W. Joseph Houlihan

"We expect the German real estate securities to grow dramatically over time"

W. Joseph Houlihan, Managing Director and CEO Europe, Cohen & Steers Europe S.A.

Cohen and Steers, one of the largest manager of REIT securities worldwide, established a presence in Europe by 2004. Houlihan explains, why Europe is becoming more and more interesting and gives some insight on Cohen and Steers strategy in Europe.

REAL ESTATE MAGAZIN: Cohen & Steers is one of the largest REIT Managers worldwide. How important is the European part of the business?
HOULIHAN: Real estate securitisation has accelerated in Europe and Asia with the adoption of the real estate investment trust (REIT) structure. The market capitalisation of non-U.S. real estate companies has grown significantly as a result, and Cohen & Steers' most important initiative over the past several years has been to build out our global real estate securities organisation. The offices in Brussels and London are an integral part of this expansion. We believe investment teams must be located near the markets in which we invest in order to capitalise on market opportunities. Local analysts know the management teams, the languages, the accounting standards, the corporate governance conventions and the local cultures. Our team's experience provides unparalleled knowledge of the real estate markets in general, as well as insight on specific properties. The European team is therefore an extremely important part of our global investment management business.

REAL ESTATE MAGAZIN: The European business was launched by initially acquiring a 50% stake of your company, Houlihan Rovers, followed by the acquisition of the remaining shares later. Could you briefly describe Houlihan Rovers' business before the acquisition?
HOULIHAN: Gerios Rovers and I have been working together since 1988 and have been managing European real estate securities portfolios since that time. We were one of a few European-based asset management firms focused exclusively on investing in global real estate securities that had an experienced team of investment professionals, traders and administrative staff. Given the relative lack of experienced real estate professionals in Europe, Cohen & Steers elected to establish a foothold on the continent by acquiring us in 2004. Our knowledge of and experience in European real estate securities markets, as well as similar investment philosophies, made Houlihan Rovers a great addition to the Cohen & Steers global team. Over the past two years, additional research, compliance and trading personnel have joined our team.

REAL ESTATE MAGAZIN: How successful have you been in attracting investors to the investment approach of Cohen & Steers?
HOULIHAN: We have seen significant interest and inflows into our strategies. Over the past year, our assets under management have grown approximately 50% to 34.6 Bio. USD at June 30, 2007 from 23.2 Bio. USD a year earlier. Of the 11.4 Bio. USD increase, 72% was attributable to net inflows. Our institutional assets have grown 115%. Notably, most of the interest and inflows have been into our global and non-U.S. strategies (including Global ex-U.S., European and Asia Pacific strategies). As of June 30, 2007, we had 12.6 Bio. USD (48% of total assets) in Global and ex-U.S. real estate securities under management, compared with 6.8 Bio. USD (30% of total assets) at the end of 2006. Furthermore, many institutional clients who invested in our flagship U.S. strategies have converted to Global or Global ex-U.S. portfolios. In fact, we have closed our U.S. separate accounts to new clients in order to reserve capacity for global mandates.

REAL ESTATE MAGAZIN: Which European markets are most important for you?
HOULIHAN: Recent performance notwithstanding, we believe that at current valuations, the United Kingdom offers some of the best values in the global markets. Many quality real estate companies are trading at substantial discounts relative to their net asset values. As fundamentals remain sound, we believe that stock prices will revert toward underlying real estate valuations. We also expect to see an increase in stock buybacks as companies take advantage of lower valuations. Germany's economy is improving, and we believe

this will translate into increased demand for office space in its major cities. The country's new REIT structure should drive a long-term shift toward securitisation as Germany's extensive private real estate holdings begin to go public. We also favour France, and believe that strong fundamentals for Paris offices will persist.

REAL ESTATE MAGAZIN: The German market seems to be one of the most competitive in terms of Real Estate Magazins services. What are the major arguments for investing with Cohen & Steers as Asset Manager?
HOULIHAN: Our investment organisation and process provides the following competitive advantages:

- Focus on global real estate securities
- Experience, depth and continuity of our local and global teams
- A disciplined, integrated investment process
- Size of assets under management
- 22-year track record of adding value

Cohen & Steers was founded with the goal of becoming the leading real estate securities investment organisation. Investing in real estate securities is our primary focus; that commitment has led us to devote significant resources to our global real estate securities capabilities. We believe the experience, depth and continuity of our investment teams are competitive advantages. Our 11 global portfolio managers have an average of 20 years of investment experience. With 35 professionals, our global real estate securities investment team is the largest in the industry. We have portfolio managers, research analysts and traders in New York, London, Brussels and Hong Kong. This large, diverse team—our analysts speak 12 languages—delivers broad coverage of the global universe of real estate securities. Our disciplined, globally integrated investment

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process distinguishes us from other real estate managers. We build global portfolios from the bottom-up, by investing in the most attractively valued companies around the world. This disciplined approach enhances our ability to outperform the real estate securities market over time.

REAL ESTATE MAGAZIN: German investors still prefer to make direct real estate investments, and it seems that it is taking longer than anticipated for them to become comfortable with indirect vehicles. What is your perception of the German market?
HOULIHAN: As we have seen in other markets, it does take time for institutional investors to embrace indirect vehicles like real estate securities. We believe the German REIT legislation will be a catalyst for broadening the ways of owning real estate. Germany is very similar to the U.S. market of the early 1990s. At that time, the universe of U.S. real estate securities was quite small, around 10 Bio. USD in equity market capitalisation. Today it is approximately 350 Bio. USD. Germany is the largest economy in Europe and its current real estate securities market is small. to We expect this grow dramatically over time.

REAL ESTATE MAGAZIN: Did the introduction of REITs in Germany help sell REIT funds to institutional investors?
Houlihan: Yes, it brought awareness of a new vehicle for owning real estate. We are still at an educational stage where investors are analysing the structure and monitoring portfolio manager track records.

REAL ESTATE MAGAZIN: Could you give us some information on the product range available for German investors?
HOULIHAN: We offer separate accounts in the following strategies: Global, Global (ex. U.S.), European, and Asia Pacific real estate securities. We also offer Global and European Real Estate Securities SICAV funds that are available to German investors. We are in the process of launching an Asia Pacific Real Estate Securities SICAV.

REAL ESTATE MAGAZIN: Finally going back to the European perspective: What can German institutions learn from their colleagues in Europe?
HOULIHAN: A better understanding of the advantages that REITs can contribute to a portfolio.

REAL ESTATE MAGAZIN: What is your outlook for REITs and REIT funds in Germany in three years?
HOULIHAN: It will be much larger than it is now. Germany represents 6% of the world's GDP and 21% of the European Union's GDP, but its listed real estate is a scant 1% of global and 9% of all European real estate. Once German companies begin to securitise their real estate, it will be like a train starting its route—a slow beginning that gains momentum over time. We have seen this happen in other markets.

REAL ESTATE MAGAZIN: Having a look on the nearer future finally. Many people fear the impact the U.S. subprime mortgage crisis may have on the global economy. What are your thoughts concerning its effects on the U.S. and global real estate markets?
HOULIHAN: There are a couple of aspects to the current U.S. mortgage crisis. First, it has caused investors to re-evaluate the risks of the securities the mortgages collateralized and demand higher risk-adjusted returns. As a result, spreads have grown wider and mortgage interest rates are rising. The banks and brokerage firms that have been backing the recent spate of LBOs—much of which has been concentrated on the real estate industry—have had trouble selling off the loans, and so have stopped making them. That, in turn, reduced the likelihood of further privatizations, the prospects of which had been supporting REIT prices. Second, investors expect the related weakness in the housing to be a drag on the U.S. economy. Many of the same forces affecting the U.S. REIT market have been weighing on global real estate securities, especially in Europe, where central banks have been raising interest rates. Real estate securities there are trading at great discounts to NAV for some of the highest-quality real estate assets in the world.

The interview was conducted by Frank Schnattinger.