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CBG - Q2 2017 CBRE Group Inc Earnings Call

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OVERVIEW:

CBG reported 2Q17 YoverY local-currency gross revenue growth of 7% and adjusted EPS of \$0.65. Co. increased full-year 2017 adjusted EPS guidance to \$2.53-2.63.



JULY 27, 2017 / 12:30PM, CBG - Q2 2017 CBRE Group Inc Earnings Call

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PRESENTATION

Operator

Greetings, and welcome to the CBRE Second Quarter 2017 Earnings Conference Call. (Operator Instructions) As a reminder, this conference is being recorded. I would now like to turn the conference over to your host, Mr. Brad Burke, Head of Investor Relations for CBRE. Thank you. You may begin.

Bradley Kenneth Burke - *CBRE Group, Inc. - Head of IR*

Thank you, and welcome to CBRE's Second Quarter 2017 Earnings Conference Call. Earlier today, we issued a press release announcing our financial results and it is posted on the homepage of our website, cbre.com. On this page, you will find a presentation slide deck that you can use to follow along with our prepared remarks.

Now please turn to the slide labeled Forward-Looking Statements. This presentation contains forward-looking statements. These include statements regarding CBRE's future growth momentum, operation, market share, business outlook and financial performance expectations. These statements should be considered estimates only and actual results may ultimately differ from these estimates. For a full disclosure of the risks and other factors that may impact these forward-looking statements, please refer to our second quarter 2017 earnings report furnished on Form 8-K and our most recent annual report on Form 10-K.

During our remarks, we may refer to certain non-GAAP financial measures as defined by SEC regulations. Where required by these regulations, we have provided reconciliations to what we believe are the most directly comparable GAAP measures. These reconciliations, together with explanations of these measures, can be found within the appendix of this presentation. Additionally, all growth rate percentages cited in our remarks are in local currency unless otherwise stated. References to results before FX impacts also exclude the impact of FX hedging activity.

Please turn to Slide 3. Our participants on the call this morning are Bob Sulentic, our President and Chief Executive Officer; Jim Groch, our Chief Financial Officer and Head of Corporate Development; and Gil Borok, our Deputy Chief Financial Officer and Chief Accounting Officer.

Before I turn the call over to Bob, I want to say that I am excited to be part of the CBRE team, and to continue interacting with all of you now as a CBRE employee.

Now please turn to Slide 4 as Bob discusses our second quarter performance.



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Robert E. Sulentic - *CBRE Group, Inc. - CEO, President and Director*

Thank you, Brad, and good to have you on board. Good morning, everyone. Results in the second quarter provide more evidence of the diversity and strength of our business. Adjusted EPS increased by 25%. Based on the robust results realized in the first half of the year, we are increasing full-year guidance for adjusted EPS to a range of \$2.53 to \$2.63.

Our regional services businesses continued to post strong results, led this quarter by broad-based strength in APAC and EMEA and double-digit growth from our global occupier outsourcing and capital market businesses. Further, our regional services businesses together achieved solid margin expansion with the help of strong cost control. As we reflect on this performance, a few key facts stand out. First, we are operating a well-balanced portfolio of market-leading businesses. Second, the quality of our people and globally integrated capabilities, increasingly aided by technology and data, are strengthening our competitive advantages. And finally, our prudent financial management has allowed us to improve profitability, while making investments to further strengthen our position.

We've spoken with you about our strategy for making CBRE a better enterprise, one that is capable of producing superior client outcomes. This strategy is working and our people are continuing to execute at a high level.

Now Jim will take you through our second-quarter results in detail.

James R. Groch - *CBRE Group, Inc. - CFO and Head of Corporate Development*

Thank you, Bob. As Bob noted, CBRE continued to produce great results in Q2.

Let me start with a few highlights on Slide 5. First, capital markets revenue, which includes property sales and commercial mortgage services combined, generated 12% revenue growth.

Second, our occupier outsourcing business continued to realize strong and steady fee revenue growth of 10% for the quarter, all of which was organic.

Third, margins on fee revenue increased 70 basis points to 16.4% in our combined regional services businesses.

Finally, we increased the pace of our M&A activity as more rational deal terms are returning to the market. Year-to-date, we closed 4 traditional infill acquisitions. In addition, we enhanced our market-leading technology platform by acquiring 2 software-as-a-service companies and making an equity investment in a third.

Please turn to Slide 6. CBRE produced solid, top-line organic growth in Q2. Gross revenue and fee revenue increased by 7% and 6%, respectively, with virtually all of the growth being organic.

Adjusted EBITDA grew 14% in U.S. dollars to \$413 million, outpacing fee revenue growth on expanding margins.

Adjusted earnings per share increased 25% in U.S. dollars to \$0.65 for the quarter. Our adjusted tax rate improved to 27.2% in Q2 as we're taking steps to enhance the tax efficiency of our businesses and also realized a couple of one-time benefits in the quarter. The benefit of the improved tax rate is partially offset by increased depreciation and amortization, resulting in a net gain of \$0.04 for the quarter. We now expect our full-year adjusted tax rate to be approximately 29%.

Slide 7 summarizes our 3 regional services businesses, which together produced a growth rate of 6% in fee revenue and 12% in adjusted EBITDA before FX impacts.



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As Bob mentioned in the regions, our performance this quarter was led by Asia Pac and EMEA. Asia Pac posted an 18% increase in fee revenue with very strong growth in Australia, India, Japan and Singapore. EMEA fee revenue rose 13%, paced by significant gains in the Netherlands, Spain and the United Kingdom, where CBRE's activity levels continue to rebound strongly from the impact of last year's Brexit vote.

We had a soft quarter in the Americas with total fee revenue up 1%. A 15% increase in our occupier outsourcing business and a 9% increase in commercial mortgage services helped to offset relatively flat sales and a 6% decline in leasing revenues. Total adjusted EBITDA and operating leverage in the Americas were up modestly. This highlights the strength and diversification of our Americas business.

Slide 8 reviews our major global lines of business in Q2. Property sales revenue rose 13%, paced by robust growth in Asia Pacific and EMEA, which grew 45% and 42%, respectively. Asia Pacific saw a strong growth across the region, especially in Greater China, Japan and Singapore. EMEA's growth was led by the United Kingdom, where sales revenue surged 69%, as well as a broad range of countries, including France, Germany, Italy and The Netherlands.

Americas sales revenue edged down 1%, due primarily to a decrease in Canada. Our U.S. sales revenue was up slightly compared with an 8% decrease in the broader investment market according to preliminary estimates from Real Capital Analytics.

In Q2, our commercial mortgage services revenue increased by 10%. This business is more stable than property sales, due in part to the recurring revenue generated by our now \$154 billion loan servicing portfolio, which is up 16% from Q2 of last year.

Leasing revenue slipped 1% globally as growth of 10% in Asia-Pac and 12% in EMEA was offset by weakness in the Americas. Leasing growth was particularly strong in Australia, India, Japan, Belgium, Spain and the United Kingdom. The decrease in the Americas was primarily attributable to Manhattan, where we closed few very large deals, which can be volatile quarter-to-quarter. The Manhattan leasing market remains relatively healthy, and we maintain the leading position in the New York market.

Our valuation business achieved solid growth of 7%, fueled by double-digit growth in EMEA, while property management grew fee revenue by 4%.

Please turn to Slide 9 regarding our occupier outsourcing business, which is reported within the 3 regional services segments. We continue to see steady growth in this business in Q2, with organic fee revenue up 10%. We experienced particularly strong growth in Canada, India, Mexico, Singapore and the United States.

The execution of our strategy has created the industry's premier outsourcing business, and is built on the strength of our entire diversified and integrated client offering. This business has grown organically at double-digit annual rates for over a decade, which, combined with strategic acquisitions, has enabled a more than 20-fold increase in revenue since 2006. We're pursuing and increasingly winning global, multiservice mandates from major corporations like Adient and Kimberly-Clark. I'll expand on our new mandate from Kimberly-Clark, which, while being one of many, illustrates CBRE's differentiated capabilities.

Our mandate is to provide transaction and project management services across Kimberly-Clark's 65 million-square-foot portfolio of office, manufacturing, distribution and other facilities. For global clients like this, we might lease new offices for them in China, supervise construction in Continental Europe, dispose of surplus manufacturing facilities in Canada, and materially reduce facility-related operating expenses globally. We can also provide strategic advice on critically important real estate decisions, such as helping them to optimize their global supply chain or to develop a plan to transform their use of office space to attract top talent. These are examples of our competitive advantages of scale, depth of offerings, broad expertise and ability to provide integrated solutions enabled by technology.

Please turn to Slide 10 regarding our Global Investment Management segment. Equity commitment climbed to \$9 billion over the past 12 months, reflecting continued strong performance for our clients. AUM in the second quarter rose to \$91.7 billion from \$88.6 billion a year ago. In local currency, AUM increased by \$2.6 billion. Note that our AUM does not yet include the effect of our Caledon Capital acquisition, which we expect to close in the third quarter.



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Adjusted EBITDA declined 6% in Q2 before adjusting for hedging impacts. After adjusting for hedging, Q2 was flat and year-to-date increased 4%.

Please turn to Slide 11 regarding our Development Services segment. This business continues to perform very well. Adjusted EBITDA contributions increased to \$46.5 million from \$18.5 million in Q2 '16. Year-to-date, adjusted EBITDA is almost flat to prior year. We maintain a robust sales pipeline and continue to expect significant gains in the second half. Fee-only projects constitute half of our \$6 billion total pipeline.

The realization of incentive income in our Development Services business can fluctuate in any given quarter, but the longer-term performance has been outstanding. In addition, the business generates meaningful synergies with our services businesses. I should note that our Development Services business, Trammell Crow Company, was named the U.S. Developer of the Year last month by NAIOP, a testament to the quality of our people and operations.

Please turn to Slide 12. I'll conclude my remarks about the quarter with 2 brief comments. First, Q2 results again highlight the benefit of our globally diversified business mix. Strong organic growth in EMEA and Asia-Pacific as well as in global occupier outsourcing and capital markets more than offset a decline in transaction revenues in the Americas. This resulted in solid growth and operating leverage in our regional services businesses.

Second point I want to make is the strength of the company's balance sheet and free cash flow. Since acquiring Global Workplace Solutions for \$1.5 billion less than 2 years ago, our leverage is essentially flat at 1.3x adjusted EBITDA.

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

Robert E. Sulentic - *CBRE Group, Inc. - CEO, President and Director*

Thanks, Jim. Our people around the world turned in an outstanding performance with earnings per share growth of 25% in the quarter, well ahead of the 10% average for S&P 500 companies that have reported. As I noted earlier, we have increased our outlook for 2017 adjusted EPS to a range of \$2.53 to \$2.63. At the midpoint of this range, this implies adjusted EPS growth of 12% for the full year.

Compared to our prior guidance given in February, we expect our leasing business to be slightly below and our capital markets business to be slightly above our initial expectations for the year. We expect fee revenue growth for our occupier outsourcing business to be 10% or slightly higher. We expect adjusted EBITDA contributions from our Development Services and Investment Management businesses together to be flat to slightly up in 2017 versus our prior expectation of flat to slightly down.

Finally, full-year margins are now likely to be at the high end of the previously guided 17.5% to 18% range despite a continued shift in business mix. Our outlook for adjusted EBITDA in the second half of 2017 is little changed from our expectations at the beginning of the year. Our expected benefit from a lower tax rate will be somewhat offset by growth in depreciation and amortization for a net benefit of about \$0.02. We expect positive earnings growth in the second half from our regional services businesses and our combined Investment Management and Development Services businesses. We enter the back half of 2017 with a stable global economy and solid fundamentals in most commercial real estate markets.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Anthony Paolone with JPMorgan.



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Anthony Paolone - *JP Morgan Chase & Co, Research Division - Senior Analyst*

Can we start with leasing, and can you give us some sense as to what's changed there that's caused the expectation to come down a bit?

Robert E. Sulentic - *CBRE Group, Inc. - CEO, President and Director*

Yes, Tony, this is Bob. I think the big thing is large transactions in Manhattan. We had a -- kind of an anomalous circumstance in the second quarter, where we did less of them than we typically do, less of them than we did a year ago. It made for a tough year-over-year compare, and it will have some impact on our year. Our assumptions though for the year aren't changing much, right? We -- it's a slight change downward. But that's a really big market, and those large transactions have a big impact. So that's really what you're seeing there.

Anthony Paolone - *JP Morgan Chase & Co, Research Division - Senior Analyst*

If you think about it, just more broadly across the Americas, where just -- the world for that matter, you all typically gain share, and you've got the cross-sell with your outsourcing business that helps leasing quite a bit. But if you strip that away in Manhattan, like what's the leasing picture like in the rest of the world?

Robert E. Sulentic - *CBRE Group, Inc. - CEO, President and Director*

It's about like we thought it was. We do benefit a lot from that outsourcing business. A big percentage of the leasing work we do comes from those clients. A lot of the brokers we hire come to us because they like the ability to work with those clients, which they wouldn't have otherwise. And so if you take that into account, that's a constant part of our business, right? It was there last year, it'll be there this year, and it'll be there in the second half of this year. The second quarter Manhattan transaction circumstance will impact the full year, but we expect the leasing market overall to be a little less positive than we thought it was before. Even though the economy is generally doing nicely, there's a couple of things going on. In general, corporations are being very careful about costs. We're doing it and so are the other big corporations around the U.S. and around the world. And secondly, in a few markets, there have been limited circumstances where leases would have otherwise gotten done, but there was inadequate big blocks of space to get them done, and so that's had a bit of an impact. But I'd say, it's just a slight turn back from where we thought it was when we last reported.

Anthony Paolone - *JP Morgan Chase & Co, Research Division - Senior Analyst*

All right, got it. And then in terms of outsourcing, the currency had a big impact and, I know, it's hard to predict currency, but any sense as you look to the next several quarters, if you start to in aggregate anniversary some of that headwind, because it seems like in local currency that business is doing what you guys said it would do?

James R. Groch - *CBRE Group, Inc. - CFO and Head of Corporate Development*

Yes. Hey, Tony, this is Jim. Like you said, the FX rates are a little hard to predict. I don't -- as it sits right now, we're not expecting much headwind, if any, in the second half of the year but we'll see where things move from here. But as you also noted, that business, local currency is right on top of what we projected, and maybe even slightly better.

Anthony Paolone - *JP Morgan Chase & Co, Research Division - Senior Analyst*

Okay. And then on the development side, you had about \$75 million of equity in income. Can you give us any help as to what the comp charge against that was that -- if you had to move that out of OpEx and look at sort of like the net contribution from those gains?



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James R. Groch - *CBRE Group, Inc. - CFO and Head of Corporate Development*

Sure, Anthony. So as is always the case, that is mostly income from development. So \$65 million of the \$75 million is from our development business. And as you probably noticed, the development business, if you're looking at it, the GAAP reporting shows a loss and you're showing a big gain otherwise, and that's because of the comp expense you noted. The comp associated with that \$65 million of gain is just shy of half of that total expense, and that's all -- that comp expense is all in the business units. So the best way, by far, to look at this is just look at the normalized EBITDA that we report on the development business, and that takes into account the gains that you're referencing as well as the associated comp expense.

Anthony Paolone - *JP Morgan Chase & Co, Research Division - Senior Analyst*

Got it, okay. And last question on the acquisition and M&A environment. Can you give us a sense as to just dollars that you've spent so far this year on transactions? And perhaps what -- magnitude of what the full year might look like? It seems like you're back in that business.

James R. Groch - *CBRE Group, Inc. - CFO and Head of Corporate Development*

We'll have some of that in the 10-Q. I don't have the total number just in front of me. But we -- as we noted, we have seen the market come -- kind of start to return to more rational terms, which we view as very positive, and we've had our activity pick up alongside of that. But -- and it's a little hard to predict even the second half. We're generally not giving guidance on M&A dollars that we might project coming out. But we are definitely seeing more activity.

Operator

Our next question comes from the line of Nick Yulico with UBS.

Nicholas Yulico - *UBS Investment Bank, Research Division - Executive Director and Equity Research Analyst- REIT's*

A couple of questions. First, on the occupier outsourcing fee revenue growth guidance of 10% or slightly higher, is that in U.S. dollars or local currency?

James R. Groch - *CBRE Group, Inc. - CFO and Head of Corporate Development*

That's in local currency.

Nicholas Yulico - *UBS Investment Bank, Research Division - Executive Director and Equity Research Analyst- REIT's*

Okay. And then can you just explain a little bit more what was the reason for the tax rate change and benefit?

James R. Groch - *CBRE Group, Inc. - CFO and Head of Corporate Development*

Sure. So we are continuing efforts to improve our tax efficiency. We've also had a couple of one-time benefits, but we've -- we're estimating that our tax rate for the year will be about 29%. And these tax rates, obviously, can vary period to period, but we do believe that, that rate will be sustainable over time.



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Nicholas Yulico - *UBS Investment Bank, Research Division - Executive Director and Equity Research Analyst- REIT's*

And if -- think about the observations you cite here about the global occupier outsourcing, capital markets has more than offset the decline in the Americas transaction revenues in the second quarter. How should we think about this as just kind of where we are in the cycle? I mean, is it -- are you just benefiting from a -- kind of a recovery outside the U.S.? And this may continue versus the U.S. perhaps being a little bit lighter from a growth standpoint on the transaction side? Is that kind of how it's shaping up this year? And how -- a trend you expect to continue for the remainder of the year?

Robert E. Sulentic - *CBRE Group, Inc. - CEO, President and Director*

Nick, the markets outside the U.S. grew more than the U.S. did in the quarter. But secondly, we took considerable market share in both EMEA and Asia Pacific, and that came through in our numbers in a big way. We've hired some very strong people, particularly in Asia, and then we've got a great team in Europe that performed quite well in the second quarter. It has performed quite well for the last few quarters, obviously. And so I think you saw the combination of relatively strong markets and strong performance by our team relative to the market in those numbers.

Operator

Our next question comes from the line of Josh Lamers with William Blair.

Joshua Lamers - *William Blair*

Maybe -- yes, a couple of questions. So I guess I'll start with -- I know we touched on it a couple of times here, but just capital markets, mainly just focusing in the Americas. I'm wondering even though it is down about 1 point year-over-the-year, it's better than what the market overall is seeing. So I'm wondering if you can guide as to what's helping you guys there, whether it's market share gains where you've had some notable headcount additions, anything there?

Robert E. Sulentic - *CBRE Group, Inc. - CEO, President and Director*

Well, yes, Josh, it is market share gains, and the headcount additions are part of those market share gains. The other thing that we've talked about several times, and it's really important to know about our business, a lot of the numbers that you see in the headlines or -- excuse me, a lot of our business is not captured in the numbers you see in the headlines. So we do considerable sales business with our occupier brokers who represent, for instance, a tenant that does an acquisition of a building rather than a lease. We do a lot of small asset class sales that don't get captured in some of the public information RCA did and so forth, and we've done quite well in those businesses. So you've got in our numbers several things impacting our performance relative to the headline market numbers that you've seen out there. That's been going on for a while. We expect it to continue to go on.

Joshua Lamers - *William Blair*

Sure, okay. And then, maybe just one more. Just on the comment of guiding towards the upper end of the EBITDA margin range. What's driving that? Is it really, maybe, first half of the year success in the development business? Or is there something else we should be aware of?

James R. Groch - *CBRE Group, Inc. - CFO and Head of Corporate Development*

The development business had a strong Q2. But actually year-to-date, it's not quite, it's almost flat with last year. So that's not the driver at all. I would say overall the business is performing really well. We have had margin expansion. But part of what you're seeing in that guidance for the year is that we're getting margin expansion despite even more of a business shift in mix to the contractual business than we started the year. So



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it's a bit, maybe, even stronger than it looks like on the surface. In fact it will be at the high end, but that's in spite of the fact that our business mix continues its year-over-year trend towards more [traction].

Operator

Our next question comes from the line of Mitch Germain with JMP Securities.

Mitchell Bradley Germain - JMP Securities LLC, Research Division - MD and Senior Research Analyst

Just back to that tax issue. I think, Jim, you might have used the words, sustainable, or -- I guess I'm just trying to understand, given the fact that there were some one-time benefits this year, if I look toward next year, are you implying that tax rate likely lower than we've seen historically, but probably higher than this year's levels? Is that how we should think about it going forward?

James R. Groch - CBRE Group, Inc. - CFO and Head of Corporate Development

Look, like I said, it's a little difficult to predict the tax rate quarter-to-quarter or even year-to-year, but we do think that 29% guidance that we're giving for this year is sustainable over time into the future. So we've had a bit of improvement in shift in mix of income, i.e., between regions that's helping us, but also our tax planning and just being more efficient, in general, is helping us and we expect that to continue.

Mitchell Bradley Germain - JMP Securities LLC, Research Division - MD and Senior Research Analyst

Got you. I know in the past, you've -- and I think Bob might have just mentioned it as well, RCA doesn't pick up in your words, all the types of transactions that you guys have done, particularly in the Americas region. So I'm curious, was it really more in the -- in 2Q, was a bit of a mix issue where you didn't have as much of that activity? Or is that activity just as robust as it is and you didn't have some of the larger trophy trades?

James R. Groch - CBRE Group, Inc. - CFO and Head of Corporate Development

Yes, in Q2, in the -- obviously, our capital markets growth outside of the U.S. was unbelievably strong. But even in the U.S., we picked up market share in both the components that are measured by RCA, right? So we were roughly flat compared to RCA's numbers of being -- the Americas being down about 8%. So it was a significant gain in market share in that component that is measured, but we also believe we had a nice gain in the market share of the component that's not measured. So on both sides, kind of across the board in our capital markets business, it was strong. The other piece I would mention is net sales, we're not talking about the mortgage origination and mortgage servicing, which is the other component of our capital markets business and -- we have a very, very strong recurring business there in mortgage servicing, which has been largely built organically over the last several years, almost a decade, with roughly \$165 billion, it's up 16%, and that's also providing strong support to the overall capital markets' numbers.

Mitchell Bradley Germain - JMP Securities LLC, Research Division - MD and Senior Research Analyst

Great. And then last one for me. I know you've made some -- I guess, you referenced 2 investments and then 1 equity investment in some technology companies. How do you measure the return of those sort of investments versus a really more traditional transaction-oriented investment?

James R. Groch - CBRE Group, Inc. - CFO and Head of Corporate Development

Yes, now that's a good question, and obviously, they're different than a traditional infill acquisition. But first, I'd say, for each of these platform-type investments, we are going in, looking for and have very high conviction that we're going to get real tangible value for our clients or our operations serving our clients on these investments. Second point I would make is that these acquisitions are relatively small as compared to kind of the size



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of the operational impact they can have in a platform like ours. And then lastly, just to be more specific to your question, we do tend down to write those on a cash flow IRR basis, and we're pretty conservative on how we look at those investments. But if you take a high-quality SaaS platform that has a really good focused global product, but the kind of leverage we can get on that platform running it through our operations globally can be very significant as compared to a relatively small purchase price.

Operator

Our next question comes from the line of Jade Rahmani with KBW.

Jade Joseph Rahmani - Keefe, Bruyette, & Woods, Inc., Research Division - Director

How would you characterize the tone from investors, institutional investors in commercial real estate? And did you see any changes in deal flow throughout the quarter? For example, we've started to hear about a recent pickup in acquisition activity from investors, who had previously hoped for a pullback in values, and now seem to be behind their capital deployment plans. Are you seeing that? And would you expect pickup in the second half?

Robert E. Sulentic - CBRE Group, Inc. - CEO, President and Director

We're -- in general, the market is solid. Investors are very interested in commercial real estate around the world and there's a lot of capital. We're not expecting a material change in activity in the second half of the year. The first half of the year was okay. We expect the second half of the year to be okay. And that's kind of what our guidance suggests in our commentary on where we think the sales activity to be for the year.

Jade Joseph Rahmani - Keefe, Bruyette, & Woods, Inc., Research Division - Director

And in terms of a longer-term outlook, would you expect commercial real estate acquisition to remain -- activity to remain elevated in 2018 and beyond, maybe get close to the volume averages over the last say 3, 4 years? And if so, what would be the reasons?

James R. Groch - CBRE Group, Inc. - CFO and Head of Corporate Development

I would say, the piece that's most difficult to predict around sales is volumes, and it's particularly hard to predict year-to-year and even quarter-to-quarter. But I think one part that we and the market sometimes miss around volumes in that business is that there is a, we believe, a structural trend over time increasing the volumes of sales in the business, and that's being driven in large part by the fact that the owners who trade real estate are becoming a larger portion of the market. So closed-end funds, open-end funds, even REITs will do portfolio optimization, turn over 5% to 10% of their portfolio. That body of investors owns well more than twice the percentage of the market that they owned 10 years ago. And the rest of the market largely doesn't trade that much. Large families, government, institutions, various types of institutions. So as we look out over some period of years, we see the opportunity for the volumes to potentially go up quite a bit. But predicting what the volumes will be next year is a little hard. But I think it's important to understand kind of some of the underlying structural elements that are beginning to hit the business.

Jade Joseph Rahmani - Keefe, Bruyette, & Woods, Inc., Research Division - Director

And are you seeing any shift in the market with investors looking to sell partial interests, JVs, preferred equity, use mezzanine and other structured finance to avoid property transfer taxes and capitalize some of the gains. And one recent company launched a ground net lease venture, for example, anything in the structured side?



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Robert E. Sulentic - *CBRE Group, Inc. - CEO, President and Director*

We're always seeing a lot of creativity in the marketplace, and our folks are trying to support this kind of activity wherever it takes place. But I'm not sure I'd say there's a lot more this quarter, for example, than last quarter, but there's plenty of creativity in the marketplace and people are looking for new ways to have a bit of an edge.

Jade Joseph Rahmani - *Keefe, Bruyette, & Woods, Inc., Research Division - Director*

And just on the commercial mortgage services business. Can you say what proportion of revenues comes from the servicing fees? We appreciate that increased disclosure and it will also help us model and see how recurring those cash flows are, but what proportion is servicing fees? And also, is the accounting net of both MSR gains and amortization expense?

James R. Groch - *CBRE Group, Inc. - CFO and Head of Corporate Development*

On the MSR gains, I can give you just a little bit of data on that. So that was actually a slight headwind for the quarter. Gains were up roughly \$2 million, but they were more than offset by about \$7 million of amortization in the quarter, so that's \$5 million to the negative. We haven't given information on mortgage services as an overall percentage, but I think we'll be looking at trying to provide more transparency on that going forward.

Operator

(Operator Instructions) Our next question comes from the line of David Ridley-Lane with Bank of America.

David Emerson Ridley-Lane - *BofA Merrill Lynch, Research Division - VP*

Can you walk through your rationale for acquiring Caledon Capital? I understand there's overlap on the infrastructure side, but in the private equity piece, it seems to be a bit farther afield than your typical core focus.

Robert E. Sulentic - *CBRE Group, Inc. - CEO, President and Director*

Yes, sure. I'd be happy to do that. So to give you a few points. One, we have a listed infrastructure fund. We have a team that's just finished a really strong 3-year track record, they're in the, I think, top decile, actually, so we plan to start to build on that product. It's a nice complement to have them on the private side as well as the public side, and we think there will be synergies between the teams and the expertise. Also on the real asset side, it's a nice product to be alongside of our real estate platform. And lastly, this group in particular is based out of Canada, has very strong relationships with the large institutions there, and we see some synergies there as we bring capital -- clients to their business, and we can introduce other products to their clients. And then they just -- they have a great team. It was a very strong cultural fit. So overall, that's the strategic rationale.

David Emerson Ridley-Lane - *BofA Merrill Lynch, Research Division - VP*

Got it. And then are there any metrics that you could share about the progress you're making in cross-selling Global Workplace Solutions clients? Has that started -- you know, as you've finished the integration, has that started to meaningfully change?

Robert E. Sulentic - *CBRE Group, Inc. - CEO, President and Director*

We're actively working with those clients that came on with the GWS acquisition from JCI on a full-service basis. One of the things we're aggressively working with them on now is transactions, and that is impacting our business in a positive way. We don't have separate metrics that we publish for the transaction work we do for those clients.



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David Emerson Ridley-Lane - *BofA Merrill Lynch, Research Division - VP*

Got it. And then is there -- are there 1 or 2 areas that you would call out specifically that are helping for the margin -- for your -- that influence your margin guidance moving to the high end for 2017?

Robert E. Sulentic - *CBRE Group, Inc. - CEO, President and Director*

Well, we've had this cost containment program that we've had in place that ended some time ago that we commented on, that's impacted our margins this year, and we're actively continuing to manage costs around the business. That's helping us a lot. That came through in our numbers in all 3 regions. And while the formal program is over, we've got a real focus on cost management because we think that's what creates the opportunity for us to continue to invest in our strategy. So that's really what you're seeing come through there, David.

Operator

Mr. Sulentic, there are no further questions at this time. I'll turn the floor back to you for any final comments.

Robert E. Sulentic - *CBRE Group, Inc. - CEO, President and Director*

Okay. Well, thank you everyone for joining us today, and we look forward to talking to you again at the end of the third quarter.

Operator

Thank you. This concludes today's teleconference. You may now disconnect your lines. Thank you for your participation.

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