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CBRE Group, Inc. (CBRE)

Q1 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Greetings. Welcome to CBRE's Q1 2021 Earnings Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. [Operator Instructions] Please note this conference is being recorded.

I will now turn the conference over to your host, Kristyn Farahmand. Ms. Farahmand, you may begin.

Kristyn Farahmand

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

Good morning, everyone, and welcome to CBRE's first quarter 2021 earnings conference call. Earlier today, we issued a press release announcing our financial results, which is posted on the Investor Relations page of our website, cbre.com, along with the 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 quarterly results and updated 2021 qualitative outlook. After their comments, we'll open up the call for 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, including 2021 qualitative outlook and multi-year growth framework, operations, market share, capital deployment strategy, and share repurchases, M&A and investment activity, financial performance, including profitability, expenses, margins, adjusted EPS, and the effects of both cost-savings initiatives and the COVID-19

pandemic, and the integration and performance of acquisitions, 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 have provided reconciliations of adjusted EPS, adjusted EBITDA, net 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.

Before we discuss the quarter, I'll briefly outline a few changes to our financial reporting, which are summarized in our earnings release as well. First, we now report all project management revenue in our GWS segment. Previously, a portion of our project management revenue was reported in the Advisory segment.

Next, all sales and leasing revenue is now reported in the Advisory segment. We will no longer report sales and leasing revenue from GWS clients in the GWS segment. Including all sales and leasing revenue in the Advisory segment paints a more complete picture of transactional trends in our business.

We have also established a fourth business segment, where we will report corporate overhead expense and other financial impacts that are not specific to one of our three existing operational segments. This will provide greater transparency into our cost structure. Due to this change, we will be utilizing segment operating profit to evaluate the profitability of our operating segments, which excludes the impact of corporate overhead.

Additionally, we will replace our fee revenue metric with net revenue to account for the impact of past due reimbursement revenue. Net revenue will only exclude reimbursement revenue that does not generate a margin for CBRE. We believe this will provide a clear view of our profitability profile, particularly in our GWS business. For this quarter, we have provided a bridge for our legacy and revised financial metrics in our quarterly supplemental posted to the Investor Relations section of our website. Going forward, we will only be reporting these updated financial metrics.

Now, please turn to slide 4, which highlights our first quarter 2021 results. Total revenue grew about 1% to a new first quarter record of over \$5.9 billion, while net revenue fell 2%, reflecting continued constrained transaction activity in Advisory Services. The quarter saw a tangible benefit from both last year's transformation initiatives, which have improved our cost structure and operational agility and higher OMSR gains. In total, our adjusted EBITDA margin expanded about 200 basis points rising to 14.6%, in line with our first quarter 2019 margin.

Overall, adjusted EPS grew 15% to \$0.86, while GAAP EPS rose 55% to \$0.78. Importantly, GAAP EPS in the prior-year first quarter included a \$0.17 headwind from an asset impairment, which was in part related to the onset of the pandemic. The impairment was not included in adjusted EPS last year. Additionally, this quarter includes an \$0.11 benefit from venture fund investment gains and an accounting methodology change within our investment management business. Excluding unusual items in both period periods, EPS was roughly flat with first quarter 2020 on an adjusted and GAAP basis.

Now, for deeper insights, 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.

CBRE is off to a strong start in 2021. Our performance is being propelled by our long-standing efforts to diversify our business across four key dimensions: property types, lines of business, geographic markets, and client types. Last quarter, we described in detail how this diversification has enhanced the resiliency of our business. This played out in several ways during the first quarter.

Geographically, while activity in some markets, notably the Americas, remained muted, we saw solid growth in the United Kingdom, parts of Continental Europe, Australia, Southeast Asia, and Greater China. Among business lines, mortgage origination and loan servicing, valuations, investment management, and facilities management logged solid growth, offsetting a continued tepid sales and leasing environment.

Industrial and data centers remained preferred property types. Our work in both property types grew robustly in the quarter fueled by booming demand for e-commerce and cloud-based services. Growth in these resilient property types helped to compensate for continued pressure on other property types, particularly office. Our client base is well-diversified across the economy. In a quarter, when activity with clients in some industries was down from a year ago, we saw particular strength in our work for life sciences and industrial and logistics companies among others. The broad diversification of our business, coupled with decisive actions in 2020 to reset our cost structure, underpinned our earnings growth for the quarter, and we expect to see continued benefits in the quarters and years ahead.

For full-year 2021, we now expect adjusted earnings per share to meaningfully surpass 2019's peak level, with potential upside from discretionary capital deployment. Notably, our outlook for 2021 and beyond envisions strong growth even with continued pressure on the office market. Clearly, that pressure remains very acute right now particularly in densely populated gateway cities and will remain challenging for some time to come. However, we strongly believe the pressures on office will recede from today's extreme levels as vaccine rollouts continue and companies settle into new normal work regimes.

We expect our growth to be enhanced by capital deployment that is focused on sectors and business lines that are positioned to benefit significantly from secular growth trends. You saw evidence of this with our investment in Industrious in the first quarter, which positions us to participate in the rising demand for flexible space solutions. And you can expect to see more evidence of it in future partnerships, sponsorships and M&A activity.

Now, Leah will tell you more about the quarter, our outlook, and our capital deployment strategy. Leah?

Leah C. Stearns

Chief Financial Officer, CBRE Group, Inc.

Thanks, Bob.

Turning to slide 8. Segment operating profit for Advisory Services was nearly flat despite the 5% net revenue decline. The revenue shortfall reflects continued pressure in high-margin sales and leasing businesses, which we offset with disciplined cost management, strong GSE servicing activity, and elevated OMSR gains, as well as growth in the other Advisory lines of business.

Overall, our Advisory segment operating profit margin expanded about 100 basis points compared with the year ago. Excluding the OMSR gains in both years, the margin improved 20 basis points to about 17.2%. As expected, global leasing revenue remained under pressure, declining 17% due primarily to weak office leasing in the Americas. We did see modest sequential improvement in Americas office leasing as revenue fell 47% versus the 58% decline we experienced in the fourth quarter.

Activity was stronger in other geographies and property types. For example, APAC leasing rose a healthy 11%, as retail and industrial jumped 25% and 38%, respectively, while office was flat with a year ago. EMEA leasing grew 4%, reflecting surging industrial demand, which outweighed moderate office and retail declines.

Notably, China and Australia, where the pandemic remains well in check, have seen office occupancy returned to pre-COVID levels, which has coincided with improving leasing trends in these markets. Advisory sales continue to improve sequentially, declining just 9% versus the 16% decline in the fourth quarter. This improvement was paced by APAC, where sales dipped just 2%, reflecting particularly robust retail and industrial activity.

Americas and EMEA sales fell around 10% and 13%, respectively, due primarily to sharply lower office sales. Excluding the sales and leasing business lines, net revenue rose 7% and comprised nearly half of the Advisory segment's total net revenue. Commercial mortgage origination revenue rose nearly 14% in the quarter, reflecting strong GSE lending, including for affordable housing. This activity also reflects the benefit of continued strong refinancing and a pickup in construction activity. As a result of the strong pace of loan originations, our loan servicing portfolio increased 19% to nearly \$285 billion, while servicing revenue rose over 21%.

Valuation revenue was up 8%. Activity was particularly strong in the Pacific region, where valuation revenue increased over 35%. And finally, property management net revenue grew over 2%, primarily driven by expanded and new client relationships in APAC. This offset a modest decline in the US, as we exited a low-margin contract and transferred a few accounts to our local facilities management business in GWS.

Moving to slide 9. Global Workplace Solutions revenue and net revenue edged up 4% and 1%, respectively. On a net revenue basis, facilities management rose 4%, while project management decreased 7%. The decline in project management was driven by the legacy advisory project management business. Project work for these clients tends to be tied to space fit out, resulting from new leases and thus, should improve as leasing markets recover. Revenue associated with GWS contractual clients was up moderately in the quarter.

Modest top-line growth, coupled with continued discipline in cost management and the benefit of transformation initiatives undertaken in 2020, led to segment operating profit growth of 42%. As we mentioned last year, Q1 did include an \$11 million drag from the reduced scope of a client account. Adjusting for this unique item, segment operating profit was still up 29%.

Importantly, we have seen a meaningful ramp in our facilities management new business pipeline, and it now exceeds the year-end 2019 level. The acceleration since year-end has been broad-based and diversified across geographies, industry sectors, notably life sciences, manufacturing and logistics, professional services, and technology clients, and among property types including data centers, retail, office, and manufacturing facilities.

Turning to slide 10. Our Real Estate Investments segment generated \$61 million of segment operating profit, an \$18 million increase from Q1 2020. Investment management revenue grew 9% to \$132 million. This revenue growth was fueled by a 16% increase in asset management fees generated by our strong growth in assets under management, which reached a new record level of over \$124 billion, as well as stronger incentive and development fees, as well as co-investment gains. In addition, we recorded a \$24 million benefit from an

accounting change related to the valuation of unlisted assets, which should help reduce earnings volatility going forward. This partially offset lower carried interest, which declined \$14 million to about \$5 million in the quarter. Operating profit for this business line rose to \$69 million, an increase of over 200%.

Development operating profit fell to \$9 million. This decrease was primarily due to the timing of certain asset sales, which were particularly strong in the prior-year first quarter. On a trailing 12-month basis, development operating profit has grown about 36%. Our in-process development portfolio reached a new record at \$15 billion. Importantly, three asset types that remain in strong demand, multifamily, industrial, and healthcare, plus office buildings that are at least 90% leased, comprise more than 80% of this portfolio. Our development pipeline also grew 11% from year-end to \$6.8 billion.

Lastly, Hana's higher operating loss primarily reflects certain deal costs and software write-downs associated with the Industrious transaction. We remain on course to close on the increase in our Industrious stake from 35% to 40% during the second quarter.

Turning to slide 11, let's now take a look at our new qualitative outlook for the year. Transaction activity is improving more quickly than we initially anticipated. This is especially true for global property sales and leasing outside the Americas. As a result, we have raised our outlook for 2021 transaction revenue growth to the low-double digit range. Earlier, we had expected growth in the mid- to high-single digits. We expect the rebound in transaction revenue to be most pronounced in the second quarter since we will be comparing against the most depressed levels of the pandemic.

Across the rest of our Advisory businesses, we continue to expect high-single-digit growth. We expect improved profitability as well, given the revival of transaction revenue. For 2021, we anticipate our Advisory segment operating profit margin on net revenue will slightly surpass the 19.7% pre-pandemic peak achieved in 2019.

Moving to GWS, we are raising our expectations for segment operating profit, while maintaining our revenue forecast in the high-single-digit range. We are benefiting from exceptional cost discipline, which we believe will allow us to reverse certain temporary expense cuts more slowly than originally anticipated. As a result, we now expect GWS segment operating profit to grow in the mid to high-teens range this year.

Looking at REI, we expect this segment to build on its record profitability contribution in 2020, with both investment management and development poised for sharply improved performance. In investment management, we expect revenue to slightly surpass 2020's \$475 million, with continued increases in recurring revenue being offset by lower carried interest. We expect this business line's profitability, which totaled \$140 million in 2020, to rise from that level at a mid- to high-teens pace.

We project US development profit to rise by more than 30% compared with last year's \$150 million level. Our improved outlook reflects the strong pace of monetization and higher property valuations than we originally projected. Our in-process portfolio continues to grow with an emphasis on warehouse and distribution space.

For our UK multi-family development business, we expect the pace of construction to pick up as COVID restrictions lift and reiterate our earlier expectation for this business. Profitability is expected to be about \$15 million higher than the \$3 million generated in 2020. Due to our improved revenue outlook and the benefit of transformation initiatives completed last year, we expect our adjusted EBITDA margin on net revenue to modestly exceed the 14% level achieved in 2019. This includes an expected uptick in corporate expenses primarily related to higher performance-based stock compensation and certain OpEx investments for growth initiatives.

All in, as Bob indicated, we now expect our 2021 adjusted EPS to meaningfully surpass our pre-pandemic peak of \$3.71 achieved in 2019 with potential upside from capital allocation activities. The anticipated growth for this year is likely to be significantly above the trend lines we provided in our long-term aspirational outlook last quarter.

Flipping to slide 12, we retain significant financial capacity to accelerate long-term growth while also returning cash to our shareholders. We believe that we have significantly reduced the volatility of our financial results and enhanced free cash flow potential. The record free cash flow we generated in 2020, combined with the prudent way we manage our balance sheet ahead of the crisis, positions us to deploy capital as economic conditions improve. Our efforts have already begun. So far, this year, we've invested about \$200 million on capital expenditures, M&A and partnership investments while buying back approximately \$88 million of shares, including \$64 million in the first quarter.

We have a strong M&A pipeline and expect to continue programmatic share repurchases. However, given our strong balance sheet and free cash flow generation, it is highly unlikely we will approach the high end of our target leverage range within our current long-term planning period, absent a transformational investment.

In closing, we are optimistic about our outlook for 2021 and beyond. We have a strong industry leadership position and management team, well-diversified business, loyal client base, and the capital structure to fund future growth and optimize shareholder returns.

And with that, operator, we'll take questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. At this time, we will be conducting a question-and-answer session. [Operator Instructions] Our first question is from Anthony Paolone with JPMorgan. Please proceed with your question.

Anthony Paolone
Analyst, JPMorgan Securities LLC

Q

Thank you and good morning. My first question is, I didn't catch all of Kristyn's opening comments and I think there was some mention about flat EPS, maybe year-over-year because of some changes in the impact there. Can you touch on that again, I just want to make sure I understand the baseline and what changed?

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

A

Sure, Anthony. It's Leah. Kristyn was just outlining there were some unique items in Q1 from last year as well as this year. The key drivers are really an impairment that we had last year for GAAP EPS. And then, in the first quarter, we did have an accounting change in Global Investors related to our fair value accounting around our co-investment balances. We also had venture capital gains that was one time in nature in the first quarter of this year. And so, those items have basically offset each other.

Anthony Paolone
Analyst, JPMorgan Securities LLC

Q

Okay. Does the...

Leah C. Stearns

Chief Financial Officer, CBRE Group, Inc.

[indiscernible] (22:28)

A

Anthony Paolone

Analyst, JPMorgan Securities LLC

Okay. Does the change in the valuation items in REI that you did in the first quarter, does that change how we should think about the profits of that business just on a run-rate basis, like does that add to the 2021 full year?

Q

Leah C. Stearns

Chief Financial Officer, CBRE Group, Inc.

It is. It was something that we expected – it was an anticipated accounting change when we came into the year that we're going to implement in Q1. And it is something that will actually reduce the volatility of that earnings stream within our investment management business going forward. We're basically going to be marking to market our unlisted co-investment balances. And therefore, instead of having one large gain at the end of the period versus cost, you're going to see us mark that to market every quarter.

A

Anthony Paolone

Analyst, JPMorgan Securities LLC

Okay. And so, is there a way to frame that for the – for full-year 2021 at this point, or you've got it fully marked as of the first quarter and then just from here, you'll make changes?

Q

Leah C. Stearns

Chief Financial Officer, CBRE Group, Inc.

That's exactly right. From here, we'll make changes, fully marked.

A

Anthony Paolone

Analyst, JPMorgan Securities LLC

Okay. Understand. Then same question. Last year, you outlined a lot of different cost saves and now you changed some of the presentation here. Is there a way to put that into the framework to understand where you are on that right now? What was achieved in the first quarter and what's left to see over the remainder of the year?

Q

Leah C. Stearns

Chief Financial Officer, CBRE Group, Inc.

Absolutely. I would say in terms of how we're presenting the information, there's not a real material shift in terms of where the benefits of the cost management actions are flowing through the business. The Advisory segment continues to be the area where we've made the lion's share of the overall cost reductions. About 60% of our cost actions are benefiting Advisory. Next to that is GWS, where we've got about 30%. And then, the rest is between REI and our Corporate segment.

A

In terms of the first quarter, though, on a net basis, I'll talk a little bit about we have run-rate cost savings and we do have some temporary costs coming back, like compensation that's performance-based and accrued based on that. We had about \$24 million of benefit in Advisory on a net basis and about \$14 million of benefit in GWS, with the rest basically about \$1 million or so across REI and Corporate. So, again, the vast majority of the overall

benefit in Q1 was in Advisory. And our reporting segment modifications haven't really altered the mix of where that's going to impact the business going forward.

Anthony Paolone

Analyst, JPMorgan Securities LLC

Q

Okay. So, that's about \$40 million that you achieved in the first quarter. What should we expect over the balance of the year?

Leah C. Stearns

Chief Financial Officer, CBRE Group, Inc.

A

Yes. So, in terms of for the full year, we think there will be a little over \$110 million of savings and this is all on a net basis. So, when you gross that up, we have taken out about just shy of \$90 million in the first quarter and right around \$250 million of incremental cost year-over-year on a run-rate basis.

Anthony Paolone

Analyst, JPMorgan Securities LLC

Q

Got it. Okay. And then, just maybe moving more towards the business side of things, as you look at sort of the strength in life sciences, data centers, industrial, that stuff, can the growth in those areas longer term offset any diminution in office?

Leah C. Stearns

Chief Financial Officer, CBRE Group, Inc.

A

We do expect the diversification, not just across asset types but across our geographies, will also be important. So, as we think about the surging demand for warehouse industrial distribution, life sciences as well as digital infrastructure, those are certainly helping to mitigate the acute declines that we're seeing across office.

So, I do think that that is a key part of the overall story for CBRE, [ph] and the fact (26:26) that we have positioned ourselves to be aligned with those very important areas of demand in the market today and then also given the fact that APAC was early on in terms of the impacts related to COVID. We are seeing the regions of the world that have kind of come through this and managed through COVID quite well or effectively, or were early on in the onset of COVID, those are really back in terms of strong performance, and we're starting to see the recovery takes shape in places like the UK, Continental Europe and US.

Anthony Paolone

Analyst, JPMorgan Securities LLC

Q

Okay. And then, lastly, can you just comment on the transaction environment for acquisitions? You've talked about it for several quarters. You made the Industrious investment. But just wondering about just the size and pipeline of potential deals over the balance of the year.

Robert E. Sulentic

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

A

Anthony, this is Bob. We have a substantial M&A pipeline and pipeline of alternatives – or of investment opportunities that we would characterize more as sponsorship-type opportunities, where we could invest in a company and then help that company be more successful and it would be on its own. We've done a lot of strategy work to determine the areas of our business that we want to make investments in because we think they will benefit in a secular way. Leah just outlined a bunch of that for you.

So, you should expect to see us make some very nice investments over the coming months that would be secularly favored, and CBRE would be able to help those investments perform well. I will say that we're going to be very careful. We're not going to be feeling pressure to push money out the door just because we have it, but we do think that there will be opportunities.

Anthony Paolone

Analyst, JPMorgan Securities LLC

Q

Okay. It sounds like less on the side of operating intensive things like traditional-type transactions, more of sort of the Industrious-style deals.

Robert E. Sulentic

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

A

Some of both. Some of both and also some incremental investment in our Real Estate Investment business. We do a lot in the industrial area, for instance, and we think there's incremental opportunities to invest there.

Anthony Paolone

Analyst, JPMorgan Securities LLC

Q

Okay. Thank you.

Operator: Thank you. Our next question is from Jade Rahmani with KBW. Please proceed with your question.

Jade Rahmani

Analyst, Keefe, Bruyette & Woods, Inc.

Q

Thank you very much. I was wondering if on a per-share basis, there's any way to quantify what you might consider unusual items. Was it just the REI accounting change of perhaps around \$0.05 per share or were there additional items?

Leah C. Stearns

Chief Financial Officer, CBRE Group, Inc.

A

Sure, Jade. In terms of the venture capital and the REI accounting change, those as well as some prior-period items, I would say, you've got about \$0.06 each related to the VC and the accounting change. And then, we did have – in the prior-year period, we did have that impairment related to the COVID impacts across parts of our business. So, that was reflected in the prior-year period.

Jade Rahmani

Analyst, Keefe, Bruyette & Woods, Inc.

Q

And just looking at the changes to definition of net revenue, would fee revenue growth have been similar around – down 4.4% on a local currency basis for the first quarter?

Leah C. Stearns

Chief Financial Officer, CBRE Group, Inc.

A

We've provided a bridge for you in terms of the overall fee to net basis. It was pretty much in line. There wasn't a major swing there.

Jade Rahmani

Analyst, Keefe, Bruyette & Woods, Inc.

Q

Thanks. In terms of the GSE multi-family volumes, they've surged so far this year, up, I believe. over 50%. And I think you also pointed out the margin benefit from the MSR gain. Have you seen any slowdown in the GSEs' multi-family originations? Rates were lower early in the year and I think the mix of refi transactions was above the normal rate. So, are you expecting the volume growth in that business to slow?

Leah C. Stearns

Chief Financial Officer, CBRE Group, Inc.

A

Well, that's really driven again by market conditions. So, if you look at our margin performance for the year, yes, OMSRs certainly helped. But even if you back out OMSRs just before I get into the volumes on the GSEs, I think it's important to note that we actually saw margin expansion ex OMSRs. So, that's really important.

As it relates to the GSEs, their caps are coming down this year, so we may see some attenuation in terms of overall liquidity in that market. But again, their mandate is liquidity, so we'll see how they respond to the overall market conditions. The benefit to our business, though, is about the mix of where we're seeing that activity come from. And in the quarter, we did have more of a volume coming from Fannie as opposed to Freddie, and that certainly helps from a margin perspective, given the fact that we do have a risk share there on the Fannie side. So, overall, it will really depend unfortunately, Jade, with respect to how bad that activity comes in. And we don't actually influence that. It's really a market-driven outcome.

Jade Rahmani

Analyst, Keefe, Bruyette & Woods, Inc.

Q

Okay. Thanks very much. I've gotten some questions on the potential Biden administration changes on the 1031 exchange and was wondering if you looked at either what percentage of your transaction volume is in that marketplace could be impacted. And just overall, your thoughts around how that could impact the market.

Robert E. Sulentic

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

A

Yeah, Jade, we have paid attention to that. This is not the first time it's arisen. So, first of all, it's not certain it'll happen, but we're watching it closely. I think you have to put in perspective what part of our business that impacts. So, it impacts the sales business, the real estate asset sales business here in the US. And we think it impacts about 10% of the US sales activity across markets, that's not a CBRE comment.

So, that's the portion of our business that might be impacted. Our view is that if it were to happen and not be retroactive, for the foreseeable future, it would be a plus for transaction volumes because people would be in the market trying to get deals done. In the longer run, given the magnitude of it relative to our whole business and the area to which is contained geographically and line of business wise, we think it will not have a material impact on our earnings prospects currently or in the longer term, as we've laid them out for you.

Jade Rahmani

Analyst, Keefe, Bruyette & Woods, Inc.

Q

Thank you very much. Lastly, one of your peers made an investment in a single family for rent platform. Wondering if you had any thoughts on the attractiveness of that sector and if it's something CBRE might pursue.

Robert E. Sulentic

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

A

We're always looking for new opportunities that are kind of within the boundaries of what we do and, again, keeping in mind, we think of our business in those four dimensions that we talked about, property type, line of business, client type and geography. We're scanning the horizon constantly for new opportunities. And we don't talk in advance of when we execute those new opportunities, Jade, what we might do. That's not an area that we're active in, though.

Jade Rahmani

Analyst, Keefe, Bruyette & Woods, Inc.

Q

Thank you for taking the questions.

Operator: Thank you. Our next question is from Rick Skidmore with Goldman Sachs. Please proceed with your question.

Richard Skidmore

Analyst, Goldman Sachs & Co. LLC

Q

Good morning. Bob, you mentioned in your prepared comments about the new normal work regime in office. Can you talk about what you expect that new normal to be in office based on your client conversations? And I believe in maybe a prior call, you talked about office being at 85% versus pre-pandemic. Can you just maybe update your view there? Thanks.

Robert E. Sulentic

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

A

Not a lot new to our view. We are intensely engaged with occupiers here in the US and around the world. We believe that office will never be quite what it was prior to the pandemic. But we also believe it'll be very different than it is today. The 85% that we talked about before is kind of still what we believe. By the way, if you're paying close attention to the press and what individual companies are saying, most of the outlier comments coming in now have the flavor of, well, we – our people are really getting weary and our people really need to get back together. We really need to focus on culture and we really need to focus on bringing new people on. So, while our view hasn't changed, our conviction around the notion that people will get back to the office in a dramatically different way than they are today has probably grown.

There will certainly be a hybrid scenario, where there'll be some work from home, some work from flex space, and then, of course, some work from offices. We think the configuration of offices will change and that will create some new opportunity for us to do work for our clients. But largely, our view is what it was 60 days ago when we reported our year-end earnings, Rick.

Richard Skidmore

Analyst, Goldman Sachs & Co. LLC

Q

Thanks. Thanks, Bob, for that. And just to follow up, a few of the office companies and one of the data providers has talked about traffic picking up on the office side in terms of just leasing interest. Are you seeing that in your pipeline and what would be driving that? Is that people looking for expansion space? Is that just tenants just rotating space and high-grading? Any comments there?

Robert E. Sulentic

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

A

We're certainly seeing the pickup in activity and it's everything. It's people finally coming to grips with the fact that the vaccine is working here. And these are US comments. The vaccine is working. The disease is dissipating. And people are moving back toward more normal circumstances in many ways and returning to the office is one of them. So, it's pickup in every kind of thing you can imagine. And it's going to be different second half of the year than it is now.

Richard Skidmore

Analyst, Goldman Sachs & Co. LLC

Q

Great. Thank you.

Operator: Thank you. Our next question is from Michael Funk with Bank of America. Please proceed with your question.

Michael J. Funk

Analyst, Bank of America Merrill Lynch

Q

Yeah. Hi. Good morning. Thank you for the questions. Just to follow on that last one and thinking about return to work. Are most clients delaying or pushing out longer term leasing decisions until after employees return to work? Or based on your conversations, do they already have a sense of what they're going to need in terms of office space? [ph] Are they (37:45) entering into new leases, or do you expect it to be mostly renewals for the remainder of the year?

Robert E. Sulentic

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

A

It's a mixed bag, Michael. It depends – some companies are aggressively out in the market trying to execute plans now and others are waiting. And so, I wouldn't be able to characterize it as one thing across the board for these big occupiers we work with. I think the trend is more and more of them are deciding they have to address it.

I will tell you one thing that we believe is going to happen. Better quality buildings with better infrastructure, better HVAC systems, better circulation around the building, better elevator systems, et cetera, are going to be in more demand as a result of this circumstance for very obvious reasons. And we think there is some chance that as we get later in the year and early next year, there could be real focus on those buildings and real pickup in activity.

Michael J. Funk

Analyst, Bank of America Merrill Lynch

Q

And then, back to the tax question, I appreciate the comments in the 1031 exchanges. But are you seeing real-time impact now from the sellers maybe accelerating the timeframe for their sales just in anticipation of any kind of changes in tax laws? Is that affecting the sales activity?

Leah C. Stearns

Chief Financial Officer, CBRE Group, Inc.

A

We certainly have seen that happened before, Michael. I would say, this year, we are seeing activity around 1031 exchanges continue to be healthy. So, it is a phenomenon that we have seen play out before. And even at the end of last year, when there was some speculation that there would be tax reform in 2021, we did see some

transactions come through in the fourth quarter. And that sometimes drives some of the seasonality that we see in the fourth quarter. But it's just a small portion of that.

Michael J. Funk

Analyst, Bank of America Merrill Lynch

Q

Great. Yeah. Thank you. Maybe one more if I could, just thinking about M&A. Are there specific regions of interest? I mean, you highlighted that geographic diversification certainly helped and is helping your results. Are there regions of interest maybe where you feel that you don't have a large enough footprint or might want to get bigger that would help with that diversification?

Robert E. Sulentic

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

A

Yes. We have, across our M&A strategy, product types we're interested in, lines of business we're interested in, geographies we're interested in more than others, for sure, on each of those dimensions. And I wouldn't spike out anything specific, Michael, just because of the confidential nature of M&A. But I think you can be confident that, again, across each of those dimensions, we have favored things we would like to get done. But we're very, very open to opportunities that aren't necessarily in the more favored areas. But we do have things we're targeting.

Michael J. Funk

Analyst, Bank of America Merrill Lynch

Q

Great. Thank you very much.

Operator: Thank you. Our final question is from Stephen Sheldon with William Blair. Please proceed with your question.

Stephen Sheldon

Analyst, William Blair & Co. LLC

Q

Hi. Thanks for taking my questions. First, what do you think is driving the stronger improvement in leasing and capital market trends outside of the US than within the US? Is that mostly due to the different progressions with the pandemic or are there some other notable factors to consider?

Leah C. Stearns

Chief Financial Officer, CBRE Group, Inc.

A

Yeah. I think it really – at least what we've seen so far, it really is driven by where economies or restrictions around mobility have been lifted and have been reopened. So, for example, in China and Australia, we see office occupancy pretty much back to pre-COVID – pre-pandemic levels. And those are certain markets where we are seeing return in terms of demand that is corresponding with that. So, I think it really is driven by the ability for businesses to get back to normal and for transactions to really play out. And obviously – and some of those markets, where we're lapping, are seeing comparable financial results versus, really, the initial downtick for those areas as well. So, we are seeing nice growth come back because of that.

Stephen Sheldon

Analyst, William Blair & Co. LLC

Q

Great. That's helpful. And then, Trammell Crow's expansion into Europe, I guess what could that mean for the development business over the next few years? And how are you thinking more broadly about expanding then to new countries and regions for both Trammell Crow and for Telford on the development side?

Robert E. Sulentic

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

A

Yeah, Stephen, we have an extremely strong development brand in franchise. We have a lot of capital available to us from third parties that want to invest in that business. And we have a deep knowledge of where we think development opportunities will occur because of our Advisory business and the deed on the street, so to speak, around the world across product types. For the longest time, we were hesitant to expand outside the United States, but the success of that business grew so much in the last decade. The interests of our capital partners grew so much.

We took the step with Telford a couple years ago. We're extremely pleased with that. And because of that and because of the relationships on the advisory side and because of the demands of our capital partners, we decided to take this step with industrial development across Europe. And you should expect to see more of that kind of expansion over time. Very thoughtful, very careful, but more of that over time. And we think we're – it's one of those opportunities that we think we're really well-positioned to take advantage of. It's an opportunity to expand our services capability. It's an opportunity to expand the footprint of things that we might invest capital into as well.

Stephen Sheldon

Analyst, William Blair & Co. LLC

Q

Great. Thank you.

Operator: Thank you. Ladies and gentlemen, we have reached the end of the question-and-answer session. I will now turn the call over to Bob Sulentic for closing remarks.

Robert E. Sulentic

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

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

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

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