works on Wall Street, invests in the stock market, or just reads the newspapers knows, the past few weeks for the financials sector have been as ugly as Frankenstein's sister. People have seen their net worth eviscerated, if not obliterated completely.

But Wall Street's woes are going to have a direct impact on communities around the U.S.—and not just because the proposed $700 billion bailout will result in higher taxes for most Americans. The pain will spread beyond the banks themselves to their back-office and IT operations, accountants, lawyers, and other professional service employees who depend on work from finance companies. It will also reach regional banks across the country. Credit-card companies and firms that deal with auto loans are also vulnerable as the credit market tightens. Even insurance companies, which have remained relatively strong, could be hurt if the economy worsens and workers drop existing policies and decide not to take on new ones. From CEOs to security guards, the financial, insurance, and real estate sectors employ approximately 9.8 million people in the U.S. alone, nearly 7% of the entire American workforce, and their spending potential is even greater.

New York's Ripple Effect

Moreover, many of these jobs often tend to cluster around certain towns; bankers in one community and tech support in another. And while Manhattan is at the center of the turmoil, the fallout will be nationwide. Already the financial sector alone has lost 10,000 jobs through July, or about 2% of finance jobs. Moody's Economy.com projects that New York City and its suburbs will lose 65,000 finance jobs by the middle of 2010, or 11% of the total.

Economists are projecting that Manhattan real estate prices will finally sink under the pressure of financial-sector layoffs and shrinking Wall Street bonuses. Wall Street accounts for about 12% of jobs in the city of New York, and a quarter of salaries.

"New York is the stone in the puddle that ripples across the country," said Scott Simmons, vice-president and founding partner of Crist/Kolder Associates, an executive recruiting firm in Chicago.

Smaller Cities Could Feel It More

In other words, smaller financial centers and their suburbs could also see trouble ahead. BusinessWeek.com worked with PolicyMap.com, a Philadelphia-based online data and demographics site, to rank the communities with the largest percentage of residents working in finance, real estate, insurance, and leasing. Topping the list is Darien, Conn., an affluent New York suburb where the median salary is $168,000 and 27% of residents work in those industries. Bloomington, Ill., home of State Farm Insurance, came in second, followed by Hoboken, N.J., which is across the Hudson River from Wall Street.

But the impact of a downturn could be more serious in smaller cities that are less diversified. Wilmington, Del., where many of the nation's credit-card companies are headquartered; Charlotte, N.C., home of Bank of America (BAC) and Wachovia (WB); and Sioux Falls, S.D., where many back-office jobs are located, each have about 15% of residents working in finance, real estate, and insurance.

Jeremy Nowak, president of The Reinvestment Fund, a nonprofit group in Philadelphia that operates PolicyMap.com, and a board member of the Philadelphia Federal Reserve, said the towns on the list aren't necessarily in trouble yet. Much depends on the health of the local employers and the mix of businesses. Not all banks, for example, are doing badly, he said. And the insurance industry is, so far, relatively healthy, despite the troubles besieging industry giant American Insurance Group.

"These are places to watch," Nowak said. "This will be the starting point for investigation, and not the answer."

Hitting Connecticut Commuters

John Tirinzonie, Connecticut's state labor economist, wasn't surprised to see that Darien topped the list. The Wall Street crisis puts stress on commuters in affluent Fairfield County, which includes Darien, Westport, New Canaan, Stamford, and Greenwich (home of former Lehman CEO Dick Fuld), he said. It remains unclear how the merger of Bank of America and Merrill Lynch (MER) will impact the thousands of employees who work at both banks in Hartford.

What seems clear is that the financial turmoil is already hurting the local economy. Connecticut's unemployment rate jumped from 5.8% in July to 6.5% in August, he said.

"The problem is when you start to have people making good money who are commuting to New York and lose their job, they're going to be in a very competitive market now with people in the same position. If they're able to get a job … it may not be the same level and income they're used to. And that affects the state in terms of tax revenue."

New Jersey: Benefit Through Relocations?

In New Jersey, home prices in the wealthy towns of Madison, Summit, Chatham, and Millburn, which have direct train service to midtown Manhattan, had been holding up better than much of the state, said Rutgers University economist James Hughes. But that could now start to change.

One possible benefit for New Jersey: Manhattan companies that are coming to the end of their leases might consider moving to New Jersey where office rents are much lower, he said.

"You're going to see a smaller Wall Street," Hughes said. "Salaries will be less generous, bonus payments will be less. It's going to ripple through the residential market."

Manhattan Real Estate: Some Trouble Spots

The New York suburbs in Westchester, New Jersey, Long Island, and Connecticut could get hit harder than Manhattan itself, which has a relatively tight supply of housing. Jonathan Miller, chief executive of real estate appraisal firm Miller Samuel Inc. said the market for Manhattan units selling for more than $8 million is less vulnerable because many of the buyers come from overseas and are wealthy enough to survive an economic downturn, he said. Miller said the market for homes of $3 million to $8 million could get hurt more because many of the buyers work on Wall Street.

"The abruptness of all that has happened has caused many people to step back and wait and see whatever bad news will come along next," Miller said.

Steve Spinola, president of the Real Estate Board of New York, said he expects prices to remain flat. He also said that many Wall Street employees who were laid off will be hired by new boutique investment banks that might be formed by executives from the former investment houses, and plenty of talent will be needed to implement the $700 billion bailout plan.

The Manhattan co-op market is tight. Spinola said the condo market might have more supply problems because builders, rushing to meet a June 30 tax abatement deadline, filed for about 17,000 new construction permits, he said.

"In two and a half years when these projects are done and open, will the market be back to buy them?," Spinola said. "I think the answer is 'yes.'"

Click here to see the 20 communities around the U.S. that will likely be hardest hit by the financial crisis.

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