

Marcus & Millichap, Inc.
Form 10-K
March 01, 2019
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____ .

Commission File Number 001-36155

MARCUS & MILLICHAP, INC.

(Exact name of registrant as specified in its charter)

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Delaware
(State or other jurisdiction of
incorporation or organization)

35-2478370
(I.R.S. Employer

Identification No.)

23975 Park Sorrento, Suite 400 Calabasas, California, 91302

(Address of principal executive offices, including zip code)

Registrant's telephone number, including area code: (818) 212-2250

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value \$0.0001 per share	New York Stock Exchange
Securities registered pursuant to Section 12(g) of the Act: None	

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the Registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of large accelerated filer, accelerated filer, smaller reporting company and emerging growth company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of the registrant's voting stock held by non-affiliates at June 30, 2018 was approximately \$814.9 million, based on the closing price per share of common stock on June 29, 2018 of \$39.01 as reported on the New York Stock Exchange. Shares of common stock known by the registrant to be beneficially owned by directors and executive officers of the registrant and 10% stockholders are not included in the computation. The registrant, however, has made no determination that such persons are affiliates within the meaning of Rule 12b-2 under the Securities Exchange Act of 1934.

As of February 19, 2019, there were 38,975,984 shares of the registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement to be delivered to stockholders in connection with the annual meeting of stockholders to be held on May 2, 2019 are incorporated by reference into Part III of this Annual Report on Form 10-K. Such Proxy Statement will be filed with the United States Securities and Exchange Commission (the "SEC") within 120 days of the registrant's fiscal year ended December 31, 2018.

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MARKET, INDUSTRY AND OTHER DATA	

Unless otherwise indicated, information contained in this Annual Report on Form 10-K concerning the commercial real estate industry and the markets in which we operate, including our general expectations and market position, market opportunity and market size, is based on (i) information gathered from various sources, (ii) certain assumptions that we have made, and (iii) on our knowledge of the commercial real estate market. While we believe that the market position, market opportunity and market size information that is included in this Annual Report on Form 10-K is generally reliable, such information is inherently imprecise. Unless indicated otherwise, the industry data included herein is generally based on information available through the nine months ended September 30, 2018 since full year 2018 information may not yet have been published. We use market data from Costar Group, Inc. and Real Capital Analytics that consists of list side information of sales transactions of multifamily, retail, office and industrial buildings, with a value of \$1 million or more.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K includes forward-looking statements, including the Company's business outlook for 2019 and expectations for market share growth. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends affecting the financial condition of our business. Forward-looking statements should not be read as a guarantee of future performance or results and will not necessarily be accurate indications of the times at, or by, which such performance or results will be achieved. Forward-looking statements are based on information available at the time those statements are made and/or management's good faith belief as of that time with respect to future events and are subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed in or suggested by the forward-looking statements. Important factors that could cause such differences include, but are not limited to:

market trends in the commercial real estate market or the general economy;

our ability to attract and retain qualified managers and investment sales and financing professionals;

the effects of increased competition on our business;

our ability to successfully enter new markets or increase our market share;

our ability to successfully expand our services and businesses and to manage any such expansions;

our ability to retain existing clients and develop new clients;

our ability to keep pace with changes in technology;

any business interruption or technology failure and any related impact on our reputation;

changes in interest rates, tax laws, including the Tax Cuts and Jobs Act, employment laws or other government regulation affecting our business; and

other risk factors included under "Risk Factors" in this Annual Report on Form 10-K.

In addition, in this Annual Report, the words "believe," "may," "will," "estimate," "continue," "anticipate," "intend," "expect," "predict," "potential," and similar expressions, as they relate to our company, our business and our management, are intended to identify forward-looking statements. In light of these risks and uncertainties, the forward-looking events and circumstances discussed in this Annual Report on Form 10-K may not occur and actual results could differ materially from those anticipated or implied in the forward-looking statements.

Forward-looking statements speak only as of the date of this Annual Report on Form 10-K. You should not put undue reliance on any forward-looking statements. We assume no obligation to update forward-looking statements to reflect actual results, changes in assumptions or changes in other factors affecting forward-looking information, except to the extent required by applicable laws. If we update one or more forward-looking statements, no inference should be drawn that we will make additional updates with respect to those or other forward-looking statements.

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PART I

Unless the context requires otherwise, the words Marcus & Millichap, Marcus & Millichap Real Estate Investment Services, MMREIS, we, the Company, us and our refer to Marcus & Millichap, Inc., Marcus & Millichap Real Estate Investment Services, Inc. and its other consolidated subsidiaries.

Item 1. Business

Company Overview

Marcus & Millichap, Inc. (MMI) is a leading national real estate services firm specializing in commercial real estate investment sales, financing, research and advisory services. We are the leading national investment brokerage company in the \$1-\$10 million private client market segment. This is the largest and most active market segment and comprised approximately 84% of total U.S. commercial property transactions greater than \$1 million in the marketplace in 2018. As of December 31, 2018, we had nearly 2,000 investment sales and financing professionals that are primarily exclusive independent contractors who provide real estate investment brokerage and financing services to sellers and buyers of commercial real estate. In 2018, we closed 9,472 sales, financing and other transactions with total volume of approximately \$46.4 billion.

We service clients by underwriting, marketing, selling and financing commercial real estate properties in a manner that maximizes value for sellers and provides buyers with the largest and most diverse inventory of commercial properties. Our business model is based on several key attributes:

a 48-year history of providing investment brokerage and financing services through proprietary inventory and marketing systems, policies and culture of information sharing and in-depth investment brokerage training, all of which are executed under the supervision of a dedicated management team focused on client service and growing the firm;

market leading share and brand within the \$1-\$10 million private client market segment, which consistently represents more than 80% of total U.S. commercial property transactions greater than \$1 million in the marketplace;

nearly 2,000 investment sales and financing professionals providing consistent services and exclusive client representation across multiple property types;

a broad geographic platform consisting of 80 offices in the United States and Canada powered by information sharing and proprietary real estate marketing technologies;

an ability to scale with our private clients as they grow and connect private capital with larger assets through our Institutional Property Advisors (IPA) group;

a financing team integrated with our brokerage sales force providing independent mortgage brokerage services;

an experienced management team overseeing our offices, with an average of approximately 11 years of real estate investment brokerage experience with our Company;

our managers not competing with or participating in investment sales professionals' commissions, because they are in a support and leadership role as company executives; and

industry-leading research and advisory services tailored to the needs of our clients and supporting our investment sales and financing professionals.

Our Services

We generate revenues by collecting real estate brokerage commissions upon the sale, and fees upon the financing, of commercial properties, and by providing consulting and advisory services. Real estate brokerage

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commissions are typically based upon the value of the property, and financing fees are typically based upon the size of the loan. In 2018, approximately 92% of our revenues were generated from real estate brokerage commissions, 7% from financing fees and 1% from other revenues, including consulting and advisory services.

We divide commercial real estate into four major market segments, characterized by price in order to understand trends in our revenue from period to period:

Properties priced less than \$1 million;

Private client market: properties priced from \$1 million up to \$10 million;

Middle market: properties priced from \$10 million up to \$20 million; and

Larger transaction market: properties priced from \$20 million and above.

We serve clients with one property, multiple properties and large investment portfolios. The largest group of investors we serve typically transacts in the \$1-\$10 million private client market segment. The investment brokerage and financing businesses serving private clients within the private client market segment represents the largest part of our business, which differentiates us from our competitors. In 2018, approximately 65% of our brokerage commissions came from this market segment. Properties in this market segment are characterized by higher asset turnover rates due to the type of investor as compared to other market segments. Private clients are often motivated to buy, sell and/or refinance properties not only for business reasons but also due to personal circumstances, such as death, divorce, changes in partnership structures and other personal or financial circumstances. Therefore, private client investors are influenced less by the macroeconomic trends than other large-scale investors, making the private client market segment less volatile over the long-term than other market segments. Accordingly, our business model distinguishes us from our national competitors, who may focus primarily on the more volatile larger transaction market segment, or on other business activities such as leasing or property management, and from our local and regional competitors, who lack a broad national platform.

Geographic Locations

We were founded in 1971 in the western United States, and we continue to increase our presence throughout North America through execution of our growth strategies by targeting markets based on population, employment, level of commercial real estate sales, inventory and competitive landscape opportunities where we believe the markets will benefit from our business model. We have grown to have offices in 35 states across the United States and in 4 provinces in Canada, encompassing 59 offices in major metropolitan markets and 21 offices in mid-market locations. During the year ended December 31, 2018, we completed acquisitions that expanded our IPA business and expanded our presence in the financing market in the Midwest and in the real estate brokerage market in Canada.

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Below is a map reflecting the geographic location of our offices as of December 31, 2018.

Commercial Real Estate Investment Brokerage

Our primary business and source of revenue is the representation of commercial property owners as their exclusive investment broker in the sale of their properties. Our investment sales professionals also represent buyers in fulfilling their investment real estate acquisition needs. Commissions from real estate investment brokerage sales accounted for approximately 92% of our revenues in 2018. Sales are generated by maintaining relationships with property owners, providing market information and trends to them during their investment or hold period and being selected as their representative when they decide to sell, buy additional property or exchange their property for another property. We collect commissions upon the sale of each property based on a percentage of sales price. These commission percentages are typically inversely correlated with sales price and thus are generally higher for smaller transactions.

We underwrite, value, position and market properties to reach the largest and most qualified pool of buyers. We offer our clients the industry's largest team of investment sales professionals, who operate with a culture and policy of information sharing powered by our proprietary system, MNet, which enables real-time buyer-seller matching. We use a proactive marketing campaign that leverages the investor relationships of our entire sales force, direct marketing and a suite of proprietary web-based tools that connects each asset with the right buyer pool. We strive to maximize value for the seller by generating high demand for each property. Our approach also provides a diverse, consistently underwritten inventory of investment real estate for buyers. When a client engages one of our investment sales professionals, they are engaging an entire system, structure and organization committed to maximizing value for them.

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In 2018, we closed 7,079 real estate brokerage transactions in a broad range of commercial property types, with a total sales volume of approximately \$36.1 billion. In the last 10 years, we have closed more transactions than any other firm. We have significantly diversified our business beyond our historical focus on multifamily properties.

We are building on our track record of growth in multifamily, retail, office and industrial properties by expanding our coverage of additional property types. These include hospitality, self-storage, seniors housing, land and manufactured housing properties, where we are already a leading broker but have significant room for additional growth due to market size, fragmentation and specific geographic market opportunities. We are also expanding our specialty group management and support infrastructure, specialized branding and business development customized for each property type and intensifying our recruiting efforts, for management and investment sales and financing professionals. These efforts should expand our presence and result in increased business in these property types.

We service clients in all market segments by underwriting, marketing, selling and financing commercial real estate properties in a manner that maximizes value for sellers and provides buyers with the largest and most diverse inventory of commercial properties. In addition, we achieved growth by leveraging the strength of our relationships in the private client market segment to increase our share of the middle and larger transaction market segments. Because commission rates earned on commercial properties are typically inversely correlated with sales price, our expansion into the middle and larger transaction market segments, has led to our average commission rates fluctuating from period-to-period as a result of changes in the relative mix of transactions closed in the middle and larger transaction market segments as compared to the private client market segment.

The following table sets forth the number of transactions, sales volume and revenue by commercial real estate market segment for real estate brokerage in 2018 compared to 2017:

Real Estate Brokerage:	2018			2017			Change		
	Number	Volume (in millions)	Revenues (in thousands)	Number	Volume (in millions)	Revenues (in thousands)	Number	Volume (in millions)	Revenues (in thousands)
<\$1 million	1,077	\$ 695	\$ 29,677	1,062	\$ 661	\$ 27,952	15	\$ 34	\$ 1,725
Private client market (\$1-\$10 million)	5,230	16,645	483,967	4,891	15,029	444,081	339	1,616	39,886
Middle market (\$10-\$20 million)	472	6,462	116,850	361	4,906	91,035	111	1,556	25,815
Larger transaction market (\$20 million)	300	12,268	116,861	248	9,879	86,325	52	2,389	30,536
	7,079	\$ 36,070	\$ 747,355	6,562	\$ 30,475	\$ 649,393	517	\$ 5,595	\$ 97,962

Financing

Marcus & Millichap Capital Corporation (MMCC) is a broker of debt financing for commercial properties principally in the under \$10 million market segments. We generate revenue in the form of financing fees collected from the placement of loans with banks, insurance companies, government agencies, commercial mortgage backed securities (CMBS) and conduits. In addition to placing financing for acquisitions, we also place loans for refinancing for individual assets and portfolios. MMCC 's financing fees vary by loan amount and type. In 2018, MMCC completed 1,678 financing transactions with a sales volume of approximately \$6.2 billion, which accounted for approximately 7% of our revenues. MMCC 's size, market reach and sales volume enable us to establish long-term relationships and special programs with various capital sources. This, in turn, improves MMCC 's value proposition to borrowers seeking competitive financing rates and terms. MMCC is not limited to promoting in-house or exclusive capital sources and seeks the most competitive financing solution for each client 's specific needs and circumstances. During 2018, approximately 46% of MMCC 's revenues came from placing acquisition financing, 44% from refinancing activities and 10% from other financing activities.

MMCC is fully integrated with our investment sales force in our brokerage offices. MMCC financing professionals are supervised by our regional managers, who promote cross-selling, information sharing, business

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referrals and high-quality client service within the offices. The MMCC national network of financing professionals is supported by a dedicated, nationally focused management team coordinating access to a broad range of national and regional capital sources including bank lenders, conduit lenders, CMBS lenders, structured debt facilitators (mezzanine and preferred equity), Freddie Mac and Fannie Mae programs, HUD and other GSE lending programs. With these resources coupled with the latest property and capital markets information, we are able to access and deliver loan structures, financing rates and terms to meet our clients' financial objectives.

Ancillary Services: Research, Advisory and Consulting

Our research, advisory and consulting services are designed to assist clients in forming their investment strategy and making transaction decisions. Our advisory and consulting services are coordinated with both our investment sales and financing professionals and are designed to provide market and property focused market research, publications and customized analysis that increase customer loyalty and long-term relationships.

We also provide a wide range of advisory and consulting services to developers, lenders, owners, real estate investment trusts, high net worth individuals, pension fund advisors and other institutions. Our advisory services include opinions of value, operating and financial performance benchmarking analysis, specific asset buy-sell strategies, market and submarket analysis and ranking, portfolio strategies by property type, market strategy, development and redevelopment feasibility studies and other services.

Corporate Information

We were formed as a sole proprietorship in 1971, incorporated in California on August 26, 1976 as G. M. Marcus & Company, and we were renamed as Marcus & Millichap, Inc. in August 1978, Marcus & Millichap Real Estate Investment Brokerage Company in September 1985, and Marcus & Millichap Real Estate Investment Services, Inc., or MMREIS, in February 2007. Prior to the completion of our initial public offering (IPO), MMREIS was majority-owned by Marcus & Millichap Company (MMC) and all of MMREIS' preferred and common stock outstanding was held by MMC and its affiliates or officers and employees of MMREIS. In June 2013, in preparation for the spin-off of its real estate investment services business (the Spin-Off), MMC formed a holding company called Marcus & Millichap, Inc., or MMI, in Delaware. Prior to the completion of our IPO, the shareholders of MMREIS contributed the shares of MMREIS to MMI in exchange for common stock of MMI, and MMREIS became a wholly-owned subsidiary of MMI. On November 5, 2013, MMI completed its IPO.

Our principal executive offices are located at 23975 Park Sorrento, Suite 400 Calabasas, California 91302. Our telephone number at this location is (818) 212-2250. Our website address is www.MarcusMillichap.com. The information on our website is not part of, and is not incorporated into, this Annual Report on Form 10-K.

Competitive Strengths

We believe the following strengths provide us with a competitive advantage and opportunities for success:

National Platform Built on Investment Brokerage and Financing Services

We have built a leading national platform serving our clients' needs of investment brokerage and financing services. We continue to be focused on investment brokerage and financing services as opposed to other businesses such as leasing or property management. Our commitment to specialization is reflected in how we generally organize our investment sales and financing professionals by market area and property type, which enhances our investment sales and financing professionals' skills, relationships and market knowledge required for achieving the best results for our clients. As a result of these founding principles, we offer an efficient system of matching every property with the largest pool of qualified buyers and therefore maximizing value in the process.

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Market Leader in the Private Client Market Segment

Since our founding in 1971, we have focused on being the leading service provider to the \$1-\$10 million private client market segment. This segment is the largest by ownership and transaction count and consistently accounts for over 80% of total U.S. commercial property transactions and over 60% of the commission pool. It is comprised of high-net-worth individuals, partnerships and small private fund managers with both passive, long-term investments, as well as those with opportunistic and short-term investment horizons. Private clients are often motivated to buy, sell and/or refinance properties not only for business reasons but also due to personal circumstances, such as death, divorce, changes in partnership structures and other personal or financial circumstances. The vast size and personal transaction drivers of private clients make this market segment the most active in terms of sales velocity. Therefore, sales in the private client market segment over the long term tend to be less volatile than higher priced properties priced at \$10 million and above. In addition, this market segment is highly fragmented with the top 10 brokerage firms accounting for approximately 24% of transactions in 2018. Marcus & Millichap is the leading broker in the \$1-\$10 million private client market segment with an 8.3% market share by transaction count. With our established market leadership and brand name, Marcus & Millichap has significant room for market share expansion by further consolidating its leadership position in this market segment.

In addition, the private client market segment is characterized by high barriers to entry. These barriers include the need for a large specialized sales force prospecting private clients, difficulties in identifying, establishing and maintaining relationships with such investors, capabilities of exposing properties to a large pool of potential buyers and the challenge of serving their needs locally, regionally and nationally. We believe this private client market segment is the least covered market segment by other national firms and is significantly underserved by local and regional firms that lack a national platform.

Platform Built for Maximizing Investor Value

We have built our business to maximize value for real estate investors through an integrated set of services geared toward our clients' needs. We are committed to an investment brokerage specialization, provide one of the largest sales force in the industry, promote a culture and policy of information sharing on each property we represent, and equip our investment sales professionals with proprietary real estate inventory and marketing technologies that enhance the marketability of the properties we represent. Our system generates real-time buyer-seller matching and maximizes value one property at a time. Our investment sales organization can therefore underwrite, position and market investment real estate to the largest pool of qualified buyers. We coordinate proactive marketing campaigns across investor relationships and resources of the entire firm, far beyond the capabilities of an individual listing agent. These efforts produce wide exposure to investors whom we identify as high-probability bidders for each property. To grow with our clients, we established the IPA group to serve the needs of our private client investors that are now seeking higher valued properties as well as larger institutional investors. Our ability to bridge private capital with larger, institutional assets creates value for private and larger transaction clients while offering growth opportunities and strengthening the retention of our investment sales and financing professionals.

We have one of the largest teams of financing professionals in the investment brokerage industry through MMCC. MMCC provides financing expertise and access to debt and capital sources by identifying and securing competitive loan pricing and terms for our clients across a broad range of potential lenders and financing alternatives. We are a leading mortgage broker in the industry based on the number of financing transactions closed in 2017. Finally, our dedicated market research teams analyze the latest local and national economic and real estate trends and produce proprietary analyses for our clients enabling them to make informed investment and financing decisions. Integrating all these services into one national platform increases opportunities to maximize value for our clients across multiple property types, market segments and geographies.

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Local Management with Significant Investment Brokerage Experience

Our management team members, as executives of the firm, are dedicated to recruiting, training, developing and supporting our investment sales and financing professionals. The majority of our management team are former senior investment sales professionals of our Company who now focus on management, do not compete with our sales force and have an average of approximately 11 years of real estate investment brokerage experience with our Company. Our training, development and mentoring programs rely greatly on the regional managers' personal involvement. Their past experience as senior investment sales professionals plays a key role in developing new and experienced investment sales and financing professionals. They help our junior professionals establish technical and client service skills as well as setting up, developing and growing relationships with clients. We believe this management structure has helped differentiate the firm from our competitors and ultimately achieves better results for our clients.

Growth Strategy

The real estate market is cyclical, and our results are impacted by many macroeconomic and microeconomic factors as discussed in *Item 1A Risk Factors* and *Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations - Factors Affecting Our Business*. We have demonstrated the ability, over the long-term, to manage through the cyclical market and continue to be a leader in the \$1-10 million private client market segment. The following graph shows the number of transactions and sales volume of investment sales, financing and other transactions from 2009 to 2018:

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We have a long track record of growing our business model driven by opening new offices, recruiting, training and developing new investment sales and financing professionals as well as deploying our client-focused business model to increase coverage of specialty property types and the middle and larger transaction market segments. Our long-term growth plan has focused on investing in our current business model through growing internally and by providing our unique business model to a wider client base. Since 2010, our revenue has increased threefold, and we have grown from slightly over 1,000 investment sales and financing professionals to nearly 2,000 investment sales and financing professionals in the United States and Canada. Our future growth will depend on continually expanding our national footprint and optimizing the size, product segmentation and specialization of our team of investment sales and financing professionals. The key strategies of our growth plan include:

Increase Market Share in the Private Client Market Segment

The \$1-\$10 million private client market segment is fragmented and underserved. The top 10 brokerage firms accounted for only approximately 24% of 2018 transactions in this market segment. Our leading position in this market segment and inherent fragmentation continues to provide significant opportunity for us to expand and bring our client service offerings to a larger portion of this expansive market segment. We can continue to leverage our existing platform, relationships and brand recognition among private clients to grow through expanded marketing and coverage.

Focused Office Expansion

Since we currently have offices in most major-market and mid-market metropolitan cities, our growth is expected to come from focused office expansion, targeted hiring and increased coverage of specialty property types. We have targeted markets based on population, employment, level of commercial real estate sales, inventory and competitive landscape. Our optimal office plans are used to capitalize on these factors by tailoring sales force size, coverage and composition by office and business activity to direct efforts to offices with the most opportunity where we believe we can leverage our national footprint and proprietary real estate marketing technologies. These initiatives do not require a significant increase in the number of offices or a significant increase in the size of our offices, which allows us to leverage our current office locations without significant incremental investment.

Expand and Develop Our Team of Investment Sales Professionals

A key to growing our business is hiring, training and developing investment sales professionals. We have increased our focus on hiring experienced investment sales professionals through our recruiting department, specialty directors and regional managers in support of our optimal office plans. Our new investment sales professionals are trained in all aspects of real estate fundamentals, client service and proprietary marketing technologies through formal training, apprenticeship programs and mentorship by our dedicated regional, district and division managers. As these investment sales professionals mature, we continue to provide them with identified best practices and training in specialty property types. We believe this model creates a high level of teamwork, as well as operational and client service consistency. During 2018, we reached an all-time high in the number of investment sales professionals, ending the year with 1,866.

Pursue Selective Acquisitions

Acquisitions have become a strategy to supplement the growth of our salesforce. We continually explore acquisition opportunities to augment our brokerage and financing businesses. We primarily look for acquisitions of small-to-medium size brokerage and financing businesses or teams of professionals with consistent revenue and earnings trends, which will expand our geographic and property type coverage.

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Grow in Specialty Property Types and Middle and Larger Transaction Market Segment Presence

Leveraging our current business model into specialty property types and to the middle and larger transaction market segments opens up significant opportunities for growth.

Specialty Property Types

We believe that specialty property types, including hospitality, self-storage, seniors housing, land and manufactured housing offer significant opportunities for our clients. By deploying our unique business model to increase coverage of these property types, we can create growth for us as well as enhance value for our clients through diversification. To create these opportunities, we are increasing our property type expertise by continuing to strategically add specialty directors who can bring added management capacity, business development and investment sales professional support. These executives will work with our sales management team to increase investment sales professional hiring, training, development and redeployment and to execute various branding and marketing campaigns to expand our presence in these targeted property types. The number and volume of transactions in the primary property types of multifamily, retail, office and industrial should continue to grow with upside opportunity, particularly in the office and industrial properties. At the same time, we intend to continue to grow our presence in specialty property types.

Middle and Larger Transaction Market Segments Presence

Our extensive relationships with private client investors who typically invest in the \$1-\$10 million private client market segment have enabled us to capture a greater portion of commercial real estate transactions in excess of \$10 million and bridge the private client market investor to the middle market and larger transaction market segments in recent years. As property values increase and investors grow and expand, they require larger properties. We are organized to provide our unique brokerage and financing services to them in those market segments. Our ability to connect private client capital with middle and larger transaction market segment properties allows us to continue to serve our clients as they grow and plays a major role in differentiating our services. In 2011, we introduced a group dedicated to serving major investors, branded as IPA, specifically to service larger multifamily investors. This strategy has met with great success and market acceptance and provides a vehicle for growth by delivering our unique service platform within the middle and larger transaction multifamily, retail and office property types. The growth of our investors and introduction of IPA has driven incremental growth for us.

Expand Marcus & Millichap Capital Corporation Financing Business

Our focus on growth for MMCC continues to be expanding our financing services in markets currently served by our investment brokerage offices, increasing the capacity of financing professionals in offices we currently serve, integrating financing professionals and related services in offices that do not have an MMCC presence and expanding our service platform by increasing access to a broad array of capital resources. We have established alliances with national capital sources that provide highly competitive access to an assortment of financing products including products sponsored by Fannie Mae, Freddie Mac and HUD. These alliances serve to expand our partner's distribution networks while affording our financing professionals and clients with more favorable pricing and service. Our internally developed training programs are directed to enhancing our branding, skill development, increasing our internal capture rate and cross-selling with a focus on the MMCC value proposition for our brokerage and non-brokerage clients. We will continue to seek out and hire experienced financing professionals and capital markets teams to grow our MMCC business to support the growth in our service platform and establish relationships with various capital sources. As of December 31, 2018, we have 42 offices with financing professionals embedded within our brokerage teams. We continue to capitalize on the synergies our financing professionals provide to our client focused service platform with approximately 16.4% year-over-year growth in financing fees (\$57.8 million in financing fees in 2018 from \$49.7 million in 2017).

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Seasonality

There is seasonality in our real estate brokerage commissions and financing fees, which has generally caused our revenues, operating income, net income and cash flows from operating activities to be lower in the first half of the year and higher in the second half of the year, particularly in the fourth quarter. For a more detailed description of our seasonality, refer to *Item 1A Risk Factors External Business Risks Seasonal fluctuations and other market data in the investment real estate industry could adversely affect our business and make comparisons of our quarterly results difficult* and *Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations Overview Seasonality* of this Annual Report on Form 10-K.

Competition

We compete in real estate brokerage and financing within the commercial real estate industry on a national, regional and local basis. Competition is based on a number of critical factors, including the quality and expertise of our investment sales and financing professionals, our execution skills, sales support, brand recognition and our business reputation. We primarily compete with other brokerage and financing firms that seek investment brokerage and financing business from real estate owners and investors. To a lesser extent, we compete with in-house real estate departments, owners who may transact without using a brokerage firm, direct lenders, consulting firms and investment managers. Our relative competitive position also varies across geographies, property types and services. In investment sales, our competitors on a national level include CBRE Group, Inc., Cushman & Wakefield, Colliers International, HFF, Inc., Newmark Knight Frank, NAI Global and Jones Lang LaSalle. Our major financing competitors include HFF, Inc., CBRE Group, Inc., Jones Lang LaSalle, Walker & Dunlop and NorthMarq Capital, LLC. These investment sales firms mainly focus on larger sales and institutional investors and are not heavily concentrated in our largest market segment, which is the \$1-\$10 million private client market segment. However, there is crossover and competition between us and these firms. As a result of the fragmentation in the market, there are also numerous local and regional competitors in our markets, as well as competitors specializing in certain property types. Despite recent consolidation, the commercial real estate services industry remains highly fragmented and competitive.