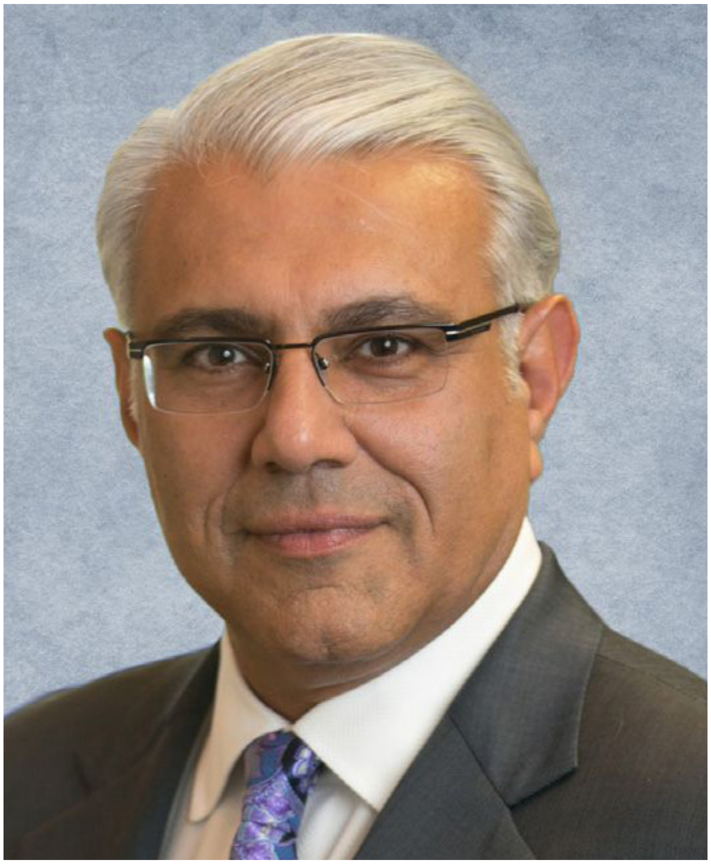
SERVICE EXECUTIVE OF THE YEAR

HESSAM NADJI

President & CEO, Marcus & Millichap

INVESTOR-DRIVEN: Nadji has been with Calabasas, Calif.- based Marcus & Millichap for 23 years and has held his current position for two years. He joined the company in 1996 as vice president of research and advisory services and helped establish the company's expertise in research and investment trend forecasting. He went on to lead its specialty brokerage divisions. In 2013, he played a leading role in the preparation and execution of the firm's IPO.

THE BIG PICTURE: Marcus & Millichap is the largest firm in the industry specializing in real estate investment brokerage, financing and advisory services. The company was founded in 1971 and has grown to 80 offices and nearly 2,000 investment and financing professionals, covering every major property type in the U.S. and Canada. Since taking over, Nadji appointed company veteran Mitch LaBar as COO, and together they renewed the leadership team through in-house promotions of key executives to oversee the company's five geographic divisions. They also brought in new national leadership, including Jeffery Daniels to head the company's Institutional Property Advisors apartment business, Scott Holmes to head retail and David Shillington to head the company's finance business, Marcus & Millichap Capital Corp. Nadji has also led a complete "platform refresh" that includes multiple key refinements and upgrades to enterprise systems, new technology and expanded branding for the firm. More initiatives in all areas are planned for 2019.



STRATEGIC ACQUISITIONS: With the acquisition of Cleveland, Ohio-based brokerage Pinnacle Financial Group, the company filled a service gap in key areas of the Midwest with proven financing experts. The acquisitions of Canadian-based commercial real estate firms McGill Commercial and Primecorp Commercial Realty give the company a presence in every major metropolitan area in Canada. "We bring them our platform, our technology, our management support. They bring us their client relationships and track record. Everyone benefits from the synergies, the ability to do more business. We are very encouraged by the opportunity to acquire quality firms and groups as a supplement to our strong organic growth model," said Nadji.

STRONG FINANCIALS: In 2018 revenues increased by 13.2 percent to a record $815 million and NOI increased by 69 percent year over year. Marcus & Millichap sales force grew by 158 professionals and financing fees rose by 16.4 percent year over year. The firm closed nearly 9,500 sales and financing transactions, with a sales volume of over $46 billion.

RESEARCH-CENTRIC: "Our research is a keystone of our client services and agent support. We produce over 1,000 publications and over 300 economic/market alerts. This content is becoming interactive and viral through our electronic distribution," Nadji said. "In the age of information overload, how do you make sense of it all and boil it down to what benefits the client? We continually strive to be a part of that decision-making process with our clients."

CORPORATE CULTURE: "From a cultural perspective, collaboration and camaraderie are a huge part of who we are. We have a host of internal events, networking opportunities and best practices we utilize to foster our collaborative culture," said Nadji.

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Executive Spotlight: Hessam Nadji, Marcus & Millichap

The president & CEO of the industry's largest investment brokerage company says a conservative upcycle and new sources of demand mean commercial real estate has lowered its typical cyclical risks and has room for growth.

Hessam Nadji is now approaching his third year as president & CEO of Marcus & Millichap, one of the most powerful brokerage companies in the industry. Following a unique path, Nadji joined the company in 1996 as head of research and advisory services and quickly established the firm among the top experts in research and investment trend forecasting. This led to working directly with the company's sales team and clients, resulting in overseeing the company's specialty brokerage divisions, which grew significantly under his supervision. In 2013, he played a leading role in the preparation and execution of the firm's IPO (NYSE: MMI). Commercial Property Executive honored Nadji with the Service Executive of the Year award as part of our annual Executives of the Year awards for 2018. In advance of this honor, we took the opportunity to get his take on the economy and other potential disruptors to commercial real estate.

Where are we in the current economic cycle and how does it differ from the last upcycle?

Nadji: Here we are in late 2018 and the recovery began in 2010. If we look at history, this far into any expansion, we typically see a lot of overbuilding and overleveraging. Historically speaking, overbuilding or overleveraging are the most common reasons commercial real estate cycles have come to end.

In this cycle, we neither overbuilt nor over-leveraged. At the same time, we have an economy that did not overheat because the severity of the financial crisis in '08 and '09 was so profound that both companies and consumers stayed conservative. And because of some regulatory pressures, banks and other capital sources did not over-lend. And the combination of all these factors created this rather slow and muted expansion that has not led to overheating.

Going into 2019, there is high probability of a good balance between rising interest rates, a moderate slowing of the economy and of inflation management by a more measured Federal Reserve. This would help extend the expansion. The new tax law has also been favorable for commercial real estate and the broader economy and its positive effects still need time to ripple through the market.

A global trade war could be a very large-scale issue but, given that everyone is very interconnected around the globe and everyone knows there are no winners in an all-out trade war, I do not anticipate the worst-case scenario happening. Short of a macro issue like that, I expect a soft landing where the expansion can endure for the foreseeable future.

What are the stories surrounding multifamily that you're paying attention to at the moment and what should investors be thinking about that asset class?

Nadji: That is a really interesting topic right now. Apartments led the recovery and, being one of the safer and most reliable sectors within commercial real estate, its values have appreciated and yields compressed the fastest in this expansion.

What do you do as an investor? What I find interesting is that, just in the last two quarters, we have seen a definite pickup in renter demand and absorption. This is what happens when interest rates go up, home prices go up and fewer people are able to afford homes. And, demographically, there are now so many more people that prefer to rent —including lifestyle renters and empty-nesters—that really were not a big factor 20 years ago. In today's world, apartments have multiple and renewed sources of demand.

Rent growth is holding together very nicely. Thus, prices are well supported by strong occupancies and rents, and the main concern is the overbuilding. Apartment developers have built units at a record pace in the last few years, and about a dozen markets have captured more than 50 percent of this new inventory. I don't want to discount the fact that some local markets are going to experience or have already experienced softness due to overbuilding, but it's not a broad-based, systemic issue. The overall industry and the country as a whole are undersupplied for multifamily, not oversupplied. This is the case in most property types.

Technology is often flagged as the biggest "disruptor" to real estate, particularly retail. How will the disruption continue to play out?

Nadji: The notion I often share with our clients is that technology is not disrupting commercial real estate because disruption to me translates to the death of one thing and the birth of another. And that's not how I view what is happening in commercial real estate. Morphing, evolving and changing are much better descriptions with technology playing a major role but not the only disruptor.

For example, in retail, when you think of entertainment, you think of movie theaters. But in the next five to 10 years, I believe there will be an explosion of all kinds of different forms of entertainment that will morph into retail—like Top Golf as an example. We spend more money eating out now as a country than we do buying groceries. Consumer habits have changed along with technological forces that are creating havoc in conventional retailing. This has short-term pain but long-term gains. New space demand is shifting with consumers into areas like health care and exercise facilities. This is why the fastest growing segments of retail include fitness centers, health and beauty-related retailers. Space utilization and configuration is changing rapidly, and real estate structures have to evolve. We are seeing this play out. But physical structures and successful stores that attract consumers still work and remain necessary. This is why Apple is expanding its physical stores and why Amazon bought a grocery chain. We are seeing and bound to see more significant re-use of old retail space and in some cases complete rebuilding to new product. At the same time there are lots of expanding retailers and shopping centers that are repositioning with entertainment and restaurants as a core focus. So, tech-fueled e-commerce is certainly a major force but not the entire picture.

How will technology and AI ultimately impact the need for brokerage firms?

Nadji: I think to a large extent technology has already changed the continuum of how a broker interacts with a client and what a client expects from a broker. Because the client now has access to the same information regarding the economy, vacancies or available properties, the broker is not just the carrier of information the way the he or she was in the '80s and '90s. The broker must be something more.

(However), I do not think technology or AI will ever replace the personal relationship, trust and ability to open the hood and get involved with the client to analyze each asset and alternative investment choices. I do not see technology getting to the point where it supersedes the connection and the trust, but it is forcing all of us to become that trusted, expert advisor instead of a delivery service of information. Every asset has different dynamics and every owner has different motivations and needs. Much of the underwriting and transaction process can be and will be automated, but the individual decision making and executing a marketing plan for a specific asset requires that human touch. This applies to financing, re-financing, recapitalization, executing an exchange, making an acquisition and to selling a property. The broker has to be a technology armed, highly skilled financial advisor to the client.

How does a research and tech guy become the head of a major commercial real estate brokerage firm?

Nadji: My initial career goal was to be a systems analyst. I was a computer science major in Seattle in the mid-

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1980s when Microsoft was all the rage. I went to work for Grubb & Ellis, which was the third largest full service real estate firm at the time, as a systems analyst and had no knowledge of real estate. Very quickly, I was able to put two and two together and see that the analysis of the data going into databases could really help owners, tenants, buyers and lenders make decisions and enable the broker to present trends and information in a way that is a lot more decision-oriented.

I had been with Grubb & Ellis for six or seven months, entering a lot of tenant information into a database and I said: "I wonder when these leases expire, how much vacant space there will be for them." I did an analysis of contiguous space blocks in downtown Seattle and I contrasted it with major tenants and expiring leases. Even though the vacancy rate was relatively high, the amount of large contiguous space was limited and dwindling.

I put a couple of graphs together and presented it to our tenant rep group, and you would have thought someone had parted an ocean because nobody had done the analysis of the supply side versus the upcoming demand side on expiring leases. Over the following couple of months, we signed up some pretty large tenant rep agreements using that one study. That basically launched my career and led to analyzing markets in a way that helped the broker help the client. Whether it was applied to site selection, leasing a building, valuation, marketing and selling assets – the same principle applies. Essentially, this became a real estate consultative selling career path for me and I spent the vast majority of my time partnering with brokers on client presentation and assignments.

George Marcus and Bill Millichap had the vision for transforming investment brokerage into more of an advisory service with a client-based paradigm built on long-term relationships. Marcus & Millichap was founded on the concept of investment brokerage and finance specialization and powered by customized technology and a culture of information sharing and collaboration among the brokers almost from the very start. This was a very unique model at the time and still is today. I was fortunate to be recruited into the firm to grow an advisory-based brand, well beyond just producing research. The goal was to create the best market analysis and content that our brokers could deliver locally, by property type to the client. We broadened the broker-client dialogue, contact and value proposition. From there, my career morphed into managing sales people in our various specialty segments—given the amount of time I spent in client presentations with our sales force —and direct client interactions, growing revenues and, eventually, becoming accountable for the business side. I joined Marcus & Millichap in 1996 and it was a match made in heaven as far as I'm concerned.

Marcus & Millichap 2018 Statistics

9,472 CLOSED TRANSACTIONS

$46.6 BILLION IN SALES VOLUME

OVER 80 OFFICES THROUGHOUT U.S. & CANADA

NEARLY 2,000 INVESTMENT SALES & FINANCING PROFESSIONALS

CPE Executive of the Year Awards, a program that recognizes commercial real estate's top achievers in all of the industry's main business lines, from investment and development to finance and advisory services. Awarded in two categories—first place and honorable mention—winners where chosen by a confidential vote of their peers among our volunteer advisory board of industry leaders.