THE INSTITUTIONAL REAL ESTATE LETTER – NORTH AMERICA

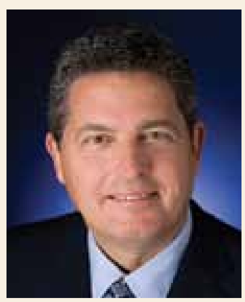
Sponsor Interview

RREEF

Geoffrey Dohrmann, publisher and editor-in-chief of The Institutional Real Estate Letter – North America, *met with* ***Pierre Cherki*** *and* ***Tim Gonzalez*** *of RREEF. Following is an excerpt of that conversation.*

ABOUT THE SPEAKERS

Pierre Cherki is global head of RREEF, where he is responsible for the management and strategic direction of RREEF's global real estate business. Prior to his appointment as global head, Cherki was responsible for managing RREEF's investment management business in Europe, Middle East and Asia Pacific with approximately €20 billion of assets under management across 10 offices. Since joining RREEF in 1997 (then Banker's Trust, acquired by Deutsche Bank in 1998), Pierre has completed numerous transactions in France, the UK and Belgium, and was responsible for the development of RREEF's business in Central and Eastern Europe.



Timothy Gonzalez is head of RREEF's Americas business. Prior to that, he directed RREEF's investments group overseeing all acquisitions, dispositions and financing activities. Prior to his leadership role in investments, Gonzalez directed the portfolio management activities of the San Francisco office, and was the lead portfolio manager for RREEF America II, the firm's flagship core fund. He continues to serve as the chairman of the board of directors of RREEF America II, and is also the chairman of the board of directors for RREEF America III, the firm's value-added fund. He joined RREEF in January 1991 as a Vice President in acquisitions after 11 years of industry experience.

The past two years have been pretty rocky. How has RREEF fared?

Cherki: RREEF has fared relatively well. This has been the result of constant communication and cooperation with our clients, hard work and dedication from the RREEF team, and strong support from Deutsche Bank. During 2008 and 2009 the whole RREEF organization was focused on preserving the value of our various portfolios. This included, for example, restructuring balance sheets and raising capital for our more highly leveraged funds or assets, giving us more time to manage these portfolios without having to operate under liquidity constraints. Being part of Deutsche Bank was critical for us during this time. Not only did we have the financial backing to keep the team together and thus effectively manage the challenges in some of our portfolios, but in certain instances the bank provided capital alongside our clients to support our funds. As a result we entered 2010 able to work with our clients on new growth opportunities.

You mentioned how important it was to have Deutsche Bank's support. With the implementation of Basel III, will the bank be able to continue to hold real estate assets?

Cherki: There is no reason to believe it won't. Basel III aims to increase the capital reserves that the bank must hold against losses. This seems to have less of an impact on the asset management division, where the bank manages assets on behalf of investors. In the past, strong support from the bank has enabled us to hire and retain our best people, as well as co-invest with our clients to provide alignment of interest. Going forward, we feel very fortunate that we will continue to have very strong support from the bank in achieving our goal of making RREEF the best global real estate investment manager.

How have your clients responded to your efforts during the crisis?

Cherki: Clients are reaffirming their interest in sustaining — and in some cases increasing — their allocation of capital to real estate. So we have seen a very good turn-around in fundraising, raising $9.5 billion in 2010 from RREEF's traditional clients, such as large pension funds and insurance companies in the United States and Europe, as well as from completely new channels, such as institutional clients in Asia and in the Middle East and retail channels in all regions. Our business is global and covers both public and private real estate across the risk spectrum. Very few investment managers are better positioned than RREEF to work with these global clients. When you take into account that the competitive environment is changing very rapidly, with few managers capable of allocating capital across regions, we believe that the opportunities for RREEF to serve our clients are great.

How are you able to execute on all of your diverse strategies?

Cherki: Transaction volumes are still very low compared to what we have seen in the past, and being able to identify transactions with the appropriate risk/return characteristics is not easy. We have an advantage in that we have a global platform with offices in 22 cities, which allows us to match local expertise to our clients needs. You simply cannot fly in and out of a region and expect to identify the right investment opportunities. You need to be on the ground. You need to understand the local market, and that's what we offer to our clients.

What types of investments are your clients most interested in?

Cherki: Our clients' real estate needs are quite diverse, covering the spectrum from public to private, and from region-specific to global. This is clearly evidenced in the sources and intended investment strategies of the $9.5 billion in new capital we raised in 2010. For example, investors looking for liquidity have helped us grow our global securities platform, which is made up of a combination of retail and institutional capital. On the private side, we see our clients wanting to invest in the two extremes — core or opportunistic. Coming out of the financial crisis, managing risk is even more important than it was in the past. It's interesting to see that we have very few clients who want to go global today. A global core mandate doesn't exist, and even global opportunistic mandates are becoming rare. Instead, clients are saying that they want to have more narrowly defined investment strategies. Because we are global, we can work with them to find opportunities in the different markets and execute on these opportunities in the best possible way to fit their strategies.

Are there large differences between investment opportunities in the various regions that you operate in?

Cherki: It depends on the product. Our securities business has become more global in nature, and the differences are not huge between the regions. There is also similarity among the liquid core markets around the world, whether it is Singapore, Paris or New York City. The differences among regions become more evident on the opportunistic side. Opportunistic investing in the United States and Western Europe is focused on distressed assets and owners. There is less emphasis on emerging markets because investors feel they can get yield without taking on emerging market risk. India, China and Brazil are still attracting capital, but there is significantly less liquidity overall in other emerging markets.

Turning specifically to the United States, how would you characterize the opportunities and risks out there today?

Gonzalez: The fundamental risk in the United States still rests with the operating markets. Although there have been some early signs of recovery in the leasing and operating markets, they remain challenging and will continue to until the broader economy recovers and jobs start coming back. We're cautiously optimistic that the worst is behind us from an economic standpoint, but there are still some choppy seas out there in the leasing and operating markets. A second risk is the pricing of capital and where interest rates are likely to go. The consensus view is that interest rates will increase, and as they do, there will likely be a ripple effect on cap rates. So the doubling effect here is that if there is no increased operating performance, but cap rates go up, then there will be value diminution.

What are you doing on behalf of your investors to manage those risks?

CORPORATE OVERVIEW

RREEF is the real estate investment management business of Deutsche Bank's Asset Management division. RREEF is one of the world's largest real estate investment managers, investing globally in commercial and residential property, and real estate securities. Its focus is on client relationships with institutional investors, such as pension funds, insurance companies, sovereign wealth funds, endowments and foundations. However, it also manages money for retail and private client investors through alliances with organizations specializing in servicing those client segments. Managed as a global organization, RREEF comprises three main business units: Private Real Estate, Opportunistic Real Estate Investments and Global Securities.

Important Points

- Investment heritage of over 40 years; Currently has $56.5 bn in AuM globally
- More than 600 employees in 22 offices around the world
- Substantial operating experience in its local markets
- Diverse line-up of investment strategies and products
- Demonstrated track record of delivering value to its clients

Strong Foundation in the U.S.

- $28.9 bn in AuM serviced in the U.S.
- RREEF was one of the first fiduciary managers of real estate assets for U.S. pension funds in 1975
- RREEF pioneered the closed-end real estate fund for pension clients
- RREEF manages money for 14 of the top 15 pension funds in the U.S.

CORPORATE CONTACT

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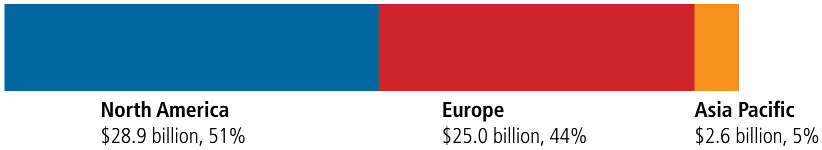
ASSETS BY INVESTMENT REGION — $56.5 BILLION

Assets under management as of December 31, 2010



Gonzalez: It gets back to basic blocking and tackling. Instead of looking at every market, we are focusing on specific markets, cities, and properties where we have the best likelihood of either preserving or growing rent.

Where are those specific markets that you are focusing on?

Gonzalez: The market out there is a bit of a Catch 22. Capital has flooded back into the market, though it's nearly all focused on prime assets in primary markets. The plus side is that deals are getting done, but the downside is that everyone wants to do the same deals, so prices for those assets are being bid up. We are looking at property types where there isn't as much competition. For example, there isn't a lot of competition for multi-tenant industrial business parks because they are very asset management intensive, but that happens to be one of RREEF's strengths. There also are opportunities on the recovery side in markets likely to grow rents and occupancies, where you can buy currently underperforming assets and improve their performance.

How are you able to access those opportunities?

Gonzalez: We've always had one of the largest acquisition groups in the country. Because of our network, we are able to find off-market transactions, even in today's market. We also have more than 60 asset managers well positioned in the field, who have valuable knowledge of their local market activities. We are known as a responsible and experienced buyer and seller. People know that if we say we're going to buy we buy and if we say we are going to sell we sell. RREEF has a solid reputation in the market, and that brings a lot of deals our way.

Do you also see opportunities on the asset management side of the business?

Gonzalez: We see the opportunity to add income in our apartment, industrial and office portfolios. We have already started to see some uptake in performance in our apartment portfolio, but there is still room to grow rents in that market. Just by tracking the national average, our industrial portfolio can pick up anywhere from five to 10 points of occupancy in the next 12 to 18 months and that's just based on getting some leasing done. We're seeing the early signs of recovery in manufacturing, in import/export activity and in job growth, all of which spurs industrial demand. We're also looking to grow our office occupancies another 5 percent or 10 percent as job growth picks up.

If job growth doesn't appear in 2011 in a meaningful way, what are you doing to protect investor's interest in their existing holdings?

Gonzalez: Every year, each of our portfolio managers spends a significant amount of time looking at which assets they don't think are going to grow, improve or beat their relative benchmarks. Because we weed out the assets that no longer have an upside, we've been an active seller throughout the cycles. Last year we sold about $850 million worth of property, and I would expect this pace to continue as we identify assets that don't strategically fit into our portfolio.

This has been a pretty rough fundraising climate. How have you done in that respect?

Gonzalez: I'm pleased with where we ended up in 2010. In the United States, we raised $1 billion of new institutional capital, mostly from domestic sources. We have also had some very significant success with sovereign wealth funds, and we've seen an increase in capital from European separate accounts that we have accessed through our global platform and connection with Deutsche Bank. Those accounts have been active historically in Europe but are now growing their activity and interest in the United States.

Has all of this fundraising focused on the private side?

Gonzalez: That $1 billion was for private real estate and securities in the United States, but our businesses in Europe and Asia have also been very successful. We raised more than $2 billion in the second half of 2010 for our infrastructure securities business from Asian retail clients. We also won the takeover of a $100 million portfolio of European industrial properties from CalPERS, which we have added to the existing CalWest industrial mandate we manage for them.

Have you seen any change in your client base over the last year or has it been relatively stable?

Gonzalez: It's been relatively stable, though like everyone else there has been some turnover as investors reallocated away from alternatives or chose other managers. Stability and performance are the main drivers in investor decisions, and while we did experience departures over the last few years, our management is stable, our team of investment professionals is deep and performance is strong again. Our U.S. flagship core fund is one of the top-performing open-end funds, and of the 16 U.S. separate accounts we manage, most of them have outperformed their benchmarks. I'd like to see all of them at that level, and that is one of our main priorities this year.

What are your priorities for 2011?

Cherki: We have three key priorities. First and foremost, as Tim highlighted, is performance. Across the board we want to make sure all of our separate account mandates and commingled funds are performing among the top of their competitive set. While many of them are, we want all of them to be. So we have spent a lot of time and resources focusing on how we can improve our investment process and do an even better job in managing the risk and making sure that we construct the best possible portfolio for our clients.

Gonzalez: The second priority is transparency. We think we've always done well communicating openly with our clients in good times and bad, and telling them how we're protecting and improving their positions. But we can always do better. We are investing in our communication tools to ensure we provide quick and accurate feedback to clients.

Cherki: The third is measured growth. Because of our global footprint and the backing of Deutsche Bank, we are able to grow organically more easily than some other managers. That means we can easily enter new markets as current ones mature and develop new and innovative products to meet client needs. For example, we understand and appreciate that the defined benefit business is a mature industry. While we expect to have continued asset growth in that area, we are beginning to look at the defined contribution channel, which is looking to invest beyond traditional fixed income and equity products. When defined contribution managers look at real estate, they look for the benefits of direct real estate combined with liquidity. We are well-positioned to combine our securities and direct offerings to provide these investors solutions to meet their needs.

Gonzalez: Another important corporate initiative that underpins everything we do is sustainability. We are looking at how we manage our properties to ensure that they are sustainable and, ultimately, run more efficiently and hence deliver a higher return for our clients. It is something that is incredibly important to us as a business.

Bottom line, why should investors look at RREEF?

Cherki: We have a 40-year investment heritage with substantial operating experience in our local markets, a diverse line up of strategies and products, and a demonstrated track record of delivering value to our clients. We have emerged from the crisis strong and stable, focused on delivering superior investment performance, and working with our clients to provide the best real estate investments solutions for their portfolio needs.

Gonzalez: One of the things that really makes RREEF different is its culture. It's the job of Pierre and it's the job of the regional heads like me to maintain that culture, which rests on some basic fundamental principles that haven't changed since the early founders. The first is respect and trust for people. The second is promoting teamwork and achievement. The third is maintaining the highest integrity in relationships with company personnel, clients, family and community. And then finally, what we've already talked about, commitment to excellence in everything we do. These are the cornerstones of RREEF. ❖

RREEF INVESTMENT STRATEGIES

At RREEF, we offer a diverse product range, encompassing each of the main categories of real estate investment management, including core and core-enhanced private real estate strategies, opportunistic investments, real estate securities portfolios and structured real estate debt investment programs.