

## CBRE Investment Management

## The investor-operator model

*Future-proofing portfolios and creating thriving communities*

Recently, **Geoffrey Dohrmann**, Institutional Real Estate, Inc.'s founder, chairman and CEO, spoke with five members of CBRE Investment Management's leadership team: **Chuck Leitner**, CEO, based in New York City; **Andy Glanzman**, president, based in Los Angeles; **Sabina Reeves**, chief economist and head of insights and intelligence, based in London; **Helen Gurfel**, head of sustainability and innovation, also based in New York City; and **Adrian Baker**, president and CIO for Asia Pacific Direct Real Estate, based in Sydney. Following is an excerpt of that conversation.

*CBRE Investment Management has a long investment management history. How have you evolved?*

**Chuck Leitner:** The position of real assets in investors' portfolios has been significantly evolving, and we have been positioning ourselves appropriately, most recently with consolidating our overall brand under the umbrella of CBRE Investment Management in 2021. This rebranding captured all our strategies in the real assets space and captured our capabilities to harness information, data and perspectives on how real assets perform in a variety of strategies — including private and public real estate and infrastructure, in equity and debt formats. We have organized that range of capabilities under CBRE Investment Management, and we have also captured a real value proposition in terms of our approach to investor-operator performance across all of the strategies. We are the link between the occupier and user of real assets and the investor in real assets, who has an opportunity to capture alpha and outperformance. We think the CBRE IM platform positions us well to do that.

**Andy Glanzman:** We have been making significant investments in the platform for some time now, ranging from talent, to technology, to new product launches. As part of the brand relaunch and value proposition, about two years ago we introduced the new investor-operator model and made meaningful investments in support of that. The goal was to further enhance our ability to deliver on all aspects of an investment's lifecycle. When you find yourself in a time of volatility, having these operator capabilities and data — and the real-time, on-the-ground information that comes with it — can be a particularly powerful decision-making tool and something that adds additional value to our ability to execute for our

clients. The work we have done over the past couple of years is paying off in a variety of ways. We continue to deliver strong investment performance for our clients. We ended the second quarter with about \$147 billion of assets under management, which represents 34 percent growth in the past two years. We are accessing and executing upon interesting transactions. Earlier this year, we announced an almost \$5 billion logistics portfolio acquisition that spanned Europe and the United States. Our model enables us to do those types of transactions. We are very excited in terms of the evolution of our business.

*Sabina, how are you working with investors to design solutions to help them meet their objectives in today's environment?*

**Sabina Reeves:** One of the big innovations that came when Bernie McNamara joined our firm was creating a client solutions team staffed with portfolio strategists to get to know the clients in depth, understand their long-term risk-return requirements and what they were trying to do with their overall portfolios, and help design solutions specifically for them using the full breadth of our platform, whether debt, equity, listed, unlisted or infrastructure. That has been a successful innovation. One of the tools that goes into all those considerations is our particular house style of investment. We look for secular tailwinds that are going to drive performance for our clients over the long term — megatrends, such as technological innovation, demographics or the emergence of sustainability. By moving our portfolios in this direction, it shifts us away from the short-term thinking that plays at tactical positioning relative to the cycle. This approach leads towards a product architecture that is in tune with delivering and shaping long-term, resilient and outperforming portfolios.

## CONTRIBUTORS



**Chuck Leitner**  
CEO



**Andy Glanzman**  
President



**Sabina Reeves**  
Chief Economist and Head  
of Insights and Intelligence



**Helen Gurfel**  
Head of Sustainability  
and Innovation



**Adrian Baker**  
President and CIO for  
Asia Pacific Direct Real Estate

**Leitner:** Underneath the secular bets, we are also able to be operator-oriented and tactical with cycles happening in micro markets at different times, as it relates to supply and demand and user behavior. We are executing strategies in scale and with strong conviction around sectors such as rental housing and logistics, but how we execute locally in those sectors at different times within local market cycles comes down to an operator mindset.

*How would you boil that down to a value-proposition statement? And how is that proving its mettle in today's market?*

**Leitner:** We are unique in that we can work as an investor-operator at scale, unlike other firms that may be smaller and focused on a particular market. We can provide a range of solutions to our clients with consistency in how we report, manage risk, use research, bring global trends into the local decision-making process and make bets at scale. We also give our investors a chance to invest in different parts of the market and build their portfolios to have the kind of exposure they want, with a manager with whom they have a trusted relationship. At scale, we are using more of our own capital to coinvest alongside our clients and provide bridge capital into new ideas.

**Reeves:** We review our global house view formally twice a year, but it is ongoing throughout the year. We can be nimble and responsive to quite rapidly evolving market conditions because we do it all in house. We can speak to people in every major market who are looking at pricing, leasing and development from the perspective of equity, listed, unlisted and credit. This holistic view on what is going on at various access points to the underlying assets enables us to be sophisticated and rapid in our response to what is going on, rather than passively waiting for quarterly indices to be published. That is a real information advantage. Big isn't always better, but when it comes to data, scale is definitely better. Because we can get underneath what is driving performance, we understand the operator vertical and how to drive performance to our assets.

*How does the investor-operator model work in practice?*

**Glanzman:** The model is based on our unique ability to deliver on all aspects of an investment's lifecycle — from land acquisition, development, lease up, and ongoing asset management and user experience. About a year ago, for instance, we launched a globally aligned sector-specific logistics team, with a head of the logistics operator division in each region who partners with the head of logistics

investment strategies. When you get sector specialization, you can develop key relationships. In asset management, our leasing professionals are developing strong relationships with the users of our assets, and they are understanding tenants' needs now and where those needs are heading in the future. An investor without the operator can't do all those things, and they must rely on the skill or expertise of others to do it.

**Adrian Baker:** Having the ability to identify trends early allows us to gain a competitive advantage in the market and meet changing occupier needs. One example where that is making a difference is in Japan. Attracting and retaining staff remains one of the biggest challenges for logistics occupiers, so the working environment is crucial. One small piece we have integrated into our development program during recent years has been air conditioning in our warehouse facilities in Japan. That has made the conditions for the workers much more comfortable and has had a significant impact in terms of us outperforming from a leasing perspective.

*Last year you did some new branding. What did you rebrand from, and what did you rebrand to? And what was the reason?*

**Leitner:** We wanted to move away from a brand with multiple sub-brands from acquisitions and startup businesses, which were a bit confusing in the market. We had CBRE Global Investment Partners, which was our indirect business; CBRE Caledon, which was our infrastructure business; and CBRE Clarion, which was the listed business. We wanted to coordinate that under one brand, under a global investment management business specializing in real assets.

*What kind of advantages did that investor-operator model create, and how does it work for your clients?*

**Reeves:** We have a platform where we can move investors' capital between listed, unlisted, debt, equity, real estate and infrastructure. That level of choice could be bewildering. We are trying to find the best opportunities that create the best relative value for our investors. Within those structural guardrails of the secular tailwinds, we want to be constantly looking for the tactical opportunities. We know we love German residential, for instance, as an underlying sector. But is the best entry point through listed equity, because of the discounts to NAV in that sector, or through credit? What is the best way to rotate in and out? Our information advantage allows us to narrow the options to some key conviction bets, both strategic and tactical, and deploy to those at scale.

*As your occupiers globalize, the challenge of staying close to them changes. How do you do that in this changing environment?*

**Baker:** As an investor-operator, we are providing solutions to tenants, rather than providing a commodity of real estate. When we can operate at scale as an operator, occupiers see us as being able to offer tailored solutions to their warehousing challenges. In Japan, for example, we are undertaking an increasing number of build-to-suit opportunities because occupiers value our scale and capability. This allows us to differentiate from other owners who lack these skills and are forced to provide commodity product that is often inferior in terms of location and specifications. It is these dynamics that can drive investment outperformance and why sophisticated capital wants to invest with true operators of real estate.

**Leitner:** There has been a trend on the part of capital to invest to hold in higher-quality sectors, where long-term relationships with occupiers become that much more valuable. They have needs that evolve over time. They may need to expand, to contract, or gain exposure to other parts of the market. A long-term view on these secular bets makes the relationship with the tenant even that much more valuable over time.

*Helen, how does your investor-operator approach facilitate sustainability?*

**Helen Gurfel:** Our investor-operator model is integral to the success of our sustainability efforts. The model focuses on active asset management; this includes every aspect of operations, as well as sustainability. Leveraging this model, we are embedding sustainability across our investment process, from acquisition through asset management. Consistent operations and processes across geographies enable us to implement sustainable practices at scale and with speed across our global portfolio. We find that a focus on sustainability is critical to mitigate risk, enhance returns and preserve asset value. There are strong synergies between operational excellence and sustainability performance, and we find that optimizing operations can simultaneously unlock environmental and financial benefits.

*How do people and communities play into the sustainability approach?*

**Gurfel:** We want to help lead the transition to a sustainable society. We look to engage with all of our stakeholders, including tenants, employees, clients and communities, to drive positive outcomes. We view our assets as the building blocks of communities that can add to their quality and livelihood.

Looking at specific stakeholder groups, such as tenants — those millions of people who use our assets every day — we strive to help improve their social and physical well-being. One example is through our Above and Beyond (A&B) program, which anticipates and addresses tenants' needs through next-generation property management, relationship-building and place-making practices that enhance tenant satisfaction and retention. Another example of stakeholder engagement is a recent development project where we partnered with a developer, our client and a new tenant to create a workforce fund. Phase I of the project will fund a \$500,000 grant to help establish a life sciences educational initiative to train teachers and students in surrounding neighborhoods about careers in the biotech sector. Another important stakeholder group is our employees. We know that a diversity of ideas, approaches, perspectives and backgrounds helps drive innovation and successful outcomes; therefore, we champion diversity, equity and inclusion.

*How does the importance of sustainability play into the infrastructure space?*

**Gurfel:** Our sustainability investments in infrastructure are focused on renewable energy, sustainable transportation, and smart and digital technologies. Renewable energy is the fastest-growing electricity source and is the path to global decarbonization. Our infrastructure group has already invested in several companies in this sector. In the sustainable transportation space, operators increasingly are looking to reduce their carbon footprint, turning to electrical and hydrogen power. Our infrastructure investment platform owns a leading marine-transportation company based in Norway, which operates a fleet of hybrid and/or battery-driven vessels. These types of investments in these sectors have proven to have long-term value. Many of them have long-term contracts and are resilient through the cycles.

*Do you see a correlation between sustainability and performance?*

**Glanzman:** We are seeing more and more evidence of a correlation between sustainability and financial performance. Resource efficiency can help drive lower operating expenses and can improve an asset's net operating income. Rooftop solar, for example, can help enhance NOI through rooftop leases and provide positive outcomes for tenants and the community. We have also seen good execution in terms of financing from green bonds, from green private placements. More generally, we have been very focused on future-proofing

our portfolio and assets to try to avoid a "brown discount" in the future.

*How do you see the future of logistics?*

**Baker:** The future of logistics is bright. We are focused on assets that are responsive to the evolving needs of our occupiers. One notable occupier trend is the move to carry safety stock. During the pandemic and beyond, global supply-chain disruption intensified due to equipment availability issues, labor shortages, and the ripple effect of port closures and transportation delays. Since the share of revenue driven by customer experience is paramount, companies are carrying higher levels of inventory to ensure customer loyalty, which has driven a move from a just-in-time model of inventories to a just-in-case model. At the same time, customers are demanding shorter delivery timeframes, making the interplay between intermodal and fulfillment facilities of particular interest.

*How about the future of residential?*

**Glanzman:** The ability to work from home is still on people's minds, which has been translating into larger homes, with an extra bedroom to use as an office. At the same time, the increasing cost of housing really lends itself to smaller units that would be more functional, with an emphasis on great common areas and workspaces. Services and amenities will need to respond and offer some lifestyle conveniences and social programming, which will blur the

line between hospitality and residential. Flexibility and convenience continue to be important. To that end, we anticipate more demand for furnished apartments, an easy moving process and flexible lease terms.

*What about the future of office?*

**Reeves:** We have been through a phenomenal behavioral experiment to figure out if we could all work out of the office. Investors and users do want offices, but the purpose has changed. If you are coming into the office today, it's likely for high-quality interactions with your teams, your colleagues, your clients, as well as to impart your culture and values to the people you work with — the social capital you build being with each other and working together. We want to provide modern office space that is attractive, with amenities that support wellness, and that is sustainable for the people who are in it and for the communities in which it sits. If you do that, you have an asset that will absolutely perform.

*One final statement about CBRE Investment Management?*

**Leitner:** We are a global real assets investor, and we invest in a full range of risk strategies that provide our clients with access to real assets that drive the kind of performance they are looking for. We do that by creating a global-scale organization that can provide sector-specialized execution capability so we can deliver that extra alpha that comes from being local.

## ABOUT CBRE INVESTMENT MANAGEMENT

**CBRE Investment Management** is a leading global real assets investment management firm with \$146.9 billion in assets under management\* as of June 30, 2022, operating in more than 30 offices and 20 countries around the world. Through its investor-operator culture, the firm seeks to deliver sustainable investment solutions across real assets categories, geographies, risk profiles and execution formats so that its clients, people and communities thrive.

CBRE Investment Management is an independently operated affiliate of CBRE Group Inc. (NYSE:CBRE), the world's largest commercial real estate services and investment firm (based on 2021 revenue). CBRE has more than 105,000 employees (excluding Turner & Townsend employees) serving clients in more than 100 countries. CBRE Investment Management harnesses CBRE's data and market insights, investment sourcing and other resources for the benefit of its clients. For more information, please visit [www.cbreim.com](http://www.cbreim.com).

\*Assets under management (AUM) refers to the fair market value of real assets-related investments with respect to which CBRE Investment Management provides, on a global basis, oversight, investment management services and other advice and which generally consist of investments in real assets; equity in funds and joint ventures; securities portfolios; operating companies and real assets-related loans. This AUM is intended principally to reflect the extent of CBRE Investment Management's presence in the global real assets market, and its calculation of AUM may differ from the calculations of other asset managers and from its calculation of regulatory AUM for purposes of certain regulatory filings.

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