

03-May-2024

# CBRE Group, Inc. (CBRE)

Q1 2024 Earnings Call

## CORPORATE PARTICIPANTS

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**Robert E. Sulentic**

*Chair & Chief Executive Officer, CBRE Group, Inc.*

**Emma E. Giamartino**

*Chief Financial Officer, CBRE Group, Inc.*

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## OTHER PARTICIPANTS

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**Steve Sakwa**

*Analyst, Evercore Group LLC*

**Jade Rahmani**

*Analyst, Keefe, Bruyette & Woods, Inc.*

**Stephen Sheldon**

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**Michael A. Griffin**

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**Peter Abramowitz**

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Greetings, and welcome to the Q1 2024 CBRE 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, Head of Investor Relations and Treasurer. Thank you. You may begin.

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**Brad Burke**

*Head-Investor Relations & Treasurer, CBRE Group, Inc.*

Good morning, everyone, and welcome to CBRE's first quarter 2024 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 capital allocation strategy and our financial outlook. Forward-looking statements are predictions, projections and 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 Chair and CEO; and Emma Giamartino, our Chief Financial Officer.

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

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## Robert E. Sulentic

*Chair & Chief Executive Officer, CBRE Group, Inc.*

Thank you, Brad, and good morning, everyone. Before I begin, it's important to note that Emma and I regularly reference our performance relative to expectations during these quarterly calls. In all cases, the expectations we are referencing are based on the outlook we provided during our most recent quarterly call.

We started 2024 by delivering core earnings that exceeded our expectations. This was driven in part by solid net revenue growth. However, several notable elements of our performance differed from our plan going into the year. I'll touch on three of them: leasing strength, property sales weakness and cost pressure.

Leasing outperformed expectations, driven by office leasing growth globally that reflects a resilient economy and companies making progress on bringing their employees back to the office. At the same time, persistent inflation kept interest rates higher than expected, which led to underperformance in our property sales transaction activity.

Our Global Workplace Solutions segment again delivered double-digit net revenue growth, even as margins fell short of expectations. Our costs in GWS have increased at an unacceptable rate and we have initiated actions to bring them quickly back into line with revenue trajectory.

These actions include consolidating the management of Advisory and GWS under our Chief Operating Officer, Vikram Kohli, with an explicit focus on rapidly wringing out unnecessary costs and better integrating the solutions we deliver for occupier clients. Significant progress has already been made on these efforts.

We expect GWS' cost challenges to be mostly mitigated by year end, with the majority of our actions being initiated in the second quarter. As a result, this segment remains poised to achieve mid-teens SOP growth for the full year.

Looking across the whole business, we remain confident that we will generate core earnings per share in the range of \$4.25 to \$4.65. Our confidence is underpinned by our Resilient Businesses' continued strong performance, our rapid actions on costs and the fact that Advisory Services remains on track to achieve its growth target for the year despite a more uncertain economic outlook.

Emma will discuss the specifics of our outlook in greater detail after reviewing our first quarter performance. Emma?

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## Emma E. Giamartino

*Chief Financial Officer, CBRE Group, Inc.*

Thanks, Bob. At a consolidated level, core EBITDA was in line with our expectations as slight outperformance in REI and lower than expected corporate costs offset margin underperformance in GWS. Advisory SOP performed as anticipated. Core EPS exceeded expectation due to a one-time tax benefit.

Please turn to slide 6 for a review of the Advisory segment. Despite an interest rate outlook that steadily worsened throughout the quarter, Advisory net revenue rose 3%, consistent with expectations, bolstered by its first quarter of transactional revenue growth in six quarters and growth from every line of business except property sales.

Leasing revenue rose in every region and global growth exceeded our expectations. Office leasing grew by double digits globally as a resilient economy and progress on return to office plans have emboldened tenants to make occupancy decisions. We have continued to see strong momentum in US leasing in April.

Financial services companies are leading the recovery, with active demand up more than 20% year-over-year across the US gateway markets, reflecting their considerable progress in bringing employees back to the office. Tech companies continue to lag with demand 50% below pre-COVID levels.

Globally, property sales revenue declined 11%, with weakness in the US and APAC. EMEA is showing early signs of recovery, with sales up 8% year-over-year, where growth was led by the UK, where property values have made more progress towards resetting as well as Spain.

We saw strong growth in our loan origination business despite continued weak property sales activity. Our growth was driven by loan origination activity and escrow income. Loan origination fees grew 16%, primarily driven by a heavier weighting of higher margin loans sourced with debt funds. Escrow income as de minimis in a low interest rate environment, but acts as a hedge in the current economic environment. We saw this in Q1 when escrow income increased nearly threefold from Q1 2023.

The remaining businesses within Advisory, property management, loan servicing and valuations together grew revenue by 5%, as expected. For the full year, we expect these businesses to deliver low double-digit revenue growth led by property management, particularly as the Brookfield office assets are onboarded beginning in Q2.

Moving to Advisory SOP, I'll call out two one-time impacts that weighed on margins in the quarter. First, we experienced elevated medical claims that should reverse later in the year; and second, we trued up interest income owed to a small number of clients. Absent these one-time costs and excluding OMSRs, margin would have improved 25 basis points versus the prior year Q1.

Please turn to slide 7 as I discuss the GWS segment. Net revenue rose 10%, in line with our expectations. Facilities management and project management net revenue were up 11% and 7%, respectively. Project management faced a particularly difficult comparison as net revenue surged 18% in Q1 2023. We had a second consecutive quarter of very strong business wins with a healthy balance between new clients and expansions.

As of the end of Q1, we already have commitments for nearly \$900 million of anticipated net revenue growth, representing the significant majority of our projected growth for the full year. Having already locked in this much of our expected growth gives us confidence in achieving our full year revenue plan.

SOP margin on net revenue declined by 90 basis points from the prior year Q1. More than half of the decline reflects a one-time impact to gross profit margin from the same unusually large medical claims we saw in Advisory. The remainder is related to two areas of higher costs.

First, we've made investments in certain initiatives that we are discontinuing. Second, our operating expenses have crept up over time as we've expanded into new sectors, entered new geographies and added redundant costs related to recent M&A.

In response, we are taking a fresh look at GWS' cost structure and are already executing substantial actions across the business. The benefit of these cost actions as well as our elevated new business wins will be apparent in Q3 and particularly Q4.

Please turn to slide 8 for a discussion of the Real Estate Investments segment. This segment's significantly lower earnings were slightly better than we had expected. As we previously discussed, last year's first quarter benefited from an unusually large gain on a development portfolio, while project sales activity remained subdued in the current higher cap rate environment. The value of our development in-process portfolio increased by \$3 billion to \$19 billion in total due to the start of a particularly large fee development project.

Investment management performance was in line with expectations and below the prior year, largely due to slightly lower AUM. Fundraising activity was up 50% compared with Q1 2023. Investors are showing strong appetite for enhanced return and infrastructure strategies, although we expect fundraising to slow from the first quarter's robust levels. Recent fundraising is not yet reflected in AUM, which fell modestly in the quarter to \$144 billion, driven by negative mark to market and FX movements.

Before turning to our outlook, I want to briefly touch on free cash flow. Cash flow conversion has improved for the second consecutive quarter and we are beginning to see the reversal of incentive compensation headwinds that we experienced last year, driven by record earnings in 2022. We expect to generate approximately \$1 billion of free cash flow this year and end the year with around one turn of net leverage.

Now please turn to our updated outlook on slide 9. Although interest rate expectations have changed significantly and the economic outlook is more uncertain, as Bob noted, we remain confident that we'll earn core EPS in the range of \$4.25 to \$4.65 this year.

Within Advisory, we continue to expect mid-teens SOP growth unless economic conditions take a sharp turn for the worst. Our base case scenario envisions that the economy remains resilient and interest rate cuts are delayed. Under these conditions, faster leasing growth compensates for subdued sales activity. As Bob mentioned, we also still anticipate mid-teens SOP growth for the GWS segment. SOP growth will be very heavily weighted to the second half as recent wins are onboarded and we see the impact of our cost cutting efforts.

In REI, we now expect a more pronounced SOP decline, given continued higher interest rate. However, the range of outcomes is wider than normal with the key variable being whether the market for development project sales improves late in the year. While REI SOP is unusually depressed right now, we expect these businesses to lead our growth once market conditions inevitably improve.

Additionally, as part of our broad-based efficiency efforts, our COO, Vikram Kohli, and I are taking a hard look at corporate costs and expect them to be lower for the year than initially anticipated.

Assuming the midpoint of our outlook range, we expect to generate nearly 70% of full year core EPS in the second half of the year. This heavier than normal weighting reflects the expected cadence of GWS revenue and cost reductions and a slight recovery of our property sales and development businesses later in the year.

Our expectations for profit growth in 2024 are now driven to a greater degree by the cost components of our business, which are within our control. As such, we remain confident in our ability to achieve our earnings outlook under a range of reasonable economic assumption.

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

## QUESTION AND ANSWER SECTION

**Operator:** Thank you. The floor is now open for questions. [Operator Instructions] Today's first question is coming from Anthony Paolone of JPMorgan. Please go ahead.

**Anthony Paolone**

*Analyst, JPMorgan Securities LLC*

Q

Great. Thanks. Good morning. I guess first question relates to just the guidance at your midpoint and the comments here around 70% in the back half. So I guess it implicitly means that 2Q goes down notably. And so I was wondering if you could just give a little bit more color on that whether EBITDA also goes down sequentially or if that's an EPS matter? Just anything there.

**Emma E. Giamartino**

*Chief Financial Officer, CBRE Group, Inc.*

A

So, Anthony, I do want to walk through the components of our 2024 outlook again. And the headline is that we've – the midpoint of our outlook is unchanged, but I do want to walk through the components that were – that built to that outcome. So in the Advisory line, you saw our SOP growth trajectory is in line with what we talked about in February. However, the path to get there is slightly different because what we're seeing is that leasing is stronger than we had anticipated because of the health of the economy and sales is weaker as rate cuts have been pushed out.

On the GWS side, again, you see that our SOP target for the year is unchanged. We have consistently talked about the fact that our revenue growth this year in GWS will be back-end loaded as these large lumpy enterprise contracts get onboarded in the second half of the year. And additionally, what you're seeing is we're going to take out costs from GWS. And so we're going to see margin expansion in the second half of the year.

On the REI front, we are expecting a slight decline versus last year and that talk about a 10% decline, but what's important to note about REI is that there is a wide range of outcomes. And right now, we're anticipating a large number of monetizations in Q4 within our development business. And as you know, there is uncertainty around when those will hit and if they'll get pushed into 2025 or stay in 2024. And then on the corporate segment level, those costs are coming in lower than we had initially anticipated.

So if you put all of that together, you would get to an EPS midpoint that is higher than what we've indicated. But as we said in February, we do have some conservatism embedded in our outlook because of the wide range of outcomes, especially in Advisory and in development.

As for Q2, yes, you'll see a decline year-over-year and that's simply because both in GWS and in Advisory, that revenue growth and margin expansion is back-end – is second half loaded.

**Anthony Paolone**

*Analyst, JPMorgan Securities LLC*

Q

All right. So even sequentially, though, like, does EBITDA kind of move down sequentially from 1Q to 2Q, because it just seems a little bit counter to the normal seasonality?

**Emma E. Giamartino**

*Chief Financial Officer, CBRE Group, Inc.*

A

No, EBITDA will not be declining from Q1 to Q2.

**Anthony Paolone**

*Analyst, JPMorgan Securities LLC*

Q

Okay. And should we think about just full year EBITDA margins still being up versus 2023 at this point?

**Emma E. Giamartino**

*Chief Financial Officer, CBRE Group, Inc.*

A

Yeah. So EBITDA margin should be up across both Advisory and GWS and at the consolidated level.

**Anthony Paolone**

*Analyst, JPMorgan Securities LLC*

Q

Okay. And then just last one, yeah, you mentioned a large development project [ph] because you saw the roughly \$3 billion bounce (00:16:59) in developments underway, but it sounds like that's a fee deal. So I'm just wondering if you can give us a little bit more detail, because it's a big increase and I always looked at that as being something that could drive promotes and your share of gains, but it sounds like maybe there's also like fee projects in there as well where you may not participate. Just maybe some more details there.

**Emma E. Giamartino**

*Chief Financial Officer, CBRE Group, Inc.*

A

Yeah. The significant majority of that increase is related to an extremely large industrial deal in the Sun Belt. It's over 2 million square feet.

**Anthony Paolone**

*Analyst, JPMorgan Securities LLC*

Q

Okay. Thank you.

**Operator:** Thank you. The next question is coming from Steve Sakwa of Evercore ISI. Please go ahead.

**Steve Sakwa**

*Analyst, Evercore Group LLC*

Q

Yeah. Thanks. I just wanted to touch on capital allocation. Obviously, you had the J&J deal in the first quarter. I noticed you didn't buy back any stock. I guess, first, were you in much of a blackout period, which you didn't really – weren't allowed to buy back stock or was that more of a conscious decision just based on where the stock was? And how should we be thinking about, I guess, stock repurchases going forward as well as capital deployment in the more kind of economic uncertain environment?

**Emma E. Giamartino**

*Chief Financial Officer, CBRE Group, Inc.*

A

Steve, what you saw in Q1 was related to J&J. We've always talked about we're balancing M&A and share repurchases and our priority is to deploy capital towards M&A and strategic M&A. And so in Q1, we pulled back on repurchases as we were executing that transaction. We have started repurchasing shares in Q2 to a small extent.



And for the balance of the year, you should expect that to continue. As we do more M&A, you'll see that come through. But if we're not seeing a strong conversion of our M&A pipeline, you'll see us repurchase shares as long as our prices remaining attractive. And our goal is, on a consistent basis, to deploy at least our free cash flow on an annual basis.

**Steve Sakwa**

*Analyst, Evercore Group LLC*

Free cash flow in total?

Q

**Emma E. Giamartino**

*Chief Financial Officer, CBRE Group, Inc.*

Yes.

A

**Steve Sakwa**

*Analyst, Evercore Group LLC*

Okay. But I mean the J&J deal was a large chunk of probably your free cash flow for the year, so that kind of puts limited buyback activities in totality. Is that a fair way to think about it?

Q

**Emma E. Giamartino**

*Chief Financial Officer, CBRE Group, Inc.*

That is fair.

A

**Steve Sakwa**

*Analyst, Evercore Group LLC*

Okay. And then, I guess, Bob, just on the transaction side, it's not the biggest line item, but it probably has more to do with the sentiment around the stock and how people think about the business, even though you certainly diversified the company quite a bit and made it more resilient. I'm just curious, what are you kind of hearing from the field in terms of the transactions and just rates? And is it more the actual Fed cut? Is it more about stability in the 10-year? I mean, I guess, is it the level of rate or is it more of the direction of rate and the uncertainty over that that creates kind of the pause in the market?

Q

**Robert E. Sulentic**

*Chair & Chief Executive Officer, CBRE Group, Inc.*

Steve, first of all, there's two areas of our business where it really comes through in our numbers. One is our sales business and one is our development business where we sell assets and generate profits from that. At the beginning of the year, the assumption of our teams was more bullish about the trajectory of interest rates than it is now, without a doubt. That shouldn't surprise anybody. I'm sure that's true across the whole market. It's also true of buyers and sellers of assets in general. And as a result, it's just slowed down activity on the sell side.

A

And what we're thinking about as a seller of assets, in Trammell Crow Company in our development business, is exactly what others are thinking about. They've decided to stay on the sidelines longer. We've decided to stay on the sidelines longer. We've got a portfolio of great assets that we're going to sell at some point, but we're not going to sell them until we think the environment is such that we can get the pricing we want. And it's hard to get that pricing when the interest rates are higher. And that's really what you're seeing, and the sentiment is, in fact, different now than it was at the beginning of the year.



Of course, the flip side is it's different because the economy is better and we have this very big leasing business that's benefited from that.

**Steve Sakwa**

*Analyst, Evercore Group LLC*

Q

Okay. Thanks. And then last just, Emma, I just wanted to clarify, I think you said that – maybe I missed it, that there was a tax benefit in the reported core EPS number this quarter, but I don't know if you sort of quantified it. And I don't recall seeing a specific mention of that in the release. So could you just clarify that, please?

**Emma E. Giamartino**

*Chief Financial Officer, CBRE Group, Inc.*

A

Correct. It's about a \$50 million tax benefit in the quarter that will not repeat.

**Steve Sakwa**

*Analyst, Evercore Group LLC*

Q

Great. Thank you.

**Operator:** Thank you. The next question is coming from Jade Rahmani of KBW. Please go ahead.

**Jade Rahmani**

*Analyst, Keefe, Bruyette & Woods, Inc.*

Q

Thank you very much. Taking a step back, from my vantage point, the big growth opportunities would seem to be infrastructure, investment management and commercial mortgage. Could you comment if you agree with that and where you see the most potential?

**Robert E. Sulentic**

*Chair & Chief Executive Officer, CBRE Group, Inc.*

A

Project management, in general, Jade, is a big, big growth opportunity, project and program management, not limited to infrastructure. Corporates, we're doing a lot of work. There's work in natural resources. That's – we see that as a well into the double digits enduring grower and it's now become a very big business for us.

Our whole outsourcing business, our whole GWS business, is benefiting from a long-term secular double-digit growth profile and we expect that to continue. We expect that to continue for our – what we call, our local GWS business and for our enterprise business. So that's going to be a strong grower for us.

We do think – if you look at where we're at with our development business and our investment management business, they should be – Emma commented on this in her remarks, they should lead growth over the next few years just because of where they're at. Those businesses are really at a cyclical low point.

And if you follow the – yes, we had a big add to our in-process development through a fee deal, which – by the way, that's a deal that Trammell Crow Company and Turner & Townsend are doing together. And before the Turner & Townsend arrangement, we would have been less well positioned to do that. And you should see more of that. But that big portfolio of in-process projects for Trammell Crow Company has a lot of pent up profitability in it. So you should see a lot of profit growth coming out of that business. And yes, we think our mortgage business is positioned for a lot of growth.

So we have confidence right across our business in our ability to grow it. And I can tell you, we're going through a deep dive with our strategy team and some outside help, looking at our strategy, we've got nine lines of business that we're in. We're the global leader in six of them. We're the domestic US leader in development and we are bullish about growth in all of them, not equally bullish, and I spiked out the ones that we're more bullish about. But we think the growth profile for our business – the enduring growth profile is well into double digits, certainly in the next several years, but longer term as well.

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**Jade Rahmani**

*Analyst, Keefe, Bruyette & Woods, Inc.*

Q

Thank you very much. Switching to GWS, the comment around the pipeline, that seems new. So I think investors are trying to figure out how to interpret that. Could you give some color as to how much relates to J&J, which I believe was expected to add annual revenue of \$825 million? And also, just the regular way double-digit growth that was expected, how much of the \$900 million is new business that would be in addition to prior expectations? And then secondly, the medical claims and overall cost controls, if you could provide any color there and why that surprised management?

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**Emma E. Giamartino**

*Chief Financial Officer, CBRE Group, Inc.*

A

Yeah. And Jade, on the pipeline comment, can you just give us more on what you're seeing that's – or what you're hearing that's different from what we've said previously?

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**Jade Rahmani**

*Analyst, Keefe, Bruyette & Woods, Inc.*

Q

Well, the \$900 million that was mentioned, we're trying to understand if that's accretive to prior – to our prior expectations. I think in our forecast, we have about \$10.2 billion of net revenue, which is \$1.25 billion above last year and that includes some new revenue coming in from J&J, which probably would contribute \$500 million to \$600 million for the year. So stripping that out, I'm trying to compare that to the \$900 million and just see how much of that is really new information versus prior.

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**Emma E. Giamartino**

*Chief Financial Officer, CBRE Group, Inc.*

A

Got it. Okay. So that \$900 million is not a new information. When we provided our outlook at the beginning of the year for GWS, it was for that \$900 million of – and more of net revenue growth that was going to come into GWS in the back half of the year. And that's why we've been talking about the growth accelerating above trend on the revenue line in Q3 and Q4.

That \$900 million does not include J&J. J&J for the year is expected to contribute a little less than \$450 million of net revenue. We closed that towards the end of Q1 and it's had a very small impact to Q1, given that we had only a month of revenue and profits from J&J. And so that \$900 million is simply the conversion of our pipeline. We've talked about really strong conversion and strong pipelines in – throughout last year and in Q4 and in Q1. So this is just articulation of how much is locked in, which gives us confidence that we're going to achieve our revenue forecast for GWS for the year.

On the cost front, you're right that the majority of the cost impact has been at the gross profit line and it is related to those employee medical claims coming in higher than we expected, but this is – we believe this is a seasonality issue or this is a cadence of those claims. I mean, it's a new unique situation related to the fact that we changed

healthcare providers for our company over a year ago. And over the first year, what typically happens is, as employees are looking for new healthcare providers, there our claims down. And so we knew they were going to tick up this year, we just didn't expect it to happen in Q1. And so that should reverse in the remainder of the year.

**Jade Rahmani**

*Analyst, Keefe, Bruyette & Woods, Inc.*

Q

That's great. One last one would just be around GWS and office. I often get the question as to when the rationalization in the office sector in terms of reduction in square footage would impact that business. Do you see that as a potential headwind, realizing also that there's a lot of growth opportunities, which you've commented on? But just office, in particular, would that be a potential headwind?

**Robert E. Sulentic**

*Chair & Chief Executive Officer, CBRE Group, Inc.*

A

Yeah. Jade, it's not a headwind that we haven't contemplated in our comments about expected growth for that business. And I made the comment last quarter that we don't have a single client in GWS that I'm aware of, and we work with the biggest tech companies, the biggest financial companies, et cetera, that doesn't view their office space as a critical asset for the operations of their business. They're all trying to get their people together more. They're all trying to get people to spend more time in the office and less time at home. And they're very focused on using those portfolios – those office portfolios to get that done.

Yes, most of them are trying to figure out if they can operate with less office space. But to get from more to less office space, they're also thinking about reconfiguring their offices and upgrading their offices and taking different office space. That's why you saw leasing go up. A lot of companies are trying to – particularly in the gateway markets, in the better office buildings where we play aggressively, they're trying to put their employees in more attractive space.

So there's nothing going on there that would cause us to think that there's a downside dimension that we haven't contemplated already.

**Jade Rahmani**

*Analyst, Keefe, Bruyette & Woods, Inc.*

Q

Thank you very much.

**Operator:** Thank you. The next question is coming from Stephen Sheldon of William Blair. Please go ahead.

**Stephen Sheldon**

*Analyst, William Blair & Co. LLC*

Q

Hey. Thanks for taking my questions, and just one for me. Great to see the improvement in office leasing. So I just wanted to ask about the other major leasing sector industrial. Are you seeing things there get any better or worse? And what do you think it take for a leasing activity to stabilize and return to growth at some point?

**Robert E. Sulentic**

*Chair & Chief Executive Officer, CBRE Group, Inc.*

A

Well, we expect it to grow slightly this year and likely more next year. There's some choppiness in certain coastal markets. But the fact of the matter is some big occupiers are coming back into the market aggressively, some well-known companies. And we aren't of the mind that leasing for the industrial asset class is going to decline this

year or next year. We feel good about it. It's not going to have the explosive growth that it had in 2021, et cetera, but it's not going to be a declining leasing business, in our view.

**Stephen Sheldon**

*Analyst, William Blair & Co. LLC*

Q

Great. Thank you.

**Operator:** Thank you. The next question is coming from Michael Griffin of Citi. Please go ahead.

**Michael A. Griffin**

*Analyst, Citigroup Global Markets, Inc.*

Q

Great. Thanks. I wanted to go back to the commentary around office leasing. I think it definitely seems positive relative to what maybe our expectations were. But could you unpack that in terms of where you're seeing the leasing gets done? Is it mostly on the trophy and Class A products or is it spread out between the higher quality stuff and then commodity space?

**Robert E. Sulentic**

*Chair & Chief Executive Officer, CBRE Group, Inc.*

A

A lot in the higher quality assets, Michael. I mean, we're seeing record rental rates in some of the bigger markets in the higher quality assets, New York as an example. We're seeing financial institutions and business services companies, in particular, taking more space. Tech is way down. But for us to have this leasing picture in tech be off the way it is, we view that as good news for us because there is nobody that pays attention to tech that thinks long run. They won't, A, get more of their people back in the office, and B, grow – be disproportionate growers relative to the rest of the economy. So we expect that part of it to come back.

And then there are some second-tier markets [ph] that they (00:33:05) may not be second tier forever, but what's going on in Nashville is pretty well documented and there are other places that have that flavor to them. So those are the things that are contributing to what we're seeing in office leasing.

**Michael A. Griffin**

*Analyst, Citigroup Global Markets, Inc.*

Q

Thanks for that, Bob. And Emma, you talked about, I think, the \$50 million tax benefit in the quarter. Adjusting for this, I think it would be about \$0.61 of earnings in the quarter. Is that the right run rate and cadence that we should think about to get to the midpoint of the full year guide or how should we think about that?

**Emma E. Giamartino**

*Chief Financial Officer, CBRE Group, Inc.*

A

For the tax rate specifically for the year, it should be about, I think, a little over 19%. Excluding the tax benefit, it's around 22%. Does that answer your question? [ph] Or you need (00:34:01) specific about...

**Michael A. Griffin**

*Analyst, Citigroup Global Markets, Inc.*

Q

Yeah, yeah, yeah. No, that does. And then just one last one. I noticed that you didn't provide the 2025 outlook, I think, relative to last quarter in your presentation. Is the expectation still to return to peak earnings growth in 2025 or get close to it?

**Emma E. Giamartino**

*Chief Financial Officer, CBRE Group, Inc.*

A

Yes. And all of our discussion around the path to reaching peak earnings in 2025 was to provide a framework around how we're thinking about the trajectory of our business, but that path has remained unchanged and we believe it's achievable where we sit today. And that's driven by continued low double-digit growth across our resilient lines of business at the SOP level. And then on the transactional side, the SOP does not need to get back to 2019 levels for us to achieve that record level of EPS next year.

**Michael A. Griffin**

*Analyst, Citigroup Global Markets, Inc.*

Q

Great. That's it from me. Thank you.

**Operator:** Thank you. The next question is coming from Peter Abramowitz of Jefferies. Please go ahead.

**Peter Abramowitz**

*Analyst, Jefferies LLC*

Q

Yes. Thank you. So most of my questions have been asked, but just one on the transaction markets here. Cushman mentioned on their call, it seemed to be a pretty kind of direct relationship in that investment sales for them at least were stronger to begin the first quarter when the rate outlook was much better and it kind of slowed in March and April as rate expectations have gone up. So just trying to get a sense from what you see in your business in terms of the relationship between rate expectations near term and how things are happening on the ground. Just curious your comments on kind of what you saw in the business as it directly relates from a rate perspective?

**Emma E. Giamartino**

*Chief Financial Officer, CBRE Group, Inc.*

A

So it varies across regions, in the US that is. What we saw later in the quarter, there was an uptick as rates increased. But in EMEA and APAC, we didn't see that trend, just given that there's different dynamics going on there and EMEA is ahead of the curve in terms of their recovery in the sales market.

**Peter Abramowitz**

*Analyst, Jefferies LLC*

Q

Got it. And then one other on the transaction market. Could you just talk generally about kind of the role of distressed sales in the market? Have you seen that kind of start to thaw at all, whether in the first quarter or going forward?

**Robert E. Sulentic**

*Chair & Chief Executive Officer, CBRE Group, Inc.*

A

There's been some distressed debt activity, selling of distressed debt. There's also been some activity, I'd call it more pending activity of selling debt portfolios that aren't distressed just because people's concern about their debt portfolio. They may sell non-distressed portfolios at a slight discount.

The assets that are really distressed are office buildings, B and C office buildings, and there aren't a lot of buyers in the market for those assets right now. We do expect that there will be buyers for those assets in the market, but the pricing probably has to come down more than it has.

**Peter Abramowitz**

*Analyst, Jefferies LLC*

Q

All right. That's helpful. Thank you.

**Operator:** Thank you. The next question is from Patrick O'Shaughnessy of Raymond James. Please go ahead.

**Patrick Joseph O'Shaughnessy**

*Analyst, Raymond James & Associates, Inc.*

Q

Hey, good morning. Just one question from me. In your prepared remarks, you spoke to investments in certain initiatives that you are discontinuing. Can you provide some color on what those are and to the extent that they were strategically important to you or not?

**Robert E. Sulentic**

*Chair & Chief Executive Officer, CBRE Group, Inc.*

A

Yeah, Patrick, they weren't strategically important. We may have at one time thought they were more strategically important than we do now. In fact, that's almost inevitable given that we were spending money on them and we've stopped. But what happens in a business that's growing, and even though our sector and our company have slowed down considerably in the last couple of years, our GWS business hasn't. That business has been growing. And when you have a growing business, you tend to look for opportunities to add initiatives, to address the growth opportunity. You also tend to, because you have a lot of growth opportunity, take your eye off them a little bit when they don't work. And we built up some of that across GWS.

The fact of the matter is, though, if you look at that business for the quarter, that was a, Emma, \$5.8 billion revenue business. The cost problem that we had net of this medical issue that Emma described is in the \$15 million to \$20 million range spread across \$5.5 billion plus business. So it's lots of little things here and there. None of our strategically important efforts in that business have changed in any significant way. I mentioned earlier in my comments, we have a big strategy effort underway with our strategy team now looking at the parts of the business where we think there is real growth opportunity and where we intend to invest in a big way. And our view of the growth opportunity with the enterprise FM customers, with project management for corporates, with project management for green energy and for infrastructure with our local FM business, none of our broad-based growth aspirations or growth initiatives have been altered as a result of the cost issues that we're after now and what we've been talking about.

**Patrick Joseph O'Shaughnessy**

*Analyst, Raymond James & Associates, Inc.*

Q

Perfect. Thank you very much.

**Operator:** Thank you. The next question is coming from Anthony Paolone of JPMorgan. Please go ahead.

**Anthony Paolone**

*Analyst, JPMorgan Securities LLC*

Q

Thanks. I think you may have just answered this, Bob. I was just going to ask about that sort of the other half of the cost outside of medical that crept up on you in GWS, like kind of what happened there and just how it changed so quickly in like, I guess, the last few months. So I don't know if you had anything else to add on that front.

**Robert E. Sulentic**

*Chair & Chief Executive Officer, CBRE Group, Inc.*

A

Yeah. Anthony, I'll add, first of all, I really think to put it in perspective, you got to pay attention to the size of that number relative to the size of that business. Again, it's \$15 million to \$20 million of costs that hit the bottom line in a negative way relative to what we had expected if you ignore the medical, roughly. Is that right, Emma? Okay. And again, that was a \$5.5-plus-billion business. It's a little bit of cost here and there. But it's something we stay on very closely, and we've taken aggressive action in that business to already address it. We think most of what will need to be done to correct the problems that we saw in that business will be done this quarter. And we've also done some rationalization across our whole services business, which resulted in those businesses reporting to our Chief Operating Officer, Vikram Kohli, and elimination of a leadership layer at the CEO level of those businesses, and there'll be other actions consistent with that down through the businesses.

**Anthony Paolone**

*Analyst, JPMorgan Securities LLC*

Q

Okay. Thank you.

**Operator:** Thank you. At this time, I would like to turn the floor back over to Bob Sulentic, Chairman and CEO, for closing comments.

**Robert E. Sulentic**

*Chair & Chief Executive Officer, CBRE Group, Inc.*

Thanks, everyone, for being with us. And we look forward to discussing our second quarter with you in about 90 days.

**Operator:** Ladies and gentlemen, thank you for your participation and interest in CBRE. This concludes today's event. You may disconnect your lines and log off the webcast at this time and enjoy the rest of your day.

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