

FINAL TRANSCRIPT

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CBG - Q1 2009 CB Richard Ellis Group, Inc. Earnings Conference Call

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by and welcome to the CB Richard Ellis Group first quarter conference call. At this time, all phone lines are in a listen-only mode. Later, there will be an opportunity for your questions. (Operator Instructions). As a reminder, today's conference call is being recorded. And with that, I would now like to turn the conference over to our opening speaker for today, Nick Kormeluk in Investor Relations. Please go ahead, sir.

Nick Kormeluk - *CB Richard Ellis Group - SVP, IR*

Welcome to CB Richard Ellis' first quarter 2009 Earnings Conference Call. Last night we issued a press release announcing our financial results. This release is available on the home page of our web site at www.CBRE.com. This conference call is being web cast live and is available on the Investor Relations section of our web site. Also available is a presentation slide deck which you can use to follow along with our prepared remarks. An archived audio of the web cast, a transcript and a PDF version of the slide presentation will be posted on the web site later today.

Please turn to the slide labeled forward-looking statements. This presentation contains statements that are forward-looking within the meaning of our Private Securities Litigation Reform Act of 1995 including statements regarding our momentum in and possible scenarios for 2009, future operations, expenses, financial performance, performance under our credit facilities and costs savings. These statements should be considered as estimates only and actual results may ultimately differ from these estimates. Except to the extent required by applicable securities laws, we undertake no obligation to update or publicly revise any of the forward-looking statements that you may hear today.

Please refer to our annual report on form 10-K in particular any discussion of risk factors which is filed with the SEC and available at the SEC's web site at www.SEC.gov for a full discussion of the risks and other factors that may impact any estimates that you may hear today. We may make certain statements during the course of this presentation which also include references to

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non-GAAP financial measures as defined by SEC regulations. As required by the regulations, we have provided reconciliations of these measures to what we believe are the most directly comparable GAAP measures which are attached here to within the appendix. Please turn to slide three.

Our management team members participating today are Brett White, our President and Chief Executive Officer and Bob Sulentic, our Chief Financial Officer. Also with us for question and answer session are Gil Borok, our Chief Accounting Officer and CFO of The Americas and Jim Groch, our Chief Investment Officer. I would now like to turn the call over to Brett.

Brett White - *CB Richard Ellis Group - President and CEO*

Thank you, Nick. And good morning, everyone. Before Bob reviews our first quarter results in detail, I do want to highlight what we believe are the most significant actions we took during the quarter.

The current macroenvironment continues to create significant challenges for everyone operating in our industry. On our last earnings call, we noted our near term strategy to meet these challenges would be; to aggressively manage operating expenses, to seek an amendment to our corporate debt facilities to achieve greater operating flexibility, and to remain in compliance with our covenants. To increase market share throughout the current downturn, and to remain prepared with contingency plans to react to positive or negative changes in market conditions. I'm very pleased to report our progress on this strategy.

With respect to operating expense management, we have previously announced targeted annual run rate savings of approximately \$385 million. To date, we've been so successful in our cost cutting efforts. We have now increased our target by approximately \$100 million. Please keep in mind that our current \$475 million to \$500 million target excludes the reduction in variable commissions and other compensation expense that automatically occurs as a result of the Company's reduced transaction revenues. If this variable expense reduction were added to our cost cutting target, it would significantly increase the Company's total savings.

In the short run, our cost-cutting efforts significantly improve the Company's prospects for profitability. In the longer run, we believe these cuts will prove to have created significant operating leverage in our business. Therefore, as changes in market conditions allow us to achieve revenue growth, we would expect to experience higher growth rates in our profitability.

In addition, during the first quarter, we obtained an amendment to our credit agreement. Bob will provide greater detail later in the call. However, I will tell you that by attaining this amendment, not only do we increase our cushion in the agreement's key financial covenants, we also obtained much greater flexibility to either repurchase, refinance, or renegotiate the debt under this agreement. As anticipated, the spread we're required to pay to the lenders was increased under the amendment. We expect the effective interest rate for 2009 to be similar to our actual 2008 rate due to the decrease in LIBOR from a year ago.

We continue to our efforts to increase market share as both producers and clients migrate to higher quality services platforms in difficult times. And we believe our efforts are succeeding. For example, in investment sales, we once again captured the number one position in the US with a share of 17.1% as compared to 14.2% in 2008 according to Real Capital Analytics. In addition, the International Association of Outsourcing Professionals, IAOP, has announced its top 100 global outsourcing companies across all industries for 2009. I am pleased to announce that CB Richard Ellis is the highest ranked commercial real estate services company and is ranked eighth overall with the likes of [Accenture] and IBM.

While we're pleased with the progress in implementing our strategy, global economic conditions continue to create significant challenges for all areas of our business. Most significant macrofactors directly impacting our business include; weak global economic performance, deleveraging of a global financial system, continuing job losses, corporate bankruptcies, corporate consolidation driven by distressed Company sales, capital spending reductions, declining absorption, increasing vacancy rates and declining rental rates. Weakening of fundamentals across most businesses, and finally, of course, tough lending conditions.

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Since the second quarter of 2008, these factors and their corresponding impact on commercial real estate have negatively impacted our revenues across most of our lines of business and across all geographies. However, in comparing our financial performance in the first quarter of 2009, against the prior year's first quarter, you should note that the impact of a global economic downturn had not yet resulted in significant revenue decline for the Company in the first quarter of 2008. In fact, our first quarter 2008 revenues were up slightly over the previous years' first quarter.

As you look at our first quarter results, I would note that operating expenses declined 29% over the previous year's first quarter. Given the previous year's strong first quarter, a 28% revenue decline over Q1 2008 was in line with our expectations. Sales and leasing revenues continued to suffer significantly across all geographies and we do not forecast any significant improvement in the near term. All of our other businesses are performing relatively flat when compared to the run rate performance seen in the first quarter of 2008.

Although I will not run through the details, we have attached slide five providing certain US market statistics to illustrate just how challenging vacancy absorption and cap rate trends have been. And are projected to be for the rest of the year. The transactions listed on slide six represent just a sampling of the transactions we completed in the first quarter. Which despite much lower activity levels on the transaction side of the business, in the US alone, we still closed almost 600 sales transactions and negotiated about 5,500 leases during the quarter.

I will now turn the call over to Bob Sulentic, our Chief Financial Officer. Bob?

Bob Sulentic - *CB Richard Ellis Group - CFO*

Thank you, Brett. nd good morning, everyone. Please advance to slide seven.

Revenue was \$890.4 million for the first quarter down 27.7% from last year. Driven predominantly by weak sales in leasing activity. Normalized EBITDA came in at \$54.1 million or a normalized EBITDA margin of 6.1%. The biggest contributor to the decline in adjusted net income and earnings per share was a drop in revenue and resulting lower margins.

Cost of services was down materially, but as a percentage of revenue, rose to 62.2% from 57.2% in the first quarter last year. This increase was primarily driven by a shift in the mix of revenues with outsourcing including reimbursables comprising a materially greater portion of the total. On a percentage basis, operating expenses of \$306.2 million declined further than revenues driven by the implementation of our very effective cost reduction actions. These actions should create tremendous operating leverage when the market turns. I'll cover this in more detail later. Please turn to slide eight.

As mentioned earlier, total revenues increased by 28% in the first quarter from the prior year first quarter. Our property and facilities management business accounted for 44% of total revenues, up from 35% in the fourth quarter. The decline in leasing is accelerate to 32% in the quarter. With this business line representing 30% of total Company revenue. This decline was representative of the challenging economic conditions being faced around the globe. Sales revenue dropped to \$78 million and represented 9% of our total Company revenue. The year-over-year decline of 66% was similar to the percentage decline experienced in the fourth quarter of 2008.

The appraisal and valuation business declined by 28% in the quarter and comprised 7% of total first quarter 2009 revenue. Global investment management revenue was down 14% year over year. While development services revenue was down 24% and the commercial mortgage brokerage business was down 33% as the challenges in the credit market continued. Please turn to slide nine.

Outsourcing revenues for the first quarter declined 4% on a year-over-year basis. This decline was driven in part by lower reimbursable costs and project management fees as our outsourcing clients focused on lowering both costs and capital

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expenditures in their businesses. Despite this decline, overall square footage managed grew slightly in the first quarter of 2009 and we continued to have significant success winning new business and expanding mandates with our existing clients.

Examples of this were being named by France Telecom as preferred provider for transaction management. And securing a five-year contract with Pepsi Co. to provide transaction management services exclusively in the US and on a preferred provider basis in other parts of the globe. Our restructuring services group contributed favorably to results in this quarter with wins for managing, valuing, leasing and disposing of distressed assets. Please turn to slide ten.

Transaction activity in the US investment sales market weakened further in the first quarter of 2009. Market-wide transaction consideration fell approximately 80% compared with the first quarter of last year and totaled just \$9.2 billion according to Real Capital Analytics. As Brett noted, in a highly constrained market, CBRE held the number one position with a 17.1% market share, up from 14.2% in the first quarter of 2008. Our America sales revenue for the quarter declined 70% on a year-over-year basis. This compares to a decline of 49% for the full year 2008 and 62% in the fourth quarter of 2008.

Revenue for CBRE's America's leasing business declined 32% in the first quarter of 2009 versus prior year. This compares to an 11% decline in leasing for the full year 2008. The US office vacancy rate increased by 70 basis points in the first quarter of 2009 to 14.7%. Please turn to slide 11.

Our investment sales activity in EMEA declined 52% in the first quarter of 2009 relative to the first quarter of 2008. This compares to a 47% sales decline for full year 2008. The total value of investment transactions recorded in the first quarter in Europe fell to just over 11.5 billion Euros or \$14.9 billion a 72% decline from the total for the first quarter of 2008. Almost all of Europe was affected but it was notable that the decline in the U.K. was less than the market average decline at just 62%.

CBRE's revenue from leasing in EMEA declined 33% in the first quarter versus the same quarter in 2008. This compares to only an 8% leasing decline for full year 2008. Leasing market conditions throughout EMEA deteriorated over the first quarter of 2009 as significantly weaker economic conditions led to caution regarding real estate commitments as well as increases in the availability of surplus space. Please turn to slide 12.

CBRE sales revenue in the Asia Pacific region fell 69% in the first quarter of 2009 versus the prior year first quarter. This compares to a 40% sales decline for the full year of 2008. Although interest in acquiring quality assets in Asia Pacific remains strong on the part of long-term investors as new funds continue to be established, the persistence of the global credit crunch, uncertainty over market direction, and significant bid offer price gaps continue to deter major investment activity.

CBRE's leasing revenue in Asia Pacific fell 33% in the first quarter versus prior year first quarter. This compares to a 6% increase for the full year 2008. We have started to see a pickup in activity in China following the Chinese New Year in early February as a result of the government's stimulus and we're hopeful that this trend continues to build. Please turn to slide 13.

Revenue for the development services segment was down 25% to \$20.9 million in the first quarter of 2009. Operating results for the first quarter of 2009 improved due to our cost cutting efforts. The results included one-time expenses in the amount of \$800,000, associated with these cost containment efforts, as well as net write-downs of impaired assets in the amount of \$900,000. At March 31st, 2009, in process development totaled \$5.4 billion, down approximately 14% from year ago levels.

The pipeline at March 31st, 2009, totaled \$1.5 billion, down approximately 46% from year ago levels. The combined total of \$6.9 billion of in process and pipeline activity is down 24% from year ago levels of \$9.1 billion. Our co-investment in this business was \$96 million at quarter end. There continues to be a very low level of activity in the development business and this is not expected to improve in 2009. Please turn to slide 14.

Global investment management revenue was \$37.3 million for the first quarter of 2009 as compared to \$39.5 million in the first quarter of 2008. The decline resulted from a reduction in acquisition, disposition and incentive fees as compared to the first quarter of 2008. Asset management fees were up for the quarter to \$33.6 million, versus \$32.8 million in the first quarter of

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2008. Assets under management totaled \$36 billion at the end of the first quarter of 2009. This total was down 6% from year end 2008 reflecting a drop in property values globally as well as negative foreign currency impact. Our assets under management are down 18% from a first quarter 2008 peak of \$43.7 billion, driven by the decline in commercial real estate values. Co-investments at the end of the quarter totaled \$67 million.

Our global investment management EBITDA reconciliation detail is shown on slide 15. EBITDA was impacted by a net noncash write-down of investments of \$5.2 million, attributable to decreased property valuations. In the first quarter of 2009, we did not realize any carried interest revenue and we reversed \$3.1 million of previously accrued carried interest compensation expense as compared to the first quarter of 2008 in which we accrued \$5.3 million of carried interest compensation expense.

As of March 31st, 2009, the Company still maintains a cumulative accrual of carried interest compensation expense of approximately \$20 million which pertains to anticipated future carried interest revenue. This segment's EBITDA margin in the first quarter of 2009 was adversely impacted by a catch up depreciation expense adjustment reflected in equity earnings. Please turn to slide 16.

As market conditions have weakened, we have continued to aggressively attack costs in our business. To date, the actions taken while difficult have been necessary and correspond to lower levels of activity across the enterprise. These conditions have been -- these reductions have been executed so as not to put our ability to serve clients at risk and to position us to participate fully when the market turns positively. Franchise preservation is the key reason these reductions have taken multiple quarters to both identify and implement on a worldwide basis. Relative to the first quarter of 2008, operating expenses this quarter were down 29.2% representing a larger decrease than the drop in revenue which was 27.7%.

I'll now hit a few highlights. On our previously announced \$385 million cost savings plan, all actions have been implemented. We're now raising this target by approximately \$100 million to achieve between \$475 million and \$500 million in total annual savings versus 2007. Of this amount, roughly \$435 million will flow through 2009 results versus the 2007 base year. These are changes to operating expenses that are in addition to variable expenses or commission expense declines that result from lower revenue. To achieve these savings, we incurred \$7.9 million of one-time cost containment expenses in the first quarter and \$35.3 million of cumulative one-time expenses over the trailing 12 months. We're also remaining frugal with Cap Ex spending and anticipate 2009 Cap Ex will be approximately \$30 million or about \$50 million below our 2007 annual spend of around \$80 million.

Please turn to slide 17. We're very pleased to have successfully amended our credit agreement just before the end of the quarter. You may have seen the press release we issued on the amendment on March 24th. Today, we want to cover some of the highlights. We increased our leverage ratio covenant to 4.25 times from 3.75 times and reduced our interest coverage covenant to two times from 2.25 times for eight quarters. Importantly, we're now able to add back up to \$225 million to covenant EBITDA due to the cost containment actions we are so focused on.

Up to \$75 million of this amount is based on trailing 12 month one-time cost containment expenses. On a trailing 12 month basis, at the end of the first quarter of 2009, the actual add back was \$35.3 million. And up to \$150 million can be added back for actions taken on run rate savings where the savings have not yet been realized. The amount available for add back in the first quarter of 2009 was well in excess of the \$150 million cap. As a result of the amendment, we're now able to buy back our term loans at a discount subject to some limitations. And we're also able to make loan modification offers to existing debt holders.

We prepaid \$105.5 million of our outstanding term loans. This covers what would have otherwise been paid in March and June. Under the amended terms of our credit agreement, the effective interest rate for 2009 will be similar to our actual 2008 interest rate despite the new higher spreads. This is true due to the fact that LIBOR is lower this year than last. Without the amendment, our 2009 rate would have been lower than the 2008 rate. At 03-31-09, our revolver and term A loans were both at LIBOR plus 3.25% and term loans A1 and B were at LIBOR plus 4%. Both with a LIBOR floor of 2%. This resulted in an average rate at the end of the first quarter of 2009 of 5.6% before accounting for [slough].

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On slide 18, we've illustrated our new financial ratio covenant requirements and debt maturity schedule through 2010. As you will notice, our leverage ratio which is net debt to EBITDA at the end of the first quarter provided us with substantial room under the new maximum ratio permitted of 4.25 times. This leverage ratio of March 31st, 2009, was 2.78 times. As compared to 3.28 times at December 31st, 2008. Our trailing 12-month interest coverage ratio was 5.89 times. Please turn to slide 19.

Excluding the mortgage brokerage warehouse facility and the nonrecourse development services real estate loans, our total net debt at the end of the first quarter of 2009 was approximately \$2 billion. This represents a 2% increase from year end 2008 or a \$47 million increase. Our revolver balance increased in the first quarter of 2009 as we prepaid \$105.5 million in scheduled amortization on our term loans, paid the fees associated with amending our credit agreement and made draw downs in anticipation of paying 2008 incentive compensation early in the second quarter of 2009, as well as to fund some seasonal working capital requirements. In connection with the amendment, the Company incurred \$29.3 million write-off of the financing costs in the first quarter of 2009 of which \$11.1 million related to the new amended fees incurred -- the new amendment fees incurred.

I will now turn the call back over to Brett.

Brett White - *CB Richard Ellis Group - President and CEO*

Thanks, Bob. And if everyone would please turn to slide 20.

Market conditions continue to make it unrealistic to attempt to provide any specific earnings guidance for the business. As it relates to macrotrends, it will impact results for the remainder of 2009. We believe the following. For investment sales, while our expectations are low, sales may pick up toward the end of the year. Leasing activity will stay weak until we start to see recovery in economic performance and meaningful job growth. Our outsourcing business will continue to see growth in our client base, but will be challenged by the macroeconomic headwinds described earlier. We also continue to believe the global investment management and development services business will have muted results until investment sales pick up.

Given these expectations, our strategy remains consistent. We'll focus on providing great service to our clients. We'll continue to aggressively attack costs for the duration of the downturn. We'll focus on improving our balance sheets and by the increased flexibility afforded by our credit agreement amendment and we'll aggressively compete for market share.

We of course know that the commercial real estate market will turn and when it does, the actions that we have taken to preserve our geographic presence and services offers, together with the reduction of operating expenses will enable us to disproportionately grow market share and earnings versus the rest of our industry. Until the overall market improves, we believe our largest opportunities will exist for our businesses to focus on outsourcing, trust property management, asset restructuring and disposition, and within certain areas, of global investment management.

I would like to thank our people for their tremendous support, incredibly hard work, and tireless efforts over the past year. Our employees have remained focused on generating the best results possible. While being asked to dramatically reduce operating expenses. It is our people drive CBRE success and will help extend market leadership position.

Operator, we would now like to take questions.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions) Our first question comes from the line of Anthony Paolone with JPMorgan. Please go ahead.

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Anthony Paolone - JPMorgan - Analyst

Okay, thank you. Good morning. You alluded to your operating margins being weaker for a couple of reasons. I was wondering if you could just elaborate on that? Your gross margins and what needs to be done to get those back up into the 40s where they've run historically?

Brett White - CB Richard Ellis Group - President and CEO

Sure, Anthony. This is Brett. Let me just make a few general comments. And then I'll turn the question over to Bob who will hit it specifically but two points I would make, Anthony. First of all, what you're seeing in margins in our business, late last year and early this year is primarily the result of mix. So, as you've seen, the precipitous decline in transaction activity globally, which are our traditionally higher margin businesses, you're now seeing a much higher weighting of revenues in the 40% range coming from the outsourcing businesses and these are lower margin businesses. That's the main story.

And again, before I turn it over to Bob, I would like to make a point about margins. Although margins may have been a bit lower than you expected, and I read that in your report last night, do keep in mind our margins are materially higher than any competitor we have in the business. And we think we do an exceptionally good job of managing the business to produce profits, not just revenue. So with that comment, Bob, I'll let you add to the question on gross margins.

Bob Sulentic - CB Richard Ellis Group - CFO

Thanks, Brett. Anthony, Brett hit the high points. There is really two things. Number one, in our cost of services, there is an element of fixed costs, even though there's large, variable costs tied to production in those numbers. And then -- and that's for our transactional business. There is an element of fixed costs.

And then secondly, as Brett said, we now experienced at the end of the first quarter that 44% of our revenues were in our management businesses which, while by far the most stable revenues and we're very, very glad they're there at this point in the market cycle, they do operate on different margins than our transactional businesses. Our view of this is we want to see the margins come back up. We think that being where we are today is indicative of the fact that we're going to have great opportunity for operating leverage as this thing turns around.

Anthony Paolone - JPMorgan - Analyst

Okay. What kind of EBITDA margin did facilities management run at in the first quarter?

Bob Sulentic - CB Richard Ellis Group - CFO

Around 10%.

Anthony Paolone - JPMorgan - Analyst

Okay. So, does that -- then suggest that some of the other big segments like leasing and sales, like lost EBITDA?

Bob Sulentic - CB Richard Ellis Group - CFO

We don't -- we don't think any of our segments lost EBITDA but they certainly operated at lower margins. Again, given the fixed cost element associated with them.

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Anthony Paolone - JPMorgan - Analyst

Okay. And then my last question is with respect to the balance sheet and looking out over the balance of this year and even into 2010 where you've got some principal repayments and just thinking about where your EPS level seems to be penciling out in this downturn. How do you put some parameters or give us some comfort that you have capacity to meet your principle payments and also not necessarily trip any other -- any covenants as you look forward, given just how depressed EBITDA is getting?

Brett White - CB Richard Ellis Group - President and CEO

Sure. Again, it is Brett. I'll start with a general answer and turn it to Bob to get the specifics. A couple of points I would make, Anthony. First of all, we believe that in 2008 and in the first quarter of 2009, the EBITDA we produced in the business exceeded all of our public competitors and our largest private competitor combined. So, the first point I would make is that this Company is producing materially and significantly more EBITDA than any industry and that will continue to be the case in 2009. So, we believe first of all, there will be a very good EBITDA production this year although the first quarter because of the compare last year was relatively light as it always is.

Second, we have, in our financing package, of course, a revolver which has good capacity in it. We use that in the cash light quarters. Then repay that back later in the year. I fully expect that this year, 2009, the combination of cash generated from the business and if necessary, a slight contribution from the revolver will be more than sufficient to cover all of our financing costs and amortization interest needs. Bob, do you want to add some color to that?

Bob Sulentic - CB Richard Ellis Group - CFO

Yes. Again, that's the cash flow from operations and the financing capacity we have to date. That we'll certainly call upon. We're, Anthony, we're very, very carefully modeling what we think will happen in the components of our business going forward. And with the amendment to our covenants that we recently achieved, we've got a lot of flexibility to do things to raise capital downstream that we didn't have before. We have the ability to repurchase debt, we have the ability to modify tranches of our existing credit facility. We have the ability to issue equity or subordinated a debt. In the issue of equity, we're going to be very very careful, obviously, we don't want to do anything that's too dilutive. But we do have some options we're studying there. And as I said, we're modeling our business very closely.

So, I think the flexibility that we now have under the amendment terms -- amended terms of our credit agreement will give us the maneuvering room we need. And we're not going to -- one of the things we're not going to do is act too precipitously. Because financing is expensive where we raise debt or raise equity, it would be expensive. So we're proceeding carefully. But we do have the flexibility to address this as it unfolds.

Brett White - CB Richard Ellis Group - President and CEO

And I would just add to that, Anthony, I want to be very clear about this. We have absolutely no plans, currently to do either of those things, to either issue equity or hit the subordinate debt market. What Bob is referring to is in the amendment, we added the ability, the opportunity to do that. Were the markets to deteriorate and get a lot worse. And we needed to do it. But at the moment, we don't expect it to do that.

Anthony Paolone - JPMorgan - Analyst

Okay. Thank you.

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Operator

Thank you. Our next question comes from the line of Will Marks with JMP Securities. Please go ahead.

Will Marks - JMP Securities - Analyst

Thank you. Good morning. Good morning, Bob, good morning, Brett. A couple of questions. One is that I was impressed with the debt level basically debt level remaining flat during the quarter. Is there any -- were all of your bonuses paid, that typically paid in the first quarter, paid. Is there any reason to think debt would spike up in the second quarter?

Bob Sulentic - CB Richard Ellis Group - CFO

Will, good morning. We paid about \$200 million in bonuses after the end of the quarter. And just a notable statistic on that, our leverage ratio was 2.78 times. Had we paid those bonuses in the quarter, our leverage ratio would have been 2.9 times. So still at a very, very acceptable level. When you run the math on that, you might say how do you get to that? Part of the cash we used for the bonuses was US cash and part of the cash was foreign cash. So, when you run through the numbers, that's where our leverage ratio would have come out. Still a very acceptable level.

Will Marks - JMP Securities - Analyst

That would be the ratio as it applies to the covenant, correct?

Bob Sulentic - CB Richard Ellis Group - CFO

Absolutely.

Will Marks - JMP Securities - Analyst

Okay. Great. And second question, in the past, you've talked about the cost cutting -- on the comp line, at approximately \$600 million as it relates to just natural cost cutting from lower commissions. Can you reaffirm that number or discuss it?

Bob Sulentic - CB Richard Ellis Group - CFO

Well, it is difficult to be too precise with that number, Will simply because as you know, the commission schedule as you drop down through levels of earnings is not the same at every level so you can't be precise. What we can tell you is we've raised our target for noncommission, nonvariable driven compensation to between \$475 million and \$500 million. We're quite confident that the variable, kind of what you called the natural or automatic portion, will be in excess of that. And should be nicely in excess of that.

Will Marks - JMP Securities - Analyst

Okay. And then as it relates to the new cost, can you give us -- actually and the old cost, can you refresh us a little bit on the cost made. It is basically a 25% cut from 2007 operating, administrative and other. So, maybe make us comfortable that's not going to impact revenues at all or maybe it will?

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Brett White - *CB Richard Ellis Group - President and CEO*

No, it will. This is Brett again. I don't expect that these costs will impact revenues whatsoever. While I think it may appear we've been extremely aggressive in cost cutting, in a sense, we have been. We have a lot of experience in this. This is certainly not the first deep cost cutting effort this Company has been through. In fact, it is -- in the last ten years it's probably the fifth. We know where to cut the costs, we know how to cut the costs. And it something that is just part of the culture here.

So where we reduce costs are in areas that do not have a direct impact on the revenue phasing component of the business. I think that that should hold true with the numbers. You've seen that generally speaking, are revenue reductions, are less than the market revenues are going down and that should imply we're increasing market share while at the same time reducing cost. And it is a delicate balance to walk. But we're walking it very well at the moment.

Bob Sulentic - *CB Richard Ellis Group - CFO*

Just to add to that, we haven't exited any business lines. We haven't exited any markets anywhere in the world. And we think we've done a very thoughtful job of pairing excess costs out of the all of the business lines in all of the markets we operating in around the world.

Will Marks - *JMP Securities - Analyst*

Can you maybe give me three examples of maybe -- you had two office managers in one situation and you got rid of one or you cut travel in a certain capacity? Just anything would be helpful.

Brett White - *CB Richard Ellis Group - President and CEO*

Well, Will, I'm going to give you a general answer because when you're talking about a Company with 30,000 employees, and almost 500 office around the world, there are literally tens of thousands of ways that you cut costs at a local basis. But it flows through all of those lines, Will, and all of the others as well. So, for example, just travel entertainment, that line around the world has been reduced very, very significantly from prior year levels. If you look at -- look at things such as just a base salary line across staffing, it has come down significantly because we've let staff go and we've reduced salaries across the board.

If you look at money we're spending for marketing and business promotion because revenues available at the moment from the transaction businesses are much lower, we don't need to spend as much. In marketing and business promotion. The personnel reductions, Will generally fall in some fairly straightforward categories. It is middle management. It is back office staffing. It is lower producing sales professionals, unprofitable sales professionals. And that's not a big component of it in the states but in Europe, where they're salaried, it can be. In some cases, we downsized offices and we've got some extra capacity there we will deal with. Will, it is in every component of cost and is significantly in every component of cost.

Will Marks - *JMP Securities - Analyst*

Okay. That's great. Thank you for that. I'm going to leave with you one final question. And that is you talked about you cut your commission split slightly and I believe at the lowest level down from 50% to 48%. Can you just tell us if you've seen any impact on brokers leaving?

Brett White - *CB Richard Ellis Group - President and CEO*

Yes, actually, we didn't mention that in the call. The commission rates in the industry for the first time in my career, came down this year. And so we and most of the major competitors out there and some of the smaller competitors dropped commission

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rates a bit. It is nothing hugely meaningful but to us, because so much of our costs come through the commission line, it does add up. And it gave us a nice pickup on cost savings but it is not particularly meaningful to the producer. It is a couple of percentage points, but it does -- it applies across the whole population of producers, it is not just the low end producers.

And by the way, no, there was no impact. As far as I know, we didn't have a single employee walk out the door and for all of the obvious reasons. First, everyone else was cutting commissions. Second, we believe we have the preeminent platform in the business. It is hard to imagine why someone would walk away and go to a lesser competitive player.

Will Marks - *JMP Securities - Analyst*

Great. Thank you very much.

Brett White - *CB Richard Ellis Group - President and CEO*

Sure.

Operator

Our next question then comes from the line of Brandon Dobell with William Blair. Please go ahead.

Brandon Dobell - *William Blair - Analyst*

Thanks. Brett, change direction here for a second. It doesn't seem like the investment management business is putting an awful lot of capital work, I think that's probably the same across the industry, but how should we look at that as a proxy for either influxion point in the business for investment sales or as a proxy for I guess your confidence in the overall direction of the market? Should IM be a leading indicator or is it going to lag for awhile as you get more comfortable with the overall macro?

Brett White - *CB Richard Ellis Group - President and CEO*

That's a great question. It should be I think a bit of a leading indicator because the funds within that business tend to be oriented a little toward the value-add/opportunist side of the spectrum. So that would indicate to me and I think to you they would be out looking for opportunities in this market, distressed opportunities. And in fact, they have done that. And so you've seen in the past quarter, some fairly significant acquisitions in New York and Houston. That they made, the New York acquisition was quite high profile. And I think was one of the few significant Capital Markets transactions in New York in the first quarter.

The viewpoint from the asset management company at the moment is that while we may not be at the bottom, we're certainly bouncing near it. In their business, it is not really critical that they time their re-entry at bottom. It is certainly critical that they time their re-entry near it. And so, they are now -- I would say fairly aggressively scouring the market for opportunities. And I think you'll see them as the year plays out, pick up more and more properties at good distressed values.

We do believe that on the yield side, certainly in the UK , yields have probably stopped expanding. Values are still declining because rental rates are coming down. In the states, I think we're getting close to that. I think you're getting about to where yields are going to get to on the top end. Values, of course, still should be coming down a bit because leasing rates are coming down. But I think you'll find that the more aggressive and savvy investment management firms out there, and we're certainly not the only one, you'll find right now, I think those firms believe that the equity they have parked on the sideline is probably time to start beginning to put the equity to work in a very careful

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Brandon Dobell - *William Blair - Analyst*

That's helpful. From a different perspective, you mentioned with the brokers coming down for the first time you're seeing, has that same thing happened from a pricing perspective? Are your customers pushing back on you saying we haven't lowered commission rates historically for you guys, but given the macro we're going to have to do it in investment sales and leasing or are you seeing any other trends we should be aware of?

Brett White - *CB Richard Ellis Group - President and CEO*

It is probably a bit counterintuitive. But it works in an opposite fashion, Brandon. So what happens is in a distressed market place such as this one, owners who have empty space tend to pay actually higher commission rates. During these cycles than they do in very hot cycles where I think a lot of owners think leasing is a little bit easier than it may be right now. Same things holds true on the sales side of the business. In fact, the last time we saw leasing commission rates increase in the last 20 years, was the last strong down cycle in the early 1990s where the convention of a commission and a half on large office leases was really introduced. It never went away, by the way. And this marketplace we're seeing commission rates certainly not decline. If anything, they're inching up a little bit.

Brandon Dobell - *William Blair - Analyst*

Okay. And then final question from me. In the outsourcing business, kind of a two-part question. First, how do we think about those contracts and how they're structured in terms of minimums that are truly in place versus how much flexibility the customers have around cutting or adding reimbursable employees? And I know it is not a huge profit impact, but I know it is a revenue impact for us. And then second thing, did you see an acceleration of that, kind of cutting reimbursables trend through the quarter? Just trying to get a sense of how we can model that on a sequential basis going forward with the give-and-take of new adds versus reimbursables going away.

Brett White - *CB Richard Ellis Group - President and CEO*

Yes. It is a great question again. It is something we're spending a lot of time on as well. This market is different than any downturn obviously that any of us have seen in our business careers. And one of the -- one of the manifestations of this very different marketplace is that we're seeing, for the first time, a significant churn in the corporate world. We're seeing large corporations go out of business. We're seeing very large corporations really fighting for their lives. So, what's happening here, really is two different levers working in opposition with one another.

On the positive side, this very distressed marketplace is forcing corporations who have never considered outsourcing before to very seriously consider outsourcing. And we're seeing a number of very large opportunities begin to enter the marketplace from companies who have never outsourced before. That's very good news. And that trend which has been [extinct] in the industry for many many years is certainly accelerating. So, in the long run, what we're seeing right now is a very, very helpful dynamic in the long-term growth prospects for that business.

In the short term, however, there are some real challenges in that business. And those challenges related around first, as I mentioned, the consolidation of the corporate world. The companies going bankrupt, the companies really in the fight for their life. When a companies goes bankrupt, those are clients that go away and that revenue just disappears. Second, companies are slashing costs in a very, very aggressive fashion right now and so what that causes them to do is as -- we're their third party provider, they're asking us to reduce the number of reimbursable employees. That're being used to service that account. So, that's a reduction in revenues for us. And it is a reduction in cost for them.

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I believe that that trend, the real pressure on reduction of reimbursable employees, the trend to rebid some of the contracts, trying to get lower pricing, you're going to see that for the balance of 2009. I suspect that's not a very long-term trend. But I suspect it will take place for the balance of this year. And certainly, that's what you saw in the major firms that do this work. You have now seen that in the numbers. Although there is a great trend toward an increase, volume of business in the outsourcing space, the revenues in this world looked like they were flat the last three months. That's the countervailing dynamic here of reduction of reimbursed employees.

Brandon Dobell - *William Blair - Analyst*

Okay, great. Thanks a lot.

Operator

And our next question is from the line of Sloan Bohlen with Goldman Sachs. Please go ahead.

Sloan Bohlen - *Goldman Sachs - Analyst*

Good morning. First question, just sort of a big picture question for Brett. As you think about leverage, I guess in the near term, you're mostly look at using free cash flow from operations and potentially some more on the line. But when you think longer term, is there a strategy in place or how do you think about what the appropriate level of leverage in the business is?

Brett White - *CB Richard Ellis Group - President and CEO*

Sure. And let me go back to Bob's answer from earlier and reiterate some that and may provide more color. Sloan, all of this is based on macromodeling. And as we've talked about, I think to great length the last couple of years, we're always modeling this business a number of different ways. We have worst case models which assume a significant further deterioration in the market. We have base case models that assume a little bit of improvement in the Capital Markets at the end of this year and we've got optimistic models which assume a fairly rapid recovery in capital markets, followed by a recovery out of recession fairly soon.

Depending on which model you pick, you would choose a different outcome on the balance sheet income. So the base case model implies one thing, the downside model implies another. Certainly, it would be fairly easy for us together to develop a downside model that would indicate that delevering the Company would be a prudent thing to do. And that that delevering, if we're not available from free cash available from the business could occur through some of the mechanisms that Bob referenced. We do have a ability in the amendment to raise equity to pay down debt if that is necessary. We do have the ability to raise subordinated debt, if that is necessary. As I said, at the moment, we don't have any plans to do that but we do have optionality now. And we didn't have that optionality prior to the amendment.

So one of the wig news items to us in the quarter is we feel we've given the firm back the optionality it needs to deal with its issues. At the moment, we feel fairly comfortable that in 2009, the cash from operations, our resolver, these tools we have will be sufficient to deal with amortization and interest payments. But if the market were to deteriorate further or if the market didn't show any improvement in 2010, we might need to tap into some of those other mechanisms we have available. There's no doubt about the fact that one way or another, in the next two years, we intend to do some delevering. We're quite hopeful it will be fully accommodated by performance in the business and cash from operations. If it's not, we have other tools now available to us in our war chest.

Let me ask Bob, though, is there anything you want to add to?

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Bob Sulentic - *CB Richard Ellis Group - CFO*

No. I think you hit it, Brett. If I were to add one thing, I would just reiterate what we've already said. And that is our capacity to generate profit in this business when things start to turn is exceptional. The positive operating leverage we should experience should be exceptional. And we think there may be a very natural opportunity to delever significantly.

Brett White - *CB Richard Ellis Group - President and CEO*

I want to add something to that point. Because I think we talked a lot before the call amongst ourselves about what we thought the big news items were for all of you from the quarter and the last -- the period of time we're in this downturn. I think that point is probably to us, the most important point about our future prospects. And perhaps the point that gets missed most by our analysts and investors and that is with the amount of costs we've taken out of this business, while at the same time accreting market share, that, in and of itself is an amazing thing. To be able to grow share, retain all of our fee producing employees, and reduce what now we believe will be in excess of \$475 million to \$500 million of Op Ex.

A fairly modest improvement to the revenue line has terrific leverage down to the net income line. If you go back and look at our performance in 2002, 2003, 2004, even though the leasing markets were deteriorating, we began to onboard profits in an aggressive way. I think the upcycle coming out of here, we'll on board profits even more aggressively at a higher rate than we did then. And to give you some color on that, I would we did then and to give you some color on that, I would be very, very disappointed if this firm didn't materially outpace any of our competitors in our ability to grow profits when you see a bottoming and a mild recovery in this market place.

Sloan Bohlen - *Goldman Sachs - Analyst*

Thanks. That's helpful. Then just one quick question on the investment management business. Could you remind us of how much equity you guys have to put to use? And then maybe if you can frame just what kind of return expectations or leverage those -- that equity could use going forward as compared to years past?

Brett White - *CB Richard Ellis Group - President and CEO*

Sure. We've got about \$2 billion on the sideline right now, unlevered. And it is a great question. What returns would we look for off that \$2 billion? Ironically, you might look for pretty strong returns off that \$2 billion because that money will be placed somewhere near the bottom of a ferocious downcycle.

So, I really don't want to quote a hurdle here because I don't know what they're currently quoting to their LPs. I know the range but I would rather not quote it. Let's just say if I had money to place into an investment management, any time over the last five years, I think I would place it this year. It just seems to me the opportunity to see out-size growth in values and commercial real estate are fairly obvious at the moment. If you have a patient time frame, something in the -- I think four to six year time frame, which those funds have, these ought to be pretty terrific returns.

Sloan Bohlen - *Goldman Sachs - Analyst*

Okay. And then I guess speaking more generally to Brandon's question before, are those returns just in general becoming closer to where say in a bid ask spread for what people are looking for in terms of seller cap rates? Are we getting closer in terms of the bid ask spread?

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Brett White - *CB Richard Ellis Group - President and CEO*

I think we're getting closer as we said on the last call at the end of the fourth quarter, our current expectation is that during 2009, you will see the Capital Markets for commercial real estate bottom. And you will see increasing velocity of transactions in the investment property space this year. I don't think it will be anything to write home about. It certainly wasn't in the first quarter. I don't think it will be in the second quarter and perhaps not the third. But I would be surprised if by the end of the year we didn't see a pickup in that business. So, that's our expectation at the moment. That's based on a significant narrowing of the bid ask spread.

I would say as we've mentioned before that in the UK, we actually think we're quite close to that point. There are real indications in that business that -- and the valuations three of course are much more transparent than they are here. But we have a lot of indications into the UK and more broadly in Europe. We're getting pretty close to that point.

I think in the US, there's not a lot of debate anymore. About where evaluations are. I would say though that at where evaluations are, you don't have willing sellers unless they're forced sellers. These evaluations are down significantly. I think a lot of owners if they're able to hold, certainly believe it is in their best interest to do so. So, that will constrain the velocity

Sloan Bohlen - *Goldman Sachs - Analyst*

Great. Thanks a lot, guys.

Operator

Thank you. Our next question comes from the line of Vikram Malhotra of Morgan Stanley. Please go ahead.

Vikram Malhotra - *Morgan Stanley - Analyst*

Thanks, this is actually Vikram in for Vance. I just had a couple of quick questions. First on the leasing side. You talked a bit about changes in commission rates and actually seeing an increase in the fees that you can actually get through, even though it is downturn. Can you talk a little bit about the lease terms, especially in renewals? Are clients looking to shorten that? Is it regional specific, are there any trend you're seeing there?

Brett White - *CB Richard Ellis Group - President and CEO*

Sure, you look at the leasing revenues, what you would find is that the decline we talked about in leasing revenues which were about 30% globally plus or minus a couple hundred basis points in any world geography, that's split, not evenly but fairly evenly between velocity and value. On the lease ticket. I'm sorry. On the revenue. So a little bit -- 15%, 18% down on velocity, like amount on value.

So, what you're seeing then is what we've always talked about occurs in the down cycle in leasing which is first, the tenant, if they're able, want to shorten the terms of their leases, they want to commit to the least amount of space possible. They're very conservative. It is ironic, of course, because in a downcycle, probably the prudent thing to do would be to extend your lease as long as you can or write a new lease for as long as can and take advantage of the downrents. The strategy that we use with our tenant clients and what you do see occurring in marketplace now is lots of tenants going back to owners well ahead of the expiration of their lease and offering more term for less space rent. There is a -- it is called blend and extend. It is a silly term. That's basically what people do.

So, they've got four years left on their lease. They're in midtown, Manhattan. They're 100,000 square feet. They're probably going back to the owner right now and saying listen, I'll rewrite the less lease for ten years, 15 years but the face rate I'm paying

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now at \$68 a foot, I'll offer you \$45 or I'll offer you \$50. Those types of conversations are very prevalent in the marketplace right now. And I would say that's the trend you would expect to see in this market. That provides, by the way, some decent velocity to leasing business where there might not be that velocity when you think about it at first blush that is supportive to the business.

Vikram Malhotra - Morgan Stanley - Analyst

And is that -- I imagine typically in Asia and in parts of Europe, the lease terms would be a little shorter. Are you seeing that occurring there as well?

Brett White - CB Richard Ellis Group - President and CEO

In Europe, it depends on the market. For example, in the UK lease terms can be very long-terms. So, I would just -- rather than go market by market, because it would take us hours, I think generally speaking, you can count on what I told you which is lease rates are coming down. That's a negative on the revenues. Term. To a lot of tenants. If their leases are coming up right now, instead of signing a ten year lease, they may be signing a shorter term lease. Other tenants who are more forward-looking, longer term thinking tenants are actually doing the opposite. They're going in early and trying to extend leases and take advantage of lower term right now.

All of that together, brings the type of decline in leasing revenues that you saw in the quarter. About 30%. And I think what you're going to see for the balance of this year is rents are going to continue to be pressured. We think vacancy rates in the US office space may peak as high as close to 20% by early to mid next year. And so there is still a ways to go on the leasing side. There isn't any great news out there at the moment. But you do have the countervailing dynamics there depending on which kind of tenant is in the marketplace and what their viewpoint on their own business is.

Vikram Malhotra - Morgan Stanley - Analyst

Okay, thanks. Then just on the outsourcing segment of your business. I imagine you said more clients are wanting to outsource, even new clients coming in. I imagine there are more people in terms of providers trying to get a piece of that business. Two sides. One, when companies -- apart from price, what they looking at? And when they say, okay, they choose someone else, what are the main factors for them doing that?

Brett White - CB Richard Ellis Group - President and CEO

Sure. It's -- let me bifurcate that business first. When it comes to large global outsourcing business, I believe there are really only two providers out there that are viewed as seriously competitive in that business. So, if a very large Fortune 500 Corporation is going to outsource globally, in most cases, it comes down to two providers. It is ourselves and [Jones, Lange O'Sal]. A great competitor of ours. They do a terrific job in that space. And our two firms I think compete head to head daily on virtually every large outsourcing contract.

Why does one win over the other? It is selling. We all bring to the table competencies that can well serve those clients, relationships play a role. The competency and depth of team that actually is going to work on that account certainly plays a role. There are a lot of factors that come into why one firm wins over another firm. But I would say between those two top firms, we were both out there fighting hard. We're both -- I think if you could actually add the numbers up, I think that we certainly are -- the numbers show we're certainly the dominant firm in that business. And have a materially larger share of the overall global outsourcing business than any other firm but I think in today's market place, those two firms are competing very well head to head.

Behind then, those two firms, you have a lot of outsourcing work that goes out on a more regional basis or on a single business line basis. So, you may have a client that goes out and says we're just going to outsource transaction management. When that

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happens, you now introduce dozens of competitors that can play in that space. If they're just going to outsource facilities management, you have players like Johnson Controls or others that can play in the space. And then you get into other reasons why one firm wins or another.

But I think as you look at outsourcing, as our investors and analysts think about outsourcing, the things to think about and they're important to remember are these. First, the trend to outsource the basic service around commercial real estate owned or occupied by Corporations is going to increase over time. That is a fundamental dynamic the business that's not going to change. Second, the ante to play in that game has been raised materially every year the last ten years. What that's done is it squeezed out almost every competitor from being able to compete in the highest level of the outsourcing game which leaves us with really with a couple of three firms that can do that work on a global basis.

That trend, the upping of the ante, the amount of technology and resource and people we have to assign to these accounts will continue to make this game really a two-firm, perhaps a three-firm game. It is just not possible for regional firm or a firm that's not well capitalized to compete for a global outsourcing contract. It is just not possible. So, these are very supportive, very positive dynamics behind our business and it is the reason why you see in this downturn, how important outsourcing has become for CB Richard Ellis Group. And it will continue to be important.

Vikram Malhotra - Morgan Stanley - Analyst

Okay, thanks. Just last question for Bob. There were quite a few adjustments. I just wanted to make sure was any NOL this quarter then and is that going to impact the tax rate going forward?

Bob Sulentic - CB Richard Ellis Group - CFO

There was one discreet item that impacted our tax rate this quarter that actually made the tax rate a bit nonsensical for the quarter. But beyond that, we don't expect anything.

Vikram Malhotra - Morgan Stanley - Analyst

Okay. Thank you.

Operator

And our next question is from the line of Brandon Dobell with William Blair. Please go ahead.

Brandon Dobell - William Blair - Analyst

I wanted to follow up on the previous commentary. I guess just trying to get a sense of your level of confidence now versus -- it just seems like your tone, Brett is a little bit different than we heard maybe three months ago or six months ago. Is it just because you kind of made it through the debt stuff and you've made it through Q1 without having a major issue? Or do you see signs out there that you feel like you're a lot closer to a bottom than you were maybe three months ago?

Brett White - CB Richard Ellis Group - President and CEO

This is the question as to why I've been so negative the last few years and why am it's little more positive now?

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Brandon Dobell - *William Blair - Analyst*

Right.

Brett White - *CB Richard Ellis Group - President and CEO*

I love it. The last two years, we were about to hit the worst downcycle in history. I've been nothing but criticized for being negative. I tell you guys, looks we're not going to mince words with you guys. We saw this downturn coming. We knew it was going to be ugly, and it was a train wreck. And thank goodness, we took that view because we got it caught awhile ago. And it has been really a magnificent effort by our people to get cost out of business.

So, if I sound a bit more positive today, I would say it is based on these things. First, this amendment that we got was something quite unusual. And I think that for those investors and analysts who -- and I know it is a long document and I know it's -- I've had a few people say it put them to sleep at page 50 and it is a 112 page document. It is a pretty incredible thing. And it showed two things. One it showed the great support and confidence that our long-term lenders have in this Company. They gave us optionality and gave us permission to do things to control our own destiny. I think are very unusual in credit agreement amendments. And it is a huge boost in confidence to us. And a gesture of confidence from them to us.

Second, in that amendment, I think it demonstrated that it is a competency we have here in the firm. We're creative. We're aggressive. We have a terrific treasurer in [Debbie Fan]. We have a terrific individual in Jim Groch, our Chief Investment Officer who spent a lot of time working with our own team internally and then with our primary lenders to come up with an amendment that would serve us well down the road. So, we feel very, very good about that.

Second, and I'll be Frank with you, the amount of cost that our managers and employees have been able to take out of this business is well beyond a number I thought was achievable. And this Company, as you know, we're highly focused on margins. So maybe we take an inordinate amount of pride in that. I'm not sure we want to be known as a Company that cuts costs well but frankly we are. To talk about a number of \$500 million as a cost target, and you know if we throw it out there, we damn well intend to beat it. Is a pretty incredible thing. And that amount of cost reduction gives me a great sense of confidence that the optionality for us is in our own hands. And we have the ability here now to control our destiny and deal with this very, very difficult marketplace.

And I would add to that, the point you made. Which is -- I don't know -- look, we're certainly not at bottom in leasing yet. And the leasing market is under a lot of stress and it is going to be stressed for awhile. The Capital Markets, I think we're getting there. I think we're beginning to bounce near -- bounce is the wrong word. I believe we're bouncing along the bottom. I don't think it is going to get hugely worse. Almost impossible to imagine that it could. I think there is a reasonable opportunity for it to improve in 2009. I hope I'm not wrong on that.

So, all of that combined, a terrific amendment. Really Herculean efforts on cost cutting. Far outside from anything else we've seen in the industry. Very high morale inside the Company. People here I think feel that we're absolutely on the right path, doing the right things, grabbing share, cutting costs, a good relationship with our lenders. Those things together give me a sense of confidence that you're right, probably wasn't as strong two quarters ago.

Brandon Dobell - *William Blair - Analyst*

Great. And then one final one for you. Kind of from a management philosophy perspective. You talked about rapid pace of earnings growth as the market recovers. How should we think about how quickly you start to replace some of the costs you cut out? There's -- maybe some that take a year or two before you're comfortable putting them back in. Some that are immediately put back in. Maybe it is broker splits. How do we think about your philosophy addressing some of the -- it's probably a pretty lean organization right now as things start to get better for you?

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Brett White - *CB Richard Ellis Group - President and CEO*

I would like to say there is a great science around this but there isn't. Here's how I think it plays out. In our industry, and I expect it is probably the same in most industries, certainly most service industries. When you take this amount of cost out, there are some impacts from that. One is the effort to take it out is enormous. And I think that at the management level right down to the office level, it makes people think twice about onboarding people and onboarding expense when the market begins to improve. They remember what it was like to go in the conference room and sit down with an employee who's been with them for 20 years, who's got kids in school, and a family to feed, and let them go. People, that's no fun. And it is something that we loath doing. And the impact of that is that people tend to remember that for awhile.

And yet as sure as I'm sitting here today, I can tell you that eight years from now, seven years from now, even as tight as we are on expense, we'll have bloated expenses again because we will have ridden a very strong return to marketplace. We'll rationalize investments that probably shouldn't meet the test. We'll probably bring on a few more people than we need to bring and we'll need another event to pare down the organization again.

I talked about this before. I was a biology major in college. I kind of think organically about business. We've always said the best thing for a services business are events of some sort every few years. Whether it is a market downturn, whether it is a Capital Markets event, whether it is a large acquisition. These firms as big -- certainly as big as our firm is, tend to grow the expense line regardless. And these events, whether it is the acquisition of Crowe Company, the acquisition of Insignia. The NBO, the IPO, or a down market, these allow us to get back at the cost structure in a fundamental way.

This attack of the cost structure was unprecedented. I believe the expenses in upmarket will be onboarded slowly and I believe that you'll find the managers here and the employees here will very much enjoy a strong return to profitability. Remember, they're paid off that. So, folks haven't been paid much lately. And they know that. Their incentive bonuses will be bigger if they can keep the cost out of the business and grow the revenue line than if they don't. I think you'll see that. That will be certainly be the case for some years.

Brandon Dobell - *William Blair - Analyst*

Okay. Very helpful. Thanks.

Operator

Very good. And no additional questions in the queue. Please continue.

Brett White - *CB Richard Ellis Group - President and CEO*

Great. We appreciate everyone's time on the call today. We look forward to talking to you again at the end of the second quarter. Thanks.

Operator

And ladies and gentlemen, that does conclude our conference call for today. Thank you for your participation. You may now disconnect.

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