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THE WEEKLY UPDATE ON THE INSTITUTIONAL MARKETPLACE

Industrial Sales Soared 28% in 2018; CBRE Dominated Broker Ranking


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FEBRUARY 13, 2019

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Sales Surge 13% Overall; CBRE Top Broker

After two years of decline, large commercial-property sales jumped 13% last year, as **CBRE** retained the title of most-active broker.

Some $280.2 billion of properties across the five major asset classes changed hands in 2018, up from $248.8 billion in 2017 and just shy of the $282.1 billion peak reached in 2015. The multi-family and industrial sectors both set volume records and hotel sales rose significantly, while office and retail trades were up slightly.

Eastdil Secured again took a solid second place among the brokers, but the horse race for the next three slots was the tightest since **Real Estate Alert's** Deal Database started tracking trades of $25 million and up in 2001. Surging **Cushman & Wakefield** edged out **HFF** for third place by a fraction of a percent. **Newmark** placed fifth, followed by **JLL** (see rankings on Page 14).

Market pros remain confident in fundamentals and see no slackening of investor demand.

"I have not heard, in the many conversations that I've had with domestic or

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Hines Team in Talks to Buy Stake in SF Tower

The **Hong Kong Monetary Authority** and **Hines** are in talks to buy a roughly 50% interest in a new San Francisco skyscraper from a **MetLife Investment** partnership.

The price being discussed values the 765,000-square-foot Park Tower at Transbay at about $1,500/sf, or $1.1 billion. The 43-story office building, at 250 Howard Street in the booming South Financial District, was completed last year and is fully leased to **Facebook.**

Norway's **Norges Bank Investment** and South Korea's **National Pension Service** also chased the trophy property, and are waiting in the wings should the talks with the Hines partnership collapse.

MetLife holds a 95% stake in the development partnership, which is being advised by **Eastdil Secured.** The other two partners, **John Buck Co.** and **Golub & Co.,** both of Chicago, are cashing out their aggregate 5% interest. MetLife wants to

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Lone Star Strikes $1.6 Billion of Rental Sales

Two investment shops have agreed to buy 19 value-added apartment properties from **Lone Star Funds** in separate transactions totaling $1.6 billion.

Morgan Properties of King of Prussia, Pa., is under contract to pay $1.4 billion for 15 complexes in the Philadelphia, Baltimore and Washington areas. The package encompasses 6,696 units, putting the per-unit valuation at $211,000. **One Wall Partners** of Newark, N.J., will pay $180 million, or $181,000/unit, for four properties with 996 apartments in Eastern Pennsylvania's Lehigh Valley. **CBRE** is handling both transactions, which are expected to close over the next several weeks.

The sales will complete Lone Star's disposition of 33 properties for a total of roughly $2.5 billion. The Dallas shop put the East Coast complexes on the block in the second half of last year, listing 26 with CBRE and the other seven with **Newmark.**

As previously reported, the Dallas shop struck deals to sell the other 14 properties to **Fairfield Properties** of Melville, N.Y. (seven); **Harbor Group International** of

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THE GRAPEVINE

Industry veteran **Julio Siberio** is joining **Bridge33 Capital** as its first head of acquisitions. He's moving to the property-investment side after focusing on commercial MBS as a portfolio manager at **Pimco,** the Newport Beach, Calif., investment manager. At Bridge33, he reports to **Jahan Moslehi,** who co-founded the Seattle shop with **Andy Chien** in 2012. Siberio and Moslehi worked together previously at **Morgan Stanley.** Siberio had an earlier stint at **Lehman Brothers.** Bridge33 has mostly invested in distressed retail and office deals nationwide, but is looking at multi-family properties as well. The firm owns some

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Sales of large warehouse and industrial properties surged again last year, blowing past the record set the year before, while perennial champion **CBRE** continued to dominate the brokerage race.

A whopping $29.9 billion of industrial properties worth at least $25 million traded last year, according to **Real Estate Alert's** Deal Database. That was up 28% from $23.5 billion in 2017 and marked the fourth consecutive year that volume eclipsed the previous cyclical peak, $17 billion in 2007.

CBRE handled an eye-popping $12.4 billion of deals, shattering by 36% the record it set in 2015 for annual volume by a brokerage. Its sales exceeded those of its next four competitors combined.

Market pros see another strong year ahead. "It feels like pedal to the metal this year as well," said **Darla Longo,** a CBRE vice chairman. "We don't see any change in investors' appetite. Short of any major event, 2019 should be robust."

Most of the same factors that drove activity last year remain in place: historically high occupancy and rents, the expansion of e-commerce, tempered construction, a seemingly insatiable appetite among institutional investors, low interest rates and strong debt markets.

The national occupancy rate stood at a record 95.7% at year-end, according to CBRE. Rents increased 7.4% year-over-year to a record $7.37 a square foot as construction, constrained by rising land prices and regulatory hurdles, failed to keep up with leasing demand.

So far, there's no sign of softening, said Cliff Booth, chief executive of Dallas investment shop Westmount Realty. "When we start seeing it is tougher to renew leases, or we're not getting rent increases, that will tell me we are changing into a different kind of economy," he said. "That has not happened. As long as it still feels good operationally, we're a buyer."

The industrial sector outpaced all other major asset classes in rent and property-value growth last year, according to a Green Street Advisors report last month. E-commerce has become an immense driver of leasing demand in recent years, and with online sales expected to continue increasing, the firm forecasts a

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RANKINGS

Industrial ... From Page 1

"strong environment for rent growth" over the next few years.

"People view a secular trend afoot with e-commerce, and that is driving interest in the space," said Herbert Myers, managing director of real estate investments for Investcorp, a Bahrain-based investment manager that stepped up its activity in the sector last year. "There is anticipated rent growth. By and large, new supply has been absorbed. That gives investors further confidence that this sector has tailwinds. I wouldn't say it feels like people are doing crazy things."

With institutional investors seeking to scale up, portfolio and large-property sales remained hot. Fourteen deals topped $250 million last year, up from a dozen the year before and just three in 2016. Most involved either big-box distribution centers or small urban warehouses in the e-commerce supply chain.

In the biggest deal of the second half, Blackstone paid $951.6 million in November for a 14 million-sf portfolio of small warehouses in the Southeast suitable for "last-mile" delivery to consumers. CBRE and Eastdil Secured advised the seller, a joint venture between Atlanta-based MDH Partners and Harvard University's endowment that began assembling the portfolio in 2014 via small acquisitions, mostly from family operators.

"A lot of the ownership is fragmented with these older properties," said MDH chief executive Jeff Small Jr. "A smaller group like us can go buy one-off deals here and there. You can get paid a premium by institutional investors that want to own these properties but don't have the time to put portfolios together one at a time."

The sale, which represented all of MDH's holdings, was a repeat performance for Small. Founded in 2005, MDH amassed an industrial portfolio that it sold in 2008, just before the financial crash. The firm then sat on the sidelines for a few years before buying again. This time, Small said, MDH is already on the hunt for new investments.

"The difference is that in 2007, I was concerned the fundamentals didn't support the capital markets — whereas today, they do," he said. "We will approach our investments carefully and selectively over the next year. The days of just buying anything and having it appreciate in value are over. At the same time, the fundamentals in our space have never been stronger."

On top of last year's $29.9 billion of industrial property sales came nearly $20 billion of corporate takeovers involving U.S. warehouses: Prologis' $8.5 billion buyout of Denver-based DCT Industrial, Blackstone's $7.6 billion purchase of Gramercy Property of New York, which mostly owned industrial properties, and Ivanhoe Cambridge's $3.5 billion acquisition of Brookfield Asset Management's IDI Logistics unit. Ivanhoe later sold a 50% stake in IDI to Oxford Properties.

Market pros said one possible check on growth in sales volume in 2019 could be a shortage of portfolios available for sale after years of heavy turnover. "Last year was an extraordinarily large year for portfolio and entity-level sales," said **Chris Riley,** another CBRE vice chairman. "That is not sustainable every year." But he noted those mega-deals can spin off further trades. Indeed, Blackstone immediately listed $2.2 billion of its Gramercy warehouses via eight separate portfolio offerings.

Capitalization rates continued to compress across the country last year. They slipped under 4% in the top markets of Northern New Jersey, Seattle and Southern California. Rates dipped close to 4% in markets such as Atlanta, Chicago, Dallas, South Florida and Eastern Pennsylvania, and even dropped below 5% in secondary markets such as Reno, Las Vegas, Phoenix and Denver.

For a buyer, "it's tough everywhere — there is not a market that doesn't have a lot of competition," said Booth at Westmount, which purchased properties in smaller markets such as Cincinnati and Columbus, Ohio, last year. In 2019, he said, "I think it is going to be just as active and pricey and difficult to buy as it has been in the last couple of years."

Matthew Novak, a partner at San Francisco-based Berkeley Partners, said the hunger for industrial properties is so great that he is increasingly bumping into institutional investors on smaller trades. "You are seeing institutional players move down," he said. "Before, that convergence was around $30 million, and now it can be below $15 million." But he said his firm, which targets light-industrial properties, still sees opportunities in buildings where mismanagement or physical deficiencies provide openings to add value.

One big threat to the industrial sector's strong run, according to Green Street's report, is "the growing risk of a trade war with China along with a generally protectionist stance from the current administration."

Many industrial pros, including Small, agree. "If it wasn't for the uncertainty around trade, we'd have a longer runway," he said. But he added that the sector is well positioned to endure any correction in the larger economy in the coming years. "My personal view is we could see a slowdown in 2020, but I don't see it as a 2008 crash," Small said. "It could be more like the 2000 post-dotcom bust, a soft landing. And the industrial fundamentals will support us through a slowdown."

In the brokerage race, CBRE took the crown for the eighth consecutive year. It boosted its volume by 54%, far outpacing the sector's expansion and increasing its share of brokered trades to 45%, from 37.4% in 2017. CBRE had a hand in all of the five largest property sales. Eastdil shared the marketing assignments on three of those deals, and increased its overall volume by 22%. Still, it finished a distant second, posting $4.6 billion of sales for a 16.5% market share.

Third-place Cushman & Wakefield closed $3.7 billion of trades for a 13.5% market share. JLL was fourth with $2.1 billion of trades and a 7.6% share. HFF came in fifth with $2 billion and a 7.3% market share.

The broker ranking excludes M&A transactions, so it didn't credit Eastdil for its advisory role in the acquisitions of Gramercy and IDI. CBRE also was an advisor on the IDI deal. ❖

RANKINGS

Top Brokers of Industrial Properties in 2018

Brokers representing sellers in deals of at least $25 million

		2018 Amount ($Mil.)	No. of Properties	Market Share (%)	2017 Amount ($Mil.)	No. of Properties	Market Share (%)	'17-'18 % Chg.
1	CBRE	$12,426.6	640	45.0	$8,057.4	290	37.4	54.2
2	Eastdil Secured	4,552.7	333	16.5	3,721.7	467	17.3	22.3
3	Cushman & Wakefield	3,737.8	78	13.5	3,572.6	304	16.6	4.6
4	JLL	2,086.3	69	7.6	2,004.8	74	9.3	4.1
5	HFF	2,007.3	49	7.3	1,655.2	46	7.7	21.3
6	Colliers International	913.0	27	3.3	1,294.2	47	6.0	-29.5
7	Newmark	832.7	24	3.0	366.1	11	1.7	127.5
8	Transwestern	403.4	10	1.5	164.5	3	0.8	145.2
9	Marcus & Millichap	148.5	6	0.5	46.0	1	0.2	222.9
10	Avison Young	139.6	2	0.5	197.2	6	0.9	-29.2
11	Kidder Mathews	135.1	3	0.5	146.5	4	0.7	-7.8
12	A&G Realty	88.5	2	0.3	0.0	0	0.0	
13	DAUM Commercial	50.0	1	0.2	0.0	0	0.0	
14	Meridian Capital	39.0	1	0.1	0.0	0	0.0	
15	Eastern Consolidated	25.2	1	0.1	0.0	0	0.0	
16	Venture Capital Properties	19.6	1	0.1	0.0	0	0.0	
	OTHERS	0.0	0	0.0	332.4	9	1.5	-100.0
	Brokered Total	**27,605.3**	**994**	**100.0**	**21,558.6**	**1,005**	**100.0**	**28.0**
	No Broker	2,305.3	41		1,899.1	38		21.4
	TOTAL	**29,910.5**	**1,035**		**23,457.7**	**1,043**		**27.5**