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CBG - Q4 2015 CBRE Group Inc Earnings Call

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OVERVIEW:

Co. reported 4Q15 adjusted EPS of \$0.81. Expects low double-digit revenue growth in 2016, before contributions from acquired Global Workplace Solutions business, and adjusted EPS to be \$2.27-2.37.



CORPORATE PARTICIPANTS

Steve Iaco *CBRE Group, Inc. - IR*

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

Jim Groch *CBRE Group, Inc. - CFO*

Gil Borok *CBRE Group, Inc. - Deputy CFO & Chief Accounting Officer*

CONFERENCE CALL PARTICIPANTS

Anthony Paolone *JPMorgan - Analyst*

Brad Burke *Goldman Sachs - Analyst*

David Ridley-Lane *BofA Merrill Lynch - Analyst*

Brandon Dobell *William Blair & Company - Analyst*

Mitch Germain *JMP Securities - Analyst*

PRESENTATION

Operator

Greetings, and welcome to the CBRE fourth-quarter earnings call.

(Operator Instructions)

As a reminder, this conference is being recorded. I would now like to turn the conference over to your host, Steve Iaco, with Investor Relations. Thank you. You may now begin.

Steve Iaco - CBRE Group, Inc. - IR

Thank you, and welcome to CBRE's fourth-quarter 2015 earnings conference call. Earlier today, we issued a press release announcing our financial results for the quarter and full year. This release is posted on the home page of our website, cbre.com.

This conference call is being webcast through the investor relations section of our website. You can also find there 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.

Now, 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, business outlook, financial performance, market share, earnings, and adjusted EPS expectations for 2016.

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 forward-looking statements we may make today.

For a full discussion of the risks and other factors that may impact any forward-looking statements, please refer to our fourth-quarter earnings report filed on form 8-K, our quarterly report on form 10-Q for the quarter ended September 30, 2015, and our most recent annual report on form 10-K. These reports are filed with the SEC and available at SEC.gov.



During this presentation, we may make certain statements that referred 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 directly comparable GAAP measures. These reconciliations, together with explanations of these measures, can be found within the appendix of this presentation.

Please turn to slide 3. Participating on our call today are Bob Sulentic, our President and Chief Executive Officer; Jim Groch, our Chief Financial Officer; and Gil Borok, our Deputy Chief Financial Officer and Chief Accounting Officer. Please turn to slide 4 as I turn the call over to Bob.

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

Thank you, Steve, and good morning, everyone. 2015 was another year of exceptional performance for CBRE, and this strong performance continued through the fourth quarter. For both periods, we set new Company records for revenue and adjusted earnings and drove double-digit growth.

We're the first firm in our sector to exceed \$10 billion in revenue and \$1.4 billion in normalized EBITDA. And we obtained these milestones while making strategic gains across CBRE. Notably, our Occupier Outsourcing business is materially stronger with the acquisition of the Global Workplace Solutions business. We have an unrivaled ability to self-perform facilities management services around the world.

In capital markets, we made market share gains around the globe. We acquired nine leading companies in 2015, enhancing our capabilities in energy management, retail data analytics, capital markets, and consulting.

We had our third straight year of outsized recruiting gains as hundreds of new senior Brokerage and Capital Markets professionals, net of departures, elected to join our Team. The average production of people joining our team is three times higher than those who leave.

We opened our 30th new state-of-the-art alternative workplace office, providing our people with a collaborative and innovative work environment. Finally, we ended the year with a balance sheet that is stronger than at any time in recent history, highlighted by investment-grade credit ratings.

We thank more than 70,000 employees for an excellent year in 2015 and for their commitment to our clients. Now, Jim will take you through our results in greater detail.

Jim Groch - *CBRE Group, Inc. - CFO*

Thank you, Bob. Please turn to slide 5. As you've seen in our press release, CBRE's growth in 2015 was outstanding. Revenue rose 20%, to \$10.9 billion; fee revenue increased 14%, to \$7.7 billion; normalized EBITDA rose 21%, to \$1.4 billion; and adjusted EPS was up 22%, to \$2.05 a share.

Profitability was strong, with an 18.3% normalized EBITDA margin on fee revenue in 2015, up approximately 110 basis points from 2014. This performance was achieved in spite of significant headwinds from currency movements. Our three regional service segments achieved a 27% increase in normalized EBITDA, with a margin on fee revenue of 16.5%, up 100 basis points for the year.

Bob mentioned the strength of our balance sheet. Despite investing approximately \$1.6 billion in nine acquisitions during the year, we ended 2015 with no outstanding borrowings on our \$2.6 billion revolving credit facility, \$470 million of available cash and short-term investments, and net debt of just under 1.6 times normalized EBITDA.

Please turn to slide 6 for a look at full-year revenue growth by line of business. Our businesses continued to exhibit excellent broad-based momentum in 2015. Revenue from contractual sources totaled \$6 billion. Contractual fee revenue was \$2.9 billion, up 29% in local currency, or 14% without the contributions from the acquired Global Workplace Solutions business.

Leasing surpassed \$2.5 billion of global revenue, up 11% in local currency. The Capital Markets business, property sales and mortgage services, exceeded \$2.1 billion in revenue and achieved 20% growth in local currency. The multi-year shift towards a more stable recurring business mix continued in 2015. Contractual fee revenue plus leasing, which is largely recurring, totaled 70%.

Please turn to slide 7 where we will shift our attention from the full year to a review of our financial performance in Q4. Revenue and adjusted earnings growth for the quarter was very strong. Fee revenue improved 23% in local currency and 10% without the contribution from the acquired Global Workplace Solutions business. This growth was achieved on top of an exceptionally strong Q4 2014, when revenue increased 28% versus Q4 2013.

Normalized EBITDA for the quarter totaled \$518 million, a 26% increase from last year's Q4, or a 31% increase in local currency. Our profit margin also improved significantly. At 20.3%, our normalized EBITDA margin on fee revenue increased 130 basis points over prior-year Q4. Adjusted earnings per share increased in 19% to \$0.81 for the quarter.

Q4 2015 normalized EBITDA reflects the following adjustments. \$26 million of carried interest expense, which we will recognize in future periods when we record associated revenue. This aligns the timing of expense and revenue recognition. \$24 million of integration costs related to the acquisition of Global Workplace Solutions, and \$40 million incurred to eliminate costs to enhance margins going forward.

Please turn to slide 8 where we will review Q4 results for our three regional services segments, all in local currency. Fee revenue increased 17% in the Americas, as every business line exhibited growth. In EMEA, fee revenue improved 36%, as we saw healthy gains across the region, particularly in Germany, the Netherlands, Spain, Switzerland, and the United Kingdom. In Asia-Pacific, fee revenue rose 27%, with Australia, Greater China, and India setting the pace for growth.

Absent the contributions from the acquired Global Workplace Solutions business, fee revenue rose 9% in the Americas, 12% in EMEA, and 11% in Asia Pacific. Normalized EBITDA increased 9% for the Americas, 45% for EMEA, and 24% for Asia Pacific. Q4 normalized EBITDA margin on fee revenue for the three regions combined was 16.3%.

Please turn to slide 9 for a review of the performance of our major global lines of business in Q4. All percentage increases in our in local currency. For the Company as a whole, contractual fee revenue plus leasing, which is largely recurring, totaled 73% of fee revenue for the quarter.

Occupier Outsourcing fee revenue more than doubled with the acquisition of Global Workplace Solutions. Excluding contributions from this acquisition, Occupier Outsourcing continue to exhibit strong double-digit growth, with a 19% increase in fee revenue.

Asset Services had a strong quarter Fee revenues increased 12%, with notable growth in EMEA and the Americas. Investment Management also had a strong quarter. Revenue rose 22%, driven by carried interest our property dispositions, reflecting strong returns generated for fund investors. Our Valuations business grew revenue 9%.

Leasing revenue rose 8% globally. This was muted by 4% growth in the United States, which reflects a solid performance on top of an exceptionally strong 28% year-over-year increase in the fourth quarter of 2014. Global growth in leasing was paced by 22% increase in Europe, notably France and the United Kingdom, as well as strong contributions from Canada and Mexico.

Our Capital Markets business remained highly active globally, although growth rates slowed from earlier in the year. Global property sales rose 7%, after accounting for a decline in market volumes from the United Kingdom. The global growth rate in Q4 excluding the United Kingdom was 13%. Investor interest in the United Kingdom remains strong, with cap rates stable and rental rates increasing in Q4, but we are seeing capital migrate to Continental Europe as local economies there strengthen and property yields are higher. In the United States, our sales revenues grew 10%, as we once again gained a significant market share, according to RCA.

Commercial mortgage services revenue increased 6%. As expected, gains from mortgage servicing rights with the US government-sponsored enterprises were flat, as the agencies reached the regulatory caps on their lending. However, loan originations were higher, with banks, conduits, and other debt capital sources. Our global loan servicing portfolio totaled \$135 billion at year end.

Please turn to slide 10 regarding our Occupier Outsourcing business, which is reported within the three regional services segments. Even without the benefit of the acquired Global Workplace Solutions business, 2015 was a record year in terms of Occupier Outsourcing contracts. We brought on board more new clients, and importantly, expanded our service scope for more existing clients than ever before.

In addition, we continue to make meaningful inroads in Europe and Asia, as well as in key verticals like healthcare, data centers, and life sciences. Feedback from our clients has exceeded our expectations, and we are on course to materially complete client-facing integration activities over the next 60 days.

Please turn to slide 11 regarding our Global Investment Management segment. Revenue rose 22% in local currency, and normalized EBITDA nearly doubled, fueled by \$30 million of carried interest tied to significant returns for our clients on property dispositions.

The strong performance of our investment programs relative to industry benchmarks continues to help us attract capital. New equity commitments totaled \$7 billion in 2015. In Q4, assets under management grew by \$3 billion, to \$89 billion, after a \$1.1-billion drag from currency movement. For the year, AUM was up \$1.9 billion in local currency, but down \$1.6 billion when converted into US dollars.

Please turn to slide 12 regarding our Development Services segment. As anticipated, Development Services had a very strong quarter. Several large asset sales resulted in EBITDA of nearly \$75 million for Q4. Development projects in process totaled \$6.7 billion at year end 2015, up \$1.3 billion from 2014. The pipeline inventory totaled \$3.6 billion, down \$0.4 billion as projects converted to in process.

Please turn to slide 13. I will conclude my remarks by reiterating three points that highlight the financial strength of the business. Normalized EBITDA was up 21% for the year and 26% for the quarter. We achieved a margin on fee revenue of 18.3% for the year, and our available liquidity exceeds \$3 billion. Now, please turn to slide 14 as I turn the call back to Bob for closing remarks.

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

Thanks, Jim. From all you've heard today, it should be clear that CBRE has a sustainable competitive advantage.

Our leading global brand and strong culture help us to attract and keep tremendous talent and highly desirable clients. Investments in our platform, especially in technology and data analytics, are helping our people to create more value for these clients. Our revenue base is more stable and stickier than ever before.

For 2016, we expect Occupier Outsourcing to continue its track record of strong performance. We anticipate low double-digit revenue growth this year, before the contributions from the acquired Global Workplace Solutions business. Leasing revenue should increase at a high single-digit rate as we continue to gain market share.

Our Capital Markets businesses, which consists our property sales and mortgage services, are most influenced by the financial markets, and volumes can be hard to predict quarter to quarter. However, we believe that the strong fundamentals and the value that real estate offers relative to other asset classes will continue to draw global capital to real estate in 2016. We estimate our Capital Markets revenue will grow at a rate in the mid- to high-single digits.

Normalized EBITDA from our combined principal businesses, Global Investment Management and Development Services, is anticipated to be flat to slightly down in 2016, reflecting a very strong 2015. The shift to a more stable recurring business mix will continue, as our financial results include a full-year contribution from the acquired Global Workplace Solutions business. Even with this shift in business mix, in 2016 we expect our industry-leading margin on fee revenue to approximate 17%.

While we are mindful of concerns about China's slowing growth and the effect of lower oil prices, fundamentals in our sector remain on solid footing. We are positioned for another strong year in 2016, but are maintaining flexibility in case the economy weakens. Our outlook is based on economists' consensus view that the global economy will maintain its modest rate of growth in 2016.

We anticipate double-digit growth again this year, supported by continued gains in market share, and expect to achieve adjusted earnings per share in the range of \$2.27 to \$2.37 for 2016. This equates to a growth rate of 13% at the midpoint of our guidance. With that, operator, we'll open the lines for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Anthony Paolone, JPMorgan.

Anthony Paolone - JPMorgan - Analyst

Thank you, and good morning. My first question is just to try to understand, in 2015, can you tell us what the EBITDA was for things like promote and gains and incentive fees and so forth? Because it's a little tough to tie where that shows up in revenue or equity and income, and then the adjustments to match expenses against that. So do you have just an EBITDA number for those items in 2015?

Gil Borok - CBRE Group, Inc. - Deputy CFO & Chief Accounting Officer

Hi, Anthony. It's Gil. We're not going to disclose an EBITDA number, but I can tell you that in terms of the gains, that being they were mostly attributable to development, that which flows through equity earnings, and the carried interest flows through revenue.

Anthony Paolone - JPMorgan - Analyst

Okay. So then if -- I can see where those are. And for 2016, then, in your guidance, am I reading this right, that you have that same level of those items in 2016? Or no?

Jim Groch - CBRE Group, Inc. - CFO

Anthony, this is Jim Groch. You had asked -- we said that we expect for the year that it'll be flat to down slightly combined for those two businesses, which would include any promote income.

Anthony Paolone - JPMorgan - Analyst

Okay.

Jim Groch - CBRE Group, Inc. - CFO

And then also, in Investment Management slide, you can see we break out promote revenue for that business, so you can see that separately.

Anthony Paolone - JPMorgan - Analyst

Okay.

Jim Groch - *CBRE Group, Inc. - CFO*

And then, Anthony, I would also just highlight for you that if you're trying to get to the underlying performance of the three regional services businesses, the performance in Q4 and for the year for the three regional services businesses was very strong, so EBITDA in the three regional service businesses, which would not include development or Investment Management, was up 19% in local currency for the year, 14% in USD. I'm sorry -- for the quarter. 19% in local currency for the quarter, 14% in USD.

Anthony Paolone - *JPMorgan - Analyst*

Okay. And then, and how do we think of the impact of currency in your 2016 guidance right now? Like, what's the -- how do you guys think about that and load that in?

Jim Groch - *CBRE Group, Inc. - CFO*

Yes. We have -- we can't forecast, obviously, gains or losses for hedging positions because that'll have to -- the currencies will determine that for us as we see movement throughout the year, so we don't have any -- so there's a good bit of headwinds already baked into our forecast. As you know, the dollar strengthened throughout the year, and we don't have any currency -- any hedging gains in our guidance. Okay. And then, Bob, you mentioned maintaining flexibility if the economy weakens, so just wondering if you can elaborate on what that means. Is that built into your guidance? Or if -- does that mean that you're prepared to cut costs? Or just trying to understand what the thought process is it there.

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

Well, part of that comment was related to the broader range than we normally provide. We normally, as you know, Anthony, provide a \$0.05 range. We've provided a \$0.10 range this year for earnings.

And then as it relates to the ongoing operations of our business, we'll make choices about growth based on -- an investment based on how we see the year unfold, as you would expect us to do, so that's really what we're talking about there.

Anthony Paolone - *JPMorgan - Analyst*

Okay. And then just, as now, just to think about your outlook, you mentioned using your guidepost as economists' views. Just curiously, if anything has changed since your business review day in November in terms of how you're seeing clients behave or seeing demand, either regionally or by business segments, if that's decelerated, stayed about the same, or just how you're feeling about that, outside of, perhaps, maybe what the economists are calling for.

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

Yes. No. Outside of what the economists are talking about, what we are seeing with our clients is what you see in the guidance we gave by line of business. It's an active marketplace for what we do.

We are a month into the year, and it's the slowest month of the year, so you can't draw any conclusions. We've reflected what we believe the collective view of our people and our -- or our people on the streets, so to speak, and our research people and our economists think, and that's all wound up in the guidance we gave by line of business.

Anthony Paolone - *JPMorgan - Analyst*

Okay. Thank you.



Operator

Brad Burke, Goldman Sachs.

Brad Burke - *Goldman Sachs - Analyst*

Hey. Good morning, guys. Nice quarter. I was hoping you could maybe spend some more time just talking about the durability of your business as it stands currently. In the event of an economic downturn, considering what we're all seeing in public equity markets and headlines over the last few months, maybe you could give us some metrics to think about it on how your business would perform if we were to have a recession and how that compares with what we saw during the last recession.

Jim Groch - *CBRE Group, Inc. - CFO*

Well, as you know, I think the business is a dramatically different business than existed back in, say, 2006 or 2007, before the last recession. Capital Markets, which is the piece with more variability, it's more economically sensitive, is a much smaller part of the overall business.

The contractual revenues, in particular asset management and facility management, generally are either stable, or in the case of Asset Services countercyclical, make up a much, much a larger percentage of the business, and that's growing and will continue to grow as the results -- as the acquisition shows up in our full-year numbers. So I think the businesses is just a different business than existed at that time.

The other comment I would make is that our balance sheet is it dramatically a different balance sheet than existed at that time because we have enormous liquidity. We have very, very few -- very, very small amounts of maturities coming out for the next several years, so we are, I think, nicely poised to take advantage of opportunities. There are parts of our business that will be impacted if we have -- if we go into a recession, but overall, I think we'll see tremendous opportunities to take advantage of as well.

Brad Burke - *Goldman Sachs - Analyst*

And maybe talking about the opportunities, since M&A has been such a focus, can you talk about the flexibility that you're looking to maintain? Does that imply a potential slowdown in incremental M&A activity? And also, when you look at M&A targets, are you seeing any of the weakness that we're seeing in the public equity markets begin to be reflected in the private M&A multiples that you would be looking at?

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

Yes, Brad, this is Bob. When we talk about the opportunities we're going to see in a downturn and how we're positioned relative to the last cycle, as Jim said, not only is our balance sheet dramatically more compelling, we've made a lot of investments in our business that make this a better place for people to come to.

In-fill acquisitions want to be here more. Brokers want to be here more because of the way we can support them through the capabilities that we have. And as a result we think in a downturn, not only will we have the financial dry powder to invest, we'll have a platform that'll be more attractive to different types of targets, people and businesses, and that proposition we think is really exciting for our Company.

Brad Burke - *Goldman Sachs - Analyst*

Okay. And just the thoughts on incremental M&A at this point, for fill-in acquisitions, would we expect you to continue the pace that we've seen over the course of 2015?



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

I think we're just going to have to see how that plays out. We continue to be very disciplined. We do still have a nice strong volume of in-fill M&A, as strong as we've seen in the past, but we are selective around fit, and we're very careful around pricing.

Brad Burke - *Goldman Sachs - Analyst*

Okay. And somewhat related to that, are you able to say, with the balance sheet being at 1.6 times EBITDA now, what the guidance range that you have given today would imply for year-end 2016 leverage levels?

Jim Groch - *CBRE Group, Inc. - CFO*

We're not going to give a specific number on that, but you know the amount of cash flow that we're generating, so that -- unless we do a large transaction in the year, it's likely that we'll end the year at a lower leverage rate.

Brad Burke - *Goldman Sachs - Analyst*

Okay. Appreciate it.

Jim Groch - *CBRE Group, Inc. - CFO*

Yes.

Brad Burke - *Goldman Sachs - Analyst*

Thank you.

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

Thanks, Brad.

Operator

David Ridley-Lane, Bank of America Merrill Lynch.

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

Sure. So there have been some surveys about tightening underwriting standards on commercial real estate loans, and some new risk retention regulations come in effect later in this year that they reduce CMBS issuance. I'm just wondering, you are seeing similar trends in your commercial debt markets, and what would you expect the impact to be on the Capital Markets business in 2016 from that?

Jim Groch - *CBRE Group, Inc. - CFO*

I'd start by saying the impact from anything that we're aware of is baked into our guidance. And I'd also comment that we believe real estate offers compelling value today relative to other asset classes, and capital flows into real estate from an enormously varied range of investment types and



vehicles. And just of the strength of the fundamentals in the sector and the value that's embedded in that asset class and what we've seen in the market in performance in Q4 leaves us feeling fairly optimistic about the strength of the sector.

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

Sure. And then, I'm a little bit surprised on the commentary that the two principal businesses could be flat in terms of EBITDA contribution in 2016. Are there specific funds that are coming to maturity or -- and development projects that are nearing sale that give you pretty good visibility and confidence in that projection?

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

Yes. David, we do have good visibility into those businesses, and the reason we're projecting flat to slightly down is because we had a particularly good fourth quarter this year. And so we could be surprised, as we were this year, by the time we get to next year, but we have, in both of those businesses, we have things going on that make us think we'll do similarly to what we did this year, which would be good performance.

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

Got it. And last one for me, the publicly-traded REIT indexes have moved down. Wondering if you are seeing a widening out in the private market for bid-ask spreads in the Capital Market business most recently here in January.

Jim Groch - *CBRE Group, Inc. - CFO*

What I would say on that, the best data probably is just the cap rates were deals that were closing, and cap rates have either been flat or improved a bit, i.e., cap rates, if you're a seller, cap rates have come down, so --

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

Right.

Jim Groch - *CBRE Group, Inc. - CFO*

We're not seeing that.

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

Got it. Thank you very much.

Operator

Brandon Dobell, William Blair.

Brandon Dobell - *William Blair & Company - Analyst*

Thanks. Good morning. Maybe a little color on how closely tied the leasing business is becoming to the Occupier Outsourcing and Asset Services, maybe from a couple points of view. One, how much of leasing revenues in 2015 had some connection, either tight or loose, some of the Occupier

and Asset contracts, how should we think about that number progressing in 2016? And from a contribution point of view, given your comments on how leasing growth should look in 2016, how much variability around that growth rate could come from what happens with the Occupier Outsourcing and Asset Services connections with leasing?

Jim Groch - *CBRE Group, Inc. - CFO*

Hi, Brandon. This is Jim. I think our strength in the Occupier Outsourcing business supports our ability to gain market share in the occupier leasing side of the business, and that's really the impact. As we expand contractual relationships with clients on a multi-product outsourcing basis, that business becomes stickier, actually contractual in many cases, and you see our market share improving, and it's just one of the factors that supports our market share gains in the leasing business.

Brandon Dobell - *William Blair & Company - Analyst*

Any sense of how headcount growth looked 2015 versus 2014, in leasing in particular, but also across capital markets?

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

Yes. Brandon, we had -- we won't be giving specific numbers, but we had a third straight year of very, very strong gains associated with recruiting in both the Capital Markets side and the -- as we call it, the Brokerage side, or the leasing side, to the tune of hundreds of brokers net.

The other thing that's really important there is that the average production -- and we do track this quite closely -- the average production of the people we're bringing on is three times the average production of the brokers that are exiting. And sometimes you'll read in the marketplace or hear a story about a CBRE broker that landed somewhere else. We have close tabs on those ins and outs, and not only is the headcount up pretty materially, but the average production per producer coming again is very strong.

Brandon Dobell - *William Blair & Company - Analyst*

Okay. And then for Jim or Gil, you guys talked about the cost containment expenses, I think it was a \$40--million number in the quarter. What is that? Should we expect to keep going? Is that related to GWS, or is it just something separate? Just want to get a better sense of what that is and how we should think about it this year.

Jim Groch - *CBRE Group, Inc. - CFO*

Sure. Late in the second half of last year, we started looking around at our businesses. We had almost doubled the size of the Company in four years. And as we got more granular, looking at the margins in the Company and businesses around the world, we started to focus more on businesses that have margins that we felt should be higher than they were.

And that's been our focus, and that's what those charges are. So they are -- while we grew headcount quite a bit in the business, we did have a material number of folks that we let go to make businesses more efficient where we just felt the businesses were underperforming, and we'll probably -- we'll be continuing to look for those opportunities throughout the year.

Brandon Dobell - *William Blair & Company - Analyst*

Was that, or will it be concentrated in a particular geography or service line?

Jim Groch - *CBRE Group, Inc. - CFO*

No, we're looking everywhere. As you know, we get pretty granular down to the market and the sub markets around the world by lines of business. So it's a global initiative to be particularly focused on businesses that just may not have received as much attention as perhaps they should have received at a time where we've just been growing the business so much.

Brandon Dobell - *William Blair & Company - Analyst*

All right. And then a final one for me. Your expectations for synergies or growth from GWS compared to the prior expectations that you guys had put out around the time of the acquisition, how do we think about that, either contribution or impact in 2016 versus your prior thoughts?

Jim Groch - *CBRE Group, Inc. - CFO*

No change to our prior guidance. I think we are very much on track with the guidance we've given.

Brandon Dobell - *William Blair & Company - Analyst*

Okay. Great. Thanks, guys.

Jim Groch - *CBRE Group, Inc. - CFO*

Thank you.

Operator

Mitch Germain, JMP Securities.

Mitch Germain - *JMP Securities - Analyst*

Good morning, guys. Bob, you talked about the addition of several hundred net producers. I'm just curious, I couldn't understand from your commentary, in terms of your sentiment toward recruiting going into 2016, is it just as strong or has it come down a bit here?

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

Here's how we think about that. Every year we have targets, Mitch, and we have a very active program with our leaders around the world -- and when I say leaders around the world, not just at the high level, but all the way into the local markets -- to recruit.

We will have that again this year. The last three years, we've exceeded our going-in expectations. We will pursue an aggressive path this year, and as the year unfolds, we'll determine what we actually do.

One of the things I will say is that there's been some foolish deals made in all three regions of the world in recruiting. We will not participate in that activity. We'll be very careful on an individual-by-individual basis to make sure anybody we bring on, we bring on in a basis that works, obviously for them, but also for our Company. And we'll see how the marketplace through recruiting unfolds during the year, but going in, we expect to have an aggressive program again this year.



Mitch Germain - *JMP Securities - Analyst*

Great. And then just with your thoughts regarding Capital Markets, your guidance, mid- to high single-digit, is there a way to think about how you're looking at that on a regional basis?

Jim Groch - *CBRE Group, Inc. - CFO*

I think the only comment we'd make on a regional basis is that we expect Asia-Pacific region to be softer, although, let's say, in the range of plus or minus flat, relative to the Americas and Europe, where expect it to be stronger.

Mitch Germain - *JMP Securities - Analyst*

Great. Last one for me (multiple speakers)--

Jim Groch - *CBRE Group, Inc. - CFO*

Another comment I would make is just Asia is obviously a pretty small part of our business in the Capital Markets side.

Mitch Germain - *JMP Securities - Analyst*

Understood. Understood. How is the integration going at this point? I know you updated us at the Investor Day, but just curious as we sit in here in this start of February.

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

The big thing I point out there, Mitch, is our people and our clients. It's going quite well with our clients. And the single most, probably, satisfying part of this whole combination is that our people and the legacy GWS people are really quite excited about what the combined business has to offer. So it's going well with our clients. It's going well with our people, and Jim already commented on the financial side of things are as expected.

Mitch Germain - *JMP Securities - Analyst*

How does the cross sell of services -- what's the timing on when you could start to unlock some of those ancillary revenues?

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

Our position on that hasn't changed. It hasn't been even six months yet, and so our total focus is on transitioning those accounts, transitioning the people related to the accounts, and doing a great job for the clients.

And if we do that, we're going to have lots of cross-sell opportunities because those are big, big names, obviously, in the corporate world, and they have a lot of real estate needs. And we think there will be opportunity out there, but we're not handicapping what that will be. We're simply focused on doing a great job for them under the assumption that that'll be rewarded when it happens.

Mitch Germain - *JMP Securities - Analyst*

Great. Good luck this year.

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

Thank you.

Operator

Anthony Paolone, JPMorgan.

Anthony Paolone - *JPMorgan - Analyst*

Thanks. Just a few follow-ups. Can you put any parameters around investment sales and how much of that revenue comes from, say, smaller building sales, whatever that breakpoint may be in your view, versus, say, the more core major assets in the more institutional realm? Just trying to understand where the revenue comes from there.

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

Anthony, we don't break that out. We do have substantial businesses at all -- both the ends of the spectrum and in the middle. And by the way, both ends and the middle are all growing, but we do not break that out.

Anthony Paolone - *JPMorgan - Analyst*

And so going down the path in my mind, thinking about CMBS, spreads widening and the liquidity there getting more difficult, do you see that putting pressure on perhaps the lower end of that spectrum at all? Or is that not something you guys believe is going to play out?

Jim Groch - *CBRE Group, Inc. - CFO*

We don't see that having a big impact. There are just enough varied sources of capital and enough interest in the sector that we don't think that'll have a big impact.

Anthony Paolone - *JPMorgan - Analyst*

Okay. And then in Europe, it seems like there's been this divergence between what's happened on the sales side and the leasing side. How do you think that plays out in the next few quarters?

Jim Groch - *CBRE Group, Inc. - CFO*

Well, it's a little hard to say because it's also varied from market to market. So the UK on the sales side has been incredibly strong for a number of years. Volume was down significantly in the quarter. And yet, cap rates were lower, i.e., improved if you're a seller in the quarter. And rental rates rose in Q4 in the UK from Q3.

So the fundamentals of the market are really strong. And I think capital tends to get ahead of the fundamentals. The investors are smart, and they were looking ahead. And I think we're now finally seeing the fundamentals begin to improve in a material way on the leasing side.

But that's -- that in and of itself is positive for the capital side as well, so I think it's playing out in a way that feels rational. I couldn't comment more than that.

Anthony Paolone - JPMorgan - Analyst

Okay. And then with regards to the more one-time in nature items, like the business initiatives and the deal-related costs, I know those are tough to predict, but you had a lot of them in the quarter. Does that come down in the next few quarters? Or do you expect an elevated level of those types of adjustments because of some of the reviews of the businesses that you mentioned earlier?

Jim Groch - CBRE Group, Inc. - CFO

We're not predicting any specific numbers on that front. I will tell you that we're very careful about numbers that we normalize, so we're always cutting, we're always attentive to cost structure, and were always trimming a little here or there, and we don't normalize for that activity. We don't even normalize for one-time costs on most of our infill acquisitions. So we try to be prudent around how we think about and deal with one-time costs.

And even now, as we're going through what's a more material cost reduction program, where it does make sense to normalize out some of these costs so people have a real understanding of the underlying business, even in that process, we're being very careful where we let someone go because of underperformance to not count that cost or any costs that might be attributed to that because those aren't more permanent-type reductions.

So I think you can feel comfortable as an investor that we are attentive to trying to be thoughtful about that. And if you see more one-time costs, it'll be because we found opportunities to increase margins in businesses, and there's some real cost associated with it.

Anthony Paolone - JPMorgan - Analyst

Okay. And as you guys go through this review and look at the cost structure, I know in the last downturn, I think, I don't remember what exactly the number was, but it was, I think, well into the hundreds of millions of dollars that you guys pulled out of the system. Do you think that there's things of that magnitude that are going to emerge, or do feel like you're going into 2016 with just a much leaner business than perhaps in hindsight you had going into the last downturn?

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

Yes, Anthony. This is nothing remotely like that. The costs we cut in the fourth quarter and the program we're working with is, as Jim said, it's not the routine ongoing shedding of costs here and there in the business. It was a meaningful cost-cutting effort, but it is not in the same league with what we did in 2007, 2008 -- I guess 2008 and 2009, nothing like that.

The business is generally lean, but it's -- look, we've grown for several years, and as Jim said, we've doubled the business over the last four years, and we've been focused on offense, and we found there were some opportunities, so we got after it in a meaningful way. But it's not what you remember from before.

Jim Groch - CBRE Group, Inc. - CFO

Yes, and Anthony, just to put that in perspective, the cost-cutting -- the charge there, it's less than 0.05% of our cost structure. So the business is much, much larger, and the cost cuts are much, much smaller.

I think, really, we are still in a growth mode. We're just looking more granularly at individual businesses that are underperforming relative to expectations -- our expectations, and we're just trying to be thoughtful business managers as we do that.

Anthony Paolone - JPMorgan - Analyst

Okay. Thank you for the help.

Operator

There are no additional questions at this time. Mr. Sulentic, would you like to make any closing remarks?

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

Thanks to everybody for being with us, and we'll talk to you again at the end of the first quarter.

Operator

Thank you. This concludes today's teleconference. You may disconnect your lines at this time. We thank you for your participation.

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