COMPANY PROFILE & ANALYSIS

CBRE

NASDAQ: CBRE

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Abstract

This report is not a comparable firm analysis, as many firms are in multiple industries, making it complicated to identify representative benchmarks. It aims to gain insightful information of the firm by collecting the most relevant data and information, analysing it, comparing different price multiples and events within ten years against factors laid out in this report, and explaining why they might be correlated. It is crucial to understand that different business management requires varying approaches to strategy and execution, depending on the characteristics and unique needs. For a company to successfully implement the right strategic approaches; management must balance long-term vision with short-term execution in their organisational strategies. This report will focus on exploring Coldwell Banker Richard Ellis' (CBRE) overall profile, including the factors and strategies that can potentially have either positive or negative effects on business performance and reputation.

The following factors will be discussed:

- Business Perspective
- Internal SWOT Analysis
- External PESTEL Analysis
- Risks

As a result, all data and information presented in this report support the claims that management and external business environments are strongly correlated with the above factors. For example, effective management communication fosters positive relationships between stakeholders and management. Business performance can be seen as the organisation's operational ability to satisfy the requirements of the organisation's top management, stakeholders, as well as shareholders (Smith & Reece, 1999).

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Chapter 1: Introduction

1. Report Purposes & Disclaimer

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Chapter Two: Business Perspective

2.1 Background and Key Dates

Many institutional investors and hedge funds have recently weighed in their stakes in CBRE. Investment firms and bankers like Evercore ISI, Bruyette & Woods, Principal Securities Inc. Quantbot Technologies LP, Nordea Investment Management AB, AJOVista LLC, and Fisher Asset Management LLC have either raised their target price on CBRE or purchased new position in shares as of July 2024 (Market Beat, 2024). From looking at corporate timeline, CBRE appears to have been changed hands for a few times since the 1980s, the retailer Sears took a brave step toward its goal of getting into financial services and acquired CBRE in 1981, it was called Coldwell Banker & Co. based in Los Angeles at that time (Rowe, 1981). Sears initially owned 17.6% of CBRE's stock in 1978 and purchased its remaining shares later. The deal had helped Sears to enter the brokerage business at once, chairman of CBRE Wesley Poulson had subsequently filled the positions of chairman and CEO of the Seraco real estate group of Sears (UPI, 1981). As a result, CBRE became one of the largest real estate companies in the US during the 1980s, however commercial real estate was where the company made its reputation.

Coldwell Banker Richard Ellis (CBRE) is an international real estate and capital markets advisory services provider assisting and managing its clients' property portfolios worldwide. For instance, the company offers real estate services to property owners, lenders or investors in retail, office and industrial real estate categories (Global Data, 2024). It provides services such as facilities management, project management, valuation and development services and workspace solutions (Cleverism, 2024). The history of CBRE goes back to Tucker, Lynch and

Coldwell in 1906. Bejamin Banker later joined Coldwell as a partner in 1913, the company started trading as Coldwell Banker.

CBRE has five business segments:

1. US: it consists of real estate leasing, capital markets advisory services and outsourcing operations in the US, Canada and Latin America.
2. Africa, Middle East and Europe: it provides residential property services in more than 43 countries.
3. Asia Pacific: it comprises a full range of real estate services throughout this region.

CBRE operates in the following business sectors:

1. Retail: it provides services to retail property occupiers, owners, and investors.
2. Energy: energy producers, utility companies and renewable energy firms.
3. Logistics and Industrial: supply chain logistics, R&D, assembly, manufacturing, distribution, warehouse facilities and land assignments.
4. Healthcare: healthcare providers, research, life science firms and medical facility operators.
5. Government: local communities, public institutions, state and federal government departments.

In 1989, a management-led buyout firm, the Carlyle Group purchased CBRE's commercial unit for approximately US$ 300 million. Frederic V. Malek was a Senior Advisor to the Carlyle Group between 1988 and 1991, he became a director of CBRE in 2001 (CBRE, 2001). The Carlyle Group had had engaged some unethical practices in the past, it involved in "pay to play" scandal in 2003 (ABC News, 2009). The corruption inherent in the Carlyle's system and code of conduct allowed the firm to obtain investments from the New York Common Retirement Fund, it received more than US$ 730 million from the fund. In 2018, CBRE settled a class action for US$ 100 million. In the same year, the plaintiffs sued CBRE for aiding property company Cabot Investment Properties in embezzling investors' money (Addleshaw Goddard, 2018).

CBRE became a public company in 1996 via an initial offering of approximately US$ 80 million. CBRE subsequently increased its acquisition in the 1990s, for instance, it acquired Koll Real Estate Services for US$ 145 million in 1997; Koll was also owned by investment bankers (Bloomberg News, 1997). In 1998, CBRE purchased Hillier Parker May & Rowden, a UK commercial property company for approximately US$ 69.6 million in cash and shares (Reuters, 1998). After purchasing ING Group for US$ 900 million in 2011 (Vincent, 2011), CB Richard Ellis Group officially adopt its name it CBRE. CBRE acquired a 60% stake for about US$ 1.3 billion in cash with transaction value of US$ 2.2 billion accretive to CBRE's earnings (Turner & Townsend, 2021).

2.2 Organisational Strategy

CBRE's acquisitions focuses on business lines such as property management and valuations, it capitalises on real estate trends and client needs. CBRE has recently been addressing Facilities Management challenges as many property managers are facing problems of shrinking workforce and rapid technological advancements, which means more people working from home than going into offices or needing an office space. However, CBRE operates in following three main segments which help them navigate through difficult times (CBRE, 2023).

1. Advisory Services

   It provides services globally, including property leasing, capital markets, mortgage sales and servicing, property management and valuation. Many of those services are under different subsidiary companies, most mortgage services are provided in the US by CBRE Capital Markets, Inc.

2. Global Workplace Solutions

   It provides outsourcing services to owners of real estate, facilities management and project management.

3. Real Estate Investments

   Investment includes investment management services and development services in the US, UK and Continental Europe.

Like all the other real estate investment firms CBRE will find it difficult to adapt to information technology strategies and trends or manage negative publicity to its brand and reputation. However, increases in unemployment will likely not affect too much of CBRE's commercial activity, so long as it continues identifying, acquiring and integrating accretive businesses. CBRE's adroitness to manage investment businesses and experience of maintaining and growing assts will help the company to survive tough times and weather through poor performance of real estate investments and conditions that might negatively impact its business partners or clients' willingness to make long-term contractual commitments.

2.3 Strategic Approaches

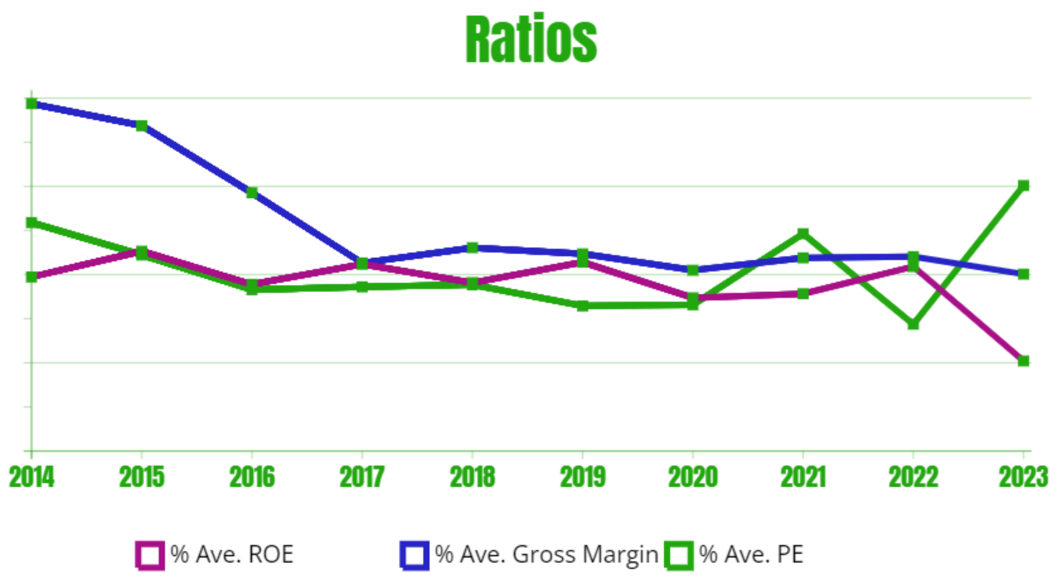
CBRE's organizational strategies enhance its ability to quickly reshape and adapt its investment portfolio, increase flexibility in responding to real estate market trends and potential opportunities. This approach allows CBRE to optimize its portfolio and effectively implement further diversification strategies. In 2022, the company generated revenue from a highly diversified base of clients, most of its clients are in the Fortune 100 companies (CBRE, 2023). CBRE investment management provides investment services to insurance companies, pension funds and various foundations, it also seeks to generate returns and diversification through investment in real estate, infrastructure and other assets. CBRE seems to be able to efficiently allocate resources and make agile strategic decisions based on the specific needs of each segment. This will help the company to pursue growth opportunities and navigate changing market dynamics more easily. Also, through portfolio diversification strategies, CBRE can strategically position itself in various markets, mitigating risks and maximizing investment returns while fostering the company's innovation and achieving long-term success.

2.4 Operating Performance

Financial metrics:

(Millions of US $)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Stock Price	29.85	35.8	28.6	36.63	45.48	51.21	50.12	88.08	82.7	79.32
Annual Δ%	30.23	0.96	-8.94	37.54	-7.55	53.07	2.33	73.01	-29.08	20.96
Revenue	9,050	10,856	17,369	18,629	21,340	23,894	23,826	27,746	30,828	31,949
Gross Profit	3,439	3,773	3,948	4,324	4,891	5,205	4,779	6,166	6,589	6,274
Ave. PE	25.89	22.22	18.29	18.61	18.84	16.45	16.58	24.63	14.38	30.09
Ave. Gross/M	39.38	36.87	29.27	21.32	23.05	22.35	20.49	21.9	22.03	20.05
Ave. ROE	19.73	22.65	18.89	21.17	19.09	21.41	17.37	17.83	20.91	10.21



* From looking at the ratios, CBRE's investors appear to seek higher returns to justify their investment in risky assets. They might not have strong faith in CBRE's growth and prefer higher returns on their investment to offset any potential risks.

2.5 Operating Management

In 2022, CBRE had approximately 115,000 employees worldwide excluding Turner & Townsend employees, about 46% of whose costs are reimbursed by its clients. Many government regulations impose various environmental controls, liabilities and zoning restrictions that are affecting the company's property management and development. Which can occur costs for both CBRE and owners to remove certain contamination caused by property development including storage tanks or the presence of asbestos. Further common law principles and regulations can lead to increased operational and compliance costs over time. The company could easily be subject to environmental liability due to the nature of its business and role as facility manager and real estate developer, this would impose much liability on the company and property owners. CBRE's investment management, property development services and mortgage services businesses are sensitive to credit cost and financial liquidity. Its revenues are heavily dependent on the overall volume of activity, pricing in the commercial real estate markets. CBRE could experience employee attrition or high turnover in the next 5 to 10 years, this could lead to increased recruitment and training costs along with operating inefficiencies. The main reasons for the decline in the recent operating activities could be caused by lower operating performance and the net cash outflow associated with net working capital. CBRE might have overpaid bonus, employee compensation and increased issuance of incentive compensation.

2.6 Investment Management

CBRE is one of the world's largest commercial real estate services and investment firm with leading market positions in leasing, property sales, occupier outsourcing and valuation business. CBRE provides investment management services to pension funds, insurance companies, sovereign wealth funds, foundations and other institutional investors. Its real estate investments include private direct real estate, private indirect real estate, listed real assets, private infrastructure and real estate credit. CBRE manages capital both through mixed fund strategies and custom separate account implementations. CBRE earns compensation through various fees and co-investment alongside its clients in development and investment management services.

2.7 Financing Decisions

CBRE currently manages more than 3 billion square feet of properties globally for property investors and owners. The company is compensated for services through regular management fees and reimbursement for its administrative and payroll costs attributable to the properties under management. US$ 1.8 billion went into financing activities in 2022, US$ 1.9 billion spent on repurchasing shares of its common stock as well as net inflows from issuance and settlement activities associated with long-term debt (CBRE, 2023). CBRE uses a variety of long-term and short-term financing arrangements to fund its operations in addition to money generated from operating activities. It would be a good option for CBRE to utilize less funding sources to reduce funding costs and avoid becoming excessively dependent on such financing sources.

2.8 Financial Policies

CBRE has not paid any cash dividends since its inception in 2001. Cost of revenue slightly increased from 77.8% in 2021 to 78.65% in 2022, due to growth in sales and leasing business and higher commission payouts. CBRE's board of directors authorised to repurchase of up to US$ 500 million of Class A common stock over three years' time from 2019. In 2022, the company repurchased 615,108 shares of Class A common stock with an average price of $101.00 per share using cash on hand for US$ 62.7 million. CBRE manages its interest expense by using fixed and variable rate debt, as of 2022, the company does not have any outstanding interest rate swap agreements. Due to CBRE's inherent limitations and internal control over financial reporting, management may not be able to eliminate misstatements in its financial reports. Any projections of evaluation of company's future effectiveness subject to the changes in market conditions and risks, which can potentially deteriorate some degree of compliance with the company policies and procedures.

Chapter Three: Internal SWOT Analysis

3.1 Strengths

- **International Presence:** it offers comprehensive property investment and management services and solutions worldwide. Which allows greater market intelligence and access to international investment opportunities.
- **Diverse Portfolio:** it has a wide range of services across various real estate market sectors, it caters different needs of its clients around the world.
- **Known Brand:** it has a long-standing history and business operation in real estate industry, which has reinforced its position among other competitors.
- **Strong Workforce:** the company has more than 115,000 employees in more than 100 countries.
- **Revenue Growth:** consistent revenue growth underscores its market presence and business strategies.
- **Real Estate Investment:** it managed more than US$ 594 million investment in 2022.

3.2 Weaknesses

- **High Dependency on Market Conditions:** susceptible to economic fluctuations and regional volatile economies.
- **Environmental Liabilities:** local regulations and laws can impose environmental liabilities to the company, such as zoning restrictions and building toxic substances. Such regulations will lead to increased operational costs overtime.
- **Unconsolidated Subsidiaries and Projects:** decrease in equity income from unconsolidated subsidiaries by US$ 489.7 million in 2022, which was driven by a

lower equity pickup and net negative fair value adjustment in its non-core investment portfolio. It also had approximately 135 unconsolidated real estate projects with a net investment of US$ 283 million in 2022.

3.3 Opportunities

- **Market Expansion:** opportunities to expand its presence in more countries and continue to acquire smaller companies.
- **Technology:** create new revenue streams through innovative services by using AI and big data and address evolving market needs.

3.4 Threats

- **Technology:** the emergence of disruptive business models and AI will pose an ongoing threat to its service offerings.
- **Environmental and Regulatory Challenges:** changes in local laws and environmental regulations can impose liabilities such as contamination.

Chapter Four: External PESTEL Analysis

4.1 Political Factors

- **Influence of trade policies on real estate markets:** it can affect the quality, price and section of certain building materials and home renovation products that are imported from other countries. It will either speed up or slow down CBRE's property development segment. CBRE will need to further enhance its diversification strategies in response to international trade conflicts and regularly conduct real time market analysis and monitor policy sensitive investments.

- **Changes in government leadership:** different regulatory frameworks can directly affect real estate markets. For example, the joining of the Paris Agreement can influence the green building standards. CBRE will need to readjust its adaptive strategies to comply with new standards, mitigate risks associated with legislative unpredictability.

4.2 Economic Factors

- **Interest rate changes and economic cycles:** CBRE's business operation is affected by fluctuations in the macroeconomy, during economic downturns property prices and lease rates face downward pressure, financial crisis leads to a significant plunge in property values and earnings. Higher interest rates increase the cost of mortgage and property development loans which slows down CBRE's investment activities. All real estate investors must monitor economic factors and indicators to position themselves advantageously within the marketplace, optimize operations and investment strategies to mitigate risks associated with economic fluctuations.

4.3 Social Factors

- **Remote workers and demographic shifts:** higher percentage of workforce will be working from home, CBRE will need to adapt its strategies to address such dynamics in commercial real estate and explore hybrid work environment solutions. In addition, increasing in urbanisation is causing declining population across other regions thereby affecting real estate dynamics in these areas.

4.4 Technological Factors

- **Advancements in technologies:** CBRE's ability to keep up with technology will shape its internal efficiencies and sustainability of their projects and improve client-centric services. The integrated technology will also help the company to facilitate smoother transactions and more personalised service delivery. AI algorithms will support the company to analyse market trends and client behaviours and obtain more accurate investment insights. However, technology can also increase the number of competitors in the real estate services industry. So, CBRE must actively manage its current technologies and regularly innovate to stay ahead of the competition.

4.5 Environmental Factors

- **Activism and scrutiny:** constant complains from environmental agencies can add costs to CBRE's business operations, climate agreement will result in greater scrutiny of environmental standards for CBRE.
- **Climate change:** hurricanes and floods will negatively influence property valuations and development. CBRE will need to adopt more advanced climate risk assessment models into its property valuation processes and avoid potential devaluations.

4.6 Legal Factors

- **Compliance with regulations and laws:** CBRE's operational strategies and financial outcomes are strongly affected by a complex interplay of compliance mandates, zoning laws, environmental laws, taxation policies, and safety standards. Which forces the company to expand focus on sustainability, green building standards and ethical construction practices. In order to deal with these, the company needs to maintain a vigilant stance and proactively manage its investment projects, safeguard its profitability by ensuring compliance and operational excellence.

Chapter Five: Risks

CBRE's exposure to market risk mainly consist of foreign currency exchange rate fluctuations related to its global operations and changes in interest rats on debt obligations. Risks are management by debt funding and using derivative financial instruments. The company views derivative financial instruments as its risk management tool. However, it does not use derivatives for trading or speculative purposes. The company's auditors assess the risks of material misstatement of the consolidated financial statements, examine evidence regarding the amounts and disclosures in the statements. As previously mentioned, CBRE's business performance is significantly influenced by macroeconomic, political and regulatory conditions, its operations and financial outcomes could be adversely affected by financial crisis, liquidity constraints, rises in interest rates, public heath events, political uncertainty and downturns in commercial real estate asset values, sales and leasing activities worldwide.

Following factors may also affect CBRE's business performance:

- Difficulties and costs of staffing and managing international operations among diverse geographies, languages and cultures.
- Currency restrictions, transfer-pricing regulations and adverse tax consequences, which may affect its ability to transfer capital and profits.
- Adverse changes in regulatory or tax requirements and regimes or uncertainty about the application of or the future of such regulatory or tax requirements and regimes.

- Responsibility for complying with numerous, potentially conflicting and frequently complex and changing laws in multiple jurisdictions.
- The impact of regional or country-specific business cycles and economic instability, including those related to public health or safety events.
- Greater difficulty in collecting accounts receivable or delays in client payments in some geographic regions.
- Rising interest rates and less available and more expensive debt capital resulting from efforts by central banks outside the U.S. to rein in inflation.
- Foreign ownership restrictions in certain countries, particularly in Asia Pacific and the Middle East, or the risk that such restrictions will be adopted in the future; and
- Changes in laws or policies governing foreign trade or investment and use of foreign operations or workers, and any negative sentiments towards multinational companies as a result of any such changes to laws or policies as well as other geopolitical risks.

Chapter Six: Limitation & Assumption

This research study has certain potential limitations, companies are selected from the Fortune 500 and only well-known organisations are selected for analysis. Therefore, to generalise the outcome or results for better accuracy, the report will need to include additional analyses in more areas in-depth, which can be requested by the readers. A request for additional information analyses can be sent via email or website contact form.

This report is mostly dependent on the availability of public information, there is no interaction between the management of each company or organisation and the researcher. Although this may limit the scope of the analysis, it will not have a significant impact on the research itself. Because publicly available data and information are likely to be more imperative and reliable than individual feedback or comments from management or other stakeholders. The report writer assumes that all data and information from accredited sources are the most sufficient and relevant, the theoretical framework is assumed to be an accurate reflection of the phenomena being analysed in the report.

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