



# RREEF

In August, **Geoffrey Dohrmann**, publisher and editor-in-chief of *The Institutional Real Estate Letter*, met with **Chuck Leitner**, global head of RREEF, the alternative investments business of Deutsche Asset Management. The following is an excerpt from that conversation.

**Dohrmann:** *Economists and industry experts, including RREEF Research, have been predicting that the next two years are going to be difficult ones for the real estate industry. What are your plans for successfully navigating RREEF and its clients through those tough times?*

**Leitner:** Responding successfully to this market involves a combination of offense and defense. Right now, the real emphasis needs to be on defense — paying attention to our current portfolio and optimizing performance at the asset level — but we also need to have the capability to go on the offensive as opportunities present themselves. And, there's no question that they're going to be out there. You do need to be careful, however, and maintain a very high level of discipline in terms of how you assess opportunities that are coming out of the distress that's in the market.

**Dohrmann:** *Now, I've heard some people argue there is no stress.*

**Leitner:** Well, you won't hear that from me. I think that there is plenty of stress in the market, but, like it always does — it presents itself in waves and certain elements of the market roll through stress before others. Clearly there's been big stress on the debt side of the market, particularly in the single family residential sector. But it is now beginning to show up on the debt side of the commercial market and in other sectors in the real estate market. And it is showing up in places beyond the U.S. and the U.K., which were the two headline markets where

### CHARLES B. LEITNER III Global Head of RREEF



With 25 years of investment industry experience, Leitner is responsible for the management and strategic direction of RREEF's global business. He joined RREEF in 1988 and became a partner in 1996. After the acquisition of RREEF by Deutsche Bank, he became Global Head of Real Estate and Infrastructure in 2004. Leitner spearheaded the globalization of the real estate and infrastructure businesses, integrating them as a global platform under the RREEF brand. In 2006, private equity was added to the global RREEF platform under Leitner's responsibility. He is a member of the DeAM Global Operating Committee, Deutsche Bank's Real Estate Equity Commitments Committee and Private Investment Commitments Committee and he chairs RREEF's Global Executive Committee. He is a Trustee of the Urban Land Institute, where he serves as a member of the Infrastructure Advisory Committee, a member of the Pension Real Estate Association (PREA) Board of Directors and a member of the Real Estate Roundtable. Leitner serves as a Director on the Board of DEXUS, a listed Property Trust in Australia, a member of the Board of Directors for Aldus Equity, and the Chairman of the Supervisory Boards for DB Real Estate Investment GmbH and DB Real Estate Spezial Invest GmbH.

Prior to joining RREEF, he was associated with TIAA/CREF and worked in real estate finance. Leitner graduated from the University of Pennsylvania with a B.A. in Urban Studies.

people were initially talking about softening markets. You don't see the debt markets correct in terms of pricing and risk underwriting to the level that they've corrected, without some adverse impact across the board on the equity side of the market. In the end it will all go back to quality and the quality assets will be, on a relative basis, pretty well positioned to sustain the valuation question. In some of the weaker markets, the more peripheral assets will be very vulnerable. So, stress is out there, and it's evolving as you would expect it to.

**Dohrmann:** *Is this distress just part of a long-term cyclical adjustment?*

**Leitner:** I think so. We have these debates about secular versus cyclical all the time. Most people who have been around the business for

awhile, always come back to the place that this is a cyclical business. So, I don't think the stress we are seeing is being caused by a fundamental shift, but a relatively dramatic downside cycle. There are, however, huge secular changes on the horizon that we need to begin dealing with.

**Dohrmann:** *What are those?*

**Leitner:** The state of today's market — the falling prices, cap rates and valuations — is more cyclical in nature than secular. But, there are distinct secular changes going on as well. Institutional investors are looking for more exposure to alternatives in a bid to outperform the market, and that's a trend that's very real in terms of capital flows. As institutional investors and more sophisticated individual investors

get into the more illiquid strategies, the demand for transparency, good reporting and good risk management is going to increase. And, so, we have to position our business to address those needs — and we have to address them in an economically competitive way. These sorts of operational evolutions create challenges, as well opportunities, for a firm like RREEF.

**Dohrmann:** *What has RREEF done to meet those challenges?*

**Leitner:** We've evolved into a global business with several alternative strategies with real estate being the largest component. Our other primary strategies are in the infrastructure and private equity sectors. We've been evaluating and growing our business in a very measured, careful manner, as we are always mindful that we are a fiduciary business.

**Dohrmann:** *What are you specifically doing at RREEF to protect client values in today's market?*

**Leitner:** Playing a good, strong defense in a market like this is important. We've been bringing a defensive posture to our portfolio strategies, particularly in the low-risk end of our products, the core side. We are making bets in terms of exposing those portfolios to what we think are the less risky sectors and regions in the U.S. and U.K. markets. In those two markets we think this strategy is the best way to protect principal value, preserve principal, and position the portfolio for good relative current performance and strong future performance in a recovery.

**Dohrmann:** *Will you be cutting back on your leverage?*

**Leitner:** Our core portfolios have had a very low leverage strategy from the beginning, so leverage has not been a big factor. With our value-added and opportunistic strategies, leverage is definitely a factor. And, as we look at certain positions that we might hold longer than we originally thought because realizing a gain might be harder to do in the short run than it would have been a year or two ago, we are looking at our leverage strategy to make sure that it's optimal for operating assets

that we may not sell for awhile. So, we're doing some deleveraging on a select basis within portfolios at the asset level where it makes sense. Leverage is definitely less a part of defining a good opportunity than it was a couple of years ago.

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**Dohrmann:** *What do you see as the biggest accomplishment the firm and your team has made in the past four years since you took the helm?*

**Leitner:** I think we've done a very good job of building an integrated global business which is not a very easy thing to do. As clients began to look globally, we saw an opportunity for RREEF because of our

affiliation with Deutsche Bank. We focused very hard on creating an integrated business model, with partners around the world across different parts of the business that all operated under the RREEF banner. Across the platform we concentrate on one primary mission — to invest our clients' capital in a way that helps them meet their investment objectives while remaining careful and disciplined.

**Dohrmann:** *How have you been able to knit everything together?*

**Leitner:** It's still a work-in-progress and always will be because regulations change, local customs change, currency issues change and so it's a very fluid situation. You're never finished. But, getting the whole organization to feel like it's tied to one mast — economically, reputationally in terms of performance and track record, responsiveness to clients' inquiries, and being part of a fiduciary investor culture — was step one. In terms of the basic service and value propositions, all clients, whether coming from the U.S. or Japan, know they're dealing with RREEF.

**Dohrmann:** *How exactly did you tie everyone to one mast?*

**Leitner:** One of the key tools in uniting everyone was the creation of a centralized product develop-

#### CORPORATE OVERVIEW

RREEF Alternative Investments is the global alternative investment management business of Deutsche Bank's Asset Management division. RREEF Alternative Investments consists of three businesses: Real Estate, Infrastructure and Private Equity. Headquartered in New York, RREEF Alternative Investments employs more than 1,400 investment professionals in 18 cities around the world to help investors meet a wide range of objectives — from diversification, to preservation of capital, to long-term performance. Named one of the world's largest alternative investments managers in Global Investor/Watson Wyatt's Alternative Survey, June 2008, RREEF has \$87.0 billion in assets under management worldwide as of June 30, 2008.

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ment function that communicates and operates globally. And the key is, while the function is centrally managed there are strong regional teams that are very familiar with what's going on legally and culturally at the local level. So we end up with the best of all worlds in that products are designed that cater to regional tastes and regulations, but the nuts and bolts process of setting them up and rolling them out is centralized so we don't reinvent the wheel every time we do it.

**Dohrmann:** *As the CEO of a global enterprise, what do you see as the biggest challenges moving forward?*

**Leitner:** Speed is an interesting challenge. The markets are moving very quickly, and so opportunities need to be grasped and problems must be solved quickly. And the definition of "quickly" changes — in some cases meaning a few months as opposed to a few years — to solve some of the hurdles that are in place to allow capital to flow freely around the world and flow freely through an organization like RREEF. We're not talking about investing quickly because it's a good time to be patient in terms of deploying capital, but speed in terms of responding to what investors really want. Being flexible and ensuring you have the resources to respond to your investors and how they're evolving is one of the biggest challenges. Investors are wrestling with how to best deploy their capital and whom they do it with. How do they get global exposure but still manage their risk? Our challenge is coming up with ways to respond to different demands and provide alternatives — such as global, regional and country-specific products.

**Dohrmann:** *And, how do you see RREEF addressing those needs?*

**Leitner:** Some of it's fairly fundamental and, in fact, not all that exciting. We are committed to investing in our resources, in particular our 1,400 employees. You can't adequately serve your clients on a global scale without committing to having the human resources to do it. You've got to commit to having people on the ground, with a local

presence, local relationships, local knowledge and local instincts. You really can't address the demands for performance and transparency without that. We are also committed to investing in our support functions. Even in a challenging market like this we're committed to building up the capabilities in our reporting

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structure and in all of our support functions on a global scale. Reporting, transparency and communication are critically important to our business. They always have been and there's no reason why that's going to change.

**Dohrmann:** *For the past three years we've seen infrastructure becoming a hot topic for institutional investors, but the U.S. private infrastructure market seems to be a little bit slow in developing. How does that impact your ability to deploy that capital?*

**Leitner:** It's a real challenge to deploy capital in the U.S., but infrastructure is being privatized all over the world. It's a source of funding for the public side of the market in places like Australia and Europe. It's a very hot political debate as to how it should be done in the U.S., and that has constricted the U.S. market as it relates to investable assets for the private capital that's being raised. There probably is more capital looking for infrastructure assets in the U.S. than there are U.S. assets

to feed that demand. So, that's not a great investment environment in terms of getting reasonable yields for the risk you're taking.

**Dohrmann:** *Where do you see the infrastructure sector evolving?*

**Leitner:** Private investment in public infrastructure has been evolving worldwide for quite some time now. For awhile, the infrastructure space was pretty much a hometown game, where Australian investors tended to invest in Australian infrastructure, European investors, even country-specific investors, also tended to prefer to invest in their home markets. A lot of people thought that's where the U.S. would come down as well. And, that may still be true, but I think the sector is starting to globalize. It's very hard to execute an exclusively regional strategy if you want exposure to infrastructure. So, people are starting to look globally, and if they want exposure to infrastructure and they happen to be a U.S. investor, they're becoming more and more comfortable with the fact that a global strategy is a better way to do it because you may wait a long time to deploy your capital in the U.S., or you may overpay on a risk-adjusted basis because there's more money than opportunity.

**Dohrmann:** *How have your investors reacted to your expansion into alternatives over the past four years?*

**Leitner:** We're proud to say that a lot of our investors have expanded with us and invested with us in a number of different ways across the risk spectrum and around the world. Although we have moved into different strategies and markets, we have paid close attention to our core values, which are to carefully manage money and deliver performance, service and transparency to our clients. We've tried hard not to expand in an overly dramatic way, where we step outside of our own skin. Our entry into infrastructure is a good example of how we do things. Deutsche Bank had an expertise in Australia, and we took that business and expanded it to Europe first, and then brought it to the U.S. We hired people from the outside that had expertise in

certain aspects of that business and integrated them into our fiduciary model. It's taken us the better part of three years, but we believe you have to add new strategies in a measured and credible way. And, we have to demonstrate that we're going to do the same things for our clients in infrastructure that we've done for clients in real estate. We're not going to buckle into overpaying just to build AUM. So, our AUM in infrastructure is not large relative to some others that started at the same time or even started after us. But, I think the only way it works is to do it in a measured, credible way. And, so far, we've got a pretty good response.

**Dohrmann:** *What other new spaces have you entered?*

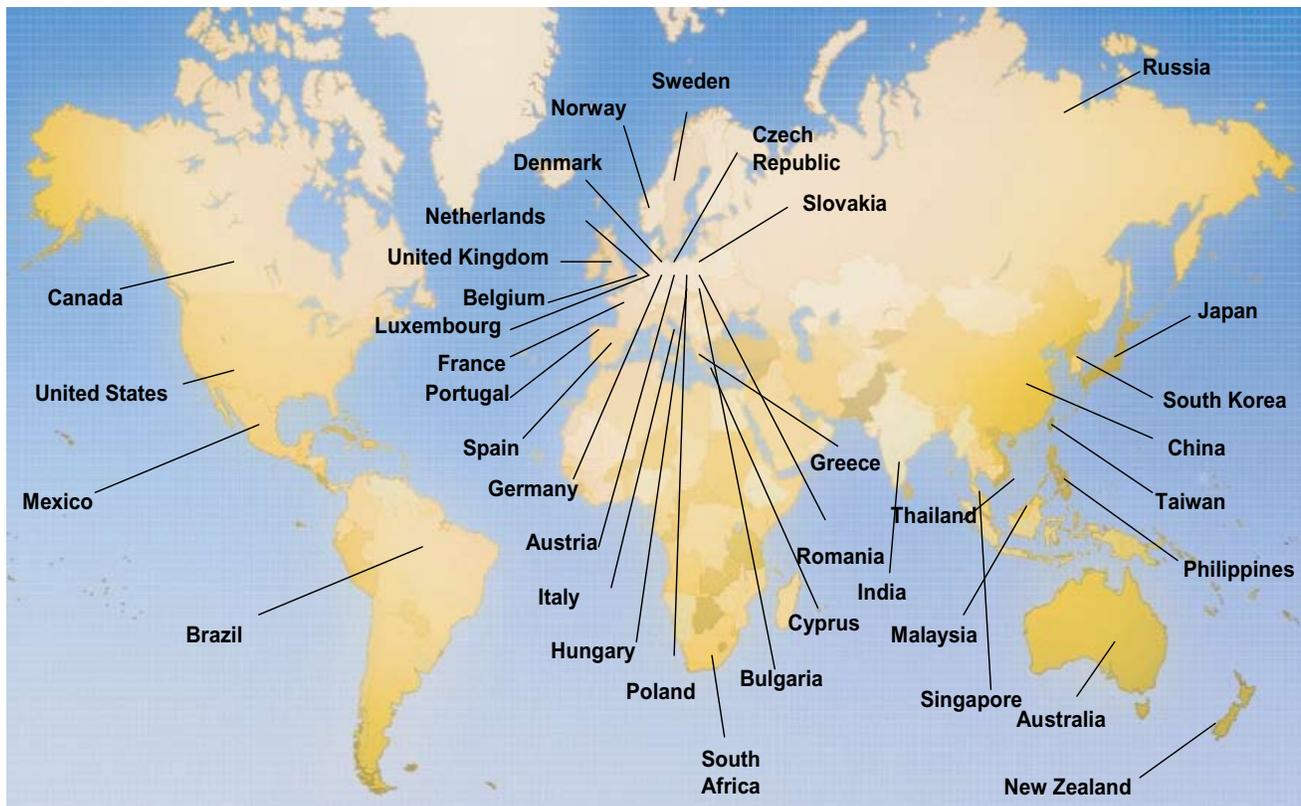
**Leitner:** Within real estate, we entered the opportunity fund space, which is something that RREEF historically had not done prior to

being acquired by Deutsche Bank. But, we had a great team that had done proprietary, opportunistic real estate investing around the world for Bankers Trust, and then Deutsche Bank. And, getting that group into a place where they could do the same things, but do it for a fiduciary client base, took some time. And, so, there again, we're trying to do it the old-fashioned way and evolve the business, but evolve in a way that's credible where we have the confidence of our investors that we can do the same things RREEF has always done because we get into them in the right way, and we make a long-term commitment to having a local presence and the right resources.

**Dohrmann:** *Now, to what extent are these businesses being operated within narrow silos and to what extent are they sharing the benefits of an integrated platform?*

**Leitner:** A truly global business needs to be totally integrated. You've got to create connectivity around the organization to get the global benefit in place for your investors. A lot of our resources now, such as research, which has always been a fundamental part of the RREEF proposition, have global capabilities and people on the ground around the world. And, tapping into this sort of global resource can help a U.S. portfolio manager every bit as much as it can help a global portfolio manager because global trends, global perspective and capital flows do impact the performance of local real estate. So there are no silos when it comes to resources, they are part of the framework of the organization. Our managers, and therefore our investors, have access to everything that makes RREEF successful. ♦

## Investment Experience in 38 Countries



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