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JLL.N - Q4 2020 Jones Lang LaSalle Inc Earnings Call

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OVERVIEW:

JLL reported full year 2020 results with consolidated revenue of $16.6b and adjusted diluted EPS of $9.46. 4Q20 consolidated revenue was $4.8b and adjusted net income was $276m or $5.29 per diluted share.

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PRESENTATION

Operator

Good morning. At this time, I would like to welcome everyone to the Jones Lang LaSalle Incorporated Fourth 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 fourth 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 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, 2020, 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. Welcome to our fourth quarter call. Overall, I'm extremely pleased with how our team across the world performed in 2020, providing exceptional services to our clients while successfully navigating the pandemic-related challenges and delivering solid results for all our stakeholders. Our fiscal year was capped off by a better-than-expected performance in the fourth quarter, which is a testament to the growing strength of our platform. While we remain cautious about the first half of 2021, given the extent of uncertainty related to the pandemic, we are proud of JLL's execution to a unique year in 2020.

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Before turning to the market environment and our financial performance, I wanted to briefly explain how some of the strategic investments made prior to 2020 supported us to successfully navigate this past year. Our technology investments in finance and HR ERP systems and the migration of all geographies and business lines into one accounting system, provided management much better visibility into our working capital position, where we were able to significantly improve our receivables collections and enhance cash generation. I cannot emphasize enough how vital this was to effectively manage our overall liquidity, repaying debt ahead of our schedule and continuing to invest to drive future growth.

Secondly, the investment in our capital markets, CM platform, where we also integrated our colleagues from HFF allowed us to share client information seamlessly and promote cross-selling throughout the organization. This has been a strong contributor to our success in 2020, also evidenced by our fourth quarter performance in America's capital markets relative to the overall market. We will continue to invest in superior technology tools and leveraging our data to further enhance our value proposition for customers, differentiate us from the competition and ultimately create value for shareholders.

In 2020, we also accelerated the organizational transformation initiated in January 2019 through the appointment of new global and regional leadership roles, further enhancing the global integration of our services and expertise. It's also important to note that we are focused on helping our clients plan their transition to a post-pandemic environment, leveraging our Board leadership to advise on the future of work, the changing role of the office and the evolution of cities.

Turning to the market environment. The development and administration of vaccines in the fourth quarter marked the first steps in a long march toward a post-pandemic environment. While the second half of 2020 saw the beginning signs of recovery, many countries are witnessing record-breaking levels of new cases. Significant uncertainty will continue to weigh on the overall recovery as the world waits for widespread immunization to an extent that will bring the pandemic under control and further bolster the economic development.

Relative to the global office leasing market, JLL Research reported that activity in the fourth quarter was down 43% from a year earlier. The United States saw a much sharper decline compared to the other regions, with activity down 53%. The EMEA and Asia Pacific recorded decreases in activity of 39% and 25%, respectively, relative to last year. Vacancy rates increased across all regions in the fourth quarter, with a global vacancy rate now at 12.9%, the highest level since 2014. Global capital markets continued to recover from the sharp contraction recorded earlier in the year as declines in investment sales decelerated in the fourth quarter led by a robust rebound in activity in the Americas and large European markets.

Despite the challenges throughout the year, the decisive actions undertaken by our team as well as the overall resilience of our platform enabled JLL to deliver solid results for the year. Consolidated revenue fell 8% to $16.6 billion and fee revenue declined 14% to $6.1 billion in local currency. We recorded adjusted EBITDA of $860 million, a decline of 24% from the prior year and adjusted diluted earnings per share of $9.46, which represented a decline of 34% from the prior year. It is worth noting that despite the challenges of 2020, we were able to achieve a full year 14% adjusted EBITDA margin, which is within our long-term target range of 14% to 16%. We also generated a record $1.1 billion in operating cash flow, a testament to the strength of our business model and ability to navigate a downturn.

Turning our attention to our fourth quarter performance. Consolidated revenue fell 12% to $4.8 billion and fee revenue declined 19% to $2 billion in local currency. Adjusted EBITDA of $417 million represented a decline of 18% from the prior year, although adjusted EBITDA margin increased 50 basis points to 21.3% as reported, driven by cost mitigation initiatives and from government COVID programs. Adjusted net income totaled $276 million for the quarter and adjusted diluted earnings per share totaled $5.29.

As I alluded to on the third quarter earnings call, Capital Markets transaction volumes, especially in the Americas, came back faster than Leasing as investors began to adapt to the current environment and put capital to work. Logistics and multifamily housing continue to demonstrate resiliency. However, though our transactional pipelines are building, the market remains uncertain in the near-term and activity has not yet normalized.

Throughout 2020, the key priority of management has been a review and corresponding refinement of our capital allocation strategy. Our strategy is underpinned by a framework that considers allocation across 3 main pillars: maintaining an investment-grade balance sheet, driving future growth through organic and inorganic investments in the business and returning cash to shareholders. Our commitment to an investment-grade

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balance sheet enables access to the capital markets throughout [cycle]. We repaid the debt associated with the HFF transaction 1 quarter earlier than expected, which speaks to our diligent cash management and operational focus.

Our current approach is to operate within a reported net leverage range of 0.5 to 1.25x, recognizing that there may be periods outside of this range due to seasonality and other short term factors. The strengths of our balance sheet and ability to generate meaningful cash flows enable us to reinvest significantly into our business, following initiatives that will drive profitable organic growth and attractive returns on capital and that are aligned with our Beyond 2025 goals remains the main priority for JLL. This includes technology investments which we believe is a significant differentiator for JLL.

M&A will continue to be an avenue of growth for JLL in a consolidating industry. We will strategically evaluate opportunities as they arise. There are no gaps in our portfolio, so our bar is high. Any opportunity must meet our already rigorous standards, specifically, they must be value-accretive acquisitions that are appropriately priced, have a strong cultural and strategic fit and generate a return on invested capital of at least 12%.

Over the long term, we are committed to returning approximately 20% of our free cash flow to shareholders. The percentage will vary year-to-year depending on the investment opportunities we identify. Before 2020, our primary method of returning cash has been through a dividend. During 2020, we made the decision to shift our primary distribution method to share repurchases due to the increased flexibility and attractive market conditions. We evaluate share repurchases the same way we evaluate an acquisition or investment by analyzing capital invested and expected returns. If we expect to earn a higher return repurchasing JLL shares, then we will allocate capital accordingly.

Our 2020 repurchase activity was reflective of this approach. We repurchased $100 million worth of shares at an average price of $111. For perspective, this is slightly more than twice the amount we returned to shareholders via dividends in 2019. We have $100 million remaining on our existing repurchase authorization, and the Board of Directors recently authorized an incremental $500 million share repurchase program for a total of $600 million.

I will now turn the call over to Karen, who will provide further detail on the results for the fourth quarter and full year.

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

Thank you, Christian. Our overall fourth quarter performance exceeded the upper end of our expectations, driven largely by Capital Markets. I'll briefly highlight 2 notable items that speak to our cautious optimism for 2021, particularly the second half of the year. First, the year-over-year Real Estate Services fee revenue percentage decline in the fourth quarter improved modestly versus the third quarter, indicative of solid performance of America's capital markets. Second, our continued focus on capital and operating efficiency, coupled with earnings, once again yielded strong cash generation in the quarter, which we used to fully pay down our revolving credit facility and return an additional $50 million of cash to shareholders via repurchases.

Moving 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 transactional leasing and capital markets businesses reflected ongoing uncertainty regarding the evolution of the pandemic and its impact on decision-making by corporate occupiers and investors. While we are encouraged by the trends in our pipelines and recent performance in both service lines, we expect transactional activity to remain subdued over the near-term before picking up in the second half of the year with Leasing lagging Capital Markets.

Fourth quarter Capital Markets fee revenue declined 15% from 2019, a market improvement from the 43% decline in the third quarter. The improvement was broad-based across our geographic segments and service offerings. The resiliency of our multifamily business, a notable improvement in our Americas investment and debt advisory businesses speaks to the breadth and strength of our platform as well as synergies from the HFF acquisition. It is also worth noting that we decreased our loan loss credit reserves in the Americas by $9 million, partly offsetting the $31 million charge we took in the first quarter.

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I'd like to highlight one of many examples that demonstrate the power and cross-selling opportunities of our combined JLL-HFF Capital Markets platform; the sale and financing of the iconic Transamerica Pyramid Center in San Francisco for $650 million and $390 million, respectively, during the fourth quarter.

Despite the pandemic, the expanded JLL-HFF footprint drove a strong and diverse bidder pool, ultimately securing a joint venture partnership between a domestic and cross-border buyer. In addition to representing the seller, procuring the buyers and arranging the financing, JLL retained the property management and project and development services contracts and successfully secured the leasing mandate during the sales process.

Looking at the global capital market environment, investment sales dropped 21% in the quarter and 28% for the year according to JLL Research. While the secular trend of increasing capital allocation to commercial real estate remains evident, activity remains somewhat muted as investors continue to adjust valuations and pricing to reflect the current environment. However, we saw an even more broad-based tightening of the bid-ask spreads than the prior quarter, particularly for higher quality assets in resilient sectors, such as industrial and logistics and U.S. multifamily.

Turning to our 2021 Capital Markets outlook. Our pipeline is reasonably consistent with our 2020 Capital Markets geographic fee revenue mix and is well distributed across sectors. We see a high degree of resilience in residential and industrial and logistics, which are expected to continue that momentum in 2021. Our pipeline, coupled with improving liquidity in the market, gives us confidence in generating growth in Capital Markets fee revenue in 2021. The renewed lockdowns and economic uncertainty do present headwinds, particularly for the first half of the year.

Consolidated leasing fee revenue declined 28% compared with the prior year quarter, a slight improvement from the 30% decline in the third quarter as clients continue to delay significant decisions regarding future real estate strategies. Our investments in the higher growth asset classes of industrial supply chain, life sciences and data centers continue to provide partial offset to ongoing softness in the office sector.

Looking at the Leasing market environment, global activity continued to modestly recover from midyear lows, driven mostly by smaller transactions. Global office leasing volumes declined 43% in the fourth quarter, compared with a 46% decline in the third quarter. In the U.S. office market, shorter terms and renewals have been preferred by occupiers. In offices across major U.S. cities, we saw continued declines in net effective rents, which may eventually spur activity. Our U.S. gross leasing pipeline has improved from midyear lows and is up 5% year-over-year, though we emphasize closing rates and timing remain highly uncertain. Based on our leasing pipeline and our overall view of the market, we expect leasing activity to remain tempered in the first half of the year before gradually starting to recover in the back half of the year.

Property & Facility Management remains a growth area, driven largely by new business wins and contract expansions in the Americas as corporate occupiers and investors seek our services due to increased building management standards.

Our Corporate Solutions business fee revenue declined 7% in the quarter. A strong growth in Americas facility management was more than offset by ongoing headwinds in our Project & Development Services and U.K. mobile engineering businesses. We continue to be encouraged by the secular outsourcing trend, especially if clients increasingly seek our sustainability consulting services.

LaSalle's quarterly and full year comparisons were impacted by outsized incentive and transaction fees in 2019. Advisory fees were resilient for the full year within a backdrop of continued capital raising. Coming off a record $8 billion of capital raised in 2019, LaSalle raised $6.1 billion in 2020 demonstrating that capital continues to flow to investment managers with proven track records. LaSalle's assets under management grew about $3 billion from the prior quarter to $69 billion. For 2021, we anticipate around $25 million of incentive fees, with very little in the first quarter.

Now I'll provide some details around our cost mitigation actions. Consistent with my statements on the third quarter call, we expect $135 million of annualized fixed cost savings from actions taken in 2020. It is important to note that we see opportunities in the current environment, and we will continue to invest for growth. For the full year 2020, nonpermanent cost savings totaled about $330 million, including about $85 million in the fourth quarter. Major items that benefited our full year profitability included approximately $250 million of cost mitigation savings in T&E, marketing and other expense areas and $80 million of government COVID relief programs.

Just under half of the $330 million of savings will not be repeated in 2021 as they represent finite actions, including government programs and temporary reductions to compensation and benefits. The remainder of the nonpermanent savings in 2020 are likely to return gradually as business

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volumes recover, and will often precede the revenue generation. For example, marketing expenses. Considering our cost-saving initiatives, business mix and growth initiatives, we expect to operate within our 14% to 16% long-term adjusted EBITDA margin target range in 2021 and the years ahead.

However, due to timing of expenses and the length of the sales cycle, particularly in the more transactional businesses, we expect adjusted EBITDA growth to lag fee revenue growth this year. As we gain more visibility into the trajectory of the recovery as the year unfolds, we will provide more details on our 2021 expectations.

Shifting now to an update on our balance sheet and our thoughts on capital structure and efficiency. The sequential improvement in earnings, our enhanced focus on improving asset efficiency and modest CapEx and investment spending, allowed us to reduce net debt by $560 million in the quarter, which ended the year at $192 million. At the end of December, reported leverage was 0.2x, down from 0.8x at the end of September, and we had $3.3 billion of liquidity, including full availability of our $2.7 billion revolving credit facility.

As Christian mentioned, we are targeting a reported net leverage ratio of 0.5 to 1.25x over the long term, though there may be variances due to operational seasonality as well as timing of business reinvestment, M&A and share repurchases. We are very focused on continuing to improve our capital efficiency, which was a key factor in our strong cash generation and debt reduction in the quarter and full year despite the operating environment.

Looking ahead to the full year 2021, we are encouraged by our pipelines and the momentum in our business and anticipate our business will grow this year. However, the seasonality of our business and the recent renewed lockdowns across the world create considerable uncertainty across the entire industry, making it premature to provide fee revenue and profitability targets for the year at this time.

We currently anticipate progressive improvement in the second half of the year, but much will depend on the evolution of the pandemic, the pace of vaccinations and economic activity globally. Long-term, we remain focused on achieving our 2025 Beyond targets. We have a steadfast commitment to meeting the evolving needs of our clients, people and broader community. This, coupled with our constant efforts to improve both our operating and capital efficiency, positions us to improve our returns and free cash flow, consequently generating significant 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. With the distribution of vaccines, the general sentiment supports a meaningful recovery in 2021 with some analysts forecasting global economic growth in excess of 5%, much of it coming in the second half of the year. Our people are committed to aligning with our clients' objectives and providing advice about how to navigate the transitions ahead. As corporate occupiers begin to reimagine the future of work, they will rely on best-in-class firms like JLL to help them with this transition. Additionally, we will be working closely with our investor clients and leverage the firm's broader perspective to provide necessary insights.

As we enter 2021, we remain focused on achieving our long-term priorities. Though we are mindful of the near-term challenges and uncertainty that remain, we are poised to seize the considerable opportunities in front of us, while maintaining financial discipline, important to long-term sustainable growth.

In summary, I'm pleased with the way that JLL was able to navigate through such turbulent and trying times of the past year. The results that we were able to achieve would not have been possible without the commitment and relentlessness of our employees as well as the resilience of the communities within which we operate. At JLL, we are committed to our stated purpose of shaping the future of real estate for a better world. We are cognizant of the important role that we play in today's challenging and evolving environment. We are well positioned to deliver on our purpose through JLL's thought leadership, the strong growth in our sustainability services and our ability to bring to market differentiating technology products. I'm confident in our ability to generate long-term profitable sustained growth and shareholder value.

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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 from JPM Securities LLC.

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

My first question, I guess, for Karen, can you maybe walk us through some of the building blocks related to your comment about adjusted EBITDA lagging revenue growth in 2021. I just want to understand, I guess, how the permanent temporary cost saves play into that as well as like your margin target?

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

Sure. So yes, there are a lot of moving pieces as it relates to comparing 2020 to 2021 from a margin profile perspective. First, just to reiterate, we did deliver within the 14% to 16% range in 2020 despite significantly reduced fee revenues over the course of the year. We'll be focused on top line growth going into 2021. And so due to timing of expenses and the length of the sales cycle, our margin growth will lag fee revenue growth in 2021. We noted that we took significant cost actions in 2020, some of those were nonpermanent and those comprise $330 million in total over the course of the year. Roughly half of those will -- were discrete items and will not repeat in 2021, and the remainder will be coming back more gradually as business volumes recover. We also have some level of headwind within that related to the government programs, which are part of that.

The other element of 2020 that will repeat in 2021 were the fixed reductions of $135 million. So we have taken actions on those over the course of the year. We mentioned them last quarter. Approximately 1/3 of that total came through our 2020 numbers, and the remainder of that will be realized in 2021. And so high level, you have those moving pieces as it relates to the expenses, but we'll be moving to drive future growth, and we'll be reinvesting in our people over the course of the year.

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

Okay. I mean I think I'll probably have to digest some of those puts and takes. But just to be clear, do you think your margins improve, like within that 14% to 16% band over 2020 in 2021?

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

Yes. As I mentioned, we'll expect the margin growth to lag the fee revenue growth over the course of 2021.

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

Did you mean the margin growth or the adjusted EBITDA growth? I guess, I'm just getting hung up on...

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

Adjusted EBITDA.

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

Okay. Okay. And then just separately on a different topic. Can you talk about just what's happening on the outsourcing side? And you'd mentioned in your comments some of the RFPs in the backlog. It sounded like it's pretty good. But just interested in hearing what occupiers are doing with their footprints and whether -- even if you have contracts to continue to run their space, whether any of that is shrinking or they're looking at their footprints as a way to save money?

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

Anthony, it's Christian. The outsourcing business has continued to perform really well and frankly, medium term, we expect that to benefit from the COVID environment because it becomes very evident for corporates who haven't outsourced yet that in this environment, to really deliver the health and well-being of their employees, it is very hard to self-perform that. So we see that outsourcing trend to increase and so on. This is one of the businesses which are -- which have performed really well in 2020, and they will continue to perform very strongly going forward.

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

Okay. And then last question for me. Just back on the onboard, it seems like between free cash flow and debt capacity staying within your IG credit target, you'd have about $1 billion or so of liquidity here. You outlined the stock buyback. But just what are the prospects for putting capital to work on the investment side and potential acquisitions or other investments?

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

Well, first of all, we are very pleased that we are in such a strong and comfortable position to start 2021. We see very significant net organic growth potential in 2021. And we are -- as Karen already alluded to, we are very focused now to regain that strong top line growth rate, which then goes down to our overall profit over the course of the year. With regards to the share repurchase, we view the share repurchase executive same review any investment. So we make a rigorous assessment where we believe we can create more value for our shareholders. And on the M&A front, we are very open to M&A, but it has to kind of pass a very rigorous assessment. We have a full-scale business all around the globe. There aren't any holes which we need to cover. And therefore, for the foreseeable near future, we are not pursuing any specific targets there and in that context you can also see that share repurchase program, which has been approved by our Board of Directors.

Operator

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

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

On the continued stabilization in Capital Markets activity, curious what you are seeing, particularly in the office subsector. From the visibility you have, what trends are you seeing in how investors and owners are underwriting office investment sales given some continued questions about corporate demand on the Leasing side over the next few years?

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

Yes. I mean Capital Markets is a combination of dealing in various asset classes. As you know, we are operating in all the different asset classes. And clearly, the office sector is one of those areas which was more influenced in the pandemic than, for example, residential or logistics. We still see a very strong demand for the best buildings in the best locations. And that is one of the reasons for that very strong uptick of the Capital Markets business overall in the fourth quarter.

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But for those buildings who are kind of likely less top with more question marks around the rent roll, there is still hesitation out there about what is the right rental level for those type of buildings going forward. And that obviously is then reflected sometimes in a like gap between what buyers and what sellers would like to see around pricing. So that will continue to be a hesitancy in the office sector going into 2021. But as I said, that is only -- that is only applying to those buildings, which have some question marks around the location, around the quality of the buildings or around the rent roll.

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

Got it. That's helpful. I do wanted to ask about technology. I guess, how has the pandemic changed your technology road map looking out over the next few years? Are there areas where you may ramp investments more into areas like broker productivity tools or more tenant-facing technology solutions than in the property and facilities management? Just curious how you're thinking about tech investments at this point.

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

Well, as you know, we have been very focused on that over the last couple of years and invested quite strongly into that area. And from our point of view, this is one reason why we were able to deliver such a resilient performance in 2020, especially now with Capital Markets business where we run on 1 global system. We were able to really take advantage of that.

And then those areas which you just mentioned, to be able to run virtual tours for leasing space, it's also something where we have a number of tools out there. And what we have seen during the pandemic, how clients have been getting used to run those virtual tours and feel pretty comfortable with it. So what we believe is that this is something where the market will adjust, obviously, much quicker than without the pandemic, and we believe that we are providing our brokers with the leading tools in the market and will take benefit of that, which should be reflected in an ongoing growing of our market share.

Operator

Your next question comes from the line of Jade Rahmani from KBW.

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

Just a clarifying question, if you're saying that growth in adjusted EBITDA will lag growth in fee revenue, by implication, that should suggest that the margin would decline. Looking at your slides, you show that the adjusted EBITDA margin for 2020 came in at 13.9%. And you're saying that for 2021, you would expect to be within the 14% to 16% long-term target range. So with respect to the 13.9% that was generated in 2020, do you expect the 2021 adjusted EBITDA margin to be higher than that, similar to that or lower than that?

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

We don't give specific guidance. I can reiterate the comments I made before around our overall cost structure, if that would be helpful, and perhaps clarify something -- clarify these things.

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

Well, I guess I was just thinking that if adjusted EBITDA and the dollars would grow slower than fee revenue, that would imply some modest margin pressure, which could be a time factor or a lag effect. Is that a correct interpretation?

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

We're talking about percentage growth.

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

Okay. So the percentage -- okay. That's helpful. Turning to the Capital Markets outlook. You're saying that you're cautious in the first half, presumably, most of that relates to the first quarter because the pandemic really unfolded starting in March. Is that a correct interpretation?

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

Well, first of all, you shouldn't bring it down precisely to the months where the pandemic started because it all started at different times in the world. The first quarter in Asia was already completely hit by the pandemic. And secondly, a lot of the Capital Markets transactions which we realized in the second quarter were deals which were kind of prepare site business had all taken place -- due diligence had all taken place before the pandemic hit those markets. And we are now moving into a situation where obviously site visits can only take place if the pandemic allows that there isn't any deal out there where those things, the due diligence and all those topics, have been done pre-pandemic. And so I would caution to kind of think that this is a one-on-one kind of correlation between what the pandemic does and when the business is picking up again.

I think what's fair to say is that we are, overall, much more positive about the Capital Markets outlook than we are for the Leasing outlook for the -- especially for the office leasing outlook for the reason we alluded to. There's a lot of interest from investors to get into real estate and to straight stable income streams. And so the fourth quarter recovery of the Capital Markets business is showing a bit of a trend going forward, that capital markets will go first in the recovery and the leasing markets will follow later on.

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

I think a lot of investors are interested in the property type mix. If you could give any color for the Capital Markets business, what percentage is industrial, what percentage is multifamily, office, hotel, et cetera, I think that would help investors understand the resilience of those businesses. You definitely did call out industrial and multifamily as performing and is more resilient. So some of your peers have provided that mix breakout. I think that would be helpful.

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

Yes. I mean we have -- what we have seen in 2020 is that the offices sector, which was historically by far, our largest sector has declined pretty significantly in our own revenue terms, roughly 30%. The same is true for retail. Whereas the industrial sector has increased by about 30% within our own business. And so residential was about flat for us year-over-year. And we have now a situation that within JLL, our residential revenues are now higher than our office revenues and industrial has come now very close to offices.

Over the course of 2021, you will see that the office sector will show a stronger rebound again so that it will become a very strong [follow-up] to our residential revenues. But this mix in the different asset classes is obviously something which we are very proud of because it has created that enormous resiliency in our Capital Markets revenue next to the different type of services we are offering where investment advisory is the largest, but the debt advisory business is also a very, very strong sector for us and then the equity advisory.

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

And I know that HFF historically -- sorry, go ahead.

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

I was just going to -- I believe part of your question was trying to get at what is the current percentage mix by property type within Capital Markets. So I could -- if you're interested in that, in isolation for 2020 for overall, office was approximately 1/4 of our total revenues, industrial was about 20% and residential about 35%. And that includes both investment advisory and debt advisory pieces of the Capital Markets business.

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

Okay. Yes, I think that is helpful. I know that HFF historically was at the higher end of the average deal size with the -- I think, around the $35 million to $40 million average transaction size that would seasonally increase throughout the year. And one of your peers has highlighted strength in the category of deals below $10 million in absolute transaction size. I was wondering if that area of the business is potentially targeted as you're interested in growing? And if perhaps you might be able to share what percentage would fall in that sub-$10 million or perhaps sub-$5 million transaction category?

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

Well, as you know, we are very focused on transactions in the higher size deals, as HFF. That's why it was such a strong fit to JLL. And also, we believe that we are certainly leading on cross-regional deals. This question around the smaller sector, what you say, below $10 million or even below $5 million, that is something which is -- nothing where JLL has been very focused on in the past. And certainly, a sector which will lead, going forward, a very strong technology support to run that as a profitable sector for whoever is focusing on that sector.

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

Just going to add to that as well. We haven't seen a significant decline in overall transaction size, if that's what you're questioning in terms of how we're looking at the recovery in our Capital Markets volume.

Operator

Your next question comes from the line of Rick Skidmore from Goldman Sachs.

Richard Wynn Skidmore - *Goldman Sachs Group, Inc., Research Division - Vice-President*

Christian, in your prepared comments, you mentioned no gaps in the portfolio and that the bar is high for external growth. As you think about external growth, are there businesses or geographies that need greater scale? Or is the scale sufficient such that, that external growth will be more about just being opportunistic as you go forward?

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

Well, I mean when you look at the size of the different economies we are active in, then we would long-term further growth in our Asian business, especially in China and Japan. But we don't reckon that this will be supported by any type of M&A, but that is part of what Karen was mentioning. We are very focused on driving investment into our business for organic growth. And so that's one of our key focus areas.

With regards to M&A, with such a full size, full-scale platform as JLL has, there may be more of the adjacencies, which are of interest to us going forward. But again, we see so much opportunity to grow organically, especially post-pandemic, 2021 is the year where you can really move on the organic side very strongly, and that is certainly a more comfortable way of growth than trying to do any type of M&A at this point in time.

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Richard Wynn Skidmore - *Goldman Sachs Group, Inc., Research Division - Vice-President*

And then one follow-up question, separate topic. Just on the office side, what are your clients seeing or doing from an office or office usage, office layout perspective? And is that helping to grow that advisory consulting side of the business?

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

Yes. I mean what we see from our clients is everything at the moment. We have the full spectrum. We have clients where there's a significant push back into the office and they're focused that -- their focus is to really improve the health and well-being of the employees in the office, that they all feel very comfortable there. And we have the complete other spectrum of clients who don't want their employees back in the office, and they ask us to help them to make sure that the health and well-being of their employees is met when they work from home. As you know, there are a lot of people who don't have a proper desk at home and not the right chairs and all those type of things. So we have the whole spectrum.

Personally, I think that although that may sound a bit counterintuitive, the need for advice has only grown on the back of that pandemic and advice is what we are providing to our clients. And therefore, at the end of the day, we will see going forward, some type of a hybrid situation where employers allow their people to work literally from everywhere. And some employers will focus very strongly that they should come as often as possible into the office. And other employers won't make any kind of statement around that. They are comfortable with where their people want to work from. But what they all have in common, they have to provide a really safe environment for their employees. The health and wellbeing is super important, and that is where we can provide lots of advice to them.

Operator

Your next question comes from the line of Michael Funk from Bank of America.

Michael J. Funk - *BofA Securities, Research Division - VP*

So a couple, if I could. So the first one is really on elasticity of demand in office leasing. And I just wanted to get a sense if you believe that lower effective rents will attract more interest in office leasing? Or if there are similar variables that potential tenants are looking at that could delay that recovery?

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

Well, if you push kind of the question to decide when people will be pretty much vaccinated, which is a precondition to get office occupancy really up again, sure you will have -- you will see in our papers which we provide that the global vacancy rate is increasing. And then on the back of that, when vacancy rates are moving up, rents will feel some pressure. What you usually see is that enough very successful companies who are keen to offer their employees space in the best locations, in the best buildings. And so the moment others will open up that space, there are companies who will move into those type of buildings. And frankly, that doesn't really need a major decline in rental levels for those type of buildings. And medium term, that -- I wouldn't expect that to happen as the best buildings get a lot of pressure.

When you see pressure coming in, it's the moment you're moving slightly away from the best locations and the best buildings. There you will see more pressure and that will become more attractive to go into those type of buildings. And usually, you see then people -- companies from even less good buildings or even less good locations moving into those type of buildings. So where that will end is that the least attractive buildings in the least attractive areas, they will become vacant and to a degree obsolete and will be repurposed for something else. So there is a lot of movement on the back of those types of economic developments, which we have seen in 2020, and that will kind of show its way starting in 2021 and moving forward over the next couple of years, that you see quite a lot of movement within the different buildings from the different types of companies.

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Michael J. Funk - *BofA Securities, Research Division - VP*

No, that's great. I appreciate the color. And maybe 2, if I could, on Capital Markets. You mentioned in the prepared remarks that there's a tightening of the bid-ask spread versus the prior quarter. Was that the bid coming up? Or was that the ask coming down that tightened that spread?

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

Always goes both ways, depends on how attractive the building is. When you sit on a brand-new prime building with a long lease with an outstanding tenant, there wasn't any reason to bring your ask down. In fact, we saw some tightening on yields on those type of building in many instances. But when a building leaves more room for interpretation, how it will perform over the coming couple of years because of lease contracts coming to an end and there are question marks, what is the right rental level for those type of buildings, those are the ones where you probably have to get the ask price a little bit down to tighten that spread. So there is not a simple answer to that, and this is why it's helpful to have an adviser when you are selling or buying a building.

Michael J. Funk - *BofA Securities, Research Division - VP*

Sure. Understood. And one more, if I could, please. Clearly, very, very strong capital markets activity in 4Q, and there's a normal seasonality to the business. Based on the funnel that you talked about earlier, do you expect seasonality in 2021 4Q to 1Q to be similar to prior periods? Or is there a reason to believe that it will look different?

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

No. I wouldn't know why it's sort of different. We always have that seasonality and that the fourth quarter is always the strongest and the third quarter is always the second strongest. We expect the same to be the case. If there's any kind of caveat I would make about 2021, it's all down to the first quarter because Europe is in a pretty strong lockdown. You can't make a lot of site visits at the moment, not able to do due diligences. There's very little international travel. So the international investors, if they don't have people on the ground, can't come. And so we are all looking forward to a higher rate of vaccination around the globe. The amount of money which is trying to get into these assets is very, very strong. And so we may see a slightly slower Q1 than usual, but that will be then probably picked up in Q2 and Q3 again.

Operator

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

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

Well, 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 first quarter. Stay safe.

Operator

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

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