

THE REAL DEAL

NEW YORK REAL ESTATE NEWS

Parent trap trips Corcoran

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The New Year ushered in a wave of misfortune for city real estate brokerages, as a raft of companies announced that they would shed offices or close up shop altogether.

Predictably, small brokerages were hit hardest: Brooklyn Properties closed an office, [Domain Properties downsized](#) to a smaller space, and both Upside Residential and [Homestead New York announced](#) they would shutter completely.

Meanwhile, medium-sized firms like [Warburg Realty](#) and [Bellmarc Realty](#) also closed branches. And, as part of that rash of closures, rentals behemoth [Citi Habitats shut two branches](#), and its sister company, the Corcoran Group — one of the two largest and most successful sales firms in the city — [announced late last month that it would shutter its Harlem office](#).

Corcoran was the first of the two big brokerages in the city to close up an office. And like real estate companies throughout the city, the 35-year-old company is weathering a steep drop-off in sales due to the credit crisis and Wall Street layoffs. But unlike its chief rival, [Prudential Douglas Elliman](#), it also faces the challenge of being linked to a parent company that's highly leveraged and drowning in debt.

Corcoran is owned by NRT — the nation's largest residential real estate firm, with brands such as Century 21, ERA, Coldwell Banker and Sotheby's International Realty under its umbrella. NRT, in turn, is a subsidiary of the Parsippany, N.J.-based [Realty Corporation, a real estate and relocation firm](#) which was taken private last year by Apollo Management in a \$9 billion leveraged buyout, and which has faltered amid the nationwide housing crisis.

While several of the firms under NRT's umbrella, like Sotheby's, Citi Habitats and Century 21 New York Metro, do operate in the city, none employ as many agents or wield the same dominance over the sales market as Corcoran.

Meanwhile, Apollo's troubles have been widely publicized, as the companies it purchased during an aggressive buying spree at the height of the market struggle under the weight of debt. One of its acquisitions, Linens 'n Things, is now in Chapter 11, and guessing which of Apollo's companies will be next to fail has become something of a parlor game.

Realty, which was recently downgraded by Standard & Poor's to a CC/Negative rating, one notch

above default, and placed on a list of the Global Bond Market's "Weakest Links," is said to be a likely candidate.

How does Realogy's plight impact Corcoran? That's a question the real estate community in New York has been abuzz about, as the mammoth company has closed offices, eliminated staff positions, cut its advertising and marketing budgets, upped the fees paid by brokers and canceled the firm's annual Christmas party. Insiders say Corcoran faces pressure to cut costs and increase profits to help meet debt-service obligations and buoy NRT's flagging subsidiaries.

"[Corcoran] does all sorts of things to create money to help the parent company to pay debt," said a Prudential Douglas Elliman executive who asked not to be named. "It's hard for them to compete when we don't have debt." Like many sources interviewed for this article, the Elliman executive declined to go on the record for fear of damaging professional relationships.

The parent company that once had pockets so deep [founder Barbara Corcoran](#) claimed it felt "like having Daddy Warbucks come in" now appears to be a liability.

"It's unfortunate for [Corcoran] that they're part of that company," said a former top Corcoran executive who asked to remain anonymous. "They have a huge company with no money backing them. That's bad."

Parental woes

One of the biggest question marks is what will happen to Corcoran and its sister companies if Realogy fails.

The outcome is nearly impossible to predict, since it rests largely in the hands of Apollo and its lenders — and if Realogy goes into bankruptcy, possibly the courts.

Despite rumors about its future, most visibly on the society blog New York Social Diary — [which quickly retracted a story](#) in December that said Corcoran had folded — experts seem to think that the Corcoran Group isn't going anywhere. They say that if it came down to it, the likely outcome of a Realogy collapse would be that Corcoran would be sold and would continue operating.

"I can't imagine for a moment that the company could go out of business," said Barbara Corcoran. "Their sales staff is too powerful."

Paul Purcell, a former president of Elliman and now co-founder of the real estate consultancy Braddock + Purcell, said, "They'd absolutely look for a buyer before they'd liquidate it. In the worst-case scenario, someone would want that brand."

If Apollo allows Realogy to go into bankruptcy, as it did with [Linens 'n Things](#), Realogy would likely be restructured, which may include some of its companies being sold, rather than liquidated, said Donald Wong, the director of corporate ratings at Standard & Poor's.

Since much of Realogy's value is intangible, in market share and brand names, "if you were to liquidate this company, you wouldn't get a lot back."

The CEO of Corcoran, Pamela Liebman, declined to comment for this story.

The other big firms in the city are all privately held. Elliman is owned by CEO Dottie Herman and her partner [Howard Lorber](#). Brown Harris Stevens and Halstead Property fall under the umbrella of Terra Holdings, a privately held real estate services company whose chairmen include heavyweights David Burris, Kent Swig, and Arthur and William Zeckendorf.

So the woes of Corcoran and NRT's other companies are unique in New York because of the debt stemming from their parent company. As Lorber told *The Real Deal*, "We have no debt."

National ambition

The story of the Corcoran Group began in 1973, when 20-something waitress Barbara Corcoran borrowed \$1,000 from her boyfriend and started a real estate brokerage.

By the time the New Jersey native sold the company in 2001 to Henry Silverman's Cendant Corporation (now known as Realogy) for \$66 million, Corcoran was perhaps the best-known real estate brand in New York, with some 700 agents. The firm, which generated some \$18 billion in sales in 2007, now has nearly 2,000 agents in New York City, Long Island and South Florida, according to the company's Web site. It acquired Citi Habitats in 2004, and has consistently sparred with Elliman for the top slot in the city's real estate market.

In April 2007, just as the nationwide housing downturn was rearing its head, Silverman sold Realogy to Apollo Management for \$6.6 billion. With debt of \$1.6 billion and other liabilities, the deal was worth nearly \$9 billion.

Corcoran, now a best-selling author, columnist and contributor on the "Today Show" and CNBC, said she sold her company to Cendant, in part, because she believed it would keep the company's management intact. "They believed in the management I had put in place," she told *The Real Deal*. "I knew they'd keep their hands off, and that's exactly what they did."

As a result, the top brass at the company today is largely identical to when Corcoran left. The company is headed by Liebman, who was in her early 20s when Corcoran hired her as a sales agent.

Liebman "had a cool haircut," Corcoran recalled. "She looked the part, she dressed the part and she carried herself with great confidence. I had 10 more senior brokers who were more experienced, and I was thinking, 'How do I get them to let Pam be the boss?'"

Liebman is "a brilliant businesswoman," said one industry veteran and former Corcoran employee who asked to remain anonymous. The source added that the consistency of leadership at Corcoran may be an advantage over Elliman, which has changed hands several times since the death of founder Douglas Elliman in 1972. "There's a better line of continuity at Corcoran," the source said. "There's been a lot of change at Elliman."

Still, Liebman's mettle is now being put to the test, as is that of Herman, who merged Elliman with her powerhouse brokerage Prudential Long Island Realty when she purchased it with Lorber for \$71.75 million in 2003.

Home to roost

With the financial meltdown in October, the national housing downturn finally came to roost in New

York City.

Manhattan data compiled by the appraisal firm Mitchell, Maxwell & Jackson showed that the volume of contracts signed in September and October plummeted roughly 75 percent from the same period last year. Though brokers say there's been a slight uptick in activity since then, the average number of days on the market in the fourth quarter of 2008 jumped 21 percent from the prior-year quarter, according to Jonathan Miller, president of appraisal firm Miller Samuel and a supplier of data to Elliman. Contract price levels, Miller said, have declined an average of 20 percent since August.

"After October, [New York City real estate] just stopped," said a former Corcoran executive, estimating that revenues at both Corcoran and Elliman may be down some 30 to 40 percent from last year, a figure that may increase to 60 percent by the end of 2009 if the credit crisis continues to ravage the sales market. "There's nothing happening."

Purcell would not speculate on how much any firms' revenue is off, but said firms all over the city are facing "a tremendous cash-flow issue." He explained that a company's profit margins on the average deal are "much less than 10 percent," since commissions, marketing fees and advertising costs cut a wide swath in the proceeds.

Although [rentals and low-end sales are showing more activity](#), the high-end market is particularly stagnant. So in some ways, the city's largest firms — those with the priciest, most-sought-after listings — face some of the greatest challenges.

"I used to envy [large sales firms], and think, 'Wow, how do we do more \$3, \$4, \$5 million sales?'" said one head of a boutique firm that does both sales and rentals. But now the shoe is on the other foot. "I don't know how [they] are going to stay in business if they don't transform that, because [the high-end sales market] is totally dead," the source said, adding, "If we only did sales above \$1 million, I don't know what we'd do right now. I'd be in a panic."

In response, [some sales firms have started ramping up their rental businesses](#). Bellmarc and Warburg are beefing up their rental training programs, while [Elliman recently announced plans](#) to open a new 15,000-square-foot office specifically devoted to rentals, and hire 50 to 75 new rental agents to staff it.

However, firms that rely heavily on sales revenue may not be able to make up the difference quickly, especially since the proceeds from each rental transaction are much smaller, now that rents and commissions are dropping. "You can't just suddenly shift to being a rental firm," Purcell said.

One X factor is Corcoran's relationship with Citi Habitats. Citi Habitats dominates much of the rental business in Manhattan and has said it's doing more transactions than last year at this time, but it's unclear how its profits impact Corcoran's bottom line, if at all. Corcoran deferred all questions about its rental operation to Citi Habitats, and both companies refused to provide more detail about how their businesses are connected.

In December, Liebman told *The Real Deal* that Corcoran has reacted to the downturn by "cutting unnecessary expenses," reducing advertising and marketing costs and eliminating back-office positions through attrition and layoffs. "We have eliminated some positions because when you're doing less volume of sales, it's not necessary to have so many people to support the back office," Liebman said at the time.

Elliman has enacted "minimal" cuts, Lorber said. He did not elaborate.

Wagging tongues

If there was one notable thing about the New York Social Diary post on the morning of Dec. 9, it was that it set tongues wagging throughout the industry — even though it was quickly retracted.

Amid the climate of uncertainty and the recent collapse of financial giants like Lehman Brothers and Bear Stearns, there seemed to be a greater willingness to believe that Corcoran could be the real estate industry equivalent.

For Corcoran in particular, one need only look as far as its struggling parent company to understand why any rumor would gain traction, even if most experts say the likely worst scenario would be Corcoran being sold to another company.

Every day seems to bring new headlines about Apollo, headed by buyout specialist Leon Black, and its attempts to restructure the debts of several companies it purchased during the leveraged buyout boom of 2006 and 2007.

Apollo's purchase of Realogy is threatening to turn into a similar mess. Realogy, with struggling subsidiaries in depressed housing markets all over the country, has registered \$209 million of losses in the past three quarters. The company announced on Nov. 13 that it is at risk of violating the terms of its bank loan.

In December, Realogy's credit rating was downgraded by Moody's Investors Service to Caa3 from Caa2, meaning it's "likely to go into default in the next 12 months," explained John Rogers, a senior vice president at Moody's. Meanwhile, S&P also dropped Realogy's corporate credit rating to CC/Negative (with D being the lowest), indicating that "Realogy has a very high probability of default," Wong said.

"We think there's a big risk [Realogy] may file for bankruptcy or that they would default on their debt," Wong said.

The downgrades follow an attempted bonds-for-loans debt exchange that failed after Carl Icahn's High River sued, claiming Realogy's attempt to refinance \$1.1 billion of debt would hurt its bondholders.

"The current economic crisis, particularly with respect to the housing market, has had a disastrous effect on Realogy's business, operations and prospects," the suit stated. "Due to extreme leverage resulting from the Apollo buyout, Realogy was poorly positioned to withstand any adverse economic developments."

Realogy's total liabilities were \$9.875 billion as of its September SEC filing. The lawsuit estimated that Realogy's liabilities exceed its assets by somewhere between \$3 and \$7.3 billion, depending on the trading prices of its different categories of debt. The suit argued that the attempted debt exchange would only "delay what now appears to be the inevitable failure of Realogy."

Apollo may choose to pump more money into Realogy, but it may also, as in the case of Linens 'n Things, choose to "forgo the initial investment," Rogers said. "If there isn't a good outlook, they're likely to cut their losses."

Still, no one knows what Apollo will do, and surprisingly strong capital raising for Apollo's newest fund, which had been targeting \$15 billion, indicates that the company may have more tricks up its sleeve.

And one thing Realogy has going for it that Apollo's other companies do not is that the real estate market, eventually, will rebound, putting its well-known brand names in a good position to profit.

"Corcoran is a market leader in New York City," Realogy said in a statement. "We are very proud of how well-positioned the company is to capitalize on the market when it rebounds — and it will rebound."

Apollo spokesman Steven Anreder declined to comment.

Jewel in the crown

For the past few years, Corcoran has undeniably been one of the brightest spots in NRT's portfolio, especially since the New York market is still stronger than other markets around the country.

"Corcoran was probably their most profitable operating unit in the company, of everything they own," Purcell said.

Corcoran agents are well aware that their company is "the star of Realogy," said Corcoran salesperson Chris Poore.

Still, the company is a drop in the bucket compared to the vastness of Realogy's problems. "The Corcoran Group alone cannot save NRT," said the above mentioned former Corcoran executive.

In fact, Corcoran and Citi Habitats' recent cutbacks likely reflect not just weakness in New York, but pressure from losses in other parts of the company.

Realogy "has companies in Las Vegas and California and other places where the markets are down," the former Corcoran executive continued. "The profits from [Corcoran] go to stem the losses in other locations, instead of reinvesting in profitable regions of the country."

In other words, he said, company bigwigs are "trying to figure out how to put their hands in the dike."

Insiders say the cuts at Corcoran and its sister companies are more severe than at comparable firms, and may have caused some defections.

The yearly marketing fee that Corcoran brokers pay to the company has been increased to roughly \$1,800, sources said. In addition to the closure of Corcoran and Citi Habitats offices in New York, there are now only two Corcoran offices in Florida, according to the company's Web site, down from five a few years ago. Some 35 Florida agents from Corcoran have now joined independent Florida brokerage Fite Shavell & Associates.

While every real estate company in New York is cutting expenses, Corcoran may have less say over who is hired and fired because of its corporate leadership. Elliman, for example, "is cutting as well because their profits are off," the former Corcoran executive said. "But they're not making as Draconian cuts because [Herman and Lorber] know all the players."

Hal Gavzie, formerly the senior managing director of rentals for Corcoran, and the leader of the company's entire rental division, was one of a group laid off in November.

Gavzie, who now works at Bond New York, would not comment on the circumstances of his ouster

other than to say, "It's pretty obvious across the board in this climate why people are laying people off."

Still, some observers say the move may have been ill-advised on NRT's part.

"I can't imagine that somebody here in New York would let go of their rentals director when it's clear that's the direction the business is going in right now," said a source familiar with the situation, adding that Gavzie does not appear to have been replaced. "If they're making the decision from Texas, maybe they're just looking at a spreadsheet."

Keeping brand name

Cutbacks are not new at Corcoran. When Barbara Corcoran was at the helm of her company, she recalled, she often had to lay off support staff.

"Judicious cutting is just smart business," she said, echoing comments of the real estate CEOs who let staff go in the last month.

But Corcoran was also known for her storied attempts to appease her top earners. During one rough patch, she sold her home and moved into a rent-controlled apartment, "because I had to keep my sales people happy," she said. And she was famous for [the massages that brokers received every Monday](#), even when there were layoffs.

"It was important for morale and you were taking care of your breadwinners," she said of the massages. "More important than the management and the support staff."

But the perks Corcoran gave her top earners are the type of benefits that are no longer in place at the company.

Still, Realty hopes the cuts will help Corcoran weather the storm and come out leaner on the other side. "The Corcoran Group is one of our most important operating companies with an outstanding group of brokers," the company said in a statement. "The company continues to meet or exceed our expectations. We are very pleased with Corcoran's proactive management of its cost structure, and as a result of the actions it has taken Corcoran is better positioned today than most of its competitors."

Rocky times are undoubtedly ahead. But experts seem to agree that the Corcoran brand is powerful enough that it will continue to exist for the foreseeable future, though it may have a different owner or fewer offices.

Poore, the Corcoran sales agent, put it this way: "Even if Apollo were to go under, Corcoran's going to be fine."

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