

AMB on Offense

Emerging from the Downturn with Positive Momentum

Recently, **Geoffrey Dobrman**, publisher and editor-in-chief of *The Institutional Real Estate Letter – North America*, spoke with **Hamid Moghadam** and **Guy Jaquier** of AMB. The following is an excerpt of that conversation.

How would you describe today's AMB?

Moghadam: AMB is a global operating company that provides class A logistics facilities at ports and airports in major trade markets. Our global platform is one of the largest in the industry. We are a fully integrated operator with acquisitions, development, operations, dispositions and private capital expertise. Long before AMB was a public real estate company, we were a private investment management firm. With 26 years of portfolio management and partnership expertise, we've created a series of funds and ventures that meet investors' risk profiles and parameters for geographic diversification. Our private capital group raises money to supplement our other investments helping to create the best alignment in the industry.

Why is your alignment better than others'?

Moghadam: First of all, global industrial real estate is our only business. We're a pure player. We're not part of a financial institution that invests in a variety of sectors. Our management team's compensation is tied to the performance of the company, and the performance of the company is tied to the satisfaction of our customers and partners, whether those are co-investors in our capital management business or customers who are leasing space from us around the world. In addition, we run our private funds the same way we run our public company; we are deeply committed to transparency and disclosure and we co-invest in our funds more than is typical in the investment management industry. In other words, we like to eat our own cooking.

How do you prevent conflicts of interest between your public company and your private funds?

Moghadam: Whenever we have a private capital vehicle with a geographical mandate, whether it is in core properties or development properties, all of our activities in that region will go to that fund. The company will not compete for assets in that region. The only exception we have made to this rule is when the fund hasn't had the capital to participate in an investment opportunity. In addition, we don't have multiple clients in the same region competing for the same strategy.

The past couple of years have been pretty rocky. How has AMB fared?

Moghadam: Performance has been consistently above benchmarks pretty much across all vehicles on the private side, and we have significantly outperformed our competitors in the public market.

Jaquier: When the market began deteriorating at the end of 2008, we expanded our valuation parameters to include all assets in our open-end funds on a quarterly basis to ensure that our investors knew what they owned and how much it was worth. As a result, our numbers show deterioration earlier in the cycle, but it was important to us for our investors to know the value of their investment in real time.

What other measures did you take to restructure things to come out of this stronger?

Jaquier: Immediately we let our investors know what the challenges were and laid out a clear action plan detailing



Hamid Moghadam is chairman of the board and chief executive officer of AMB Property Corporation. Moghadam, along with his partners, cofounded AMB in 1983 and led the company through its initial public offering in 1997 (NYSE: AMB). He has served as the chairman of the National Association of Real Estate

Investment Trusts (NAREIT) and the Real Estate Investment Trust Political Action Committee (REITPAC), and a founding member of the Real Estate Roundtable. Moghadam is a trustee of Stanford University and currently chairs the Stanford Management Company.



Guy Jaquier is president, Europe & Asia, and president, AMB Capital Partners LLC. He is responsible for the establishment and expansion of AMB's Europe and Asia investment and operating platforms. He also directs AMB's global private capital ventures and serves as an officer or director on a number of its subsidiaries, including AMB European Investments LLC and AMB China Ltd.

how we intended to resolve them. We strengthened our balance sheet, improved our liquidity position, realigned our cost structure and positioned the company for the future, all while maintaining frequent dialogue with our investors. We always had a good relationship with our investors, but I think it's even stronger now because of the way we handled things during the downturn, because we communicated with investors early and often. In a rising market, a lot of people can raise money and look good for a while. It's really in the down markets that you can define yourself.

Moghadam: Our goal is to have the best balance sheet and most efficient cost structure in the business. We are not looking for short-term profits. During the downturn, we analyzed all our debt maturities, bought back some debt and issued some new debt so that our maturity structure was completely clear all the way to 2013. We raised some equity, we reduced our dividend and we deleveraged the company by about 10 points through issuance of equity. While we were doing all of this, we really took care of our customers' needs. The net result is that today, both our public company and private vehicles are in a position to play offense. We've restored dividends, and we are very much on our front foot and looking forward to the next couple of years.

Did you make any management changes?

Moghadam: No changes were made because of the downturn. However, John Roberts, who had planned to retire for some time, did so. As nearly everyone in the industry knows, John played an instrumental role in the company going public and in building up our private funds business from essentially zero to where it is today. About a year ago he decided that he wanted to step back and pursue some personal interests, and we've been executing a transition plan since then. We were fortunate to have Guy, who had the willingness, the desire and the leadership skills to step into this role. Alison Hill, who was the chief operating officer of the private business when John was leading it,

continues in that role and is now a managing director and member of investment committee. We also supplemented our team by inviting Jim Green to join the organization on the client relations side.

What are the keys to your success?

Moghadam: First and foremost we are focused. People cannot do 28 things well at the same time. Secondly, we are transparent. All of our cards are face up and everyone knows what we are doing both internally and externally. Thirdly, we have really great people who are very committed to our mission. When the wind is at your back, people who are not so great look pretty good. But when the wind is 100 miles an hour in your face, that's when you really figure out the quality of people you have on your team.

Jaquier: Even in the good times, we were never thrill seekers. We didn't come into this downturn, especially in our funds, with an inordinate amount of leverage. So, for example, the debt maturities we were addressing were minor compared to what some in the industry were dealing with. In addition, because we are associated with a large public REIT, we've been able to keep people in place and make sure that our LPs are getting a consistent management philosophy and a good team on the field committed to helping solve their problems. In January, the REIT put \$150 million into our U.S. and European open-end funds because we really believe in these vehicles and know first hand that they are a good investment. We are in a unique and fortunate position to be able to invest in our funds, reestablish our dividends and clear out the redemption queues. As Hamid mentioned, we're now back on offense.

Moghadam: We also owe much of our success to our structure as a focused global operating company. One of our fundamental differences with traditional investment management firms is that our investors are our partners — they are not our customers. Our customers are the people who occupy our buildings around the world. If we do a good job of serving them, they will lead us around the world with their needs and growth opportunities.

What types of investor interest are you seeing?

Jaquier: We're seeing a lot of interest from large, dedicated institutional investors that are interested in joint ventures or separate accounts, as well as smaller investors wanting to get into the open-end funds. In our conversations with potential investors today, there seems to be a greater appreciation for investing alongside someone who can fix a problem.

What types of questions are investors asking you?

Jaquier: Again, there is a much higher emphasis on alignment of interests, whether it's through co-investment or fee structures. There are a lot of conversations about the stability of the management team and of the company, as well as governance and transparency. They are asking real questions and are without a doubt serious about investing again.

Moghadam: This time around we have all kinds of investors in different geographies looking for all types of investments in different geographies, so global capabilities are more important to the investor community today than I've ever seen before in my career. Our dialogue is rarely just about the U.S. When we get into a conversation, we talk about the entire world, as you would expect because AMB is active in 14 countries that represent over 75 percent of the GDP.

Jaquier: We offer a one-stop shop where you can get an operator on the ground who can manage risks as well as

the investment manager package without the double promote and double fee structure. That's something that people don't necessarily focus on in an up-market, but they're definitely looking at it now.

What does AMB's balance sheet look like today?

Moghadam: Depending on the source you use, we're either number one or number two in credit strength among our peer REITs. So the balance sheet is really good with about \$1.4 billion of liquidity. This includes our three global lines of credit and our cash on hand as of year end.

What's your long-term outlook for both AMB and the logistics space?

Moghadam: I am more optimistic about AMB's prospects over the next five years than I've ever been in the history of the company. I also see continued growth in the main driver of our business, which is global trade. For 50 years global trade has grown somewhere between three and four times the global GDP. In that time, it went negative only twice; once right after World War II and once in 2009. Other than that it's always grown far in excess of GDP. And as long as the sources of production continue to become more and more distant from the sources of consumption, global trade will continue to grow and our business is going to thrive. Relative to the competitive landscape, we are in a good position with a cycle-tested management team, a global platform focused on seaports and airports in supply-constrained markets and one of the best balance sheets in the REIT sector. ❖

CORPORATE OVERVIEW

AMB Property Corporation® is a leading owner, operator and developer of global industrial real estate, focused on major hub and gateway distribution markets in the Americas, Europe and Asia. As of Dec. 31, 2009, AMB owned, or had investments in, on a consolidated basis or through unconsolidated joint ventures, properties and development projects expected to total approximately 155.1 million square feet (14.4 million square meters) in 47 markets within 14 countries. AMB invests in properties located predominantly in the infill submarkets of its targeted markets. The company's portfolio comprises High Throughput Distribution® facilities — industrial properties built for speed and located near airports, seaports and ground transportation systems.

AMB Capital Partners — Long before AMB was a public real estate company, it was a private investment management firm. With 26 years of portfolio management and partnership expertise, it has created a series of funds and ventures that meet investors' risk profiles and parameters for geographic diversification. AMB's private capital business provides its public stockholders with enhanced returns on equity through asset management, fees and incentive distributions.

AMB Capital Partners offers institutional investors access to a strategy driven by long-term growth in global trade, delivered by a cycle-tested team of global real estate professionals.

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