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CBRE Group, Inc. (CBRE)

Q2 2024 Earnings Call

CORPORATE PARTICIPANTS

Chandni Luthra

Executive Vice President and Head of Investor Relations and FP&A, CBRE Group, Inc.

Robert E. Sulentic

Chair & Chief Executive Officer, CBRE Group, Inc.

Emma E. Giamartino

Chief Financial Officer, CBRE Group, Inc.

OTHER PARTICIPANTS

Ronald Kamdem

Analyst, Morgan Stanley & Co. LLC

Anthony Paolone

Analyst, JPMorgan Securities LLC

Jade Rahmani

Analyst, Keefe, Bruyette & Woods, Inc.

Michael A. Griffin

Analyst, Citigroup Global Markets, Inc.

Steve Sakwa

Analyst, Evercore ISI

Stephen Sheldon

Analyst, William Blair & Co. LLC

Peter Abramowitz

Analyst, Jefferies LLC

MANAGEMENT DISCUSSION SECTION

Operator: Greetings, and welcome to the Second Quarter 2024 CBRE Earnings Conference Call. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Chandni Luthra, Executive Vice President, Head of FP&A and Investor Relations. Thank you, Chandni. You may begin.

Chandni Luthra

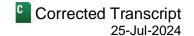
Executive Vice President and Head of Investor Relations and FP&A, CBRE Group, Inc.

Good morning, everyone, and welcome to CBRE's second quarter 2024 earnings conference call.

Earlier today, we posted a presentation deck on our website that you can use to follow along with our prepared remarks and an Excel file that contains additional supplemental materials. Before we kick off today's call, I want to say how excited I am to have joined CBRE last month. I know many of you will already, and others, I'm looking forward to getting to know better in the weeks and months ahead.

Now, I'll remind you that today's presentation contains forward-looking statements, including, without limitation, statements concerning expected benefits and synergies from the combination of Turner & Townsend and CBRE project management and other M&A transactions, our business outlook, our business plans and capital allocation strategy, and our earnings and cash flow outlook.

Q2 2024 Earnings Call



Forward-looking statements are predictions, projections, or other statements about future events. These statements involve risks and uncertainties that may cause actual results and trends to differ materially from those projected.

For a full discussion of the risks and other factors that may impact these forward-looking statements, please refer to this morning's earnings release in our SEC filings. We have provided reconciliations of the non-GAAP financial measures discussed on our call to the most directly comparable GAAP measures, together with explanations of these measures in our presentation deck appendix.

I am joined on today's call by Bob Sulentic, our Chair and CEO, and Emma Giamartino, our Chief Financial Officer. Now, please turn to slide 5 as I turn the call over to Bob.

Robert E. Sulentic

Chair & Chief Executive Officer, CBRE Group, Inc.

Thanks, Chandni, and welcome to CBRE. Good morning, everyone. CBRE had a successful second quarter for three reasons. First, revenue, profitability, and cash flow exceeded our expectations. Second, we made several sizable capital investments consistent with explicit elements of our strategy. Third, we made quick material progress on the cost challenges we identified last quarter. I'll briefly touch on all three.

As a reminder, when Emma and I reference our performance relative to expectations, we are comparing results to the outlook provided on our last quarterly call. With this in mind, each of our three business segments outperformed expectations for both net revenue and segment operating profits.

Highlights included Turner & Townsend's 18% net revenue increase and revenue growth of 13% in US leasing and 20% in mortgage origination fees. We believe that our Advisory segment is on the cusp of an inflection point.

On capital deployment, we made significant commitments in the quarter in support of our strategy. Combining CBRE project management with Turner & Townsend will create an exceptional operator in an enormous space with significant secular tailwinds. Given its scale, this combined business will have a profound impact on the future of CBRE. I'll discuss the implications of this move in more detail following Emma's remarks.

We continue to make investments that take advantage of the lack of capital available for well-positioned real estate opportunities by committing approximately \$250 million in the second quarter to development projects we believe can be harvested at favorable times in the cycle. Our investment management, development, and brokerage businesses enable us to identify and execute these opportunities, and our balance sheet gives us the capacity to act on them.

Finally, our acquisition of Direct Line Global enhances our capabilities in data center management, a huge market that is growing rapidly. Regarding progress on costs, actions taken in our GWS segment resulted in improved margin versus Q1. This, coupled with new business wins, has put us back on track to achieve full-year margin expansion, along with mid-teens top-line growth and mid- to high-teens bottom-line growth in this segment.

Taking all of this into account, along with our expectations of a strong second half, we have increased our outlook for full-year core EPS to a range of \$4.70 to \$4.90, up from \$4.25 to \$4.65 previously.

Now, Emma will discuss our second quarter results and outlook in greater detail. Emma?

Emma E. Giamartino

Chief Financial Officer, CBRE Group, Inc.

Thanks, Bob, and hello, everyone. I'll begin by highlighting the strong performance of our resilient businesses and an improvement in transaction activity. As a reminder, our resilient businesses include facilities management, project management, property management, loan servicing, valuations, and investment management fees. Together, these businesses increased net revenue by 14%, reflecting double-digit organic growth and a strong contribution from M&A.

Notably, our GWS and Advisory segments together delivered double-digit net revenue growth for the first time in 18 months, with combined leasing and capital markets revenue increasing for the second consecutive quarter.

Our REI segment has also seen an upturn in activity, contracting to sell multiple development assets at attractive valuations, which we expect to complete in the fourth quarter.

Now, please turn to slide 6 for a review of the Advisory segment. Advisory net revenue rose 9% with growth in every line of business except property sales. Globally, leasing revenue exceeded our expectations, led by 13% growth in the US, including a nearly 30% jump in office revenue. New York, a bellwether for CBRE, was a key driver of the increase.

Retail, albeit relatively small, also exhibited strength while industrial activity declined. Leasing momentum has continued in July, supported by a pickup in demand in many large US office markets.

Turning to global property sales, revenue began to stabilize, declining only 2% on a local currency basis and 3% in US dollar terms. A 4% decline in the US was somewhat offset by growth in the UK where property values have largely reset. While APAC was down in dollar terms, sales revenue ticked up slightly in local currency.

Our mortgage origination business produced very strong growth, supported by a 20% increase in origination fees. Loan origination growth – it was driven by debt funds, which are offering short-term refinancing to bridge the gap until interest rates decline. Advisory's net revenue from resilient businesses rose 11% in aggregate. And overall, Advisory SOP rose 9% and net margins ticked up slightly compared with Q2 2023.

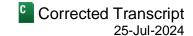
Please turn to slide 7 for a discussion of the GWS segment. The segment's net revenue rose 16% above our expectations, and we are pleased that organic growth also improved by double digits. GWS delivered strong business wins with a healthy balance of new clients and expansions. In addition to robust sales conversion, our pipeline is up more than 6% from the end of 2023, driven by technology and energy sectors.

Project management net revenue delivered double-digit growth. Bob will go deeper on Turner & Townsend, a business that we do not believe is fully appreciated, later in the call.

Turning to facilities management, net revenue rose 18% and 11% on an organic basis. We committed nearly \$300 million to facilities management M&A in the quarter. Most of the capital went to the Direct Line acquisition, which positions us to accelerate our growth in data center management, an estimated \$30 billion market that is growing rapidly.

We also acquired a small local facilities management business in Canada. Local facilities management started as a UK-focused business that had \$630 million gross revenue in 2013 and is now a global business with \$3.1 billion of gross revenue in 2023, a 17% compound annual growth rate. This business has significant headroom, especially in North America.

Q2 2024 Earnings Call



GWS's net SOP margin improved by 20 basis points from the first quarter to 10.1%, better than expected, reflecting our decisive cost actions. We expect to see year-over-year margin expansion in our full year results as those cost actions take effect.

Please turn to slide 8 as I discuss the REI results. Segment operating profit was slightly better than expected, although significantly lower than prior year, driven by the absence of meaningful development project sales.

This is consistent with our plans going into the year, but we now believe we are approaching a period when we again generate significant profits from the sale of development assets. Investment management operating profit was better than expected, largely due to higher co-investment returns.

AUM is now at more than \$142 billion. The \$3.6 billion we've raised thus far this year was offset primarily by lower asset values as well as adverse FX movement. However, asset value declines have moderated and we have seen evidence of valuation stabilizing in certain preferred asset classes in the US and Europe. Investor sentiment continues to improve with increased appetite for both core and enhanced return strategies.

Now, I'll discuss cash flow and capital allocation on slide 9. Free cash flow improved meaningfully to \$220 million and conversion was nearly 90% for the quarter. We are increasing our free cash flow outlook for the year to slightly over \$1 billion and now expect to end the year with about 1 turn of net leverage even after deploying \$1.3 billion of capital thus far in 2024 across M&A and co-investments.

Our year-to-date 2024 capital deployment brings our three-year total to approximately \$4.8 billion, \$3.7 billion in M&A, and over \$1 billion in REI co-investments. M&A is integral to our strategy of enhancing our capabilities in parts of our business that are [ph] sectorally (00:12:02) favored or cyclically resilient. The acquisitions we executed in the guarter are clear examples of advancing this strategy.

Our investments in development have accelerated and put us in a position to harvest as much as \$750 million in profits over the next four years. Our combined in-process portfolio and pipeline now stands at nearly \$32 billion.

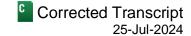
Over the last few years, when many developers were on the sidelines, our teams have taken advantage of this opportune time in the cycle to source industrial, multifamily, and data center land sites in highly-desirable locations. We anticipate strong growth and returns from M&A and co-investments and expect to continue making highly-accretive investments supported by our strong balance sheet.

Please turn to slide 10 for a discussion of our outlook. As Bob mentioned, we are increasing our expectations for full-year core EPS to the range of \$4.70 to \$4.90, driven by higher revenue and SOP in each segment. We anticipate a very strong fourth quarter, which should account for just over 45% of our full-year EPS. With an Advisory, we now expect mid- to high-teens SOP growth driven by stronger-than-expected transaction activity.

For GWS, we anticipate mid-teens net revenue growth and a full-year net SOP margin that is better than the 11.3% we produced in 2023. Our improved outlook is driven by the facilities management acquisitions in Q2 and the effects of our cost actions.

For REI, our improved SOP outlook is primarily due to the large development asset sales expected to be completed in Q4, which we believe portends an upturn in this business.

Q2 2024 Earnings Call



Before I conclude, let me take a minute to update you on our longer-term outlook. We have increased confidence in achieving record EPS in 2025, assuming a continued supportive macroeconomic environment.

A return to peak core EPS just two years following our earnings trough reflects how well we've improved the resiliency of our business compared with prior downturns. We expect even stronger resiliency in the next cycle as a result of the moves we are making. There are several reasons for our increased confidence in our outlook.

First, we expect continued double-digit growth across our resilient businesses, which are on track to contribute \$1.8 billion of SOP for full year 2024, up from nearly \$1.6 billion in 2023. Second, while it's difficult to predict the cadence of the recovery, we can achieve record earnings without an accelerated rebound in transaction activity.

Finally, we expect additional strong growth from the capital deployment plans I described earlier. Taking all of this into account, we have great confidence in sustaining a double-digit long-term growth trajectory.

With that, I'll hand the call back to Bob.

Robert E. Sulentic

Chair & Chief Executive Officer, CBRE Group, Inc.

Thanks, Emma. I'll close with some thoughts about Turner & Townsend. While Turner & Townsend has some similarities to traditional commercial real estate project management businesses, its differences are significant and compelling. Beyond traditional corporate real estate project management, Turner & Townsend manages large complex programs in the infrastructure, natural resources, and green energy sectors.

Examples of this include their work for the Sydney, Australia Rapid Transit System, the New York Metropolitan Transit Authority, Toronto and Abu Dhabi's international airports, and the first new nuclear power station to be constructed in the United Kingdom in over 20 years.

These programs typically span many years and include an array of individual projects. When Turner & Townsend does project work for corporate clients, it typically involves larger, more complex, strategically important assignments. For instance, they are currently program or project managing 112 hyperscale data centers and the creation of multiple billion-dollar-plus advanced manufacturing plants around the world.

Turner & Townsend is also the world's largest cost consultancy, a rapidly growing practice that secures the best pricing from the marketplace and optimizes cost performance across large, complex capital programs. The combination of Turner & Townsend and CBRE project management will create significant revenue synergies between the two businesses' client bases and yield meaningful cost synergies through economies of scale and eliminating redundant functions.

Turner & Townsend's leadership team will oversee the combined business. They have an exceptional track record in the areas of growth, strategic decision-making, and risk management. Since Vince Clancy took over as CEO in 2008, Turner & Townsend's net revenue has grown from approximately \$225 million to \$1.5 billion in 2023, a compound annual growth rate of 13%. Since CBRE acquired our 60% ownership interest in November, 2021, Turner & Townsend's net revenue has grown at a compounded rate of nearly 20%, attesting to the benefits of being part of CBRE's platform.

Finally, I want to stress that the combined business, which is positioned to provide years of resilient double-digit growth, is large. It is expected to generate approximately \$3.5 billion of net revenue and more than \$0.5 billion of

SOP in 2024. The business will be large enough, resilient enough, and rapidly growing enough to change the long-term profile of CBRE.

Now operator, let's open the line for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. We'll now be conducting a question-and-answer session. [Operator Instructions] Thank you. Our first question is from Ronald Kamdem with Morgan Stanley. Please proceed with your question.

Ronald Kamdem

Analyst, Morgan Stanley & Co. LLC

Hey, congrats on a great quarter. Just starting with the GWS business, you talked about sort of the full-year margin improvement being above last year, but all the cost sort of impacts is going to take place in the second half. So presumably, second half is also going to be much higher than the first half. So how do we think about sort of annualizing the second half margin? Is that sort of a good run rate going forward for the business? Thanks.

Emma E. Giamartino

Chief Financial Officer, CBRE Group, Inc.

So, Ronald, what you saw in Q2 is that we took a lot of cost actions and our margin within Q2 in GWS at 10.1% was above what we were expecting and above what we achieved in Q1. And it's obviously not near the run rate that we expect to target. For the full year, we're expecting the overall margin to be above that 11.3% that we delivered last year. You're going to see higher margins in the second half. And then going into next year, that run rate will be even higher than where we get to for the full year. We're not going to get to the second half margin on a run rate basis.

Ronald Kamdem

Analyst, Morgan Stanley & Co. LLC

Got it. That's helpful. And then just my second one is just on the Advisory expectations and transaction activity. Maybe can you just talk about, you know, what you're seeing on the ground, what you're seeing in the pipeline? You know, obviously, maybe a better rate backdrop, but what sort of gives you confidence and conviction that you're seeing these green shoots given that we have had fits and starts in the past? Thanks so much.

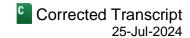
Robert E. Sulentic

Chair & Chief Executive Officer, CBRE Group, Inc.

Hey, Ronald. First of all, thanks for picking up coverage on us. We're thrilled to have Morgan Stanley following us. The first part of the answer to your question is very anecdotal. We had the quarter we had in leasing and mortgage originations in the second quarter, and the positive activity has continued into the first part of the third quarter, and I'm going to pass it to Emma to let you talk – let her talk a little bit more about that.

But there's some other things that are giving us confidence. So, for instance, we get insight from the fact that we do a lot of different things. We're – not only are we an intermediary, but we're a principal. And in our development business now, we are seeing demand for projects that we didn't expect, and it's going to happen in the fourth quarter of this year. That gives us confidence that other parts of the capital markets are acting that way.

Q2 2024 Earnings Call



Obviously, there's a sentiment out there that there's going to be a couple rate cuts or at least one rate cut this year. The bid-ask spreads are narrower than they were before except maybe in office.

Our investment sales brokers and mortgage brokers are more active and have stronger pipelines than they did before. Our work with office tenants where we measure through all kinds of different mechanisms and surveys, sentiment has gotten better. So we have this anecdotal evidence from the second quarter starting and then the third quarter, and then we have more technical evidence that causes us to think that we may well have gone through an inflection point on transactions that's going to impact leasing, that's going to impact sales, that's going to impact mortgage brokerage, and it's going to have a really nice impact in the fourth quarter on the profitability of our development business.

Emma, you might want to add to that.

Emma E. Giamartino

Chief Financial Officer, CBRE Group, Inc.

Yeah, so Ronald, what we're seeing on the leasing side is that continues to pick up globally. In the US, we talked about it, we're seeing the greatest strength in office leasing. Industrial has been declining slightly, but office is more than making up for that. And so continuing into July, we're seeing early signs of accelerating growth within leasing. And we think that would be a great outcome. So we're expecting that to continue through the remainder of the year.

On the sales side, we do see strong signs that the sales market is stabilizing. Globally, we're still seeing declines, but, you know, you could argue that it's relatively flat globally. Sales activity for us, our revenue in the quarter was only down 2% on a local currency basis. And we're actually seeing going into July, and again, it's very early, so we're not going to call anything, but we're starting to see an uptick in activity in the US sales market.

Ronald Kamdem

Analyst, Morgan Stanley & Co. LLC

Super helpful. That's it for me. Thanks so much. Congrats on a quarter.

Operator: Thank you. Our next question is from Anthony Paolone with JPMorgan. Please proceed with your question.

Anthony Paolone

Analyst, JPMorgan Securities LLC

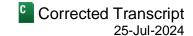
Great. Thanks. Good morning. Bob, you talked about the distinction between Turner & Townsend and just the more traditional commercial real estate businesses. I mean, is that something that you would consider spinning off at some point? I mean, you kind of talked quite a bit about those differences and making this disclosure change. So, it seemed like maybe you do think of this as being a bit different than the rest of what CBRE does.

Robert E. Sulentic

Chair & Chief Executive Officer, CBRE Group, Inc.

Tony, it's different, but there's a lot of synergy between what Turner & Townsend does and what we do, and it's two-way synergy. They operate in 60 countries around the world, and they're more substantial in parts of the world than we are. We've been able to introduce them to our client base in a number of places very successfully. And I'm going to give you an anecdote, and I'm going to give you some numbers, one that's repetitive.

Q2 2024 Earnings Call



Turner Townsend grew over Vince's – Vince Clancy's tenure 13% for many, many years on a compounded basis, more than a decade. Since they've been part of us, they've grown at 20%. Anecdotally, you know, and I mentioned earlier, we benefit from having a whole bunch of different businesses that we undertake.

Anecdotally, there are a couple major corporate manufacturing plants that Trammell Crow Company and Turner & Townsend are cooperating on to deliver the development services work and the program management work, billion-plus dollar plans. We believe at Trammell Crow Company and we believe at Turner & Townsend and Vince and his team believe that those projects wouldn't have been landed by us had we not had the ability for those two businesses to cooperate.

So, you know, Turner & Townsend would be a great public company, make no mistake about it. There's a lot of enthusiasm for companies like them in the public markets today. They're very unique, even relative to other large program and project management firms and large engineering firms, but they fit really, really nicely with us. And we think there's going to be a great story long-term there. We put Vince on our board because we think there's so much synergy between what he and his business do and what the rest of our company does. So, I hope they're a very long-term part of CBRE.

Anthony Paolone

Analyst, JPMorgan Securities LLC

Okay. Thank you. And when the disclosures change, and you'll then have sort of the remaining facilities business and then the project management, how should we think about just organic growth for the facilities piece of it? Because it sounds like project management is going to be pretty high. Just where does that lead facilities?

Emma E. Giamartino

Chief Financial Officer, CBRE Group, Inc.

Yeah, facilities management, we believe, has a low double-digit organic revenue growth trajectory for the very long term, and that's supported by two components. One, the enterprise side, which is where we manage large occupier clients globally, that business should grow at a high single-digit rate. And that's where you see most of our competitors play in that space.

Where our facilities management business is different from our competitors is our local business. And that's, as you know, the regionally focused business that I talked about in my remarks that has grown in a 17% compound rate over the past decade. And that business should grow at the low to mid-teens rate, which is bringing up and even higher over time. And we expect to do M&A within the local sector, so that on an organic basis, we are confident that we'll remain in the low double-digit range, and then M&A on top of that will get us higher.

Anthony Paolone

Analyst, JPMorgan Securities LLC

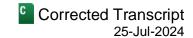
Okay. Got it. And if I could just ask one more question just on the guidance. How much of the bump, you know, should we think about as coming from just the outlook for selling more stuff in Trammell Crow and the development gains there?

Emma E. Giamartino

Chief Financial Officer, CBRE Group, Inc.

So, we increased guidance across all three segments. So, I'll walk through all three of them. Within Advisory, it's, as you'd expect, increase in transaction activity, and we're getting to mid- to high-teens SOP growth.

Q2 2024 Earnings Call



Within GWS, the increase is largely due to M&A. Our organic growth expectations are in line with what we expected going into the year, and we're getting to mid- to high-teens SOP growth for the year within GWS as well.

And then REI is probably about half of the contribution for the increase in guidance in those couple of very large development deals that we expect to monetize in the fourth quarter.

And when you look at the second half, what you're seeing is accelerated growth across all segments. You know, Advisory, you're going to see low double-digit revenue growth in the second half, but very strong SOP growth as we have very strong high incremental margins across our leasing and sales business.

And then GWS, as we've talked about, we've expected very strong revenue growth in the second half as both M&A picks up in the second half and as the large contracts that we won earlier this year and late last year start to be onboarded. And again, we've done a lot of cross-works. You're going to see higher than our run rate margins within GWS in the second half as well.

Anthony Paolone

Analyst, JPMorgan Securities LLC

Okay. Great. Thank you.

Operator: Thank you. Our next question is from Jade Rahmani with KBW. Please proceed with your question.

Jade Rahmani

Analyst, Keefe, Bruyette & Woods, Inc.

Thank you very much. On capital market side, could you characterize the tone and tenor from participants in the quarter? Property sales were still down year-on-year, but commercial mortgage surged. Could you please provide some color on what you're seeing?

Emma E. Giamartino

Chief Financial Officer, CBRE Group, Inc.

So on the commercial mortgage side, we saw a strong uptick in loan origination, and that was primarily for refinancing. So there was a big uptick in loans sourced from debt funds. Volumes from debt funds increased by over 70% in the quarter, and that was all refinancing. They're offering very short-term bridge loans to bridge providers until the banks and the agencies pick up. We actually saw a decline in originations from banks and the agencies as well, but we expect that to pick up in the second half of the year as rates come down.

Jade Rahmani

Analyst, Keefe, Bruyette & Woods, Inc.

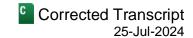
On the sales side, are you seeing an uptick in acquisitions yet or still pretty subdued there and most of the deal flow is on the debt side?

Emma E. Giamartino

Chief Financial Officer, CBRE Group, Inc.

We're still seeing – we're still seeing – we're having a slight uptick in acquisitions, but it's off such a low base that it's not meaningful. It's not a meaningful contributor to our increase.

Q2 2024 Earnings Call



Jade Rahmani

Analyst, Keefe, Bruyette & Woods, Inc.

Thank you. On the leasing side, many office tenants continue to shrink, on average somewhere around, you know, 10%, 12%. But activity was so [ph] subdued (00:31:33) the past two years, you are seeing an uptick. Could you talk about that and also comment on retail?

Emma E. Giamartino

Chief Financial Officer, CBRE Group, Inc.

So, on the office side, we think we've stabilized in terms of size of transactions, and we're really seeing an uptick in volume. And we're seeing an uptick in terms of regionally. We talked about it. You're seeing most of that increase in New York as occupiers are transacting across larger deals. We aren't seeing big movements in terms of square footage per transaction, in terms of obviously rent per transaction, all of those metrics seem to have stabilized.

Jade Rahmani

Analyst, Keefe, Bruyette & Woods, Inc.

And lastly, on the REI uptick, is that primarily driven by multifamily? I believe that's around 30% of the pipeline. Could you comment as to the percentage of gains? Are they going to be lower than historical due to the cost inflation we've seen as well as interest rates? Or do you think the demand for new product is outweighing that?

Robert E. Sulentic

Chair & Chief Executive Officer, CBRE Group, Inc.

Jade, let me ask you to clarify that. When you say REI, are you talking about development or the investment management business?

Jade Rahmani

Analyst, Keefe, Bruyette & Woods, Inc.

Yeah. Sorry, I should have clarified. Within REI, the Trammell Crow business.

Robert E. Sulentic

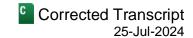
Chair & Chief Executive Officer, CBRE Group, Inc.

The activity we're seeing is across three product types: data centers, industrial, and multifamily. The stuff we harvest in the fourth quarter is going to be more skewed toward data centers than it ever has been before. And what's happened there, and again, you know, I don't mean to be too repetitive in what I say, but because of the number of things we're doing across our platform, we end up being in a very strong position to generate certain kind of benefits that we wouldn't other generate – we wouldn't otherwise generate.

Trammell Crow Company, when you hear the headline, [ph] there's (00:33:41) a developer, we build this kind of building or that kind of building and we sell it. But one of the things that Trammell Crow Company is exceptional at is land acquisition, entitlements, and then developing on the land or harvesting land sites at a profit. The development work they've done over time on the industrial side has put Trammell Crow Company in a position to end up with considerable amounts of land that can be used for data centers.

When that happens, the transition from industrial land to data center land generally results in pretty significant profitability, and that's going to be a big part of the picture you see in the fourth quarter. Looking out a little further, though, what's really, really important to know is that there has been a real lack of capital for securing new

Q2 2024 Earnings Call



development opportunities in the market the last couple of years. We went through that ourselves. Third-party capital slowed way down. That started to come back significantly. We've capitalized a good number of development projects with third-party capital this year.

But the other thing we've done is we've come in ourselves and we've identified opportunities in a bigger way than we have historically to use our own balance sheet to buy development land and in some cases fund components of the development process beyond the land. And we study it very closely. We are quite confident that we are going to be developing projects, and in particular, multifamily projects, into markets where the number of new projects coming online has slowed down dramatically. And that's what you're seeing or hearing in our comments about profitability coming out of that business.

Jade Rahmani

Analyst, Keefe, Bruyette & Woods, Inc.

Can you say whether the increase in guidance or the uptick in REI in the fourth quarter is predominantly due to the data center sales? I have in my coverage seen, you know, home builders, for example, sell land parcels they intended for residential to data center developers and they've generated huge gains, but those really are not, you know, as sustainable as their regular business?

Emma E. Giamartino

Chief Financial Officer, CBRE Group, Inc.

So, the uptick in the fourth quarter is large – in REI is largely related to these data center asset sales. But the comment around is whether that's sustainable. I think one of the pieces that we really focused on in our remarks is the embedded profits within our Trammell Crow in-process and pipeline portfolio. And we talked about \$750 million of profits that are in that portfolio today at relatively conservative underwriting assumptions that we expect to generate over the next four years. Now that will be more weighted towards the outer years as it takes time to build these projects.

But there is a significant amount of earnings embedded in that portfolio, and it is very much sustainable. And we do think that element of our business is underappreciated, the amount of profits that will be coming out of that. And so when you look at these data center sales that we're expecting this year, we believe that that's a signal to us that there is an upturn in this business coming, and there will be an uptick from here.

Robert E. Sulentic

Chair & Chief Executive Officer, CBRE Group, Inc.

If I could, I mean, just to add on to that. And Jade, to specifically address what you said, and that \$750 million does not depend on all kinds of good luck with industrial sites transitioning to be data center sites. That's an asset-by-asset review of our portfolio. For the purposes that we acquired it for, unless we know today that it's going to move to another asset class and measuring where we think it'll come out over time.

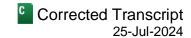
Operator: Our next question is from Michael Griffin with Citi. Please proceed with your question.

Michael A. Griffin

Analyst, Citigroup Global Markets, Inc.

Great. Thanks. I just want to go to capital deployment for my first question. Obviously, you guys have been [indiscernible] (00:38:04) so far this first half of the year, whether it's through M&A or buying back stock. I'm wondering if you can give us a sense of how you weigh kind of those opportunities against each other? Is there a time where your stock price might hit a certain dollar amount that you're like, all right, it's time to really get

Q2 2024 Earnings Call



aggressive here? And just kind of how you weigh those two factors against each other? Color there will be appreciated.

Emma E. Giamartino

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Chief Financial Officer, CBRE Group, Inc.

Yeah. So, our strategies remain consistent in terms of capital deployment. We prioritize M&A and we're focused on looking at strategic, highly-accretive acquisitions that drive a very strong return and will enhance our capabilities. We've been very focused on facilities management and project management. We expect both of those to tick up over the next few years.

Our pipeline is very strong, though we always caution that, it's very difficult to predict M&A and we're extremely diligent in our underwriting. And so we focus on the deals that make the most sense and are going to drive the strongest return. And then in every single one of our deals, they have to exceed our hurdle rates that make sense. And they have to exceed the return that we would get from share repurchases.

So we look at where our stock is trading compared to our intrinsic value and make sure that those deals exceed that. Now, if we don't have a tremendous amount of M&A in our pipeline or it's difficult to execute for whatever reason, and you've seen this in the past three years, we will buy back our shares. This year, we've done a lot of M&A so far, so I don't expect a tremendous amount of repurchases in the second half of the year, but that's simply a result of the amount of capital we've deployed this year.

Michael A. Griffin

Analyst, Citigroup Global Markets, Inc.

Emma, can you give us a sense of kind of those hurdle rates you're underwriting for potential M&A opportunities?

Emma E. Giamartino

Chief Financial Officer, CBRE Group, Inc.

A

So, well above our cost of capital, most of our deals, I think all of our deals are underwritten at above a mid-teens return. And that's pretty much all I can say about that.

Michael A. Griffin

Analyst, Citigroup Global Markets, Inc.

Great. That's helpful. And then my second question was just kind of on the leasing. I know you touched on it

earlier, particularly for the office side, but are you seeing – this greater demand coming from all office product broadly, or is it just in kind of that trophy and Class A product? And then you called out New York as a relative bright spot, but I'm wondering if there are any other big markets, either domestically or globally, that surprise you to the upside?

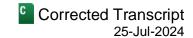
Robert E. Sulentic

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Chair & Chief Executive Officer, CBRE Group, Inc.

Well, for sure, Class A office space is really attractive now because so many companies are focused on the experience of their employees, the productivity of their employees, the presence of their employees, et cetera. That's a well-documented dynamic, and it's easier to make that happen in better quality office space. But beyond New York, yes, in the tech markets, we're seeing a considerable pickup, and I believe – we believe that it's driven by AI and all the activity around AI. But the Bay Area, Austin, Texas, et cetera, we're seeing a pickup in those markets.

Q2 2024 Earnings Call



Michael A. Griffin

Analyst, Citigroup Global Markets, Inc.

Great. That's it for me. Thanks for the time.

Operator: Thank you. Our next question is from Steve Sakwa with Evercore ISI. Please proceed with your question.

Steve Sakwa

Analyst, Evercore ISI

Yes, thanks. Good morning. Most of my questions have been asked, but I guess one small, just follow up. And I know the share buybacks was relatively late in the quarter, but I didn't necessarily see the actual shares bought back or an average price on the buybacks. So, I don't know if you have that.

Emma E. Giamartino

Chief Financial Officer, CBRE Group, Inc.

In the quarter, it was minimal. We repurchased, like, \$50 million worth of shares at an average price of \$87.

Steve Sakwa

Analyst, Evercore ISI

Great, thanks. And then maybe, Bob, just on the cost containment, obviously that seemed to maybe come through much faster than I think you expected and we expected. Maybe just speak to that a little bit. And I guess just how are you thinking about talent retention and talent acquisition at this part of the cycle? And how does that maybe affect or not affect kind of the margins going forward?

Robert E. Sulentic

Chair & Chief Executive Officer, CBRE Group, Inc.

Steve, we have a philosophy about our business here that we want to drive this company in a way that we perform at a high level in everything we do. One of the things that we're doing in that regard is focusing more and more on getting rid of costs that don't contribute to the success of the company. Costs of every kind. Technology projects that don't contribute, people that don't contribute, office space that doesn't contribute. And the stuff that does contribute, good office space, good technology, good people, we are aggressive buyers of those things to build our business.

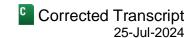
And what's happened is, and we have a transformation office that reports to Emma, so I ought to let Emma comment on that, is we are aggressively looking for those things we can get rid of, and you saw that happen in the second quarter. But the stuff we need, we're aggressive buyers. We're aggressive buyers of land. We're aggressive buyers of talent. We brought in some spectacular talent in the last quarter. We have an aggressive technology investment program, but we are narrowing the things that we're investing in and being very careful. And, Emma, if you want to add to that.

Emma E. Giamartino

Chief Financial Officer, CBRE Group, Inc.

Yeah, I'll add that we – our transformation office is focused on making long-term, sustainable change in how we operate our business. And so we are not focused on episodic cost reduction. We want to be focused on delivering consistent operating leverage over time. You can see that margin expansion. And that's not an easy thing to do, but it's something that we're very focused on, all of our business leaders are very focused on.

Q2 2024 Earnings Call



So, from here on out, everything is focused on really driving that efficiency. And as we add resources, as we invest in technology, as we invest in people, those are extremely smart decisions so that we know that down the road, we don't have to cut back.

Steve Sakwa

Analyst, Evercore ISI

Great. Thanks. That's it for me.

Operator: Thank you. Our next question is from Stephen Sheldon with William Blair. Please proceed with your question.

Stephen Sheldon

Analyst, William Blair & Co. LLC

Hey. Thanks for taking my questions and nice work here. First, now that you'll have Direct Line, are there other pieces you might need to pursue a comprehensive facility management solution around data centers and GWS? And just generally, how are you thinking about that opportunity and the differentiation of your capabilities now relative to peers and others playing in that market?

Robert E. Sulentic

Chair & Chief Executive Officer, CBRE Group, Inc.

Stephen, to answer that question, I want to back up and talk about how we think about M&A. And I think Emma and I would agree that there's more work we have to do on our side to get the market that invests in CBRE shares to understand how we do M&A.

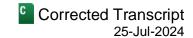
First of all, we don't have a group of businesses and a group of leaders that sits there and waits for something to come up for sale at a good price. We are a very strategy-driven company. Each of our businesses has a strategy for how they want to grow. And that strategy is very attentive to A, adding capabilities, and B, adding capabilities in areas that we think will sustainably do well in the marketplace, either because they're cyclically resilient or they are secularly favored. There is no better example of that, obviously, than Turner & Townsend.

So, if you look at our facilities management business, we are doing things that the marketplace wouldn't expect us to do because we've asked the leaders in the various sectors within facilities management, so manufacturing, financial, technology, et cetera, to understand their business and the capabilities that they can [ph] bet (00:46:17) in that business that'll differentiate it and make it attractive to our clients in the long run. Then we go out in the marketplace seeking out those acquisitions.

So, the deals that you've heard us make in the last year, those – we do not do those deals through auctions. None of those deals came to us. Turner & Townsend wasn't done through an auction. J&J wasn't done through an auction. Direct Line wasn't done through an auction. The local FM business we bought in Canada during the quarter wasn't done through an auction. Those were – none of those were done through an auction.

We went to the sellers of those businesses or the owners of those businesses and pursued them because we thought they were a good fit. We have ideas around our business. We have an increasingly well-developed corporate development team led by a 7-year – 14-year, 15-year Morgan Stanley veteran that then acts on those ideas to acquire them and we integrate them after that. That's our approach to M&A.

Q2 2024 Earnings Call



And as a result, you should expect us to see – you should expect to see us do more deals in the facilities management space and other spaces that you didn't expect because they aren't highly visible by others in the market.

Stephen Sheldon

Analyst, William Blair & Co. LLC

Got it. Yeah, that's really helpful. Thanks, Bob. And then just, I guess, as a follow-up, in investment management, can you just talk about what you're seeing on the fundraising side right now? Has the environment there changed as you look back over the last few months?

Emma E. Giamartino

Chief Financial Officer, CBRE Group, Inc.

Yeah. We've seen a pickup activity – in activity, we were expecting a pickup in activity in enhanced return strategies, but we've also seen a pickup in the first half in core and core plus. I think you're hearing that broadly across the market, which we think is a very positive indicator for the remainder of the year.

Stephen Sheldon

Analyst, William Blair & Co. LLC

Great. Thank you.

Operator: Thank you. Our next question is from Peter Abramowitz with Jefferies. Please proceed with your question.

Peter Abramowitz

Analyst, Jefferies LLC

Thank you, and thanks for the time. I just wanted to ask about sort of the relative stabilization and resilience versus your expectation in the investment sales market. I guess could you just give more color on what you think is driving that? And could you comment and just give some more color on whether that's dry powder on the sidelines and how much kind of pent-up demand there is from the last couple years of pretty depressed activity?

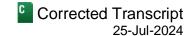
Robert E. Sulentic

Chair & Chief Executive Officer, CBRE Group, Inc.

Yeah, Peter, you just said something that's really important, pent-up demand. When we talk about investment sales activity coming back, the trading of assets coming back, it's not going to be a circumstance where the marketplace is going to become more attractive because rates have stabilized, bid-ask spreads have come down, and therefore a bunch of people that wouldn't have otherwise been in the market are going to say, oh, it's a better environment, maybe I should sell something.

There has been a massive base of assets held by people that wanted to sell them for the last couple years. There has been a massive amount of capital on the sidelines that wanted to get in and do real estate deals for the last couple years. The buyers and sellers have been there. We don't have to find them, they're there. What has to happen is the environment needs to get to a place where you're going to see people jump in and act. And what's happened is the certainty around interest rates coming down has grown, the bid-ask spread has narrowed, there's less volatility in the market.

Q2 2024 Earnings Call



And that's why in a business like our Trammell Crow Company development business, where we're a principal, not an intermediary, we're seeing action, very real action that's going to take place in the fourth quarter. We've been there with those assets. Now we're going to trade those assets because the environment's going to be right.

Peter Abramowitz

Analyst, Jefferies LLC

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Thanks, Bob. I appreciate the color. And then I wanted to ask about specifically on the office leasing side, I guess just kind of looking at the algorithm between pricing and volume. Obviously, volume is improving to start the first half of the year. Overall, I mean, are you still seeing pricing continuing to go up on those trophy assets? And then overall in the broader market, if you zoom out to look at trophy as well as kind of Class A minus and then commodity below that, how is pricing trending and how's that sort of affect your outlook for leasing revenues?

Robert E. Sulentic

Chair & Chief Executive Officer, CBRE Group, Inc.



Peter, Emma's a good one to answer that question because in addition to all the other things she does, she actually handles our real estate portfolio and she's in the market now and so she can tell you as a consumer what that feels like.

Emma E. Giamartino

Chief Financial Officer, CBRE Group, Inc.



So on the office leasing side and Bob's talking about us looking in New York. For trophy assets, yes, especially in New York, those prices are increasing. But if you look broadly across our office leasing portfolio of transactions, pricing is pretty much stabilized. But there are very – there's big differences in what's happening by asset type and by quality of assets and by market.

Peter Abramowitz

Analyst, Jefferies LLC



All right. Thanks. That's all for me.

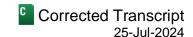
Operator: Thank you. There are no further questions at this time. I would like to hand the floor back over to Bob Sulentic for any closing comments.

Robert E. Sulentic

Chair & Chief Executive Officer, CBRE Group, Inc.

Thanks for joining us, everyone, and we'll talk to you again at the end of the third quarter.

Operator: This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation.



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