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CBRE Group, Inc. (CBRE)

Q3 2020 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Greetings and welcome to the Third Quarter 2020 CBRE Group, Inc. 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 call is being recorded.

It is now my pleasure to introduce your host, Kristyn Farahmand, Vice President, Investor Relations and Corporate Finance. Please go ahead.

Kristyn Farahmand

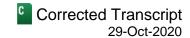
Vice President, Investor Relations and Corporate Finance, CBRE Group, Inc.

Good morning, everyone, and welcome to CBRE's third 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, along with a presentation slide deck that you can use to follow along with our prepared remarks, as well as an Excel file that contains additional supplemental materials.

Our agenda for this morning's call will be as follows: first, I'll provide an overview of our financial results for the quarter; next, Bob Sulentic, our President and CEO and Leah Stearns, our CFO, will discuss our third quarter results in more detail. After 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, including

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profitability and margin, the effect of cost savings initiatives and our 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 reports filed on Form 10-K and Form 10-Q, respectively. We've provided reconciliations of adjusted EPS, adjusted EBITDA, fee revenue and in 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 our presentation slide deck.

Now please turn to slide 4 of our presentation, which highlights our financial results for the third quarter of 2020. Total revenue and fee revenue fell about 5% and 13%, respectively, driven by a decline in our Advisory Services segment. Lower revenue was partially offset by disciplined cost management and temporary cost reduction, as well as the initial benefits of transformation initiatives targeted to improve the ongoing cost structure of the business. So it's limited the adjusted EBITDA decline to 3%. Overall adjusted EPS for the quarter was \$0.73, while GAAP EPS, which includes around \$0.13 of transformation initiative costs, totaled \$0.55.

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

Robert E. Sulentic

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

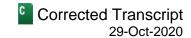
Thanks, Kristyn; and good morning, everyone. The results we reported this morning highlight the progress CBRE has made in building a more resilient business since the last downturn occurred more than a decade ago. We were a markedly different company from the one that endured the global financial crisis. I'll briefly cite some specific ways the company has evolved and improved. Facilities management, which provides steady recurring revenue, has grown exponentially with the portfolio up by 3.7 billion square feet in 10 years and now totaling 4.2 billion square feet. And we've added a data center management capability that is growing robustly.

Our industrial and multi-family offerings have also grown dramatically and are proving to be very resilient in the current environment. These offerings together cut across leasing, sales and mortgage origination and servicing. They also comprise the majority of our real estate development portfolio. US project management has grown fivefold in 10 years and COVID is further catalyzing demand for this group's specialized services.

Finally, our investment management business's core asset portfolio, which is growing more than 300% over 10 years and now comprises nearly 85% of total AUM has held up quite well this year. The resilient aspects of our business are helping us weather the sharp COVID-driven fall and property leasing and sales.

Another key contributor was quickly aligning our expenses with reduced market demand. A significant portion of our compensation structure falls automatically in the current environment and our global leadership team has rapidly implemented other cost management actions. Many of these actions were contemplated before COVID following a strategic review designed to enhance scalability and efficiency. This work has been quite effective, cutting where appropriate without compromising our future.

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I want to briefly comment on the macro-environment before handing the call to Leah. At the present time, COVID is putting downward pressure on parts of our business and creating larger opportunities in other parts, several of which I highlighted earlier. Inevitably, the magnitude of COVID's impact will diminish considerably once the public health crisis passes. We can expect our sales and leasing businesses where decision making is now largely frozen to be prime beneficiaries.

However, a significant amount of the COVID-driven change will be permanent. For instance, our work with occupier clients confirms that companies will continue moving toward a hybrid model that combines working from the office and from home. Occupiers will take space for fewer employees, but that space will be less densely populated, more intensely managed, and more flexible. There will be a premium on high-quality well-managed buildings with great infrastructure.

We are continuing to take advantage of the strong secular growth trends that were driven by the last cycle, including occupier outsourcing, industrial and logistics space, institutional quality multifamily assets and workplace experience services. We expect new secular opportunities to be created in the wake of COVID and are positioning our strategy and leadership focus and allocating our capital to make the most of them as the new cycle unfolds.

With that, I'll turn the call over to Leah, who will take you through the guarter in detail.

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 over 23% and nearly 32%, respectively, reflecting weakness in high margin sales and leasing activities that Bob alluded to.

While our Advisory adjusted EBITDA margins fell about 180 basis points year-over-year, it improved sequentially approximately 560 basis points to about 15.5%. This sequential improvement was due to the combined impact of short-term cost reductions, including continued furloughs, lower bonus accruals and tight management of travel and entertainment expenses, as well as the initial impacts of transformation and workforce optimization efforts. Additionally, about 190 basis points of the sequential improvement was due to the cadence of COVID-related items.

Global leasing revenue declined about 31% as the pandemic continued to negatively impact our major global markets. In the US, Continental Europe and the UK, which together comprised about 81% of global leasing in the period, revenue decreased 36%, 22% and 6%, respectively. The UK benefited from some large industrial transactions during the quarter, which helped to offset weak demand for office space. Globally, industrial leasing fueled by the continued shift to e-commerce increased 10% in Q3 and 8% year-to-date.

Advisory sales improved sequentially falling 34% year-over-year in Q3 versus 48% in Q2. All three regions saw sequential improvement paced by Continental Europe where Advisory sales revenue fell just 7% in Q3 compared to 26% in Q2.

In the US, we added 280 basis points to our market share according to RCA as investors seek out the best advice and executions in a challenging market. Given the high level institutional dry powder and continued low interest rates, investor demand for quality real estate assets with strong rent growth and creditworthy tenants remains solid despite the pandemic.

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Commercial mortgage revenue fell 21% in the quarter. The lending environment improved marginally from the second quarter, but lenders remained quite conservative in their underwriting standards, which weighed on volumes. Notably, multi-family volumes rebounded sequentially during the quarter; and by September, exceeded the prior year level. Refinancing activity comprised 60% of our year-to-date originations, up from the typical 40% to 50% range.

Our other Advisory Services business lines were less impacted by COVID-19 during the quarter. Valuation revenue fell about 10% in line with the last quarter, while advisory property and project management and loan servicing each saw fee revenue growth of over 2%. Slower growth in loan servicing was the result of lower loan repayment fees. Excluding prepayment fees, our servicing revenue would have grown at a low double-digit clip, consistent with previous quarters. The loan servicing portfolio grew 13% over the prior-year period and 3% sequentially to nearly \$253 billion. Forbearance requests also continued to be immaterial for this business.

Turning to slide 9, our Global Workplace Solutions business increased fee revenue nearly 6% as 9% growth in facilities management and 13% growth in project management offset a steep decline in GWS transaction revenue. Adjusted EBITDA margin expanded nearly 480 basis points to nearly 17% despite the loss of high margin transaction revenue. And this was our second consecutive quarter of record profitability.

This strong improvement in profitability was partially driven by temporary measures, primarily associated with lower discretionary spending and bonus accruals, long-term cost efficiency initiatives and about \$12 million in expenses in the prior-year period that did not recur.

Structural changes to the cost structure contributed about one-third of the margin improvement. We also expect to drive gradual long-term improvements in profitability as our client relationships expand and mature. Long tenured, satisfied clients typically expand their scope of service and engage us to support their project and transaction management needs.

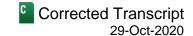
While our margins are improving and our new business pipeline is strong, we continue to feel the effects of pandemic-related delays in securing and onboarding new GWS clients. Several large contract decisions slipped from Q3 to Q4 while others are temporarily on hold. As a result, we continue to expect top line growth to be more muted than we would typically expect in a more normal recessionary environment.

Turning to slide 10, let's now look at our Real Estate Investments segment where we achieved \$65 million of adjusted EBITDA, a \$51 million increase from the prior-year period. Development was the standout performer with adjusted EBITDA rising to approximately \$50 million, reflecting a large number of asset sales and a small contribution from UK and multifamily development business we acquired last October.

We are benefiting from positioning our portfolio to meet elevated demand for multifamily, industrial and healthcare assets. In fact, these three property types plus our office buildings that are at least 90% leased comprise over 80% of our in-process activity. Because of this and our sizable pipeline, we expect our development business will remain resilient moving forward.

Our investment management business also had an impressive quarter. Adjusted EBITDA rose over 12%; and importantly, adjusted EBITDA from recurring sources increased nearly 70%. This reflected continued strong growth in assets under management, which reached a new record at \$114.5 billion and more than offset a lower contribution from carried interest revenue and co-investment returns.

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Lastly, Hana's EBITDA loss of nearly \$10 million was slightly higher than in the last quarter. Hana's results continue to be impacted by lower-than-anticipated occupancy as a result of the pandemic as well as costs associated with expanding our enterprise-focused flexible space solutions.

Turning to slide 11, given COVID-19's uncertain trajectory and adverse economic impact, we will again refrain from providing explicit EPS guidance, but will provide an update on our expectations for the full-year and fourth quarter. In Advisory, we're taking a conservative view of transaction activity in Q4. Transaction revenue has performed better than expected during this crisis, which is partially driven by the transaction size and geographic diversification embedded in our business.

In the US, deals less than \$250,000, which comprised over half of total transaction revenue, declined about 26% year-to-date versus 40% decrease from transactions over \$2 million. We anticipate a similar benefit of this diversification in our Q4 results, but also expect the transaction business to recover more gradually. We expect sales and leasing revenue together to be down approximately 30% to 40% in Q4 in line with the trends we saw in the second and third quarters with the Americas slightly lagging other parts of the world.

For the rest of the Advisory business combined, we foresee a mid-single-digit revenue decline in the fourth quarter. This reflects the expectation that Q4 will be our highest revenue-generating quarter as it usually is. Given this uptick in revenue and our continued focus on cost management, we expect Advisory adjusted EBITDA fee margins to continue expanding by around 2% compared with Q3.

Moving to GWS, we now believe growth in fee revenue will rise in the mid-single-digit range for the year with growth in contractual facilities management and project management revenue offsetting continued weakness in GWS transactions. This marginally lower-than-normal growth expectation reflects our view that the pandemic-related delays I mentioned earlier will improve more slowly than we previously expected.

At the same time, we expect double-digit full-year adjusted EBITDA growth, reflecting the benefit of stronger-thanexpected Q3 performance and the continuation of our cost management efforts into Q4. We expect margin expansion will be slower sequentially as the benefit of temporary cost actions dissipate.

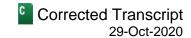
Looking at REI, our global investment management and development business lines are well-positioned for the current environment. And we foresee more resilient performance than during the last downturn. In investment management, we anticipate adjusted EBITDA will grow in the high-teens range from the \$91 million achieved last year. We now expect growth in recurring EBITDA stemming from our growing AUMs to be complemented by higher expectations for incentive fees and carried interest than we previously anticipated.

We now project US development adjusted EBITDA to exceed to more than \$100 million generated in 2019. Demand for quality assets has been stronger than we previously anticipated. And we now expect to complete more asset sales before year-end. We again expect sequential growth and adjusted EBITDA from UK multi-family development in Q4. The pace of improvement since the peak of the pandemic has exceeded our expectations and we now expect a small but positive EBITDA contribution from UK multi-family development for the full year. This is an improvement from the breakeven performance we expected previously.

And finally, our expectations for Hana remain consistent with our previous outlook with an adjusted EBITDA loss of around \$35 million to \$40 million for 2020, which is marginally higher than the loss incurred in 2019.

Turning to slide 12. We continue to fortify our financial position throughout the COVID-19 crisis. On a run rate basis, we have lowered our expense structure by nearly \$200 million. We expect to realize about \$120 million of

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this in 2020 and approximately \$80 million in 2021. We primarily achieve these reductions by making structural changes in the design of our workforce, while also focusing on rightsizing our cost base and teams to meet future demand.

In addition, our liquidity has increased by almost \$1 billion from a year-ago period to \$4.2 billion and we ended Q3 with just 0.2 turns of leverage, down over 0.4 turns from a year ago. This improvement reflects the long-term strategic work we initiated well before the pandemic to drive improvements in profitability and cash flow conversion.

Given that we've been able to strengthen our financial position meaningfully at the depths of the COVID-19 crisis, we're highly confident we have ample capacity to withstand future challenges while simultaneously deploying discretionary capital.

As Bob highlighted at the outset of the call, we strongly believe there will be parts of our business that will benefit from COVID-driven secular trends as well as portions that are likely to be adversely impacted. We plan to focus our discretionary capital deployment on areas where we believe the crisis is likely to accelerate demand.

At the moment, we are deploying capital for internal investments and actively evaluating a steadily increasing M&A pipeline as we begin to see strategic opportunities. This means we will prioritize internal investments and M&A rather than share repurchases. We want to ensure we are using our liquidity and financial capacity to enhance the revenue and profitability growth trajectory of our business as well as the resiliency of our business over the long run. We're also recognizing that the cost actions we've taken this year have impacted our people.

As we've said before, once the time is appropriate, if we are unable to identify suitable and properly valued acquisition opportunities, we will then consider share repurchases. While the environment remains highly uncertain, we're more confident than ever that our business and our capital structure are positioned to not only weather the challenges presented by COVID but to build on our industry leadership position and maximize long-term earnings and cash flow growth.

With that, please turn to slide 13, and I'll turn the call back to Bob.

Robert E. Sulentic

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

Thanks, Leah. Before we take your questions, I want to briefly acknowledge our CBRE employees. Their hard work and strong focus on our clients are truly distinguishing our company at a time of significant challenges stemming from the public health crisis. These challenges have also brought us closer together as a company. The \$6.1 million we raised from our people and the company for the CBRE Employee Resilience Fund has enabled us to provide more than 9,000 grants to our colleagues who are facing financial hardship. We are pleased to help make their lives a little easier during this stressful time.

Now, operator, we'll take questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] And we'll take our first question from Steve Sakwa with Evercore ISI.

Steve Sakwa

Analyst, Evercore Group LLC

Thanks. Good afternoon. I just wanted to circle up on a couple of things. Leah, the \$55 million in expenses that you talked about these transformation initiatives, I just wanted to get a little bit more understanding how much of that was to benefit the current quarter and how much of that is really longer-term benefits to the company and how do we measure or see those benefits going forward?

Leah C. Stearns

Chief Financial Officer, CBRE Group, Inc.

Sure, Steve. The \$55 million was one-time cost that we recognized in the quarter attributable to the separation and other expenses related to the transformation. Those will – in combination with workforce actions that we took in the second quarter will amount to about \$200 million of run rate savings. A little more than half of that will benefit from this year and the rest will commence in 2021.

Steve Sakwa

Analyst, Evercore Group LLC

Okay. Great. Thanks. And then, I know you can't be too specific about the M&A activity. But, I guess, I'm just trying to get a little bit better feel for the areas maybe if you think about your three divisions where you're more likely to deploy capital or maybe where you are more likely to see opportunities arise, or maybe where you're seeing more opportunities today?

Robert E. Sulentic

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

Yeah, Steve. This is Bob. We've gone through our business pretty carefully in the past year. It's subject to a very thorough strategy update that we did. And we've identified areas of our business that we think either we're well-positioned to grow disproportionately in or there will be secular tailwinds. And we're targeting those areas of our business for M&A activity.

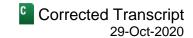
Now we'll do M&A activity in other areas if we think we can get a particularly good deal or if we think we have holes in our geographic coverage, things of that nature, an ability to add to our capability for our clients. But we really focused on some areas of the business that we think are going to have nice secular tailwinds. And they're very much in line with what we do as part of our core offering. And we're pretty excited about what's out there for us right now. But I will say, we're going to be patient. We're not going to run out just because we have the dry powder we have or because we're in a low point in the market cycle and buy up a bunch of stuff unless we think we can integrate it well. It's got a good cultural fit and we can make a reasonable deal.

Steve Sakwa

Analyst, Evercore Group LLC

Okay. Thanks. That's it for me.

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Operator: We'll go next to Anthony Paolone with JPMorgan.

Anthony Paolone

Analyst, JPMorgan Securities LLC

Thank you. First question is, I guess, we'll stick with the M&A side of things. Are you considering deals that just add to your businesses that you're already in as you think about this? Are there new places you think you can go into [indiscernible] (25:52) last several years you've done a bit [indiscernible] (25:57) data centers. You did infrastructure on the investment management side. And so just curious, if what you're focused on is additive or just new to the platform.

Robert E. Sulentic

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

Yeah, Tony, we will look for things that are closely adjacent to what we do and what we think consistent with our skillset and relevant to our client base. We would not likely go too far afield from that because we think there is enough opportunities that would meet that requirement or be more core to what we do. And that's basically how we think about that.

Anthony Paolone

Analyst, JPMorgan Securities LLC

Okay. Do you see the opportunity set having some size? You've mentioned, it sounds like putting buyback on the backburner. So it sounds like these are potential size that you would not be able to do both?

Leah C. Stearns

Chief Financial Officer, CBRE Group, Inc.

Anthony, it's Leah. Our current pipeline is actually larger than we could reasonably entertain in any one quarter. So we are being very cognizant of the opportunity set that we have. We want to make sure that we have sufficient dry powder to act quickly if we find the right opportunity. And so from our perspective, we think it's the prudent measure given one, we have a very active M&A pipeline, and two, we are taking actions that directly impact our people for us to balance our approach on the buyback and put that off for a quarter or two.

Anthony Paolone

Analyst, JPMorgan Securities LLC

Okay. Great. And then, on the cost side, thanks for all the detail there, just wondering if there's a way to think about it, of the \$200 million, for instance, if we thought of 2019 as a baseline, what piece of that should we think about as being, I guess, more permanent that would change the margins on a more long-term basis?

Leah C. Stearns

Chief Financial Officer, CBRE Group, Inc.

That is all incremental reduction from 2019 level. So it is all run rate.

Anthony Paolone

Analyst, JPMorgan Securities LLC

Anything that's all permanent, not just part of the current environment and doing things more temporarily?

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Leah C. Stearns

Chief Financial Officer, CBRE Group, Inc.

Correct. There have been other actions that we've taken, for example, furloughs or deferring our compensation structure naturally reduces because of commissions and bonuses based on certain targets that were set at the outset of the year that won't be achieved. So those are not included in the \$200 million. The \$200 million is actual structural cost reduction either through reducing – really through reducing overhead and basically head count.

Anthony Paolone

Analyst, JPMorgan Securities LLC

Okay. And then, last one for me. You had mentioned in GWS a couple of items just slipping. I think last quarter you'd mentioned I think mid- to high-single-digit top-line and high-single-digit EBITDA. Does that change? I didn't catch if you had updated that part of it.

Leah C. Stearns

Chief Financial Officer, CBRE Group, Inc.

So we now expect the GWS revenue to be in the single-digit. However, we do expect profitability or EBITDA growth to be double-digit. So we have updated that.

Anthony Paolone

Analyst, JPMorgan Securities LLC

Okay. Great. Thank you.

Operator: We'll go next to Jade Rahmani with KBW.

Jade Rahmani

Analyst, Keefe, Bruyette & Woods, Inc.

Thanks very much for taking the questions. Just to start off with, I think, last quarter JLL CEO said that the average office lease duration in their pipeline was down by about 16%. What kind of trends are you seeing in terms of how occupiers are looking at their office exposure? And are you seeing a reduction in average lease security?

Robert E. Sulentic

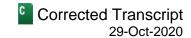
President, Chief Executive Officer & Director, CBRE Group, Inc.

Yeah, James (sic) [Jade] (29:42), well, the overwhelming thing that's impacting average lease maturity is that a lot of the big long-term leases just have been put on hold. Decisions aren't being made. We have that circumstance with our own portfolio of office space for our CBRE people as everybody tries to figure out what space use is going to look like post-COVID. Those big decisions aren't really made. By the way, that's something that will definitively come back. Will it all come back? Probably not, but much of it will come back. And that's on hold. So the average lease is shorter as a result of that. What you're seeing now is renewals, extensions, small deals getting done. But all of that impacts the averages. And we expect that to continue as long as COVID is having the impact it's having now.

Jade Rahmani

Analyst, Keefe, Bruyette & Woods, Inc.

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Thanks very much for taking that question. Just separately, I've gotten a lot of calls from investors today on the restructuring charges. And I was wondering if you could provide any insights as to what types of actions those relate to? Was that on the Advisory Services business? Was that as it relates to fixed infrastructure and administrative back-office functions? Where did the actions occur? And should we really be expecting in terms of a fixed runway benefit, \$200 million in annual savings?

Robert E. Sulentic

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

So, Jade, it's Leah. The distribution of – about 60% of it was in our Advisory segment, about 30% was in GWS, and about 10% was in REI. That's a combination of the workforce actions we took in the second quarter as well as the transformation initiatives that we launched in the third guarter.

The third quarter actions were principally around [indiscernible] (31:39) exercise that we did. Just looking at the overall shape and structure of our organization and making sure that we were appropriately structured to be as efficient as possible coming out of this, so most of it is related to severance and other separation costs related to that action. We do have some terminations and other things that have come through as we sought to consolidate our workforce, but the vast majority of it is represented in terms of severance costs.

Jade Rahmani

Analyst, Keefe, Bruyette & Woods, Inc.

And to what extent does it reflect an expectation of a very moderate and drawn-out recovery in transaction volumes with respect to perhaps 2021 and 2022 in terms of the Advisory segment?

Leah C. Stearns

Chief Financial Officer, CBRE Group, Inc.

Well, we certainly are very cognizant of this. And we said that - I said that earlier that we do expect it to be a more moderate recovery. Therefore, we are being very cautious around the expense structure for our Advisory business. And so you should expect we'll continue to look at ways to make sure we're right-sized to ensure that our business and our workforce reflects the level of demand that's coming from our clients.

Okay. Thanks very much. And, I guess, if you could stratify the cost saves in terms of head count reductions

Jade Rahmani

Analyst, Keefe, Bruyette & Woods, Inc.

categories?

versus other structural changes you mentioned, lease terminations how would that be split amongst those two

Leah C. Stearns

Chief Financial Officer, CBRE Group, Inc.

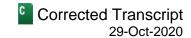
The majority of it is severance cost.

Jade Rahmani

Analyst, Keefe, Bruyette & Woods, Inc.

Okay. And then, finally, just on the EMEA outperformance on capital markets which you mentioned, what do you think was driving that? And could that be a leading indicator as to a pickup in demand on that side of the transaction pipeline?

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Leah C. Stearns

Chief Financial Officer, CBRE Group, Inc.

Yeah. We actually had some really strong performance across EMEA, particularly in Continental Europe. So certainly, we'll watch each one of those markets. Europe certainly came out of the COVID lockdowns before the Americas, but we're seeing some of that come back. So we are just overly cautious right now in terms of the level

of activity that we're expecting in the fourth quarter headed into 2021.

Jade Rahmani

Analyst, Keefe, Bruyette & Woods, Inc.

Thanks for taking my questions.

Operator: We'll go next to Stephen Sheldon with William Blair.

Josh Lamers

Analyst, William Blair & Co. LLC

Thanks. This is actually Josh Lamers on for Stephen Sheldon. And thanks for taking the questions here. I'm going to start with a recurring question, but always good to gauge. Maybe how far along you'd characterize we are in the price discovery process? That's on sales side. I don't know if there are any indications that bid/ask spreads have come in over the last couple of months. And if not, can you just outline why the persistent valuation gap?

Leah C. Stearns

Chief Financial Officer, CBRE Group, Inc.

I think it's going to be really important for us to see larger transactions on the leasing side occur before their significant transactions that come back from a – overall global capital market activity perspective. So I think we are still a bit of a ways away from seeing significant capital market activity resume. One of the benefits, though, is that we are seeing more liquidity in the market. And that will certainly help buoy our investment property sales business to come back with more strength than we've seen in prior cycles where there's been more of a credit constraint in the market.

Josh Lamers

Analyst, William Blair & Co. LLC

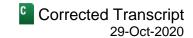
Sure. Makes sense. And then, just picking up with one of the prior question lines here, just generally speaking on the leasing front, you've noted longer-term delays in making longer-term leasing decisions. So based on your conversations more recently, has it influenced your thought process in anyway about leasing activity picking up in a more meaningful way in 2021? Or does it seem that leasing activity is not going to resume at a higher level until there is some health resolution?

Robert E. Sulentic

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

Midsummer, we saw the level of activity and discussions start to pick up some teeny, but the fact of the matter is, we are deeply engaged with most of the big occupiers around the US and around the world and how they're thinking about this. And they really are looking for clarity related to COVID before they make their big decisions. And this is really an important point. There are two separate things going on here. One, you do think there will be some real change in the way office space is used going forward. We think there will be less people in the office. We think the offices will be used less densely. We think they will be more intensively managed. We think buildings with great infrastructure will be favored. There is a whole separate issue from that. Though on the separate issue

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is the leasing is going to get done, isn't going to get decided on in this environment and that is going to come back. It's not all one thing; it's two separate things.

Josh Lamers

Analyst, William Blair & Co. LLC

Okay. Thank you. And then, switching gears to GWS. It's good to hear that interactions have continued here although I have to say, it's, I guess, a little surprising from my perspective to hear that occupiers are delaying the decision making on this front, because given that there is usually first year cost savings associated with outsourcing and then later in the added risk of managing operations due to COVID. So I was hoping you could expand a bit more on the reasoning behind the contract delays. And what's your confidence at this point in GWS returning to double-digit growth next year?

Robert E. Sulentic

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

We have very big backlogs of opportunities not only relative to earlier this year, but relative to prior years, but the simple thing is there's so much physical presence that's needed to get these things done. People need to examine space. People need to think about moving people from one place to another. People need to think about getting project managers on site and getting work done. All of that is hard to do in this environment.

Decision makers traveling to see space. It just has inevitably slowed things down. And clients very directly tell us that. They tell us that they're not in a decision-making mode or their decision-making has been delayed for those reasons. Not knowing how the space is going to get laid out when they move into it, or when they moved out of it. And so again, there is – it's so important as all of us think about what this means for our business, the use of office space and the impact of COVID on leasing or office occupancy. There is the absence of decision-making that's taking place that will come back and happen when we get to the other side of COVID. And then, there's the different way space will be used on the other side of COVID. It's really important to separate those two things.

Josh Lamers

Analyst, William Blair & Co. LLC

Okay. That all makes sense. And then, last one for me just looking to grab some comments from you on Hana. You've noted that you're targeting to have 10 units open by early next year now, given your comments around office considerations and the outlook for the future, does this become more of a priority looking ahead, or is it being rolled out, I guess, about as you expected maybe a year ago?

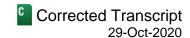
Robert E. Sulentic

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

Yeah. So we believe that given what we've learned about the way space is likely to be used going forward, several things, greater flexibility, more satellite-type leases because of people working from home; companies hesitant to put capital in because they're not sure how they're going to think about their space long term versus short term. We believe that there is evidence that flex space like Hana will become more necessary than it is today. But like every other kind of office space out there, most markets around the world people aren't going into the office space in short term. They're working from home because of COVID.

So in short term, Hana has been impacted materially. It performed like we thought it was going to perform this quarter. But in the short term, it's been impacted materially like every other kind of office space has been. In the long term, we believe that it could be a more prominent strategy than it has been historically and we're pretty encouraged about the prospects for flex space in Hana.

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Analyst, William Blair & Co. LLC

Okay. Thanks very much for your time.

Robert E. Sulentic

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

Α

Thank you.

Operator: We'll go next to Patrick O'Shaughnessy with Raymond James.

Patrick O'Shaughnessy

Analyst, Raymond James & Associates, Inc.



Hi. Good afternoon. How are you guys thinking about pressure on office rents weighing on leasing and capital markets revenue when transaction volume does more fully rebound?

Leah C. Stearns

Chief Financial Officer, CBRE Group, Inc.



So as we look at the level of activity that we see today, there has been a smaller impact or a lesser impact on the secondary and tertiary markets relative to the large top 25 cities in the world. So if we look at the space needs, I think near term, there will be less impact on rents in some of those smaller markets and particularly on smaller sized leases. In those cases and in certain asset classes, the property types, like industrial as well as multi-family on the capital market side, I think you'll be able to see more price discovery happen sooner. But certainly, from an office perspective, we're watching those smaller markets and those smaller space transactions really lead the path for that price discovery.

And we would expect that as COVID begins to attenuate and we have a vaccine and better therapeutics, we would be able to see more occupancy levels increase in office space. And that should lead to more leasing decisions as Bob alluded to and help to drive more capital market transactions in office. So we certainly would expect there to be intra-capital market activity. Transactions happen where you have strong credit rent rolls, long-term tenant leases in place. Those transactions are happening. Where we're seeing the pause is really in the larger cities and in value-add asset class space that – where there's just too much risk for underwriting today.

Patrick O'Shaughnessy

Analyst, Raymond James & Associates, Inc.



But when you do see the bid/ask narrow in some of the major city centers in New York and Boston and San Francisco. And those transactions start to happen again. Is your thought that the rents and the building prices have to move lower in order to hit that market clearing level? And if so, are you – is there a concern that that presents a long-term headwind in terms of the commissions that you're making off of those transactions?

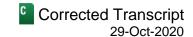
Leah C. Stearns

Chief Financial Officer, CBRE Group, Inc.



I would say, it's really ultimately going to depend how leasing decisions are made post-COVID. I think it's too early to say specifically where rents are going to go relative to where they are today. There may be some distressed assets, where you do see some concessions. But it's not as other though there's massive amounts of vacancy or new assets coming online. You'd really have to see a radical shift in terms of occupancy needs all at once. And you have to remember most of these leases are coming up on a renewal cycle over a long period of time. You

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don't see massive changes in terms of occupancy being able to execute it – being able to be executed in a very short period of time.

Patrick O'Shaughnessy

Analyst, Raymond James & Associates, Inc.

Got it. And then, I guess, on the theme of major city centers versus secondary and tertiary areas, how are you thinking about the potential impact of urban flight on the multifamily business? As people want to maybe live in the suburbs and not in the city centers, do you still see the same sort of structural demand for multifamily units as maybe you would have expected a year ago?

Leah C. Stearns

Chief Financial Officer, CBRE Group, Inc.

Multifamily has really been driven by an underlying affordability issue around housing. And so we don't see that abating. And, in fact, it's getting more challenging for individuals from a single family perspective. So we certainly think there continues to be secular tailwinds for multifamily.

Patrick O'Shaughnessy

Analyst, Raymond James & Associates, Inc.

Got it. And then last one from me and sorry to go back to margins again. But, specifically, with regard to your Global Workplace Solutions commentary that approximately one-third of the margin expansion was driven by structural improvements. Does that imply that the remaining two-thirds was due to more temporary cost reduction measures and those costs do come back in a more normalized environment?

Leah C. Stearns

Chief Financial Officer, CBRE Group, Inc.

Correct.

Patrick O'Shaughnessy

Analyst, Raymond James & Associates, Inc.

Great. Thank you.

Leah C. Stearns

Chief Financial Officer, CBRE Group, Inc.

Thanks.

Operator: We'll go next to Michael Funk with Bank of America.

Michael J. Funk

Analyst, BofA Securities, Inc.

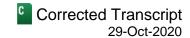
Yeah. Thank you for the questions. Just a few for me if I could. So going back to your market share comment in the US, the 280 basis points during the quarter, can you comment on basically what you're seeing in 4Q if you expect that market share gap to improve? And then to what do you attribute that improvement?

Leah C. Stearns

Chief Financial Officer, CBRE Group, Inc.



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So, Michael, I think it's a bit too early to speculate on market share for the fourth quarter. It's certainly something that we were pleased to see and we will continue to monitor, but I think it's just too early to make a call on that.

Michael J. Funk

Analyst, BofA Securities, Inc.

Okay. Maybe a couple more, if I could then. So obviously, early on COVID put a pause on all the activity and you commented before that you have very strong capital availability driving the sales cycle right now. Are you seeing any impact over in Europe from the recent uptick in COVID? Is that causing some of your potential clients to pause?

Leah C. Stearns

Chief Financial Officer, CBRE Group, Inc.

It's way too soon, Michael, to make a call in terms of how that's going to impact the market in Europe.

Michael J. Funk

Analyst, BofA Securities, Inc.

Okay. I'll try one more time then. So the comment about more of the activity towards the low-end of the [indiscernible] (46:14) below type of deals and then more multi-family industrial. Are these more opportunistic deals? And is there enough potential pipeline there to continue that? Or do you think it's more shorter-term benefit and we need to see more of a full recovery to see if it's carried through on the sales cycle?

Leah C. Stearns

Chief Financial Officer, CBRE Group, Inc.

You are asking about the fourth quarter [indiscernible] (46:43).

Michael J. Funk

Analyst, BofA Securities, Inc.

Even third quarter – what you've seen in third quarter [indiscernible] (46:46) done during third quarter, types of deals, obviously, smaller deals, whether or not kind of reflected more of a kind of normal course of business, or if it's large enough pool for that to continue to help to drive similar type of activity?

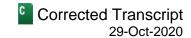
Leah C. Stearns

Chief Financial Officer, CBRE Group, Inc.

Yeah. So one phenomenon that I think we will see happen in the fourth quarter is the 10/31 Exchange activity around transactions from a capital markets perspective. That tends to be when we see quite a bit of multi-family transactions come to market in that smaller to mid-tier range. So that is something that we would expect to help buoy the market particularly in the US. But we do have transactions happening within the sales part of our business. There are well-diversified, strong credit tenant long duration rent rolls underlying certain assets, as well as certain asset class, certain office assets, as well as certain asset classes like industrial and multi-family that are commanding a tighter bid/ask spread and that's resulting in transactions happening in the markets.

So we certainly think there are transactions out there to be done. And that was evidenced in the third quarter around our leasing and sales results. But it's certainly a more muted market just because there is such a significant pause going on around decisions that are being made particularly in office.

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Michael J. Funk

Analyst, BofA Securities, Inc.

Thank you for your time.

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

Thanks.

Operator: Thank you. We have reached the end of our question-and-answer session. I would like to turn the floor back over to Bob Sulentic for closing remarks.

Robert E. Sulentic

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

Thanks to everyone for joining us today and during this move from morning to afternoon. And we look forward to talking with you next time when we report our year-end results.

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

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