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JLL.N - Q3 2020 Jones Lang LaSalle Inc Earnings Call

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OVERVIEW:

Co. reported 3Q20 consolidated revenue of $4b, adjusted net income of $156m and adjusted diluted EPS of $2.99.

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PRESENTATION

Operator

Good morning. At this time, I would like to welcome everyone to the Jones Lang LaSalle Incorporated third 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 third quarter 2020 conference call, 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 our non-GAAP financial measures to GAAP in our earnings release and presentation. As a reminder, today's call is being webcast live and recorded. A transcript of this conference 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 third quarter call. In what continues to be a challenging and volatile year, I remain impressed by the resilience of our employees across the world. Their dedication and success in providing unparalleled service to our clients has been nothing short of remarkable, and I'm extremely proud and grateful for all that they have done. As cases begin to rise and impact the reentry process to various degrees across the world, we continue to monitor the situation carefully and strictly adhere to the guidance of local and global health facilities to help manage the spread of the virus. The health and well-being of our people, clients and communities remain our first priority.

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Turning to the market environment. Global economic activity recovered some ground in the third quarter despite the pandemic's continuing impact on both global and regional real estate fundamentals. Improving economic indicators remain valuable to a potential resurgence of the virus, with cases and hospitalization rising in many countries around the world. Near-term uncertainty continues to dampen forecast into the severity and longevity of the effects of the pandemic as the world await the broad-based distribution of an effective vaccine before we can begin to regain some semblance of normality.

COVID-19 has accelerated in many workplace trends that were prevalent in the commercial real estate industry prior to the pandemic. These include experiential workspaces, outsourced real estate functions and increased focus on employee well-being. As a result of the changes the pandemic has had on how people work, C-suites and Boards have increased their focus on real estate decisions to ensure their office spaces will suit their future needs.

Turning specifically to the global office leasing market. JLL Research reported that activity in the third quarter was down 46% from a year earlier, reflecting an improvement from Q2 but a continuation of subdued demand. Asia Pacific reported a decrease in activity of only 5% relative to last year, while EMEA and the United States were down 52% and 55%, respectively.

Vacancy rates moved up across all regions in Q3, with the global vacancy rate now recorded at 12.1%, reflecting a 90 basis point increase. Declines in investment sales decelerated in the third quarter, with global volumes down 44% compared to the same period last year. Despite the headwinds associated with the pandemic, I'm pleased that our diversified end scale platform generated solid results for the third quarter. Overall, third quarter results were at the upper end of our expectations due to in part to favorable onetime items that are not expected to benefit future quarters to the same extent.

Consolidated revenue fell 12% to $4 billion, and fee revenue declined 23% to $1.4 billion in local currency. Adjusted EBITDA of $244 million represented a decline of 19% from the prior year, although adjusted EBITDA margin increased 90 basis points to 17.4% in local currency, driven by cost mitigation initiatives as well as government relief programs. Adjusted net income totaled $156 million for the quarter, and adjusted diluted earnings per share totaled $2.99.

Corporate Solutions, again, demonstrated its ability to withstand challenging market conditions, posting a modest fee revenue decline of 2% for the quarter. Strengths in facility management was slightly offset by declines in EMEA mobile engineering, which continues to face pandemic-related headwinds. Current pipelines for Corporate Solutions are stronger than last year, while the pandemic continues to create delays on real estate decisions affecting the closure rate.

As expected, our transaction-based service lines, Capital Markets and Leasing, recorded notable declines for the quarter as activity remains suppressed due to the uncertainty caused by the pandemic. Despite the overall declines, we are encouraged by our performance in some of the less-impacted subsectors, such as industrial and logistics, which have shown significant resiliency throughout this year. Furthermore, we have seen a strong rebuilding of our transactions pipeline since Q2. These improving pipeline figures offer encouraging indicators for future performance though near-term uncertainty continues to linger.

Clients increasingly turned to JLL for our insights on operating the real estate and preparing for postpandemic world. Our conversations focus first on helping them evaluate their workplace challenges and objectives. Then we develop long-term solutions that will enable successful transitions while preserving their ability to be agile, adaptable and resilient as well as productive and profitable. [Their craft] is the framework for reimaging the workplace to assist in this transition, which is focused on 4 strategic pillars: business, people, workplace and commercial real estate.

Our consultancy expertise is in significant demand because JLL is uniquely capable of providing our clients advisory and execution services as a result of our global reach and full-service platform. Further investments in our technology platform have proven to be a strong differentiator when conveying our capabilities and dialogue with our clients as the pandemic has accelerated technological disruption in the commercial real estate industry.

We continue to expand our collaborations across business lines to respond to clients' evolving needs. For instance, we were able to expand an existing engagement with a major regional American bank to a 5-tier mandate. The multiple services in this assignment are facility management,

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transaction management and brokerage, contract and development services, occupancy planning and the management and administration of all leases. The bank identified several benefits of consolidating these services into JLL, including our single provider technology platform, our shared services centers, the ability to consolidate services and the opportunity to provide a sustainable career road map for their internal staff transferring to JLL. This is just one successful outcome of acting as One JLL, which reflects our ability to deliver the full value of JLL across business lines in every client engagement.

In this quarter, we took further action as part of our disciplined cost mitigation program while simultaneously preserving our ability to maintain prudent investments across our business. The actions taken better align our cost structure with current demand. Karen will discuss this in more detail, but let me assure you that we are positioning the company to drive strong growth and play a leading role in the recovery. I'm confident that JLL will gain market share over the medium and longer term as clients increasingly seek an adviser with global full-service capabilities that has the expertise and resources to help them reimagine their workplaces.

Strong earnings and cash flow management led to another standard quarter for cash generation as evidenced by $320 million of net debt reduction, resulting in our leverage now below pre-HFF transaction level. Our capital allocation policy is anchored in maintaining a strong investment-grade balance sheet and ample liquidity to support seasonality in economic cycles, organic and inorganic investments to drive growth and long-term value.

In addition, we remain committed to returning cash to our shareholders. In the third quarter, we repurchased $25 million worth of shares, bringing our year-to-date cash return to shareholders to $50 million. This is slightly ahead of the amount returned in previous years via dividend. For at least the foreseeable future, we do not expect to resume paying a dividend and instead will return cash to shareholders via share repurchases. As we move through the first quarter in 2021, we will continue to evaluate business and market conditions to determine the appropriate mechanism to return value to shareholders in alignment with our long-term strategy.

I will now turn the call over to Karen, who will provide further detail on the third quarter results.

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

Thank you, Christian. Overall, I'm pleased with our third quarter performance given the current environment. There are 3 points I will highlight to summarize the quarter. First, while our consolidated year-over-year fee revenue percentage decline improved slightly from the second quarter on an organic basis, our top and bottom lines reflected meaningful growth in dollar terms over the second quarter. This is an important trend in an unusual year when seasonal revenue growth is at risk of being disrupted. Second, we again generated strong cash flow, which we used to repay debt to below pre-HFF acquisition levels. Finally, we are taking actions to align our cost structure to the current environment while continuing to invest in strategic priorities that we believe will drive long-term value.

Our diversified business continues to be impacted in different ways by the pandemic economic shock. The most significant impact continues to be on our transactional businesses. While our pipelines in both Leasing and Capital Markets have increased since the end of June, uncertainty remains regarding the evolution of the pandemic and its impact to decision-making by corporate occupiers and investors. Conversely, property and facility management remains a growth area driven largely by new business wins as corporate occupiers and investors seek our services due to increased building management standards. Partially offsetting this top line growth were continued headwinds from our U.K. mobile engineering business and the late 2019 divestiture of our Continental Europe property management business.

Moving now to a detailed review of operating performance. I remind everyone that variances are against the prior year period in local currency, unless otherwise noted. Our consolidated adjusted EBITDA margin expanded 90 basis points to 17.4%, driven by our ongoing cost management action and a 240 basis point impact from various government relief programs globally, partially offset by lower transactional revenue.

Consolidated leasing fee revenue declined 30%. Our investments in the higher growth asset classes of industrial, supply chain and logistics continue to provide partial offset to the current softness in the office sector. We compared favorably with a 46% decline in global office leasing activity, reflecting the strength of our platform. Broadly, clients remain cost conscious and seek to delay significant decisions regarding future real estate strategies. According to JLL Research, the U.S. office market has seen an increase in the share of lease activity from renewals to 55% in the third

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quarter from 29% in 2019 as well as a reduction in aggregate effective rents of roughly 7% since mid-March through both an increase in free rent concessions and a decline in starting rents relative to pre COVID.

Looking ahead, our fourth quarter U.S. gross leasing pipeline increased 16% from 3 months prior. We are encouraged by these trends but emphasize closing rates and timing could be delayed in this environment.

Capital Markets fee revenue declined 43% driven by an over 50% decline in investment advisory and debt placement. However, we did see stability in our multifamily business, again, reflecting the resiliency of our diversified platform.

Looking at the global capital market environment, markets of scale with access to domestic capital in Asia Pacific and Western Europe outperformed, while the Americas continued to experience the most significant decline. Global investment volume dropped 44%. Activity has been curtailed as investors adjust valuations and pricing to reflect the current environment, though we are seeing a tightening of the bid-ask spread in some markets. The industrial and U.S. multifamily sectors have been the most resilient to date.

Our Capital Markets 2020 pipeline improved modestly across geographies as the quarter progressed, with pipeline at the end of September up high single digits in percentage trends from the end of June. We are also encouraged by the recent reemergence of cross-border activity. The longer-term trend of increased allocations to real estate is very much intact, with significant capital on the sidelines ready to be deployed with highly liquid debt markets. There was no change to our multifamily portfolio loan loss reserve, and forbearance activity has been minimal to date.

As Christian mentioned, our Corporate Solutions business was down 2% in the quarter and flat year-to-date. We continue to be encouraged about the secular outsourcing trend.

Turning to our Real Estate Services segment. We experienced relatively consistent percentage declines in fee revenue across geographies but meaningful differences in profitability. In the Americas, strong fee revenue growth in property and facility management was more than offset by material declines in other service lines. We are encouraged by the moderation in the pace of decline in Americas leasing and a reasonably stable rate of organic decline in Americas Capital Markets compared with the prior quarter. Our ongoing cost mitigation actions and a 180 basis point benefit from government relief programs drove an adjusted EBITDA margin of 20.9% compared with 19.3% a year earlier.

In EMEA, all service lines reported fee revenue decline, with the most significant decline in Capital Markets due to softness in the office sector. EMEA Leasing, while down 24%, materially outperformed the approximate 50% decline in market volumes, including a 120 basis point benefit from government relief programs. The adjusted EBITDA margin was 2.7% compared with 6.1% a year earlier. The decline in profitability was driven primarily by lower transactional revenue, partially offset by ongoing cost saving actions.

Within our Asia Pacific business, property and facility management and advisory and consulting fee revenue were reasonably stable, but the transactional businesses were down meaningfully, particularly Capital Markets. Our underperformance in Asia Pacific Capital Markets was largely concentrated in Japan and Greater China, including a 710 basis point net benefit from government relief programs. The adjusted EBITDA margin was 20.2% compared with 14.2% a year earlier. The relative stability and profitability, excluding the government relief, was primarily due to ongoing cost mitigation action.

Turning to LaSalle. Fee revenue was down 2%. Advisory fees, which are annuity-like and comprised approximately 80% of LaSalle's fee revenue this quarter, grew 4%. Higher transaction fees tied to a Japanese REIT secondary offering mostly offset lower incentive fees. We expect a similar level of incentive fees in the fourth quarter as the third quarter, which would be considerably lower than the level earned in fourth quarter 2019. Equity earnings were $8 million driven mostly by our co-investment in a publicly traded REIT in Japan. LaSalle's AUM totaled $66 billion at quarter end, sequentially up about $1 billion.

Now I'll comment on how we are thinking about our cost structure. Changes in client needs, particularly in our transactional businesses, and continued uncertainty about the pace of recovery made it clear that we needed to accelerate certain cost management actions. Year-to-date through October, we have taken actions that will result in over $135 million of annualized fixed cost savings. Separately, our expense management focus delivered over $240 million of nonpermanent savings over the first 9 months of 2020, including about $180 million from cost mitigation

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actions and $67 million from government relief. Roughly half of these nonpermanent savings were realized in the third quarter. These nonpermanent savings represent costs likely to return in future periods as business volumes recover.

Our cost actions are part of an ongoing process to improve our operating efficiency. We are confident these actions, combined with process improvements and leveraging our technology platform, will allow us to continue to deliver exceptional value to our clients and not impede our long-term growth potential.

Pivoting to our balance sheet. The sequential improvement in earnings and modest CapEx and investment spending drove a $320 million reduction to net debt, which ended the quarter at $752 million. At the end of September, leverage was 0.8x, down from 1.1x at the end of June and just below levels prior to the HFF acquisition, 1 quarter ahead of our initial expectation. We had nearly $2.8 billion of liquidity, including approximately $440 million cash and 85% of capacity available on our $2.75 billion revolver. We are well positioned to invest in strategies, which generate long-term profitable growth while also returning cash to shareholders.

Looking ahead, much will depend on the evolution of the pandemic and clients' decisions on their go-forward real estate strategy and investments. Long term, we are confident that our continuous efforts to refine and enhance our differentiated global platform position JLL to fulfill the evolving needs of our clients, capture market share and benefit from the long-term secular growth tailwinds of our industry. As such, we remain focused on achieving our 2025 Beyond target and believe we are well positioned to continue to generate significant free cash flow and stakeholder value in the years ahead.

Back to Christian for further remarks.

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

Thank you, Karen. As we look to the rest of the year, a sharp rebound in global GDP growth experienced in the third quarter compared to the second quarter is expected to slow due to a combination of unwinding fiscal stimulus and ongoing caution leading to a more prolonged recovery period. With that backdrop and realizing the difficulty in forecasting the recovery from the pandemic, we expect the fourth quarter operating environment to be relatively consistent with previous quarters on a year-over-year comparison. We expect that our higher-margin transaction-based service lines will continue to face significant headwinds, which has a disproportionate impact on profitability.

I'd like to take a minute to provide our latest thoughts regarding the future of commercial real estate and specifically the office. Commercial real estate remains a very valuable asset class for investors and a beneficiary of continued rising allocations of their capital as they are keenly aware of the long-term fundamentals that position the industry for growth.

With regard to the future of office, we view the transition to a hybrid work environment as the new normal, one in which employees have a greater sense of empowerment in determining where and how they want to work. This sustained increasing remote work opportunities would largely be offset by a combination of job creation and the dedensification of the office space. Expanding upon this, we believe that the transformational hybrid work place will see a reallocation of office space to enable creation, collaboration, communication and culture.

As I stated in the second quarter call, while it may look different and be utilized new ways, the office will continue to have a vital future, specifically as a key driver of corporate culture. These changes strengthen the value proposition of JLL as there are few corporations that can guide our clients through this evolution of the work space on a global scale.

In summation, JLL's solid third quarter performance is a testament to our dedicated employees and our collective commitment to providing world-class advice and solutions to our clients regardless of market conditions. Our results demonstrate the strength of our business model, diversified exposure to both business lines and geographies and our ability to transact across asset classes. We remain very well positioned to capitalize on not only the anticipated recovery from the pandemic, but the long-term macro trends that support robust commercial real estate growth. I'm confident in JLL's ability to succeed, regardless of the circumstances, in delivering sustainable long-term growth and achieving our goal of shaping the future of real estate for a better world.

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Operator, please explain the Q&A process.

QUESTIONS AND ANSWERS

Operator

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

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

Okay. My first question is on the cost savings, particularly with the government part of it. How should we think about that rolling off? Like is that -- like do you have a line of sight on when those dollars come back, I guess?

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

Yes. As we look at our future expectations around government relief, we don't expect that to be a significant portion of our expense savings. And as we look to the fourth quarter, we estimate approximately 25% of the amount in the third quarter will be available to us.

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

Okay. And then in the remaining $120 million of nonpermanent savings, can you talk a bit about what was in that, just helping us understand us just how quickly some of those costs can come back. So was that like T&E that naturally has come down in this environment? Or is it stuff that you specifically had to action? Or just maybe a little bit more color there.

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

Sure. So it's -- for the $120 million in third quarter, that break -- that breaks down roughly to 30% from the government relief, 30% from nonpermanent decisions on compensation and benefits in the fixed expense category and 40% from [OAL,] both fixed and variable.

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

Okay. And then I think you talked about the fourth quarter top line looking pretty comparable to the third quarter. But your fourth quarter typically is going -- just seasonally have more volume, and you would see margins go up. Do -- should we think about margins sequentially improving this year?

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

No. So thinking through the revenue story, yes, there's definitely seasonal impact to our revenues and so we remain cautiously optimistic. We saw the pipelines increasing from the end of the second quarter to end of the third quarter. But in the current environment, every day, we're hearing some additional bad news out there as it relates to different government lockdowns and actions taken to control the virus, so definitely an area to watch on our top line.

As it relates to the expenses, we're going to continue to carefully manage those. Within that $120 million of nonpermanent savings, there are different levers we can pull and flex in response to what's going on in the business environment. And so we'll continue to do that, being mindful

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of the fact that we have the government relief going away, some of our permanent savings coming through, and that remaining bucket, we will manage quite carefully.

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

Okay. And then last question for me. Leverage is back down to pre-HFF levels. Can you talk about your appetite for M&A or just investing in general?

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

Sure. It's Christian speaking. Listen, we are really determined to deliver value to our shareholders. And so we are cautiously evaluating the different opportunities we have for our capital allocation. M&A is one of them, and the opportunities are increasing quite significantly at the moment. And so we will continue to stay very close to it. But for the time being, we haven't seen anything which we would think was worth spending our shareholders' money on.

Operator

Your next question comes from the line of Stephen Sheldon with William Blair.

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

I wanted to ask a couple of questions on the more permanent cost mitigation efforts. You talked about cost efforts last call, although I don't believe you quantified it. First, is there a way to frame how much you stepped up the more permanent fixed cost mitigation efforts relative to what you thought a few months ago? And then second, out of the $135 million on annualized cost reduction, how much of an impact did that actually have in the third quarter? Apologies if I missed that.

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

Sure. So we did -- we referenced that, that $135 million annual savings was based on actions taken year-to-date through October. And so a number of those actions did occur in the last 30 days. As it relates to how much of that actually flowed through the third quarter results, it's approximately 15% of the total.

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

15%?

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

15%, 1-5. Yes.

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

Okay. Got it. Got it. And then really, the pipeline detail on Leasing and Capital Markets, really appreciate that. I want to ask about the factors behind the improvement. Is it more driven by the areas that have held up well so far this year, like industrial and multifamily? Or is it being driven more by potential stabilization in the weaker areas like the office sector?

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

I think it's both. I mean obviously, we have some asset classes which are holding up really well, mostly coming from what we would call the alternative asset classes, but also, obviously, on the logistics side. But we have seen also some strong deals on the offices side, mostly when we talk about super core buildings, where there is appetite. I mean as we have stated in our previous calls, there is a real strong overhang of capital, which is waiting to be invested. And so when you have stable assets, which are very -- with a very strong covenant, those assets are actually trading.

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

Okay. Got it. And then the last one for me, I know there are a lot of moving pieces and areas of uncertainty looking into 2021. But when you look at it broadly, have you become either notably more optimistic or pessimistic over the last few months on a potential recovery in transaction activity next year? Or are there just, I guess, too many unknowns to gauge it right now?

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

I don't think that our view on 2021 has changed in any notable way. At the end of the day, we need to have a vaccine, and we need to have a clear way of treating infected people before something which is closer to what we would call normality is coming back. But we didn't expect that for this year. And the fact that we have now a second wave in at least Europe and the U.S. was kind of in range of our expectation for this year and that, that second wave would probably go well into next year until -- especially for the more northern parts of the world. But climate is changing again, and we are getting summer back. That was again expected.

I think, as I just said, we have a very, very strong appetite for investors to get into real estate, and we have a very strong appetite for corporate real estate outsourcing. Both of those trends will be there once the environment of the pandemic kind of allows more normality. So we are reasonably optimistic, and we will weather the storm as long as it will be there.

Operator

Your next question comes from Jade Rahmani with KBW.

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

Something I get from investors a lot is a comparison between JLL and CBRE. And when we look at the company's results in the third quarter, stripping out the $120 million of nonpermanent savings, and compare JLL's adjusted EBITDA margin to CBREs, what do you think explains CBRE's higher margins? Do you think it's business mix? Do you think it's scale or geographic footprint?

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

Well, actually, Jade, we are pretty much focused on JLL and lesser focused on CBRE. But you are there to make those comparisons.

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

Okay. I appreciate that. In terms of the permanent cost reductions, also have been getting a lot of questions from some of your largest shareholders so some insight would be helpful. How much is severance related versus a reduction in fixed operating and administrative costs?

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

Yes. The majority is due to reductions in our headcount.

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

And so when you talk about the annual number of permanent cost reductions -- I'm sorry, I think that is about $135 million in permanent reductions, how much of that assumes an unchanged revenue outlook? In other words, flat revenues.

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

Yes. We're really -- that's not how we made the decision. So as we looked ahead, we were really focused on 2 things: one, orienting around improved cost efficiency for the business; and then also looking ahead as it relates to which areas of our business would return to growth in different periods of time. And so the other thing to emphasize around that $135 million number that I quoted is that relates to salary and benefits only. It does not incorporate elements of variable compensation.

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

Could you give some color as to how it breaks out amongst the various business lines, which CBRE did on their call on Thursday? Capital Markets, Leasing, occupier outsourcing, property management, et cetera?

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

Sure. I'll do it around the 4 segments we report. So 50% of it was in EMEA, 40% of it in the Americas and then the remainder in APAC and LaSalle.

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

Okay. A bigger picture question around the office sector, and I would note that Harvard Business Review just put out a study about work from anywhere policies and commenting that there's productivity gains related to that. What are you hearing from your clients in terms of how they're viewing office lease re-signings and generally, office lease terms. I think last quarter, Christian, you said office lease (inaudible) were down about 16%, indicative of compression in the average lease duration that occupiers are willing to sign on to. Just was wondering if you could give an update on that sector.

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

Well, I kick it off, and then I hand it over to Karen. I think the large occupiers are largely still a bit in a holding pattern. We see smaller occupiers to be slightly more active. But that trend, which I indicated in the last call is still around, and occupiers are obviously, at the moment, much more concerned around the question what is their best use of office in the future rather than the question when can they get back into offices. But as many other people have already stated publicly, we see a pretty strong trend of dedensification and determination to make offices not only very inspirational, but also a very, very safe place where the users of offices are looking forward to get to. And that is something which is needing a lot of advice and an area of our focus for us in our overall advisory practice and also around the corporate real estate outsourcing. Karen, do you want to add something?

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

Yes. There was a statistic that you quoted around the pipeline. That was for U.S. office leasing that Christian referred to in our second quarter discussion. And so it was interesting, that was still pretty early on and to look at what actually transpired in the third quarter based on that pipeline

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in terms of the reduction in lease terms, it was down approximately 8.5% compared to that 16% pipeline number. And so when we look into the details, there were actually a handful of larger deals, primarily done by tech companies that were larger, longer-term in duration, and they made big commitments in the third quarter, which impacted that statistic. So we're still watching it very closely in terms of how that unfolds. But certainly seeing a higher probability, higher frequency of renewals over new deals and shorter terms overall.

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

And I was wondering, are there any executives from the various business lines, specifically Capital Markets and Leasing, who might be able to provide a market update as to what they are seeing.

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

We don't have anyone joining the call specifically this morning with us. But please feel free to ask any questions, and we'll answer as best as we can.

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

Yes. If you could just provide some color as to specifically on the Capital Markets side, what you're seeing in terms of private equity and large real estate asset managers and their appetite. I think that various market participants have noted some increase in transaction pipelines on the very small deal front, but curious if there's any update that you could provide there.

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

Well, on the Capital Markets side, as I noted earlier, we have a very large sum of capital waiting to be invested. For the time being, that capital is focused on the super core deals and some of the more specific asset classes. And the transactions are happening mostly either domestically or by institutions who have people on the ground in a foreign market because there is still a strong desire to have personal inspections before they sign up for those deals. This will continue as long as this pandemic is kind of impacting travel. But we expect -- and that may be a bit counterintuitive, but we expect the Capital Markets business to actually come back earlier and stronger than the Leasing business because of that massive capital overhang, which is waiting to be invested.

On the corporate side, big organizations are, at the moment, relatively cautious to make decisions on outsourcing. And that is not because they don't believe in it. They very much believe in it, but it just takes a lot of physical interaction. People are looking into space and taking a lot of granular analysis before those contracts are being signed. Interestingly enough, our own pipeline is significantly stronger at the moment than it was 12 months ago, which is just supporting that underlying strong trend towards that outsourcing where we are incredibly well positioned for.

Operator

Your next question comes from the line of Patrick O'Shaughnessy with Raymond James.

Patrick Joseph O'Shaughnessy - *Raymond James & Associates, Inc., Research Division - Research Analyst*

So regarding working from home, whether that's employees permanently working from home or having some sort of hybrid approach, how does that vary for companies based off of regions? Is -- would you expect work from home to be as big of a component going forward in EMEA and Asia as you would in the Americas?

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

I think that depends very much where you are in the Americas and Asia and in Europe. I think what is generally true around the globe, employees do want to get back to the office. They do enjoy the vibrancy, the exchange with their colleagues and also, to a degree, the ability to have a clear difference between their working hours and their private hours. The big but is what kind of working -- what kind of office environment do they have? Do they need to take public transportation to get to the office? Do they have to queue up at an elevator in a high-rise building? Can they take their private cars and have a parking place right next to their office space? So these are many, many different factors. So if you put that into the mix, it is probably fair to say, if I were to generalize now, that you will see less working from home in Asia, especially in the big cities of China and Japan and other very crowded places, but maybe not in Australia, where people will have the opportunity also to work from home.

And the reason for the Asia piece is you also have to look at their living environment. If you have very spacious abilities to work from home, that creates a different working from home environment than when you are sharing your apartment in downtown New York. And so there are so many factors playing into that.

I think what is safe to say is that we will continue to see a hybrid between working from home and coming to the office. And that is something companies have to get their arms around how they can really stay as productive in that hybrid model than they were before.

Patrick Joseph O'Shaughnessy - *Raymond James & Associates, Inc., Research Division - Research Analyst*

Got it. And then a question about the LaSalle business. AUM was down about $2 billion year-over-year. And I think your commentary was that was attributable to valuations and FX. But underlying that, how are flows looking in the LaSalle business? And how competitively do you think that business is faring relative to other major commercial real estate asset managers?

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

Yes. We've actually experienced continued capital flows into the LaSalle business. Within our release, we identified the $2 billion in the third quarter, that $2 billion that was raised. And so it's certainly a slower pace than we've experienced in the last couple of years where we had really strong momentum within the LaSalle business, but it's continuing, nonetheless. And as Christian mentioned earlier, there's still very strong interest in capital flows to real estate overall and significant dry powder available to deploy. And there are certain segments that are remaining quite active in the current environment.

Operator

Your next question comes from the line of Anthony Paolone with JPMorgan.

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

Just had a couple of follow-ons. One is with regards to market share, it seems like you and some of your peers have talked about picking up some share here. Where do you think that's coming out of? Is it smaller regional names or other folks? Like where is the market share coming from?

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

Well, one of the reasons for picking up market share is that the most active companies still doing deals are coming from the big tech sector, and those companies tend to be advised by the likes of us. And so that helps. The other reason for that is that we and some of our competitors have invested very heavily in technology, which allows us to serve our clients even in a work-from-home environment seamlessly, and that obviously helps us now to win disproportionate market share in this current environment.

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

Okay. That's helpful. And then just my other question is with regards to the outsourcing business. If we look ahead, do you think there's a point in time where companies are going to step back and say, "Okay, we're now going to look to save money and either look for ways to cut footprints and fees?" And if so, how do you think about the offsets on a contract-by-contract basis that you all think you can use to kind of protect that revenue stream?

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

Well, listen, corporate real estate outsourcing has evolved very much from the times where it was only about reducing cost to today's world where it's very much about increasing the quality, the experience, the employees have in the work space, get best practice in as quickly as possible. Reducing cost is very often an additional plus. But depending on what industry you are in, in some industries, the point about reducing costs is just less relevant for them.

Real estate is a very important factor to retain and attract best talent. And for that, there's a real need for best practice from around the world. And that is why we are having such big successes in that part of our business.

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

I'm sorry, just going to add, as occupiers evaluate the real estate cost, not everyone right now is within an outsourcing model. And so we'll also benefit from first-generation outsourcing new business wins.

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

Okay. So you don't think that there's -- this is something to look out and anticipate more headwinds as companies kind of get through the pandemic? You feel like there's other levers to keep that growth going?

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

Yes. Right now, the trends are showing us good momentum. We'll continue to watch carefully, but nothing at the moment.

Operator

There are no further questions at this time. I will now 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, operator. With no further questions, we will close today's call. On behalf of the entire JLL team, we thank you all for participating on the call this morning. Karen and I look forward to speaking with you again following the fourth quarter. Stay safe and healthy.

Operator

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

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