Residential brokers break fresh ground

They close offices, franchise, try new business lines

Number of residential brokerages in the city

Last Wednesday, more than 100 Coldwell Banker Hunt Kennedy brokers and shareholders gathered at its midtown headquarters to bid the Manhattan franchise of one of the nation's biggest residential real estate firms farewell. Wine was poured. Cake was served. There wasn't a dry eye in the room.

The 13-year-old outfit is the latest and largest local brokerage to succumb to the dismal housing market. Three other residential specialists—including JC DeNiro & Associates, a boutique founded in the 1960s by Robert De Niro's uncle—have gone bust in the past six months. With first-quarter sales volume in Manhattan roughly half what it was a year earlier, and sales also off sharply in the other boroughs, New York's 700 residential shops are strategizing for survival.

They are cutting everywhere they possibly can: renegotiating for lower rents, shuttering underperforming offices, reducing staff, adding revenue streams and embracing new business models.

“This period will separate the men from the boys,” says Barbara Fox, founder of Fox Residential Group, which has 40 brokers. “Some firms have expanded in leaps and bounds, and they were not able to survive.”

Slashing rent costs

Ms. Fox recently renegotiated her lease to get a 20% rent reduction on 2,500 square feet at Madison Avenue between East 78th and East 79th streets.

Warburg Realty took that idea to the next level earlier this year, when it closed its West Village and Harlem storefronts. The move pared about 20% of Warburg's total overhead, according to President Frederick Peters. Though the Village location was profitable, he calculated that Warburg's other three offices could pick up the slack.

“At the time, I felt terrible,” says Mr. Peters, who laid off seven brokers in connection with the closures, cutting the total to 140. “But we were responsive to the environment, and that enabled us to remain profitable during the first quarter.”

Brokerage giant Corcoran Group also shuttered its Harlem office and is encouraging a number of productive brokers companywide to work from home.

“When sales volume drops as precipitously and average sale prices go down, it affects the bottom line,” says Pamela Liebman, chief executive of Corcoran, which recently sublet

5,000 square feet of its 50,000-square-foot headquarters at 660 Madison Ave. “We've consolidated and asked nonproducing brokers to give up their desks.”

Others brokerages, including Century 21 NY Metro, have expanded beyond their residential business. It recently established a commercial division targeting the growing market for office subleases, while the residential operation focuses more on residential rentals.

Riding rentals

“I'm looking to find niches that work—not things that used to work,” says Century 21 NY Metro President Marc Lewis. He notes that 90% of his revenue is coming from brokering residential rentals, and that he has 100 rental and 25 sales brokers.

William B. May is one of several companies taking the radical approach of eliminating their storefronts—and the retail rents that go with them.

Earlier this year, the venerable 143-year-old brokerage relaunched itself as a franchisor. In return for an initial fee of $1,500 and a monthly fee of $500, brokers these days get to use the William B. May brand, receive back-office support and keep 100% of their commissions. But, on the other hand, they are now independent and as such responsible for covering their own expenses, including rent.

“The only way to survive is to become lean and trim,” says Craig Lamb, managing partner at William B. May.

Similarly, Charles Rutenberg Realty offers brokers full commission in exchange for a $99 monthly fee and transaction fees that are based on deal size. The brokerage, started in 2007, has grown to 250 brokers.

Going whole hog

“We're profitable because we're not encumbered with overhead, like traditional firms,” says Paul Purcell, co-founder of Charles Rutenberg. He points out that Pari Passu Realty Corp. also recently adopted a full-commission approach.

“The behemoths will weather the storm; some of the smaller firms will not,” Mr. Purcell says. “We have to be around a bit longer to prove our model.”