The World's Biggest Brokerages Prepare for Year of Transition

CBRE, Cushman & Wakefield Report Steep Drops in Capital Market Income

The downtown Denver CBRE office showcases the firm's creative workplace design. Office space is expected to remain a challenged part of CBRE's business in the year ahead, executives told investors. (Getty Images)

By Candace Carlisle and Randyl Drummer
CoStar News

February 23, 2023 | 1:18 P.M.

CBRE Group Inc., the world's largest real estate brokerage by revenue, and Cushman & Wakefield, the third-largest, each reported steep drops in capital markets income in separate earnings reports Thursday as they expressed hope for better times late in the year.

CBRE said its capital markets business declined 46% in the fourth quarter from the same time in 2021 as debt and equity capital remained constrained. Chicago-based Cushman & Wakefield reported a 52% decline in capital markets and a 10% decrease in leasing income in the fourth quarter from the same time in 2021.

The real estate services firms joined rivals Marcus & Millichap, Colliers and Newmark in reporting a slowdown in deal activity in the fourth quarter.

In October, CBRE began cutting $400 million in costs, with a significant portion through layoffs, as it grappled with economic headwinds. CBRE executives expect the capital markets business to pick up in the fourth quarter this year as debt business returns.

"In all, 2023 will be a transition year and we feel good about where we will be when we get to the other side of the downturn," CBRE's President and CEO Bob Sulentic said on the call.

CBRE's earnings were "down significantly" from a year earlier but still beat estimates thanks to resilient parts of the business such as outsourcing, project management and logistics. CBRE increased revenue in the fourth quarter by more than what was expected, offsetting a "slightly larger-than-expected decline" in transaction revenue, Sulentic said.

No Leverage

CBRE ended 2022 with "virtually no leverage" despite the brokerage making share repurchases, mergers and acquisitions and "strategic investments," which totaled about $2.1 billion for the year, Sulentic said.

"While capital largely remains on the sidelines, we are beginning to see signs of asset repricing helped along by the narrowing of spreads," Sulentic told investors. "Among property types, multifamily and industrial fundamentals should remain strong, albeit with occupancy declining slightly from peak levels and rent growth continuing at a more modest clip than the double-digit pace set in 2022."

Offices are expected to remain the most challenged property type as "we do not expect occupancy to come close to pre-pandemic levels in the short term," Sulentic said.

However, CBRE's investment in New York City-based coworking provider Industrious is a bright spot for the brokerage's office business and will probably be a bigger part of CBRE's business going forward, Sulentic said. CBRE upped its investment in Industrious last year for a total financial commitment of $330 million.

RELATED CONTENT
CBRE Ups Its Stake in Industrious To Help US Coworking Provider Expand Globally > >

"We think Industrious is going to continue to grow at a healthy clip; it's a really good offering with a strong leadership team," Sulentic said.

CBRE reported a notable slowdown in office leasing in the fourth quarter in U.S. gateway cities, including New York City, Boston, San Francisco and Seattle.

Projections

CBRE's executive team expects 2024 to exceed the record high levels of business that the brokerage reached in 2022, Sulentic said.

Next year's projections are based on an anticipated return of the debt business, which, when teamed with strong projections in the firm's industrial and multifamily businesses and the strength of its project management and "quite large" outsourcing businesses, are expected to help drive that outcome, Sulentic said.

"The thing that would cause it to not happen is if we were wrong about the recession, if the recession was worse, lasted longer or started later," he added.

CBRE Chief Financial and Investment Officer Emma Giamartino told investors the firm's outsourcing and project management lines of business are expected to continue to grow in a recession, becoming a larger part of CBRE's business in the future.

"Our transactional business lines are expected to rebound beginning at the end of 2023 into 2024," Giamartino said. "The growth that is embedded in what will allow us to get above our 2022 levels means our transactional business would need to grow less than it did in 2021. It's very achievable."

Global Business

CBRE expects Europe and Asia Pacific to outperform the Americas this year across all property types and the company does not foresee a recession in Europe, Sulentic said.

"We expect Europe to trend better than the U.S. in terms of return to the office," Sulentic said. "Then you go to Asia and we expect Asia to be almost like it was historically as it relates to return to the office. And we have very strong businesses particularly in Korea, Japan and China relative to what we have had there historically and relative to our competition."

Global leasing revenue declined 7% across all major property types except retail in the fourth quarter.

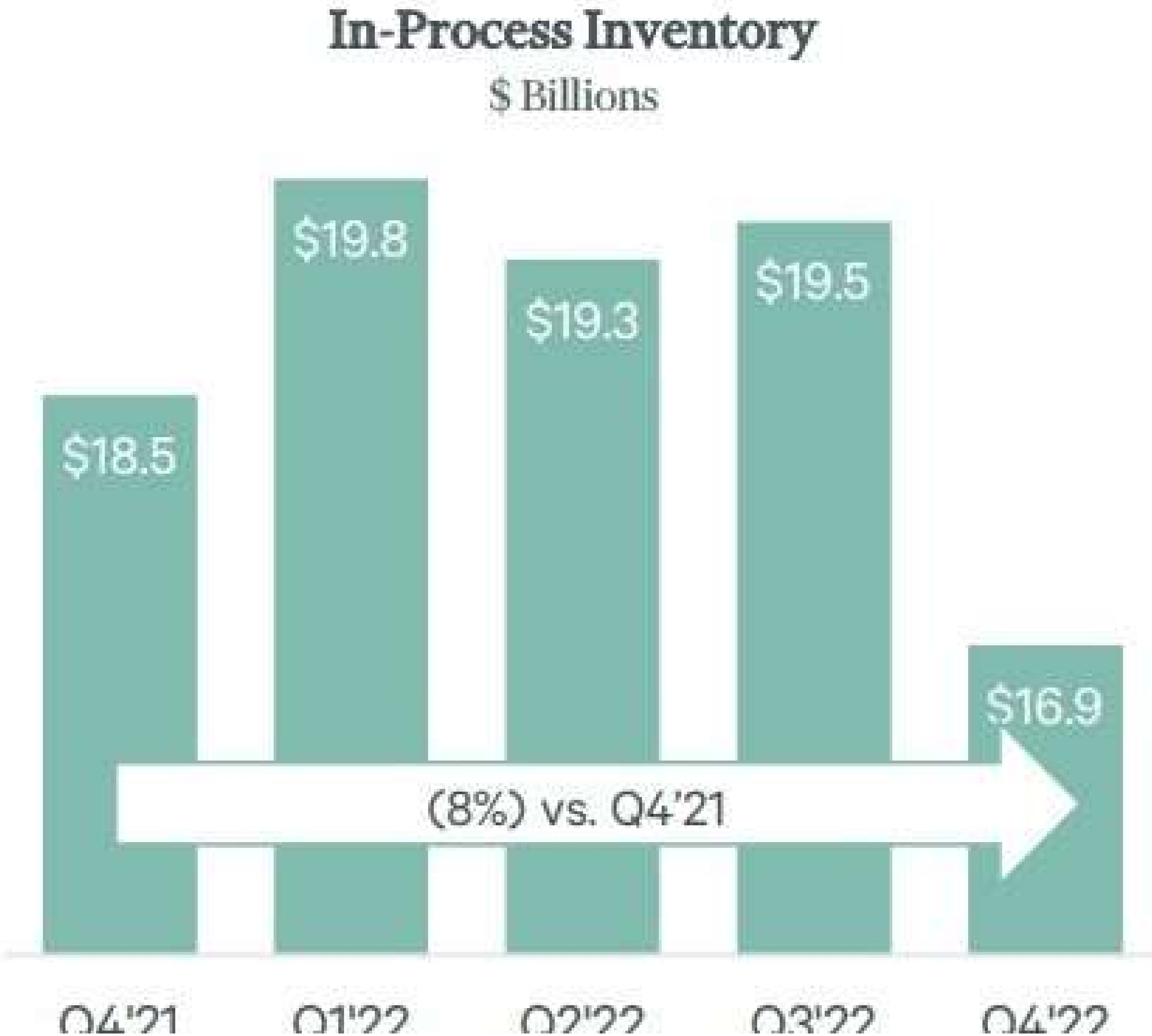
Sulentic said the real estate services firm doesn't expect to do a lot of new office development but could tackle some build-to-suit office projects for credit tenants.

CBRE's in-process inventory declined in the fourth quarter of 2022 compared with the same time the prior year.

Giamartino told analysts that the firm defines in-process inventory as projects under construction or where the firm owns the land and expects work to get underway within the next 12 months.

"The decline is primarily driven by projects in that latter category that we now believe will be more than 12 months off and have been moved in that pipeline category," Giamartino added.

CBRE did not mention its own proposed new headquarters in Dallas, which is on hold. CBRE did not immediately return requests for comment.


In-Process Inventory
$ Billions
$18.5
$19.8
$19.3
$19.5
$16.9
(8%) vs. Q4'21

CBRE's in-process inventory declined during the fourth quarter of 2022. (CBRE, 2023)

CBRE's full-year 2022 earnings per share grew nearly 7% to $5.69 per share, which Sulentic said was "a solid growth rate," considering "the more than doubling of long-term interest rates, sharp equity market decline and the credit crunch that constrained investment activity for most of the second half."

This year, earnings-per-share are expected to decline to low- to mid-single digits, but remain the third highest in CBRE's history, representing better performance than in prior recessions such as the Great Recession, Sulentic said.

"While the macro environment can certainly change, we expect core earnings-per-share to grow strongly in 2024, reaching a record level in just the first year after a recession," Sulentic said.

CBRE reported a fourth-quarter net income of $81.1 million with a full-year profit of $1.41 billion.

Cushman & Wakefield Braces for a Few Rocky Months

Cushman & Wakefield joined CBRE and other large commercial real estate services companies in forecasting a rocky next few months of declining revenue amid increasing economic uncertainty before deal activity gradually picks up in the second half of this year.

Cushman's overall revenue declined 14% to $1.9 billion in the fourth quarter, with an 8% increase in property and facilities management income partially offsetting the declines in capital markets and leasing. Net income declined 80% in the fourth quarter to $29 million as revenue from capital markets and leasing declined sharply in the second half of last year.

“Capital sat on the sidelines during the fourth quarter and its likely to remain there in early 2023,” Cushman CEO John Forrester said in an earnings presentation on Thursday. “The long-term commercial real estate fundamentals remain strongly intact, and there is significant dry powder available for deployment. But market participants crave greater clarity on interest rate trajectory.”

Forrester expects that “economic green shoots” from gains made in the Federal Reserve’s efforts to contain inflation could appear relatively soon, giving buyers and sellers more certainty on property pricing.

This story has been updated with Cushman & Wakefield's financial results.