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CBRE Group, Inc. (CBRE)

Q1 2022 Earnings Call

CORPORATE PARTICIPANTS

Kristyn Farahmand

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

Robert E. Sulentic

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

Emma Giamartino

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

OTHER PARTICIPANTS

Chandni Luthra

Analyst, Goldman Sachs & Co. LLC

Steve Sakwa

Analyst, Evercore ISI

Anthony Paolone

Analyst, JPMorgan Securities LLC

David Farnum

Analyst, Raymond James & Associates, Inc.

Jade Rahmani

Analyst, Keefe, Bruyette & Woods, Inc.

Stephen Sheldon

Analyst, William Blair & Co. LLC

MANAGEMENT DISCUSSION SECTION

Operator: Greetings, and welcome to the CBRE's Q1 2022 Earnings Conference Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

I would now like to turn this conference over to your host, Ms. Kristyn Farahmand, Senior Vice President, Investor Relations & Strategic Finance. Thank you, ma'am. You may begin your presentation.

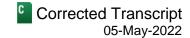
Kristyn Farahmand

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

Good morning, everyone, and welcome to CBRE's first quarter 2022 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 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.

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 our 2022 qualitative outlook, operations, market share, capital deployment strategy and share repurchases; financial performance, including net leverage, profitability, expenses, and effective tax rates; the business environment and the effects of the COVID pandemic and geopolitical tensions; the integration and performance of acquisitions and other transactions; and any other statement regarding matters that are not historical fact.

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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 consolidated adjusted EBITDA, core EPS, core 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.

Our agenda for this morning's call will be as follows: Bob Sulentic, our President and CEO, will briefly comment on first quarter highlights and the role that our four-dimension diversification strategy and balance sheet are playing in driving our growth. Then, Emma Giamartino, our Chief Financial and Investment Officer, will discuss the quarter in detail and our updated qualitative 2022 outlook. Then we'll open up the call for questions.

Please note that we are now referring to core adjusted EPS as core EPS for simplicity purposes. Additionally, we are also reporting core EBITDA, which, like core EPS, is equivalent to adjusted EBITDA, but excludes the fair value adjustments related to noncore investments.

Now, please turn to slide 6 as I turn the call over to Bob.

Robert E. Sulentic

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

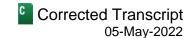
Thank you, Kristyn, and good morning, everyone. The year has started out strong for CBRE with excellent momentum across all three business segments. Globally, net revenue increased more than 30% and GAAP EPS and core EPS were up 48% and 72%, respectively, in the first quarter. We saw strong property sales growth in virtually every corner of the world. Office and retail continued to rebound nicely from COVID-suppressed levels, and multifamily and industrial maintained strong momentum.

The continued rebound in leasing velocity is also encouraging. Notably, office leasing revenue surpassed Q1 2019 levels in both EMEA and Asia Pacific. Office activity in the US improved significantly, but remained below pre-pandemic levels. Despite the lag in US office, overall global leasing revenue is 20% above the Q1 2019 peak. We achieved these strong revenue gains while keeping expense growth in check, which is a top priority for us.

Our core EBITDA margin on net revenue improved 280 basis points over the prior-year quarter. Notably, discretionary expenses were 27% below first quarter 2019 levels, while net revenue was up 42% versus the same period. We continue to execute a strategy to diversify our business, both organically and through investment, broadly across the four dimensions we've talked about regularly over the last couple of years: asset types, lines of business, clients, and geographies. Our performance for the quarter drives home how effectively this strategy is working.

We saw continued gains from the purposeful investments we have been making in parts of our business that are benefiting from enduring growth trends. Examples include the industrial and multifamily asset classes, which we invest in and serve broadly, our local facilities management and our project management lines of business, and several of our geographies, particularly North Asia, where we continue to see strong growth.

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Notably, Turner & Townsend continues to perform ahead of our expectations, both financially and operationally. And we are enthusiastic about the added dimensions they bring to our global project management offering, particularly in infrastructure, natural resources, and sustainability services.

We generate significant cash that is being strategically deployed in the growth areas of our business, while we are also returning cash to shareholders at an elevated clip. Year-to-date, share repurchases have totaled \$627 million.

I'll close with a word about Ukraine, which I know is top of mind for many of you. In early March, we decided to exit most of our business in Russia, while keeping some employees in that country to manage facilities for multinational clients, consistent with our contractual obligations. We are inspired by the Ukrainian people's brave resistance to Russia's unprovoked aggression.

With that, I'll turn the call over to Emma, who will discuss the quarter and the outlook.

Emma Giamartino

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

Thanks, Bob. Please turn to slide 8. CBRE began the year with our strongest-ever financial performance for our first quarter. Consolidated results were supported by double-digit revenue and segment operating profit growth in each of our three operating segments. As Bob noted, GAAP EPS was up 48% to \$1.16, while core EPS grew 72% to \$1.39. GAAP EPS was \$0.23 below core EPS, mostly due to the mark-to-market valuation of our noncore investments, particularly our Altus Power stake. The change in Altus' valuation during the quarter largely reversed the noncash gain we realized in Q4, which we also excluded from our core earnings.

Corporate overhead grew approximately \$23 million from Q1 2021, but fell \$40 million compared with Q4 2021. We continue to expect overall corporate overhead to decline slightly from 2021 levels for the full year. Our results are ahead of our own expectations across revenue, margins, and earnings. We're excited about the strong start to the year and the momentum we're seeing across our business. Please turn to slide 9 for a deeper look at our Advisory segment.

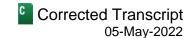
Advisory Services net revenue reached a first quarter record of \$2.2 billion, up 32% from last year. Within Capital Markets, we continue to see strong sales activity with total sales revenue up 58% versus last year. Strong property sales growth was broad based across all major geographies with Pacific, North Asia, and the US being particular standouts. We have yet to see a material impact from rising rates on property sales.

Globally, office, industrial, retail, and multifamily sales, all surpassed their prior first quarter peak levels. While office remains the largest asset class and is back to prior peak levels, it comprised about 20% of property sales in the quarter versus nearly one-third in Q1 2019, reflecting the sizable gains we've made across the other property types. Our mortgage origination revenue, excluding OMSR gains, rose over 22% compared to Q1 2021.

Industrial and multifamily originations continue to lead activity across property types. Lending markets remained highly liquid during most of the quarter, with private lenders continuing to increase volumes. Lower government agency originations reflected robust private lending activity from multifamily assets, which continued to create attractive terms for borrowers and reduced demand for agency debt. Our OMSR gains declined \$50 million from the first quarter of last year, reflecting the shift from agency to private lenders.

Leasing revenue eclipsed prior peak first quarter levels in all global regions. Global revenue was up over 48% in Q1, led by Continental Europe and the US. Continuing recent trends, industrial revenue rose strongly. While the

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Omicron variant posed continued challenges, we were encouraged to see global office leasing improve significantly from last year's COVID-suppressed level and fall modestly short of a Q1 peak set in 2019.

We expect that recovery for office leasing will continue to improve from the COVID-suppressed levels of 2021, as leases roll over and occupiers upgrade their office space. 70% of our surveyed occupier clients are planning a hybrid approach for their office return, and over 90% of them are planning to either expand or contract their office footprints over the next three years. This is a clear positive for our office advisory business as any changes in space requirements drive not only commission revenue, but often also workplace advisory and project management fees.

Despite heightened macro risks from persistent inflation, rising interest rates and geopolitical tensions, US sales and lease activity has remained strong since the end of Q1, with revenue up significantly over the prior year during April. Advisory Services segment operating profit started the year stronger than expected, up 40% to \$466 million, with our net margin increasing to 20.9% from 19.7% in Q1 2021. Prudent operating expense management largely offset higher cost of sales due to deals being more heavily weighted to our highest-producing brokers and the lower OMSR gains.

Turning to GWS on slide 10, net revenue grew over \$400 million or 27%. Excluding Turner & Townsend, net revenue rose nearly 9% overall with project management up 13% and facilities management up 7%. Our new business pipeline points to facilities management revenue accelerating significantly as the year progresses, as clients gain more visibility about their space utilization and thus their need for outsourcing services.

Our pipeline revenue is at a record level with a diversified mix of financial services, defense, automotive, retail and logistics prospects. Overall, GWS segment operating profit grew 33% or over 6% organically. Margins on net revenue grew to 10.9% in Q1, benefiting from the Turner & Townsend acquisition. Absent this acquisition, net margins declined very slightly from prior year, in line with our expectations. We expect this slight margin pressure to subside toward the end of the year.

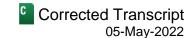
Turning to slide 11, our REI segment posted another outstanding quarter. Revenue increased 34% to \$284 million and segment operating profit grew to \$167 million, up \$104 million versus Q1 of last year, which was modestly better than our expectations at the beginning of the year. Our development business continued to post excellent results, benefiting from a strong pipeline and compressed cap rates. Development contributed nearly \$107 million of segment operating profit in the first quarter, up from \$10 million in the prior year.

We saw multiple large co-investment asset sales in the first quarter notably in industrial and multifamily. Looking ahead, development operating profit is expected to be weighted to the first half of the year. However, any movement of development asset sales between periods, which is common in this business, could impact the quarterly cadence of our results.

Our development pipeline rose to more than \$10 billion and in-process portfolio reached almost \$20 billion, both record levels. This gives us visibility into strong long-term development operating profit growth. Historically, we've converted about 1% to 2% of our in-process portfolio into operating profit annually. Our development business is also strategically well placed with industrial and multifamily comprising over three-quarters of the combined pipeline and in-process portfolio. Fee development and build-to-suits make up more than 50% of in-process activity.

Our investment management business also turned in a strong performance in Q1, while operating profit declined by \$9 million versus the same period last year. The decline was due to a one-time \$24 million accounting

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methodology-driven gain that we booked in last year's Q1 and called out at the time. Absent this gain, operating profit improved about 33%, supported by co-investment returns, which benefited from appreciating asset values.

Investment management AUM reached a new record of nearly \$147 billion, with logistics and infrastructure climbing by 9% and 7%, respectively, over the quarter. AUM growth was driven by \$4 billion of net capital inflows as well as higher property valuations, only partially offset by unfavorable FX rate. We've also continued to benefit from the partnership between our investment management and development businesses, which has supported AUM growth for investment management and pipeline growth for our development business.

Turning to slide 12, CBRE repurchased more than \$390 million of shares in the first quarter, a record amount. As Bob mentioned, year-to-date through May 3, we've repurchased nearly 7 million shares for \$627 million. We anticipate maintaining a significant pace of share repurchases for the balance of the year, absent substantial and compelling M&A opportunities.

We also remain committed to maintaining a durable balance sheet. Net leverage was just under 0.1 turn at the end of Q1, well below the midpoint of our 0 to 2 times target range. This is despite the share repurchases, seasonally higher use of cash for employee incentive compensation, and the seasonally late revenue and earnings typical of our first quarter. Absent any substantial M&A opportunities, we anticipate remaining below 1 turn at the end of 2022, even allowing for an elevated pace of share repurchases.

Turning to slide 13. As we look ahead, we have the same expectation for achieving mid- to high-teens consolidated core earnings growth for the full year that we provided at the end of February. Our business today continues to have strong momentum. Our base of contractual work in project management, facilities management, and investment management is large and growing rapidly, and lease and sales transaction activity through April remains robust.

Commercial real estate markets also are healthy with office, retail, and multifamily fundamentals improving, and industrial fundamentals remaining strong in core markets. Materially offsetting these continued positive trends, the broader economic backdrop has softened and interest rates have risen since we provided our earnings outlook in late February. We have taken the sum of these dynamics into consideration in reaffirming our full year expectations.

Specifically, should an economic downturn emerge, we expect the more resilient and secularly favored parts of our business to help offset any potential weakening in other parts of our business. In particular, we have noted that office leasing is benefiting from strong tailwinds that we expect to sustain for some period of time. Additionally, we have identified cost measures we can implement quickly should market conditions warrant.

On the other hand, if the macro environment remains supportive for the rest of the year, there could be upside to our current expectations. Additionally, our outlook does not include any benefit from incremental M&A activity or share repurchases. We expect to be active capital allocators for the rest of the year and would be positioned to move aggressively in a weaker economic environment. We look forward to updating you when we report second quarter results in July.

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

QUESTION AND ANSWER SECTION

Operator: At this time, we will be conducting a question-and-answer session. [Operator Instructions] Our first question comes from the line of Chandni Luthra with Goldman Sachs. You may proceed with your question.

Chandni Luthra

Analyst, Goldman Sachs & Co. LLC

Q

Hi. Good morning. Thank you for taking my question. Bob, Emma, could you talk about what are you both seeing on M&A front? I mean, you've obviously talked about heightened macro volatility. But in a tougher environment, do you think there is potential for more M&A opportunities? And then, could you give us some insight into how the pipeline is looking right now and how do you think about M&A considerations and multiples in this environment?

Robert E. Sulentic

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



Chandni, I'm going to comment, and then I'm going to ask Emma to do the same. I want to remind everybody that in addition to being our CFO, Emma oversees our M&A activity. So, she's got great insight into this. But I want to start with the notion that M&A is a core competency of our company, and we expect our leaders around the world to identify M&A opportunities that help us add to the capability we can offer to our clients.

We're also increasingly focused on driving capital and resources into areas of our business with secular benefit, and we're really well positioned to do that because we have such a strong base of operations across the four dimensions we talk about: product type, service type, client type and geography. Prices have been high recently, which means that we've been a little bit careful about what we might queue up for acquisition.

We think if the environment slows a bit, gets a little tougher because of inflation or a recession that might be ahead of us, that our opportunity to invest will grow. But we are looking across our business for two types of acquisitions, and I'm being redundant here, but I want to say it again. Acquisitions that add to our capability to serve our clients and acquisitions that drive diversification across our business, and we have a good pipeline of both types of candidates.

I also want to say that we're looking at things that we haven't looked at traditionally that we think are really good fit for our business. One of the best examples I can give you recently, of course, is Turner & Townsend, which was a very unique acquisition for us. And the early returns on it are about as good as I've ever seen us have on a big acquisition.

So, with that, I'm going to ask you to add to that, Emma.

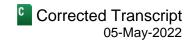
Emma Giamartino

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



I would just add that our pipeline is really strong for M&A, so we're building it for the rest of this year and 2023 and beyond so that we can really be ready when we believe valuations will come down and we can be aggressive in taking advantage of that opportunity. And then, I will also add that – I said this in my remarks, but it's important to reiterate that our outlook does not include any M&A this year or incremental buyback. So, all of that should be upside to our outlook this year, and that stands for 2023 and beyond. Our long-term outlook does not include material capital allocation.

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Chandni Luthra

Analyst, Goldman Sachs & Co. LLC

Q

Got it. And switching gears to kind two asset classes that have been doing really well, multifamily and industrial. I mean, we've heard from a lot of public REITs over the course of last week and a half, and most of them talked about seeing a pause in transaction activity, citing large leveraged buyers pulling out. And then, we've also more recently heard from Amazon talking about excess capacity in warehousing – industrial warehousing. So, what are you seeing on that front? I know it's been very strong for you, but do you think activity in these asset classes slow ahead? I mean, do you see these as early signs? What do you think rates are doing here?

Robert E. Sulentic

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



Well, that's a multilayered question, Chandni. There is a lot of focus on cap rates. There is a lot of focus on the cost of debt. But when you look at the trading of assets and the value of assets, you also have to look at fundamentals. And you also have to look at the amount of capital that's out there pursuing those assets. Fundamentals are exceptionally strong, I think historically strong in the multifamily asset class. Vacancy is as low as it's been in 20 years. The amount of pent-up demand relative to the amount of vacancy is also as low as it's been in 20 years. There is upward pressure on rents. And there's more renters out there in the market than there is new product coming online. So, that bodes well for the value of those assets.

The other thing that I think gets missed a little bit by people, and it's sometimes cited as a problem for our sector, which it is a challenge, and that is what's going on with the cost of assets. The cost of assets is going up. Construction cost is going up. Fundamentals have allowed rental rates to make up for that in the value of assets. But when you think about how investors think about product, one of the things they always consider is replacement cost. Anybody that comes into the market today and buys assets can have a decent level of confidence that replacement cost is going to be above what they pay for those assets. So, that's positive dynamic.

And it's not as extreme with the industrial asset class as it is with the multifamily asset class. But when you go into core markets around the US, the big gateway markets and the most important secondary markets, and when you look at modern, large industrial assets, which is where we play primarily, the fundamentals there are extremely strong as well. So, I was meeting with one of the most active players in the New York – New Jersey industrial market yesterday, and their comment was, it's sold out, right? There is not available space up there.

And the Amazon news is important. They've been the biggest [ph] leaser (00:25:12) across the US the last couple of years. I will tell you that Amazon, their percentage of the market slowed down in the last 12 months by over half what it was in 2020, and the fundamentals haven't really changed. There is strong, strong demand for any space that exist out there. So, we're relatively bullish about what's going to happen with values for both multifamily and industrial assets.

At the same time, we're very aware that if there is a recession, if interstates [ph] new (00:25:44) tick up, if debt becomes more expensive, which it will, there could be a period of time when the buyers and sellers go to the sideline, and that's baked into our thoughts about where we're headed for this year and next year.

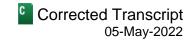
Chandni Luthra

Analyst, Goldman Sachs & Co. LLC



Thanks, Bob, for all that color.

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Operator: Our next question comes from the line of Steve Sakwa with Evercore ISI. You may proceed with your question.

Steve Sakwa

Analyst, Evercore ISI

Yeah. Thanks. Good morning, Bob and Emma. just kind of wanted to circle back to some of the comments that you both made. You basically had a great first quarter. You're keeping guidance unchanged at this point. You said April was off to a very good start, or April was a good start to the quarter. And I guess, I'm just trying to sort of weave all that into your comments kind of about potential upside. I guess, the way I'm reading it is there probably is upside to numbers, but just the uncertainty on the macro is kind of keeping you from raising guidance at this point. Is that really the simple message?

Emma Giamartino

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

So, yes, I think that captures it well, but to put some more color on that, and to be clear, if we weren't seeing pressures from the macro environment, we would be increasing outlook. And so, we spent a lot of time synthesizing what we think is going to happen through the second half of the year. And there are a number of factors that are giving us confidence that we'll deliver the outlook that we expected to in February. Like you said, Q1's been really strong. Our pipeline for Q2 and our transactions business are very strong. But we are anticipating, if interest rates rise as expected, there will be slowdown in parts of our business in the second half of the year, which will be offset by our secularly favored parts of our business.

And, again, I want to remind everyone that capital allocation is not included in our outlook, so that will be upside. And then, I also want to mention that, in my remarks, I talked about the cost levers that we have in place. So if things turn in a different direction than we're expecting and there is more pressure, we have cost levers that we know we can pull and we've proven that we can pull through 2020 and 2021. So, that gives us a tremendous amount of confidence in 2022.

And then, we also look towards 2023 because we know everyone's really thinking about what's going to happen if interest rates continue to rise. And we ran some sensitivities around what we expect next year. And everything that we said about 2022 really holds for 2023. We are more contractual. We have more recurring revenue than we've ever had before. We've invested in growing in secularly favored areas, and we believe those parts of our business are really going to offset areas where we'll see pressure like Capital Markets, essentially in development. So, we feel very positively about where we're going to go in 2022 and 2023 and think there is upside to what we're talking about.

Steve Sakwa

Analyst, Evercore ISI

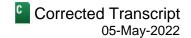
Great. And then, I guess, just trying to think about the capital allocation. So, it sounds like acquisitions at this point are – I don't want to put words in your mouth – kind of maybe on hold, but you're certainly willing to deploy a lot more capital in the share buyback. Can you just maybe kind of walk us through the math in how you're thinking about that? It was nice to see the acceleration in Q1 and into the early part of Q2. But it sounds like buybacks could be materially higher than we originally thought.

Emma Giamartino

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

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Sure. So, the capital allocation strategy that we've talked about over the past few quarters remains unchanged. We are prioritizing accretive strategic M&A when we see opportunities arise. And we're very focused on building that pipeline and executing on those opportunities. But valuations are high. And so, it's really important that we're patient. We want to make sure that we're delivering returns that are well above the returns we can deliver through buyback. But we always said we would balance that with buybacks when we don't see a huge opportunity for transformational M&A within a year. And so, that's what we've done. We've seen value opportunity. Our price has been very attractive. So as long as that continues, we will continue to buy back shares through the rest of the year.

Steve Sakwa

Analyst, Evercore ISI

Great. Thanks. That's it for me.

Operator: Our next question comes from the line of Anthony Paolone with JPMorgan. You may proceed with your question.

Anthony Paolone

Analyst, JPMorgan Securities LLC

Yeah. Thank you. Emma, I guess just one more thing on the guidance that I had on my mind. Last quarter, you'd given some pretty specific brackets around Advisory, GWS, and REI. Did anything change within those, like some of your expectations for lease and sales revenue and so forth?

Emma Giamartino

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

So, we're making a shift, as you can see, in this quarter to really focus on our consolidated performance because we are a more mature diversified business where we have multiple levers. And one single factor, we don't believe, should impact our long-term or even near-term growth trajectory. So, I'm not going to comment on specific parts of our business. But as both Bob and I have talked about where we potentially see a slowdown in the second half of the year is primarily in Capital Markets.

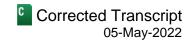
And then, I do want to comment on development. I mentioned this in my remarks and we mentioned it last quarter. But simply because of timing, the majority of our development profits are going to hit in the first half of this year. It doesn't have anything to do with the external environment. It's simply when these projects are expected to be completed. And if you look at those profits on an annual basis, I think that's the best way to look at the sustainability and the stability of those profits. We've said that about 1% to 2% of our in-process portfolio typically converts to SOP in any given 12-month period. Right now, we're slightly ahead of that. But if you extrapolate that to 2023 and expect that profit to move more in the 1% to 2% range, that can give you an idea of the sustainability and ability of our development pipeline.

Anthony Paolone

Analyst, JPMorgan Securities LLC

Okay. Thanks for that. And then, with regards to EBITDA margins, can you talk about any puts or takes on that side? So if you think about the last year, business kind of accelerated and you had a lot of costs that had been taken out during the pandemic and still a lot of deals being done over Zoom and stuff. But now, it seems like maybe the business is slowing and people are getting back to face to face. Are there any parts of the business where there is margin pressure or deal's less profitable or any other places where you're making up ground?

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Emma Giamartino

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

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So, the only place where we're seeing costs come back, which we anticipated and talked about in Q4, is within our GWS business. And that's just a reversion to pre-pandemic levels. During the pandemic, we were servicing facilities and buildings while people weren't going to facilities and office buildings. And so, the cost to service those buildings declined in an unusual way. So, we're going back or reverting to normal within our GWS business. And we're seeing some margin pressure this quarter. We expect that to slightly – to mediate throughout this year. So, margins within our legacy GWS business should slightly tick up through the remainder of the year.

But in the rest of our business, we're actually seeing – within Advisory, you're seeing stronger margins than we expected. And so, that's evidence of our ability to control our costs, all of the cost measures we put in place. Bob mentioned that our discretionary costs this quarter are down pretty meaningfully, and our hiring has slowed somewhat simply because of the challenged labor market. So, we feel really good about our margins.

Anthony Paolone

Analyst, JPMorgan Securities LLC

Okay. And then just last question, you had made a comment about some of the lending moving away from the GSEs on the multifamily side. And I thought they raised their caps for 2022. So, I was a little bit surprised by that. Can you just talk about what's happening there? How big a part of your overall mortgage business is the GSE piece? And just what happens, you think, to that, either the origination piece and/or servicing as rates move up?

Robert E. Sulentic

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



Tony, we think – well, first of all, that's a very big part of – GSE business is a very big part of our lending business. It's moved more to private lending in the last quarter – in the first quarter of this year. And we're watching to see what's going to play out for the rest of the year and next year. As it relates to mortgage servicing, which has become a big and very recurring, very contractual business for us, we expect that to continue to grow partly from the business that we source, but also partly from business that we take on from others.

Anthony Paolone

Analyst, JPMorgan Securities LLC



Okay. But I mean, just with the GSE part, though, why do you think people are going to private lenders when they have, I guess, the ability to lend even more this year?

Emma Giamartino

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



So, there's two factors. One, private capital has been very aggressive with their lending terms, so the GSEs are simply being outcompeted. And then, the GSEs pulled back. If you think about Q1 of last year, they needed to provide liquidity; and this quarter, because the markets have been flooded with liquidity, they didn't have that same need.

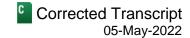
Anthony Paolone

Analyst, JPMorgan Securities LLC



Okay. Got it. Thank you.

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Operator: Our next question comes from the line of Patrick O'Shaughnessy with Raymond James. You may proceed with your question.

David Farnum

Analyst, Raymond James & Associates, Inc.

Hey. Good morning. It's David Farnum on for Patrick. Wanted to ask you a question on your EMEA business. How are market conditions holding up in that region as compared to the other geographies?

Robert E. Sulentic

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

Market conditions are really good in EMEA right now. I was just over there last week. I was over there for a Turner & Townsend board meeting which, by the way, that company is doing extremely well. And what we found out was across the UK and across Europe, leasing is strong and coming back. The industrial asset class is holding up well. There's large amounts of capital to be invested in commercial and multifamily assets. Multifamily is a smaller business over there than it is over here.

I would say, the fundamentals across Europe right now are quite strong, and our business is performing – our Advisory business there is performing better than it's ever performed in the history of our company. So, we're feeling really good about that business now.

David Farnum

Analyst, Raymond James & Associates, Inc.

Thanks. And then, maybe switching gears to the Turner & Townsend business for a moment. [ph] Albeit (00:37:00) you've been working with that business for a few months now, what sort of integration has taken place between Turner & Townsend and the rest of the organization?

Robert E. Sulentic

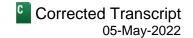
President, Chief Executive Officer & Director, CBRE Group, Inc.

Well, it's important to remember that we bought 60% of the business. 40% of the business remains with the partners, the legacy partners in Turner & Townsend. We govern that company through board of directors: three directors from CBRE, three directors from Turner & Townsend. And the integration has largely been a revenue integration. We have not tried to seek cost synergies out of that deal. We have not tried to alter the way they go to market. The infrastructure that supports that business is [ph] their (00:37:48) infrastructure. The way the integration is progressing is we're working with them to bring them into our client relationships as an added capability. We have some other resources that we're providing to them to help them grow their business, but it is not a traditional full-on integration.

The best comp for Turner & Townsend in our company would be the way we operate Trammell Crow Company. Although we own 100% of it, roughly 40% of the economics go to the developers. Trammell Crow Company's kept its brand. They've operated independently. They have a tremendous culture, and they've grown tremendously. And we've modeled Turner & Townsend after that. They liked that model. They wanted that model. We're six months or so into the relationship. As I said, in my opening remarks, both financially and operationally, it's proceeding better than we had thought it would proceed, and we were quite bullish about the investment when we made it.

There is a bunch of stuff that Turner & Townsend would like to do and we would like to do together with them that we haven't been able to get to yet. Simply they're running at capacity. And as they add capacity, that capacity is

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fully utilized. So, there is a good deal of upside associated with what might happen with Turner & Townsend next year and beyond. And Emma kind of commented on that when she gave you that little snapshot of how we think 2023 might play out. We think there is some upside to Turner & Townsend because of the secularly benefited areas that they operate in.

David Farnum

Analyst, Raymond James & Associates, Inc.

Excellent. Thanks for the color.

Operator: Our next question comes from the line of Jade Rahmani with KBW. You may proceed with your question.

Jade Rahmani

Analyst, Keefe, Bruyette & Woods, Inc.

Thank you very much. When you look at the size and scale and footprint of the company overall, where do you see the greatest growth opportunity is? You mentioned investing in new areas. I was wondering if infrastructure and potentially energy and renewables size to you as very strong growth potential, or would it be within the company's existing capabilities and footprint in core real estate services areas such as, for example, mortgage origination where, perhaps, the ratio of property sales to mortgage could be a little bit reduced, more mortgage, less property sales just as a ratio.

Robert E. Sulentic

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

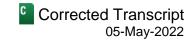
Well, there is a lot in that question, Jade. Let me let me try to take the pieces off as you asked them. So first of all, with regard to energy/sustainability, we're embedding that in many of our services across the company. And it's not necessarily a separate profit line, but the capability in our facilities management, in property management, in project management and development businesses that brings sustainability to those product lines helps us grow those businesses. And then Turner & Townsend directly does things with regard to sustainability that are important product lines for them. Infrastructure, you're going to see growth in infrastructure through Turner & Townsend. You're going to see growth in infrastructure through our investment management business. And they've grown the AUM there very nicely.

But when you look across our business – and, again, I want to beat this drum, because it's so important. We are really broadly diversified across product type, service type, client type, and line of business. So, where are we going to see growth across those four dimensions? The work we do for big technology companies around the world is going to continue to grow significantly, and it's likely not going to be all that subjected to economic downturns compared to some other things out there.

Project management, with all that's going on with sustainability, with all that's going on with reorienting offices to the future where they'll be used, we think that there is going to be sustainable growth there. Ironically, when you look at what's happened to our business over the last two or three years during the COVID era, everybody knows that we faced secular headwinds in the office building part of our business, which is a big part of our business. Well, we now believe for at least the next two or three years, we're going to have real secular tailwinds with office as occupiers go back to renewing or changing the leases they have.

We've got very good insight into what that pipeline looks like. As occupiers reconfigure their space, et cetera, we think we're going to actually benefit. At the same time, we might see some downward pressure from what's going

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on with interest rates and cap rates and the economy as a whole. We actually think office is going to come back in and provide some tailwinds for us. We're very, very encouraged about that.

And then, when you kind of get deeper into our business and look at those four dimensions, I'll give you an example of something that we haven't talked a lot about. We've mentioned it kind of in passing. But if you look at our Advisory business, over the last few years, I often get the question, what part of the world should that business grow the most. Well, it should grow the most in part of the world where the economy is growing the most, and that continues to be Asia.

If you went back five or six years, our Advisory business in North Asia was probably no more than 1% to 2% of our business. It's likely to be 6% to 7% of our Advisory business this year. Not that much of it in China because of what's going on China, but Korea is really growing for us. Japan's really growing for us. Hong Kong is really growing for us. We have a nice business in Taiwan, and then we think eventually China is going to kick in when things sort out now.

So, we've got pockets of opportunity for growth across those four dimensions. And that's why when Emma talks about what's going to go on the rest of this year and thinks about what might happen next year even if things get a little tough in the economy, even if we go into a mild recession, we're pretty encouraged about where we sit out there. And then, of course, in all of those areas, we have capital to drive into acquisitions if things slow down, and it's easier to buy some things than it is today.

Jade Rahmani

Analyst, Keefe, Bruyette & Woods, Inc.

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Thank you. In terms of tone from investors, institutional investors looking to deploy capital into real estate, are you detecting any changes? And in terms of dry powder, does that at all come under pressure from lower equity markets because the allocations are set relative to their overall asset allocation strategy? So, lower equity markets have been a boon to real estate allocations, but now could be a headwind. How would you answer those two questions?

Robert E. Sulentic

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

A

And we do watch the denominator effect, and we were wondering if that's going to have an impact next year depending on what happens with equities. If those go down and then real estate holds up and becomes a bigger part of the portfolios, that may put a little downward pressure on some institutions buying commercial assets. But I will tell you what we've seen around the world. Around the world is there is more capital for real estate than there is real estate for capital right now. And that's equity capital and that's debt capital.

And people really like the fundamentals and they believe in this asset class more and more for the long term. There could be an interruption later this year. There could be an interruption next year. But the long-term trajectory is more institutional capital is being aimed at commercial real estate assets and institutional quality multifamily assets, and the base of assets around the world is growing. So, we think that this is a really nice long-term trend for our company in the sector we compete in.

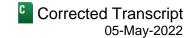
Jade Rahmani

Analyst, Keefe, Bruyette & Woods, Inc.

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Thank you. And then just lastly on the GSE multifamily, one of the issues has been they underwrite on a trailing 12-month cash flow basis. And as I'm sure you well know, rents in multifamily have been skyrocketing. And so,

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debt funds and other more flexible lenders, they're looking forward. They're looking at forward NOI, putting the GSEs at a relative disadvantage. Do you see that gap alleviating, considering that their caps are 11% higher than last year?

Emma Giamartino

Global Group President, Chief Financial Officer & Chief Investment Officer, CBRE Group, Inc. So, we do see that alleviating somewhat as valuations increase and the GSEs come up to speed to where the

private markets are. One of the factors that's impacting the GSEs is that they do have new leadership in place. So as they go through that transition and as the leadership comes into - moves further into their term, we expect GSEs to pick up.

Jade Rahmani

Analyst, Keefe, Bruyette & Woods, Inc.

Thank you very much.

Operator: Our next question comes from the line of Stephen Sheldon with William Blair. You may proceed with your question.

Stephen Sheldon

Analyst, William Blair & Co. LLC

Hey. Thanks. Good morning and nice results here. Just one for me, and it's on the longer-term trend towards real estate ownership, I guess, shifting more towards institutions versus more or less private ownership. Do you think that trend has continued as we look back over the last few years? And if so, what has that meant in terms of both outsourcing adoption in GWS and the velocity of properties changing hands given normally shorter holding periods? And could that trend make capital markets activity become slightly more recurring over time?

Robert E. Sulentic

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

There's a few things about that trend that are really important to our business. One is that institutions historically have tended to trade a bit more than non-institutional owners. So, that's good. That adds to the velocity associated with our brokerage businesses, both brokerage of debt and brokerage of the assets themselves.

Secondly, what's happening is these institutions that are controlling the assets are growing, they're getting bigger and bigger. And they tend to want to work with fewer and fewer service providers. We're a beneficiary of that. By the way, we're a big beneficiary of that with occupiers, and we're a big beneficiary of that with investors. And one of the things we've done with our family is - with our family - with our company is work incredibly hard to be connected across lines of business and geographies so that we can offer a product to these big institutions that invest in real estate and these big occupiers that use real estate so that they feel like they can comfortably use us instead of a group of companies.

That's been a really powerful trend for us. We expect it to consider – we expect it to continue. And so, when you look at what you're describing, Stephen, for the institutional ownership of assets, we think it's going to be a positive secular driver in the growth of CBRE. And we think – and the same thing is going to happen with the occupiers, and it is happening.

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Stephen Sheldon

Analyst, William Blair & Co. LLC

Great. Thank you.



Operator: Ladies and gentlemen, we have reached the end of today's question-and-answer session. I would like to turn this call back over to Mr. Bob Sulentic for closing remarks.

Robert E. Sulentic

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

Thanks, everyone, for joining us today. And we look forward to talking to you in three months when we report our second guarter earnings.

Operator: This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation, and enjoy the rest of your day.

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