29-Jul-2025

CBRE Group, Inc. (CBRE)

Q2 2025 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Greetings and welcome to the CBRE Group Second 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 for CBRE Group. Thank you. You may begin.

Chandni Luthra

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

Good morning everyone and welcome to CBRE second 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 materials.

Today's presentation contains forward-looking statements, including without limitation statements concerning our business outlook, business plans and capital allocation strategy, as well as our earnings and cash flow outlook. These statements involve risks and uncertainties that may cause actual results and trends to differ materially. For a full discussion of the risks and other factors that may impact these 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. Throughout our remarks, when we cite financial performance relative to expectations, we are referring to actual results against the outlook we provided on our first quarter 2025 earnings call in April, unless otherwise noted.

Also, as a reminder, our resilient businesses include facilities management, Project Management, property management, loan servicing, valuations, other portfolio services and recurring Investment Management fees. Our transactional businesses comprised property sales, leasing, mortgage origination, carried interest and incentive fee in the Investment Management business, and development fee.

I am joined on today's call by Bob Sulentic, our Chair and CEO; and Emma Giamartino, our Chief Financial Officer.

Robert E. Sulentic

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

Thank you, Chandni, and good morning, everyone. The strong momentum we exhibited to start the year continued in the second quarter. Despite uncertainty in the macro environment, occupier and investor clients largely proceeded with executing their plans. Both our resilient and transactional businesses achieved strong double-digit revenue growth.

Resilient revenues rose 17%, surpassing the 15% growth rate for transactional businesses. Resilient revenue growing faster than transactional revenue during a market recovery attests to the progress we've made with our resilient businesses. We are especially focused on our two new segments, Building Operations & Experience and Project Management, and are pleased with the progress they're making.

In BOE, we continue to grow revenue at a mid-teens rate and delivered significant operating leverage. As the year unfolds, we expect to identify more opportunities to benefit from synergies available across our nearly 8 billion square foot management portfolio. Project Management achieve strong top line and SOP growth. This performance reflects the benefits we've been realizing in the six months since we joined our legacy business with Turner & Townsend. Although we saw some impact from large corporate clients slowing their capital spending, this was more than offset by continued strong gains across the rest of the Project Management business. Underscoring the resilience, Turner & Townsend's legacy business has contributed to the combined platform.

Our Advisory segment had an excellent quarter as sales and leasing transaction activity was strong around the world. Global leasing revenue was the highest for any second quarter in company history, led by the continued strong recovery of demand for office space.

In light of our outperformance in the year's first half and the pipelines across our business, we're raising our core EPS expectations for the year to a range of $6.10 to $6.20, achieving the midpoint of our guidance would represent better than 20% growth for the year. We expect to set a new earnings peak this year, just two years after the 2023 trough in the commercial real estate downturn, even though capital markets activity remains well below prior peak levels.

Now, I'll turn the call over to Emma, who will discuss the quarter and our outlook in more detail.

Emma E. Giamartino

Chief Financial Officer, CBRE Group, Inc.

Thank you, Bob. Good morning, everyone. Our second quarter results exceeded our expectations with core EBITDA and core EPS growing 30% and 47% respectively. I'll detail our results for each segment. Note that all segment level growth rates are in local currency and do not reflect the benefit of an approximately 1% FX tailwind during the quarter.

In Advisory Services, revenue rose 14% and SOP grew 31%, driven by 250 basis points of margin expansion. Global leasing revenue rose 13%, with double-digit growth across all major regions. US leasing was led by a 15% increase in the office sector, driven by larger leases and broad-based growth across the country. Growth in non-gateway markets outpaced gateway markets, pointing to increased momentum in regions outside of the largest cities.

US industrial leasing growth was better than expected, with revenue up 15%, as third party logistics providers once again drove activity. Like leasing, our capital markets businesses performed well. Global property sales rose 19%, accelerating from the first quarter. In the US, property sales increased 25%, with notable strength in data centers, office and retail. Outside the US, sales are particularly strong in India and Japan. Mortgage origination fees increased by more than 40%, with strong volume from the GSEs, debt funds and CMBS lenders.

Turning to our BOE segment, we saw 18% top line growth and 21% SOP growth. Our Enterprise businesses performance was supported by a balanced mix of new client wins and expansions in the technology healthcare and industrial sectors and continued strong growth with hyperscale data centers. Our local business once again delivered double-digit revenue growth, led by ongoing success in the UK and the US.

In Property Management, we secured another major portfolio mandate from a large institutional investor. In the Project Management segment, we achieved 13% revenue growth and 18% SOP growth. The Turner & Townsend

CBRE Project Management integration is progressing well. Turner & Townsend's legacy business delivered mid-teens revenue increases across most regions, with notable growth in its largest geography, the UK.

The legacy CBRE Project Management business saw low double-digit revenue growth led by the financial services and energy sectors. This is notable given a slowdown in capital projects from some clients who are most impacted by the uncertain economic environment.

In Real Estate Investments, segment operating profit was up in line with expectations for the quarter, although against a light comparison with the prior year. In Investment Management, we saw growth in recurring revenue and recurring SOP and AUM ended the quarter at $155 billion, an increase of $6 billion from the end of Q1, mainly driven by favorable currency movement. Although certain investors remain cautious on making capital commitments, we anticipate capital raising will continue its upward trajectory, building on the positive momentum of the past two years.

In development, operating profit was in line with our expectations as we anticipate most of our asset sales to occur in the fourth quarter, including a few data center development sites. The estimated profits embedded in our in-process and pipeline portfolio remain consistent with last quarter at approximately $900 million.

Now, I'll turn to our balance sheet and capital allocation. On a trailing 12 month basis, we generated $1.3 billion of free cash flow in line with expectations. We continue to expect over $1.5 billion of free cash flow for the full year, with full year free cash flow conversion toward the high end of our long-term target range of 75% to 85%. During the quarter, we completed a $1.1 billion bond offering and expanded our revolving credit facility, increasing our liquidity to $4.7 billion. We repurchased a modest amount of shares as we continue to balance M&A opportunities with buybacks in line with our long-term capital allocation strategy.

Net leverage stood at just under 1.5 turns at quarter end and we continue to expect to end the year with about 1 turn of net leverage absent any large M&A.

As Bob mentioned, we are increasing our full year core EPS guidance to a range of $6.10 to $6.20. This forecast is based on constant currency and would increase by at least $0.10 based on today's forward FX curve. Our increased earnings outlook is driven by outperformance in Advisory and BOE and is underpinned by the assumption that the economy remains resilient with limited risk of a recession later this year.

With that, I'll turn the call back to the operator for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. At this time, we'll be conducting a question-and-answer session. [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

Great. Thanks. Good morning. My first question relates to the leasing business and more particularly in office. If we go back to I think the last couple of quarters of last year, in the first quarter of this year, office had kind of been up, I think, closer to maybe 30% perhaps, or at least in the US, and I think that was up about 15% in the quarter. And so just trying to understand if the comps get a lot harder as we go into the back half of the year or if any demand you think was maybe pulled forward or what needs to happen to see office continue to show a strong leasing recovery?

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

A

Tony, the comps do get tougher. The leasing business is going quite well now for office buildings. It's expanding – the momentum is expanding from Park Avenue type locations in the gateway cities to broader swath of the gateway cities. And now, in a very big way in the second tier markets and smaller markets below that. And we're seeing several things contribute to that. One is, there just no doubt that there's some element of a return to [ph] the mean (00:21:24) with COVID so far in the rearview mirror.

Secondly, we know from the work we do with our corporate clients here in the US and around the world, that they really are serious about using office space to get their employees connected, more productive, more excited about the companies they work for. And that's been a big plus for us in that business. So, you have all those things going on. We expect office building leasing to continue to be strong. One of the things that's going to create some challenges is lack of supply in certain areas. But the compares do get tougher as 2025 rolls on.

Anthony Paolone
Analyst, JPMorgan Securities LLC

Q

Okay. Thanks. And then just my second question is, Bob, you mentioned, I think in your prepared comments, just potential synergies that you're working on in BOE. And just curious if you can give us any additional context on order of magnitude and what that can mean for, say, 2026? I'm guessing by the time it takes effect.

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

A

We're not ready to quantify that yet. We actually haven't quantified it yet in house because we're still working on it. But what's going on there, Tony, and the whole motivation – or not the whole motivation, but a significant motivation for bringing all those building management businesses together, enterprise facility management, local facility management, property management is that there are big common elements to managing almost all types of business and all types of service offerings for these various clients, building engineering, procurement of various types, information used to run the buildings that would lead to efficiency.

And we are aggressively working on that now in that business to try to extract those synergies. And we declared that we expect them to be significant, but we haven't quantified them yet. We're excited about the way it's going so far.

Anthony Paolone
Analyst, JPMorgan Securities LLC

Q

Okay. Thank you.

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

Great. Thank you for taking my question. I guess on the integration of Turner & Townsend with the legacy Project Management business, can you give us a sense of the benefits you've seen to date? And how long could it take before we start to see real improvements on the legacy CBRE Project Management business? Or conversely, are you seeing any challenges in achieving those expected integration benefits?

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

A

Julien, I'll start with the last part of your question and then go back to the first. We're not seeing any challenges we didn't expect. When you bring two businesses like that together, it is challenging, and it's in those challenges that create opportunities. So, just as an example between project managers, program managers and cost consultants in that business today, we have 15,000 professionals. There were some inefficiency in the use of CBRE professionals who were assigned to specific clients or doing tenant rep type work in our Advisory business and weren't fully utilized all the time.

While Turner & Townsend was essentially sold out in parts of their business around the world. We can move those professionals in the areas of need now in a way that we couldn't move them before. One of the things you have to do to do that, though, is you have to have systems in place. We were operating the legacy CBRE business in a very different way than the biggest program managers and engineering firms around the world to operate their businesses. Turner & Townsend was operating in that way with time sheets, with technical systems that underpin those people with training, et cetera that we didn't have.

They were moving those professionals onto those systems now, getting greater efficiencies and that's one of the reasons you're seeing some margin advantage there. Secondly, we have seen significant, very specific incidents where our ability to bring Turner & Townsend into legacy CBRE clients has resulted in large new business for the company, both bringing them into our enterprise facilities management clients and also the Trammell Crow development clients. So, we're seeing both cost and revenue synergies and we expect that to continue those synergies to build over the next couple years and have a very, very different, more compelling business. I've said this before, nothing like what we had before, nothing like what anybody in our segment had before. And we're starting to see that benefit now, but there'll be a lot more unfold over the next couple years.

Julien Blouin
Analyst, Goldman Sachs & Co. LLC

Q

Thank you, Bob. That's really helpful. You mentioned in your opening remarks that the raise was driven by the year-to-date results and also the activity pipelines that you're seeing so far into the third quarter. I guess maybe digging into sort of activity pipelines, what specifically are you seeing that sort of encourages you as we head into the back half of the year?

Emma E. Giamartino A

Chief Financial Officer, CBRE Group, Inc.

Julien, so you're right, about half of the increase in our guide is coming from the outperformance that we saw in Q2 across BOE and Advisory. And then the other half is primarily related to leasing. So we are seeing continued strength in leasing greater than what we were seeing 90 days ago and that's both on the office front and the industrial front. So, if you look at our guidance for leasing, it implies that in the back half of the year against those tougher comps, as Bob talked about, we're at a mid to high single digit growth rate in leasing in the back half of the year, which is above what we were looking at 90 days ago.

Julien Blouin Q

Analyst, Goldman Sachs & Co. LLC

Got it. Thank you. That's helpful.

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

Steve Sakwa Q

Analyst, Evercore ISI

Yeah, thanks. Good morning. Maybe just touch on the capital markets sales activity. That business came in, I think, far stronger than we had expected. And I'm just curious, given where rates are, the Fed's been a bit more steadfast in holding rates [ph] to short and (00:27:59) just kind of what are your expectations for that? You didn't really change the language, I guess, in the outlook of a steady but muted recovery.

Robert E. Sulentic A

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

Well, we expect the sales activity and the refinancing activity to both continue strong in the back half of the year. We're not expecting interest rates to move in a way that alter that materially. If they were to rise considerably, obviously, that would slow things down. We're not expecting that. We're not expecting big drops in interest rates either. So, our outlook for the year contemplates what we believe within brackets the interest rates will do. But a lot of what you're seeing is that the spread between bid and ask has gotten very narrow or going away. There is a lot of capital out there. We have it and other people have it that wants to buy real estate. And there is a huge amount of sell side interest on the part of owners of real estate that haven't been able to sell it for the last few years.

And as Emma said, we ended the quarter with a strong result, but we also ended the quarter with strong pipelines going into the back half of the year and I think I'm going to turn it over to Emma and let her comment on how July has started to unfold.

The other thing is there are a lot of refinancings that need to be done. And so that's helping the mortgage origination side of our business. Emma, you might want to comment on July.

Emma E. Giamartino A

Chief Financial Officer, CBRE Group, Inc.

Yes. Steve, in July, in the US, our sales activity has been very strong. And so, we are seeing a bit of a pickup. I think one thing to note about the second half of the year is we are expecting continued strength and likely more strength in US sales in the back half of the year, but that we are seeing some slowdown in sales in Europe. And so that is offsetting it slightly.

Steve Sakwa
Analyst, Evercore ISI

Q

Great. Thanks. And then maybe just on, I guess, capital deployment, maybe just talk about the share buyback. The pace did slow. I know it was a very heavy pace in the first quarter. I guess maybe what's embedded in guidance for the back half of the year, and I guess how price sensitive are you kind of on the buyback? Or is it at this point a bit more programmatic, assuming that M&A does not take place?

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

A

Yeah. So, Steve, I'll step back and reiterate our overall capital allocation strategy, which I know you know well. We always prioritize M&A and we fill in with buybacks if we're not deploying the same amount of capital that we generate in free cash flow in a year. So, if you look at our numbers, we have, like you said, we've deployed a lot through buybacks.

Turning to M&A, we don't – we can't disclose a tremendous amount, but as always, we're looking at a number of deals. We're focused on our resilient [ph] and really favored (00:31:06) lines of business. We're focused on very well operated businesses that can bring new capabilities to CBRE and that once that target is within our platform, we drive greater value across CBRE or they drive greater value across CBRE than they want on a standalone basis. So, that pipeline is strong and that's where we're focused.

In terms of your question on where there is – what capital allocation is in our guide, there's nothing in there. There's neither M&A nor buybacks. And so, if we pick up on either, that would change the outlook for the year.

Given that I'm talking about M&A, I do want to comment on what we're not looking at. There are a number of rumors out there that we're looking at M&A in advisory capital markets. As you know, we've said consistently, this is not an area where we're looking to do M&A and we're not currently pursuing anything in the advisory capital markets space.

Steve Sakwa
Analyst, Evercore ISI

Q

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

Q

Hey, just two quick ones from me. Just going back to the BOE, the presentation mentioned some of the benefits from the combined platform. I appreciate we're not in a position to quantify it, but just sort of thinking through high level, is this something that is a 2025 sort of benefit that normalizes in the out years? Or are we still sort of in potential mid to early innings of sort of harvesting those benefits? Just trying to get a sense of, what's the runway here?

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

A

Bob, I'll take that. So what you're seeing in our guidance, [ph] well, you saw (00:32:54) significant margin improvement in BOE in the first half. And that is a result of the primarily the cost work that we did in the back half of 2024. We are working on some additional opportunities for operating leverage now. I don't expect that to show up materially in 2025, but it could. But within our guidance is really no additional operating leverage in BOE in the back half of the year. So everything that we're working on now, I would expect to show up in 2026.

Ronald Kamdem
Analyst, Morgan Stanley

Q

Helpful. And then just to follow up on – just on the property sales, would be great if you guys could just walk us through just sort of what happened post Liberation Day up until sort of the recovery in the strong July that you talked about, like did things pause, do they not? And as you're thinking about sort of tariff negotiations to the back half of the year, presumably there's not really baking in any more headwinds, I suppose. But just what happened and how you're thinking about it would be great.

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

A

On the sales front in the US, we had a very strong April and that was as a result of deals continuing to get done that were in the works pre-Liberation Day. We did see a slight slowdown in May and June, and then in July, like I said, it's picked up pretty materially and is at this point, July is tracking above April.

Ronald Kamdem
Analyst, Morgan Stanley

Q

Great. Thanks so much.

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 one quick one from me. Can you just talk some about your expectations for Project Management revenue growth in the second half of the year? I think there were some reporting factors that made that look more like high single digit growth this quarter versus low teens on an underlying basis. So, would we be right to think that growth there is likely to remain at least in the double digits in the second half on both the reported and adjusted basis? Just any detail on the outlook for Project Management growth.

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

A

Yes, Stephen, on a net revenue basis for the full year, we're looking at low double digit revenue growth. And there is some noise between Q2 and Q3. So, in Q2 2024, there was some net revenue that was mischaracterized in PJM, it should have been in FM. So that net revenue growth at Q2 this year in project management is looking low, that's going to reverse in Q3. And the net revenue growth in Project Management is going to look slightly above trend, but it all will normalize for the full year.

Stephen Sheldon
Analyst, William Blair & Co. LLC

Q

Great. Thank you.

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

Q

Yes. Hey, good morning, everyone. Just wanted to come back to leasing for a second. Some good color on the office sites. Can you also unpack what you're seeing on the industrial side a little bit? It sounded like things have been getting better. I think there was a concern earlier this year. Do you feel like that's normalized now or what are you seeing out there given that there's probably still some uncertainties in that market?

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

A

Yeah, there is some uncertainty, Alex, but the year is going to be better than we thought it was going to be. Obviously, the first half was better. We don't expect the same kind of growth in the second half that we saw in the first half because the comps are tougher. But we do see – we do now believe that the second half is going to be better and that for the full year, whereas we had at the outset thought it would be kind of flat for leasing. We now think industrial leasing for the year will be up roughly double digits.

Alex Kramm
Analyst, UBS Securities LLC

Q

Great. Very good. And then maybe there's a little bit too specific in early, but obviously New York City is a very important market for you guys and everyone. Seems like more uncertainty in real estate given some of the mayoral election uncertainty, I guess, if that's the right way to put it. Anything you can comment on in terms of the discussion you've been having with various constituents? Any sort of pause you're seeing already, or you think we should be concerned about your thinking about here?

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

A

We're not seeing anything in our pipelines that would suggest that the politics in the city are going to slow things down. That is an enormous business community companies, their financials and others are text actually coming back into the city more. There's a lot of strength there, but more importantly, there's a lot of focus on office space by users, and using office space, as I said earlier, to help with recruiting and retention and culture in their companies. And this has become a very front and center thing for companies kind of unlike I've ever seen it, even pre-COVID, in terms of the interest in using office space in those ways. So, what we're seeing is the spread of office leasing opportunities beyond the most desirable locations and most desirable buildings to a broader part of the city.

Alex Kramm
Analyst, UBS Securities LLC

Q

Very good. Thank you.

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. In terms of potential areas of value creation, looking at where CBRE trades and, of course, it's a real estate conglomerate. So, there's different businesses could trade at different multiples. Are you focused on growing infrastructure services and asset management or Investment Management since some comps in that space trade quite a bit higher than CBRE? Are those are the two areas of focus?

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

A

Jade, we have – forever, we've said we're this broad-based real estate services and investment firm and we focused on that. And over the years, we've around the periphery of our business moved into infrastructure related things. I would tell you now, we have quite a bit of that in our business. So, obviously, Turner & Townsend does a lot of it. For instance, they're doing the Project Management on a atomic or a nuclear energy plant. They're doing a bunch of big airports, they're doing a bunch of big data centers, they're doing a bunch of energy projects. So that's infrastructure.

We have a growing $10 billion AUM infrastructure fund in – our infrastructure investment management business. Trammell Crow Company is doing a considerable amount of data center land work right now. We have a data center management business in it and we do now work inside data centers on a project basis that's dramatically outperforming and we handle work in 700 or 800 data centers. We have considerable infrastructure work that we do across our brokerage business now.

And yes, we are focused on some areas of new investment, multiple areas of new investment to grow our infrastructure exposure and it's going well and we're excited about it and I think it will be an added nice dimension to CBRE's total addressable market in the near term and even more significant in the longer term.

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

Q

Do you have a target share of earnings or dollar amount of capital you're looking to allocate to infrastructure?

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

A

We haven't said anything about that yet, Jade.

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

Q

Okay. And then just lastly, if I could squeeze one in, on free cash flow for the quarter, did it track with your expectations? I know first of all, the second half is typically stronger. But secondly, there was some timing effects from the mortgage origination business. So, adjusting for that, did the free cash flow performance track with your expectations?

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

A

So it did Jade and I do want to address the mortgage origination comment. If you look at all of the lines that [ph] flow in there (00:41:33), I think you may be missing the warehouse lines. The impact from the GSEs to our free cash flow is about equal to it was last quarter, roughly in line, and the big impact is really timing between Q1 and Q2. So Q1 was slightly above our expectations, and Q2 slightly below. So, you need to look at them together. And across Q1 and Q2, our trailing 12 months free cash flow, free cash flow conversion was right about 85% at the high end of our target range. So, we expect that to continue for the full year.

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

Q

Okay. Thank you very much for the clarification.

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

Seth Bergey
Analyst, Citigroup Global Markets, Inc.

Q

Hi. Thanks for taking my question. I just wanted to go back to your comments on expectations for the capital markets activity and maybe if you could just talk a little bit about client behavior. It sounds like it's expected to improve, but are clients waiting for interest rate cuts or is it more where we have more clarity on tariffs, just a little bit about how your conversations with clients [ph] are trending there (00:42:50)?

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

A

Well, clients would like interest rate cuts. I don't think you're waiting for them. I think what we're seeing is lots of financing activity and significantly escalated sales activity. We expect that to continue for the rest of the year and these things that stimulate or put downward pressure on that will stimulate or put downward pressure on the way they always do. So, interest rates going up will be negative and interest rates coming down will be positive.

And, major uncertainty in the markets or a sense that we might be headed to a recession or the tariffs are a bigger problem than we thought would slow that down. But right now, the best way I'd say it is buyers and sellers are kind of powering through that and feeling that things are going to go relatively well. Obviously, here in the United States, there's a lot of enthusiasm about what's going on in the economy and in the real estate markets. And as Emma said, a little more choppiness in Europe. But I think expectations at the moment are positive and more positive than they were 90 days ago when we talked.

Seth Bergey
Analyst, Citigroup Global Markets, Inc.

Q

Great. Thanks. And then I guess just with raised outlook, are there any changes to your hiring plans?

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

A

No changes to our hiring plans beyond what you would expect for a growing business where we – and a business that uses technology to help itself. So, we're not a company that makes the claims that we're going to turn things upside down through technology. But there are a number of places we're legitimately using technology to be more efficient. So, my guess is that what you will see from us over time is that we'll be able to grow and add less employees to support that growth than we have historically. And we've certainly got areas of our business that we're targeting for those kind of gains. But in general, we expect this to be a growing business and we expect to add talent to support that growth.

Seth Bergey
Analyst, Citigroup Global Markets, Inc.

Q

Okay. Thank you.

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. I think you called out in the press release that capital markets activity, your outlook strong, even though capital markets activity is sort of well below the prior peak. I guess just, the conversations you have internally and your sense of, I guess, what do you think it would take to kind of get back even close to that peak? And how long do you think that could take to transpire?

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

A

Well, let me talk about that. So, I think capital markets was down 14% from the pre-COVID peak and then even much more from the crazy big year we had in 2022, which was just an outlier bounce back from COVID. So, we don't use that to benchmark anything. My sense is that for so first of all, we don't have a model that tells us when it's going to get back to peak. But my sense is what's going to cause it to move back toward peak, first of all, just staying on the path we're on now, it's growing and we expect it to grow next year.

But if the interest rates came down, more interest rates being where they are and lack of new product being where it is causes rental rates to go up or the perception that rental rates will go up, you're going to see some trading that you're not seeing yet. I think a more stable or a view that the economy in Europe is more stable than it's viewed to be now would be helpful in terms of trading volumes. But there is not one big thing that we're waiting for that's going to take us back to where we were at the peak.

Peter Abramowitz
Analyst, Jefferies LLC

Q

Sure. That's helpful. Thank you. And then to go back to the question I think earlier about New York City specifically, I don't think you disclosed it anywhere. But do know specifically – can you quantify what your exposure to the New York City market is, whether it's, I guess, revenue or some other metric?

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

A

I think our earnings in New York, when you add it all up, are probably 5% or 6% of our company's overall earnings.

Peter Abramowitz
Analyst, Jefferies LLC

Q

Got it. That's helpful. Thanks for the time.

Operator: Thank you. Ladies and gentlemen, that concludes our time allowed 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 for joining us, everyone, and we'll talk to you at the end of the third quarter.

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