

CBRE Realty Finance, Inc.
Fourth Quarter 2007 Earnings
March 13, 2008

Operator: Please stand by we're about to begin. Good day everyone and welcome to the CBRE Realty Finance Fourth Quarter 2007 Earnings conference call. Today's call is being recorded. For opening remarks and introductions I will now turn the call over to Mr. Scott Eckstein of the Financial Relations Board. Please go ahead sir.

Scott Eckstein: Thank you Operator and good morning everyone. Welcome to the CBRE Realty Finance conference call to discuss our fourth quarter and full year 2007 financial results. Our press release was distributed this morning, March 13th, and has been furnished on Form 8K with the SEC. If you did not receive a copy of the release it is available on the Company's website at www.cbrerealtyfinance.com the Investor Relations section.

Additionally, we're hosting a live webcast of today's call, which you may also access on the IR section of the Company's website.

At this time management would like me to inform you that certain statements made during this conference call that are not historical are based on the Company's current expectations, estimates and predictions about future events, which may be deemed forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Statements in the press release and on this call regarding CBR, CBRE Realty Finance's business, which are not historical facts, are forward-looking statements that involve risk and uncertainties. For a discussion of such risks and uncertainties, which could cause actual results that differ from those contained in the forward-looking statements see Risk Factors in the Company's filings with the SEC, including its annual report on Form 10K. All forward-looking statements speak only as of the date on which they are made and the Company undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date of such events.

Also during today's conference call the Company may discuss non-GAAP financial measures as defined by SEC Regulation G. A reconciliation of each non-GAAP financial measure and the comparable GAAP measure in financial measure net income can be found on page eight of today's press release.

At this time I'd now like to turn the call over to Ken Witkin, President and Chief Executive Officer of CBRE Realty Finance. Please go ahead.

Kenneth Witkin: Thank you Scott. Good morning and thank you for joining us on today's conference call. Also with me on this call is Michael Angerthal, our Chief Financial Officer.

Since joining the Company in September 2007 my goal has been to work with our Board of Directors and senior management team to strengthen the Company's core operations and position the Company to successfully compete and grow earnings and profitability. As you all know, our industry is in the midst of an unprecedented downturn and our Company has been impacted as well. As a result, the Board and senior management are taking a hard look at all aspects of our business and implementing strategies that will put us in the best position to improve our earnings power, while we navigate through the current environment.

In times like these, there are often issues that lie outside of our control. We have seen a rapid decline in residential credit market conditions that quickly spread to other real estate markets. This decline has resulted in decreased commercial liquidity and a severe dislocation in the credit and capital markets.

We are all hopeful that the environment and related macro economic trends will stabilize sooner rather than later, but it does not appear to be a situation that will correct itself overnight. In the meantime we are taking aggressive actions to identify both short and long-term solutions that will put the Company back on course for growth and success.

Now to our results. I have thoroughly and completely reviewed all aspects of the business. Based on that review I would like to reiterate the three main priorities that are driving the decisions we make and update you on the progress we've made. The way I see it, in order to succeed we must preserve liquidity, stabilize our portfolio and continue proactive emphasis on our asset and risk management.

Over the course of the last several months I believe we have already begun to see positive results from the implementation of our strategic initiative and I am confident that we have the right plans in place to address the issues going forward.

Some of the actions we've already taken to stabilize and reposition the Company include, strengthening our financial position by reducing borrowings on our warehouse line, resolving our two foreclosed assets, and maintaining a vigorous focus on risk and asset management of our \$1.7 billion investment portfolio.

First let me talk about our approach to stabilization. The key priority for us has been to stabilize our liquidity position. We made considerable progress during the fourth quarter, including amending our existing credit facility with Wachovia Bank, which was completed in January. The amendment extended the termination date to March 31st, 2009 was one six-month extension option. We exceeded our expectations in terms of reductions to our interim warehouse lines. When I joined the Company we had over \$300 million outstanding on two warehouse lines. Effectively six months later we're down to \$36.1 million. The current outstanding

balance of 36.1 million is down from 144.2 million at year-end, secured by 78.3 million of assets resulting in a 46.1% loan to value ratio.

Looking at our balance sheet at December 31st we had nearly 26 million of cash and cash equivalents available and 79.7 million of restricted cash within our CDO's. We ended 2007 with 86% of our loans in security investments match funded and term financed in our two long-term commercial real estate CDO's, aggregating to \$1.6 billion.

As of today, I'm pleased to report that our portfolio is 95% match funded and term financed. These long-term vehicles provide us with attractive locked-in financing. Our 2006 CDO of 600 million has a weighted average rate of approximately 51 basis points over LIBOR and has a remaining reinvestment period of greater than three years. Our 2007 CDO of \$1 billion has a weighted average interest rate of approximately 41 basis points over LIBOR and has a remaining of reinvestment period of greater than four years.

I'm pleased to report that in January or February Standard and Poor's, Moody's and Fitch all affirm their ratings on all classes of notes of our \$1 billion CDO.

Turning to our joint ventures as of December 31st, 2007 our JV portfolio stood at \$77.2 million. These assets in aggregate continued to perform satisfactorily. As we've noted before, this type of investment is not in line with our core operations. Our Board made the decision to stop investing further in this product and the team responsible for the initial investments is no longer part of our Company.

Now I will update you on the resolution of our two foreclosed assets. As I communicated in November, the Board and I, after extensive review and analysis, determined that it was in the best interest of stockholders not to develop the Rogers Forge and Monterey assets. As previously announced, we sold Rogers Forge in January, delivering 8.1 million of net proceeds to our Company. With respect to Monterey, we negotiated with the senior lender to deliver the property to a new buyer. We expect to close this sale within the next two weeks and will receive a nominal fee for the transaction. Upon closing of this transaction we will put this unfortunate chapter in our history behind us and we'll be able to focus solely on our core business.

The third priority we instituted for the business was to continue our increased focus on conducting and monitoring asset and risk management on our \$1.7 billion investment portfolio. As of today, both watch lists at December 31st, 2000 have been classified as non-performing, bringing the total of the Company's three non-earning loans to 94.8 million, representing 46% of total assets. After extensive internal review, we decided to take a combined \$19.2 million reserve related to the \$42.8 million secured B note and the \$40 million mezzanine loan, both of which represent our Macklowe exposure.

Almost 94% of our 94.8 million of non-performing assets is attributable to our two Macklowe loans. Discussions concerning these loans are subject to confidentiality agreements, so we will not be providing further details on this call. We continue to be optimistic that we will be able to fully recover these investments.

We believe that by taking reserves on these assets, we are taking the appropriate action to protect the integrity of the Company. Mike will discuss the rationale to the reserves in more detail during his remarks.

My job is to make the hard decisions during difficult credit market conditions with the support of our Board to best serve the interests of the Company and its stockholders. We are committed to a vigorous asset management program. Upon joining the Company I started by adding resources to the asset management team. This action, as I stated last quarter, is such an important part of a finance company that these people will now report directly to me.

The second step for me, to be directly involved and accountable for the formal ongoing and in depth portfolio reviews. Since last quarter we have risk-rated our entire portfolio, allowing us to prioritize the management of our loans. Early problem recognition is one of the key components to a successful asset management platform. The recent liquidity crunch has lead to specific concerns in the industry about refinancing requirements and/or future funding obligations in portfolios of real estate finance companies. Our loan portfolio has loans scheduled to mature without extension options, totaling 11.7 million in 2008 and 21.6 million for the entire year 2009. With regards to future funding obligations on our loan portfolio at December 31st, 2007 we had 44.3 million of future funding obligations. Importantly our CDO's accommodate the full amount of these future-funding obligations.

Our portfolio is comprised solely of commercial real estate with no sub prime exposure, single family residential, or land loans. In our performing \$1.6 billion investment portfolio we have one condominium and hotel development for \$25 million that is performing to our expectation. This 25 million condominium and hotel project is located in New York City.

At year-end our loan portfolio totaled 1.4 billion and consisted of 46% floating rate and 54% fixed-rate loans, with an average maturity of 3.1 years. The loan portfolio has a weighted average loan to value ratio of 70.3%, compared with 70% in the previous quarter and comprised of 64.7% first mortgages and 35.3% structured debt.

As we stated in our release this morning, the Board of Directors declared a first quarter dividend of \$0.15 per share, which will be payable on April 14th, 2008 to stockholders of record as of the close of business on March 31st, 2008.

I'd also like to remind you that our Board recognizes the challenging environment in which we are operating and remains focused on acting in the best interest of all stockholders as we manage through this downturn.

I'd now like to turn the call over to our CFO Mike Angerthal who will discuss the economic performance of our portfolio in more detail. Mike?

Michael Angerthal: Thank you Ken, good morning everyone. As Ken mentioned, over the past several months we have focused our intensity on building our liquidity position, reducing our in term debt facilities, which are not match funded, and enhancing our asset and portfolio management function. I will describe the significant impact each of these initiatives has had on our financial results.

Our fourth quarter earnings are framed by the impact of a dislocated credit environment of certain of our investments. Our AFFO this quarter was a loss of 11.9 million, or a loss of \$0.39 per diluted common share. Included in the fourth quarter results is a \$19.7 million loan loss reserve. When excluding this reserve, cash available for distribution was 7.8 million, or \$0.25 per share.

The loan loss reserve we posted in the fourth quarter was the result of an in-depth review of our portfolio that the senior management team concluded, as it is our standard quarterly practice. At year-end the asset management team analyzed and performed a detailed valuation analysis on each of the 64 loans in our portfolio with added scrutiny on the \$95 million of assets on our watch and non-earning lists, which represents 4.6, I just mark that 4.6, there might have been a typo earlier in the call, percent of our total assets.

These reviews were undertaken in the context of the new reality in the capital markets. After the review we concluded it was prudent to record a \$19.7 million loan loss reserve, or \$0.65 per share, which represents 1.4% of the total loan portfolio. Fully, 19.2 million of the reserve is specifically attributable to the Company's exposure on the EOP and Drake loans. After this reserve we have reduced the carrying value of the Macklowe exposure of the portfolio by 23%. We will continue to monitor the progress on the underlying collateral on both loans as in this uncertain environment even a modest change in the valuation assumptions could have a material impact to the remaining 63.6 million of carrying value on these loans.

Note that the AFFO results exclude the 4.2 million fourth quarter loss from discontinued operations from the foreclosed assets. As previously stated, the Company committed to exiting these investments in the fourth quarter, as reflecting the results as discontinued operations. Note that on the face of the balance sheet we classified the 154.4 million of gross asset value from Rogers Forge and Monterey as assets held for sale, and 149.9 million of mortgage liabilities on these properties as liabilities held for sale, for a net carrying value of approximately 4.5 million. We recovered that carrying value in connection with the closing of the Rogers Forge sale noted in January of this quarter.

Before addressing liquidity, let me quickly review the full year results. AFFO was an \$848,000 loss, or a loss of \$0.03 per share. When excluding the fourth quarter 19. million loan loss reserve and a 7.8 million of non-cash impairments from the second quarter, total year AFFO was 26.6 million, or \$0.88 per diluted common share.

From a liquidity perspective we have spent considerable focus on reducing our in-term credit facilities in a marketplace with limited access to long-term financing alternatives. We have been successful, both working with borrowers to structure repayment opportunities and having borrowers execute on their business plans on the underlying collateral to pay off their loans. These actions have enabled us to reduce short-term financing obligations to 36.1 million, which represents less than 3% of our total debt obligations, all while maintaining a level cash balance of approximately \$20 million.

As for the 1.4 billion of CDO liabilities, we continue to keep our CDO's fully invested (sp?) and the team is relentless in its management of the assets in each of our two pools.

Maintaining our ratings is a key objective for the Company, which we demonstrated by removing one of the \$43 million non-performing loans out of CDO 2 to better position us to maximize value on the asset, benefiting both our shareholders and our bondholders by protecting the integrity of the pool of assets.

With respect to CDO 1, we hold a piece of the Macklowe EOP loan within the \$600 million pool and we continue to pass all interest coverage and asset collateralization tests. We will continually and aggressively manage these assets.

Moving to book value, we noted in the press release that GAAP book value at December 31, 2007 was \$7.00 per share, which includes the impact of the fourth quarter loan loss reserve. Also worth noting is that GAAP book value is reduced by approximately \$3.00 per share related to the unrealized mark-to-market on the Company's CMDS and derivative portfolios, which the Company expects to hold to maturity. When considering these adjustments, economic book value is approximately \$10.00 per share.

In addition to our loan portfolio, at December 31st our CMBS portfolio is made up of 67 investments with an average carrying value of 3.5 million. The total CMBS portfolio has a carrying value of 236.1 million. The average vintage of the underlying collateral is 33 months with two-thirds of the portfolio being investment grade. The underlying loan delinquency of the portfolio is 0.9 basis points, compared with a market average of 43 basis points. The entire CMBS portfolio is term financed within the two CDO's.

In the first quarter 2008 the Company plans to adopt FAS 159 fair value option. Under current practice, GAAP requires different accounting for matched assets and liabilities, where some assets are recorded at fair value, while corresponding liabilities are recorded at historical cost. During fiscal year 2007 our GAAP book value has been adversely impacted by these historical accounting requirements, driven by temporary marks on our CMBS portfolio.

Beginning in the first quarter of 2008 we will designate certain assets and liabilities for fair value accounting. While we are still completing our initial estimates of fair value, we expect book value per share will net increase by approximately 3 to \$5.00 per share, driven primarily by marking our CDO bonds to fair value.

With respect to guidance, the Company believes that given the continued uncertainty in the capital markets, it is prudent to refrain from providing AFFO or dividend guidance in 2008.

Ken?

Kenneth Witkin: Thanks Mike. Before I sum up, I'd like to briefly comment on the state of the industry. I think there were two things that are generally agreed upon. Before I sum up, first, like many of our peers have already communicated, I do not expect an up-tick in the credit and capital markets in 2008. This is a severe market disruption that we're facing and I don't see things returning to normal for some time. Like everyone else on this call, we are watching market conditions on a daily basis and will continue to do so.

Second, there will be many opportunities for us to reinvest at much higher spreads in already financed low CDO vehicles. We are comfortable with where we are regarding the major risks facing our sector, both near-term maturities and future funding obligations. In addition we continue to proactively manage our credit risk. Under these challenging conditions our Board and management team are firmly committed to enhancing value for all CBS stockholders.

In that vein, I also want to note that we brought on Goldman Sachs as our financial advisor to assist us with our strategic and operational initiatives. Our Board, together with our outside advisors will be working to identify and evaluate a wide range of strategic and operational initiatives to enhance shareholder value. We do not intend to disclose interim developments with respect to this process and we do not expect to be commencing further until the Board has approved a specific course of action.

Before we begin the question and answer session, there is one last topic I would like to discuss. As I'm sure most of you know by now Arbor Realty has initiated a proxy contest to elect seven nominees to our Board of Directors at our upcoming annual meeting. Just to be clear, we believe that in these troubled times

replacing our Board is the last thing our stockholders should do and we have some real questions about Arbor's motives. Our Board of Directors is comprised of seasoned industry veterans with proven track records of success. I have the utmost respect for each and every one of our Board Members. Anyone who looks at their resumes will agree that these are first-rate individuals and they're continue active involvement in our Company is critical.

Our Board and management team are fully focused on the issues facing our Company. We are making tough decisions and taking concrete actions that will position us to come out of the downturn a stronger Company. We will have more to say when we send you our definitive proxy statement relating to our upcoming annual meeting, the date of which has not yet been set. We will not be entertaining any questions today about Arbor or the annual meeting.

This concludes our formal remarks for today. We will now turn the call over to the Operator for any questions you may have. Operator?

Operator: Thank you. Thank you. To ask a question today please press star one on your telephone keypad. If you are using a speakerphone please make sure your mute function is turned off to allow your signal to reach our equipment. Once again if you do have a question please press star one. We'll pause just a moment.

And once again that is star one if you do have a question.

And just a final reminder that is star one for questions.

And gentlemen it appears at this time that we have no questions. I'll turn it back over to you.

Kenneth Witkin: Thank you every much, everyone for attending our call and we'll say goodbye.

Operator: And that does conclude today's conference. Again thank you for your participation.