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THE WEEKLY UPDATE ON THE INSTITUTIONAL MARKETPLACE

RANKINGS

Retail Sales Fall 9%; Eastdil Remains on Top

Sales of large retail properties dipped by 9% last year amid disruptions tied to the global economy, U.S. politics and the sector itself, leaving market pros uncertain about the year ahead.

Eastdil Secured again arranged more sales than any other firm, but lost some market share, while HFF leapfrogged over CBRE into second place in the brokerage rankings.

Some $31.7 billion of deals for malls and shopping centers worth at least $25 million closed in 2016. That was down from the record $34.8 billion in 2015 — but was still the second-largest annual volume since **Real Estate Alert's** Deal Database began tracking sales in 2001.

"It has been perhaps the most volatile year in recent memory, which has made it an extraordinary time for real estate investment decisions," said Matthew Strotton, head of U.S. funds and investments at Australian investment manager QIC. But he added that the still-high volume shows the "resilience" of the sector, and he remains optimistic about its long-term prospects.

Macro-economic factors weighed on the retail sector: rising interest rates, tightening credit, concerns the market cycle may be close to its peak, fluctuations in financial markets and uncertainty on tax and economic policy under President Donald Trump. The retail sector also faces its own specific headwinds, including the continuing rise of e-commerce, sluggish fundamentals, store closings and the growing obsolescence of Class-B and -C malls.

"We are well into this cycle. I wouldn't be surprised by some correction," said Steven Miller, co-founder of Viking Partners, a Cincinnati fund shop. His firm focuses on necessity-based properties that are more insulated from disruption. But, he added, "It is just a very fast-moving, dynamic market. The way that could change retail is frankly frightening."

Unlike sales of office properties, which dipped in last year's first half but rebounded in the second, retail sales dropped further in the last six months. The fourth quarter was the slowest since 2011.

Some deals fell apart in the second half

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Retail Sales by Region in 2016

		2016 Amount ($Mil.)	No. of Prop.	2015 Amount ($Mil.)	No. of Prop.	Top Broker
1	Southwest	$5,862.8	35	$2,378.6	31	HFF
2	California	4,887.6	91	6,007.7	80	Eastdil Secured
3	Northeast	4,460.3	83	7,768.1	95	HFF
4	Southeast	4,067.0	73	4,294.3	77	Eastdil Secured
5	Midwest	3,435.3	81	2,995.9	49	Eastdil Secured
6	South	2,820.5	47	2,291.3	41	HFF
7	Mid-Atlantic	2,288.8	43	2,170.0	38	CBRE
8	Northwest	1,177.8	44	3,622.5	22	Eastdil Secured
	(Multi-state)	2,691.2	177	3,279.7	197	Morgan Stanley/RBC
	TOTAL	**31,691.3**	**674**	**34,808.2**	**630**	

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because of pricing confusion. "You saw a lot of roadkill on the highway," said one retail brokerage veteran. "A lot of people went into the market with lofty expectations and didn't know where the market was."

Some buyers had trouble getting financing, especially for value-added properties in lesser markets. Meanwhile, rising interest rates increased borrowing costs.

"It was a challenging period for leveraged buyers," said Susan Overton, a managing director at San Francisco fund shop Merlone Geier Partners. "Several opportunities rebounded our way because the previous group couldn't get the financing they expected. Rumored or announced anchor closures, coupled with increasing uncertainty in the commercial MBS market, caused a real pricing dislocation between both buyers and sellers and buyers and lenders. It was an opportunity for all-cash firms like us."

Meanwhile, the buyer pool shrank. Miller, of Viking Partners, noted that nontraded REITs, huge retail-property buyers in recent years, have pulled back sharply because their fund-raising efforts have been curtailed by new regulations.

The bright spots last year: core properties in major markets, especially trophy malls and grocery-anchored centers. Those continued to see intense demand from investors, keeping capitalization rates low. Indeed, 11% of last year's total volume came via three Las Vegas mall trades.

By contrast, the investor pullback from value-added properties and lesser markets accelerated as the year went on — and continued into January, market pros said.

"I think people are getting more and more skittish on B-quality product," said Sam Judd, co-founder and chief investment officer at Charlotte-based Asana Partners. "People are acting a little bit more cautiously this year."

Sales of malls plummeted 34% to $6.4 billion last year, down from a record $9.6 billion in 2015 — with the three Las Vegas deals accounting for more than half the total. Lower quality malls have been particularly susceptible to the shift of shoppers toward e-commerce.

Meanwhile, all other retail property sales totaled $25.3 billion, a hair over the previous year's $25.2 billion.

Many market pros said there are positive factors that could fuel activity in the year ahead. Even with their recent rise, interest rates are still historically low and are expected to remain so for 12-18 months. Buyers and sellers may seek to strike deals before rates go up further, spurring activity.

Moreover, expected tax cuts under the Trump administration could spur spending, helping to offset some of the headwinds for retail properties. Some e-commerce players, like Amazon.com, are experimenting with opening bricks-and-mortar stores. And a lack of construction continues to help prop up the leasing market.

Chris Hoffmann, a senior member of Eastdil's retail team, said his firm has had brisk activity since the election. He and other pros said that amid the uncertainty, value-added investors can gain an advantage — for example, by repositioning properties to meet consumer demand that visits to retail centers offer a mix of shopping, dining and entertainment venues that provide "an experience."

"For whatever reason, most people don't see it, but retail is in the midst of a really interesting reinvention," Hoffmann said. "Those who see the opportunity as opposed to the fear are making deals. The risk-takers are showing up because they see the opportunity. As for getting deals done, our view is that sellers need candid and actionable advice more than ever. There is no lack of liquidity, but there is lack of clarity."

He said predicting market volume for this year is tougher than for any year he can remember, but added, "I am really optimistic about 2017."

Eastdil captured the 2016 brokerage crown with $8 billion of retail property sales. It did so in its typical fashion, by handling half of the year's biggest deals. But its volume fell 13%, reducing its share of brokered trades to 31% from 36.4% the previous year.

Meanwhile, HFF climbed to second place from third in 2015 with $5 billion of sales, up $1.4 billion, or 41%. Two blockbuster trades accounted for the increase: Miracle Mile Shops in Las Vegas ($1.1 billion) and River Oaks District in Houston ($536.3 million). HFF's market share jumped to 19.3%, from 14%.

CBRE's volume dropped 13% as it fell one notch to third place. It brokered $3.9 billion of sales for a 15.2% market share. JLL, after slumping in 2015, quadrupled its sales to $2.3 billion to finish fourth with a 9% share. Nearly half of JLL's total came via the $1.1 billion sale of the Shops at Crystal Mall in Las Vegas.

Newmark Grubb, which has been expanding rapidly, showed the most dramatic improvement. Its volume soared to $979.2 million, from $70.8 million in 2015, propelling it to fifth place. Its retail platform is led by executive managing directors Geoffrey Millerd and Pete Bethea, who each defected from Cushman & Wakefield in 2015.

Cushman dropped out of the top five, to 8th place. DTZ acquired Cushman in September 2015 and assumed its name. Compared with the two firms' combined 2015 tally, Cushman's sales last year were down 63%, at $841.8 million.

RBC Capital and Morgan Stanley Real Estate finished ahead of Cushman, tying for sixth place by sharing a single assignment. In that deal, the sector's biggest of the year, Blackstone paid RioCan REIT $1.9 billion for a 9.8 million-square-foot shopping-center portfolio as the Canadian REIT exited the U.S. shopping-center market. That sale alone accounted for nearly one-fourth of the sales volume in the fourth quarter.

The rankings are based on retail transactions that closed last year and involved full or partial stakes valued at $25 million or more. When multiple brokers shared a listing, the dollar credit was divided evenly, but each broker was credited with one transaction. Only brokers for sellers were given credit. Portfolio transactions were included if the overall price was at least $200 million or if at least one property in the portfolio had a value of at least $25 million.❖

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Top Retail Brokers in 2016

Brokers representing sellers in deals of at least $25 million

		2016 Amount ($Mil.)	No. of Properties	Market Share (%)	2015 Amount ($Mil.)	No. of Properties	Market Share (%)	'15-'16 % Chg.
1	Eastdil Secured	$8,023.4	274	31.0	$9,193.2	114	36.4	-12.7
2	HFF	4,996.2	73	19.3	3,548.6	154	14.0	40.8
3	CBRE	3,925.9	78	15.2	4,508.7	111	17.8	-12.9
4	JLL	2,322.5	22	9.0	574.3	9	2.3	304.4
5	Newmark Grubb	979.2	23	3.8	70.8	2	0.3	1,283.1
6	RBC Capital	950.0	50	3.7	0.0	0	0.0	
6	Morgan Stanley Real Estate	950.0	50	3.7	0.0	0	0.0	
8	Cushman & Wakefield*	841.8	17	3.3	1,236.6	15	4.9	-31.9
	Cushman & Wakefield (pre-merger)				1,034.8	15	4.1	
9	Savills Studley	685.5	9	2.7	710.1	11	2.8	-3.5
10	Colliers International	423.2	12	1.6	727.0	18	2.9	-41.8
11	Mid-America Real Estate	330.7	9	1.3	248.2	4	1.0	33.2
12	Eastern Consolidated	243.9	4	0.9	72.0	2	0.3	238.8
13	Meridian Capital	118.0	2	0.5	0.0	0	0.0	
14	Capital Pacific	101.0	1	0.4	0.0	0	0.0	
15	Marcus & Millichap	99.8	3	0.4	152.3	4	0.6	-34.5
16	Kennedy Wilson	86.0	2	0.3	0.0	0	0.0	
17	Faris Lee	81.7	2	0.3	126.4	3	0.5	-35.4
18	Hanley Investment	72.5	1	0.3	0.0	0	0.0	
19	Lee & Associates	69.3	1	0.3	97.6	3	0.4	-29.0
20	Transwestern	67.0	1	0.3	100.8	3	0.4	-33.5
21	Greysteel	62.1	2	0.2	31.7	1	0.1	95.9
22	Chariff Realty	59.8	1	0.2	0.0	0	0.0	
23	Westcord	40.5	1	0.2	0.0	0	0.0	
24	Phoenix Commercial	36.8	1	0.1	0.0	0	0.0	
25	Berkeley Capital	36.6	1	0.1	28.9	1	0.1	26.6
26	Stan Johnson Co.	36.4	1	0.1	87.5	2	0.3	-58.4
27	James Lloyd & Associates	34.8	1	0.1	0.0	0	0.0	
28	Quantum Real Estate	30.2	1	0.1	0.0	0	0.0	
29	Berger Commercial Realty	27.0	1	0.1	0.0	0	0.0	
30	Whitehall Realty	26.8	1	0.1	0.0	0	0.0	
30	Metro 1 Commercial	26.8	1	0.1	0.0	0	0.0	
32	Aztec Group	26.1	1	0.1	0.0	0	0.0	
33	BlueGate Partners	25.7	1	0.1	44.8	1	0.2	-42.6
34	TKG	25.5	1	0.1	0.0	0	0.0	
	OTHERS	0.0	0	0.0	2,680.3	39	10.6	-100.0
	Brokered Total	**25,862.6**	**593**	**100.0**	**25,274.5**	**510**	**100.0**	**2.3**
	No Broker	5,828.7	81		9,533.7	120		-38.9
	TOTAL	**31,691.3**	**674**		**34,808.2**	**630**		**-9.0**

* DTZ acquired Cushman and assumed its name on Sept. 1, 2015. The $1.2 billion figure for 2015 is the total for DTZ and post-merger Cushman.