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CBG - Q1 2018 CBRE Group Inc Earnings Call

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Co. reported adjusted EPS of $0.54.

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PRESENTATION

Operator

Greetings, and welcome to CBRE's First Quarter Earnings Call. (Operator Instructions) As a reminder, this conference is being recorded.

I'd now like to turn the conference over to Brad Burke with Investor Relations. Please go ahead.

Bradley Burke - *CBRE Group, Inc. - Head of IR*

Thank you, and welcome to CBRE's First Quarter 2018 Earnings Conference Call. Earlier today, we issued a press release announcing our financial results and it is posted on our website, cbre.com. On the Investor Relations page of our website, you will find a presentation slide deck that you can use to follow along with our prepared remarks.

This presentation contains forward-looking statements. These include statements regarding CBRE's future growth momentum, operations, market share, business outlook and financial performance expectations. These statements should be considered estimates only, and actual results may ultimately differ from these estimates. For a full discussion of the risks and other factors that may impact these forward-looking statements, please refer to our first quarter 2018 earnings report furnished on Form 8-K and our most recent annual report furnished on Form 10-K.

During our remarks, we may refer to certain non-GAAP financial measures, as defined by SEC regulations. Where required by these regulations, we have provided reconciliations to what we believe are the most directly comparable GAAP measures. These reconciliations, together with the explanations of these measures, can be found within the appendix of this presentation. Additionally, all growth rate percentages cited in our remarks are in local currency, unless otherwise stated.

Please turn to Slide 3. Participating on our call today are Bob Sulentic, our President and Chief Executive Officer; and Jim Groch, our Chief Financial Officer and Head of Corporate Development.

Now please turn to Slide 4, as I turn the call over to Bob.

Robert E. Sulentic - *CBRE Group, Inc. - President, CEO & Director*

Thank you, Brad, and good morning, everyone. CBRE had an excellent start to 2018 with double-digit growth in revenue and a 20% increase in adjusted earnings per share. The strong sustained growth you've seen from CBRE results from the execution of our strategy, which is centered on delivering differentiated client outcomes around the world as well as the attractiveness of our sector.

I'll briefly hit a few highlights from the first quarter. First, Occupier Outsourcing was once again a standout performer, with fee revenue up by double digits in all 3 global regions. The secular trend to outsource real estate services remains a powerful long-term catalyst for growth and CBRE is the clear market leader in commercial real estate outsourcing.

Second, capital markets revenue also grew by double digits as we benefited from ongoing share gains in key markets globally and continued strong investor interest in commercial real estate.

Finally, our Asia Pacific business had a particularly strong quarter on both the top and bottom lines, led by leasing and Occupier Outsourcing. We have seen outstanding performance over the past few years in several countries, notably, Greater China, India and Japan.

While we caution against extrapolating first quarter results, we are tracking slightly ahead of our full year 2018 guidance. First quarter results were ahead of our expectations across revenue, margins and earnings and we continue to see solid momentum in our business. As most of you know, the first quarter is seasonally our slowest of the year and we will provide further commentary next quarter.

With that, I'll turn the call over to Jim, who will take you through the quarter in detail.

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

Thanks, Bob. Please turn to Slide 5 for a discussion of our financial performance. Fee revenue increased 18% in U.S. dollars and 13% in local currency, driven by a strong organic growth and reflecting positive momentum across our business. M&A contributed 2% to fee revenue growth in the quarter.

Adjusted EPS of $0.54 represents a 20% increase over Q1 of last year, in line with our expectation of achieving double-digit adjusted EPS growth in 2018 for the ninth consecutive year. Our adjusted EBITDA margin on fee revenue for Q1 was 15.3%, below the prior year but as Bob noted, slightly above our expectations. Last quarter, we noted the increased level of investment plan for 2018, which had a disproportionate impact on Q1 due to the seasonality of our revenue. We also achieved higher growth rates in our contractual and overseas businesses as compared to our higher margin U.S. transaction business.

Our EMEA segment was negatively impacted by a $6 million adjustment to the value of a legacy-defined benefit plan. Absent this charge, adjusted EBITDA in our EMEA segment would have grown by 6% in local currency and 21% in U.S. dollars over the prior year.

Shifting from EBITDA margins to profit margins, for the full year and with the benefit of a reduced tax rate, we continue to expect our adjusted net income margin on fee revenue to reach a record 10%.

Our strong and flexible balance sheet was recognized by Moody's and S&P as both further upgraded our existing investment grade corporate credit ratings in the last 2 months. CBRE's low leverage and nearly $3 billion of liquidity are strategic assets that position us well for the future. M&A activity continues at a steady pace. Since the start of the year, we acquired our long-time affiliate in Israel and a boutique retail specialist in Australia, and we continue to have a healthy pipeline of M&A activity.

Please turn to Slide 6, which at the bottom of the page, highlights our revenue growth by line of business for Q1. In the first quarter, we continue to benefit from recruiting gains made in our capital markets and leasing businesses, and our recruiting efforts in 2018 are running ahead of the pace set last year. Capital markets, which includes property sales and commercial mortgage origination, achieved very strong combined revenue growth of 14%. Our capital markets professionals are continuing to see significant global capital, looking to be invested in commercial real estate.

We continue to gain market share in property sales, which increased 11% globally, led by the Americas, with 14% growth. According to Real Capital Analytics, our market share increased by over 100 basis points to 14.9%.

Sales growth of 8% in Asia PAC was driven largely by Japan. In EMEA, growth of 3% in sales was led by Germany, which more than offset the soft start to the year in the U.K. Increased sales in EMEA are on top of a 16% growth achieved in Q1 of 2017.

Commercial mortgage origination increased 26%, reflecting our brisk growth with both government agencies and private sector lenders. Strong commercial mortgage originations supported the continued growth of our now $184 billion loan servicing portfolio. Recurring revenues from loan servicing increased 14% from the prior year. Leasing revenue rose 5%, with notable strength in international markets. EMEA growth of 19% reflects overall healthy market conditions as well as our success in recruiting producers.

Americas leasing revenue was up 1% as we close fewer large deals in the quarter than in the prior year. Market fundamentals and our leasing pipeline remains strong, but leasing results can fluctuate quarter-to-quarter. Property Management fee revenue increased by 13%, supported in part by continued strong growth in our investment fund administration business, which we described at our Investor Day.

Slide 7 highlights our Occupier Outsourcing business. As Bob mentioned, this business once again achieved robust fee revenue growth, up globally 26% in U.S. dollars and 18% in local currency, with approximately 5% attributable to acquisitions made in 2017. Growth was broad-based across our 3 regions and reflects both expansions with existing clients and new client wins. Demand remains strong and our outsourcing pipeline is once again at an all-time high.

Tetra Pak, a Switzerland-based food processing and packaging company is an example of a new client win. It did not previously outsourced commercial real estate services but we're motivated by the opportunity to reduce costs and improve the utilization of real estate. For Tetra Pak, we are providing a full suite of services, including facility management, project management, transaction management and real estate strategy consulting. A key factor in winning this assignment is our ability to combine all of these services cross country spanning North America, Europe, the Middle East, Latin America and Asia.

We offer our clients an unmatched depth of capability across our global platform. The Tetra Pak win is another illustration of the growing appetite for outsourced commercial real estate services and CBRE's advantaged competitive position.

Slide 8 summarizes the results for our Global Investment Management segment. This business continues to show improved performance, reflecting our focus on offering fewer, more strategic investment strategies and on streamlining costs. In Q1, growth of 30% in fee revenue and 8% in adjusted EBITDA was largely driven by increased asset management fees and by the carried interest we earned for exceeding return hurdles within our value-added funds. Growth in carried interest offset quarterly marks-to-market in our public equity co-investments, which were largely affected by broad weakness in public market REIT and infrastructure markets.

Our investment performance has been strong and we continue to attract investment capital, with new equity commitments totaling $9.6 billion for the 12 months ending Q1. Assets Under Management increased by $1 billion from the fourth quarter as favorable shifts in FX more than offset the decline in our public securities funds.

Slide 9 summarizes the results for our Development Services segment. This business continues to perform well, realizing $21 million of EBITDA in Q1, up substantially from last year, which was a light quarter for sales activity. Timing of asset sales in our development business, as always, can vary a great deal quarter-to-quarter. Our in-process development portfolio increased by $900 million during the quarter to a record $7.7 billion as a large number of pipeline deals converted to in-process activity. Pipeline activity also increased by $300 million from year-end 2017.

The fundamentals in our development business are healthy and cap rates for completed development projects remain stable. This business continues to generate very attractive risk-adjusted returns for our equity partners and deliver excellent results for CBRE shareholders.

Please turn to Slide 10 for Bob's closing remarks.

Robert E. Sulentic - *CBRE Group, Inc. - President, CEO & Director*

Thank you, Jim. As we look ahead, the macro environment continues to provide a supportive backdrop for our business. Global economic growth and job creation, the 2 most important macro drivers of demand in our sector remained healthy. While we are mindful of heightened trade and geopolitical tensions, they have not appreciably impacted our business and sentiment around the world remains upbeat. Higher interest rates have not resulted in any meaningful cap rate expansion, as the spreads over treasuries remain relatively attractive. As I said at the outset, the investment market is also being supported by significant institutional capital interest in commercial real estate. This is an ongoing trend that our professionals are observing in markets around the world.

CBRE continues to benefit from the strong secular trends that support our industry. These trends include growing occupier appetite for outsourced real estate services, increasing institutional capital allocation to the commercial real estate asset class and the continued consolidation in our sector around the leading global service providers.

We have a strategy, which we described in detail at our Investor Day, aims squarely at making the most of these macro trends. We are sustaining progress on many fronts from commercially focused digital technology investments to Client Care initiatives, to enhancing our talent base and better connecting our people around the world. The successful execution of our strategy will ensure that we continue to predict outcomes for our clients that others find difficult to replicate.

I'll close by thanking our people for getting CBRE off to an excellent start in 2018 and for their tireless dedication to our clients. With that, operator, we'll now take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question today comes from the line of Anthony Paolone with JPMorgan.

Anthony Paolone - *JP Morgan Chase & Co, Research Division - Senior Analyst*

You didn't change guidance but you mentioned in the release running a little bit ahead at this point, if we look back at the brackets you've put on the business lines last quarter, when you put out guidance, which one of those or perhaps all of them are more than one, is kind of most running ahead?

Robert E. Sulentic - *CBRE Group, Inc. - President, CEO & Director*

Tony, well, clearly what you saw in capital markets from us in the first quarter is running ahead of what we talked about at year-end, and we did take market share. We did have a really good quarter but that's a lumpy business, and it was only the first quarter, so we don't want to get out too ahead of ourselves and extrapolate it across the year. We're enthused about what happened, our team did a good job and the market is solid. Our outsourcing business grew kind of like we said it would. That business has gotten much better over the last couple of years. We're delivering measurably better outcomes to our clients, we're better connected around the world. We have more capability than we've had historically in a number of verticals. We've embedded some technology in that business that works very well for our clients and we had high expectations and we probably saw something that was a little better than we expected in the quarter. If you look at leasing, we expected mid-single-digit leasing growth for the year, and that's what we got in the first quarter, Property Management grew nicely. So on balance, a little better than we thought things would go, but it was only the first quarter.

Anthony Paolone - *JP Morgan Chase & Co, Research Division - Senior Analyst*

Okay, got you. And then on the leasing side, again, I know it's just a quarter but can you talk about just any sense of behavior on the corporate side for incremental space, given the tax form that's going through? Even in the Americas, I think that was only up a couple percent in the quarter, so just wondering how you're thinking about that business line in the region.

Robert E. Sulentic - *CBRE Group, Inc. - President, CEO & Director*

Well, we stay really close to the big corporates around the world and across the U.S. so we have a good sense of what's going on. Corporations are in good shape, if you look at what they're saying, they expect to spend more money this year, put out more capital this year, they're adding jobs. Revenues are expected to grow balance sheet, turn great shape. So corporations are positive but corporations are also very focused on cost, as we are. And as a result, their appetite for leasing is not frothy but it's solid. So we saw 5% growth around the world, 1% growth here in the U.S. Keep in mind, we saw well into the double-digit growth just 90 days ago in our biggest quarter in the fourth quarter and our expectations for leasing here in the U.S. and around the world are very much as they were when we announced our year-end results.

Anthony Paolone - *JP Morgan Chase & Co, Research Division - Senior Analyst*

Okay. And then just last question for me, can you give us some updated thoughts on the acquisition environment? And what you all are seeing on that front?

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

Yes. Tony, this is Jim. I think we're seeing a pretty consistent balanced environment. We've got a solid pipeline and I think we are continuing to see this year what we saw last year, we're generally doing an infill acquisition a month, plus or minus, and that remains to -- that remains the same as last year, pretty solid.

Anthony Paolone - *JP Morgan Chase & Co, Research Division - Senior Analyst*

Okay. So nothing that you expect at this point in terms of outsized capital spend on M&A from what you can tell?

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

Yes, obviously that's an area we can never really comment on. And as you know, we're always quite attentive to the larger opportunities but the right ones come along, when they do, that tends to be quite intermittent over time.

Operator

The next question comes from the line of Jason Green with Evercore ISI.

Jason Daniel Green - *Evercore ISI, Research Division - Analyst*

It looks like U.S. sales were up 14%, and looking at the RCA data, it didn't look fantastic, I guess. Is that really attributed to market share growth? Are those kind of RCA statistics not necessarily representative of the markets that you guys are playing in?

Robert E. Sulentic - *CBRE Group, Inc. - President, CEO & Director*

Well, we think it was real market share gain. Again, Jason, it's important to keep in mind, it's only one quarter. We do, do a bunch of work in the capital markets area that's not captured in the RCA data and that's gone quite well for us, and we're confident we took market share in those areas too. But the best public information available that's independent of any of the providers is RCA, and RCA showed us taking a nice chunk of market share. And I'll go back to the comments I made in response to Tony's questions, we believe those market share gains were real but we don't want to overstate anything based just on first quarter results, because first quarter is a relatively small quarter and capital markets is a bit of a lumpy business.

Jason Daniel Green - *Evercore ISI, Research Division - Analyst*

Got it. And then just in terms of cap rates kind of staying stable, given the 10-year rate has been rising and a lot of people have been anticipating some type of rise in cap rates commensurate with the rise in interest rates, is there something that the investor community is missing? Whether it be an abundance of capital on the sidelines or some other factor that's kind of keeping these cap rates steady and will continue to do so moving forward?

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

Jason, this is Jim. I would say two things, one, there is quite a bit of capital out there. And two, from a relative value standpoint, as you look at the universe of alternative investments and core investments, real estate is still reasonably well priced. And if you look at cap rates spreads over time and whatever metric you want to compare it to treasuries or the BBB bonds, obviously it varies depending on product type, et cetera. But in general, spreads are plus or minus at the midpoint of where they've been over time and that's frankly quite a healthy place to be and when you compare kind of relative valuations for other asset classes, real estate looks pretty good. And then I think for that same reason, if you look back over the last couple of years, when you've seen 10-year treasuries jump during those periods, cap rates have been fairly stable as well.

Operator

The next question comes from the line of Stephen Sheldon with William Blair.

Stephen Hardy Sheldon - *William Blair & Company L.L.C., Research Division - Analyst*

First here, how should we think about the strong growth in Occupier Outsourcing over the last few quarters? Is there a way to quantify how much of an impact the business is seeing from wallet share gains from existing clients compared with maybe new client wins within that business and are those factors notably different by region? Just any detail there on the growth drivers.

Robert E. Sulentic - *CBRE Group, Inc. - President, CEO & Director*

Yes, Stephen, we don't separate that thinking out region-to-region because those clients are often global. And in fact, that's what we're looking for is global clients. But if you look at that business over time, it is relatively equally driven by expanding what we do with our existing base of clients and bringing on new clients. It's not precise and it changes from quarter-to-quarter and year-to-year. What we do know is that the quality of the outcomes we deliver for our clients, the measurable outcomes, there's a sense as to how much we've helped them with their business has a huge impact on renewals and extensions. There's very few of these clients that we do all or most of their real estate work for. There's a large opportunity to expand with them. We have obsessed over knowing those outcomes and improving those outcomes, and I can assure you, we've measurably approved those outcomes as measured by third parties over the last couple of years and that is coming through in our growth rates. Really important to the expansion of that business. And of course, you've got the secular dynamic that we talk about and others talk about all the time, with corporations, hospital systems, government entities, schools deciding to bring on third-party providers to do work that they used to do themselves, and the more we do, the more opportunity for that there is because there is more evidence out in the marketplace as to how well it works for these occupiers.

Stephen Hardy Sheldon - *William Blair & Company L.L.C., Research Division - Analyst*

Okay, very helpful. And then I guess, I think you noted that your producer recruiting is ahead of plan, so I guess, is there any detail on where you've been adding either by region or line of business?

Robert E. Sulentic - *CBRE Group, Inc. - President, CEO & Director*

We've had healthy recruiting around the world and good quarter here, particularly good quarter here in the U.S. We had really strong recruiting the last 2 years in Asia Pacific, and that's one of the reasons why you've seen our competitive profile as evidenced by our financial results changed so much in Asia Pacific over the last 2 or 3 years. Really strong recruiting in China, particularly on the capital market side, really strong recruiting in India, excellent recruiting starting to surface on the occupier advisory side in Japan, which is something we have been working on for a few years, and then steady progress in the Pacific, largely Australia.

Operator

Our next question is from the line of Nick Yulico with UBS.

Nicholas Yulico - *UBS Investment Bank, Research Division - Executive Director and Equity Research Analyst- REIT's*

Just going to the Occupier Outsourcing business again, if we look at Slide 7 where it talks about the difference in the split between new expansion and renewal contracts in the first quarter, it was call it roughly 1/3, 1/3, 1/3. How should we relate that back to the 18% year-over-year revenue change in that business in the first quarter? I mean, would the split also be similar between that gross split between new expansions renewals based on what's on Page 7? Just trying to understand here, what's actually driving the growth in that outsourcing business?

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

Yes. It's not precise obviously, because of the size of any particular contracts within that mix can effect how you divide up the overall impact on growth. But I think Bob highlighted that the opportunities within our existing base of clients is extremely strong and as a matter of fact, we gave some fairly specific data on that at our Investor Day. So if you go back and look at those slides, you can get some pretty good data around that where we looked at kind of share wallet amongst some of our top customers. I would reiterate what Bob said which is over time, we've seen roughly split between new and existing clients and I think that's a fair view of what to expect going forward.

Nicholas Yulico - *UBS Investment Bank, Research Division - Executive Director and Equity Research Analyst- REIT's*

Okay. And can you just let us know, what's the average step-up in renewals?

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

We're generally at a 90%-plus renewal rate. Is that your question? Were you...

Nicholas Yulico - *UBS Investment Bank, Research Division - Executive Director and Equity Research Analyst- REIT's*

Well I guess in terms of once, if it's 90% is I guess the retention, what is the actual rate of contract? How much growth do you get on renewal with the new pricing?

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

We haven't reported that, specifically. Obviously, here, the expansions are -- on the renewals, you have -- sometimes you have renewal and expansion at the same time, that's common. And we have noted that over time, our margins in that business have remained relatively stable. So I think this data point should give you a pretty good feel.

Nicholas Yulico - *UBS Investment Bank, Research Division - Executive Director and Equity Research Analyst- REIT's*

Okay. And then just last question on this segment. You're tracking above the full year guidance in terms of growth right now. I mean, what are factors that would get you to be below expectations this year? How should we think about the risk to not making the guidance in that business line?

Robert E. Sulentic - *CBRE Group, Inc. - President, CEO & Director*

Well the biggest thing that we can do to not meet expectations is to not serve our clients well and not deliver good outcomes to our clients. We don't expect that to happen. And as I've said earlier, Nick, that's being measured very closely by third parties and the results are very good. So we don't look for a circumstance in that business that would cause us not to perform as we told you. By the way, we had a really good first quarter but we told you at the end of the year, we expected to have a really good year in that business, and it's playing out that way and actually a little better, but early.

Operator

Our next question comes from the line of Jade Rahmani with KBW.

Ryan John Tomasello - *Keefe, Bruyette, & Woods, Inc., Research Division - Analyst*

This is actually Ryan on for Jade. Just dovetailing off of the prior rate questions. At the level of further increases in rates that either the short end or the long end of the curve do you think will ultimately start to move cap rates?

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

Yes, Ryan. I'd say, first, it's really hard to assess. So a personal opinion is that there's some emotion around crossing the 3% threshold. I wouldn't be surprised if that takes hold and when we cross that and stay there to see a little bit of choppiness, uncertainty in the market. Actually don't think that, that will like -- once that settles out, I don't think will likely have an impact.

Ryan John Tomasello - *Keefe, Bruyette, & Woods, Inc., Research Division - Analyst*

And considering the pickup in large transactions that we've seen reported in some major metros by various headlines, particularly in New York, can you say to what extent that, that impacted your market share in the quarter? I believe you guys are on the large market deal and perhaps you can provide some commentary on how your large transaction business is positioned in these major metros.

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

Yes. I would just say, the deal you're referencing, so first off, the RCA data doesn't track buy side representation and we represented that Chelsea project, we're representing the buyer. So that data for us is actually not in the RCA numbers. So from that perspective, you can say the RCA number might understate our market share gain and similarly, we're on some other large transactions, where we represent the buy side as well, it would not be in that data.

Ryan John Tomasello - *Keefe, Bruyette, & Woods, Inc., Research Division - Analyst*

And overall, are you seeing a pickup across major metros in large transactions in markets like New York?

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

The large transactions are choppy, quarter-to-quarter. You've seen us comment on that from time-to-time and that on the margin, that can swing quarter-to-quarter compares. So I think the markets are very healthy and solid and there were some large transactions in this quarter but actually, I wouldn't comment as to that being a trend that we want to project through the year.

Ryan John Tomasello - *Keefe, Bruyette, & Woods, Inc., Research Division - Analyst*

Okay. And just lastly, a quick housekeeping question, can you provide the absolute amount of non-cash MSR gains in the quarter, so that we can better compare your EBITDA results apples-to-apples versus the peer group?

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

Sure. The gains from mortgage servicing rights in the quarter increased by $4 million over the prior year. Amortization increased by $5 million, so a net impact on profit of down $1 million and the total gain for the quarter is $32 million, up $4 million from the prior year.

Ryan John Tomasello - *Keefe, Bruyette, & Woods, Inc., Research Division - Analyst*

The total MSR gain was $32 million?

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

Correct.

Operator

Our next question comes from the line of Mitch Germain with JMP Securities.

Mitchell Bradley Germain - *JMP Securities LLC, Research Division - MD and Senior Research Analyst*

In the Occupier Outsourcing segment, are you seeing a change in contract size? Are they getting bigger?

Robert E. Sulentic - *CBRE Group, Inc. - President, CEO & Director*

Mitch, over time, the tendency has been for those contracts to get bigger, they get more global, they include more services and as a result, they get bigger. And one of the things that are outsourcing people would tell you if you run around the world and you talk to them today is that historically, there was always this concern, can anybody really deliver all these different services for us in 60 markets around the world or whatever. And there were skepticism about that. And as time has rolled forward, and as we've built this business organically and built it through acquisitions, improved our technology, built our base of brokers around the world that work with our outsourcing clients and the confidence that we can serve these clients around the world and across product lines has grown. That's just a very definitive trend if you talk to our people. And so you're seeing that now and as a result, our contracts are getting bigger. I'll give you one metric, it's not all outsourcing but significant portion of it is outsourcing, and we talked about this on our Investor Day, if you look back 5 years, we had 1 client that was $100 million or more. We now have 17. Over that same period of time, we had, I believe it was 18 that were $25 million or more. We now have 82 that are $25 million or more. So the clear empirical facts are that the clients are getting bigger and a bunch of those big clients are our outsourcing clients.

Mitchell Bradley Germain - *JMP Securities LLC, Research Division - MD and Senior Research Analyst*

Great. And is there still a -- are customers still using multiple providers just to kind of hedge? Or are you seeing more of a consolidation in terms of, I know in some cases, they are using you for one and one of your competitors for another or maybe it's by region or by service line, is that still a trend? Or is there now kind of a shift that just kind of consolidate to one?

Robert E. Sulentic - *CBRE Group, Inc. - President, CEO & Director*

Well, it's a little more complex than that. The clients are consolidating the number of providers they use but most of the really big corporations are using more than one provider for something, right. They may be using one provider for most of what they do and getting a little bit of it somewhere else. But consolidation is very real and we're a very big beneficiary of that trend.

Mitchell Bradley Germain - *JMP Securities LLC, Research Division - MD and Senior Research Analyst*

Great. Last question from me, Bob, I was looking at a couple of on a per region basis, right, some of your revenue growth, what trailed your expectation this quarter? Was it maybe leasing in the U.S. or investment sales in EMEA? Is there something specific that kind of stood out to the negative for you?

Robert E. Sulentic - *CBRE Group, Inc. - President, CEO & Director*

U.S. leasing was a little slower than we thought it would be. But again, it was positive and we don't expect that, that's a reflection on what's going to happen this year, our expectations for the year are unchanged. Capital markets in the U.K., a little slower than we thought that would be. But then the flip side is, if that was more than offset by the gains in continental Europe, particularly Germany, and so those were the 2 big things that spike out that were maybe a little less than we had expected they would be.

Operator

The next question comes from the line of Patrick O'Shaughnessy with Raymond James.

Patrick Joseph O'Shaughnessy - *Raymond James & Associates, Inc., Research Division - Research Analyst*

I'm curious to get your updated thoughts on flexible work space providers, particularly in regards to signs that they're increasingly targeting large corporations as well as moving into the facilities match and space and providing some of those services on behalf of property owners.

Robert E. Sulentic - *CBRE Group, Inc. - President, CEO & Director*

Patrick, first of all, the co-working or flexible workspace dynamic is very real. We are very big believers in it. And there's two dimensions to it, one is the whole experienced management dimension and the other is the co-working dimension, where the co-working providers essentially buy space, wholesale and sales at retail individuals or smaller uses. On the experienced side, which is where our outsourcing clients are, by the way, we manage office space with something like 8 million or 9 million people in it around the world, a couple billion square feet of office space. That experience dynamic has been alive and aggressively active for years. We started converting our spaces to this free office locations, multiple different users within the space, paperless, wireless, tech-enabled years ago and it's had a huge impact on employee morale and recruiting. And we've been doing it for years for our clients. We have a big workplace solutions group that works with our clients around the world. So that part is not new, but it's certainly accelerating and changing. As it relates to the co-working piece, what we know is about 40% of our client -- large clients have 50 people OR more using co-working space on some basis. We're helping a lot of those clients put people in co-working space a little bit of their population because that's good for their overall space use requirement. And we think that's going to be real and permanent and it's going to be a relatively small subset of all the space used but real. Investors on the other hand are a little bit behind us. There's about 25% of investors that think they ultimately need to have a co-working space, about 10% of them have it today. There is some concern about the value it has on the buildings they own but I think investors are getting there, and you're going to see more and more of it. A lot of entrants into the markets, some of them trying to get into the serving big corporates space which is what we and JLL and others do and have done forever. We're not seeing a lot in that regard yet but we're seeing a little bit of it.

Operator

The next question comes from the line of David Ridley-Lane with Bank of America Merrill Lynch.

David Emerson Ridley-Lane - *BofA Merrill Lynch, Research Division - VP*

Within Americas investment sales, obviously strong results there. I'm wondering if there were perhaps some slippage right at the end of the first quarter and then on the (inaudible) inflection of the transactions, are you seeing a shift to Class B, Class C properties, Tier 2, Tier 3 cities, where activity in the sub-$50 million assets, first of above $50 million, any color you can give there would be helpful.

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

Yes. I don't think we saw much slippage from Q4 into Q1. So I really don't think there was a factor. We are seeing some movement with more focus on Tier 2 markets and sometimes even a little bit of tier share. We've been seeing that trend for a while but I'd say we're seeing a little bit more of it today. And then the other factor is in that shift is a lot of companies are really looking for the tech talent. And we've done quite a bit of work on that over time. We've got some research reports that you can access and that's part of what's driving some users and capital that's following those users to some of the smaller but still quite significant cities.

David Emerson Ridley-Lane - *BofA Merrill Lynch, Research Division - VP*

Understood. And I wanted to circle back to something you spoke about at the Analyst Day, you talked about coming into the year with $175 million in cost savings from actions taken in 2016 and 2017. I know this is going to be a tough one to size but would be -- are there good investments you plan on making in 2018, be below that figure?

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

So a couple of things. We actually -- we started that cost-saving initiative in '15 and so that's kind of from '15, '16, '17 efforts, and by the way, those efforts continue, I mean it's part of our culture over part of that period, we had so much of it going that we called out and some of those expenses is onetime but we have an enormous number of projects that are underway on a regular basis and the expense associated with those projects what we consider to be kind of at this point to be part of our normal business. And yes, the investments are a good bit less than that number.

Operator

At this time, I will turn the floor back to management for closing remarks.

Robert E. Sulentic - *CBRE Group, Inc. - President, CEO & Director*

Well, thank you, everyone for being with us and we look forward to talking to you again at the end of the second quarter.

Operator

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