CBRE GROUP, INC.
Form 10-Q
May 10, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2012

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Transition Period from to

Commission File Number 001 32205

CBRE GROUP, INC.

(Exact name of Registrant as specified in its charter)

Delaware **(State or other jurisdiction of** **incorporation or organization)**	**94-3391143** **(I.R.S. Employer Identification Number)**
11150 Santa Monica Boulevard, Suite 1600	
Los Angeles, California **(Address of principal executive offices)**	**90025** **(Zip Code)**
(310) 405-8900 **(Registrant s telephone number, including area code)**	**(Former name, former address and**

former fiscal year if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨.

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x.

The number of shares of Class A common stock outstanding at April 30, 2012 was 328,062,470.

FORM 10-Q

March 31, 2012

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CBRE GROUP, INC.

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except share data)

	March 31, 2012 (Unaudited)	December 31, 2011
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 703,937	$ 1,093,182
Restricted cash	60,873	67,138
Receivables, less allowance for doubtful accounts of $35,377 and $33,915 at March 31, 2012 and December 31, 2011, respectively	1,075,495	1,135,371
Warehouse receivables	418,111	720,061
Trading securities	124,841	151,484
Income taxes receivable	32,725	
Prepaid expenses	115,519	111,879
Deferred tax assets, net	170,451	168,939
Real estate under development	31,153	30,617
Real estate and other assets held for sale	1,415	26,201
Available for sale securities	2,073	2,790
Other current assets	45,112	42,385
Total Current Assets	2,781,705	3,550,047
Property and equipment, net	287,548	295,488
Goodwill	1,838,601	1,828,407
Other intangible assets, net of accumulated amortization of $221,722 and $194,982 at March 31, 2012 and December 31, 2011, respectively	795,615	794,325
Investments in unconsolidated subsidiaries	186,875	166,832
Real estate under development	6,891	3,952
Real estate held for investment	447,989	403,698
Available for sale securities	52,368	34,605
Other assets, net	141,965	141,789
Total Assets	$ 6,539,557	$ 7,219,143
LIABILITIES AND EQUITY		
Current Liabilities:		
Accounts payable and accrued expenses	$ 524,233	$ 574,136
Compensation and employee benefits payable	363,176	398,688
Accrued bonus and profit sharing	323,668	544,628
Securities sold, not yet purchased	52,398	98,810
Income taxes payable		28,368
Short-term borrowings:		
Warehouse lines of credit	410,259	713,362
Revolving credit facility	34,906	44,825
Other	16	16
Total short-term borrowings	445,181	758,203
Current maturities of long-term debt	68,494	67,838
Notes payable on real estate	169,723	146,120
Liabilities related to real estate and other assets held for sale	1,345	21,482
Other current liabilities	44,461	42,375
Total Current Liabilities	1,992,679	2,680,648
Long-Term Debt:		
Senior secured term loans	1,606,795	1,615,773
11.625% senior subordinated notes, net of unamortized discount of $10,624 and $10,984 at March 31, 2012 and December 31, 2011, respectively	439,376	439,016
6.625% senior notes	350,000	350,000

Other long-term debt	56	59
Total Long-Term Debt	2,396,227	2,404,848
Notes payable on real estate	220,524	206,339
Deferred tax liabilities, net	166,014	148,969
Non-current tax liabilities	82,277	79,927
Pension liability	62,267	60,860
Other liabilities	217,226	220,389
Total Liabilities	5,137,214	5,801,980
Commitments and contingencies		
Equity:		
CBRE Group, Inc. Stockholders Equity:		
Class A common stock; $0.01 par value; 525,000,000 shares authorized; 328,044,115 and 327,972,156 shares issued and outstanding at March 31, 2012 and December 31, 2011, respectively	3,280	3,280
Additional paid-in capital	895,918	882,141
Accumulated earnings	451,474	424,499
Accumulated other comprehensive loss	(138,445)	(158,439)
Total CBRE Group, Inc. Stockholders Equity	1,212,227	1,151,481
Non-controlling interests	190,116	265,682
Total Equity	1,402,343	1,417,163
Total Liabilities and Equity	$ 6,539,557	$ 7,219,143

The accompanying notes are an integral part of these consolidated financial statements.

CBRE GROUP, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(Dollars in thousands, except share data)

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Revenue	$ 1,349,989	$ 1,185,105
Costs and expenses:		
Cost of services	787,556	713,755
Operating, administrative and other	440,722	377,025
Depreciation and amortization	46,457	23,178
Total costs and expenses	1,274,735	1,113,958
Gain on disposition of real estate	809	1,972
Operating income	76,063	73,119
Equity income from unconsolidated subsidiaries	14,386	15,179
Other income	6,588	
Interest income	2,303	2,668
Interest expense	43,981	33,718
Income from continuing operations before provision for income taxes	55,359	57,248
Provision for income taxes	25,413	23,406
Income from continuing operations	29,946	33,842
Income from discontinued operations, net of income taxes		10,644
Net income	29,946	44,486
Less: Net income attributable to non-controlling interests	2,971	10,117
Net income attributable to CBRE Group, Inc.	$ 26,975	$ 34,369
Basic income per share attributable to CBRE Group, Inc. shareholders		
Income from continuing operations attributable to CBRE Group, Inc.	$ 0.08	$ 0.11
Income from discontinued operations attributable to CBRE Group, Inc.		
Net income attributable to CBRE Group, Inc.	$ 0.08	$ 0.11
Weighted average shares outstanding for basic income per share	320,671,395	316,563,392
Diluted income per share attributable to CBRE Group, Inc. shareholders		
Income from continuing operations attributable to CBRE Group, Inc.	$ 0.08	$ 0.11
Income from discontinued operations attributable to CBRE Group, Inc.		
Net income attributable to CBRE Group, Inc.	$ 0.08	$ 0.11
Weighted average shares outstanding for diluted income per share	325,738,859	322,920,829
Amounts attributable to CBRE Group, Inc. shareholders		
Income from continuing operations, net of tax	$ 26,975	$ 34,369

Income from discontinued operations, net of tax				
Net income	$	26,975	$	34,369

The accompanying notes are an integral part of these consolidated financial statements.

CBRE GROUP, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(Dollars in thousands)

	Three Months Ended March 31,	
	2012	**2011**
Net income	$ 29,946	$ 44,486
Other comprehensive income:		
Foreign currency translation gain	18,522	29,995
Unrealized gains on interest rate swaps and interest rate caps, net	1,254	1,056
Unrealized gains on available for sale securities, net	914	94
Other, net	(500)	(586)
Total other comprehensive income	20,190	30,559
Comprehensive income	50,136	75,045
Less: Comprehensive income attributable to non-controlling interests	3,167	10,475
Comprehensive income attributable to CBRE Group, Inc.	$ 46,969	$ 64,570

The accompanying notes are an integral part of these consolidated financial statements.

CBRE GROUP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(Dollars in thousands)

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 29,946	$ 44,486
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	46,457	23,469
Amortization of financing costs	2,344	1,751
Gain on sale of loans, servicing rights and other assets	(18,938)	(11,815)
Net realized and unrealized gains from investments	(6,588)	
Gain on disposition of real estate held for investment		(13,094)
Equity income from unconsolidated subsidiaries	(14,386)	(15,179)
Provision for doubtful accounts	1,501	1,440
Compensation expense related to stock options and non-vested stock awards	11,639	10,619
Incremental tax benefit from stock options exercised	(39)	(10,487)
Distribution of earnings from unconsolidated subsidiaries	3,264	5,833
Tenant concessions received	3,851	587
Purchase of trading securities	(84,627)	
Proceeds from sale of trading securities	44,799	
Proceeds from securities sold, not yet purchased	30,275	
Securities purchased to cover short sales	(27,809)	
Decrease in receivables	52,310	89,002
(Increase) decrease in prepaid expenses and other assets	(3,448)	6,106
(Increase) decrease in real estate held for sale and under development	(2,538)	4,364
Decrease in accounts payable and accrued expenses	(51,491)	(25,406)
Decrease in compensation and employee benefits payable and accrued bonus and profit sharing	(266,149)	(198,356)
Increase in income taxes receivable/payable	(45,795)	(31,671)
(Decrease) increase in other liabilities	(4,031)	4,374
Other operating activities, net	504	95
Net cash used in operating activities	(298,949)	(113,882)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(8,086)	(13,622)
Acquisition of businesses, including net assets acquired, intangibles and goodwill, net of cash acquired		(244)
Contributions to unconsolidated subsidiaries	(11,355)	(7,680)
Distributions from unconsolidated subsidiaries	4,650	11,168
Net proceeds from disposition of real estate held for investment		66,748
Additions to real estate held for investment	(1,171)	(1,488)
Proceeds from the sale of servicing rights and other assets	6,009	5,207
Decrease in restricted cash	6,845	5,984
Decrease in cash due to deconsolidation of CBRE Clarion U.S., L.P. (see Note 3)	(73,187)	
Other investing activities, net	1,900	(752)
Net cash (used in) provided by investing activities	(74,395)	65,321
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of senior secured term loans	(17,063)	(9,500)
Proceeds from revolving credit facility		230,000
Repayment of revolving credit facility	(10,795)	(187,000)
Proceeds from notes payable on real estate held for investment	3,251	1,209
Repayment of notes payable on real estate held for investment	(1,716)	(53,237)
Proceeds from notes payable on real estate held for sale and under development	1,207	549
Repayment of notes payable on real estate held for sale and under development	(561)	(6,090)
Incremental tax benefit from stock options exercised	39	10,487
Non-controlling interests contributions	15,186	208

Non-controlling interests distributions	(14,117)	(14,188)
Payment of financing costs	(35)	(14,172)
Other financing activities, net	2,119	2,570
Net cash used in financing activities	(22,485)	(39,164)
Effect of currency exchange rate changes on cash and cash equivalents	6,584	8,796
NET DECREASE IN CASH AND CASH EQUIVALENTS	(389,245)	(78,929)
CASH AND CASH EQUIVALENTS, AT BEGINNING OF PERIOD	1,093,182	506,574
CASH AND CASH EQUIVALENTS, AT END OF PERIOD	$ 703,937	$ 427,645
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$ 21,660	$ 12,757
Income tax payments, net	$ 74,621	$ 54,130

The accompanying notes are an integral part of these consolidated financial statements.

CBRE GROUP, INC.

CONSOLIDATED STATEMENT OF EQUITY

(Unaudited)

(Dollars in thousands)

	CBRE Group, Inc. Shareholders					
	Class A common stock	Additional paid-in capital	Accumulated earnings	Accumulated other comprehensive loss	Non-controlling interests	Total
Balance at December 31, 2011	$ 3,280	$ 882,141	$ 424,499	$ (158,439)	$ 265,682	$ 1,417,163
Net income			26,975		2,971	29,946
Stock options exercised (including tax benefit)	2	2,162				2,164
Compensation expense for stock options and non-vested stock awards		11,639				11,639
Foreign currency translation gain				18,326	196	18,522
Unrealized gains on interest rate swaps and interest rate caps, net				1,254		1,254
Unrealized holding gains on available for sale securities, net				914		914
Contributions from non-controlling interests					15,186	15,186
Distributions to non-controlling interests					(14,117)	(14,117)
Deconsolidation of CBRE Clarion U.S., L.P. (see Note 3)					(91,580)	(91,580)
Other	(2)	(24)		(500)	11,778	11,252
Balance at March 31, 2012	$ 3,280	$ 895,918	$ 451,474	$ (138,445)	$ 190,116	$ 1,402,343

The accompanying notes are an integral part of these consolidated financial statements.

CBRE GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Presentation

The accompanying consolidated financial statements of CBRE Group, Inc., a Delaware corporation (which may be referred to in these financial statements as the company , we , us and our), have been prepared in accordance with the rules applicable to Form 10-Q and include all information and footnotes required for interim financial statement presentation, but do not include all disclosures required under accounting principles generally accepted in the United States (GAAP) for annual financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments, except as otherwise noted) considered necessary for a fair presentation have been included. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions about future events. These estimates and the underlying assumptions affect the amounts of assets and liabilities reported, and reported amounts of revenue and expenses. Such estimates include the value of real estate assets, accounts receivable, investments in unconsolidated subsidiaries and assumptions used in the calculation of income taxes, retirement and other post-employment benefits, among others. These estimates and assumptions are based on management s best judgment. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including consideration of the current economic environment, and adjusts such estimates and assumptions when facts and circumstances dictate. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates. Changes in these estimates resulting from continuing changes in the economic environment will be reflected in the financial statements in future periods.

The results of operations for the three months ended March 31, 2012 are not necessarily indicative of the results of operations to be expected for the year ending December 31, 2012. The consolidated financial statements and notes to consolidated financial statements should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2011, which contains the latest available audited consolidated financial statements and notes thereto, which are as of and for the year ended December 31, 2011.

2. New Accounting Pronouncements

In April 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011-03, *Transfers and Servicing (Topic 860): Reconsideration of Effective Control for Repurchase Agreements.* ASU 2011-03 specifies when an entity may or may not recognize a sale upon the transfer of financial assets subject to repurchase agreements. That determination is based, in part, on whether the entity has maintained effective control over the transferred financial assets. The requirements of ASU 2011-03 are effective for the first interim or annual period beginning on or after December 15, 2011, with early adoption prohibited. The adoption of this update on January 1, 2012 did not have a material effect on our consolidated financial position or results of operations.

In May 2011, the FASB issued ASU 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs.* These amendments were issued to provide a consistent definition of fair value and ensure that the fair value measurement and disclosure requirements are similar between GAAP and International Financial Reporting Standards (IFRS). ASU 2011-04 changes certain fair value measurement principles and enhances the disclosure requirements, particularly for level 3 fair value measurements. This ASU is effective for interim and annual periods beginning after December 15, 2011, with early adoption prohibited. The adoption of this update on January 1, 2012 did not have a material effect on our consolidated financial position, results of operations or disclosure requirements for our consolidated financial statements.

CBRE GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

In September 2011, the FASB issued ASU 2011-08, *Intangibles-Goodwill and Other (Topic 350): Testing Goodwill for Impairment.* This ASU gives companies the option to perform a qualitative assessment to first assess whether the fair value of a reporting unit is less than its carrying amount. If an entity determines it is not more likely than not that the fair value of the reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. ASU 2011-08 is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, with early adoption permitted. The adoption of this update on January 1, 2012 did not have a material effect on our consolidated financial position or results of operations.

In December 2011, the FASB issued ASU 2011-10, *Property, Plant, and Equipment (Topic 360): Derecognition of in Substance Real Estate a Scope Clarification.* This ASU requires that a reporting entity that ceases to have a controlling financial interest in a subsidiary that is in substance real estate as a result of default on the subsidiary s nonrecourse debt would apply FASB ASC Subtopic 360-20, *Property, Plant, and Equipment Real Estate Sales*, to determine whether to derecognize assets and liabilities of that subsidiary. ASU 2011-10 is effective prospectively for a deconsolidation event that takes place in fiscal years, and interim periods within those years, beginning on or after June 15, 2012. We do not believe the adoption of this update will have a material effect on our consolidated financial position or results of operations.

In December 2011, the FASB issued ASU 2011-11, *Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities.* This ASU adds certain additional disclosure requirements about financial instruments and derivative instruments that are subject to netting arrangements. ASU 2011-11 is effective for fiscal years, and interim periods within those years, beginning after January 1, 2013, with retrospective application required. We do not believe the adoption of this update will have a material impact on the disclosure requirements for our consolidated financial statements.

3. REIM Acquisitions

On February 15, 2011, we announced that we had entered into definitive agreements to acquire the majority of the real estate investment management business of Netherlands-based ING Group N.V. (ING) for approximately $940 million in cash. The acquisitions included substantially all of ING s Real Estate Investment Management (REIM) operations in Europe and Asia, as well as substantially all of Clarion Real Estate Securities (CRES), its U.S.-based global real estate listed securities business (collectively referred to as ING REIM). On February 15, 2011, we also announced that we expected to acquire approximately $55 million of CRES co-investments from ING and potentially additional interests in other funds managed by ING REIM Europe and ING REIM Asia. Upon completion of the acquisitions (collectively referred to as the REIM Acquisitions), ING REIM became part of our Global Investment Management segment (which conducts business through our indirect wholly-owned subsidiary, CBRE Global Investors, an independently operated business segment). We completed the REIM Acquisitions in order to significantly enhance our ability to meet the needs of institutional investors across global markets with a full spectrum of investment programs and strategies.

We secured borrowings of $800.0 million of term loans to finance the REIM Acquisitions (see Note 10). Of this amount, $400.0 million was drawn on June 30, 2011 to finance the CRES portion of the REIM Acquisitions, which closed on July 1, 2011. On August 31, 2011, we drew down the remaining $400.0 million, part of which was used to finance the ING REIM Asia portion of the REIM Acquisitions, which closed on October 3, 2011, and the remainder, along with cash on hand and borrowings under our revolving credit facility, was used to finance the ING REIM Europe portion of the REIM Acquisitions, which closed on October 31, 2011.

CBRE GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The following represents a summary of the purchase price for the REIM Acquisitions (dollars in thousands):

Purchase of CRES on July 1, 2011	$ 323,896
Purchase of CRES co-investments on July 1, 2011	58,566
Purchase of ING REIM Asia on October 3, 2011	45,315
Purchase of ING REIM Europe on October 31, 2011	442,543
Total purchase price	$ 870,320

Our initial estimate of $940 million in total purchase price for the REIM Acquisitions has been reduced by approximately $47 million for certain fund and separate account management contracts that were not acquired and for certain balance sheet adjustments. As of March 31, 2012, there is a possibility of an additional closing of approximately $80 million and co-investments of up to $65 million in the future related to our acquisition of ING REIM Europe.

In connection with our acquisition of CRES, we acquired CRES co-investments from ING in three funds (CRES Funds) for an aggregate purchase price of $58.6 million, which has been included above. We determined that the CRES Funds were not variable interest entities and accordingly determined the method of accounting based upon voting control. The limited partners/members of the CRES Funds lack substantive rights that would overcome our presumption of control. Accordingly, we began consolidating the CRES Funds as of the acquisition date of July 1, 2011. Included in the consolidation of the CRES Funds on July 1, 2011 was $182.9 million of non-controlling interests. In connection with the REIM Acquisitions, we also acquired three ING REIM Asia co-investments from ING for an aggregate amount of $13.9 million on October 3, 2011 and two ING REIM Europe co-investments, one for $7.4 million on October 31, 2011 and one for $2.5 million on March 1, 2012.

In January 2012, one of the CRES Funds (CBRE Clarion U.S., L.P.) was converted to a registered mutual fund, the CBRE Clarion Long/Short Fund (the Fund). As a result of this triggering event, we determined that the Fund became a variable interest entity and that we were not the primary beneficiary. Accordingly, in the first quarter of 2012, the Fund was deconsolidated from our consolidated financial statements and we recorded an investment in available for sale securities of $14.3 million, which is included in the accompanying consolidated balance sheets as of March 31, 2012. No gain or loss was recognized in our consolidated statement of operations as a result of this deconsolidation. We continue to act as the Fund s adviser, make investment decisions for the Fund and review, supervise and administer the Fund s investment program.

The preliminary purchase accounting adjustments related to the REIM Acquisitions have been recorded in the accompanying consolidated financial statements. The excess purchase price over the estimated fair value of net assets acquired has been recorded to goodwill. Given the complexity of the transaction, the calculation of the fair value of certain assets and liabilities acquired, primarily intangible assets and income tax items, is still preliminary. The purchase price allocation is expected to be completed as soon as practicable, but no later than one year from the acquisition date.

Unaudited pro forma results, assuming the REIM Acquisitions had occurred as of January 1, 2011 for purposes of the 2011 pro forma disclosures, are presented below. They include certain adjustments for the three months ended March 31, 2011, including $6.4 million of increased amortization expense as a result of intangible assets acquired in the REIM Acquisitions, $8.2 million of additional interest expense as a result of debt incurred to finance the REIM Acquisitions, the removal of $7.6 million of direct costs incurred by us and ING related to the REIM Acquisitions, and the tax impact of the pro forma adjustments. These unaudited pro forma results have

CBRE GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

been prepared for comparative purposes only and do not purport to be indicative of what operating results would have been had the REIM Acquisitions occurred on January 1, 2011 and may not be indicative of future operating results (dollars in thousands, except share data):

	Three Months Ended March 31, 2011
Revenue	$ 1,262,475
Operating income	$ 88,968
Net income attributable to CBRE Group, Inc.	$ 42,754
Basic income per share	$ 0.14
Weighted average shares outstanding for basic income per share	316,563,392
Diluted income per share	$ 0.13
Weighted average shares outstanding for diluted income per share	322,920,829

4. Variable Interest Entities (VIEs)

A consolidated subsidiary (the Venture) in our Global Investment Management segment has sponsored investments by third-party investors in certain commercial properties through the formation of tenant-in-common limited liability companies and Delaware Statutory Trusts (collectively referred to as the Entities) that are owned by the third-party investors. The Venture also has formed and is a member of a limited liability company for each property that serves as master tenant (Master Tenant). Each Master Tenant leases the property from the Entities through a master lease agreement. Pursuant to the master lease agreements, the Master Tenant has the power to direct the day-to-day asset management activities that most significantly impact the economic performance of the Entities. As a result, the Entities were deemed to be VIEs since the third-party investors holding the equity investment at risk in the Entities do not direct the day-to-day activities that most significantly impact the economic performance of the properties held by the Entities. An additional entity was consolidated during the three months ended March 31, 2012. The related real estate assets held for investment were $26.8 million, nonrecourse mortgage notes payable were $16.0 million and non-controlling interests were $11.0 million as of March 31, 2012.

The Venture has made and may continue to make voluntary contributions to each of these properties to support their operations beyond the cash flow generated by the properties themselves. As of the most recent reconsideration date, such financial support has been significant enough that the Venture was deemed to be the primary beneficiary of each entity. During the three months ended March 31, 2012 and 2011, the Venture funded $0.2 million and $0.1 million, respectively, of financial support to the Entities.

Operating results relating to the Entities for the three months ended March 31, 2012 and 2011 include the following (dollars in thousands):

	Three Months Ended March 31,	
	2012	2011
Revenue	$ 2,874	$ 8,565
Operating, administrative and other expenses	$ 1,666	$ 3,715
Income from discontinued operations, net of income taxes	$	$ 10,644
Net (loss) income attributable to non-controlling interests	$ (847)	$ 8,977

Investments in real estate of $87.4 million and $61.3 million and nonrecourse mortgage notes payable of $77.1 million ($19.1 million of which is current) and $60.9 million ($1.2 million of which is current) are included in real estate assets held for investment and notes payable on real estate, respectively, in the

CBRE GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

accompanying consolidated balance sheets as of March 31, 2012 and December 31, 2011, respectively. In addition, non-controlling interests of $11.8 million and $1.6 million in the accompanying consolidated balance sheets as of March 31, 2012 and December 31, 2011, respectively, are attributable to the Entities.

We hold variable interests in certain VIEs in our Global Investment Management and Development Services segments which are not consolidated as it was determined that we are not the primary beneficiary. Our involvement with these entities is in the form of equity co-investments and fee arrangements.

As of March 31, 2012 and December 31, 2011, our maximum exposure to loss related to the VIEs which are not consolidated was as follows (dollars in thousands):

	March 31, 2012	December 31, 2011
Investments in unconsolidated subsidiaries	$ 18,893	$ 15,483
Available for sale securities	14,817	
Other assets, current	2,977	
Co-investment commitments	33,349	37,019
Maximum exposure to loss	$ 70,036	$ 52,502

5. Fair Value Measurements

The *Fair Value Measurements and Disclosures* Topic of the FASB Accounting Standards Codification (ASC) (Topic 820) defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. Topic 820 also establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

There were no significant transfers in and out of Level 1 and Level 2 during the three months ended March 31, 2012 and 2011.

CBRE GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The following tables present the fair value of assets and liabilities measured at fair value on a recurring basis as of March 31, 2012 and December 31, 2011 (dollars in thousands):

	As of March 31, 2012 Fair Value Measured and Recorded Using			
	Level 1	Level 2	Level 3	Total
Assets				
Available for sale securities:				
U.S. treasury securities	$ 9,796	$	$	$ 9,796
Debt securities issued by U.S. federal agencies		3,389		3,389
Corporate debt securities		8,836		8,836
Asset-backed securities		5,577		5,577
Collateralized mortgage obligations		2,975		2,975
Total debt securities	9,796	20,777		30,573
Equity securities	23,868			23,868
Total available for sale securities	33,664	20,777		54,441
Trading securities	124,841			124,841
Warehouse receivables		418,111		418,111
Total assets at fair value	$ 158,505	$ 438,888	$	$ 597,393
Liabilities				
Securities sold, not yet purchased	$ 52,398	$	$	$ 52,398
Interest rate swaps		37,793		37,793
Total liabilities at fair value	$ 52,398	$ 37,793	$	$ 90,191

	As of December 31, 2011 Fair Value Measured and Recorded Using			
	Level 1	Level 2	Level 3	Total
Assets				
Available for sale securities:				
U.S. treasury securities	$ 6,838	$	$	$ 6,838
Debt securities issued by U.S. federal agencies		6,024		6,024
Corporate debt securities		9,969		9,969
Asset-backed securities		5,226		5,226
Collateralized mortgage obligations		3,037		3,037
Total debt securities	6,838	24,256		31,094
Equity securities	6,301			6,301
Total available for sale securities	13,139	24,256		37,395
Trading securities	151,484			151,484

Warehouse receivables		720,061		720,061
Total assets at fair value	$ 164,623	$ 744,317	$	$ 908,940
Liabilities				
Securities sold, not yet purchased	$ 98,810	$	$	$ 98,810
Interest rate swaps		39,872		39,872
Total liabilities at fair value	$ 98,810	$ 39,872	$	$ 138,682

CBRE GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Fair value measurements for our available for sale securities are obtained from independent pricing services which utilize observable market data that may include quoted market prices, dealer quotes, market spreads, cash flows, the U.S. treasury yield curve, trading levels, market consensus prepayment speeds, credit information and the instrument s terms and conditions.

The trading securities and securities sold, not yet purchased are primarily in the U.S. and are generally valued at the last reported sales price on the day of valuation or, if no sales occurred on the valuation date, at the mean of the bid and asked prices on such date.

The fair values of the warehouse receivables are calculated based on already locked in security buy prices. At March 31, 2012 and December 31, 2011, all of the warehouse receivables included in the accompanying consolidated balance sheets were either under commitment to be purchased by Freddie Mac or had confirmed forward trade commitments for the issuance and purchase of Fannie Mae mortgage backed securities that will be secured by the underlying warehouse lines of credit. These assets are classified as Level 2 in the fair value hierarchy as all inputs are readily observable.

The valuation of interest rate swaps is determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves. The fair values of interest rate swaps are determined using the market standard methodology of netting the discounted future fixed cash payments and the discounted expected variable cash receipts. The variable cash receipts are based on an expectation of future interest rates (forward curves) derived from observable market interest rate forward curves. To comply with the provisions of Topic 820, we incorporate credit valuation adjustments to appropriately reflect both our own nonperformance risk and the respective counterparty s nonperformance risk in the fair value measurements. In adjusting the fair value of our derivative contracts for the effect of nonperformance risk, we have considered the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts, and guarantees. In conjunction with our adoption of ASU 2011-04, we made an accounting policy election to measure the credit risk of our derivative financial instruments that are subject to master netting agreements on a net basis by counterparty portfolio. Although we have determined that the majority of the inputs used to value our derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with our derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by us and our counterparties. However, as of March 31, 2012, we have determined that the credit valuation adjustments are not significant to the overall valuation of our derivatives. As a result, we have determined that our derivative valuations in their entirety are classified in Level 2 in the fair value hierarchy.

There were no significant non-recurring fair value measurements recorded during the three months ended March 31, 2012 and 2011.

FASB ASC Topic 825, *Financial Instruments* also requires disclosure of fair value information about financial instruments, whether or not recognized in the accompanying consolidated balance sheets. Our financial instruments, excluding those included in the preceding fair value tables above, are as follows:

Cash and Cash Equivalents and Restricted Cash: These balances include cash and cash equivalents as well as restricted cash with maturities of less than three months. The carrying amount approximates fair value due to the short-term maturities of these instruments.

Receivables, less Allowance for Doubtful Accounts: Due to their short-term nature, fair value approximates carrying value.

CBRE GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Short-Term Borrowings: The majority of this balance represents our revolving credit facility and our warehouse lines of credit outstanding for CBRE Capital Markets. Due to the short-term nature and variable interest rates of these instruments, fair value approximates carrying value.

Senior Secured Term Loans: Based upon information from third-party banks (which falls within Level 2 of the fair value hierarchy), the estimated fair value of our senior secured term loans was approximately $1.7 billion at March 31, 2012, which approximates their actual carrying value at March 31, 2012 (see Note 10).

11.625% Senior Subordinated Notes: Based on dealers quotes (which falls within Level 2 of the fair value hierarchy), the estimated fair value of our 11.625% senior subordinated notes was $499.8 million at March 31, 2012. Their actual carrying value totaled $439.4 million at March 31, 2012.

6.625% Senior Notes: Based on dealers quotes (which falls within Level 2 of the fair value hierarchy), the estimated fair value of our 6.625% senior notes was $373.1 million at March 31, 2012. Their actual carrying value totaled $350.0 million at March 31, 2012.

Notes Payable on Real Estate: As of March 31, 2012, the carrying value of our notes payable on real estate was $391.6 million (see Note 9). These borrowings mostly have floating interest rates at spreads over a market rate index. It is likely that some portion of our notes payable on real estate have fair values lower than actual carrying values. Given our volume of notes payable and the cost involved in estimating their fair value, we determined it was not practicable to do so. Additionally, only $13.6 million of these notes payable are recourse to us as of March 31, 2012.

6. Investments in Unconsolidated Subsidiaries

Investments in unconsolidated subsidiaries are accounted for under the equity method of accounting. Combined condensed financial information for these entities is as follows (dollars in thousands):

	Three Months Ended March 31,	
	2012	**2011**
Global Investment Management:		
Revenue	$ 170,720	$ 140,252
Operating loss	$ (10,474)	$ (34,662)
Net income (loss)	$ 43,206	$ (50,165)
Development Services:		
Revenue	$ 17,981	$ 19,414
Operating income	$ 26,432	$ 39,373
Net income	$ 20,952	$ 32,442
Other:		
Revenue	$ 31,521	$ 34,385
Operating income	$ 3,047	$ 3,790
Net income	$ 3,116	$ 3,859
Total:		
Revenue	$ 220,222	$ 194,051
Operating income	$ 19,005	$ 8,501
Net income (loss)	$ 67,274	$ (13,864)

CBRE GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Our Global Investment Management segment involves investing our own capital in certain real estate investments with clients. We have provided investment management, property management, brokerage and other professional services in connection with these real estate investments on an arm s length basis and earned revenues from these unconsolidated subsidiaries. We have also provided development, property management and brokerage services to certain of our unconsolidated subsidiaries in our Development Services segment on an arm s length basis and earned revenues from these unconsolidated subsidiaries.

7. Real Estate and Other Assets Held for Sale and Related Liabilities

Real estate and other assets held for sale include completed real estate projects or land for sale in their present condition that have met all of the held for sale criteria of the *Property, Plant and Equipment* Topic of the FASB ASC (Topic 360) and other assets directly related to such projects. Liabilities related to real estate and other assets held for sale have been included as a single line item in the accompanying consolidated balance sheets.

Real estate and other assets held for sale and related liabilities were as follows (dollars in thousands):

	March 31, 2012	December 31, 2011
Assets:		
Real estate held for sale (see Note 8)	$ 1,411	$ 21,833
Other current assets		531
Other assets	4	3,837
Total real estate and other assets held for sale	1,415	26,201
Liabilities:		
Notes payable on real estate held for sale (see Note 9)	1,341	20,453
Accounts payable and accrued expenses	4	891
Other current liabilities		8
Other liabilities		130
Total liabilities related to real estate and other assets held for sale	1,345	21,482
Net real estate and other assets held for sale	$ 70	$ 4,719

8. Real Estate

We provide build-to-suit services for our clients and also develop or purchase certain projects which we intend to sell to institutional investors upon project completion or redevelopment. Therefore, we have ownership of real estate until such projects are sold or otherwise disposed. Certain real estate assets secure the outstanding balances of underlying mortgage or construction loans. Our real estate is reported in our Development Services and Global Investment Management segments and consisted of the following (dollars in thousands):

	March 31, 2012	December 31, 2011
Real estate included in assets held for sale (see Note 7)	$ 1,411	$ 21,833
Real estate under development (current)	31,153	30,617
Real estate under development (non-current)	6,891	3,952
Real estate held for investment (1)	447,989	403,698

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