

Real Estate SOUTHERN CALIFORNIA



Published by Real Estate Forum Magazine

May/June 2009

The Contrarians



Marcus & Millichap is aggressively positioning itself for the rebound. Pictured are: (center) Harvey Green, (clockwise from top left) Gregory Harris, Alvin Mansour, Joshua Volen and Michael Derk

MARCUS & MILLICHAP HAS POSITIONED ITSELF FOR THE REBOUND, SEES SIGNS OF RENEWED INVESTOR ACTIVITY IN SIX TO NINE MONTHS

Playing the Contrarian Role

By Nidal M. Ibrahim

Harvey Green is well aware of the steady drumbeat of negative news. Whether it be the growing unemployment numbers, continued tight credit or the lack of consumer confidence, he hears it regularly not only from the media, but also from fellow real estate industry insiders.

Despite that, the president and CEO of Marcus & Millichap Real Estate Investment Services Inc. has decided to operate differently from his friends in the business, and as a result is eyeing several real estate investment opportunities. "As a personal investor, I am sitting here saying I can elect to participate or not to participate in the recession," says Green, who has headed up the Encino-based firm since 2000. Not surprisingly, he chooses not to participate.

"That means I will have to be proactive, have a well-thought-through business plan and execute it. And I'm not the only person thinking like that. Many people I talk to are tired of hearing how bad the economy is, so they're electing to stick their oar in the water and start pulling."

At a time when many real estate companies are in the midst of deep retrenchments during an uncertain market, Marcus & Millichap is aggressively playing the contrarian role and positioning itself for the inevitable economic rebound. As part of that, the company is expanding its agent-support initiatives,

tapping its list of repeat customers to drum up new business, expanding its special assets services to help owners of troubled properties, aligning with more institutional owners who will need to reshape their portfolios over the next 12 to 24 months and hiring experienced agents. It may not be too long before the firm starts eyeing expansion opportunities internationally, where it does not yet have a presence.

"We have done very well during this downturn thanks to our deep penetration in the private investor sector and the strategy to stay focused on our core business during the boom years," Green says. "We have positioned the company for the re-emergence of the activity that we believe will occur within the next six to nine months."

RIDING THE MARKET SHIFT

One of the firm's strengths, company officials say, is the bench strength of its 75 offices across the country and 1,300 agents. This wide net provides the firm with a distinct advantage over its competitors in two key ways. First, company executives say, agents in disparate locations can work together to cobble together a deal and present an opportunity that, without these national resources, might not have presented itself to the client.

Having a national platform is sometimes the key to making a

deal come together, says first vice president of investments Alvin Mansour. Mansour is also senior director of the firm's National Retail Group in the San Diego office.



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President & CEO

senior executives of the company are all focused on investment real estate," Green says. "So there's no dilution of our efforts because we're trying to be all things to everyone."

It was this single-minded focus, he argues, that allowed the firm to pick up on the beginning of changes in the marketplace well before the realization hit the national consciousness. "We could feel the shift that was taking place and began to retool ourselves for the market that was emerging 24 to 36 months ago," he says.



"Once you have a problem, it's too late. We want to be there before any problems are created."

MICHAEL DERK
VP Capital Markets

increasing our special training and best-practices webcasts for our agents back in 2007 to help them adjust to the emerging market realities," Green adds. "Research and technology are playing a

"It helps that, in comparison to other brokerage companies, all we do is investment sales," says Mansour, who's been with Marcus & Millichap for six years and is focused on multi-tenant and single-tenant retail properties. "Nationally, it's powerful to have the number of agents who cooperate with each other. If I have a property I'm selling in Orange County, it may be a perfect fit for a buyer in San Francisco or a 1031 exchange buyer in Chicago or Texas."

With a dedication to investment real estate, the firm sets itself apart from competitors who may boast a bigger national presence but whose focus may be stretched by leasing, property management and other associated disciplines. "Everything we do, and everyone from the receptionist to the

senior executives of the company are all focused on investment real estate," Green says. "So there's no dilution of our efforts because we're trying to be all things to everyone."

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large role in the way we do more for our agents and clients."

Since taking over the operations of the company as COO in 1996 and CEO in 2000, Green has guided Marcus & Millichap to a series of milestones and has weathered several dips in the market. Given the depth of the current recession, Green doesn't pretend the firm is totally immune, and he says frankly that the company has seen its sales activity drop 27% in the current downturn. But it's a testament to the company's specialized business model, access to private capital and Green's proactive approach that this compares positively to the market-wide 45%-50% decline in sales activity. Many brokerage firms report even more steep drops in investment brokerage activity. Last year, Marcus & Millichap closed 3,756 sales and financing transactions, Green says, adding that over the past 10 years, the company's closings have doubled, even with the decline.

GROWTH IN DISTRESS

As one of those proactive steps, Marcus & Millichap has expanded its special assets services division. Formed in 2006, the division is focused on dealing with distressed properties, mostly caused by financial distress by the owner or taken back by banks. The division is comprised of eight regional directors who oversee a team of experienced investment brokers located throughout the nation.

Green says he expects this division to become an increasingly pivotal factor as the sale of distressed assets increases over the next two years. Already, that division has seen a spike in activity. The firm completed more than 2,000 special asset assignments last year for financial institutions, asset managers and large owners, according to the company.

Senior vice president and managing director Bernard J. Haddigan is the executive in charge of the division, and he notes that, "The volume of distressed properties and portfolios is clearly on the rise but the dynamics are different than the early 1990s



"We have the opportunity to find that needle-in-the-haystack buyer."

ALVIN MANSOUR
*First VP, Senior Director
National Retail Group*

because of more complex CMBS loan structures and many lenders' focus on avoiding foreclosure. This may keep the handling of these assets more lender specific and not through an equivalent to the Resolution Trust Corp., at least in the short-term.

This niche segment of the business is only expected to grow, Haddigan adds. Michael Derk, vice president of capital markets in the Long Beach office, says the special assets division is positioned to take advantage of that expected increase. Derk equates the division with the credit-counseling outfits that seek to help troubled homeowners restructure their finances and either keep their home or pursue a short-sale.

"Once you have a problem, it's too late," Derk says. "We want to be there for the client before the property becomes a problem. It's important to be proactive."

FUNDING WHEN THERE IS NONE

In addition to expanding its special assets division, Marcus & Millichap is also addressing the funding crisis. "When the market started to turn, it was evident that providing the best finance options to our clients was critical," Green says. "So in late 2008, while others were just looking at driving deals, we were looking at alternative sources of financing and shoring up key lender relationships."

The result is Marcus & Millichap Capital Corp., a division whose mission is essentially to serve as a financing broker, helping arrange and guide that aspect of deals the company's agents may put together. Today, MMCC is key not only to Marcus & Millichap's own deals, but also as a financing sources for other brokerage houses.

"We don't work just with Marcus & Millichap agents," says Derk. "We work with principals and other brokerage firms like Colliers Seely, CB Richard Ellis and Sperry Van Ness. "I don't think a lot of other firms will be bragging about having to come to Marcus & Millichap Capital Corporation, but they see the value we create."

Last year, MMCC closed 522 transactions, down slightly from the 2007 total of 586. But through the first quarter, in a market virtually without deals, MMCC had closed over 90 transactions.

Needless to say, working through the financing markets is an uphill push. Bank of the West, for example, had been an active lender in the investment arena, but began to move to the side about a month ago, Derk says. Similarly, City National Bank was active in construction loans until three or four months ago, when it decided to limit its activity to existing customers.

"In mid-2008 the market went through a big jolt, but they were still active lenders," Derk says. "Now, they're very conservative and very much focused on relationships and track record."



"Many of the larger opportunity funds are focused on purchasing commercial paper instead of specific properties."

BERNARD J. HADDIGAN
*Senior VP, Managing Director
Special Assets Services*

SEEKING OPPORTUNITY

Still, some deals are getting done, with multifamily the favorite among lenders. "Apartments are where people—not only banks but buyers—want to put their capital," Derk says. "People need a place to live, and apartments are the safest place. The housing sector is still in transition and businesses are still having issues."

Medical office buildings are also doing well, while retail and office properties are struggling to garner interest both from investors and financiers. Associate vice president of investments Joshua Volen is bullish on the MOB niche.

"On the office front, the most popular type of investment property has been medical office," says Volen, who is also a director of the firm's National Office and Industrial Properties Group. "Investors are drawn to it for a variety of reasons such as the shift from an inpatient to outpatient focus. Also driving the sector is the need for medical workers. While almost every other category is losing jobs, the medical field is adding jobs at a modest pace."

Greg Harris, executive vice president of investments and the Encino-based senior director of the firm's National Multi Housing Group, says that of the entities now active, family trusts and private investor syndicates account for 90% of the deals getting done. The other 10% are institutional funds.

One key to the multi-family investment market's strength is that a ready pipeline of financing exists, thanks to Fannie Mae and Freddie Mac, which underwrite about 80% of the transactions today, Harris says. "We haven't been affected negatively by the credit crunch as much as the office, retail and hotel sectors; but underwriting has changed and it is much more difficult to put a deal together," he says. "This actually gives us a chance to shine because we have been through difficult markets before and we understand how to get our clients through it."

Look for large apartment sales activity to increase in the near term. "There's definitely a misalignment of expectations, but the gap is narrowing because sellers are more willing to meet the market than they were even six months ago, especially with a deeper recession weakening property operations. Some of our institutional clients are also expecting to sell properties to raise capital. Serving both institutional and private capital markets is one of our biggest advantages because it gives the ability to bring them together depending on the deal," Harris adds.

SETTING GLOBAL TARGETS

Even as the company addresses the domestic real estate investment scene, its interests include opportunities internationally. "We were on track for international expansion prior to the market shift," says Green. "We still are. We're just being prudent about the timing, first taking care of our existing platform and clients during this time of market turmoil."

Green says Marcus & Millichap has identified markets that it believes are ideally suited for its foray abroad, but declines to identify specific countries or lay out a timeline. "I think as we come out of this cycle, we will expand sooner rather than later," he says.—SOCAL



"There's a misalignment of expectations between buyers and sellers, but the gap is narrowing."

GREG HARRIS
*EVP, Senior Director
National Multi Housing Group*



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JOSHUA VOLEN
Associate VP Investments