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# CBRE Group, Inc. (CBRE)

Q3 2019 Earnings Call

## CORPORATE PARTICIPANTS

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## OTHER PARTICIPANTS

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Ryan Tomasello

Analyst, Keefe, Bruyette & Woods, Inc.

Jason Green

Analyst, Evercore Group LLC

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Greetings. Welcome to CBRE's third 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] Please note this conference is being recorded.

I will now turn the conference over to your host, Mr. Brad Burke. Please go ahead.

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Brad Burke

Senior Vice President-Corporate Finance & Investor Relations, CBRE Group, Inc.

Thank you, and welcome to CBRE's third quarter 2019 earnings conference call. Earlier today, we issued a press release announcing our financial results, and it is posted on the Investor Relations page of our website, [cbre.com](http://cbre.com) along with a presentation slide deck that you can use to follow along with our prepared remarks, as well as an Excel file that contains additional supplemental materials.

Our agenda for this morning's call will be as follows: First, I'll provide an overview of our financial results for the quarter. Next, Bob Sulentic, our President and CEO and Leah Stearns, our CFO, will discuss our third quarter results in more detail. After these comments, we'll open up the call for your questions.

Before I begin, I'll remind you that this presentation contains forward-looking statements that involve a number of risks and uncertainties. Examples of these statements include our expectations regarding CBRE's future growth momentum, operations, market share, business outlook, capital deployment acquisition, integration and financial performance including our 2019 outlook, and any other statements regarding matters that are not historical fact. We urge you to consider these factors and remind you that we undertake no obligation to update the information

contained on this call to reflect subsequent events or circumstances. You should be aware that these statements should be considered estimates only, and certain factors may affect us in the future that could cause actual results to differ materially from those expressed in these forward-looking statements. For a full discussion of the risks and other factors that may impact these forward looking-statements, please refer to this morning's earnings press release and our most recent annual and quarterly reports filed on Form 10-K and Form 10-Q, respectively. We have provided reconciliations of adjusted EPS, adjusted EBITDA, and fee revenue, and certain other non-GAAP financial measures included in our remarks to the most directly comparable GAAP measures together with explanations of these measures in the appendix of the presentation slide deck.

Now, please turn to slide 4 of our presentation, which highlights our financial results for the third quarter of 2019. Third quarter adjusted earnings per share was flat at \$0.79. Strong top and bottom line growth within our two services segments, Advisory Services and Global Workplace Solutions, was offset by a decline in adjusted EBITDA in our Real Estate Investments segment. The \$85 million of adjusted EBITDA realized at Real Estate Investments in last year's third quarter represented an all-time record for the segment. On a combined basis, our two services segments generated fee revenue growth and adjusted EBITDA growth of over 11% and 16%, respectively. In addition, the combined adjusted EBITDA margin for our Advisory and Global Workplace Solutions segments expanded approximately 70 basis points. Finally, our consolidated results also reflect negative foreign exchange translation impacts of 2% and 1% to fee revenue and adjusted EBITDA growth, respectively.

Now, for an update on our business fundamentals, I will 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. As you've seen, we reported another strong quarter in our services business driven by double-digit revenue growth in global occupier outsourcing, U.S. Advisory property sales, and commercial mortgage origination. We continue to benefit from strong organic growth in operating leverage in our combined services businesses. Additionally, in early October, we completed the acquisition of Telford Homes, expanding our development capabilities into the UK, where the multifamily rental market is poised for long-term secular growth. We were able to acquire Telford at an attractive valuation, reflecting market concerns due to Brexit, without materially altering our capital structure or engaging in a lengthy integration process.

We believe the very successful Telford team will be able to accomplish more on CBRE's platform than they could on their own. Strategic M&A is core to our strategy and Telford represents the type of acquisition you should expect from CBRE. Sourcing, underwriting and integrating acquisitions is a competitive advantage for our company.

Both our M&A and our senior business leadership teams are deeply experienced at targeting, underwriting, closing and integrating acquisition opportunities. Since 2014, we have deployed nearly \$2.6 billion for acquisitions that have bolstered our growth, our ability to serve our clients and our strategic position in the marketplace.

Leah will discuss our approach to M&A and capital allocation after she reviews the quarter in more detail. Leah?

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## Leah C. Stearns

*Chief Financial Officer, CBRE Group, Inc.*

Thanks, Bob. Turning to slide 5, our Advisory Services segment generated 8% fee revenue growth during the quarter. Strong operating leverage drove margin expansion of about 140 basis points and 17% growth in adjusted

EBITDA. Over half the margin expansion resulted from commercial mortgage origination gains. The remainder is attributable to well-disciplined operating expense management against a healthy revenue growth.

We saw double-digit adjusted EBITDA growth in local currency from both our Americas and non-Americas regions. Our North Asia division saw the strongest adjusted EBITDA growth of any geographical region in the quarter, as outstanding capital markets activity in Japan more than offset soft market conditions in Hong Kong and China. These two markets make up our Greater China region and represent less than approximately 1% of CBRE's total adjusted EBITDA.

Global capital markets, which includes both property sales and commercial mortgage origination, set the pace for revenue growth, accelerating to 11%, up significantly from 1% in the first half of the year. This acceleration was led by our commercial mortgage origination revenue growth of nearly 24% which was fueled by an increasing number of larger transactions and market share gains with private entities including life insurers, conduits, and credit funds.

Property sales revenue growth was led by the United States which increased by 19% on meaningful market share gains. This was primarily driven by a sizable number of larger transactions and notable strength in the northeast region of the United States. Outside the Americas, property sales declined 6% which includes a negative FX impact of 3% and continued weakness in residential sales in the Pacific region and parts of Asia. Excluding Asia Pacific residential, property sales growth outside the Americas was flat in local currency.

Capital markets activity, particularly in the Americas, continues to be bolstered by the ample supply of capital focused on investing in commercial real estate, strong occupancy rates, and measured supply growth. Advisory leasing revenue rose 4% or 5% in local currency terms, a healthy increase against 17% growth in the prior year's quarter. U.S. leasing revenue grew by 4% and was driven by clients in technology, financial services, and manufacturing sectors which accounted for nearly 60% of U.S. leasing revenue. We also saw a notable acceleration in account-based deals in the quarter. Inclusive of activity now recorded in our Global Workplace Solutions segment, Americas leasing revenue rose 7% for the quarter.

Leasing with coworking companies drove less than 4% of our trailing 12-month leasing revenue in the U.S. and less than 3% of U.S. leasing revenue in the third quarter. These figures include both negotiating leases for coworking companies as tenant rep or landlord agent and placing occupiers in coworking space. The demand for coworking remains a relatively small component of the overall U.S. market with no single operator representing more than one-half of 1% of the total. While flexible office space solutions will continue to grow, this sector is not large enough to swing overall commercial real estate market fundamentals in any meaningful way.

Turning to our Global Workplace Solutions segment on slide 6, we produced 15% adjusted EBITDA growth with strength across our three lines of business: facilities management, project management, and transactions. Importantly, our customer base also continues to be composed of large, high-quality companies with approximately 85% of our GWS revenues generated from investment grade-rated client.

Fee revenue growth of 21% reflects continued strong momentum for occupier outsourcing services, boosted by landing large new enterprise client engagements and expanding existing relationships. In addition, fee revenue growth outpaced total revenue growth due to a greater weighting of fixed price contracts. Slightly negative operating leverage reflected a couple of challenging accounts in Europe, which we expect to remediate next year, and a handful of choppy expense items and non-cash accounting adjustments which totaled \$12 million in the quarter.

Our business has a distinct competitive advantage in securing large, integrated global accounts. One recent example is Novartis, which has appointed us to provide facilities, project management, and transaction and advisory services on a worldwide basis. The 70-million square foot portfolio represents one of our largest ever new contracts for our Global Workplace Solutions team.

Our pipeline for the outsourcing business remains robust and we're seeing more clients contracting for a bigger bundle of services. On a year-to-date basis, nearly 40% of the adjusted EBITDA associated with new contracts was derived from customers purchasing the full suite of services offered by our outsourcing business, which was up significantly both sequentially and from the prior year period.

Turning to slide 7 and our Real Estate Investments segment. Adjusted EBITDA fell by over \$70 million compared with the prior year period, primarily due to the timing of development transactions. Beyond development, strong growth in our Investment Management business offset our incremental investments in our new flexible office space business, Hana. Development adjusted EBITDA was slightly below our expectations for the third quarter as a couple of smaller deals are now expected to transact in 2020. We also now expect one larger \$20 million adjusted EBITDA deal, previously anticipated in the fourth quarter to transact in 2020.

Our development business' financial performance has natural variability from quarter to quarter. The market overall remains very healthy and our combined in-process and pipeline portfolio reached a record level, rising \$1.3 billion sequentially. Investor enthusiasm for development projects remains high and cap rates for our Class A projects remain tight. While our timing expectations have shifted for a few specific developments, our pricing expectations have not changed.

Performance in our Investment Management business continued to improve, contributing just over \$20 million of adjusted EBITDA during the quarter. Assets under management would have reached a new record level, but for a \$1.7 billion headwind from foreign currency translation. Capital raising also remains elevated with more than \$12 billion raised over the past 12 months.

Finally, our new coworking concept, Hana, opened its first location in Dallas in the quarter with units planned in Southern California and London by early next year. We believe demand for flexible work space is here to stay and landlords and occupiers are increasingly gravitating to high quality operators with strong financial sponsorship. Our pipeline for future Hana locations focuses on major CBDs and includes a variety of structures including management, partnership agreements, as well as leases.

Turning to slide 8. We are very focused on pursuing a disciplined approach to allocating capital at CBRE. Over the last five years, we have strengthened our balance sheet which is evidenced by a reduction in net leverage and our more than \$3 billion of liquidity. This capital structure provides us a solid foundation to execute our capital allocation strategy. Our priorities for capital allocation are focused on investing in growth through tech enablement CapEx, accretive M&A, and returning excess capital to shareholders. Year-to-date we've deployed approximately \$770 million of capital including our recent Telford acquisition and share repurchases in October.

We have also invested over \$142 million on capital expenditures net of concession, with well over half of this deployed for technology-focused investments that enable our professionals to bring higher levels of service to our clients with greater efficiency. In addition, as of today, CBRE has repurchased over 145 million of shares in 2019, including our recently initiated Rule 10b5-1 program, which executed the repurchase of 100 million shares at an average price of \$51.64 since the beginning of the third quarter. Given our current and forecasted levels of leverage, as well as our significant financial capacity, you can expect us to utilize share repurchases in a more

programmatic way, to both maintain flexibility around capital allocation and to provide a more consistent approach to returning capital to shareholders.

Finally, with respect to our expectations for our full-year 2019 outlook, due to the delayed timing of development deals, we now expect adjusted EBITDA in our Real Estate Investments segment at or slightly below the low end of the \$200 million to \$220 million range we set in March, inclusive of a modest benefit from Telford in the fourth quarter. Nonetheless, we are maintaining our guidance range of \$3.70 to \$3.80 for full-year adjusted EPS, as we expect strength in our services businesses to offset the impact of these delayed development deal. This implies 14% growth at the midpoint of our guidance range for 2019.

Turning to slide 9, I'll turn the call back to Bob for his brief closing remarks.

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## Robert E. Sulentic

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

Thank you, Leah. As we enter the final months of 2019, we are looking ahead to 2020 with cautious optimism. Commercial real estate and macroeconomic fundamentals remain favorable, particularly in the Americas, our largest region. Our diversified business and geographic mix position CBRE to continue thriving despite ongoing trade and geopolitical uncertainties. We also believe that our industry-leading service offering, scale and ongoing platform investments give us distinct competitive advantages. Our people are energized, and their engagement levels have never been higher.

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

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## QUESTION AND ANSWER SECTION

**Operator:** Thank you. At this time, we will be conducting a question-and-answer session. [Operator Instructions] Your first question comes from Anthony Paolone with JPMorgan. Please go ahead.

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### Anthony Paolone

*Analyst, JPMorgan Securities LLC*

Q

Hi. Thank you and good morning. Now that Telford is closed, can you spend a minute giving us a few details around how you thought about the EBITDA multiple, if you will, that you paid? Where we should see that coming in to the financials and like how you see that business playing out?

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### Leah C. Stearns

*Chief Financial Officer, CBRE Group, Inc.*

A

Sure, Anthony. It's Leah. I would say from a valuation perspective, we looked at Telford on a cash flow basis. We believe we paid about 10 times cash flow for that business. And given the recognition of revenue under GAAP, you may see that come in in more of a similar fashion to what you see within our development business today. So, we would expect about a portion, about 50% of what you would see in cash come through in GAAP, at least for the first year of our ownership of Telford. So we'll see a modest uptick in the fourth quarter, but we'll provide more guidance around the 2020 expectations for Telford on the February call.

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### Anthony Paolone

*Analyst, JPMorgan Securities LLC*

Q

Okay. And then in terms of the guidance, your fourth quarter leasing comp looks like it's actually a tougher one than the third quarter. How should we think about how that works out for the rest of this year?

Leah C. Stearns

*Chief Financial Officer, CBRE Group, Inc.*

A

So we've provided guidance to EPS which implies double-digit low-teens growth in the fourth quarter. We're not going to speak specifically to expectations around leasing, but we do expect – obviously there was a much tougher comp in Q3 and that trend will not go away in Q4.

Anthony Paolone

*Analyst, JPMorgan Securities LLC*

Q

Okay. And then my last question is on GWS. You mentioned a couple of accounts in Europe acting as a drag on margins there. Can you describe like what scenarios would actually cause that sort of a drag? Just it seems like a recurring fee kind of business and so what happens actually to create that variability?

Leah C. Stearns

*Chief Financial Officer, CBRE Group, Inc.*

A

Sure. So when we underwrite transactions in GWS, we have expectations of a glide path in terms of reduction in costs and we account for that in how we think about pricing within those agreements. In some cases in Europe, in a few cases and they're isolated, we've actually gone in and we're bringing in new talent to run those accounts given the fact that we haven't been able to achieve the cost savings that we had expected. And so we expect to remediate that in the fourth quarter and well into 2020 as well.

Anthony Paolone

*Analyst, JPMorgan Securities LLC*

Q

So that means – so when you say cost saves, cost saves that you anticipate for the client. So if you don't achieve those you get less the income. Is that...

Leah C. Stearns

*Chief Financial Officer, CBRE Group, Inc.*

A

Exactly.

Anthony Paolone

*Analyst, JPMorgan Securities LLC*

Q

Okay.

Leah C. Stearns

*Chief Financial Officer, CBRE Group, Inc.*

A

Correct.

Anthony Paolone

*Analyst, JPMorgan Securities LLC*

Q

Great. Okay, thank you.



Leah C. Stearns

*Chief Financial Officer, CBRE Group, Inc.*

A

Thank you.

**Operator:** Thank you. Your next question comes from Jason Green with Evercore ISI. Please go ahead.

Jason Green

*Analyst, Evercore Group LLC*

Q

Good morning. On the share buyback front, previously you guys have bought back stock at the high \$30s and at least appeared unwilling to buy in the \$40s, and now you're buying in the low \$50s. I'm curious whether this is a function more of viewing the stock sitting at a discount or if it's a lack of opportunity in the marketplace from an acquisitions perspective.

Leah C. Stearns

*Chief Financial Officer, CBRE Group, Inc.*

A

Hi, Jason. I would say it's actually neither of those two. It's really about thinking about capital allocation in a broader context. Given where we are with respect to our leverage, the fact that we are migrating down to the very low end of our overall leverage range, I think it's prudent for us to approach it in a more programmatic fashion. We still have a nice bucket of the authorization that we can use in an opportunistic fashion to the extent that we do see dislocation in the market.

We do believe that we're buying shares back at an attractive value, but it's more about offsetting the equity dilution, for example, from our stock compensation program. And we'll use that remaining authorization for opportunistic periods of time where we do see the shares under pressure. But I think you'll see us be more programmatic, at least at a minimum level, within the buyback in the future.

Jason Green

*Analyst, Evercore Group LLC*

Q

Okay. And then switching over to the commercial mortgage origination side, originations were up significantly and you mentioned it was fueled in part by larger transactions with private entities. Was this at all driven by new initiatives at the GSEs and at FHFA? And if so, should we expect this business to be less of an agency business moving forward?

Leah C. Stearns

*Chief Financial Officer, CBRE Group, Inc.*

A

I'd say there's two pieces to that. One, we did see credit really from all sources, so it was banks, Life Cos, debt funds and the GSEs. So I would say it was a balanced mix. We clearly have been watching reform on the GSE side, and so part of our growth this year has been to further diversify that business, not necessarily away from the GSEs, but to add additional quality contract and client accounts to that.

So, from our perspective, it wasn't specifically because the GSEs were down; it was just a concerted effort across our commercial mortgage origination teams to go out and further diversify that client base.

Jason Green

*Analyst, Evercore Group LLC*

Q



Got it. And then I guess just my last one while we're on the topic, as it pertains to the housing reform plan, I guess, our read was, all else being equal, the proposals for specifically residential reform would probably reflect positively on CBRE's business but just curious what your thoughts are on the reform plan that's out there right now.

Leah C. Stearns

*Chief Financial Officer, CBRE Group, Inc.*

A

I agree with that. I mean, we've certainly been monitoring this process since the beginning of the year. Multifamily is really where we play with the GSEs and so that is a very profitable pursuit for them. We'd expect that to continue to be in place post any future reform measures, but we certainly do believe that there has been positive movement with respect to the published caps. And so, we're positively – we're pleased with how that's come out year-to-date. And again, we are also looking at expanding the work that we do with private operators. So, we think that that's also positive.

Jason Green

*Analyst, Evercore Group LLC*

Q

Got it. Thank you very much.

**Operator:** Thank you. Your next question comes from Josh Lamers with William Blair. Please go ahead.

Josh Lamers

*Analyst, William Blair & Co. LLC*

Q

Great. Thanks. Good morning, everyone. Just wanted to double back on Telford and on the U.S. development business in general. Seems the U.S. development business is getting a boost from opportunity zones throughout the course of this year, and I'm wondering if you think that is the case and does that continue into 2020? And then how does the pipeline look for UK multifamily? I think Telford's pipeline in process at the end of Q1 was about \$1.7 billion.

Robert E. Sulentic

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

A

Josh, we are not being impacted in a major way by opportunity zones. I think they'll continue to be out there. They'll continue to be an opportunity. There's a lot of political pressure around those of different kinds, but that has not had a major impact on our business; we don't think it will going forward. Our development business is in very good shape in terms of the pipelines we have, in terms of the exit cap rates we expect, rental rates, et cetera. Telford, early signs are that their ability to secure new opportunities is going to be at least as good as we thought it was when we underwrote that acquisition. Our teams are over there now just getting going with Telford and a lot to be learned on that business, but we're quite encouraged about it.

Josh Lamers

*Analyst, William Blair & Co. LLC*

Q

Great. Thanks. And then one to touch on GWS. I was hoping you could unpack the growth in the quarter; certainly stronger than we expected which is good to see. Maybe break down the contribution of growth from new versus existing clients and whether you have a strong hold on certain industries that's helping wins. And maybe lastly, are you reaching any type of employment capacity that could sort of hamper growth in the future? Thanks.

Leah C. Stearns

*Chief Financial Officer, CBRE Group, Inc.*

A

Sure, I'll touch on that. I mean, from a GWS perspective, we saw really nice growth across our facilities management and the transaction and advisory component of that segment. We are seeing accounts in terms of those that are signing up for the full suite, so facilities, project management, and transactions pick up and that was certainly helped by the Novartis signing in the third quarter.

So in terms of other areas for growth, I mean, we did have strong growth across, from a geographic perspective, across the U.S., EMEA, and APAC. But I would say from a margin perspective, we are seeing really nice performance in the Americas. With respect to different sectors, we do have, and I think this is a unique differentiation for CBRE, we do have a very strong position as it relates to the data center services that we provide and we are building out capabilities that are specialized for sectors like healthcare and pharmaceutical which you see in the pursuit with Novartis playing out to our favor.

So, I think there's certainly a lot of differentiation that comes along with the approach that CBRE has taken as it relates to our GWS segment. And we think that we ultimately can provide really outstanding results for our clients that are unmatched by others in this space. And those are for very high quality clients as well, large enterprise investment grade.

Josh Lamers

*Analyst, William Blair & Co. LLC*

Q

And no employment capacity constraints to speak of there?

Leah C. Stearns

*Chief Financial Officer, CBRE Group, Inc.*

A

I think that they're – not necessarily. I mean, certainly, we continue to watch the growth of that segment. We've had tremendous growth and I think that that certainly, bringing on the Novartis, was another very large win for us. I don't see that employment or the labor availability necessarily as being a limitation because most of that is really rebadging of employees. It's not necessarily us going out and finding folks to cover that.

Josh Lamers

*Analyst, William Blair & Co. LLC*

Q

Sure. Okay. That's it for me. Thank you.

**Operator:** Thank you. [Operator Instructions] Your next question comes from Jade Rahmani with KBW. Please go ahead.

Ryan Tomasello

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

Q

Good morning. This is Ryan Tomasello on for Jade today. Thanks for taking the question. Just on the topic of coworking, appreciate your commentary in the prepared remarks. I believe you said coworking represented around 3% of your leasing in 3Q. Just was wondering if you can give us a comparison to what that represented a year ago, in the year-ago period.

And then overall, do you view the likely pullback from WeWork as more of a headwind for the leasing business or maybe is it the opposite? Do you view it as more of an opportunity by way of re-leasing space that WeWork is

backing away from as well as presenting an opportunity for the Hana business? And then just on Hana, if you can provide us your updated thoughts on the amount of capital you expect to deploy there.

Leah C. Stearns

*Chief Financial Officer, CBRE Group, Inc.*

A

Sure. I'll start with the first piece, and I'll have Bob pick up in terms of the broader strategic opportunity. So, in terms of the impact from coworking in the third quarter, that was about 3%. We also mentioned the trailing 12-month contribution was about 4% to growth, so a slight deceleration in terms of the contribution and leasing for the quarter but certainly not a trend that's going away. We think that we see coworking as a trend that is really being driven by needs in the market. And so, we continue to believe that there will be demand, not just in terms of find for future locations for coworking companies, but also for fill which makes up about half of that number. So, I think that just shows that there continues to be a tremendous amount of need in the market for activity around coworking.

And then, Bob, on the strategy?

Robert E. Sulentic

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

A

Yeah. So, Ryan I would say that what's happened with WeWork has had an impact on our Hana strategy that I would characterize as tactical, but it has not had an impact on the overall strategy. So, in the short run, we're seeing some incremental inquiries from occupiers of Hana. We're seeing some incremental inquiries from landlords that are considering going in our direction that maybe weren't before. But in the long run, as Leah said, we see this coworking or flexible space market opportunity the way we saw it before. It's roughly 2% of the multi-tenant space around the world today. We continue to think it will go to as much as 10%. Our belief in that direction is driven by the work we've done with our occupiers around the world. We know that they expect a percentage of their occupancy in the future to be in this type of space and we think that's good. Our strategy for Hana is to start to carefully build a footprint with a bit more capital intensive model, i.e. more investment, more leases and over time, likely move to a model where we manage space, coworking space that's owned by the landlords themselves.

Our hypothesis is that over time, the landlords are going to want a coworking space in their buildings because they believe their tenants are going to want it. They're likely going to want to control it because they want to control the tenancy. They view themselves as owning a lot of the downside, so they want to own the upside. And we are positioning Hana to move in that direction if that's the direction the market moves. Nothing about our results with Hana in the short run have been impacted in any meaningful way relative to what we thought they would be.

Ryan Tomasello

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

Q

That's very helpful. Thanks. And then just on the broader leasing environment, setting aside that 4Q will clearly be a tougher comp like you mentioned, just was hoping to get your broader thoughts on the outlook for that business. What are you seeing in terms of demand for space overall? Do you expect that demand will continue to be driven by some of these industries you've called out like technology, financial services and I guess still coworking considering that's a trend that you believe in? Just curious overall what you're hearing from occupiers in the leasing environment.

Robert E. Sulentic

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

A

Leasing is strong. It's only not strong when you compare it to what happened last year. So when you look at our combined GWS business and our agency business in the U.S., 7% growth this year on top of almost 20% growth a year ago. That's a healthy leasing market, but the growth – we said a year ago when we were talking about that kind of growth and we were asked will it sustain well, we never thought we were going to be able to sustain 20% growth. But it's a healthy leasing market. A lot of it is being driven by tech companies but it's very balanced. It's being driven by distribution space users. It's being driven by financial services companies, manufacturing companies, et cetera. We expect leasing to be strong in the fourth quarter. We don't expect it to grow the way it did a year ago. And we expect next year the economy be a little slower than it is this year, but some decent growth, and we expect our leasing business to continue to be solid.

Ryan Tomasello

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

Q

And then just one last one if I could just on 2020 guidance. I believe last year for 2019 you gave guidance at your Investor Day, and please correct me if I'm remembering that incorrectly. Just wondering if you can say when you plan to give guidance for 2020 this year.

Leah C. Stearns

*Chief Financial Officer, CBRE Group, Inc.*

A

Yeah. We'll address that in February when we release year-end.

Ryan Tomasello

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

Q

Great. Thanks for taking the questions.

Leah C. Stearns

*Chief Financial Officer, CBRE Group, Inc.*

A

Thank you.

**Operator:** Thank you. Your next question comes from Mitch Germain with JMP Securities. Please go ahead.

Mitchell Germain

*Analyst, JMP Securities LLC*

Q

Good morning. Just, Bob, on Hana, how do you differentiate Hana from the other product that's out there?

Robert E. Sulentic

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

A

A few ways, Mitch. It's more oriented towards enterprise users than some of the other alternatives out there, i.e. teams of people rather than a membership format. It's, as a result, more institutional quality, better build out, better data security, et cetera. It's got similar amenities in terms of food and beverage and so forth. And again, I can't stress enough, we're in the door working for a high percentage of the big occupiers around the world doing all kinds of flexible space work for them inside their spaces. We know what they want. We know they want a portion of their portfolio in this flex space format.

If you look at what went on with occupiers historically, they basically said we're going to own some of our space, we're going to lease some of our space on a traditional basis, and on the very margin, we'll do a little bit of coworking. Well, that's changed. They think that coworking is going to be a material piece of their portfolio of occupancy going forward and we've oriented our Hana concept to be consistent with that.

Mitchell Germain

*Analyst, JMP Securities LLC*

Q

And what went through your mind with regards to selecting these initial markets? Dallas, and I think you mentioned Southern California and London. Why those markets and not others?

Robert E. Sulentic

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

A

Well again, everything we've done in the coworking arena with Hana has been driven by our direct work with our clients on the occupier side and our clients on the investor side. And when we've triangulated around the opportunities that were available looking at those two groups, those are the markets we've ended up in. But by the way, by the end of next year, there'll be a number of other markets that we have Hanas up and running in. There's some of them that we're very close on that. We just – we're not in a position to talk about.

Mitchell Germain

*Analyst, JMP Securities LLC*

Q

Got you. You may have mentioned this previously and I apologize, but the Telford transaction, was that a [ph] bake off (35:12) or was it a relationship that drove the discussions to acquire them?

Robert E. Sulentic

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

A

It was neither. We had done a bunch of strategy work around our Real Estate Investment business. The same kind of strategy work we did several years ago that ended up causing Bill Concannon and our GWS team to target Norland. We had some things we wanted to get done with that Real Estate Investment business strategically, and one of them was to grow our development opportunity and position ourselves to do some things outside the U.S. Our Trammell Crow Company leadership team targeted those kinds of businesses. And after a search of the companies that might be a good fit for us and after some opportunistic pricing movement driven by Brexit, they zeroed in on Telford, built a relationship with the Telford team, and we thought that team was exceptional. We also thought that team was very much in the way of a secular trend, and that effort led to the acquisition of Telford.

Mitchell Germain

*Analyst, JMP Securities LLC*

Q

Got you. And I think my last question maybe Leah, with regards to the outlook, obviously reaffirmed; looks like real estate investments possibly kind of sitting in your seat, when you last spoke to us in the second quarter and you raised your outlook to sitting there today, in my mind, it seems like Real Estate Investments coming in a little bit lighter than you expected. And then you had that additional expenses or some disruption in Europe on GWS. Is that the way to think about kind of how things shook out from 2Q to 3Q, or is there anything else that we're missing?

Leah C. Stearns

*Chief Financial Officer, CBRE Group, Inc.*

A

No. I would say that's fair. I would just say a lot of the real estate investment change is driven by timing. This is not market changes that we're seeing around the development portfolio that we have in place. For example, one industrial project that we have, it's fully leased but the triggering event for the recognition isn't until the tenants move in, and that won't happen until next year. And then we have a multifamily project that is scheduled to close, and the buyer had a 30-day option extension; they exercised that, but we fully expect that will close in Q4. So, these aren't fundamental drivers of change in terms of how we view cap rates or these assets transacting with respect to their cap rates.

So I feel good about the Real Estate Investments business and I'd say leasing and certainly the benefit from Telford and our capital markets business and GWS altogether will make up for that shift really in timing for those development projects.

Mitchell Germain  
*Analyst, JMP Securities LLC*

Q

Thank you.

**Operator:** Thank you. [Operator Instructions] Your next question is a follow-up question from Jade Rahmani with KBW. Please go ahead.

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

Q

Hi, everyone. Ryan again. Thanks for taking the follow-up. A few of your peers have made some recent announcements with respect to their technology strategies. So, Bob, I was just hoping you can provide us with your updated thoughts on CBRE's tech initiatives as it relates to both internal investment and M&A. And I was wondering if you had any specific metrics you could potentially share with respect to perhaps margin benefit or maybe percentage of clients or producers that are utilizing CBRE's proprietary technology, or the amount of revenue that you're generating from some of these specific initiatives that you've called out in the past.

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

A

Yeah, Ryan. Let me first tell you exactly what we're trying to get done with technology in our business now. Everything we're doing with our, what we call our digital and technology strategy, has emanated from building a strong team that can first create an excellent infrastructure base for data security, all of our – the basic things we use to run our business. Chandra Dhandapani and her team came in and they've gotten that done. They've turned their attention along with our market-facing business leaders to what we call enablement technology: tools that our professionals use to secure business and deliver business to our clients.

There is a large suite of tools spread across all our lines of business that they're working on. We have very specific adoption metrics for all the key tools we're using, and we're tracking adoption against those metrics. In many, many cases, we're satisfied with adoption. In other cases we're trying to push adoption up. But there is a ton of focus on that in our business and there'll continue to be a ton of focus on that.

We don't talk externally about what those specific metrics are except where we consider that to be proprietary. But that's where our focus is now. We're shifting more and more of our spend to enablement tools. And you should expect that trend to continue. And we're in the budgeting process now, going through all kinds of efforts jointly between our D&T team and our field people to figure out exactly which tools we're going to invest in 2020.



And Leah, you may want to comment on financial aspects of that.

Leah C. Stearns

*Chief Financial Officer, CBRE Group, Inc.*

A

Well, I would just say about half of the capital expenditures that we've spent in 2019 or will spend in 2019 is really focused on that enablement spend. And we really drive investments through that part of our capital expenditure program to ensure that we are maximizing both the utility that we get from a technology for our clients and our producers, but also drive efficiency through the business.

So there are things like robotics and workflow automation that are also benefiting the business. We also have solutions like Host that we're investing in to enhance the experience services that we provide for our occupier clients and investor clients.

And then I would just say we've also invested from a M&A perspective into companies like FacilitySource that are enhancing our ability to win large GWS transactions and pursuits. So I think it's hard to wrap an entire metric around that, but we certainly internally do track the attachment that we have to all of the different components, whether it's Host on the experience services, FacilitySource for GWS, or the usage of technology and adoption of it throughout the business.

Ryan Tomasello

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

Q

Thanks for that commentary. Appreciate you taking a follow-up.

**Operator:** Thank you. Your next question comes from Patrick O'Shaughnessy with Raymond James. Please go ahead.

Patrick O'Shaughnessy

*Analyst, Raymond James & Associates, Inc.*

Q

Hey, good morning. Curious about your recent wins within GWS. Is the margin profile of those companies, given that you seem to be selling kind of more holistic solutions, is the margin profile any different than your existing client base within GWS?

Leah C. Stearns

*Chief Financial Officer, CBRE Group, Inc.*

A

It really depends on the types of products or services that they're signing up for. We do have slightly higher margin profiles on, for example, on some of the transaction activity that we manage within GWS than, say, one-off transactions in Advisory. And it really again depends on the contract type that we're agreeing to with a client. But I believe, as we all do, as we increase the number of services that we provide, there's a greater connectivity and stickiness of that client as we serve them on a broader basis. So I certainly think that there's a benefit, not just on the margin side but certainly also on the relationship side.

Patrick O'Shaughnessy

*Analyst, Raymond James & Associates, Inc.*

Q

Great. Thanks. And then Advisory sales revenue in EMEA looks like it's tracking down around 5% to 10% percent in 2019 on a local currency basis. Do you get the sense that there is additional downside risk to Advisory sales in EMEA or do you kind of feel like this is a sustainable level that we're at currently?



Leah C. Stearns

*Chief Financial Officer, CBRE Group, Inc.*

A

In terms of Advisory sales in EMEA, that is something that there has been softness around. We began to see that I'd say a quarter or two ago. But I think overall performance in terms of CBRE relative to the broader market, I think we've actually done fairly well. We had a reasonably okay quarter given the uncertainty that the market saw with Brexit. The continent's also been down slightly, about down 5% I think in local currency. The strength on the continent has been really in France and Italy with other markets being a bit softer.

Patrick O'Shaughnessy

*Analyst, Raymond James & Associates, Inc.*

Q

Great. Thank you.

**Operator:** Thank you. We have reached the end of our question-and-answer session, and I will now turn the call back over to Mr. Bob Sulentic for closing remarks.

Robert E. Sulentic

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

Thanks, everyone, and we look forward to talking to you in about three months when we review our year-end results.

**Operator:** Thank you. This concludes today's conference, and you may now disconnect your lines at this time. Thank you for your participation.

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