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CBRE Group, Inc. (CBRE)

Q2 2019 Earnings Call

CORPORATE PARTICIPANTS

Brad Burke

Senior Vice President-Corporate Finance & Investor Relations, CBRE Group, Inc.

Leah C. Stearns

Chief Financial Officer, CBRE Group, Inc.

Robert E. Sulentic

President, Chief Executive Officer & Director, CBRE Group, Inc.

OTHER PARTICIPANTS

Anthony Paolone

Analyst, JPMorgan Securities LLC

Jason Weaver

Analyst, Compass Point Research & Trading LLC

Jason Green

Analyst, Evercore ISI

Jade Rahmani

Analyst, Keefe, Bruyette & Woods, Inc.

Josh Lamers

Analyst, William Blair & Co. LLC

Mitchell Germain

Analyst, JMP Securities LLC

MANAGEMENT DISCUSSION SECTION

Operator: Greetings and welcome to the CBRE Second Quarter 2019 Earnings Conference Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. [Operator Instructions] Please note this conference is being recorded.

I would now turn the conference over to your host, Brad Burke, Senior Vice President of Corporate Finance and Investor Relations. Mr. Burke, you may begin.

Brad Burke

Senior Vice President-Corporate Finance & Investor Relations, CBRE Group, Inc.

Thank you and welcome to CBRE's second quarter 2019 earnings conference call. Earlier today, we issued a press release announcing our financial results and it is posted on the Investor Relations page of our website, cbre.com, along with a presentation slide deck that you can use to follow along with our prepared remarks as well as an Excel file that contains additional supplemental materials.

Our agenda for this morning's call will be as follows. First, I'll provide an overview of our financial results for the quarter. Next, Bob Sulentic, our President and CEO; and Leah Stearns, our CFO, will discuss our second quarter results and 2019 outlook in more detail. After these comments, we'll open up the call for your questions.

Before I begin, I'll remind you that this presentation contains forward-looking statements that involve a number of risks and uncertainties. Examples of these statements include our expectations regarding CBRE's future growth momentum, operations, market share, business outlook, capital deployment, acquisition integration and financial performance, including our 2019 outlook and any other statements regarding matters that are not historical fact.

We urge you to consider these factors and remind you that we undertake no obligation to update the information contained on this call to reflect subsequent events or circumstances. You should be aware that these statements should be considered estimates only and certain factors may affect us in the future that could cause actual results to differ materially from those expressed in these forward-looking statements.

For a full discussion of the risks and other factors that may impact these forward-looking statements, please refer to this morning's earnings press release and our most recent annual and quarterly reports filed on Form 10-K and Form 10-Q, respectively. We have provided reconciliations of adjusted EPS, adjusted EBITDA, and fee revenue, and certain other non-GAAP financial measures included in our remarks to the most directly comparable GAAP measures together with explanations of these measures in the appendix of the presentation slide deck.

Now, please turn to slide 4 of our presentation, which highlights our financial results for the second quarter of 2019. Second quarter adjusted earnings per share increased 11% over the prior year driven by our two services segments, Advisory Services and Global Workplace Solutions, which together logged 12% fee revenue growth and 18% adjusted EBITDA growth.

Revenue growth in the quarter was broad based as every line of business within both of these segments increased over the prior year. In addition, adjusted EBITDA margins on fee revenue increased solidly in both our Advisory and Global Workplace Solutions segments expanding by 90 basis points on a combined basis.

Meanwhile, adjusted EBITDA in our Real Estate Investments segment declined, as expected, from the prior year due to the timing of development dispositions and, to a lesser extent, the cost associated with starting up Hana, our flexible space offering. Gains from our development business can vary due to the timing of a project disposition. And last year, we [ph] harvested (00:03:28) gains from several significant projects during the second quarter.

Now, for an update on our business fundamentals, I will turn the call over to Bob.

Robert E. Sulentic

President, Chief Executive Officer & Director, CBRE Group, Inc.

Thank you, Brad, and good morning, everyone. As Brad just noted, we reported another quarter of strong growth for CBRE with double-digit revenue increases in our leasing, occupier outsourcing, and U.S. capital markets businesses. In addition, the impact of our reorganization, which we announced last year, is driving margin improvement in our Advisory Services and outsourcing businesses. Cost efficiency was one of the key objectives of this change. The continued strength in our leasing business is notable as lease revenue growth has averaged 20% over the past five quarters.

While we have benefited from a healthy leasing market, our strong performance also reflects our increasingly differentiated capabilities. This is demonstrated by our success in winning new account-based business because of our ability to integrate advisory and transaction solutions in a single offering, and to execute at a high level across markets.

During the quarter, U.S. account-based leasing revenue increased 31% from the prior year. Large and sophisticated occupiers are asking CBRE for consultation and workplace design, deep expertise in industry sectors, and a full suite of digital capabilities, and they want us to bring it all together with the top brokerage talent in the market. No firm in our industry is able to match the scale and capabilities of CBRE's leasing business. As a

result, when CBRE competes for new account-based leasing mandates, more often than not, we win that business.

Now, I'd like to welcome Leah Stearns to her first earnings call as our Chief Financial Officer. We are extremely excited about the deep financial and operational background she brings to CBRE. Leah has already had a positive impact, and we know she will be a valued contributor to our senior leadership team.

Leah C. Stearns

Chief Financial Officer, CBRE Group, Inc.

Thank you, Bob. I'm thrilled to join the team at CBRE at such an exciting time in commercial real estate. I can say with confidence that I'm joining a company with incredible momentum, and our competitive and financial position appear to be stronger than ever. The evidence of this is clear. Over the last five years, CBRE has generated 13% annualized growth in adjusted EBITDA, 18% annualized growth in adjusted EPS, and about 70% total shareholder return.

This has all been achieved while simultaneously diversifying the business and strengthening the balance sheet. These financial results have been supported by favorable secular trends, which we believe provide a solid foundation to the earnings our business generates. It's important to recognize that these catalysts show no signs of fatigue. The owners and occupiers of commercial real estate continue to become larger, and they're increasingly sophisticated and they want to work with large sophisticated service providers.

Within our sector, CBRE has a powerful competitive position to address this customer demand, and I think that's underappreciated. Our global scale, the breadth of our services we can offer, and our ability to invest in digital capabilities are allowing us to pull away from the competition. And it's showing up in our financial performance.

Further, real estate continues to show signs of strength. Institutional capital allocations to real estate continue to rise. Simultaneously, debt costs are declining while underwriting standards, loan-to-value ratios, and cap rates all remain largely stable. We see few signs of overbuilding as supply growth is meeting strong occupier demand.

Bottom line, given our resilient and diversified business mix and strong balance sheet, CBRE is operating from a position of strength. As a result, we see tremendous opportunities ahead of us and will remain opportunistic as we deploy capital into our business to maximize total shareholder return in the future. And with that, let's discuss our financial performance during the second quarter.

Turning to slide 5. Our Advisory Services segment generated 15% growth in adjusted EBITDA, which was driven by an 11% increase in fee revenue and a 60 basis point improvement in adjusted EBITDA margin over the prior year period. Margins in the quarter benefited from both business mix and solid cost discipline, as operating expenses rose just 2% on an adjusted basis.

As Bob noted, leasing within our Advisory business was once again particularly strong, increasing 19%. This was paced by the Americas, which generated 70% of our advisory fee revenue and grew 26%.

During the quarter, coworking companies comprised about 3% of our Americas advisory leasing revenue across all property types, contributing approximately 1 percentage point to growth. Outside the Americas, advisory leasing was less robust, declining by 1% in U.S. dollars but increasing 5% in local currency.

Our combined capital markets business comprising property sales and commercial mortgage origination grew by 5% in Q2, up from a slight decline in Q1. Americas property sales increased 8%, reflecting market share gains

and an increase in commercial real estate transaction volumes, as investors returned to the market after a tumultuous end to 2018.

Outside the Americas, property sales declined by 8% or 3% in local currency. The decline was primarily due to our residential business in APAC, where fundamentals remain weak. Excluding residential, commercial property sales revenue outside the Americas actually increased by 8% in local currency against a backdrop of generally soft sales volumes.

Global commercial mortgage origination revenue grew 16% over the prior year and continues to support growth in our loan servicing portfolio. Debt markets globally remain very liquid, with credit available from a variety of sources, including banks, life insurance companies, debt funds, CMBS, and both Fannie and Freddie Mac.

Turning next to our Global Workplace Solutions segment on slide 6. Momentum for our outsourcing offering remains strong and results for the quarter were supported by several large new client engagements. In fact, in April, we onboarded 100 million square feet of facilities for several clients in a single day, our largest go-live day in history.

During the quarter, fee revenue increased 14%, despite a 5 percentage point headwind from FX. Adjusted EBITDA increased by over 30%. And our GWS adjusted EBITDA margin expanded by 180 basis points.

Driving the strong performance in GWS was our Americas team, which generates approximately 70% of the segment's adjusted EBITDA and had an outstanding quarter with nearly 24% fee revenue and nearly 48% adjusted EBITDA growth. We expect that demand in GWS will likely be more balanced across our global footprint in the second half of 2019.

Within GWS, we are further penetrating key sectors like life sciences and retail, the latter of which is being aided by the FacilitySource capabilities we acquired last year. We are seeing particular success with clients that utilize multiple GWS services. In fact, multiservice clients have represented an increasing percentage of our pipeline for six consecutive quarters.

In Canada, for example, we just won a long-term contract to manage all of the facilities and real estate related projects for the province of British Columbia, a portfolio spanning 17 million square feet. Along with Ontario, this is the second Canadian province in our portfolio. We were able to unseat a long-term incumbent service provider and prevail over a field of competitors due to our strong track record in Ontario and the strength of our digital technology tool, a key part of the client-pursuit win with our digital platform, and our ability to substantially overhaul and upgrade the province's existing facility's technology to drive operating cost savings, improved reporting, and enhanced business performance for our clients.

Our margin growth in the quarter was supported by a handful of discrete items such as a decrease in health insurance reserve, which contributed approximately 100 basis points to GWS's margin expansion; as well as our efforts to manage operating costs, leverage our scale, and increase our selectivity in client pursuit. The GWS business has strong momentum and a record pursuit pipeline, which gives us confidence that double-digit fee revenue growth will continue.

Turning to our Real Estate Investments segment on slide 7, this segment's business fundamentals remain solid including progress with our initial investments in Hana, our flexible space offering; and our in-process development portfolio, which reached a new record level during the quarter. During the quarter, the Real Estate

Investments segment saw a \$39 million decline in adjusted EBITDA, which was mostly attributable to our development business.

We had anticipated this decline given the very strong comparable period and our expectation that the timing of development gains this year will be heavily weighted into the first and fourth quarters. This quarter-to-quarter variability in our development business largely goes away when assessing the business over a longer period of time. For example, over the last five years, our development business generated nearly \$600 million of adjusted EBITDA while requiring very little capital commitment from CBRE.

Based on the quality of our development pipeline and our Trammell Crow Company franchise, we expect even stronger financial performance over the next five years assuming market conditions remain supportive and no economic downturn occurs. During the quarter, investment Management performance improved from the prior year with adjusted EBITDA up \$4 million or 32% in local currency. This growth is supported by the increase in our assets under management, which are up \$5 billion versus the prior year to nearly \$107 billion.

Finally, the launch of Hana, our flexible space solutions business, incurred modest costs which were consistent with our expectations. We continue to be pleased with the market response to Hana as our landlord clients are keenly interested in flexible space opportunities amid rising demands from occupiers. Further, we are excited about the upcoming opening of our first Hana location, a 67,000-square-foot, first-class space at PwC Tower in Dallas.

Turning to slide 8, simply put, CBRE is in a solid financial position. Our balance sheet is strong with net leverage of about 28 turns of adjusted EBITDA at the end of Q2. CBRE remains poised to allocate capital opportunistically with an intense focus on maximizing total shareholder return. Taking into account our planned acquisitions, we expect that we can invest about \$1 billion for the remainder of the year while maintaining net debt at around 1 times trailing adjusted EBITDA.

In light of our performance in the first half and the trajectory of our business, we are raising our adjusted earnings per share guidance for the full year to a range of \$3.70 to \$3.80 per share. The \$3.75 midpoint reflects a \$0.15 increase from our initial outlook provided in March and a 14% gain over 2018 adjusted earnings per share. If achieved, this would be our 10th consecutive year of double-digit adjusted earnings growth.

I'd like to note that we do expect adjusted EPS to be more heavily weighted to the fourth quarter than in 2018 due to the expected timing of development dispositions. Specifically, we expect third quarter adjusted EBITDA in our Real Estate Investments segment to approximate the level attained in the second quarter of this year.

And with that, I will now turn the call over to Bob for his closing remarks.

Robert E. Sulentic

President, Chief Executive Officer & Director, CBRE Group, Inc.

Thanks, Leah. As you can see from our revised earnings outlook, we are in a strong strategic position with excellent momentum in our business, particularly in the Americas, where we generate the majority of our revenue and earnings. As important, CBRE is well positioned, thanks to our ongoing investments in people, integrated solutions and technology and a recent reorganization, to drive both great client outcomes and continued strong growth.

Before we conclude, I want to briefly touch on our plans to acquire Telford Homes, which we announced early last month. If approved by Telford shareholders and government regulators, the Telford transaction will enable us to

strategically expand our Trammell Crow Company development business internationally and into a market which is in the early stages of a secular shift toward institutionally-owned urban rental housing. Telford shareholders will vote on our buyout offer on August 6.

With that, operator, we'll open the lines for questions.

QUESTION AND ANSWER SECTION

Operator: At this time, we'll be conducting a question-and-answer session. [Operator Instructions] Our first question is from Anthony Paolone, JPMorgan. Please proceed with your question.

Anthony Paolone
Analyst, JPMorgan Securities LLC

Q

Good morning. My first question is on leasing and the strength there despite a tough comp in 2Q 2018. Can you talk a little bit more about what's happening there particularly and how much of this you think is really market share gains versus the market itself?

Robert E. Sulentic
President, Chief Executive Officer & Director, CBRE Group, Inc.

A

Tony, it's both. The market was strong particularly here in the Americas and I think we performed quite well. What's going on with our business is we've built the capability to serve our clients really well when they need account-based services with lots of advisory capability connected across markets, both here in the U.S. and around the world. We saw 33% growth in our account-based leasing revenues, very reflective of the machine we've built to serve those clients. And, yes, we did benefit from a healthy market circumstance.

Anthony Paolone
Analyst, JPMorgan Securities LLC

Q

Okay. And so, do you think that this high level of growth will be present in the second half of the year because the comps remain pretty high?

Robert E. Sulentic
President, Chief Executive Officer & Director, CBRE Group, Inc.

A

Yeah. Well, we've had five straight quarters of 20% leasing growth so the comps were high this quarter. You already alluded to that at the start of your question. Look, I don't think anybody could expect that kind of continued growth indefinitely, but we just raised our guidance. We think we're going to have a very good second half. And as the prominent users of space in the marketplace continue to buy on an increasingly account-based approach, we think we're going to perform really well into that model.

And by the way, we think we're going to perform particularly well when we couple that with our other occupier services in our GWS business – project management, facilities management. All of that is working really well together.

Anthony Paolone
Analyst, JPMorgan Securities LLC

Q

Okay. Thanks for that. And then second item on capital markets, it seems like there are some mixed signals between some of the data and performance there. Can you talk a little bit more about just what's happening on the ground as it relates to investment sales activity and also just mortgage side in light of lower interest rates?

Leah C. Stearns

Chief Financial Officer, CBRE Group, Inc.

A

Sure, Anthony. It's Leah. I'll talk to the capital markets piece first. I guess what we saw happen in the second quarter is that we really believe now it's clear that the decline in the first quarter was a reflection of investors taking a bit of a step back to assess the market in light of the volatility that they saw in Q4 of 2018.

At this point, we think that, given the level of activity in the Americas was strong in Q2, that supports our view that the fundamentals around commercial real estate services remain solidly intact. And so that includes capital allocations to real estate and how they continue to rise; debt costs are declining, to your point; and we're also seeing discipline throughout the industry. That includes the underwriting process as well as valuation.

So all in all, we think these fundamentals are very supportive of the attractiveness of real estate, particularly on a relative basis to other asset classes. And so from our perspective, we feel pretty good about where we came out in the second quarter from a capital markets perspective in the Americas.

And I think it's actually interesting to note, given the fact that we did see that contraction in Q1, our Advisory segment during that quarter still increased by over 20%. So it just shows the diversification that we've built into our business, and particularly our Advisory segment.

Anthony Paolone

Analyst, JPMorgan Securities LLC

Q

Got it. And then, last question, if we just think about combined principal business, EBITDA for this year, for the full year versus 2018, any guideposts on that, given updated guidance and potential acquisitions and so forth?

Leah C. Stearns

Chief Financial Officer, CBRE Group, Inc.

A

I'd really just say, in terms of the Real Estate Investments segment, we're expecting the seasonality to be quite different from 2018. But all in all, given the fact that we're not updating outlook at a detailed level, we do believe we're tracking ahead of guidance. But we do expect that seasonality to be in the first and fourth quarter in 2019 compared to what we saw in 2018, which was the second and third quarter strength.

Anthony Paolone

Analyst, JPMorgan Securities LLC

Q

Okay. Thank you.

Leah C. Stearns

Chief Financial Officer, CBRE Group, Inc.

A

Yeah.

Operator: Our next question is from Jason Green, Evercore ISI. Please proceed with your question.

Jason Green

Analyst, Evercore ISI

Q

Just a question on the strength of leasing. Is the leasing, specifically in the U.S., being dominated by any specific industries? Or is it widespread growth across all industries?

Leah C. Stearns

Chief Financial Officer, CBRE Group, Inc.

A

We are seeing that widespread across most industries. I mean we did see some benefits from recruiting. We saw some M&A. But overall, we did have a really strong diverse set of demand coming to the leasing [ph] set.
(00:23:25)

Jason Green

Analyst, Evercore ISI

Q

Okay. And then maybe on the Telford acquisition, just as you guys think about acquisitions generally, should we expect more of a focus on growing the business outside of the United States? Or was this just the right opportunity to grow the portfolio in an area that you saw?

Robert E. Sulentic

President, Chief Executive Officer & Director, CBRE Group, Inc.

A

We're not biased U.S. versus Europe versus Asia in where we put our dollars. We have a very clear view as to what we want to do when we do acquire – or what we want to get done when we acquire companies. We want to buy businesses that add to our capabilities to deliver outcomes for clients. We're not about bulking up.

So if you look last year, for instance, at that FacilitySource acquisition, which we think was one of the really good ones we've done, it gave us capability to serve distributed outsourcing clients in retail, branch banks, et cetera.

Telford gave us the ability to do something to leverage our Trammell Crow brand beyond the United States. But in an arena, where we think there's going to be real secular growth, something different, something better than we've done before.

Another thing we're looking for when we do acquisitions is businesses that we think when we bring them onto our platform, we can do more with them than they were able to do themselves. And we can do more with them than our competitors can do if they were to buy them. That's what allows us to pay for acquisitions. That's what allows them to be accretive. So that's our model, and it's not geographically biased.

Jason Green

Analyst, Evercore ISI

Q

Got it. And then last one for me, you mentioned the percentage of clients utilizing multiple GWS services have increased. What is that percentage today? And where do you think ultimately that could be?

Leah C. Stearns

Chief Financial Officer, CBRE Group, Inc.

A

So we're seeing the pipeline certainly increase. We've seen six consecutive quarters of our pipeline attributable to clients who are looking for what we call 3x, all three lines of business or full service. And so today, we're actually at nearly 30% of our current client base using that level.

Jason Green

Analyst, Evercore ISI

Q

And long term, kind of where you guys think that level could be?

Leah C. Stearns

Chief Financial Officer, CBRE Group, Inc.

A

Certainly, we're seeing a pickup in demand as indicated from the six consecutive quarters of increase through our pipeline. I think it just goes to show that there is a opportunity for us to expand client services within GWS, not just from a service line but also geographically.

And so when we take on a new client through our pursuits, sometimes it starts out on a regional basis. And we're able to grow that organically as we provide services both across their real estate footprint, both from geographic perspective as well as the service line.

Jason Green

Analyst, Evercore ISI

Q

Got it. Thanks very much.

Operator: Our next question is from Josh Lamers, William Blair. Please proceed with your question.

Josh Lamers

Analyst, William Blair & Co. LLC

Q

Great. Thanks and good morning. Just want to follow up actually with one of Anthony's question. Does the Fed's announcement yesterday in your opinion create somewhat of a tailwind for the capital markets business or does this end up causing a bit more of a pause and some uncertainty going forward? Thanks.

Leah C. Stearns

Chief Financial Officer, CBRE Group, Inc.

A

So I think just going back to my comments around the fundamentals in commercial real estate, I mean we see those as really what's driving the opportunities within our capital markets business. And so, I would point more to just overall enthusiasm and the relative value opportunity for real estate as it presents itself today for investors as opposed to more of the macro trends that you're alluding to.

Josh Lamers

Analyst, William Blair & Co. LLC

Q

Got it. Okay. And then, it's been brought up a number of times, but could you touch on the advisory personnel initiative that was started a few years ago, just wondering essentially how many are in that role now globally today and if you could expand a bit more on how much of an effect that's having on you guys winning these larger national contracts?

Robert E. Sulentic

President, Chief Executive Officer & Director, CBRE Group, Inc.

A

Josh, I want to ask for clarity. Are you talking about broker recruiting or are you talking about the professionals we have that provide advisory capability to support our transactional capability?

Josh Lamers

Analyst, William Blair & Co. LLC

Yes. Yes, the latter, the advisory personnel.

Q

Robert E. Sulentic

President, Chief Executive Officer & Director, CBRE Group, Inc.

The latter. We have over 1,000 – yes, we have invested heavily in that capability, not just in terms of added advisory capability but in terms of technology digital capability to support. And we have over 1,000 people today around the world as part of what we call our advisory and transaction services team supporting occupiers that are advisory-oriented as opposed to transaction-oriented. And, of course, we put them on teams with transaction professionals. And our transaction – base of great transaction professionals just continue to grow through that recruiting effort. That's the other side of the equation.

A

Josh Lamers

Analyst, William Blair & Co. LLC

Great. And then I guess last one for me, just given the recent election in the UK, curious to get your outlook for expected activity in the UK and whether it's sort of a downturn has already phased through and now there's a bit more certainty, or whether this gives reason for another pause in activity in the UK in the upcoming quarters. Thanks.

Q

Robert E. Sulentic

President, Chief Executive Officer & Director, CBRE Group, Inc.

Well, we've kind of given up on trying to prognosticate what Brexit means. It's just been a seesaw ride for three years. But what I will tell you was, in the second quarter, both our leasing and our capital markets business grew in the UK. It's a big important business for us, but yet it's less than 10% of our company.

A

And one thing that I think we all need to keep in mind is that London is going to be, no matter what happens, one of the most important property markets in the world on an enduring basis. There's just no doubt about that. And so we expect to see some choppiness. We expect to see companies stay on the sideline both in leasing and capital markets a bit until it all sorts out. But we don't think it's going to have a big impact on our company's overall performance. And we are going to continue to have a prominent and very capable offering there, and we think that's a good thing.

Josh Lamers

Analyst, William Blair & Co. LLC

Great.

Q

Operator: Our next question is from Jason Weaver, Compass Point. Please proceed with your question.

Jason Weaver

Analyst, Compass Point Research & Trading LLC

Hey, good morning and thank you. Just another follow-up on Anthony's question on capital markets. Can you comment on the pace of Americas property sales transactions within the quarter, whether that was sort of the level or more back loaded?

Q

Leah C. Stearns

Chief Financial Officer, CBRE Group, Inc.

A

It certainly was up. And in terms of the pace, it was back-end loaded.

Jason Weaver

Analyst, Compass Point Research & Trading LLC

Q

Okay. Thank you. And then can you give us some more clarity into the GWS wins you've seen either year-to-date or within the last 12 months, what the service revenue mix looks like, whether that's facilities management or project development services driven?

Leah C. Stearns

Chief Financial Officer, CBRE Group, Inc.

A

Sure. And maybe just to touch on GWS for a second. I mean I think we see broad-based strength in that business, not just from the service lines but also given that we're providing that service across broad geographies. And so, as a result, I think while FM is our largest part of that business, transactions were up significantly year-over-year. And so that's a great opportunity for us to show that we're leveraging the strength between GWS and our transactions team.

But maybe just to give you a little bit more color on GWS, we're seeing an expansion not just geographies and lines of business, but as I mentioned earlier, there's a clear expansion of our customer relationships. And now we have about half of our growth coming from those existing clients and that is allowing us to expand obviously the services that we provide. And that is supported by increasing strong NPS scores around customer satisfaction.

And I think it also goes to show that we have capabilities that are differentiated and that we are investing in technology that brings unparalleled service to our customers. And that includes FacilitySource and it also includes capabilities like our Data Center Solutions business. So I think those set us apart from the competition. It's resulting in the record client pursuit pipeline that I talked to you before, as well as that six consecutive quarters of increased multiple service contract as a percent of the pursuit pipeline.

So, all in all, we're really pleased with how GWS performed for the quarter, and it's allowing us to become more selective in our pursuits. We're aligning our interests with our clients, and that's allowing us to develop deeper capabilities. And I think long term, that's going to lead to stronger profitability of that segment and really unmatched outcomes that we're providing to our clients that they cannot find elsewhere.

Jason Weaver

Analyst, Compass Point Research & Trading LLC

Q

Okay. And just finally, I think you touched on it in your prepared remarks, but can you give us some kind of idea into what your forward visibility is on the pipeline for future development disposition?

Leah C. Stearns

Chief Financial Officer, CBRE Group, Inc.

A

I'm sorry. Can you repeat that question?

Jason Weaver

Analyst, Compass Point Research & Trading LLC

Q

I'm just looking for some sort of commentary on what your visibility is for the future dispositions of development services activity?

Leah C. Stearns

Chief Financial Officer, CBRE Group, Inc.

A

Oh, sure. In terms of – and you're talking about 2019, in particular?

Jason Weaver

Analyst, Compass Point Research & Trading LLC

Q

Yeah, yeah.

Leah C. Stearns

Chief Financial Officer, CBRE Group, Inc.

A

Okay. Yeah. No. I think like that component of our business, we do expect to be fourth quarter weighted. And given the strength last year, that will certainly be an easier comp than the third quarter.

Jason Weaver

Analyst, Compass Point Research & Trading LLC

Q

Okay. Thank you very much.

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

Jade Rahmani

Analyst, Keefe, Bruyette & Woods, Inc.

Q

Thanks very much. In terms of the capital available for investment through the rest of the year, how would you look at prioritizing that?

Leah C. Stearns

Chief Financial Officer, CBRE Group, Inc.

A

Yeah. And so in terms of the capital we have available, we do believe that we have a very strong pipeline in terms of opportunities. Certainly, we look at M&A and then we consider our share repurchase program. We'll be disciplined in our approach to both of those. And we've bought back about \$45 million of shares this year. And we clearly have some large M&A on our plate to absorb in the second half.

But I think it was just important to demonstrate the scale of the capacity that we have and the strength of our balance sheet to be able to be opportunistic to the extent that we find unique opportunities in the market again, both from an M&A as well as a share repurchase perspective.

Jade Rahmani

Analyst, Keefe, Bruyette & Woods, Inc.

Q

Turning to market share, do you have an estimate of CBRE's current market share in each of capital markets and leasing? And how that compared with the year ago?

Robert E. Sulentic

President, Chief Executive Officer & Director, CBRE Group, Inc.

A

We think our market share went up in both. It's very hard to get good numbers as you know, Jade. There's just not good third-party numbers around the world for the business we're in for either capital markets or for leasing, especially for leasing.

But we believe, based on our own research and we have very extensive research, and based on RCA data that's available, that we took significant market share around the world in capital markets. And we think we took market share around the world in leasing. There's less data available. But it's very, very hard to get good third-party data on what that market share is.

Jade Rahmani

Analyst, Keefe, Bruyette & Woods, Inc.

Q

In terms of the capital markets outlook, could you talk to – maybe give some metrics around the health of the environment? In the past, you've commented on number of bidders, for example, timelines for deals to close, and the potential bid-ask gap that's been commented in the market.

Leah C. Stearns

Chief Financial Officer, CBRE Group, Inc.

A

So I would just say in terms of the capital markets environment in the Americas in particular, we did see velocity increase, so the pace of transactions pick up.

I don't have specifics to the statistics that you're pointing to from prior quarters. But all in all, we think that we're seeing strong dynamics and trends around investors' appetite within the capital markets business. And we did see the average marketing time fall in the second quarter, so that goes to my velocity comment that it's picking up.

Jade Rahmani

Analyst, Keefe, Bruyette & Woods, Inc.

Q

And on the leasing front, can you comment on what percentage of leasing growth was driven by the tech sector and perhaps also new construction deliveries? I think 2019 is anticipated to be a peak in terms of new office completions.

Robert E. Sulentic

President, Chief Executive Officer & Director, CBRE Group, Inc.

A

Yeah, for the last few years, the tech sector has contributed about 20% of our leasing. In the second quarter this year, it was up from that. It was a little over 30%. And it goes to a point we talked about earlier that tech companies, these big tech companies, are buying leasing services on an account basis. They're more inclined that way than the traditional big leasing companies.

But we also think the second quarter was a bit anomalous. We don't have any reason to believe that over an extended period of time that things are going to shift meaningfully away from where we've been historically or be like the second quarter was. Tech was particularly strong though in the second quarter.

Jade Rahmani

Analyst, Keefe, Bruyette & Woods, Inc.

Q

And so that 30% this quarter versus historically 20%, I would suggest about 50% of the growth was from tech?

Robert E. Sulentic

President, Chief Executive Officer & Director, CBRE Group, Inc.

A

I don't know that 50% of the growth was from tech. Those statistics don't play out exactly the way you think they should in terms of growth.

Jade Rahmani

Analyst, Keefe, Bruyette & Woods, Inc.

Q

Okay. In terms of the restructuring and its impact on margins, can you comment on what you think the main drivers of that improved efficiency are?

Leah C. Stearns

Chief Financial Officer, CBRE Group, Inc.

A

Sure. I think that one of the key components of the reorg was to remove as much redundancy as possible throughout the management layers of the organization. And so we're seeing that happen. And it's playing out in terms of supporting that stronger operating leverage for the business.

In addition, we have put leadership roles in place, like our COO, who are clearly focused and directly focused on cost reductions and making sure that our business is very focused on transparency and accountability across the organization. And so we believe that those specific steps that were carried out through the reorg are having direct impacts on our margins today, will continue.

Jade Rahmani

Analyst, Keefe, Bruyette & Woods, Inc.

Q

Thank you very much.

Operator: As a reminder, we are now conducting a question-answer session. [Operator Instructions] Our next question is from Mitch Germain, JMP Securities. Please proceed with your question.

Mitchell Germain

Analyst, JMP Securities LLC

Q

Thanks. Telford, is this a model that you think can be replicated outside of the UK?

Robert E. Sulentic

President, Chief Executive Officer & Director, CBRE Group, Inc.

A

Mitch, when you say replicated, in other words, can we buy businesses like this outside of the UK?

Mitchell Germain

Analyst, JMP Securities LLC

Q

Can you take the Telford business and expand it across other countries and regions?

Robert E. Sulentic

President, Chief Executive Officer & Director, CBRE Group, Inc.

A

Well, we'll have to see when we bring that business on board and integrate it. But we believe that business model plays very well to trends across Europe in terms of the movement toward institutionally-owned, multitenant housing professionally managed where the continent and the UK are behind the U.S. in that regard. So it may be

an opportunity, but our – again, we got to wait and get this thing done. And our focus is getting through next week when the shareholders vote and we get approval from regulatory authorities.

Mitchell Germain

Analyst, JMP Securities LLC

Q

Great. And then maybe circling back to FacilitySource, obviously a deal that closed last year. Maybe based on what your underwriting was in terms of how it was going to integrate, and I know that you're making a pretty big capital investment, how's the performance been there versus what your expectations were?

Leah C. Stearns

Chief Financial Officer, CBRE Group, Inc.

A

Yeah. We're seeing really nice performance coming out of that business. It's tracking in line with our underwriting and we think we're seeing really strong momentum. I spoke about that in my prepared remarks, particularly around the retail segment. So our clients are excited about the expanded capability and we believe it's helping us win new business. It's helping us provide additional services to our customers and I think that certainly goes to those key trends that I reiterated around GWS.

Mitchell Germain

Analyst, JMP Securities LLC

Q

Great. Last one for me, are there any specific – I guess back in March when you laid out guidance, you provided some specific assumptions and clearly you're tracking ahead, but maybe just provide some perspective, what specifically has changed versus kind of what your original assumptions were?

Leah C. Stearns

Chief Financial Officer, CBRE Group, Inc.

A

Sure. I think that's just an indication or an acknowledgement of the strength we've seen in the business in the first half of the year. We're not updating outlook to the level that we provided in March, but the key drivers of our confidence behind the \$0.15 increase are really the fact that our segments are tracking ahead of our expectations, and that we're seeing really strong margin growth in Advisory and GWS. So, given the fact that, from an Advisory perspective, we're seeing leasing continue to be the standout, we continue to expect to see strengths across our segment line.

Mitchell Germain

Analyst, JMP Securities LLC

Q

Thank you.

Operator: We have reached the end of the question-and-answer session. And I will now turn the call back over to Bob Sulentic for closing remarks.

Robert E. Sulentic

President, Chief Executive Officer & Director, CBRE Group, Inc.

Well, thanks, everyone, for being with us and we look forward to talking 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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