CBRE GROUP, INC.
Form 10-Q
November 09, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2018

OR

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)
400 South Hope Street, 25th Floor Los Angeles, California (Address of principal executive offices)	90071 (Zip Code)
(213) 613-3333 (Registrant's telephone number, including area code)	Not applicable (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 No .

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No .

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

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
	Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The number of shares of Class A common stock outstanding at October 31, 2018 was 340,880,302.

FORM 10-Q

September 30, 2018

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements
CBRE GROUP, INC.

CONSOLIDATED BALANCE SHEETS

(Unaudited)

(Dollars in thousands, except share data)

	September 30, 2018	December 31, 2017 (As Adjusted)
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 550,468	$ 751,774
Restricted cash	77,470	73,045
Receivables, less allowance for doubtful accounts of $62,011 and $46,789 at September 30, 2018 and December 31, 2017, respectively	3,410,744	3,112,289
Warehouse receivables	1,598,021	928,038
Prepaid expenses	258,341	215,336
Contract assets	159,928	273,053
Income taxes receivable	54,694	49,628
Other current assets	268,648	227,421
Total Current Assets	6,378,314	5,630,584
Property and equipment, net	702,428	617,739
Goodwill	3,643,143	3,254,740
Other intangible assets, net of accumulated amortization of $1,147,504 and $1,000,738 at September 30, 2018 and December 31, 2017, respectively	1,403,424	1,399,112
Investments in unconsolidated subsidiaries	195,322	238,001
Deferred tax assets, net	79,494	98,746
Other assets, net	574,991	479,474
Total Assets	$ 12,977,116	$ 11,718,396
LIABILITIES AND EQUITY		
Current Liabilities:		
Accounts payable and accrued expenses	$ 1,674,183	$ 1,573,672
Compensation and employee benefits payable	1,054,578	904,434
Accrued bonus and profit sharing	843,184	1,078,345
Contract liabilities	86,771	100,615
Income taxes payable	15,371	70,634
Short-term borrowings:		
Warehouse lines of credit (which fund loans that U.S. Government Sponsored	1,579,740	910,766

Enterprises have committed to purchase)		
Revolving credit facility	141,000	—
Other	16	16
Total short-term borrowings	1,720,756	910,782
Current maturities of long-term debt	3,988	8
Other current liabilities	86,950	74,454
Total Current Liabilities	5,485,781	4,712,944
Long-term debt, net of current maturities	1,760,003	1,999,603
Deferred tax liabilities, net	187,613	147,218
Non-current tax liabilities	139,115	140,792
Other liabilities	632,213	543,225
Total Liabilities	8,204,725	7,543,782
Commitments and contingencies	—	—
Equity:		
CBRE Group, Inc. Stockholders' Equity:		
Class A common stock; $0.01 par value; 525,000,000 shares authorized; 340,880,302 and 339,459,138 shares issued and outstanding at September 30, 2018 and December 31, 2017, respectively	3,409	3,395
Additional paid-in capital	1,277,630	1,220,508
Accumulated earnings	4,110,889	3,443,007
Accumulated other comprehensive loss	(678,972)	(552,414)
Total CBRE Group, Inc. Stockholders' Equity	4,712,956	4,114,496
Non-controlling interests	59,435	60,118
Total Equity	4,772,391	4,174,614
Total Liabilities and Equity	$ 12,977,116	$ 11,718,396

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 September 30,		Nine Months Ended September 30,	
	2018	2017 (As Adjusted)	2018	2017 (As Adjusted)
Revenue	$5,260,954	$4,638,596	$15,046,340	$13,129,133
Costs and expenses:				
Cost of services	4,098,904	3,598,279	11,677,613	10,154,296
Operating, administrative and other	859,085	704,950	2,417,602	2,024,191
Depreciation and amortization	113,484	102,591	335,048	297,014
Total costs and expenses	5,071,473	4,405,820	14,430,263	12,475,501
Gain on disposition of real estate	236	6,180	12,565	18,863
Operating income	189,717	238,956	628,642	672,495
Equity income from unconsolidated subsidiaries	126,840	67,834	263,040	158,236
Other income	95,515	1,768	95,244	9,069
Interest income	1,231	3,129	6,341	6,967
Interest expense	26,651	34,483	82,394	103,923
Write-off of financing costs on extinguished debt	—	—	27,982	—
Income before provision for income taxes	386,652	277,204	882,891	742,844
Provision for income taxes	94,963	77,072	211,446	200,778
Net income	291,689	200,132	671,445	542,066
Less: Net income attributable to non-controlling interests	1,220	1,044	2,021	4,181
Net income attributable to CBRE Group, Inc.	$290,469	$199,088	$669,424	$537,885
Basic income per share:				
Net income per share attributable to CBRE Group, Inc.	$0.86	$0.59	$1.97	$1.59
Weighted average shares outstanding for basic income per share	339,477,316	337,948,324	339,151,807	337,280,914
Diluted income per share:				
Net income per share attributable to CBRE Group, Inc.	$0.85	$0.58	$1.95	$1.58
Weighted average shares outstanding for diluted income per share	343,733,947	341,186,431	343,267,240	340,502,432

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

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CBRE GROUP, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(Dollars in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017 (As Adjusted)	2018	2017 (As Adjusted)
Net income	$291,689	$ 200,132	$671,445	$ 542,066
Other comprehensive (loss) income:				
Foreign currency translation (loss) gain	(30,985)	65,035	(130,879)	204,872
Adoption of Accounting Standards Update 2016-01, net of tax	—	—	(3,964)	—
Amounts reclassified from accumulated other comprehensive loss to interest expense, net of tax	570	1,260	1,953	4,148
Unrealized gains on interest rate swaps, net of tax	65	25	882	102
Unrealized holding gains (losses) on available for sale debt securities, net of tax	22	339	(605)	2,239
Other, net	(15)	(4)	5,513	(20)
Total other comprehensive (loss) income	(30,343)	66,655	(127,100)	211,341
Comprehensive income	261,346	266,787	544,345	753,407
Less: Comprehensive income attributable to non-controlling interests	1,357	1,227	1,479	4,544
Comprehensive income attributable to CBRE Group, Inc.	$259,989	$ 265,560	$542,866	$ 748,863

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

CBRE GROUP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(Dollars in thousands)

	Nine Months Ended September 30, 2018	2017 (As Adjusted)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$671,445	$542,066
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	335,048	297,014
Amortization and write-off of financing costs on extinguished debt	33,405	7,371
Gains related to mortgage servicing rights, premiums on loan sales and sales of other assets	(156,973)	(131,062)
Gain associated with remeasuring our investment in a previously unconsolidated subsidiary to fair value as of the date we acquired the remaining interest	(92,624)	—
Gains on disposition of real estate held for investment	(3,197)	—
Net realized and unrealized gains from investments	(2,620)	(9,069)
Equity income from unconsolidated subsidiaries	(263,040)	(158,236)
Provision for doubtful accounts	17,606	7,442
Compensation expense for equity awards	97,035	68,975
Proceeds from sale of mortgage loans	13,351,590	11,316,041
Origination of mortgage loans	(13,979,299)	(11,441,884)
Increase in warehouse lines of credit	668,974	161,600
Distribution of earnings from unconsolidated subsidiaries	262,670	155,937
Tenant concessions received	22,846	14,739
Purchase of equity securities	(66,380)	(61,813)
Proceeds from sale of equity securities	56,605	53,251
Increase in receivables, prepaid expenses and other assets (including contract assets)	(366,647)	(111,635)
(Increase) decrease in real estate held for sale and under development	(2,177)	10,784
Increase (decrease) in accounts payable and accrued expenses and other liabilities (including contract liabilities)	85,648	(78,695)
Decrease in compensation and employee benefits payable and accrued bonus and profit sharing	(136,257)	(231,364)
Increase in net income taxes receivable/payable	(21,642)	(10,631)
Other operating activities, net	(9,705)	(15,238)
Net cash provided by operating activities	502,311	385,593
CASH FLOWS FROM INVESTING ACTIVITIES:		

Capital expenditures	(151,893)	(101,606)
Acquisition of businesses, including net assets acquired, intangibles and goodwill, net of cash acquired	(313,560)	(36,063)
Contributions to unconsolidated subsidiaries	(31,026)	(36,659)
Distributions from unconsolidated subsidiaries	53,720	39,181
Net proceeds from disposition of real estate held for investment	14,174	—
Purchase of equity securities	(15,931)	(12,167)
Proceeds from sale of equity securities	11,402	11,959
Purchase of available for sale debt securities	(20,860)	(17,241)
Proceeds from the sale of available for sale debt securities	5,432	13,659
Other investing activities, net	(5,557)	1,156
Net cash used in investing activities	(454,099)	(137,781)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from senior term loans	550,000	—
Proceeds from revolving credit facility	2,913,000	911,000
Repayment of revolving credit facility	(2,772,000)	(911,000)
Repayment of 5.00% senior notes (including premium)	(820,000)	—
Proceeds from notes payable on real estate held for investment	83	79
Repayment of notes payable on real estate held for investment	(13,028)	(1,324)
Proceeds from notes payable on real estate held for sale and under development	3,156	3,341
Repayment of notes payable on real estate held for sale and under development	(2,991)	(10,777)
Acquisition of businesses (cash paid for acquisitions more than three months after purchase date)	(14,970)	(23,331)
Repayment of debt assumed in acquisition of FacilitySource	(26,295)	—
Units repurchased for payment of taxes on equity awards	(27,696)	(29,549)
Non-controlling interest contributions	9,558	3,410
Non-controlling interest distributions	(11,382)	(6,643)
Other financing activities, net	(915)	(2,694)
Net cash used in financing activities	(213,480)	(67,488)
Effect of currency exchange rate changes on cash and cash equivalents and restricted cash	(31,613)	28,663
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS AND RESTRICTED CASH	(196,881)	208,987
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH, AT BEGINNING OF PERIOD	824,819	831,412
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH, AT END OF PERIOD	$627,938	$1,040,399
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$95,822	$111,826
Income taxes, net	$235,305	$204,228

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, 2017 (As Adjusted)	$3,395	$1,220,508	$3,443,007	$(552,414)	$60,118	$4,174,614
Net income	—	—	669,424	—	2,021	671,445
Adoption of Accounting Standards Update 2016-01, net of tax (see Note 3)	—	—	3,964	(3,964)	—	—
Compensation expense for equity awards	—	97,035	—	—	—	97,035
Reclassification of stock incentive plan award from an equity award to a liability award	—	(9,074)	—	—	—	(9,074)
Units repurchased for payment of taxes on equity awards	—	(27,696)	—	—	—	(27,696)
Foreign currency translation loss	—	—	—	(130,337)	(542)	(130,879)
Amounts reclassified from accumulated other comprehensive loss to interest expense, net of tax	—	—	—	1,953	—	1,953
Unrealized gains on interest rate swaps, net of tax	—	—	—	882	—	882
Unrealized holding losses on available for sale debt securities, net of tax	—	—	—	(605)	—	(605)
Contributions from non-controlling interests	—	—	—	—	9,558	9,558
Distributions to non-controlling interests	—	—	—	—	(11,382)	(11,382)

Other	14	(3,143)	(5,506)	5,513	(338)	(3,460)
Balance at September 30, 2018	$3,409	$1,277,630	$4,110,889	$ (678,972)	$59,435	$4,772,391

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

Readers of this Quarterly Report on Form 10-Q (Quarterly Report) should refer to the audited financial statements and notes to 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”), for the year ended December 31, 2017, which are included in our 2017 Annual Report on Form 10-K (2017 Annual Report), filed with the United States Securities and Exchange Commission (SEC) and also available on our website (www.cbre.com), since we have omitted from this Quarterly Report certain footnote disclosures which would substantially duplicate those contained in such audited financial statements. You should also refer to Note 2, Significant Accounting Policies, in the notes to consolidated financial statements in our 2017 Annual Report for further discussion of our significant accounting policies and estimates.

The accompanying consolidated financial statements have been prepared in accordance with the rules applicable to quarterly reports on 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 (U.S.), or GAAP, for annual financial statements. In our opinion, 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 us 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 goodwill, intangibles and other long-lived assets, real estate assets, accounts receivable, contract assets, 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 our best judgment. We evaluate our estimates and assumptions on an ongoing basis using historical experience and other factors, including consideration of the current economic environment, and adjust 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.

Certain restatements have been made to the 2017 financial statements to conform with the 2018 presentation in connection with our adoption of new revenue recognition guidance (as further described in notes 2, 3 and 12). In addition, certain reclassifications have been made to the 2017 financial statements to conform with the 2018 presentation. Such reclassifications primarily relate to the adoption of Accounting Standards Update (ASU) 2016 01, ASU 2016-15 and ASU 2016-18 as further described in Note 3.

The results of operations for the three and nine months ended September 30, 2018 are not necessarily indicative of the results of operations to be expected for the year ending December 31, 2018.

2. Significant Accounting Policies Update

Revenue Recognition

We account for revenue in accordance with Accounting Standards Codification (ASC) Topic 606, “Revenue from Contracts with Customers.” Topic 606 also includes Subtopic 340-40, “Other Assets and Deferred Costs – Contracts with

Customers," which requires deferral of incremental costs to obtain and fulfill a contract with a customer. We adopted new revenue recognition guidance on January 1, 2018, using the full retrospective method (see Note 3). Revenue is recognized when or as control of the promised services is transferred to our customers, in an amount that reflects the consideration we expect to be entitled to in exchange for those services.

The following is a description of principal activities – separated by reportable segments – from which we generate revenue. For more detailed information about our reportable segments, see Notes 12 and 13.

CBRE GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The Americas, Europe, Middle East and Africa (EMEA), and Asia Pacific

The Americas segment is our largest segment of operations and provides a comprehensive range of services throughout the United States (U.S.), in the largest regions of Canada and in key markets in Latin America. The primary services offered consist of the following: property leasing, property sales, mortgage services, appraisal and valuation, occupier outsourcing and property management services.

Our EMEA and Asia Pacific segments generally provide services similar to the Americas business segment. The EMEA segment has operations primarily in Europe, while the Asia Pacific segment has operations in Asia, Australia and New Zealand.

Property Leasing and Property Sales

Through our Advisory & Transaction Services business line, we provide strategic advice and execution to owners, investors, and occupiers of real estate in connection with the leasing of office, industrial and retail space. We also offer clients fully integrated property sales services under the CBRE Capital Markets brand. We are compensated for our services in the form of a commission and, in some instances may earn various forms of variable incentive consideration. Our commission is paid upon the occurrence of certain contractual event(s) which may be contingent. For example, a portion of our leasing commission may be paid upon signing of the lease by the tenant, with the remaining paid upon occurrence of another future contingent event (e.g. payment of first month's rent or tenant move-in). For sales, our commission is typically paid at the closing of the sale. We typically satisfy our performance obligation at a point in time when control is transferred; generally, at the time of the first contractual event where there is a present right to payment. We look to history, experience with a customer, and deal specific considerations to support our judgement that the second contingency (if applicable) will be met. Therefore, we typically accelerate the recognition of the revenue associated with the second contingent event.

In addition to our commission, we may recognize other forms of variable consideration which can include, but are not limited to, commissions subject to concession or claw back and volume based discounts or rebates. We assess variable consideration on a contract by contract basis, and when appropriate, recognize revenue based on our assessment of the outcome (using the most likely outcome approach or weighted probability) and historical results, if comparable and representative. We recognize variable consideration if it is deemed probable that there will not be significant reversal in the future.

Mortgage Originations and Loan Sales

Under the CBRE Capital Markets brand, we offer clients fully integrated commercial mortgage and structured financing services. Fees from services within our mortgage brokerage business that are in the scope of Topic 606 include fees earned for the brokering of commercial mortgage loans primarily through relationships established with investment banking firms, national and regional banks, credit companies, insurance companies and pension funds. We are compensated for our brokerage services via a fee paid upon successful placement of a commercial mortgage borrower with a lender who will provide financing. The fee earned is contingent upon the funding of the loan. We typically satisfy our performance obligation when control is transferred at the point in time of the funding of the loan.

We also earn fees from the origination and sale of commercial mortgage loans for which the company retains the servicing rights. These fees are governed by the “Fair Value Measurements and Disclosures” topic (Topic 820) and “Transfers and Servicing” topic (Topic 860) of the FASB ASC. Upon origination of a mortgage loan held for sale, the fair value of the mortgage servicing rights (MSR) to be retained is included in the forecasted proceeds from the anticipated loan sale and results in a net gain (which is reflected in revenue). Upon sale, we record a servicing asset or liability based on the fair value of the retained MSR associated with the transferred loan. Subsequent to the initial recording, MSRs are amortized and carried at the lower of amortized cost or fair value in other intangible assets in the accompanying consolidated balance sheets. They are amortized in proportion to and over the estimated period that the servicing income is expected to be received.

CBRE GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Appraisal and Valuation

We provide valuation services that include market-value appraisals, litigation support, discounted cash flow analyses, feasibility studies as well as consulting services such as property condition reports, hotel advisory and environmental consulting. We are compensated for valuation services in the form of a fee, which is payable on the occurrence of certain events (e.g., a portion on the delivery of a draft report with the remaining on the delivery of the final report). For consulting services, we may be paid based on the occurrence of time or event-based milestones (such as the delivery of draft reports). We typically satisfy our performance obligation as services are rendered over time.

Occupier Outsourcing Services

We provide a broad suite of services to occupiers of real estate, including facilities management, project management, transaction management and strategic consulting. We report facilities and project management as well as strategic consulting activities in our occupier outsourcing revenue line and transaction management in our lease and sales revenue lines.

Facilities management involves the day-to-day management of client-occupied space and includes headquarter buildings, regional offices, administrative offices, data centers and other critical facilities, manufacturing and laboratory facilities, distribution facilities and retail space. Contracts for facilities management services are often structured so we are reimbursed for client-dedicated personnel costs and subcontracted vendor costs as well as associated overhead expenses plus a monthly fee, and, in some cases, annual incentives tied to agreed-upon performance targets, with any penalties typically capped. Facilities management services represent a series of distinct daily services rendered over time.

Project management services are often provided on a portfolio wide or programmatic basis. Revenues from project management services generally includes fixed management fees, variable fees, and incentive fees if certain agreed-upon performance targets are met. Revenues from project management may also include reimbursement of payroll and related costs for personnel providing the services and subcontracted vendor costs. Project management services represent a series of distinct daily services rendered over time.

The amount of revenue recognized is presented gross for any services provided by our employees, as we control them. This is evidenced by our obligation for their performance and our ability to direct and redirect their work, as well as negotiate the value of such services. The amount of revenue recognized related to the majority of facilities management contracts and certain project management arrangements is presented gross (with offsetting expense recorded in cost of services) for reimbursements of costs of third-party services because we control those services that are delivered to the client. In the instances when we do not control third-party services delivered to the client, we report revenues net of the third-party reimbursements.

In addition to our management fee, we receive various types of variable consideration which can include, but is not limited to; key performance indicator bonuses or penalties which may be linked to subcontractor performance, gross maximum price, glidepaths, savings guarantees, shared savings, or fixed fee structures. We assess variable consideration on a contract by contract basis, and when appropriate, recognize revenue based on our assessment of the outcome (using the most likely outcome approach or weighted probability) and historical results, if comparable and representative. Using management assessment and historical results and statistics, we accelerate revenue if it is deemed probable there will not be significant reversal in the future.

Property Management

We provide property management services on a contractual basis for owners of and investors in office, industrial and retail properties. These services include construction management, marketing, building engineering, accounting and financial services. We are compensated for our services through a monthly management fee earned based on either a specified percentage of the monthly rental income, rental receipts generated from the property under management or a fixed fee. We are also often reimbursed for our administrative and payroll costs directly attributable to the properties under management. Property management services represent a series of distinct daily services rendered over time. The amount of revenue recognized is presented gross for any services provided by our employees, as we control them. We generally do not control third-party services delivered to property management clients. As such, we report revenues net of third-party reimbursements.

Global Investment Management

Our Global Investment Management business segment provides investment management services to pension funds, insurance companies, sovereign wealth funds, foundations, endowments and other institutional investors seeking to generate returns and diversification through investment in real estate. We sponsor investment programs that span the risk/return spectrum in: North America, Europe, Asia and Australia. We are typically compensated in the form of a base management fee, disposition fees, acquisition fees and incentive fees in the form of performance fees or carried interest based on fund type (open or closed ended, respectively). For the base management fee, we typically satisfy the performance obligation as service is rendered over time pursuant to the series guidance. For acquisition and disposition services, we typically satisfy the performance obligation at a point in time (at acquisition or upon disposition). For contracts with contingent fees, including performance fees, incentive fees and carried interest, we assess variable consideration on a contract by contract basis, and when appropriate, recognize revenue based on our assessment of the outcome (using the most likely outcome approach or weighted probability) and historical results, if comparable and representative. Revenue associated with performance fees and carried interest are typically constrained due to volatility in the real estate market, a broad range of possible outcomes, and other factors in the market that are outside of our control.

Development Services

Our Development Services business segment consists of real estate development and investment activities primarily in the United States to users of and investors in commercial real estate, as well as for our own account. We pursue opportunistic, risk-mitigated development and investment in commercial real estate across a wide spectrum of property types, including: industrial, office and retail properties; healthcare facilities of all types (medical office buildings, hospitals and ambulatory surgery centers); and residential/mixed-use projects. We pursue development and investment activity on behalf of our clients on a fee basis with no, or limited, ownership interest in a property, in partnership with our clients through co-investment – either on an individual project basis or through programs with certain strategic capital partners or for our own account with 100% ownership. Development services represent a series of distinct daily services rendered over time. Fees are typically payable monthly over the service term or upon contractual defined events, like project milestones. In addition to development fee revenue, we receive various types of variable consideration which can include, but is not limited to, contingent lease-up bonuses, cost saving incentives, profit sharing on sales and at-risk fees. We assess variable consideration on a contract by contract basis, and when appropriate, recognize revenue based on our assessment of the outcome (using the most likely outcome approach or weighted probability) and historical results, if comparable and representative. We accelerate revenue if it is deemed probable there will not be significant reversal in the future.

Accounts Receivable and Allowance for Doubtful Accounts

We record accounts receivable for our unconditional rights to consideration arising from our performance under contracts with customers. The carrying value of such receivables, net of the allowance for doubtful accounts, represents their estimated net realizable value. We estimate our allowance for doubtful accounts for specific accounts receivable balances based on historical collection trends, the age of outstanding accounts receivables and existing economic conditions associated with the receivables. Past-due accounts receivable balances are written off when our internal collection efforts have been unsuccessful. As a practical expedient, we do not adjust the promised amount of consideration for the effects of a significant financing component when we expect, at contract inception, that the period between our transfer of a promised service to a customer and when the customer pays for that service will be one year or less. We do not typically include extended payment terms in our contracts with customers.

Remaining Performance Obligations

Remaining performance obligations represent the aggregate transaction prices for contracts where our performance obligations have not yet been satisfied. As of September 30, 2018, the aggregate amount of transaction price allocated to remaining performance obligations in our property leasing business was not significant. We apply the practical expedient related to remaining performance obligations that are part of a contract that has an original expected duration of one year or less and the practical expedient related to variable consideration from remaining performance obligations pursuant to the series guidance. All of our remaining performance obligations apply to one of these practical expedients.

Contract Assets and Contract Liabilities

Contract assets represent assets for revenue that has been recognized in advance of billing the customer and for which the right to bill is contingent upon something other than the passage of time. This is common for contingent portions of commissions in brokerage and incentive fees present in various businesses. Billing requirements vary by contract but are generally structured around fixed monthly fees, reimbursement of employee and other third-party costs, and the achievement or completion of certain contingent events.

When we receive consideration, or such consideration is unconditionally due, from a customer prior to transferring services to the customer under the terms of the services contract, we record deferred revenue, which represents a contract liability. Such deferred revenue typically results from milestone payments pertaining to future services not yet rendered. We recognize the contract liability as revenue once we have transferred control of service to the customer and all revenue recognition criteria are met.

Contract assets and contract liabilities are determined for each contract on a net basis. For contract assets, we classify the short-term portion as a separate line item within current assets and the long-term portion within other assets, long-term in the accompanying consolidated balance sheets. For contract liabilities, we classify the short-term portion as a separate line item within current liabilities and the long-term portion within other liabilities, long-term in the accompanying consolidated balance sheets.

Contract Costs

Contract costs primarily consist of upfront costs incurred to obtain or to fulfill a contract. These costs are typically found within our Occupier Outsourcing business line. Such costs relate to transition costs to fulfill contracts prior to services being rendered and are included within other intangible assets in the accompanying consolidated balance sheets. Capitalized transition costs are amortized based on the transfer of services to which the assets relate which can vary on a contract by contract basis, and are included in cost of services in the accompanying consolidated statement of operations. For contract costs that are recognized as assets, we periodically review for impairment.

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(Unaudited)

Applying the contract cost practical expedient, we recognize the incremental costs of obtaining contracts as an expense when incurred if the amortization period of the assets that we otherwise would have recognized is one year or less.

Income Taxes

On December 22, 2017, the Tax Cuts and Jobs Act (Tax Act) was signed into law making significant changes to the Internal Revenue Code, including, but not limited to: (i) a U.S. corporate tax rate decrease from 35% to 21%, effective for tax years beginning after December 31, 2017; (ii) the transition of U.S. international taxation from a worldwide tax system to a territorial system; and (iii) a one-time transition tax (i.e. toll charge) on the mandatory deemed repatriation of cumulative foreign earnings as of December 31, 2017. In December 2017, the Securities and Exchange Commission (SEC) staff issued Staff Accounting Bulletin No. 118 (SAB 118), "Income Tax Accounting Implications of the Tax Cuts and Jobs Act," which allows us to record provisional amounts during a measurement period not to extend beyond one year of the enactment date. In March 2018, the Financial Accounting Standards Board (FASB) issued ASU 2018-05, "Income Taxes (Topic 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118," which added SEC guidance related to SAB 118.

Our provision for income taxes for 2017 included a provisional amount related to our estimate of the U.S. federal and state tax impact of the transition tax and other components of the Tax Act. In the first quarter of 2018, we obtained additional information affecting the provisional amount initially recorded for the transition tax. As a result, we recorded an immaterial adjustment to the transition tax in the tax provision for the nine months ended September 30, 2018. Provisional amounts that have been recorded are based upon our best estimate of the impact of the Tax Act in accordance with our understanding of the Tax Act and the related guidance available. Our analysis of the available information, including the proposed regulations from the U.S. Treasury issued on August 1, 2018, has guided our assessment of the impact of certain positions. Given the complexity of the Tax Act, anticipated future guidance from the U.S. Treasury and Internal Revenue Service and the potential for additional guidance from the SEC or the FASB, we are continuing to analyze the impact of the Tax Act. Additional work is necessary on the provisional amount related to the transition tax, which includes performing a more detailed analysis of historic foreign earnings and tax pools, foreign cash positions, and potential corresponding adjustments. We anticipate finalizing and recording any resulting adjustments from our analysis during the quarter ending December 31, 2018.

See Note 2 of the Notes to Consolidated Financial Statements set forth in Item 8 included in our Annual Report on Form 10-K for the year ended December 31, 2017 for a summary of our other significant accounting policies.

3. New Accounting Pronouncements

Recently Adopted Accounting Pronouncements

The FASB previously issued five ASUs related to revenue recognition ("new revenue recognition guidance"). The ASUs issued were: (1) in May 2014, ASU 2014 09, "Revenue from Contracts with Customers (Topic 606);" (2) in March 2016, ASU 2016 08, "Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net);" (3) in April 2016, ASU 2016 10, "Revenue from Contracts with

Customers (Topic 606): Identifying Performance Obligations and Licensing;" (4) in May 2016, ASU 2016 12, "Revenue from Contracts with Customers (Topic 606): Narrow-scope Improvements and Practical Expedients;" and (5) in December 2016, ASU 2016 20, "Technical Corrections and Improvements to Topic 606, Revenue From Contracts with Customers." As mentioned in Note 2, we adopted the new revenue recognition guidance in the first quarter of 2018 using the full retrospective transition method. This resulted in a cumulative adjustment of $94.6 million to the accumulated earnings balance reflected in the accompanying consolidated balance sheets at December 31, 2017, including an $87.9 million impact of adoption effective January 1, 2016 as well as the impact from restatements of full year statements of operations for the years ended December 31, 2017 and 2016 resulting in adjustments of $5.6 million and $1.1 million, respectively. The impact of the application of the new revenue recognition guidance resulted in an acceleration of revenues that were based, in part, on future contingent events. For example, some leasing commission revenues in various countries where we operate were recognized earlier. Under former GAAP, a portion of these lease commission revenues was deferred until a future contingency was

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

resolved (e.g., tenant move-in or payment of first month's rent). Under the new revenue guidance, our performance obligation will be typically satisfied at lease signing and therefore the portion of the commission that is contingent on a future event has been recognized earlier if deemed probable that there will not be significant reversal in the future. The acceleration of the timing of revenue recognition also resulted in the acceleration of expense recognition relating to direct commissions payable to brokers. In addition, the acceleration of these revenues and expenses resulted in an increase in total assets and liabilities to reflect contract assets and accrued commissions payable.

We evaluated the impact of the updated principal versus agent guidance on our consolidated financial statements. Under former GAAP, certain third-party costs associated with our facilities and project management contracts were accounted for on a net basis because the contracts include provisions such as "pay when paid" that mitigate payment risk with respect to services provided by third parties to our clients. Under the new revenue recognition guidance, control of the services before transfer to the client is the primary factor in determining principal versus agent assessments. Payment risk is no longer a determining factor under Topic 606. We have determined that we control the services provided by third parties on behalf of certain of our facilities and project management clients. Accordingly, under the new guidance, we are accounting for the cost of services provided by third parties and the related reimbursement revenue on a gross basis.

The following table presents the effects of the adoption of the new revenue recognition guidance on our consolidated balance sheet as of December 31, 2017 (dollars in thousands):

	As Reported	Adoption of New Revenue Recognition Guidance	As Adjusted
Receivables	$3,207,285	$ (94,996)	$3,112,289
Contract assets	—	273,053	273,053
Total current assets	5,452,527	178,057	5,630,584
Other assets, net	422,965	56,509	479,474
Total assets	11,483,830	234,566	11,718,396
Accounts payable and accrued expenses	1,674,287	(100,615)	1,573,672
Compensation and employee benefits payable	803,504	100,930	904,434
Accrued bonus and profit sharing	1,072,976	5,369	1,078,345
Contract liabilities	—	100,615	100,615
Total current liabilities	4,606,645	106,299	4,712,944
Deferred tax liabilities, net	114,017	33,201	147,218
Total liabilities	7,404,282	139,500	7,543,782
Accumulated earnings	3,348,385	94,622	3,443,007

Accumulated other comprehensive loss	(552,858)	444	(552,414)
Total CBRE Group, Inc. stockholders' equity	4,019,430	95,066	4,114,496
Total liabilities and equity	11,483,830	234,566	11,718,396

The following tables present the effects of the adoption of the new revenue recognition guidance on our consolidated statements of operations for the three and nine months ended September 30, 2017 (dollars in thousands, except share amounts):

	Three Months Ended September 30, 2017		
	As Reported	Adoption of New Revenue Recognition Guidance	As Adjusted
Revenue	$3,549,977	$1,088,619	$4,638,596
Cost of services	2,513,377	1,084,902	3,598,279
Operating, administrative and other	704,898	52	704,950
Operating income	235,291	3,665	238,956
Income before provision for income taxes	273,539	3,665	277,204
Provision for income taxes	76,178	894	77,072
Net income	197,361	2,771	200,132
Net income attributable to CBRE Group, Inc.	196,317	2,771	199,088
Earnings per share:			
Basic income per share	$0.58	$0.01	$0.59
Diluted income per share	0.58	—	0.58

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

	Nine Months Ended September 30, 2017		
	As Reported	Adoption of New Revenue Recognition Guidance	As Adjusted
Revenue	$9,873,396	$3,255,737	$13,129,133
Cost of services	6,919,018	3,235,278	10,154,296
Operating, administrative and other	2,023,503	688	2,024,191
Operating income	652,724	19,771	672,495
Income before provision for income taxes	723,073	19,771	742,844
Provision for income taxes	195,813	4,965	200,778
Net income	527,260	14,806	542,066
Net income attributable to CBRE Group, Inc.	523,079	14,806	537,885
Earnings per share:			
Basic income per share	$1.55	$0.04	$1.59
Diluted income per share	1.54	0.04	1.58

See Note 2 for further discussion of the effects of the adoption of ASU 2014-09 on our significant accounting policies.

In January 2016, the FASB issued ASU 2016 01, “Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities.” This ASU 2016-01 states that entities will have to measure equity investments (except those accounted for under the equity method, those that result in consolidation of the investee and certain other investments) at fair value and recognize any changes in fair value in net income. Under the new guidance, entities will measure equity investments in the scope of the guidance at the end of each reporting period. We will no longer be able to classify equity investments as trading or available for sale, and will no longer recognize unrealized holding gains and losses on equity securities previously classified as available for sale in other comprehensive income (loss). However, the guidance for classifying and measuring investments in debt securities and loans is unchanged. We adopted ASU 2016 01 in the first quarter of 2018, which resulted in a cumulative adjustment to accumulated earnings of $4.0 million on January 1, 2018, representing the accumulated unrealized gains (net of tax) reported in accumulated other comprehensive loss for available for sale equity securities on December 31, 2017.

In August 2016, the FASB issued ASU 2016 15, “Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments.” This ASU addressed eight specific cash flow issues with the objective of reducing the existing diversity in practice. We adopted ASU 2016 15 in the first quarter of 2018. This resulted in changes to our consolidated statement of cash flows included in the accompanying consolidated financial statements, including:

- An accounting policy election was made in the first quarter of 2018 to classify distributions from all of our equity method investments based on the "nature of distribution method". Under this approach, we classify the distributions based on the nature of the activities of the investee that generated the distribution. This resulted in $138.3 million of distributions from equity method investments being reclassified from cash flows from investing activities to cash flows from operating activities for the first nine months of 2017;

- Purchase price payments made related to acquisitions more than three months after the acquisition closed are to be reflected as cash flows from financing activities (assuming they do not exceed the amount recorded in the initial measurement period). If we record an increase to the estimated purchase price liability post-measurement period, then such increase (i.e. amounts we pay out above and beyond initial estimate of liability) would get recorded as an operating cash flow. This resulted in $23.3 million of cash paid for acquisitions being reclassified from cash used in investing activities to cash used in financing activities for the first nine months of 2017;

- Payments for debt prepayment or debt extinguishment costs, including third-party costs, premiums paid, and other fees paid to lenders that are directly related to the debt prepayment or debt extinguishment are to be reflected as cash used in financing activities. During the nine months ended September 30, 2018, we paid a $20.0 million premium in connection with the early redemption of our 5.00% senior notes (see Note 9). Such premium has been reflected in cash used in financing activities in the consolidated statement of cash flows for the nine months ended September 30, 2018.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

In November 2016, the FASB issued ASU 2016 18, “Statement of Cash Flows (Topic 230): Restricted Cash.” This ASU requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash. We adopted ASU 2016-18 in the first quarter of 2018 and, as a result, restricted cash has been included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows.

Recent Accounting Pronouncements Pending Adoption

The FASB previously issued three ASUs related to leases. The ASUs issued were: (1) in February 2016, ASU 2016-02, “Leases (Topic 842)”, (2) in July 2018, ASU 2018-10, “Codification Improvements to Topic 842, Leases” and (3) in July 2018, ASU 2018-11 “Target Improvements.” ASU 2016-02 requires lessees to recognize most leases on the balance sheet as liabilities, with corresponding right-of-use assets. For income statement recognition purposes, leases will be classified as either a finance or operating lease in a manner similar to the requirements under the current lease accounting literature, but without relying upon the bright-line tests. The amendments in ASU 2018-10 affect narrow aspects of the guidance issued in the amendments in ASU 2016-02. The amendments in ASU 2018-11 provide an optional method for adopting the new leasing guidance and provide lessors with a practical expedient to combine lease and associated non-lease components by class of underlying asset in contracts that meet certain criteria. These ASUs are effective for annual periods in fiscal years beginning after December 15, 2018. We plan to adopt these ASUs in the first quarter of 2019 by using the optional transitional method with a cumulative-effect adjustment to the opening balance of retained earnings. We have identified our lease populations and believe the adoption of the ASUs will have a material impact on our financial statements. Furthermore, we have decided to elect certain practical expedients afforded by the ASUs, including the expedient to forego separating lease and non-lease components in our lessee contracts, which will increase the magnitude of our balance sheet gross-up. While we continue to validate our lease data, we are progressing with the implementation and testing of our lease accounting system.

In June 2016, the FASB issued ASU 2016 13, “Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.” This ASU is intended to improve financial reporting by requiring timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. This ASU is effective for fiscal years beginning after December 15, 2019, and interim periods within those years, with early adoption permitted. We are evaluating the effect that ASU 2016 13 will have on our consolidated financial statements and related disclosures.

In January 2017, the FASB issued ASU 2017 04, “Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment.” This ASU eliminates Step 2 from the goodwill impairment test. This ASU also eliminates the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment. This ASU is effective for fiscal years beginning after December 15, 2019, and interim periods within those years, with early adoption permitted. We are evaluating the effect that ASU 2017 04 will have on our goodwill assessment process, but do not believe the adoption of ASU 2017 04 will have a material impact on our consolidated financial statements and related disclosures.

In March 2017, the FASB issued ASU 2017 08, “Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20), Premium Amortization on Purchased Callable Debt Securities.” This ASU requires the premium to be amortized to the earliest call date. This ASU does not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. This ASU is effective for fiscal years beginning after December 15, 2018, and interim periods within those years, with early adoption permitted. We are evaluating the effect that ASU 2017 08 will have on our consolidated financial statements and related disclosures.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

In August 2017, the FASB issued ASU 2017 12, “Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities.” This ASU refines and expands hedge accounting for both financial and commodity risks. This ASU is effective for fiscal years beginning after December 15, 2018, and interim periods within those years, with early adoption permitted. We are evaluating the effect that ASU 2017 12 will have on our consolidated financial statements and related disclosures.

In February 2018, the FASB issued ASU 2018 02, “Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income.” This ASU provides an option to reclassify stranded tax effects within accumulated other comprehensive income to retained earnings in each period in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Act (or portion thereof) is recorded. This ASU is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years, with early adoption permitted. We are evaluating the effect that ASU 2018 02 will have on our consolidated financial statements and related disclosures, but do not expect it to have a material impact.

In July 2018, the FASB issued ASU 2018 09, “Codification Improvements.” The amendments in ASU 2018-09 represent changes to clarify, correct errors in, or make minor improvements to the Codification, eliminating inconsistencies and providing clarifications in current guidance. This ASU is effective for fiscal years beginning after December 15, 2018. We are evaluating the effect that ASU 2018 09 will have on our consolidated financial statements and related disclosures, but do not expect it to have a material impact.

In August 2018, the FASB issued ASU 2018 13, “Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement.” This ASU eliminates, adds and modifies certain disclosure requirements for fair value measurements. This ASU is effective for fiscal years beginning after December 15, 2019, with early adoption permitted. As ASU 2018-13 only revises disclosure requirements, it will not have any impact on our consolidated financial statements. We are evaluating the effect, if any, that ASU 2018 13 will have on our disclosures.

In August 2018, the FASB issued ASU 2018 14, “Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20): Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans.” This ASU makes minor changes to the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. This ASU is effective for fiscal years ending after December 15, 2020, with early adoption permitted. As ASU 2018-14 only revises disclosure requirements, it will not have any impact on our consolidated financial statements. We are evaluating the effect, if any, that ASU 2018 14 will have on our disclosures.

4. FacilitySource Acquisition

On June 12, 2018, CBRE Jason Acquisition LLC (Merger Sub), our wholly-owned subsidiary, and FacilitySource Holdings, LLC (FacilitySource), WP X Finance, LP and Warburg Pincus X Partners, LP (collectively, the Stockholders) entered into a stock purchase agreement and plan of merger (the Merger Agreement). As part of the Merger Agreement, (i) we purchased from the Stockholders all the outstanding shares of capital stock of FS WP Holdco, Inc (Blocker Corp), which owned 1,686,013 Class A units (the Blocker Units) and (ii) immediately following the acquisition of Blocker Corp, Merger Sub merged with FacilitySource, with FacilitySource continuing as the surviving company and our wholly-owned subsidiary within our Americas segment (the FacilitySource Acquisition), with the remaining Blocker Units not held by Blocker Corp. cancelled and converted into the right to receive cash consideration as set forth in the Merger Agreement. The estimated net initial purchase price was approximately $265.5 million, with $262.0 million paid in cash, plus adjustments for working capital and other items. We financed the transaction with cash on hand and borrowings under our revolving credit facility. We completed the FacilitySource Acquisition to help us (i) build a tech-enabled supply chain capability that is unique for the occupier outsourcing industry and (ii) drive meaningfully differentiated outcomes for leading occupiers of real estate.

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(Unaudited)

The following represents a summary of the excess purchase price over the estimated fair value of net assets acquired (dollars in thousands):

Estimated purchase price	$265,465
Less: Estimated fair value of net assets acquired (see table below)	(47,118)
Excess purchase price over estimated fair value of net assets acquired	$218,347

The preliminary purchase accounting related to the FacilitySource Acquisition has 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. The goodwill arising from the FacilitySource Acquisition consists largely of the synergies and economies of scale expected from combining the operations acquired from FacilitySource with ours. We are currently assessing if any portion of the goodwill recorded in connection with the FacilitySource Acquisition will be deductible for tax purposes. Given the complexity of the transaction, the calculation of the fair value of certain assets and liabilities acquired, primarily intangible assets, computer software 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. The following table summarizes the aggregate estimated fair values of the assets acquired and the liabilities assumed in the FacilitySource Acquisition (dollars in thousands):

Assets Acquired:	
Cash and cash equivalents	$2,627
Receivables, net	37,902
Prepaid expenses	477
Property and equipment	54,730
Other intangible assets	64,400
Other assets	114
Total assets acquired	160,250
Liabilities Assumed:	
Accounts payable and accrued expenses	48,278
Compensation and employee benefits payable	1,472
Accrued bonus and profit sharing	5,036
Line of credit and term loan	26,295
Deferred tax liability	30,923
Other liabilities	1,128
Total liabilities assumed	113,132
Estimated Fair Value of Net Assets Acquired	$47,118

The following is a summary of the preliminary estimate of the amortizable intangible assets and depreciable computer software acquired in connection with the FacilitySource Acquisition (dollars in thousands):

			At September 30, 2018	
Asset Class	Weighted Average Amortization/ Depreciation Period	Amount Assigned at Acquisition Date	Accumulated Amortization and Depreciation	Net Carrying Value
Intangibles:				
Trade name	20 years	$ 38,950	$ 568	$ 38,382
Customer relationships	6.67 years	25,450	780	24,670
Total amortizable intangible assets acquired	14.7 years	$ 64,400	$ 1,348	$ 63,052
Property and Equipment:				
Computer software	10 years	$ 51,850	$ 1,512	$ 50,338

Upon close of the FacilitySource Acquisition, we immediately repaid the line of credit and term loan assumed from FacilitySource.

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(Unaudited)

The accompanying consolidated statement of operations for the three months ended September 30, 2018 include revenue, an operating loss and a net loss of $54.9 million, ($2.2) million and ($1.6) million, respectively, and for the nine months ended September 30, 2018 include revenue, an operating loss and a net loss of $67.5 million, ($2.4) million and ($1.8) million, respectively, attributable to the FacilitySource Acquisition. This does not include direct transaction and integration costs of $4.4 million and $4.6 million and depreciation and amortization expense of $2.3 million and $2.9 million, respectively, related to computer software and intangible assets acquired, all of which were incurred during both the three and nine months ended September 30, 2018 in connection with the FacilitySource Acquisition.

Unaudited pro forma results, assuming the FacilitySource Acquisition had occurred as of January 1, 2017 for purposes of the pro forma disclosures for the three and nine months ended September 30, 2018 and 2017, are presented below. They include certain adjustments for increased depreciation and amortization expense related to acquired computer software and intangible assets as well as increased interest expense associated with borrowings under our revolving credit facility used to fund the acquisition, as follows (dollars in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Depreciation expense	$ —	$ 1,090	$ 2,377	$ 3,269
Amortization expense	—	1,441	2,976	4,324
Interest expense	—	1,525	2,769	4,574

Pro forma adjustments also include the removal of $4.4 million and $4.6 million of direct costs incurred by us during the three and nine months ended September 30, 2018, respectively, as well as the tax impact of all pro forma adjustments for all periods presented. These unaudited pro forma results have been prepared for comparative purposes only and do not purport to be indicative of what operating results would have been had the FacilitySource Acquisition occurred on January 1, 2017 and may not be indicative of future operating results (dollars in thousands, except share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenue	$ 5,260,954	$ 4,675,977	$ 15,143,266	$ 13,421,277
Operating income	194,155	231,975	623,771	651,553
Net income attributable to CBRE Group, Inc.	293,726	193,666	663,247	521,621
Basic income per share:				
Net income per share attributable to CBRE Group, Inc.	$ 0.87	$ 0.57	$ 1.96	$ 1.55

Weighted average shares outstanding for basic income per share	339,477,316	337,948,324	339,151,807	337,280,914
Diluted income per share:				
Net income per share attributable to CBRE Group, Inc.	$0.85	$0.57	$1.93	$1.53
Weighted average shares outstanding for diluted income per share	343,733,947	341,186,431	343,267,240	340,502,432

5. Warehouse Receivables & Warehouse Lines of Credit

Our wholly-owned subsidiary CBRE Capital Markets, Inc. (CBRE Capital Markets) is a Federal Home Loan Mortgage Corporation (Freddie Mac) approved Multifamily Program Plus Seller/Servicer and an approved Federal National Mortgage Association (Fannie Mae) Aggregation and Negotiated Transaction Seller/Servicer. In addition, CBRE Capital Markets' wholly-owned subsidiary CBRE Multifamily Capital, Inc. (CBRE MCI) is an approved Fannie Mae Delegated Underwriting and Servicing (DUS) Seller/Servicer and CBRE Capital Markets' wholly-owned subsidiary CBRE HMF, Inc. (CBRE HMF) is a U.S. Department of Housing and Urban Development (HUD) approved Non-Supervised Federal Housing Authority (FHA) Title II Mortgagee, an approved Multifamily Accelerated Processing (MAP) lender and an approved Government National Mortgage Association (Ginnie Mae) issuer of mortgage-backed securities (MBS). Under these arrangements, before loans are originated through proceeds from warehouse lines of credit, we obtain either a contractual loan purchase commitment from either

CBRE GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Freddie Mac or Fannie Mae or a confirmed forward trade commitment for the issuance and purchase of a Fannie Mae or Ginnie Mae MBS that will be secured by the loans. The warehouse lines of credit are generally repaid within a one-month period when Freddie Mac or Fannie Mae buys the loans or upon settlement of the Fannie Mae or Ginnie Mae MBS, while we retain the servicing rights. Loans are funded at the prevailing market rates. We elect the fair value option for all warehouse receivables. At September 30, 2018 and December 31, 2017, 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 or Ginnie Mae mortgage-backed securities that will be secured by the underlying loans.

A rollforward of our warehouse receivables is as follows (dollars in thousands):

Beginning balance at December 31, 2017	$928,038
Origination of mortgage loans	13,979,299
Gains (premiums on loan sales)	38,963
Proceeds from sale of mortgage loans:	
Sale of mortgage loans	(13,312,627)
Cash collections of premiums on loan sales	(38,963)
Proceeds from sale of mortgage loans	(13,351,590)
Net increase in mortgage servicing rights included in warehouse receivables	3,311
Ending balance at September 30, 2018	$1,598,021

The following table is a summary of our warehouse lines of credit in place as of September 30, 2018 and December 31, 2017 (dollars in thousands):

			September 30, 2018		December 31, 2017	
Lender	Current Maturity	Pricing	Maximum Facility Size	Carrying Value	Maximum Facility Size	Carrying Value
JP Morgan Chase Bank, N.A. (JP Morgan) (1)	10/23/2018	daily one-month LIBOR plus 1.45%	$1,000,000	$870,446	$1,000,000	$192,180
JP Morgan (2)	10/23/2018	daily one-month LIBOR plus 2.75%	25,000	—	25,000	5,800
Fannie Mae Multifamily As Soon As	Cancelable anytime	daily one-month LIBOR plus 1.35%, with a LIBOR floor of 0.35%	450,000	34,655	450,000	205,827

Pooled Plus Agreement and Multifamily As Soon As Pooled Sale Agreement (ASAP) Program						
TD Bank, N.A. (TD Bank) (3)	6/30/2019	daily one-month LIBOR plus 1.20%	400,000	296,487	800,000	225,416
Bank of America, N.A. (BofA) (4)	6/4/2019	daily one-month LIBOR plus 1.30%	225,000	220,348	337,500	130,443
Capital One, N.A. (Capital One) (5)	7/27/2019	daily one-month LIBOR plus 1.35%	200,000	157,804	387,500	151,100
			$2,300,000	$1,579,740	$3,000,000	$910,766

(1) In October 2018, the maximum facility size was increased to $1,010.0 million, the interest rate was changed to daily one-month LIBOR plus 1.30% and the maturity date was extended to October 21, 2019.

(2) In October 2018, the maximum facility size was reduced to $15.0 million and the maturity date was extended to October 21, 2019.

(3) Line was temporarily increased from $400.0 million to $800.0 million to accommodate 2017 year-end volume. Maximum facility reverted to $400.0 million on February 1, 2018. During July 2018, to accommodate increased volume, line was again temporarily increased to $800.0 million, reduced to $625.0 million on September 21, 2018, and reverted to $400.0 million on September 30, 2018. Our arrangement with TD Bank allows us to increase or decrease the line with a two-week notice.

(4) Line was temporarily increased from $225.0 million to $337.5 million to accommodate 2017 year-end volume. Maximum facility reverted back to $225.0 million on January 27, 2018. Effective July 2, 2018, line was temporarily increased from $225.0 million to $337.5 million to accommodate projected volume in July. Maximum facility reverted to $225.0 million on August 18, 2018.

(5) Line was temporarily increased from $200.0 million to $387.5 million to accommodate 2017 year-end volume. Maximum facility reverted back to $200.0 million on January 9, 2018. During July 2018, to accommodate increased volume, the line was temporarily increased from $200.0 million to $375.0 million, and reverted to $200.0 million on September 21, 2018.

During the nine months ended September 30, 2018, we had a maximum of $2.3 billion of warehouse lines of credit principal outstanding.

CBRE GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

6. Variable Interest Entities (VIEs)

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 September 30, 2018 and December 31, 2017, our maximum exposure to loss related to VIEs which are not consolidated was as follows (dollars in thousands):

	September 30, 2018	December 31, 2017
Investments in unconsolidated subsidiaries	$ 23,996	$ 26,273
Co-investment commitments	22,262	2,364
Other current assets	3,715	3,401
Maximum exposure to loss	$ 49,973	$ 32,038

7. Fair Value Measurements

Topic 820 of the FASB Accounting Standards Codification 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 or out of Level 1 and Level 2 during the three and nine months ended September 30, 2018 and 2017. There have been no significant changes to the valuation techniques and inputs used to develop the recurring fair value measurements from those disclosed in our 2017 Annual Report.

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 September 30, 2018 and December 31, 2017 (dollars in thousands):

	As of September 30, 2018 Fair Value Measured and Recorded Using			
	Level 1	Level 2	Level 3	Total
Assets				
Available for sale debt securities:				
U.S. treasury securities	$3,650	$—	$ —	$3,650
Debt securities issued by U.S. federal agencies	—	10,459	—	10,459
Corporate debt securities	—	26,846	—	26,846
Asset-backed securities	—	4,694	—	4,694
Collateralized mortgage obligations	—	2,256	—	2,256
Total available for sale debt securities	3,650	44,255	—	47,905
Equity securities	148,778	—	—	148,778
Warehouse receivables	—	1,598,021	—	1,598,021
Total assets at fair value	$152,428	$1,642,276	$ —	$1,794,704
Liabilities				
Interest rate swaps	$—	$1,370	$ —	$1,370
Securities sold, not yet purchased	3,529	—	—	3,529
Total liabilities at fair value	$3,529	$1,370	$ —	$4,899

	As of December 31, 2017 Fair Value Measured and Recorded Using			
	Level 1	Level 2	Level 3	Total
Assets				
Available for sale debt securities:				
U.S. treasury securities	$ 3,820	$ —	$ —	$ 3,820
Debt securities issued by U.S. federal agencies	—	4,901	—	4,901
Corporate debt securities	—	20,023	—	