

07-May-2020

# CBRE Group, Inc. (CBRE)

Q1 2020 Earnings Call

## CORPORATE PARTICIPANTS

**Kristyn Farahmand**

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

**Leah C. Stearns**

*Chief Financial Officer, CBRE Group, Inc.*

**Robert E. Sulentic**

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

---

## OTHER PARTICIPANTS

**Anthony Paolone**

*Analyst, JPMorgan Securities LLC*

**Jade Rahmani**

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

**Jason Green**

*Analyst, Evercore Group LLC*

**Angela Zhao**

*Analyst, Bank of America Merrill Lynch*

**Josh Lamers**

*Analyst, William Blair & Co. LLC*

---

## MANAGEMENT DISCUSSION SECTION

**Operator:** Greetings and welcome to the CBRE's First Quarter 2020 Earnings Conference 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, Kristyn Farahmand, Vice President and Corporate Finance. Thank you. You may begin.

---

**Kristyn Farahmand**

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

Good morning, everyone, and welcome to CBRE's first quarter 2020 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 material.

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 first 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 prospects, operations, market share, capital deployment, acquisition integration, financial performance and 2020 outlook, including the impact of COVID-19 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 and 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 release and our most recent Annual and Quarterly Report filed on Form 10-K and Form 10-Q respectively.

We have provided reconciliations of adjusted EPS, adjusted EBITDA, 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 this presentation slide deck.

Now, please turn to slide 4 of our presentation, which highlights our financial results for the first quarter of 2020. Combined services revenue grew 13%, while adjusted EBITDA rose 8%, primarily driven by Advisory Services. Adjusted EBITDA in our Real Estate Investments segment fell 56% year-over-year, largely due to a \$27 million decline in co-investments in our public securities business, driven by the equity market sell-off at the end of the quarter and fewer large development deals [ph] that in (03:12) Q1 2019. Overall, adjusted EPS and adjusted EBITDA decreased modestly versus the prior year with strength in Advisory Services offsetting most of the REI decline.

As a reminder, this will be the last quarter that we will provide geographic level disclosures based on the old segment reporting in our Excel supplemental given the change to reporting three global business segments that we adopted at the beginning of 2019.

Now, for an update on our business fundamentals, please turn to slide 6. And I will turn the call over to Bob.

---

## Robert E. Sulentic

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

Thanks, Kristyn, and good morning, everyone. We hope all of you are coping with COVID-19's many disruptions and we wish you and your families good health during this very difficult time. We are encouraged by the emerging signs that COVID-19 is being brought under control and early moves by some governments to reopen parts of their economies. We hope this progress can continue and we extend our thanks to everyone on the frontlines of the battle with this disease.

With the global economy in a recession today, the steps we have taken over the past decade to strengthen CBRE have prepared us well for the current environment. Compared with the global financial crisis, we have a stronger market position across our business lines, a more diversified and contractual revenue base, a significantly stronger balance sheet with markedly more liquidity and a leadership team that is far better equipped to manage our cost structure.

As the impact of COVID-19 began to emerge, we moved aggressively and early to take out non-essential costs. In early April, I decided to forgo my salary and our top executive leaders also agreed to meaningfully reduce their compensation. While these moves do not materially impact our financials, they create a precedent that allows us to take on other difficult actions to adjust our workforce to reflect lower levels of client demand. These moves include some job eliminations, but mostly consist of furloughs and reduced work schedules, giving us flexibility to bring back staff as needed when business activity resumes.

The coming quarters will no doubt be challenging for our industry. In light of how suddenly and severely economic growth has collapsed, we are taking actions to mitigate the impact across every part of our business, which Leah will cover in her remarks.

Notably, we moved 100% of our people who work from CBRE offices in the US to working from home on the night of March 13. This seamless transition confirmed the scalability of our digital and technology infrastructure and the adaptability of our workforce.

Every substantial downturn creates fundamental changes in the way that commercial real estate is designed, developed, financed and used. I will cite five examples that occurred in the aftermath of the great financial crisis. First, e-commerce catalyzed a sharp increase in warehouse and logistics space utilization. Second, demand exploded for institutionally-managed multifamily housing. Third, the growth of real estate outsourcing accelerated as companies pursued greater cost efficiencies. Fourth, an increased emphasis on the office occupancy experience drove demand for leasing and related project services. And finally, property ownership became much more institutional with well-capitalized investors depending on third-party firms to manage lease, value finance and monetize these assets.

CBRE benefited in a big way from each of these trends, which, taken together, had a major impact on our decade-long record of robust growth. COVID-19 is likely to bring about equally powerful changes to our sector and we believe CBRE is again well-positioned for our industry's next evolution. Given our strong balance sheet and industry-leading market position, we are poised to withstand the negative impacts of COVID-19, while also remaining very focused on identifying and capitalizing on potential long-term growth catalyst that will emerge from this crisis.

With that, I'll turn the call over to Leah.

---

## Leah C. Stearns

*Chief Financial Officer, CBRE Group, Inc.*

Thanks, Bob. Turning to slide 8, our Advisory Services segment grew fee revenue about 5%, while adjusted EBITDA rose nearly 11%. Advisory adjusted EBITDA margin on fee revenue increased 100 basis points to 17.5%, the segment's sixth consecutive quarter of year-over-year margin expansion.

For most of our markets, COVID-19 did not have a material impact until mid-March. In January and February, our US sales and leasing businesses posted healthy gains, but revenue declined by mid-teens in March. In April, US sales and leasing revenue declined over 40% from April 2019 level. Across the rest of our transactional business, declines were more muted due to its diversified geographic footprint.

In response to these trends, we have taken decisive action to temporarily lower costs within our transactional business through furloughs of non-revenue-generating staff as well as reduce non-essential costs such as promotional and travel and entertainment expenses.

Despite these late-quarter pressures, revenue growth for our property sales business rose by 12% during Q1, which was a new all-time high for CBRE in first quarter property sales revenue. Growth was led by North Asia as strength in Japan offset weakness in Greater China and in continental Europe, where our largest markets, France and Germany delivered double-digit revenue gains.

In the US, property sales revenue was up 3%. The increase was tempered by a decline in average deal size. During the quarter and continuing the trend we saw emerge in late 2019, leasing revenue slipped by 2% on both

the global basis and in our largest market, the US. This decline reflects very tough comparisons with Q1 2019 when leasing growth was more than 20% globally and 28% in the US. Like the prior two quarters, activity with co-working providers lowered US leasing growth by about 3%.

Certain Advisory segment revenues were less impacted by COVID-19 in Q1, including our loan servicing, valuation and property management businesses. During the quarter, these lines of businesses accounted for approximately 22% of the Advisory segment revenue and delivered 8% revenue growth.

Turning to slide 9, our Global Workplace Solutions segment grew growth and fee revenue by approximately 18% and 17%, respectively. Fee revenue rose 20% in facilities management and nearly 16% in project management. We had our best quarter ever for contract renewals, with a rate that was once again over 90%, and we secured new business with large high-quality clients in the transportation and logistics and life sciences sectors.

Adjusted EBITDA was flat with the prior-year period. This primarily reflected a write-down of receivables due to a contract settlement with a client, which reduced the adjusted EBITDA margin for the segment by 110 basis points. There were also some other items such as the shift to lower-margin facilities management and COVID-related expenses that also weighed on the margin.

Since the emergence of COVID-19, our GWS team has been highly focused on helping our clients navigate this challenging situation and enhancing our long-term partnership, which Bob will discuss in his closing remarks.

Turning to slide 10, let's now look at our Real Estate Investments segment, where adjusted EBITDA fell 56% year-over-year to \$38 million. This primarily was driven by a \$27 million decline in co-investment returns provided by our public securities business, reflecting the sharp equity market sell-off at the end of the quarter.

We also faced a tough comparison for large development asset sales, which were particularly strong in Q1 2019. Activity in our development business started 2020 strong with several deals, which we had expected to close in late Q4, being completed within the first 30 days of the year.

Later in the quarter and partially attributable to the early impact of COVID-19, we saw further delays in development transactions. Importantly, these declines were partially offset by our investment management business, which saw continued growth in recurring revenue, which climbed 7% over prior year and contributed \$20 million, and adjusted EBITDA over 50% of this segment's total in the quarter. Finally, investment in the start-up of our enterprise-focused flexible workspace business, Hana, subtracted about \$9 million from adjusted EBITDA.

Looking at slide 11, let's now take a look at our 2020 outlook. Given the uncertainty caused by COVID-19, we have withdrawn our explicit EPS guidance for the year and will instead provide qualitative commentary for each of our business segments.

In Advisory, we expect a significant drop in revenue from our two largest business lines, leasing and property sales, that will outpace the decline in economic activity. As I highlighted previously, April sales and leasing revenue in the US contracted severely and the timing and the velocity of any recovery is highly dependent on the trajectory of the containment of COVID-19 as well as the recovery of consumer and business sentiment.

Additionally, while our business is geographically diverse, the US and UK comprised more than 70% of our global leasing and property sales revenue in 2019. We also expect loan origination volumes to decline due to continued economic uncertainty, which will weigh on loan servicing revenue. We will also need to support modest liquidity

requirements necessitated by the GSE's rent forbearance, specifically for Fannie Mae, which comprises about 12% of our loan servicing portfolio. Thus far, a de minimis number of borrowers have been approved for forbearance and this has not had a material impact on our business to-date.

Lastly, about two-thirds of the cost of sales in our Advisory business is variable in nature as commissions decline in steps with transaction volumes. This should help to support our margins in this segment as cost of sales comprise the majority of our total costs in Advisory.

Moving to GWS, where revenue is generated from multi-year contracts, we expect this segment to be relatively resilient and continue to expect positive revenue growth, albeit, at a rate lower than our original expectations as the pandemic creates pressures not seen in previous downturns largely stemming from logistical challenges.

Our expectations for growth in GWS reflect the in-year impact of our new business secured in 2019, which is being partially offset by the operational challenges and onboarding new clients as a result of the current shelter-in-place orders. In addition, we're absorbing certain COVID-19 costs within our GWS business to ensure we are fully prepared to support our clients as they reopen their business locations.

In addition, while infrequent, we have experienced business upsets on certain GWS client accounts. Given the slower pace of growth expected in 2020, we are focused on improving our business processes to ensure we are ready to accelerate growth when business conditions rebound. We continue to believe that our outsourcing business is positioned to benefit from challenging economic conditions, offering clients more efficient and cost-effective facility solutions. We expect project management, which comprises about 12% of our GWS segment revenue, to see near-term pressures as clients delay some work.

Looking at REI, we believe this business segment is positioned to perform more resiliently than in previous recessions. Our development business is in a relatively strong position with conservatively financed projects, stable equity partners and a pipeline that is heavily weighted towards core industrial and logistics projects as well as office properties that are about 80% pre-leased. Nonetheless, the pace of development asset dispositions will continue to slow in the near term, as we and our equity partners are not under pressure to monetize assets quickly.

Revenue and adjusted EBITDA in investment management is highly recurring as I mentioned earlier and we expect the impact of co-investments to ease over time as we reduce our exposure to publicly-traded securities. As you would expect, we've also started to incur costs directly attributable to the COVID-19 pandemic, which totaled around \$3 million in Q1. These costs are expected to increase as we prepare offices for the return of our employees, incur incremental compensation for certain employees required to work on-site and enhance safety training.

Lastly, we believe we are well-positioned to take advantage of the dislocation in the flexible workspace market and have positioned Hana to serve enterprise clients that desire private workspaces. However, in the short term, we will slow the pace of expected Hana unit openings in 2020 until we have more clarity around COVID-19's impact on occupier demand.

Turning to slide 12, our financial position is strong. We ended Q1 with just 0.6 times of leverage, liquidity at \$3.4 billion, no debt maturities until 2023 and an investment-grade credit rating. Our significant balance sheet flexibility provides us a solid foundation from which to execute our strategy.

In 2020, our capital allocation will continue to prioritize internal investments in our platform and people to drive superior client outcomes and long-term growth. Our M&A strategy is focused on enhancing and differentiating our capabilities globally and we believe that COVID-19 crisis may lead to unique and compelling opportunities.

Finally, we may utilize our share repurchase program to continue offsetting the impact of our stock-based compensation program and on a more opportunistic basis, if we believe our stock presents an attractive investment compared with other discretionary uses. While the current situation is highly uncertain, we're confident that we've enhanced the resiliency of our business and our capital structure to build upon our industry leadership position. In addition, our senior leadership team is taking decisive action to identify opportunities to further differentiate CBRE and position the business to accelerate once we are more certain of an economic recovery.

With that, I'll ask you to turn to slide 13, as Bob provides a few closing thoughts.

---

## Robert E. Sulentic

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

Thanks, Leah. Before we conclude this morning's call, I'll take a few minutes to highlight ways that CBRE's business activities for clients are producing social good. We know this is of great importance to many of our shareholders, because they tell us so on a regular basis. And with the COVID-19 pandemic, the need has never been more urgent. CBRE teams around the world have been going to extraordinary lengths to serve our clients as they react to the demands of COVID-19.

In Spain, our team worked with our client, the Hospital del Mar, to convert the Hotel Barcelona Princess into an extension of the hospital. The 363-room field hospital opened on April 1 and serves more than 200 COVID-19 patients. CBRE's on-site technicians provided essential maintenance and installation services to keep the field hospital running.

In the UK, we supported our client, National Exhibition Centre, in the creation of its Birmingham Nightingale field hospital for COVID-19 patients. The first phase of the hospital opened on April 16. Our team delivered essential materials and services and provides ongoing maintenance of the hospital.

In Atlanta, our project management team worked with our client, Piedmont Healthcare, to move up the opening of the patient floors in a new building under construction by more than three months to create more capacity as the hospital prepared for potentially higher admissions due to COVID-19.

While many of our people have been working remotely, we have some 40,000 professionals like the ones highlighted here who have been working at client locations to keep properties operational and essential projects moving forward. They are among the unsung heroes of the COVID-19 crisis and we salute them.

We also recognize that COVID-19 has caused significant hardship for some of our CBRE people. In response, we have set aside \$5 million of our more than \$15 million COVID-19 relief fund to help colleagues who have fallen on hard times. The fund's remaining \$10 million is dedicated to support regional and local organizations that are alleviating COVID-19's worst effects around the world. It's part of our commitment to looking out for one another as well as for our communities.

With that, operator, we'll open the lines 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

Okay. Thank you and good morning, everyone. My first question is for Bob. You mentioned when you come out of things like this, there's always big changes. Can you give us any initial thoughts on what you think the potential positive as well as the potential negative implications for your business long term are that you see right now?

**Robert E. Sulentic**

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

A

I can, Tony. So, I'm going to start with industrial space. Clearly, we have a very big industrial business. We develop it. We sell it. We manage it. We finance it. And everything that's about COVID-19 that's driving e-commerce will drive the use of industrial space and that will be an opportunity.

We think multifamily will continue to grow around the world. We develop it. We finance it. We sell it and we got this new business in the UK, that while in the short run is under pressure, Telford, because what's going on there is going to be a real secular push for institutionally-managed multifamily there.

Office space is going to be a little confusing. In the short run, there's going to be a lot of discovery about working from home versus working in offices. Our best guess is that there'll be more working from home and less dense use of office, lots of services provided to get to that state of affairs. And sometimes, when you can't figure what's going to happen, you look for clues. We think a good analogy is what happened in the last three years before COVID-19 when there was an intense move toward alternative workplace in office space around the world.

And one of the big concerns about that was that occupiers were going to be able to use 65%, 70%, 75% of the space that they had previously occupied. That in fact happened, but it also created, for ourselves and our competitors, one of the biggest opportunities we've seen in years as there was a lot of opportunity to do new leasing, reconfigure space, et cetera. So we're going to watch what happens with our office space.

We also think there's going to be something that goes on in the middle between what happens at home and what happens in multi-tenant buildings with flex space. It's not going to be co-working as we've known it with a membership-type circumstances, but we think suite-type, high quality with real data security, very professionally managed is going to be quite attractive to some subset of occupiers as they serve their people working from home, maybe smaller populations, permanent populations in offices.

And our Hana product, we think, is well-positioned to take advantage of that if that happens. We very much like the positioning of that product, which is suites-oriented. So those are some of the things that could happen. There will be other things. Outsourcing will almost inevitably accelerate because of the intense focus on cost control that corporations have. We will benefit from that. So we're watching all these things and there'll be some things happen that we can't see as we sit here right now.



**Anthony Paolone**

*Analyst, JPMorgan Securities LLC*

Q

Okay. Thank you for that. And on the outsourcing side, you gave a little color on just potential pressure points there. But do you think the EBITDA from that business still grows in 2020 or is there just too many pressure points at this point for that to go up?

**Leah C. Stearns**

*Chief Financial Officer, CBRE Group, Inc.*

A

So, Tony, it's Leah. We're not giving explicit guidance around EBITDA for the business. But I would say that we do expect – just given the tail-end of new contract wins from 2019, we do believe revenue will grow. I think we're just being cautious given the fact that the operational conditions that exist around COVID-19 and our desire to manage and be prepared to accelerate out of this. We may take on some costs that otherwise we would not have. And so, we just want to have the ability to manage through this in a more agile way than I think – if we committed today that EBITDA would grow, we wouldn't be able to do that.

**Anthony Paolone**

*Analyst, JPMorgan Securities LLC*

Q

Okay. And then, last one for me. The GSE business or more specifically the Fannie stuff, you mentioned maybe some capital needs in the near term, can you put any numbers around that and also whether or not you've started to take any reserves for any potential loss sharing?

**Leah C. Stearns**

*Chief Financial Officer, CBRE Group, Inc.*

A

Sure. So, maybe just to start, with the CECL adoption at 01/01, we did increase our reserve for our loan losses by about \$15 million as of 01/01 and that's on the balance sheet. We did take an incremental \$5 million reserve on top of that through the P&L. So, you'll see that in our results. We have not normalized for that.

But Fannie, as it relates to the loan loss reserves and any potential funding for forbearance is fairly minimal. We actually have a very strong portfolio of loans in that part of our business and we don't see that as having a material impact on our overall cash position.

**Anthony Paolone**

*Analyst, JPMorgan Securities LLC*

Q

Okay. Got it. Thank you.

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

**Jason Green**

*Analyst, Evercore Group LLC*

Q

Good morning. Thank you. On the sales and leasing figure being down 40% in April, just curious what activity you're still seeing in the marketplace and specifically what was activity like for new leases and asset sales?

**Leah C. Stearns**

*Chief Financial Officer, CBRE Group, Inc.*

A

So, I'll take sales and I'll let Bob speak to leasing activity. But with respect to sales, there were certainly some assets that were in the pipeline where terms had already been set and so certain activity has come through. With respect to industrial and logistics, that continues to be an asset class where we're seeing strength and activity continues.

The issue first slowing down that has been the primary hurdle for folks has been around inspections, on site tours and those are things that we would expect, as shelter-in-place orders are lifted, we would be able to address. And in addition, we've used technology to provide more virtual visual access to space, so that folks can continue doing diligence as needed.

---

**Robert E. Sulentic**

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

A

Yeah. Jason, as it relates to leasing, it's really a similar scenario to what Leah described for sales. First of all, it's heavily impacted by the fact that you can't get out and show space. Nobody has figured out how to get around that yet and, of course, we've only been at it for a couple months. So we completed transactions that were in the pipeline and we, of course, have a significant base of our transactions that are renewals. And I think, historically, that has been about 30% of our leasing. So that continued.

But there is definitely a big impact on leasing when you can't go look at the space and when people just have huge uncertainty in general about how long is COVID-19 thing is going to go. So we saw the downward pressure to the degree that Leah described. It was down 40% and we're going to wait and see how that plays out from here.

---

**Jason Green**

*Analyst, Evercore Group LLC*

Q

Got it. And then, maybe just on the capital allocation side, you did about \$50 million of repurchases in the quarter and you're sitting about 20% below where you repurchase those shares. I guess should we expect that you're still in the market for your shares given that price decline or has thinking changed since you repurchased Q1?

---

**Leah C. Stearns**

*Chief Financial Officer, CBRE Group, Inc.*

A

Sure. So, the 10b5-1 plan that we had in place in Q1 was designed really to take advantage of volatile markets. And I certainly think the volatility that we saw was more pronounced than what we had expected when the plan was put in place. And so, it was actually executed fairly quickly in March.

So as a result of that, we typically, for our programmatic share purchase program, which effectively offsets our stock-based compensation expense, look to do that over the course of the year and we'll continue to evaluate that.

For Q2, I would just say we're putting a premium on liquidity. We believe the visibility that we'll have into the second half of the year, as the next two months unfold, will be critical to our assessment in terms of future opportunity for capital allocation and the deployment of our excess liquidity. And so, we are going to take a pause just in Q2 to ensure that we're able to have that visibility and how the year unfolds and we'll look to reassess in August.

---

**Jason Green**

*Analyst, Evercore Group LLC*

Q

Got it. Thank you very much.

**Operator:** Our next question comes from the line of Josh Lamers with William Blair. Please proceed with your question.

**Josh Lamers**

*Analyst, William Blair & Co. LLC*

Q

Thanks and good morning. Wanted to touch on GWS. You noted some implementation delays within the service line over the near term. So, I'm wondering if you also expect any – the in-person restrictions presently to limit any new client sales as well or to what extent are you able to currently bid on new contracts during this time?

**Leah C. Stearns**

*Chief Financial Officer, CBRE Group, Inc.*

A

So, we're actually seeing those proposals and RFP processes continue. We're having day-long scoping sessions with clients, I presume. But it becomes more complicated when there are shelter-in-place orders, so that our teams can't get out and actually fully implement the onboarding of those new accounts. So, we aren't seeing a slowdown in terms of discussions or activity as it relates to bringing on or assessing new client RFPs or expansion or scope discussions. It really is just the operational complexity of us not being mobile.

**Josh Lamers**

*Analyst, William Blair & Co. LLC*

Q

Got it. Thanks. And then, I understand that, as more recently, the focus is going to be on liquidity. But to start the year, you made a series of some smaller hardline [ph] SM (33:05) acquisitions. And so, I'm just wondering if the current environment has changed your M&A strategy and whether or not you're getting more inbounds from a certain service line versus another.

**Robert E. Sulentic**

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

A

Josh, our M&A strategy really hasn't changed. Like everything else we're doing, it's kind of slowed down in the immediate period that we're going through as people try to figure out what they're going to do with their businesses, et cetera. People are very preoccupied and distracted by COVID-19. No matter what else we would say, it's just the fact they're preoccupied and distracted. But our strategy for M&A remains the same and we see the same kind of opportunities we saw before. Well, probably because of the relevant – relative strength of our balance sheet and some pressure that people might be under, we could see more opportunities.

But the way you should think about CBRE's M&A strategy is to look at the Telford deal. It was an opportunity to take advantage of the brand we have, the capabilities we have, the balance sheet we have to go into a market where we hadn't been before and build a capability that was very much in line with the secular trend where we had a lot of knowledge, a lot of market presence and other things.

And it was a great-sized bet for us with the assumption [ph] of debt (34:25), \$440 million, and it made our business materially stronger. You should expect to see us do that across our three segments going forward and we're not pushing any one segment more or less than the others. We're asking each of them to look for opportunities to build their business with M&A where those businesses we buy can do more on the CBRE platform than they could do on their own or on another platform. We're encouraged that those opportunities will arise.

**Josh Lamers**

*Analyst, William Blair & Co. LLC*

Q

Okay. Last one for me. I'm wondering if you're seeing any increased competition within the commercial mortgage space. Are you participating in some of the refinance activity? And additionally, has a drop in mortgage rates recently – I guess, the rate on [ph] some of this paper, is it causing (35:15) liquidity to dry up within the CMBS market or are you still seeing activity there?

**Leah C. Stearns**

*Chief Financial Officer, CBRE Group, Inc.*

A

So, we aren't seeing a real shift in terms of the competitive landscape on the mortgage origination front. We have a significant position as it relates to origination for the GSEs and that has certainly been a major part of our underlying DSF business. But from a CMBS perspective, the GSEs have a liquidity role to play in the market. And so, we're continuing to see them provide liquidity.

What we are seeing now is there are higher or more restrictive covenants around underlying liquidity reserves for borrowers. And so that is slowing some of the activity. But overall, I would say, CMBS has been fairly moderate or modest in terms of new issuance just as the market has begun to stabilize. So we're not seeing a significant – it's not really coming from a competitive environment change. It's really just the overall availability of lending liquidity.

**Josh Lamers**

*Analyst, William Blair & Co. LLC*

Q

Okay. Thank you.

**Operator:** [Operator Instructions] 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. Nice to hear from all of you and hope everyone is safe and healthy. Starting with liquidity, I was wondering if you believe the 03/31 cash position to be sufficient or do you anticipate in the near term drawing down any additional reserves on the revolver?

**Leah C. Stearns**

*Chief Financial Officer, CBRE Group, Inc.*

A

So, we believe our liquidity is a sound position to maintain. The liquidity includes our cash balances and we may increase that slightly over time, but you're not going to see us preemptively draw down significantly under our revolver. As we have a very strong bank group, we feel confident that they will be there for us and we don't think it's prudent to go ahead and draw down at this time.

We have our largest cash use of the year in Q1. We've gotten through that. And we typically see cash build through the rest of the year. So we'll continue to manage our cash flows with a very significant focus on working capital. We had a really good quarter from overall working capital trends and that was really as a result of our leadership team and our management being highly focused on that. We're working through some additional process and system enhancements to make that more structured and systematic. And so, I think we're in a great position from an overall liquidity standpoint and don't see any need to increase our cash position at this time.

**Jade Rahmani**

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

Q

Okay. So, on the revolver, there are no approvals that you think could be subject to any market changes based on if the environment were to further deteriorate, say, for example, in July when unemployment insurance runs out if there's a further down-tick in economic trends.

**Leah C. Stearns**

*Chief Financial Officer, CBRE Group, Inc.*

A

No.

**Jade Rahmani**

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

Q

Okay. And with respect to cash flow from operations, just looking back historically during most of the financial crisis, the company remained in positive cash generation and it sounds like you expect that to be the case. Just your comments on cash flow for the rest of the year being positive.

**Leah C. Stearns**

*Chief Financial Officer, CBRE Group, Inc.*

A

Yeah. So, again, we're not giving quantitative guidance, but I can tell you qualitatively, we are highly focused on receivables. We're focused on managing working capital closely. We recognize that, that is certainly a key component of getting through this uncertain time. And so, our finance organization and our business leadership are partnering together to make sure that, that level of focus and importance is being placed on that.

**Jade Rahmani**

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

Q

I was wondering if you were seeing any green shoots in early May. There has been some positive commentary in, for example, the affordable housing space about a recent uptick in rent collections. Wondering if you're seeing any green shoots across other aspects of the business.

**Leah C. Stearns**

*Chief Financial Officer, CBRE Group, Inc.*

A

We're monitoring a lot of different factors. I think, for May, it's just a little too early to declare any specific trend as being one to emerge. So, at this point, I'll shy away from specifically addressing any specific item for May. But we are certainly watching external as well as internal factors to give us more confidence in terms of certain trends that may be evolving towards a near-term resolution of the current environment.

**Jade Rahmani**

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

Q

Okay. On the multifamily loan loss reserve, you noted a \$5 million increase in the reserve post the initial CECL reserve as a result of COVID-19, which seems somewhat modest. And I was wondering if you anticipate sequential increases in reserves going forward as perhaps the full potential economic impact becomes more clear.

**Leah C. Stearns**

*Chief Financial Officer, CBRE Group, Inc.*

A

So, we have spent an incredible amount of time on our loan loss reserve position. We feel very good about where we are. That is certainly something that will grow over time as our loan book increases. We have a very solid base of loans that we currently have in that portion of our overall portfolio. They have a strong debt service coverage ratio of about 1.9. We have a strong loan-to-value of about 65%. So, we feel very good about where we are from a reserve perspective.

I think if you could go back to the GFC and assume the default levels that occurred then, we have a reserve that would be positioned in excess of what the losses would accumulate to be at the GFC level. So, we feel very good about where we are. From an overall perspective, we've also seen very limited requests for forbearance. We've seen less than 1% of what could be required to fund requests to be funded so far. So, again, I think we feel very good about where we are and that the quality of the loan book that we're currently sitting with today is in a solid position.

---

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

Q

Okay. Turning to GWS, I was wondering if you could comment on the customer that made the decision to move management in-house. Is that a one-off situation? What kind of property type and customer was that and what drove the customers' thinking?

---

**Leah C. Stearns***Chief Financial Officer, CBRE Group, Inc.*

A

Sure. It was a portion of the contract. It wasn't the full relationship. It was a retail client and it was one that was using our FacilitySource platform. So, we are very focused on making sure that we continue to invest in FacilitySource to make sure that we have the appropriate technology platform and other components of the on-demand model positioned to serve the needs of all of our clients.

I think this was just a very unique case. Again, this has not happened previously, where there may have just been some disconnect in terms of what our client wanted and how it was executed. And so, we're taking this time, particularly given this lower environment as it relates to onboarding clients, to really focus on improving processes and making sure we're making those investments to really come out of this in a stronger position.

---

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

Q

Thanks. And lastly, I wanted to ask about Hana, if you could quantify the aggregate amount of investment that has been made, particularly what's currently on the balance sheet, and if there's any risk of impairment or write-down of that going forward as the outlook for flex workspace may change or maybe you could contrast Hana's business to other co-working business models.

---

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

A

Yeah, Jade. This is Bob. Our expense for Hana last year was around \$40 million. I believe, this year, we're going to bring that down some, because we've slowed the rate upon which we're adding new Hanas. We thought we'd get to 20 this year. We'll probably get to 10. In terms of the prospects for that, I mentioned earlier, we think that Hana gives us a very good option on what might happen in the flex space market.

We do believe the flex space market is going to be real. It's going to be important. The landlords were spending a lot of time with our big occupiers. We know they're going to want some of that capability in their portfolio. It's going

to be different than what most of the flex space market has been historically. Much of it's been around the membership model, individuals or small groups in shared space. Hana from day one has been a suite product. Hana from day one has been higher quality, less dense, very strong on data security.

We think it's a product that very likely could play quite well going forward. Of course, we're going to have to watch and see what happens. We also believe that there's a real chance and we're in discussions with some landlords on this that landlords that want to control flex space in their own buildings, high-quality flex space, suites-oriented or going to want to have somebody white label that for them, because they do not want to try to build the infrastructure themselves to operate it, they aren't going to have the scale to do that. So we're hopeful that that could be one of the good opportunities for us coming out of the COVID-19 situation.

---

**Jade Rahmani**

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

Q

Thank you very much for the comments.

---

**Operator:** Our next question comes from line of Mike Funk with Bank of America Merrill Lynch. Please proceed with your question.

---

**Angela Zhao**

*Analyst, Bank of America Merrill Lynch*

Q

Good morning, guys. It's Angela Zhao on for Mike Funk from BofA. Thanks so much for taking the question. Couple if I may. First, what have you seen with transaction-based activities since the end of 1Q? Any color on what you've seen so far? And another thing is what percentage would you say of the deals are being canceled? Thanks.

---

**Leah C. Stearns**

*Chief Financial Officer, CBRE Group, Inc.*

A

So, we're still assessing the overall pipeline. So I would say post Q1, I can't speak to the specific percentage that have been canceled, because some may just be on hold. But, overall, in the US, as I mentioned in my prepared remarks, we had about a 40% decline in overall transaction revenue across our leasing and sales business.

Across the rest of the world, because we do have a highly diversified footprint, EMEA and APAC, some markets are coming back online. So, North Asia is seeing strength, whereas we certainly saw some softness to not such an extreme extent as the US, but a softer environment in Continental Europe and the UK.

So, I would just say it's a bit of a mixed bag outside of the US, but we certainly saw a significant reduction on the transactional side in the US. And, really, it's hard to tell how many of them are truly canceled, because many clients, at this point, are still contemplating what their move is going to be once they see greater transparency around how the economy and they are coming out of the COVID situation.

---

**Angela Zhao**

*Analyst, Bank of America Merrill Lynch*

Q

Thanks so much. One more, if I could. What assumptions do you use in your loan loss?

---

**Leah C. Stearns**

*Chief Financial Officer, CBRE Group, Inc.*

A



Well, again, it goes back to the probability of loss associated with the overall transaction. So when we look at the loan loss, we have assessed our view on the overall default rates, the quality of the portfolio and our forecast in terms of underlying growth and the – underlying growth of the property NOIs based on what is sitting in the loan portfolio at this time. So, because, as I said before, we have about 1.9 DSCR coverage ratio for the loans that are in that portfolio as well as a very low loan-to-value, we feel very good about the underwriting standards and the quality that sits in those portfolios today. And so, we feel very good about where we are relative to our position.

---

**Angela Zhao**

*Analyst, Bank of America Merrill Lynch*

Q

Thanks so much for taking the questions.

---

**Operator:** Thank you. We have reached the end of the question-and-answer session. I would now like to turn the floor back over to management for closing comments.

---

**Robert E. Sulentic**

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

Thanks, everyone, for joining us. Stay healthy. And we look forward to being with you at the end of the second quarter when we talk again.

---

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

**Disclaimer**

The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2020 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.