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CBG - Q1 2014 CBRE Group, Inc. Earnings Conference Call

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OVERVIEW:

CBG reported 1Q14 total revenue of \$1.9b and GAAP EPS of \$0.20.



CORPORATE PARTICIPANTS

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the CBRE first quarter earnings call.

(Operator instructions)

As a reminder, today's call will be recorded. I would like to turn the conference over to our host, Steve Iaco, with Investor Relations. Please go ahead, sir.

Steve Iaco - CBRE Group Inc - IR & Corporate Communications

Thank you, and welcome to CBRE's first quarter 2014 earnings conference call. About an hour ago, we issued a press release announcing our Q1 2014 financial results. This release is available on our homepage of our website at CBRE.com.

This conference call is being webcast, 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 the prepared remarks. An audio archive of the webcast and pdf version of the slide presentation will be posted on our website later today, and transcript of the call will be posted tomorrow.

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. These include statements regarding CBRE's future growth momentum, operations, financial performance, business outlook, and ability to successfully integrate businesses we have acquired with our existing operations.

These statements should be considered to be estimates only, and actual results may ultimately differ from these estimates. Except to the extent required by securities laws, we undertake no obligation to update or publicly revise any of the forward-looking statements you may hear today. For a full discussion of the risks and other factors that may impact any estimates that you may hear today, please refer to our first quarter earnings report filed on Form 8-K, and our current annual report on Form 10-K, in particular any discussion for the risk factors in forward-looking statements, which are filed with the SEC and available at SEC's website, SEC.gov.



During the course of this presentation, we may make certain statements that refer to non-GAAP financial measures as defined by SEC regulations. As required by these regulations, we have provided reconciliations of those measures to what we believe are the most directly comparable GAAP measures. Those reconciliations can be found within the appendix of this presentation.

Please turn to slide 3. Participating with me today are Bob Sulentic, our President and Chief Executive Officer, Jim Groch, our Chief Financial Officer, and Gil Borok, our Deputy Chief Financial Officer, who will join us for the Q&A period. Please turn to slide 4, as I turn the call over to Bob.

Bob Sulentic - *CBRE Group Inc - President and CEO*

Thank you, Steve. CBRE had a very strong start to 2014, with excellent growth on the top and bottom lines, as you have seen in our press release. These results reflect the ongoing investments we have made in professional talent and resources to further support our people in creating value for our clients. Jim will take you through the results in detail, but I will briefly hit a few highlights.

First, we achieved significant growth in all three global regions. EMEA set a brisk pace, with double-digit organic growth in every major business line.

We were pleased to see activity pick up in Europe, as investor and business confidence has improved in step with the recovering economies. In particular, we saw continued strength in the United Kingdom, where our efforts to diversify our business lines and accelerate growth continue to pay dividends. The acquisition of Norland Managed Services, which we will discuss in detail later, was a key contributor to our results in the EMEA, and supplemented strong organic growth across business lines in the region.

We also sustained double-digit growth in the Americas, our largest business segment. This resulted from empowering our sector-leading professionals with increasingly differentiated resources to expand our client base and grow market share.

Our Asia-Pacific business also performed well in the first quarter. Despite continued occupier and investor caution, we generated 18% revenue growth in local currency, fueled by property sales. However, like the past few quarters, weakened currencies in the regions served to tempered our growth rate when translated into US dollars.

On the M&A front, after acquiring 11 companies in 2013, we completed two in-fill acquisitions in the first quarter of this year, one in the US and one in Europe, and have an active pipeline of attractive acquisition candidates.

Please turn to slide 5. We continue to benefit from the measured investments we are making to support our professionals, as they work together to provide integrated service to our clients. This is central to our growth strategy, and helped us build market share and enjoy strong growth in nearly all business lines.

Occupier outsourcing revenue, which includes certain transaction revenue increased 61% on a global basis. Even before the significant contributions from Norland, we achieved double-digit growth of 12% in this business line globally. Norland is included in our results for the first time, following the completion of its acquisition in late December 2013.

In terms of new business, Q1 2014 was one of our most active periods ever for new occupier outsourcing contracts and expansions. Global leasing revenue grew at a double-digit rate for the third consecutive quarter, as we made additional gains in market share. All three regions showed strong growth, led by the EMEA. Global property sales revenue rose 27% reflecting an active global investment market, and CBRE's central role in facilitating cross-border capital flows. While revenue rose strongly in all regions, growth in the EMEA was particularly robust.

Growth in commercial mortgage brokerage revenue improved despite the decline as expected in lending activity with the US government sponsored enterprises or GSEs. This decline was more than offset by increased US loan originations to other capital sources and sharply higher loan sales activity.

All of this added up to robust financial performance, including growth of 26% in revenue, and 56% in adjusted EPS. Needless to say, we are very pleased to deliver this kind of growth to our shareholders, and we thank our people for their hard work in bringing about such a positive outcome.

Now I will turn the call over to Jim for a more in depth review of the quarter.

Jim Groch - CBRE Group Inc - CFO

Thank you, Bob. Before we move from slide number 5, I would like to highlight that 58% of our revenue this quarter came from contractual sources, mostly from global corporate services, which is our occupier outsourcing business and from asset services. Add in leasing which is largely recurring, and you encompass [80]% of the \$1.9 billion total revenue for the quarter. This reflects the material shift in our business mix over the last several years, as we have moved toward a more comprehensive mix of integrated services for our clients.

To understand this shift, it is important to know that the buying pattern for large multi-national clients has changed materially over the last several years. By example, in connection with a typical new large contract, we often on-board hundreds of the client's in-house real estate professionals from across the globe. Previously these employees of such clients, would engage dozens of smaller real estate service providers, including brokerage firms, facility managers, project managers and consultants on an as-needed basis.

Today they will contract with us, typically under a five-year agreement. They count on CBRE to manage their real estate activities globally, in a much more strategic and cost-effective way. As the global leader in each of our lines of business, we are well-positioned to service clients that demand comprehensive, globally integrated outsourcing solution.

To put this into perspective, in 2002 our total Company revenues were about \$1.35 billion. Last year, our top 30 clients alone totaled \$1.3 billion of revenue.

Please turn to slide 6 for an overview of total Company performance. As Bob mentioned, Q1 2014 was a period of excellent growth. Our 26% revenue increase reflected strong organic growth, as well as contributions from our acquisition of Norland. Excluding Norland, consolidated revenues rose 11%, or 12% in local currency.

Due to the nature of the services provided by Norland, we experienced an aggregate shift in cost classification from operating expenses to cost of services. As a result, cost of services increased as a percentage of revenue, while operating expenses decreased as a percentage of revenue for the quarter. Without the impact of Norland for the regional services businesses, cost of services as a percentage of revenue was essentially flat, and operating expenses as a percentage of revenue decreased approximately 60 basis points.

In Q1 2014, we benefited from a \$16.2 million decline in interest expense, largely because of our refinancing activities early last year. Depreciation and amortization expense on a normalized basis rose by \$6.9 million. This increase was primarily driven by capital expenditures aimed squarely at strengthening our ability to serve clients. The normalized tax rate for the quarter was 35%, and the full year rate is expected to be about the same.

Normalized EBITDA in Q1 increased 23% over the prior year quarter. If we excluded Norland, normalized EBITDA increased 13%. On a GAAP basis, earnings per share rose 82% to \$0.20 a share for Q1. After adjusting for selected items, EPS increased 56% to \$0.25 a share for Q1.

Please turn to slide 7, regarding the Americas. We continue to produce strong growth in the Americas. Overall revenue increased 10% for Q1, or 11% in local currency. Property sales were a big growth catalyst.

We are capitalizing on moves we have made to strengthen our team, along with the increased capital migration into real estate. This is evidenced by our very strong 38% growth rate in the US, partially offset by declines in Canada and Latin America resulting in a 17% first quarter revenue increase overall for the Americas, or 19% when measured in local currency.

In leasing, our investment in upgrading and expanding our brokerage ranks continues to drive growth. As the global leader, we attract the best-in-class brokerage professionals. Revenue grew double-digits for the third consecutive quarter, increasing by 10% or 11% in local currency. This growth is noteworthy considering the macroeconomic economic environment, where leasing remains uneven.

Finally, Global Corporate Services or GCS and asset services revenue rose 9% or 10% in local currency. This increase reflects strong new business wins and contract expansions in GCS during 2013.

Please turn to slide 8, regarding EMEA. EMEA was our fastest growing segment during Q1. The addition of Norland helped to increased revenue by 127%. Norland had a strong quarter, generating total revenue of \$217 million. However, even without this contribution, EMEA revenue growth was a robust 32%.

Property sales surged 61%, as compared with overall market growth estimated at 26%. Growth was driven by rebounding investment activity across the continent, including in the Netherlands, Poland and Spain, as well as continued strength in Germany and the UK.

Leasing in EMEA also performed well, achieving a 16% increase in revenue. This reflected market share gains, when compared to an estimated 6% increase in market volumes across the region. The UK drove this performance. GCS and asset services growth was strong, even without the benefit of Norland. Excluding Norland, we achieved 30% revenue growth, as we added new clients.

Please turn to slide 9 regarding Asia-Pacific. Our performance in Asia-Pacific was strong, especially in light of the tepid macroeconomic environment in the region. Overall revenue rose 18% in local currency, and 8% when translated into US dollars, reflecting weaker currencies in the region.

Like the Americas and EMEA, we saw significant property sales growth in Asia-Pacific. Sales revenue was up 38% in local currency, and 26% in US dollars. Australia, Japan and Singapore were notably strong. This performance compares favorably to market volumes, which were up modestly in Q1.

Leasing revenue rose 13% in local currency, and 5% in US dollars. The increase was driven by Greater China, India, and Japan. We were very pleased with this growth, at a time when the regions' occupiers, particularly multi-nationals, remain hesitant to expand.

Strong growth in GCS and asset services was tempered by foreign exchange effects. Overall revenue growth of 12% in local currency was trimmed to just 1% in US dollars. Outsourcing continues to build momentum, as it is increasingly embraced in this part of the world.

Please turn to slide 10, regarding global investment management. 2014 is a transition year for our global investment management business, as we pivot from harvesting gains last year, to deploying recently raised capital this year. As you know in 2013, we sold nearly \$10 billion of assets, exited the management of a private REIT, and are currently absorbing lower market fees in continental Europe. As a result, we had lower revenue and EBITDA in the quarter.

Our ongoing successful fundraising reflects the underlying strength of the business, and the strong investment results we have achieved for our clients. Following \$5 billion of capital raised in 2013, we attracted an additional \$1.2 billion of new equity in Q1, and only since the end of the quarter, have raised approximately \$1 billion more of equity. We now have approximately \$5.3 billion of equity to deploy.

AUM increased for the second straight quarter, rising by \$1.1 billion from year end 2013 to \$90.2 billion. This increase was driven by property acquisitions of \$1 billion, higher portfolio values of \$700 million, and positive foreign currency movement of \$100 million. Property dispositions totaled \$700 million for the quarter. Our co-investments in this business totalled \$159.8 million at the end of Q1.

Please turn to slide 11 regarding our Development Services business. Revenue for the Development Services segment, plus equity earnings and net gains on the disposition of real estate totaled \$32 million in Q1 2014, up 34% from Q1 2013. Normalized EBITDA rose significantly from \$7.8 million in Q1 of 2013, to \$11.6 million for Q1 2014.

We completed a major asset sale earlier in the year than expected in Q1, and another major sale originally scheduled for Q2 will likely be delayed until later in the year. As such, Q2 EBITDA for this segment is likely to be lower than expected due to timing.

Development projects in process totaled \$5 billion at quarter end, up \$100 million from year end 2103. The inventory of pipeline deals totaled \$1.8 billion, up \$300 million from year end 2013. Our equity co-investments in the Development Services business totaled \$87.6 million at the end of Q1 2014, while our total recourse debt for this business stood at only \$7.7 million.

Please turn to slide 12 regarding global corporate services. As Bob mentioned, our occupier outsourcing business, also known as GCS continues to sustain strong momentum in all three regions. Corporations, healthcare providers, government entities and other institutions are increasingly turning to CBRE for truly integrated real estate solutions. As a result, we are gaining new clients and expanding relationships at an impressive clip. In Q1 2014, we signed outsourcing contracts with 25 new clients, and expanded our service offering with 24 existing customers.

We are particularly pleased with our growth outside the US, as real estate outsourcing increasingly becomes an established global practice. The Norland acquisition dovetails perfectly with this trend. This is a high-growth, largely recurring business, with long-term contracts, and a prestigious sticky customer base. It gives us a best-in-class capability to self-perform building technical engineering for our occupier clients in Europe.

Norland exceeded targets for its first quarter as part of CBRE. As important, this business has also expanded our integrated service offering in EMEA, and enhanced cross-selling opportunities. In only the first few months of integration, we have brought Norland into several CBRE managed accounts, including AT&T, AIG, Aon and Travelers. We see tremendous upside for Norland, as we do for our entire GCS business around the world.

Now please turn to slide 13 for Bob's closing remarks.

Bob Sulentic - *CBRE Group Inc - President and CEO*

Thank you, Jim. CBRE's strengths, and the results we are generating for our clients were clearly evident in our performance during the opening quarter of 2014. Most of our business lines performed materially better than the market, and continue to have good momentum.

In particular, property sales were significantly stronger than usual for our first quarter. While we expect this business line to continue to post strong double-digit year-over-year increases in all three global regions, we also expect to see these growth rates moderate to more sustainable levels, particularly as Europe moves through its early stage recovery, and same-quarter comparisons become more difficult as the year progresses.

In commercial mortgage brokerage, the lower volumes with the GSEs are likely to remain a challenge this year. But as we saw in Q1, we have increased our activity with other capital sources.

Leasing for the quarter performed well, reflecting the strength of our platform and our professionals, and we expect this trend to continue. However, we note that the leasing markets are generally recovering slowly and unevenly around the globe.

We expect to sustain strong double-digit growth from our occupier outsourcing business, as adoption rates continue to improve and we deepen our market penetration. Norland has added an exciting new dimension to this business in Europe, and provides for enhanced growth prospects and long-term contractual revenue.

On the principal side of our business, for the full year we continue to expect our investment management and development businesses combined to perform roughly in line with 2013. before taking into account carried interest. As for our performance in Q1, and what it might say about the rest of the year, we expect more upside than downside to our 2014 guidance. As we have often said, the first quarter is a relatively small portion of the year's earnings, and is not an adequate barometer of full-year performance.

We will face more challenging year-over-year earnings comparison in the quarters ahead, therefore at the present time, we are not updating our earnings outlook for full-year 2014. All told, we had an excellent first quarter. Continued measured investments in our people and platform, and strong performance on behalf of our clients should enable ongoing market shares gains, and strong long-term growth.

Excellent liquidity, cash flow and a conservative balance sheet position us to continue to expand our global leadership position for benefit of our clients, employees and shareholders. With that, operator, we will open the line for questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator instructions)

And our first question will be from the line of Anthony Paolone with JPMorgan. Please go ahead.

Anthony Paolone - JPMorgan Chase & Co. - Analyst

Thanks, good morning -- or good afternoon actually, and nice quarter.

Bob Sulentic - CBRE Group Inc - President and CEO

Thank you.

Anthony Paolone - JPMorgan Chase & Co. - Analyst

In terms of investment sales and leasing, things were very strong. Can you talk about just how much of that was perhaps share gain, versus the market environment really changing on you, and just looking better, and what that pipeline might look like right now?

Bob Sulentic - CBRE Group Inc - President and CEO

Anthony, this is Bob. We -- we certainly experienced a very positive market on the capital market side. We do think we took share around the world. In the US, we were -- we kind of performed with market in terms of market share. But in the EMEA and Asia-Pacific on the capital markets for sale side, our growth was significantly higher than market.

In the US and in EMEA both, we believe our leasing growth was significantly higher than the market. Not good statistics on leasing growth in Asia-Pacific. We had some nice growth ourselves, 13% local currency, we believe we outperformed the market, but it is hard to get good statistics over there on that.

But in general, capital market is strong, we performed well. Leasing market is sluggish, we felt like we performed well relative to market in both.

Anthony Paolone - JPMorgan Chase & Co. - Analyst

So the outlook for leasing, putting aside your share, still feels from what you are saying like it hasn't -- like not a big change there in terms of improvement?

Bob Sulentic - CBRE Group Inc - President and CEO

We don't think a big change, from what we talked about at year end.



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

Okay. And then, in terms of spending money on the business, investing in the business, any way to put some dollars around that in terms of where you are there right now? Or how much more there maybe to go? I understand there is always something to do. But it seemed like over the course of last year, you had ramped that up a little bit. I just want to try to understand where we are right now?

Bob Sulentic - *CBRE Group Inc - President and CEO*

Well, I am going to split that into two pieces. One piece, being kind of our operating expenditures, in support of running the business in an ongoing basis, and then one on our capital expenditures and M&A, and so forth. And I will let Jim answer the latter, and I will answer the former.

But we talked last year about incremental expenditures. We have largely caught up with the things that we felt like we needed to catch up on. And now what you are going to see going forward, is that we are spending in support of the growth of our business kind of at the rate we think we need to spend, on an ongoing basis. And Jim, you want to hit the capital expenditures?

Jim Groch - *CBRE Group Inc - CFO*

Yes, sure, Bob. On CapEx, really, I would say, it is same guidance that we gave at year-end. We were expecting to be somewhere up to \$185 million in CapEx for the year. M&A, Bob, you mentioned M&A -- M&A is really dependent on the opportunities. We continue to be very active, but we haven't given an estimate on what we expect to spend there.

Bob Sulentic - *CBRE Group Inc - President and CEO*

Okay. Thanks.

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

Okay. And then, just on Norland, any -- any ability to -- notes, like what return on invested capital looks like, or just how that is coming in relative to the underwriting?

Bob Sulentic - *CBRE Group Inc - President and CEO*

Well, in general we, and I will let Jim comment on how we underwrite deals. But we have a number of measures that we use, that you would consider pretty typical measures, IRR, accretion, and so on and so forth. We that -- certainly that deal met and exceeded those parameters when we underwrote it, and the deal -- the business has performed quite well.

It had a stronger first quarter than we expected, particularly with the clients. They on-boarded good clients. We were able to introduce them into our existing clients. So by virtually every measure, that acquisition has performed at or above our expectations.

And Jim, do you want to just talk about how you think about acquisitions?

Jim Groch - *CBRE Group Inc - CFO*

I would probably just echo a little bit of what Bob said. From a returns standpoint, we are well in excess -- our targets are well in excess of our weighted average cost of capital. And Norland is off to a great start. We expect it to be quite as strong financially, deal for our investors.

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

Okay. And then just last question for me. The \$5.3 billion of equity that you have to deploy in investment management, can you just describe the nature of that? Like for instance, is that sponsor fund type money that you would get [1.25] point on, or is that core money that you don't get anything on until you put it to work, and it is 40 bips? Or how to think about that, because it just seems like a good pipeline.

Jim Groch - *CBRE Group Inc - CFO*

Yes, it's a bit of a mix of everything, to be honest with you, from around the world. We have not broken out the capital as to what buckets it is in, but it is pretty broadly based across most of our businesses, including kind of typical real estate private equity funds at one end, and down to core separate accounts at the other end.

Bob Sulentic - *CBRE Group Inc - President and CEO*

And I will say, there is an interesting dimension to this, Anthony, and that is that we are meeting with increasing success in raising capital, to be moved from one region of the world to the other, particularly from Asia to the other regions of the world. And both in funds and in separate accounts, as Jim said.

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

Okay. Thank you.

Bob Sulentic - *CBRE Group Inc - President and CEO*

Thank you.

Jim Groch - *CBRE Group Inc - CFO*

Thanks, Anthony.

Operator

And next we will go to the line of Brad Burke with Goldman Sachs, please go ahead.

Brad Burke - *Goldman Sachs - Analyst*

Hello, good afternoon. Congrats on the quarter. So realize that you are not updating guidance, and realize that it is difficult to extrapolate one, particularly the first quarter, and make assumptions about the entire year. But considering what you had said before, about the GSEs weighing on Q1, and broker recruits weighing on Q1, and generally EBITDA is 15% of the total in Q1.

And you had expected it to be more back-end loaded in 2014. I guess, first, I am just trying to understand, were the impact from the broker recruits lower than what you had expected? It certainly seems like the GSE impact was lower than what you were initially expecting. And then, the second part, is it still fair to think that versus that 15%, that you are going to be more backend loaded than normal this year, or do you think that wouldn't be the case anymore?



Bob Sulentic - *CBRE Group Inc - President and CEO*

Brad, I would just say, as you know the first quarter is a small percentage of the profits for the year typically. And it was a very strong first quarter, so it wouldn't be surprising, or that noteworthy if the quarter ended up being a few basis points -- or a few percentage points higher (Multiple Speakers).

Brad Burke - *Goldman Sachs - Analyst*

Got it.

Bob Sulentic - *CBRE Group Inc - President and CEO*

Percentage of income than prior years.

Brad Burke - *Goldman Sachs - Analyst*

Okay. Okay. That's helpful. And obviously, you had the CW Capital portfolio. Was that a big component of the total in Q1?

Gil Borok - *CBRE Group Inc - Deputy CFO*

It's Gil, Brad, it was a single-digit million contribution.

Brad Burke - *Goldman Sachs - Analyst*

Was that it? Okay. And then, and on Norland -- I mean, clearly huge driver of pretty impressive results in EMEA. And we previously talked about this business in the context of \$700 million, maybe a little bit more in revenue. And just looking at what the business did in Q1, and assuming a run rate on that, it would put you close to \$870 million.

So I was just trying to understand from Norland, I mean is that -- first, what is driving the strong improvement? And also, is that something that we ought to be thinking about, as a stabilized run rate for the business?

Bob Sulentic - *CBRE Group Inc - President and CEO*

I would say, a couple of things. Q1 for Norland tends to be its strongest quarter.

Brad Burke - *Goldman Sachs - Analyst*

Okay.

Bob Sulentic - *CBRE Group Inc - President and CEO*

Just the way their cycle plans, you get a little more project management work in the first quarter, within long-term contracts. But it is a more stable quarter to quarter business, just a little heavier in the first quarter.



Brad Burke - *Goldman Sachs - Analyst*

Okay. Great. And then -- this is the last one, on the GSEs.

Certainly, we saw the weak GSE originations for the year, and it looks like it really wasn't that much of an issue for you in the first quarter. Do you think this going to become more of an issue, if we don't see an improvement GSE originations? Or do you think that, going to other sources of capital is something that you can sustain on a go-forward basis?

Bob Sulentic - *CBRE Group Inc - President and CEO*

Yes, we did take a hit on that activity, as we expected in the first quarter. But as you know, we were able to offset that with other sources of capital. I think we would expect to continue to see a bit of a hit in the second quarter. And then after that, our best guess is that it shouldn't be much of an issue.

Brad Burke - *Goldman Sachs - Analyst*

Okay. Okay. Great. I appreciate it. Thank you.

Bob Sulentic - *CBRE Group Inc - President and CEO*

You bet.

Operator

And we will go to the line of Mitch Germain with JMP Securities, please go ahead.

Mitchell Germain - *JMP Securities - Analyst*

Good quarter. Any other changes, Bob, to the underlying revenue drivers in the guidance? I know you had talked about -- or you and Jim talked about the mortgage origination and investment management being flat, but any other changes of note?

Bob Sulentic - *CBRE Group Inc - President and CEO*

No changes of note. The things that are driving revenue, or what we would have expected to drive revenue, our brokers did a great job. By the way, and as it relates to our brokers, the one thing that nobody has asked us about yet. But last year we talked about a lot of brokerage recruiting, and having a record year for brokerage recruiting. That momentum has continued into this year.

So when you think about how the rest of the year is going to play out, one of the things we will have, is we will have the good news of having on-boarded more brokers. But we will also have the early costs associated with that additional staff, ahead of when the revenue comes on.

Mitchell Germain - *JMP Securities - Analyst*

Great. I appreciate that. Two of your competitors have talked about acquisition pricing getting a bit frothy. Is that consistent with what you are seeing out in the market today?



Bob Sulentic - *CBRE Group Inc - President and CEO*

I would say, we are seeing a couple of large deals that people are talking about in the marketplace, and what is being quoted sounds quite frothy. On the more day-to-day infield transactions that we are seeing in the market, we don't see that really. It has been relatively consistent.

Mitchell Germain - *JMP Securities - Analyst*

Great. And I think the last question for me. I know that you have referenced increased penetration of the outsourcing business in Europe and Asia. Maybe -- what was the reluctance maybe initially, and what is really driving the increase in adoption?

Bob Sulentic - *CBRE Group Inc - President and CEO*

Mitch, it is a little bit like here, only many years behind, in that every time a company does it, and they have some success, and their peers in the marketplace observe that success, then the peers get more likely to do it.

The other thing that happens is, as the business picks up momentum -- and this has been a big issue here in the states. The base of people that are able to deal with outsourcing on the buy side -- so in the states over the years, the number of corporate real estate ex-executives out there, or corporate treasurers or corporate CFOs, that would know how to deal with an outsourcing arrangement grows.

As those professionals circulate around the industry, that is starting to happen a little bit in Europe and Asia. And so, it is a build, just based on some natural factors. As a little bit more is done, there is a reason for the next bit of it to be done based on experience, and people out there knowing how to do it.

Mitchell Germain - *JMP Securities - Analyst*

Thank you.

Gil Borok - *CBRE Group Inc - Deputy CFO*

Thank you.

Operator

And we will go to the line of Keane McCarthy with William Blair. Please go ahead.

Keane McCarthy - *William Blair & Company - Analyst*

Hello, thanks for taking my question. I mean, given the last couple quarters especially in the EMEA region, it appears that it is turning a corner. We are even hearing things of green shoots of GDP growth on the western side of the continent. But I was just curious, with some of the noise in central and eastern Europe, if that has changed any kind of occupier sentiment in the early days of Q2?

Bob Sulentic - *CBRE Group Inc - President and CEO*

It has certainly changed sentiment in Russia, and maybe a little bit of the rest of Eastern Europe. It hasn't had a big impact on our business, because we don't have a big business in Russia. But it has some impact on sentiment. We -- it hasn't had a meaningful impact on sentiment throughout the continent.



Keane McCarthy - *William Blair & Company - Analyst*

Okay. And then, I guess, your property sales have done really well over the last couple of quarters. And I was wondering -- the growth has outpaced the market significantly. Just curious if you could parse that kind of growth into buckets? If it would be the broker additions ramping up, or the just capital moving to secondary markets, or just kind of in general market tailwinds?

Just kind of curious where that market share is coming from? And if that -- if you are just benefiting from the secondary markets, more than some others, I guess? Thanks.

Bob Sulentic - *CBRE Group Inc - President and CEO*

Yes, it is a little bit difficult to break it down in that way. But I would say, as the market leader, there is a certain amount of critical mass and momentum, and when you add to that some in-fill M&A over time, additional recruiting, and then, just cross-activity between the lines of business, everything has helped it -- helped us build some market share.

Keane McCarthy - *William Blair & Company - Analyst*

Okay. Got it. And then, just last one for me. You had talked about early days with the Norland, as well as the EMEA CB legacy business and the go-to-market strategy. But I was just curious, if you could kind of go into a little more detail, as far as how that go to market strategy is progressing? And then, how -- when you are sitting at the table, what clients, maybe legacy CB clients, what was missing, and what they like now with the Norland, or vice versa? Thanks.

Bob Sulentic - *CBRE Group Inc - President and CEO*

Well, we had a very clear strategy in pursuing Norland. And that strategy was, that we wanted to be able to provide the full suite of global corporate services, occupier outsourcing capabilities. We knew that we were weak, as it related to the delivery of building engineering services, and we knew that was a missing link. It was not allowing us to win some deals. And it was not allowing us to do everything we normally do for some of the clients we had.

This fit perfectly in that regard, and it has played out, at least as well as we hoped it would. The Norland team is really quite strong. So when we introduce them to an existing client -- an existing CBRE client -- their reputation is well-known in the market, and they are quickly received. We ticked off in our opening remarks, some of the clients that we have been able to introduce them to. But that has been -- I wouldn't say it has been a pleasant surprise. It has been pleasant, we weren't all that surprised by it. So it has worked quite well.

Keane McCarthy - *William Blair & Company - Analyst*

Got it. All right. Thanks.

Operator

And our final question will come from the line of David Ridley-Lane with Bank of America Merrill Lynch, please go ahead.

David Ridley-Lane - *BofA Merrill Lynch - Analyst*

Sure. So I heard your commentary of the principal businesses, revenues expect to be flattish in 2014, excluding carried interest. But would you expect the adjusted EBITDA to be flattish ex carry, or is that a bit too optimistic?

Bob Sulentic - *CBRE Group Inc - President and CEO*

We do expect the EBITDA ex carry to be flattish in aggregate (inaudible).

David Ridley-Lane - *BofA Merrill Lynch - Analyst*

Okay. And then, how durable are those -- are the EMEA capital market trends that you saw in the first quarter? How strong is your pipeline? Or how positive is the investor appetite for that region?

Bob Sulentic - *CBRE Group Inc - President and CEO*

Well, we think the -- our pipeline and the marketplace is, as you say fairly durable. Now there is a couple of things going on. Some markets like Spain and Ireland are emerging. The biggest market over there, of course, London, there is concern about whether or not there is going to be enough product for -- to meet the demand, and so on and so forth.

So we think there is -- it is a durable situation. It is worth noting, that the compares are going to get tougher toward the end of the year. Because if you go to last year, as you remember, the end of last year, the market was dramatically better than it was at the start of last year. So we are still working off of relatively weak compares. First half of this year, those compares will get stronger, of course, in the back half of the year.

David Ridley-Lane - *BofA Merrill Lynch - Analyst*

Got it. Okay. Thank you very much.

Bob Sulentic - *CBRE Group Inc - President and CEO*

Thank you.

Operator

And gentlemen, that is our final question. Please continue.

Bob Sulentic - *CBRE Group Inc - President and CEO*

Okay. Well, thank you, everyone for listening in, and we will talk to you again in 90 days.

Operator

And ladies and gentlemen, that does conclude our teleconference call for this evening. Again, thank you very much for your participation, and you may now disconnect.



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