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Franchises Look To New York

By Carl Unegbu

What's certain is that these firms are gunning for the big prize -- the most lucrative real estate market in the country -- the citadel of Manhattan.

The CEO of HomeServices of America, the second-largest home seller in the United States, said in late August that his company will be here in the next two years.

No advance troops for this army, which likes to buy the predominant brand in any market it enters. Meanwhile, the nation's third-largest residential real estate company, Weichert Realtors, based in New Jersey, already has one Manhattan office and said it is making inroads by targeting mid-sized players and creating beachheads in the outer boroughs.

Consolidation in New York residential real estate has already been happening, of course. The industry has been witnessing the trend since the 1990s, with bigger companies buying up smaller firms. But it is the coming of the big national and regional firms into the market in the last four years that has given the landscape a remarkable makeover.

"NRT and Corcoran was the water that broke the dam," said David J. Knight, president of Manhattan-based residential real estate and relocation services firm D.J. Knight & Company. Prudential Long Island Realty (now Prudential Douglas Elliman) invaded from the suburbs this March, buying number two company Douglas Elliman.

The past few weeks have been a reminder that the trend is continuing unabated. Prudential CEO Dottie Herman, having just moved into her new offices at Elliman, is already shopping around for new companies and reportedly lost out to Coldwell Banker Hunt Kennedy in the purchase of Charles H. Greenthal's 60-broker residential arm last month (see story page 4). Coldwell Banker's purchase illustrates the quick growth of one of the first national franchises to start up in Manhattan, six years ago.

Now, with 250 brokers, the firm is one of the largest residential sales players in the city. The deal also illustrates the challenges facing mid-sized firms like Greenthal, which had been losing money in running its residential division.

The big fish that could likely eat all these smaller players is HomeServices. Already this past July, the affiliate of Warren Buffett's Berkshire Hathaway made some major acquisitions in the Southeast and West Coast regions by buying up Florida heavyweight realty firm Esslinger-Wooten-Maxwell and adding Prudential Hunter Realty to its California holdings, after its debut there last year with the acquisition of Prudential California Realty.

Although he would not disclose his company's exact plans for the New York market, HomeServices president and CEO Ron Peltier describes New York as a "prime market" for the purchase and sale of homes considering its population and huge inventory, and said he expects his company to make acquisitions in New York within the next two years.

Peltier said his company has no plans to start a business from scratch and will make its move in New York whenever "timing and opportunity" line up right.

"Our history is that we try to identify the number one or two brokers in any market. We like the predominant brand in the market and we always look for leaders who understand the market, and [situations] where the senior management team stays on board and we bring additional resources and strength."

Knight said he thinks that HomeServices is well poised to buy in New York from a financial point of view. "They have a very large war chest to buy real estate companies. They're very careful with what kind of companies they buy and it's only a matter of time before they too come to the New York market," he said.

But David Michonski, the Chairman and CEO of Coldwell Banker Hunt Kennedy, said he doesn't know if HomeServices will have a chance to realize its goals.

"Because their business plan says they go for dominant market share, I don't see them as having the opportunity" to make a deal, he said. Michonski said that NRT wouldn't be likely to sell Corcoran and Prudential wouldn't be likely to sell Douglas Elliman.

"They could go for Brown Harris Stevens and Halstead, but I think that would be unlikely," he said, noting that it would be a mix of two different cultures (together Brown Harris Stevens and Halstead form Terra Holdings). Michonski also said that right now would be a bad time for high-end Brown Harris Stevens to sell because luxury sales are slow and that would negatively affect the price of the company. Michonski also said he expects other companies including Century 21 and RE/MAX to look at making inroads into Manhattan soon. Michonski said he has heard rumors that two relatively big deals may be coming in the near future. "I think we have a little bit more consolidation to do," he said.

Another company that has the potential to make a significant impact on Manhattan is a giant from New Jersey.

Executives at Weichert Realtors said the company had already made its move into the Manhattan market and isn't going after the big industry leaders.

In January of last year, the company acquired the Manhattan real estate firm Mazzeo Agency, now Weichert Realtors, Mazzeo Agency and is looking to do more things in the area.

Already, Weichert, which is based in Morris Plains, now has franchises in Brooklyn, Queens, Staten Island and Long Island. "We offer franchise affiliations in the New York area and our targets are mid-sized offices with a need to compete with the very large firms," said Martin Rueter, the president of Weichert Real Estate Affiliates, the franchising arm of Weichert Realtors.

Rueter said his company helps these companies by providing them recruitment assistance, business consulting, training programs for brokers and Internet services. "We're having zero resistance in getting new

franchises," he said. "Small companies are finding they need to get larger to compete effectively and offer more services to their agents."

One deal that Weichert made in March, in which it merged with Relocation Resources International, headquartered in Norwalk, Conn., illustrates the company's possible expansion strategy, Michonski said. Weichert is likely trying to build up its referral base, so that if it makes a big move into this city, it will have that network to rely on, he said.

Coldwell Banker Hunt Kennedy functioned in a similar way when it started out here in 1996. The company would get calls from Coldwell Banker offices in California, or the Midwest, about people moving to New York. As a result, business at Hunt Kennedy, the 26-broker company which Coldwell merged with in the 1996 deal, jumped 106 percent in the first year of business alone, Michonski said. "They'll probably try to do the same thing we did six years ago," he said of Weichert.

Like Michonski, other executives say these big combinations have made it easier for the member entities to do business in a changing environment. "We now get the benefit of being part of the NRT family," said Pam Liebman, president and CEO of Corcoran Group. "This provides wonderful opportunities for networking."

The story is much the same at Douglas Elliman, where access to greater marketing support and a broader slate of brokers within the same agency for selling opportunities and closer working relationship is said to deliver significant benefits to the customers. "Our relationship with Prudential Douglas Elliman has given us reach from Manhattan to Montauk, exactly where our customers live and want to live," said CEO Herman.

On the flip side of that coin, buying into New York rather than starting from scratch here has helped make it easier for national companies to break into the New York market, a difficult nut to crack.

"The New York real estate market is unique because we have a totally different product than most of the country. The majority of New York apartments are co-ops and co-ops are a New York phenomenon," Knight said.

Knight also said that the absence of an MLS (multiple listing service) makes the New York real estate market different from other markets.

In the past, these differences have made it harder for the huge national firms to play in the New York real estate market. "The city in general has been resistant to the larger market franchises. Historically, the New York market has been proprietary, with lots of small independently owned businesses competing for market share," said Douglas Wagner, president of Manhattan brokerage firm Benjamin James Associates, Inc.

Despite national companies moving in, most experts don't believe consolidation is about to change the way New York's real estate firms operate, at least not in the near future.

Frederick Peters, president of Ashforth Warburg, said the players here see themselves as "special" and remain uneasy about the franchise model that works elsewhere. He said NRT/ Corcoran succeeded because no franchise deal was imposed on Corcoran. "It's not ERA Corcoran, or Coldwell Banker Corcoran, it is just Corcoran."

Peters said the market players and their methods are still the same. "To a large degree it's still the same old

New York market. All that has changed is the landscape."

Wagner actually sees the national players themselves changing just so they can play in the New York market.

"The national firms will be more influenced by the New York style and will have some learning curve in New York because of the emphasis on co-ops and condos."

Both Herman and Liebman said their brokers and other operatives still conduct business as usual, in spite of their acquisition by the national firms. Perhaps that explains why another big national player like HomeServices would only seek local leaders with a close knowledge of the market.

Knight sees the situation somewhat differently. He predicts that as the big national firms increase their market share in New York, they will introduce rules, regulations and procedures similar to the way they operate elsewhere in the country. "There is no doubt in my mind that in five years there will be an MLS [multiple listing service] here in Manhattan." Knight said the New York firms being acquired by the giant national firms would be given independence to operate in the short-term only. "In the long run, I think the mothership will rule."

What is not clear yet is how the large number of self-contained smaller players who dominate the New York market will be affected by the changing landscape of very few mega players brought on by consolidation.

Liebman said it is harder to make it as a smaller company these days because buyers and sellers want the advantages that come from being part of a larger operation.

But Wagner (who described his company, with 85 brokers, as medium sized) is more optimistic for smaller firms, saying that consolidation would ultimately create a handful of larger firms competing with hundreds of smaller firms. He said the smaller firms would not go away because there would always be the need for the kind of highly personalized service that only they can provide.

Peters is similarly optimistic, saying that ten years ago, he would have been worried about surviving as a small firm and holding his own against the larger players, but not anymore.

While small boutiques may be immune, however, it's the mid-sized firms that might feel more pressure. Peltier said cost of doing business is a major factor in the consolidation wave, especially for the smaller firms who have to operate in one of the most fragmented industries in the country. "It's a lot more overhead running a small company. The inefficiency of a small brokerage creates a drawback for a small principal and opportunities for consolidation."

Peters notes that consolidation has been going on "all over the country, in every industry" in recent years.

In the case of Greenthal, Chairman William West said he decided to sell his company's mid-sized, 60-broker residential arm to Coldwell Banker Hunt Kennedy because he had been experiencing high overhead costs relative to revenue. Greenthal will continue to operate its main property management arm, some 200 employees.

"A desk alone can run from \$10,000 to \$15,000 without adding advertising," said West. "If that's greater than the net on sales, you have a problem." A small boutique firm, without the need for secretaries, human resource employees, and other services, would face fewer difficulties. "The overhead would be miniscule," West said.

It's unclear whether the case of Greenthal, in which the company sent out signals last year that it wanted to be bought, is indicative of a larger trend.

Michonski said he believes it is. "You can't be stuck with between 30 and 80 agents," he said. "Even with three or four offices, you need a bigger reach. Bill [West] saw that national is the trend." Said another broker about firms who occupy the middle ground between boutiques and big corporations, "at that size, you're neither fish nor fowl."

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