Corrected Transcript

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CBRE Group, Inc. (CBRE)

Q1 2019 Earnings Call

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Jason Green
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Patrick O'Shaughnessy
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Mitchell Germain
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MANAGEMENT DISCUSSION SECTION

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

I would now like to turn the conference over to your host, Mr. Brad Burke, Investor Relations for CBRE. Thank you. You may begin.

Brad Burke
Head-Investor Relations, CBRE Group, Inc.

Thank you and welcome to CBRE's first quarter 2019 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, foreign currency impact, 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 2019 earnings report furnished on Form 8-K and our most recent Annual Report filed 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 explanations of these measures, can be found within the appendix of this presentation. Additionally, all revenue and fee revenue 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 Chief Investment Officer.

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

Robert E. Sulentic

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

Thank you, Brad, and good morning, everyone. CBRE had an excellent start to 2019, as the positive momentum we experienced last year carried over into the first quarter. Strong operating leverage across each of our three business segments drove increases of 29% in adjusted EBITDA and 46% in adjusted EPS.

The organizational changes we announced last year are improving our lines of business and helping to make us a more efficient client-focused company. For example, our two real estate services segments, Advisory Services and Global Workplace Solutions, realized a combined 190-basis-point increase in adjusted EBITDA margins from last year's first quarter.

Revenue growth was paced by another outstanding quarter for leasing, which increased by 22%. Leasing continues to benefit from both solid market fundamentals and market share gains. These gains are being driven by an offering for both one-off transactions and account-based clients that is increasingly differentiated within our industry.

Leasing growth is also supported by strong recruiting. We're able to attract talented producers who tell us they can achieve more at CBRE than they can anywhere else. This speaks to the strength and differentiation of the CBRE platform.

Our Global Workplace Solutions segment, which serves large account-based clients, again saw fee revenue increase by double digits in local currency. This business had an outstanding quarter for new account wins and our active pipeline has now more than doubled in size in the past two years. Finally, our Real Estate Investments segment had a strong quarter with excellent adjusted EBITDA growth from real estate development.

While development results can vary quarter-to-quarter, the long-term performance of our business has been outstanding. Our new flexible space initiative, Hana, has signed its first two deals with property owners and has a very active pipeline with additional property owner partnerships expected to be announced in the near future.

Before I turn the call over to Jim, I want to thank Jim for his many accomplishments as our CFO. As we have discussed before, this will be Jim's last quarterly earnings call as he focuses full time on his Chief Investment Officer responsibilities where he will do great things for the company.

We're excited to welcome Leah Stearns to CBRE as our next Chief Financial Officer. Leah will join us from American Tower Corporation next Wednesday. Leah is an outstanding leader with a strong financial and operational background, and extensive international and commercial real estate experience. I know you will enjoy interacting with her as our new CFO.

Now Jim will take you through our results in greater detail.

James R. Groch

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

Thanks, Bob. I want to begin by welcoming Leah. She'll be a great addition to our executive team, and I look forward to working with her.

Now please turn to slide 5. This is the first quarter where we are reporting results under our new business segments and, as a result, we are providing further incremental transparency into our performance. To help you with this transition, we have restated historical quarterly data under our new segments back to the first quarter of 2017. We have also provided supplemental reports under our prior geographic reporting methodology. Both are posted in Excel files on the Investor Relations section of our website.

Turning to the quarter, as Bob noted, CBRE had a great start to 2019 with growth of 46% in adjusted EPS and 29% in adjusted EBITDA, almost all of which was organic. We appear to be on track for a 10th consecutive year of double-digit adjusted EPS growth.

Our Advisory Services and Global Workplace Solutions segments combined experienced 14% revenue growth and 11% fee revenue growth, both in local currency; 22% adjusted EBITDA growth in U.S. dollars; and a 190-basis-point expansion of adjusted EBITDA margin on fee revenue. The increase in margins was driven by double-digit fee revenue growth, a favorable business mix, and cost discipline. The net impact of a handful of choppier items such as mortgage servicing gains and fluctuations in currency drove approximately one-fourth of this margin expansion in the quarter.

We also had strong performance in our Real Estate Investments segment with adjusted EBITDA increasing $37 million over the prior year. Within this segment, investment management benefited from co-investment gains and development benefited from several larger dispositions.

GAAP earnings in the quarter were negatively affected by the non-cash write-down of intangibles in our real estate securities investment management business. As we have discussed previously, this business has been impacted by the industry-wide shift in investor preferences to passive investment programs. The securities business now comprises less than 10% of AUM in our investment management business.

Finally, Moody's recognized the strength of our balance sheet with an upgrade last week to Baa1, in line with our BBB+ rating from S&P.

Now please turn to slide 6 for a discussion of our Advisory Services segment. This segment includes our core services listed on the right-hand side of the slide. For the quarter, this segment realized adjusted EBITDA growth of 22% in U.S. dollars, despite the drag from the lower property sales on fee revenue growth of 10%.

Performance was led by our leasing business, which had another great quarter, increasing globally by 22%, and growth was almost entirely organic. In the U.S., leasing was up 28%, with strong demand from multiple sectors including consumer products, energy and technology.

We benefited from several large deals, outsized growth from account-based clients and ongoing recruiting gains. With growth in leasing revenues for the trailing 12 months averaging over 20%, comparisons going forward will be more challenging.

Loan servicing revenue grew 10% and our portfolio increased to a record $210 billion. Capital markets revenue, which includes both property sales and commercial mortgage origination, declined by 1% globally, reflecting meaningful gains in market share.

Within Capital markets, commercial mortgage origination revenue rose 13%, fueled by robust activity with the U.S. government-sponsored enterprises as well as banks. Property sales revenue declined 5% against a challenging 11% growth comparison in the prior year, though comparisons become easier going forward.

The decline in property sales reflects a tepid macro environment, where market-wide sales volume decreased in all three global regions. Despite the softer quarter, we continue to take share in our property sales business. A modest 1% decline in U.S. sales revenue reflects significant market share gains, as estimated market volumes decreased 8% according to Real Capital Analytics.

Overall, America's property sales declined 4% driven by Canada which faced a 31% prior-year growth comparison.

International growth in sales was negatively impacted by weakness in our residential sales businesses in Australia and Singapore, which offset otherwise strong performance, particularly in Greater China and Japan. Adjusted EBITDA on fee revenue margin expansion of 200 basis points for the Advisory Services segment was driven by overall solid revenue growth, a favorable business mix and heightened focus on cost discipline.

Now, please turn to slide 7 for a discussion of our Global Workplace Solutions segment, sometimes referred to as our outsourcing business. This segment achieved fee revenue growth of 12% in local currency and 8% in U.S. dollars. All three regions posted double-digit growth in local currency on top of strong double-digit growth in Q1 of the prior year. FX was particularly challenging headwind in the quarter, but should moderate as the year progresses.

Global Workplace Solutions' adjusted EBITDA grew by 20% in U.S. dollars, reflecting strong operating leverage. We started the year by winning several large new contracts, making it our strongest ever first quarter for new business wins. By example, we significantly expanded our relationship with Lowe's Home Improvement by combining our traditional facilities management strengths with the FacilitySource technology and services capabilities that we acquired last year.

FacilitySource had a small pilot program with Lowe's in place at the time of the acquisition. With this new contract, we now manage 196 million square feet for Lowe's nationally. We expect FacilitySource will continue to drive growth with clients that have large, widely dispersed operations. With a record pipeline of pursuits, Global Workplace Solutions is off to an excellent start to 2019.

Now please turn to slide 8 for a discussion of our Real Estate Investments segment. This segment includes our investment management business, which includes contractual asset management fees, our development business, and Hana, our flexible space solutions business. First quarter EBITDA growth of $37 million in this segment exceeded our own expectations. Investment management capital raising set a new record at $13 billion over the past 12 months.

Assets under management increased by $1.7 billion in the quarter to reach a new high at more than $107 billion. Investment management contributed $6 million to adjusted EBITDA growth. Co-investment returns totaled $13 million, driven by the strong rebound in public equity prices in Q1, more than offsetting the decline in carried interest revenue versus last year.

The development business continues to exhibit excellent momentum, contributing $36 million to adjusted EBITDA growth, driven by several large asset sales, including an office disposition that had been budgeted for later in the year. In-process activity also reached a record level, totaling $9.7 billion at the end of Q1.

As you know, EBITDA from our development business can be choppy from quarter-to-quarter. Last year, the second and third quarters generated the majority of our EBITDA. This year, we expect the bulk of our EBITDA from development to be generated in the first and fourth quarters.

Finally, Hana incurred startup costs in line with our expectations. In its early stages, Hana is being very well received, filling a marketplace need for property owners looking to participate in the powerful flexible space trend.

Now, please turn to slide 9 for Bob's closing remarks.

Robert E. Sulentic

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

Thank you, Jim. CBRE is off to a great start in 2019. As we look ahead, our business has positive momentum and we are running ahead of the expectations we outlined at our Investor Day in March. The macro market drivers and our inherent competitive advantages remain intact. As always, we caution against reading too much into first quarter results, as this is our seasonally smallest period. We'll revisit our guidance once we see how the business performs through mid-year.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. [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

Okay. Thank you. Good morning. My first question is on GWS. Your peer groups similarly talked about pretty high win rates in the first quarter. Can you give us a little bit more color on just the number of RFPs or the scope, and how just that pipeline looks relative to how you thought about the year going into 2019?

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

A

Yeah. Sure, Anthony. This is Jim. I won't get specific on number of RFPs, but the magnitude of the pipeline is more than double where it was two years ago. So it's definitely at an all-time record. It's more than double where it was two years ago. And the growth has just been very, very strong. So we had double-digit growth in all three regions and that was on top of a very strong quarter in the first quarter of last year which had growth of 14% to 17% in local currency for the three regions.

Anthony Paolone
Analyst, JPMorgan Securities LLC

Q

Okay. And the RFPs that you're seeing are some of the larger projects. Are they being divvied up among more than one service provider such that you could all have pretty high win rates and achieve your sort of growth goals, or how is that playing out?

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

A

Yeah. Anthony, this is Bob. There are a certain number of them that get divided up, particularly the larger ones. But we've also prevailed in winning some very large accounts just ourselves. And I will tell you that the percentage of our pipeline that involves integrated multi-service comprehensive requests for proposal has doubled relative to where it was a year ago.

So, said differently, a year ago, there may have been one or two services being requested. Now it's more typical that it'll be all the services we offer, consulting, facilities management, project management, transaction management, twice as often. And yes, sometimes they're split up, but often we've been able to win a complete offering.

Anthony Paolone
Analyst, JPMorgan Securities LLC

Q

Okay. And then just another question on GWS. Now that you're rolling in some of the leasing activity related to that into that business line, has the leasing component of that or did the leasing component of that in the first quarter grow at an outsized level? And does that piece of that business help with the overall margin, like, do you get the same kind of incremental margin on leasing in GWS as you do on the Advisory side?

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

A

Yeah. We're pretty conservative, Anthony, on how we're recognizing leasing revenues within GWS. So it's about 6% of the total fee revenue in GWS and it grew at a similar pace, maybe slightly lower growth rate than we showed in the Advisory business. But, obviously, the Advisory business is getting the bulk of the revenues on any deals that are one within GWS and are being executed in the field.

Anthony Paolone
Analyst, JPMorgan Securities LLC

Q

Okay. And then just last question on the Real Estate Investments segment, any further guideposts on Hana and what the financial impact for 2019 is going to be? Whether it's net drag or neutral or just how to put that in?

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

A

Yeah. It's a modest net drag and it's in line with our guidance. So we are running in line with our guidance on the impact of Hana.

Anthony Paolone
Analyst, JPMorgan Securities LLC

Q

Okay. And thanks, Jim, for all your help over the years.

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

A

Thank you, Anthony.

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

Stephen Sheldon
Analyst, William Blair & Co. LLC

Q

Good morning. First, I think you talked about leasing fee revenue growing high-single digits this year back in March. Obviously, really strong results there this quarter. I think some of your competitors have seen similar trends. So, just wanted to ask how leasing revenue came in in the quarter relative to your expectations? And if your overall view on how that business could perform this year has changed at all, realizing that comparisons get more difficult?

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

A

Yeah. Leasing, we expected it to be strong and it was stronger than we expected it to be. There is a lot of account-based work in the market. That plays really well to our offering. So you've seen us take market share. You've seen the market being really strong. This ongoing trend in office space use, the space to attract, retain, make employees more efficient, improve morale is really a compelling trend and it is impacting the amount of work out there with big occupiers. And, again, it plays quite well to us because we have disintegrated offering with workplace solutions, with technology support, with lots of stuff that we do to help those types of tenants. So we expected a strong quarter. We expect a strong year, but the quarter was stronger than we expected.

Stephen Sheldon
Analyst, William Blair & Co. LLC

Q

Okay. That's helpful. And then I guess within the Advisory Solutions (sic) [Services] (20:28), can you maybe talk through some of the factors that drove the adjusted EBITDA margin expansion there? I think you talked about a positive impact from solid top-line growth, revenue mix, and cost management. I guess, how should we think about the contribution from each of those factors and the potential for continued margin expansion there over the remainder of the year?

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

A

Yeah. I would say we talked about the margin expansion and it was across the board, it was in both the Advisory and the GWS business. Combined, they were up about 190 basis points. We noted that about a quarter of that increase came from kind of lumpier items such as the recognition OMSR gains, a little FX, some pension costs that didn't reoccur, but the rest were all kind of fundamental drivers to the business. So we did guide to increased operating margins throughout the year. Q1 performance was better than we expected.

Stephen Sheldon
Analyst, William Blair & Co. LLC

Q

Okay. Thank you.

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

Jason Green
Analyst, Evercore ISI

Q

Good morning. On the sales side with the year-over-year declines, are you seeing any drying up of the amount of capital that's out there to invest? Or is it really just uncertainty related to the macro and people preferring to wait it out to put capital to work?

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

A

I would say it's more of the latter, some uncertainty about what's going to happen, but there is an awful lot of both equity and debt capital on the sidelines ready to get into commercial real estate. And while the market is off, it's still overall a healthy market, significant amount of trading going on. So I would suggest it's uncertainty, but no lack of capital anywhere in the world for good assets.

Jason Green
Analyst, Evercore ISI

Q

Got it. And then, on the leasing side, given some of the uncertainty that's weighing on sales, can you talk about the length of leases that tenants are pursuing, if they're longer or shorter-term in nature? And just the mentality of tenants overall, as they look for space right now.

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

A

Yeah. The mentality of tenants looking for space is quite strong. And as we've seen in our own business, we've been upgrading our own space, spending more money on our own space to compete for the top talent around the world. And we're finding our customers are doing the same thing.

As far as lease terms specifically, they've migrated up a bit maybe about six months in length over the last three or four years. So there's a little bit of increase going on there. We also have rent growth, which has been running at about 4%. So, that's a nice little tailwind as well and that's been the case for about 18 months now.

Jason Green
Analyst, Evercore ISI

Q

Got it. And then last one for me, on the [ph] hot (23:28) deals expected to be announced as a proportion of the building that they sit in, how big are those deals and how are landlords or landowners kind of thinking about how much Hana space they're willing to have in their building?

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

A

Well, the size of the typical Hana unit is not really that dependent on the size of the building. And so, if it's a smaller building, it's a bigger percentage of the building. But, certainly, landlords have no problem at all having upwards of 5% to 10% of the space in some buildings being in a Hana-type unit.

Jason Green
Analyst, Evercore ISI

Q

Okay. Thank you.

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

Yes. Hi. I was wondering if you could comment on what you're seeing in the M&A environment and if you could identify or give some thoughts around potential business lines that you might look at. Would you look at M&A in the capital markets side of the business? Or are you looking to grow more recurring contractual types of businesses?

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

A

Yeah. Sure, Jade. Yeah. The M&A pipeline is, I would say, as strong as it's ever been. We closed three infill acquisitions since the beginning of the year. As far as capital markets or not, I mean, we're always kind of attentive to where we are in the business cycle and the cyclicality of different businesses. That said, there are ways to structure deals.

But we're generally on the more conservative side of our underwriting as we're – even though the business fundamentals are excellent, we are in the later stages of the long economic cycle. So we've got a – I'd say the pipeline is as strong as it's ever been, but we are taking a conservative point of view on underwriting.

Jade Rahmani
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Okay. In terms of the capital markets environment, could you make any comments on how 2Q or pipelines, deal activity, interest levels, has been so far? Is some of the 1Q softness spill-over from the volatility that played out in December or you're seeing something more widespread as far as a trend goes?

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

A

Yeah. We do think the volatility in December impacted the Q1 results. Our expectations for capital markets for the year have not really changed since we gave our year-end numbers and our expectations for the year. But there was some impact in the first quarter due to that December volatility.

Jade Rahmani
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Has any of that started to improve just so far as the second quarter?

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

A

Yeah. We're not...

Jade Rahmani
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Not asking for guidance but just a market comment.

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

A

Yeah. We really haven't changed our view on where capital markets and sales are headed, other than to acknowledge there was some impact of the December volatility in those first quarter numbers.

Jade Rahmani
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Okay. In terms of leasing, is the majority of the growth being driven by technology, flex space and industrial?

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

A

The majority of the growth is being driven by office space use, but not necessarily just technology. About 23% of our leasing in Q1 was to technology companies. That's been running over the last couple years more like 20%. So, technology was up a little but not a lot. But definitely the growth in our leasing numbers was driven by office space, all manner of office users.

Jade Rahmani
Analyst, Keefe, Bruyette & Woods, Inc.

Q

What about co-working and flex space within that office leasing growth?

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

About 2% of the growth we experienced in leasing, 2 points of the total number of growth points came from co-working or flexible space.

Jade Rahmani
Analyst, Keefe, Bruyette & Woods, Inc.
Q

So, that seems like it's actually lower than the rest of the market. Would you agree with that? I saw a JLL 1Q report that showed about 20% of leasing activity in the first quarter was driven by flex space?

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

It was not 20% of our leasing. It did contribute to growth. It did contribute to year-over-year growth but it was a smaller percentage than that for us.

Jade Rahmani
Analyst, Keefe, Bruyette & Woods, Inc.
Q

Okay. And just lastly on the write-down within investment management, what was the triggering mechanism for that? The trend toward passive investment strategies, it's taking place over multiple years, and you also completed your annual review several months ago. So, wondering what drove that impairment at the timing of it.

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

Yeah. We review all of our accounts every quarter, and we had some feedback on a couple of accounts specifically that they were going to be moving to more passive strategies.

Jade Rahmani
Analyst, Keefe, Bruyette & Woods, Inc.
Q

Okay. Were they separately managed accounts?

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

No, I'd rather not get into details of the specifics of the accounts, but those were the triggering events.

Jade Rahmani
Analyst, Keefe, Bruyette & Woods, Inc.
Q

Okay. Thanks very much.

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

Patrick O'Shaughnessy
Analyst, Raymond James & Associates, Inc.
Q

Hey. Good morning, guys. So, first, I was wondering if you can give an update on your outlook for the GSE lending business. Obviously, some leadership turnover and a lot of statements being made in [ph] D.C. (29:36) right now. What are your current thoughts on the outlook for that?

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

A

The first quarter was very strong. We do expect that that will taper. Both agencies are guiding to, I think, down about 5%. Their caps haven't changed, but they've gotten tighter on some of the exceptions to the caps. So, we think the Director Calabria will continue to kind of focus on shrinking that footprint over time, but in a very gradual way over many years.

Patrick O'Shaughnessy
Analyst, Raymond James & Associates, Inc.

Q

Got it. And then the second question, maybe just a higher level strategic question. How much thought have you guys given to trying to monetize the data that you collect as the largest commercial real estate service provider in the world?

So, you obviously have a lot of internal tools that you leverage for your internal employees. But then when you see firms like CoStar, it's got a $18 billion market cap. You've seen some deals in the space. Obviously, the data is valuable. To what extent have you guys explored whether you can monetize your data?

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

A

Patrick, we think about that from time-to-time, but we do monetize our data now. We use our data extensively to support the revenue that we generate across our business, our leasing business, we use data extensively in our GWS business and our capital markets business. The notion of separately selling data, it's something we talk about from time-to-time, but the main way we're using data now is to support our own clients.

Patrick O'Shaughnessy
Analyst, Raymond James & Associates, Inc.

Q

Is the concern that – would it be that if you were to separately sell it, then maybe you would be losing some of your competitive advantage by providing high-quality data to your competitors?

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

A

I think the main concern is that we are really focused on the work we're doing, the lines of business we have. And we have a really, really strong digital and technology team we've built and we've got them focused in that area now. We will consider over time, and we talk about from time-to-time, what we might do beyond that. But for the moment, we think the right focus is on the lines of business and the clients we have, doing the things we're doing for those clients now.

Patrick O'Shaughnessy
Analyst, Raymond James & Associates, Inc.

Q

All right. Got it. That's interesting. Thank you so much.

Operator: Thank you. [Operator Instructions] Our next question comes from the line of Mitch Germain with JMP Group. Please proceed with your question.

Mitchell Germain
Analyst, JMP Securities LLC

Q

Good morning. Have any of the fundamental drivers of facilities management shifted? I know cost savings was a very primary driver, but have you seen any shift in that over the last 12, 24 months?

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

A

Cost is still a really big driver in that business. But increasingly, anything we do for occupiers is being impacted by the experience we create in the space that they occupy or the experience we help them create. So, we have this new offering host which is a combination of a technology platform and a group of more legacy-type services that we do for clients. We do a lot of workplace solutions consulting for our occupier clients that help drives that business.

We manage office space today with 9 million people in it around the world and they're increasingly asking us to do experience type work for them. So, that's a driver that exists to the degree it does today, even a year ago or certainly two years ago. But cost is still a very, very big element of that business.

Mitchell Germain
Analyst, JMP Securities LLC

Q

And are customers looking to consolidate to one provider or are you still looking at a lot of different shared services based on whether it be geography or regions, something like that?

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

A

Clients are looking to consolidate to fewer providers. A good number of them want to work with one provider if they can find a provider that can do the things they need in terms of the breadth of services and the geographic footprint.

And we have, as I said in my comments earlier, won a number of large accounts on a single provider basis because our clients now believe we can do things that two or three years ago, before GWS, before our organic growth, before FacilitySource, we couldn't do and certainly nobody else could do.

Mitchell Germain
Analyst, JMP Securities LLC

Q

Got you. And then last question, I apologize, I know you mentioned, Jim, the builders of the EBITDA margin expansion, looks like 190 basis points Advisory and Global Workplace Solutions. Where's the remaining 130 basis points and how much of it came from Real Estate Investment business line?

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

A

The 190 basis points I referenced is 100% from within the services businesses, from within GWS and Advisory. So, zero of that margin expansion came from the Real Estate Investment businesses and most of it is really just fundamentals. It's business mix, it's growth in the business and it's cost control.

Mitchell Germain
Analyst, JMP Securities LLC

Q

Just want to follow up on that. So, the gains from the development and the co-investment income, how much of that contributed to the volume?

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

A

Again, the 190 basis points that I referenced for the two services, zero, that does not include any impact from any of the Real Estate Investment businesses. That's purely in the two services businesses combined. And both businesses did very nicely on the margin expansion, both segments.

Mitchell Germain
Analyst, JMP Securities LLC

Q

Thank you.

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

Ryan Tomasello
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Good morning. This is actually Ryan Tomasello swapping in for Jade. Thanks for taking the follow-up. For Hana, you talked about this year, but just looking beyond 2019, can you say what you expect for stabilized economics or returns in that business? And then, perhaps discuss your approach with regards to choosing between the business model in Hana between outright leases or partnership and management agreements with owners, which of those you prefer?

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

A

Sure. We have a strong preference for partnership. We get into this business because our clients on both sides, landlords and occupiers, are asking us for help in this area. So, these are massive, very, very important clients to us. Our focus is delivering what these clients want. And so we have a strong preference to be in partnership with them or on a fee-for-service basis with them. As we've said, we will sign leases here and there just to get scale and experience. But that's our preferred business model. We haven't given guidance past 2019.

Ryan Tomasello
Analyst, Keefe, Bruyette & Woods, Inc.

Q

I mean, not asking for a specific guidance, but just in terms of high-level return expectations or margins in the business longer-term, if you can. If not, understandable.

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

A

Yeah. I mean, any place we deploy capital, we're looking for a very strong return on that capital risk-adjusted return. But I wouldn't get into more detail than that at this point.

Ryan Tomasello
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Okay. Fair enough. Thanks for taking the follow-up.

Operator: Thank you. Ladies and gentlemen, this concludes our question-and answer-session. I'll turn the floor back to Mr. Sulentic for any final comments.

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

Thanks for being with us, everyone. And we look forward to talking to you again into the second quarter.

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