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THE WEEKLY UPDATE ON THE INSTITUTIONAL MARKETPLACE

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Defending champ **Eastdil Secured** jumped out to a big lead in the brokerage race, increasing its market share from a year earlier. CBRE took second place and a rapidly expanding Newmark jumped into the top three, while last year's runner-up, HFF, slipped to fourth.

Some $10 billion of shopping centers and malls worth at least $25 million changed hands by June 30, according to **Real Estate Alert's** Deal Database. That was down from $16.9 billion during the same period last year, marking the most dramatic drop since the downturn and the slowest start since 2013.

Demand for top-quality properties in affluent markets remained strong. But overall activity fell off as investors and lenders alike pulled back in the face of a slew of store closures blamed in part on the growing popularity of e-commerce.

Retail specialists argue that things aren't as dire as the headlines suggest. And brokers say their pipelines are filling up, leaving them hopeful activity will pick up in the second half. But it's unclear whether there is enough pricing clarity to substantially turn things around by yearend.

"With all of the doomsday news for retail, there is currently a valuation disconnect between buyers and sellers," said Ron Mourey, a managing principal and head of acquisitions at Gerrity Group of Solana Beach, Calif. "It really is a game of chicken."


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Columbia Tops Bidding Contest for DC Offices

Columbia Property has emerged as the winning bidder for a repositioned office building in downtown Washington.
The REIT is now working to finalize a purchase agreement with **PGIM Real Estate** for the 581,000-square-foot property, at 1800 M Street NW in the desirable Golden Triangle district. The exact price being discussed couldn't be learned, but market pros said it was in the range of $435 million to $465 million, or up to $800/sf. **HFF** is representing PGIM.
The offering attracted a variety of bidders, ranging from offshore to institutional to private investors.
In 2013, PGIM completed a $33 million renovation that added trophy-caliber finishes, retail space and amenities, upgrading the 1975-vintage building to Class-A from Class-B status.
The Prudential unit has also signed some 400,000 sf of leases in the past 36 months,

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THE GRAPEVINE

The head of real estate at fund operator **Fir Tree Partners** left this week to open his own shop. **Jarret Cohen's** New York-based **Jadian Capital** will invest in properties and originate debt across asset classes. It will also manage the liquidation of the $750 million Fir Tree Real Estate Fund 3, which held a final close in 2014. The wind-down of the fund is expected to take three years. Cohen was a partner and managing director at Fir Tree. He joined the firm, mostly known as a hedge fund operator, in 2010 to build up its real estate business. Before

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InvenTrust Rolls Out Shopping-Center Bundle

InvenTrust Properties is pitching a shopping-center portfolio as a way to take advantage of the relatively high capitalization rates in secondary markets, where investor demand is muted.
The package encompasses 11 properties totaling 3.2 million square feet, according to preliminary marketing materials. The estimated value is about $440 million. At that price, the capitalization rate would be 8.7%, based on $38.4 million of net operating income. The properties, in eight states across the South, Southeast and Midwest, are 93% occupied.
InvenTrust, a retail specialist formerly known as Inland American Real Estate, is shopping the properties via **CBRE** and **HFF.** The nontraded REIT, based in Downers Grove, Ill., prefers to sell the portfolio intact, although the buzz is that a couple of centers could be removed before the formal marketing campaign kicks off this week. It's unclear if bids on individual centers would be considered.
At the anticipated price, a sale would be the second-largest so far this year in the

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Capitalization rates had been trending down in recent years, Mourey said, but buyers have pushed back and rates are now stabilizing. "Whenever there is a change of a trend, there is a period of time where pricing expectations are in flux and activity slows down," he said. "Once the new normal is understood, we start going again. I don't think we are there yet, but I am hopeful it will be soon."

Mark Bratt, a CBRE senior managing director who leads the firm's national retail investment-sales operation, agreed the negative news made investors more cautious, but added: "There has been some price discovery in secondary markets, and sellers have readjusted expectations." He added that high-quality properties "are more in demand than ever. I think the second half will pick up. This could be an opportune time to buy."

A major reason for the drop in overall volume was a dearth

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RANKINGS

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of large-scale trades. Last year, there were seven first-half deals of at least $400 million. This year, there was just one: Madison International Realty paid DDR $837.5 million in June for an 80% stake in a 7 million-square-foot portfolio marketed by Eastdil. It was the first time since early 2014 that a half-year went by without a $1 billion-plus sale. The average deal size dropped to $34.7 million, from $66 million a year earlier. If that holds true for the full year, it will be the smallest average size since 2010.

CBRE's Bratt said buyers are eyeing large trades more carefully. "It used to be size was not necessarily an obstacle," he said. "If you had a $200 million center and it was a great core property, you could meet the seller's expectations. Today, if you go to an investment committee with a deal of that size, they look at it and say, 'That is a big bet, so let's make sure we understand every aspect of the center and trade area.' " He added that the "sweet spot" now is $40 million to $100 million.

The retreat from large deals included a 78% plunge in mall sales, to just $740.4 million from $3.3 billion in the first half of 2016. While trophy malls continue to command interest, listings are rare because most are in the hands of long-term holders. Meanwhile, Class-B malls continue to struggle amid store closures.

Another factor was a drastic drop in Manhattan sales. After three straight years in which first-half volume topped $1 billion — culminating in a record $1.4 billion last year — sales in the borough plummeted 75%, to $345 million in the January-June period. Manhattan rents, the highest in the nation, were down sharply in the borough's top five retail corridors, according to JLL. Investors, who had been betting on double-digit rent growth, are now trying to determine where the bottom might end up.

The bright spots in the retail picture continue to be the top-performing properties, typified by grocery-anchored centers in suburbs of major cities and other markets with solid fundamentals.

"The media frenzy has been beating this drum that retail is in terrible shape and the internet has destroyed bricks and mortar, but the facts don't bear that out," said Brad Hutensky, chief executive of Hartford-based Hutensky Capital. "The big story is still flight to quality. High-quality properties in big markets are selling."

To be sure, the trends are troubling elsewhere in the sector. A June report by JLL tallied 18 major retailers that have announced they will close 100 stores or more, with Radio Shack (552), Payless Shoes (512) and Gymboree (450) topping the list. Department stores such as JC Penney (130) and Kmart (157) also have pending closures.

But New York research firm REIS published a study this year on the impact of 470 store closures already completed that found only "a marginal impact on rent growth in some metros." At midyear, shopping center occupancy was 90%, down just 10 bp from the first quarter. Asking rents were up 1.6% year-over-year.

And there are encouraging signs. Some retailers are expanding: Taco Bell is adding 300 locations with an upscale concept that includes alcohol sales, and JLL reported openings are planned by Dollar General (1,000) and Dollar Tree (650). Retailers are finding ways to combine e-commerce with

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Retail Sales by Region in the First Half

		1H-17 Amount ($Mil.)	No. of Prop.	1H-16 Amount ($Mil.)	No. of Prop.	Top Broker
1	Southeast	$1,896.1	68	$1,979.3	42	Eastdil Secured
2	Midwest	1,480.7	31	1,409.3	16	Eastdil Secured
3	California	1,359.6	20	2,581.4	34	Eastdil Secured
4	Northeast	1,323.6	27	2,610.2	38	Newmark
5	South	1,195.6	22	1,613.8	24	CBRE
6	Southwest	995.4	11	2,636.2	15	Eastdil Secured
7	Mid-Atlantic	871.1	16	1,613.1	24	Eastdil Secured
8	Northwest	367.5	5	452.9	10	Eastdil Secured
9	(Multi-state)	479.7	87	2,001.9	53	CBRE
	TOTAL	9,969.2	287	16,898.2	256	

RANKINGS

Top Retail Brokers in the First Half

Brokers representing sellers in deals of at least $25 million

		1H-17 Amount ($Mil.)	No. of Properties	Market Share (%)	1H-16 Amount ($Mil.)	No. of Properties	Market Share (%)	'16-'17 % Chg.
1	Eastdil Secured	$3,145.2	69	36.7	$3,931.5	34	28.7	-20.0
2	CBRE	1,727.2	114	20.2	2,152.6	31	15.7	-19.8
3	Newmark	1,115.5	24	13.0	216.1	7	1.6	416.2
4	HFF	1,097.6	24	12.8	2,222.8	35	16.2	-50.6
5	Cushman & Wakefield	498.2	11	5.8	436.3	10	3.2	14.2
6	JLL	343.0	7	4.0	1,175.0	4	8.6	-70.8
7	Mid-America	319.9	5	3.7	46.5	1	0.3	588.0
8	Savills Studley	83.6	2	1.0	555.3	6	4.1	-84.9
9	Lee & Associates	73.4	1	0.9	0.0	0	0.0	
10	Eastern Consolidated	63.5	1	0.7	217.9	3	1.6	-70.9
11	Colliers International	59.1	2	0.7	228.5	7	1.7	-74.1
12	Berkeley Capital	43.2	1	0.5	0.0	0	0.0	
	OTHERS	0.0	0	0.0	2,516.0	116	18.4	-100.0
	Brokered Total	**8,569.3**	**260**	**100.0**	**13,698.5**	**202**	**100.0**	**-37.4**
	No Broker	1,399.9	27		3,199.7	54		-56.2
	TOTAL	**9,969.2**	**287**		**16,898.2**	**256**		**-41.0**

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physical stores via a "multi-channel" approach. And shopping-center owners are having some success in adding entertainment attractions to draw traffic.

One blockbuster move — Amazon.com's pending $14 billion deal to buy Whole Foods Market — has raised questions for the most stable part of the sector. "Grocery-anchored neighborhood shopping centers have so far been largely immune to the online tidal wave . . . but Amazon just brought conventional wisdom into question," Green Street Advisors of Newport Beach, Calif., wrote in a June 21 report. But it pointed to a potential silver lining, saying Amazon "indicated that a physical presence is imperative" to its strategy.

In the race for the brokerage crown, Eastdil closed $3.1 billion of deals by June 30, down from $3.9 billion in the same period last year. That 20% drop was less than the overall 37% decline for brokered trades, so its market share increased to 36.7%, from 28.7%. That's notable because Eastdil usually performs better when big deals are prevalent, and tends to lose ground when smaller deals are in vogue. The firm still handled six of the 10 largest transactions.

CBRE saw a similar drop in sales, to $1.7 billion from $2.2 billion. Its market share rose to 20.2% from 15.7%.

Newmark skyrocketed into third place, increasing its volume five-fold to $1.1 billion, for a 13% market share. It brokered two of the top five trades, just one less than Eastdil. Newmark narrowly outpaced HFF — by just $17.9 million.

The rankings are based on transactions of at least $25 million that closed during the first six months of the year. When multiple brokers shared a listing, the dollar credit was divided evenly but each broker was credited for one property. 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 $25 million or more. ❖