02-Nov-2022

Jones Lang LaSalle, Inc. (JLL)

Q3 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, hello and welcome to the Q3 2022 JLL Earnings Conference Call. My name is Maxtine and I'll be coordinating today's call. [Operator Instructions] I will now hand you over to your host, Scott Einberger, Investor Relations Officer at JLL to begin.

Scott, please go ahead when you're ready.

Scott Einberger
Investor Relations Officer, Jones Lang LaSalle, Inc.

Thank you and good morning. Welcome to the third quarter 2022 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 and in our slide presentation we will reference certain non-GAAP financial measures which we believe provide useful information for investors. We will include reconciliations of non-GAAP financial measures to GAAP in our earnings release and slide 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 for the fiscal year ended December 31, 2021, and in other reports filed with the SEC. The company disclaims any undertaking to publicly update or revise any forward-looking statements. On November 16, JLL will host an investor briefing in New York City. For additional information and to register for the event, please contact jllinvestorrelations@jll.com.

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

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Christian Ulbrich

President, Chief Executive Officer & Director, Jones Lang LaSalle, Inc.

Thank you, Scott. Hello and thank you all for joining our third quarter earnings call. Over the last couple of months, we have experienced a significant change in the economic environment, and the overall outlook for the global economy in the coming quarters is not favorable. For real estate markets around the globe, fast rising interest rates and significantly widened spreads have created a notable imbalance between our overall financing costs in year. Lenders are cautious and underwriting assumptions are becoming more restrictive. According to JLL Research, global commercial real estate investments totaled $234 billion, a year-over-year decline of 18%. Bid-ask spreads continue to widen and the desire for greater price discovery is elongating the time to close deals.

In addition, currency fluctuations are limiting cross-border capital flows. Leasing markets are typically slower to react to an economic decline, and this is highlighted by the leasing markets outperformance when compared to Capital Markets in the third quarter. And the global office leasing market volume was up 10% year-over-year according to JLL Research. The flight to quality continued with rental growth increasing and prime office assets for the fifth consecutive quarter. On a year-over-year basis office vacancy rate ticked up slightly in the third quarter to 14.5% globally. Corporate clients across many industries are also experiencing the impact of the changed economic environment and are focused on lowering their cost base.

While some clients are delaying investments into their real estate footprint, most clients are also running strategic reviews and efficiency programs around their build environment, creating additional demand for our advisory and consulting services. JLL's financial results for the third quarter reflect the points I just discussed. Our Capital Markets business saw a sharp drop in profitability as volumes declined during the last months of the quarter. Our leasing business held up well, especially when you factor in the comparison to a record quarter last year. Contrasting the declining Capital Markets, Work Dynamics was able to deliver a record quarter, showing the resiliency that makes this business so attractive, and we saw an equally strong performance in our JLL T business. Finally, LaSalle increased their assets under management and grew advisory fee revenue during the quarter, highlighting strength in their underlying business.

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

Karen Brennan

Chief Financial Officer, Jones Lang LaSalle, Inc.

Thank you, Christian. Before I begin, I remind everyone that variances are against the prior year period and local currency unless otherwise noted. Our fee revenue for the quarter grew 4% over a record third quarter 2021, and despite a 24% decline in our investment sale debt and equity advisory fee revenue in the month of September. This resiliency was a result of the strength in other business lines, particularly in our Work Dynamics business, which grew 14%, as well as double-digit growth in our Property Management and Valuation Advisory business lines, and over 20% organic growth in JLL Technologies. Adjusted EBITDA was $276 million, a decrease of 19% from the prior year quarter. Our adjusted EBITDA margin declined approximately 390 basis points from the third quarter of 2021, a period which generated a margin well above our pre-pandemic levels and was not reflective of a fully normalized cost basis.

The margin decline was driven by lower Capital Markets revenue, typically our second highest margin segment, as well as the investments in our people, product and growth initiatives over the past years. Incremental T&E and marketing expenses and lower equity earnings also contributed to the margin decline. It's important to note that our operating platform remained resilient and we have a flexible cost structure. Excluding passthrough costs, approximately 55% of our 2021 compensation and benefits and operating administrative expenses were variable.

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In the context of a more challenging macroeconomic backdrop, we are focusing on reducing costs while also being selective about investments and growth initiatives. Well, this may cause our near-term profitability to be somewhat more volatile, we have a track record of healthy margin expansion over the long term.

Moving to a detailed review of operating performance, beginning with Markets Advisory. Leasing fee revenue grew 3% on top of a 75% growth rate in the prior year quarter, though the pace of growth decelerated as the quarter progressed. With macro conditions varying across region, leasing fee revenue growth was most notable in Asia-Pacific, up 17%, and EMEA up 14%, while the Americas grew 1% on top of a very strong quarter a year ago. The office sector grew across regions was offset by declines in the industrial and retail sectors. Our third quarter office sector fee revenue growth outpaced the global office market volume by approximately 200 basis points. And the industrial sector fee revenue growth declined 12% as anticipated, given a tight supply and significant growth seen over the past several years, as well as a decrease in global industrial market activity from a year ago.

While our overall average transaction size increased, deal volume materially decreased. Property Management fee revenue growth accelerated to 12% compared with 10% in the second quarter, in part due to inorganic contribution from a 2021 strategic joint venture in the US. The leasing market overall continues to moderate, though it varies by asset class and geography. For instance, our growth US Leasing pipeline is down slightly from a year ago driven by contractions in the office sector, partially offset by growth in the industrial and retail sectors. The growth leasing pipeline is also down slightly in EMEA, though, is up marginally in Asia-Pacific. We continue to see a flight to quality as occupiers shift to new and or Class A space with the amenities and sustainability profile needed to attract employees back to the office.

Markets Advisory adjusted EBITDA margin declined 200 basis points from a year ago to 15.8%, primarily due to the impact of higher commission rate peers being met more broadly, investment in talent to meet growth demand over the past year, and incremental T&E and marketing expenses. Shifting now to our Capital Markets segment. The elongated deal cycles that Christian described were a key factor in the 5% decline in segment fee revenue. The growth in valuations and our more annuity like loan servicing businesses provided a partial offset. I note the decline is off of third quarter 2021 growth rate of 85%. The strength and breadth of our global Capital Markets platform is evident as the decline in JLL's global investment sales fee revenue of 7% in the third quarter compares favorably to the 18% decline in global deal volume, according to JLL Research.

Nearly all major asset classes exhibited decline, most notably in the Americas and EMEA residential sectors. The hotel sector continued to recover, exhibiting strong year-over-year growth. Fee revenue from US investment advisory sales declined about 11%, which compares favorably to the 21% decline in market volume in the Americas, according to JLL Research. Notably Asia Pacific investment sales, debt and equity advisory fee revenue grew 5%, driven by strength of the hotel sector. EMEA investment sales, debt and equity advisory declined to 1% with strength in the UK and much of Continental Europe offset by softness in Germany and France.

Valuation Advisory fee revenue, which is more resilient than investment sales, debt and equity advisory grew 12%. Growth was broad-based across regions and sectors and in part due to M&A in the US. Despite headwinds from a decline in prepayment fees, our loan servicing fee revenue grew 5%, driven by increases in our servicing portfolio, particularly from Fannie Mae originations. As we look to the rest of this year, the global Capital Markets, investment sales, debt and equity advisory pipeline is down mid single-digit compared with this time last year, most notably in the Americas and EMEA. We saw a notable deceleration in September compared to July and August.

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Considering the factors Christian described and a tougher growth comparison to a year ago, we expect the decrease in fourth quarter fee revenue and Capital Markets to be more pronounced than in the third quarter. Capital Markets adjusted EBITDA margin declined 740 basis points from a year ago to 14.3% on lower fee revenue. The impact of net changes in incentive compensation structure and incremental T&E and marketing expenses. The change in our compensation mix to more commissions from cash bonus along with the strength in Capital Markets activity earlier in the year led to higher commission expense and earlier cash outflows than in prior years.

Moving next to Work Dynamics. Fee revenue grew 14%, with double-digit growth across our annuity and transactional revenue streams within the segment. Continued easing of pandemic restrictions and momentum in the return to work trends across all regions drove 16% growth in project management. Client wins and global contract expansion, particularly in the Americas, propelled 19% fee revenue growth in Workplace Management. The Work Dynamics adjusted EBITDA margin expanded 190 basis points from a year ago due to both revenue growth and cost management strategies enacted over the past year.

Moving to JLL Technologies, fee revenue inclusive of M&A accelerated to 54% from 48% in the prior quarter. Organic growth of 28% was driven largely by enterprise clients, which compared with 22% in the prior quarter. As a reminder, JLL Technologies also influences fee revenue across JLL through investments specific to differentiating our services. Despite materially lower equity earnings than a year earlier and continued investment in people and our platform, the JLL Technologies adjusted EBITDA margin improved on a higher revenue. Like all our segments, long term profitable growth of JLL Technologies is a primary focus.

Turning to LaSalle, the past 12 months of capital deployment and valuation markups drove a 9% increase in assets under management and translated to 11% advisory fee revenue growth, mostly within our core open end funds. Valuation declines stemming from the macro operating environment are likely to be headwinds to near-term advisory fee revenue growth and incentive fee generation. Equity earnings were about $10 million lower than the prior year, in part due to an approximate $1.5 million adverse swing in the fair value mark of our publicly traded REIT in Japan, as well as the absence of valuation increases on the remainder of our co-investment portfolio that benefited the prior year period.

The increase in advisory fee revenue was more than offset by the lower equity earnings, lower incentive fees and expenses related to the loss of a client mandate in the UK, resulting in a decline in the LaSalle's adjusted EBITDA margin for the quarter. I also highlight a material new global investment mandate client win with an investment horizon and equity deployment ramp over the next few years. Shifting now to an update on our balance sheet and capital allocation. As of September 30, our net leverage of 1.1 times is just above the midpoint of our target leverage range, and up from 0.4 times a year earlier, primarily due to share repurchases, incremental investments in our business, M&A and lower profitability.

Our liquidity totaled $2.1 billion at the end of the third quarter. During the quarter, we expanded our credit facility by $600 million to $3.35 billion. On September 30, we used our lower cost credit facility and redeemed our 4.4% fixed rate, $275 million of senior notes that were set to mature this month. Our third quarter share repurchases brought our year-to-date cash returned to shareholders to approximately $600 million, and drove a 6% reduction in our quarter end share count from a year earlier. Given the significant cash flow already returned this year and the uncertainty looking into 2023, we have temporarily paused our repurchase activity.

Returning capital to shareholders is a critical component of our holistic approach to long term capital allocation, and we will continue to prioritize this alongside investments in our business for future growth. Approximately $1.2 billion remained on our share repurchase authorization as of September 30. I will now address free cash flow. We

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generated $88 million of free cash flow in the quarter, reducing the year-to-date outflow to $538 million, materially below the same period a year ago. The primary factors behind the lower free cash flow include; one, materially higher bonus payout tied to 2021 performance; two, a shift to more commission-based compensation from bonus driving earlier payments this year compared to past years; three, an abnormal timing mismatch of reimbursable payables and receivables; and four, lower profitability in part due to more normalized cost base.

We note that a number of these factors are timing related and that we remain focused on cash flow conversion to optimize our capital structure and maintain flexibility in a more challenging macroeconomic environment. Entering the fourth quarter, we have generated $909 million of adjusted EBITDA year-to-date and a 14.8% margin. The swift changes in the economic sentiment caused largely by the sharp increase in interest rate prior to our seasonally strongest quarter, is expected to materially impact our full year growth and profitability expectations despite our variable cost base. Though the environment is fluid and much will depend on the pace of activity and our leasing investment sales, debt and equity advisory business lines for the remainder of the year, we now anticipate our full year 2022 adjusted EBITDA margin to be below the 16% to 19% range we had originally targeted for the year.

We are taking action to adjust both our existing cost base as well as prioritization of investments in the business. While some costs like T&E can be flushed quickly, it takes time for other cost savings actions to be realized. We remain focused on generating margin expansion across our business line and see further opportunity to do this in a normalized macroeconomic environment. The evolution of our operating model to global business lines provided increased transparency into our cost structure, allowing us to capture opportunities to drive productivity and continue to improve our operational efficiency profile. As the intensity of macroeconomic headwinds is expected to increase, we will continue to calibrate our cost structure balancing steps necessary to respond to the near-term challenges with opportunities to further strengthen our platform during the downturn. Our focus remains on cementing the resiliency of our diversified business, and on driving long-term profitable growth and value creation.

Christian, back to you.

Christian Ulbrich

President, Chief Executive Officer & Director, Jones Lang LaSalle, Inc.

Thank you, Karen. While rising interest rates, currency headwinds and geopolitical events are likely to continue to put downward pressure on the macroeconomic environment, we shouldn't lose sight of the structural tailwinds in our industry that provide a backdrop for rapid recovery. Corporate clients around the world will be even more eager to have the best and most efficiently run real estate footprint possible. Our platform is uniquely suited to deliver exceptional results to clients, and I expect our Work Dynamics business will continue their impressive growth story. Our leasing business is looking forward to the near record number of leases which are due to expire in the next 18 months. Many of these are continued carryover from the pandemic.

Our Capital Markets business is benefiting from our global platform, and access to JLL's unique live data. This data enables our brokers to provide clients with industry leading advice, allowing them to make the best possible decisions in the current market environment. Even with transaction volumes likely to remain low over the next couple of quarters, our team is laying the foundation for a strong rebound. Dry powder remains at near-record levels, and once interest rates stabilize and price discovery comes to an end, investors are eager to deploy capital into the market. Finally, the need to make portfolios future proof with regards to the build environments, carbon footprint has become even more complicated in this market.

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Our advice is needed more than ever, and we expect this to result in ongoing strong growth for our sustainability services. While we don't know how deep and how long this economic cycle will be. Our current belief is that the North American real estate markets will begin growing again in the second half of 2023. We take comfort in the significant transformation process that has occurred within JLL over the last couple of years. These changes have created an industry leading one JLL platform across the world which positions us well to navigate any type of macroeconomic environment and return to growth. Before I close with these prepared remarks, I would like to thank all our employees across the world for their outstanding work, which they have delivered once again in this quarter.

Operator, please explain the Q&A process.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question today comes from Chandni Luthra from Goldman Sachs. Please go ahead. Your line is now open.

Chandni Luthra
Analyst, Goldman Sachs & Co. LLC

Q

Hi. Good morning. Thank you for taking my question. Karen, I think this one's for you. If you could please talk about sort of the cost structure of the business. I know you basically said that 55% of compensation and I think benefits last year were variable. But if we look at it collectively, sort of staking all the past heads, what portion is variable, and where in the six do you have [indiscernible] (23:41) and perhaps it's only a matter of time, but you would be able to flex?

Karen Brennan
Chief Financial Officer, Jones Lang LaSalle, Inc.

A

Yeah. Good morning. Thanks, and good question. So maybe we just take a step back and talk a bit about the three different categories as we look at our cost structure and how we're thinking about each of those. So first and foremost, it's what is the quality of our overall operational efficiency and what is the opportunity to improve that going forward. Second, we think about what the requirements we have from an expense base to meet the demands of our clients and they are here and now and really near term. And then third, we think about where we're making investments to position our business for a medium and longer term growth. So I'll talk about each of those three buckets.

First on the overall operational efficiency, I referenced in my earlier remarks that we've now evolved in the final stages of our global transformation to business lines, which provided more transparency, our cost structure. And we really do see opportunities where we continue to evolve there, leveraging shared service centers, really harmonizing and streamlining our operations around the world through that process. And so now is really the time as we think about this to make an aggressive acceleration of our push on driving that operating efficiency. On the second category, Christian references that our clients are now asking us more than ever for advice. And so we are certainly being rigorous in terms of pulling back on discretionary spending and being really focused on our costs.

But we also are making sure we're balancing, that we have the talent and the people that are meeting with our clients who are asking for advice right now. And then third, as it relates to the medium and long term growth priorities, while I mentioned that, we do expect the next few quarters, and Christian referenced as well, there's

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some uncertainty ahead. We're looking for the long term and making sure that we're taking decisions and adjusting our investments for the future and prioritizing those areas where we see the greatest opportunity for near-term profitable growth, but also not losing sight of our longer term objectives. So it's all about really remaining agile and resilient in the short-term to withstand this current environment by making sure we're strengthening the business for the long-term as well.

Chandni Luthra
Analyst, Goldman Sachs & Co. LLC

Q

Understood. Thank you. And as a follow-up, as we think about the outlook for Capital Markets next year for the industry as a whole, how much do you think it is a function of tight lending markets versus a bid-asks spread that persists, and when do you think that malaise abates? Do you think it's a second half activity, do you think it's just a question of Fed actions being completely done? How should we think about – just give us some contours going into next year on Capital Markets, please.

Christian Ulbrich
President, Chief Executive Officer & Director, Jones Lang LaSalle, Inc.

A

I take that one. Good morning. It's Christian. Listen, what we have seen over the last couple of months, it's a very rapid disconnect between the overall refinancing costs for real estate and the property yields. And this has obviously put a lot of pressure on transaction volumes, and this disconnect has to result itself. We cannot expect that refinancing costs will come down notably over the next couple of months. So what it means is that yields have to go up. That's what we call the price discovery. And the faster that price discovery is happening, the quicker transaction volumes will come back again.

As we said, for North America, we expect that to take probably another couple of quarters, and we see increased transaction volumes back in the second half of next year. But honestly, it's not easy to predict, but it could also be that this goes faster, and we will already see recovery in the second quarter of next year as enormous amount of capital waiting to be invested and it's usually when you have those type of trends, they are for those who are invested, it's much tougher than for any fresh money which will probably create one of the best vintages going forward. And so we are obviously very focused in advising our clients accordingly how to deal with that current situation.

Chandni Luthra
Analyst, Goldman Sachs & Co. LLC

Q

Thank you so much.

Operator: Thank you. Our next question comes from Anthony Paolone from JPMorgan. Please go ahead. Your line is now open.

Anthony Paolone
Analyst, JPMorgan Securities LLC

Q

Great. Thank you. I guess, I'm just trying to understand the margin and cost piece of this again. So if we look at third quarter, year-over-year margins were down 370 basis points, and it sounds like the business is just getting worse going into 4Q. So can you give us some sense as to just order of magnitude we should expect in terms of the year-over-year margin decline in 4Q, like does that down 370 basis points get worse?

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Karen Brennan
Chief Financial Officer, Jones Lang LaSalle, Inc.

A

Yeah. So the fourth quarter of the year is typically a seasonally important one for us in terms of both top line and bottom line in terms of profitability. And so much of what the full year and fourth quarter will look like will really depend on the final outcome for Capital Markets transactions, and we do expect they'll remain depressed in the short term. The other key determining factor for our fourth quarter is really going to be around what happens from a leasing activity perspective. So leasing is certainly more resilient, you saw it held at better in the third quarter. And we're referenced before, there's always transactions that need to occur, because of natural lease explorations.

But we're continuing to see additional leasing activity related to corporate growth and new expansion. That's obviously pulling back and becoming more muted. And so particularly when we're looking at that compared to fourth quarter of last year, which was another really strong quarter as we finished out 2021, those two will really impact our overall topline and our profitability overall. We obviously have variable compensation components that will naturally flex in reaction to that. And we're going to continue to be have further focused on calibrating our other expenses, discretionary expenses through the remainder of the year. But there you have so many levers you can pull in the fourth quarter between when the activity decline really started strongly in September and December.

Anthony Paolone
Analyst, JPMorgan Securities LLC

Q

Yeah. I mean, does this change, I guess, in the commission structure in Capital Markets, it sounds like going from maybe some salaries and bonuses to maybe more variable, but it sounds like a negative effect. Does that have a more pronounced effect then in 4Q, is it just, I guess sounds like it's just being implemented?

Karen Brennan
Chief Financial Officer, Jones Lang LaSalle, Inc.

A

So that's something that's been, we've implemented the beginning of this year, and so I've talked about it a few times over the last couple of quarters. And just to recap, that was really we've changed to a more commission based structure for a number of our producers to come closer to a competitive set, really for simplification and recruiting purposes. But we still have alignment to our net income via some profit participation plan. So the ultimate impact of that, while it will have somewhat of a negative impact on a full year basis, will really depend on what the final profitability numbers are for Capital Markets business on a full year basis.

Anthony Paolone
Analyst, JPMorgan Securities LLC

Q

Okay. And then, I guess, as it relates to thinking about stock buyback and free cash flow, can you talk about free cash flow and some of the drags, but how do you think about just capacity to do buybacks if we roll forward a couple of quarters like it would seem like your net debt-to-EBITDA probably moves into the middle of your target range. Does that change kind of the view on buyback?

Karen Brennan
Chief Financial Officer, Jones Lang LaSalle, Inc.

A

Yeah. So just to first recap, we've returned approximately $600 million of cash to shareholders this year compared to $343 million last year. So it was a significant uptick. And as we look ahead, as I mentioned, we're pausing right now, and we'll continue to look at the landscape in terms of both risk and being prudent but also more for opportunities and looking at what's ahead. Certainly in an uncertain environment we're heading into now, we like

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to maintain maximum flexibility, but we are still committed to returning cash to shareholders alongside investments in our business. So we'll look to balance those over the course of the next several quarters as the macroeconomic environment becomes clear.

Anthony Paolone
Analyst, JPMorgan Securities LLC

Q

Okay. Thanks.

Operator: Thank you. [Operator Instructions] Our next question comes from Jade Rahmani from KBW. Please go ahead. Your line is now open.

Jade Rahmani
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Thank you very much. Big picture question is, there's a lot of capital on the side lines drop dry powder, but I think that capital has levered return targets. And so you need to borrow money to invest in real estate. And right now we have a state in the debt markets where borrowing costs are pretty uninhabitable for investors in real estate, it's very hard to make a decent levered return. So you either need tighter lending spreads in the credit markets or you need a big decline in commercial real estate prices. How do you expect those dynamics to unfold?

Christian Ulbrich
President, Chief Executive Officer & Director, Jones Lang LaSalle, Inc.

A

As I said earlier, we have that mismatch exactly what you pointed out, not only that interest rates went up very sharply, spreads also widened. And so we have to narrow that gap again to make it work. Now, we shouldn't underestimate that there's a significant pool of buyers out there which are going all equity on the basis that they expect that at a later point they have more favorable refinancing rate. So it's not all black and white here, but it will take, as we predicted from today's perspective or as we predict from today's perspective, a couple of quarters until that fully plays out.

But we have a couple of significant differences to the situation which we saw during the GFC. And one I think is really important is that, banks have much, much stronger balance sheets, and so there will be potentially a situation where things will just play out much faster because the market can digest potential losses. And so that is kind of the situation which during the GFC dragged that whole problem pretty far out and it took very long until the market really fully recovered, we don't expect that to happen again. There will be a much quicker recovery in this situation, but it will not be as immediate as it was coming out of the pandemic.

Jade Rahmani
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Thank you very much. What are you expecting for LaSalle incentives and equity income in the fourth quarter, but also in 2023 if we still have a very soft transaction environment?

Karen Brennan
Chief Financial Officer, Jones Lang LaSalle, Inc.

A

Yeah. So incentive fees are typically driven by actual dispositions or some that are triggered based on valuations within a fund at a point in time. But as a result of the current environment and headwinds, we would expect those to be more muted today compared to what we would have expected at the beginning of the year. So that is something that will impact us. I would say, on equity earnings side, this quarter, if you look to what happened,

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there were some write-ups and some write-downs within the portfolio, and kind of net-net we were down a little bit. And so we should expect some more headwinds there as well as we move forward.

Jade Rahmani
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Thank you very much. In terms of the office outlook, I also cover commercial mortgage REITs, and I'm starting to see a lot of distress emerging, some office loans up for maturity, that there's not the liquidity to refinance those deals, even good, well performing, well occupied properties are going into default. Do you expect a lot of distress in the office sector?

Christian Ulbrich
President, Chief Executive Officer & Director, Jones Lang LaSalle, Inc.

A

As I said, we can expect that things will be playing out much faster than we saw during the GFC for the reasons I described earlier. I wouldn't only pin it down to office as an asset class, but it is certainly an asset class which is more challenged than others because of the reasons coming from the question of where people want to work from, and also driven by the whole ESG investments needed going forward. So you will see probably more product coming to market and trading at significant discounts over the next couple of months because refinancing will be even more challenging for them than taking the hit on the valuation.

Jade Rahmani
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Thank you very much. Oh, go ahead.

Karen Brennan
Chief Financial Officer, Jones Lang LaSalle, Inc.

A

Maybe I'm sorry, Jade, I was going to add a couple points too. There's just some interesting dynamics as it relates to the countervailing forces and office dynamics overall, because we still have these pent up lease renewals and expirations that need to be addressed. We have occupiers saying we really want people back in the office. But we have to reconfigure offices and do different things and invest capital to make that happen. And they were all preparing to do a lot of those things and make changes. But now with a sharp increase in interest rates, the cost of capital for all corporates has gone up dramatically.

And so then you have to take a step back, pause and say, whether do I really want to prioritize my investments going forward. So there's definitely going to be some more tension there. But you've also seen that the US Bureau of Labor Statistics came out with some productivity stats for the first half of 2022, which decline the most they have ever on record. And so that mirrors some of what we're hearing from a number of our clients around the desire to get people back in the office and productivity challenges, and then now you have these other forces at play. So definitely be a number of factors impacting how things play out in the office market overall from both the leasing and Capital Markets perspective, and obviously they're related to each other.

Jade Rahmani
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Thank you very much.

Operator: Thank you. [Operator Instructions] Our next question comes from Patrick O'Shaughnessy from Raymond James. Please go ahead. Your line is now open.

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Patrick Joseph O'Shaughnessy
Analyst, Raymond James & Associates, Inc.

Q

Hey. Good morning. Can you speak to your client pipeline in your Workplace Management business?

Christian Ulbrich
President, Chief Executive Officer & Director, Jones Lang LaSalle, Inc.

A

Yeah. I mean, the client pipeline is very strong. That is not necessarily impacted by short-term economic developments. It's more the behavior of those clients which is impacted by those economic developments. Overall, the outlook for that business, as I stated earlier, is very, very strong. And what we have seen in the past when we had those economic developments is that, clients are even more eager to have their portfolio run by professional hands to see how they can optimize usage of their built environment, raise productivity for their people, and at the same time reduce cost as much as possible. So we are not concerned at all with regards to the client pipeline going forward.

Patrick Joseph O'Shaughnessy
Analyst, Raymond James & Associates, Inc.

Q

Great. I appreciate that. And then with JLL Technologies, obviously there's a number of components within that segment. But can you speak to, how is the demand for those various solutions impacted at all by the macro? Are budgets getting tightened, and maybe new technology adoption slows or does demand maybe pick up as people look for some of these innovations?

Christian Ulbrich
President, Chief Executive Officer & Director, Jones Lang LaSalle, Inc.

A

Well, it's not always a clear picture to one side, but it's clearly more heightened interest for those technology solutions in a current environment than the opposite. So we have a lot of SaaS revenues within that business, and that continues to grow very nicely, as you saw in the third quarter results. And we are very optimistic that this is an ongoing trend, which will also continue in 2023. And then there are some more transactional kind of pieces in that coming from our technology solutions business.

Interestingly enough that has grown above our own expectations in the third quarter and continues to have a very strong pipeline, which goes back to what I just said, that corporate clients are looking at identifying solutions to drive productivity out of their footprint. And that then leads to these additional assignments. How that will play out going forward depends a little bit how deep that recession will be. Frankly, as we believe that for the US site, for the North American site, it will be a relatively quick downturn. We expect that business to continue to perform really well.

Patrick Joseph O'Shaughnessy
Analyst, Raymond James & Associates, Inc.

Q

That's helpful. Thank you.

Operator: Thank you. This concludes our Q&A session for today. So I'll hand you over to Christian Ulbrich for closing remarks.

Christian Ulbrich
President, Chief Executive Officer & Director, Jones Lang LaSalle, Inc.

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Thank you, operator. With no further questions, we will close today's call. On behalf of the entire JLL team, thank you all for participating on the call today. I'd like to remind you that we are hosting an Investor Briefing event in New York City on November 16. We hope to see many of you there in person. Karen and I also look forward to speaking with you again following the fourth quarter.

Operator: Thank you, ladies and gentlemen. This concludes today's call. Thank you for joining. You may now disconnect your lines.

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