

FINAL TRANSCRIPT

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CBG - Q1 2010 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 first quarter earnings conference call. At this time all participants are in a listen-only mode and later we will conduct a question-and-answer session, with instructions being given at that time. (Operator Instructions) As a reminder, today's conference is being recorded. I would now like to turn the conference over to your host, Mr. Nick Kormeluk. Please go ahead, sir.

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

Thank you for joining us for CB Richard Ellis' first quarter 2010 earnings conference call. Last night we issued a press release announcing our financial results. This press release is available on the home page of our website at www.cbre.com.

This conference call is being webcast live, and is available on the Investor Relations section of our website. Also available is a presentation slide deck, which you can use to follow along with our prepared remarks. An archive audio of the webcast, a transcript, and a PDF version of the presentation will be posted to the website later today.

Please turn to the slide labeled forward-looking statements. This presentation contains statements that are forward looking within the meaning of the Private Securities Litigation Reform Act of 1995, including statements regarding our future growth momentum, operations, and financial performance. 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 current Annual Report on Form 10-K, in particular, any discussion of risk factors or forward-looking statements which are filed with the SEC and available on the SEC's website at www.SEC.gov, for a full discussion of the risks and other factors that may impact any estimates that you may hear today.



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We may make certain statements during the course of this presentation which include references to non-GAAP financial measures as defined by SEC regulations. As required by these regulations we have provided reconciliations of these measures to what we believe are the most directly comparable GAAP measures, which are attached hereto within the appendix.

Please turn to slide three. Our Management team members participating with me today are Brett White, our Chief Executive Officer, and Gil Borok, our Chief Financial Officer. Also with us today for the question and answer session is Jim Groch, our Chief Investment Officer. I will now hand the call off to Brett.

Brett White - *CB Richard Ellis Group, Inc. - Pres, CEO*

Thanks, Nick, and please turn to slide four. I want to begin our call today with some comments about our financial performance in the first quarter. I am very pleased to report that we achieved a meaningful increase in total Company revenue and EBITDA over last year, and well ahead of our internal forecast. The performance improvement was visible across all regions we serve, and most notably in our largest lines of business, sales, leasing, and outsourcing.

As compared to the first first of 2009, investment sales revenue grew over 50%, leasing performance rose over 20%, outsourcing achieved 6% revenue growth, driven by our EMEA, and Asia Pacific regions. Appraisal and valuation, our fourth largest service line this quarter also achieved double digit revenue growth versus Q1 2009. This 15% growth in aggregate revenue, combined with continued vigilance around expenses, pushed our normalized EBITDA to \$87.5 million, in Q1 2010, 62% higher than a year ago, while our normalized EBITDA margin came in at 8.5%, versus 6.1%, in Q1 2009. This performance is indicative of the fact that we have entered the early stages of a commercial real estate recovery.

We continued to improve our balance sheet during the first quarter. We repaid nearly \$56 million of debt, and extended the maturity on approximately \$272 million debt, through additional loan exchanges. These actions and others, completed over the past year and a half, have put our firm in a position of significant strength, as we move to a more offensive posture.

Please turn to slide five. Our position in the industry has never been stronger. As shown on the slide, as it relates to US investment sales, you will notice how much distance there is between us and our competition. In addition, in 2009, we also took over the number one position in US non-bank loan originations.

Similarly, on slide six, you will see that our 2009 global sales and lease transaction values were 83% higher than the next competitor. We have the clear leadership position in many of the world's most important business centers. For example, we were responsible for 28 of the 50 largest leasing deals in Manhattan in 2009, according to Crain's New York. Our nearest competitor had 15.

Earlier this week, the first quarter 2010 Lead Tables for London were published. CBRE had the highest market share for both Leasing and Investment Sales.

This market dominance of course cuts both ways. In a rapidly declining transaction environment, such as we experienced in 2008 and 2009, we must be more vigilant on cost than some other competitors to maintain our industry leading margins. I am proud to report that we've succeeded in that goal. However, now that we are clearly entering the early days of a recovery cycle, our disproportionate market share should drive disproportionate growth in Company profits.

Our notable quarterly transactions are listed here on slide seven. I will not spend time going through them, but we include them to illustrate key business wins. And with that I will now turn the call over the Gil to go over our financial results. Gil?



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Gil Borok - *CB Richard Ellis Group, Inc. - CFO*

Thank you, Brett. Please advance to slide eight. Revenue was \$1 billion for the first quarter of 2010, up 15.2% from last year, primarily as a result of improvements in Sales, Leasing, and Outsourcing activity. Normalized EBITDA was up over 60% to \$87.5 million in the first quarter of 2010, providing a normalized EBITDA margin of 8.5%.

Our cost of services was down 220 basis points, as a percentage of revenue, to 60% in the first quarter of 2010, versus 62.2%, in the first quarter last year. This resulted from the improvement in overall revenue, a higher mix of transaction revenue versus the prior year quarter, along with the benefit of cost reductions.

In the first quarter of 2010, operating expenses as a percent of total revenue, declined by 140 basis points to 33%, versus 34.4% in the first quarter of 2009. In absolute terms, operating expenses increased 10.6% in the first quarter of 2010, much less than the 15.2% increase in total revenue, during the quarter. Excluding normalized items in both years, in the first quarter of 2009, operating expenses benefited significantly from lower net bonus and carried interest compensation accruals, recoveries of previously recorded lease reserves for vacated facilities, and reduced legal and bad debt provisions. This was primarily evident in our Americas and EMEA segments and did not occur in the first quarter of 2010.

Interest expense for the first quarter of 2010 was approximately \$15 million greater than the first quarter of 2009. This was primarily due to 11.625% bonds issued in June 2009, as well as higher average interest on our term debt, as a result of the March 24, 2009, credit agreement amendment.

In the first quarter of 2010, earnings per share was affected by a higher tax rate, resulting from a greater impact in the current period of losses sustained in jurisdictions where no tax benefit could be provided. The impact of such losses will lessen as the year progresses, such that the Company's full year tax rate should approximate 38%. First quarter 2010 earnings per share was also impacted by approximately 50 million more shares outstanding, mainly a result of our June and November 2009 equity offerings.

Please turn to slide nine. Revenue from property and facilities management, fees for assets under management, loan servicing fees, and leasing commissions from existing clients are all largely recurring. This revenue represented approximately 61% of total revenue for the first quarter of 2010, versus 65% of total revenue in the first quarter of 2009.

Property and Facilities Management, which was our largest service line in the first quarter of 2010, increased 6%, versus a year ago. It accounted for 41% of total revenue if the current quarter, as compared to 44% in the first quarter of 2009. Leasing increased 23% in the quarter versus the first quarter of 2009. Sales revenue increased by 51% in the first quarter 2010, versus us a year ago, providing a strong signal that global investment sales activity is recovering.

Appraisal and Valuation revenue grew 12% in the first quarter 2010, as compared to the first quarter 2009. This was driven by an increase in our Lender and Special Servicer business resulting from more workouts, restructurings, foreclosures and bankruptcies. Global Investment Management revenue was down 12% year-over-year, Development Services Revenue was down 16%, and the Commercial Mortgage Brokerage business was relatively flat, with slightly higher servicing fees being offset by slightly lower origination fees.

Please turn to slide ten. The Outsourcing business grew 6% in the first quarter of 2010. During the first quarter, we won eight new accounts, we expanded five client relationships, and we signed seven renewals. Our square footage under management increased 5%, to a total of 2.3 billion square feet at the end of Q1 2010, versus 2.2 billion square feet at the end of 2009.

Although I won't run through all the details we have attached slide 11, which provides certain US transaction market statistics, illustrating just how challenging bankruptcy and absorption trends have been and are projected to be in 2010. That said, the estimated range of cap rates for 2010, shows some possibility of contracting. We have continued to see some cap rate contraction among high profile properties in large markets.



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Please turn to slide 12. Investment Sales activity continued to revive from their depressed levels of 2009. For the market as a whole, aggregate first quarter 2010 volume increased 49% from the first quarter of 2009, when market activity hit trough levels, according to Real Capital Analytics, or RCA.

Compared with the fourth quarter of 2009, RCA reports that first quarter volume declined only 14% to \$15.2 billion, which is encouraging given that Q1 is historically the weakest quarter, and Q4 strongest quarter for Investment Sales. CBRE continues to perform well in an evolving market, once again achieving the number one position in US investment sales in the first quarter, according to RCA's preliminary broker rankings.

Our own America sales revenue for the first quarter increased 51% on a year-over-year basis. Our Americas Leasing revenue increased by 20% in the first quarter of 2010, as compared to the prior year, reversing the trend from 2009. We achieved this revenue increase despite US Office vacancy rates, which increased by 30 basis points in the first quarter 2010 to 16.6%, from 16.3% at the end of 2009, and generally lower rental rates. Due to this continuing trend in vacancy and rental rates and the fact that a portion of our Leasing revenue is dependent on employment growth, which is sluggish, we believe performance may be choppy through the rest of 2010.

Please turn to slide 13. Our Investment Sales revenue in EMEA increased 16% in the first quarter of 2010, as compared to Q1 2009. This is a nice recovery from the 41% decline for the full year of 2009. CBRE's revenue from Leasing in EMEA grew 25% in the first quarter of 2010, versus Q1 2009. This growth was led by both London and Paris.

Please turn to slide 14. CBRE Sales revenue in Asia Pacific jumped by 123% in the first quarter of 2010 versus the prior year first quarter. This improvement was led by the return of some larger transactions in Australia and New Zealand.

The Company's Leasing revenue in Asia Pacific grew by 33% in the first quarter, versus the prior year first quarter, which was much improved over full year 2009 contraction of 12%. Rental rates across China showed signs of improvement, while other markets showed continued signs of stabilizing. The exception was Tokyo, where landlords become more accommodating and reduced rental rates to attract and retain tenants.

Please turn slide 15. Revenue for the Development Services segment was down 12% to \$18.3 million in the first quarter of 2010, versus the first quarter of 2009. Operating results for the first quarter of 2010 showed normalized EBITDA of \$5.6 million, an improvement over prior year, that was driven by continued cost containment.

The first quarter 2010 normalized EBITDA margin was 30.6%, as compared to 14.8% for the first quarter of 2009. At March 31, 2010, in-process development totaled \$4.7 billion, down 13% from year ago levels. The pipeline at March 31, 2010, totaled \$900 million, down 40% from year ago levels. The combined total of \$5.6 billion is down 19% from year ago levels. At the end of the first quarter, our equity co-investments in the Development Services business totaled \$65.4 million.

Please turn to slide 16. Global Investment Management revenue was up 6% to \$39.4 million in the first quarter of 2010, from \$37.3 million in the first quarter of 2009. This was driven by rental revenue associated with the consolidation of several properties, due to a change in accounting regulations effective January 1, 2010.

Fees for Assets Under Management decreased by \$3.4 million, due to downward pressure on certain Asset Management fee structures and a decline in Assets Under Management. Assets Under Management totaled \$33.3 billion at the end of the first quarter of 2010, which was down 4% compared to the fourth quarter of 2009, and down 8% versus the first quarter 2009, mainly due to lower property valuations and currency declines.

Notwithstanding the above, during the first quarter, we made \$900 million of acquisitions and portfolio takeovers, and \$500 million of dispositions globally. Our current investments in this business at the end of the quarter totaled \$93.5 million.



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Our Global Investment Management EBITDA reconciliation detail is shown on slide 17. First quarter 2010 EBITDA was impacted by a net non-cash write down of \$4.5 million, mainly attributable to decreased property valuations, and \$400,000 of cost containment expenses.

In both the first quarter 2010 and the first quarter 2009, we did not realize any carried interest revenue. We accrued a net \$1.1 million of carried interest compensation expense, as compared to the first quarter of 2009, when we reversed a net \$3.1 million of carried interest compensation expense accruals. As of March 31, 2010, the Company maintains a cumulative accrual of carried interest compensation expense of approximately \$15 million, which pertains to anticipated future carried interest revenue.

In addition, EBITDA was negatively impacted by bad debt provisions associated with Asset Management fees due from (inaudible). These items were partially offset by a benefit of approximately \$5 million associated with the previously mentioned accounting change. It should be noted that this accounting change had no bottom line impact. The business operated at a modest pro forma normalized EBITDA margin of 3% for the first quarter of 2010.

Please turn to slide 18. Real Capital Analytics now classifies \$160 billion of commercial real estate as distressed. This includes properties that are troubled, including those that are delinquent or in default, in lender REO, or in workout. However, more mortgages are starting to move into the restructured/modified and resolved categories.

The Company's portfolio of distressed assets being marketed for sale in the US now exceeds \$6 billion. In addition, we have been appointed receiver for 21.5 million square feet of property in the US.

Please turn to slide 19. During the first quarter, we extended maturities on a net total of approximately \$272 million of our term debt and revolver. At March 31, 2010, we have approximately \$165 million of term debt amortizing or maturing through 2012.

Please turn to slide 20. Excluding our non-recourse real estate loans and mortgage brokerage warehouse facility, our total net debt at the end of the first quarter 2010 was \$1.4 billion, similar to the end of 2009. During the first quarter, we reduced gross debt by approximately \$56 million, and paid the majority of our bonuses.

At March 31, 2010, our weighted average interest rate was 7.1%, similar to the end of 2009. Our leverage ratio, or net debt to EBITDA as defined in our credit agreements, at the end of the first quarter was 2.06 times, well under the maximum ratio permitted 4.25 times. Our trailing 12 month interest coverage ratio, or EBITDA to interest expense as defined, was 4.36 times, well in excess of the required minimum of two times. I will now turn the call back over to the Brett.

Brett White - CB Richard Ellis Group, Inc. - Pres, CEO

Thank you, Gil. Please turn to slide 21. Although circumstances can always change, it certainly feels like the broader economy has stabilized. Employment is showing early signs of improvement, and corporate earnings are getting stronger and in many cases, driven by revenue gains.

Credit markets continue to slowly improve, and property values have stabilized, even showing some signs of improvement for higher quality assets. Buyers are increasingly beginning to move forward with purchase decisions, sellers are feeling more confident about listing properties, and occupiers are getting more comfortable making longer term lease commitments. We would expect all of these external factors to drive increased transaction volumes and revenue growth for our Company. Our strong revenue results for the first quarter give us additional confidence that we are now in the early days of a recovery and growth cycle, although this recovery may include some bumps along the way.

As we continue to keep a watchful eye on expenses, as evidenced by our margins, we are now transitioning to our more traditional aggressive and offense-oriented posture. Our firm is reenergized and highly focused on growth. Although market

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sentiment has greatly improved and business prospects have brightened, global economic growth and credit markets still face meaningful challenges.

Despite recent value stabilization for certain property classes, many properties have current values that are substantially lower than when they were originally underwritten by the owner and their lenders. These properties face a possible funding shortfall as mortgages mature, due to more stringent financing terms lenders require today. We believe that more financial institutions may opt to take control of nonperforming properties, and we can expect to see more of these assets being brought to market for sale. These factors continue to have the potential to create a disruptive environment during the commercial real estate recovery.

As we look forward to the remainder of 2010, we expect that investment sales will continue to show strong year-over-year growth. Leasing should grow, but it's tied to employment recovery, which may be a bit choppy. The Outsourcing business will grow modestly, showing improvements over 2009 quarterly results, and revenue from asset-based businesses will not experience significant growth for the coming year.

Our results for the first quarter were meaningfully better than our internal estimates developed late last year. The increase in velocity and size of sale and lease transactions globally showed unexpected strength in durability, and I must say, it is nice to finally be surprised by positive results rather than negative ones. The early results for April indicate a continuation of this trend, and all of these data points together allow us to maintain our view that 2010 may very well mark the return of traditional levels of growth for CB Richard Ellis.

Operator, we will now take questions.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions) Our first question will come from Anthony Paolone of JPMorgan, please go ahead.

Anthony Paolone - JPMorgan Chase & Co. - Analyst

Thanks, good morning. Gil you had mentioned some of the accruals and items that impacted the quarter. But can you step back maybe bigger picture, and talk about why gross margins over the course of the year would change so much? Because looking back over the last several years, there were some years where there was a big pick up over the course of the year, and some years where there wasn't, and given that I would assume that broker splits are constant, just wondering why that changes.

Gil Borok - CB Richard Ellis Group, Inc. - CFO

Sure. Good morning. I think that a lot of it or most of it has to do with business mix, and so you can have big shifts year-over-year and quarter over quarter from Outsourcing revenues to Transaction revenues and that will be the main driver. So Outsourcing, depending how far back you're going, obviously pre-Trammell Crow was not nearly as big a portion of the total, but post-Trammell Crow, it's grown, and in the down years of '08 and '09 it was a bigger portion of the total mix, hence the cost of services portion of our P&L went up. And we saw that reverse slightly in the first quarter as transaction revenues came back.



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Anthony Paolone - JPMorgan Chase & Co. - Analyst

Okay, so if I look at, for instance, last year, I think there was over 600 basis points of gross margin expansion from the first quarter to the fourth quarter, given what you did in the first quarter of 2010 and what you are seeing, could it be that dramatic this year, or do you think it's a little flatter?

Gil Borok - CB Richard Ellis Group, Inc. - CFO

The way I would answer that is traditionally, you will see the seasonality come through from Q1 through Q4. So you will always see growth in or expansion in that margin over the course of the year, but as to whether it will be the same as last year, more or less, I can't say at this point.

Brett White - CB Richard Ellis Group, Inc. - Pres, CEO

Anthony this is Brett, that really turns most on the performance of Europe. Europe traditionally is a zero profit or a loss making business through at least the first quarter, sometimes through the second quarter, and even early third quarter, it's the way their compensation programs work. Conversely, when you get to the fourth quarter or late third quarter, Europe's margins become very very high, and that impacts the overall firm margins, you see that flow through the P&L. It's all about that.

Anthony Paolone - JPMorgan Chase & Co. - Analyst

Okay. And then, second item, last quarter you had put a paragraph in the press release about just how you think the business could perform in a more normalized environment, and I think we were all able to kind of back into some numbers using that. Now it sounds like the business is beating even your internal projections. I know you are not giving guidance, but is that paragraph in the parameters you outlined last quarter at least still valid and maybe things are better than that perhaps?

Brett White - CB Richard Ellis Group, Inc. - Pres, CEO

I think that's an accurate way to look at it. It's certainly still valid, and if we had a bias it would be that we have a better chance of achieving those financial objectives than perhaps we thought we had at the beginning of the year.

I want to keep in mind, and Anthony, certainly you know this as well, there is a reason the Fed didn't raise rates yesterday. And I think that uncertainty, which [to the extent] across the global geographies and economies right now is certainly something we are cognizant of as well. In addition, first quarter is interesting, and it's great to have a strong first quarter, but really is relatively small numbers. And these relative percentage beats at EBITDA and revenue are off a small base.

It gets a lot more meaningful as we move into the second and third quarter. And certainly if we have beats of this sort in the later quarters, I think we could have a much deeper conversation about our full year view. At the moment, I would just say that it definitely supports that paragraph you are referencing from the fourth quarter release and probably gives us a positive bias.

Anthony Paolone - JPMorgan Chase & Co. - Analyst

Okay. And then just last item, on smaller stuff, Gil, I think you'd mentioned, maybe I missed this, the real estate pick up in 1Q on your balance sheet, was that a change in accounting?

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Gil Borok - *CB Richard Ellis Group, Inc. - CFO*

Yes, and I didn't actually comment on the balance sheet, but you are exactly right, that accounting change has caused a gross up on the balance sheet both on the asset side and liability side on those real estate lines.

Anthony Paolone - *JPMorgan Chase & Co. - Analyst*

Are those assets, can you maybe put a little color around just how much you actually know or own, versus just having to consolidate it and any income that those are throwing off, or is it all development related?

Gil Borok - *CB Richard Ellis Group, Inc. - CFO*

They are actually not development related; they are in the Investment Management segment. It's a handful of assets that we are now deemed to have control over. There is no ownership in those assets, and there is no bottom line impact. It has an impact on EBITDA, but all of it reverses out in the line item Non-controlling Interest, so at the Pre-tax line there is no impact from them.

Anthony Paolone - *JPMorgan Chase & Co. - Analyst*

Okay. Thanks.

Gil Borok - *CB Richard Ellis Group, Inc. - CFO*

Sure.

Operator

Thank you. Next we will go to the line of Kevin Dougherty at Banc of America. Please go ahead.

Kevin Dougherty - *BofA Merrill Lynch - Analyst*

Great, thank you. I guess just a follow up on some of the questions around the margin outlook. How are you thinking about the returns of the business as conditions improve from here? And really I'm trying to get at, do you think the type of incremental margin that we saw in the quarter is something that could be sustainable going forward, or do you see more pressures as some costs creep back into the business?

Brett White - *CB Richard Ellis Group, Inc. - Pres, CEO*

Well it's a good question, and it's very difficult at this point in the year to predict what incremental margins will be and how much margin pick up we'll have for the year. Certainly if we have continuing quarters like the first quarter, you are going to see very nice pickups in margin throughout the year. Incremental margin, it all depends on how much revenue we are on-boarding and where it's coming from.

In the first quarter, as Gil mentioned to Anthony, we had very strong pickup in our Transaction businesses, and those came in at good margins, and it feels to us that those businesses are performing quite well, and we like the way they look at the moment. I mentioned on the call that April is a continuation of that trend. So this is a year where margins could see some nice accretion. But again it's early days, and it's really hard to tell that a point what summer, fall, and fourth quarter will bring

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Kevin Dougherty - BofA Merrill Lynch - Analyst

Okay, and then I wanted to see if you just could comment on any potential fallout from kind of a European debt crisis unfolding there. What's your exposure, maybe to some of those countries that have been most hit, and are you really hearing anything from your clients that conditions are changing at all? Clearly London and Paris continue to perform well, but just thinking about some of the smaller markets.

Brett White - CB Richard Ellis Group, Inc. - Pres, CEO

We really have no meaningful operations in Greece, it's [through an] affiliate? Portugal is a good but very small business for us. Spain is a very good business for us, and a very nice one we've had for many many years. At the moment, no impact whatsoever on the business.

I think for us, like for most global firms operating in continental Europe, the question really is, is this going to metastasize and move throughout European Union and create bigger problems in the larger jurisdictions, Germany, UK, France, we don't think it will. However, if we are wrong, and you see big downturns in continental Europe in the large countries we would feel that. But at the moment, really no impact whatsoever on the business, although we are all watching it with interest.

Kevin Dougherty - BofA Merrill Lynch - Analyst

Okay, that's fair. Then just the last question, could you talk maybe about some progress you've made unwinding some of those distressed properties? You've got that \$6 billion right now, what sort of interest are you seeing on those properties, and have you had much of a driver from that business to date?

Brett White - CB Richard Ellis Group, Inc. - Pres, CEO

It's funny, we have been in that space now for really two years, and it's just now we are beginning to see these properties beginning to move through the system. The overall dynamic in the marketplace on the purchase and sale of properties is you've got a lot of capital that has been raised the last 2.5 years, specifically for the purchase of distressed properties, and while that's happened, very few distressed properties have moved through the system, and therefore, yields have come down a bit on that property class. And you've got this dilemma where on stuff that folks would have liked to have bought at very high yields, distressed kind of yields, are going out at a little bit more traditional yields. And so there is an interesting dynamic out there in the marketplace right now.

That having been said, we are moving properties through the system in the distressed category. I think that's a dynamic that will continue to pick up throughout the year, as more and more buyers come off the sideline and make the decision that this is probably the low end of the market, and better to get in now than wait nother year and have prices move up some more.

In a lot of markets around the world, we would tell you that prices have stabilized. They have likely hit a bottom, and are either hanging around that number or beginning, in some places like the UK, to begin to move up quite smartly. And I think that that's driving more buyers off the sideline who are saying, okay, this is probably about as low as it's going to get and a good time to get in the marketplace, and that is impacting the sale of these distressed properties.

Kevin Dougherty - BofA Merrill Lynch - Analyst

Okay, and do you think that's a portfolio that could be enough to move the needle if more of that activity picks up during the course of the year?



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Brett White - *CB Richard Ellis Group, Inc. - Pres, CEO*

Sure. It will. Because again, as that old analogy that you can fall off the bed but you can't fall off the floor, investment property sales globally are on the floor.

It's interesting when you look at the investment property sale numbers that all of the public firms are reporting, they are up 50%, they are up 60%, they are up 40%, well, that's true. But they are up 40%, 50%, 60% from really very, very, very small numbers, so the sale of some distressed properties are going to move that needle, because again, it doesn't take a lot of business to bring that very low number up 20%, 30%, 40%, 50%. And yes, they will make a difference, and we will see that, I expect, through the P&L.

Kevin Dougherty - *BofA Merrill Lynch - Analyst*

Great, appreciate it, thanks Brett.

Operator

Thank you, next to the line of Sloan Bohlen of Goldman Sachs. Please go ahead.

Sloan Bohlen - *Goldman Sachs - Analyst*

Good morning, thank you. Brett, just to your comments on kind of shifting on the offensive I have a little bit, can you talk about maybe priorities for use of cash this year? Particularly with what you guys have done in extending out some of the maturities and payments of your loans?

Brett White - *CB Richard Ellis Group, Inc. - Pres, CEO*

Sure. Well, certainly we have very discreet areas that we can put cash to use. We have our co-investment and CapEx programs, we have debt repayment, we have M&A, we have co-investment. And those are the primary areas that we focus on for cash usage.

This year we've talked about our CapEx expectations, and that's in the \$50 million to \$60 million range. Co-investment, we would like to get some money out there on the co-investment side, and are certainly working hard to do that. But even with a good year in the asset-based businesses, that amount of money we can get co-investment isn't huge; it's probably in that same range of \$50 million to \$60 million.

That then leaves us with very few places to put the cash to use. There's M&A, there's debt repayment, and I would say at the moment, we are going through a lot of analysis in those two areas. This ought to be a very good time to be in the M&A space, and it is.

That having been said, there are very few firms that are going to put themselves up for sale at the type of valuations that are out there at the moment. Our industry buys these businesses typically on trailing three year average EBITDA, or trailing four year average EBITDA. We don't buy on perspective EBITDA. So businesses that are going to make themselves available this year are probably not the best businesses out there, but we are very interested in the M&A space; we're spending a lot of time over there right now, and we are very interested in continuing to delever. And I would say those are the areas that you would expect to see us put this cash to use.



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Sloan Bohlen - *Goldman Sachs - Analyst*

Okay, and I mean outside of pricing, though, do you have a sense for sizing of M&A deals that you'd potentially look to do?

Brett White - *CB Richard Ellis Group, Inc. - Pres, CEO*

Sure. As you know, Sloan, for our business model, the bigger the better. The most creative deals we've ever done are the mega-deals. The deals that frankly have the most risk are the little deals, where five or six or seven key people, if they don't integrate well walk out the door, and you have no value in what you purchased.

So, in our M&A screen we look at all sizes of transactions; we are keenly interested in the larger firms, but that's a very, very tough proposition. It's a multi-year process to identify, court, and ultimately bring one of those firms to the market or to the fold.

If I had a choice, that's where we would spend all of our M&A dollars, but we don't have that choice, and because we don't, we have to be opportunistic, and we are opportunistic based on what comes to the market. And at the moment what is coming to market are generally very small businesses that have made the decision that it's going to be very difficult for them to survive or compete coming out of this down cycle, and looking to onboard with a larger platform. And that's where we are seeing most of the activity at the moment.

Sloan Bohlen - *Goldman Sachs - Analyst*

Okay. That's helpful. And then just kind of on the other side of it as you look at the mix of your businesses, it looks like the operating expense in your Development segment has dropped fairly materially in the last couple of quarters. Can you talk about that business going forward, and how you view that, particularly given there isn't much in the way of development going on right now?

Brett White - *CB Richard Ellis Group, Inc. - Pres, CEO*

Sure, and in all credit to our Development business there is no business in the firm that went after expense more aggressively than our Trammell Crow Development Company. They attacked expense as a percent of their total OpEx; they reduced significantly more than any other business line or any geography. They really pared that business down to a dial tone where they could get through the last few years, remain EBITDA positive, and I congratulate them for that, and they're now in a position where they can grow, and they are excited about the opportunities that they believe this marketplace will bring them.

Certainly, in the Asset Acquisition and Disposition business, this is where people start to get real interested about creating value, at this point in the cycle, and they are interested. That having been said, opportunities are very few and far between. Most of their activity at the moment is in development of what I would call zero risk transactions. These are build-to-suits for customers, or on-site development for educational institutions, hospitals, these sorts of facilities.

We love that business; it's basically a cost plus business, and it's a good way to get the bills paid and create some value in a tough market. But now they are beginning, like the rest of the business, to get a bit more offensive and look at more interesting opportunities out in the marketplace, and I think they will likely find some.



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Sloan Bohlen - *Goldman Sachs - Analyst*

Okay, and then just one last question. This may be for Gil, I guess. But your competitor yesterday basically said that they were shifting some of the ways they looked at cost structures and variable comp versus fixed in certain regions of the world. Is that something you are seeing across the industry or is it something that you've looked at within CB?

Brett White - *CB Richard Ellis Group, Inc. - Pres, CEO*

It's Brett, I have to chuckle, Sloan at your comment. For over a decade, that very worthy competitor of ours used our commission structure as a real point of differentiation, and frankly used it to criticize our firm and make a point of differentiation between the two firms, that their sales force was salary bonused, and ours was commission. We welcome them to the commission business. Commission structure has always been the right structure for the Transaction business. We been a commission structure firm from day one, Sloan, so there is no need for this firm to be thinking about or discussing changes in compensation structure for our sales force.

Sloan Bohlen - *Goldman Sachs - Analyst*

But do you think that changes the competitive dynamic at all?

Brett White - *CB Richard Ellis Group, Inc. - Pres, CEO*

I think it does change the competitive dynamic. I think that a commissioned structured sales force require a different type of management. It's something that's learned over time. It's something that is frankly harder, I believe, to do, than managing a purely salary bonused sales force.

Competitively, it really now puts everybody on an even footing as it comes to compensation. It's not difficult for any producer, or for that matter, any firm to quantify the compensation structures at the major competitors, and Sloan, as I think you know, all the major competitors pay almost exactly the same commission split.

Competitively, Sloan, people in this business don't move for split. They're smarter than that. They move for platform, and the platform that we have, the platform that that very worthy competitor has are terrific platforms, and as I've said for many years, I think you're going to find that the highest quality talent is going to end up generally at those two firms. And I think that's a great outcome.

Sloan Bohlen - *Goldman Sachs - Analyst*

Okay, great. Thank you, guys.

Operator

Thank you. (Operator Instructions) Next we will go to line of Will Marks with JMP Securities, please go ahead.

William Marks - *JMP Securities - Analyst*

Good morning Brad and Gil. Just a follow up actually to the last question about changing comp structures in certain markets. Maybe to what he was referring is, are there markets where the general comp structure is salary plus bonus, maybe a European market or Asia Australia, where you are looking to change the typical model and compete that way.

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Brett White - *CB Richard Ellis Group, Inc. - Pres, CEO*

Will, it's a great question. And I think one of the big mistakes that some of our competitors have made in the past have been to impose a compensation structure or regime into a market or geography that uses a different compensation structure. And by the way, we love it when competitors do that, because it displaces the best people, and we saw that happen in Australia and Asia Pacific region five, six, seven years ago. And much of that region is on what looks like a commission structure, and when some other firms went to try salaried bonus there, lots of people found that to be untenable, we picked up literally hundreds of (inaudible) in Australia over that period of time.

My own opinion is, Will, that in building these types of transaction-oriented services businesses, the ideal structure, if you can do it, is to have an appropriate and competitive compensation structure for every local market you participate in. If you can do that, and if the structures provide you with margins that you believe are acceptable, then you have a really powerful value proposition to folks in all of these markets, and not only to them but we can tell your clients when they are being serviced by teams in the markets, those teams are solid and very happy with their lot and in their business life. And we have been able to do that.

We have been a resident in these markets for decades, in some cases for 40 years and 50 years, and our compensation regimes and structures are different market to market. But all of them, the one common denominator about all of them is they produce exceptional margins. And when you look at our margins, we have had market leading margins, Will, here for years, and that is a result of the fact of that dynamic, that tension, making sure our compensation systems are appropriate and competitive in the local market, but at the same time produce exceptional margins, and that balance is hard to come by but we've found it.

William Marks - *JMP Securities - Analyst*

Okay. Great. I appreciate that. Okay moving on, I had a few specific modeling questions. One, the notes payable on real estate rose by \$200 million, pretty significantly during the quarter. Can you explain that?

Gil Borok - *CB Richard Ellis Group, Inc. - CFO*

Yes Will. It's Gil, good morning. The question was, it's relating to the accounting change, so we had certain assets in Investment Management, that under the new accounting rules that came into effect at the beginning of the year, new consolidation accounting rules, we have to consolidate certain assets we didn't have to under the old rules. There's no change in ownership, but rather a change in how control is defined, and so we consolidated those. It's driving up the assets, the real estate assets, and similarly driving up the liabilities. (Inaudible - multiple speakers)

William Marks - *JMP Securities - Analyst*

Sorry, I know that's repetitive. I was confused earlier. Okay. Second question is on the [model]. [If the] net debt was maintained in the first quarter, which is pretty impressive given you are paying out bonuses, I don't know if you can quantify your bonuses and then actually tell me how you were able to maintain your net debt level?

Gil Borok - *CB Richard Ellis Group, Inc. - CFO*

We don't generally disclose the bonus numbers that we pay out, so I can't give you a specific number. But what I can tell you is I think you are exactly right, that with net debt being maintained, we obviously had a good quarter relative to cash flow and being a first quarter, because that number is a significant number for us. And so if we maintain, then by definition, we did well.

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William Marks - JPM Securities - Analyst

And you did say that pretty much all of your bonuses have been paid now?

Gil Borok - CB Richard Ellis Group, Inc. - CFO

The majority of them have been paid, yes.

William Marks - JPM Securities - Analyst

Okay. Let's see, for the Mortgage Brokerage, it was up 1% during the quarter. I typically model that consistent with Investment Sales, and it seems to either be lagging, or maybe something else was going on. It's a small part of the business, but I'm curious.

Brett White - CB Richard Ellis Group, Inc. - Pres, CEO

Will, first of all, your historical modeling, I think, was spot on, and that was the right way to think about that business. We are in an unusual environment right now, where some of the buyers that are out there are not using traditional financing to acquire these properties, and many buyers are taking the financing that is on the property and assuming that financing. In fact, those are the most attractive properties that are out there right now, are properties that are levered appropriately and have assumable financing on them.

So the Mortgage business had a fairly soft quarter. As the investment property market stabilizes and we see a more traditional mix of buyers in the marketplace, you should expect that business to post more solid growth.

William Marks - JPM Securities - Analyst

Thanks. One more question, and then I'll move on. The noncontrolling interest item in the income statement, which was \$9.5 million, something like that, is that - \$9.6 million, how can we look at modeling that for the rest of the year? I know that's a tough question, but any thoughts? Last year was \$61 million for the full year.

Gil Borok - CB Richard Ellis Group, Inc. - CFO

When you are looking at it on the income statement, Will, that's a GAAP number, which would include the minority portion of any write downs that we take. Now we do expect the write downs that we take, you can see in the first quarter they were not a significant number, and that's what we expect going forward, that we might have some as we mark to market in a timely fashion each quarter. So we can expect a little bit more potentially, but it won't be a meaningful number, but unfortunately, what that does is it distorts any trend that you might see.

The only other color I think I can give you on that line item is that most of that minority interest is associated with the Development business, where our minority is actually bigger than our stake. And so as a result, it will move with the business generally speaking, and notwithstanding the write downs that we have been taking, which I'll classify as one time, so it will sort of move with that business. There is a little bit [of it] Investment Management and notwithstanding those write downs, it will move with those asset-based businesses.

William Marks - JPM Securities - Analyst

Okay. Great. Thanks a lot.



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Operator

Thank you. Gentlemen, there are no further questions in queue at this time.

Brett White - *CB Richard Ellis Group, Inc. - Pres, CEO*

Great, thank you Operator, and thanks folks for calling in, and we will talk to you at the end of the second quarter.

Operator

Thank you, and ladies and gentlemen, that does conclude your conference for today. Thank you for your participation, and for using AT&T Executive Teleconference. You may now disconnect

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