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CBRE Group, Inc. (CBRE)

Q4 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Greetings and welcome to the Fourth Quarter 2024 CBRE Earnings Conference Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Chandni Luthra. Thank you. You may begin.

Chandni Luthra

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

Good morning, everyone, and welcome to CBRE fourth 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, 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.

Also in our press release, we have provided historical non-GAAP financial information for the new segments, which we will begin reporting with Q1 2025 results. We will provide more details, including historical quarterly financial information by lines of business based on the new segments prior to releasing our Q1 results.

I'm 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 Q3 2024 earnings call in October, unless otherwise noted.

Also, as a reminder, our resilient businesses include facilities management, project management, property management, loan servicing, valuations, and recurring investment management fees. Our transactional businesses comprise property sales, leasing, mortgage origination, carried interest, and incentive fees in the Investment Management business and Development fees.

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

With that, I'll turn the call over to Bob.

Robert E. Sulentic

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

Thank you, Chandni, and good morning, everyone. Q4 of 2024 was CBRE's best quarter ever for core earnings and free cash flow with broad strength across our business. We also made significant progress in executing our strategy, positioning the company to continue to deliver double-digit earnings growth on an enduring basis. First, we acquired Industrious, the premium flex workplace provider. This advances our ability to meet office occupier and landlord demand for flexibility and an elevated experience.

The Industrious transaction also became the catalyst for us to consolidate all our building management businesses into one segment called Building Operations & Experience. This move allows us to build expertise and scale advantage across many areas that are common to the operation of buildings.

Jamie Hodari, Industrious' CEO, who has exceptional strategic, operational and entrepreneurial skills, is leading this segment as its CEO. We also completed the combination of CBRE Project Management with Turner & Townsend. This creates a large, uniquely positioned program and project management business with multiple avenues for resilient revenue growth in areas like infrastructure, energy and data centers.

Finally, we took two additional steps to upgrade our senior leadership team. First, we gave our COO Vikram Kohli, whose capabilities are evident in the major impact he had on our business in 2024, additional responsibility as CEO of our Advisory business. Second, we named Adam Gallistel, who will join CBRE in April and Andy Glanzman as co-CEOs of our Investment Management business. As leader of GIC's Americas business, Adam forged an exceptional track record and prominent industry profile while Andy has proven to be a strong operational leader who has overseen CBRE Investment Management's strategic evolution.

With all these moves in mind, we have reorganized the company into four business segments. Two of the segments, Building Operations & Experience and Project Management, are entirely comprised of resilient

businesses. Together, they generated \$1.4 billion of SOP in 2024 and they are growing organically at a double-digit rate. In both segments, we have tremendous opportunities to scale our position in huge, fragmented and underpenetrated markets.

Our Advisory segment, which includes leasing, capital markets valuations and loan servicing, is a cornerstone of our business. It is responsible for producing large profits, high margins, strong cash flow conversion and abundant data and market intelligence that is valuable across our company.

Our Real Estate Investments segment, which includes our Investment Management and Development businesses, is underappreciated. This segment has significant embedded profits, and we expect it to become one of the leading contributors to our long term growth. Additionally, it is an ongoing source of compelling investment opportunities for CBRE.

Our confidence in CBRE's future has never been higher, as evidenced by our considerable share repurchases since the end of the third quarter. Despite the strong appreciation of our shares over the last year, we believe the market is undervaluing our business relative to both its growth profile and dramatically enhanced resiliency. Now Emma will discuss the quarter's highlights and our outlook for 2025. Emma?

Emma E. Giamartino

Chief Financial Officer, CBRE Group, Inc.

Thank you, Bob. We exceeded expectations with a record quarter across almost every metrics. Our resilient businesses, which our facilities management, property management, project management, loan servicing, valuations and recurring investment management fees, grew net revenues 16% in the quarter and 14% for the year, while delivering operating leverage.

Resilient businesses contributed nearly 60% of our total SOP for the year, essentially matching 2023. This relative contribution by our resilient businesses is notable in a year when our transaction revenue grew considerably, yet capital markets activity is still well below peak levels.

In our Advisory segment results were driven by record leasing revenue and a continued rebound in capital markets. Globally, leasing revenue grew 15% with notable strength in APAC and the Americas. US office leasing delivered 28% revenue growth. Office occupiers are increasingly comfortable making long term decisions, given improved return to office momentum and a healthy economic outlook. The durability of office leasing growth was a prominent question as recently as October, when we last reported earnings. While New York led most of the office leasing recovery in 2024, other markets accelerated substantially in the fourth quarter.

Gateway markets comprised of New York, San Francisco, Los Angeles, Chicago, Washington, D.C. and Boston grew approximately 30% in aggregate. Other large markets like Dallas, Atlanta and Seattle grew even faster, and certain smaller Midwest markets, including Cleveland, Pittsburgh and Minneapolis picked up considerably. This gives us confidence that office leasing will continue to increase as activity has spread broadly. Retail leasing also exhibited solid growth, while industrial leasing was essentially flat.

Turning to global property sales, revenue growth accelerated to 35%. Growth is strong across all asset classes globally, with a notable increase in office sales in the US and EMEA, albeit off a low base of activity.

Our mortgage origination business was up 37%, led by a 76% increase in origination fees, partly offset by lower escrow income. We saw a strong pickup in loan origination volume across financing sources, most notably from the GSEs and banks.

While acquisition financing is increasing, refinancings continued to lead the recovery, making up almost 60% of total volume for the quarter. Overall, Advisory SOP rose 34% with improved margin on net revenue.

In the GWS segment, net revenue grew 18%. Facilities management net revenue increased 24% with broad based strength in both the enterprise and local businesses. We are seeing a good balance of new clients and expansions across enterprise sectors, especially technology, industrial, data centers and health care.

Local revenue growth was led by the UK and the Americas. The Americas has emerged as the local business' second largest region, up from the fourth largest in 2023. This is a direct result of executing our strategy to increase share in the US, a market that is still barely penetrated.

Our Project Management business saw a solid net revenue increase, with particular strength in North America and the UK, led by real estate and infrastructure. For the full year 2024, Project Management net revenue grew 10%, with operating leverage driving faster SOP growth. This growth was dominated by Turner & Townsend, which achieved 19% revenue growth for the year, supporting our view that the aggregate project management business will achieve accelerated growth when combined. The GWS SOP margin improved for the full year, reflecting our cost efforts and focus on contract profitability.

In our REI segment, SOP increased to \$150 million in Q4, led by our Development business. As expected, we had significant monetizations in the quarter, including several data center development sites. This was one of our Development business' strongest quarters and reflects our distinct capabilities as a land acquirer and developer, as well as our proactive decision to invest in areas benefiting from secular tailwinds when others were on the sidelines.

Within our Investment Management business, Q4 operating profit declined, partly driven by a ramp up of costs in anticipation of increased capital raising. We raised over \$10 billion in 2024, with half of it coming in the fourth quarter. AUM ended 2024 at \$146 billion, essentially flat for the year. Market sentiment continues to improve with many investors positioning their portfolios to capture opportunities in the latter half of 2025.

Before turning to our outlook, I'll comment on cash flow and capital allocation. Free cash flow exceeded expectations, increasing to more than \$1.5 billion for the year, and free cash flow conversion reached almost 100%, surpassing our 75% to 85% target range. We deployed approximately \$2 billion of capital in 2024 across M&A, real estate co-investment, and share repurchases. This is in line with our strategy to invest in resilient businesses that augment CBRE's growth profile, expand our total addressable market, and generate high risk adjusted returns.

Besides several notable M&A transactions, we capitalized 29 development projects for the year, including 12 in Q4. Our significant efforts to build the pipeline over the past few years, while many investors were on the sidelines has positioned our development business to break ground on more than 50 projects in 2025, almost double the number in 2024.

We estimate that we have more than \$900 million of embedded net profits in our development, in-process portfolio and pipeline as we capitalize a second large portfolio of development assets in the fourth quarter, this time focused on industrial assets. Our in-process and pipeline portfolio currently stands at more than \$32 billion with outstanding balance sheet equity co-investment of approximately \$800 million.

And as Bob mentioned, we also continue to see significant unrecognized value in CBRE shares. This led us to repurchase more than \$800 million worth of shares since the end of the third quarter. We have high conviction in our growth prospects and believe our ability to consistently generate double-digit organic earnings growth justifies a premium through cycle multiple.

Looking ahead, we expect another year of strong free cash flow generation, approximating last year's total of \$1.5 billion. We anticipate free cash flow conversion within our 75% to 85% target range this year as the benefit from bonus timing we saw in 2024 reverses. Absent material M&A, we expect to end the year with net leverage below one turn, but are willing to lever up to two turns for the right M&A opportunities.

Turning to our outlook, we expect to easily set a new peak in 2025 with core EPS projected to be in the range of \$5.80 to \$6.10. This would represent more than 16% growth at the middle of the range supported by mid-teens SOP growth across our resilient lines of business, momentum in leasing and a continued rebound in capital markets. It is notable that we're expecting this level of earnings when transaction activity is more muted than in other cyclical recoveries.

We're again guiding to a wide range this year because of uncertainties around the level of currency headwinds and the trajectory of interest rates. We've embedded a currency translation headwind of 1% to 2% in our consolidated outlook. Absent this headwind, expected core EPS growth would be in the high-teens.

Turning to our segments, we are providing guidance under our new as well as the old segment structure, as shown on slide 8 to help investors transition their coverage. Note that all percentage growth rate estimates for the segments are in local currency.

In our Advisory segment, we expect low to mid-teens SOP growth driven by solid leasing revenue growth and a steady capital markets recovery, both of which will underpin margin expansion.

In our Building Operations & Experience segment, we expect above trend mid-teens revenue growth supported by local's further expansion in the US and a full year contribution from Industrious. We anticipate continued operating leverage resulting from 2024 cost initiatives which will drive high-teens SOP growth.

In Project Management, we foresee significant opportunities in the US and UK across infrastructure and traditional real estate. Combining the Turner & Townsend and CBRE Project Management businesses, requires a complex integration. As such, in the first year, we are anticipating strong, but slightly below trend SOP growth in the low-to-mid-teens.

Finally, in Real Estate Investments, we expect to improve on 2024's SOP. Investment Management operating profit will likely be flat with 2024, which benefited from a large incentive fee that will not repeat.

In the Development business, we see continued elevated data center activity and have positioned the portfolio to benefit from this secular tailwind, with data center site monetization expected to contribute more than half of this year's development profits.

As to the seasonal distribution of earnings, Q1 will once again be our smallest quarter in the year. However, the quarter should see core EBITDA increase at a high-teens rate and it should contribute a low double-digit percentage of our full year core EPS. We also expect another strong fourth quarter in 2025, which should account for a similar portion of our full-year core EPS as it did in 2024.

In addition, we note that our restructuring efforts are largely behind us, and we are seeing the benefit of margin expansion across the company. As a reminder, we announced a major efficiency program in GWS in early 2024 to rapidly bring costs in line with revenue. This highly successful initiative resulted in an increase in one-time cash adjustments in 2024 that will not recur in 2025.

M&A-related amortization and integration costs will continue, but we are highly focused on minimizing other cash adjustments. Therefore, going into 2025, we expect to meaningfully narrow the delta between our GAAP and core earnings.

With an improved market backdrop, we are poised to benefit from all the work we've done to create a resilient, growth-oriented enterprise capable of sustaining double-digit growth in 2025 and beyond.

Now, I'll hand it back to Bob for closing remarks. Bob?

Robert E. Sulentic

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

Thank you, Emma. I'll conclude with some thoughts on our participation in the data center sector for two reasons. First, we're receiving many questions on this topic, given the amount of activity in the sector. And second, our work with data centers clearly demonstrates how our strategy plays out in practice.

A foundational element of that strategy is to focus financial and operational resources in areas benefiting from secular tailwinds. And we have brought this focus to the data center sector, growing its contribution to core EBIDTA from 3% three years ago to almost 10% in 2024. Over that time, our total data center profit has increased over 2.5 times.

Emma commented that our Development business is capitalizing on its competency in acquiring, improving, and monetizing land sites to take advantage of the data center opportunity. As a reference point, we did this with industrial land to great effect coming out of the pandemic.

CBRE participates meaningfully in the data center sector across multiple other lines of business as well, including project management, facilities management, brokerage, and to a lesser degree, investment management.

Turner & Townsend has more than 150 data center projects underway and has completed over 500 of these projects in the last decade. Data center revenue for Turner & Townsend has increased 50% annually in each of the last three years.

Our facilities management group manages over 700 data centers. Within this business, we fortified our technical services capabilities with last year's acquisition of Direct Line Global, which serves a large base of hyperscale clients.

In our Advisory business, we arranged \$9 billion of sales, lease, and financing transactions for North American data centers last year. While total data center inventory in the market has nearly doubled in the past four years, our data center profit growth has outpaced this market expansion and is poised for continued strong growth.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now be conducting a question-and-answer session. [Operator Instructions] Our first question comes from the line of Anthony Paolone with JPMorgan. Please proceed with your question.

Anthony Paolone

Analyst, JPMorgan Securities LLC

Q

Thank you, and good morning. First question relates to capital markets. Can you talk about just, you know, your guidance around a more muted sort of recovery there versus, you know, kind of what you're seeing right now today, trying to understand, like, if this volatility and rates over the last couple of months has actually paused things, or if you're just being prudent, kind of with the more muted rebound?

Emma E. Giamartino

Chief Financial Officer, CBRE Group, Inc.

A

So, Tony, thanks for the question. I want to step back and say when we look at our transaction activity for the year, just like we did in 2024, we look at leasing and capital markets combined, because we can get to our outlook across a broad range of scenarios and a broad range of rate outlooks.

And then the other comment I want to make on rates specifically in capital markets is that this is a much smaller portion of our business than would be implied by the number of questions we get asked about this business.

So, moving to capital markets specifically, what we saw in Q4 is transaction activity picked up across the board, but we're still far below peak levels, we're 40% of 2021, and we're not back at 2019 levels. We expect a continued pick up in 2025. We're very early in the year, but in the first six weeks of the year, we're seeing 20% growth in US sales activity. But we are being cautious because we don't know what the trajectory of rates will be through the remainder of the year.

On the financing side, we saw very strong growth in the fourth quarter. We're expecting that to continue. And one of the important components of financing is that there's still a tremendous amount of refinancing ahead of us. Maturities in 2025 will be at the same level of 2024, so that will drive our loan origination revenue above our sales revenue.

But to tie it all together, you've got to think about our leasing and capital markets revenue in combination. And as long as the economy remains healthy and it's growing, our leasing revenue is going to grow. There's upside to our numbers if rates come down more than everyone's expecting at the moment.

Anthony Paolone

Analyst, JPMorgan Securities LLC

Q

Okay. Thanks for that. Then if I, on that note, zoom out a bit for my follow-up to just the Advisory segment more broadly, how much of the growth in SOP that you expect there is from, like, say, revenue versus some margin expansion? Just trying to understand, how much is coming from each?

Emma E. Giamartino

Chief Financial Officer, CBRE Group, Inc.

A

So on the top line, we're expecting low double-digit revenue growth and then we're expecting margin expansion on top of that.

Anthony Paolone

Analyst, JPMorgan Securities LLC

Q

Okay. Yeah. Thanks for the color.

Operator: Thank you. Our next question comes from the line of Michael Griffin with Citi. Please proceed with your question.

Michael A. Griffin

Analyst, Citigroup Global Markets, Inc.

Q

Great. Thanks. Appreciate all the color you guys have given on the Project Management business and the growth opportunity there. Obviously, I know there's going to be some integration aspect of the Turner & Townsend part of that business in 2025. But as you look ahead to maybe 2026 and beyond, does the Turner & Townsend growth run rate of 20% make sense for that business? Because, I mean, it seems like there's a pretty large TAM there, so maybe how should we think about kind of long-term organic growth potential with the integration of that business?

Robert E. Sulentic

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

A

Michael, this is Bob. We don't expect that business to grow 20% on an enduring basis, but we do expect it to grow in the mid-teens. Turner & Townsend's portfolio of projects and the capability set they bring to the table is in areas that grow faster than what our legacy business grows. So they are, obviously, based on our opening comments, very big in data centers, they're very big in infrastructure, very big in green energy, and in traditional energy, they're very big in manufacturing, et cetera, areas that have lots of tailwinds.

What our legacy business did was much more focused on tenant finish projects for our occupier clients that would be attendant to the campuses they have and so forth. We also did some data center work, and we also did some more complex work, but Turner & Townsend tilts us heavily in the areas that are growing more rapidly. So we expect that business combined to grow in the mid-teens.

The Turner & Townsend piece was growing at closer to 20%, but when you combine the two and Turner & Townsend leads it, we see it as a mid-teens grower, and we're confident in its ability to do that. We also think there'll be some M&A opportunities that come out of that business.

Michael A. Griffin

Analyst, Citigroup Global Markets, Inc.

Q

Thanks, Bob. Appreciate the color there. And then, Emma, I just kind of want to go back to your comments around your development opportunities. It seems like you're pretty optimistic about the industrial portion of that. But, you know, if it seems like industrial leasing, at least this past quarter was flat sequentially. Should we take this as you're getting ahead of an expected recovery? And should we – do you expect an inflection point in fundamentals, you know, maybe toward the back half of this year?

Robert E. Sulentic

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

A

Michael, I'm going to take that one. What's happened forever in the Development business is that when the very best time comes around to acquire sites for future development opportunities, because there's not going to be big deliveries, because rental rates are going to recover over the next several years, many, many of the participants in the market go to the sidelines. Capital sources are afraid to invest, and developers can't acquire sites and start projects, because they can't raise capital. I was just at a conference offsite this week, and there was a lot of talk about that.

We have a business that, because of its track record, can do a good job of raising capital right now, but we also lubricate the raising of third-party capital by putting more of our own capital into those projects at this juncture.

So, last year, we've talked about it quite a bit. We, on balance sheet, capitalized two big portfolios, one office portfolio and one industrial portfolio – excuse me, one multifamily portfolio and one industrial portfolio. We think those projects are going to harvest at a time when there's very little new product coming on, when rental rates will have recovered, and when vacancies are down. We believe those projects will create great profit opportunities for us.

There's smaller investments we've made in other projects that we think will have the same dynamics when they harvest. We're going to start 50 projects in Trammell Crow Company this year, we think they're going to harvest at a great time, and that's really the strategy in that business. We have very seasoned developers. They're very, very good at land acquisition, they're very good at land development, which allows us to get land lifts on things like industrial at the right time and data centers at the right time.

But we believe that business is positioned to do very, very good things for CBRE, as evidenced by Emma's comment that we see \$900 million of embedded profit in what we have underway in the business now.

Michael A. Griffin

Analyst, Citigroup Global Markets, Inc.

Q

Great. That's it for me. Thanks for the time.

Operator: Thank you. Our next question comes from the line of Julien Blouin with Goldman Sachs. Please proceed with your question.

Julien Blouin

Analyst, Goldman Sachs & Co. LLC

Q

Hi. Thank you for taking my question. You know, there was mention of the Investment Management division being sort of one of the more underappreciated parts of the business and where there's maybe the most opportunity, I'd love to dig in a little bit on that.

And also when we sort of think about the guidance for 2025 being flat, I guess just trying to understand what the drivers of that are, is it more on the sort of cost side affecting the SOP growth? Is it top line? Is FX having a meaningful impact? Just sort of trying to unpick that.

Robert E. Sulentic

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

A

Julien, we think the entire Real Estate Investment segment of our business is underappreciated. It includes Trammell Crow Company, our Development business, I just commented on that.

Why do we think that our Investment Management business is underappreciated? It's a big business. It's generated tremendous returns for our clients over the last decade. We have a number of funds that are very high-performing funds, a logistics fund here in the US, a core fund in the US, a core fund in Europe, a value-add funds in the US and Asia, a secondaries fund in the UK, all of which have performed extremely well.

There were other funds that we would like to start that we have not been in a position to start because we didn't feel that we had the experience in our leadership to do that. With the changes we've made to our leadership team, bringing Adam Gallistel in to be our Chief Investment Officer and elevating Andy Glanzman, who's been on a rapid rise in his career in that business, and with our balance sheet strength that we now have, we believe we'll be able to do additional funds to fill out holes that we have in our offering right now, and we believe we'll be able to scale the funds that we have in place, again, by using co-investments to attract other capital. We don't think that's fully appreciated in the market, and we expect to see a lot of growth come out of that business and our Development business over the next several years.

Emma E. Giamartino

Chief Financial Officer, CBRE Group, Inc.

A

And I want to just comment on your question around flat SOP year-over-year. Two components. One is remember that in 2024, we had a large incentive fee in our highly successful US logistics fund. If you remove that incentive fee from 2024, we would be at high-teens SOP growth in 2025, which is a great outcome this early in the recovery.

The other thing is this is a huge year for – we expect this to be a huge year for capital raising, and it already is in January. We expect to raise a near-record amount of capital for our Investment Management business, which will position us very well to deliver really strong returns and strong growth in 2026 and beyond.

Julien Blouin

Analyst, Goldman Sachs & Co. LLC

Q

That's extremely helpful. I guess maybe turning to share repurchase activity, you know, it's been really encouraging, the update, since the end of the third quarter. I guess just zooming out, how do you think about share repurchase activity fitting into your strategy in 2025? And how do you see that sort of balancing against the acquisition outlook and sort of opportunities you see out in the market right now?

Emma E. Giamartino

Chief Financial Officer, CBRE Group, Inc.

A

So as you alluded to on the last call, we both declared that we believe our shares are significantly undervalued. We still think that's the case, given the growth trajectory of our business over the near and long term, and so, we took advantage of that over the past four or five months.

Moving into 2025, as we've always said, we're going to continue to prioritize M&A. We have a strong pipeline. It's very challenging to time M&A, and it's all about the timing of conversion and finding really great businesses that are going to help accelerate our strategy. So, we'll continue to prioritize M&A if we get towards the latter half of the year and a number of those don't come to fruition, we'll fill in with buybacks.

Julien Blouin

Analyst, Goldman Sachs & Co. LLC

Q

Okay. Great. Thank you.

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

Ronald Kamdem

Analyst, Morgan Stanley & Co. LLC

Q

Hey, congrats on a great 2024. Just two quick ones. If I look at the Global Workplace Solutions, so the facilities management and project management, looks like 2024 margin was sort of well-above what you guys expected. So I guess, I'm curious, as you're thinking about forward, I'd love an update on what the pipeline is looking at this point of the year and what more opportunities for margin expansion there may be there?

Emma E. Giamartino

Chief Financial Officer, CBRE Group, Inc.

A

So, there's two components of your question, I'll start with the margin piece. So in 2024, in the beginning of the year, you'll recall that we talked about our initiative to rapidly bring our costs in line with revenue in that business, and we were highly successful in getting those costs out in 2024 and resulted in solid margin expansion for the full year.

The benefit of those impacts has not entirely been realized in 2024. So we'll see continued margin expansion in GWS and now the new BOE segment in 2025.

From a pipeline perspective, our pipeline is very strong in enterprise. As I mentioned in my remarks, it's across sectors, technology, healthcare. We're seeing, a bunch of renewals within financial services. And so, we're very optimistic about the organic growth within our enterprise business.

And then in local, we have a really strong pipeline and a lot of growth to come in in the US market, which, as we've mentioned a number of times, really is barely penetrating the US market and so we expect to continue to see a ton of growth there.

Ronald Kamdem

Analyst, Morgan Stanley & Co. LLC

Q

Great. And then my second question, just staying on the Building Ops & Experience, sort of segment and so forth. If I sort of think about the combination of those businesses, just would love a little bit more color on just the competitive dynamics in that business and sort of what CBRE is sort of leg up is as you sort of go forward? Thanks.

Robert E. Sulentic

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

A

Yeah. Well, let me start by describing how we think about the opportunity to operate buildings around the world and then talk specifically about what we're doing here and why we combine those businesses.

First of all, we think the opportunity is defined by the base of commercial real estate buildings that exist around the world. Now, obviously, there's a whole lot less penetration in places like China than there is in places like the UK, but it is an enormous base of buildings, and it includes all kinds of asset classes, industrial, office, multifamily, hospitals, warehouses, manufacturing facilities.

When you look across that base of assets, the management of that base of assets is very, very fragmented. Even though we manage 7 billion square feet, that's just a small, small piece of that portfolio.

When you manage all those different classes of assets, there's some very common things that go on, procurement, building engineering, maintaining records on the maintenance of the building, and then responding to the – what you find in those records about preventative maintenance, accounting for the operations of the building. There's all kinds of commonality, whether you're managing a hospital or a complex warehouse.

We think by bringing these businesses together, that we'll generate some strong synergies and strong learning across that kind of horizontal element to that portfolio of buildings. Then we're building on top of that very specific capabilities. As we mentioned in our opening comments, we manage 700 warehouses. We manage a huge number of complex distribution centers around the world, a huge amount of office space. We're a very, very big manager of hospitals, and we have specific expertise in a vertical sense in each of those types of buildings.

What we think we'll do by bringing this all together is grow our knowledge, grow the synergies across them, be able to scale our capabilities, and by the way, add experience to the mix with Industrious and Jamie Hodari and really grow that business faster than it's been growing already, and it's already been growing well to the double digits.

We also think we'll end up with a capability that's different than has been seen in the market before. I would say, it's one of the areas of our future for CBRE that we're most ambitious about.

Ronald Kamdem

Analyst, Morgan Stanley & Co. LLC

Q

Thanks so much. That's it for me.

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

Stephen Sheldon

Analyst, William Blair & Co. LLC

Q

Hey, thanks. Just wanted to follow up on industrial leasing. I think you mentioned flat industrial revenue in the fourth quarter, and I think that would maybe reflect some stabilization versus prior quarters. So specifically, how are you thinking about the outlook for industrial leasing in 2025? And are you seeing early signs of things there maybe starting to pick up?

Robert E. Sulentic

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

A

We are expecting to see some pickup this year in industrial leasing, not huge. There is still some subleased space or underutilized space with the big users of industrial that needs to be worked throughout there. If that didn't exist, the leasing would grow faster.

But we expect to see industrial grow in the low single digits this year, and we expect vacancies to be down by the end of the year, new deliveries to be down by the end of the year. And so as you get beyond 2025, we expect to see leasing pick up, and by the way, the opportunity for delivering new space into market through our Development business to be really strong.

Stephen Sheldon

Analyst, William Blair & Co. LLC

Q

Got it. That's helpful. And then on the – just as we think about talent within Advisory Services, I guess, how are you kind of managing head count in this environment? Are you – have you been able to grow capacity, grow producer head count? How much competition is out there for talent at this point? Is that getting more elevated or just curious what you're seeing from a talent perspective and how that's playing into the capacity you have for things to recover?

Robert E. Sulentic

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

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There's always competition for talent, and it's a talent business. And there's always competition for talent. You know, that discussion comes and goes over the years and you think, oh my gosh, it's more competitive than it's ever been before.

I would say it's about like it's been before. We compete very effectively because particularly given what's happened in the last couple of years, the performance of CBRE, the stability of our whole business, the prominence of our brand, our ability to invest in the business, the leadership that our new advisory CEO, Vikram Kohli, brings to the table and his savvy around the technology that supports that business has been helpful to us in attracting people.

So I would say, we've got capacity in that business. We can grow our revenues without adding head count. We are likely to add some head count and do some recruiting. And you should expect the dynamics around that recruiting, the economics around that recruiting, to be about what they've been, maybe a little better. Some of our competitors aren't in a position to be as aggressive as they've been in the past on recruiting. So that situation is sorting out pretty nicely for us right now.

Stephen Sheldon

Analyst, William Blair & Co. LLC

Q

Got it. That's helpful. Great results.

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

Steve Sakwa

Analyst, Evercore ISI

Q

Great. Thanks. Emma, I guess, in terms of the guidance of the \$5.80 to \$6.10, how much of that incorporates sort of the potential \$2 billion of sort of capital deployment that you did in 2024, if you were to deploy that same amount in 2025? Meaning are all incremental buybacks, I guess, incremental to that earnings, or have you factored in some benefits from M&A and/or buybacks?

Emma E. Giamartino

Chief Financial Officer, CBRE Group, Inc.

A

So the short answer, and I want to provide a longer answer. The short answer is there is no incremental buybacks or M&A in that guide. So anything that we do about what we've already reported on will be incremental through EPS this year.

But I do want to talk more broadly about our outlook. Again, it is a wide range like we provided last year, but I want to provide some more context around it. So at the midpoint, if you look at this outlook, we believe it's very strong. If you take out the FX headwind, we're at a high-teens EPS growth rate, which is a really strong outcome

in a year when we're early in a recovery, but we're not expecting the acceleration that you'd see when interest rates drop to near zero.

Our resilient lines of business in aggregate, we're expecting to grow around 15% organically, which is a really fantastic outcome. And then there's upside to what we're expecting. So to get towards the higher end of the range, more development monetization could drive that, increased sales activity and we're also doing a lot of work around our interest expense. So we're doing a bunch of balance sheet hedging, which I expect should positively impact our EPS in the latter half of the year.

The downside would be around a slowdown in the economy, which would drive leasing growth a little bit slower than we're expecting. No one expects that to be the case. And so if you step back and you look at our entire outlook, we have more confidence that we'll be at the upside, the higher end of our range than the downside.

Steve Sakwa

Analyst, Evercore ISI

Q

Great. Thanks for that extra color. I guess, I don't know, Bob, or Emma, just – I was curious on the comments you made about office leasing and, you know, said you paced 28% gain in the US.

I guess my question was just more around the volume of improvement versus, you know, say, doing a short-term renewal [ph] pays CB1 rate (00:44:23), but a 10-year deal where the company's got confidence pays you guys a lot more. So was the upside more driven by more volume or just length of lease or both?

Robert E. Sulentic

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

A

Well, we saw volume increase, Steve, across many markets, I think, I would argue there was a pretty profound shift in what was going on in office leasing toward the back half of last year. So it had been a, let's call it a, Park Avenue phenomenon, that was really driving this thing.

Leases in New York, you know, there's big fees around leases in New York. Well, what we saw in the back half of the year was pretty strong growth in all the gateway markets and upward rental pressure in the Park Avenue type locations, except for really Boston and San Francisco.

We saw strong growth in other markets like Dallas and Atlanta and Seattle and even beyond that, and the next tier of cities, Minneapolis and Pittsburgh. So we saw something different happen. We spent a lot of time with our clients, and what our clients said is their view of their use of office space is kind of stabilized, and it wasn't down as far as we thought. They were down about 8% per employee. We thought it might be settling lower than that. And the ones that weren't certain about how much office space they were going to use suggested it was more likely they would use more rather than less.

And so I do think we're seeing a little bit of a return to the mean post-COVID. I don't think we're going to go all the way back to where we were in 2019. But it also appears, based on empirical evidence that we're going to go further back than we thought we were before. And so that's really what you're seeing come through our numbers, and that's what is causing us to view 2025 the way we do in terms of the growth of the business. Emma, you might want to add to that.

Emma E. Giamartino

Chief Financial Officer, CBRE Group, Inc.

A

Yeah, specifically to your question around term versus volume, it was a mix of all of it. So rent was, like Bob said, relatively flat year-over-year. We saw some increases in New York and other markets from a rent perspective, but we thought the big drivers were average square footage per lease, which is a big deal, that increased significantly and then term obviously increased as well, so it was a good mix.

Steve Sakwa

Analyst, Evercore ISI

Great. Thanks. That's it for me.

Q

Operator: Thank you. Our next question comes from the line of Alex Kramm with UBS. Please proceed with your question.

Alex Kramm

Analyst, UBS Securities LLC

Yes, hey, good morning, everyone. Just, I think this is mostly GWS or BOE related, but can you just remind us about your exposure to the US government. I know you did the J&J acquisition last year to scale up that business. So with all this talk about [indiscernible] (00:47:25) et cetera, just wondering how you think about any sort of risk or maybe near-term opportunities as all that is reviewed.

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Robert E. Sulentic

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

Alex, we don't have a lot of government exposure. J&J was an important acquisition that did give us government exposure, but think about where the exposure was, it's hospitals and defense. It's in areas that we wouldn't expect a lot of downward pressure.

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And more importantly, it's just a little teeny piece of our business that gives us exposure to expand, no matter how big the government is, it's very, very huge compared to what we're doing with them now. So we expect that to be an expansion opportunity.

The other thing that comes to mind quickly in our business whenever the government slows down, we've got a big business in Washington, D.C. on the Advisory side. We don't own space in Washington, D.C., we're not doing office development in Washington, D.C., but we do a lot of leasing in Washington, D.C. And so, if there's churn in that market because of downsizing or exiting spaces to go into smaller spaces, we think the churn probably will help our business there.

Now, it's not going to be big enough that it's going to be a needle mover for our whole company. But that's one of the good sized markets we have and we expect some churn there that might be helpful to our business.

We just had all of our advisory local market leaders from around the country in Dallas for a meeting this week. And I met with the woman that runs our D.C. business, and she was feeling like churn might be a good thing for them. So, you know, a lot of uncertainty about what's going to go on there. But we're not concerned that there's going to be any meaningful downward impact on our business anywhere.

Alex Kramm

Analyst, UBS Securities LLC

Fair enough. Thank you for that. And then I understand that capital markets are becoming a smaller and smaller piece of your revenue and earnings base. But maybe given that it's the beginning of the year, how do you think

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about the ultimate potential for that business? I heard you talk about slightly below 2019 and obviously much below 2021, but obviously the economy and your footprint has grown. So what's your latest thought about the ultimate, I guess, TAM, when we get into a much bigger environment? And what's the latest thoughts on how that flows to the bottom line? Thanks.

Emma E. Giamartino

Chief Financial Officer, CBRE Group, Inc.

A

So, if you step back and you think about prior recoveries, I think you're talking to what the growth rate should be over the next couple of years as we go through the recovery. We saw strong growth last year. Like I said, we're seeing on the sales side 20% growth in the early part of this year. That should continue through the first half of this year, but then you get into the second half and you're up against some challenging [ph] costs (00:50:21).

And again, we have to remind everyone, you're not seeing this flood of activity like you would see when the economy is challenged and rates drop significantly. And none of us expect that to happen this year. But you could see the steady growth continues through this year and the next year and it'll take a few years to get back to prior peak levels.

Coming out of prior downturns, even when we've had interest rates drop significantly, it's taken five years plus to get back to peak levels of capital markets activity. So once we get back there, the steady state growth in that business is around a mid to high-single-digit – mid-single digit range. But we have a long way to go. We have a good amount of growth until we get back to that level of growth.

Alex Kramm

Analyst, UBS Securities LLC

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Good. Thank you.

Operator: Thank you. And our next question comes from the line of Jade Rahmani with KBW. Please proceed with your question.

Jade J. Rahmani

Analyst, Keefe, Bruyette & Woods, Inc.

Q

Thank you very much. I was wondering if you could comment on a few discrete earnings items, including integration, cost reduction charges, tax rate, and share count? On the cost and add back side, I think those items were around \$350 million, half of which came in 4Q. So just wondering if that's an ongoing item, if there'll be some increase due to re-segmentation?

Second would be tax rates, which came in at 18%, and I noticed some tax and audit charges, if there's anything there you would like to mention. And finally, share repurchase, you said \$800 million since 3Q, which I think implies, you know, most of that was actually so far in 2025, I estimated around 2 million shares repurchased in 4Q, so if you could comment on those three items, please. Thank you.

Emma E. Giamartino

Chief Financial Officer, CBRE Group, Inc.

A

So starting with the adjustments, Jade, I provided a good amount of color in my opening remarks. We announced, as you recall, in early 2024, that we were going through a cost reduction initiative within our GWS segment to rapidly bring those costs in line with our revenue. That program was highly successful, but it is now complete. And so going into 2025, those restructuring costs that you see in our adjustments should largely go away.

M&A integration costs and amortization will, of course, continue as we continue to do M&A, but we are very focused on bringing those onetime restructuring costs down to near zero in 2025.

On the tax front, you'll recall that in Q1 2024, we had a large tax benefit. And for the full year, that drove our tax rate below what we typically see to 18%. In 2025, we expect our tax rate to return to normalized levels of 22%.

On the share repurchase front, we did \$500 million worth of share repurchases in the fourth quarter, and the remainder was in January and February.

Jade J. Rahmani

Analyst, Keefe, Bruyette & Woods, Inc.

Q

Thanks very much.

Operator: Thank you. We have reached the end of our question-and-answer session, and I'll now turn the call back over to CEO, Bob Sulentic with closing remarks.

Robert E. Sulentic

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

Thank you, everybody, and we'll talk to you again when we report first quarter results.

Operator: This concludes today's conference, and you may disconnect your line at this time. Thank you for your participation.

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