

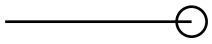


Opportunity Exists Everywhere



BROKER COOPERATION IS THE
KEY TO UNLOCKING IT

Executive summary



Our previous whitepaper made the case for commercial real estate broker cooperation from a market logic point of view. In this follow up we consider how full broker cooperation is essential for brokers and their clients to unlock the opportunities that exist in the CRE market today. Specifically, we look at the rise of non-primary real estate markets in the US; the changing of the guard in terms of who is investing in CRE today (hint: it's not the usual suspects); and finally, unlocking opportunity in CRE wherever we find ourselves in economic cycles.

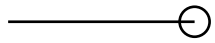
It all comes down to creating an efficient, optimized market, and the last three-plus decades have shown us that broker cooperation is key to this.

This whitepaper is SVN International Corp's President and CEO, Kevin Maggiacomo's last piece before his death in 2022.

Thank you to Solomon Poretsky, SVN Chief Development Officer, and Cameron Williams, SVN Director of Research and Sales Operations, for their contributions.



Introduction



SVN's not-at-all-best-kept-secret is that we eat, sleep, and breathe broker cooperation. For us, it's the future of the CRE market, and, full disclosure, it's something we've been doing for decades already, and we're consistently seeing the upside of doing so.

We think the rest of the industry urgently needs to tap into the power of cooperation to drive shared value. We made the case for this in our previous whitepaper.

Time's up for non-cooperation in CRE

In this new whitepaper, we start exploring the potential opportunities that cooperation unlocks, specifically looking at three big trends taking place today:

- 1 The growth of secondary and tertiary markets
- 2 The rise in new entrants into the CRE market
- 3 Unpredictable and changeable economic cycles

But first, we discuss the CRE broker of the future. Because as well as being the key to opportunity and value, broker cooperation is inevitable and is being driven by the intersecting forces of client expectations and the rise in digital technology in our industry. These twin forces will shape the broker of the future, who will, in turn, be best positioned to benefit from cooperation and the opportunities that cooperation unlocks.

The CRE broker of the future

The CRE broker of the future is going to be driven by a more informed client who is armed with real estate data that they simply didn't have access to a decade ago. It will become increasingly commonplace for your clients to profile and understand a CRE market they are interested in investing or divesting in. And it won't matter if they live in that town's center, 2,800 miles away, or on the other side of the planet.

Inevitably, this means that the broker who doubles down on simply connecting two sides of a transaction – just being a matchmaker – is going to be usurped by the advisor who understands that modern clients, whether buying or selling, need more than this. If sellers, buyers, landlords, and tenants have unprecedented access to data, then what they really need is someone who can help them make sense of that data.

The broker of the future is not going to be a salesperson for the product, but instead will add value **by focusing on where a property is going, and strategically advising their client accordingly**. Meanwhile, the matchmaker role is inevitably going to be automated.

As well as being more informed than ever before, clients understand the power of a network (because they use them every day to book vacations, shop, commute, and hire) and will expect their real estate advisor to have the same understanding. It's going to be very difficult to insist that a single person's contact list will magically produce an optimal shortlist and ultimately, the perfect buyer for their property. **Clients of the future will demand broker cooperation and the generation of organized competition through fee sharing** to get the best deal at the best terms for their properties.

Opportunity Exists Everywhere

Where then is this opportunity? Quite frankly, it's everywhere, but there are three specific trends we are most excited about.

Opportunity 1

THE RISE OF SECONDARY AND TERTIARY MARKETS

Conceptually, the US has become much smaller. And this means that there are an increasing number of interesting opportunities in secondary and tertiary CRE markets that can round out property portfolios and offer attractive returns. The key, though, to unlocking these markets is, you guessed it, broker cooperation.

Every day we can see how the country is getting smaller. Regional accents are no longer so pronounced. We all shop at the same grocery and department stores and buy the same brands. And wherever we live, we, for the most part, have similar access to education, medicine, the internet, and other services. The most recent narrowing of the gap between urban and rural, and big and small towns is remote work untethering where we live from where we work. This has made the attraction of a great lifestyle in smaller towns across the country undeniable and achievable, especially when you consider the rising costs of living and doing business in primary markets.

WHERE PEOPLE GO, BUSINESS FOLLOWS, AND SO DOES CAPITAL

According to the National Association of Realtors (NAR) Research Group's *October 2022 Commercial Markets Insights Report*, **rent in multifamily properties has grown fastest in secondary and tertiary markets**, specifically in Sun Belt areas such as Knoxville (11.7%), Miami (10.6%), Charleston (10.1%), and Orlando (9.4%)¹.

Further, the May 2022 NAR report indicated **that nearly all the major absorption gains in office space were in non-primary markets**, particularly Inland Empire

(1.3 million square feet) and Las Vegas (1.1 million square feet). Charleston, Salt Lake City, San Antonio, Raleigh, and several Florida metro areas (Pensacola, Fort Myers, Orlando, Sarasota, Naples, and Miami) also saw significant increases in office occupancy.

The same report showed that traditionally non-primary property markets saw the largest job gains, particularly in the South and West, compared with larger numbers of job losses in primary markets.

This makes it unsurprising that when you look at Urban Land Institute and *PWC's Emerging Trends in Real Estate Report 2022*, you'll find that many secondary and tertiary markets appear on its US markets-to-watch lists.

1. Nashville

2. Raleigh/Durham

3. Austin

4. Charlotte

5. Dallas/Fort Worth

These non-primary cities all appear in the top 10 of Overall Real Estate Prospects; Local Market Perspective: Investor Demand; and Local Market Perspective: *Availability of Debt and Equity Capital* in *Emerging Trends in Real Estate Report 2022*

While we were undeniably seeing perfect conditions for secondary and tertiary markets to offer increasing value for investors, we're not saying primary markets are going anywhere. This is not a zero-sum game. Instead, we're suggesting that investors consider the opportunity in secondary and tertiary markets in terms of the value that assets in these markets can bring to their overall CRE portfolio.

¹ All year-over-year growth in Q3 2022

**IF INVESTORS ARE TRULY OPEN TO THE
BEST TRANSACTION AND NOT ONLY
WHAT THEY LIKE OR KNOW,
SECONDARY AND TERTIARY MARKETS
HAVE SOMETHING TO OFFER.**

Surveying the entire market, including non-primary markets, to find properties that meet your risk and return criteria is especially important now because properties that meet these criteria are likely to be everywhere.

Similar properties across Los Angeles, Phoenix, and Tucson could have cap rates of five, six, and seven, respectively. What makes each of these a good deal or not depends on what you need the asset to do in your portfolio.

And the way to find these great deals? Broker cooperation, of course. Say you're a New York or Los Angeles-based CRE broker with a great relationship with your client. You want to help them diversify their portfolio across more markets. Do you need to suddenly become an expert on all 384 metropolitan areas across the US? That's impossible. Even with the internet, there's no way you can build the same network you may have in New York or LA. And you're never going to be able to tap into the on-the-ground, back-channeled intelligence that unearths the gems before anybody else finds out about them. **But, having a relationship with a cooperative broker who, in turn, has relationships with like-minded colleagues across the country gives you access to that high level of intelligence everywhere, helping you find more opportunities for your clients.**

Likewise on the seller side, if you're a secondary or tertiary market broker, the best way you can efficiently market your client's property is by reaching the largest group of great prospects. Today, these are coming from all over the country (and even beyond – see Opportunity 2 below). **A single broker cannot possibly know all the potential buyers for an asset, and this is especially true in secondary and tertiary markets.**

But with broker cooperation, you're marketing that property to the widest possible audience.

**THE RISE OF THE SECONDARY AND
TERTIARY MARKETS TRULY
DEMONSTRATES THE ABILITY OF
COOPERATION TO UNLOCK
OPPORTUNITIES IN CRE. FOR
BUYERS, IT HELPS THEM FIND THE
IDEAL PROPERTY FOR THEIR
PORTFOLIO, WHEREVER THAT
PROPERTY IS LOCATED. AND FOR
SELLERS, IT CREATES AN EFFICIENT
MARKET, SO THEY DON'T LEAVE
MONEY ON THE TABLE.**



Opportunity 2

NOT THE USUAL SUSPECTS

More money is flowing into CRE than ever before. And it's coming from some atypical places. For instance, according to CoStar stats, 66% of deals this year so far have been with buyers from out of state, or even outside of the US. This means that if you're only ever chasing the usual suspects on behalf of your client, you are missing out on a large swathe of the potential market for that property. And most likely missing out on the best buyer for your investor. This illustrates the stark difference between old-school brokers and the broker of the future who plays a strategic advisory role

**A STRATEGIC ADVISOR WOULD NEVER
IGNORE A PORTION OF THE TOTAL
ADDRESSABLE MARKET.**

WHERE ARE THESE NEW INVESTORS COMING FROM?

1 ULTRA-HIGH NET-WORTH INDIVIDUALS AND FAMILY OFFICES LOVE CRE

According to the UBS Global Family Office Report, private equity allocations in real estate are set to rise by 37% over the next five years.

2 INSTITUTIONAL MONEY LOVES CRE

Institutional allocations to real estate have grown for eight straight years, with this trend expected to continue in 2022, according to *Hodes Weill & Associates 2021 Institutional Real Estate Allocations Monitor*. It forecasts 2022 allocations will reach 11%, which is equivalent to an additional \$80 billion to \$120 billion of capital flowing into real estate.

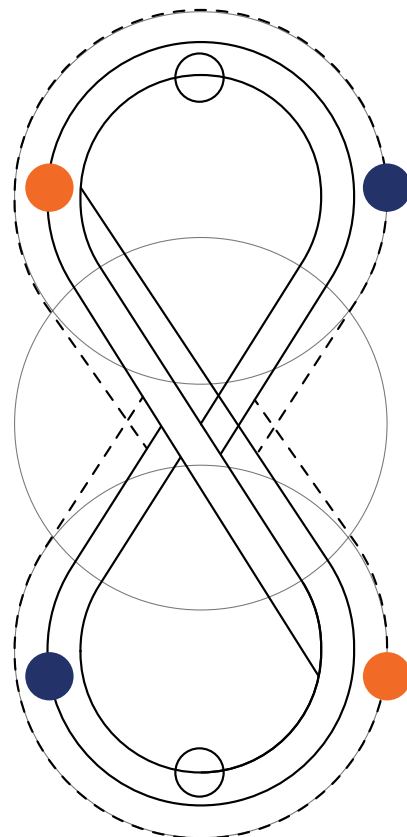
3 INTERNATIONAL MONEY LOVES CRE

ACCORDING TO NAR, FOREIGN INVESTOR ACQUISITIONS OF CRE IN THE US INCREASED BY 49% IN 2021.

This was worth an estimated \$58 billion. And, the most recent survey conducted by The Association of Foreign Investors in Real Estate (AFIRE) noted that 75% of members (175 organizations across 23 countries) expected to boost their investment in the US over the next three to five years, with the most popular property surveyed being multifamily. There is no doubt that the real estate secret is out to non-professional and non-traditional buyers, and more unexpected money is coming into real estate today than in recent memory. Real estate does well, even when interest rates climb, and the market is uncertain. This is driving increased participation by people and institutions many brokers have never heard of, and certainly don't have on their Rolodex.

And this is only one set of unusual suspects to consider. See **Opportunity 1** for insight into how increasingly investors are including secondary and tertiary markets in their portfolios. They're also crossing state lines and national borders. Finally, **investors are blurring the lines between asset classes with mixed-use buildings and cross-asset buying.**

The conclusion? You can't base your future buyers' list on people who have bought in the past. And any broker that claims to know all the buyers in the market is mistaken and is leaving their clients' money on the table. To take advantage of this opportunity brokers need a strategy to leverage the power of the missing 66% (or more) to drive value for their clients and brokers. And they have a choice here. They can go it alone and attempt to build their own comprehensive database of potential buyers, **or they can energize the entire brokerage community through fee sharing and full cooperation to bring these buyers to the table.**



Opportunity 3

NEGOTIATING CYCLES IN THE ECONOMY

Challenging, and changing, economic times bring different market conditions. Opportunities exist, but in different places and you may need to look for them. For instance, buyers apply different standards and operate with modified strategies. And, at the same time, sellers operate with higher degrees of motivation but with increased external pressures. **Creating an efficient market is more difficult than ever.**

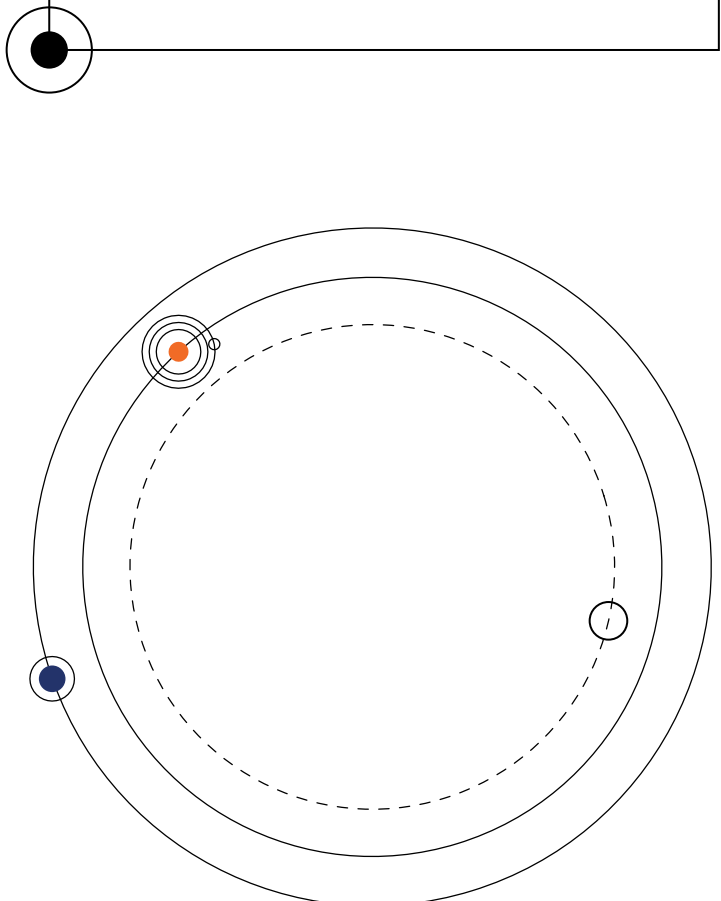
Nevertheless, there are always opportunities to be had in the CRE market, whether the market is on an upswing and things are looking rosy, or if times are tough and uncertain and the market is in a slump. If you look for opportunities you'll find them, as long as you are ready and well-positioned to take advantage of them.

In challenging economic times, commercial real estate assets have historically been viewed as countercyclical, with trophy properties, multifamily, agricultural land, and necessity retail doing particularly well. And buying opportunities abound for cash-rich investors. Additionally, in inflationary times, real estate has historically been a hedge as the value of money decreases.

The first unavoidable truth is that economic cycles are inevitable. And the second unavoidable truth is that **investors absolutely need a CRE broker during a downswing** (Investors need one during an upswing as well, even though they don't think so. But they are unlikely to be getting the best price without a broker aiding the negotiation, even in buoyant economic times.)

During a downswing in the economy the most prominent buyers are those looking for a discount, and, at the same time, they'll be more demanding with their expectations. But it has always been possible to sell investment assets with positive cashflows during a downturn. More recently, this is even more likely with more money flowing to CRE in more places around the country **(see Opportunities 1 and 2.)**

THIS MEANS THAT NOT ONLY DO INVESTORS NEED A BROKER TO NEGOTIATE THE DEAL, THEY ALSO NEED BROKERS THAT FULLY COOPERATE TO REACH THE WIDEST POTENTIAL MARKET FOR AN ASSET AND MAXIMIZE THE SELLING PRICE. THE MOST POWERFUL MARKETING TOOL THAT A SELLER HAS IS THE FEE, THE INCENTIVE TO MOTIVATE THE BROKERAGE COMMUNITY TO WORK ON THE DEAL, AND THE INCREMENTAL PROFIT ON AN ADDITIONAL OFFER IS SIGNIFICANT.





Conclusion

Whether you are a buyer or a seller of CRE, or representing a buyer or a seller, it is clear that broker cooperation is inevitable and essential. **Going it alone in a data-driven, networked world is going to become increasingly isolated and ineffective.** Cycling through the list of usual suspects in traditional locations is going to run out of steam very soon.

***MEANWHILE, BROKERS THAT DO
COOPERATE FULLY, AND ACT AS
STRATEGIC ADVISERS TO THEIR CLIENTS
WILL FIND AND GRAB THE
OPPORTUNITIES THAT CRE OFFERS.***

We should know,

as SVN was founded on the basis of these principles in 1987 and we have been working like this for over 36 years.

**IF YOU'RE INTERESTED IN LEARNING
MORE ABOUT THE POWER OF
COOPERATIVE BROKERAGE, VISIT
WWW.SVN.COM**