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CBRE Group, Inc. (CBRE)

Q1 2023 Earnings Call

CORPORATE PARTICIPANTS

Brad Burke

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

Robert E. Sulentic

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

Emma Giamartino

Chief Financial Officer, CBRE Group, Inc.

OTHER PARTICIPANTS

Chandni Luthra

Analyst, Goldman Sachs & Co. LLC

Steve Sakwa

Analyst, Evercore ISI

Anthony Paolone

Analyst, JPMorgan Securities LLC

Jade Rahmani

Analyst, Keefe, Bruyette & Woods, Inc.

Michael A. Griffin

Analyst, Citigroup Global Markets, Inc.

Stephen Sheldon

Analyst, William Blair & Co. LLC

Patrick Joseph O'Shaughnessy

Analyst, Raymond James & Associates, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Greetings, and welcome to CBRE's First Quarter 2023 Earnings Conference Call. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Brad Burke, Senior Vice President of Investor Relations and Strategic Finance. Thank you, Brad. You may begin.

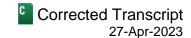
Brad Burke

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

Good morning, everyone, and welcome to CBRE's first quarter 2023 earnings conference call. Earlier today, we posted a presentation deck on our website that you can use to follow along with our prepared remarks and an Excel file that contains additional supplemental materials.

Before we kick off today's call, I'll remind you that today's presentation contains forward-looking statements, including, without limitation, statements concerning our earnings outlook. Forward-looking statements are predictions, projections, or other statements about future events. These statements involve risks and uncertainties that may cause actual results and trends to differ materially from those projected. 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 SEC filings. We have provided reconciliations of the non-GAAP financial measures discussed on

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our call to the most directly comparable GAAP measures, together with explanations of these measures in our presentation deck appendix.

I'm joined on today's call by Bob Sulentic, our President and CEO, and Emma Giamartino, our Chief Financial Officer.

Now, please turn to slide 5, as I turn the call over to Bob.

Robert E. Sulentic

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

Thank you, Brad, and good morning, everyone. Our first quarter results were slightly better than we expected going into the year, but still down significantly from last year's strong first quarter. Our performance relative to our expectations was led by the cyclically resilient elements of our business and our cost management efforts, which more than offset a greater than expected decline in property sales. The elements of our business that are cyclically resilient include our entire GBS business, loan servicing, property management, valuations and asset management fees from our investment management business. Combined, these businesses saw revenue increase nearly 10% during the first quarter and are expected to account for more than 50% of our business segment operating profit for the year, a record high.

With this increased diversification, our business is more resilient, but current conditions are difficult for capital markets and getting more difficult for leasing. There are three major reasons for these difficulties. First, inflation, elevated interest rates and the likelihood of a recession. Second, banking system stress. And third, issues specific to the return to office and office utilization. I'll address each of these. We're aligned with the consensus view that the economy will tip into a recession later this year. We believe it'll be a moderate recession and that an eventual easing of the Fed's monetary policy will spur a rebound in economic activity in 2024. The comments Emma and I make today and our responses to questions will be shaped by that view.

The high profile regional bank failures last month have further constrained lending. However, we are not in another global financial crisis when all debt capital sources contracted simultaneously. Regional banks are still lending to commercial real estate but on a much more selective basis. We expect the regional bank pullback to be partly offset by other capital sources, including the GSEs, debt funds and private capital sources. Looking at the office market, we estimate it'll take this asset class twice as long to recover the lost value as it did in the aftermath of the global financial crisis. This reflects the formidable challenges facing office assets driven by both the slow progress in employees returning to the office and the shedding of jobs in tech and other sectors. Ultimately, we believe that office portfolios will shrink meaningfully from where they were prior to the pandemic, making offices smaller but still very large commercial real estate asset class.

Even with these legitimate concerns in mind, we believe sentiment has deteriorated more than the fundamentals that underpin our business. This pattern is typical with commercial real estate investors and occupiers becoming overly bearish in anticipation of and during early stages of a down cycle. It is our view that debt costs and cap rates are likely near their peak and should gradually improve starting later this year, driving a turnaround that will significantly impact 2024 performance.

To expand on my earlier remarks regarding the growing resilience in our business, our Global Workplace Solutions segment, which generated more than \$900 million of segment operating profit over the past 12 months, is expected to grow by double digits this year. In total, our cyclically resilient business lines, including GWS, produced approximately \$1.5 billion of segment operating profit over the past 12 months, and we expect them to grow in aggregate by high single-digits this year.

It's also important to note that we have become much less dependent on office properties, which accounted for just 14% of US property sales revenue in 2022. Other asset classes where we have large businesses will be more resilient. For instance, we expect valuations for industrial and multifamily to fully recover in two to three years, less than half the time it took coming out of the global financial crisis. Although we anticipate pressure on our transactional businesses to intensify further this year, we are maintaining our earnings outlook for full year 2023. Emma will discuss this in detail during her remarks. Emma?

Emma Giamartino

Chief Financial Officer, CBRE Group, Inc.

Thank you, Bob. As Bob mentioned, the diversification of our business and rigorous financial discipline were key to producing Q1 results that were slightly better than the expectations we set forth for each of our segments in late February despite the market environment becoming more challenging. I'll review each segment now, starting with Advisory Services on slide 6.

Results in the first quarter were supported by stability in our evaluations, loan servicing and property management lines of business with revenue relatively flat compared to prior year. We also benefited from cost mitigation efforts we initiated last year that decreased advisory operating expenses by 2.5%. So these benefits were offset by a greater decline in our property sales business than expected. Capital markets, property sales and loan origination combined declined 43%, a slightly greater decline than expectations.

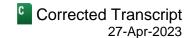
Within property sales, all major regions saw revenue decline, with Asia Pacific performing the best down 30% and the Americas falling more than 40%. Most sales activity today involves industrial and multifamily properties, with office understandably drawing little capital activity. Significant capital is ready to be deployed, but we do not expect activity to improve until borrowing costs decline and market pricing clarity improves.

Leasing revenue declined 8%, in line with expectations against a nearly 50% increase in the first quarter last year. Across geographies, recent performance diverged with the Americas down 10%, EMEA down 5%, and APAC up 26%, all in local currency. This is consistent with our expectations for non-US markets, especially APAC, to perform relatively better in light of regional economic outlooks and improved office utilization level.

Now please turn to slide 7. Our GWS business continues to grow impressively with both facilities management and project management net revenue up by double digits, exceeding our expectations. Growth was driven by several of the large facilities management contract wins achieved last year and strong organic growth within project management driven by large project mandates. Our pipeline of new business reached a record level at the end of the first quarter, as both existing clients and first-generation outsourcers are increasingly focused on cost reductions. GWS' margin on net revenue of 10.8% was in line with our expectations and will improve throughout the year as our cost reduction efforts phase in.

Please turn to slide 8. Overall, REI results met our expectations and we continue to expect full year results to meet our original guidance. Q1 development results were supported by large asset sales, which occurred in January consistent with what we discussed last quarter. For the balance of the year, we expect our asset sales to be heavily weighted to industrial projects that should monetize in the fourth quarter. We have pulled back only slightly on planned construction starts for 2023. We do anticipate that well-conceived projects we got in the current environment will come online in supply constrained markets, most notably for industrial. For the same reason, we are focused on carefully building our land position so that we can benefit from a first mover advantage coming out of the downturn, a position that has historically provided significant rewards. Additionally, our Telford

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UK development business is tracking in line with our expectations, and we continue to expect improvement from 2022 results.

Within investment management, profit was roughly flat versus prior year, excluding the mark-to-market impact on our co-investment portfolio, which was a significant positive in the prior year. For context, co-investment gains made up less than 1% of this business line operating profit in the trailing 12 months. AUM declined modestly from the fourth quarter as net capital inflows and foreign currency effects offset most of the loss of market value.

Turning to slide 9, we believe the current environment is an attractive time to deploy capital. Our M&A pipeline is strong with multiple attractive opportunities, some large that could transform CBRE's existing offerings and drive meaningful shareholder value. We reduced share repurchases in the quarter as we continue to evaluate these opportunities. If we are unable to convert our larger pursuits, we will accelerate our share repurchase activity well above Q1 levels. In any event, we expect to deploy more capital in the next 12 months than in the prior 12 months. While maintaining an appropriately conservative level of leverage. We expect to generate in excess of \$1 billion of free cash flow this year. When combining this expected free cash flow with our lightly levered balance sheet, we could invest as much as \$5.5 billion this year while maintaining leverage below 2 turns.

I'll conclude with our outlook. Our original 2023 outlook contemplated a recovery from the current downturn in the back half of the year. We now expect a delayed recovery due to more constrained debt liquidity and heightened market uncertainties. Our sales and leasing businesses are most impacted by the changed economic environment and as a result, we now anticipate property sales to fall by nearly 20%, which would represent a more than 25% decline from peak 2021 levels. We also expect leasing activity to be down by high single digits this year. As Bob indicated, we are maintaining our full year outlook with core earnings per share expected to decline by low to mid double digits this year. Stronger growth than we originally anticipated in our resilient lines of business described earlier and incremental cost reduction efforts will largely offset the impacts of our weaker outlook for capital markets and leasing transactions. However, there is more uncertainty in this outlook than there was when we first presented it in late February.

We continue to expect core EPS to exceed the prior peak in 2024. And as a reminder, our outlook is informed by our view that there will be a moderate recession this year, followed by a rebound in economic activity in 2024 as the Fed reduces interest rates.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. We'll now be conducting a question-and-answer session. [Operator Instructions] [Operator Instructions] Thank you. Our first question is from Chandni Luthra with Goldman Sachs. Please proceed with your question.

Chandni Luthra

Analyst, Goldman Sachs & Co. LLC

Hi. Good morning. Thank you for taking my question. I would like to talk about capital allocation first. So what are the segments that are most attractive to you from an M&A standpoint? Bob, Emma, could you give us a sense of multiples and perhaps size of the deal, say, with respect to Turner & Townsend which was one of the biggest deals you've done in recent past? And help us understand, if you are looking at one large transformative deal or is it going to be a cocktail of smaller M&A transactions?

Emma Giamartino

Chief Financial Officer, CBRE Group, Inc.

Yes. Chandni, so we are looking for opportunities across our segments where we can enhance the offerings that we currently have. And we are looking at multiple deals that are larger than what we've typically done, so on the larger side of Turner & Townsend. And in terms of the segments that we're focused on, it's facilities management, it's investment management, and it's our resilient lines of business with an advisory such as valuation. So we're looking across all three segments. And we are looking for – when we say transformational, it's [indiscernible] (00:15:12) moving something that can change the profile of our existing businesses. These aren't businesses that are completely new to CBRE. We have extremely high underwriting standards, as you can imagine. And you asked about multiples. Across those three segments, the multiples are different, but we are looking for highly accretive deals that can generate returns and shareholder value well above what we could do with buybacks alone. And I do want to underscore that M&A can move in multiple directions and we are hopeful that will convert at least a large deal in our pipeline. But if we don't do that, we will accelerate our share repurchases. And as I said in my remarks, we intend to deploy as much capital as we – in the next 12 months as we did in the last 12 months. And as a reminder, that was just over \$2 billion of capital deployed.

Chandni Luthra

Analyst, Goldman Sachs & Co. LLC

And a quick follow-up to that. As you think about 2023 guidance, there is – is M&A part of this unchanged guidance?

Emma Giamartino

Chief Financial Officer, CBRE Group, Inc.

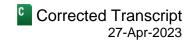
It is not. And what I'd say about that is both buybacks and M&A done towards the end of the year will not have a meaningful impact to 2023 results. That impact will flow into 2024.

Chandni Luthra

Analyst, Goldman Sachs & Co. LLC

Got it. And then for my second question, you obviously cut segment guidance for transactions and leasing, but you maintained your EPS guidance for 2023 and also sort of 2024. So give us your thought process behind this comfort? Like, how much of this unchanged EPS guidance is from non-cyclical components performing better

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versus you leaning into more cost cuts in the business? And what are those incremental cost reduction efforts that you're now contemplating that you perhaps weren't when you printed 4Q results and the world was a little bit different? Thank you.

Emma Giamartino

Chief Financial Officer, CBRE Group, Inc.

A

Yeah. So, Chandni, that's obviously a really important question. I'd say high level, the reduction from our revised [indiscernible] (00:17:27) sales and leasing revenue is having about a 3% impact to our outlook for EPS for the full year. And that is being offset by a combination of higher growth in GWS and costs mitigation efforts or cost avoidance efforts in REI and Advisory.

Chandni Luthra

Analyst, Goldman Sachs & Co. LLC

Okay. Thank you.

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

Steve Sakwa

Analyst, Evercore ISI

Yeah, thanks. Good morning. Bob, Emma, I guess could you just talk a little bit about the transaction business? And I'm just curious, Bob, is it – do you think the absolute rates [indiscernible] (00:18:20) 5% plus the spread that's putting borrowing costs in the 7% that's creating it, or do you think it's more the availability of credit today that's creating an issue in the transaction market?

A

Robert E. Sulentic

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

Steve, it's both of those things. It's the absolute rates. It's the availability of credit. But it's a third thing and that is the uncertainty about where things are going to go. And we think later this year, all three of those things will start to move in a direction that's helpful to our business. We think rates will stabilize, possibly come down. More capital, more debt and equity will become available. And the combination of those two things will create more certainty around pricing. And we think that transactions will start to happen again on the capital market side.

Steve Sakwa
Analyst, Evercore ISI

Okay. And I don't remember if it was the last quarter or maybe the quarter before, I know you had sort of talked about a longer range EPS target, I think, in the \$8 to \$9 range, and I believe that timeframe had been pushed out, maybe more like to 2026 or 2027 from — maybe that was originally 2025. I'm just curious, as you look out over the next, say, 3 to 5 years, how do you sort of think about that \$8 to \$9 figure? And is that timeframe of 2026, 2027 still realistic?

Robert E. Sulentic President, Chief Executive Officer & Director, CBRE Group, Inc.

We talked about that at the end of the year, which by the way, that was only 60 days ago roughly. And our long-term view is not altered by what we've seen so far this year. Of course, we'll address that again next year when we have the benefit of a full year view. But our long-term view for the prospects of the business are good. And of

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course, part of the long term is the short term. I will say what we've seen in the short term has challenged in one sense the transactions, but in the other sense, our enthusiasm for and belief in these – what we're calling these resilient businesses, particularly GWS. And also what we're seeing in the M&A space where we have become a more interesting buyer to a good number of companies than we have been historically. There are companies out there in our sector or directly adjacent to our sector that believe by becoming part of our business or having financial sponsorship from our business will help them perform better than they could perform on their own. And this is not a circumstance that's going on in the same way with other companies in our sector. We think we have a distinct advantage there, and that's going to be a more material part of our future, we believe, now than you would have heard from us certainly in the past.

Steve Sakwa

Analyst, Evercore ISI

Great. Thanks. That's it for me.

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

Anthony Paolone

Analyst, JPMorgan Securities LLC

Thanks. I mean, I guess the first one for you, Bob, just on this capital allocation, M&A and just where the business is going. To that point, if you look out two or three years, where do you think the biggest shift in revenue mix is for you all? Do you think it's by property type, geography or business line? Just any thoughts on how to think about that.

Robert E. Sulentic

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

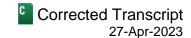
Well, there'll be shifts across all of those. So by geography, our business is definitively becoming larger on a relative basis in Asia Pacific, Asia specifically, than it has been historically. Yeah, I'll give you an example. In the advisory business, forever, our second biggest business was the UK behind the United States, and there wasn't anything close. Our business in Japan now is roughly the same size as our business in the UK. For sure we're growing our businesses related to the multifamily and industrial asset classes. We're not the only ones doing that, but that's definitive part of what we're doing. And then the outsourcing business, which includes us providing facilities management and project management and portfolio services work mostly for big corporates, focused on saving them money, working on their net zero initiatives, shedding assets in some cases, that business will be an enduring double-digit grower and probably not low double digits. We think there's an opportunity to have that be mid double digits. And when I made my comments a minute ago about companies being increasingly interested in having us be their acquirer or us investing in them, a lot of that happens in that segment. So that's kind of where we see the shift happening across our businesses.

Anthony Paolone

Analyst, JPMorgan Securities LLC

Okay. Thanks. And then just on the leasing side, you noted just the step down that's unfolding there. I think the office side of it, I think everybody understands pretty well. But do you see any other parts of leasing, cracking either geographically or by property type that's of note? Right. Industrial has been pretty strong, but maybe a little bit more color there. And I think even like retail in Europe, you called it out in, I think, your releases having been pretty good.

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Robert E. Sulentic

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

Yeah. Retail leasing is good. And by the way, retail rental rates are growing up because there's a big experience thing going on here across the US and around the world that is causing retailers of various types, including food and beverage. But obviously, the high-end retailers are doing quite well and that's helping our leasing business and retail. Industrial's been white-hot over the last couple years, and it's just not going to stay that hot indefinitely. That's been a little bit anomalistic. And so, we are seeing a little bit of downward pressure on industrial leasing. But we think over the longer term, industrial leasing will be very, very strong and the dynamics driving logistics space around the world will remain in place. But we are seeing some downward pressure on that for sure this year.

Anthony Paolone

Analyst, JPMorgan Securities LLC

Okay. Great. 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.

Thank you very much. On commercial real estate as an asset class, we're at an interesting time because for as long as I've covered the space, the institutional allocation to commercial real estate has continually increased. And this is the first year, as I remember, where it's decreasing. And at the same time, the ground is clearly shifting with office. And office historically represents a scaled way to deploy capital in the space. Otherwise, you're buying very small assets, it's very hard to get to scale. So, do any of those dynamics affect, in your view, the long-term secular trend of institutionalization in commercial real estate and the attractiveness of the asset class overall?

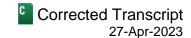
Robert E. Sulentic

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

In aggregate, Jade, I don't think so. And I'll tell you why I say that. First of all, what you're seeing now isn't driven largely by commercial real estate being out of favor. It's not even, in the biggest sense, being driven by office buildings, being out of favor. It's being driven by the denominator effect. The base of assets around the world is growing. The base of industrial space around the world is growing. The base of institutional quality, multifamily around the world is growing, et cetera. And we think that's going to continue. And we think when stock prices rebound, the denominator effect will go in the other direction.

The other thing I would tell you about office space, which has been a big home for capital, there is a tendency when things turn to think that they're going to turn and disappear. Our view is that the portfolios that companies have that use office space, not the investors and office space, but the companies that use it, that ultimately drive investment in office space, will shrink materially, but it'll still be an enormous asset class. If it's down 20% or 10% or 15%, whatever it settles down, it'll still be an enormous asset class. And the future of office space is still being sorted out. We may be more back in the office in the future than we are today. That's just an unknown. But that will be a very large asset class. That will be a very big home for institutional capital in the future, but certainly, other asset classes [indiscernible] (00:27:28) retail and industrial, hotels, multifamily, huge asset classes. And look what's going on with hotels. I mean try to get a hotel room at a rational pre-COVID rate right now anywhere in a good hotel and you just can't do it. And so, I don't think commercial real estate as an asset class is going to decline in importance at all in the future.

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Jade Rahmani

Analyst, Keefe, Bruyette & Woods, Inc.

Thank you very much for that. Wanted to ask about this again, I don't know if it's a pipe dream I have, but I could envision CBRE going in a direction where infrastructure really becomes essentially a new leg in the stool, a new standalone segment. And you really broadened the suite of services you provide to governments, to agencies. And climate mitigation becomes an extremely large strategic opportunity. So, do you see infrastructure as one of those potential transformational type deals? It probably also would be accretive to CBRE's overall multiples since it would enhance resiliency, that sector being less cyclical and having a lot of secular growth potential?

Robert E. Sulentic

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

Jade, there's two areas of our business now where we do do meaningful work in infrastructure. We have an investment management business that invests in infrastructure. And with the acquisition of 60% of Turner & Townsend, which by the way has continued to outperform our expectations, they have a significant infrastructure and significant green energy business, and they do large projects subject to very long-term contracts around the world. We would expect those businesses to grow and provide incremental opportunity to us in the long run. What we might do beyond that is a long run circumstance that we're not really prepared to talk about at this point, but we do have positive exposure in both those areas.

Jade Rahmani

Analyst, Keefe, Bruyette & Woods, Inc.

Thank you.

Operator: Thank you. Our next question is from Michael Griffin with Citi. Please proceed with your question.

Michael A. Griffin

Analyst, Citigroup Global Markets, Inc.

Great. Thanks. Bob, I think in your prepared remarks, you talked about how you expect GWS to grow in the high single digits. I think last quarter, it was tagged at about low double digits. Maybe I misheard this, but if that's the case, why would that be? I presume that these are sort of stickier, more resilient business lines. So anything you could add on that would be great.

Robert E. Sulentic

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

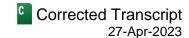
Yeah. Michael, what I said was that we expect the total of our cyclically resilient businesses to grow in the high single digits. So that would be GWS, valuations, property management, the fee portion of our investment management business. We expect our GWS business to grow well into the double digits.

Michael A. Griffin

Analyst, Citigroup Global Markets, Inc.

Got you. That's helpful. And then maybe just one on office, particularly on potential refinancings and debt coming due. I think we've seen some news recently about some debt availability for maybe less than trophy class properties. And I think, well, every office asset is unique might suggest that trophy buildings to have financing, but maybe some of that not the absolute top of the market stuff might be harder to finance?

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Robert E. Sulentic

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

Yeah. Well, the trophy buildings, both in the current environment and in the long term are going to do quite well in our view, because with all that's going on on the return to the office circumstance, companies are looking for great environments for their employees. We're doing it for our own headquarters and our own offices around the US and around the world. Virtually all of our clients are doing it, and these – so these great buildings are going to do well. B and C buildings are going to be challenged and there is less capital available for them. But I think there's an overreaction to that circumstance. The press, it's like so many things, it's a great story to talk about how bad something is when it gets bad. The fact of the matter is, coming out of the financial crisis, office buildings were capitalized much more conservatively than they had been historically, more equity in office buildings than there had been previously.

If you look at the banking system today, something like 1.5% of commercial banks asset portfolio is in office buildings. It's not a huge threatening circumstance. Some of the problem assets will go back to the banks. Some of them will get restructured and worked out, as is always the case with troubled assets. So, it's going to be hard to refinance some of those assets, and some of those assets are going to become troubled and go back. But it's not going to be an overwhelming circumstance the way certain headlines would suggest it might be.

Michael A. Griffin

Analyst, Citigroup Global Markets, Inc.

Great. That's helpful. And then just last one, I think Emma might have mentioned the Telford acquisition tracking in line with expectation. The UK, I believe it's the single family business. Obviously, we've seen over here in the States worries around the regulatory front and maybe some single family companies. Is there any worry that similar regulations could come down the pipe in the UK, or is it just kind of a very different business model?

Emma Giamartino

Chief Financial Officer, CBRE Group, Inc.

Michael, I just want to clarify, our Telford business is a multifamily business, so it's shifting towards build to rent multifamily.

Michael A. Griffin

Analyst, Citigroup Global Markets, Inc.

Okay. And is there any worry around regulation on that? I mean, we've seen some of the apartment companies, whether it's rent regulation, stuff like that. Any concerns?

Emma Giamartino

Chief Financial Officer, CBRE Group, Inc.

No, no. We don't have any concerns. And we actually see – when we initially made that investment, we saw a secular tailwind in build to rent in the UK that continues to exist. And so we expect that. We expect that business to continue to grow going forward.

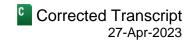
Michael A. Griffin

Analyst, Citigroup Global Markets, Inc.

Awesome. Well, that's it for me. Thanks for the time.



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Robert E. Sulentic

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

Thank you.

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

Stephen Sheldon

Analyst, William Blair & Co. LLC

Hey. Good morning. Thanks for taking my questions. Really impressive trends. GWS this quarter sounds like there is confidence in continued double-digit growth there. In that context, I think there has been at least some concern with companies reducing their office real estate footprint that it could become a headwind to growth in GWS at some point if contract scopes get reduced. So be curious if you're concerned about that at all or is the business so diversified by different asset classes and the industry still so fragmented and so early and outsourcing adoption that you're not worried about the growth trajectory of GWS over the medium term? I guess, how do you think about that?

Robert E. Sulentic

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

Stephen, corporates reducing their office footprint is a headwind for that business, and by the way, has been a headwind for that business for the last 15 years. The average square foot per person that corporates use has been going down and down and down. And we've been helping them with that. We've been helping them reconfigure their portfolios. We've been helping them do project work in support of that. And the project work they need now with the kind of space they're trying to deliver for their employees is really important. So, yes, that will be a headwind in terms of the amount of space that we might manage for individual corporates, but other work we would do for them would offset that. But the thing that kind of overwhelms that circumstance is that more corporates are bringing us on, new clients are bringing us on to do work to help them create environments for their employees, to help them save money both in terms of the size of their footprint, the operation of their facilities, to help them move toward a more energy efficient environment. And certainly now with Turner & Townsend, that puts us in a better place to do that. So the net of all those dynamics is that this is going to be a double-digit growing business. And again, that's before some of the acquisition opportunities that we're seeing that are becoming more prominent for us because — partly because we want to do it, but partly because companies that might combine with us are finding us more interesting than they used to.

Stephen Sheldon

Analyst, William Blair & Co. LLC

Very helpful. And then just to follow up, given some good detail on the 2024 kind of commentary. But on 2024 core EPS surpassing the prior peak, which was 2022, is the planned capital deployment a big factor in that, whether it's accretive M&A or share repurchase activity or would you still expect to surpass prior peak in 2024 without a big ramp in capital deployment?

Emma Giamartino

Chief Financial Officer, CBRE Group, Inc.

There's very little capital deployment in that plan to exceed prior peak EPS in 2024. Any capital allocation, buybacks and M&A would help us surpass that even to a greater extent. And I do want to emphasize that getting to 2024 – in 2024 getting to that record EPS level, we believe it's very achievable. It takes relatively conservative

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assumptions to get there, both a rebound in our advisory and our transactional business lines both in REI and Advisory. We don't have to get back to 2021 levels in those businesses to get to this record EPS. And then within GWS if you are in the very low double-digit range, we can still get to that record EPS level. And again, that's all without meaningful capital allocation.

Stephen Sheldon

Analyst, William Blair & Co. LLC

Great. Thank you.

Operator: Thank you. Our next question is from Patrick O'Shaughnessy with Raymond James. Please proceed with your question.

Patrick Joseph O'Shaughnessy

Analyst, Raymond James & Associates, Inc.

Hey. Good morning. So obviously, debt financing is really challenging right now in commercial real estate. What sort of role do you see for private credit in commercial real estate financing going forward?

Robert E. Sulentic

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

Well, I can tell you, Patrick, it won't be surprising to you to hear me say that we interface a lot with the private equity folks in commercial real estate who are customers of ours that might be participants in this. And the view is that this is going to be a big opportunity for them. When there's a lack of supply coming from other areas, people come in and backfill and create opportunities for themselves in that area, and we think that's going to happen here.

Patrick Joseph O'Shaughnessy

Analyst, Raymond James & Associates, Inc.

Got it. Thank you. And then you spoke earlier about market pricing clarity serving as a catalyst for improved capital markets transactions. But what's the catalyst for that market pricing clarity to actually happen?

Robert E. Sulentic

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

Interest rates to stabilize and come down are the biggest factor there and we think that's going to happen later this year.

Patrick Joseph O'Shaughnessy

Analyst, Raymond James & Associates, Inc.

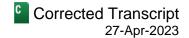
Great. Thank you.

Operator: Thank you. There are no further questions at this time. I'd like to hand the floor back over to Bob Sulentic for any closing comments.

Robert E. Sulentic

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

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Thanks, everyone, for joining us, and we look forward to talking to you again a quarter from now when we report our second quarter results.

Operator: This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation.

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