

# The transformation of the Manhattan market

DAVID J. KNIGHT

## Guest Column

The Manhattan real estate industry long ago earned a reputation as slow to adapt to change. Today, real estate brokers — and their associate brokers and salespeople — need to respond to a series of market shifts that will forever change the way we do business. The rise of Internet technology, increased demand for more services and the local effect of world events are some of the more powerful forces affecting residential real estate in Manhattan. Yet one of the most significant changes in New York City real estate is the industry consolidation that has gone into full swing in the past 24 months.

We've seen the entry of national players into the New York Market with NRT's purchase of the Corcoran Group. NRT is the real estate arm of Cendant Corporation. Cendant, ranked 133<sup>rd</sup> in the Fortune 500, is owner of real estate franchises such as Coldwell Banker, Century 21 and ERA; a mortgage company; Cendant Mobility, a full-service relocation company; and national brands such as Ramada Inn and Avis.

We've seen regional players enter the market. Dottie Herman, owner of Prudential Long Island Realty, purchased Douglas Elliman in March 2003. As one of Prudential's largest affiliates, Dottie Herman has expanded from 40 offices throughout Nassau and Suffolk counties to include every residential neighborhood from Manhattan to Montauk. Ranked 57<sup>th</sup> in the Fortune 500, Prudential Financial offers insurance, financial planning, mortgages, real estate and corporate relocation.

We've also seen a consolidation of local companies by Terra Holdings. The combined Brown Harris Stevens/Halstead/Feathered Nest is one of the largest residential real estate firms in New York City, according to *Crain's New York Business*. This local consolidation continues with Halstead's recent acquisition of the Silverman Group, a 30-person Downtown residential brokerage firm.

What does all this mean for the small to medium-sized broker?

Expect to see the continued consolidation in Manhattan residential real estate. Large firms will seek to acquire other companies in their efforts to achieve market dominance. Other national players will seek entry into the New York market. Weichert Realtors, whose company-owned offices and franchisees span the East Coast from Massachusetts to Florida, has already begun to make inroads with its first Manhattan franchise. HomeServices of America, a subsidiary of Warren Buffet's Berkshire Hathaway, owns residential real estate firms in 15 states. HomeServices has yet to make its move into Manhattan, though there's been much talk about them here recently. Similarly, the corporate relocation firms that compete with Cendant Mobility and Prudential Relocation (and there's similar consolidation in that industry) have their sights set on Manhattan. GMAC Home Services, the real estate and relocation company owned by General Motors, the third largest company in the world, is most likely to enter the market ahead of others.

Finally, the banking industry has long sought to enter the real estate business as a method of expanding its distribution network. If the legislative hurdles that prevent them from entering real estate are ever dropped, we would see the banking industry, with its deep pockets, branch into real estate services in a big way. Time will tell.

The transformations in the market will make it very difficult for small and medium-sized firms to continue to compete, which will become more and more expensive to do as consolidation further impacts our market. Very few firms have even begun to make the fundamental changes and investment necessary to compete in the years to come. The firms that will be able to maintain their independence are those that dominate a specific market niche — such as luxury sales or corporate relocation. It's important for small and medium-sized broker to understand the changes affecting our market, and create strategies to position themselves for continued success.

*David Knight is the President of DJ Knight Relocation and Real Estate Management.*