FINAL TRANSCRIPT

Thomson StreetEvents℠

CBG - Q4 2007 CB Richard Ellis Group, Inc. Earnings Conference Call

Event Date/Time: Feb. 06. 2008 / 10:30AM ET

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by and welcome to the CB Richard Ellis fourth quarter earnings conference call. At this time, all participants are in a listen-only mode. Later, we will conduct the question-and-answer session. Instructions will be given to you at that time. If you do need assistance during the call today, you may press star and then zero and an operator will assist you offline and as a reminder, today's conference call is being recorded.

I would now like to turn the conference over to Mr. Nick Kormeluk. Please go ahead.

Nick Kormeluk - *CB Richard Ellis Group, Inc. - SVP of IR*

Thank you. And welcome to CB Richard's fourth quarter and fiscal 2007 earnings conference call. Last night, we issued a press release. This release is available on the home page of our Web site at www.cbre.com. This conference call is being webcast live and is available on the investor relations section of our Web site. Also available is a presentation slide deck, which you can use to follow along with our prepared remarks. An archive audio of the webcast, a transcript and a PDF version of the slide presentation will be posted to the Web site later today.

Please turn to the slide labeled forward-looking statements. Our presentation today contains statements that are forward-looking within the meaning of the Private Securities Litigation Reform Act of 1995. Including statements regarding our growth momentum in 2008, future operations, future expenses and future financial performance. These statements should be considered as estimates only and actual results may ultimately differ from these estimates. These forward-looking statements are reflective of the information we have on the day of this conference call, and except to be extent required by impeccable securities loss -- CB Richard Ellis Group undertakes no obligation to update or publicly revise any of the forward-looking statements that we make today.

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For a detailed discussion of these forward-looking statements and risks and other factors that could cause results to differ, please refer to our fourth quarter earnings press release dated February 5th, 2008 and filed on Form 8K or prior. Interim 2007 reports on form 10-Q and our current annual report on form 10K. All of which are filed with the SEC and available at the SEC's Web site at www.sec.gov. We may make statements during the course of this presentation which includes references to non-GAAP financial measures as defined by SEC regulations. As required by this regulations, we have provided reconciliations of these measures to what we believe are the most directly comparable GAAP measures which are in the appendix of today's presentation.

Please turn to Slide 3. Our management team members participating today include Brett White, our President and Chief Executive Officer, Ken Kay, our Senior Executive Vice President and Chief Financial Officer; and Vance Maddox, President of CB Richard Ellis Investors.

With that, let me turn the call over to Brett.

Brett White - *CB Richard Ellis Group, Inc. - President and CEO*

Thank you, Nick, and good morning everyone. Please turn to Slide 4 of your deck. Well, 2007 was an outstanding year for CB Richard Ellis. We further extended our lead and strengthened our position as the largest, most diversified, globally capable commercial real estate services and management firm in the world. We are the leading firm in virtually all of the top 25 cities globally.

We are the number 1 firm in transactions, both leasing and sales; advisory, which is our consulting and evaluation appraisal businesses; outsourcing, both fully integrated property and facilities management work on behalf of the world's leading corporations and owner/investors; and we are one of the world's leading real estate investment management companies with approximately $38 billion of assets in our management. We continued to implement our strategy of pursuing both transformational and in-fill acquisitions with exceptional integration results. The Trammell Crow Company acquisition exceeded even our own aggressive targets for integration success. Morale among our almost 25,000 employees is exceptionally high and attrition of key employees is virtually non-existent. All of this lead to a record 2007, highlighted on the next slide. and please turn to Slide 5 of your deck.

Total revenue for the year was $6 billion, up 50% from the prior year. Excluding one-time items, net income for the year came to $497 million, which translates to adjusted earnings per share of $2.11, up 43% from last year. Normalized EBITDA was $970 million, an increase of 49% from the prior year. Due to purchase accounting for the Trammell Crow acquisition, $61.6 million or approximately $0.16 per diluted share of development services gains were excluded from the P&L. These gains should be considered in ongoing operating results, as they're part of our normal operations, and we did receive the cash associated with these gains. After completing the integration of Trammell Crow Company, we realized annualized net expense synergy savings of approximately $90 million. Surpassing our original expectations of $65 million.

And with that, let me now turn the call over to our Chief financial Officer, Ken Kay, to discuss the quarter in year in more detail. Ken?

Ken Kay - *CB Richard Ellis Group, Inc. - SVP and CFO*

Thanks, Brett. Fourth quarter financial results are shown on Slide number 6. For comparative purposes, we have included results from the fourth quarter of 2006 on both on actual and adjusted basis. As a reminder, the adjusted 2006 figures incorporate the operating results of Trammell Crow Company prior to its acquisition on December 20th, 2006. We include these adjusted results because we believe it provides a more meaningful way to review our company's performance.

For the fourth quarter 2007, revenue was $1.8 billion, up 9% from the year-ago quarter. Positive factors contributing to revenue growth in the fourth quarter were stronger transaction activities in markets outside of the Americas, higher global outsourcing

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revenues, plus significant growth in development services business. These increases were partially offset by the timing of carried interest revenue recognition in the global investment management business. As you [inaudible] earlier in the year, the majority of this revenue for 2007 was already recognized by the fourth quarter, whereas in 2006, the fourth quarter carried interest revenue was more significant.

Our America segment revenues came in essentially flat for the quarter, which is noteworthy, given the turbulence state of the economy in credit markets. We will cover Q4 revenue performance in more detail a little later in the call. As a percent of revenue, total cost of services for the fourth quarter was relatively consistent at 52.6% versus 52.1% in the prior-year quarter. Operating expense totaled $639.4 million for the quarter, up 19% from the prior-year quarter, as a result of costs associated with the Trammell Crow Company acquisition, as well as increased payroll related costs, including bonuses due to improved performance. [Inaudible] increases were partially offset by lower carried interest expense.

Equity income from unconsolidated subsidiaries was $28.8 million, up 15% from the prior-year quarter, due to higher equity income and development services, as well as higher dispositions within selected funds in our global investment management segment. Minority interest expense for the quarter was $2.1 million, down 88% from the prior-year quarter, due to lower minority interest expense within our development services segment. Other income of $8.6 million in the prior year, was related to marking to market Trammell Crow Company's investment in [inaudible] for the period December 20th, 2006, through December 31st, 2006. Gain on disposition of real estate increased by $18.3 million or 53% primarily due to the exclusion of certain gains from development receivers activities in the current year, which cannot be recognized under purchase accounting rules.

After adjusting for one-time items, EBITDA for the quarter was $285.8 million, down 9% from the prior-year quarter and resulting an EBITDA margin of 15.5%. The primary drivers for the reduction in EBITDA with the aforementioned increase in operating expenses in the current year, as well as the impact of the exclusion of gains from the development services business in the current year due to purchase accounting, coupled with lower global investment management net carried interest profit to the timing of revenue recognition.

Turning to Slide number 7, you will see, despite a fourth quarter that was impacted by the economy and global investment timing issues noted previously, full-year 2007 performance was quite good. Highlights of the year include revenue growth of 20% and a normalized EBITDA increase of 28%. EBITDA growth would have been 36% had the development gains that were impacted by purchase accounting been included.

Please turn to Slide number 8. This chart depicts the trend in our normalized EBITDA margin over time, and our normalized EBITDA margin target. The 2007 pro forma EBITDA margin includes the EBITDA from gains in the development services business that did not flow to the P&L in 2007 due to purchase accounting. As you can see, margin growth is continued as we expected when taking into account all elements of our ongoing operating activities. Despite market conditions remaining more challenging in the near term, we still believe a target of 20% is achievable for our business.

Moving on, please turn to Slide number 9. Excluding the mortgage brokerage warehouse facility and the development services real estate loans, which are non-recourse, our total debt was approximately $2 billion at year end 2007. During 2007, we repaid $286 million of our outstanding term loans. The development services business finances its projects with third-party financing sources. The majority of these real estate loans are recoursed to the development projects, but non-recoursed to the company.

As of December 31st, 2007, the other debt category on our balance sheet included a non-recourse revolving credit line balance of $42.6 million related to the development services business. The outstanding balance of the real estate loans was approximately $466 million, of which only $7 million was recourse to the company. During the fourth quarter, we announced and completed a $635 million share repurchase program. We used existing cash and our revolving credit facility for the repurchases. The total amount of shares repurchased was 28.8 million at an average purchase price of $22.03 per share. Our share count as of 12/31/07 was 202 million shares outstanding versus approximately 227 million shares outstanding at the end of 2006. The amount outstanding on a revolver at the end of 2007 was $227.1 million. Our net debt to EBITDA ratio at December 31st, 2007 was two

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times as compared to 1.48 times at December 31st, 2006. Our trailing 12-month interest coverage ratio was 7.15 times. Our weighted average cost of debt was approximately 6.34% at December 31st, 2007, down from 7% at December 31st, 2006.

Please turn to Slide number 10. Here, we've illustrated our normalized internal cash flow for the full year 2007. To calculate this metric, we started with normalized net income and then adjust for depreciation, amortization and capital expenditures. For 2007, we have also added the cash flow from the development services gains that were excluded from the P&L due to purchase accounting. This is part of the ongoing operations in the development business, which will be reflected in net income in future years. As a result of one-time items associated with the acquisition of Trammell Crow Company, we have also included the impact of the proceeds from the sale of the equity taken [samples] as well as a reduction for the cash component of acquisition-related costs. On this basis, in fiscal year 2007, our internal cash flow was $732 million. CBRE's internal cash flow typically is highly correlated to net income due to our limited capital expenditure and working capital needs on an annual basis. For 2007, net capital expenditures were $78 million, including approximately $20 million for acquisitions. For 2008, we anticipate net capital expenditures to approximate $80 million.

Please turn to Slide number 11. For the full year 2007, revenue increased 20%, as compared to the combined performance of CBRE and Trammell Crow Company for 2006. Leasing increased 9%, primarily due to stronger leasing activities in both EMEA and Asia-Pacific, as well as slight growth in the Americas. Sales increased 22%, as a result of the Americas growth in the mid-single-digit range, combined with exceptionally strong growth abroad.

For the fourth quarter, both leasing and sales were impacted by the slow down in the economy in the Americas. Brett will be discussing this two revenue areas in more detail a little later in the presentation. For property and facilities management, double-digit growth was achieved for both the full year and fourth quarter. This momentum for outsourcing business is accelerating as seen by the higher rate of increase in the fourth quarter.

Outsourcing is benefitting from the integration of the two companies and includes the early benefits of the cross-selling initiatives underway. The appraisal and evaluation business grew 34% for the year and 18% for the quarter. This was driven by higher frequency for appraisal and evaluation of commercial real estate assets due to increase ownership of assets and fund structures and the increase use of securitize loans for commercial real estate transactions. Global investment management revenue grew 51% for the year based on strong growth and assets under management across all geographies. This growth was fueled by investment management and incentive fees more than doubling as compared to 2006. Development services grew 212% for the year, and 376% for the fourth quarter, based on strong project execution and a strong pipeline. The commercial mortgage brokerage business grew 3% for the year, yet dropped 21% in the fourth quarter, driven directly by the challenges based in the credit markets.

I will now cover our geographic performance on Slide number 12. Historically, we have shown our revenue performance by geography to give you sense of our global diversity. On this basis, revenues in the Americas just continued to decrease on a year-over-year basis now comprising 61% of total revenues. However, if you look at our geographic weighting based on EBITDA it shows significantly greater balance in our business. On this basis, Americas represented 51% of total normalized EBITDA for 2007, EMEA 27%, Asia-Pacific 9% and global investment management 12%. Thus, about half of our consolidated EBITDA is generated outside of our Americas segment.

Please turn to Slide number 13. 2007 was a very strong growth here for CBRE. Despite the weakness and select businesses in the fourth quarter, we posted Americas revenue and EBITDA growth of 47% and 37% respectively. EMEA revenue and EBITDA growth of 41% and 38% respectively. And Asia-Pacific revenue and EBITDA growth of 55% and 89% respectively.

I'll now look at the quarterly review. Thus, please turn to Slide number 14. Revenue in the Americas increased 33% to $1 billion. Normalized EBITDA in the Americas increased 31% to 141.9 million. U.S. market leasing activity remained positive through 2007. Office fundamentals remain healthy through the end of the year with about 14 million square feet of net absorption in the fourth quarter. Our preliminary estimate is that office rents rose 10% year-over-year, marking the third consecutive year of strong rental growth. Going into 2008, we expect demand in office and industrial to slow somewhat, yet remain positive. With

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vacancy levels at historical norms, total [inaudible] expect rents to continue to stay positive and grow approximately 2% in the office market, and 3 to 4% for industrial properties. After a strong showing in the first part of the year, U.S. investment sales activity decreased in the fourth quarter as we predicted on our Q3 call.

Despite the fourth quarter decline, full-year investment volume for the market as whole rose 24% to $346.4 billion excluding reprivatizations. CBRE's investment volume grew by 26%. According to real capital analytics, enabling us to achieve the number 1 market share at 17.5%. Despite the constraints CMBS markets, and more stringent lending standards, debt and questionty capital remain available. And opportunities exist for investors that are not as dependent on leverage. The decline of 10-year treasury yields to 3.6% has cushioned some impact of significantly wider interest rate spreads. Real estate yields in the 6 to 7% range compared favorably to treasury yields. This has increased real estate appeal to income-oriented investors and softened the decline in property evaluations. Pension funds remain a growing source of capital and expected to raise their target to $76 billion this year, according to a recent survey by [Kingsley] associates.

In addition, foreign investors remain attracted by the long-term values of U.S. real estate enhanced by the dollar's weakness, and high net worth investors are another anchor to equity capital. EMEA revenue was $437.6 million, up 20% from 2006, and normalized EBITDA decreased 7% to $89.6 million, these results were driven by [inaudible] declining vacancy rates and strong investment activity across Europe mainly during the first three quarters of 2007. During the fourth quarter leasing an investment activity began to slow signs of softening, driven primarily by weakness in the UK. The decrease in EBITDA in the fourth quarter was primarily attributable to nonrecurring payroll related costs predominantly in the UK. The Q4 2007 sales activity of 47.2 billion euros is about 1/3 lower than Q4 2006. Despite the weaker fourth quarter, the high levels of activity for the first three quarters of 2007 resulted in another record year at 236 billion euros across EMEA as a whole. Most notable fourth quarter bright spots in EMEA were from robust investment activities in the Netherlands and Spain. Investment transactions, engineered by CBRE, during the quarter, established new highs for pricing in seven different European companies; Austria, Belgium, Germany, Ireland, the Netherlands, Spain and the UK. For 2008, we are anticipating modestly weakening office leasing activity in EMEA and some [inaudible] in rental growth rates with the exeption of Germany.

Additionally, the uneven pattern of investment activity seen across Europe in the fourth quarter of 2007 is expected to continue in 2008. However, while general expectations for 2008 point to economic growth in Europe of less than 2%. Some economies, namely the nordic countries; Ireland, Greece and perhaps Spain are forecast to see above-average growth. Asia-Pacific revenue was $198.4 million, up 69% from the prior year. Normalized EBITDA in Asia-Pacific increased 49% to $31.2 million. The strength in Asia-Pacific was very balanced across countries due to strong economic expansion and positive real estate fundamentals. Strong demand for office space and tight supply in prime locations, including China, Singapore, Tokyo and India continues to drive up rents throughout the year. Foreign capital investment into the region continues with emphasis on retail, hospitality and industrial properties.

In addition, domestic investors redeployed cash and bought commercial property as a hedge against inflation. Australia continued to exhibit recently strong investment activity and stable yields across most property sectors. I'll now turn the call back over to Brett to discuss more performance trends in the business.

Brett White - *CB Richard Ellis Group, Inc. - President and CEO*

Perfect. Thanks, Ken. Please turn to Slide 15. On the next few slides, I want to provide you some additional detail on how our sales and leasing businesses performed in each of our geographies. Given our significant share of global leasing and sales revenues, it is important to note that our own performance is typically a bit better than the performance of the market as a whole. In the Americas, sales increased by 7% for the full year 2007. But note that we decreased by 14% for the fourth quarter. This impact was more severe in the U.S. as you would expect and is expected to remain weak for the better part of 2008. As for leasing, for the full year and fourth quarter 2007, leasing increased 3% and was flat respectively. The fundamentals for the leasing business remains sound as Ken mentioned, and with rational levels of new construction coming on line in 2008, our expectations are that rental rates will continue to grow, albeit at a slower rate than the 10%-plus that we experienced in 2007.

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In addition, you should expect some variability from quarter-to-quarter in this business as leasing decisions tend to be impacted by market sentiment and expectations for the economy. However, we expect leasing volumes or activity to decline appreciably in the first two to three quarters of 2008.

Please turn to Slide 16. In EMEA, sales grew 44% for the year, and slowed to 11% for the quarter. Illustrating the impact we had discussed in our third quarter call, which was lead by early weakness, primarily in the UK. Leasing saw a similar slowing in EMEA, with a full-year improvement of 32%, slowing to 7% for the fourth quarter, as economic growth slowed.

Please turn to Slide 17. Trends in both sales and leasing in the Asia-Pacific segment remains strong throughout the year, which is demonstrated on this slide. Sales grew 115% for the year, and continued strong in the fourth quarter, growing over 100%. Leasing grew 13% for the year and 21% for the fourth quarter. The Asia-Pacific segment was not impacted by the economic slowdown outside of the region, and we feel confident at the region's prospects for 2008 remain solid.

Please turn to Slide 18. Next, I wanted to cover some U.S. statistics to provide some context for what we are seeing in the market. Vacancy rates for all property types have been modestly declining for the last three years, but this steady improvement slowed in 2007. Shown in the accompanying slide on the top left, vacancy rates for office and industrial properties showed little movement. For 2008, vacancy rates are expected to increase for office and industrial properties, due to the anticipated slowdown in absorption of available space. While it has not been picked up in the data, we believe cap rates have already begun to expand across most property types. For 2008, cap rates are expected to increase depending upon quality of assets and location. You can see on the chart, the range of expected increases for each property type. As you might imagine, these potential movements will very as market conditions change.

Please turn to Slide 19. We continue to significantly expand our contractual work for major corporate clients by leveraging the strength of the legacy Trammell Crow Company outsourcing capabilities with CB Richard Ellis' transaction management expertise. We won or expanded eight corporate asset relationships during the first quarter alone, including AT&T, Oracle, McGraw Hill, and international automotive components group. For all of 2007, we added 26 new corporate outsourcing clients, expanded our services for 18 existing clients, and renewed contracts with 17 clients. Of particular note, are the cross-selling win with Neilson, BB&T and Oracle as noted on the slide.

Now please turn to Slide 20. As you know we don't go through the laundry list of large wins during the quarter a year, but this panel does depict some of our more recent wins. Suffice it so say the most complex transactions done in the industry in any given year, our namely is fairly ubiquitous in these transactions.

Please turn to Slide 21. Since 2005 through 2007, we completed 44 in-fill acquisitions for a combined purchase price of approximately $352 million. The associated annual revenue related to these acquisitions is estimated to be approximately $547 million. In 2007, we completed 14 in-fill acquisitions for approximately $119 million. The associated annual revenue related to these acquisition is estimated to be approximately $244 million. We are continuing our aggressive approach to in-fill acquisitions in 2008.

Now please turn to Slide 22. Revenue for our development services segment totaled $74.7 million for the fourth quarter of 2007, and $136.1 million for the year. Pro forma EBITDA for this group nearly doubled in 2007 to approximately $74 million. And now let me turn the call over to Vance for a more detailed discussion about our global investment management business. Vance?

Vance Maddox - *CB Richard Ellis Group, Inc. - President of CB Richard Ellis Investors*

Thank you, Brett, and good morning. CB Richard Ellis investors is a global real estate investment manager. One-half of our $38 billion in asset under management and one-half of our people are located outside of the United States. We provide investment management service primarily to large institutional investors, many of which, invest in more than one of our investment programs.

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Please turn to Slide 24. Our investment programs include large, stable, separate account contracts in the United States and the UK, sponsored funds, including the firms flagships strategic partner fun series, and indirect investment programs for global investors, including real estate securities management, and our fund of funds business. These direct/indirect investment programs are very scalable, and are a key part of our strategy of global diversification. In fact, 70% of our equity, capital under management is from non-U.S. investors.

Please turn to Side 25. We have had significant success growing our business through three key growth strategies. First, we continue to expand our flagship fund series, Strategic Partners, both geographically and by increasing fund size. This fund series is our highest margin and fastest growing business. We expanded the program to Asia and increased fund size significantly this year. Raising $2.5 billion for these funds in 2007. Second, we are expanding large global relationships. We have been successful in raising capital for multiple programs, from key global partners, in many cases, moving capital across boarders. We now have six global relationships of over $1 billion in size, and 55 investors in multiple programs. And third, we have been aggressively growing our indirect investment programs, including $4 billion raised for real estate securities, and fund to funds investments in 2007.

Please turn to Slide 26. The result of these growth strategies is compounded. Annual growth in assets under management of 28% over the last five years. Notably, a significant portion of this growth is in assets located outside of the United States.

Please turn to Slide 27. Our compounded annual revenue growth over the five-year period shown has been 40%. As shown, U.S. revenue has grown rapidly, but is declining on a relative basis, as our European activities accelerate. The change in Asia reflects the liquidation of a program in 2004, and the expansion of our strategic partners fund series to Asia in 2007.

Please turn to Slide 28. Our investment management fees are showing substantial growth, reflecting three factors. First, the growth and performance in our large separate account relationships. Second, growth in management fees from our strategic partners funds, which have increased in number and size. And third, growth in our indirect investment business, all of which generate annuity-type revenue streams.

Please turn to Slide 29. We achieved substantial increase in equity raised in 2007, nearly a 40% increase from 2006. Our ability to raise capital is a direct result of investment performance. The performance of our investment programs has been excellent, and reflects the strength of our people and our direct access to the world's leading real estate platform. The CBRE platform is a substantial competitive advantage for our professionals, providing access to industry-leading research, local market intelligence and direct access to transactions. As shown in the slide, capital raised is a strong indicator that our growth strategies are producing results. We are diversifying away from the U.S., expanding our funds business, and expanding to indirect vehicles, including global real estate securities management, and our fund to funds business.

Please turn to Slide 30. Capital availability is the investment capital we have to deploy into our investment programs. Total capital combines equity raised with the appreciate level of leverage for each initiative. As was the case in 2007, we continued to be very selective and very disciplined in how we invest in this turbulent market environment. We completed acquisitions of $12 billion globally in 2007, and we like our position of controlling significant capital when liquidity in the market has clearly declined.

Please turn to Slide 31. The global investment management business performed exceptionally well in 2007. Full-year revenue totaled $347.9 million, an increase of 53% from the prior year as a result of higher investment management and incentive fees, due to a steady increase in assets under management. Fourth quarter revenue was $79 million which was down compared to Q4 2006, based on the timing of carried interest realized in Q4 of 2006, versus earlier recognition in 2007. EBITDA in 2007 was more than double that of 2006, reflecting the scalability of the profits from this business.

Please turn to Slide 32. In 2007, we recognized $88.7 million of carried interest revenue, and recorded $62.7 million of carried interest, incentive compensation expense. Of the $62.7 million, $19.8 million pertained to 2007 revenues, with the remaining $42.9 million relating to future periods revenues. Excluding the incentive compensation expense pertaining to the future periods,

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EBITDA for 2007 would have been $156 million, a 52% increase over 2006. EBITDA margin for 2007 would have been 45%, which is consistent with 2006 on a similar basis. As of December 31, 2007, the company maintains cumulative remaining accrual of such compensation expense of approximately $57 million, which pertains to anticipated-future carried interest revenue.

I'll turn the call back over the Brett.

Brett White - *CB Richard Ellis Group, Inc. - President and CEO*

Thank you, Vance. And good job. Please turn to Slide 33. Well, the first half of 2007 was a perfect storm of global liquidity fueling our capital market's business and good economic growth supporting our leasing businesses globally. By the fourth quarter, this environment had changed demonstrably. The current environment is one of severely constraint liquidity and weakening U.S. and U.K. economies. Our expectation is that these trends will correct towards the positive in 2008, for the timing of that correction is unknown.

Please turn to Slide 34. While the rate of growth has slowed appreciably over the past few month, the foundation for long-term growth consistent with our long-term model remains quite secure. CB Richard Ellis is uniquely positioned to prosper in this environment. While short-term growth will be negatively impacted, these impacts should not be severe, due to our highly diversified revenue base.

In addition, our strong balance sheet and cash flow will provide us with additional opportunities for growth, as we believe this current environment, like many before it, will significantly punish smaller, less diversified competitors, likely providing a ripe environment for further consolidation in the industry, an opportunity we are pursuing with vigor. History has shown us that CB Richard Ellis tends to capture market share more quickly than our competition during difficult times and is able through our highly variable cost structure to retain profits more easily than most. While no one hopes for difficult times, we at CB Richard Ellis are very excited about 2008, and we believe it will provide us with a number of very interesting opportunities to capture market share, hire terrific new people, and possibly acquire excellent firms around the world.

Please turn to Slide 35. So what does all of this mean for CB Richard Ellis in 2008? Given the uncertainty and expectations for 2008 global GDP, timing for recovery of the U.S. economy, and improvement in the credit markets, it is simply unrealistic for us to provide explicit guidance for 2008. Whatever number we would give you is bound to be inaccurate given the rapidly changing and unpredictable environment. On this call, we have attempted to provide you with more detail on the fourth quarter 2007 performance of the capital and leasing businesses -- capital markets and leasing businesses, those most affected by the economy, as well as some metrics that look towards 2008 performance of those service lines. Additionally, it is our current belief that the economy and the state of the credit markets will likewise ween a bit before they improvement. Improvement may come in the late summer or fourth quarter of 2008.

Further, we believe that our other business lines, for instance, outsourcing, investment management, et cetera, are well positioned to perform well, and consistent with their longer-term growth models. And the parts of Europe and Asia-Pacific will only see modest impacts. Given all of these variables, and the incredible resiliency of our platform, it is not inconceivable that our earnings perform for 2008 could get to a general range of around $2 per share. It is important to note though, that there are many other potential scenarios that are possible in 2008 which could yield a very different result. This concludes our formal comments today, Operator, let's begin the question and answer, please.

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QUESTIONS AND ANSWERS

Operator

Thank you, ladies and gentlemen, (OPERATOR INSTRUCTIONS) One moment, please. First, we will go to the line of Jeff Kessler from Lehman Brothers. Please go ahead.

Jeff Kessler - *Lehman Brothers - Analyst*

Thank you. Hi, Brett. Hi, Ken. One quick -- I guess one quick piece of advice, maybe, Slide 32, in which you go through the entire normalized carried interest process. If you could include that in the press release or some format of that, that would help up us enormously, instead of us trying to figure out what the add-back or what the normalized would be. We know what you hadn't gotten in the fourth quarter, but normalizing that EBITDA would make it a lot of help to us to try to get to a number that we could normalize, you know, and put in to our own earnings estimates, and so you wouldn't get these ups and downs of does it mean before your conference call. Just one suggestion from me.

Brett White - *CB Richard Ellis Group, Inc. - President and CEO*

Thank you, Jeff.

Jeff Kessler - *Lehman Brothers - Analyst*

The -- quickly, just a couple of things. On development services, on the purchase accounting, what was the add-back that you would have to get to normalize that assuming going forward? Was that $16 million? I may have missed it.

Brett White - *CB Richard Ellis Group, Inc. - President and CEO*

For the full year, it was about $61.6 million, which equates to about $0.16 a share.

Jeff Kessler - *Lehman Brothers - Analyst*

That's what I meant $0.16 a share. Okay. Can you give us the nature and the size of the payroll problems that you encountered in the UK?

Ken Kay - *CB Richard Ellis Group, Inc. - SVP and CFO*

Yes, I mean I wouldn't equate them with problems, but it was -- probably in the range of about 10 to $15 million, and what it pertained to was compensation associated with an earn-out on a transaction. Severance cost relating to redundancies that were not deal-related ran through the P&L. And reserve trumps for one time insurance and benefit costs, and so those through components basically added up to that 10 to $15 million number.

Jeff Kessler - *Lehman Brothers - Analyst*

I guess, the next question that I have is, you gave us some great detail on the transaction side, the leasing and sales side of your business by geographies, can you get a little more gallon lar with regard to property and facilities management, particularly as they are going to be playing a much more important role as you do cross-selling in 2008. How by geography or whatever breakdown you want to give us, are you looking at this market for the coming year?

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Brett White - *CB Richard Ellis Group, Inc. - President and CEO*

Jeff, is your question related to the breakdown of revenues by market or what growth looks like in those markets?

Jeff Kessler - *Lehman Brothers - Analyst*

What the growth looks like, and the breakdown?

Brett White - *CB Richard Ellis Group, Inc. - President and CEO*

Right. It's a real good question. And Jeff, the first thing I would tell you is that for the most part, the entire industry of integrated corporate outsourcing is a U.S. phenomenon. And it's important to note that, but of course if you want to play in that business, you better have a dominant footprint in the states, which we do. And if you look at the large integrated outsourcing contracts that have been let over the last 10 years, I would guess that more than 90% of those have been let from U.S. headquarter corporations. Now, these corporations, of course, have operations globally, and that's important to note as well. But the fist point I would make is that when you talk about integrated corporate outsourcing, this is awes story to begin with, that's where you capture the account, and then the execution and delivery is done offshore. I just want to stress that, because I know sometimes in the write-ups that we read, are waiting of transaction expertise in the states is sometimes pointed to as a weakness, which we find a little silly.

In this business, if you intend to be a player in corporate outsourcing, you better be hard weighted in the states and be a real strong player there. Now that having been said, the growth of that business, and the growth of our property management business, that work we do for institutional owners is strong globally. And at the moment it's growing quite well here in the states. It's growing quite well in Asia-Pacific, has been for some time, the same holds true for Europe. And we don't see anything on the near term horizon that would change that, and I think as you know, the trend toward outsourcing if anything accelerates a little bit in a bit more difficult times as corporations and institutions look to become a bit more efficient in the way in which they manage and handle their real estate.

Jeff Kessler - *Lehman Brothers - Analyst*

My assumption is the various tiers of outsourcing and facility management that you do are -- the EBITDA margins are all over the place from vanilla facilities management to high advisory fees at the top.

Brett White - *CB Richard Ellis Group, Inc. - President and CEO*

You are exactly right. For the other callers just to put a little color on that. And Jeff, you are spot on. When you think about an integrated corporate account, we talked about AT&T and some other things in this deck, what we're doing for them can run the gambit of everything from facilities management, which might be a 10 to 12% EBITDA margin business, to transaction management, which could be in the high teens, to consulting and advisory, which could be in the mid-to upper 20s, and when you put it all together, because the seas typically are weighted fairly heavily toward the management of the buildings and transactions, you end up with that mid-ish teen.

Jeff Kessler - *Lehman Brothers - Analyst*

One final question and I'll get off. There is a pretty well-known piece of property that you seem to -- if it's going to be sold you steam have the inside track on selling it on or for a distressed seller here in New York. I'm wondering what is the extent of distress

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selling that you are seeing in the United States, given that there has been a lot of stuff that's parsed out to maybe overlevered folks that could perhaps help you in the coming year on the transaction side.

Brett White - *CB Richard Ellis Group, Inc. - President and CEO*

Sure. Well let me first -- I do feel I need to respond to the characterization of the sale, and what -- what Jeff is referring to is the GM building in New York. That is not a distressed sale. That is -- that building is iconic times 10, and will, I'm sure trade at a price that all of us will be very, very impressed with. I think the point you are trying to make, Jeff is there is certainly dislocation in the marketplace right now, and so will there be selling by owners to cover issues they have elsewhere in their portfolio, or other issues that they might have? And I will tell you that at the moment, we really see very, very little of that.

And I think, Jeff, the reason is that -- and you know these statistics -- if you look at the default rate on commercial mortgage at the moment it is less than 1% -- well less than 1%. There really isn't a lot of stress in the ownership market right now. Rents are good. They have been rising for a number of years. The mortgaging or the financing that most of these owners put on their buildings is pretty good. I think the question that's out there is for those owners who put on relatively short-term financing, which now needing to be replaced this year or next year, will the credit markets be back to a more normalized state, which would allow them to replace the current debt in an amount close to what they have on the properties now? I think that's a bit a unknown at the moment, and if the answer to that question is no, Jeff, if we get in the third and fourth quarter, you could see owners who had 70 or 75% loan to value financing on buildings unable to replace that financing, in which case you might see some selling. But, again, at the moment we're really not seeing much of that at all.

Jeff Kessler - *Lehman Brothers - Analyst*

Okay. Thank you and congratulations on surprising us all in the Americas in Q4.

Brett White - *CB Richard Ellis Group, Inc. - President and CEO*

Thanks, Jeff.

Jeff Kessler - *Lehman Brothers - Analyst*

Yeah.

Operator

Our next question comes from the line of Brandon Dobell from William Blair & Company. Please go ahead.

Brandon Dobell - *William Blair & Company - Analyst*

Hi, thanks, guys. Couple of quick ones, as we think about the growth in EMEA and Asia pack, Ken, wondering if we could get a little bit more visibility on organic growth and currency, especially on EMEA?

Ken Kay - *CB Richard Ellis Group, Inc. - SVP and CFO*

Well, regarding EMEA and Asia-Pac, remember, most of it's not all organic growth. The Trammell transaction really didn't have much impact in those regions, and so you should really think of that is really almost entirely organic.

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Brandon Dobell - *William Blair & Company - Analyst*

Okay.

Ken Kay - *CB Richard Ellis Group, Inc. - SVP and CFO*

And then from a currency standpoint, probably for the year -- are you talk the year or the quarter?

Brandon Dobell - *William Blair & Company - Analyst*

The year.

Ken Kay - *CB Richard Ellis Group, Inc. - SVP and CFO*

The year, from a revenue standpoint, it was probably about $150 million or so, and from an EBITDA standpoint it was about 30 million.

Brandon Dobell - *William Blair & Company - Analyst*

Okay. Within the -- the U.S. business, an expectation for let's say at some point an '08 turn around. How do you put that in context with the potential willingness or the need to start to pair back costs within the fixed-cost base of the geography? I guess I'm looking for some color around the philosophy, the willingness -- or at what point to you feel it necessary to take a second look at what you have on the cost structure, given what could be a pretty tough first half of the year.

Brett White - *CB Richard Ellis Group, Inc. - President and CEO*

It's a terrific question and something I was hoping one of our callers would ask, and here is why. Two things I would want our investors and analysts to understand about the firm. The first is that if you examine our financials going back, you can go all the way to 2001. What you find is that our focus on cost is intense at all times, and in all cycles. Our margins have always been, I think impressive, and they don't get there by happenstance, they get there through effective cost management. Look at our margins in Europe compared to our competitors, the difference is striking. The reason is our discipline around cost is very significant. We have a fully builtout global platform. We don't need to spend significant amounts of new capital building our platform. That was done some time ago.

So, that's our philosophy on a general basis now. What is terrific about 2007 and here we are in 2008, is that every time we conduct a large event within the firm, and that could be a -- go-public transaction. It could be experiencing a credit -- or I'm sorry a market downturn, or a large acquisition, what we do is go back in and in essence rebuild our cost structure from dollar one. And so the way the 2007 played out, which in retrospect makes us look probably a lot smarter than we actually are, is that we were thinking in 2006 that there was going to be some correction in the market coming. We new a better balancing of our revenues towards contracting outsourcing businesses was a wise strategic decision, and that was why we negotiated and completed the Trammell Crow acquisition. By the way if you look at our percentage from outsourcing in the fourth quarter, I believe they were almost double what they were fourth quarter 2006. And what that acquisition allowed us to do in addition to rebalancing our revenues and providing some terrific, I think down-side protection to the firm, was we went in and as we mentioned on the call, we identified $90 million of net expense synergy savings. Now those $90 million did not come from just Trammell Crow.

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In fact, and Ken, please [inaudible] I got this wrong but I suspect, when you added all up that quite a bit of those dollars came from CBRE cost structure or legacy co-structure. in if you think I have got this wrong, but I suspect when you and itted all up, that quite a bit of those dollars came from CBRE cost structure, or legacy cost structure. And what all of that means is that by February, March, of 2007, we had just completed a severe cost restructuring, and -- based on the acquisition because that's what we do, and then the markets turned, and so we found ourselves in August and September, already right sized on the cost structure, and again, it is more coincidence than strategy, but I'll take it either way. So as we sit here right now today, and I'm not going to give you the specific numbers, but I want to tell you that we realized some significant additional cost savings in the fourth quarter and right cost savings in the fourth quarter in the Americas. That network is done, and at the moment, we don't see any area of the business that is going to require us to go back in and do anything particularly severe. Now, the last thing I would like to say on that point of cost structuring is all of our managers are paid, their bonus program on the idea of making profits. And when markets soften, as some of our markets have done in the last six months, our managers are typically ahead of us here at corporate on getting that cost. So lots of discretionary expense that is a bit of a luxury in on up market has been deferred and put on hold, as it should be. So we feel pretty comfortable about that.

Brandon Dobell - *William Blair & Company - Analyst*

I guess another way to ask the question would be somewhat implicit in that answer would be you feel like you have a decent handle on kind of how bad things could get in the U.S.? Because I guess I don't take from your comments that there's some kind of reinvigorated effort internally to really look at the cost sdrukture again with the expectation that things will get a lot worse. So it sounds like you feel like yes we know things are going to get worse, but we're already squared away in the U.S. from a cost structure, and we can defend that margin? Is that a fair characterization?

Brett White - *CB Richard Ellis Group, Inc. - President and CEO*

I think it is. Let me go to back to comments I made at closing. Let me tell you how we got to that, and that is not guidance. It is -- basically, we're looking at teletrends extend in the business in the fourth quarter, and that's why we gave you these specific numbers. And we look at those trends, and our -- our assumption at the moment is that credit markets and the -- therefore, the performance of the capital markets businesses, certainly in the state, and in Europe, is going to worsen before it gets better. And at the moment -- and again, this is just putting a finger in the air and guessing, but at the moment our expectation is that those issues generally sort out by late third quarter, early fourth quarter. But that they get bit worse than they were in the fourth quarter.

Additionally, we believe that the U.S. economy is either in recession or darn close to it, and I would remind the callers that for our business, for firms that do what we do, U.S. GDP below about 2%, 2.25% is a stressed environment. So whether or not U.S. GDP goes negative really doesn't matter to us. It's just a stressed environment right now. And our assumption is the trends you saw in the U.S. leasing business also are going to worsen before they get better, but they as well will start getting better third or fourth quarter.

If you take those two assumptions and i'm not going to give you percentage to client. we'll just take those two assumptions, and then balance that with the trends you saw in our other business lines in the fourth quarter, and if all of that played out that way, you would end up in an earnings number that's going to be within shooting distance of the number we through out there. That's based on so many assumptions that will probably in retrospect prove to have been wrong. But at the moment that's one way to think about it. What we wanted to do for you is say look this is a very resilient business. It is very different than the business we managed 2001 through 2003. And the diversity of revenues, and the diversity of where your profits come from, can take these kinds of hits and produce what we consider to be pretty terrific results. Now, again, no clue what this year is going to look like, but if you want to paint a picture and use those colors I just gave you, you would get the results something like that. Ken, you want to add anything to that?

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Ken Kay - *CB Richard Ellis Group, Inc. - SVP and CFO*

No, I completely agree with you.

Brandon Dobell - *William Blair & Company - Analyst*

It is bonus season for Ken. Clearly. As kind of an add-on for that maybe for Ken, implicit within the assumption around that number, there's some degree or range within development and investment management for kind of the unpredictable numbers, the carried interest, development gains recognized, based on the range that are high points, low points on how we should think about modeling those two lines. Or if the market remains a lot worse, does that change your thinking about the development business in particular? Or more just an accounting treatment and not really what ask going on in the economy that would drive that -- the development gains?

Brett White - *CB Richard Ellis Group, Inc. - President and CEO*

Ken, do you want to take that?

Ken Kay - *CB Richard Ellis Group, Inc. - SVP and CFO*

Yeah, I think for the investment management business, you know, we have talked historically about, you know, having on annual basis, you know, consistency in carried-interest revenue, and, you know, I think our expectation for 2008 is that carried-interest revenue would be comparable if not a little bit better than what we kind of saw in the 2007 time frame.

Brandon Dobell - *William Blair & Company - Analyst*

Okay.

Ken Kay - *CB Richard Ellis Group, Inc. - SVP and CFO*

So I think your expectation should be that. And as we talked about also for that business we keep showing relative to the add-back that that business would be generating about a 40 to 45% EBITDA margin. I think with regard to, you know, the development business -- and by the way all of these things are kind of incorporated in to the number that Brett talked about on that last slide.

For the development business, I think we're expecting based upon the strength of, you know, kind of the in process work in the pipeline, you know, another pretty strong year for that business as well, with a healthy component of gains. For 2008, we'll still have a portion, albeit a lot smaller than the 61.6 million up gains that went to the balance sheet -- we'll still have a portion of that. We're probably expecting something a little bit less than maybe half of that number, that would be impacted by purchase accounting, but we would expect to generally a pretty strong year for development with a strong number of projects that will come to fruition and that we'll be able to recognize gains on, whether it goes to the P&L or the balance sheet.

Brandon Dobell - *William Blair & Company - Analyst*

Okay. Very helpful, thanks a lot.

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Operator

Our next question comes from the line of Will from JMP Securities. Please go ahead.

Will Marks - *JMP Securities - Analyst*

Thank you. Hello, Ken. Hello, Brett. To clarify the last answer on investment management. So during 2008, we should expect a margin close to -- an actual reported margin close to that 45% that was the pro forma margin for '07?

Brett White - *CB Richard Ellis Group, Inc. - President and CEO*

No. My comment was focusing in on more of the normalized. Excuse me. It's a function of -- you know, the amount of carried-interest revenue that we recognized. Plus also the amount of incentive compensation expense that we'll have to recognize associated with potential future years carried interest, and, you know, that obviously is -- is a developing item that we track during the course of the year, and so when looking at the margin for that business, to anticipate that a normalized margin would be in that 40 to 45% range, as far as the reported margin, it of course might be a little bit different than that.

Will Marks - *JMP Securities - Analyst*

Okay. On the -- different question, Brett, you had mentioned -- you said leasing volumes in the Americas should decline, and I missed the word in the first two quarters of the year. Was it -- ?

Brett White - *CB Richard Ellis Group, Inc. - President and CEO*

Decline appreciably.

Will Marks - *JMP Securities - Analyst*

Okay. And would that be somewhat offset by higher revenues per lease transaction because of higher rents?

Brett White - *CB Richard Ellis Group, Inc. - President and CEO*

No. I don't think so, Will. What tends to happen in an environment like this is people pull back both on the number of transactions, velocity of transactions, but also when there's negative sentiment in the marketplace, decision makers are taking shorter term leases and less space. It's very attitudal. We saw this attitudal impact on leasing business in all of 2007 even though economic activity was good, and, you know, people were very, very happy, it seemed. Decision-makers on space leasing were clearly beginning to take a bearish view. So as we sit here right now, and I think right now you can look at it as kind of the trough or close to it negative sentiment. People are really scaling back on their leasing, and waiting for positive signals. that obvious economic growth and some reasons to get more bully side. So, no, I don't think it will be offset by higher rents or longer-term leases.

Will Marks - *JMP Securities - Analyst*

Okay. And on Americas sales, two of your competitors have come out with studies not relating to their own numbers, but for their particular clients on how investment sales in the Americas are expected to grow or decline in year, and one has been, I think, quote, approaching 25%, and the other was more like implied 30 to 40% decline. Do you have -- you put out anything for your clients or can you comment on that in the U.S.?

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Brett White - *CB Richard Ellis Group, Inc. - President and CEO*

No. We -- Torto Wheaton on what they think will happen in that some property market, both in the U.S. and in [inaudible] stations as well. But at the moment, I think that that kind of forecasting is dangerous. It's just -- look, in an environment where there's such a high range in view, just around the more basic metrics such as U.S. GDP, and for this particular area, you are speaking to, Will, about -- such a variety of opinions about when the capital markets will turn to some normalcy, trying to predict what those declines might look like is really, I think, a bit premature. I do think the situation will begin to clarify itself relatively soon. I'm hopeful that by the spring we'll be able to give you much better views and information around this topic, but right now it's a very fluid situation.

Will Marks - *JMP Securities - Analyst*

Okay. Couple of other quick questions, hopefully. The -- your sales in the EMEA I believe were up 11% during the quarter, and one of your competitors had a negative figure of 12%. Do you see that figure going potentially negative? I'm not sure if you commented on that on the call?

Brett White - *CB Richard Ellis Group, Inc. - President and CEO*

Well, what we believe is that the -- certainly the business in Europe and the business in the states both are going to be -- the capital markets business will be negatively impacted in 2008, whether it goes -- look, I really don't -- I'm not comfortable trying to put numbers around this, because it's just -- we didn't and I'm not comfortable doing it now. It is just so premature at the moment. I think it's dangerous. I know you guys want, and I appreciate that, which is some forecast, but I think at this point, the biggest favor we can do for you is simply be honest and say it's a fluid situation. Certainly -- I will say this, Will. The European markets are a bit better diversified than the states. You have got a number of different economies that play over there with very different rates of growth. As we mentioned Germany will probably have a pretty darn good year this year, and we think the UK investment property sell market is certainly going to feel some pain, but where all of that place out, we just don't.

Will Marks - *JMP Securities - Analyst*

On the 80 million of CapEx does that include any acquisitions at all in '08?

Brett White - *CB Richard Ellis Group, Inc. - President and CEO*

Ken?

Ken Kay - *CB Richard Ellis Group, Inc. - SVP and CFO*

A modest amount. I would say the vast majority of that would be run rate.

Will Marks - *JMP Securities - Analyst*

And finally, share repurchase, you don't have a program right now. Could you consider further repurchases?

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Brett White - *CB Richard Ellis Group, Inc. - President and CEO*

We always -- Will, our standard answer will be we consider everything all the time. At the moment we don't have a program in place, but that could change, and we'll wait and see.

Will Marks - *JMP Securities - Analyst*

Great. Thanks, Brett. Thanks, Ken.

Operator

We have time for one final question from Jay with Goldman Sachs.

Jay Habermann - *Goldman Sachs - Analyst*

Hi, good morning. You mentioned picking up share, and I'm just wondering what sort of opportunities you are seeing at this point in the cycle, and, obviously you have some free cash flow to work with and just what you are seeing out there.

Brett White - *CB Richard Ellis Group, Inc. - President and CEO*

Sure. Jay, we pick up share couple of different ways in markets like this. The first and probably the most significant is when markets become a bit stressed, there's a clear flight to quality, both among customers, have been move from smaller less well capitalized vendors or less diverse vendors to big names like ourselves or Jones Lang. And we have seen that in every down cycle, and we're seeing it now, and I expect we'll continue to see it in 2008. We also see that phenomenon among key fee earnings in the business around the world. Imagine your are working for a firm that has one business line, perhaps it's just capital markets. That firm is going to feel a different kind of stress than we are. And you find that many times fears in those firms, that flows downhill. And we are a place they can come to, where we don't need to make -- as I mentioned earlier -- any material cost reductions to their business because the way our diversified business model works, we are able found investments and do what we do.

You see a flight to quality both among folks who generate revenue like ours, and our customers. We will also be able to get share, and are doing so very aggressively right now through infill acquisitions, and I think that -- again, this is not news. It happens -- you can almost predict this from a play book. When the markets become unstable a bit, as they have been, you find that there are lots of relatively small firms who may have been thinking that their evaluation had lots more to grow; that they didn't need to sell in 2007 because sky is the limit on performance. Now, looking at 2008, they are doing their own models, and again non-diversified market is going to feel this a lot worse than we are. Many of those folks take an opportunity like the time right now to test the water on a sale. And we're very aggressive in that market at the moment, and finding lots of opportunity.

Jay Habermann - *Goldman Sachs - Analyst*

Any particular geographies that you are looking at?

Brett White - *CB Richard Ellis Group, Inc. - President and CEO*

We -- as you know, Jay, we look at all three of our global geographies as an opportunity for acquisitions. We have a strategic priority in certain business lines, and in certain geographies and the business lines, if all things were equal, we would prefer to buy at the moment businesses that focus on outsourcing or more contract revenues, and if all things were eval we would prefer to buy businesses in Europe or Asia to continue our long-term strategy to diversify our revenue base geographically. But as I

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mentioned before on these calls, our approach to acquisitions have to be strategic and opportunistic. Which in our business -- which is a bit of a unique business.

Many small companies are owned by their founders, or owned by a group of partners, and they only go to market once. And when they go we want to be their first, and you may get one bite at that apple. Going back to my comments I made on the script deck is we look at a market like the one we're in right now with lots of enthusiasm, because we know it will bring some good firms to market, and we know a lot of firms that do what we do aren't going to have the capital to pursue acquisitions. We do and we will.

Jay Habermann - *Goldman Sachs - Analyst*

Okay. And one final question, and it's just sort of tied to the cycle. You know, on Slide 18, you did give forecast for rising cap rates, and obviously increases in vacancy rates in the coming year.

Brett White - *CB Richard Ellis Group, Inc. - President and CEO*

Yes.

Jay Habermann - *Goldman Sachs - Analyst*

I'm just wondering how you see this cycle playing out. Obviously this would be the first time that you would see property prices disclay declining, where the Fed rate activity really sort of drove commercial real estate pricing. I'm wondering with -- should that in effect push out the recovery beyond what you might be forecasting?

Brett White - *CB Richard Ellis Group, Inc. - President and CEO*

It's a really good question. And it's -- you know, our -- I even hazard to call what we're doing forecasting, I think I would be more comfortable with modeling or educated guessing. And what we're doing is playing a variety of different scenarios out, so as we thought about 2008, we built lots and lots of different models with different basic underlying assume shufrps around economic actives so global and U.S. GDP, but also recovery on a capital basis on a typed basis. And of course, Jay, it's not only the timing issue of when we get recovery, but what that recovery looks like.

In other words I think what is going to happen to the capital markets is we're going to reset at a level of activity, and a level of valuation, at some level, and what that reset level is, Jan 2007, or January 2006, or March of 2005, we don't know. We have played out those models and looked at those scenarios. I do think you are going to see valuation declines in so some property types and in some markets. I don't think for generally good property you are going to see a lot of decline. And on the recovery side -- at least history has shown us, and Jay, you made the right point, this cycle may be different than 2001, 2003, and 1990 through 1993. But our thought at the moment is that we're going to feel some pain, the industry is going to feel some pain the next six to eight months, but that it's not unlikely we would see a vetting and return to normalized growth rates sometime late this year. And again, as I mentioned to Will, it's just -- unfortunately it's just too early to tell. At the moment it's far too fluid of situation to try to get any more precise than that.

Jay Habermann - *Goldman Sachs - Analyst*

Okay. And just one follow unthought. In terms of investment management, are you seeing -- tenants are taking loner to sign lease contracts, but a you seeing our partners on the investment management side simply holding off, looking for better IRR over time.

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Brett White - *CB Richard Ellis Group, Inc. - President and CEO*

Ken, is Vance still with you?

Ken Kay - *CB Richard Ellis Group, Inc. - SVP and CFO*

Yes.

Vance Maddox - *CB Richard Ellis Group, Inc. - President of CB Richard Ellis Investors*

Vance? I think the decision to make investments in to funds in the U.S. have slowed down a little bit, half of last year. But there is a lot of different types of capital out there, and there is a view now that there's an opportunity in the U.S. as we go through recovery, and the higher returning capital, I think is accelerating right now. There's certainly a lot of capital out there on the sidelines, and generally people are taking a little bit longer to make decisions.

Jay Habermann - *Goldman Sachs - Analyst*

Great. Thanks for all of the detail this quarter.

Brett White - *CB Richard Ellis Group, Inc. - President and CEO*

Yes.

Operator

With that, gentlemen, you can please go ahead with any closing statements.

Brett White - *CB Richard Ellis Group, Inc. - President and CEO*

Nick, anything?

Nick Kormeluk - *CB Richard Ellis Group, Inc. - SVP of IR*

No, I think that's all. Thank you very much for joining, and if you have any follow-ups, you know where to reach Ken and myself for follow-ups on the call. Thank you.

Operator

Thank you. Ladies and gentlemen, that does conclude your conference call for today. Thank you for using AT&T executive teleconference service. You may now disconnect.

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