Green Street

# Real Estate Alert

THE WEEKLY UPDATE ON THE INSTITUTIONAL MARKETPLACE

**SPECIAL REPORT**

# Small Property Sales Drop 23%; CBRE Tops Debut Ranking

Sales of properties valued between $5 million and $25 million held up better than larger trades last year, with **CBRE** reigning as the market segment's biggest broker.

Some $37.9 billion of such properties across the five major sectors changed hands last year, down from $49.4 billion of deals in 2019, according to **Real Estate Alert's** inaugural review of the private-capital marketplace. That 23.3% decrease was significantly smaller than the 34.6% drop in the market for assets valued at $25 million and up.

CBRE took the top spot in the office, multi-family and industrial sectors, which, combined, accounted for 79% of total dealflow. **Marcus & Millichap** won the retail ranking, and **Hunter Hotel Advisors** topped the hotel league table.

In the overall brokerage race, **Cushman & Wakefield** was the runner-up, followed by Marcus & Millichap, **Newmark, Colliers International** and **JLL.** The rankings by sales volume shifted a bit from 2019, with JLL slipping from fourth place and Newmark and Colliers each moving up one notch.

The rankings are based on responses from 35 brokerages to a nationwide survey, with additional data drawn from Real Estate Alert's reporting and from property records, published reports and press releases. For comparison purposes, 2019 data also was collected. Because other brokerages didn't respond to the survey, the data is incomplete. The newsletter has long maintained similar rankings for transactions over $25 million.

As in the institutional marketplace, the private-capital segments of the multi-family and industrial sectors were the most active. Trades of warehouses, distribution centers and self-storage buildings valued from $5 million to $25 million increased 8.3% last year, to $10.1 billion — the only piece of the market that saw volume rise.

Apartment deals valued between $5 million and $25 million fell 23.0% last year, to $11.8 billon. By comparison, sales of multi-family assets worth $25 million or more were down 27%, to $85.8 billion.

Sales of smaller retail, hotel and office properties were down 33% to 38%, with each sector outperforming its counterpart in the over-$25 million space.

"There was no pandemic playbook, but we knew the sub-$25 million space would not drop as much," said **Kevin Aussef,** CBRE's global chief operating officer of capital markets. "The recovery of the $25 million-plus market was the surprise, not the continuation of activity in the under-$25 million. Historically, that market tends to be more resilient."

The private-capital marketplace is largely the domain of wealthy individuals, family offices and local and regional real estate firms. While institutions at times

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**FEBRUARY 17, 2021**



## Real Estate Alert's Inaugural Broker Rankings for Deals of $5 Million to $25 Million

| | Sales Volume | '19-'20 Change |
|---|---|---|
| **Office:** | $7.87 billion | -36.0% |
| **Multi-family:** | $11.84 billion | -23.0% |
| **Industrial:** | $10.15 billion | 8.3% |
| **Retail:** | $6.29 billion | -33.9% |
| **Hotel:** | $1.74 billion | -38.0% |
| **Overall:** | $37.90 billion | -23.3% |

### Top Brokers by Sector

**OFFICE**
CBRE
Cushman & Wakefield
Newmark

**MULTI-FAMILY**
CBRE
Cushman & Wakefield
Marcus & Millichap

**INDUSTRIAL**
CBRE
Cushman & Wakefield
Colliers International

**RETAIL**
Marcus & Millichap
CBRE
Cushman & Wakefield

**HOTEL**
Hunter Hotel Advisors
Marcus & Millichap
CBRE

## Sales ... From Page 1

buy assets valued at less than $25 million — increasingly so, some brokers say — the bidding pool for most assets is populated by smaller investors motivated primarily by tax-deferred exchanges and a desire for cashflow above nearly all else.

Section 1031 of the Internal Revenue Code, which allows investors to defer capital-gains taxes on the sale of one property by reinvesting the proceeds in a similar property within 180 days, is the backbone of the private-capital market.

But in 2020, uncertainty around who would win the November presidential election made buyers nervous about the fate of 1031 exchanges. Then-candidate **Joe Biden's** plans originally called for the elimination of the tax break on like-kind deals to raise money for child care, senior services and other purposes. That motivated some buyers to transact sooner than they had planned to ensure that they maintained the tax savings.

"If someone had an exchange, they were likely to push it through in 2020 if they could, or will do so in 2021 with the looming political risk in the exchange market," said **Kevin MacKenzie,** an executive managing director of capital markets at JLL. "That is helping support deal velocity."

The **Biden Administration** now appears less likely to eliminate the tax benefit, but **John Chang,** a senior vice president and national director of research services at Marcus & Millichap, said it remains an issue investors are tracking.

"It has come down from what I would call a true concern, but there is some uncertainty around it," he said. "It is accelerating some timelines."

One factor that helped the private-capital space have a stronger year than the institutional marketplace was smaller investors' ability to keep buying at the beginning of the pandemic.

In the second quarter, property sales valued at $25 million and above plummeted 73% as institutional buyers froze. But in the private-capital space, dealflow fell only 48%.

**Carlo Barel di Sant'Albano,** Cushman's chief executive of global capital markets and investor services, said that in March and April, institutions immediately moved to triage existing portfolios and protect their assets. Private-capital buyers took the opportunity to step up.

"What was interesting was that as [institutions] pulled away, the private companies and high-net-worth individuals were there," di Sant'Albano said. "They were there for those deals that were left. They finally could have a seat at the table, because

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## Methodology for Broker Rankings

**Real Estate Alert's** inaugural broker rankings for deals valued at $5 million to $25 million are based on transactions in the newsletter's Deal Database that closed in 2020.

Sales of both full and partial stakes are counted, as long as they meet the minimum threshold. In deals for partial stakes, only the ownership interests that changed hands are counted. Portfolio transactions are included as long as the total value of the portfolio is at least $5 million. The Deal Database contains more than 8,100 deals valued at $5 million to $25 million.

When multiple brokers share a listing, the dollar credit is divided evenly, but each broker is credited with one transaction. Only brokers for sellers receive credit.

The Deal Database consists of five property types: office (including data centers, flex space, medical offices and laboratories/life science); industrial (including self-storage properties); multi-family (including senior housing if the majority of units are independent living); retail (including malls and strip centers); and hotel.

The Deal Database does not capture sales of properties outside the U.S. or mergers and acquisitions of real estate companies. It excludes property transfers between affiliated entities without competitive bidding, and the sale of properties ancillary to the operation of a business, such as car dealerships, casinos, golf courses and nursing homes.

Foreclosures and property assumptions by lenders are excluded. However, property transfers stemming from distressed loan sales are counted if a third-party buyer pays at least $5 million and assumes at least 50% of the equity interest of the collateral within one year. The date the equity interest changes hands is recorded as the closing date. So if a loan sold in 2020 but the owner did not take possession until this year, the deal wasn't counted in these rankings.

**REAL ESTATE ALERT SPECIAL REPORT**

**Telephone:** 949-706-8177 **Email:** inquiry@greenstreet.com

| | | |
|---|---|---|
| **Richard Quinn** | Managing Editor | rquinn@greenstreetnews.com |
| **Sam Ali** | Senior Writer | sali@greenstreetnews.com |
| **Alison Waldman** | Senior Writer | awaldman@greenstreetnews.com |
| **Jeff Whelan** | Senior Writer | jwhelan@greenstreetnews.com |
| **T.J. Foderaro** | Editor-in-Chief | tfoderaro@greenstreetnews.com |
| **Ben Lebowitz** | Executive Editor | blebowitz@greenstreetnews.com |
| **Dan Murphy** | Deputy Editor | dmurphy@greenstreetnews.com |
| **Moira Dickinson** | Deputy Editor | mdickinson@greenstreetnews.com |
| **Jim Miller** | Copy Editor | jmiller@greenstreetnews.com |
| **Michelle Lebowitz** | Operations Director | mlebowitz@greenstreetnews.com |
| **Evan Grauer** | Database Director | egrauer@greenstreetnews.com |
| **Robert E. Mihok** | Database Manager | rmihok@greenstreetnews.com |
| **Mary E. Romano** | Advertising Director | mromano@greenstreetnews.com |
| **Kait Hardiman** | Advertising Manager | khardiman@greenstreetnews.com |
| **Joy Renee Selnick** | Layout Editor | jselnick@greenstreetnews.com |

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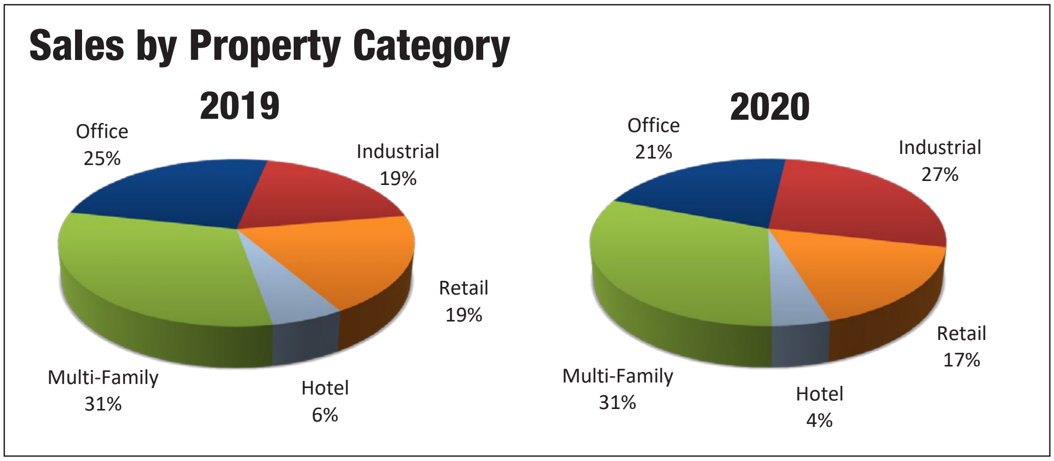
## RANKINGS

### Sales ... From Page 2




usually running against the big players is very hard. They could make the decision very quickly, and they had plenty of capital."

Brokers said that private-capital buyers who typically do smaller deals purchased more assets worth over $25 million last year. Conversely, in white-hot sectors such as multi-family and industrial, where demand outpaced the supply of buying opportunities, institutions and larger investment managers dipped into the pool of lower-valued properties.

"The institutions are reaching down and going into lower price tiers," Marcus & Millichap's Chang said. "And the private investors are going up over [$20 million, $25 million]. There is a crossover space. The institutional investors just can't get enough [deals], and so they're willing to go into the smaller deals just to fill out their funds."

Investors also looked for deals beyond their local markets to a greater degree last year. While wealthy individuals and family offices tend to invest within their home states, the pandemic, combined with tax regulations in wealthier states including California and New York, pushed private-capital buyers over state lines. In the first nine months of 2020, 51.8% of the Marcus & Millichap's transactions included out-of-state investors, up from 47.8% the year prior, according to Chang.

"We're starting to see investors rotate out of product types and out of geography because the world as we know it has changed," said **Sean Fulp,** who leads Newmark's private-capital group. Investors are looking at "different states with more favorable tax policies. … The deck is being reshuffled."

Looking ahead, market pros expect sales activity to pick up each month this year, buoyed by lower political uncertainty and vaccine rollouts, with a return to normal in 2022. Some even refer to a potential bull market this decade as the "Roaring Twenties."

"There's a lot of optimism, and the numbers exhibit increasing activity in the market," MacKenzie said. "For multi-family and industrial, we generally saw demand remain strong through Covid, and for other product types we expect to see acceleration through 2021."

That bullish view is borne out by fourth-quarter sales volume. Sales of properties between $5 million and $25 million totaled $12.7 billion from October to December, down just 6.5% year over year. In the $25 million-and-over space, fourth-quarter sales volume declined 12.7%.

Cushman's di Sant'Albano said that even with a strong fourth quarter indicating that more investors were coming off the sidelines, there is still a window for private capital to continue winning the bidding contests for larger assets.

"When you talk about the fourth quarter being gangbusters, for private capital, 2021 still presents an important opportunity," di Sant'Albano said. "Even though the large institutions have a significant amount of capital … I think the private players still have time to deploy."

And while debt costs have ticked up in recent months, the availability of historically cheap financing has trickled down to the private-capital space. Rates are, of course, higher for smaller deal sizes, but, according to Newmark's Fulp, "they're still accretive."

"Spreads have gone in, and there's more capital supply," he added. "Lenders are more competitive than they might have been six months ago."

Even if rates continue to climb, CBRE's Aussef said the advantage for private investors is their cost of capital, which he said is "as close to zero as you can get. … It's their own money."

In the brokerage race for the private-capital space, CBRE retained the crown as the top broker, but most of its competitors gained ground. CBRE advised on $7.9 billion of trades, for a market share of 22.5%. That was down 33.1% from 2019's $11.9 billion of trades, which translated to a 24.9% share. CBRE's percentage decline was the largest of the top five brokerages.

Cushman's volume fell 18.4%, to $6.2 billion from $7.6 billion, but its market share grew to 17.6% from 16.0%. Third-place Marcus & Millichap saw its sales volume drop 29.1% to $4.1 billion from $5.8 billion and its market share tick down to 11.6% from 12.2%.

Newmark and Colliers saw their market shares jump, as their sales volumes held roughly steady around $4 billion

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## RANKINGS

# Top Retail Brokers in 2020

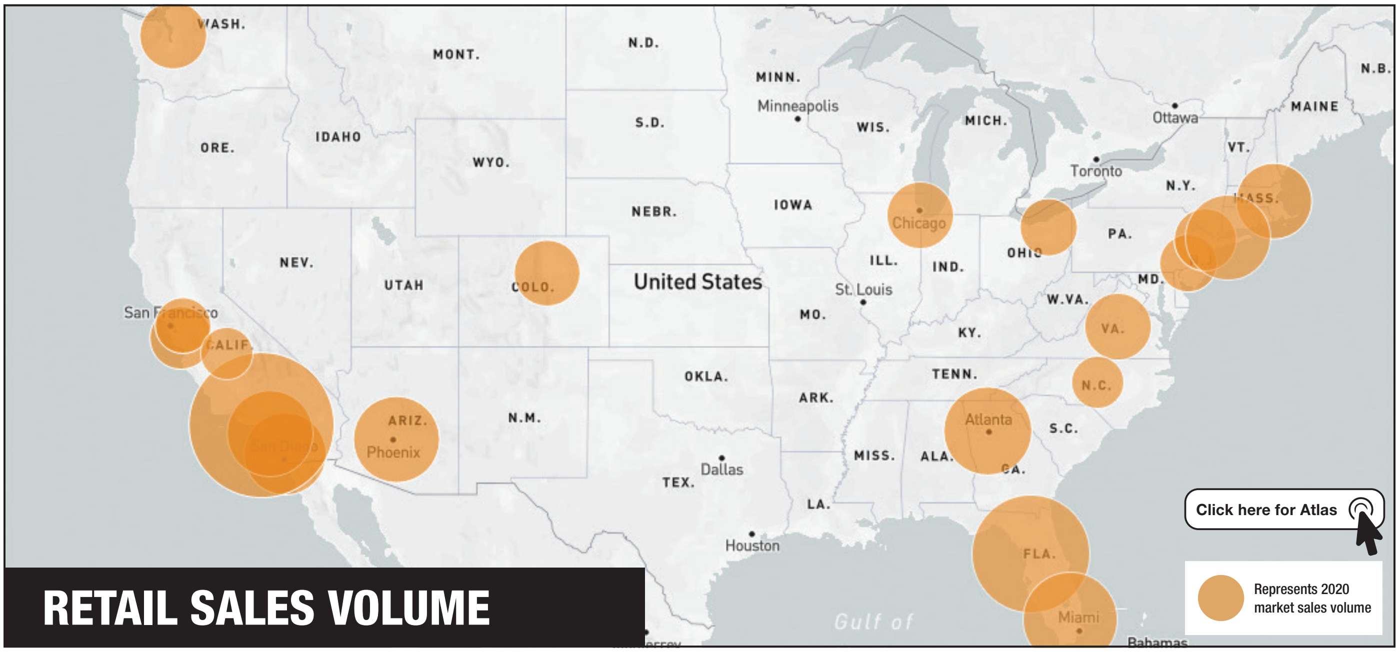
Brokers representing sellers in deals of $5 million to $25 million.

### QUICK TAKE

- In the tightest single-sector brokerage race, **Marcus & Millichap** edged out **CBRE** by just $11.5 million of retail-property sales. As the top two flipped positions, they increased their dominance: Combined, they handled 44.1% of the sector's brokered sales last year, up from 41.4% in 2019.
- The 33.9% drop in sales of smaller retail properties contrasts with a 60.6% plunge in trading of malls and shopping centers worth $25 million and up.
- Pandemic lockdowns that shuttered malls and non-essential retailers and accelerated a shift to online commerce devastated the sales market for large properties. Smaller properties housing grocers and other "essential" retail businesses were more resilient.
- The sub-$25 million market was buoyed by sales of triple-net-leased properties, such as pharmacies, auto parts stores and quick-service restaurants, as buyers sought the security provided by those leases.

| | | 2020 Amount ($Mil.) | No. of Properties | Market Share (%) | 2019 Amount ($Mil.) | No. of Properties | Market Share (%) | '19-'20 % Chg. |
|---|---|---|---|---|---|---|---|---|
| 1 | Marcus & Millichap | $1,278.6 | 158 | 22.1 | $1,457.6 | 179 | 15.9 | -12.3 |
| 2 | CBRE | 1,267.1 | 132 | 21.9 | 2,326.8 | 237 | 25.4 | -45.5 |
| 3 | Cushman & Wakefield | 846.1 | 99 | 14.7 | 898.3 | 81 | 9.8 | -5.8 |
| 4 | Newmark | 550.4 | 55 | 9.5 | 771.2 | 66 | 8.4 | -28.6 |
| 5 | Colliers International | 539.7 | 56 | 9.3 | 569.9 | 62 | 6.2 | -5.3 |
| 6 | JLL | 506.6 | 53 | 8.8 | 1,494.2 | 118 | 16.3 | -66.1 |
| 7 | Hanley Investment | 236.7 | 30 | 4.1 | 360.4 | 41 | 3.9 | -34.3 |
| 8 | Mid-America | 133.3 | 11 | 2.3 | 339.7 | 25 | 3.7 | -60.7 |
| 9 | Kidder Mathews | 121.2 | 14 | 2.1 | 78.6 | 6 | 0.9 | 54.1 |
| 10 | Avison Young | 60.5 | 8 | 1.0 | 172.5 | 19 | 1.9 | -65.0 |
| 11 | Transwestern | 38.3 | 3 | 0.7 | 35.9 | 2 | 0.4 | 6.6 |
| 12 | Eastdil Secured | 35.3 | 2 | 0.6 | 34.4 | 2 | 0.4 | 2.7 |
| 13 | Savills | 30.9 | 2 | 0.5 | 33.6 | 16 | 0.4 | -8.0 |
| 14 | SRS Real Estate | 23.9 | 1 | 0.4 | 0.0 | 0 | 0.0 | |
| 15 | Axiom Capital | 20.4 | 1 | 0.4 | 0.0 | 0 | 0.0 | |
| 16 | Pinnacle Real Estate | 20.1 | 2 | 0.3 | 19.7 | 2 | 0.2 | 1.8 |
| 17 | Meridian Capital | 15.2 | 1 | 0.3 | 0.0 | 0 | 0.0 | |
| 18 | Kislak Co. | 11.6 | 1 | 0.2 | 0.0 | 0 | 0.0 | |
| 19 | Neuman Commercial | 9.0 | 1 | 0.2 | 23.7 | 2 | 0.3 | -62.0 |
| 19 | NAI Global | 9.0 | 1 | 0.2 | 53.0 | 6 | 0.6 | -83.0 |
| 21 | Voit Real Estate | 8.0 | 2 | 0.1 | 6.7 | 1 | 0.1 | 19.2 |
| 22 | Rosewood Realty | 6.8 | 1 | 0.1 | 14.3 | 2 | 0.2 | -52.5 |
| 23 | Madison Partners | 6.2 | 1 | 0.1 | 0.0 | 0 | 0.0 | |
| | OTHERS | 0.0 | 0 | 0.0 | 458.4 | 43 | 5.0 | -100.0 |
| | **Brokered Total** | **5,774.5** | **634** | **100.0** | **9,148.7** | **907** | **100.0** | **-36.9** |
| | No Broker | 519.8 | 50 | | 380.7 | 39 | | 36.5 |
| | **TOTAL** | **6,294.3** | **684** | | **9,529.5** | **946** | | **-33.9** |

## RANKINGS




| **Sales Volume** | **Avg. Per-SF Valuation** | **Most Resilient Sales Markets** | **Hardest-Hit Sales Markets** |
|---|---|---|---|
| **2020:** $6.3B<br>**2019:** $9.5B<br>**% Change:** -33.9% | **2020:** $178/sf<br>**2019:** $155/sf<br>**% Change:** 15% | *(YoY Change in Sales Volume)*<br>**Cleveland Area:** up 183.1%<br>**San Jose/Silicon Valley:** up 38.4% | *(YoY Change in Sales Volume)*<br>**Suburban Chicago:** down 56.9%<br>**Oakland/East Bay:** down 52.7% |

## Retail-Property Sales by Market in 2020

Sales of between $5 million and $25 million.

| | | 2020 Amount ($Mil.) | No. of Properties | 2019 Amount ($Mil.) | No. of Properties | '19-'20 % Chg. | Top Brokerage in 2020 |
|---|---|---|---|---|---|---|---|
| 1 | Los Angeles Area | $712.7 | 69 | $848.1 | 89 | -16.0 | CBRE |
| 2 | Central/Northern Florida | 412.4 | 54 | 698.0 | 67 | -40.9 | Marcus & Millichap |
| 3 | Phoenix Area | 283.1 | 36 | 449.3 | 48 | -37.0 | Marcus & Millichap |
| 4 | South Florida | 271.6 | 25 | 316.6 | 27 | -14.2 | Marcus & Millichap |
| 5 | Denver Area | 270.6 | 31 | 329.4 | 33 | -17.9 | CBRE |
| 6 | New York City | 220.3 | 22 | 249.4 | 24 | -11.7 | Marcus & Millichap |
| 7 | San Jose/Silicon Valley | 216.5 | 24 | 156.4 | 15 | 38.4 | Cushman & Wakefield |
| 8 | Atlanta Area | 208.6 | 24 | 397.1 | 41 | -47.5 | CBRE |
| 9 | Seattle Area | 191.9 | 15 | 285.2 | 28 | -32.7 | Newmark |
| 10 | San Diego Area | 189.7 | 17 | 218.2 | 19 | -13.1 | Colliers International |
| 11 | Suburban Chicago | 174.2 | 18 | 404.0 | 35 | -56.9 | Mid-America |
| 12 | Northern New Jersey | 160.8 | 14 | 147.6 | 17 | 9.0 | Cushman & Wakefield |
| 13 | Orange County | 151.2 | 13 | 224.6 | 24 | -32.7 | CBRE |
| 14 | Richmond Area | 147.6 | 17 | 118.8 | 8 | 24.2 | Cushman & Wakefield |
| 15 | Boston Area | 128.5 | 13 | 252.0 | 20 | -49.0 | Newmark |
| 16 | Philadelphia Area | 126.3 | 16 | 224.7 | 23 | -43.8 | JLL |
| 17 | Central California | 122.5 | 14 | 120.3 | 12 | 1.8 | Cushman & Wakefield |
| 18 | North Carolina | 117.7 | 15 | 199.9 | 17 | -41.1 | CBRE |
| 19 | Oakland/East Bay | 116.9 | 13 | 247.0 | 24 | -52.7 | Cushman & Wakefield |
| 20 | Cleveland Area | 116.2 | 10 | 41.0 | 5 | 183.1 | Marcus & Millichap |
| | OTHERS | 1,955.0 | 224 | 3,601.8 | 370 | -45.7 | |
| | **TOTAL** | **6,294.3** | **684** | **9,529.5** | **946** | **-33.9** | |