

# CPN

**Commercial Property News**

The Business of Real Estate

April 16, 2005

## In The News

### ▶ **Sears/Kmart Merger Threatens Brokers**

Regional services firms face ousting as retail clients consolidate.

### ▶ **Real Estate Favorable On Jets Touchdown**

MTA rejects Cablevision bid for Manhattan's Westside development.

### ▶ **Major Texas Deal Signals Industrial Growth**

Equity Industrial buys 1.4 MSF distribution facility for Home Depot.

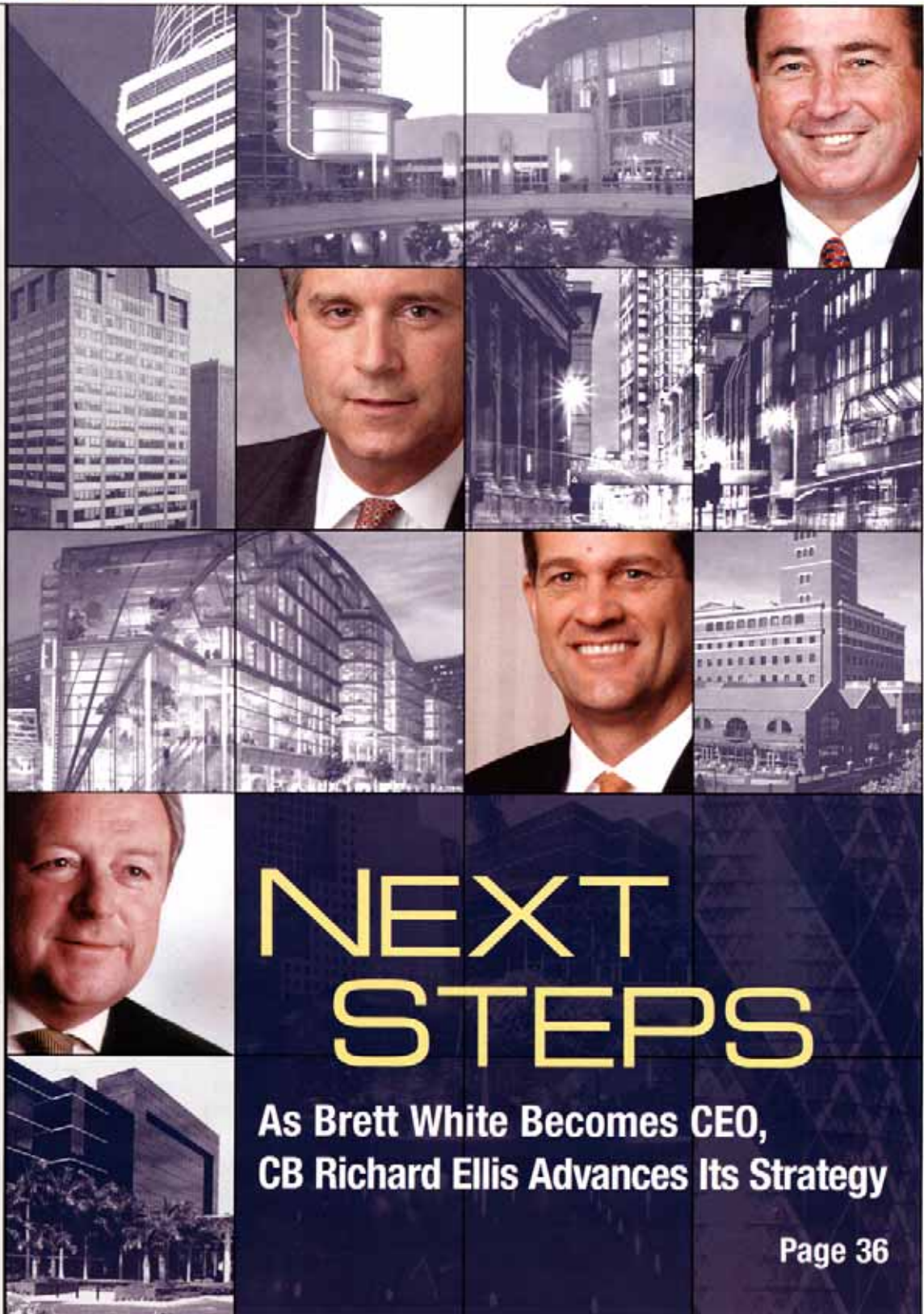
Page 6

### Special Section:

### ▶ **Corporate Real Estate**

Financial firms are adjusting their holdings, fueling real estate's return.

Page 27





## **Q & A** Brett White

Editor-in-chief Suzann D. Silverman sat down with Brett White, president & soon-to-be CEO of CB Richard Ellis Inc., to discuss how the company will operate once current CEO Ray Wirta relinquishes the position and White assumes both titles.

**Q** How much will change once you take over Ray's role and become both CEO and president?

**A** The answer is, almost nothing, and let me tell you why. What has been somewhat unique, I think, about our company is we've had really a two-person partnership running the company since the late 1990s. Ray and I have worked side by side over that period of time. By the way, Ray has been very public about his succession strategy for years, and if you think about the events the company's been through, the privatization of the company in late 2000, early 2001 really gave Ray and I an opportunity to set a long-term strategy for the company, which we then implemented and is in place today. And that strategy is not going to change. I feel as much a part of the ownership of that strategy as Ray does, and we developed it together. It's a wonderfully simple transition, with really nothing changing.

**Q** That said, do you have any new goals you're planning to implement or goals that are next steps in that strategy?

**A** I think the way to answer that question is to talk about what the strategy for the firm is and where we are along that process. Our strategy for the company has been to create a full-service business services firm focused on commercial real estate owners and occupiers and to build that firm around the proposition that the firm could provide a scope of services that met all of these customers' needs and could do that through a global footprint that provided those services through our own employees in every location a customer might need those services and would become the dominant market force in the business. And that has been realized. That strategic goal that we have been talking about for years really came into realization almost two years ago—in 2003. Today, when you look at the company, we are the market force in

the industry, we do have the dominant position in most of the world's markets, and that has allowed us to provide a different level of service to our customers, we believe, than can any of our competition. So we're well along in that strategy. The footprint is done. Our youngest business line is 30 years old, so those have been done for a while. And now it's all about connecting the dots and tying this all together for our customers, and we're well along in that process as well.

**Q** When you say "connecting the dots," what are you referring to?

**A** It is new to the customer to be able to go to a firm and actually have the provision of these services on a global basis. And so to us, connecting the dots is really helping the customer access these people and services around the world. And customers are eager to do that, but it's a process, it's sitting down with all of our customers and saying, "Here are the things that we think we can do for you and the places we can do them. Let's get going." We have found great receptivity among our customers—and some who aren't our customers—in that proposition.

We also said back in 2000 that we wanted to be the company that had the most revenues in the business, that had the highest EBITDA margin, which we believe is the single best metric for observing quality of management. If you have the highest margin and the highest revenues, by definition you're the most profitable company. We achieved all of those objectives some time ago, and we're not going to let go of those leading positions in those three financial metrics.

**Q** You and Ray have worked closely together, though he came from the management side and you from the brokerage side. Has that combination of backgrounds had any effect on how you've managed the business together? Do you think it's had any effect on how you'll run it on your own, versus how you might have if you hadn't worked with Ray first?

**A** You raise a very good point, which gets to the issue of why I think this management team—and it's not just Ray and I but the management team beneath us—has done so well with this business over the past few years. We have in the broader management team a great diversity of skill sets. If you look at the broader management team—and you look at people like Jana Turner, who I believe is the most senior person in the property management industry globally

and has been with our firm for many many, many years—Jana has been in the property management world for her entire career and brings to the senior management team a perspective that's very different than, say, a Chris Ludeman, who has spent his career in the brokerage world and recently with development when he left. And I can go right down the list. Our senior team has got this wonderful diversity.

Now, with Ray and I, Ray came to the company with an extremely solid business background. Ray had been an executive in the banking industry and prior to his days in development and property management at Koll was an executive in the development business and also ran a property management and a corporate services business. So Ray brought a very solid capital markets and business background to the company. And I think that I benefited from that; I was able to spend really the past seven years side by side with Ray, and it was very beneficial to me personally.

I think what I brought to the partnership was a very intimate knowledge of the businesses within the company, having been a broker, having managed—I've had many management positions within the company. I have a very solid knowledge of what this company's all about. ... So it was really a very solid partnership, and the way I've looked at it is, I've had the best possible training for this job that one could have, having worked with Ray.

**Q** You are a very large, very broad-based company. What sort of opportunities for growth do you see?

**A** One of the dynamics that supports our business is we have a very diverse revenue stream because of the fact we have these various lines of business. We also have a very diverse revenue stream due to our geographic footprint. We have big operations in Australia; we have big operations in mainland China; we have big operations in Eastern and Western Europe. And so growth for us will come from all of those areas. We're not tied to any particular market cycle. We're not tied to any particular economic cycle. We have businesses that benefit in low-interest-rate environments; we have businesses that benefit in high-interest-rate environments. We have businesses that benefit from difficult corporate economic times, which are our outsourcing businesses; we have businesses that benefit when corporations are feeling robust, such as leasing. So our growth is going to come from all of those.

As we look at the company today, we feel very optimistic about the fact that

our largest business, which is commercial leasing, has really been in the doldrums since November 2000. And the really remarkable performance, the terrific performance in our company the past three years, has had no help from commercial leasing. So where we sit today is, I think anyone who observes the industry would agree that we're in the very early stages, the nascent stages, of a very broad-based recovery in leasing. If that's true—and we believe it is true—the company will certainly have significant benefit from, finally, an improvement in our largest business. That, I think, will probably be the big story for the next three or four years.

**Q What are the challenges to running such a large and broad-based business?**

**A** The challenges in any services firm are attracting and retaining the right talent. ... We have to make certain that we have the very best talent running our businesses and performing our businesses, and that gets to our brokerage group and people actually on the ground in each local market and each business line. That's a full-time job in a company our size with our scope. We have a voracious appetite for high-quality personnel. Which is why you see us constantly in the market hiring talent. We spend a lot of time studying our competition, and we spend a lot of time thinking about people in the broader industry who might fit well here. And if we think there's a fit, we are aggressive for that talent. And I think the company's performance, I think the stability of our personnel base and the very low attrition we have here are testament to the fact that we've done a very good job here. But that job never ends, and that is the challenge: It is making sure we have the highest-quality talent performing in our business globally.

**Q The real estate service business has evolved in many ways in the time you've managed the company. What changes have surprised you the most?**

**A** A couple things. What's been surprising to us, I suppose, is the bifurcation of the providers within our business. So today—we've always talked about this, but it's actually happened in an even more aggressive fashion than I think we predicted—there is really a very bright line between the global providers and what I would call the regionals or boutiques. Both of which fill very important roles. The global providers—there are really only three of them today: ourselves, Jones Lang LaSalle Inc. and Cushman &

Wakefield Inc. And then you have this mass of very good local boutique firms, which are in either a single marketplace or a single business line. And what's been interesting to us is to see what's happened to those in the middle: It's really been a very difficult time, I believe, for companies that are neither. It's tough to be *kind of* global; it's tough to be *kind of* in all business lines. You've seen and I've observed that there's been this real migration to the two ends of the spectrum. And I believe that in the coming very few years that migration will become complete. I believe that what we're going to end up with is a collection of very talented, very competitive local single-business-line or single-market boutiques and two or three dominant global players.

And I do believe in our industry that over time we will look like other services industries and other mature industries, which is you'll see that the top two or three players have 50, 60 percent of the market share and the rest is collected by the littler firms. Today, the top five firms in the business in the States we believe only have 13 percent market share. So we see significant growth opportunity there. And we intend to drive that consolidation.

I don't believe it's over. One of the things that I think has been very interesting to watch over the past few years is that as Jones Lang and CB Richard Ellis and Trammell Crow Co. are now all public, our financial performance is all out there in the public domain. There are no secrets. And so I think that having the dominant firms in the business be public has provided a great transparency to the market and service providers. I think that's very helpful to the industry because you really can't hide, and I think that what you're going to see is that because our EBITDA margins, because our revenue growth and profitability have been in the public domain, as has Jones Lang's, as has Trammell Crow's, it has set a bar for the industry that others are going to be forced to get to. I think that's a very, very positive thing for the business and for our customers.

**Q Are there other ways you see the business changing in the coming years?**

**A** I believe what is absolutely necessary in this industry is more consolidation, because some businesses are highly efficient and some are not. And I believe that what you're going to see here—what needs to happen in this industry—is further consolidation, particularly among the larger firms. And I believe that's going to happen and I believe that for the customer this is a

very good thing because—take the Insignia merger as an example—I believe that if you went out and talked to our top 10 customers, that pay us the most fees each year, they would tell you they have hugely benefited from the Insignia merger. That the quality of services we provide, our ability to provide them in so many more places to them, has been a big plus to their ability to perform their own business. And I think this consolidation has been very helpful to customers, and I don't believe it's anywhere near over.

**Q What kind of changes do you think will be most necessary to prepare for coming evolutions in the real estate business or the corporate world?**

**A** We have an advantage, I believe, which is that we have been the most aggressive company in the industry for a number of years. The go-private transaction, that was an aggressive statement by us to say we believe in this business. Late 2000, 2001 were not good times. But we took our company private. With the IPO and the merger with Insignia, our company has had to grow up very quickly and evolve into a very professional services firm. So I think we have an advantage in that respect, which is that, no, there really isn't anything we need to do to get ready for changes in the industry. We've been *creating* the changes in the industry.

In terms of what's happening with our customers? Well, that's a whole different situation, because our customers change every day. The way they think about their business, the way they per-

form their activities, the things they want us to do for them—that is an ever-changing dynamic, and it's something that our firm and our competitors have to stay on top of every single day. And I think we all are. I think that Jones Lang, Cushman & Wakefield, Trammell, Staubach—if there's one thing I think we all do pretty well, it's listen and watch what our customers need and perform against that need.

**Q Where, geographically, do you see the greatest changes occurring?**

**A** There's change everywhere geographically, but I think the most extreme changes are occurring in Asia and Southeast Asia—to include India. What we're seeing in China and in India is the rapid emergence of a middle class. A rapid evolution to market-driven economies, where the provision of professional services—not just our type of service but all professional services—is rapidly expanding. As fast as we can invest in those businesses, there's a need for that investment. So those markets are changing moment to moment.

Certainly in Western and Eastern Europe you're seeing what I would believe is a rapid evolution to the U.S. model of corporate outsourcing. And also in fund management. So those businesses are evolving very quickly as well. And the constituency of the European Union is helping drive that. They're really pushing to standardize and modernize business practices in Western Europe and doing a good job of it. ■



A portion of CB's management team: Front row (l. to r.): Jana Turner, president-asset services; Brett White, soon-to-be president & CEO; Mike Strong, chairman-Europe. Back row (l. to r.): Ken Kay, CFO; Greg Vorwaller, president-investment properties; Jim Reed, president-Eastern division; Steve Swerdlow, president-global corporate services; Brian Stoffers, COO-L.J. Melody & Co.; Bob Zerbst, president-CB Richard Ellis Investors.