



Cushman & Wakefield

Third Quarter 2020 Earnings Conference Call

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C O R P O R A T E P A R T I C I P A N T S

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Brett White, *Executive Chairman and Chief Executive Officer*

Duncan Palmer, *Chief Financial Officer*

C O N F E R E N C E C A L L P A R T I C I P A N T S

Anthony Paolone, *JPMorgan*

Douglas Harter, *Credit Suisse*

Michael Funk, *Bank of America Merrill Lynch*

Josh Lamers, *William Blair*

Patrick O'Shaughnessy, *Raymond James*

P R E S E N T A T I O N

Operator

Welcome to Cushman & Wakefield's Third Quarter 2020 Earnings Conference Call.

At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. If anyone should require operator assistance during the conference, please press star, zero on your telephone keypad. Please note, this conference is being recorded.

I will now turn the conference over to your host, Len Texter. You may begin.

Len Texter

Thank you and welcome again to Cushman & Wakefield's third quarter 2020 earnings conference call. Earlier today, we issued a press release announcing our financial results for the period. This release, along with today's presentation, can be found on our Investor Relations website at ir.cushmanwakefield.com.

Please turn to the page labeled Forward-looking Statements. Today's presentation contains forward-looking statements based on our current forecast and estimates of future events. These statements should be considered estimates only, and actual results may differ materially.

During today's call, we will refer to non-GAAP financial measures, as outlined by SEC guidelines. Reconciliations of GAAP to non-GAAP financial measures and definitions of non-GAAP financial measures are found within the financial tables of our earnings release and appendix of today's presentation.

Also, please note that throughout the presentation, comparisons and growth rates are to the comparable periods of 2019 and are in local currency. For those of you following along with our presentation, we will begin on Page 5.

With that, I'd like to turn the call over to our Executive Chairman & CEO Brett White.

Brett White

Thanks Len, and thank you to everyone for joining our call today.

Cushman & Wakefield reported third quarter consolidated fee revenue of \$1.3 billion and Adjusted EBITDA of \$117 million. Overall, we are encouraged by the performance across our business, and by brokerage revenue trends which showed recovery against the trough we experienced in the second quarter. Additionally, we continued to execute well on managing our costs and capturing market opportunities while driving growth by leveraging our leading, full-service platform. Both our revenue and EBITDA performance exceeded our expectations.

Since the beginning of this pandemic, Cushman & Wakefield has been at the very forefront of thought leadership in our industry. In early April, we launched our Six Feet Office prototype and our Recovery Readiness guide to demonstrate how buildings could be operated safely, including many of the building hygiene protocols now considered commonplace. Since then, we've published research on the future of the workplace, as well as a holistic review of the office market, including forecasts on recovery timing and an exploration of the continued evolution of the role of the office-based workplace.

In addition to our industry-leading expertise, Cushman & Wakefield has a unique advantage when it comes to the increasingly important role that proper building hygiene plays in ensuring the safety of tenants. Our property management and facility management capabilities and specific ability to self-perform facilities services gives Cushman & Wakefield a distinct differentiator. As a result, we continue to see solid growth in our C&W Services business as their market-leading commercial cleaning platform is being used by organizations to reopen and maintain safe workplaces, and by real estate owners who see building hygiene as a critical factor in attracting tenants back to their buildings, while giving workers confidence and peace of mind.

With that, let me start with an overview of our results.

Consistent with the lower demand for transactional services across our industry due to the pandemic and resulting downturn, our consolidated revenues were down 15% compared to last year.

As expected, PM/FM revenues, which represent more than half of our overall mix annually, were stable and in fact increased by 3% over last year. As you know, these are contractual, fee-based assignments tied to essential functions for operating commercial real estate assets. It is the stability of this business that makes PM/FM a strategically important part of our overall business in challenging environments like this. As I mentioned a moment ago, the pandemic continues to create opportunities for growth across these service lines. For example, in addition to our standard and comprehensive suite of services delivered in normal course, we are actively engaging with clients to provide critical services for reopening strategies ranging from guides to educate leaders and employees on return-to-the-office expectations and protocols; partnering to acquire PPE; customizing floor plans for social distancing and signage placement using our own Safe Six principles; procuring and installing signage, plexiglass shields and sanitizer stations in office, retail and industrial environments; and partnering with clients' response teams on positive case reporting and contact tracing.

Our leasing and capital markets service lines were down 32% and 35%, respectively, compared to last year. However, important to note, that the decline compares favorably to the trough experienced in the second quarter where the year-over-year declines were 45% and 52%, respectively.

As we think about the outlook for brokerage revenue, we expect the fourth quarter year-over-year declines to be higher than the third quarter, due to 2019 comparisons. While, the overlying trend across the second half of 2020 is expected to be better than what we expected at the onset of the pandemic, it's worth noting in the comparisons from 2019 to 2020, that the third quarter 2019 brokerage revenue was down year-over-year, while fourth quarter 2019 brokerage revenue grew year-over-year.

We generated \$117 million of Adjusted EBITDA for the quarter, a 31% decline, which principally reflects the impact of lower brokerage activity. Partially offsetting the brokerage revenue decline was the stability of our PM/FM service lines and our continued excellent execution in cost management. Decremental margins were 18% on a year-to-date basis, consistent with our expectation of mid-twenties for the full year. Overall, we are on track to realizing cost savings of over \$300 million in 2020, which represents \$400m on an annualized basis.

Turning to the balance sheet, our capitalization remains quite strong with cash of more than \$900 million and liquidity totaling \$1.9 billion. Going forward, this strong financial position has given us tremendous flexibility and prepared us for a variety of economic scenarios that will allow us to take advantage of growth opportunities through infill or other M&A opportunities and other investments that might arise.

Looking ahead, we're developing our operating plans for 2021 right now during a very uncertain environment, but are targeting plans that increase revenue and EBITDA year-over-year. Expect our strong focus on cost reduction to continue. We have identified concrete plans for further permanent cost reductions to add to those we executed before COVID. These permanent cost reductions will replace many of the temporary cost reductions we put in place earlier in 2020 and will enable sustainable improvement to our long-term margin as markets recover. However, we do expect to see an increase in operating costs overall in 2021 driven by a return to a more normal level spending, on items like variable bonus compensation, as compared to 2020, and Duncan will cover in more detail later.

In summary, I continue to be very proud of our team, and our execution throughout this challenging year. Cushman & Wakefield's holistic expertise, global market intelligence and thought leadership have never been more important to our clients.

While we see a challenging year ahead for commercial real estate, we also believe the pandemic will likely accelerate the consolidation of market share to firms like Cushman & Wakefield that have the capability, resources and scale to solve the challenges our clients face each and every day.

And with that, let me turn the call over to Duncan.

Duncan Palmer

Thanks, Brett and good afternoon everyone. Before covering our third quarter results, I wanted to build on a couple of items which Brett already mentioned.

As we said on past calls, we have been actively managing our cost structure. We have been taking significant cost savings actions targeting about \$400 million in annualized savings by the end of 2020 starting in Q2, which is to say \$300 million achieved during the year 2020 itself. Overall, through the third quarter, we have achieved over \$200 million in savings this year. These actions include the permanent cost savings announced in March, which total around \$150 million in full run rate benefits and these are substantially complete. In addition, the actions include a significant reduction in more temporary savings including travel, entertainment and events, reduced spend on third party suppliers, imposition of furloughs

and part time work schedules in impacted businesses. Also, total annual incentive compensation for monthly earners is anticipated to be at a level significantly below target for 2020.

In addition to these cost reductions, truly variable costs have declined as a result of lower revenue across different service lines and geographies. These reductions include broker commissions, fee earner profit shares, direct client labor and materials and third-party sub-contractor costs.

Our financial position is strong. We ended the third quarter with \$1.9 billion of liquidity, consisting of cash on hand of \$917 million and a revolving credit facility availability of \$1 billion. We had no outstanding borrowings on our revolver.

We continue to manage our liquidity position to ensure strength and flexibility through the entire cycle, including an economic downturn. We therefore view part of our liquidity as available to fund investments such as infill M&A in a consolidating industry. We are well positioned should opportunities arise.

With that backdrop, on Page 8 we summarize our key financial data for the third quarter.

Fee revenue of \$1.3 billion was down 15% as compared to last year. The stability in our PM/FM service lines continue to help offset the impact of declines in our Brokerage and Valuation and Other services lines. On balance, fee revenue trends for the third quarter were somewhat improved over what we saw in the second quarter. PM/FM grew in the quarter and brokerage declines were less pronounced than we saw in the trough in May and June. Our brokerage service line revenues were up roughly 30% sequentially from the second to third quarter.

Third quarter Adjusted EBITDA of \$117 million was down 31% as compared to 2019. Decremental margins for the quarter were 23% and 18% on a year-to-date basis, which represents continued strong execution in line with our full year expectation of decrementals in the mid-twenties.

Moving on to Pages 9 and 10, where we show Fee revenue by segment and by service line.

For the third quarter, our Leasing and Capital Markets service lines were down 32% and 35%, respectively. We were pleased to see the improvement in this trend and it appears that the COVID-driven decline saw a trough in the second quarter. We generally expect to continue to see lower brokerage year-over-year declines in the second half of 2020 compared to the trough. However, in comparing to 2019 it's important to recall that the third quarter of 2019 was an easier comparable than the fourth. Brokerage revenue declined 5% in the third quarter last year as compared to growth of 6% in the fourth. Overall, revenue was down in each of our three reportable segments with lower Leasing declines in EMEA and APAC, where revenue for the third quarter was down 24% and 22%, respectively.

Helping to partially offset these brokerage declines was the stability we experienced in our PM/FM service lines, which were up 3% in third quarter and flat year-to-date. Excluding the impact of the deconsolidation of the revenue associated with the China JV executed with Vanke earlier this year, our PM/FM service line, which includes our Facilities Services business, was up 7% year-over-year and 6% year-to-date.

Within PM/FM, Facilities Services represents just under half of the Fee revenue. In Facilities Services, we typically self-perform or subcontract a variety of services through our major operations in both the Americas and APAC. This business generates solid cash flow on a stable revenue stream, and on an annualized basis typically has low single digit growth. This year, Facilities Services in the Americas is up 7% compared to 2019, reflecting strong demand for our services during the COVID period.

With that, we will start a more detailed review of our segments, starting with the Americas on Page 11. Fee revenue in our Americas segment was down 15% for the quarter. Leasing, Capital Markets and Valuation and Other were down 34%, 32% and 18%, respectively. These trends were partially offset by PM/FM which was up 7% for the quarter.

Within our Americas PM/FM service line, our Facilities Services operations represent a little over half of our Fee revenue and was up 6% for the quarter. The balance of PM/FM service line portfolio was also stable for the quarter.

Americas Adjusted EBITDA of \$81 million was down year-over-year primarily due to the impact of lower Brokerage revenue. This impact was partially mitigated by the permanent and temporary cost actions in this region.

Moving onto EMEA on Page 12, in EMEA, Fee Revenue declined 8% for the quarter and is down 4% year-to-date. Leasing, Capital Markets and Valuation and Other were down 24%, 44% and 11%, respectively. These declines were partially offset by growth in our PM/FM service line which was up 27% for the quarter.

Adjusted EBITDA of \$12 million was down \$9 million or 44% versus the prior year, primarily due to the impact of lower brokerage revenue. This impact was partially offset by cost saving initiatives and growth in our PM/FM service line.

Now for our Asia Pacific segment on Page 13, Fee revenue was down 19%. The deconsolidation of the PM/FM revenue associated with the joint venture in China with Vanke Services accounted for about half of this decline. Our PM/FM service line represents roughly two-thirds of the fee revenue for the segment. Leasing and Capital Markets were down by 22% and 49%, respectively. Capital Markets was down primarily due to a slowdown in activity in Hong Kong, which is largely unrelated to COVID.

Adjusted EBITDA of \$24 million was up 4% for the quarter as the impact of cost savings initiatives more than offset lower brokerage revenue. This represents excellent execution.

Turning now to Page 14. I'd like to make some more detailed remarks about how we are looking at revenue and cost trends in the fourth quarter and onwards into 2021. It goes without saying that the COVID pandemic continues to be disruptive to global economic activity on an unprecedented scale. The near-term business outlook remains highly uncertain and we continue to have limited line of sight to revenue trends, especially in our brokerage service lines. On the second quarter call we said that we expected brokerage revenue for the second half of the year to be similar to what we saw in the second quarter, which was down 47%. We now think this outlook has improved as we expect brokerage declines to be in the range of 40% for the second half overall, with the third quarter down 33%. As you know, transaction timing is always somewhat lumpy, and our second half of 2019 was a good example.

While we believe that there will continue to be a recovery in Brokerage revenue over time, the shape and speed of this recovery continue to be difficult to predict. As we develop our budgets for 2021, we are hoping to see some more improvement in Brokerage as the economy continues to heal, although we expect the first quarter to show a decline year-over-year given that the impact of the COVID pandemic began in March.

We still expect our PM/FM to be stable or growing in 2020 and we anticipate this to continue into 2021. As a reminder these businesses represent more than half of our total revenue this year.

As I said on prior calls, we are modelling Adjusted EBITDA to decline as a percentage of Fee Revenue as a decremental in the mid-twenties for 2020. Given our third quarter and year-to-date results, we believe this remains a reasonable modelling assumption.

We are on track to deliver over \$300 million in savings during 2020 through the combination of the substantial permanent savings announced earlier this year, temporary cost actions in response to COVID and a reduction in variable compensation expense. We have continued to develop detailed plans to execute more permanent cost reductions impacting 2021 and beyond, which include converting some of our temporary 2020 savings into permanent actions, as well as implementing projects across our segments and back-office functions to improve efficiency and enhance our operating model. The

permanent cost savings of about \$150 million which we have already executed will continue to have a financial impact into early 2021, and this, together with the additional permanent actions, will offset the anticipated unwind of most of the temporary cost actions put in place in 2020. Overall, the aggregate permanent cost reductions across 2020 and 2021 will improve our long-term cost structure and margin as brokerage revenue recovers. However, in modelling 2021 discretely, we expect that there will be a net increase in operating expense, driven by the return to a more normal bonus payout for non-fee earners.

There remains a lot of uncertainty in the speed of recovery in the broader economy and our Brokerage markets. As we develop our detailed budgets, we are currently assuming some growth in Brokerage revenue in 2021 as a whole, but not back to 2019 levels. In addition, we expect stable or growing PM/FM revenues. With these assumptions we are targeting to grow revenue and EBITDA in 2021. We will provide more detail on our fourth quarter earnings call in February.

As Brett said, you can be confident that whatever the COVID pandemic outcome and economic impact, we will continue to focus on the welfare of our employees, supporting our clients, the financial strength of our company and our profitability in 2020, 2021 and for the long term.

With that, I'll turn the call back to the operator for the Q&A portion of today's call.

Operator

At this time, we will be conducting a question-and-answer session. If you would like to ask a question, please press star, one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star, two if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. One moment, please, while we poll for questions.

Our first question is from Anthony Paolone with JP Morgan. Please proceed with your question.

Anthony Paolone

Thank you. I guess first question for Duncan on the cost side. I may have missed it. Did you say how much was actually realized in 3Q? I see in the number from 2Q it was I think \$75 million and you're talking about the \$300 million to be realized for the full year, so just trying to back into what's left, that you think you'll realize in 4Q.

Duncan Palmer

Yes, Tony. We're thinking about that. We said we did at least \$75 million in the second quarter. You should think about that as being a bit more than \$75 million, and I think we said we have done a couple hundred million dollars through sort of Q2 and Q3, and we'll do about \$300 million for the year, so you should be thinking about this in rough terms about \$100 million a quarter.

Anthony Paolone

Okay, got it. Then my second question for Brett on the Leasing side, in the past you talked about just when you get these downturns the Leasing pipeline kind of builds up and then I guess you get a backlog to go through. Can you maybe comment on what you're seeing there and whether that's really building, and something we could see come through next year?

Brett White

Sure, Tony. It's a great question.

First of all, as you referenced, in any downturn the first thing that happens is anything that's in early stage flight stops. It gets taken off the table and companies kick that can as far as they can kick it. Because I think of the unique nature of this downturn, which is the uncertainty around COVID and future lockdowns and other reasons, what we're seeing is a pretty significant level of corporations renewing and renewing for short term. We talked about this last quarter, that would be a logical action for companies to take and we are indeed seeing that.

So, at the moment, the way I would describe what we're seeing on the Leasing side is rents are holding up, that will change. We know that rents are going to be coming down. Vacancy is beginning to rise and it's begun to rise fairly quickly now, which is, again, exactly what you would expect in a downturn of this sort. Companies that do not have the ability any more to kick the can down the road, many of them, about a third of them, based on our numbers, are renewing, and that's a higher percentage than is typical. They're not going to market, they're just going to renew. They're renewing for short term, they're renewing at shorter term leases and a bit higher percentage than you would see in a normal marketplace.

Again, this is almost playbook for what you would expect. I think what's perhaps a bit different here is that the uncertainty around COVID and the uncertainty around what it might bring in future lockdowns probably exacerbates these dynamics a little bit at the margin. I would say it's playing out pretty much the way we'd expect. We're going to go through harder times before things get better, but as you saw in our published forecast that Kevin Thorpe put out, we do see the markets returning to full recovery in a couple of years and we think the inflection point around the markets is around a year, a year and a half away.

Anthony Paolone

Great. Thank you.

Operator

Our next question is from Douglas Harter with Credit Suisse. Please proceed with your question.

Douglas Harter

Thanks. You talked about using some of your liquidity for possibly infill acquisitions. Can you just talk about how much liquidity you kind of want to hold back to be defensive and how much of that potential liquidity would be more for playing offense?

Brett White

I think the way to think about this is—I don't want to put a number on what we would look at as minimum liquidity, but at the moment we are very, very liquid, with almost \$2 billion liquidity in cash and revolver capacity, no draw on the revolver. I think the way I would like to answer the question is we have much more capacity right now than we need, and I would also say by the way, disappointed that no great opportunities have come down the road the last four or five months. Probably not unexpected. Hopeful that some do in the coming months and we're able to bring in some well priced infill deals, but I think the way we think about it and the way I would describe it to you and the marketplace is with \$2 billion of total liquidity we have far, far more than we would need in any environment.

Duncan, if you would like to put any more precision around that, you should feel free.

Duncan Palmer

I think I pretty much agree with you, Brett. We're not sort of specifically saying a particular kind of defensive liquidity level we want to keep. I think obviously we have a completely undrawn revolver and a very large amount of cash and generally our peak to trough cash cycle, which is roughly speaking from the middle of the year to the end of the year, where the middle of the year being the trough, we obviously

have some capacity for that, but as Brett said, that's relatively small in comparison to the amount of liquidity we have, and so we should think of this as having more than adequate capacity to do quite a lot of infill if the right kind of deals come along and that's kind of what we're targeting through the pipeline that we're developing right now.

Douglas Harter

Great. Thank you.

Operator

Our next question is from Michael Funk with Bank of America. Please proceed with your question.

Michael Funk

Thank you for the question, guys. I hope you're all well. A couple, if I could.

First, on the Brokerage side, a number of your peers have highlighted strength in industrial and multifamily. Obviously a lot of capital chasing deals here. What is your sense of transaction activity picking back up in office and retail, for the first question.

Brett White

First of all, let me throw a compliment to our two peers. I think what everyone saw from the industry this quarter and is seeing this year is that these three firms, all three of these firms, ourselves and the two others, have done a very, very good job at managing costs and showing that they are very resilient business platforms through a downturn like this, and as it gets to transactions and transaction volumes and so forth, certainly what you heard from those two peers, we would mimic, which is industrial is a sweet spot for everybody, it's highly priced, transactions are occurring and that's great. Multifamily, really, really good right now. And by the way, across the board I've seen—we've seen real institutional interest continuing in multifamily as rent delinquencies seem to be quite low, and in more regional and what I'd call more boutique players such as—I was speaking to an owner of a multifamily investment development business here in California who works in the secondary market and their business couldn't be better. They have no rent delinquencies to speak of. So multifamily, as you referenced, really in a sweet spot.

Retail, I would think of retail as an opportunistic investment, and so that's the kind of money that would generally look at retail right now. What that means is they're going to look for extraordinary yield and to get interested in a property, and because of that you're seeing very slow work around retail. We've seen a couple of trades recently in retail, but nothing barn-burning.

Office, a core, well-leased, high credit office tower in a major CBD is still highly attractive to capital, and those cap rates, while they've moved a bit, they haven't moved a wide amount. Suburban, interestingly, suburban high quality office cap rates haven't moved much at all, which I think is indicative of the fact that investors are looking at longer term trends around suburban office and they like what they see.

The inference of your question is correct. Most of the action is looking at—I would put it in kind of this order—core, high quality, high credit great buildings and office buildings in CBDs. If one of those comes to market it's going to trade. Industrial, particularly large, newer industrial logistics, or industrial entitled land or older investor buildings that can be converted to high quality logistics; those are in great, great demand. Retail, retail is hurting. I think we all know that. And multifamily in great demand, hard to get at the moment. Hard to get because it's well priced and it's not moving down.

Michael Funk

Then on the cost side, if I could, you mentioned converting the temporary cost savings to permanent cost savings. Can you highlight a few areas where you're converting that?

Brett White

Duncan?

Duncan Palmer

Yes, glad you asked that.

This year obviously we've been very focused on the temporary cost side and a whole variety of things, everything from travel and entertainment through furloughs, through government support, all that kind of stuff all goes into that and we expect a big chunk of that not to be sustainable, so as we try and basically replace that with more permanent cost out, some of the stuff we're able to make more permanent is, for example, some of the furloughs we'll convert to more permanent reductions in staff. I think some of the savings we put in T&E and events I think will enable us to—there will be some events we just probably don't pick up again and some efficiencies we're getting out of T&E, and generally in sort of the back office functions and generally around the place there's opportunities to take some of the savings we put in place more temporarily and make them permanent features of how we run our operations.

It's a variety of things around the world and around different service lines that we've sort of converted, actions that we took sort of back in the second quarter and converted those to things that just won't come back on a permanent basis.

Brett White

Just to get back to your earlier question, I was looking at some data here while Duncan was speaking. Just to underscore what I mentioned on office, cap rates for CBD high quality office have moved about 60 bps from the last quarter 2019 it was 5.3% to about 5.9% now. Interestingly, cap rates in the suburbs haven't moved at all from pre-crisis levels, and again, I think that's indicative of capital interest in office generally, both CBD and suburban, but definitely a tighter focus on high quality suburban if it's available.

Michael Funk

Okay. Thank you for the questions.

Operator

Our next question is from Josh Lamers with William Blair. Please proceed with your question.

Josh Lamers

All right, thank you.

I'm going to circle back to Leasing here. It just seems to be a hot topic. I'm going to ask the question a bit of a different way. Just given the continuation here of occupiers delaying longer term decisions on the Leasing side, curious if you can comment on how long that practice can continue until landlords or owners start to require a more permanent decision? I guess, is there any reason to believe that this period of kind of short-term renewals that we're phasing through here could lead to a paradigm shift or a longer term shift in the way or length that occupiers lease space?

Brett White

It's a great question. First, how long can or how long will owners accept short-term renewals? Look, very hard to say. I think it will be based entirely on the market's view of the future and at the moment because that's uncertain I think many owners would prefer to keep that tenant in play in their building than to lose the tenant and look for a new one.

As soon as the market feels that they see an optimistic turn to the future, which frankly I don't think is that far down the road, that dynamic is going to shift and owners are going to want longer term and they'll be more willing to take the risk that a tenant will go to market if they do.

This gets to be a bit of a complicated equation because what will happen here is rents are going to start to go down. As rents start to go down, tenants are going to be more likely to want to take more term and potentially more space because it's the economics. So, it's kind of the way this thing typically plays out. Early days are bumpy. No one is really quite sure what the next six, 12 months looks like. As soon as people come to a conclusion around what the next six, 12, 18 months look like and that they become confident that the market is going to return, which it always does, then the flip and you begin to see tenants looking for more term to lock in at what they believe might be a better rate today than what it might be a year and a half from now.

Certainly for us, we advise large corporations around the world today we would certainly be in the camp of if you can get your landlord to sit tight for six months or a year, that's not a bad place to be because I do think rents are going to come down a bit, and then when they do take advantage of that and try and lock in term. I think that's likely the way this will play out.

We mentioned that we think the inflection point in the markets is the second half of '22, however, the turn in the market, in other words I think the time you'll start seeing real employment numbers coming in and activities start to improve will be well before that. It just takes time for the vacancy and the rent number to settle out and then turn, but I do think you're going to see—I hope you're going to see that by this time next year certainly tenants feel much better about the future, more certain about what they want to do with space, and much more likely, therefore, to agree to a longer term.

Josh Lamers

Thank you. That's really helpful.

One more for me then, just on the PM/FM business. Are you guys experiencing any near-term implementation or RFP delays that could work to accelerate growth in that business once we clear some in-person restrictions? Also, if you could just comment on how the pipeline in that business looks relative to maybe the end of the second quarter? That would be it for me. Thank you.

Brett White

Sure. The PM/FM business has been chugging along nicely since March. Certainly, dealing with lots of issues like all clients are, which is how many people in the buildings and how they work safely and so on and so forth, but as it pertains to bids, we've definitely seen a number of large RFPs, both in property management and facility management in the marketplace throughout the year. There was definitely a slowdown in March but things picked up pretty quickly and we as well as our competitors, because we're all bidding on the same projects or clients, I would say we would all describe the pipeline as fairly robust.

I think the dynamic that does move a bit in times like these is in the early days of a steep downturn, you do find that particularly in property management the number of in and out buildings goes down because the sale of buildings goes down. In the property management business, if you were to talk to Marla Maloney who runs our U.S. property management business, she would tell you that the churn in the portfolio is less than usual and the reason for that is less office buildings are selling. That's also true for industrial and retail and multifamily. As that trading picks up again, you'll see more transitions. That's good and bad for everybody equally. We will bid the ones that move, or hopefully we take the buyer to the

property that are being sold, get the property management there. We will lose some that go to buyers that use somebody else, but I wouldn't—the way the pipeline looks and the way the market dynamics are at the moment, I wouldn't look for a large pent-up demand wave in PM or FM because, really, the folks that are running those companies and putting the bids out have been hard at work all through the pandemic, working on their RFPs and those RFPs are coming into the market.

By the way, I would point to the numbers you've seen, which is for generally, again, the top tier firms, for the top big three firms here in our industry, solid numbers in those business lines for the year and solid numbers for the last two quarters. Again, indicative of share gains and growth in those particular business lines, which is exactly what we expect to see occur in a downturn.

I would say if anything—and then my final comment on this—if the downturn were protracted, if we all had this wrong and for some reason things get materially worse in '21 than they are now, which we don't expect to be the case at all, I think you would see the pace of RFPs going to the market pick up materially because then these large corporate clients and institutional owners are going to feel a bit more stressed on their own P&Ls and are more likely to outsource things they didn't plan to outsource.

But, again, just to answer your question, I don't see a big wave of pent-up RFPs coming to market six months from now because they aren't coming to market now.

Operator, any more questions or are we done?

Operator

We actually have one more question, and just as a reminder if you have any questions you may press star, one on your telephone keypad.

Our next question is from Patrick O'Shaughnessy with Raymond James. Please proceed with your question.

Patrick O'Shaughnessy

Hey, good evening. How are you thinking about the relative thin line (inaudible)?

Brett White

I'm sorry. Your question cut out. Would you repeat that please?

Patrick O'Shaughnessy

How are you thinking about a relative timeline towards a full recovery between Leasing and Capital Markets? Does Leasing have a rebound before Capital Markets? Are they independent of each other? How are you thinking about that?

Brett White

I think it's a great question. Full recovery. So, measured differently, right? Full recovery in Leasing to us would be back to pre-COVID vacancy and rent levels. That's how we would, I think, define recovery. And as we've spoken about in our research materials, we think that happens after mid-2022, a bit later than that, 2023, and that takes us to a place that was, let's call it fourth quarter 2019. By the way—and I'll get to Capital Markets in a moment—one of the dynamics at play here, which I know you're away of, is, again, true for our peers here. We've revised our cost structures in a way that for us, for our performance, financial performance to return to pre-COVID levels, we don't need any—we don't need near that recovery. We've taken so much cost out of our systems here, as Duncan has referenced.

I think Leasing is an aircraft carrier. It's a slow move. It's a slow move down, which is why rents are at the moment I think hanging in there basically where they were six months ago, and they will come down.

Capital Markets tends to mark daily, and Capital Markets certainly—and you've seen it in the numbers—I think for the U.S. it was down 57%. We were down a bit more than half of that, so much, much better. Capital Markets volumes should pick up and I think the way you would think about recovery in Capital Markets, that should come ahead of the recovery in Leasing again because the Capital Markets business can move so quickly on both pricing and capital moving into the assets.

The other thing I would mention about Capital Markets is, again, you already know. We're at very different situation than we were during the GFC. There's an enormous amount of capital that wants badly to invest in commercial real estate for all the obvious reasons. That capital, some of it is being invested right now. We're watching some large transactions being chased by some very big institutions. A lot of that capital is going to wait a bit, but as soon as they decide that valuations are where they want them to be or that they've got to get the capital invested, they're going to do it.

Liquidity this time around is a huge enabler or supporting dynamic to Capital Markets through this recession and recovery, whereas it was the opposite during the GFC. That dynamic will, I think, we think, cause Capital Markets to show recovery quicker than we will in the Leasing business, which, again, is a slower moving trend line.

Patrick O'Shaughnessy

Got it. I appreciate that color.

Then, I'd like to follow-up regarding your capacity for M&A, particularly as your debt-to-EBITDA probably ticks up in the next quarter as you're comping a really strong EBITDA quarter from the year-ago period. Can you discuss your \$1.9 billion in liquidity in context of your balance sheet leverage and the associated debt covenants?

Brett White

I'm going to let Duncan hit it. I'll just remind you that our only covenant is a springing covenant revolver and then the covenant comes into play, which we don't see any possible scenario where that ever does come into play.

Duncan, do you want to answer that question specifically?

Duncan Palmer

Yes. As Brett just referenced, we don't have a covenant in practice right now, so unless we draw the revolver line more than \$408 million or something at a period end, so in practicality it's not a constraint because we have \$900 million of cash, right? I don't think really that net leverage ratio over the next few quarters in this sort of trough period is a particular constraint on M&A because it doesn't really apply to any covenant.

I think when we think about net leverage that's going to be something which we have thought about. We were at 2.5 times the end of last year and obviously when we come back out of this COVID downturn we'll think about that in a sort of more normalized context again. But right now it's not a particular constraint because as I said it's not a covenant measure because we don't have a covenant right now.

Patrick O'Shaughnessy

All right, great. Thank you.

Operator

We have reached the end of our question-and-answer session. I will now turn the call over to Brett White for closing remarks.

Brett White

Perfect. Again, I appreciate everyone's time on the call this evening and I look forward to talking to you again in three months. Bye-bye.

Operator

This concludes today's conference and you may disconnect your lines at this time. Thank you for your participation.