



CB Richard Ellis Investors

Recently, Geoffrey Dobrmann, publisher and editor-in-chief of *The Institutional Real Estate Letter – North America*, spoke with **Vance Maddocks** and **Matt Khourie** of *CBRE Investors*. The following is an excerpt of that conversation.

CBRE Investors recently announced that Vance is transitioning from two senior leadership roles to one, stepping down as CEO and turning the job over to Matt so that he can fully focus on his role as president of the Strategic Partners U.S. series of funds. What is behind these changes?

Maddocks: When I assumed the role of CEO in addition to the role as president of Strategic Partners U.S. in January 2007, both the real estate investment climate and the firm were quite different. The firm was much smaller and narrower in scope. Given the increasing complexities that accompany the increase in size and breadth, coupled with the increasing needs of clients in the current market environment, the demands of these two roles have changed, and it is currently not realistic to serve both as president of Strategic Partners U.S. and CEO of the overall firm. It became very clear to me that we really needed someone focused 100 percent on running the global business and someone focused 100 percent on running our Strategic Partners U.S. program.

Will it be difficult to relinquish the CEO role, and is this the first step toward retirement?

Maddocks: This change is exactly what I wanted and needed. I am relieved and excited to be able to concentrate on the U.S. program. I don't think people really understand how big and how complex the Strategic Partners U.S. program is. We've had six funds, two of which are successfully liquidated. A third is majority liquidated, and the series still has close to \$9 billion in assets under



Southeast United States.

Matt Khourie, CEO, joined CB Richard Ellis Investors last year from Trammell Crow Company (TCC). He is an experienced manager and investor who is well-poised to lead the firm through this unprecedented real estate cycle. Khourie has an extensive background in the real estate industry, including investment strategy, portfolio management, development, and institutional investor relations gained during his 29-year tenure with TCC where he started in 1980 and rose through the organization to the role of President, Development & Investment



Vance Maddocks is the founder and leader of the CB Richard Ellis Strategic Partners program, the firm's global value-added and opportunistic fund series with 14 funds closed since 2000. Under the direction of Maddocks, the Strategic Partners U.S. program has completed transactions totaling more than \$10 billion. Maddocks is a three-time recipient of the CB Richard Ellis Chairman's Award for Leadership. In 2006, Vance received the company's highest honors for his distinguished service and deal-making capability, the Edward S. Gordon Award.

management. I've got a terrific team of 25 professionals managing the fund assets, but it really needs the leadership, the vision and the full-time focus of the founder. And as far as retirement — that's a long way off. I am totally committed to keeping CBRE Investors and our Strategic Partners U.S. program in the top-tier of investment managers and funds for many years to come.

How long has this transition been in the works?

Maddocks: This is a recent decision prompted in part when our investors demonstrated an extraordinary measure of support for what we're doing in dealing with a very difficult market by extending our investment period for the Strategic Partners U.S. Value 5 and Opportunity 5 funds. You know in this environment that those are not easy conversations. I feel a tremendous sense of responsibility to these investors, and I also see it as a huge

opportunity to focus and do a great job investing the balance of this capital — about \$1.2 billion to be placed over the next 12 months. It is a fairly easy conclusion that managing these funds is where I'm going to add the most value and serve the best interests of the investors.

Khourie: Vance has done a superb job in bringing our investor clients and CBRE Investors through the most difficult part of this real estate recession, and we are very well-positioned now to capitalize on what's going to become the up cycle, even though there's plenty of work to do as it relates to getting through some of the down cycle issues. I'm honored to be able to take the baton and continue to move our organization forward.

Will there be any changes in other executive roles and responsibilities?

Maddocks: No. We use a dedicated team approach to investing with all our other programs, which has

served the firm and investors well, and my transition is consistent with that philosophy. We are not planning any other changes in our team leadership or other executive roles.

Matt, what does the CEO role involve?

Khourie: I will lead our global business. We currently have three primary geographic regions — Europe, Asia and the U.S. — and various business lines, such as our Capital Partners real estate finance platform, separate accounts, our fund of funds practice and our global real estate securities business. So it's a combination of overseeing geographic areas, as well as business line responsibilities, some of which span geographies.

Matt mentioned earlier that you have done a superb job guiding CBRE Investors through the recent downturn. How exactly has the firm fared?

Maddocks: We certainly have had our share of issues, but we've come through the downturn quite well, and we've maintained strong relationships with our investors. Over the past two years, we've focused on communicating with our investors and executing through what we knew was going to be an extremely difficult environment. We managed to succeed in both of those areas with the help of a tremendous professional staff of hands-on real estate people. Fairly early in the process we acknowledged that we needed to adapt and make changes, and we did a good job of communicating this to our investors. Although we are continuing to work through issues, I

think we have fared very well.

What are you focusing on as we come out of the recession?

Khourie: First and foremost, we are focused on creating the best possible outcomes for our investors — both LPs and our separate account clients. We don't want to spend so much time looking at the future that we sub-optimize our existing assets. We want to make sure our funds and accounts outperform their peer group, so we will continue to do whatever it takes to stabilize and improve our existing assets under management. Next in priority, we are also working to create compelling new investment initiatives to take advantage of the markets as they recover around the globe. That would include both investment initiatives aimed at certain global regions, as well as initiatives aimed at certain investment ideas. An example would be our Capital Partners initiative that we launched a year ago, which is a real estate finance platform.

Why invest in debt?

Khourie: There is going to be a lot of opportunity in the debt space. \$1.4 trillion of debt is maturing over the next five years, and there's not enough capital existing to replace that debt. We are encouraged based on our investments to date and continue to see a very compelling risk/reward scenario.

What are you doing globally?

Khourie: We are continuing to make nice progress in Europe and the U.K. We have had a substantial presence there for many years. We

also see opportunity to grow in Asia, particularly in China. As part of this growth, we are continuing to look for best-in-class leaders. Vance has done a great job in recruiting talent over the past two years by adding a new global CFO, Shaun O'Connor, and a global COO, Peter DiCorpo. We're looking to add additional talent in Europe and Asia that would create an even greater leadership team for our organization.

What lessons have you learned from the downturn?

Khourie: One of the initial tasks that Vance challenged me with when I joined last summer was to try to understand the lessons that we've learned during this cycle and to create recommendations on how to apply those lessons to our future business. As a result, we've created a new operating paradigm for CBRE Investors, which is multi-faceted and has revised the way we execute risk management. For instance, we hired a global risk officer who has created a global risk committee that allows us to share risk profiles and risk mitigation techniques around the globe. It has been very helpful in trying to make sure the lessons learned in one part of the world are taken into consideration elsewhere. We've also enhanced our investment committee process to improve investment decisions over time. For instance, we are adding an independent third-party investment committee member who is not part of the CBRE Investors employee base — an individual with extensive experience in the real estate investment management world who will help bring an independent view to our investment decisions, and we're extremely excited about that added perspective.

Maddocks: The biggest challenge is global consistency and mitigating and managing risk in all of our investments. So we have invested in a risk management infrastructure around the globe that includes finance and legal experts on a regional basis.

Has the industry itself learned some lessons?

Khourie: The real estate market is driven primarily by employment and GDP growth. There always will be cycles with these two drivers, which will mean there will be cycles in

Corporate Overview

CB Richard Ellis Investors is a global real estate investment management firm with \$33.3 billion in assets under management as of March 31, 2010. The firm sponsors investment programs across the risk/return spectrum for investors worldwide.

CB Richard Ellis Investors is an independently operated affiliate of CB Richard Ellis Group, Inc. (NYSE:CBG), and harnesses the research, investment sourcing and other resources of the world's premier, full-service commercial real estate services company for the benefit of its investors. CB Richard Ellis has approximately 33,500 employees (including affiliates) in more than 425 offices (including affiliates) worldwide.

Corporate Contact

Michael McMenemy, Global Head of Investor Services

515 South Flower Street, 31st Floor, Los Angeles, CA 90071

mmcmenemy@cbreinvestors.com

Tel: 213-683-4225 Fax: 213-683-4301

www.cbreinvestors.com



Clockwise from top: Beijing Ocean Chateau, Beijing; GM Building, New York; 1540 Broadway, New York; One Rincon Hill, San Francisco; Riverhouse, New York; Copernic II, Paris; 193 Regent Street, London; Buckeye Logistics Center, Phoenix

the real estate market. I do believe that the real estate industry can do a better job than we have done historically of muting the resulting real estate cycles. One way to do that is through more transparency and better market information. Today we have better information than we did in the 1980s and 1990s, but it remains less than perfect. Our Research Group is successfully tackling this challenge. Additionally, debt generally is a nemesis of a real estate down cycle and creates a lot of the extreme outcomes. As the CMBS business became frothy, the underwriting standards dropped, and in reality those stated loan-to-values were incorrect. Now we are paying the price. I think more diligence relative to loan-to-value and debt underwriting would help mute future correction cycles. It requires discipline. It requires more extreme risk management measures, more disciplined investment decisions and better research. Will we ever solve the problem of real estate cycles? No, I don't think so, but there are improvements that we at CBRE Investors have made that will pay off for our investors as the next cycle unfolds.

A lot of investors are talking about doing smaller deals and maintaining more control. Does that mean they no

longer see the advantages in size that they used to see?

Maddocks: Clearly there is more capital chasing the smaller deals now. But I think the opportunities are actually in larger situations that are more complex, with greater constraints on financing. We're going to go through a significant realignment. The relationships with capital are resetting, and it takes a fairly large firm with talented people and deep resources to really execute what the investors are going to demand — very high levels of service and resources, customization and attention to risk management. But the investors are also going to be looking at more specific strategies. So a focused, very well-resourced firm is really going to have the advantage.

Where are the opportunities today?

Khourie: Incorporating strict underwriting prudence, we believe that there is certainly a good opportunity in the debt space based on the upcoming wave of maturities and the fact that capital will be scarce to refinance those maturing loans. We also feel very confident in the value-add space in the U.S. We possess ample dry powder to invest there and believe that there's going to be a

great window of opportunity over the next 24 months. We are very high on Asia long-term. China will go through some ups and downs, but we feel that in the long run, China is a place that we want to have a growing presence. The key is to make sure that we buy when the opportunities are right to realize profits and hold our cards when it gets too frothy. Additionally we are seeing some great opportunities in our separate account business both here in the United States and in the U.K. With the turmoil among a number of our competitor firms, especially those owned by financial institutions, we've been very successful in taking over separate accounts, and this becomes a great vehicle for growth. As markets recover, we expect to see new mandates coming out of several major institutional pension funds. Another area where we are active is our fund of funds business, which is growing dramatically and had one of its best capital-raising quarters ever in the first quarter of 2010. Finally, our global real estate securities business has been another driver of growth. The overall market is becoming very comfortable with REIT stocks and believes that the global REIT market is going to have a positive trajectory over the next few years.

Are there any markets you feel ought to be avoided?

Maddocks: While I would not say we are avoiding them, there are areas where we are being very cautious. For example, we are being very careful about new investments in Japan. Also in the U.S., the demand for core income-oriented properties in coastal markets has really pushed prices, and there is a concern that the fundamentals don't support some of the pricing that has occurred in the past 90 days. I would be careful if investing in the top five U.S. core markets right now. I would also say the very strong demand for multifamily may be pushing prices beyond the fundamentals. So there are areas where we are just being cautious right now. Historically, we have shied away from countries that are nontransparent and/or possess political risk, and we will continue to do so.

What value does CBRE Investors provide global investors that local firms don't?

Maddocks: We have a global perspective that is much more signifi-

cant than a local firm. At the same time, through the CBRE platform, we have access to local market intelligence from 30,000 people on the ground who are making the market every day. At CBRE Investors, we have local team members in every country where we invest. We are looking at the movements of markets globally and understanding how these markets behave, but we are able to act locally and have unparalleled market intelligence.

Khourie: Having local teams allows us to know the local real estate developers. Among our most successful pursuits and recorded realizations in China have been joint ventures with some of the larger Chinese developers who want a relationship with CBRE Investors in order to leverage their own capital.

How do you see the next cycle playing out?

Maddocks: We are clearly at an inflection point. We definitely see a flight to quality and an orientation toward core income-oriented strategies, as well as an increased interest in separate accounts — all similar to what we have seen in previous cor-

rection cycles. I think that over the next 12 to 24 months there will be a focus initially on separate accounts that will slowly move toward funds again because there will be better execution. Those funds will be smaller and likely be with people who are operators of real estate. Alignment of interests and investing with people you trust will be paramount. Investors will be making sure that they are investing with people focused on execution at the real estate level. Consistency of performance and how deep people are in terms of execution skill will really benefit a few investment managers who are really committed to this industry, and they will be the beneficiaries over the next 12 to 24 months.

Khourie: CBRE Investors is in a unique position as part of a very well-capitalized, global company that happens to be solely committed to the real estate business. Therefore we have the financial wherewithal to take advantage of the opportunities that we talked about today, but we also have the long-term commitment to the real estate business. The combination of those two elements sets us apart. ❖

CB Richard Ellis Investors Global Platform

