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CBG - Q1 2015 CBRE Group Inc Earnings Call

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OVERVIEW:

Co. reported 1Q15 revenue growth of 10%. Expects 2015 adjusted EPS to be \$1.90-1.95.



CORPORATE PARTICIPANTS

Steve Iaco *CBRE Group, Inc. - Senior Managing Director, IR and Corporate Communications*

Bob Sulentic *CBRE Group, Inc. - President & CEO*

Jim Groch *CBRE Group, Inc. - CFO & Global Director of Corporate Development*

Gil Borok *CBRE Group, Inc. - Deputy CFO & CAO*

CONFERENCE CALL PARTICIPANTS

Anthony Paolone *JPMorgan - Analyst*

Brad Burke *Goldman Sachs - Analyst*

Brandon Dobell *William Blair & Company - Analyst*

David Ridley-Lane *BofA Merrill Lynch - Analyst*

PRESENTATION

Operator

Greetings, and welcome to CBRE Group's first quarter 2015 earnings call. At this time, all participants are in a listen-only mode. A question-and-answer will follow the formal presentation.

(Operator Instructions)

As a reminder, this conference is being recorded. It's now my pleasure to introduce your host, Steve Iaco, Investor Relations for CBRE. Thank you, sir. You may begin.

Steve Iaco - *CBRE Group, Inc. - Senior Managing Director, IR and Corporate Communications*

Thank you, and welcome to CBRE's first quarter 2015 earnings conference call. Earlier today, we issued a press release announcing our financial results for the first quarter of 2015. This release is available on the homepage of our website, www.cbre.com.

This conference call is being webcast and is available on the Investor Relations section of our website. Also available there is a presentation slide deck, which you can use to follow along with our prepared remarks. An audio archive of the webcast will be posted to the website later today, and a transcript of our call will be posted tomorrow.

Please turn to the slide labeled forward-looking statements. This presentation contains statements that are forward-looking within the meaning of the Private Securities Litigation Reform Act of 1995. These include statements regarding CBRE's future growth momentum, operations, financial performance, business outlook, our adjusted earnings per share expectations, our normalized tax rate expectations, expectations regarding our currency hedging and government-sponsored enterprise lending activities, and our ability to close and integrate the Global Workplace Solutions acquisition, including the timing of that closing.

These statements should be considered to be estimates only, and actual results may ultimately differ from these estimates. Except to the extent required by securities laws, we undertake no obligation to update or publicly revise any of the forward-looking statements you may hear today. For a full discussion of the risks and other factors that may impact any forward-looking statements, please refer to our first-quarter earnings report filed on Form 8-K, and our most recent Annual Report on Form 10-K. These reports are filed with the SEC and are available at www.sec.gov.



During the course of this presentation, we may make certain statements that refer to non-GAAP financial measures as defined by SEC regulations. Where required by these regulations, we have provided reconciliations of these measures to what we believe are the most comparable GAAP measures. These reconciliations can be found within the Appendix of this presentation or in our earnings release.

Please turn to page 3. Participating on our call today are Bob Sulentic, our President and Chief Executive Officer; Jim Groch, our Chief Financial Officer and Global Director of Corporate Development; and Gil Borok, our Deputy Chief Financial Officer and Chief Accounting Officer. During our remarks, all references to percentage increase or decrease in revenue are in local currency, except for consolidated results or where otherwise noted. Now please turn to slide 4, as I turn the call over to Bob.

Bob Sulentic - *CBRE Group, Inc. - President & CEO*

Thank you, Steve. Good morning, everyone. The opening months of 2015 have been an exciting time for CBRE on a number of fronts. As you saw in our press release, the strong momentum in our business continued in the first quarter, with double-digit growth on the top and bottom lines. The strong increase in adjusted earnings per share is especially notable during a quarter when analysts are expecting average earnings for S&P companies to be down over last year. In these results, we are seeing the impact of our strategy to drive growth by enhancing our service offering for clients, strengthening the platform that enables our professionals to deliver market-leading solutions, augmenting our talent pool through strategic recruiting and targeted M&A, and continuing our focus on balance sheet strength, which supports investments in our people and platform while providing financial flexibility.

Strong broker recruiting has continued into the first quarter of 2015, as talented professionals recognize the many advantages CBRE affords them, both in meeting the full spectrum of client needs and in building their careers. The first quarter performance of the leasing and sales businesses, particularly in the Americas, reflects our recruiting success over the past two years, and continued increased production by our existing transaction professionals, as our largest business segment, the Americas, is benefiting significantly from our strategy and was a primary growth catalyst during the quarter. The region posted its third consecutive quarter of at least 20% revenue growth, along with strong, normalized EBITDA growth and healthy margin expansion.

Asia-Pacific also performed well, with double-digit revenue growth, before the effects of currency translation. Growth slowed in Europe, Middle East and Africa, and turned negative in US dollar terms, as we faced a challenging comparison against last year's robust first quarter. We have completed two in-fill acquisitions this year that bolster our service offering. The first was United Commercial Realty, a highly regarded firm that serves retailers and retail property investors across the US. The second, which we closed two weeks after the end of the first quarter, was Environmental Systems, Inc., an energy management specialist that complements the array of services offered by our global corporate services business.

Finally, and very importantly, as you all are aware, we announced an agreement in late March to acquire the Global Workplace Solutions business from Johnson Controls. This is a significant strategic move for CBRE. It will vastly expand our ability to self-perform facilities management services on a worldwide basis, particularly for more technically oriented facilities, and it will deepen our relationships with some of the world's largest corporations. In the days following the news, we have had an enthusiastic reaction from the employees of both companies, from our shareholders, and most significantly, from our clients.

The regulatory approval process is underway, and we look forward to completing the transaction later this year, and welcoming John Murphy and the GWS employees from more than 50 countries from around the world. We are also excited about our strategic partnership with Johnson Controls, which will enhance our ability to bring innovation and value to our clients. Now I'll turn the call over to Jim, who will describe our first quarter performance in more detail.

Jim Groch - *CBRE Group, Inc. - CFO & Global Director of Corporate Development*

Thank you, Bob. Please turn to slide 5. As Bob indicated, CBRE is off to a strong start in 2015. Normalized EBITDA of \$247 million reflected a 24% increase in the first quarter of 2015, and a 17% margin on fee revenue, up 200 basis points from Q1 2014. Adjusted earnings per share improved 28% for the quarter. Both revenue and fee revenue rose 10%, or 15% in local currency. These results followed a strong first quarter in 2014. The

results include approximately \$13 million pre-tax, or \$0.02 after tax, of net gains from foreign currency movement, after the impact of currency hedging activities for the year.

Together, our three regional service segments, the Americas, EMEA and Asia-Pacific, achieved significant operating leverage for the quarter, even after excluding currency hedging gains. This was driven by the Americas, which benefited from strong growth across all business lines. We also saw a resurgence of origination activity, and gains from related servicing rights associated with US Government-sponsored entities, which produced EBITDA growth of slightly more than \$20 million over prior year Q1.

Normalized depreciation and amortization expense increased approximately \$8 million, driven by increased platform investments and higher mortgage servicing rights, while net interest expense decreased about \$2.5 million from Q1 2014. Our normalized tax rate was 36.5% for the quarter, higher than the 35% we expect for the full year of 2015.

Our net debt declined by \$275 million, or half a turn, to 1.2 times trailing 12-month normalized EBITDA at end of Q1 2015, as compared to Q1 2014. Reflecting our increasingly strong financial position, Moody's raise its rating on our senior secured and senior unsecured debt to investment grade in March. This followed Standard and Poor's upgrade of our corporate user rating to investment grade late last year.

Please turn to slide 6 for a review of our performance in each of our global lines of business in Q1. Our capital markets businesses were particularly strong performers. Property sales revenue increased 21%, with the US up strongly, and single-digit growth in EMEA and Asia-Pacific. Meanwhile, mortgage services recorded its best growth in three years, spurred by the jump in [GCS] activity. Leasing reported 13% revenue growth globally, the seventh consecutive quarter of double-digit increases. This growth was paced by continued strong market share gains in the US.

Global corporate services continued to grow at a double-digit clip. Excluding related transaction revenues, which are accounted for in leasing and sales, GCS achieved a 13% increase in revenue and 12% in fee revenue, with double-digit growth in all three regions. Assets services saw solid growth, with revenue up 12% and fee revenue up 8%. The global valuations business saw revenue up 20%.

Growth in the US was supported by acquisitions, which have enhanced and expanded the services we can offer clients. Global investment management revenue rose by 5%, driven by higher carried interest compared with last year's Q1. Contractual fee revenue comprised 39% of total fee revenue for Q1, while contractual fee revenue plus leasing, which is largely recurring, totaled 70%. Property sales accounted for 21% of total fee revenue.

Please turn to slide 7, where I will review Q1 results for our three regional service segments, starting with the Americas. Overall revenue for the Americas rose by 21%. This region's revenue has now grown by double digits for 10 consecutive quarters. Every major business line posted double-digit growth for the quarter.

Capital markets set a brisk pace, with property sales revenue up 32% and mortgage services up 43%. We are pleased to have again achieved the highest market share in the US investment sales, according to RCA, with a 200 basis point improvement over prior year Q1. Leasing again logged vigorous growth, with revenue up 19%, while market conditions continued to steadily improve. We are seeing tangible benefits from our broker recruiting and in-fill M&A, along with increased productivity from our existing producers. Fee revenue from global corporate services and asset services combined increased 12%.

Please turn to slide 8, regarding EMEA. EMEA revenue rose 6%. This region faced a particularly tough compare with last year's exceptionally strong Q1, when revenue increased 27%, excluding contributions from Norland. Nevertheless, we saw a growth in global corporate services and asset services. Combined fee revenue increased 9%, with double-digit growth in facilities management, reflecting the growing appetite for real estate outsourcing within the region.

Property sales revenue rose 6% on top of a 54% surge in last year's Q1. Growth was driven by Belgium, Germany, Ireland, Spain, Sweden and the United Kingdom. Property leasing revenue declined 6%. A number of smaller countries on the continent saw improved activity. This was more than offset by decreases relative to Q1 of last year in France and the United Kingdom.

Please turn to slide 9 regarding Asia-Pacific. We saw strong growth in the region, with overall revenue rising 15% for the quarter. Like EMEA, global corporate services and asset services set the pace for growth in the region. Fee revenue improved 12%, as outsourcing continues to make inroads in the region. Greater China and India showed particularly strong growth in Q1.

Leasing revenue rose solidly, increasing by 8%. Most of this growth occurring in Australia and New Zealand. Property sales rose 3%, on top of 38% growth in the prior year Q1, with significant gains in Australia. The investment climate across Asia-Pacific is mixed, amid a shortage of available product in some markets, slowing economies, and domestic capital that is increasingly migrating to the US and Europe in search of yield.

Please turn to slide 10 regarding our occupier outsourcing business, which we call global corporate services. Resulting from this global business line are reported within the three regional services segments. Global corporate services has increased revenue at a double-digit compounded annual growth rate over the last decade. Its growth is being sustained by CBRE's unique ability to deliver globally integrated solutions. Closely linking our outsourcing services with our market-leading brokerage professionals, who completed \$285 billion of sales and leasing transactions in 2014, gives us distinct advantages in creating value for our clients both locally and globally. We experienced continued strong growth in Q1 2015, signing 58 total contracts, and bringing on more new customers than in any previous quarter. International markets remained fertile ground for growth, with 19 contracts signed in Asia-Pacific and EMEA.

Earlier in the call, Bob mentioned the ESI acquisition. ESI is a leading systems integrator and provider of energy management services. It remotely monitors and analyzes energy usage in real time for more than 180 million square feet of facilities. This is a strategic addition to our global services corporate offering. Since announcing the acquisition, we have significant incremental interest from our clients regarding energy and sustainability services. We anticipate ESI will bring added value to our new clients coming over from global workplace solutions when it closes, which we expect to be later this year.

Please turn to slide 11, regarding our global investment management segment. Revenue was up 5%, and normalized EBITDA rose 16% in local currency, driven by carried interest. Local currency assets under management was unchanged compared with year-end 2014, and up more than \$5 billion from the first quarter of 2014. However, the weakening of the euro and British pound sterling caused AUM to decrease to \$87.1 billion from year-end 2014, when converted to US dollars.

Capital raising totaled \$1.3 billion for the quarter and \$8.7 billion for the trailing four quarters, with strong pipeline for the remainder of the year.

Please turn to slide 12, regarding our development services segment. You recall we completed outsized asset sales in last year's Q1. With fewer sales in this year's Q1, proforma revenue and EBITDA declined from a year ago. We expect sales activity to also be lighter in Q2 and weighted toward the back half of the year. Our pipeline stood at \$3.6 billion at the end of Q1 2015, a decrease of approximately \$400 million from year-end 2014.

Projects in process totaled \$5.5 billion, up \$100 million from year-end 2014. As of Q1 2015, our equity co-investments in the development business totaled \$121.5 million, and our guarantees on outstanding debt balances stood at just \$11.9 million. Please turn to page 13, as I turn the call back over to Bob for closing remarks.

Bob Sulentic - CBRE Group, Inc. - President & CEO

Thanks, Jim. CBRE accomplished a great deal in the first few months of 2015. First, we announced our largest acquisition in eight years, which when completed will materially advance our strategy for serving occupiers. Second, we continue to make investments in our people and platform to enhance our competitive position. And third, we again generated outstanding financial results for our shareholders.

Our 52,000 professionals are extremely hard-working and intensely focused on harnessing the full breadth of CBRE's resources and expertise to create great outcomes for our clients. We thank you them for their contributions to our success. Needless to say, we're pleased with our start to 2015. However, it's important to bear in mind that the first quarter comprises a relatively small portion of our annual revenue and earnings, and as we have often said, it may not be an effective barometer of full year performance.

What's more, our currency hedges are marked-to-market each quarter, and at current rates the hedging gains we realized in the first quarter will be offset by currency translation losses in future quarters. Similarly, we can expect GSE lending activity, which moved robustly in the quarter, to taper off later this year as regulatory caps come into play, and other lenders step up their activity. In light of this, we are maintaining our expectations for adjusted earnings per share of \$1.90 to \$1.95 for 2015, an increase of 15% over 2014, at the midpoint of our estimate.

There is good underlying momentum in our business, and the advantages we enjoy as the global market leader are becoming more pronounced as we continue to invest in our people, our platform and our service offering. Increasingly, investors and occupiers are gravitating to CBRE, due to our ability to deliver high-quality, globally integrated solutions that leverage the industry's top talent to create real competitive advantages for our clients around the world. Operator, we'll now open the lines for questions.

QUESTIONS AND ANSWERS

Operator

Thank you.

(Operator Instructions)

Our first question today is coming from Anthony Paolone from JPMorgan. Please proceed.

Anthony Paolone - JPMorgan - Analyst

Thank you. Good morning. My first question is on your OpEx, if I look at that as a percentage of revenue, it was 25.9%, and last year in the first quarter it was about 28.4%, so down about 250 bps year-over-year, and I was wondering if you could comment if there was anything in there taking that down, or if that's kind of the magnitude of where it should run over the balance of the year?

Gil Borok - CBRE Group, Inc. - Deputy CFO & CAO

Hi. It's Gil. Good morning. If you recall, with the acquisition of Norland we had a shift of part of those services to OpEx, and that's part of the reason why we're running at a 25% [revenue], and -- what used to be closer to 30%. And we also had the foreign currency gains that showed up in OpEx, so that's where it shows up in our P&L, and that helped reduce it as a percentage of revenue. So it's not a run rate, but we'll run lower than we have historically.

Anthony Paolone - JPMorgan - Analyst

But Norland closed late in 2013, I thought, so would that have not fully been in the first quarter of 2014 numbers, or how does that work?

Gil Borok - CBRE Group, Inc. - Deputy CFO & CAO

You are correct. I was just giving you a context of why we're running closer to 25% than sort of the 30% we had historically, but it was in the numbers in Q1, you're correct.

Anthony Paolone - JPMorgan - Analyst

So the currency gain to adjust for that, I guess you mentioned in the release about \$0.02, I guess, pre-tax, with \$10 million or something in that zip code?

Gil Borok - *CBRE Group, Inc. - Deputy CFO & CAO*

\$13 million, pre-tax, yes.

Anthony Paolone - *JPMorgan - Analyst*

\$13 million?

Gil Borok - *CBRE Group, Inc. - Deputy CFO & CAO*

Yes.

Anthony Paolone - *JPMorgan - Analyst*

Okay. Thanks. Then second question, on the leasing side, if you look at your Americas leasing growth, it was very strong, and same with [JLL's] yesterday. Yet the commission pot, if you will, seemed to be modestly down in terms of the marketplace. So I was just wondering, is that all share gain, and is that level of share gain sustainable, because it just seems pretty substantial?

Jim Groch - *CBRE Group, Inc. - CFO & Global Director of Corporate Development*

Hi, Anthony, this is Jim Groch. A couple of things I would say to that. One is that the -- I think the research on leasing is uneven, but I would say it's more likely that we have really seen in -- the market is up slightly versus the same quarter last year. And then I do think the share gains are sustainable, as you continue to see the industry consolidate.

Anthony Paolone - *JPMorgan - Analyst*

Okay. And then the last question on the facilities business. How does -- what part of that cost structure is naturally hedged in local currency versus perhaps being in the US? I ask because I think it's your lowest margin business, you do have a lot of it coming from outside of the US, so I'm just wondering what the real impact on margins, currency, may have on the business, or it's naturally hedged by way of where the costs emanate?

Jim Groch - *CBRE Group, Inc. - CFO & Global Director of Corporate Development*

Yes, you're correct, Anthony. The vast majority of it is naturally hedged, so you see the impact primarily on revenue. And then we hedge the majority of our anticipated EBITDA, and as a result, we don't have a lot of exposure there.

Anthony Paolone - *JPMorgan - Analyst*

Okay, that's all I got. Thank you.

Jim Groch - *CBRE Group, Inc. - CFO & Global Director of Corporate Development*

Thank you.



Operator

Our next question today is coming from Brad Burke from Goldman Sachs. Please proceed.

Brad Burke - *Goldman Sachs - Analyst*

Good morning, guys. Congratulations on the quarter. I was hoping I could get an update on how you are thinking about in-fill M&A going forward from here? I would have thought that with the GWS acquisition, that would have put you on the sidelines to some extent, but it seems like you are still being active. So I wanted to understand how you are thinking about further M&A investment, and how we ought to think about how far you are willing to push leverage in order to make those acquisitions?

Jim Groch - *CBRE Group, Inc. - CFO & Global Director of Corporate Development*

Hi, Brad. This is Jim. We'll continue to work on infill acquisitions and, as you have seen us do, you know, it may slow down slightly but that's just, if it doesn't it's just a result of activity level with, you know, the large deal that will be integrating, but we continue to pursue and execute M&A. As far as the impact on our leverage we gave guidance that we expected our leverage ratio to end the year at 1.7 or so, obviously that's an estimate, but that includes some anticipated in-fill.

Brad Burke - *Goldman Sachs - Analyst*

Okay. That's helpful. And then on EMEA, I know talked about this, but -- and I realize FX was a big driver of the decline in revenue, but presumably this was also a big impact for the fourth quarter, and you were -- would have put up pretty solid growth with fourth quarter year-over-year. So I'm trying to understand how much of the decline is attributed to more difficult comps versus Q1 2014, how much is a bigger FX headwind versus last quarter, and really trying to get at whether or not you are seeing any actual deceleration in this business, once you take into account those considerations?

Bob Sulentic - *CBRE Group, Inc. - President & CEO*

Brad, this is Bob. FX took our revenue growth down significantly in the EMEA this quarter, but we were dealing with a very, very strong compare relative to last year, so that was a big part of what you saw. The other thing to keep in mind is, the first quarter is a relatively small part of the year, so in any region, and particularly in Europe and Asia, which are smaller than the US, you can have a few things move from one quarter or the next, or be pulled into one quarter from the previous quarter, and it changes your trajectory and numbers pretty materially. So I think those are really the three things I would look at: FX, small quarter, and really very, very difficult compare from last year.

Brad Burke - *Goldman Sachs - Analyst*

Okay, that's helpful. The last one for me, a follow-up to Tony's question on margins, the improvement that you saw, particularly in the Americas, obviously a lot of that is due to mark-to-market and the hedging you highlighted. You also a big pickup in the GSE activity. If you were to normalize for FX and the GSE impact, could you give us a sense of how much of the margin improvement you saw versus Q1 last year, how much of that is to those two factors versus a sustainable run rate improvement in margins?

Jim Groch - *CBRE Group, Inc. - CFO & Global Director of Corporate Development*

We still had operating leverage, even without both -- even without the benefit of the gains from servicing and the hedging. So we gave guidance at the end of Q4 that we had picked operating leverage of about 50 basis points in our three regional businesses in 2014, and that we were anticipating continued operating leverage for the year in 2015, probably in the similar range.

Brad Burke - *Goldman Sachs - Analyst*

Okay. I thought the guidance was that you were expecting a deceleration from the 50 basis points of operating leverage that you had last year or -- is there more upside versus when you had given it to us last time or is that the same?

Jim Groch - *CBRE Group, Inc. - CFO & Global Director of Corporate Development*

I think we said it might be down slightly from the 50 basis points at the end of last year, so we're not really changing that guidance.

Brad Burke - *Goldman Sachs - Analyst*

Appreciate it. Thank you.

Jim Groch - *CBRE Group, Inc. - CFO & Global Director of Corporate Development*

Thank you.

Operator

Our next question today is coming from Brandon Dobell from William Blair. Please proceed.

Brandon Dobell - *William Blair & Company - Analyst*

Within the investment management business, maybe a little color on what kind of capital and where it's coming from that you guys raised this quarter, and then is there any notable fee or pricing pressure on the capital you are raising versus the previous quarter or previous year?

Bob Sulentic - *CBRE Group, Inc. - President & CEO*

Brandon, we have a pretty good picture in terms of capital raising around the world right now, certainly raising capital here in the US and in Europe. In terms of fee pressure, what you are seeing is some shift in Europe from funds to separate accounts, separate accounts have lower fees, so that's been in our business. But there is a good amount of capital around the world coming into the business. We've raised capital in Asia, we've raised capital in Europe, and we've raised capital here. We expect to have a very strong year, in the last 12 months, obviously, \$9 billion, and we expect this year to play out similarly, and we expect to see it coming from around the world.

Brandon Dobell - *William Blair & Company - Analyst*

Okay. Digging into the EMEA for a second, particularly the UK, how does it feel momentum-wise for the transaction businesses in the UK? Maybe you could remind us if there is anything from last year within either EMEA transactions or really UK transactions, that would set up a strange comparison through the balance of this year, excluding foreign currency? Just focus more on the fundamental business and how you feel the pipelines look the rest of the year?

Bob Sulentic - *CBRE Group, Inc. - President & CEO*

As you saw in EMEA, sales were up over last year, leasing was down, and again the compare last year, I think revenue without Norland was up in the region in total 27% last year, so -- and then the capital markets was up substantially more than that. I wouldn't point to any specific deals moving



in one direction or another, but just the compare is really the key issue there. Overall, all the markets are still quite strong, if you look -- in particular if you look back as to kind of what they have been doing over the last two years (multiple speakers) of Q1.

Brandon Dobell - *William Blair & Company - Analyst*

If you were to compare either the structure of the corporate services contracts you are signing or how they have changed over the past couple of years in the US versus EMEA, is there any notable difference in terms of how corporates, or even I guess occupiers, are acting, relative to tying together, or your success at tying together the various services lines in those two geographies?

Bob Sulentic - *CBRE Group, Inc. - President & CEO*

Occupiers are really looking for us to self-perform technical services, and that was a big part of the motivation for estimating the GWS acquisition, and they are looking for us to be more and more connected around the globe, so deep in all parts of the globe, that was another motivation for us to do that. So that's the trend. We have seen it for years. It's continuing in that direct, and so we have to have an offering that's consistent with that, and our GWS acquisition does that in a big way.

Brandon Dobell - *William Blair & Company - Analyst*

Great. Thanks a lot.

Operator

Thank you. Our next question today is coming from David Ridley-Lane from Bank of America Merrill Lynch.

David Ridley-Lane - *BofA Merrill Lynch - Analyst*

How much of the strength in capital markets would you say was 2014 deals going into 2015? Or said differently, are the volume trends you saw this quarter more reflective of 2014's trend or the pipeline that you see ahead of you in 2015?

Bob Sulentic - *CBRE Group, Inc. - President & CEO*

David, I don't think what we saw in the first quarter this year was spill-over from deals that didn't get closed last year. First of all, it's really important to remember it's just one quarter, and it's the smallest quarter of the year, so any kind of movement can seem large relative to the first quarter. We expect to see decent growth this year over last year here in the US and in Europe, lesser growth in Asia-Pacific, more capital moving around the world.

What we saw in the first quarter is the percentage of the capital that went into deals here in the US from outside the US was about 50% higher than it was on a run-rate basis last year, so you see more of that global movement. You see a really healthy demand for real estate because of the improving fundamentals, but I don't think that we can read too much into the first quarter that would cause us to think the year is going to play out differently than we thought 90 days ago, and I don't think what we saw in the first quarter was anything tied to end of year last year, one way or the other.

David Ridley-Lane - BofA Merrill Lynch - Analyst

Got it. Within Americas capital markets, you know, over the last 12 months, have you seen the trend towards tier 2, tier 3 cities, are they having faster growth than the major markets? And as you have talked to investors and gauged their appetite, are investors increasingly looking for -- outside the tier 1 cities? Thanks.

Jim Groch - CBRE Group, Inc. - CFO & Global Director of Corporate Development

They are definitely looking outside the tier 1 cities for yield, obviously, and for just plain old product. There's a limitation on product in places like San Francisco and New York, so they are moving into the second-tier cities, they are finding product, they're finding product, they're getting higher yields, and we expect that to continue. That plays very well into our business model, because we are deep in capital markets in those second-tier cities.

David Ridley-Lane - BofA Merrill Lynch - Analyst

Just a quick numbers question, if you have it, the revenue run rate for environmental services?

Jim Groch - CBRE Group, Inc. - CFO & Global Director of Corporate Development

We've not published that.

David Ridley-Lane - BofA Merrill Lynch - Analyst

Okay. Thank you.

Operator

Thank you. Our next question is a follow-up from Anthony Paolone from JPMorgan. Please proceed.

Anthony Paolone - JPMorgan - Analyst

Thanks. I just wanted to clarify, Jim, I think you had mentioned a number of \$285 million related to -- I think it was sales in 2014 from perhaps facilities management type of clients? I just want to understand what that was, I didn't catch the whole thing?

Jim Groch - CBRE Group, Inc. - CFO & Global Director of Corporate Development

Sorry, just noted that our business overall, our transaction business overall completed \$285 billion of transactions in 2014, and I was just making the comment that the real strength of that outsourcing business is to have both the transaction and the non-transaction services, to be able to bring to bear for our clients regardless of where they may be around the world.

Anthony Paolone - JPMorgan - Analyst

Okay, so that was a total number, that wasn't just related to clients from facilities?



Jim Groch - *CBRE Group, Inc. - CFO & Global Director of Corporate Development*

No.

Anthony Paolone - *JPMorgan - Analyst*

Thank you.

Operator

Thank you. Our next question is a follow-up from Brad Burke from Goldman Sachs. Please proceed.

Brad Burke - *Goldman Sachs - Analyst*

Just a modeling question on FX. Gil, I think you said there was a \$13 million mark-to-market hedging benefit, so I guess you would call that maybe \$0.04 of EPS benefit and I guess the \$0.02 that you indicated in your press release is net of the headwinds that you saw? So if I'm interpreting that right, about a \$0.02 headwind on FX before the benefit from hedging, and I was hoping that you could give us some sense of how we ought to be thinking about that FX headwind on a go-forward basis?

Gil Borok - *CBRE Group, Inc. - Deputy CFO & CAO*

Yes, so Brad, the \$13 million is a net number, it's the hedging gains less transaction losses, and that's a pre-tax number. So when you tax-effect it, that's the \$0.02 net favorability.

Brad Burke - *Goldman Sachs - Analyst*

Okay. Are you able to give me a gross number on the hedging benefit versus the translation losses?

Gil Borok - *CBRE Group, Inc. - Deputy CFO & CAO*

No. We're not going to disclose that.

Brad Burke - *Goldman Sachs - Analyst*

Okay. That's fine. Then another modeling one. The GSE business, you mentioned the regulatory caps, is there any reason to think that the GSE business would be up in total year-over-year in 2015, and do you have any thoughts on why they were so fast out of the gate this year?

Jim Groch - *CBRE Group, Inc. - CFO & Global Director of Corporate Development*

Brad, this is Jim. We do expect our business to be up year-over-year, and they've been -- the GSEs have been very competitive and they have put out a lot of money, and we do expect it to be up year-over-year. At the current pace, they are likely to hit their caps the four-year end, which could slow things down toward the end of year unless the caps are increased. But either way, we're expecting it to be up.

Brad Burke - *Goldman Sachs - Analyst*

Okay, so they did not hit the caps in 2014, and you think they hit the caps before the end of 2015?



Jim Groch - CBRE Group, Inc. - CFO & Global Director of Corporate Development

I believe they roughly put out what they had the capacity to do in 2014, but at the pace they are going now, they're off to such a fast start that they could hit the caps earlier in the year.

Brad Burke - Goldman Sachs - Analyst

Okay, so the total year-over-year increase is attributed to non-GSE commercial mortgage, or a view on an increase in the caps?

Jim Groch - CBRE Group, Inc. - CFO & Global Director of Corporate Development

Even without the increase in the caps, we think their lending will be up over last year.

Brad Burke - Goldman Sachs - Analyst

All right. Thank you. Appreciate it.

Operator

The next question is a follow-up from Brandon Dobell from William Blair.

Brandon Dobell - William Blair & Company - Analyst

In the deck, you referenced 180 million square feet that you've got energy management services now with ESI, or maybe it's a bigger number as you combine it with other energy management services offerings you have. How do we think about, let's call it the addressable market for those energy management services, and any sense of how that business model looks relative to the rest of property and facilities management, in terms of recurring revenue, operating margins, those kind of things?

Jim Groch - CBRE Group, Inc. - CFO & Global Director of Corporate Development

It's Jim. We think it's a great business model and that there's enormous opportunity out there. It's still a relatively small business for us as compared to the overall size of the business, but it's an important service for our clients. It's a very strong business model, and the growth profile is quite good.

Brandon Dobell - William Blair & Company - Analyst

Okay. Then last one from me. As you think about Canada, from both an FX perspective, but just leasing and sales transaction volumes, how do we think about that as a headwind or not, the balance of the year in the Americas?

Bob Sulentic - CBRE Group, Inc. - President & CEO

First of all, Brandon, it's a quite small part of our business relative to the whole of the Americas, so it won't have a material impact. We wouldn't want to predict what is going to happen with currency there. We have a very good business in Canada, we expect it to grow this year nicely, but we don't expect movements in currency to impact our numbers, and we don't expect on the margin what goes on in Canada to have a really big impact on the trajectory of our Americas business overall.



Brandon Dobell - *William Blair & Company - Analyst*

Got it. Thank you.

Operator

Thank you. We have reached the end of our question-and-answer session. I would like to turn the floor back over to management for any further closing comments.

Bob Sulentic - *CBRE Group, Inc. - President & CEO*

Thanks, everyone, for joining us and we'll talk to you in three months.

Operator

Thank you. That does conclude today's teleconference. You may disconnect your lines at this time, and have a wonderful day. We thank you for your participation today.

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