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# CBRE Group, Inc. (CBRE)

Q2 2020 Earnings Call



## CORPORATE PARTICIPANTS

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**Leah C. Stearns**

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**Robert E. Sulentic**

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## OTHER PARTICIPANTS

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*Analyst, JPMorgan Securities LLC*

**Stephen Sheldon**

*Analyst, William Blair & Co. LLC*

**Jade Rahmani**

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**Steve Sakwa**

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Hello and welcome to the CBRE Second Quarter 2020 Conference Call. At this time, all participants are in a listen-only mode. [Operator Instructions] A question-and-answer session will follow the formal presentation. As a reminder, this conference is being recorded.

It's now my pleasure to turn the call over to Kristyn Farahmand, Vice President, Investor Relations and Corporate Finance. Please go ahead.

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**Kristyn Farahmand**

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

Good morning, everyone, and welcome to CBRE's second quarter 2020 earnings conference call. Earlier today, we issued a press release announcing our financial results and posted it 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 second quarter results in more detail. After their 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 the 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 reports 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 the presentation slide deck.

Now, please turn to slide 4 of our presentation, which highlights our financial results for the second quarter of 2020. Total revenue and fee revenue fell about 6% and 21%, respectively, driven by declines in Advisory and REI. Lower revenue coupled with \$25 million of incremental COVID-related costs and a \$16 million donation to the company's COVID Relief Fund caused adjusted EBITDA to fall 43%. Overall, adjusted EPS for the quarter was \$0.35 including the negative impact of around \$0.10 attributable to the COVID-related expenses and Relief Fund donation.

Now, for insights on the quarter and our longer-term outlook, please turn to slide 6 and I will turn the call over to Bob.

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## Robert E. Sulentic

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

Thanks, Kristyn; and good morning, everyone. As expected, COVID-19 took a toll on our performance in the second quarter with impacts felt across every part of our business. However, the overall impact was cushioned by our diverse business mix, particularly the sustained growth of our contractual businesses over the past decade. We also benefited from early moves to reduce our expense base, a process that is continuing and strengthened our financial position and cash flow generation, despite the ongoing challenges from the pandemic.

Double-digit adjusted EBITDA growth in our Global Workplace Solutions segment demonstrated the resiliency of the business that occupier clients increasingly rely on in good times and bad to run essential operations and drive critical cost efficiencies. Since the global financial crisis, other parts of our business have become more resilient as well. For example, our US Development business is expected to earn twice as much both this year and next as it did at the peak of the last market cycle. This reflects greater emphasis on core product development, particularly industrial and multifamily projects, along with an emphasis on fee development.

We have built a \$245 billion loan servicing portfolio that adds growing recurring revenue to our capital markets offering. We are large originators for Freddie and Fannie, which are expected to match last year's loan volumes this year, and we are positioned to capture a significant share of their business.

Our Investment Management business grew nicely in the quarter. Today, it earns a significant majority of its adjusted EBITDA from recurring asset management fees. This business continues to raise new capital at a brisk pace, so the revenue base should grow.



Like any major crisis, COVID will have near-term and long-term effects on our sector and how we serve clients. In the near term, we've seen precipitous drop in leasing and sales activity. Investment capital has moved to the sidelines as investors begin the process of price discovery. Occupiers are hesitant to make long-term decisions amid the uncertainty preferring short-term lease renewals were possible. Our ongoing interaction with major occupier clients has given us insight into their current thinking.

Three distinct trends are emerging. First, most companies will give their employees greater flexibility to choose between working in the office and working from home. Second, the physical office will remain vitally important in these hybrid work models, particularly in fostering culture and collaboration and attracting talent. Third, the decades-long densification trend is likely to reverse, negating some of the effects on office demand associated with more remote working.

The pandemic has elevated the importance of the workplace strategy on corporate agendas. Now more than ever, clients will need a strategic insight, thoughtful advice, and reliable execution that CBRE and our people are best positioned to provide. We have built the company for opportunities like this and intend to capitalize on it.

Now I'm going to turn the call over to Leah who will take you through the second quarter.

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## Leah C. Stearns

*Chief Financial Officer, CBRE Group, Inc.*

Thanks, Bob. Turning to slide 8. Our Advisory Services segment fee revenue and adjusted EBITDA fell about 31% and 60%, respectively. As expected, significant weakness in our high margin but cycle-sensitive sales and leasing businesses drove the declines. Our Advisory adjusted EBITDA margins fell to around 10%, which was impacted by revenue compression about \$8 million in incremental COVID-related expenses and \$11 million for the company's donation to our COVID Relief Fund. Together, these items reduce the Advisory margin approximately 140 basis points in the quarter.

Global leasing revenue declined about 38% as the pandemic negatively impacted our largest market in the quarter. In the US, Continental Europe and the UK, which collectively comprise over 80% of global leasing, revenue decreased 43%, 25% and 20%, respectively. Greater China, which comprised more than 3% of global leasing this quarter, achieved 14% growth following a 26% decline in Q1. While there was pressure across all property types in the quarter, industrial was resilient with leasing revenue declining just 10%.

We saw a similar pattern in property sales with global revenue down 48% and declines of 26% in Continental Europe, 51% in the US, and 76% in the UK. Notably, we improved our US market position significantly with a 160-basis-point share gain or 17.6% share for the quarter is 680 basis points more than our closest competitor. Like leasing, we saw a rebound in Greater China with property sales climbing 46% after decreasing over 70% in Q1.

Commercial mortgage revenue fell 28% as most capital sources pulled back from lending. We did, however, see an increase in activity from banks with a strong appetite for office and industrial projects. The selling of credit markets that began in the second quarter has extended into July.

Other advisory services business lines were less impacted by COVID during the quarter. Advisory property and project management revenue fell about 8%, driven by the temporary shutdown of construction activity and reduced spending on capital projects. Valuation revenue fell about 12% with modest growth in EMEA and our APAC market.



Finally, loan servicing revenue grew 15% as our portfolio reached \$245 billion. Our multifamily properties, which comprised nearly half of our global servicing portfolio and more than two-thirds in the US is proving to be resilient during the pandemic. We have just a handful of loans in forbearance and have not received a new request since May.

Turning to slide 9, our Global Workplace Solutions segment saw lighter than usual revenue performance, but strong growth in profitability. Facilities management, which accounts for more than 85% of the segment's fee revenue and is a contractual business, saw a 7% growth. This was offset by more cyclically-sensitive project management and transaction services, which together, posted a 33% fee revenue decline.

Even with lower contributions from these higher margin revenue sources and \$17 million incurred for COVID-related expenses and \$3 million for the COVID Relief Fund, GWS's adjusted EBITDA margin on fee revenue expanded more than 170 basis points to 15.4%, leading to adjusted EBITDA growth of more than 11%. This is the highest quarterly margin ever for the GWS business, and our performance was driven by proactive cost management.

We sustained a high contract renewal rate in the quarter and the new business pipeline continued to increase from year-end levels. COVID logistical challenges continue to hamper and prolong the contracting and onboarding processes. Yet after a pause at the onset of the COVID crisis, companies are beginning to move ahead with outsourcing plans as they seek to capture efficiencies in a constrained economic environment.

GWS is also a well-diversified business, serving clients across a wide array of property types and industries, including many deemed essential during the current crisis. We're very proud of the work our GWS team continues to do supporting our clients during this challenging time.

Turning to slide 10, our Real Estate Investments segment adjusted EBITDA came in at \$18 million, down 41%. It included incremental COVID expenses and the relief fund donation allocation, which, together, totaled about \$2 million.

Investment Management was a standout performer with adjusted EBITDA rising 62%. This reflected strong growth in recurring asset management fees, AUM increasing \$3 billion from a year-earlier period, as well as higher carried interest and co-investment returns partially offset by lower acquisition, incentives, and disposition fees.

Our focus on core and core plus strategies is highly advantageous in the current environment. Capital raising remained elevated, totaling \$11.4 billion over the past 12 months. As Bob mentioned, US Development is well-positioned entering the downturn.

Although adjusted EBITDA fell about 55%, this was largely due to deal timing. We continue to be optimistic about second half performance as our in-process activity stands at \$13.7 billion. About half of that activity is comprised of fee development and build-to-suit, and the remaining assets are well-capitalized with strong equity partners.

Our Development business in the UK incurred an adjusted EBITDA loss of \$11 million during the period. This loss was largely attributable to transitory operational challenges due to COVID-19, including temporary construction stoppages and other challenges as well as constrained sales activity. We expect performance to improve now that construction and commercial activities have largely resumed.



Lastly, the \$9 million adjusted EBITDA loss in our enterprise-focused co-working solution, Hana, was in line with Q1 performance. Hana's results in the period were impacted by mandated shutdowns and elevated costs to ensure the safety of occupants as units re-opened.

Let's now take a look at our 2020 outlook on slide 11. Given the continued uncertainty about COVID-19's trajectory and its impact on the broader economy, we will again refrain from providing explicit EPS guidance. However, we will discuss our expectations for the remainder of 2020 in detail.

Starting with the Advisory Services segment where our revenue decline was shallower than we expected in the second quarter, we now expect the recovery in our transaction businesses to be more gradual and drawn out. We expect revenue declines in Q3 and Q4 to be similar to that of Q2 with relatively better performance outside of the Americas.

Sales and leasing revenue while off significantly in the quarter benefited from robust pipelines built before the COVID crisis. Future performance is highly dependent on pipeline replenishment, and we are tracking signed confidentiality agreements and other leading indicators to inform our expectations for the remainder of the year.

For the rest of the advisory business combined, we expect a mid to high single-digit revenue decline. Variable costs, which comprise about half of our advisory cost structure are expected to decline a bit more than overall revenue. We anticipate a modest mid-single-digit decrease in advisory fixed costs as it typically takes longer for actions in this area to show an impact.

Moving to GWS. We expect gross revenue to rise in the mid-single digits and fee revenue in the mid to high single-digits with growth in contractual facilities management revenue offsetting an expected decline in GWS transaction revenue. As a result of disciplined cost management, we also expect to achieve modest margin expansion, which will drive high single-digit adjusted EBITDA growth. This growth rate includes an expected headwind from COVID-related items in the mid-single-digit range.

Our outlook is also premised on slower growth in facilities management revenue as we face tough compares in Q3 and Q4, when facilities management achieved growth of 15% and 18%, respectively. Our first half results benefited from the high level of client onboarding in late-2019, that drove these strong prior-year growth rates.

Simultaneously, while the logistical challenges of contracting and onboarding clients are slowly receding, we did not bring on new clients during the first half at the same pace as last year. This is expected to weigh on growth in Q3 and Q4 and we would expect growth to resume to double-digit levels once these new client transition delays abate.

Looking at REI, we continue to believe our core legacy business lines, global investment management and US Development are well-positioned for the current environment. And we anticipate more resilient performance than during the last downturn. In investment management, we expect the adjusted EBITDA growth in the mid-teens range, as higher recurring adjusted EBITDA is offset by lower contributions from [ph] Net Promotes (07:05) as dispositions slow and lower co-investment returns.

We expect US Development to contribute similar adjusted EBITDA as in 2019 as investors continue to have an appetite for high-quality assets. At present, nearly 80% of our in-process portfolio is comprised of healthcare, industrial and multifamily properties and office properties that are at least 90% leased. We expect UK multifamily residential development to generate sequentially improved adjusted EBITDA in each of the remaining quarters and be about breakeven for the year.



Construction resumed during May and we remain confident in the long-term trajectory of this business, given the housing shortage in the UK and our robust pipeline of new projects.

Similarly, we continue to believe in the long-term rationale for our investment in Hana, but expect to incur a larger adjusted EBITDA loss in 2020 than in the prior year. This is primarily the results of additional units being brought online in 2020, as well as revenue delays due to COVID-19-related shutdowns and longer new unit development periods. Longer term, we see an opportunity for an accelerated transition to an asset-light investment model, partly catalyzed by dislocations in the flex space market.

Turning to slide 12. Our financial position has continued to strengthen despite the challenges of COVID-19. We ended Q2 with just 0.6 turns of leverage, down 0.2 turns from a year ago, and \$3.5 billion of liquidity, an increase of \$0.5 billion from the year-ago period. In addition, we have no debt maturing until 2023.

Given the uncertainty around the virus's trajectory and its impact on economic activity, we will continue to prioritize liquidity over discretionary capital deployment. Once we have more confidence in an economic recovery, we will resume deploying discretionary capital in line with our capital allocation strategy. In the meantime, we are continuing to prioritize investments in our people and platform and selective M&A. A key focus will be companies that enhance the diversification of our service offerings and resiliency of the overall business by increasing the scale of less cyclical business lines.

Finally, we view our share price is highly attractive at current levels and could resume repurchases when appropriate if we are unable to identify suitable and properly priced acquisition opportunities. While the environment remains highly uncertain, we're confident that our business and our capital structure are positioned to not only weather the challenges presented by COVID, but build on our industry leadership position and maximize long-term earnings growth.

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

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## Robert E. Sulentic

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

Thanks, Leah. This certainly has been a trying time for everyone and we're proud of how our people have helped our clients and our company to navigate the COVID-19 crisis. In addition to the challenges of COVID-19, recent months have also seen significant social unrest here in the US, which has called attention to the racial inequality and injustice that have persisted in our society for too long. It has also highlighted the need for better progress on diversity and inclusion within corporate America. From speaking with many of you, we know that this topic is extremely important to our shareholders and you expect us to address it. So I'll take a few moments to tell you where we are.

We have made progress with diversity and inclusion on several fronts. For example, since 2015, we have meaningfully increased diversity on both our board of directors and management executive committee and put more women in the key leadership roles. These are important gains that we're proud of. At the same time, we must do more to improve ethnic diversity at our company, particularly within our management and brokerage ranks. This is a challenge we are focused on and actively addressing.

Last month, we appointed our first Chief Diversity Officer, Tim Dismond, who has long been a senior leader at CBRE. Tim has joined the 12-member global executive committee that is responsible for running our company



and will report directly to me. We intend to give Tim the necessary resources and support to accelerate our progress on diversity and inclusion. This is a priority for me personally as well as for the company.

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

## QUESTION AND ANSWER SECTION

**Operator:** [Operator Instructions] Our first question today is coming from Anthony Paolone from JPMorgan. Your line is now live.

**Anthony Paolone**

*Analyst, JPMorgan Securities LLC*

Q

Thank you and good morning. I think one of the comments in the deck was around flexibility that folks are looking for. And I'm wondering if part of that if you could talk to whether you're seeing tenants doing more short-term renewals, or looking for short leases or just – and seeking flexibility doing things that could potentially reduce the commission pot in the near term?

**Robert E. Sulentic**

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

A

Yeah, Tony. In the short term, tenants are definitively trying to make short-term decisions given all the uncertainty that everybody's faced with. What we've learned and we have confidence about is the following. And we've spent a lot of time. We've surveyed our big clients. Everybody knows the number of clients we have relationships with. So this is what we know. There will be more flexibility to do hybrid working going forward there but will be more work from home.

There will also be a big focus on the office on an enduring basis; something like 80% of the big clients we surveyed said that the office will be as important or almost as important as it was historically. And by the way, that answer came in the midst of the COVID crisis and all that goes with the COVID crisis. The other thing we know is this space will be de-densified. And so, the net-net of what will happen is, yeah, there'll be more work-from-home, there'll be less people in the office, but almost everybody will be back in the office in a less dense format. That's what will play out in the long run. In the short run, people are trying to avoid making decisions till they have more clarity on what's going to happen with COVID-19.

**Anthony Paolone**

*Analyst, JPMorgan Securities LLC*

Q

Okay. Thank you for that. And then, a question on cost savings, can you just talk about where you're making those changes? Can they stick once activity starts to come back? Just how to think about that. And then also the COVID expenses that you called out in the second quarter, sounds like some of those went into a fund. But I'm just wondering if there's more of that to come in, say, 3Q or 4Q.

**Leah C. Stearns**

*Chief Financial Officer, CBRE Group, Inc.*

A

Sure, Anthony. It's Leah. I would start with your last part of your question, those were primarily costs in the quarter that won't recur unless we have significant resumption of lockdowns. So those are really onetime costs. We may have some going into the second half of the year, but I don't think they'll be at the same level that we saw in Q2.



And then, with respect to cost savings, we are actively assessing the cost structure within the business. We want to make sure that we are structured to meet the demand environment that will evolve coming out of the current crisis. And so that is something that we certainly are looking at and expect to address over the next quarter to two. And we'll certainly be able to provide more color on that when we come back and speak with you in the third quarter.

**Anthony Paolone**

*Analyst, JPMorgan Securities LLC*

Q

Okay. And then, just last question, on the GSE business, have you seen any need or material amount of P&I that you all have had to expand without getting money in the door, I think that was the topic maybe last quarter. I'm just curious as to what the update is there. What you're seeing now?

**Leah C. Stearns**

*Chief Financial Officer, CBRE Group, Inc.*

A

We are not seeing any material amount of forbearance requests. We've actually not received one since May.

**Anthony Paolone**

*Analyst, JPMorgan Securities LLC*

Q

Good. Thank you.

**Leah C. Stearns**

*Chief Financial Officer, CBRE Group, Inc.*

A

And even at that point it was not material.

**Anthony Paolone**

*Analyst, JPMorgan Securities LLC*

Q

Okay. Thank you.

**Operator:** Thank you. Our next question today is coming from Jade Rahmani from KBW. Your line is now live.

**Jade Rahmani**

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

Q

Thank you very much for taking the questions, and good to hear from all of you. I was wondering, in terms of the transaction outlook, what key factors, in your mind, would drive an increase in terms of investor confidence, in terms of tenant confidence, in their ability to consummate new transactions?

**Leah C. Stearns**

*Chief Financial Officer, CBRE Group, Inc.*

A

So there are certainly elements around the environment with respect to the COVID vaccine and the ability for investors to have confidence around the economic recovery that will come out of that. I think that is critical to regaining confidence. Part of the price discovery that's going on right now I think starts with seeing a recovery on the leasing side to really build the confidence on the investor side. And so we need to see really where that equilibrium shakes out.



We certainly are seeing activity continue, and it's not as severe as we had expected, as I said in my remarks. But I think it will be really critical to begin to see leasing decisions on a larger scale basis, particularly on the large leasing transactions. The place where we've seen the most significant decline is on those large transactions. We still have actually seen a high volume of transactions, but on a relative basis, [ph] they've done (27:29) a smaller set of – or smaller size deals. So I think we really need to see confidence come back around leasing, that will lead to more strong and confident underwriting behind our investor clients. And I think that will lead to better capital markets performance in the future.

**Jade Rahmani**

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

Q

Are you seeing any corporate occupiers contemplate strategies? Where they are going to be looking at satellite offices, suburban offices and curtail their footprint in gateway markets?

**Robert E. Sulentic**

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

A

We've seen some of our big occupier clients try to figure out whether or not satellite formats are going to work for them. Almost nobody has made a definitive decision to move in that direction. And again, I think, this is the circumstance we're in now, people are really trying to figure out how this is all going to play out before they make definitive decisions. But there isn't a lot of evidence yet that that satellite model is going to be prominent.

**Jade Rahmani**

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

Q

And are you seeing companies make decisions to cancel or delay plans? Are you seeing an uptick in cancellations?

**Robert E. Sulentic**

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

A

Cancellations of leases or?

**Jade Rahmani**

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

Q

Yeah. Of contracts that were in process but not now fully consummated.

**Robert E. Sulentic**

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

A

Yeah. I think the bottom line is everybody is trying to not make long-term decisions now and they're generally willing to make short-term decisions. By the way, they're not making long-term decisions to give up or take space in either direction.

**Jade Rahmani**

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

Q

And in gateway markets, have you seen pressure in office rents? Are you seeing office rents beginning to decline at this point?

**Robert E. Sulentic**

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

A



There hasn't been enough big deal gateway transactions to draw conclusions in that regard. Literally, we are in an environment where people are in the wait-and-see mode. Renewals are generally happening where they've been happening at.

**Jade Rahmani**

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

Q

And just finally, in the multifamily space, where CBRE is a major lender to Fannie Mae and Freddie Mac, could you give any insights as to how investors in that space are looking at the risk to the outlook particularly in the US based on a potential reduction in the government stimulus programs?

**Leah C. Stearns**

*Chief Financial Officer, CBRE Group, Inc.*

A

So for the GFCs, the multifamily businesses, one that's highly profitable and from a risk perspective performs incredibly well on a relative basis to the single family business that they run. So from our perspective, multifamily provides a much more affordable and cost effective way for occupants to maintain ownership of property. So we actually believe that the multifamily are – we believe that the multifamily business under the GFCs is one that will be enduring and resilient through this cycle.

**Jade Rahmani**

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

Q

Thank you very much.

**Operator:** Thank you. Our next question today is coming from Steve Sakwa from Evercore ISI. Your line is now live.

**Steve Sakwa**

*Analyst, Evercore Group LLC*

Q

Thanks. Bob, I wanted to maybe go back to the comment you made about the de-densification and maybe just help us think through you guys do a lot of work with tenants IN laying out space. How much more space do you think over time those tenants could take and the offset would be letting people work from home? So when you net those two out, do you think we're flat, down, or up on space needs moving forward?

**Robert E. Sulentic**

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

A

Yeah. I wish I could be more definitive, Steve. Here's generally what happens though. And by the way, this was happening before COVID. You look at the percentage of your people that are in the office at any given point in time and then you add a buffer on top of that and you tend to size to that amount of space, so that's probably going to come down some. If 10% or 15% or 20% of people are going to work a couple days from home a week, that number will come down some. But the amount of space per person is going to go up meaningfully. Offices have gotten pretty dense going into COVID-19. And that trend has been going on for years and years. We don't know exactly where that's going to play out, but it could offset most of the downward pressure in what we're seeing from people working from home.

By the way, I'll give you my personal view on this from having talked to a lot of clients. I think the certainty about people working from home to some degree is at least as high as everybody says it is. I think the certainty about



people coming back to the office is higher than the headlines out there today, because it's exciting to give a new headline to talk about all the productivity of working from home.

But then you go talk to executives that run businesses, that have to deal with onboarding new people, moving managers around, oversee new people, training people, dealing with collaboration, dealing with creativity and what you hear is we've got to get people back to the office. So I think both of those trends have high certainty. More working from home and the importance of the office going further – going forward and maybe they'll offset each other. The actual math hasn't sorted out yet.

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**Steve Sakwa**

*Analyst, Evercore Group LLC*

Q

Okay. Thanks. I guess second question would just be around the Hana business. And we've seen a big change in WeWork and co-working in general. How are you just looking at that business? And what's the expectation moving forward? Are you as excited about that business? Or do you think that's got a slower ramp to roll out? And what have you seen on the utilization front?

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**Robert E. Sulentic**

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

A

Well, we're shut down, right? So utilization is – you can't get any read on utilization. But from day one, Hana was a sweet model. It was a model that was oriented toward institutional occupiers, strong focus on data security, strong focus on a very professionally-managed environment. And here's what it does for occupiers that we believe will make it an important concept going forward. It allows you to – the flexibility to move in and out quickly without capital expenditures. It allows you the flexibility to assemble teams in a particular market or a different market for relatively short periods of time. By the way, not months, but years, short – and instead of five years, a year, or two years.

We believe that will be at least as important going forward as it was before COVID-19. We are excited about the Hana model. We are anticipating that it'll be more of a service provider model and that the landlords will actually own the units going forward. There was a move in that direction anyway. So we think strategically. Hana was oriented toward a market that we're going to see post-COVID-19. And about two-thirds of the clients we surveyed suggested that co-working, although they're going to call it flexible space going forward, will be a significant part of what they do in their utilization of space in the future.

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**Steve Sakwa**

*Analyst, Evercore Group LLC*

Q

Okay. And I guess, last question. Leah, you made a comment about preserving liquidity over discretionary capital spending, but then you said your share price is attractive, but you didn't buy back any stock in the quarter. So I'm just trying to reconcile some of those comments in what would give you the confidence to buy back shares at these levels?

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**Leah C. Stearns**

*Chief Financial Officer, CBRE Group, Inc.*

A

That comment was really around liquidity, is really focused on the current environment, Steve, as we think about our capital allocation policy and process and overall strategy. We ultimately seek first to invest into our business, our platform, ensure it's scalable, ensure we have the right factory setting for our operations.



We then look at how do we add capabilities to our existing lines of business or potentially add new capabilities that will serve our clients in the most effective and value creative way. And ultimately, if those investment opportunities are kept or are exhausted and we don't see anything that's attractive on the horizon, our next lever for us within the capital allocation strategy is our buyback.

Now, that is something that we consider in the context of a more normalized environment, and we want to make sure that we use our buyback in a framework – within a framework that is cognizant of our current leverage in the overall economic environment. And so my comments were meant to imply within our current capital allocation strategy in a normal environment, we would actually be in the market from a share repurchase perspective.

But given the importance that we're placing on liquidity today, because of the uncertainty around COVID, we are taking a more conservative approach, and therefore, preserving capital. We believe that moments – in times like this can create incredible opportunities for investments that wouldn't otherwise present themselves. And so we want to make sure that we aren't getting ahead of ourselves and using our more normalized – normal economic environment capital allocation strategy too early. And so was really providing you a context that we're still committed to that strategy once we have conviction that the recovery is in sight.

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**Steve Sakwa**

*Analyst, Evercore Group LLC*

Q

Okay. Thanks. That's it from me.

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**Operator:** Thank you. Our next question today is coming from Stephen Sheldon from William Blair. Your line is now live.

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**Stephen Sheldon**

*Analyst, William Blair & Co. LLC*

Q

Hi. Thanks. On the new business pipeline and GWS, it sounds like that's going to continue to expand nicely here. So I guess, is there any way to quantify how much of improvement you've seen in the pipeline there over the last few quarters? And just some more detail on the types of client, clients in your arrangements, so where you're seeing traction right now.

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**Leah C. Stearns**

*Chief Financial Officer, CBRE Group, Inc.*

A

So the GWS business, the pipeline is actually up double-digit from a year-ago period. We're seeing activity across many different sectors, life sciences, [ph] T&T (37:56), industrial. So I think, overall, we're seeing lots of opportunities across many different areas of our client base. They're pretty similar to what we saw last year, but certainly the pipeline is up. I would add that the pipeline continues to grow. It's just the period of transition from when we sign a contract to then go into full transition mode.

That's the part that has presented a challenge for us, just in terms of driving growth out of that pipeline. We certainly aren't seeing a lack of interest in our service offerings, it's just – we're in a moment of a crisis and there's a bit of a pause in terms of decisions that are being made, not just on our leasing and advisory business, but also within our occupier outsourcing business. So as soon as we begin to see momentum convert from that pipeline into transitions and, ultimately, allow us to begin monetizing those new outsourcing contracts, I think that business will be back on its normal double-digit trajectory going forward.

.....



**Stephen Sheldon**

*Analyst, William Blair & Co. LLC*

Q

Got it. And then, within investment sales, I guess that there's still a lot of price discovery going on. But have you seen any convergence broadly in bid/ask spread, especially with more economic data points since the pandemic began that could be used in underwriting? And additionally, what trends have you seen in terms of distressed sale activity? And whether that could pick up over the next few quarters?

**Leah C. Stearns**

*Chief Financial Officer, CBRE Group, Inc.*

A

So in terms of bid-ask, you're right. I think going back to my earlier comments, we certainly believe that leasing, a resumption of large leasing transactions will help drive confidence within our capital markets business, and particularly, the large marquee transactions. We have seen some trade – EMEA, APAC were certainly doing much better relative to the US from that perspective.

And so from where we sit today, I wouldn't say that we believe that there is high confidence. As I said in my prepared remarks, we expect the second half to be a continuation for our transaction businesses of what we saw in Q2. It's just uncertain given all of the COVID-related issues, if we do see a second wave, whether or not there will be an opportunity for more price discovery.

With respect to distressed sales, there are some, but I would say investors are being very patient. I think it's important to remember that coming into this public health crisis, this was not an overstretched industry from an underwriting perspective. There is discipline, cap rates were strong, and it wasn't a situation where there was overleverage and significant bubble-like activity. So we feel really good that owners of properties today are sitting there and have the ability to be patient and can weather this crisis.

**Stephen Sheldon**

*Analyst, William Blair & Co. LLC*

Q

Makes sense. Thank you.

**Operator:** Thank you. Our next question today is coming from Michael Funk with Bank of America. Your line is now live.

**Michael J. Funk**

*Analyst, BofA Securities, Inc.*

Q

Yeah. Thank you very much and good morning, everyone. So thank you for the qualitative guidance, actually it's very helpful. And I understand your comment about the linkage between leasing and sales activity. But just so I understand it, so if we're assuming based on headlines that companies don't begin to repopulating offices until sometime in 2021, is it fair to assume that your baseline is that these trends continue well into 2021?

**Leah C. Stearns**

*Chief Financial Officer, CBRE Group, Inc.*

A

It's really too early to speak to, and again, we're just providing qualitative guidance for 2020 because of the uncertainty around the economic outlook and how that relates to the current COVID environment. We're watching so many different indicators across the disease, the macroeconomic landscape and within commercial real estate as an industry. And as we get more conviction as to how that will lead into 2021 and the business trends, we'll certainly provide that color, Michael. I think it's just too early to say how it will translate today.



**Michael J. Funk**

*Analyst, BofA Securities, Inc.*

Q

Okay. And then, on the relatively strong trends in Germany, China and Mexico, is that something you see continuing through the remainder of the year or is there a reason to believe that might change direction?

**Leah C. Stearns**

*Chief Financial Officer, CBRE Group, Inc.*

A

There were some marquee asset tractions that happened in our Germany business. I would say, China certainly was a resumption of activity post the lockdown. That certainly was a bright spot for the quarter. But I think those markets are smaller. We tend to see more volatility in the performance of those markets. And I would say, just pointing to our broader statements around how we believe the second half will play out. We think that our international businesses will likely be a bit stronger just because we do have that diversification whereas in the US we certainly have a strong belief that it will be a more muted environment.

**Michael J. Funk**

*Analyst, BofA Securities, Inc.*

Q

And your comment on price discovery, I guess that implies that people are putting pen to paper or at least paying attention to the cap rates, available assets. If that is true and I think you're already in conversations with potential investors, can you give us any color on where that bid-ask spread is today, let's say, if cap rates were 3% for an asset last year, where is that potential bid today?

**Leah C. Stearns**

*Chief Financial Officer, CBRE Group, Inc.*

A

Again, there haven't been enough transactions to really give you a strong – to lead to strong conviction on my part that I can answer that question with any certainty. I would just say that there certainly are investors who are watching closely what's happening in all the markets. I think there are opportunities for domestic capital where cross-border capital may be constrained due to travel restrictions that presents unique opportunities for pension and other funds who may have historically been sitting on the sidelines because of the level of competition from foreign capital. That gives some pretty unique opportunities for investors in market to capitalize on distressed sales, if they're presenting themselves. But I would just say the volume of activity is just not sufficient enough for us to be able to say today what the bid-ask is.

**Michael J. Funk**

*Analyst, BofA Securities, Inc.*

Q

And then, one more if I could please. You said you're assessing the cost structure. I'm sorry, I didn't hear any target range for cost savings. Do you have a target range for cost savings?

**Leah C. Stearns**

*Chief Financial Officer, CBRE Group, Inc.*

A

We certainly do, but I don't want to get ahead of ourselves. I think from my perspective sitting here today, it's important for us to take a step back and look at the overall demand environment that's developing as it relates to all of the different lines of businesses that we currently operate and make sure that the business and the cost structure that we have going into 2021 is right-sized. And so I don't want to jump to any conclusions as to what that will look like, because we are watching several indicators and several trends develop. But we certainly are actively assessing opportunities across the platform to make sure that we are right-sizing the business from a fixed cost perspective as we head into the second half of the year in 2021.



Michael J. Funk

*Analyst, BofA Securities, Inc.*



Okay. Thank you for the time.

**Operator:** Thank you. We reached the end of our question-and-answer session. I'd like to turn the floor back over to management for any further or closing comments.

Robert E. Sulentic

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

Thanks, everyone, for being with us, and we'll talk to you at the end of the third quarter.

**Operator:** Thank you. That does conclude today's teleconference. You may disconnect your lines at this time and have a wonderful day. We thank you for your participation today.

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