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# Why So Many 1031 Investors Are Emerging

FEBRUARY 21, 2017 | BY CARRIE ROSSENFELD

SAN DIEGO—Just like home buyers look to level up, we're also seeing a bit more fluidity in typically middle-market groups seeking more institutional deals and vice versa, Avison Young's Peter Sherman tells GlobeSt.com.



Sherman: "I had multiple conversations with investors saying they had money to get deals done in last three to four months, but they effectively did nothing."

**S**AN DIEGO—Just like [home buyers](#) look to level up, we're also seeing a bit more fluidity in typically middle-market groups seeking more **institutional** deals and vice versa, **Avison Young's** principal, **capital-markets** group, [Peter Sherman](#) tells GlobeSt.com. Sherman, who is based in Los Angeles, recently attended [NMHC's Conference and Annual Meeting](#) here. We chatted with him about his takeaways and the major themes running through the conference.

**GlobeSt.com: What stood out for you at the NMHC Conference or Annual Meeting?**

**Sherman:** It was an absolutely tremendous turnout. Someone had mentioned the actual numbers by comparison, but it was more than 6,000 people. I've been going to these conferences for a number of years, both before the downturn and afterward, and this was one of the largest turnouts I've ever seen. It certainly speaks to a very healthy and optimistic marketplace.

**GlobeSt.com: What were the major themes running through the conference this year?**

**Sherman:** Deals, deals, deals. I think that there was an expectation and hope that a lot of deals were going to be done over the preceding handful of months, but the combination of the presidential election and companies digesting the results and impact of what new direction may come, coupled with the absolutely huge spike in Treasury rates that we saw at the same time, kept everybody on the sidelines and understandably. I had multiple conversations with investors saying they had money to get deals done in last three to four months, but they effectively did nothing.

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People expected to get started in 2017 with a pretty big bang. This certainly plays into clear and obvious themes: **liquidity** in the marketplace and a desire to transact and **capitalize** deals. Confidence from **investors, private equity** and **lenders** remains exceptionally high. Despite the somewhat boring, ubiquitous question that comes about through these conferences about where we are in the cycle, it's more important that everyone to a man and woman is confident about market drivers in L.A. and major metro markets in the country—with the exception of some hiccups in neighborhoods where the pipeline of delivery might be meaningful—and the underlying drivers leading to absorption of units is outstanding. On the **development** side, there is no question that at the end of the year, **financing** from construction lenders was fully allocated but pulling back, and there were some regulations associated with it. But for the most part, across the board, we really saw deliveries hitting a peak last year and this year. Development is flattening and slowing down, and there's a meaningful balance of absorption and delivery. **Measure S** is about to hit the ballots shortly, and if it passes, would put a moratorium on any development for two years that requires a zone change or variance. This inherently mitigates the level of new **construction**.

#### ***GlobeSt.com: What unexpected things did you learn at the conference?***

**Sherman:** There is so little that's unexpected because when you're in the space and constantly talking to people, you find out there are very few surprises. But having said that, it was very interesting to me in the variety of conversations I had that there's a surprising number of **1031-exchange** investors that are seeking deals. It's interesting that it came up in a handful of different conversations. We just represented one investor on the buy side, and their 45-day ID period had just started, so the clock was ticking. We worked closely with them in identifying off-market and marketed deals, and we're just successfully closing a deal that matched their strategic goals. We're working with another buyer in the exact same way. There are more 1031 investors out there right now than I recall. **Multifamily** is often a go-to sector for investors anyway; there are always 1031 investors around—it's the nature of the cycle of buying and selling—but there seemed to be a concentration of 1031 money buyers.

There's been a little more of a blending in the sort of mid-market institutional market. In the same vein where you may see home buyers that are looking to go from one level to another, you're also seeing a little bit more fluidity in groups that might be in the middle market looking for more institutional deals and institutional players looking at both increasing the geographic range of deals they are looking at as well as the size of these deals.



#### **Carrie Rossenfeld ›**

Carrie Rossenfeld is a reporter for the West Coast region of GlobeSt.com and Real Estate Forum. She was a trade-magazine and newsletter editor in New York City before moving to Southern California to become a freelance writer and editor for magazines, books and websites. Rossenfeld has written extensively on topics including commercial real estate, running a medical practice, intellectual-property licensing and giftware. She has edited books about profiting from real estate and has ghostwritten a book about starting a home-based business.

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