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CBRE Group, Inc. (CBRE)

Q1 2025 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Greetings and welcome to the CBRE First Quarter 2025 Earnings Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

I would now like to turn the call over to your host, Chandni Luthra, Global Head of FP&A and Investor Relations. 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 first quarter 2025 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 material.

Today's presentation contains forward-looking statements, including without limitation statements concerning the macro environment, 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 the morning's earnings release and our SEC filings. We have provided reconciliations of the non-GAAP financial measures discussed on our call to the most directly comparable GAAP measures, together with explanations of these measures in our presentation deck appendix.

I'm joined on today's call by Bob Sulentic, our Chair and CEO; and Emma Giamartino, our Chief Financial Officer. Throughout our remarks, when we cite financial performance relative to expectations, we are referring to actual results against the outlook we provided on our fourth quarter 2024 earnings call in February unless otherwise noted. Also, as a reminder, our resilient businesses include facilities management, project management, property management, loan servicing, valuation, other portfolio services and recurring investment management fee. Our transactional businesses comprise property sales, leasing, mortgage origination, carried interest and incentive fee in the investment management business and development fees.

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. CBRE had a strong start to 2025 across our lines of business and around the world. Notably, as the first quarter ended, most of our businesses were performing better than expected and our new business pipelines were strong. This was equally true for both our resilient and transactional businesses. Since then, driven by uncertainty created by the tariff situation, our outlook has become less clear. Even in light of this, our current activity levels and new business pipelines continue to be strong, just somewhat less than they were.

Looking at our Q1 results, we were particularly pleased with the performance of our Project Management and Building Operations & Experience segments in their first quarter of existence. Both segments generated strong

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financial results and evidenced the type of operational and strategic gains we were hoping for and expected when we reconfigured the business this way. The gains included shared client access, insights into opportunities for product development and stronger positioning to pursue certain types of M&A. Another notable example that has quickly emerged is the ability to migrate strong leaders into more compelling positions. This is great for our emerging talent and great for CBRE.

CBRE's strategy is underpinned by broad and deep capabilities across the dimensions of commercial real estate, asset type, client type, service type and geography. We couple this with a strong balance sheet, strong cash flow, and the experience and willingness to invest aggressively. This positioning allows us to drive resources into both steadily growing resilient businesses and high margin transactional businesses. The current market uncertainty aside, we are encouraged by the prospects that our strategic positioning and resource set have created for sustained, resilient growth.

With that, I'll turn the call over to Emma, who will discuss the quarter and our outlook.

Emma E. Giamartino

Chief Financial Officer, CBRE Group, Inc.

Thank you, Bob. First quarter core EBITDA increased 27% and core EPS by 10% compared with last year's first quarter. Recall that last year's Q1 included a large one-time tax benefit. Without that benefit, core EPS grew 39% year-on-year. These strong consolidated results include an approximately 2% to 3% currency headwind in the quarter. To better reflect operating performance, I will reference growth rates and margins in local currency throughout the remainder of my remarks unless otherwise noted. As Bob noted, we saw strength across our platform as our resilient businesses generated net revenue growth of 17% for the quarter, nearly matching the 18% increase in our transactional businesses. On a trailing 12-month basis, resilient businesses accounted for over 60% of our total SOP.

Turning to our segments, Advisory Services had a particularly strong start to the year. Net revenue growth of 16% exceeded expectations led by strong leasing and capital markets activity. Global leasing revenue growth accelerated to 19% in Q1 from 15% in Q4 of 2024. The US is particularly strong as overall leasing revenue increased 24%, driven by a 38% increase in office leasing revenue, which reached its highest level for any first quarter. We saw continued strong activity across gateway markets with each of the six markets delivering greater than 30% growth and over 55% growth in aggregate. At the same time, many non-gateway markets, including Atlanta, Dallas, Houston and Miami delivered double-digit growth. US retail leasing was also very strong, up 34%, and industrial leasing saw 12% growth as third party logistics companies drove higher demand. Outside the US, leasing trends were notably strong in Southeast Asia, especially office leasing in India, as well as in certain countries in Europe.

Capital markets activity was also strong. Global property sales revenue increased 13%, once again led by a 26% gain in the US, which saw a significant uptick in multifamily and industrial asset sales. Outside the US, we saw notable strength in Continental Europe. Our mortgage origination business had another strong quarter, with 53% growth in origination fees. US loan origination volume rose 69%, led by strong activity from banks and insurance companies on the back of continued outsized growth in refinancing, as well as strong demand for acquisition financing. Overall advisory SOP rose 31%, delivering strong operating leverage as SOP on net revenue margin increased by more than 200 basis points.

In the BOE segment, net revenue grew 22% with strength across facilities management, property management and contributions from Industrious, which we acquired at the beginning of this year. In facilities management, the enterprise business saw strong demand from clients in sectors such as technology, life sciences and healthcare.

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We also had a particularly strong quarter with hyperscale data center clients. In our local business, revenue grew by double digits, with continued outsized growth in the US as we expand our market share, as well as continued strength in the UK. Strong property management net revenue growth slightly exceeded expectations. This segment is benefiting from enhanced operating leverage, primarily resulting from last year's cost efficiency initiatives. This contributed to 38% SOP growth and a 100 basis points of net margin expansion.

Turning to the Project Management segment, we have completed the first quarter after combining CBRE's legacy project management business under Turner & Townsend leadership. Revenue grew 9% in line with our expectations, with continued mid-double-digit growth from legacy Turner & Townsend and mid-single-digit growth from CBRE's legacy project management. As we have outlined previously, we expect the integrated project management business to more closely resemble Turner & Townsend's growth and margin profile over time. In the legacy Turner & Townsend business, we had strong wins in infrastructure in the UK and Middle East as well as large new program mandates in real estate and the pipeline looks solid. Project management SOP margin on net revenue continued to improve year-on-year driving SOP growth of 14%. And it is noteworthy that this margin does not yet reflect the cost and operating synergies of bringing these two businesses together.

In our REI segment, investment management operating profit was up 43% year-on-year, exceeding expectations, primarily driven by higher net promotes and recurring asset management fees. AUM ended Q1 at $149 billion, up about $3 billion since the end of Q4, driven by net inflows, higher asset values and favorable currency movement. Our development operating profit was in line with expectations. We continue to grow our US and process portfolio starting 12 projects in the first quarter, compared with 26 in all of 2024 and capitalizing an additional five deals.

Now I'll discuss free cash flow, leverage and capital allocation. Trailing 12 months free cash flow was nearly $1.5 billion, reflecting 93% free cash flow conversion above the high end of our targeted 75% to 85% range. We repurchased nearly $600 million worth of shares since the end of the fourth quarter, underscoring our commitment to return capital to our shareholders and the unrealized value we see in CBRE shares. In total, we deployed approximately $1 billion of capital year-to-date across M&A, share repurchases and co-investments and ended the quarter with net leverage of less than 1.5 turns. Our capital deployment strategy remains consistent with our historical practice. We prioritize M&A and principal investments into our REI business and will balance our spend with share repurchases as long as our share price remains attractive. Absent large scale M&A or the onset of a recession, we continue to expect to end the year with under 1 turn of net leverage and we are willing to lever up to 2 turns for the right acquisitions.

Heading into Q2, our strong Q1 performance, strong pipelines and strong current activity, would have prompted us to raise our full year guidance to the high end of the range we set in February. However, given the significant market uncertainty related to tariffs, absent increased interest rate volatility or a recession, we are maintaining our 2025 core EPS guidance range of $5.80 to $6.10. Given our success in increasing the resilient parts of our business and our strong balance sheet, we are better positioned than ever before to not only weather a recession, but to take advantage of the opportunities created in a downturn.

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

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QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Thank you. Our first question comes from the line of Anthony Paolone with JPMorgan. Please proceed with your question.

Anthony Paolone
Analyst, JPMorgan Securities LLC

Q

Thanks and good morning. I think, Bob, you mentioned the pipeline's still strong, just somewhat less than maybe what it was. Can you maybe give us a little bit more color or detail on kind of what's been changing over the last few weeks, whether it's more wait and see, whether deals have been canceled, maybe whether there's certain regions that stand out as changing the most or business lines. Just any context around some of the more recent changes would be great.

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

A

You bet, Tony. And I want to stress you said it and I want to stress it, its things didn't go from good to bad. Things went from really good to not as good. We ended the quarter with strong pipelines. And as we've gone through the latter part of April, we've seen really good activity, but we have seen some implications of what's going on with the tariffs. So for instance, let's start with capital raising in our investment management business, we've raised almost $5 billion in the first quarter. We were surprised that we raised that much and we ended the quarter with a lot of enthusiasm and some of the capital sources from around the world that invest into our funds and the accounts we manage have slowed down a little. So our expectations have gone – by the end of the first quarter, had gone beyond where we were going into the year. And I'd say we've kind of pulled back roughly consistent with where we were going into the year now.

If you look at project management, lot of activity in project management, a lot of activity and Emma called it out in her comments and things like infrastructure, some big programs and projects around the world. But some corporates now who are uncertain about what's going to happen with them due to the tariffs, whether we might go into recession, have started to slow down on some of their bigger programs. So we went from a really enthusiastic picture to one where there's some choppiness out there. On leasing, one of the ironies with what's going on right now, industrial outperformed, that wasn't ironic, really just the market was good and industrial outperformed and office outperformed by quite a bit.

We think industrial is going to come back to kind of where we thought it was going to be going into the year. We don't really think that's going to be the case with office. What we have going on with office right now is two dynamics. One is a scarcity circumstance. And it's not just Park Avenue. It's all over the gateway markets and other big cities in second and third tier markets. Companies realize that office space is important to them. They realize that there is somewhat of a return to the mean and that they're forcing that in some cases, and it's happening on its own in some cases. And as a result, because there hasn't been much new office space created over the last years, last few years, for obvious reasons, the office space that's out there is in big demand and the choppiness that we're now seeing in people's confidence about the economy is really not impacting their enthusiasm for leasing office space that much at this point. So that's the one area where we probably don't see a lot of change. There are some big office leases that have big tenant rep. The people are pulling back a little bit from, but we're not seeing a lot of change there.

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We're continuing to see some good opportunities to capitalize development deals because what's going on now is keeping other capital sources out of the market. And we've talked kind of at length over the last couple of years about how when things are like they are now, you can gain real advantage there. So that's kind of the picture we're seeing out there. Emma, I don't know if there's anything you would add to that.

Emma E. Giamartino
Chief Financial Officer, CBRE Group, Inc.

A

I think you captured all of it.

Anthony Paolone
Analyst, JPMorgan Securities LLC

Q

Okay, great. Thanks. Thanks for all of that. And then I just have a follow up on project management. Now that it's broken out and combined, I guess as we look out it's been an area where you've been pretty confident about the growth and I guess, you've finished projects and then you have to replace them. And so I guess like, what can we look at as we start to look out the next few years that the replacements are going to be big enough to net to sort of the growth level of that that you've kind of talked about like kind of in the double digits and stuff here like especially given, like you said, some of the – some of these things may pull back a bit, like is it just the pipeline that you say you have or how do we kind of look at that?

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

A

It's really important to kind of dissect what's going on with our project management business. So the market's going to be potentially a little slower in some areas for the reasons we've already articulated on our prepared remarks and then the response I gave you to your first question, Tony. But you have to look at specifically what's going on inside CBRE and inside the combined CBRE, Turner & Townsend business. We are in the door and doing work for a lot of big corporates that had opportunities that we weren't positioned to execute on because they were big, complex projects. We have Trammell Crow Company that sources land sites and can do land development for big projects that we weren't positioned to execute on ourselves.

Turner & Townsend had opportunities that they didn't have the talent to execute on. So in the United States, Turner & Townsend did not have a sizable platform. They didn't have the ability to take on certain things. So there's the trajectory of the market and the volume activity broadly defined in the market. There's also the positioning of our combined business that provides just a much better overlay to whatever the market circumstances are than we had previously. And again, we now have, I think one of the things that's going to surprise people that watch our company over the next couple of years is just how much different that project management business is than it used to be. It's got 15,000 project management, program management and cost consultancy professionals. It's got a huge opportunity that it was lightly penetrating here in the United States. So there's going to be a market circumstance that we're all going to learn about, that's going to be impacted to some degree by tariffs in a recession or not. But then there's going to be the business we've built and the trajectory of that combined business relative to what it would have been had we not combined those businesses. And that's where a lot of our enthusiasm for the growth of that business comes from.

Anthony Paolone
Analyst, JPMorgan Securities LLC

Q

Okay. Thank you for everything.

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

Julien Blouin
Analyst, Goldman Sachs & Co. LLC

Q

Yes. Thank you for taking my question. I think you mentioned in the release that you're maintaining guidance absent increased interest rate volatility or recession. I guess, can you give us a sense of what a recession would look like for your earnings? And just given how much higher the mix of resilient businesses are now versus in prior recessions, how much better would your earnings sort of hold up this time around?

Emma E. Giamartino
Chief Financial Officer, CBRE Group, Inc.

A

Yeah. Thanks, Julien. So first, I just want to comment on our guidance. We maintain our guidance and we do think there's a wider range of outcomes than we thought back in February when we first provided our guidance for the year. And it's difficult to provide specifics, but we can frame how we're thinking about where we'll end up on the year. And I do – these components are really important to acknowledge. First, absent tariff uncertainty, as Bob alluded to in his remarks going into the second quarter, given the strong performance in Q1, given the momentum we're seeing in Q2, we would have likely increased our guidance from the range that we set at the beginning of the year. Now we would end up in the high end of our range if we simply flowed through our Q1 outperformance. The midpoint of our range would mean something like leasing and capital markets slows down in the back half of the year. And on a downside, it would mean that those transactional revenue slows down even more, but we're likely not in a recession.

In terms of your question around a recession, it's difficult to frame that because of the severity and degree of a recession can vary significantly. But what we do know is because we are significantly more resilient than we were even a few years ago, definitely more resilient than we were coming out of the GFC. And as a reminder, we're 60% resilient SOP today. Back in 2011 we were roughly 11%, 20% SOP was resilient. So we've meaningfully increased the resilience of our business and those – that resilient profits is growing at a double digit rate. So today, if you were to put our business through the same type of a recession that we saw in the GFC, our declines would be materially lower so GFC our declines were 85% peak to trough. Now it would be less than half of that.

Julien Blouin
Analyst, Goldman Sachs & Co. LLC

Q

Thank you. That's very helpful. And I guess turning to sort of capital markets activity, it sounds like things continue to progress well thus far in April, just maybe not quite as strong as they were. What are you seeing maybe in terms of your pipelines of future capital markets activity or broker opinions of value? What is that telling you about where we could trend in the second quarter?

Emma E. Giamartino
Chief Financial Officer, CBRE Group, Inc.

A

So I'll speak to what we saw through Q1 and then what we're seeing in the beginning of Q2. Through Q1, with strong capital markets activity, particularly in February and March, it slowed down somewhat, but not to a meaningful degree. And when you got into April, there was somewhat of a pause because of the significant amount of uncertainty. But we're not yet seeing any of that impact our transaction activity. So in the first few weeks of April, our investment sales activity is very strong, it's actually accelerated. On the loan origination side, we saw a significant increase in rate locks when the tenure fell below 4% for a short period of time. So activity is

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continuing and our pipelines remain very strong. And our belief is, as long as rates on the capital market side, the tenure begin to go above 5%, activity is going to continue.

Julien Blouin
Analyst, Goldman Sachs & Co. LLC

Q

Thank you very much. That's very helpful.

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, just two quick ones. So one is just on the project management business going back to that. And I think the comments that the margins do not reflect the cost of operating synergies and so on and so forth. I'm just curious if you can give us some high level thoughts and just the margin profile of that business and sort of in this environment, are there any other sort of tools that you could use to protect margins?

Emma E. Giamartino
Chief Financial Officer, CBRE Group, Inc.

A

So we believe the long term margin for our entire project management segment should trend towards what the legacy Turner & Townsend project margins have been, which, as you know, have trended towards the mid to high teens range. And our legacy project management business has had a margin that's slightly below that. So as you're seeing in our results, it's the blend of that margin. It's a little below 15%, we think simply through cost synergies, redundancies that you really haven't gone after, back office integration, we'll be able to improve that margin over the next couple of years.

Ronald Kamdem
Analyst, Morgan Stanley & Co. LLC

Q

Great. And then my second question is just capital allocation, obviously, the buyback in the quarter, just curious how conversations are going on the acquisition front in a market like this? Do they sort of die off? Do you become more opportunistic? Any color there would be helpful. Thanks.

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

A

Yeah. Ronald, as it relates, I think you're talking when you say acquisition, you're talking to M&A, right?

Ronald Kamdem
Analyst, Morgan Stanley & Co. LLC

Q

Exactly.

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

A

Yeah. So a couple of things. First of all, we have refined and refined our M&A strategy over the past few years. We did a lot of strategy work, we talked about it last year. And we have a very clear view as to where we want to do M&A in the business now. And what we're finding is that as the markets remain choppy, the kind of companies that we're interested in, in part we're interested in because they really like the idea of being part of our platform.

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And it's our observation in the various conversations we're taking part of now that choppiness builds momentum for us and the M&A work we're doing. And we would expect that to be the case and we would expect the approach we take to M&A to play out nicely in a difficult market. And we've – I've been around now for multiple downturns and we always talk about, oh, gee, when things get tough, we'll take advantage of it. And we do to varying degrees, I don't think we've ever been as well positioned to take advantage of a downturn as we are now because of our balance sheet in part, but also because of the success we've had with the kinds of companies that we're interested in acquiring and are interested in being acquired by us.

Ronald Kamdem
Analyst, Morgan Stanley & Co. LLC

Q

That's helpful. Thank you.

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, good morning. Thanks for taking my questions. Maybe starting with Bob. Really appreciate the detailed commentary on Tony's prior question. But I wanted to drill down a little more on the industrial leasing outlook. It's great to hear about the outperformance there in the first quarter, but I would just think it would be tough for clients to make leasing decisions right now with industrial footprints, given all the moving pieces until there's more tariff clarity. So curious if you have any additional color on what you're seeing there, especially later in the quarter and so far in April?

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

A

Well, it is tough to give more clarity than we've given. But here's what we think. We think the kind of, as we called it, outperformance in industrial leasing that we saw through the first 90 days of the year is going to come back a little and it's going to come back to where we thought things were going to be. I will say that the uncertainty – we've talked about it at length here, what we think is going to happen and how we think it's going to play out. And one of the ways we've concluded that you can look at it is a lot of the momentum was with 3PLs. And the reason 3PLs is because the primary users of the space have decided the uncertainty is going to cause them to back off on commitments a little. So they instead lease from the 3PLs, it gives them more flexibility and then in turn the 3PLs have to do leases. The big leases, the 700,000 square foot and above have slowed down below that, there's been good momentum and we think we're going to continue to see that, but we're not going to see that to the degree that we saw it in the first quarter. And so, to be a little redundant here, we're kind of assuming that industrial leasing is going to be back to where we thought it was going to be when we entered the year, which is kind of flattish to 2024.

Stephen Sheldon
Analyst, William Blair & Co. LLC

Q

Okay. Got it. That's very helpful. And then maybe one quick follow up for Emma. If we do see macro trends deteriorate, become a bigger headwind, how would you think about managing the cost structure? You obviously had some efficiency initiatives in recent years. I think CBRE always seems to be operating pretty leanly. So are there levers you can pull to support profit trend, I guess, if top line trends do deteriorate?

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Emma E. Giamartino
Chief Financial Officer, CBRE Group, Inc.

A

Yeah. Absolutely. And it's something that we're always planning for and thinking about. And I think we've materially improved our ability to quickly react and take action when we need to around our cost structure. And we've always talked about our cost structure being inherently variable. Our commissions move, our commission cost move with revenue or decline with revenue with our bonuses and profit shares and mostly our transactional businesses flex with revenue. And the other levers we have are our typical discretionary expenses, we can pull back when we need to hire and we can pull back when we need to very quickly, we think we have a lever with recruiting, if that's something we think makes sense. But the main point is that we have the ability to act and we've shown that in the past two recessions or downturns in real estate.

Stephen Sheldon
Analyst, William Blair & Co. LLC

Q

Got it. That's helpful. And maybe just [ph] what in fast quote (00:31:19) hiring, I guess, have you – have CBRE changed hiring plans for the year?

Emma E. Giamartino
Chief Financial Officer, CBRE Group, Inc.

A

We've not.

Stephen Sheldon
Analyst, William Blair & Co. LLC

Q

Perfect. Thank you.

Operator: Thank you. Our next question comes from line of Manus Ebbecke with Evercore ISI. Please proceed with your question.

Manus Ebbecke
Analyst, Evercore Group LLC

Q

Good morning and thanks for taking the question. This is Manas on for Steve Sakwa. Just wanted to quickly ask about one item and that is currency headwinds. I know you quoted around 2% to 3% of headwinds in the first quarter. The dollar has obviously weakened a little bit since in April. So I wanted to check in and see if you have any thoughts around how currency headwinds potentially may impact the second quarter more than the first quarter or what your general outlook is and how that is fitting into kind of like the guidance range?

Emma E. Giamartino
Chief Financial Officer, CBRE Group, Inc.

A

So it's obviously difficult, very difficult to predict what will happen. But if you just take today's forward curve, those headwinds are pretty much entirely removed. So they would be reversed. They've become tailwinds in the second quarter. But I do want to emphasize that this, we all know that this is moving very quickly and it's pretty volatile. So it's just difficult to predict what will actually happen over the next three quarters.

Manus Ebbecke
Analyst, Evercore Group LLC

Q

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Okay, I mean, for sure, that makes a lot of sense. And then maybe one follow up question on capital usage for – you obviously used around, I think, around $600 million worth of share buybacks so far. And we wanted just to see if that was maybe changed. How you think about share repurchases going into the second quarter as obviously the macro environment has changed a bit?

Emma E. Giamartino
Chief Financial Officer, CBRE Group, Inc.

A

So our capital deployment strategy has been unchanged for a few years now. We always prioritize M&A and REI as co-investment and we're actively looking at a number of deals in our pipeline across both of those pieces. And if those convert and that's what we'll prioritize with our capital and as we're seeing that there's a slowdown in M&A or REI, which we're not seeing right now, then we'll balance that out with share repurchases as long as we believe our price is attractive.

Manus Ebbecke
Analyst, Evercore Group LLC

Q

Perfect. Thank you. That's it for me.

Operator: Thank you. Our next question comes from the line of Peter Abramowitz with Jefferies. Please proceed with your question.

Peter Abramowitz
Analyst, Jefferies LLC

Q

Yes. Thank you for taking the question. First, just wanted to go back to one of Emma's comments. I think you mentioned that as long as the tenure remains below 5% is kind of the key level that you can sort of maintain your pace in capital markets activity and deals that still happen. I guess I just want to make sure we're interpreting that correctly, is that I guess you think even up to that 5% level, you can kind of hit what's in your guide in terms of this, I believe you've called it a sort of slow and steady recovery in capital markets.

Emma E. Giamartino
Chief Financial Officer, CBRE Group, Inc.

A

So there's a lot of elements that go into whether or not capital markets activity will continue, specifically to loan originations, we see activity continue as long as interest rates are stable and below 5%. We've seen things materially slow down. If we believe things have materially slowed down, they go above 5%. But what's important to remember on the loan origination side is that a 55% or 60% of the activity that we're seeing is refinancing. And those deals need to continue to happen. And so we are confident that that activity will continue. But yes, it's right staying below a certain level, but they also need to be stable. The volatility creates – it just causes investors to pause.

Peter Abramowitz
Analyst, Jefferies LLC

Q

Right. That's helpful. Okay. And then so just to clarify one of your other comments, I think was that activity slowed right after – right at the beginning of this month, but has actually accelerated since. Was that in reference to just the loan origination or advisory sales as well?

Emma E. Giamartino
Chief Financial Officer, CBRE Group, Inc.

A

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Its sales in March, sales slowed somewhat, but it's just – it's one month, it's hard to see a trend and it picked right back up in April.

Peter Abramowitz
Analyst, Jefferies LLC

Q

Okay, got it. And then one more maybe a kind of a thematic question for Bob. Stepping back, just thinking about kind of the political risk in the broader sense with this administration. I think one of the thoughts out there is that we could have these rolling 90 day extensions with the tariffs as the White House negotiates. And this could go on for a very long time. So just kind of curious, how do you think longer term about how to discount that uncertainty in such a fluid situation as you think about the future of your business because it is certainly kind of a unique situation?

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

A

Well, it is, Peter, very unique. And I think it's fair to say that we don't have any insight into the uncertainty that others haven't already articulated. The big banks have reported and they've given their view on that. And they spend a whole lot more money to try to figure out that kind of stuff than we do. We've adjusted our view of things to take into account considerable uncertainty, which causes us to have a view of higher risk of recession than we had before, which causes us to have a view of a higher risk of people being on the sidelines because they just don't want to act in uncertain times and that's all factored into what we've said about the performance we expect for the rest of the year. And I don't think we have – it's not that we're unwilling to declare beyond that. We just don't have insight beyond that. It all assumes a lot of uncertainty, a lot of choppiness and a risk of recession that we didn't have before.

Peter Abramowitz
Analyst, Jefferies LLC

Q

All right. That's helpful. Thanks for the time.

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

Patrick Joseph O'Shaughnessy
Analyst, Raymond James & Associates, Inc.

Q

Hey, good morning. Your non-GAAP reconciliations alluded to a winds down of a business within Real Estate Investments. What's that referring to?

Emma E. Giamartino
Chief Financial Officer, CBRE Group, Inc.

A

It's referring to Telford.

Patrick Joseph O'Shaughnessy
Analyst, Raymond James & Associates, Inc.

Q

Got it. Thank you. And then when did the Industrious deal close? And how should we think about the financial contribution from that business?

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Emma E. Giamartino
Chief Financial Officer, CBRE Group, Inc.

A

It closed in mid-January, so for the most – for the majority of the vast majority of Q1.

Patrick Joseph O'Shaughnessy
Analyst, Raymond James & Associates, Inc.

Q

Got it. And is there anything you can share in terms of the expected revenue contribution or margin profile?

Emma E. Giamartino
Chief Financial Officer, CBRE Group, Inc.

A

We haven't provided those details, but it's performing...

Patrick Joseph O'Shaughnessy
Analyst, Raymond James & Associates, Inc.

Q

Thank you.

Emma E. Giamartino
Chief Financial Officer, CBRE Group, Inc.

A

Yeah. It's performing as expected.

Operator: Thank you. 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. Can you give any color on what drove the margin gains in Advisory and BOE? Net revenue is pretty close to our forecast, so operating leverage was much stronger. Just wanted to see if there's any further point you can make on that. It was much stronger even considering the revenue growth within capital markets and leasing.

Emma E. Giamartino
Chief Financial Officer, CBRE Group, Inc.

A

So Advisory, it is incremental margins on the transaction revenue we had – as we've spoken to both leasing and investment sales and loan origination activity, which is all higher margin, came in above our expectations. Within BOE, the 100 basis points of margin expansion in the first quarter was in line with what we saw in the back half of last year and that was all the cost savings initiatives that we started mid-2024 and you're seeing the run rate continue to flow in.

Jade J. Rahmani
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Okay. Thanks very much. You've been leaning into key areas as the market went through a correction over the last couple of years, specifically in REI and data centers. And I was wondering if you're seeing any slowdown in activities within data centers, whether it be new deals or leasing. And then on the REI side, are you changing how you think about making new investments, considering growing uncertainty around construction costs?

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

A

Yeah, Jade, we're – the way to think about us as it relates to data centers is we're a service provider, not an owner. And we had a really good quarter with data centers. We have a data center services business that includes an M&A deal we did called Direct Line, which provides some additional tech and technical services that go what we had done historically, very good, very good quarter for that business. That acquisition is meaningfully outperforming underwriting. Turner & Townsend is a big project manager, the creation of new data centers, they have a lot of work going on. They have seen some pullback from some of the hyperscalers that we all read about. But they're pretty much at capacity in terms of their ability to do that kind of work. So you're not seeing that impact us.

Trammell Crow Company has kind of a unique role in the data center world. They are in a position to acquire land and create the improvements you need on land, both kind of soft improvements in terms of entitlements and then the hard improvements in terms of gaining access to electricity that makes that land a lot more valuable than it was when they acquired it. We think that that is going to play out for us this year the way we thought it was going to play out when we went into the year. So some of the headlines you're reading about a little bit of the slowdown by hyperscalers and some of the big name hyperscalers and starting new projects is not likely to roll through our business this year relative to what we thought we were going to do with that business. And we've seen a good start to the year and expect it to be a strong finish to the year.

Jade J. Rahmani
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Okay. And then just a follow up to that was on the construction costs, if just broadly Trammell Crow is changing at all, how they're thinking about new investments, considering uncertainty around construction costs.

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

A

The first thing I want to comment on is risk in the in-process portfolio associated with construction costs that might be impacted by tariffs in Trammell Crow Company. When you look at that in process portfolio, a significant portion of it is either complete or near complete and leasing up or just ready to be sold. So that just definition-ally wouldn't be impacted by the costs associated with tariffs. When you go to the stuff that's under-construction, much of that is protected by GMP contracts. So if their cost increases, you'd be protected there. And beyond the GMP contracts, we have contingencies inside our budgets. And when we report the amount of profit we have captured in our portfolio, we assume those contingencies will be used. So if the contingencies get chewed up by some cost increase, then that's significantly covered beyond those GMP contracts by the contingencies we carry.

But even beyond that, I think there is a little misunderstanding of if you build a $100 project, what goes into it. Probably half of the project or more is land, engineering cost, site work costs, commissions on lease up, et cetera, that won't be impacted at all. And then when you get to the other half, the construction costs, there's a huge component of construction costs that are driven by labor. There's a very significant portion of construction costs that are materials sourced here in the US, not from overseas. And then there's a smaller portion that would be sourced from places where the tariffs might impact that. When you roll that – all that through the number and overlay the GMP contracts, there's just not a lot of risk from tariffs in that portfolio of projects. And then when you look at future projects, a lot of dynamics will come into play. But if we see costs increases and if we see inflation roll through our economy as a result of those cost increases, and if you don't see a lot of new projects starts, which we don't think you will, what you're likely to see is rental increases that will cover the cost of construction

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that goes up as a result of tariffs. So, we're very attentive to what might happen in this regard, but we're feeling pretty well mitigated at this point.

Operator: Thank you. Our final question this morning comes from the line of Seth Bergey with Citi. Please proceed with your question.

Seth Bergey
Analyst, Citigroup Global Markets, Inc.

Q

Hi, guys. Thanks for taking my question. I just wanted to go back to some of your comments on leasing. Can you provide any kind of color as to, if you're seeing any differences between smaller or larger tenants or US tenants versus kind of global tenants? Thanks.

Emma E. Giamartino
Chief Financial Officer, CBRE Group, Inc.

A

So I can give you a high level both office and industrial what's driving that growth, globally on office pretty much all metrics are up square footage, term, rent is up slightly. On the industrial side, is as you would expect, square footage is up slightly, term is up slightly, and rent's been flat.

Operator: Thank you. Ladies and gentlemen, that concludes our time for questions. I'll turn the floor back to Mr. Sulentic for any final comments.

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

Thanks, everybody, for joining us today. And we'll talk to you again when we report our second quarter earnings.

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

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