

Staffing Concerns at CBRE Global Investors

Key Points:

- CBRE Global Investors (GI) has experienced significant turnover in recent years.
- Between March 2012 and March 2017, the number of employees with investment advisory functions has fallen from 134 to 71.
- Over the same period, the ratio of Assets Under Management per investment employee has increased from \$702.2 million to \$1.2 billion.
- A 2016 Preqin analysis found that the largest private equity firms had an average of ten employees per \$1 billion AUM.
- Four of eight members of CBRE GI's current executive team have had fewer than ten years tenure with GI.
- As CBRE GI fundraises for new a value-add real estate fund and separate accounts, Limited Partners may question the company's capacity to weather the anticipated real estate market headwinds in light of these staffing concerns.

CBRE Global Investors (CBRE GI) is a real estate investment affiliate of CBRE Group, Inc., the largest commercial real estate firm in the world. As of June 30, 2017, CBRE GI has \$98.9 billion assets under management in real estate, debt, and securities throughout the Americas, Asia, and Europe.^{1a}

The two latest iterations of CBRE GI's flagship value-add real estate series Strategic Partners U.S. Value (SPUS) have slightly underperformed their peers. The median IRR for all value-add real estate funds with a 2012 vintage year was 15.45%, while the 2012 SPUS 6 has managed a 13.79% IRR. Funds with vintage 2015 had a median IRR 13.77%, while the 2015 SPUS 7 achieved only 12.78% IRR.^b

While steadily average performance may have reassured investors in the past, Limited Partners may find reason for concern as real estate markets appear to be facing challenging headwinds. CBRE GI's high employee turnover and overburdening of investment staff could signal risk at a time when institutional stability is especially prudent.

a. CBRE GI: "AUM reported on a combined pro forma basis, as of June 30, 2017, to reflect the completion of the acquisition of a majority stake in Caledon Capital Management Inc." Prior to the Calendon acquisition, AUM was reported as \$91.7 million in CBRE Group's 2Q0217 earnings report.

b. Preqin does not provide a benchmark for peers of SPUS 6 and 7. The author took the median IRRs for Preqin's list of value-add real estate funds for the appropriate vintage years, 2012 and 2015. Data of August 3, 2017.

Employee Turnover

Despite the relatively consistent size and strategy of CBRE's investment management business, CBRE Global Investors has experienced significant turnover and fluctuating staffing levels.

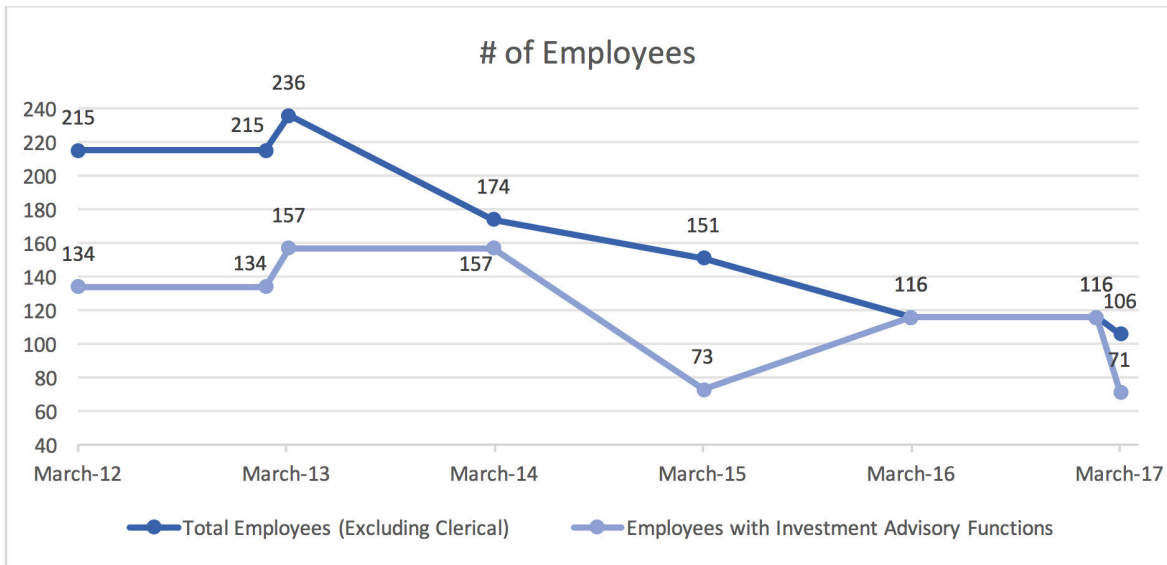
CBRE's turnover includes the departures several high-level investment staff. Since 2016, CBRE GI has lost its CEO, COO, Heads of Americas and EMEA, among others.

Key Departures Since 2016

	Position	Start	Departure	Years of Industry Experience
Matt Khourie ²	CEO	April 2010	March 2016	35+
Paul Sisson ³	Head of Americas, CBRE GIP	March 2014	February 2017	18
Mario Indelocato ⁴	COO, CBRE GI	2011	2017	Unknown
Pieter Hendrikse ⁵	Head of EMEA Region	1999	April 2016	20
Peter DiCorpo ⁶	President, Managed Accounts Group	November 2008	April 2016	21
John Sauter ⁷	Managing Director of Acquisitions	November 2012	2016*	23
Dennis van Vugt ⁸	CFO/COO of EMEA	November 2011	August 2016	14
Eduard Wehry ⁹	Head of Investor Services, Asia	February 1995	February 2016	21
Alice Connell ¹⁰	Americas Investment Committee Member	October 2013	January 2017	30+
*John Sauter's exact departure date is unknown, but press reports indicate that he was working for CBRE as recently as December 2015 ¹¹ and for a different company by September 2016. ¹²				

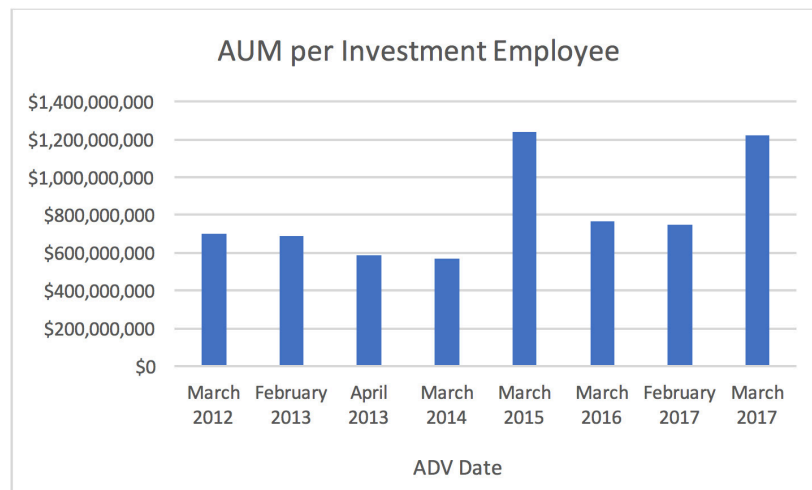
In CBRE GI's latest Form ADV,^c the company reports having 106 employees excluding clerical workers, 71 of whom perform investment advisory functions. On a Form ADV as of the month prior, the company had reported 116 employees, with the same number performing investment advisory functions.¹³

c. as of March 31, 2017



Source: Item 5 of SEC Form ADVs for CBRE Global Investors, LLC filed between March 30, 2012 and March 31, 2017.

As CBRE GI has struggled to maintain consistent staffing, the ratio of AUM to employees with investment advisory functions has increased significantly. Between March 2016 to March 2017, the AUM managed per employee rose from around \$767 million to \$1.2 billion.¹⁴ In comparison, a 2016 Preqin analysis of the correlation between the number of employees and AUM found that the largest private equity firms (those with over \$10 billion in AUM) had an average of ten employees per \$1 billion AUM.¹⁵



This departure from industry standard may be particularly concerning to investors moving into what is expected to be a challenging investment environment for real estate. Considering this potential overburdening of investment employees, coupled with fluctuating staffing levels and recent departures of key staff, investors may question how CBRE GI will improve stability. What steps has CBRE GI taken to ensure consistent staffing going forward?

Institutional Tenure

Key departures may also raise questions about the institutional tenure of senior staff. Indeed, four of the eight members of CBRE GI's Executive Committee have fewer than ten years with the company:

- Ritson Ferguson, CEO, joined Global Investors through CBRE's acquisition of Clarion Securities in 2011. He became CEO in March 2016 to replace Matt Khoourie.¹⁶
- Danny Queenan, President as of January 2017, joined Global Investors in 2015 from CBRE Asia.¹⁷
- David Morrison, Head of Portfolio Management and President of Americas Core Strategies, joined Global Investors in 2011.¹⁸
- Ian Gleeson, CIO, joined Global Investors in 2008.¹⁹

Moreover, half of the Global Leadership Team appears to have fewer than ten years of experience with CBRE GI.²⁰

As the company typically manages long-term strategies, investors may consider the limits of a leadership team that includes members with tenure briefer than most of the lifespans of the funds they oversee.

Capital Partners Departures

Global Investors' staffing challenges have previously made headlines, and appear to have contributed to soured relationships with Limited Partners.

In September 2013, several key staff for Capital Partners, CBRE GI's debt investment platform, left the firm en masse. According to the Wall Street Journal, they had become "disgruntled over compensation" following the departure of the strategy's founder, Ethan Penner, the year prior.²¹

The departure of Jenna Gerstenlauer, the fund's investment officer, triggered key-man provisions allowing limited partners to select a manager to liquidate the fund.²²

Limited Partners appear to have faced resistance to hiring third-party liquidators from CBRE GI in the fund's liquidation process. Austin Police Retirement System (ARPS) voted in September 2013 to dissolve the fund "due to unknown management succession to oversee the fund."²³ In April 2014, ARPS received a letter of "Solicitation Consent" regarding rescinding earlier agreement hiring another liquidator and rehiring CBRE GI as liquidator to begin immediate orderly liquidation of the APRS \$10.6 million partnership investment."²⁴

d. Notably, three senior directors for CBRE GI's EMEA strategy also left the fund in September 2013. See <http://www.costar.co.uk/en/assets/news/2013/September/CBRE-GI-senior-trio-leave-for-propco-Westmount/>

The Metropolitan Government of Nashville and Davidson County pension fund in May 2014 concluded that “CBRE was unwilling to work with the liquidator the LPs selected per the LPA but a workable liquidation plan was agreed upon.”²⁵

To date, neither Austin Police nor Davidson County has chosen to reinvest with CBRE GI since the liquidation.

CBRE GIA

In 2015, CBRE GI transferred 170 staff globally to CBRE Group under a newly-created division CBRE Global Investment Administration (CBRE GIA).²⁶ According to CBRE, CBRE GIA provides investor reporting and finance and administrative services to investment funds and separate accounts.²⁷ The move allows CBRE to provide accounting and administrative services to third-party clients in addition to providing in-house services for GI.

What effect will bringing in new clients to GI’s accounting team have on staff’s ability to prioritize administrative and investment services for GI’s funds? In what way does the move serve the interests of Limited Partners?

Concern Facing Market Headwinds

Uncertainty around staffing may be particularly concerning to investors as the real estate investment market is expected to encounter challenging headwinds. Dry powder continues to increase, reaching \$246 billion this June, marking an 81% increase since December 2012.²⁸ Valuations also continue to rise, making it a seller’s market; Prequin’s 2017 manager survey found that over half of respondents saw asset pricing as the biggest challenge facing them over the next 12 months. A further 59% responded that it is more difficult to find attractive investments than 12 months ago, and that it’s harder to find value in the current market.²⁹

CBRE Strategic Partners U.S. Value Fund 8, which targets value-add real estate investments, appears to be nearing the end of its marketing cycle.^e Assuming the fund is near close, its investment period will take place during what is expected to be a period of high valuations and difficulty finding attractive deals. How will CBRE’s investment team ensure continuity during this tough investment environment?

e. CBRE SPUS 8 began fundraising in February 2016. The fund’s SEC Form D filed as of September 2016 indicates the fund had raised over \$606 million. IREI FundTracker lists the fund target as \$1.6 billion with a close date of June 2017.

Key Questions for Investors

- In what ways have fluctuating staff levels affected the stability of the investment team?
- Have staff levels and the departure of high-level staff affected consistency in making investment decisions over the life of a fund?
- What recourse should investors consider in the event of future turnover?
- What does CBRE's high ratio of AUM to employees mean for the firm's ability to manage in a turbulent market environment?
- What steps has CBRE GI taken to ensure continuity going forward?

Endnotes

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