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JLL.N - Q2 2021 Jones Lang LaSalle Inc Earnings Call

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PRESENTATION

Operator

Good morning. At this time, I would like to welcome everyone to the John Lang LaSalle, Inc. Second Quarter Earnings Conference Call. (Operator Instructions)

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

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

Thank you, and good morning. Welcome to our Second Quarter 2021 Conference Call for Jones Lang LaSalle, Inc. 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. Hello, and welcome to all of you joining us for our second quarter earnings call. Our exceptional performance this quarter, amongst the broader market recovery, demonstrates the strengths of our global platform, resilient business model and continued operational and strategic execution of our long-term plan. Further, we continue to advance our sustainability agenda and development of our related market-leading product capability. Our most recent responsible real estate survey reaffirm that reducing the environmental impact is a key priority across the industry for both real estate occupiers and investors. We take pride in our 2020 JLL Global Sustainability Report, which highlights our latest initiatives including

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our commitment to net 0 carbon emissions by 2040 across all areas of operation, including client sites management globally as well as our need to be fully equipped to help clients in their own journey.

We changed the name of our Corporate Solutions Group to Work Dynamics to more clearly reflect that our technology-enabled and wide-ranging services help our clients enhance the productivity of their people as employees are increasingly empowered to make the decisions on how and where they work. Our suite of solutions also benefits the performance of their portfolios and help them realize their sustainability and broader ESG goals. I'd like to express my gratitude for our employees who continue to work diligently and provide outstanding service to our clients and community. The pace of activity increased sharply throughout the first half of the year, leaving many of our teams over extended. The tireless efforts and its ongoing challenges and uncertainties embody the strong culture of teamwork and collaboration at JLL.

Let me briefly touch on the future of office, subject being closely analyzed by our best-in-class research team. While the actual long-lasting effects of the pandemic remain unclear, there are a couple of key points I would like to highlight. The first is that the office will remain the center of the work ecosystem. We believe that the pandemic has reinforced the important role that the office can play in fostering and cultivating each company's unique culture and innovation. The second point is that employees are increasingly expecting, if not demanding, additional flexibility and the ability to choose where and how they work, leading to the doable presence of hybrid work. These demands have also been coupled with health, wellness and safety becoming top of mind for employees.

As a result, employers are now increasingly evaluating holistic approaches to address these demands, which often require considerable investment into existing and new office space. We imagine workspaces which serve to not only attract and retain employees but also enhance their sense of safety and well-being are becoming a new currency in the war for talent. This leads me to conclude that the initial net impact on future space demand and footprints for investment-grade office buildings will be relatively minor. We believe that the combination of growth from job creation, dedensification and the addition of collaboration space will broadly offset any anticipated reductions in workspace as companies continue to embrace hybrid work models.

Furthermore, we believe that given the world-class capabilities of our project management business, we are well positioned to benefit from accelerated demand for these services as we assist our clients as they embark upon these transformations. The increasing complexity required to create these global integrated workplace transformation will in turn demand more technology across not only the operations of the building but the entire ecosystem. We are encouraged that our significant investment in technology and our desire to provide client access to leading-edge technology results in a significant competitive advantage.

The power of data leading to better decision-making will allow JLL to be in the center of this ecosystem. We continue to work diligently with our clients as a strategic adviser as they transition to the new post-pandemic normal and assist in the development of hybrid work models centered around employee satisfaction and productivity.

Turning to the market environment. Transaction activity saw sharp recoveries across the world. JLL's research reports that the tentative signs of improvement in global office leasing activity witnessed in the first quarter have solidified and continued throughout the second quarter. Quarterly global leasing volumes were 44% higher than a year ago. However, they are still 36% below Q2 2019. Across all the 3 regions, quarterly leasing volumes are below where they were in 2019 with the U.S., the hardest hit at a 44% decline, while Europe and Asia Pacific recorded declines of 32% and 21%, respectively. Our tenant pricing conditions persist in most markets. We are seeing a noticeable stabilization and headline rates.

The recovery across capital markets broadened in the second quarter with global transaction volumes marking a 103% increase on the trough a year ago and a 2% increase from Q2 2019. Each region posted significant year-on-year gains in transaction volumes with activity is particularly robust in markets with sectorial diversity and opportunities of scale. Allocations to the real estate sector are strengthening as lender diversity and risk appetite trend towards pre-pandemic normalcy.

Assuming no major setback in the global fight against COVID-19, the positive trends recorded in the second quarter are anticipated to carry on in the second half, fueling continued recovery across the commercial real estate industry and global macro economy. For that backdrop, I'm pleased to turn the attention toward our second quarter performance. Our exceptional results reflect the continued momentum across our business that

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we have witnessed since the depths of the pandemic. We delivered excellent second quarter top and bottom-line performance, standard operating margins and continue to execute on our long-term strategy.

Consolidated revenue rose 18% to $4.5 billion and fee revenue increased 41% to $1.8 billion in local currency. Adjusted EBITDA of $332 million represented an increase of over 200% from the prior year, with adjusted EBITDA margin increasing to 18.5% from 8.3% in local currency, driven by the significant recovery of our transaction-based service lines, cost mitigation actions taken in 2020, realization of growth initiatives and select discrete items. Adjusted net income totaled $220.1 million for the quarter and adjusted diluted earnings per share totaled $4.20.

Our transaction-based service lines recorded significant growth across all 3 regions. Leasing benefited from strong demand in the industrial and life sciences sector while industrial and multifamily debt origination were key drivers for Capital Markets outperformance. We recently passed the 2-year anniversary of our acquisition of HFF and are pleased that the acquisition has delivered on both our strategic and financial ambitions despite the pandemic. All of the key secular trends driving growth in our industry is increasing capital flows to real estate. The addition of the HFF platform with its market-leading position in the U.S. allows us to not only become a top 2 player in the U.S. capital markets business but also cements the strengths of our global platform to forge greater ties with the world's largest investors.

I also would like to provide an update on the financial synergies we projected when the HFF acquisition transaction was announced in 2019. A year ago, we achieved our first 12-month synergy target of $28 million despite unforeseen pandemic headwinds. Having just passed the 2-year anniversary of the acquisition, I'm pleased to say that we have achieved our target $50 million of synergies on a run rate basis, which we had originally predicted within a 2- to 3-year time frame. The strong recovery in our transaction-based service lines were complemented by solid growth in our property and facility management and advisory consulting and other businesses.

The resilience of these service lines continues to benefit JLL throughout the course of this pandemic, and we are encouraged by the overall trends supporting their growth. Over the course of the quarter, we continue to invest to drive future growth, focusing on investments that strengthen and differentiate our market leadership, positioning JLL for long-term growth. For example, we announced the launch of sustainable operations for now the real estate industry's only end-to-end sustainability product offering developed to help companies configure, launch and manage portfolio-wide sustainability programs.

During the quarter, we invested approximately $84 million in JLL Technologies investments, bringing the year-to-date amount to $109 million. The continued investment through our JLL Technologies business furthers our strategic objectives to be an industry leader in technology innovation. We also have resumed share repurchases returning approximately $100 million to shareholders through July.

Looking ahead, given the strong momentum in the business, successful integration of HFF and increased visibility into a post-COVID future, we're increasing our 2021 adjusted EBITDA margin target to 16% to 19%, up from 14% to 16% previously. I will now turn the call over to Karen Brennan, who will provide further detail on the results for the quarter and our outlook for the rest of the year.

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

Thank you, Christian. Our strong results reflect continued disciplined execution as well as the impact of our investments in strategic initiatives over the past several years. We are encouraged by the broad recovery in our industry and business, particularly Capital Markets and Leasing, and the fact that fee revenue and profitability surpassed 2019 levels in certain service lines by region. The recovery had exceeded our expectations to date, and we are optimistic about the second half of the year though significant uncertainty remains around the evolution of the pandemic and global economy. Our balance sheet provides a strong footing to confidently execute our path forward and build upon our operating momentum.

Prior to providing a detailed review of our operating performance, I remind everyone that variances are against the prior year period in local currency, unless otherwise noted. Our overall real estate services fee revenue increased 43% in the second quarter with all regions generating double-digit growth, due in part to lapping COVID-impacted results from the prior year. Of note, Capital Markets fee revenue increased 110%, inclusive of investment sales advisory up 105%; debt advisory up 157% and loan servicing revenue up 26%, reflecting the market recovery as well as the strength and breadth of our global platform. Our leasing fee revenue grew 69% and was only down 3% from second quarter 2019.

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The Real Estate Services adjusted EBITDA margin of 17.2% compares with 6.6% a year earlier. The benefits from our cost reduction actions taken in 2020 and the strong execution and recovery within our transaction-based revenue streams were key drivers of our strong margin performance. Approximately $16 million of noncash valuation increases to investments by JLL Technologies in early-stage proptech companies and a $6 million multifamily loan loss reserve release contributed approximately 130 basis points to the Real Estate Services adjusted EBITDA margin. It is important to note that second quarter margins clearly benefited from an expense base that is not yet fully normalized, particularly the variable components, such as T&E, but also fixed compensation costs. In the near term, we intend to accelerate hiring for critical positions to execute on growth opportunities that we see ahead.

Turning to the Americas. Fee revenue grew year-over-year across all service lines, most markedly in Capital Markets and Leasing. Within Americas Capital Markets, fee revenue from U.S. investment advisory sales grew 146% and U.S. debt advisory increased 153%. The U.S. Capital Markets service line witnessed a pronounced rebound with optimism broadening from high-growth areas such as Industrial to other segments of the market, including Retail, Office and Hotels. Our multifamily debt origination and loan servicing businesses continue to demonstrate strong momentum, highlighted by 26% growth in our loan servicing fee revenue. Our Americas Capital Markets pipeline has increased from the prior quarter.

Now to Americas Leasing. Our growth meaningfully outperformed the market, driven by continued gains in the industrial sector as well as strength in Retail, Office and Life Sciences. Transaction velocity has increased meaningfully, though average deal size has declined. Our full year 2021 Americas leasing growth pipeline is up 38% from 2020 and 7% from 2019, supporting our optimism for continued strong growth in the second half of 2021, though the evolution of the pandemic will continue to be the critical factor in the recovery rate.

The Americas office sector remains below pre-pandemic levels, but we are encouraged by a multitude of factors indicating an improving market environment. According to JLL Research, there was a 5% increase from the first quarter in net effective rents in Class A offices across major U.S. cities, bringing the rents to approximately 15% below pre-pandemic levels. Also, average lease terms increased for the second consecutive quarter to 7.4 years from the fourth quarter 2020 trough of 6.7 years, though it remains below the full year 2019 average of 8.6 years.

Renewals as a percent of the transaction mix, however, remain about 2x the historical average mix, at about 56% in the second quarter. From a profitability standpoint for the quarter, the Americas adjusted EBITDA margin increased to 22.2% from 10.8%, driven primarily by strong growth in transactional businesses as well as the benefit from cost mitigation actions taken in 2020 and an unsustainably low headcount and cost base. Noncash evaluation increases within our JLL Technologies investments and release of a portion of the multifamily loan loss reserve contributed approximately 180 basis points to the expansion.

In EMEA, fee revenues grew year-over-year across all service lines in much of the region, in part due to reducing pandemic headwinds. Fee revenue within each of the EMEA capital markets Leasing and Valuation Advisory within the Advisory, Consulting and Other service line was ahead of 2019 levels as vaccinations and a return to the office trend has led to improved market sentiment. EMEA leasing growth was broad-based across sectors, but most pronounced in Office and Industrial. EMEA's second quarter profitability was the highest it has been in several years, driven by the higher fee revenue, particularly in the transactional businesses as well as the cost savings, especially in fixed compensation from actions taken over the past year.

Asia Pacific fee revenue growth accelerated to 26% from 12% in the first quarter as activity picked up across most service lines, most notably in Capital Markets and Leasing. However, our performance was mixed across the region due to varying pandemic recoveries. Asia Pacific Capital Markets fee revenue exceeded the 2019 level, and its particularly strong year-over-year growth was driven largely by several large transactions in Australia. Asia Pacific leasing activity continues to pick up across most countries, but the pandemic resurgence is weighing on momentum across the region. Asia Pacific Advisory and Consulting fee revenue materially exceeded the second quarter 2019 level, with strong growth driven largely by our Valuation Advisory service.

On a global basis, Property & Facility Management service line fee revenue growth was steady, much like it has been throughout the pandemic. Growth of more annuity-like business is more than offsetting nonrecurring revenues from quick response tasks like supporting pop-up medical sites we saw in 2020. Additionally, our U.K. mobile engineering business has benefited from some easing and lockdowns compared to the prior year quarter. Corporate occupiers and investors seek our services not only for higher building management standards but also JLL's broad views regarding best practices in reopening the workplace.

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Our global Work Dynamics business fee revenue growth improved to 8%, driven by sustained good growth in the Americas and EMEA starting to recover from the pandemic impact. We are encouraged by the number of new client wins and contract expansions that are fueling the growth, which is further buoyed by the secular outsourcing trend. Corporations are increasingly seeking our extensive knowledge and the breadth of our services, including sustainability, delivered seamlessly under our One JLL philosophy.

Turning to LaSalle. Fee revenue increased 10%, driven largely by advisory fee growth within its core open-end funds. Incentive fees of $15 million were driven by strong performance in our public securities mandates. We now anticipate full year 2021 incentive fees of approximately $45 million, with approximately $10 million coming in the third quarter. LaSalle's assets under management grew approximately 6% from the prior quarter to $73 billion, driven by valuations and continued capital raising and investment. LaSalle's $23 million of equity earnings primarily reflects noncash fair value increases across our co-investment portfolio, including our J-REIT.

Shifting now to an update on our balance sheet and capital allocation. Our balance sheet remains strong, with reported leverage of 0.6x and liquidity of $2.9 billion inclusive of cash on hand and undrawn credit facility capacity, providing us a solid foundation to execute on our strategic priorities. We are continuously evaluating growth opportunities, both organic and inorganic, and plan to continue to invest in both LaSalle co-investments and in our JLL Technologies initiatives, which comprise 2 buckets: one, investments in early-stage prop-tech companies that are transforming the real estate industry; and two, investments in technology companies that accompany strategic partnerships to drive revenue growth, such as our investment in rootstock earlier this year.

Overall, we have not completed any significant M&A year-to-date, but are constantly reviewing potential opportunities, holding to our underwriting standards and return thresholds comfortably above our cost of capital. Importantly, we are committed to returning capital to shareholders while also investing in our business. Through the end of July, we repurchased $100 million of stock year-to-date and have $500 million remaining on our authorization. The repurchases to date are roughly equivalent to full year 2020 and more than double the annual dividends distributed in the years preceding 2020.

The level of capital return to shareholders in any particular year will be dependent on a variety of factors, including debt levels, investment opportunities and return expectations, amongst others. As we move through the balance of 2021 and next year, we will evaluate the use of capital in the context of the current and anticipated opportunities and the broader economic environment. We will continue to focus on maintaining flexibility to invest for growth, both organic and inorganic, while maintaining our investment-grade balance sheet and returning cash to shareholders.

Looking ahead to the second half of 2021, the market environment is quite dynamic, and we are mindful of tightening labor markets globally and an uneven recovery across markets and business lines. Our improving underlying business fundamentals, strengthening pipelines, global diversified platform and added visibility on the macroeconomic recovery give us confidence that the momentum in the first half of the year is likely to continue.

As Christian mentioned, we are now targeting to operate within an adjusted EBITDA margin range of 16% to 19% for the full year 2021. This is due to the strong momentum in the business and increased visibility into a post-COVID operating environment as well as the number of steps we've taken to strengthen our business and operate more efficiently over the past several years, including the successful integration of HFF and the cost reduction actions in 2020. We do expect our cost base to increase in the second half of this year as we continue to invest in our strategic priorities and growth initiatives across business lines, such as our technology capabilities and people, which will drive long-term value.

While we maintain strong cost discipline, we continue to expect certain variable costs, such as T&E to gradually return. I also reiterate the first half of 2021 included $89 million of equity earnings and $14 million of loan loss reserve releases. Considering these factors, our earnings mix between the first half and the second half of the year will be different versus prior years, and that we will still expect the majority of our earnings to be generated in the second half of the year, but not to the same extent as in prior years. We will target to run the company in the near term within the adjusted EBITDA margin range of 16% to 19%, and we will be undertaking a holistic analysis of our long-term financial targets, and we'll have more to share with you next year on this topic.

In closing, I would like to thank my JLL colleagues for their outstanding efforts and collaboration to deliver best-in-class service to our clients, which is clearly reflected in our financial results. Christian, back to you.

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

Thank you, Karen. While we continue to remain confident in our expectations of continued recovery as vaccine availability provides a line of sight to a post-pandemic future, we are mindful of the hurdles that could hamper a complete macroeconomic recovery. Consumer and business confidence have seen a sharp recovery though uncertainty lingers regarding a return to pre-pandemic norms for behavior patterns.

Further, while inflation continues to be considered transitory for 2021, concerns about an extended inflationary environment, makes the earlier monetary policy tightening cycle. In closing, the recovering growth outlook, the global scale of our platform, the increased value of our technology investments and continued assets from our outstanding colleagues around the world fuel our confidence in JLL's ongoing strong performance.

Operator, please explain the Q&A process.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Your first question comes from Stephen Sheldon of William Blair.

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

Congrats on the results. We're now 2 years out from the close of the HFF acquisition. And it seems like most of that time, your Capital Markets teams have either probably been focused on integration or dealing with the pandemic. And I know at the time, as announced, there were questions about the valuation paid. But just Christian, if you think about that acquisition now, how meaningful was HFF in contributing to a quarter like this? And does it seem like this is the first quarter where the earnings power of that acquisition may be starting to show?

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

Well, we have been very happy with that acquisition right from the start, from a strategic point of view. We have a super strong capital markets business in EMEA and in Asia Pacific for a long time, and we were slightly lagging behind in the U.S. As you know that a lot of the U.S. players have become very dominant globally, it was very important for us to get to a similar strong Capital Markets business in the U.S. and be able to help those clients also to go to the other 2 regions of the world.

And so we had a very strong quarter this year -- the last quarter. The interregional transactions were still relatively small compared to previous years, the volume was low because travel is obviously not where it was supposed to be before, where we hope it will be soon again. And so the full strength of that combination is still to come. And so what we have seen so far it's great, but we are very, very positive for the outlook of that business.

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

Got it. That's helpful. And it sounds like you're planning to hire an added capacity, but curious to think about the last year, what you've seen in terms of growing your producer headcount in Capital Markets and Leasing? And has that been a meaningful contributor to overall growth, especially this quarter? Or is the growth there been more about increased productivity per producer in the transactional business lines?

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

Well, it has been actually an increased productivity per producer. The labor market is relatively difficult. We have had some recent successes that is very recent in hiring more teams in. So there's more to come, but we are incredibly pleased how we were able to increase productivity per producer, not least to our investment into technology, but also the outstanding work of all our colleagues.

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

Got it. And then one more, if I could. Just wanted to ask about on the JLL Technology side. As you continue investing there, are there certain categories of solutions that seem like they could get much more meaningful adoption with property owners and tenants across the office, real estate ecosystem over the next 3 to 5 years? And I'm thinking about areas like smart access, tenant experience solutions, things like I think JLL Jet, your investment in H2? Just curious for any thoughts there.

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

Yes. I mean, first of all, the most meaningful area is everything which helps to collect data on buildings and how people are actually using the buildings. That really drives value to our clients. And so any kind of product which helps us on that end is super key for our clients. But the whole area of using technology within buildings and in the broader real estate sector, I would still say, it's still relatively at the beginning. There is so much potential to use technology to make buildings more efficient, make the employees more productive when they operate in those buildings and drive better returns for owners of buildings. It is massive. And we feel that we have built a really strong business around that and great knowledge within our JLL Technologies team. So this is a key pillar for JLL going forward.

Operator

Your next question comes from Anthony Paolone of JPMorgan.

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

My first question relates to the 16% to 19% margin range. Should we think of that as being the new 14% to 16% that you all had laid out a few years back? Or is this something we should think of as just a 2021 number?

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

Yes, the 16% to 19% is really a near-term target. So we think about that for this year and next year. And as I mentioned, we're undertaking a broader view of our longer-term targets, and we'll be back to you next year on that.

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

Okay. Is there any way to put any additional brackets around just the pickup in hiring and some of the variable costs that may come back as we think about incremental margins in the second half of the year and perhaps into next?

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

Yes. There's obviously a lot of variables to consider as you think about what's going on in our expense base. Maybe we start with some of the items we've talked about historically as it relates to the permanent savings and the nonpermanent savings from actions we took last year and then moved other variables. So on the permanent savings side, we had $135 million that came through. 80% of that has been reflected in the current run rate

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through the end of the second quarter. And then on the nonpermanent savings, excluding government subsidies, about 40% of those have returned, that gives you a sense of kind of what's left to go.

As it relates to the other comments around hiring, there's a lot of variables to consider that we are considering in our planning, the business mix geography, the fixed versus variable, the hiring pace, and so I'm not going to be giving specific commentary on that because it remains a dynamic environment, but we will be running our business within that target. We're targeting to run our business within that range.

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

Okay. Got it. And then just last one from me. In the mobile engineering business, any way to quantify what the EBITDA pickup would be either quarterly or on an annual basis if you were just at a normal level of mobility, I guess?

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

Yes, we're not going to provide that level of detail right now with relates to that business. We're going to continue to monitor the trajectory there based on reopening and return to work, but that's a fairly specific plan.

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

But would it be profitable? Or is it just a drag of business right now?

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

Yes. I mean, I think you're getting to your question is really around profitability on EMEA, overall. And you saw what happened there this quarter was largely a result of the transactional businesses recovering and pulling through in our margins. So that's really the driver as you think about EMEA margins.

Operator

Next question comes from Jade Rahmani of KBW.

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

Looking at historical seasonality, it seems that generally third quarter fee rose by around 6% to 7% on a quarter-over-quarter basis and fourth quarter fee revenue grows by around 25% on a quarter-over-quarter basis. Just looking at the strength of revenues in the second quarter, do you anticipate a moderation in that normal seasonality?

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

Yes. I think, first of all, it's a dynamic year. And so just as in 2020, our historical seasonality patterns, as it relates to our top line did not hold in that environment are described in 2021 in the same way. And so as you think about it, we really focused on first half versus second half and really what's the earnings contribution overall. And as I mentioned, we do expect that the majority of our earnings will still occur in the second half of the year, just not to the same extent as we had experienced in prior years.

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

Okay. And that's inclusive of some of the unusual items you mentioned?

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

Yes, it is. So if you go through the first half of the year, and you called out the $89 million of equity earnings to date and $14 million of the reversal of the loan loss reserve.

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

Okay. In terms of the pipelines, you mentioned the office leasing pipeline is strong. Are you seeing any diminution in that as a result of Delta?

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

Listen, Delta is so incredibly dynamic. I won't forecast around that topic, but we can confirm that up to now, the pipeline is very strong for the second half of the year and we see that around the globe. And so as much as Delta is disturbing, so far, it hasn't really had a negative impact on our pipeline, but you never know what's happening tomorrow on that topic.

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

And looking at the overall business mix, is it possible to quantify the exposure to -- or the contribution from various property types such as office, multifamily, hotels, industrial, the way to put ranges around those property sectors?

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

You mean on the Leasing side? Is that your question?

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

Yes. You included capital markets and leasing, how much of the business comes from the Office sector versus the others. CBRE has highlighted Life Sciences and Industrial and strong growth they've seen there, and they've given some ranges for those businesses.

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

That's great what they do. Well, I can assure you that Life Sciences has been a very strong contributor to our Leasing business as well, as well as Industrial has been a very strong contributor. We don't put these 2 sectors together, Leasing and Capital Markets. Within the Leasing business, we do see Offices tend to be roughly half and then roughly 30% are coming from Industrial and the rest is then a split.

And on the Capital Markets front, Industrial is equally very, very strong, tends to be usually around -- let me quickly check that here...

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

Yes, Christian, I can jump in because I have it right here. That's helpful.

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

Okay, go ahead. I have it here as well now, 23%, right? Yes, it has been 23% in the second quarter. It has been growing now for some time. And so the Industrial and the Resi sector tend to make up about 50%, slightly more than 50%, and then the remainder goes to the other asset classes.

Operator

(Operator Instructions) And your next question comes from Patrick O'Shaughnessy of Raymond James.

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

Another question on margins, if I could. What are the key variables that you're thinking through as you're contemplating what your long-term margin outlook might move towards?

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

Yes, we're -- there's obviously a lot that goes into that and which is why we really want to be thoughtful about it and run additional analysis before we quote that longer-term number. Certainly, as you think about top line in the business, it has to do with the overall business mix and geography where we see the greatest growth going forward and where we are -- had strategic objectives to grow in particular markets. And then the expense side, looking to see how we can continue to run our overall operation in a way that's increasingly efficient and drive performance.

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

Got you. And then a quick clarification question. When you guys are talking about the near-term margin outlook, are you referring to the back half of this year as well as 2022 or just the back half of this year?

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

We're referring to the full year.

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

Okay and not referring to 2022 at all?

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

Correct -- no, sorry, sorry, I misunderstood your question. I think full year for 2021 and 2022.

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

Okay. Perfect. You guys spoke about wage inflation a little bit. To what extent is that starting to show up in your property and facilities management businesses? And to the extent that it does show up, are those generally expenses that you're passing through to your clients?

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

It's a mix. We try to pass the tool to our clients. And in some cases, that is not immediately possible but it is nothing which would create massive concern to us in that area. It's more a general point to know that the labor markets are very tight at the moment and that turns into pretty significant wage inflation, which is something in any services business to watch.

On the one hand, as we have demonstrated in the second quarter our strong investment on the technology side helps us to drive productivity per employee much higher, but we like to grow our business even further. And therefore, we have the ambition to hire further talent in and that talent is becoming more expensive than the past?

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

Got it. And on that last comment, you guys obviously did some headcount reductions last year. Does the hiring now reflect that maybe you cut too deep last year? Or is this hiring in different areas?

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

Well, usually it is actually hiring in different areas, but now everything is kind of bouncing quite nicely. So pretty much all of our areas will have going forward more people employed than we had pre-pandemic again, but the skill set is obviously changing. Every person working in our company needs to be quite tech savvy going forward. And a lot of the kind of more simple execution roles are being taken over by technology. Sales roles are very, very important, and so you have a different skill set, which is needed. So it's not that we are rehiring exactly the same people which we lost during the time of the pandemic.

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

Okay. Appreciate that. And then last question from me. I'm curious about your current thoughts on the strategic merits or value of development services business. Obviously, one of your large competitors continues to make investments in that space and recently did another deal. Strategically, as you think about your development and project management business, how important is that to the rest of your franchise right now?

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

Well, I think you're covering here 2 very different topics. We refer to as our Project & Development Services business that is a service business where we are servicing our clients in -- on the project management side, on the development side. That business has a brilliant future, has a very, very strong demand, which I alluded to also in my prepared remarks because buildings, in general, and offices in specific are being upgraded very significantly, but also everything around that whole topic of environmental sustainability will drive that business.

The other aspect is that we see services companies moving into the development business as an investor. That is a very different thing which we haven't done in the past and have no current plans going forward on that topic.

Operator

Next, we have a follow-up question from Jade Rahmani of KBW.

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

Just in response to Patrick's question about margins, I wanted to confirm that the 16% to 19% is for both the full year 2021 and you're also saying for 2022?

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

Confirmed.

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

Great. Secondly, regarding share repurchases, is there a target as a percentage of fee revenue or earnings that you think about over the long term, on an annual basis?

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

No, there is no target because we are very prudent with regards to our capital allocation, and we constantly value the different opportunities we have in investing into the growth of our business versus buying back our shares or finding other ways to return capital to our shareholders. And so it depends very much what alternative investments we see versus potentially share buybacks.

What we have said in the past is that we see 20% as our long-term percentage for now. And we will constantly revisit that in light of our ability to find other growth areas going forward, but we will not probably low that mark.

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

And lastly, on the equity income side, I know that you mentioned your patience from LaSalle's incentive fees. But in the Americas and in the LaSalle business, are you anticipating any significant equity income in the second half of the year?

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

Yes, we continue -- so those are both portfolios as you think about the LaSalle equity earnings and also the JLL Technology equity earnings. And we do anticipate further benefits from those portfolios and their performance. However, I would say those valuations are out of our control and the timing with which they come through are as well. So we're not going to provide a specific guidance by quarter as to what those -- we would anticipate those will be.

Operator

At this time, we have no further questions. I will turn it back to the panel 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 third quarter.

Operator

This concludes today's conference call. Thank you for participating. You may now disconnect.

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