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CBRE Group, Inc. (CBRE)

Q2 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Greetings. Welcome to CBRE's Second Quarter 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 Kristyn Farahmand, Vice President of Investor Relations and Corporate Finance. Thank you. You may begin.

Kristyn Farahmand

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

Good morning, everyone, and welcome to CBRE's second 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. Separately, we also announced some changes to our leadership team appointing Emma Giamartino as Global Group President, Chief Financial Officer and Chief Investment Officer and Vikram Kohli as Global Group President, Business Intelligence.

Before we kick off today's call, 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 pandemic, 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 Report 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 this presentation slide deck.

Our agenda for this morning's call will be as follows. First, I'll provide an overview of our quarterly financial results. Next, Bob Sulentic, our President and CEO, will provide insight on our Q2 performance, the recently announced Turner & Townsend transaction and today's senior leadership changes. Following Bob's remarks, Emma will discuss the quarter in detail, along with our revised qualitative outlook for 2021, our capital deployment activities and broader investment strategy. Then we'll open up the call for questions.

Now, please turn to slide 4, which highlights our second quarter 2021 results. Total revenue grew about 20% to a new second quarter record of nearly \$6.5 billion, while net revenue grew 31% to \$3.9 billion partially driven by a strong rebound in property sales and, to a lesser extent, leasing as well as favorable foreign currency effect. The quarter also saw a tangible benefit from last year's transformation initiatives which have improved our cost structure and operational agility.

Adjusted EBITDA grew 169% to \$718 million surpassing Q2 2019's total by 53%. Overall adjusted EPS grew 291% to \$1.36, while GAAP EPS rose 437% to \$1.30. Compared with Q2 2019, these metrics were up 68% and 98%, respectively. Both adjusted and GAAP EPS in the prior year second quarter included a \$0.10 headwind from incremental COVID-related costs and a charitable contribution to COVID relief effort. Additionally, certain venture capital investments contributed \$0.02 to GAAP and adjusted EPS this quarter.

The fact all key financial metrics significantly surpassed Q2 2019 levels is a testament to the resiliency of our business and the actions we have taken to create a business primed to deliver scalable and enduring growth.

Now, for deeper insights, please turn to slide 6 for Bob's remarks. Bob?

Robert E. Sulentic

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

Thanks, Kristyn, and good morning, everyone.

As you've seen from the results Kristyn just summarized, CBRE continues to benefit from the multi-year efforts to diversify our business across four dimensions; asset type, business line, client type and geography. We've moved decisively to capitalize on this opportunity and are making investments and driving organic growth initiatives that will continue this trend.

Overall Q2 2021 adjusted EBITDA grew at a better-than-20% compounded rate from Q2 2019 with strong growth across all three business segments. Each segment experienced significant margin expansion over this two-year period due to our disciplined expense management along with the benefits of diversification. Thoughtful investments shaped by a well-developed strategy will play a central role as we continue to grow and diversify our business across asset type, business line, client type and geography.

Our balance sheet was very strong going into COVID and has strengthened further as we emerge from the pandemic. We are putting some of this balance sheet capacity to work with a particular focus on investing in secularly [ph] favored (06:23) companies that enhance our ability to provide clients with customized solutions and will benefit from a relationship with CBRE.

You saw this earlier this year when we acquired a 40% ownership interest in Industrious in the flex space arena and again this month with our SPAC's sponsorship of Altus Power in the commercial and industrial solar energy sector. On Tuesday, we announced a \$1.3 billion purchase of a 60% stake in Turner & Townsend, a global leader in project, program and cost management. This is a great brand and great management team operating in sectors with favorable long-term growth profiles. Turner & Townsend will advance diversification across the four dimensions of our business that we've been discussing.

For example, across asset types, Turner & Townsend brings us capabilities in infrastructure and green energy where they can help support our efforts to meet our clients' carbon reduction goals. They are the global leader in cost consultancy, a line of business where we have a small practice now. Geographically, they move our project management business into new markets in Asia and the Middle East, while we can help them grow in the Americas and elsewhere. And they add an array of new clients around the world, most notably in the government sector. We look forward to hitting the ground running with Turner & Townsend when the transaction closes later this year.

Before concluding, I'll briefly comment on the leadership changes we announced this morning. Over the past several years, we've evolved our senior leadership team dramatically, identifying our most compelling executives and putting them in roles where they can have the greatest impact on our business. The elevation of Emma Giamartino and Vikram Kohli to Global Group President roles represents another step in this direction.

Consolidating our capital investment and finance functions under Emma reflects the growing importance of capital allocation to the long-term growth aspirations that we outlined at the end of last year. She has proven to be an accomplished investor of our capital who has an exceptional ability to work effectively with our leaders around the world to execute our capital investment strategy.

Vikram has rapidly emerged as a leader with a unique ability to harness data and insight from across our business as well as from external sources. And like Emma, he has excelled at working across our global platform. Adding our strategy and digital and technology functions to his mandate will create a business intelligence capability that will better enable us to make powerful fact-based decisions as we guide the company's growth. Vikram is the first CBRE executive from outside the US to ascend to this level in the company. We expect to elevate other executives from outside the US into senior global leadership roles as we continue to put our best talent into key positions.

Leah Stearns will remain with us through year-end to ensure a smooth transition of financial leadership responsibilities. I want to thank Leah for her vision and initiating the transformation of our finance organization, managing finance through the worst of the COVID-19 crisis and, together with Kristyn, taking our investor

relations program to a new level, including articulating the financial framework for our long-term growth aspirations. We wish Leah continued success.

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

Emma Giamartino

Global Group President, Chief Financial Officer & Chief Investment Officer, CBRE Group, Inc.

Thanks, Bob.

It's a pleasure to be speaking with you all today, and I look forward to regularly engaging with you in my new capacity as CFO.

With that, please turn to slide 8. Advisory Services net revenue and segment operating profit set new second quarter records rising 47% and 130% versus Q2 2020. Notably, they surpassed their previous Q2 2019 peaks by 3% and 18%, respectively. While leasing revenue climbed 33% compared to the prior year, it was about 18% below Q2 2019 levels mostly due to subdued Americas office leasings. Overall leasing revenue rose year-over-year by 26% in the Americas, 61% in EMEA and 40% in APAC. Americas' performance was about 28% below Q2 2019, while EMEA and APAC were about 21% and 14% above. We are encouraged to see recent improvements in Americas' leasing with July thus far up significantly compared to both 2020 and 2019.

As expected, property sales improved markedly with revenue growing 152% from the prior year period. Americas, EMEA, and APAC property sales revenues surged 158%, 132% and 151%, respectively. All regions eclipsed their Q2 2019 level with total property sales revenue about 27% above Q2 2019. The macroeconomic backdrop [ph] is supported by (11:47) real estate investment and global capital migration continues to steadily improve.

Rising property sales also helped to catalyze strong growth in commercial mortgage originations which climbed 61%. We saw particularly strong demand for acquisition and construction financing and recapitalization. Our loan servicing portfolio grew 20% versus the prior year and 3% sequentially to over \$294 billion partially driven by strong retention of loans brokered and originated. This led to loan servicing revenue growth of over 15% compared to Q2 2020.

Valuation revenue accelerated over 37% as transaction-related work picked up. Activity is particularly strong in the US where valuation revenue increased nearly 47%. Finally, property management net revenue increased over 6%. EMEA and APAC grew strongly, while Americas lagged due to a previous decision to exit some low-margin contracts.

Moving to slide 9, Global Workplace Solutions continued its long record of resilient growth with net revenue rising 11%. This reflected strong growth in project management, up 15%, and facilities management, up 10%, driven by elevated local facilities management and data center assignment, as well as the benefit of favorable foreign currency translation.

Segment operating profit rose over 33% reflecting solid top line growth, disciplined cost management, the benefit of a mix shift to higher-margin work and the impact of last year's transformation initiative, which more than offset increased medical expenses. Even accounting for about \$17 million of transitory COVID-related expenses in last year's Q2, segment operating profit growth was up 18%. Importantly, our new business pipeline continues to be strong and well diversified with a high concentration of life sciences, logistics and technology companies along with new data center activity.

Turning to slide 10, our Real Estate Investments segment generated over \$153 million of segment operating profit, surpassing its previous quarterly high by \$38 million. Impressive development in operating profit of nearly \$120 million was fueled by large office property sales that commanded strong valuations due to the high quality of the assets and tenancy. Importantly, our pipeline and in-process portfolio both set new highs this quarter, rising to \$9.6 billion and \$15.2 billion, respectively. This growth was largely driven by fee-based office and industrial work for blue-chip occupier clients.

Investment management revenue grew 35% to \$139 million, fueled by a 29% increase in asset management fees, higher acquisition and disposition fees, carried interest and favorable FX translation. Assets under management rose 18% versus the prior year to a new record of more than \$129 billion. Stepping up the growth of this business has been a strategic focus and we're pleased with our progress. The strong top line growth coupled with careful expense management drove operating profit growth of 38%.

Lastly, Hana's operating loss narrowed sequentially to \$9 million. We expect a further narrowing of this loss going forward as all Hana sites are now operated by Industrious and all Hana sites except for four legacy units are now owned by Industrious. The future financial impact of our Industrious [ph] stake which will be marked to market (15:11) as the value changes will be reflected in [ph] Advisory (15:15).

On slide 11, we'll look at our new qualitative outlook for the year. We now expect full year Advisory sales and leasing revenue on a combined basis will likely approach 2019 levels with sales likely to moderately exceed prior peak and leasing likely to be roughly 15% or so shy of peak. We anticipate year-over-year sales and leasing revenue growth rates will likely moderate as we move further into the second half of the year when year-over-year comparisons will be tougher than in Q2 when activity last year was at a virtual standstill.

As noted previously, Q3 leasing is off to a strong start. We continue to monitor the potential Delta variant impact on transaction volume. We've learned over the past 15 months that office leasing is highly correlated with companies returning to the office. Given this, as we started to see some US-based companies modestly delay return-to-office dates, we believe there is the potential for this to impact the strong recovery we've seen quarter to date.

Across the rest of our Advisory business, we expect revenue to rise in the low-double-digit range versus the high-single-digit growth we anticipated previously. We also expect our more robust Advisory revenue projections will flow through into incremental margin expansion relative to our previous expectations.

Moving to GWS, we are modestly raising our expectations for segment operating profit, while maintaining our revenue forecast in the high-single-digit range. Net revenue is expected to slightly exceed this range. We're benefiting from a shift in service mix and exemplary cost discipline. As a result, we now expect GWS segment operating profit to grow at around the high-teens rate this year, a slight improvement from our previous expectations. Our updated GWS expectations include some incremental operating expense investments in the second half and do not include any benefit from our announced Turner & Townsend transaction.

Looking at REI, we expect this segment to nearly double 2020's record high profitability. In investment management, we expect revenue to surpass \$500 million and profit to rise at least at a high-teens rate from the \$140 million achieved in 2020. We project development operating profit to more than double versus 2020 and to roughly triple its 2019 contribution of \$122 million. We are developing product in strong markets and sectors with supportive fundamentals and have a solid pipeline for asset monetization. This is expected to translate into Q3 operating profits that are likely to be at least as high as Q2. Given the robust pipeline and in-process activity, we

are optimistic about the long-term trajectory of this business and expect it to be a meaningful contributor to our long-term growth.

Consolidated adjusted EBITDA margin on net revenue should significantly exceed the level achieved in 2019, even though we expect a modest uptick in corporate expenses as compared to that year. The return of high-margin sales revenue, the effects of last year's transformation initiatives and strong development gains are drivers of the improved outlook.

Overall, we now project our 2021 adjusted EPS to surpass our 2019 pre-pandemic peak of \$3.71, pay wider margin than we expected at the end of the first quarter. As usual, we will realize more than half of our earnings in the second half, but given our year-to-date performance, those earnings will be slightly more weighted to the first half than they have been in most years.

Flipping to slide 12, over the last year, we've allocated about \$2 billion in total including about \$1.9 billion for capital expenditures, investments in sponsorships and partnerships and M&A inclusive of our pending Turner & Townsend transaction, while returning cash to shareholders by buying back approximately \$88 million of shares. Still net leverage remains modest at just 0.2 times pro forma for the expected closing payment of the Turner & Townsend transaction.

We have significant capacity to invest in growth and diversification using our four-pronged investment approach consisting of sponsorships, partnerships, acquisitions and building our own resources and capabilities. Our strong balance sheet coupled with the strategic moves we've made over the last year and market-leading position give us great confidence that we can deliver compelling and scalable growth for years to come. Looking ahead, we believe we are firmly on track to achieve the growth aspiration we outlined in February, at least low-double-digit average annual earnings growth through at least 2025, absent any downturn, with a meaningful upside from incremental capital allocation.

With that, operator, please open the line for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question is from Anthony Paolone with JPMorgan. Please proceed.

Anthony Paolone

Analyst, JPMorgan Securities LLC

Q

Thanks. Good morning and welcome, Emma, [indiscernible] (20:22). My first question is just to clarify a comment you made about first half versus second half earnings, is that to mean that the first half of 2021 will be greater than what you think the second half would be, or just that the splits are a little bit more even? I just want to make sure I understood the comments.

Emma Giamartino

Global Group President, Chief Financial Officer & Chief Investment Officer, CBRE Group, Inc.

A

It's that the split will be a little bit more even, though the first half comps versus 2020 obviously is much easier than the second half. So we're expecting the shift in our earnings to be more weighted – to move more towards the first half, but we still expect the majority of it to be in the second half.

Anthony Paolone

Analyst, JPMorgan Securities LLC

Q

Okay. Understand. And then on the leasing side, I guess that that's not picked up as much as capital markets, but just interested in maybe your view as to whether it's just capital markets activity has surprised on the upside, or if we think it is maybe underperforming expectations.

Robert E. Sulentic

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

A

Yeah, Tony, I would say it's both. Capital markets is doing quite well. There is a huge amount of capital interested in commercial real estate, obviously aimed at certain asset classes for instance. Anything related to industrial distribution, multi-family, data centers, there is a lot of capital aimed at those assets, lot of trading going on and obviously, we're big in those arenas. So, it's coming through in our numbers.

As it relates to leasing, it's what it has been. There's real uncertainty about how and when companies will go back to the office post-COVID and as long as that overhang is out there, decisions will be made more slowly than they have been historically. Now, as you've seen over the past few months with the vaccination, more people were back in the office, more decisions were being made, commitments were being made. But we're – I would say we can be certain about two things. We probably won't go back to where we were pre-COVID, but will definitely go back to a level that's far beyond what it has been in the past 15 months, right? The decision making process around office space has just been extremely muted and that's not going to sustain once we get to the other side of COVID.

Anthony Paolone

Analyst, JPMorgan Securities LLC

Q

Yeah, got it. Do you have a sense as to where your office leasing revenue ran in the second quarter versus, say, 2019 levels because it seemed like a lot of the other areas are above?

Emma Giamartino

Global Group President, Chief Financial Officer & Chief Investment Officer, CBRE Group, Inc.

A

So, our office leasing revenue came down to 47% of our total leasing revenue globally and 2020, it was 54%. So, it came down 7%.

Anthony Paolone

Analyst, JPMorgan Securities LLC

Q

Okay. Got it. And then just last one for me on the investment activity you've announced or completed so far this year and particularly as it relates to Turner & Townsend. Can you give us a sense as to like what the aggregate EBITDA contribution is likely to be from that? I know you gave some numbers with Turner & Townsend in terms of their trailing, just trying to understand if like you anticipate cost saves or forward growth. Just trying to understand like what the pickup is likely to be for you all from the capital being put out the door?

Emma Giamartino

Global Group President, Chief Financial Officer & Chief Investment Officer, CBRE Group, Inc.

A

Yeah. So historically, Turner & Townsend has shown very consistent mid-teens growth both to net revenue and EBITDA. And through 2021, we probably saw their revenue was pretty flat, they only dropped 3% and the EBITDA was up significantly. So going forward, we're expecting them to continue to hit those mid-double-digit revenue – mid-teens revenue and EBITDA CAGRs. But I will say that for 2022, we're expecting EBITDA to be in line with 2021 as costs come back in post-COVID even as revenue increases.

Anthony Paolone

Analyst, JPMorgan Securities LLC

Q

Okay. And anything substantial from the other investments you've made in terms of the EBITDA contribution?

Emma Giamartino

Global Group President, Chief Financial Officer & Chief Investment Officer, CBRE Group, Inc.

A

No, we've done a few infill acquisitions for Industrious. We have not revalued that investment because it was so recent, and we expect to do that later that year. So, you won't see any impact from Industrious this year.

Anthony Paolone

Analyst, JPMorgan Securities LLC

Q

Okay. Great. Thanks for the time.

Operator: Our next question is from Steve Sakwa with Evercore ISI. Please proceed.

Steve Sakwa

Analyst, Evercore ISI

Q

Thanks. Good morning and welcome, Emma. I guess first question maybe for Bob, when you sort of looked at Turner & Townsend, I'm just wondering can you just sort of talk a little bit about how the contracts that they have are structured, maybe more from just the length of contract and maybe contrast that to the contracts you have in the GWS business. It looks like their EBITDA margin is much higher than what you have in GWS. So I'm just trying to understand maybe the length of contract and the cyclicity of that business.

Robert E. Sulentic

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

A

Well, that business has not been cyclical. As Emma said, they had been a steady double-digit grower on the top and bottom line for the last decade. The nature of the projects they work on and one of the things, Steve, that was so attractive about them are really benefiting from secular tailwinds. So, they're doing stuff in the green energy arena, in the infrastructure arena. They're doing very large complex projects for corporates that span several years. So, the decision-making that underpins those contracts with corporates aren't about what's going on in the current cycle. They're about what their long-term needs are. So, we expect this to be an acquisition that contributes to the resiliency of our business.

They operate at a different margin level because they don't have the same level of pass-throughs we do. For instance, one thing they don't do is principal contracting which we do which of course has big pass-throughs. But they're doing some massive projects around the world. I'd give you an example, they're doing a hydro project in New South Wales in Australia that will be the largest renewable project in the country of Australia ever. They're doing the – they're working on the Virgin Hydroloop (sic) [Hyperloop] (26:56) that's so well-known in India. This is going to connect the big cities in India. That'll go on for years and years and years. My guess is their role in that will grow over time. They're involved in the program management and the ongoing cost management when they take on projects like this. So they're very resilient and they are a high-margin company and they're a real grower.

Steve Sakwa

Analyst, Evercore ISI

Q

Okay. So, is it fair to say the contracts are at least as long, maybe longer than what you would typically see in your GWS business?

Robert E. Sulentic

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

A

Oh, yeah, big complex projects like that last for years and years. I'd give you another example, they're working on a \$6 billion redevelopment at the Toronto Airport. Any of us that have gone to airports and seen these projects, they go on for a long time. So, yes, those contracts are very long term.

Steve Sakwa

Analyst, Evercore ISI

Q

Okay. Thanks. And then when you just sort of look at the balance sheet capacity that you've got, obviously very under-levered and you're looking to deploy capital, I mean, do you expect to sort of find other deals like Turner & Townsend, or do you expect to do more small tuck-in acquisitions in, say, the Advisory business or on the development side? I'm just trying to get more of a strategic sense for where you'll deploy kind of the next large chunks of capital, or is it more into buybacks? How do we think about that?

Emma Giamartino

Global Group President, Chief Financial Officer & Chief Investment Officer, CBRE Group, Inc.

A

Yeah. So, we still have a very strong M&A pipeline. I think we're going to look to do more deals like Turner & Townsend, we'll also continue to do our programmatic M&A through infill, but I think you'll see a mix of both. And our real focus is on finding targets that can really help push our strategy forward, our diversification strategy across asset types, business lines, client types and geographies that Bob has talked about with all of you many times. And so, we're going to look for strategic M&A. We're not going to force it, if we can't find the right opportunities, we'll obviously look to return cash to shareholders.

Steve Sakwa

Analyst, Evercore ISI

Q

Got it. Thanks. That's it for me.

Operator: [Operator Instructions] Our next question is from Jade Rahmani with KBW. Please proceed.

Jade Rahmani

Analyst, Keefe, Bruyette & Woods, Inc.

Q

Thank you very much. To what extent do you think that the surge in capital markets reflects prior transactions that perhaps either were postponed, or put on hold, took longer to close, things of that nature? Just getting questions from investors about sustainability of the capital markets growth that you're seeing.

Robert E. Sulentic

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

A

Yeah. Jade, there was some pent-up demand that came through in the marketplace. But when you ask about capital markets in the commercial real estate sector, you have to look at the alternative places capital can go. And as you know, there is a lot of capital around the world and prices are high in most asset classes, stocks, et cetera. And so, real estate has proven to be a much better asset class over the last decade. And there are certain portions, certain asset classes within real estate that appear to be particularly strong. We've talked about them over and over, multi-family, data centers, anything industrial, anything by the way in the office arena that are new high-quality buildings with great tenants, especially tech tenants. There's a lot of capital for those buildings still.

And so, what you're seeing is a lot of capital out there in general, a considerable portion of it that's concluded that commercial real estate is a good place to be, and then some asset classes within commercial real estate that appear to be performing extremely well with lots of headway to continue to perform well. And so, yeah, there was a little pent-up demand coming through. But our view is that this is going to sustain for years.

Jade Rahmani

Analyst, Keefe, Bruyette & Woods, Inc.

Q

And can you talk to the mix, perhaps, across the overall revenue profile of CBRE today by property type, how much would be derived from office, how much would be from those other sectors that you've mentioned?

Emma Giamartino

Global Group President, Chief Financial Officer & Chief Investment Officer, CBRE Group, Inc.

A

So on this, I gave some of the stats on leasing before. We're at 47% office globally, 32% industrial. On the sales side, office is down to 18% and industrial is at 28%.

Jade Rahmani

Analyst, Keefe, Bruyette & Woods, Inc.

Q

The Advisory Services margin improvement was notable. I was wondering how much do you think reflected the increased capital market mix and how much do you think relates to some costs that perhaps are running below normalized levels such as marketing spend, T&E, things of that nature?

Emma Giamartino

Global Group President, Chief Financial Officer & Chief Investment Officer, CBRE Group, Inc.

A

I think it's a mix of both. We have some higher-margin revenue coming on and then we do have some costs that are onetime in nature and won't come back. But, we think the majority of that margin is sustainable.

Jade Rahmani

Analyst, Keefe, Bruyette & Woods, Inc.

Thank you very much.

Q

Operator: Our next question is from Anthony Paolone with JPMorgan. Please proceed.

Anthony Paolone

Analyst, JPMorgan Securities LLC

Thanks. I was just wondering if you could help on Trammell Crow and just the development business. If there's a way to put some sort of rule of thumb or guidepost around, you build something for your clients, it gets monetized and you produce \$1 of profit. How much of that goes back on average to CBRE, and then of that amount, how much goes into EBITDA after you pay your people?

Q

Robert E. Sulentic

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

Yeah. Tony, I'll talk about that and it's very relevant to this structure we put in place by the way with Turner & Townsend. So, the Trammell Crow Company model generally works the following way. When we generate earnings, there's two levels of compensation commitment that go to our developers and those who manage our development business and that totals around 40% of the total profit that then gets 60% – the other 60% goes into our earnings. That's the way that works. So, when you look at this Turner & Townsend model that we've now just executed on or we will close on later this year, very, very similar structure.

A

One of the reasons we're so excited, Trammell Crow Company has thrived subject to this structure. We think Turner & Townsend will thrive subject to this structure. Very motivational to the professionals in the business. Very aligning between the company and the professionals in the business and you've seen the results. You've seen our profits now in Trammell Crow Company are over 6 times what they were pre-financial crisis when we bought that business.

Anthony Paolone

Analyst, JPMorgan Securities LLC

So, just to make sure I understand that, so like for instance, if Trammell Crow built a building for \$100 and sells it for \$130, and you get this \$30 of profit, let's say, your institutional partners, they get the bulk of that. Like what piece that do you think goes to CBRE? Is it like 20% or...

Q

Robert E. Sulentic

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

Well, it differs on – some development deals, we'll do on balance sheet. Not many, but some we will, particularly if they have a user identified. And then we have various kinds of structures. But for the most part, if you look at the total project profit that comes out of a deal, maybe 30% of it comes to us, sometimes more than that, and then we apply those splits that I just described between the company and the developers.

A

Anthony Paolone

Analyst, JPMorgan Securities LLC

Q

Got it. So that \$30 then, the \$40 goes to the people and \$60 to the EBITDA?

Robert E. Sulentic

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

A

Yeah, no, I will say this, when we do build-to-suits or we do fee deals, those are 100% company owned projects. There is no third-party capital associated with those typically.

Anthony Paolone

Analyst, JPMorgan Securities LLC

Q

I see. Okay. Great. That's helpful to frame it given that you've laid out size of what's under construction in the pipeline. So, that's real helpful. Thank you.

Robert E. Sulentic

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

A

Yeah.

Operator: We have reached the end of our question-and-answer session. I would like to turn the conference back over to management for closing comments.

Robert E. Sulentic

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

Thanks, everyone, for being with us and we look forward to talking to you again at the end of the third quarter.

Operator: Thank you. This does conclude today's conference. You may disconnect your lines at this time, and thank you for your participation.

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