Green Street

Real Estate Alert

THE WEEKLY UPDATE ON THE INSTITUTIONAL MARKETPLACE

SPECIAL REPORT: BROKER RANKINGS

Smaller Sales Prove Resilient; Marcus & Millichap Takes Crown

Property sales valued at $5 million to $25 million continued to hold up better than the institutional marketplace in 2022 — and for the first time, **Marcus & Millichap** was the segment's lead brokerage.

Some $90.4 billion of private-capital sales closed in 2022, up 7.7% from $83.9 billion in the prior year. The tally is 65.2% higher than the $54.7 billion of smaller sales recorded in 2019, the first year **Real Estate Alert** surveyed the private-capital space. By comparison, the $25 million-and-over market was down 21.5% year over year and just 25.8% higher than three years ago.

Private-capital sales volume was buoyed by the hotel and retail sectors, where sales jumped 58.5% and 30.4%. And the office, multifamily and industrial sectors performed better than their institutional counterparts.

Marcus & Millichap topped the league table with $13.9 billion of sales, good for an 18.3% market share. **CBRE,** which had won the ranking every year starting in 2019, followed with nearly $12.1 billion for a 16% market share.

Marcus & Millichap revised its data-reporting methodology last year, a move that helped boost it from a fourth-place finish in 2021. Without the brokerage's outsize gain, the overall smaller-sales market would have been roughly flat — although that's still far stronger than the institutional domain.

Marcus & Millichap was the top broker in the multifamily, retail, hotel and self-storage sectors, while CBRE led on industrial and office properties.

With Marcus & Millichap's rise, **Cushman & Wakefield** and **JLL** slipped one spot each, to third and fourth place overall. **Colliers** and **Newmark** retained their fifth- and sixth-place finishes from a year earlier.

The rankings are based on responses from 44 brokerages to a nationwide survey, with additional data drawn from Real Estate Alert's reporting, property records, published reports, press releases and other sources. **Green Street's** Sales Comps Database has tracked transactions of $25 million and above since 2001.

Veterans of the private-capital space said they weren't surprised by the resilience of the market last year, given its performance in past downturns.

"We expected this," said **John Chang,** senior vice president and national director of research and advisory services at Marcus & Millichap. "The underlying drivers of commercial real estate tend to be resistant to the types of the challenges we're facing today. It tends to be inflation-resistant, it tends to not be as volatile.

"When you're standing on the street corner saying, 'Where is this property going to be in five years?' … that's where it really makes sense. When investors look at the stock market or other investment classes and say, 'Where's it going to be in five years?' — it's really difficult to say."

That's not to say the private-capital space didn't slow down. The fourth quarter saw just $20.5 billion of trades close, down 36% from the 2021 peak of $32 billion. But compare that with the institutional space, where fourth-quarter sales sank 69% year over year.

Kevin Aussef, global chief operating officer for capital markets at CBRE, put a finer point on it: "The private-capital channel is still going to see capital flows versus the institutional one, where when they put pencils down, they put pencils down."

Aussef said that for buyers in the smaller-sales space, today's higher interest-rate environment is an opportunity. Those rates — and the accompanying refinancing risk, combined with lower property values and the hit on shorter-term returns — pressure institutional owners much more than those with longer investment horizons.

The upshot: Smaller buyers have bigger purchasing power today.

"In a word? Selection," Aussef added. "There are institutions

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that are selling properties that they normally would not sell. There are institutions that are selling properties that, as a private investor, you would not get a look at. People are selling the good assets that they normally would not sell in order to deal with some of the liquidity issues they may have somewhere else in their portfolio."

David Gaines, a JLL managing director and head of its private-capital group, said the current environment is mimicking the first few months after the onset of the pandemic, when private-capital buyers had better access to deals because institutions were on the sidelines.

"For private capital, this is the perfect opportunity to buy," he said. "You're getting an asset at what is likely a lower basis than you would have had to pay in the first half of last year. All things being equal, you're still getting a competitive cost of capital, if you look at a long-term ownership horizon."

Put another way by CBRE's Aussef: "You've gone from a seller's market to a buyer's market. How long does the buyer's market last? Nobody knows. … The crystal ball is in the shop."

Gaines said the market dislocation also has some private buyers stretching more on price than they might otherwise in a more liquid market.

"Groups that typically operate in the $5 million-to-$25 million space are more inclined to go after bigger deals" in dislocated markets, Gaines said. "They're not necessarily going to be more aggressive on pricing … but they know if they're going up the food chain a bit to $40 million, $50 million, $60 million, there is less institutional capital competing with them in the market now."

Sean Fulp, a vice chair and head of office capital markets for the Southwest at Colliers, said that while the selection of properties may be better for private-capital buyers, the bidding pool may quickly get deeper as more investors shift out of the more volatile public equities markets.

"A lot of private investors were excited about fixed income for the last six months because of what they could get on short-term Treasurys," said Fulp, who jumped to Colliers last year after a stint as the head of Newmark's private-capital group. "But they saw the stock market move 15% and are now thinking maybe they lost out."

To Fulp's point, brokerages reported stronger interest in listings from private-capital buyers at yearend. CBRE data from the fourth quarter showed that confidentiality agreements signed for listings over $25 million dropped by 44%, but they fell just 30% for listings of $25 million and below.

The firms signing those agreements weren't just looking, either. **Ken Hedrick,** executive managing director and a leader of Newmark's net-lease capital-markets group, said private investors — such as wealthy individuals, investors in nontraded REITs and local owner/operators — accounted for some 60% of acquisitions in the fourth quarter of 2022. That's the highest share for private capital in any quarter since 2009.

"If private investors find an attractive asset, even in an uncertain market, they often have flexibility to acquire properties and act nimbly, without the need for many layers of approval," Hedrick said.

Another area where private-capital buyers have an advantage is the availability of financing. As rates shot up last year, money-center banks, life insurance companies and CMBS shops all pulled back — particularly on office assets. But local and regional banks, typically the lenders of choice for private-capital buyers, remain active.

"Private investors, such as high-net-worth individuals, … have the unique ability to bring their own banking relationship to a transaction," Hedrick said. "This relationship can mean more aggressive debt and flexibility to still acquire assets in a turbulent market."

While the institutional marketplace is focused heavily on a wave of distressed properties, brokers in the private-capital space say it's the smaller buyers that emerge there first. Colliers' Fulp calls them "momentum investors."

"The first buyers of distressed opportunities are typically high-net-worth investors and family offices," he said. "They'll buy on price per pound. … They look at historical trends, they know what the replacement cost is. They don't need to project out a time in the market to sell. They can hold forever, and they love buying discounted real estate."

Fulp said that roughly 90 to 180 days after private-capital buyers begin setting price points, institutions typically follow suit.

The question now is when that process starts. Brokers are divided on whether enough transactions have closed to end price discovery and set a floor for property values. But nearly all agree that, barring broader economic instability, dealflow should pick up in the second half.

"I would characterize the market as cautiously optimistic," Marcus & Millichap's Chang said. "There's still a little bit of paranoia in everyone's mind … and there can always be a black swan. But I think most investors are looking at the longer-term yield on commercial real estate."

In the brokerage race, Marcus & Millichap rose to the top spot by virtue of an 85% year-over-year increase in sales — the only top-10 broker with such outsize growth. CBRE slipped to second place with a 9.7% drop in sales volume and saw its share of brokered trades shrink to 16% from 19.8%.

Cushman's sales volume slipped 6%, to $9.5 billion from $10.1 billion. That was good for a 12.5% market share, down from 14.8% in 2021. JLL followed in the No. 4 spot as it rode a 3.8% increase in sales volume — to $8.1 billion from $7.8 billion — for a 10.7% market share, down from 11.5% a year earlier.

Colliers took credit for $7.8 billion of sales, a 12% increase from $7 billion in 2021. Its market share ticked up 10 bp to 10.3% — making it the only top-six broker other than Marcus & Millichap to gain share.

Sixth-place Newmark was the only other broker with significant market share, tallying 6.2% of brokered trades via $4.7 billion of sales. That's down 15.9% from 2021, when it had an 8.3% market share. ❖

RANKINGS

Top Overall Brokers In 2022

Sales of $5 million to $25 million

	Broker	Multi-family ($Mil.)	Retail ($Mil.)	Industrial ($Mil.)	Office ($Mil.)	Hotels ($Mil.)	Self-Storage ($Mil.)	2022 Total ($Mil.)	Market Share (%)	'21-'22 % Chg.
1	Marcus & Millichap	$5,301.9	$3,988.7	$779.6	$972.1	$1,290.1	$1,605.0	**$13,937.5**	18.3	85.4
2	CBRE	2,062.8	2,458.0	3,305.2	2,890.5	1,151.5	281.2	**12,149.1**	16.0	-9.7
3	Cushman & Wakefield	2,416.0	1,563.1	2,608.6	2,198.0	121.4	570.8	**9,478.0**	12.5	-6.0
4	JLL	1,096.8	2,536.5	2,176.2	1,793.1	384.6	132.6	**8,119.7**	10.7	3.8
5	Colliers	1,381.5	1,257.2	2,875.3	1,756.1	441.5	97.6	**7,809.3**	10.3	12.0
6	Newmark	1,460.2	1,247.7	788.1	1,186.2	40.8	21.6	**4,744.6**	6.2	-15.9
7	Berkadia	1,573.6	0.0	14.8	28.3	314.1	0.0	**1,930.9**	2.5	-0.5
8	Avison Young	265.1	272.4	429.9	517.1	249.1	13.0	**1,746.6**	2.3	27.9
9	Northmarq *	1,575.1	48.1	49.8	15.4	0.0	0.0	**1,688.3**	2.2	25.0
10	Kidder Mathews	512.0	270.8	484.4	252.7	28.9	0.0	**1,548.8**	2.0	-11.5
11	Matthews RE Investment Services	160.6	548.4	153.4	88.5	0.0	135.5	**1,086.4**	1.4	28.6
12	Berkeley Capital Advisors	0.0	876.4	7.9	17.5	0.0	0.0	**901.8**	1.2	5.4
13	Walker & Dunlop	575.2	6.2	0.0	0.0	0.0	8.3	**589.6**	0.8	-8.4
14	Stan Johnson Co. (pre-merger)*	0.0	332.5	132.1	78.2	0.0	0.0	**542.8**	0.7	360.4
15	Capstone	525.8	0.0	0.0	0.0	14.0	0.0	**539.8**	0.7	-20.3
16	Hunter Hotel Advisors	0.0	0.0	0.0	0.0	443.7	0.0	**443.7**	0.6	13.8
17	Voit Real Estate Services	34.6	31.3	246.4	103.8	0.0	0.0	**416.1**	0.5	-2.9
18	Atlantic Capital Partners	0.0	355.9	0.0	18.0	0.0	0.0	**373.9**	0.5	88.0
19	Global Real Estate Advisors	351.1	0.0	5.8	0.0	10.1	0.0	**366.9**	0.5	
20	Rosewood Realty	326.1	0.0	21.9	0.0	5.3	0.0	**353.2**	0.5	-17.2
21	Mid-America Real Estate	0.0	333.5	0.0	0.0	0.0	0.0	**333.5**	0.4	37.8
22	Hanley Investment	0.0	297.5	0.0	10.4	0.0	0.0	**307.9**	0.4	-21.7
23	SRS Real Estate Partners	0.0	269.4	10.3	15.9	0.0	0.0	**295.6**	0.4	14.7
24	Hodges Ward Elliott	0.0	0.0	0.0	24.0	261.0	0.0	**285.0**	0.4	169.7
25	Kislak Co.	267.1	7.2	0.0	0.0	0.0	0.0	**274.3**	0.4	-23.6
26	Transwestern	104.9	24.9	80.3	60.0	0.0	0.0	**270.2**	0.4	-20.9
27	Mogharebi Group	243.5	0.0	0.0	0.0	24.9	0.0	**268.4**	0.4	5.2
28	Savills	0.0	42.8	92.1	110.6	0.0	0.0	**245.5**	0.3	-12.8
29	Ariel Property Advisors	172.6	22.7	19.0	16.9	0.0	0.0	**231.2**	0.3	195.4
30	NAI Global	70.5	17.5	126.9	12.5	0.0	0.0	**227.5**	0.3	-22.0
31	Meridian Capital	151.1	34.2	41.5	0.0	0.0	0.0	**226.7**	0.3	47.0
32	Pinnacle Real Estate	118.4	7.3	48.3	22.6	0.0	15.5	**212.0**	0.3	1.3
33	Lee & Associates	0.0	17.4	133.2	59.8	0.0	0.0	**210.5**	0.3	24.4
34	Faris Lee Investments	0.0	176.7	0.0	0.0	0.0	0.0	**176.7**	0.2	-19.2
35	Alpha Realty	149.8	0.0	0.0	0.0	0.0	0.0	**149.8**	0.2	242.4
36	Greysteel	144.8	0.0	0.0	0.0	0.0	0.0	**144.8**	0.2	-13.4
37	Interra Realty	112.0	0.0	0.0	0.0	0.0	0.0	**112.0**	0.1	8.8
38	Essex Realty	84.8	0.0	0.0	0.0	0.0	0.0	**84.8**	0.1	1,146.7
39	Horvath & Tremblay	21.5	61.2	0.0	0.0	0.0	0.0	**82.6**	0.1	226.5
40	Phoenix Commercial Advisors	0.0	79.1	0.0	0.0	0.0	0.0	**79.1**	0.1	359.7
	OTHERS	794.3	724.7	658.0	612.5	227.4	0.0	**3,017.0**	4.0	57.3
	Brokered Total	**22,053.7**	**17,909.3**	**15,288.8**	**12,860.6**	**5,008.4**	**2,881.1**	**76,001.8**	**100.0**	**11.5**
	No Broker	3,149.7	3,489.9	4,242.1	2,225.9	874.0	397.9	**14,379.6**		-9.0
	TOTAL	**25,203.4**	**21,399.2**	**19,531.0**	**15,086.5**	**5,882.4**	**3,279.0**	**90,381.4**		**7.7**

* Northmarq volume reflects October 2022 purchase of Stan Johnson Co.