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# CBRE Group, Inc. (CBRE)

Q4 2023 Earnings Call

## CORPORATE PARTICIPANTS

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**Robert E. Sulentic**

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**Emma E. Giamartino**

*Chief Financial Officer, CBRE Group, Inc.*

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**Steve Sakwa**

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**Jade Rahmani**

*Analyst, Keefe, Bruyette & Woods, Inc.*

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Hello and welcome to the CBRE Q4 2023 Earnings Conference Call and Webcast. [Operator Instructions] As a reminder, this conference is being recorded. It's now my pleasure to turn the call over to Brad Burke, Head of Investor Relations and Treasurer.

Brad, please go ahead.

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**Brad Burke**

*Head-Investor Relations & Treasurer, CBRE Group, Inc.*

Good morning, everyone, and welcome to CBRE's fourth quarter 2023 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'll remind you that today's presentation contains forward-looking statements, including without limitation statements concerning our economic outlook, our business plans and capital allocation strategy and our financial outlook. 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 and 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'm 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.

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## Robert E. Sulentic

*Chair & Chief Executive Officer, CBRE Group, Inc.*

Thank you, Brad, and good morning, everyone. CBRE ended 2023 on a high note with fourth quarter year-over-year operating profit growth across all three of our business segments. Even though 2023 was a difficult year for commercial real estate, we delivered the third highest full year earnings in CBRE's history as our resilient businesses continued their strong growth. This partly offset market-driven revenue declines in businesses that are sensitive to interest rates and debt availability. Emma will talk about our resilient businesses in greater detail at the beginning of her comments.

We are committed to driving significant gains in all of our businesses with a particular focus on through-cycle resiliency and double-digit compound long-term earnings growth. Two recent wins highlight our progress. First, with the acquisition of J&J Worldwide Services in our GWS segment, we will increase our technical services capabilities for US federal government clients and open a mostly untapped channel in a difficult to penetrate market. This is a large market characterized by steady growth and long-term contracts. Second, our strategic partnership to provide property management services for Brookfield Properties' 65-million-square-foot US office portfolio is among the largest in the history of our sector. We believe there will be more opportunities of this nature which we are well-positioned to capture.

We start 2024 with strong new business pipelines across our company. We also see attractive M&A and REI co-investment opportunities. Investor and lender sentiment has improved and we anticipate this will lead to increased transaction volumes starting in the second half of the year when short-term interest rates are expected to fall. Against this backdrop, we expect to achieve core EPS of \$4.25 to \$4.65 in 2024, implying mid-teens percentage growth at the midpoint of the range. This broad range reflects the difficulty in predicting the precise timing of a recovery. It is notable that any outcome in this range would still be well below the long-term earnings potential of CBRE.

With that, Emma will walk you through our results and outlook in more detail.

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## Emma E. Giamartino

*Chief Financial Officer, CBRE Group, Inc.*

Thanks, Bob. Before turning to segment performance, please turn to page 6 as I provide more insight into our resilient businesses.

We've used this term regularly in our earnings calls over the last several quarters and it is now being used broadly in our sector. CBRE defines resilient businesses as those which hold up well in a downmarket cycle either because of their noncyclical characteristics or because they benefit from secular tailwinds. For CBRE, those businesses include the entire GWS segment, loan servicing, valuation, property management and recurring asset management fees in our investment management business. When we use this term, this is the group of businesses we are referencing.

These resilient businesses in aggregate generated nearly \$1.6 billion of SOP in 2023 and are expected to generate \$1.8 billion of SOP in 2024. This will represent a sixfold increase from 2011, the first full year of market recovery following the global financial crisis. We expect 2024 to be the beginning of a market recovery, albeit a more gradual one. For context, our resilient businesses have grown SOP over three times as fast as our

transactional businesses since 2011. And they are expected to be nearly double the size of our entire business at a similar point in the last cycle.

Please turn to page 7 as I review our results and outlook for 2024. The Class B Advisory segment net revenue and SOP essentially match the prior year's Q4. Leasing saw a slight uptick in revenue for the quarter driven mostly by EMEA and APAC. Globally, higher office leasing offset slightly less industrial activity. Within property sales, industrial and retail declined less than multifamily and office supported by healthier fundamentals. Commercial and mortgage origination revenue growth was attributable to interest earnings on escrow balances. The rest of our Advisory business lines together achieved a 6% net revenue increase.

Turning to page 8. GWS had another strong quarter. Net revenue and SOP grew by double digits. Facilities management net revenue increased 14% for the quarter and 13% for the year. Most significantly, our sizable GWS local business has been increasing net revenue at or above a mid-teens clip and is well positioned to sustain this growth rate for the long term. Project management net revenue grew 11% for the quarter and 14% for the year. This was led by the large scale program management work being done globally by Turner & Townsend. Notably, we had record pipeline conversions to new GWS contracts during Q4 with a balanced mix of new clients and existing client expansions.

Turning to page 9. SOP in our REI segment increased to \$68 million in Q4, up from just \$17 million in the prior year Q4. Development exceeded expectations due to the earlier-than-anticipated monetization of several assets in the US. Investment management operating profit rose significantly in Q4 driven by higher incentive fees and recurring asset management fees. Investment management AUM ended 2023 at \$148 billion, up \$3 billion for the quarter largely driven by favorable currency movements and modest net capital inflows which offset lower private asset values. For the year, AUM was down \$2 billion. While asset value declines appear to be slowing, we anticipate values will remain under pressure in early 2024.

Before turning to our 2024 outlook, I'll comment on our capital allocation strategy on slide 10. We are on track to deploy more than \$2 billion of capital for the 12 months ending Q1 2024. This deployment includes M&A mostly in our resilient businesses and a record level of co-investment commitments in REI. By thoughtfully using our balance sheet, we made targeted opportunistic investments while other investors had been largely on the sidelines. These investments have been underwritten at returns well above our cost of capital and specifically our REI co-investments are projected to generate notably high returns. We also repurchased nearly 8 million shares in 2023 at a time when we believe they've attractively valued.

Our 2024 capital deployment will be supported by improved free cash flow which we expect to total at least \$1 billion as certain headwinds reverse this year. As we've previously discussed, we had several large cash expenses in 2023, mostly timing related items such as cash variable compensation and cash income taxes tied to 2022's record results that did not flex down with last year's lower earnings. We estimate that the reversal of these items alone will drive a \$500 million benefit to free cash flow compared with last year. Taking all of this into consideration, we expect to end 2024 with net leverage around 1 turn.

Now I'll review our 2024 outlook on slide 11. In the Advisory segment, we expect net revenue to increase by mid-to high single digits with mid-teens SOP growth. The expected margin improvement reflects fixed cost leverage and the benefit of ongoing cost reduction initiatives. Advisory accounts for about two-thirds of the \$150 million run rate cost savings initiative announced last quarter with half of the benefit being realized in 2024. These savings offset cost growth elsewhere in Advisory this year notably from higher expected discretionary compensation tied to improved financial performance.

We anticipate that capital markets revenue will grow by mid-single digits. Investor sentiment has improved in the last 90 days, reflecting a better interest rate outlook. Real estate allocations are approaching target levels. And this reflects an easing of the denominator effect as public equity markets have rebounded while private real estate values are being written down. We expect leasing to grow modestly in 2024. We're cautiously optimistic that the worst is over for office leasing particularly for Class A properties where we generate approximately two-thirds of our leasing revenue.

Leading indicators from our data partner, VTS, indicate US office demand has been gradually turning up over the last six months. Growing consensus about an economic soft landing coupled with the apparent stabilization of office utilization rates may make more employers confident enough to commit to office leases. Additionally, leasing demand should remain relatively strong for industrial deals particularly for properties under 500,000 square feet. Our remaining Advisory business lines together are expected to achieve low double-digit net revenue growth.

In the GWS segment, we expect mid-teen SOP growth, including the expected partial year contribution from the J&J acquisition. Continued strong organic growth will be driven by broad demand across clients, sectors and geographies. The local business will lead growth in GWS, expected to generate more than \$200 million of operating profit as we benefit further from our investments in this business.

Our enterprise business is also seeing strong demand from both mature sectors like financial services as well as newer adopters of outsourcing such as industrial, healthcare and life sciences companies. Within project management, significant growth will be led by Turner & Townsend which is in the early stages of penetrating the US market. We anticipate seeing most of the revenue impact from our sizable Q4 wins in the second half of 2024 as new clients are onboarded. And even with the record level of conversions in Q4, our GWS pipeline ended 2023 10% higher than the prior year.

Shifting to REI, we expect SOP in 2024 to be slightly below 2023's level. Note that last year's SOP included a single development portfolio sales which generated more than \$100 million of profit in Q1. In investment management, we expect operating profit to increase modestly from 2023 as stabilizing market conditions drive higher promote fees and improved co-investment returns.

We expect development operating profit will be subdued this year as the projects we expect to monetize will be sold at higher cap rates than we underwrote at the peak of the prior market cycle. At current market cap rates, we have hundreds of millions of dollars of operating profit embedded in our in-process portfolio and a pipeline of new opportunities with an attractive spread between our cost of development and current market values.

On balance, we are cautiously optimistic about 2024. Our expectation of achieving core EPS of \$4.25 to \$4.65 is contingent on long-term interest rates remaining around current levels, the Fed proceeding with the anticipated short-term rate cuts and the US economy avoiding a recession. This year's earnings are likely to be more heavily weighted than usual to the second half. The third and fourth quarters are expected to account for approximately two-thirds of core EPS while the first quarter will contribute a mid-teens percentage of the annual total.

This distribution is similar to what we experienced in 2021 when we also had a second half recovery. We continue to see a path to returning to our prior core EPS peak in 2025. That path is supported by continued double-digit growth in our resilient businesses and a gradual recovery in our transactional businesses. Importantly, CBRE can reach prior record earnings without our transactional businesses SOP rebounding to 2019 levels.

With that, operator, please open the line for questions.

## QUESTION AND ANSWER SECTION

**Operator:** Thank you. We'll now be conducting a question-and-answer session. [Operator Instructions] Our first question is coming from Anthony Paolone from JPMorgan. Your line is now live.

**Anthony Paolone**

*Analyst, JPMorgan Securities LLC*

Q

Okay. Thank you. Good morning. I guess my first question is – I look at the guideposts for the various business lines. They seem pretty good from our vantage point. But just wondering if you could talk about things like the Corporate segment, taxes, interest expense, depreciation, all that sort of other stuff. And any year-over-year drags or ability to quantify any notable drags from those items as we think about going down to EPS?

**Emma E. Giamartino**

*Chief Financial Officer, CBRE Group, Inc.*

A

Yeah, Tony. So first to step back on our outlook and to just give context around the range, which I think will help get to the Corporate and below the line items. If you look at our segment level guidance, I think what you're seeing is that you likely get to an EPS that's slightly above the midpoint of our range.

And what we've baked into the midpoint of our EPS guidance is some level of conservatism given that rates have continued to be volatile especially in the past few weeks. So safe to assume on the Corporate cost level, the Corporate segment level that that is going to uptick slightly but not as much as the numbers that you're looking at might imply. And the reason Corporate will uptick slightly is because primarily because our bonuses, discretionary compensation will reset to levels that are in line with improved financial performance.

And then I'll comment on the range of our outlook. The pieces that we have a high level of conviction around is our growth in our resilient SOP. We talked about that growing from \$1.6 billion this year to \$1.8 billion next year or in 2024. And that's consistent across the range. And then our transactional business lines are clearly the ones that will move up towards the bottom end or the high end of the range depending on when the recovery begins.

**Anthony Paolone**

*Analyst, JPMorgan Securities LLC*

Q

Okay, thanks. That's helpful. And then just in terms of – you talked about ending the year with 1 turn of leverage and sounds like incremental investment into REI and so forth and then obviously J&J. But just like how much of the benefit from all of the capital investments do you think you'll see in 2024 versus 2025 or in future periods?

**Emma E. Giamartino**

*Chief Financial Officer, CBRE Group, Inc.*

A

I'll primarily speak to J&J. We are expecting to get likely three quarters of the benefit of that acquisition in-year. And we talked about what the EBITDA we're expecting for J&J in our press release, about \$65 million for the year. So safe to assume we'll get three quarters of that in-year. The remainder of the co-investments in REI will be weighted more towards 2025 and beyond as those funds get launched and our developments get monetized.

**Anthony Paolone**

*Analyst, JPMorgan Securities LLC*

Q

Okay, thank you.

**Operator:** Thank you. Next question is coming from Steve Sakwa from Evercore ISI. Your line is now live.

**Steve Sakwa**

*Analyst, Evercore Group LLC*

Q

Great, thanks. And I guess just on capital deployment, I realize with the stock may be shooting up a lot in the fourth quarter, that tempered your enthusiasm for share buybacks. You only did about \$20 million in the quarter. Just where do share buybacks sort of fit in on the capital deployment in 2024 at least within your guidance?

**Emma E. Giamartino**

*Chief Financial Officer, CBRE Group, Inc.*

A

So what we've always talked about is a balance of M&A, our co-investments in REI and share buybacks. And we'll do buybacks to balance out the other two when we view our share price to be attractive. What we really saw in Q4 is that we were anticipating the announcement of our acquisition of J&J. That deal is delivering a return well above our cost of capital. It's more accretive than buybacks in our analysis. And so you're seeing a weight more towards M&A and I expect that to continue this year. Our M&A pipeline is building. We're seeing a greater ability to transact. Sellers are more willing to meet our value expectations. So where we sit right now, I expect the balance to be towards M&A this year. But of course, if that changes, we'll look to repurchase shares.

**Steve Sakwa**

*Analyst, Evercore Group LLC*

Q

Okay. And I know you provided a bunch of guideposts certainly on the revenue side. I just wanted to make sure from a margin perspective, I just kind of understand how are you thinking about the SOP margin in Advisory? And is there any sort of baked in improvement to margin in the GWS business?

**Emma E. Giamartino**

*Chief Financial Officer, CBRE Group, Inc.*

A

So on the Advisory side, you should see improvement in our overall Advisory margin in 2024, probably about 100 basis points. That's because of our cost reduction plans and obviously a recovery in our transactions business. In GWS, our margin should hover around the same level and increase slightly. The J&J acquisition is slightly accretive to our margins. But this is a business, as you know, that we don't expect to see a step function change in our margin over time. It will gradually increase as we continue to differentiate that business.

**Steve Sakwa**

*Analyst, Evercore Group LLC*

Q

Great, thanks. That's it for me.

**Operator:** Thank you. [Operator Instructions] Our next question is coming from Jade Rahmani from KBW. Your line is now live.

**Jade Rahmani**

*Analyst, Keefe, Bruyette & Woods, Inc.*

Q

Thank you very much. There's considerable uncertainty in the multifamily market. Walker & Dunlop just said on its earnings call that the GSEs Fannie and Freddie expect flat volumes for 2024, which is surprising given how low volumes were in 2023. In addition, we are seeing pockets of credit issues in floating rate loans and then significant supply. So I wanted to ask if you could comment on your overall volume expectations within that

sector. And also as it relates to Trammell Crow, I think that around 30% of that business' projects are multifamily. Do you expect any issues bringing those to fruition and generating target returns?

**Robert E. Sulentic**

*Chair & Chief Executive Officer, CBRE Group, Inc.*

A

Yeah. I'll comment, Jade, on the Trammell Crow Company circumstances and Emma can comment on the volumes, the financing volumes. We are taking on a steady stream of new land sites in Trammell Crow Company that we're underwriting at returns that we think, based on current cap rates, will be consistent with our historical returns in that business. This is one of the things that really doesn't show up in any of our headlines that makes us excited about future profitability.

It is true that there's some pressure in the multifamily markets based on the development that's happened over the last couple of years and the cost of leverage versus where those deals – the yields those deals were developed at. We think that is going to be self-correcting over the next couple of years. New development volume is going to come down. We're still at barely above historic levels of vacancy, I think maybe 50 basis points above historic levels of about 550 basis points of vacancy versus 5% historically. We think that is going to correct. We think the circumstance in the single family home market with the cost of mortgages is going to drive people toward renting.

And so we are quite bullish after we get through a little tough window here in the multifamily business of where that's going to go. We're bullish about what it means for Trammell Crow Company. We're bullish about what it means for our investment management business. And we think that the volumes in our services business will be good over time. But we are going to go through, as you commented from the Walker & Dunlop call, there will be a window here where it's a little more difficult. That's fully contemplated, by the way, in the numbers that Emma gave you about our expectations for 2024. Emma, you want to add to that?

**Emma E. Giamartino**

*Chief Financial Officer, CBRE Group, Inc.*

A

And then on the GSEs. We have embedded in our forecast pretty much [indiscernible] (00:24:13) being flat to slightly up this year. The sentiment that we're seeing from the agencies is that they will get closer to their caps this year. But we are being conservative in terms of what we're projecting for the year. So likely it's slightly more positive than what you heard on the Walker & Dunlop call.

**Jade Rahmani**

*Analyst, Keefe, Bruyette & Woods, Inc.*

Q

On the office leasing side, you mentioned you think that the worst is over there and that 65% of the business is Class A. Can you give any more color around maybe some anecdotal evidence or perhaps survey evidence that gives you confidence around that? I do know you put out monthly and quarterly reports from research showing such things as tenants in market or requirements.

**Robert E. Sulentic**

*Chair & Chief Executive Officer, CBRE Group, Inc.*

A

Well, it is the case that we think it has bottomed out. It obviously is below where – meaningfully below where it was. Occupancy is – square footage per person is below where it was, per employee is below where it was in 2019. There is all kinds of anecdotal evidence around that issue. Some stubbornness about people coming back to the office. That's super clear. The other thing is there's just a clear amount of pressure from companies to get their people back into the office for all kinds of reasons.



What we do know and I would say the anecdotal evidence in this area is not just evidence. It's an avalanche of evidence. Every company that you talk to – you can't talk to a corporate that would tell you that office building occupancy either in buildings they own or buildings they lease is not important to their business. It's important to all of them. It's important to us in our business. And so what you're seeing is that people are redoing their space, trying to make it a better environment for their employees, make their employees more efficient, more engaged. Class A buildings that create that opportunity are seeing in a number of markets record rents. Buildings that aren't good are struggling and they're going to continue to struggle.

So we look at that circumstance and we say there's pressure on both sides. But we think it's kind of stabilized. We think it'll be a very big asset class going forward, bigger than the headlines might suggest because people tend to like negative news. And in the real estate services business as opposed to the real estate owning businesses and we're in both of them, it's going to be a very large opportunity for CBRE. And you saw that with the Brookfield situation that we announced. You see that with the growth in our outsourcing business. You've seen it come through in our leasing numbers. So I think that you're going to see the future be better than the current circumstance has been for a variety of reasons.

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**Jade Rahmani**

*Analyst, Keefe, Bruyette & Woods, Inc.*

Q

Wanted to also, if I may, ask about infrastructure. The J&J acquisition deepens relationships with the Department of Defense in particular, it seems. And also we are seeing robust capital flows across the infrastructure space particularly in digital, data centers. Wanted to ask if you could comment if that's a strategic target, perhaps an area for M&A or co-investment on the Trammell Crow side.

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**Robert E. Sulentic**

*Chair & Chief Executive Officer, CBRE Group, Inc.*

A

Well, Jade, you're talking about the blurred lines between real estate and infrastructure in some regard. And in those areas, data centers and so forth, we do have some meaningful exposure. The places where we have kind of traditionally defined infrastructure exposure are with the Turner & Townsend business where they provide a lot of program and project and cost consultancy services to infrastructure type projects. And they are really well-positioned for the future in that regard.

We have an infrastructure investment management business that we would like to scale over time. And then in Trammell Crow Company, we do a variety of development. There are some things we're working on that are quite large between Trammell Crow Company and Turner & Townsend that would be in the infrastructure category. So we believe over time, we'll evolve to a place where we will do more work and invest more in infrastructure. But real estate is our core business for the time being.

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**Operator:** Thank you. Next question today is coming from Stephen Sheldon from William Blair. Your line is now live.

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**Stephen Sheldon**

*Analyst, William Blair & Co. LLC*

Q

Hey, thank you. Really nice job here and congrats on the J&J deal. With J&J likely to close here in the coming months, I just wanted to ask kind of what your appetite is for pursuing other large acquisitions. I know you guys are kind of looking at at least a few larger deals. So just curious if you have any commentary on what your appetite is, if you're still pursuing or looking at some larger acquisitions.

**Robert E. Sulentic**

*Chair & Chief Executive Officer, CBRE Group, Inc.*

A

M&A work is a fundamental foundational element of what CBRE is about. We are committed across all of our lines of business to be a grower. We have built within our market-facing businesses capability to identify M&A opportunities in all of our businesses. We clearly have some places we're more interested in at any given point in time typically because they're secularly favored or because we have more of a right to win. But it is fundamental. And so if you look across our business, our people are in the market identifying opportunities at all times.

We have built up our M&A capability in the center, our corporate development capability to the point where we think it's quite unique within our sector and is relatively strong against the broader base of companies out there outside our sectors or outside our sector. We have a strong balance sheet and a willingness to use that balance sheet to do M&A. So you should expect us to continue to build the business through M&A. We aren't going to do deals that we don't think are smart either financially or because they're hard to integrate or too hard to integrate.

And it wasn't hard to watch us in the past year and say that maybe listening from quarter to quarter, there was more going on than you were seeing when you saw the J&J deal at the end. There will be other things, but we won't force M&A. We'll do M&A where we think we can grow our business the way we want to grow it into areas with secular tailwind, into areas where we have the right to win. And as Emma has said, it will likely be, over the long term, our number one use of capital.

**Stephen Sheldon**

*Analyst, William Blair & Co. LLC*

Q

Got it, thanks. And then just in capital markets, just as you think about the last few months, how did activity progress through the fourth quarter into early January? I'm just curious whether you've seen fits and starts of activity based upon what's happening with interest rates and just generally how dependent do you think any capital markets improvement in 2024 and I guess into 2025 will be on the overall trend in interest rates.

**Emma E. Giamartino**

*Chief Financial Officer, CBRE Group, Inc.*

A

Yeah. So let's start with what we've been seeing over the past, through 2023 and through the end of the year. And we did see a significant deceleration in the decline, especially getting into Q4. So through the third quarter, we were looking at 40% declines up to that point. And then in the fourth quarter, we were down to below 20% decline. And what was notable about Q4 was that we actually saw a significant deceleration in December. So October-November, a greater decline than December which was in the single digit decline territory. So pulling that into 2024, we are not expecting a material uplift in capital markets activity. But we do expect it to grow at a mid-single digit rate globally. If the recovery picks up faster than we're expecting, if rates come down further than the market is expecting; then there could be upside from there. But our base case scenario is that there won't be a significant uplift.

**Stephen Sheldon**

*Analyst, William Blair & Co. LLC*

Q

Great. Thank you.

**Operator:** Thank you. Next question is coming from Michael Griffin from Citi. Your line is now live.

**Michael A. Griffin**

*Analyst, Citigroup Global Markets, Inc.*

Q

Great, thanks. Just maybe going back to the guidance for a minute and appreciate you guys including it this year. I'm just curious if you can kind of quantify and give us a sense of if there are any cost savings initiatives factored into your outlook. I want to kind of get a sense of how much of this kind of growth is organic versus cost cutting.

**Emma E. Giamartino**

*Chief Financial Officer, CBRE Group, Inc.*

A

So there are cost savings embedded in our outlook. And where you will see the majority of it is within our Advisory business. I talked about earlier about 100 basis points of margin expansion in Advisory. We talked about \$150 million of run rate cost savings on our Q3 call that we're going to go after this year. We have identified opportunities to reduce \$150 million of run rate cost. You'll see about half of that in-year and most of that will be in the Advisory segment. A piece to note about that is those cost savings are largely offsetting our bonuses, resetting in our discretionary compensation and our profit share is resetting to levels that are in line with our positive financial performance for the year. But it isn't embedded in the numbers that you're seeing.

**Michael A. Griffin**

*Analyst, Citigroup Global Markets, Inc.*

Q

Got you. That's helpful. Then maybe on the REI segment, I was curious if you could give us some insights into how development costs have been trending and where return hurdles and IRR is currently in the space. What would get you more interested in starting projects?

**Robert E. Sulentic**

*Chair & Chief Executive Officer, CBRE Group, Inc.*

A

Well, I'm going to start with costs. That is starting to come under control. We had challenges. Everybody that was a developer here in the United States and around the world had challenges with costs the last few years. Now that was all typically rescued by accelerating rental rates and declining cap rates. And we think all of that has stabilized. Cap rates have gone up, rental rate growth has slowed. But cost growth has also come under control. So that's all come back into balance.

We are underwriting projects now at spreads between current cap rates and yields on projects that should deliver profitability consistent with what has been delivered in that business historically. And I mentioned this earlier and I'll mention it again. Within that business over the last year, we've secured a good volume of development sites not at steal prices. But what's happened is sites that were otherwise not available have become available.

And because many, many people are on the sidelines, many developers are on the sidelines and we have the CBRE parent company balance sheet available to us; we've been able to secure a good number of development opportunities with really good spreads between current cap rates and yields on the projects. So with that in the future, we think we're well positioned for that business. And in Emma's comments, you might have noticed that she said we've got hundreds of millions of dollars of profits captured in that in-process and pipeline portfolio development deals. We're quite excited about that.

**Michael A. Griffin**

*Analyst, Citigroup Global Markets, Inc.*

Q

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

**Operator:** Thank you. Next question is coming from Alex Kramm from UBS. Your line is now live.

**Alex Kramm**

*Analyst, UBS Securities LLC*

Q

Yes. Hey, good morning, everyone. I may be nitpicky here a little bit, but can you just talk about your 2025 commentary from this morning? I think a quarter ago you were still talking about achieving records. Now I think you're just hoping to get back to peak. So not sure if it's the environment that's changed or if you just think your, I guess, outlook incorporates a more conservative recovery in general. So maybe just compare and contrast how we should be thinking about your long-term outlook as you go into 2025.

**Emma E. Giamartino**

*Chief Financial Officer, CBRE Group, Inc.*

A

So I want to be clear that we have strong visibility into returning to our peak level of EPS in 2025. And that confidence has not declined since last quarter. It's at least equal to and potentially slightly above, especially if we achieve our expectations for 2024. And I can simply break down the components of how we'll get there between our resilient SOP and our transactional SOP.

Within our resilient lines of business, like I said before, we expect \$1.8 billion of SOP this year. That should continue to grow at at least a 10% rate next year. And we have a high level of confidence in delivering that outcome. And then on the transactional side, we do not need our transactional SOP to return anywhere near to peak levels of earnings like we did in 2022. And they don't even need to return to our level of transactional SOP in 2019. So hopefully, that puts some perspective on our ability to achieve that outcome. The main risk is that the recovery would get delayed this year. And it would make that hurdle on the transactional side slightly higher next year.

**Alex Kramm**

*Analyst, UBS Securities LLC*

Q

All right. Fair enough. And then just maybe a quick follow-up on the cost base. Obviously, you got the cost program in place. Since you've done a lot over the last few years, can you maybe just remind us where you think incrementals are on the transactional side now and break it out maybe between capital markets and leasing as we head to potentially [ph] another (00:39:15) recovery here?

**Emma E. Giamartino**

*Chief Financial Officer, CBRE Group, Inc.*

A

So overall, on our transactional business, our incremental margins are in the low to mid-30s. This is both across capital markets and leasing. And to put some more context around that, a 5% change in leasing results in a 3% delta in EPS. And on the sales side, a 5% change in our in-sales would be a 2% change in EPS.

**Alex Kramm**

*Analyst, UBS Securities LLC*

Q

Excellent, thanks.

**Operator:** Thank you. We've reached the end of our question-and-answer session. I'd like to turn the floor back over to management for any further or closing comments.

## Robert E. Sulentic

*Chair & Chief Executive Officer, CBRE Group, Inc.*

Thanks very much, everyone. And we look forward to connecting with you again in 90 days.

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**Operator:** Thank you. That does conclude today's teleconference and webcast. You may disconnect your line at this time and have a wonderful day. We thank you for your participation today.

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