

01-Nov-2018

# CBRE Group, Inc. (CBRE)

Q3 2018 Earnings Call

## CORPORATE PARTICIPANTS

Brad Burke

*Head of Investor Relations, CBRE Group, Inc.*

Robert E. Sulentic

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

James R. Groch

*Chief Financial Officer and Global Director of Corporate Development,  
CBRE Group, Inc.*

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## OTHER PARTICIPANTS

Anthony Paolone

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Jason Green

*Analyst, Evercore Group LLC*

Alan Wai

*Analyst, Goldman Sachs & Co. LLC*

Stephen Hardy Sheldon

*Analyst, William Blair & Co. LLC*

Mitch Germain

*Analyst, JMP Securities LLC*

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

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David E. Ridley-Lane

*Analyst, Bank of America Merrill Lynch*

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Greetings, and welcome to the CBRE Third Quarter Earnings Call. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded. It is now my pleasure to introduce your host, Brad Burke, Investor Relations. Thank you. You may begin.

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Brad Burke

*Head of Investor Relations, CBRE Group, Inc.*

Thank you and welcome to CBRE's third 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](http://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, investment levels 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 third quarter 2018 earnings report furnished on Form 8-K and our most recent annual and quarterly reports filed on Form 10-K and Form 10-Q.

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 explanations of these measures, can be found within the appendix of this presentation. Additionally, all growth rate percentages cited on 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.

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## Robert E. Sulentic

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

Thank you, Brad, and good morning, everyone. This is an exciting time for CBRE. We continue to advance the company on multiple fronts while driving strong results for our clients and shareholders. As you've seen from our press release we delivered double-digit increases on the top and bottom lines. The 14% fee revenue growth was led by particularly strong performance from our leasing business. This is reflective of deep relationships with our large occupier client base and our ability to attract the industry's top professionals to our increasingly differentiated operating platform.

Occupier Outsourcing again had excellent growth fueled by the secular shift toward outsourcing and CBRE's globally integrated capabilities. Our Development Services business had another strong quarter and is on track for record profits in 2018. I also want to comment on two important strategic initiatives that should have a big impact on CBRE. The first is the reorganization of the company which we announced in August. We have clarified lines of authority for our management team which will increase accountability, introduced operational and cost efficiencies and enhanced business line quality across our business. This new structure will also increase financial transparency for our company and we hope promote greater transparency across our sector.

The second initiative was the introduction yesterday of our flexible office space offering called Hana. This service evolved from a tremendous amount of interaction with and encouragement from our clients. Our deep relationships with property investors and occupiers, and what we have learned from our workplace experience service, CBRE 360, position us well to succeed with this new offering.

Hana is perfectly suited for property owners who believe they can add value to their buildings with a flexible space solution that keeps them in control of their assets, and for companies that want more flexibility in their occupancy to meet changing business needs and create a better workplace experience for their people. This is a rapidly expanding market that could comprise 5% to 10% of the total occupied space within a decade. We have assembled an exceptional team to capture this opportunity and kicked off our marketing efforts yesterday with a robust deal pipeline. Hana will operate as part of our real estate investments business beginning in 2019.

Now Jim will take you through our third quarter in detail.

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## James R. Groch

*Chief Financial Officer and Global Director of Corporate Development, CBRE Group, Inc.*

Thank you, Bob. As Bob noted, CBRE delivered another quarter of strong growth. Fee revenue increased 14%, driven by 10% organic growth. Adjusted EBITDA rose 12% and adjusted EPS grew by 22%, both in U.S. dollars. Fee revenue for our combined regional services business increased by 13% with adjusted EBITDA increasing 6%, both in U.S. dollars. Adjusted EBITDA margin on fee revenue for our regional business declined 1 percentage point versus the prior year quarter to 15%, consistent with our guidance at the beginning of the year.

As you will recall, we outlined a significant investment program for 2018 as we reinvested the savings associated with tax reform. But for these investments, adjusted EBITDA would have grown faster than fee revenue. Additionally adjusted EBITDA margins on fee revenue for our regional services business would have been approximately 40 basis points higher, absent the impact of FX and the acquisition of lower margin, but typically high growth outsourcing businesses.

The impact of FX was most notable in Asia-Pacific where adjusted EBITDA would have increased by 7%, excluding all FX effects rather than decline by 4% in U.S. dollars.

I do want to emphasize that we continue to expect positive operating leverage in our regional services business in 2019. I should also highlight that we continue to expect a record adjusted net income margin on fee revenue for full year 2018. For Q3 2018, our adjusted net income margin on fee revenue increased by 80 basis points to 10.3% versus Q3 of the prior year.

Below the line, our tax rate of 23.5% for the quarter resulted in a \$4 million reduction to tax expense versus the prior year, while depreciation and amortization expense increased by \$11 million. M&A was active in the quarter, we completed four acquisitions highlighted by the purchase of the remaining 50% ownership in our longstanding joint venture CBRE/New England, the leading provider of commercial real estate services in Boston and throughout New England.

Slide 6 shows our revenue growth by line of business for Q3. Leasing realized double-digit revenue increase across all three regions. Leasing in the Americas grew 19%, with 15% organic growth on top of 14% overall growth in the prior year. Strong performance was broad-based across countries, property types and varying transaction sizes. In EMEA leasing growth of 18% was paced by France and the UK. Leasing rose 16% in Asia-Pacific against a tough comparison helped by several large deals in Greater China.

Our debt businesses again posted strong growth with commercial mortgage origination revenue up 22% and loan servicing revenue up 21% on a portfolio that grew to a record \$196 billion. Growth was particularly strong in multifamily lending. Global property sales revenue rose 5% led by EMEA, up 24%. Germany was a standout in the quarter, driving over half the growth in property sales revenue versus the prior year. We also saw double-digit growth in our UK business, which continues to benefit from inbound foreign capital. Double-digit growth in UK property sales and leasing speaks to our ability to gain market share despite the uncertainties around Brexit.

America's property sales growth of 2% was paced by a 7% increase in the United States, offset by weakness in Canada and Latin America, which both experienced exceptional growth in the prior year Q3. In Asia Pacific, sales revenue declined 5% versus a very difficult prior year comparison. Property management fee revenue growth of 8% was supported by continued double-digit growth in our outsourced, accounting and reporting offering, which we discussed briefly during our Investor Day.

Slide 7 highlights our Occupier Outsourcing business. Fee revenue increased 16% globally and all three regions produced mid-teens growth in local currency. We also had another particularly active quarter of client wins and expansions. This quarter I'd like to highlight CBRE's continued inroads in the management of critical facilities, such as data center operations. Our data center management offering is set to grow revenue by over 50% in 2018. CBRE's data center initiative fits squarely in our outsourcing wheelhouse. Managing data center facilities requires a proven track record and deep technical expertise. Additionally data center owners increasingly desire multimarket solutions requiring the ability to execute at scale. CBRE manages approximately 75 million square feet of data centers around the world.

By example, Lincoln Rackhouse, a rapidly growing data center business recently retained CBRE to manage data centers in key U.S. markets. Our role is to manage the daily operations of the facilities, perform preventive maintenance on critical systems and manage capital projects. In selecting CBRE, Lincoln Rackhouse cited our knowledge of mission critical facilities, strategic insight, speed-to-market and consistent execution. This business is also highly synergistic with our specialized data center transaction business and has excellent momentum and a robust pipeline.

Slide 8 summarizes the results for our Global Investment Management segment. This business raised a record \$4.1 billion of capital in the quarter and \$10.7 billion over the last four quarters. Assets under management increased by approximately \$3 billion from the prior quarter. Adjusted EBITDA totaled approximately \$11 million versus \$23 million in the prior year. The decline in financial performance was primarily impacted by the following three items.

First, our public securities business remains under pressure from a continued industry-wide shift in investor preference toward passive investment vehicles. Second, Q3 EBITDA was negatively impacted by a \$4.5 million charge, resulting from a legacy employment agreement associated with the valuation of our public securities business. We do not expect a similar related expense going forward. Finally, we have invested in new talent and new offerings to drive future growth. Specifically, we have built a new team to raise and manage the debt funds and have also invested in new talent to expand our overall fundraising capability.

Compensation expense associated with such activities has incurred upfront, while the revenue from additional assets under management will follow in future periods. Though it's a challenging quarter for this business, we continue to drive strong performance for our investors, and they in turn trust us to manage more of their assets. We are keenly focused on improving the long-term profitability of this business and we expect better financial performance over the next four quarters.

Slide 9 summarizes the results for our Development Services segment. Development Services, which operates under Trammell Crow Company is a high quality business with relatively modest capital where debt guarantee is at risk. The valuable brand often recognizes the top developer in the U.S. in a differentiated and defensible strategy. Our combined in-process and pipeline portfolio once again reached a record totaling \$12.4 billion. EBITDA of \$77 million in Q3 was driven by a couple of larger than normal asset sales. While this EBITDA can be volatile on a quarter-to-quarter basis, Development Services has consistently contributed to our profitability with adjusted EBITDA since 2008 totaling just over \$800 million.

Before I turn the call back over to Bob, I want to note that instead of providing our detailed 2019 guidance when we report Q4 results, we would do so three weeks later at our Investor Day on March 7 in New York City. At that time, we will walk through the financial details of our new reporting segments as that is the basis we will be using to give guidance going forward.

Now, please turn to slide 10 for Bob's closing remarks.

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## Robert E. Sulentic

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

Thank you, Jim. Before opening the call for questions, I want to take a moment to address the broader economic environment. Investors have clearly been concerned about the effects of higher interest rates and trade tensions. However, commercial real estate fundamentals have been resilient in the face of higher rates. There is more than

ample debt and equity capital available for commercial real estate and cap rates have not increased in any meaningful way.

As we have often noted, interest rates are important but the more important drivers of our business are underlying economic growth, job creation, capital availability and overall allocations to the commercial real estate asset class. These drivers remain favorable as evidenced by our results this quarter.

In addition, escalating trade tensions do not appear to be impacting our overall business. However, continued escalation could impact business sentiment, most notably for select markets in Asia, which combined typically, represent approximately 2% of our adjusted EBITDA. Given our strong performance year-to-date and our favorable business outlook, we anticipate full-year 2018 adjusted EPS coming in at the high end of our guidance, which we increased last quarter to a range of \$3.10 to \$3.20 per share.

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

## QUESTION AND ANSWER SECTION

**Operator:** Thank you. We will now be conducting a question-and-answer session. [Operator Instructions] Our first question comes from the line of Anthony Paolone with JPMorgan. Please proceed with your question.

Anthony Paolone  
*Analyst, JPMorgan Securities LLC*

Q

Thank you and good morning. My first question is with regards to the margins in the regional businesses, can you just talk to just what the order of magnitude is in dollar terms that you've been spending like for instance in the third quarter that was a drag on margins and how to think about that, either going away or if this is the new baseline or how that works going forward?

James R. Groch  
*Chief Financial Officer and Global Director of Corporate Development, CBRE Group, Inc.*

A

Sure Anthony, this is Jim. How are you today?

Anthony Paolone  
*Analyst, JPMorgan Securities LLC*

Q

Great, thanks.

James R. Groch  
*Chief Financial Officer and Global Director of Corporate Development, CBRE Group, Inc.*

A

Yeah, the margin – so I guess the first thing I'd say is on the investments we've done exactly what we said we were going to do at the beginning of the year, we've reinvested the savings from tax reform back into the business into our people, technology, cost savings initiatives, and initiatives to drive growth. The total cost of these in Q3 had a little over \$30 million impact on EBITDA. So without those investments, EBITDA growth would have been in the mid-teens. As far as how to think about that going forward, I think thinking about these investments as more of a baseline within the business is the right way to think about it.

Anthony Paolone

*Analyst, JPMorgan Securities LLC*

Q

Okay, got it. And then if we look across particularly like investment sales and probably leasing as well, it seems like the percentage growth was very good particularly in like the U.S. against the RCA data. So I'm just curious how much of that you think is market share gains versus things like buyer or user representation or just doing other sorts of things that are driving growth.

Robert E. Sulentic

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

A

Yeah, Tony, it's Bob. Well you mentioned both capital markets and leasing, I'll start with capital markets. We think we took a lot of market share in Europe and Asia, and we think the quarter for us in terms of market share was kind of in line with what went on with the industry. But around the world globally, we took a lot of market share, we've taken significant market share as you know over the last couple of years and we think that our capital markets team has done a really great job of connecting around the world to move capital quickly to where the best opportunities are and to get in front of our clients with that connected capability, it's been a big difference maker for us.

On the leasing side, there's a couple of things going on. And I think it's coming through in our Occupier Outsourcing numbers, and it's coming through in our occupier leasing numbers, and that is we have a very good very connected product for occupiers, enabled with a bunch of consultative capabilities, a bunch of technology capabilities, and we're able to provide solutions for them and we've said this over and over that it is increasingly hard for the competition to do.

We are taking market share and we're taking market share around the world in the occupier business on the outsourcing side, on the leasing side. And the numbers were pretty resounding this quarter in all three regions of the world in that regard. And also I think it's worth noting the global economy is in good shape and commercial real estate is in good shape and the customers we serve have strong balance sheets they're growing, they're investing in their businesses. So there's a whole lot of good stuff happening there.

Anthony Paolone

*Analyst, JPMorgan Securities LLC*

Q

Okay thanks. And then lastly on Hana, and that initiative can you give any brackets around things like how much money you expect to invest in that timeline to perhaps profitability? How big that business might be in 2019 on a square footage basis, just any other detail around there that you could provide?

James R. Groch

*Chief Financial Officer and Global Director of Corporate Development, CBRE Group, Inc.*

A

Sure. Anthony. We'll unpack that more at our Investor Day, and a lot of it will depend on kind of the rate of the rollout and this is really important initiative. But just to give you some perspective, we're penciling in \$50 million to \$60 million of CapEx investment in 2019. Typical facility should take 12 months to 18 months to breakeven, and we expect strong returns on our capital deployed.

Anthony Paolone

*Analyst, JPMorgan Securities LLC*

Q

Okay. And is this something where you will be going at this in terms of putting up the money alone or will you partner with landlords, like how will that work?



Robert E. Sulentic

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

A

Tony, we have in a business that's rapidly growing that is flexible space, we have a model that we think is a bit unique and that is that we're going to partner with landlords. We're not going to lease space that's not the business model. We're going to partner with landlords. We're going to put in a portion of the capital, they're going to put in a portion of the capital, and then, we're going to share in the leasing revenues. We'll operate the space. We'll lease the space. We'll build the space for them. And we designed this product working intensely with a bunch of our investor clients, our landlord clients, and it's a product that's designed exactly the way they wanted it to be designed. We got a very good backlog of prospective deals that we'll be talking about we believe over the next few weeks and months, and we think it's a product that the landlords are quite excited about.

Anthony Paolone

*Analyst, JPMorgan Securities LLC*

Q

Okay. And is the anticipation that the user of the product will be like individual workers with a membership like a co-working situation or is this more of an enterprise solution for a business that needs some flexibility and your work with the landlord to provide that to that customer?

Robert E. Sulentic

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

A

Dramatically skewed toward enterprises. About 5% to 10% of the space of each Hana facility will be dedicated toward co-working, kind of traditional co-working. There'll be some space in there that's amenities space and conference rooms et cetera. But this is for enterprise clients. And by the way this is one of the reasons that the landlords were excited to work with us. We manage a couple billion square feet of office space around the world with 9 million people in it. We have a real connection to those occupiers, and we know a lot about what those occupiers want, and we think that's going to help us be successful with this initiative.

Anthony Paolone

*Analyst, JPMorgan Securities LLC*

Q

Okay. Great. Well, thank you.

**Operator:** Thank you. Our next question comes from the line of Jason Green with Evercore. Please proceed with your question.

Jason Green

*Analyst, Evercore Group LLC*

Q

Good morning. I'm just curious given kind of the increase in negative sentiment in the marketplace, has that affected at all of the Occupier Outsourcing business, the aggressiveness of some kind of corporate and institutional owners to pursue Occupier Outsourcing business with you?

Robert E. Sulentic

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

A

Look our Occupier Outsourcing businesses has had mid-double-digit growth all year long. We expect that to continue. And the market sentiment – I assume Jason you're talking about the stock market sentiment. The economy is in good shape, consumers are positive, companies are positive, and we're seeing good growth in that business, and we expect that to continue. By the way, the history of that business is that even when sentiment



turns negative, there's impetus for growth because that's when a lot of corporations are trying to save money, and we save them money when we outsource their facilities, but we're not seeing negative sentiment at all right now.

Jason Green

*Analyst, Evercore Group LLC*

Q

Yeah. I guess in theory like even in a tough environment the business should do well, just an opportunity for your clients to save money. But I'm just curious if you anticipate, if we have some type of commercial real estate sales downturn of that business, kind of declines just for sentiment reasons or other?

Robert E. Sulentic

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

A

We haven't seen that historically. We haven't seen that market to be tied at all to commercial real estate sales and that's not our expectation.

Jason Green

*Analyst, Evercore Group LLC*

Q

Got it. And then just circling back to some of the strengths in the multifamily lending, I know there is the potential for housing reform early next year, although that's been bounced around for the past couple of years. I guess just kind of thinking about what risks there might potentially be or what potential benefits there might be with some type of change in GSE lending?

Robert E. Sulentic

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

A

Yeah, sure, Jason. As you mentioned or I think you're indicating, Mel Watt's term is ending, there could be – there will be a new Director, I think there is some reason to believe that the new Director might take a more conservative view on their scorecard, we can imagine there might be slight reductions in caps or the definition of what's excluded from caps. But any changes we expect to be very measured, very carefully implemented in over a reasonable period of time. So we would expect there may be some modest downward pressure on that, but that's our view.

Jason Green

*Analyst, Evercore Group LLC*

Q

Got it. And last question for me just circling back to Hana. To your knowledge have you seen kind of any other corporate players partner with landlords to try to figure out a solution to co-working space that's not your typical [ph] WeWork (00:24:59), it's more geared towards kind of the enterprise and corporate clients?

Robert E. Sulentic

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

A

There's others that are doing it, Jason. And one comment that I think is worth making here. This whole environment that we're in now where office occupiers are looking for a different experience and for flexible space, this has been really good for our industry. I think it's one of the reasons that you've seen strong leasing growth from us, but in general good leasing growth from the region.

Office experience is one of the things that companies are using in the battle for talented employees, particularly tech employees. And there's a lot of different ways that people are coming at this. We think the way we're doing it in partnership with the landlords is unique, wouldn't be surprising if others do it, but it's a market today that takes

about 1% of the base of the space out there, a flexible space. We think that's going to grow to 5% to 10%, probably the higher end of that range. It's a big opportunity for us. It's a big opportunity for our sector.

And again because of our position with landlords and in particular our position with occupiers, we think we're in a really good place to take advantage of it. And here's a statistic for you that just we haven't talked about a lot, but we've done hundreds of leases representing occupiers going into flexible space this year. So that is a big and real market.

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Jason Green

*Analyst, Evercore Group LLC*

Q

Got it. Thank you very much.

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**Operator:** Thank you. Our next question comes from the line of Alan Wai with Goldman Sachs. Please proceed with your question.

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Alan Wai

*Analyst, Goldman Sachs & Co. LLC*

Q

Hey thanks, good morning. On capital markets EMEA sales were up over 20%. I was wondering how UK did in particular, and has there been any hesitation in the market once again coming out of the latest Brexit discussions?

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Robert E. Sulentic

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

A

Well, UK was one of the strong points in EMEA, and London was strong. There's a lot of Asian capital interested in London. And the London market place is what it's been kind of forever. It is a really, really important place for global capital that go to invest in real estate, and we've seen strength in the last 90 days, we expect good things to happen, there is nervousness around Brexit, and we're watching that closely. But London and the UK were certainly strong in the third quarter.

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Alan Wai

*Analyst, Goldman Sachs & Co. LLC*

Q

In September, Jim, you talked about a bit of easier 3Q comps for EMEA sales being a factor, obviously 4Q last year was a record quarter. Do you anticipate being able to reach those levels once again?

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James R. Groch

*Chief Financial Officer and Global Director of Corporate Development, CBRE Group, Inc.*

A

Alan, I just want to make sure I understand your question. Is it whether or not we think we can continue to have growth in Q4 against tougher comps?

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Alan Wai

*Analyst, Goldman Sachs & Co. LLC*

Q

Yeah, that's right.

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James R. Groch

*Chief Financial Officer and Global Director of Corporate Development, CBRE Group, Inc.*

A

Yeah, we're still expecting strong growth in Q4. And we've achieved strong growth in Q3 against some tough comps as well. Q2, we had a couple of regions where the comps were a little crazy where the prior quarter had been up 40% and even 80%.

Alan Wai

*Analyst, Goldman Sachs & Co. LLC*

That's great, very helpful. Thank you.

Q

**Operator:** Thank you. Our next question comes from the line of Stephen Sheldon with William Blair. Please proceed with your question.

Stephen Hardy Sheldon

*Analyst, William Blair & Co. LLC*

Yeah, good morning. I guess first here in Occupier Outsourcing, you're continuing to see really solid growth there. But it seems like it might have slowed down more than at least we had expected especially with the benefit of FacilitySource. So what did organic kind of local currency growth look like in that business? And am I right in thinking there was a slowdown in growth particularly in the Americas? And then second any update to your target of getting FacilitySource to, I think it was about \$270 million run rate revenue by the end of this year?

Q

James R. Groch

*Chief Financial Officer and Global Director of Corporate Development, CBRE Group, Inc.*

Let's see. I would say, we think we're on track for where we projected for FacilitySource that is gross revenues. So it has a smaller impact on fee revenue than you might be expecting. Overall growth has been stronger than expected generally. We guided at the beginning of the year solid mid-teens year-to-date, we're at 18% growth in the business. As far as organic growth, year-to-date organic growth is at 12.5%, it's 9% this quarter. It can bump around a little bit quarter-to-quarter. We think Q4 will be solid double-digit and we'll have solid double-digit, my guess is 12-plus-percent organic growth for the year. So the growth has really been steady and strong and that's on top of comps that have gotten tougher this year as growth accelerated in the last year.

A

Stephen Hardy Sheldon

*Analyst, William Blair & Co. LLC*

Got it. That's helpful. And then how are you thinking about CBRE's opportunity in healthcare at this point? You completed Noveen Consulting acquisition. So I guess, what did that add for you and will the opportunity in healthcare be an increased area of focus here over the next few years?

Q

James R. Groch

*Chief Financial Officer and Global Director of Corporate Development, CBRE Group, Inc.*

Stephen, healthcare is one of the verticals that we really focus on with our Occupier Outsourcing business. There are a huge number of hospital systems around the U.S. and obviously around the world. We've got a very good foothold in that business. We serve a lot of those hospital systems, but the penetration so far has been very small. We have a very strong healthcare capability. And what we're seeing in healthcare is what we've seen in other areas of the business, financial services, technology et cetera. When you start to have outsourcing happen and the population of participants in a sector sees the cost savings that can come from that, the efficiencies that can come from that, then it starts to rollout across the sector. We're seeing a lot of momentum in healthcare. It's a big part of our future in that business and we have built the capability to address that opportunity.

A

Stephen Hardy Sheldon

*Analyst, William Blair & Co. LLC*

Great. Thank you very much.

Q

**Operator:** Thank you. Our next question comes from the line of Mitch Germain with JMP Securities. Please proceed with your question.

Mitch Germain

*Analyst, JMP Securities LLC*

The economic risk on the co-working venture is that – that's with the landlord? And then maybe second, will you guys be able to realize some incentive fees if certain thresholds are achieved?

Q

Robert E. Sulentic

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

Mitch, our model is to do these facilities in partnership with the landlords. So we'll put in a piece of the capital, they'll put in a piece of a bigger piece of the capital generally. We'll share in proportion to the rents. We'll build the space. We'll manage the space. We'll lease the space on their behalf – on behalf of the building. But we won't have leasing risk generally in this model, we won't take leasing risks. So we will be putting in capital, landlords will be putting in capital. Jim quantified earlier what we expect our total capital investment next year and that's the model we're pursuing. That model is very, very exciting to the landlords, because they want to keep control of the space, they want to keep control of the tenant base in those buildings and this gives them the opportunity to do it. It also gives them the opportunity to have a piece with the upside, which will also have a course.

A

Mitch Germain

*Analyst, JMP Securities LLC*

Got you. That's helpful. Shifting over to development, and I'm fairly certain most of that activity is happening here in the U.S. Have you guys shifted the way that you're underwriting some of these co-investments now in terms of your participation in some of these deals and – or the newer deals I should say, maybe any regions or asset classes that you're getting a little hesitant toward participating in?

Q

Robert E. Sulentic

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

Mitch, we have a very intensive asset by asset underwriting process that we go through. And in each local market whether we're doing an office building, a multifamily building, a warehouse building, which by the way are our three biggest prototypes, we also do healthcare and a little bit of retail. We look at the local submarket circumstances, and then, the macro circumstances around that as we underwrite these assets, it's something that we do very intensively, nothing about that has changed. And in general, the markets around the U.S. – and it is a domestic U.S. business for us today. The markets around the U.S. remain healthy. There's not a lot of vacancy unlike any cycle we've seen in my career. There's not a lot of circumstances that appear where they are may be overbuilding, but we continue to underwrite these assets very rigorously.

A

Mitch Germain

*Analyst, JMP Securities LLC*

Got you.

Q

James R. Groch

*Chief Financial Officer and Global Director of Corporate Development, CBRE Group, Inc.*

And Mitch...

A

Mitch Germain

*Analyst, JMP Securities LLC*

Yeah.

Q

James R. Groch

*Chief Financial Officer and Global Director of Corporate Development, CBRE Group, Inc.*

...I would just add, we've got a total of \$92 million of co-investments in total recourse repayment guarantees on outstanding debt balances of \$8 million on the \$12 billion that's in process. So this is – we're not changing the way we approach the business at all and the capital structures are pretty conservative.

A

Mitch Germain

*Analyst, JMP Securities LLC*

That's helpful. And then I think my last question. Bob, I'd love to get maybe just a greater discussion, maybe around the reorganization that was announced in August. Certainly you guys have been an incredibly successful company over the last decade or more. So some would argue was it necessary, I just love to gain some insight regarding yours maybe the board's thinking toward this change and what to expect from it.

Q

Robert E. Sulentic

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

Well, the first question I get as I go around the world and talk to our people, why change. It was the first question I got from our board. Things are going well, we're in our 9th year of double digit earnings growth, we've taken market share, our clients are happy and getting happier, so why change? And the reason for Mitch is the following, if you don't change the world around you is going to change and start to impose some failure on, then you're going to be changing from a point of weakness, not strength. We're in a very strong position today, but we saw opportunities to do some things better.

A

We had a real opportunity to put some super compelling leaders in more impactful positions and we got that done. We had an opportunity to have greater lines of clearer lines of authority in our business with greater accountability. We for sure have gotten that done. We've put more emphasis on the quality of our product lines, which is really good thing for our clients. We've put more emphasis on our Client Care program, really good thing for our clients. The marketplace that invests in our stock wanted to have greater transparency into the performance of our various lines of business and in particular in our outsourcing business, we've done that. And we think that's going to force greater transparency in our whole sector.

Then another thing we're getting out of this that's important is we're going to be more efficient, more cost effective as an enterprise. So those are all the things that drove this. We're a couple months into implementing it. We're very, very encouraged about what we're seeing.

Mitch Germain

*Analyst, JMP Securities LLC*

Thank you.

Q

**Operator:** Thank you. Our next question comes from the line of Jade Rahmani with KBW. Please proceed with your question.

Jade Rahmani

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

Q

Thanks very much. In terms of the real estate [ph] investor talent (00:36:40) what do you think the appetite for continued growth in acquisitions and refinancings will be in 2019? I've seen several surveys showing continued growth in investor allocations in terms of the targets.

James R. Groch

*Chief Financial Officer and Global Director of Corporate Development, CBRE Group, Inc.*

A

Yeah. Jade, this is Jim. We're seeing a very healthy market, our pipeline and the mortgage origination side is as strong as it's ever been. Spreads on the debt side getting tighter, I think are an indication that the bid-ask spreads are coming together as well on the acquisition side. So the market feels healthy and balanced and with a good bit of liquidity. And also at the same time, not getting overheated, it seems that the discipline is still there.

Jade Rahmani

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

Q

In terms of the number of bidders on transactions, how has that been trending over the past couple of quarters?

Robert E. Sulentic

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

A

Jade, the fact of matter is there is an awful lot of capital out there looking for acquisitions, and – by the way some owners of acquisitions that might otherwise sell are not exiting assets because they can't find replacement assets. So, there's plenty of bidders for – there's plenty of debt and there's plenty of equity for the assets that are in the marketplace, and that's why you continue to see a healthy market.

Jade Rahmani

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

Q

When you look at the outlook for 2019, what do you think poses a greater risk, the potential increased interest rates from the Fed's actions or that the ongoing trade tariff issues?

Robert E. Sulentic

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

A

Yeah, I don't think either of those are our biggest risk right now. We're watching both of them closely and there's some concern about both of them in the market. I think the bigger risk is we're in a good global economy and the tech companies and the other companies that really value talent continue to hire, I think the – and unemployment here and in other countries is low. I think the bigger risk is that it may start to get tough to hire employees, and that may force some inflation that could create some issues eventually. That's probably what we lineup as the biggest concern right now, but again we're watching interest rates and we're watching the trade circumstance and they are the real things to be focused on.

Jade Rahmani

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

Q

The commercial lending business has been an area of outperformance lately. I was wondering, if you have any insight or data about what the in-place cost of debt is for holders of commercial real estate? I think according to

the MBA, there's been about \$3 trillion of commercial real estate originations this cycle, and something we've seen played out in the residential market is that the weighted average cost of borrowing in place is much lower than current mortgage rates and that's starting to impact transaction volumes. Do you have any concerns about that playing out in 2019?

James R. Groch

*Chief Financial Officer and Global Director of Corporate Development, CBRE Group, Inc.*

A

I think the expectations for 2019 are largely baked in today. And obviously we've seen rates go up but that's been at least partially offset by compression in the spreads. So overall activity it still feels like a pretty healthy environment for activity. And I think the commercial side is – it does have some differences obviously to the single-family home side. But all of this is based on what we expect in the marketplace today if things changed materially from that then that would create a new situation.

Jade Rahmani

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

Q

On the leasing side, do you view the last two quarters of acceleration as sustainable?

Robert E. Sulentic

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

A

Well, look I don't suspect that [indiscernible] (00:40:26) indefinitely be able to grow our leasing business at mid-teens plus rates, but we do think that the economy in the U.S. and the economy around the world is good. We do really think that we have a solution for occupiers, an integrated solution and a solution for tenants looking to lease space that puts us in a position to effectively grow market share. So we expect to see good strength out of that business going forward. What we saw this quarter was a pretty special result.

Jade Rahmani

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

Q

In terms of the reorg, do you think that it is expected to drive increased coordination between key producers at the business line level? Should we expect teams of investment sales, mortgage brokers and leasing producers to go in on deals together? Is that going to be a big initiative?

Robert E. Sulentic

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

A

One of the key things that we wanted to get done with that reorganization was to strengthen the line of business side of our matrix. That's the side where we had our capital markets leadership, our Advisory and Transaction Services, which is our tenant leasing leadership, evaluations leadership, our project management leadership et cetera. The goal of that group is to bring the CBRE enterprise to our clients, and then, of course, we have this Client Care initiative that helps us get that done as well. We absolutely expect to accelerate our ability to bring the enterprise to solve the needs of our clients under this new organization. That's one of the key goals.

Jade Rahmani

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

Q

And just turning to the M&A pipeline, where are you seeing the most interesting opportunities if you could make any characterization by business line? And also if there were a large scale opportunity in businesses do you think it be likely to be in?



James R. Groch

*Chief Financial Officer and Global Director of Corporate Development, CBRE Group, Inc.*

A

Sure. Well, as you might expect, I won't get that specific. The larger opportunities come along when they're available every few years. And the pipeline on infill remains strong, I mean we're really opportunistic I would say around looking for the very high quality businesses that bring leverage to our platform and that can be – frankly I can be in any of our lines of business in pretty much any region of the world. But we've been at a pretty steady pace, the market feels rational and you've seen us pull out when it's not rational. Right now, I think it's kind of in a good place.

Jade Rahmani

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

Q

Thanks for taking the questions.

Robert E. Sulentic

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

A

Thank you.

**Operator:** Thank you. Our next question comes from the line of Patrick O'Shaughnessy with Raymond James. Please proceed with your question.

Patrick J. O'Shaughnessy

*Analyst, Raymond James & Associates, Inc.*

Q

Hey, good morning, guys. So, you talked to a lot of asset owners, and you'll also run your own Investment Management and Development operations. So, what's your take on why cap rates haven't meaningfully moved up so far?

James R. Groch

*Chief Financial Officer and Global Director of Corporate Development, CBRE Group, Inc.*

A

Well, you know it's not something in recent quarters obviously it's been going on for several years now. I think I'd offer a couple of points. One is that the spreads on cap rate – the spreads versus say 10 year treasuries or BBB bonds, whatever you want to look at are generally not far from the midpoint of where the spreads have been historically. So, while we've seen interest rates come up a bit, the spreads have compressed. I think fundamentally at the end of the day, real estate is a reasonably priced asset class as compared to other alternative investments and the market's strong, new development has been in check, and with that you have [indiscernible] (00:44:16) the rental increases over time will continue. And I think the increases have been absorbed with some spread compression.

Patrick J. O'Shaughnessy

*Analyst, Raymond James & Associates, Inc.*

Q

Got it. That's helpful. Thanks. And then your net debt-to-EBITDA 0.8 times at the end of the third quarter, your evaluation is at relative lows right now. Are you at a point where you might start to think about share repurchases? Or do you still feel like you have better uses of your excess capital?

James R. Groch

*Chief Financial Officer and Global Director of Corporate Development, CBRE Group, Inc.*

A

Well, we have invested virtually all of our free cash flow over the last few years around M&A. What I will say though is that we've been in a blackout period since mid-September. Had we not been, we would have been buying shares under our existing authorization.

Patrick J. O'Shaughnessy

*Analyst, Raymond James & Associates, Inc.*

Great. Thank you very much.

Q

**Operator:** Thank you. Our next question comes from the line of David Ridley-Lane with Bank of America Merrill Lynch. Please proceed with your question.

David E. Ridley-Lane

*Analyst, Bank of America Merrill Lynch*

Thank you. So CBRE had a couple of high profile recruits recently, wanted to touch on how head count is trended in leasing and capital markets, either your data or what you're targeting for 2018.

Q

Robert E. Sulentic

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

Well, David, we've had a really good year for recruiting and our recruiting is tracking ahead of last year and ahead of our expectations for this year and we expect that to continue. What's becoming clear to us as we recruit is that these professionals want to come to a place where they can do more for their clients and there's just no doubt based on the results we're having that they're seeing that here, our platform, our technology, our consultative tools, our ability to connect to serve clients around the world, it's making it easier and easier for us to bring people on board.

A

David E. Ridley-Lane

*Analyst, Bank of America Merrill Lynch*

Great. And then though this is a tough one to ask, but within your growth in leasing over the last 12 months, you're clearly growing mid-teens, any way to conceptualize how much of that is coming from these differentiated offerings from cross-selling Occupier Outsourcing clients for example or said differently what do you think the market has been growing over the last year or so and how much market share if you have been taking?

Q

Robert E. Sulentic

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

Well, in this quarter we know that we grew probably 10 points faster than the market grew. We know that something like half of the new leasing work we're doing is account based. We know that that account based work comes because of our platform, because of our capabilities around the world or ability to bring different products to these clients. So there's just no doubt it's a differentiator in attracting clients, it's also a differentiator, in answer to your first question, in attracting talent, which of course then you circle back and because of that talent you attract more clients. So I think it's all working together. Our Occupier business is really strong, our Outsourcing business and our Advisory and Transaction Service, tenant leasing business are really strong and it's all working really well together.

A

David E. Ridley-Lane

*Analyst, Bank of America Merrill Lynch*

Thank you very much.

Q

**Operator:** Thank you. There are no further questions at this time. I would like to turn the call back over to Mr. Sulentic for any closing remarks.

**Robert E. Sulentic**

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

Thanks everyone for being with us. And we'll talk to you in about 90 days when we report our year-end results.

**Operator:** Thank you. This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation, and have a wonderful day.

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