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CBRE Group, Inc. (CBRE)

Q2 2023 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Greetings and welcome to the CBRE Q2 2023 Earnings Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

I would now like to turn the conference over to your host, Brad Burke. Please go ahead, sir.

Brad Burke

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

Good morning, everyone, and welcome to CBRE's second 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 economic outlook, our business plans, and our financial 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 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. Like last quarter, CBRE's results slightly exceeded our expectations, driven largely by better-than-expected growth in Global Workplace Solutions and aggregate growth in our resilient lines of business, which Emma will describe in detail, offset by weaker-than-expected property sales in Advisory Services.

It is notable when considering our performance that the prior-year comparison was especially difficult. We had our best quarter ever for core earnings per share in last year's second quarter, driven by exceptionally robust development earnings. To put this in perspective, our development earnings in last year's second quarter exceeded the level of development operating profit in any prior full year except 2021.

With this in mind, my remarks this morning will largely focus on how both CBRE and the macroenvironment performed relative to our expectations coming into the quarter, followed by some high-level comments on our outlook.

The economy performed better than we had anticipated going into the quarter in terms of both GDP and employment growth. However, the opposite was true with respect to interest rates, where increases in the last 90 days, coupled with expectations that rates will end the year higher than anticipated last quarter, pressured the elements of our business that are sensitive to commercial real estate capital flows, particularly our sales and financing businesses. We expect this pressure to continue for the remainder of the year.

At the same time, we are beginning to see signs in our own business that will eventually lead to improved performance, likely starting next year. For example, we capitalized 10 new development projects during the second quarter versus only 5 projects in the prior two quarters combined.

Our investment management team responsible for capital raising has noted a definitive change in investor sentiment in the last 90 days. Many of these investors remain cautious, but are now exploring how they can take advantage of the reset in pricing as they develop their 2024 commitment plans.

Looking ahead, we still anticipate a mild recession. However, we now expect the recession to occur at least one quarter later than we had previously thought, followed by a recovery beginning next year.

We realize that our investors are closely watching the US office market and bank exposure to commercial real estate loans. Our views regarding both are consistent with those we expressed at the end of the first quarter.

We now expect full-year 2023 core EPS to decline by 20% to 25% against last year's record level, with the majority of the decrease due to the delayed capital markets recovery. We continue to expect our resilient lines of business in aggregate to grow for the full year at a rate that is consistent with our expectations three months ago. Further, we believe there is a reasonable path to achieving a record level of core EPS in 2024, although reaching that goal now has become more difficult with the expected delay in the return of capital markets activity.

Emma will now take you through a more detailed look at our performance for the quarter and provide additional insights on our outlook. Emma?

Emma Giamartino

Chief Financial Officer, CBRE Group, Inc.

Thanks, Bob. On a consolidated basis, growth of our resilient lines of business continued during the quarter. Together, these businesses, which consist of our entire Global Workplace Solutions business, loan servicing, property management, valuations and the asset management component of investment management, saw net revenue rise 10% in constant currency.

Please turn to slide 6 as I discuss our Advisory Services results. Weakness in capital markets had a pronounced effect on the Advisory business. Advisory net revenue fell 21% against a challenging prior year comparison, when net revenue grew by more than 20% versus Q2 2021. Our capital markets businesses, property sales and loan origination together saw revenue [ph] fell (00:06:46) 44% versus a 13% increase in the prior-year second quarter. In the Americas, property sales revenue fell 49%, more than expected, reflecting limited credit availability and the gap between buyer and seller expectations.

We are beginning to see an uptick in investor appetite for industrial assets where buyers will accept modest negative leverage due to the significant embedded rent gains over the past several years. In US multifamily, CBRE currently has \$18 billion of deals in the market, more than double our volumes sold in the first half of the year.

Sales revenue fell 43% in EMEA and 11% in APAC, both in local currency. We are increasingly well-positioned in APAC. Notably, revenue in Japan has increased by 16% in local currency year-to-date, and this has become our most profitable advisory market outside the US.

In contrast with capital markets, leasing performed in line with our expectations, with revenue down 16% versus 40% growth in the prior-year second quarter. The leasing decline was driven by the Americas.

Leasing revenue grew in overseas markets as combined APAC and EMEA increased 6% in local currency. Among property types in the US, office was the weakest, with revenue down 30%, while industrial was down only 10% against the challenging prior year comparison.

Loan servicing revenues declined 6% due to significant prepayment fees in the prior year. Excluding prepayments, loan servicing revenue increased by 6%. Prepayment fees fell significantly beginning in the third quarter of last year, but the prepayment headwind should diminish going forward.

The valuation revenue declined 6% in the quarter in local currency, largely driven by our US business. In the US, we perform a significant volume of work for financial institutions. This business has slowed down this year as investors pulled back from investment into commercial real estate.

Property management net revenue rose 5% in local currency, increasing across most geographies, with notable strength in Continental Europe and Southeast Asia.

Turning to our GWS business on slide 7, net revenue increased 13% and SOP grew by 7% in the quarter, slightly exceeding our expectations. Growth was driven by the continued strength of our local business in the UK and expansion into the US and at enterprise FM clients where we increased both the scope and geographic reach of

our services. Demand for project management services also remained strong, led by our Turner & Townsend business.

SOP margins declined from the prior year second quarter due to higher OpEx investments to support our local businesses, continued geographic expansion, as well as costs associated with integrating recent acquisitions. Even though we expect these investments to continue through the balance of the year, full year SOP should be slightly better than we expected, with the margin in line with last year's level.

Our local business represents a tremendous growth opportunity, particularly in the US, which is expected to account for just 15% of this business line's net revenue this year. This business began with the Norland acquisition in late 2013. It has grown significantly from its original UK focus, and net revenue is expected to grow by over 20% this year.

Our pipeline remain elevated, more than 20% above the Q2 2022 level. The pipeline growth is driven by large first generation outsourcers that are focused on lowering the real estate costs.

Turning to our REI segment on slide 8. As expected, SOP was down significantly versus the prior year when we generated a record SOP from this segment. Looking at the investment management business, nearly all of the operating profit decline was driven by lower incentive fees and modest co-investment losses versus co-investment gains in last year's second quarter.

Assets under management fell by 1%, driven by lower market valuations. The foundation of our IM business, which earned base fees on core and core plus assets, remains healthy, and we expect co-investment gains and incentive fees to return when broader commercial real estate market conditions improve.

Turning to development, we realized a modest operating loss. As we have discussed before, it's important to look at this business over the long term versus any particular quarter. Our highly flexible financing structure allows us to hold on to completed assets if we believe they can yield better returns in the future, and we continually evaluate our portfolio with that in mind.

On a trailing 12-month basis, we generated \$92 million in development operating profit compared to \$544 million in the prior 12 months, a period of record performance. Due to anticipated asset monetizations in Q4 of this year, we expect higher operating profits for the full year than we realized over the trailing 12-month period. As Bob mentioned, investors have begun to selectively deploy capital into development, favoring well-located industrial and residential projects. Our pipeline increased slightly during the quarter, positioning us well for a market recovery.

Please turn to slide 9 for a discussion of capital management and our balance sheet. During the quarter, we raised \$1 billion of capital through a senior unsecured bond offering, and shortly after quarter end, we raised an additional \$350 million from refinancing and upsizing our euro term loan. We now have even more capacity to invest while maintaining an investment grade balance sheet.

We have a robust M&A pipeline and are evaluating multiple opportunities in the range of \$1 billion. We expect these investments, if completed, will drive meaningful shareholder value. We did not repurchase any shares in Q2, but have repurchased \$100 million of shares month-to-date.

Looking at free cash flow, we originally expected to generate just over \$1 billion in 2023. We now expect this figure to be closer to \$600 million to \$800 million for two main reasons. First, as noted, our expectation for

earnings has declined, which has a direct impact to cash flow. Second, the cost of Trammell Crow Company development investments that are consolidated on our balance sheet, as well as broker recruitment costs run through free cash flow. We are seeing attractive opportunities to make targeted investments in both land acquisitions for future development and broker recruiting, and we now anticipate investing more in these two areas versus our expectation last quarter.

I'll end with our updated outlook for 2023 on slide 10. As Bob noted, we now expect core EPS to decline 20% to 25% from last year's record level, greater than the low to mid-double-digit decline we previously discussed. Our original outlook anticipated a low teens decline in Advisory SOP, a low double-digit increase in GWS SOP, and a nearly 30% decline in REI SOP, coming off a year when our development business produced \$330 million of operating profit.

The incremental decline in our revised outlook is primarily driven by our view that the capital markets will not recover until next year. As a result, we expect lower investment sales and loan origination revenue than we anticipated 90 days ago and an extended timeline to realize gains both in development and investment management.

Looking at each segment, we now expect Advisory SOP to decline by approximately 20% for the full year, a greater decline than we had been anticipating. In GWS, we now expect SOP to reach over \$1 billion for the year or a low to mid-double-digit growth, slightly better than we previously expected, with the margin on net revenue in line with 2022 level.

In REI, we now expect full year SOP in the low \$300 million range, reflecting a 35% to 40% decline, slightly worse than we previously expected. The primary driver is lower than anticipated co-investment gains and incentive fees in investment management as well as fewer development gains. We expect core EPS in the second half to be heavily weighted to the fourth quarter. Beyond normal seasonality, we anticipate most development sales will take place in Q4 and the investments we're making in the growth of the GWS business will have an increasing benefit through the second half of the year. As such, we expect the fourth quarter to represent nearly three quarters of second half core EPS.

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

QUESTION AND ANSWER SECTION

Operator: Thank you very much. Ladies and gentlemen, at this stage, we will be conducting a question-and-answer session. [Operator Instructions] The first question we have comes from Steve Sakwa from Evercore ISI. Please go ahead.

Steve Sakwa
Analyst, Evercore ISI

Q

Thanks. Good morning. Bob or Emma, I was just hoping you could spend a little time on the capital allocation. I guess, no share buybacks was a bit surprising. I know you talked last quarter about looking at a number of M&A opportunities and maybe that was just the focus. But just any more color you could share on kind of why no buybacks despite, I guess, modest investment in the quarter? And it sounds like you have stepped that up already per the slide deck in Q3, but just some more color would be great.

Emma Giamartino
Chief Financial Officer, CBRE Group, Inc.

A

Yeah, Steve. So, our focus for M&A and capital allocation over the next 12 to 18 months is consistent with what we talked about last quarter. We continue to have a very strong pipeline across our M&A portfolio. Engagement has steadily increased across a number of deals as the year has progressed. And as we said before, we're looking across our portfolio of businesses. We're looking for opportunities to enhance our core offerings going forward.

But the reality is that, deals take time and we're working on a number of them. And it takes even more time to do a very well-executed deal, where we can underwrite to a level that we think are required to deliver a really strong return. So we're encouraged around where we are and we continue to balance that with buybacks and you can see us doing that through the rest of the year.

Steve Sakwa
Analyst, Evercore ISI

Q

Okay. Thanks. And then, I guess, just turning to the sales environment, it actually came a little bit better than, I guess, what we had sort of feared or worried about. But I guess, Bob, I'm trying to figure out, from your perspective, is it the actual level of rates that matters or is it just the fact that CMBS isn't really open and functioning in a smooth way and the banks aren't lending? I guess, what do you ultimately need to see to really get the wheels greased to get the capital markets business back? Is it the absolute level of rates or is it just people lending even at higher rates, but there's capital availability?

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

A

It's three things, Steve. It's both of those things. It's the level of rates. It's the available of debt, but it's also the mindset of buyers and sellers as to whether things have settled out and there's clarity about where costs – values of assets are going, cost of financing is going. So I think we had all three of those things burdening the market in the last 90 days.

You said you thought it was a little better than you expected. In our view, it was a little worse than we expected. But we also think things are starting to clarify a bit. We are seeing signs, as we said in our prepared remarks, that

people are getting ready to act, which is good news. And we think things will sort out more with the banks now and there will be debt available from them, et cetera. So, we're feeling better about where things are going to be, but we're probably going to see that happen next year.

Steve Sakwa

Analyst, Evercore ISI

Q

And just one last follow-up. Just if you had to think about 2024, I guess, you would assume that it's probably more back half weighted in terms of just the volume and kind of the business activity. So sort of think about more second half 2024 than first half 2024?

Robert E. Sulentic

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

A

For sure. One thing that has become clear to us in the past quarter is that the – if we're going to have a recession, it's been delayed. Of course, the recovery related to that would then be delayed. And also, it's just crystal clear that the settling out of interest rates and the availability of debt has been delayed, which again is clearly reflected in what happened in our quarter and clearly reflected in what we've said about the rest of the year.

Steve Sakwa

Analyst, Evercore ISI

Q

Great. Thanks. That's it for me.

Operator: Thank you. The next question we have is from Anthony Paolone from JPMorgan. Please go ahead.

Anthony Paolone

Analyst, JPMorgan Securities LLC

Q

Thanks. Good morning. First one, following up on Steve's discussion on capital allocation, it seemed like last quarter, you're pointing to a pretty sizable M&A deal that you had circled. Did that fall out of bed or is it still a potential transaction? Just wondering if you can give us some color there?

Robert E. Sulentic

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

A

Yeah, Tony. I think the thing that is really important to note, and Emma already alluded to this, we are talking about big M&A deals now or \$1 billion deals and we're working on a number of them. We've had a steady stream of smaller infill deals. Big deals kind of take on a life of their own. You have to get through agreeing with the other party on a deal, working through an integration plan, working through an agreement that then becomes a definitive agreement, and those things ebb and flow.

And the notion that they would – you would talk about them one quarter and then, with high confidence, they would land in the next quarter, that's just not how bigger deals play out.

I will tell you, 90 days after we last talked about it, our view of our M&A opportunity is as strong as it was then. We've got several things we're working on. They're not going to all make. We're confident, though, that some things will make and that it'll be a very productive use of capital for us over the next few quarters and it will be a very good strategic use of capital for us, which aren't exactly the same thing. We think we're going to be able to move our business forward strategically very nicely with some of the things we're working on.

Anthony Paolone

Analyst, JPMorgan Securities LLC

Q

Okay. Did that temper, though, just the amount of buyback to kind of keep capacity for some of these larger deals? Because I think if you look back over the last year or so, you've had some pretty strong buyback quarters. And so, just trying to understand what to expect on that side?

Emma Giamartino

Chief Financial Officer, CBRE Group, Inc.

A

Yes. Tony, so we're constantly balancing our capital allocation between buybacks and M&A and looking at our pipeline and the time – waiting the timing of when we think something may get executed, and so that's what you're seeing. Through the remainder of this year, we expect to complete about \$600 million of buybacks in the second half. We've done \$100 million in July and that's what you're seeing there as we put a 10b5-1 in place. And that's really related to where our price goes. So, as our price goes higher, we're buying back fewer shares, as you'd naturally expect.

Anthony Paolone

Analyst, JPMorgan Securities LLC

Q

Okay. Thanks. And then, Emma, separately, you'd mentioned some drags in GWS from just investments you're making there and that those would persist for the rest of the year. Can you maybe give us some ideas to the order of magnitude and whether or not those are lifted then in 2024 where we see like a pickup?

Emma Giamartino

Chief Financial Officer, CBRE Group, Inc.

A

So those are primarily – in my remarks, I commented on, they're primarily related to our local business. We did a couple of acquisitions, smaller acquisitions where we don't normalize integration costs, and you're seeing those integration costs in the quarter. You're also seeing investments in our local business as we expand the business outside of their current geographies. So there are some upfront costs required to build out those platforms. So, you're seeing that in this quarter.

We expect that to steadily alleviate through the rest of the year and to end the year overall with a GWS margin in line with last year. And it's too early to comment on 2024, but I would expect those – absent incremental investment, which we're always doing, our margins will improve going into 2024.

I do want to comment a little bit on the local business because that is something that we haven't talked about extensively and is a really strong contributor to our growth, especially GWS' growth over time. That came out of the acquisition of Norland at the end of 2013. It was primarily a UK-based company and that's really how we entered the local or regional facilities management market. And when we acquired them, they had about \$40 million of EBITDA. And today, they have about – we expect for the year \$230 million of EBITDA. So that's an exceptional growth story for us. And this year, we're expecting it to grow another 20%. But as I said, it requires investments over time to launch into new territories, but that will – we'll see operating leverage as those businesses grow.

Anthony Paolone

Analyst, JPMorgan Securities LLC

Q

Okay. And if I could just ask one more. You talked about some of the investments that affect free cash flow with people and recruiting and so forth. I guess, just casually observing, it does seem like there's been a pickup of

articles of people moving around. Can you just comment just generally on the landscape and kind of where the efforts may lie in terms of trying to recruit and retain folks right now?

Robert E. Sulentic

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

A

Yeah. Tony, when we talk about recruiting and retention, it's heavily skewed toward our brokerage business. And our brokerage business is experiencing a good year and an active year of recruiting, and we think it's going to measure up with some of the best years we've ever had. Even in a tough market, recruiting is expensive because what you're typically doing is recruiting the best brokers in the marketplace, and it's like buying great companies. They never come cheap.

But we're at a time now where people are finding their platforms and the circumstances and the companies they're in today being less supportive of what they want to do with their careers, less supportive of how they want to support their clients than they think CBRE can be. So we're finding good hunting out there in a lot of places and bringing on people and, as a result, spending more money. It's a little bit like Emma said about, the land situation with Trammell Crow Company. There's a lot of people out there that previously were able to buy land, industrial land or multifamily land, that aren't in a great position to buy it now. It's not cheap. You still have to pay up to get good land, but you can get some land sites that you couldn't get previously. You can get some brokers, you couldn't get previously. And that's what Emma's comments were centered on about the incremental use of cash for those two types of investments into the future.

Anthony Paolone

Analyst, JPMorgan Securities LLC

Q

Okay. Thank you.

Operator: Thank you. [Operator Instructions] The next question we have comes from Jade Rahmani from KBW. Please go ahead.

Jade Rahmani

Analyst, Keefe, Bruyette & Woods, Inc.

Q

Thank you very much. The debt issuance overall that you mentioned, the term loan upsizing and also the senior notes, would that be incremental or a refinancing of debt? Is it to add debt capacity to the company overall?

Emma Giamartino

Chief Financial Officer, CBRE Group, Inc.

A

It's a combination of both. We're always looking for – we prefer a long-term capital source. So we've been looking for opportunities to raise that long-term capital. And what we did in the near term is we use those proceeds to pay down our revolver. We like having that flexibility and capacity on our revolver.

The other positive from it is that, our net interest rate, after we raised the bond and expanded the term loan, is actually lower than it was drawn on our revolver. So that's a positive impact which should endure for the next couple of years.

Jade Rahmani

Analyst, Keefe, Bruyette & Woods, Inc.

Q

Thank you very much. On the cash flow performance side, cash flow was negative in the quarter. Just looking at the cash flow statement in the supplemental, one of the items was timing related due to the GSE multifamily business. I think proceeds from sale of mortgages were below the originations. The other big item looks to be in working capital on the payable side and also in receivables. Is that timing related? Was there anything outsized in the second quarter that you wanted to call out?

Emma Giamartino

Chief Financial Officer, CBRE Group, Inc.

A

So, specifically – first of all, I think it's important to look at our free cash flow on a trailing 12-month basis. And that's what I spoke to in my prepared remarks. And we're really focused on what we expect for the year, which is in that \$600 million to \$800 million range.

In the quarter, specifically, what's been – if you – what's been impacting the decline is primarily the decline in core net income. All of the adjustments, the cash adjustments that get you to free cash flow are pretty much in line with what you saw last year for the second quarter.

Jade Rahmani

Analyst, Keefe, Bruyette & Woods, Inc.

Q

Okay. So nothing unusual in working capital?

Emma Giamartino

Chief Financial Officer, CBRE Group, Inc.

A

No.

Jade Rahmani

Analyst, Keefe, Bruyette & Woods, Inc.

Q

Okay. Post-second quarter leasing, I recently heard that in New York City, in particular, there's been a big uptick in office leasing, at least interest in certain buildings. Do you have any views on that?

Robert E. Sulentic

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

A

Yeah, Jade. That's an interesting story. And by the way, it's a story that's being told increasingly. And it's – there's bifurcation between really good buildings and other buildings that are less attractive from an experience point of view for tenants. And what we've seen in New York, in particular, is that companies that want to get their people back into the office and believe it's important are very, very interested in getting the best possible space to create the best environment for those tenants to get them in. So, there's actually a little bit of a feeding frenzy for the best space in a place like Midtown Manhattan.

In fact, I had a conversation with our senior most brokers, and we have 125 or so of them that qualify for this, we call vice chairman. We have a vice chairman in New York that focuses mainly on hedge funds, investment companies, et cetera, in midtown Manhattan. He told me a couple of weeks ago that this is going to be his best year ever in leasing, which is kind of at odds with everything you're hearing about return to the office, the attractiveness of office space.

But what it is, it's those clients wanting to gobble up the best space and, by the way, at record rental rates, so they can create this environment for their people. So we are going to see this circumstance continue to play out where the best buildings do quite well and the buildings at the bottom really, really struggle. And then, in between, you're

going to see buildings repurpose because, in the absence of those buildings in the middle being repurposed and moved up the spectrum in terms of their quality, there aren't going to be places for these companies to go when they do want to create this environment for their people.

By the way, it's one of the things that is a bit of an encouraging sign for companies like us who provide a lot of services to office buildings over the longer run.

Jade Rahmani

Analyst, Keefe, Bruyette & Woods, Inc.

Q

Thanks. I'm going to get back in the queue. Appreciate it.

Operator: Thank you. The next question we have comes from Stephen Sheldon from William Blair. Please go ahead.

Stephen Sheldon

Analyst, William Blair & Co. LLC

Q

Hey. Good morning. Thanks for taking my questions. First one here, just any general updates on how you're thinking about the cost structure? It sounds like you're actually investing behind broker capacity maybe to be better positioned for recovery. Is that kind of a fair read through? And have you taken any notable incremental cost actions elsewhere relative to what you would have thought three months ago?

Emma Giamartino

Chief Financial Officer, CBRE Group, Inc.

A

Yes. So cost is something that we're consistently focused on. Our Chief Operating Officer, Vikram Kohli, is consistently thinking about ways to drive cost management through our company. And we're moving from – this isn't an episodic event where we cut out a bunch of costs and then we move on. It's something that our leaders are constantly thinking about going forward.

And what you're seeing right now is, there is a balance of managing the business and the fixed cost for what's required just for our base foundation, our base platform and then investments that should drive future growth. So you mentioned broker recruiting. Those are investments that will drive future growth. The integration costs that I talked about within local or expanding into new territories, those are investments that will drive future growth. So it's a constant balance.

And we are, through the second half of the year, very focused on ensuring that we are managing our cost base to an appropriate level for the growth that we're expecting going forward.

Stephen Sheldon

Analyst, William Blair & Co. LLC

Q

Got it. That's helpful. And then, as a follow-up in development, I guess there's usually not a ton of visibility, but just how are you thinking about the potential monetization there heading into next year? Would you expect actual harvesting activity to maybe pick up later 2024, maybe 2025 once cap rates, et cetera, will become a little bit more favorable? Just curious what visibility you have there on the outlook in development?

Robert E. Sulentic

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

A

We definitely expect monetization of our Trammell Crow assets to pick up, if in fact, cap rates perform well and if, in fact, there's capital availability for buyers.

One of the really great things about that business – and just to remind everybody, we have \$17 billion of product in development now and we have another \$13 billion behind that in the pipeline. Those are projects that we have control over, but we haven't started to develop yet.

We have those projects capitalized in a way that we have flexibility over when we harvest them. So, if you look at a quarter like this, I think, Emma, we sold one building in Q3 – or actually in Q2. We just decided this is not a good time to be selling our assets and that positions us well for profitability in the future when the time comes to sell those assets. We've got really strong equity partners. We've got a little of our own equity in them and we've got flexible debt financing. So I think that business is positioned to do very good things for us later next year and beyond when the capital markets come back around.

Stephen Sheldon

Analyst, William Blair & Co. LLC

Q

Great. Thank you.

Operator: Thank you. The next question we have comes from Michael Griffin from Citi. Please go ahead.

Michael A. Griffin

Analyst, Citigroup Global Markets, Inc.

Q

Great. Thanks. Maybe just going back to the M&A pipeline and potential opportunities there, just given your expected slowdown in the capital markets environment, do you expect more of these opportunities for M&A to be in the GWS segment or Advisory or kind of any color on where you're seeing acquisition opportunities?

Robert E. Sulentic

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

A

Well, Michael, we don't want to be too specific about where we see them. I will tell you, we are pursuing M&A opportunities that we think do a couple of things. Number one, they advance our ability to serve our clients in areas where we think we're not as strong as we'd like to be. Number two, they are really well-run companies that we, in some cases, will bring leaders in to run parts of our business with those acquisitions. And they – when we announce some of these things, they'll sound kind of consistent with what people might have expected. And some of what we're doing will sound different than what people might have expected.

When we – Emma talked about the Norland acquisition, which has been one of the great ones we made, I don't think anybody would have expected that acquisition a few years ago. We had grown to the point where it made sense to buy that company.

We've had others like that, and I think you should expect to see M&A from us that will expand our capability to serve our company with really well-run companies, with really good brands. And if we can't get those kind of deals done, we're not going to do M&A. We're not going to force it just to build scale. We can build scale through organic growth.

Michael A. Griffin

Analyst, Citigroup Global Markets, Inc.

Q

Great. And then just on the capital markets outlook, has anything changed across the different regions? Maybe are you expecting greater pickup in APAC relative to the Americas or any kind of color you could give on the stated performance of the different regions would be helpful.

Emma Giamartino

Chief Financial Officer, CBRE Group, Inc.

A

Yeah. On the sales front, it hasn't – I think, overall, our expectations, as we said, have declined. A couple of things to note about the second half of the year. Overall, we're looking at a much easier compare. So the first half of 2022, that's over 30% growth. The second half of 2022 was down over 30%. We're looking at a very different compare. The Americas is expected to decline the most as we saw in the first half of the year. EMEA to a lesser extent. And then APAC will perform the best and we're expecting that for the year to decline mid-single digits.

Michael A. Griffin

Analyst, Citigroup Global Markets, Inc.

Q

Great. That's it for me. Thanks.

Operator: Thank you. Our final question comes from Jade Rahmani from KBW. Please go ahead. Jade, your line is live now.

Jade Rahmani

Analyst, Keefe, Bruyette & Woods, Inc.

Q

Thank you. M&A is always a fascinating topic, yet I know you can't say much. Can you say whether your focus is domestic or international?

Robert E. Sulentic

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

A

It's both. It's both, Jade. And I don't say that glibly. We have good opportunities both here in the US and internationally, and we have some opportunities that span the two. By the way, we had several questions today about the pace of M&A. The minute you start looking at acquiring companies that operate across multiple countries, that process takes a long time. And you have to make sure that you are confident, you can get regulatory approval across those countries, that you can integrate across those countries, that you can bring people along in a way that is motivating. And so, I would say, we have M&A opportunities that are specific to the US and specific to countries outside the US. But importantly, we have opportunities to expand in countries which is exciting.

Jade Rahmani

Analyst, Keefe, Bruyette & Woods, Inc.

Q

I wanted to also ask about AI, if that's an area you want to invest in?

Robert E. Sulentic

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

A

We're looking at – Emma mentioned our Chief Operating Officer, Vikram Kohli, earlier. Vikram oversees our digital and technology team, which we've advanced massively over the last few years. They have an initiative underway and it would be – I think, Jade, our investors in CBRE would be happy with this. If you've watched what we've done with technology over the years, we've said we're a real estate company that invests in technology to support our business, to enhance our business, to enable our business.

We're looking at artificial intelligence in exactly the same way. We're not going into the artificial intelligence business. We're starting with trying to find places where artificial intelligence can make us more efficient and cost effective, and then – and we'll move from there to having it support our market-facing businesses. But there's a lot of hubris around AI now, as I think most people would agree, and we're trying to stay clear of that and be very focused on where we can definitively help our business and invest in it at a rational pace and in a rational amount.

Jade Rahmani

Analyst, Keefe, Bruyette & Woods, Inc.

Thank you very much.

Q

Operator: Thank you. Our final question comes from Patrick O'Shaughnessy from Raymond James. Please go ahead.

Patrick Joseph O'Shaughnessy

Analyst, Raymond James & Associates, Inc.

Hey. Good morning. The development in-process pipeline ticked down a little bit in the second quarter, probably not a huge surprise. Given the current macro, would you expect that in-process pipeline to kind of be flattish for the next few quarters if it doesn't really make sense to kick off new projects?

Q

Robert E. Sulentic

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

Flattish or potentially grow, Patrick. Because what happens is they stay in process until you sell them. And if we start new projects, that'll – they'll move from pipeline to in-process.

A

Patrick Joseph O'Shaughnessy

Analyst, Raymond James & Associates, Inc.

Got it. Thank you. And then, (00:41:34) segment overhead is now a net positive to operating income over the past 12 months. What are your updated expectations and outlook for that business?

Q

Robert E. Sulentic

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

Okay. Yeah. Hana is kind of a net for us now is the best way to explain it. We've invested in Industrious. That's our "flex bet." It's a very good company. We're bullish on flex as an opportunity. We've got 40% position with some additional debt in the business. And we're very supportive of Jamie Hodari and his team as they grow that business and Hana is fading away.

A

Emma Giamartino

Chief Financial Officer, CBRE Group, Inc.

And, Patrick, I'll add, just a reminder that when we invested in Industrious, we actually sold our operations, the core of our operations from Hana to Industrious. And so, Industrious operates all those properties today.

A

Patrick Joseph O'Shaughnessy

Analyst, Raymond James & Associates, Inc.

Got it. Appreciate it. Thank you.

Q

Operator: Thank you. Ladies and gentlemen, we have reached the end of our question-and-answer session. I would now like to turn the call back to Rob Sulentic for closing remarks. Please go ahead, sir.

Robert E. Sulentic

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

Thanks, everyone, for joining us. And we'll talk to you again at the end of the third quarter.

Operator: Thank you, sir. Ladies and gentlemen, that then concludes today's conference. Thank you for joining us. You may now disconnect your lines.

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