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Massey Knakal's Midsize Rule

Firm's Knowledge of New York's Commercial Property Market Is Proving Attractive

Paul Massey, left, and Robert Knakal are looking to sell a noncontrolling interest in their firm. *HOWARD WECHSLER PHOTOGRAPHY*

By **PETER GRANT**

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Some of the biggest names in the commercial real-estate-services business are angling to acquire Massey Knakal Realty Services, the boutique brokerage firm that dominates the market for midsize office, retail and apartment buildings.

More than 10 firms have responded to Massey Knakal's decision to hire Perella Weinberg Partners to sell a noncontrolling 49% stake or the firm in its entirety. Among the possible buyers: CBRE Group Inc., Cushman & Wakefield and DTZ, according to people familiar with the matter.

The entire firm may be sold for as much as $100 million. Massey Knakal's annual income is in the $15 million range, and these days real-estate firms are selling for as much as seven times income.

The interest in Massey Knakal partly reflects the firm's success in staking out an approximate 20% market share of the lucrative middle of New York's commercial real-estate sales market. This part of the market doesn't include headline-grabbing Manhattan skyscrapers, but there is an enormous volume of properties—worth between $500,000 and $50 million—that fall into this category throughout the New

York region.

The firm also has chosen a good time to market itself, when demand for commercial property is at a post-downturn high. The total volume of New York City commercial property sales in the first three quarters of 2014 was nearly $39 billion, more than the figure for all of 2013, according to a research report released last month by Massey Knakal.

"This is a good part of the cycle. We're not right at the end," says Brandon Dobell, an analyst with William Blair & Co. "The acquiring company has a couple or three years to make some hay here."

A deal may still not happen. The firm's name partners—Paul Massey and Robert Knakal—would prefer to sell a noncontrolling stake but most buyers want to buy the whole thing, according to a person familiar with the matter.

Also, sales of commercial real-estate firms can be tricky because buyers have to ensure that top producers stay with the firm under the new ownership.

A spokesperson for Massey Knakal said the firm is "exploring growth initiatives." Its hiring of Perella Weinberg was reported last month by Real Estate Alert.

Massey Knakal was founded in 1988 when Messrs. Massey and Knakal, then two young brokers, left what was then Coldwell Banker Commercial and today is CBRE. They started a firm that today has a staff of about 250 people, including about 85 brokers, and lately has started to do more deals with price tags over $50 million.

The firm's growth was partly based on Messrs. Massey and Knakal's decision to represent only sellers, not buyers, to assure their clients they were focused on getting top dollar for their properties. Massey Knakal also gave brokers responsibility for specific neighborhoods and strict orders to develop detailed knowledge of every property and landlord in their turf.

This intimate knowledge of New York is what now makes Massey Knakal attractive to commercial property firms that don't have a major presence in New York. Over the years, it has been very difficult for outside firms to build their own operations here without buying a homegrown company.

DTZ, in particular, is looking to build a New York presence. That firm is itself in the process of being acquired by a group led by private-equity firm TPG, which has made it clear that it wants to build one of the world's largest real-estate companies.

But a firm that already is a major player in New York—like CBRE and Cushman & Wakefield—also may be interested in Massey Knakal because demand has been growing among their clients throughout the world for midmarket commercial property in New York. Big New York firms also might be willing to pay up for Massey Knakal to keep competitors like DTZ from developing a strong beachhead in the city.

In the past, suitors have courted Massey Knakal and have been rebuffed. But Massey Knakal's owners—which include the two named partners and about eight other executives—decided to test the market now partly because the prices being paid for commercial real-estate firms are at such high levels.

Also, the real-estate brokerage and services world is becoming increasingly consolidated. It is getting harder for boutique firms to compete when corporations, investors and other clients want firms to have global scale.

"Small guys have to do something," William Blair's Mr. Dobell said. "They have to either recognize the market is changing and adapt or recognize the market is changing and take some money off the table."

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