



U.S. Commercial Real Estate Brokerage

Finance & Investment Club
Real Estate Sector

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What is U.S. Commercial Real Estate Brokerage?

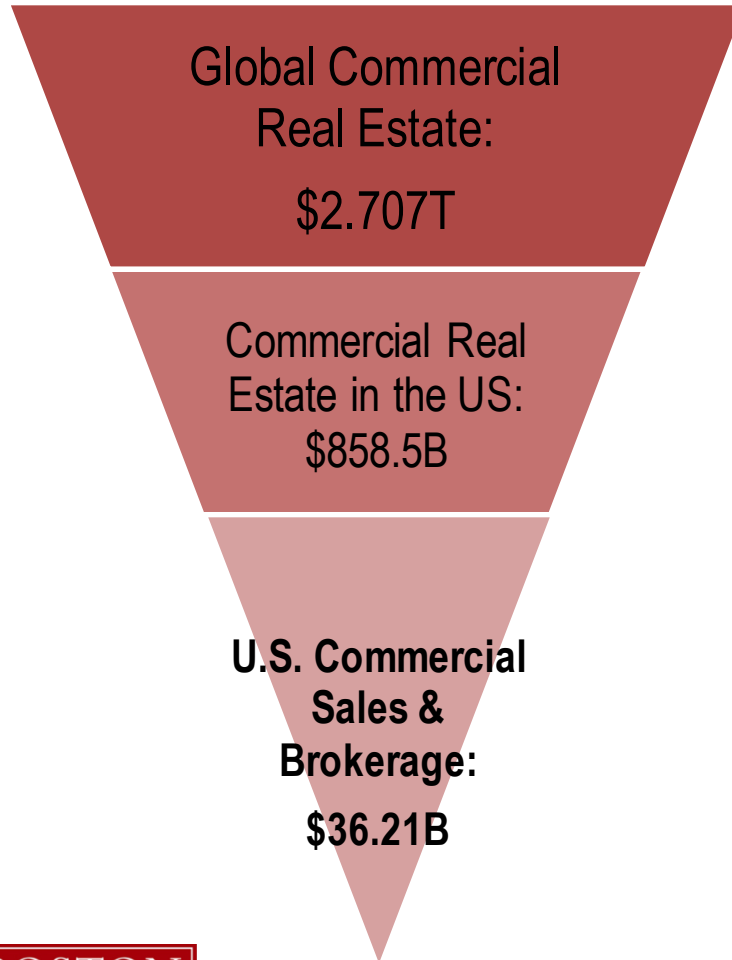
Commercial Real Estate Brokerage facilitates buying/selling of revenue generating properties.

This industry is comprised of companies that facilitate the acquisitions and sales of revenue generating properties in the U.S., like multi-family homes, apartment complexes, office, retail, hotel, and industrial space to a wide variety of investors including corporations, high net worth individuals, institutions, investment funds, as well as prospective landlords or property managers.



Low Barriers to Entry Leads to Large Revenue Distributions

Industry Revenues (2014)



Market characterized by low levels of revenue concentration, with many different regional, non-public players in the mix with the national, public players.

Major Players in the Industry	Market Share
Realogy Holding Corp	3.5%
CBRE	1.5%
Cushman & Wakefield	1.5%
Newmark Grubb Knight Frank	1.0%

Revenue Generation in Commercial Brokerage

Commission-based business wherein the brokers provide search, negotiation, and transaction services to buyers and sellers

Buyers & Lessees

Buyer/lessee will approach the broker expressing an interest in purchasing or leasing a commercial property



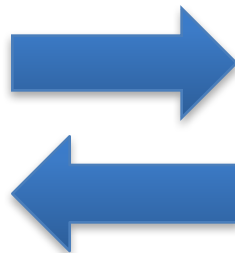
Sellers & Lessors

Works with a brokerage firm that will list and market their properties; and they request amendments to the contracts until they are satisfied with the terms.



Buy Side Broker

Searches for spaces matching the criteria and negotiates contract on behalf of the buyer/lessee.



Sell Side Broker

Represents the commercial space for rent/sale. Negotiates contract with buy side broker.

Company Overview: Marcus & Millichap Inc. (MMI)

MMI exhibits strong operational efficiency and growth potential as a relatively new public company

- **What is it and what does it do?**

- A leading national brokerage firm specializing primarily in commercial real estate investment sales through the underwriting, marketing, and brokerage of commercial properties.

- **How does it generate revenue?**

- Primarily through real estate investment sales commissions, which comprise >90% of revenues.
- Secondarily through fees related to debt financing and advisory services.

- **Who are its clients?**

- MMI focuses primarily on the sell-side supply of commercial real estate, forging relationships with those that own properties.
- Transactions predominantly come from the Private Client Market in the Retail and Multifamily properties asset classes.

Marcus & Millichap Real Estate Investment Services

Marcus & Millichap Inc.	
<i>Ticker (NYSE)</i>	MMI
<i>Close Price (3/31/16)</i>	\$25.39
<i>52 Week Range</i>	\$18.77 - \$53.92
<i>Market Cap (4/1/16)</i>	\$948.98M
<i>EV (4/1/16)</i>	\$795.63M
<i>Profit Margin</i>	9.54%
<i>Operating Margin</i>	16.38%

Recommendation Summary

Using various multiples MMI is an undervalued stock

Hold	
Company (Ticker)	MMI
Current Trading Price (04-17-2016)	\$24.92
Target Price	\$30.23
<i>Upside Potential</i>	21.3%

Company Trends: Business Strategy & Macroeconomic Factors



Company Expansion and Increased Workforce

Source(s): Marcus & Millichap 2015 Annual Report 10k

Pre & Post IPO expansion has allowed MMI to capitalize on the growing commercial real estate market

▪ Focused expansion and development of investment sales professionals

- From their IPO in 2013 through year-end 2015, the number of sales professionals has grown a total of 26.93%, with 15.29% growth in 2014 and 10.1% growth in 2015.
- During this growth in sales professionals, the average number of transactions per sales professional has increased from 4.12 in 2013 to 4.43 in 2015, along with sizeable increases in the average commission per transaction.
- The average commission rose 17.74% overall from 2013 to 2015, with increases of 10.71% in 2014, and 6.34% in 2015. This has pushed the commission per transaction to nearly \$100,000.

Real Estate Brokerage	2015	2013	%Δ
Average # of Sales Professionals	1,428	1,125	26.9%
Average # of Transactions per Professional	4.43	4.12	7.5%
Average Commission per Transaction	\$99,901	\$84,852	17.7%
Average Transaction Size (Millions)	\$4.492	\$3.736	20.2%
Total # of Transactions	6,332	4,634	36.6%

▪ Increased lead in market share among private client market segment

- Marcus & Millichap focuses mainly on the private client market segment, or on properties with values ranging from \$1 to \$10 million.
- It has increased their market share in this segment by nearly 16% over the past three year, from 6.9% of all transaction at the end of 2012 to 8% of all transactions at the end of 2015.

Real Estate Brokerage:	2015			2014		
	Number	Volume (in millions)	Revenues (in thousands)	Number	Volume (in millions)	Revenues (in thousands)
<\$1 million	1,174	\$ 718	\$ 29,971	1,300	\$ 792	\$ 33,931
Private Client Market (\$1-\$10 million)	4,611	14,898	439,164	3,825	11,748	351,135
Middle Market (≥\$10-\$20 million) ...	352	4,776	89,886	306	4,184	78,067
Institutional Market (≥\$20 million) ..	195	8,052	73,553	157	8,627	61,818
	<u>6,332</u>	<u>\$28,444</u>	<u>\$632,574</u>	<u>5,588</u>	<u>\$25,351</u>	<u>\$524,951</u>

Company Trends: Business Strategy & Macroeconomic Factors



Increase in Foreign Capital Inflows

Source(s): Jones Lang Lasalle, U.S. Bureau of Economic Analysis

Foreign Capital Investment in U.S. CRE is creating a seller's market with high property valuations and commissions

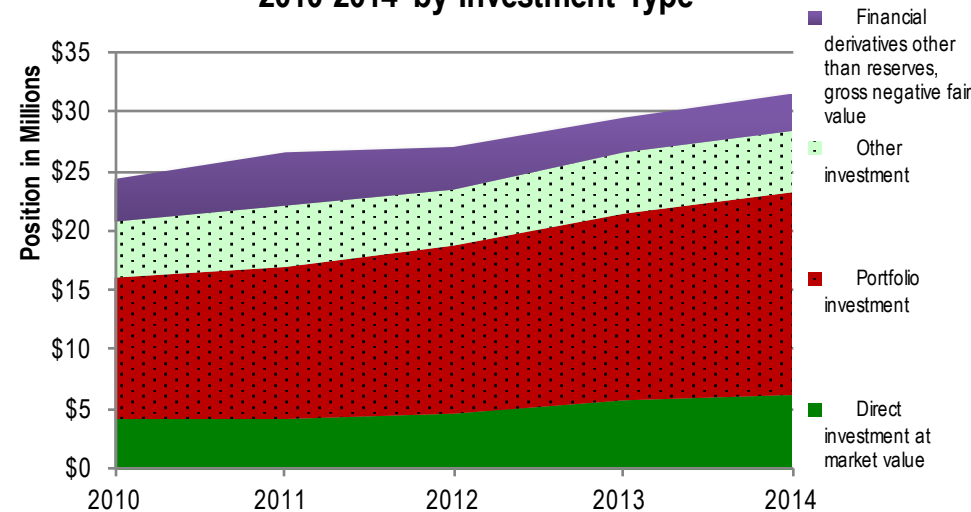
Macro-economic Trend

- Increases in foreign capital flows into the United States, specifically within Commercial Real Estate, are driving growth and property values within the industry.
- International Portfolio Investment and Other Investment in the U.S., which includes investments in and development of commercial properties, have grown at CAGRs of 7.34% and 2.20% respectively, indicating an attractive investment environment in the United States for international players.

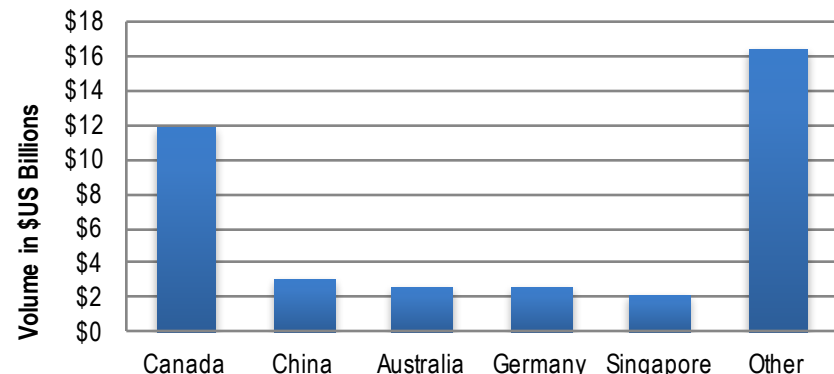
Effect on Marcus & Millichap's Going Forward

- Foreign investors see commercial properties in U.S. metropolitan areas as "safe" investments due to high levels of liquidity and increasing property values in those markets, creating favorable yields.
- Capital availability is an important driver of brokerage sales, and the continued availability of foreign capital bodes well for Marcus & Millichap as foreign investors look to alternative assets like real estate in the relatively healthy U.S. economy.**

U.S. Liabilities (Assets Held by Foreign Countries) 2010-2014 by Investment Type



Foreign Capital into the U.S. (\$ Billions) by Country in 2014



SWOT Analysis & Company Valuation

Marcus & Millichap: A SWOT Analysis

Source(s): Marcus & Millichap 2015 Annual Report 10k

Marcus & Millichap's faces mainly macro-economic risks while retaining potential areas for growth and strong leadership

Business Strengths

1. Brand Name in the private client market.
2. Management has a strong real estate background with respectable prior experience in the industry and at Marcus & Millichap
3. Sales Team is very strong and puts up great numbers

Operational Weaknesses

1. Inability to retain top sales clients due to their concentration on the private client market.
2. Small teams make less availability for brokers during economic boom times.
3. Revenues are very concentrated in the private client market, and specifically within retail and multi-family assets.

Opportunities (Growth Strategy)

1. Expanding investment sales team to target the middle-market and institutional markets.
2. Additional focus on non-core property types as well as under-represented "core" properties like Office & Industrial.
3. Investments and growth in the financing arm of their operation outside of in-house sales.

Threats (Risks)

1. Market volatility stemming from interest rate changes and dependence on foreign capital.
2. Highly competitive industry with rivals that have greater resources.
3. Revenue concentration in California (31% in 2015) leaves MMI especially vulnerable to downturns in the CRE market there.

Declining Vacancies in Commercial Properties

Source(s): National Association of Realtors, CoStar

The declining rate of vacancies in commercial properties is a healthy sign for the investment in the commercial industry

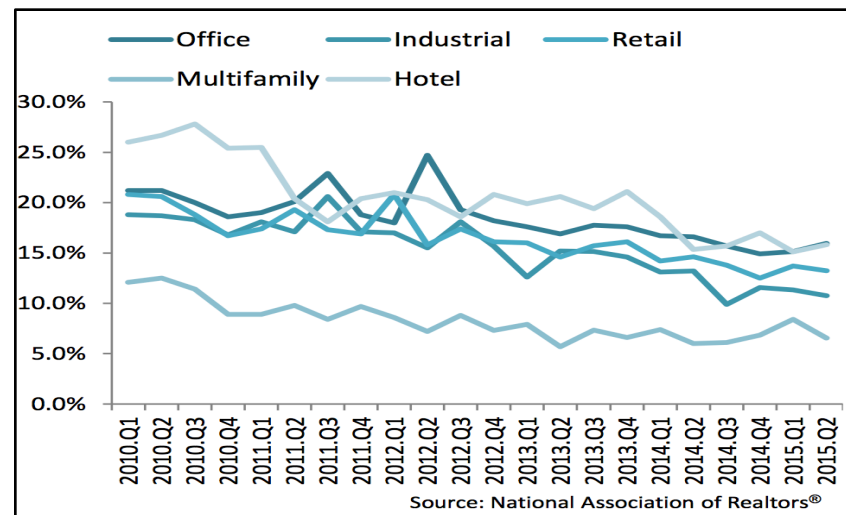
■ Macro-industry Trend

- Decreasing vacancy rates since the recession reflect a recovering economy as well as an increase in the confidence of business going further.
- Office, Industrial, and Retail commercial markets are expected to see further declines in vacancy rates through 2016's second quarter, with the multifamily market projecting an increase of .1% to 4.4%, still well under the "Landlord's Market" threshold of 5%, meaning higher demand and higher rent values.

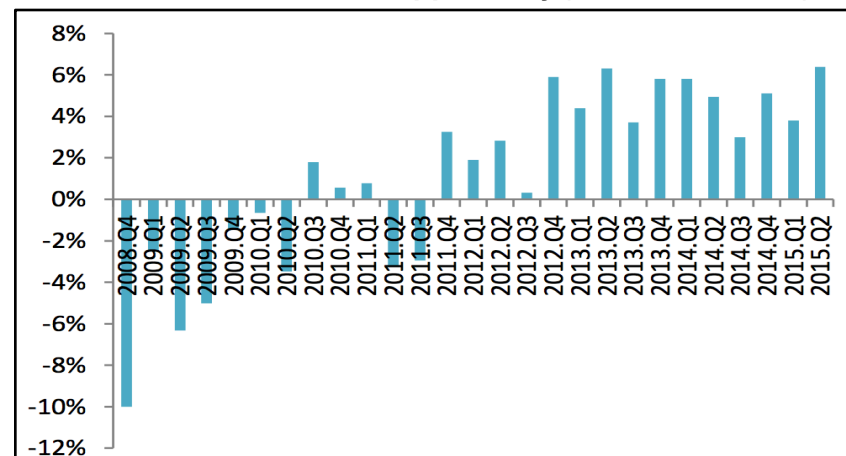
■ Effect on Marcus & Millichap's Going Forward

- MMI's "core" asset classes are Retail, Multi-family, Industrial, and Office properties, representing >85% of all brokerage transactions; while, Multi-Family and Retail together combine for >75% of all transactions.
- ***With overall rates forecasted to keep declining, and Multi-Family rates staying under the Landlord's Market threshold, Marcus & Millichap stands to gain from the strong fundamentals that help drive property values.***

U.S. Commercial Vacancies (2010Q1 – 2015Q2)



Direction of Business Opportunity (2008Q4 – 2015Q2)



Comparable Companies Analysis

Company	Ticker	EV	Market Cap	Revenue	EBITDA	Net Income	P/E	EV/EBITDA	EV/EBIT
Marcus and Millichap	MMI	773.7	931.7	658.3	111.0	62.8	14.8x	7.0x	6.68x
CBRE Group	CBG	13,250	9,160	10,860	1,110	547.1	16.7x	11.9x	14.12x
Jones Lang LaSalle Inc	JLL	5,850	5,220	5,970	672.1	438.4	11.9x	8.7x	9.00x
Colliers International Group	CIGI	1,510	1,360	1,720	175.1	22.2	61.2x	8.6x	19.09x
Holliday Fenoglio Fowler	HFF	1,110	1,030	502	116.6	84.0	12.3x	9.5x	7.84x

*all \$ figures listed in millions

Historical Cash Flow

Post- IPO MMI had a large increase in cash which was reinvested for nationwide expansion

	2011	2012	2013	2014	2015
Net Income	33.8	70.5	35.1	119.7	163.4
Add: Depreciation & Amortization	2.9	(3.0)	(3.0)	(3.2)	(3.3)
Less: Change in Net Working Capital	(2.0)	(4.0)	58.0	4.0	(3.0)
Less: Capital Expenditures	(3.0)	(5.0)	(5.0)	(3.0)	(7.0)
Operating Cash Flow	31.7	58.5	85.1	117.5	150.1
Initial Cash Balance	-	3.2	3.1	101.0	149.2
Cash Available for Investors	31.7	61.7	88.2	218.5	299.2
Debt Additions (Repayments)	-	-	-	(1.0)	(1.0)
Dividend Payments	(2.0)	(4.0)	(34.0)	(5.0)	(7.0)
Historical Cash Adjustment	(26.5)	(54.6)	46.8	(63.3)	(95.1)
Ending Cash Balance	3.2	3.1	101.0	149.2	196.2

Forecasted Projections

Analyst projections indicate growth of 16% from 2015

	2016	2017	2018	2019	2020
EBIT	\$132.47	\$149.69	\$164.66	\$176.19	\$185.00
- Taxes	- \$61.31	- \$69.28	- \$76.21	- \$81.55	- \$85.63
+ D&A	\$ 3.4	\$ 3.5	\$ 3.6	\$ 3.7	\$3.8
- CAPEX	- \$7.34	- \$7.93	- \$8.57	- \$9.26	- \$9.99
- Δ in NWC	- \$8.02	- \$ 7.38	- \$ 6.79	- \$ 6.44	- \$ 6.22
Unlevered FCF	\$ 59.19	\$ 68.60	\$ 76.69	\$ 82.64	\$ 86.96
Net Present Value	\$299.64				

▪ *all \$ figures listed in millions