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# CBRE Group, Inc. (CBRE)

Q3 2024 Earnings Call

## CORPORATE PARTICIPANTS

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Greetings, and welcome to the CBRE Third Quarter 2024 Earnings Conference Call. At this time, all participants are in a listen-only mode. The 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 Chandni Luthra, EVP, Global Head of FP&A and IR. Thank you. You may begin.

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**Chandni Luthra**

*Executive Vice President and Head of Investor Relations and FP&A, CBRE Group, Inc.*

Good morning, everyone, and welcome to CBRE's third 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.

Today's presentation contains forward-looking statements, including without limitation statements concerning our business outlook, our business plans, and capital allocation strategy, the timing of expected asset sales, and our earnings and cash flow 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 am joined on today's call by Bob Sulentic, our Chair and CEO, and Emma Giamartino, our Chief Financial Officer. Throughout their remarks, when Bob and Emma cite financial performance relative to expectations, they are referring to actual results against the outlook we provided on our Q2 2024 earnings call in July, unless otherwise noted.

Also, as a reminder, our resilient businesses include facilities management, project management, property management, loan servicing, valuations, and asset management fee in our investment management business.

Our transactional businesses comprise sales, leasing, mortgage origination, carried interest, and incentive fee in the investment management business, and development fee.

Finally, unless otherwise noted, whenever we cite growth rates, we are referring to the percentage change versus the 2023 third quarter in US dollars.

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

## Robert E. Sulentic

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

Thank you, Chandni, and good morning, everyone. CBRE's performance in the third quarter was marked by strong financial results, operational gains across key parts of our business, and continued advancement in our strategic positioning. I'll comment briefly on all three areas, starting with our financial performance.

We posted our second highest third quarter core earnings on record, with core earnings per share up 67%. All three business segments posted strong double-digit revenue and segment operating profit growth, along with significant operating leverage.

Key drivers included our resilient businesses, where net revenue grew 18% to \$3.6 billion, led by Turner & Townsend, as well as leasing, which posted a 19% revenue increase fueled by accelerated office demand. In addition, capital markets transaction activity has passed an inflection point and is in the early stages of recovery.

Operationally, GWS's results reflect the cost efficiency efforts we discussed on our first quarter earnings call and put us on course for full-year margin expansion. The integration of the CBRE project management business with Turner & Townsend is proceeding with pace, and the combined business will start 2025 with considerable momentum.

Consolidated free cash flow grew considerably, reflecting our focused efforts to improve cash conversion across our segments. On the strategic front, we have a strong pipeline of attractive investment opportunities, both for M&A in our services businesses and co-investments in our REI businesses.

Further, our efforts to scale and diversify our business have resulted in a growing total addressable market. We've widened growth avenues in managing data centers and federal government facilities through recent acquisitions

in GWS, and the Turner & Townsend, CBRE project management combination opens up opportunities in infrastructure, energy, and data center projects.

Geographically, our Japan and India businesses have grown to the point where they are the second and fifth largest contributors to Advisory SOP. Our success and scale have positioned us for continued outsized growth in these huge economies, and we expect them to be disproportionate contributors to CBRE's future growth.

For full-year 2024, our strong year-to-date performance and momentum entering Q4 have prompted us to raise our outlook for full-year core EPS to a range of \$4.95 to \$5.05, up from \$4.70 to \$4.90 previously.

Now, Emma will discuss our third quarter results and outlook in greater detail. Emma?

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## Emma E. Giamartino

*Chief Financial Officer, CBRE Group, Inc.*

Thanks, Bob. I'll start by providing context on how our business has greater earnings growth potential than at any point in our history. We focused on expanding our resilient earning streams, and as a result, our SOP from resilient businesses has increased from approximately 32% coming out of the Global Financial Crisis to around 60% today.

These resilient earnings are significantly less volatile than our transactional businesses, and most importantly, we expect them to achieve enduring double-digit organic growth, which we believe can be boosted even further by M&A.

Our investments in resilient businesses have changed the complexion of our company. For context, core EPS fell 30% peak-to-trough during the downturn we just experienced versus 80% during the GFC, and we are poised to surpass prior peak core earnings next year, less than two years from the trough of the downturn. Coming out of the GFC, it took six years to return to peak earnings.

Now, let me walk you through the highlights of each segment's results. I'll start with advisory on slide 6.

Advisory net revenue exceeded expectations supported by leasing strength in the beginning of a recovery in property sales revenue. We continue to benefit from our strong position in the office leasing market. In fact, global office leasing revenue reached a new high for any Q3, increasing by 26%, better than we expected.

Greater certainty about the economic outlook is supporting occupier decision-making across primary and secondary markets, particularly in the US and Europe. As expected, demand is skewed toward the highest quality space, so we'll encourage employees to return to the office.

Global property sales returned to growth with a 14% revenue increase, exceeding expectations. Revenue grew across all global regions. In the US, property sales revenue rose almost 20%, driven by stronger activity in multifamily and retail. This complemented strength across our mortgage origination business, which benefited from a 36% increase in loan origination fees.

In addition to continued activity from debt funds, originations picked up notably with the GSEs. Overall, Advisory SOP rose almost 50%, and net SOP margin increased by more than 350 basis points.

Please turn to slide 7 for a review of the GWS segment. Overall, net revenue for GWS increased 19%, in line with our elevated expectations. Within facilities management, net revenue increased 22%, with broad-based strength in both the enterprise and local businesses.

Through the third quarter, we secured more new enterprise business, including first-generation outsourcing wins and existing contract expansions than in all of 2023. This lays a strong foundation for net revenue growth in 2025.

Project management net revenue rose 12%, led by the Turner & Townsend business. Turner & Townsend exhibited strength across its geographies and asset types, with revenue up 18%, once again exceeding expectations. Turner & Townsend's sustained outperformance reinforces our level of conviction in merging CBRE's project management business under Turner & Townsend's leadership.

GWS's net SOP margin improved by more than 70 basis points, in line with our expectations, reflecting our cost-efficiency initiative.

Please turn to slide 8 as I discuss the REI results. REI segment operating profit was better than expected and meaningfully above the prior year. This was led by investment management, which benefited from incentive fees and significant co-investment returns, reflecting improving market conditions.

AUM increased to more than \$148 billion during the quarter, and \$5 billion of capital has been raised this year. At the same time, we have fully cleared our redemption queue in our core funds and are seeing increased interest and fundraising activity across enhanced return strategies. We expect the market backdrop for AUM growth to improve considerably in 2025.

As expected, we did not monetize any significant development assets during the quarter. We remain on track to realize large development profits by the end of the year and continue to steadily increase the embedded profits in our development portfolio over the long term. We added \$500 million to our in-process and pipeline portfolio in the quarter, which now exceeds \$32 billion.

Now, I'll discuss cash flow and leverage on slide 9. Free cash flow for the quarter improved meaningfully to \$494 million, up more than 60%, and trailing 12-month free cash flow conversion improved to 71%. The delta between our GAAP and non-GAAP earnings in Q3 was primarily driven by non-cash items.

Our free cash flow forecast for the full year remains unchanged at slightly over \$1 billion. The increase in EPS guidance is not expected to convert to free cash flow primarily because the large development gains slated for Q4 will be reported in cash flow from investing. Adjusting for this impact, our free cash flow conversion for the year would be within our target range of 75% to 85%.

Finally, we are on track to end of the year with about 1 turn of net leverage, even after deploying \$1.3 billion of capital across M&A and co-investments thus far in 2024.

Please turn to slide 10 as I discuss our outlook. Our new core EPS expectations of \$4.95 to \$5.05 for 2024 represent a 12% increase at the midpoint of the range compared with our original outlook in February.

We believe higher full-year earnings are achievable because of the outperformance in our businesses thus far this year and our confidence in our business pipelines. We expect to deliver our best fourth quarter core EPS ever, led by GWS, which should exceed its prior SOP record by a significant margin. It is notable that we expect to achieve

this level of earnings in the fourth quarter without Advisory or REI returning to prior peak profits. All segments are expected to materially exceed their prior earnings peaks in coming years.

Within Advisory, we now expect over 20% SOP growth for the full year, mostly driven by stronger-than-expected leasing activity. GWS is in line with our prior expectations. We are nearing guidance and expect to grow SOP in the high-teens range for the full year. And for REI, we continue to expect multiple development asset sales to be completed in the fourth quarter.

Looking to 2025, the midpoint of our new 2024 guidance implies that we are only about 12% from our prior peak earnings. Absent an unanticipated market event, we will almost certainly exceed prior peak core EPS of \$5.69 next year, fueled by continued double-digit growth in our resilient businesses and a further recovery in our transactional businesses.

Now, I'll turn the call back to Bob for closing thoughts.

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### Robert E. Sulentic

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

Thanks, Emma. Given the market's strong focus on anticipated improvement in the real estate capital markets, I'll put this in perspective as it relates to CBRE's earnings prospects.

While there are secondary impacts across our business, the capital markets directly affect our performance in property sales, loan originations, real estate development, and investment management. Since these businesses are interest rate sensitive, the Fed's start of a new monetary easing cycle has recently heightened investor enthusiasm for the real estate services sector.

We share the market's enthusiasm and expect to benefit from a capital markets recovery over the next several years. But it's important to stress that CBRE's strong, short, and long-term growth prospects are excellent regardless of the real estate capital markets impacts. This owes to the progress we've made in building our resilient businesses, our leadership in the global leasing markets, and the large and growing total addressable market for our business that I commented on earlier.

Our resilient businesses are expected to generate about \$1.8 billion of SOP this year, reflecting double-digit growth. We expect these businesses to continue this pace of growth for the foreseeable future.

In addition, leasing our largest line of business by profits is close to surpassing prior peak revenue and earnings this year, with considerable room for further growth. As a result, we don't need a capital markets recovery to surpass prior peak earnings in 2025 or to sustain strong growth beyond next year.

Real estate capital markets are important to our business, but their lower relative contribution to our performance underscores the extent to which we've evolved and diversified CBRE's business and underpins our confidence in our strong long-term outlook.

With that, operator, we'll take questions.

## QUESTION AND ANSWER SECTION

**Operator:** Thank you. We will now be conducting a question-and-answer session. [Operator Instructions] Our first question is come from the line of Michael Griffin with Citi. Please proceed with your questions.

**Michael A. Griffin**

*Analyst, Citigroup Global Markets, Inc.*

Q

Great, thanks. Bob, I want to go back to your comments about kind of capital markets activity passing an inflection point. As we kind of look into 2025, do you have a sense of how steep the acceleration of this recovery is going to be? Will we be sitting here a couple quarters from now and lapping comps up 30% or 40% year-over-year? Curious just kind of what you're seeing from an acceleration perspective?

**Robert E. Sulentic**

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

A

Our current expectation is not that it's going to be a steep capital markets recovery. We think it'll be a steady recovery. We think buyers and sellers have largely come together for most asset classes or very close to having come together. Not yet for office, I think, obviously.

There is debt available now. There is some positive leverage available now. There's increased interest in multifamily. We've actually seen a little bit of cap rate compression in multifamily and industrial, not much. So we think there'll be a steady improvement next year, but we don't think it's going to be a precipitous improvement. Our plan doesn't anticipate a precipitous improvement. And the anecdotal evidence that we're gathering would suggest that it's going to be more of a steady improvement.

**Michael A. Griffin**

*Analyst, Citigroup Global Markets, Inc.*

Q

Thanks. That's helpful. And then just going back to your comments around kind of the double-digit expected growth over the near to medium term in those resilient business lines. Can we get a sense, was this really organic driven? Are you assuming some level of external growth in kind of that expected growth number?

I'm just curious. I mean, it seems that, the stickiness of this, the nature of these businesses, you know, it seems like you do have pricing power for a lot of this stuff. Just if you can maybe comment on kind of where that growth is coming from?

**Robert E. Sulentic**

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

A

I'll comment and then I'll ask Emma to also comment. But you mentioned near and medium term, but it's near, medium and long term that we're expecting double-digit growth in these businesses and it's organic, getting us into the low double-digit range that will be supplemented by investment – M&A investment. And we feel very good about that.

As I mentioned in our call today, which we haven't talked a lot about before, but we started to focus on it, our total addressable market is growing. It was already a huge addressable market, total addressable market for outsourcing that had been only partially tapped. But with Turner and Townsend, with the acquisitions we've done, the total addressable market now for organic growth from where we sit is very strong.



We've got these two businesses in India and Japan that have become quite prominent for us. An awful lot that we've barely gotten started with in those two markets. We've got great leadership teams there. We expect them to be able to grow significantly on a double-digit basis for years to come.

But we do have a lot of capital. We do have an M&A strategy and we think we can supplement that through M&A. So, I'm going to let Emma talk about that a little bit.

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**Emma E. Giamartino**

*Chief Financial Officer, CBRE Group, Inc.*

A

And so, I would add on our resilient SOP. I think we've talked about it before, but this is a big earning stream for us. And for the year, we expected to deliver \$1.8 billion of SOP. So that's grown at a double-digit rate over the past number of years and we expect that to continue. That has been both organic and M&A, but to Bob's point, that organic growth has been in a low double-digit range and we expect that to continue.

I think what is not always appreciated is that we'll end this year at about 60% of our SOP from resilient lines of business. And because of the growth in these businesses, even through a transaction recovery, we expect to remain around that 60% range over time.

And then in terms of M&A, we're continuing to look at opportunities to expand mainly in the technical services space within facilities management, but also elsewhere. I'd look at deals like J&J that we did earlier this year, which expanded into the federal government space and we believe that's a \$20 billion market. And then Direct Line in the data center space, which we believe is a \$30 billion market.

So we expect to – we're looking at more of the same. But of course, as we always say, M&A takes a long time. We want to do deals that are right for us with really strong operating leaders in areas where we think we can deliver a really strong return.

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**Operator:** Thank you. Our next question is come from the line of Anthony Paolone with JPMorgan Chase. Please proceed with your questions.

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**Anthony Paolone**

*Analyst, JPMorgan Securities LLC*

Q

Thanks. Good morning and good quarter. My first question relates to leasing. I mean, how should we think about the potential to grow office leasing from here? Because you mentioned it being, like I think it was the best third quarter in the company's history.

And so, I'm just trying to understand if there was some clearing of the backlog or pulling forward of demand there to kind of see, like, where it goes from here and what normalized might be?

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**Robert E. Sulentic**

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

A

So, Tony, we don't pretend to have a great view as to exactly where office leasing is going to go. It's been a little bit of an unknown for all of us since we came through COVID.

Here's what we do believe. There's a lot of news around prime space being leased up in a number of markets at the highest rates ever. And because of our participation in those markets, we've done well.



However, we don't believe that this leasing success we've seen recently is driven by prime space. We believe it's being driven by occupiers who want space and are targeting prime space first. And when that prime space is leased up, they will move on to the next best thing, which will give landlords, owners of office buildings, the incentive to invest in B and B plus buildings to move them toward A.

So we think we're going to see some sustained strength in office leasing. We think we're going to see a continued slow return to the office. We do not believe we're going to go back to pre-COVID levels.

But I'll say what I've said on the last two or three calls. We spend a lot of time with occupier customers. We've got a big conference. We've got 900 people in Dallas this week with our GWS enterprise business. And everybody is talking about office space as being important to their future. So we expect there to be a sustainable move toward office space that is creating good experiences to get people back in the office. And we think the leasing success we've seen is going to continue into next year and beyond.

**Anthony Paolone**

*Analyst, JPMorgan Securities LLC*

Q

Okay. Thanks for that, Bob. My second question is, if we look back earlier in the year, you guys had some cost pressures that emerged and you took some actions, it seems like, and we saw the margin expansion in the quarter.

How should we think about whether you – whether that's all dialed in at this point? Or how should we think about margin expansion as we look into next year? Is there still room for that or any thoughts there?

**Emma E. Giamartino**

*Chief Financial Officer, CBRE Group, Inc.*

A

So the majority of those cost actions were done across Q2 and Q3. So what you're seeing this year is not the full run rate impact. So of course, you'll see a continued impact to our margins, really strong benefit to our margins in GWS in the fourth quarter. And for the full year, we're expecting our GWS margins to improve over last year. And then that should continue into next year.

Again, this is a business that you're not going to see a step change in our margins, but we should see a continued improvement through next year.

**Operator:** Thank you. Our next question is come from the line of Steve Sakwa with Evercore ISI. Please proceed with your questions.

**Steve Sakwa**

*Analyst, Evercore ISI*

Q

Yeah, thanks. Good morning. Bob, I can understand why you don't want to forecast a sharp recovery in the transaction business. It's certainly not in your best interest to predict that. But to the extent that one occurred, I guess what I'm just trying to figure out is, is it really predicated on just kind of the Fed easing cycle sort of unfolding as they've kind of laid out? Is it really having – the long end of the bond yield curve kind of coming back down, is it more stability in the bond yield? Like what would get a sharp recovery in your mind versus a more modest recovery?

**Robert E. Sulentic**

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

A

Steve, I think all of that contributes to it. But I believe, and I commented on this last quarter, what would create a sharp recovery is more stability in interest rates, maybe them coming down a little bit, but some thought leaders among the investor community stepping into the market, doing some transactions, and causing others to believe they had to get in and move quickly because in the absence of doing that, they would end up being buyers downstream at higher prices.

And we have seen a little bit of compression for cap rates for the best multifamily and industrial assets already. So I don't think it's totally about interest rates coming down or interest rate stability. I think it's also partially about buyer-seller psychology, which it always is in cycles, of course.

**Steve Sakwa**

*Analyst, Evercore ISI*

Q

Okay, thanks. Maybe, Emma, just on sort of the share buybacks as we think about kind of you guys using free cash flow next year, assuming it's kind of at least \$1 billion again, how should we just think about the benefits acquisitions versus buybacks? And given that the stock is, is at a much higher price and a higher valuation today, does that sort of temper your enthusiasm for share buybacks? And if you don't do that, kind of where does the free cash flow go?

**Emma E. Giamartino**

*Chief Financial Officer, CBRE Group, Inc.*

A

So [indiscernible] (00:26:56) I'll start by saying it does not temper our interest in share buybacks. We are continuing to evaluate M&A and balancing that with buybacks when it makes sense.

I will say, as we look at where our share price is today and where our valuation is today, it remains at this place. We will definitely consider more buybacks than we've done in the past. We believe that we're trading at a significant discount to our intrinsic value.

**Operator:** Thank you. Our next question is come from the line of Stephen Sheldon with William Blair. Please proceed with your questions.

**Stephen Sheldon**

*Analyst, William Blair & Co. LLC*

Q

Hey, thanks and congrats on the results here. First, I wanted to ask about incremental margins in capital markets. If we are at the early stages of recovery, specifically, will you need to do much rehiring within capital markets, especially in terms of supporting head count to be able to capitalize on higher volumes? What are you seeing there?

**Robert E. Sulentic**

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

A

We've got considerable capacity in our mortgage origination team, although we're adding talent to that team. And we've got a great leader in that area of our business who's doing a great job of recruiting. And we've got capacity in our investment sales team. So we don't need to add talent to grow those businesses materially.

But it is important, and maybe I should make a clarifying comment. We talk so much about the growth of our resilient businesses because that's an important part of our strategy. But we are doing nothing to restrain the growth of our transactional businesses. We're the market leader in capital markets and leasing, and we're investing in growing those businesses. So you should expect to see us add talent to both the leasing side of the business and the capital markets side of the business. But we don't need to do that to grow significantly from where we are now.

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**Stephen Sheldon**

*Analyst, William Blair & Co. LLC*

Q

Understood. That's helpful. And I wanted to – maybe second – wanted to drill down into the margins in the GWS segment. Great trends there this quarter. I think you talked about there's maybe still some flow-through impact that we should think about some of the actions you took in prior quarters. But just as we think about the next two, three, four years, what levers do you have to keep pushing margins higher there over time?

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**Emma E. Giamartino**

*Chief Financial Officer, CBRE Group, Inc.*

A

So there's a number of levers. This piece is really resetting. This first stage is really resetting our cost base, mainly – primarily focused on our operating expenses overall across the business.

The second piece that we're extremely focused on and we've seen some progress in is focusing on contracts. And these are very large contracts, especially in our enterprise business, at incrementally higher margins. So we should – you should continue to see a benefit from that over time. As we do M&A and these highly technical services, all those businesses operate at a higher margin than our traditional business. So that will continue to improve margins over time.

And then there's other things that we can do within our contracts, even our existing contracts, to improve that margin. So it will be a steady increase over time, but know that we're very focused on delivering that steady increase over the next few years.

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**Operator:** Thank you. Our next question is come from the line of Ronald Kamdem with Morgan Stanley. Please proceed with your questions.

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**Ronald Kamdem**

*Analyst, Morgan Stanley & Co. LLC*

Q

Yeah. Two quick ones for me. Just going back to the GWS business, I was wondering if you could talk a little bit more about the pipeline breakout between sort of first-generation versus existing contracts? I guess I'm wondering, are enterprises just overall engaging more or are you guys just gaining share?

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**Emma E. Giamartino**

*Chief Financial Officer, CBRE Group, Inc.*

A

We are seeing an increase in first-generation outsourcing contracts. We've talked about it over the last number of quarters and even years. Those contracts typically take or those clients typically take, as you'd expect, longer to convert. Sometimes they can take over a year, but we're seeing significant progress there.

We're also seeing significant progress in expansions and new wins within our existing client base. Anything that you would add to that, Bob?

**Robert E. Sulentic**

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

A

No. I think we're seeing, as we've always said in that business, we get a lot of growth out of expansions because we get in the door with these enormous occupiers that have – I'll give you an example.

I was having lunch with one of our clients the other day who runs real estate for a prominent US manufacturer. They have 2,100 leases and facilities around the world. And we do a lot for them, but there's a huge amount we don't do for them. And he was telling me how happy they are with what we do in various areas and how they want to expand the relationship.

And if you're sitting in the seat he's sitting in, the demand's on you to make that portfolio of properties perform cost-effectively to create great experiences on the manufacturing side where we're able to do more and more to be more efficient from an inside-the-yellow-lines perspective. All of that creates opportunity for us, and all of that would come in the expansion area. And then there continues to be a good number of corporations, hospitals, universities, others, who – government entities who are considering outsourcing and haven't done it yet.

**Ronald Kamdem**

*Analyst, Morgan Stanley & Co. LLC*

Q

Great. My second question was just going to be, you guys are leaders in multiple different business lines, and you've sort of talked about the ability for sort of clients to engage in [indiscernible] (00:32:36) those business lines.

I guess I'm just wondering from sort of the last two quarters, where you've seen sort of acceleration in the capital market, are you seeing that thesis sort of prove out?

**Robert E. Sulentic**

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

A

Yeah. Unfortunately, you're almost totally cutting out and we didn't hear the question.

**Ronald Kamdem**

*Analyst, Morgan Stanley & Co. LLC*

Q

Sorry about that. [indiscernible] (00:33:00) clients being able to engage in multiple business lines, are you seeing that playing out as capital markets are recovering? And any sort of anecdotes you could share? Thanks.

**Robert E. Sulentic**

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

A

Well, we are seeing that play out, especially on the occupier, but on the capital market side, we – on the occupier side, we see it more, but on the capital market side, we do do a lot of work for those clients. We do valuations work. We do property management work. Obviously, we do building sales work. We do debt financing work for them.

So, there is a lot we do for the investor clients that are in the capital market side of the business as well. Those solutions don't tend to be as integrated as the occupier solutions are, but there's plenty we do. And we have some enormous clients on that side that we interface with on an account basis as opposed to a one-by-one transactional basis.

**Operator:** Thank you. [Operator Instructions] Our next question is come from the line of Jade Rahmani with KBW. Please proceed with your questions.

**Jade Rahmani**

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

Q

Thank you very much. Quite different to be talking about upside at this point in the cycle. I wanted to ask about Trammell Crow. First question would be if you've identified significant parcels of land entitled currently for industrial that could be repurposed for data center use, and are devising strategies either through sales or joint venture to monetize such investments?

**Robert E. Sulentic**

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

A

Yeah. Jade, it is a fact that the path to data center land does fairly regularly run through logistics land sites that happen to have adequate power. And because we have a big position in logistics land sites, that's one of the core competencies of Trammell Crow Company, to identify and acquire logistics land sites.

We are seeing some opportunity there that we're quite confident will result in strong financial returns for us. And we, not surprisingly, given that, have a proactive effort underway to identify more of that land.

But we've alluded to it a little bit over the last few quarters, this amount of pent-up profits in our in-process portfolio, the fact that we've put incremental balance sheet capital into the development business when others were on the sideline. That's a significant strategic initiative for us that's probably more prominent than appears on the surface.

**Jade Rahmani**

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

Q

Thank you. And to take the question one step further, relates to some of your initial comments around M&A and infrastructure. Would you contemplate combining aspects of Trammell Crow or REI with something in the infrastructure management or data center space?

You know, across real estate coverage, conglomerate-type businesses tend to have a discount associated with the development arm because investors struggle to find predictability to earnings. Perhaps that relates to Emma's comments that CBRE might be trading at an intrinsic value discount.

But one way to unlock this could be through a strategic transaction in the alternative asset manager space as real estate asset managers tend to trade at very high multiples. Just curious as to your thoughts about potentially spinning off Trammell Crow or combining it with something and really building out this data center capability?

**Robert E. Sulentic**

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

A

Well, there's some good insights in that question, Jade. I want to start by saying we are not contemplating trading off Trammell Crow Company because it does so much – not only is it a really good, really well-run business that generates high returns and creates opportunities to invest our capital, but it does interface really productively with other parts of our business. And I'm going to give you an example.

During the middle of the COVID stay-at-home era, we started a fund called [ph] USLP (00:37:32). It's a fund that exists in our investment management business and we've told parts of this story before.

But it was seeded by a portfolio of Trammell Crow Company industrial development projects, plus also using our own balance sheet to secure a couple of portfolios. And anybody that watches the investment management business knows how hard it is to scale a core plus fund early on. We started that fund in COVID, we put the whole thing together by Zoom. None of the meetings, none of the interface was done in-person.

Started it during COVID. From a standing start, that fund today is \$5 billion. That fund would not exist in all probability without Trammell Crow Company. And Trammell Crow Company gives us opportunities to do that in other areas. We've got all kinds of things we're looking at with Trammell Crow Company and our investment management business together.

Another example, and we've alluded to this too, there – we've got \$2-billion-plus manufacturing plants that we're handling the land acquisition, land development, and project management on in a venture between Turner & Townsend and Trammell Crow Company.

If you talk to Vince Clancy at Turner & Townsend or Danny Queenan at Trammell Crow Company, they would tell you neither one of them would have done those deals alone. We think that positions them well to do more of that. That's the kind of thing that gives us confidence about where this business is going to go. So not only is on a kind of freestanding basis is Trammell Crow Company a really good business for us to have, it does a lot with our other businesses.

The other thing I'll say is it generates a lot of cash with immediate cash conversion that we can use to invest all over CBRE. So a lot that can be done with that business.

**Operator:** Thank you. Our next question is come from the line of Peter Abramowitz with Jefferies. Please proceed with your questions.

**Peter Abramowitz**

*Analyst, Jefferies LLC*

Q

Yes. Thank you and congrats on a very strong quarter. I just wanted to dig into the leasing a little bit. You called out office globally was up 26%, which was very impressive. Just curious if we could go sort of broad based.

What are you seeing on the industrial side? How did that compare to the up 26% in office? And any sort of general comments on how things are trending for industrial leasing?

**Robert E. Sulentic**

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

A

Industrial leasing is trending up not at the rate that office leasing is. And one of the reasons for that is there's some huge, huge users of industrial space that everybody is aware of. And they took down a lot of space over the last few years. And they've got vacancy in their portfolios that they're burning through.

We think that that's going to kind of come through the pipeline over the next year or two years. And that demand will then pick back up on the leasing side after that. But we do expect leasing for industrial to be better next year, although not dramatically better than it was this year.

**Peter Abramowitz**

*Analyst, Jefferies LLC*

Q



All right. That's helpful. And then maybe to go back to, I think it was Steve's question, just about rate sensitivity and the capital markets recovery. I guess the Fed has put out this playbook, but the longer than the curve has kind of remained stubbornly high here. So just curious to hear your thoughts on if that continues to be the case, how that would impact sort of your thinking around the magnitude of the capital markets recovery?

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**Emma E. Giamartino**

*Chief Financial Officer, CBRE Group, Inc.*

A

And Peter, we're really focused on the next few months, what we're seeing through the end of the year. In the guidance that we gave with the midpoint of \$5 of EPS, that embeds a high level of confidence in what we believe is going to happen in the capital markets. So we're expecting our investment sales revenue to grow in Q4 by 30%. So that's not a low number. I realize it's off a low base. But – and we have high visibility into that number.

I know there's been lots of questions around rates have gone, [ph] the 10-year (00:42:03) has gone above 4% recently. We don't expect that to have a huge impact over the next couple of months. We've had a record number of rate locks through August and September, and we're seeing the [indiscernible] (00:42:13) sales activity come off of that.

So there shouldn't be a lot of volatility through the end of the year in our sales activity.

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**Operator:** Thank you. Our next question is come from the line of Anthony Paolone with JPMorgan Chase. Please proceed with your questions.

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**Anthony Paolone**

*Analyst, JPMorgan Securities LLC*

Q

Yeah, thanks. So I just have one follow-up. Yeah, I understand the data center theme and the attractiveness there. I was wondering if you could spend a minute on just kind of where you see CBRE's biggest revenue opportunity in that ecosystem? Like what do you see yourselves really doing most there and how do you make money at it?

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**Robert E. Sulentic**

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

A

We've got a bunch of exposure to data centers, Tony. We already talked about the land plays that Trammell Crow Company is making that give us opportunities to profit there. Turner and Townsend has in excess of 110 hyperscale data centers that they're project managing.

We have a data center services business where we manage data centers on behalf of occupiers. We manage between 700 and 800 data centers in that business. We just did the Direct Line acquisition that has – the early returns on that are really encouraging and we synergize that with that data center services business. And that does small projects inside the white lines and data centers. So that's very strong. We have a data center sales business in our Advisory business that's very, very capable.

And with all those things going on in data centers where we have prominent positions, we are doing a decent amount of strategy work as to how we could extract more from that and where we can go from here. We're not ready to describe any specific strategic initiatives yet, but we've got a lot of exposure, a lot of expertise, and we're exploring opportunities.



**Anthony Paolone**

*Analyst, JPMorgan Securities LLC*

Okay. Thank you.

Q

**Operator:** Thank you. Our next question comes from the line of Steve Sakwa with Evercore ISI. Please proceed with your questions.

**Steve Sakwa**

*Analyst, Evercore ISI*

Yeah, thanks. Just one quick follow-up. Emma, just on the loan servicing business, I realize it's not terribly large, but it was basically flattish in the quarter. I know you sort of referenced it here in the press release, but just anything that kind of pushed that down that was abnormal this quarter?

Q

**Emma E. Giamartino**

*Chief Financial Officer, CBRE Group, Inc.*

Yeah. The underlying growth is 5%. I think what you see is basically 1% growth, but the actual growth is 5%. We've moved from some escrow income, had to be moved from loan servicing to the commercial mortgage origination line.

A

**Steve Sakwa**

*Analyst, Evercore ISI*

Okay. Great. Thank you.

Q

**Operator:** Thank you. Our next question comes from the line of Jade Rahmani with KBW. Please proceed with your questions.

**Jade Rahmani**

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

Thank you very much. With the 60% contribution from resilient businesses, which is expected to remain near that level, what are your thoughts around instituting a regular quarterly dividend?

Q

**Emma E. Giamartino**

*Chief Financial Officer, CBRE Group, Inc.*

Jade, it's something that we evaluate over time. Right now, we think that we love the flexibility of buybacks and we've been able to execute on our buybacks over the past number of years. So, as long as we expect to continue to do that, we don't think that a dividend is necessary, but it's something that we evaluate.

A

**Operator:** Thank you. We have reached the end of our question-and-answer session. I would now like to hand the call back over to Bob Sulentic for closing comments.

**Robert E. Sulentic**

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

Thanks, everybody. And we look forward to talking to you again when we report our year-end results.

**Operator:** Thank you. This does conclude today's teleconference. We appreciate your participation. You may disconnect your lines at this time. Enjoy the rest of your day.

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