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JLL.N - Q2 2020 Jones Lang LaSalle Inc Earnings Call

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OVERVIEW:

Co. reported 2Q20 consolidated revenues of $3.7b, adjusted net income of $37m and adjusted diluted EPS of $0.71.

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PRESENTATION

Operator

Good morning. At this time, I'd like to welcome everyone to the Jones Lang LaSalle Incorporated Second Quarter Earnings Conference Call. For your information, this conference call is being recorded. (Operator Instructions)

I would now like to turn the conference over to Chris Stent, Executive Managing Director of Investor Relations. Please go ahead.

Christopher D. Stent - *Jones Lang LaSalle Incorporated - Executive MD of IR & Corporate Finance*

Thank you, and good morning. Welcome to our second quarter 2020 conference call for Jones Lang LaSalle Incorporated. Earlier this morning, we issued our earnings release, which is available on the Investor Relations section of our website along with the slide presentation intended to supplement our prepared remarks. Please visit ir.jll.com.

During the call, we will reference certain non-GAAP financial measures, which we believe provide useful information for investors. We include reconciliations of non-GAAP financial measures to GAAP in our earnings release and supplemental slides. As a reminder, today's conference call is being webcast live and recorded. A transcript of this call will also be posted on our website.

Any statements made about future results and performance, plans, expectations and objectives are forward-looking statements. Actual results and performance may differ from those forward-looking statements as a result of factors discussed in the annual report on Form 10-K of the fiscal year ended December 31, 2019, and in other reports filed with the SEC. The company disclaims any undertaking to publicly update or revise any forward-looking statements.

I will now turn the call over to Christian Ulbrich, our President and Chief Executive Officer, for opening remarks.

Christian Ulbrich - *Jones Lang LaSalle Incorporated - Chairman of Global Executive Board, President, CEO & Director*

Thank you, Chris. Good morning, and welcome to our second quarter call. I'm pleased to welcome Karen Brennan, our newly appointed CFO, to her first earnings call. In addition to Karen, we have Richard Bloxam, CEO, Capital Markets and Valuations; as well as Neil Murray, CEO of our Corporate Solutions business with us for the Q&A portion of the call.

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On behalf of everyone at JLL, we would like to extend our appreciation to Stephanie Plaines for her service as CFO. We wish Stephanie all the best in her next chapter.

When we spoke on the first quarter earnings call, the COVID-19 pandemic had proliferated across the world, leaving many wondering how to successfully operate in a lockdown environment. With the experience of the second quarter behind us, I'm very encouraged by JLL's ability to rapidly respond and adapt to the challenges presented. We concentrated our focus on 3 priorities in the second quarter: first, the safety and well-being of our employees; second, our clients; and third, cash management. With respect to our clients, our teams have been available during all phases of the lockdown, brilliantly advising and supporting them on best practices and procedures to ensure that their workspaces meet the safety standards and social distancing guidelines necessary for their employees to feel comfortable with reentry. In addition, we are providing clients with thoughtful advice about how we will all need to rethink the function and design of commercial real estate in a post-pandemic future.

On a personal note, I can tell you that I have never received so many thank you letters from clients before for all the great work our JLL colleagues have been doing.

As I remarked during the first quarter's earnings call, these are the times where we are positioned to gain market share because the outstanding culture of JLL, the team spirit and the ethics are highly valued by our clients. Moving on to cash management, the entire organization showed tremendous discipline. We responded early by lowering cost and reducing non-crucial investments, applying for government support programs to prevent extensive job cuts and collecting our receivables in a very efficient manner. All of these actions executed by our management teams led to record cash generation in the second quarter. It is important to note that we balanced our spend reduction without compromising our long-term growth potential.

Turning to the overall second quarter operating environment. The backdrop was obviously not favorable. Macroeconomic and real estate fundamentals illustrate the effects of the pandemic as signs of global declining economic activity intensified throughout the majority of the second quarter, indicating the world is facing a deep recession. In the office leasing market, volumes were down 60% for the quarter, with decreases across all regions.

I will turn now to the discussion of our second quarter financial performance. Consolidated revenue fell 13% to $3.7 billion, and fee revenue declined 22% to $1.2 billion in local currency. Adjusted net income totaled $37 million for the quarter and adjusted diluted earnings per share totaled $0.71. Leasing and Capital Markets were the most severely impacted service lines as the pace of transactional activity slowed as investors were sidelined due to travel restrictions, mounting uncertainty and rising economic headwinds. Activity in April and May was ahead of our expectations, driven by a strong pre-COVID pipeline, though the pace slowed in June. Corporate Solutions continued to show its resiliency as a scaled global platform, posting a modest 2% decline for the quarter. The facility management business performed especially well. In addition to delivering on our long-term contracts, we were able to offer newly designed products to help our clients mitigate the impacts from the pandemic on the usage of their real estate footprint. Our mobile engineering business in the United Kingdom and parts of our interior fit-out business in Europe were the most impacted by the site closures and lockdowns, resulting in the overall modest revenue decline in Corporate Solutions.

Turning to HFF. I'm happy to report that we have successfully integrated HFF into the JLL platform. Since the acquisition closed, we realized $28 million of synergies in line with our 12 months target. The lockdown environment has helped to significantly accelerate the integration of HFF. Our teams have been focused on identifying cross-selling opportunities, learning from each other and enhancing our superior technology platform. We continue to be bullish on the strategic rationale of the transaction, the potential for even more meaningful cross-selling opportunities and our glide path to establishing the premier capital markets platform within the industry.

Now we will hear from Karen Brennan for more detail on the second quarter results.

Karen G. Brennan - *Jones Lang LaSalle Incorporated - CFO & Member of the Global Executive Board*

Thank you, Christian. After working in our LaSalle business for over 20 years, I'm excited to join the finance team as CFO. Although these unprecedented times are creating business challenges, I am proud to continue the JLL legacy of our approach to financial reporting and communication, which is to be consistently transparent and dependable.

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Second quarter results clearly reflected the adverse impact of the COVID-19 pandemic on the commercial real estate industry. However, our top line performance reflects the competitiveness and resiliency of our full-service, globally-diversified business platform. We actively managed our costs, made prudent reductions in capital expenditures and investments and utilized government programs in EMEA and Asia Pacific to retain staff. All of these actions helped protect our margins while positioning JLL to capture market share and benefit from the long-term secular growth tailwinds of our industry. As a reminder, we report variances to prior year in local currency, unless otherwise noted.

Compared with 2019, second quarter revenue and fee revenue declined 13% and 22%, respectively. Our higher-margin transactional leasing and capital market service lines were the primary drivers of the decline globally as many occupiers and investors paused activity at the onset of the pandemic to reassess their path forward. We saw a sequential weakening in the year-over-year fee revenue results as we move through the quarter, with the most profound impact to Capital Markets in June. We have seen recent stabilization in some business indicators and, in certain cases, a slight uptick, albeit off a low base, and the evolution of the pandemic will be a key determinant of results going forward.

With the focus on maintaining a strong financial position in a very uncertain economic environment, we expanded our cost mitigation actions that began in the first quarter. Some expenses such as T&E and marketing were down well over 60% year-over-year. We continue to adjust our cost structure as the environment evolves and expect to see the broader impact of our mitigation actions in the coming quarters. The cost mitigation actions and government relief programs in Asia Pacific and EMEA were not enough to offset the adjusted EBITDA margin pressure from lower revenue, particularly within our transactional service lines. In addition, profitability was adversely impacted by nearly 300 basis points due to timing of incentive compensation accruals in the Americas and a few discrete items in EMEA that I will discuss in a moment. Consequently, our second quarter adjusted EBITDA declined 55% year-over-year and reflected an 8.3% adjusted EBITDA margin, down from 13.9% a year earlier.

Pivoting to our balance sheet, we ended the second quarter in a very strong financial position, with materially lower debt levels and excellent liquidity. As Christian mentioned, cash management was an elevated area of focus. We continued to refine our receivables collection practices, including leveraging analytics from our recently upgraded ERP system, in order to drive a meaningful improvement in our cash conversion. The cash conversion, combined with aggressive cash management, deferral of U.S. and U.K. tax obligations tied to government stimulus programs and a reduction in spending, yielded a $450 million sequential reduction to net debt, which ended the quarter at $1.1 billion. We are focused on managing our investment-grade balance sheet to maintain significant operational flexibility.

In addition to the significant second quarter debt reduction, we paused dividends and share repurchases to maintain that flexibility. At the end of June, leverage was 1.1x, down from 1.4x at the end of March. At quarter end, we had nearly $2.5 billion of liquidity, including approximately $400 million of cash and 75% of capacity available on our $2.75 billion revolver. Our earliest debt maturities are not until November 2022.

Turning to our service lines. Real Estate Service fee revenue declined 22% in the quarter, and it was down 27% on an organic basis. All reporting segments were down year-over-year, as were most service lines, the exception being Property & Facility Management, which grew 1% in the quarter, reflecting its resiliency. Within Property & Facility Management, good underlying growth, driven largely by new business wins and strength in our Americas Corporate Solutions business, was masked by headwinds from the late 2019 sale of a property management business in Continental Europe as well as from our U.K. mobile engineering business, which declined due to client office closures. The strength in Americas Corporate Solutions was attributable to new client wins, client expansions and a near all-time high second quarter renewal rate of 98%, which speaks to our strong execution, service delivery and quality of client relationships. We are pleased with the relative resiliency of the Corporate Solutions business and continue to be encouraged about the long-term secular outsourcing trend.

Consolidated leasing fee revenue declined 43% in the quarter, most notably in the Americas office sector. We compare favorably to the 60% decline in market office leasing velocity, which reflects the strength of our platform as well as investments in the higher growth asset classes of industrial, supply chain and logistics. Capital Markets fee revenue, including HFF $73 million contribution declined 16% for the quarter globally. Excluding HFF, our legacy Capital Markets fee revenue declined 47% compared with the prior year. There was resilience in some markets with deep domestic capital, such as Germany and Japan. Our Capital Markets business pipeline stabilized late in the quarter, and there continues to be a longer-term trend of increased allocations to real estate, with significant capital on the sidelines ready to be deployed with highly liquid debt markets. There was a modest increase in revenues in our debt servicing business and no change to our reserve on our multifamily portfolio. Forbearance activity has been minimal to date.

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As Christian noted, we are extremely pleased with the pace and success of our ongoing integration efforts of HFF. In the first 12 months following our acquisition, HFF contributed approximately $615 million of fee revenue and $135 million to adjusted EBITDA.

I will now turn to segment performance to review the quarter's results from a geographic perspective and for LaSalle. Americas fee revenue declined 20%, with organic operations down 28%. Americas Leasing was down 44%, and Americas Capital Markets fell 53% organically. We are cautiously optimistic on our Leasing business as we saw our recent uptick in showings, virtual and otherwise. However, business activity in the near-term will be highly dependent on the progress and easing of quarantine requirements and clients reaching decisions on their go-forward real estate strategies.

We saw delays in Americas Capital Markets activity as significant COVID uncertainty led to wider bid-ask spreads and physical inspection complexities. As referenced earlier, Property & Facility Management grew 29% in the quarter and is up 23% year-to-date, driven largely by new client wins, Corporate Solutions client expansion and pandemic response projects. Americas adjusted EBITDA was down 48% year-over-year, and adjusted EBITDA margin was 10.8% versus 16.5% a year earlier. The decline was mostly due to lower transactional revenue and an approximate 250 basis point adverse impact from the timing of incentive compensation accruals.

Moving now to EMEA. Fee revenue was lower by 27%, largely attributable to the pandemic's impact on our transactional businesses and our U.K. mobile engineering business as well as the previously mentioned sale of the property management business in Continental Europe. Adjusted EBITDA declined $33 million year-over-year to a loss of $24 million, which reflects a negative 8.8% adjusted EBITDA margin. The decline in profitability was driven primarily by lower revenues, charges related to losses on certain contracts which are nearing completion or termination, other discrete items and a generally less flexible compensation structure in Europe, offset in part by government stimulus programs targeted at maintaining employment.

Within our Asia Pacific business, fee revenue decreased by 22% for the quarter. The growth in Property & Facility Management, again, led by new client wins and expansion of our existing client mandate for Corporate Solutions, was more than offset by an approximate 50% decline in our transactional businesses. Asia Pacific's adjusted EBITDA declined 23% year-over-year. Its 13.1% margin in the quarter was consistent with the year earlier, as ongoing cost mitigation efforts and employment-related government program benefits offset the decline in revenue. While challenging conditions persist in real estate services globally, we've seen slight improvement in our transaction pipeline, which coincides with the general loosening of quarantine measures. However, results will be heavily influenced by how the pandemic evolves.

Finally, I will speak to LaSalle second quarter performance. LaSalle fee revenue declined 22% in the quarter. Flat year-over-year advisory fees, which comprised over 80% of LaSalle's revenues, speaks to the stability of this business. Incentive fees were considerably lower than the prior year, consistent with our expectations. We expect minimal incentive fees in the second half of 2020 for a full year total of approximately $25 million. Equity earnings were $11 million, driven mostly by the share price increase of our co-investment in a publicly-traded REIT in Japan. LaSalle's AUM totaled $65 billion at quarter end, down 6% from March, primarily due to modest valuation declines and currency fluctuations. AUM is down just 5% year-over-year due to strong capital raising over the past 12 months. We note that roughly 80% of our advisory fees are derived from fee arrangements that include a valuation or income component.

Before turning the call back to Christian for further remarks, I would like to thank our team around the world for their contributions in this profoundly distinct period. I look forward to helping drive positive results for all JLL stakeholders in the quarters and years to come.

Christian Ulbrich - *Jones Lang LaSalle Incorporated - Chairman of Global Executive Board, President, CEO & Director*

Thank you, Karen. The economic outlook remains uncertain, reducing the ability to accurately forecast the second half of the year. We have been encouraged by the recent economic statistics and client dialogue that have shown signs of recovery, though still fragile in light of the high number of new infections.

Looking ahead to the third quarter, we expect to operate in an environment very similar to that of the second quarter. In the short term, we anticipate a modest increase of activity as the world adapts to operating in a productive and safe manner, even in the absence of a vaccine. Corporate occupiers will continuously adjust their policies in response to health threats while reactivating their operations and recovering from the pandemic. A deep

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densification trajectory is emerging as an interim and more permanent state, calling for workplace redesign, workspace adjustments as well as workforce and workflow adaptations.

I'm often asked what the net impact on office demand post pandemic will be. And I find that it is too early to determine the net impact on demand over the medium or longer term. The pandemic has massively accelerated trends which have been slowly developing over the last 10 to 15 years. Whereas offices used to be a series of work desks and meeting rooms, we began to see the development of offices as collaborative spaces, areas where employees can come together informally and drive innovation and creativity as well as places where they experience the culture, the values and the brand of the employers. This change may mean an increase in space and investment required, which is obviously advantageous for JLL as there are very few companies who can credibly deliver the design, identify the space and the fit-out of the office of the future anywhere in the world in best quality with the highest governance and ethics.

Office space will play an even greater role in driving corporate well-being and productivity, and JLL will continue to win market share over the long term. Similarly, despite the short-term uncertainty, real estate will remain an attractive asset class for investors and their capital.

As we look to the future, our commitment to maintaining an investment-grade balance sheet and ample liquidity to support us through seasonality and economic cycles fuels our confidence in our ability to successfully navigate through this pandemic. I believe that the lessons learned so far are a great encouragement to advance on our long-term goals of shaping the future of real estate for a better world. Leveraging our deep client relationships, JLL is particularly well-equipped and positioned to make a very significant difference in helping to build better living and working environments, laying the foundation for truly sustainable cities and communities.

I'd like to close by extending my gratitude to our employees who manage to deliver solid result amidst this challenging environment. Let me move over to our Q&A portion of today's call. Richard and Neil are available to answer any specific questions to the investor and occupier markets.

Operator, please explain the Q&A process.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from Anthony Paolone with JPMorgan.

Anthony Paolone - *JPMorgan Chase & Co, Research Division - Senior Analyst*

My first question is, Christian, you made the comment that 3Q will be a fairly comparable, I think, backdrop or something along those lines as 2Q. Does that mean we should think about year-over-year growth in the same way as 2Q or just -- was that a general comment about just the virus continuing to create a tough backdrop?

Christian Ulbrich - *Jones Lang LaSalle Incorporated - Chairman of Global Executive Board, President, CEO & Director*

It was a general comment, Anthony, towards the overall environment we have to operate in. We don't see much difference in the third quarter to the second quarter. And therefore, it gives you a bit of an indication on how we will be operating.

Anthony Paolone - *JPMorgan Chase & Co, Research Division - Senior Analyst*

Okay. And then as it relates to the office business, if we think about companies just -- I don't know if they're staying put or making shorter-term decisions to just figure out their own businesses or what. But what is the effect on just the general commission part for leasing in the office business

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if companies do shorter-term leases or just stay put? Like are the commissions smaller? Do they do these deals without representation? Or how should we think about that?

Christian Ulbrich - *Jones Lang LaSalle Incorporated - Chairman of Global Executive Board, President, CEO & Director*

Well, the office leasing business is impacted by several factors. I mean, obviously, volumes overall are significantly down, and the terms of the lease lengths are also down. And to be specific to your questions, depending on the market, but in our biggest market, the U.S., we usually get a percentage of the overall value of the lease agreement. So if the term of the lease agreement is shorter, then obviously, the overall value is smaller, and therefore, our fee is smaller. We saw, in the first couple of months, the first 6 months of this year, terms to go down by roughly 16% compared to pre-COVID. And that smaller is, obviously, the income profile. The good thing about the Leasing business is occupiers have to do something at some point. You can only wait so long, and then you have to take a decision, either you extend your existing contract for a short period of time before you take a bigger decision or you take that big decision, but you cannot kind of push it out indefinitely. And so that's what we have been seeing already in the first couple of weeks of the third quarter, that we saw more activity coming back because companies are realizing this is a longer-term challenge now, and they have to take a decision now on their space.

Anthony Paolone - *JPMorgan Chase & Co, Research Division - Senior Analyst*

Okay. That's helpful. And then a question specific to HFF and also more broadly, can you comment on retention, both in the HFF deal in an environment like this? Is it easier to keep people, more difficult? And then just also more broadly, how you approach recruiting when the business is down like this?

Christian Ulbrich - *Jones Lang LaSalle Incorporated - Chairman of Global Executive Board, President, CEO & Director*

Well, obviously, retention challenges are correlating to the overall prosperity of a market environment. And so in this current environment, people are more concerned about keeping their job than trying to go elsewhere, so that has become significantly easier or is obviously almost completely off the table. Usually, what happens is that in really prosperous times, people are prepared to take more risk with regards to their employment. In times like this, they not only look for the best platforms, but they look for the best platforms who are also very safe and sustainable platforms. And so we tend to take advantages in those times in getting a lot of key talent knocking at our doors and asking whether there's room for them.

Anthony Paolone - *JPMorgan Chase & Co, Research Division - Senior Analyst*

Okay. And then last question, if I might. I think late last year, you made a couple of very senior hires on the technology side, and you had some large plans there. What's changed, if anything, in terms of the thinking as it relates to technology and potential acquisitions in that space and just deploying capital there?

Christian Ulbrich - *Jones Lang LaSalle Incorporated - Chairman of Global Executive Board, President, CEO & Director*

Well, actually, we continue to hire quite aggressively in that area in the first quarter of this year, and we also made some great hires in the second quarter. What this pandemic has learned us that having superior technology puts you ahead and is very valuable to our clients. And we made great progress in the last 6 months on our technology platform, but also very much on our own data platform. And we are continuing to focus on that very much so. What we have been slightly more cautious is doing any kind of M&A around technology companies. Pricing is still very, very high as you note from the publicly-traded technology companies. And we have been -- as we stated, it's 1 of our priorities to preserve cash, so we were cautious on that front, but our internal development is continuing without any interruption.

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Operator

Your next question comes from Jade Rahmani with KBW.

Jade Joseph Rahmani - *Keefe, Bruyette, & Woods, Inc., Research Division - Director*

I was wondering if you could point to factors in your mind that could drive an uptick in transaction pipelines. And also whether you experienced any stalling in the way pipelines were being rebuilt in July, specifically in the U.S. as some of these states that were earlier to go off lockdown have shown an uptick in cases, and so there seems to be a slowing in some indicators in the last few weeks?

Christian Ulbrich - *Jones Lang LaSalle Incorporated - Chairman of Global Executive Board, President, CEO & Director*

Yes. I mean, let me start off with the leasing market, and then I will hand over to Richard Bloxom on the capital markets side because we see slightly different behavior in these 2 areas. On the leasing market side, as I alluded to earlier, in the first couple of months of the lockdown, people were kind of a bit stunned about the situation and not much was happening, which you saw with the overall market to be down by 60% and then the U.S. even down by 65%. What we have seen then that discussions restarted again and especially in July, August, first couple of days, but also in July, we saw a couple of things which were pre-discussed already before to really reemerge seriously where we believe that now clients are determined to come to a decision. I think what we see is that business is coming to terms that this will be the environment we are in for the foreseeable future, and so we have to adjust to that environment. Whereas in the first couple of weeks, everybody was more kind of thinking, oh, wow, what's going on here, and was in a wait-and-see situation to see how quickly we are coming out. Now we know this is a longer-term challenge, and we have to operate in this environment.

And so as I said earlier, on the leasing side, you cannot wait indefinitely. You have to take a decision either/or, and that's what we are seeing. So there's a glimpse of optimism there that we will see the market picking up a little bit in the next couple of weeks. And for capital markets, I'd like to hand over to Richard.

Richard W. Bloxam - *Jones Lang LaSalle Incorporated - Global CEO of Capital Markets - United Kingdom & Member of Global Executive Board*

Thanks, Christian. I think that typically, in capital markets when we get any kind of economic shock, we've got a 6-month period where real estate investing and lending community really review their strategies. And what we have in this environment, at least, which is very different from the global financial crisis, is a much more resilient kind of equity and credit market, so there's definitely liquidity there. So when Christian was referring to a slightly different approach in the capital markets as opposed to the leasing markets, we're seeing the emergence of buyers and sellers who have different views on the likely length, duration, impact of the environment, and that creates a market. There's no doubt there's the evolution of price discovery still, bid-ask spread still exists but is definitely beginning to close. So I think in terms of green shoots, there is a constructive pipeline developing, and I think we see groups that are still ultimately focused on defense strategies, but also many that are now focused on the offense.

And maybe one additional comment to make is kind of geographically oriented, and Karen referred to this earlier. In those markets where you've got strong deep domestic capital and the -- and/or strongly developed global capital based on the ground as well as an environment where the COVID crisis is either ameliorating or this confidence from the community that it's being heading in that direction, you're seeing much more resilient capital markets. So I'd point to Japan and to Germany as examples of markets where, actually, you've seen very resilient performance volumes over the first half in Germany are broadly flat, Japan actually up year-on-year.

Jade Joseph Rahmani - *Keefe, Bruyette, & Woods, Inc., Research Division - Director*

HFF historically had a very strong loan portfolio sales group. I was wondering if that business line is gaining traction and if you expect an uptick in loan portfolio sales post Labor Day as one of your peers recently said?

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Richard W. Bloxam - *Jones Lang LaSalle Incorporated - Global CEO of Capital Markets - United Kingdom & Member of Global Executive Board*

Yes, I think absolutely. I would preface that by saying that the lending environment in the last 10 years has been much more moderate than it was in previous cycles, so there isn't the in-built very high-octane LTV that existed prior to the global financial crisis. But that said, there are specific areas and industries where, undoubtedly, you've got cash flow challenges from the operators and that is in turn beginning to unearth distressed situations, particularly -- yes, I would highlight areas of the retail industry and the hotel industry. And we have a team -- we don't only trade loans during difficult crisis, so we've got a very well-established team, and the pipeline is certainly building. But I wouldn't say that this is, by any means, a fully developed trend yet.

Jade Joseph Rahmani - *Keefe, Bruyette, & Woods, Inc., Research Division - Director*

With respect to the comment that was made referring lease durations, I was wondering if that was specific to the office sector where you talked about the terms being down 16%. And historically, office buildings, because of their long durations, in the finance markets have been somewhat of a proxy for fixed income, a lower lease duration would definitely have a negative impact from a creditworthiness standpoint and probably would have an impact on cap rates. Do you have any thoughts around the impact to the office sector from that?

Richard W. Bloxam - *Jones Lang LaSalle Incorporated - Global CEO of Capital Markets - United Kingdom & Member of Global Executive Board*

I would echo Christian's earlier comments that the future direction of office is something that's very much in influx. What I can absolutely say is that long duration leases in offices continue to be highly sought after, and we've got great examples around the world of long leases where there's very competitive bidding still very freely available -- not freely available, but available credit. And I think that feels comfortable inevitably in an environment where you end up with shorter lease terms, you're going to have a slightly changing investor profile. I don't think it will become less interesting, but it may change a little bit the type of owners who are interested in investing in shorter term, flexible lease-style assets as opposed to long-term ones. But there's going to be a room in the world for both.

Operator

Your next question comes from Stephen Sheldon with William Blair.

Stephen Hardy Sheldon - *William Blair & Company L.L.C., Research Division - Analyst*

Welcome, Karen. First, really encouraging trends in Property & Facilities Management in the Americas this quarter. So can you talk some about expectations there over the rest of the year since you have a stable base, especially with, I think you said, 98% retention and visibility on the contracts that have and will potentially go live? And can you also talk about your ability to onboard new contracts in this environment?

Christian Ulbrich - *Jones Lang LaSalle Incorporated - Chairman of Global Executive Board, President, CEO & Director*

Sure, Stephen. I have Neil answer that question.

Neil D. Murray - *Jones Lang LaSalle Incorporated - Global CEO of Corporate Solutions & Member of Global Executive Board*

Yes, very, very pleased with the resilience of the Property & FM business in the U.S. particularly, but around the world. The pipeline was a little slow in the quarter, as you might imagine. Given that we were locked down, it was difficult to actually go and view real estate portfolios and so on, but it's now -- that pipeline, we've got line of sight to a much stronger pipeline now. As Christian said, we expect the propensity to outsource to increase during times like this. We're already seeing it. So yes, very excited about the potential in the business as it goes forward.

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Stephen Hardy Sheldon - *William Blair & Company L.L.C., Research Division - Analyst*

Got it. That's helpful. On EMEA and the profit pull back there, I'm guessing, a good portion of that is less variable expense given the producers there have higher base compensation. So, I guess, how much of a pullback was that component relative to the contract losses? And additionally, what visibility do you have in EMEA into continued government relief like you saw in the second quarter?

Christian Ulbrich - *Jones Lang LaSalle Incorporated - Chairman of Global Executive Board, President, CEO & Director*

Well, I think EMEA is, as always, something where you have to almost look country by country. As you rightly say, we said we had some government support in EMEA, roughly $14 million, which was helpful because the labor markets, especially on the continent, are not very flexible, and that helped us to maintain our highly talented people. On top of that, we had in EMEA a couple of contracts in -- specifically in our fit-out business, which were difficult contracts before COVID, and COVID-19 didn't make them better. And so we had to take some provisions on those, and we are finalizing them now, and so that should be behind us. But overall, parts of EMEA were really heavily hit by that COVID crisis. As we all know, very much in the U.K., and the U.K. is our biggest proportion of our EMEA business, but then the whole South of Europe was pretty much completely locked down, and that was something which, obviously, we had to kind of pay toll to. Going forward, as we see at the moment, countries are currently at least much better in dealing with the pandemic, and we have our offices all open again, and business is coming back slowly but surely. And so I would say, specifically for EMEA, the worst should be behind us.

Stephen Hardy Sheldon - *William Blair & Company L.L.C., Research Division - Analyst*

Good to hear. And then just last one here. How should we think about absolute fixed expense across JLL as we move from the second quarter to third? Operating administrative expense is down sharply sequentially, I think that's against the normal sequential uptick that we see in the second quarter. And it sounds like you continued cost mitigation efforts throughout the quarter. So just any detail on how we should think about the fixed expense trajectory as we think about the rest of the year?

Christian Ulbrich - *Jones Lang LaSalle Incorporated - Chairman of Global Executive Board, President, CEO & Director*

Well, we have 2 major fixed expenses. We have kind of fixed compensation, which is obviously different market by market, country by country. And in those markets where it's more difficult to work on it, then in others this ongoing work on our side will continue, and it will be visible still in the third and the fourth quarter there, the progress we are making. And then we have, obviously, fixed expenses on the operating side, where we were very quick in reacting and had a very significant drop of those expenses in the second quarter. And we maintained that cost discipline very much so. That was what I was indicating earlier that we believe that the third quarter environment is very similar to the second quarter environment, so we have -- we don't have any reason to less tight on those fixed expenses as we already were in the second quarter.

Operator

(Operator Instructions) Your next question comes from Alex Kramm with UBS.

Alexander Kramm - *UBS Investment Bank, Research Division - Executive Director and Equity Research Analyst of Exchanges, Ebrokers*

Just wanted to circle back to the comments around the third quarter and maybe even further, just to clarify what you meant. So you said the operating environment just now should be similar to the third quarter, but -- to the second quarter, sorry. But you also said that you obviously have some benefits from some -- the pipeline in terms of leasing, et cetera, that happened in the second quarter. So is it fair to say that given that the second quarter was fairly close for new pipeline building that you could be down -- you should be down a little bit further in a percentage term on the transactional business in 3Q? And then the other comments more longer-term on the 4Q, et cetera, also fair to assume that given that you're

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hoping that companies will have to come to terms and move in the fourth quarter is generally the quarter that hopefully fourth quarter, in percentage terms, the decline will be less? Sorry for the long question.

Christian Ulbrich - *Jones Lang LaSalle Incorporated - Chairman of Global Executive Board, President, CEO & Director*

That's fine, Alex. Well, what we said is that the operating environment in the third quarter will be very similar to the second quarter. Usually, our third quarter tends to be better than our second quarter, but we have a couple of pretty specific elements which were helpful in the second quarter to us, like government support, which is phasing out in most countries and others, which were slightly unhelpful, like the close of some contracts in Europe. And so there's a mix of things coming to us. You have heard from our comments that we are slightly more optimistic how the pipeline is filling. The challenge for us is our clients do not really care whether they close a leasing deal in September or October, so we are not quite sure whether that will -- that pipeline which is filling, whether that will already kind of fall into the third quarter or whether it falls into the fourth quarter. So we cannot be more specific on that than we have already been on this call.

With regards to the fourth quarter, you're absolutely right. Usually, the fourth quarter is a very big quarter for us. Depending on how the pandemic is developing and if we are able, if the world is able to really prevent a full second wave, we are fairly optimistic that we will see an uptick in the fourth quarter. Richard alluded too that we see a pretty healthy the pipeline on the capital markets front, which is the part of the business, which drives the fourth quarter results usually the most. And so we hope that parts of that will also come through during this year. But frankly, what the pandemic exactly will do over the next couple of weeks, I certainly don't know.

Alexander Kramm - *UBS Investment Bank, Research Division - Executive Director and Equity Research Analyst of Exchanges, Ebrokers*

Fair enough. And then shifting gears completely here. You're obviously in cash preservation modes, you cut the dividend, et cetera. But can you talk about M&A a little bit? I mean this is -- this obviously is a time where some of your competitors may be struggling more. I know you made some cautious comments on the tech side. But M&A, in general, do you think there will be opportunities? You have a strong balance sheet. And what are the areas that you're most interested in?

Christian Ulbrich - *Jones Lang LaSalle Incorporated - Chairman of Global Executive Board, President, CEO & Director*

Well, I mean, in those times, there's -- you have to be a little bit opportunistic because things may change overnight and opportunities come to surface, which weren't available the day before. What will not change is our total discipline with regards to how we allocate our capital. You can do some stupid mistakes also in those times. So yes, we are very focused on our cash, and we have a very, very healthy liquidity position, which enables us to do when we believe it is smart for our shareholders and for the long-term growth of JLL. And so let's see what's coming over the next couple of months. I hope everybody, including all our competitors, are doing well. But if there is an opportunity, we at least have the financial means to think about it.

Alexander Kramm - *UBS Investment Bank, Research Division - Executive Director and Equity Research Analyst of Exchanges, Ebrokers*

Okay. And then I guess one more on the margin side. I mean, again, you -- it sounds like you're very much reacting to the environment. But to what degree, and maybe this is for Karen, as you hopefully, at one point, come out of this, like we all hope? Are there permanent decisions that you're making right now as you think about the future? Should -- could we be in an environment where the margins are hopefully in a better position if we get back to 2019 type of levels?

Karen G. Brennan - *Jones Lang LaSalle Incorporated - CFO & Member of the Global Executive Board*

Yes. So the cost reduction and expense is certainly a strong area of focus in this current environment, and we're looking at everything with a strategic and thoughtful lens. So we are obviously needing to make prudent decisions in the current economic landscape, but are also being very mindful to position to gain market share in the future. So we'll be taking the actions...

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Alexander Kramm - *UBS Investment Bank, Research Division - Executive Director and Equity Research Analyst of Exchanges, Ebrokers*

And then maybe...

Karen G. Brennan - *Jones Lang LaSalle Incorporated - CFO & Member of the Global Executive Board*

Go ahead.

Alexander Kramm - *UBS Investment Bank, Research Division - Executive Director and Equity Research Analyst of Exchanges, Ebrokers*

No, please. Sorry.

Karen G. Brennan - *Jones Lang LaSalle Incorporated - CFO & Member of the Global Executive Board*

So we're certainly taking actions on both a permanent and temporary basis to allow us to flex.

Alexander Kramm - *UBS Investment Bank, Research Division - Executive Director and Equity Research Analyst of Exchanges, Ebrokers*

Okay. And then just I squeeze one last one in. Any breakdowns you can update on -- us on leasing by end markets, office versus industrial, et cetera, and also on the property management that you would like to disclose? I forget when the last time was you gave a breakdown.

Christian Ulbrich - *Jones Lang LaSalle Incorporated - Chairman of Global Executive Board, President, CEO & Director*

Well, listen, the offices market came down globally by roughly 60% in the U.S., 65%. Very different for us is the industrial market. We don't have volumes on that globally, but we know our own revenues on that and they have actually increased. And this is something which is obviously not a surprise to you that -- especially, the whole logistics sector is booming because of all the online sales. And so what we did in the past, we invested heavily into that area, and that is obviously showing a lot of benefit in this current environment, and we believe that this will continue to be the case. And fortunately, our overall exposure to the retail sector has shrunken pretty significantly already over the last couple of years. And so we are predominantly generating our revenues on the leasing side from office and industrial as the vast majority. And that will continue to help us going forward.

Operator

(Operator Instructions) Your next question comes from Jade Rahmani with KBW.

Jade Joseph Rahmani - *Keefe, Bruyette, & Woods, Inc., Research Division - Director*

As you look across the business lines globally, are there any areas that you see having the greatest potential for re-acceleration? And importantly, the uncovering of new areas of growth, perhaps services that you did not historically provide to either corporate occupiers or various other capital markets providers?

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Christian Ulbrich - *Jones Lang LaSalle Incorporated - Chairman of Global Executive Board, President, CEO & Director*

Listen, I don't think that there's any service which we don't provide, but there are certainly services which we are already providing, which will have very strong potential going forward accelerated by this crisis. And that is one of the reasons why I have Neil in this call. So I hand over to Neil once again.

Neil D. Murray - *Jones Lang LaSalle Incorporated - Global CEO of Corporate Solutions & Member of Global Executive Board*

Yes. Thanks, Christian, and thanks for the question, Jade. I think a lot of platforms we built in corporate solutions around global occupiers over the last number of years are very much -- was a -- the COVID has accelerated a lot of the sort of secular trends we were seeing, so very pleased with the platform that we have in place around things like -- we put a product development platform in place globally, sustainability platform, workplace design studios and, obviously, our investments in technology that you know all about. So I think the business is in real great shape to take advantage of the situation we're finding ourselves in and as we come out of this situation. I think the office has shifted from a place where people did work to something completely different. It's from the chief executives I speak to now on a daily basis. I've heard clients' comments that we can run a business remotely, but it's very hard to grow a business remotely. So they're thinking about their offices as hub of collaboration of creativity, and as Christian mentioned, the real manifestation of brand and culture. So all of the platforms we have in place to really help our clients reimagine what their property portfolio is for, its core purpose, as I said, I think, we're very well placed to take advantage of those opportunities.

Christian Ulbrich - *Jones Lang LaSalle Incorporated - Chairman of Global Executive Board, President, CEO & Director*

And Jade, if I may add from a CEO perspective, if you are the CEO of a company, in that current environment your Head of HR is in your neck around the safety and wellbeing of your employees, your CFO is always in your neck around the cost of your real estate footprint. I mean, if there's one time where you are really keen on getting great advice from a company which has global knowledge and can deliver best practice around the world, then this is the moment where you want that advice. And we have never had more calls directly with CEOs of the large companies of the world as we had in the last couple of months, and that will continue to happen.

Operator

There are no further questions queued up at this time. I'll turn the call back over to management for closing remarks.

Christian Ulbrich - *Jones Lang LaSalle Incorporated - Chairman of Global Executive Board, President, CEO & Director*

Thank you. With no further questions, we will close today's call. Thank you for participating. Karen and I look forward to speaking with you again following the third quarter. Stay safe.

Operator

This concludes today's conference call. You may now disconnect.

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