27-Feb-2024

Jones Lang LaSalle, Inc. (JLL)

Q4 2023 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Thanks for standing by and welcome to the Q4 2023 JLL Earnings Conference Call. I would now like to welcome Scott Einberger, Investor Relations Officer, to begin the call. Scott, over to you.

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

Thank you and good morning. Welcome to the Fourth Quarter 2023 Earnings Conference Call for Jones Lang LaSalle, Incorporated. Earlier this morning, we issued our earnings release along with a slide presentation and Excel file intended to supplement our prepared remarks. These materials are available on the Investor Relations section of our website. Please visit ir.jll.com.

During the call and in our slide presentation and accompanying Excel file, we reference certain non-GAAP financial measures, which we believe provides useful information for investors. We 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 and recording of this conference call will be posted to 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 our soon-to-be filed Annual Report on Form 10-K for the fiscal year December 31, 2023, 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
President, Chief Executive Officer & Director, Jones Lang LaSalle, Inc.

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Thank you, Scott. Hello and welcome to our fourth quarter 2023 earnings call. JLL's first quarter financial results reflect the strengths of our resilient business lines which grew a combined 9% in the quarter. This growth helped offset the soft transaction market our industry has experienced over the past year.

Sentiment in the global real estate market has improved since our last earnings call in early November, a result of the drop in the 10-year US Treasury bond yield and a growing consensus that interest rates have reached peak levels across most major economies. While falling debt costs will lead to a more predictable operating environment going forward, it will take time and prolonged stability for pricing to fully adjust. The path forward may be uneven, but we are confident that bid-ask spreads will normalize and transaction volumes will improve.

The fourth quarter saw a global commercial real estate investment of $166 billion, reflecting a year-over-year decline of 24%, according to JLL Research. Liquidity remains available and debt markets are active favoring asset types such as residential, industrial and data centers. In the current market environment, smaller deal sizes remain the most attractive to lenders although we have seen a modest number of larger deals come into the market over the past few months.

On the leasing side, occupiers continue to take a cautious approach. But office demand is stabilizing as many companies are making progress on their return to office initiatives. Similar to investment sales, large lease transactions are starting to return to the market but have not come back in a meaningful way yet. As we have noted in the past, larger deals are a more significant portion of our fee revenue base in both leasing and investment sales. As larger transactions come back into the market, we expect to benefit disproportionately.

In the global office market, volume was up 4% year-over-year in the fourth quarter according to JLL Research. Asia Pacific leasing demand remains resilient with most markets ahead of pre-pandemic levels of office attendance. Global office vacancy rates ticked up 25 basis points to 16.2% in the fourth quarter. Companies are still focused on upgrading into higher quality sustainable space, supporting demand in buildings that offer these features.

Turning to the industrial sector, fourth quarter leasing activity declined in the US and Europe as the industrial sector continues to manage through the record amount of space that was leased following the pandemic. Asia Pacific leasing was resilient, supported by a wave of new supply and ongoing demand from e-commerce.

Rental growth remained positive in the fourth quarter but continued to moderate across all three regions. Long-term fundamentals in the industrial sector are strong, supported by nearshoring requirements and demand for energy-efficient space. The retail sector saw solid leasing activity in the fourth quarter across most markets, benefiting from resilient consumer spending and a recovery in international travel.

Turning to JLL's results for the quarter, we continue to focus on growing our resilient business lines as part of our strategy to further diversify our platform and drive long-term shareholder value. Our Workplace Management and Property Management business lines both reported double-digit fee revenue growth in the quarter, as we continue to benefit from new client wins.

For the full year 2023, our Work Dynamics segment delivered 80 basis points of adjusted EBITDA margin expansion compared to the prior year. We are on pace to achieve our previously communicated goal of delivering a mid-teens margin profile for our Work Dynamics segment.

Performance in our leasing Capital Markets business was in line with expectations given the broader industry environment and continued slowdown in transaction activity. We have selectively added to our brokerage teams

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and asset classes such as multifamily, industrial, and data centers. We believe these asset classes have structural tailwinds and will lead the recovery as transaction activity improves. In addition, our industry-leading debt platform will serve as a catalyst, as an increased level of real estate debt matures in the coming months.

JLL Technologies' fourth quarter operating income highlights the work we have done to drive operational efficiencies in this segment of our business. We continue to make progress towards JLL Technologies being profitable on a sustained basis, excluding equity earnings.

In our LaSalle's business, advisory fee revenue have remained resilient, despite impacts to AUM from valuation declines and a softer fundraising environment. As transaction activity improves, we expect that fundraising levels across the industry will pick up. Recent valuation declines have created attractive investment opportunities in our new funds, and we expect that funds launched during this period of time will prove to offer favorable returns.

With that, I will now turn the call over to Karen, who will provide more detail on our results for the quarter and full year.

Karen Brennan

Chief Financial Officer, Jones Lang LaSalle, Inc.

Thank you, Christian. Before I begin, a reminder that variances are against the prior year period in local currency unless otherwise noted. I'm pleased with the focus of our leadership teams over the course of last year to strengthen our platform, improve our operating efficiency, and drive long-term value creation, while continuing to deliver exceptional service to our clients.

Strong progress was made despite persistent softness in transactional market activity, evidenced by full year investment sales market volume reaching its lowest level since 2012, as well as office and industrial leasing volume 16% lower than 2020. Though our transaction-oriented fee revenue fell 17% for the full year, both leasing and investment sales outperformed respective declines in the broader market.

Our resilient fee revenues grew 5% for the full year, with growth accelerating in the fourth quarter as we transitioned new client mandates that we won earlier in the year, a testament to the trust our clients have in JLL managing their real estate portfolios. Over the course of the year, we took actions that lowered our cost base by $210 million on a run rate basis.

Our free cash flow increased nearly $400 million from 2022, and we reduced our leverage towards the middle of our target range, while we invested in our business and returned capital to shareholders. We remain focused on positioning our business to capitalize on near and long-term opportunities to drive growth, profitability, and cash flow.

Our fourth quarter results reflect the diversity of our revenue base and the resiliency of our platform. At the consolidated level, fourth quarter fee revenue was $2.2 billion, a 2% decline from the year earlier. Adjusted EBITDA totaled $306 million, down 9%, and reflected a margin of 14.3%, compared with 15.3% a year ago. The $55 million incremental equity losses, as well as lower transaction-oriented fee revenue and the timing of incentive compensation accruals, were the predominant headwinds to margin performance.

Growth in our resilient revenue businesses, cost management actions during the year and an actuarial benefit related to healthcare cost were partially offsets. Fourth quarter adjusted diluted EPS of $4.23 declined a more modest 2% as the adjusted EBITDA drivers and higher interest expense were largely offset by a lower effective tax rate.

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For the full year, consolidated fee revenue declined 11% to $7.4 billion. Adjusted EBITDA for the full year declined 40% to $737 million. Approximately 50% of the decline was from the adverse change in equity earnings with the balance largely from lower transactional revenue. These items overshadowed resilient revenue growth and cost management actions.

The full year adjusted EBITDA margin declined 500 basis points to 10%, including approximately 320 basis points from lower equity earnings. Adjusted EPS of $7.40 declined 52% with the adjusted EBITDA drivers as well as the adverse change in equity earnings and higher interest expense partially offset by a lower effective tax rate.

Moving to a detailed review of our operating performance by segment beginning with Markets Advisory. The 3% decline in segment fee revenue in the quarter was mainly due to 5% lower leasing activity. Leasing fee revenue grew in the Asia Pacific region across most asset classes but was more than offset by softer leasing activity across most asset classes in the Americas and EMEA. Industrial leasing fee revenue was consistent with the prior year, which compares favorably to the 23% decrease in global industrial market activity according to JLL Research. Leasing fee revenue declined 15% for the full year with largely consistent drivers as our fourth quarter commentary.

As Christian described, we continue to see more sustained leasing demand for high quality assets, which is favorable for our business mix. Our global growth leasing pipeline continues to hold up. And we are encouraged by the recent trends in the OECD's business confidence index, which generally leads leasing activity by two to three quarters. Still, occupiers continue to delay leasing decisions particularly for large-scale transactions. The contractual nature of leases, limited new office and industrial building starts and our expanding pipeline provides optimism for long-term growth. But the timing and pace of acceleration in leasing activity is uncertain.

Also, within Markets Advisory, Property Management fee revenue grew 12% in the quarter and 11% for the full year with both driven largely from portfolio expansions in the Americas and incremental fees from interest rate sensitive contracts in the UK. Considering the current level of interest rates and the forward interest rate curve, the incremental revenue benefit from these contracts to the Property Management growth rate are likely to moderate as the year progresses.

The Markets Advisory fourth quarter adjusted EBITDA margin expansion reflected our cost management actions in 2023 as well as incentive compensation accrual timing. The lower leasing fee revenue net of lower commissions and higher incentive compensation accruals in 2023 drove the full year margin contraction, partially offset by Property Management fee revenue growth and our cost management actions.

Shifting to our Capital Markets segment. Fee revenue declined 12% in the quarter and 28% for the full year as investor decision making was prolonged by sharp interest rate increases and heightened volatility along with elevated economic and geopolitical uncertainty. Our global investment sales fee revenue, which accounted for approximately 40% of segment fee revenue in the quarter, fell 18% and compared favorably with the 24% decline in the global sales volume Christian referenced.

Fee revenue declined across most geographies and major asset classes. However, we had several bright spots in the Asia Pacific region highlighted by Japan. Our US and EMEA investment sales, though down from the year earlier, performed notably better than their respective regions' market activity. For the full year, the 40% decline in investment sales fee revenue compared favorably with the 43% decline in market volume activity with EMEA notably outperforming the markets.

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Our loan servicing fee revenue grew 3% in the quarter as lower prepayment fees tempered 6% growth of recurring servicing fees. For the full year, loan servicing fee revenue fell 3% as prepayment fees were approximately $13 million lower than the prior year, which masked 6% growth in the core servicing fees in 2023. The rise in interest rates has nearly eliminated early refinancing activity which generates prepayment fees. The underlying increase in the servicing fees was driven by the continued growth in our Fannie Mae portfolio.

The Capital Markets adjusted EBITDA margin contraction for the quarter and full year was predominantly driven by lower transactional fee revenue net of lower commission expense as well as incentive compensation accrual timing. The decremental margin within Capital Markets for the quarter was a bit higher than typical, though the full year decremental margin was in line with the historical average and our expectation considering the differences in geographic compensation structures and discrete items. The investments we've made in our Capital Markets talent and platform over the past several years position us to capitalize on a rebound in transaction volumes when market conditions improve.

Looking ahead, the global Capital Markets investment sales, debt and equity advisory pipeline is up modestly compared with this time last year. And client engagement momentum has picked up over the past few months, which has coincided with the general recent stability of the 10-year Treasury rate that is well below the October 2023 peak. The amount and pace of revenue growth over the course of 2024 will be heavily influenced by the factors impacting deal timing and closing rates that Christian described. So we anticipate higher growth rates in the second half of 2024.

Moving next to Work Dynamics. Fee revenue growth of 8% in the quarter was led by an acceleration within Workplace Management. The 17% increase in Workplace Management fee revenue is a result of the ramp-up of the new global client wins and mandate expansions we secured earlier in 2023. For the full year, the ramp-up of the new contracts in the latter part of the year drove 7% growth in Workplace Management fee revenue, which is on top of 15% growth in 2022.

Project Management grew 2% in the quarter from broad-based activity across geographies, though demand moderated from prior quarters, generally in line with the historical land leasing trends. For the full year, Project Management grew 9%. The improvement in Work Dynamics adjusted EBITDA margin for the quarter and the full year was primarily attributable to the revenue growth along with ongoing cost management.

We remain confident on the segment's growth and margin trajectory over the coming years. Broadly, we continue to see solid new sales trends and strong contract renewal and expansion rates as the demand for professional management of corporate real estate increases. The new Workplace Management contracts from Fortune 100 companies we secured in the early part of 2023 will continue to support solid momentum through the first half of 2024, though at a more moderate pace in the latter part of 2023. We remain focused on securing additional project management mandates. However, the slower economic and leasing backdrop may dampen near-term growth rates.

Turning to JLL Technologies. Existing enterprise client demand drove 14% fee revenue growth, which was on top of a 21% year-over-year organic growth rate in the fourth quarter 2022. For the full year, 16% fee revenue growth followed 23% organic growth in the prior year. We continue to see strong retention rate of JLL Technologies software and solutions revenue. However, slower new client wins in 2023 will moderate growth rates in the near term.

The combination of the fee revenue growth and incremental operating efficiency gains drove an improvement in JLL Technologies' adjusted EBITDA margin that was more than offset by adverse changes in equity losses net of

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carried interest, both for the quarter and the full year. The timing of certain expenses was also a benefit to the fourth quarter margin. The equity losses resulted from valuation declines in certain portfolio investments and reflect the challenging environment for venture capital. Segment profitability remains a top focus, and we are pleased with the fourth quarter's positive margin contribution, excluding equity losses.

Now to LaSalle, advisory fee revenue declined 4% in the quarter, primarily on the impact of valuation declines within our assets under management over the past year. Absent foreign currency exchange movements, assets under management were 7% lower than a year earlier, with approximately 70% of the decline attributable to valuation reductions, with the balance from net acquisition and disposition activities.

Capital raising activity and new capital deployment continues to be subdued given the evolving market environment, which also moderates transaction revenues. For perspective, new investments for the quarter and trailing 12 months were about 70% lower than the respective prior year period. Incentive fees, which are a function of the disposition timings and asset performance, increased for the full year off a muted 2022 and drove 2% full-year segment fee revenue growth.

For 2023, we had about $25 million of equity losses from declining asset valuations, as compared with the nearly breakeven 2022. The reduction in LaSalle's adjusted EBITDA margin in the quarter was largely attributable to lower revenue, as well as timing of certain personnel costs and annual compensation accruals. The full year margin decline was primarily driven by the equity losses, partially offset by higher incentive fees.

Turning to free cash flow, we recorded a net inflow of $389 million for the year, compared with a $6 million outflow in the prior year. The improvement was driven largely by better net working capital, including improved collection of trade receivables, along with lower cash outflows associated with taxes paid and annual incentive compensation and commissions, which outpaced lower cash from earnings. The lower cash from earnings was largely attributable to dampened transaction-oriented business performance. Cash flow conversion is a high priority, and we are very focused on our working capital efficiency.

Shifting to our balance sheet and capital allocation, during the quarter, we strengthened our liquidity position through a $400 million bond offering, with proceeds used to reduce our borrowings on our credit facility. Liquidity totaled $3.1 billion at the end of the fourth quarter, including $2.7 billion of undrawn credit facility capacity.

As of December 31, reported net leverage was 1.6 times, up from 1.0 times the year earlier, primarily due to the adverse impact of non-cash equity losses, as well as lower cash earnings over the trailing 12 months. The equity losses had a 0.3 times adverse impact on our fourth quarter reported net leverage ratio.

Over the medium term, we intend to manage the business towards the middle of our 0 to 2 times leverage range. With leverage above the midpoint of the target range in 2023, we selectively deployed capital towards growth initiatives and repurchased just $62 million of shares to offset stock compensation dilution, as we prioritized de-leveraging our balance sheet.

Considering the seasonality and current leverage, we anticipate near-term share repurchases to continue at a pace that will offset expected full-year stock compensation dilutions. Looking further out, the amount of share repurchases will be dependent on the performance of our business, particularly cash generation and the macroeconomic outlook. We'll also weigh it against our broader investment opportunity set, in particular, M&A.

Regarding our 2024 full year financial outlook, we are cautiously optimistic that transaction activity will pick up in the second half of the year. Growth in our more resilient business lines remains solid. We continue to scale our

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platform and invest to both capture future growth opportunities and drive operating leverage. We are targeting a full year 2024 adjusted EBITDA margin, excluding equity earnings, to be within a range of 12.5% to 14.5%. With many initiatives in play to drive growth and efficiency, we are excited about the value creation prospects of our business across market cycles.

Before turning the call back to Christian, I'd like to note a few reporting changes we will make effective in the first quarter of 2024. First, JLL Technologies and LaSalle's equity earnings related to investment activities will be excluded from our adjusted EBITDA and adjusted net income calculations. Equity earnings from our operating joint ventures across the business will continue to be included. We believe this change will allow for clearer visibility and better comparability of our operating financial performance across reporting periods. Second, we are aligning LaSalle's assets under management definition to conform to industry standards which includes uncalled committed capital and cash.

Third, beginning next quarter, we will no longer report fee revenue or fee-based operating expenses following the conclusion of a comment letter from the SEC regarding the presentation of these metrics in our financial statements. We are working through alternative ways to provide the information and visibility we believe those measures bring.

Importantly, this third reporting change is solely a matter of non-GAAP measure presentation as there is no impact on the underlying performance of our business, our audited GAAP financial statements, adjusted EBITDA, adjusted net income or free cash flow. We will provide historical financial information that reflects all three reporting changes I just discussed prior to our first quarter earnings call. Christian, back to you.

Christian Ulbrich

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

Thank you, Karen. Looking ahead to 2024, we believe there are reasons for cautious optimism as we are beginning to see green shoots emerge in the commercial real estate market.

According to JLL's proprietary Global Bid Intensity Index, there has been a growing number of bidders entering the market since late 2023, which is an encouraging sign for transactional markets. As interest rates stabilize, lenders and investors will be able to appropriately price real estate assets, which will lead to a tightening of the bid-ask spread. This process is already underway with the US, UK and Australia furthest along in the price adjustment cycle.

In the Asia Pacific region, industrial net absorption set a new annual record in 2023. Strong fundamentals in this region should support continued recovery in leasing and investment sales activity. In North America and Europe, inflation is moderating setting the stage for rate cuts in the second half of the year. These factors are resulting in an increase in investor interest specifically in high quality assets. We believe this will spur a modest recovery in transaction activity for these two regions as the year progresses.

The price discovery process can take time to play out. And as a result, 2024 is likely to be a year of transition for the commercial real estate market. As a global player with a diversified platform and strong balance sheet, we are well-positioned to help clients navigate this transition. Our technology and data tools provide clients with leading insights into market trends and opportunities while our One JLL model brings together the unique capabilities of our different business lines.

This past year has proven that our operating model can deliver solid margin performance despite a slower transaction environment. We are committed to driving margin expansion and believe the steps we have taken to

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streamline our operating model and grow our resilient business lines will strengthen the long-term margin profile of our business. We continue to see opportunities to invest in our business both organically and through M&A where valuations have become more attractive recently. We are focused on adding people and capability that strengthen our offerings to clients.

I'm confident that the investments we have made and will continue to make in our business position us for success as market conditions improve. Finally, I would like to thank our colleagues for their commitment to serving our clients in a challenging environment and look forward to what we can achieve together in 2024. Operator, please explain the Q&A process.

QUESTION AND ANSWER SECTION

Operator: The floor is now open for your questions. [Operator Instructions] Our first question comes from the line of Michael Griffin with Citi. Please go ahead.

Michael A. Griffin
Analyst, Citigroup Global Markets, Inc. Q

Great, thanks. Maybe just going back to the SEC comment letter you mentioned, Karen. I'm wondering if you could provide maybe some additional color around that. Is the guidance in 2024 expected off of that new definition in terms of impacting adjusted EBITDA margin? Just trying to get a sense for how we should think about margins going forward if there's kind of a new definition of this fee-based revenue and then operating expenses.

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

Yeah, sure. First, I want to emphasize again that this change does not impact the quality of our financial statements or the performance of the business. So to repeat what I said earlier, the audited GAAP financial statements and footnotes, adjusted EBITDA, adjusted net income, adjusted EPS and free cash flow, all will not change as a result of the topic.

And so what the SEC has focused on is as follows. In the current presentation, we provide both GAAP revenue and fee revenue. And the SEC has a heightened focus on revenue metrics with deductions and specifically deductions that they categorize as an expense. So therefore, the SEC is focusing on our fee revenue since that calculation has a deduction for reimbursable costs. Right now, we're working with the SEC to determine an alternate presentation that can be used. And it's our intention that we'll provide a presentation that includes the same insights that the investment community is familiar with today.

Michael A. Griffin
Analyst, Citigroup Global Markets, Inc. Q

Got you. That was really helpful. And then maybe stepping back at the higher-level question just on expectations of transaction activity. Christian, if you're kind of looking at bid-ask spreads now relative to where they were, call it, 6, 12 months ago; how much have they narrowed? And then how do you think that is going to impact more transactions coming back to market?

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

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Sure, Michael. While they have clearly narrowed, it depends a little bit on the quality of the underlying assets and also which asset classes we are speaking about. But generally speaking, we see now a much closer situation between bid and ask than we saw six months ago or even three months ago with kind of the calming on the interest rate side, which we have seen towards the end of the year and at the beginning of the year have helped. Now, the last couple of weeks went in the other direction again. But overall, there is a clear willingness in the market to trade and we believe that will continue over the course of the year, obviously, picking up more into the second half.

Michael A. Griffin
Analyst, Citigroup Global Markets, Inc.

Great. That's it for me. Thanks for the time.

Operator: Our next question comes from the line of Stephen Sheldon with William Blair. Please go ahead.

Matthew Filek
Analyst, William Blair & Co. LLC

Hey, team. You have Matt Filek on for Stephen Sheldon. Thank you for the questions. For LaSalle, how are you thinking about the potential trend in assets under management over the course of 2024 given the current fundraising environment and the potential drag from mark-to-market adjustments on CRE asset values? And then, I think you mentioned a reporting change with respect to the definition of assets under management during the prepared remarks. Can you just touch on how that factors into the equation as well?

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

Sure, I'll take that one. First, let's just start with the change in reporting of the assets under management. So, taking a step back, there were three industry bodies that came together: NCREIF in the US, INREV in Europe, and ANREV in Asia Pacific. And they aligned on a definition for assets under management because the industry was using different metrics across the board. We were on the more conservative end of that. So the impact for LaSalle is that our year-end AUM will increase from the $74 billion that – as of December 31 under our old measurement methodology, to $89 billion going forward under the new methodology.

In terms of what we expect going forward for LaSalle's AUM, we certainly have a significant amount of dry powder on the sidelines now ready to deploy. And it will be a matter of time for the transaction markets to return and recover before that will start to be deployed and increasing advisory fees. I would say there's still a continued pressure we anticipate from further valuation declines coming through – that have come through over the last 12 months. But we expect a little bit more pressure in 2024 as well.

Matthew Filek
Analyst, William Blair & Co. LLC

Okay, got it. That's very helpful. Thank you. And then, I had a two-part question on leasing. First, what are you seeing in terms of lease durations? Are there any signs that tenants are becoming more comfortable signing longer-term lease commitments? And second, are you starting to see larger leasing deals flow through? And if so, are there any asset classes to call out in particular?

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

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Yeah. So first on the lease term, I'll talk about US Class A office as a kind of metric benchmark here to focus on. For the full year 2023, for direct deals, the weighted average lease term was 8.2 years. And that was a significant increase from 2022 at 7.1 years, but still below pre-pandemic levels, which were really around 8.8 years. We're also seeing, importantly, an uptick of the sublease activity in leasing. And so there's some activity going on there. Those are typically shorter-term leases that's around 4.9 or 5 years. And so that's dragging down the overall weighted average lease term. But generally, that's trending in the right direction. In industrial, we're also seeing similar trends where some of the larger occupiers are willing to sign longer-term leases.

I think there was a second part to your question. Can you remind me, if I've missed it?

Matthew Filek
Analyst, William Blair & Co. LLC

Q

Yes. Just wondering if larger leasing deals are starting to flow through. And if they are, are there any assets in particular to call out?

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

A

Yes, we are starting to see an uptick in the larger size transaction. Focusing on office to start, that there was an uptick in the fourth quarter, but it was a modest uptick. And if you compare large lease deals in office in the US, which we define – our research team defines as over 100,000 square feet, the volume there on a trailing 12-month basis is still 60% below the pre-pandemic numbers. So we're seeing an uptick and that's encouraging. But it certainly has some room to run there.

In terms of what we're seeing from individual deal sizes in industrial, over the last couple of quarters, we've actually seen kind of more mid-sized transactions being signed, as opposed to the largest blocks of warehouse space. Some of that had to do with availability. Some of that had to do with the demand mix. But that's the trend we're seeing there.

Matthew Filek
Analyst, William Blair & Co. LLC

Q

Great. And thank you for all the metrics on lease duration. Appreciate that.

Operator: Our next question comes from the line of Jade Rahmani with KBW. Please go ahead.

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

Q

Thank you very much. For 2024 full year, are you expecting Capital Markets, and are you expecting leasing to be flat, up, or down?

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

A

Let me kick it off, Jade. On the Capital Markets side, I think it is fair to say that the market is, as I said earlier, willing to get engaged again and trade. Bid-ask spreads have narrowed. And so we expect that overall volumes will be slightly better than in 2023. Most likely, you will see that in the second half of the year.

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And on the leasing side, and Karen may want to add to it, we probably see a similar picture as she just alluded to. You see different signs of activity which lead towards a slightly improved overall transaction environment also on the leasing side.

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

A

Yeah, at a high level, I'd just say that we expect a modest amount of fee revenue growth in these transactional business lines but primarily occurring in the second half of the year.

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

Q

Thank you. Turning to the margin guidance, does this factor any impact of the SEC comments? And can you just walk us through your thinking about how do you get to the 12.5% to 14.5% and then walking from that to the 16% to 19% long term?

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

A

Yeah. So with respect to the SEC letter and its impact to our targets. Right now, as I mentioned before, the end goal is to provide the same insights into the business as we do today but in an alternate presentation. And this is how we review, report and run the business today internally for our management team. So at the moment, this is what we are continuing to target.

In terms of how we get to the top end versus the bottom end of the range, it's really largely dependent on the overall macroeconomic environment and what happens with the velocity of transactions coming back. If that happens at a pace that's above our current expectations, we're likely to end up at the higher end of the range. If it's below our expectations, we could end up at the lower end of the range. So that's a key determining factor. I do want to just remind everyone that we certainly have the benefit of the cost actions we took last year as well as the continuing improvements in our Work Dynamics margin as we continue to scale that business as the nice tailwinds there.

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

Q

And then let's say you end up at 13.5% from 14%. How do you get from that to 16% to 19%? And medium term, I don't know what that means. Is that 2026-2027?

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

A

Well, it obviously depends how the overall market is developing. If we are correct that we will see over the next couple of years and continuous improvement of the market environment, that will lead us to our formerly stated margin target. And as we have alluded to in previous calls, we have made our platform much more productive over the last couple of years. And so we don't need the same type of top line numbers to get to that bottom line margin profile which we stated before. And so we are pretty confident that that will be achievable in the not too distant future.

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

Q

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Thanks.

Operator: Our next question comes from the line of Patrick O'Shaughnessy with Raymond James. Please go ahead.

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

Q

Hey, good morning. How much do you think a potential rebound in Capital Markets activity is predicated upon interest rate cuts? Or put another way, if central banks and the Fed were to not cut in 2024, how would you see that impacting deal activity?

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

A

Well, we have seen that the interest rates play a very important role. Now the question is, is it the absolute level which we are seeing or was it the very quick spike in interest rates and also in margins. And therefore, I think as a very steady environment, if the market were to expect no interest rate cuts but also no increases; that will obviously dampen the overall transaction volume. But it wouldn't fall below 2023 levels. I would guess it would still be slightly above.

And if the market is seeing those interest rate declines, those cuts over the course of the year over and above what is now included in the predictions; that could add another 5% to 10% of volume from that part onwards, so not for the whole year but when that is happening. And so our own expectations are that we will have a pretty cautious trading environment in the first two quarters. But we expect it to lighten up in the second half of the year as we already stated a couple of times on this call.

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

Q

That's very helpful. Thank you. And then a smaller competitor recently defaulted on its debt. Is the current environment pretty favorable in terms of attracting talent from smaller, less diversified competitors?

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

A

Listen, we have very clear expectations what type of talent we want to have on our platform. And we are pretty good in attracting those people to our platform. And so the market for the type of talent we are looking for is still incredibly tight. I don't see any major impact of the context you are stating here.

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

Q

Okay. Thank you very much.

Operator: Our next question comes from Jade Rahmani with KBW. Please go ahead.

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

Q

Thank you very much. On JLL Technologies, there's a goodwill component also on the balance sheet. Do you see any risk to impairing that?

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

No, not at this time.

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

Can you comment on the M&A environment and what areas of the business you're most interested in growing through M&A transactions? Private credit is something that everyone is highlighting. I wanted to see if you could comment there or if there's other parts of the business where you see better value.

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

Well, first of all, as you know, we have been quite hesitant to enter the M&A market over the last couple of years because we thought that pricing was too high and that it is better value for our shareholders if we reduce our leverage and buy back shares as we have done over the last year. Now what we are currently seeing is that M&A pricing has come down a fair bit and so we have been consistently evaluating deals.

And as we continue to do so, we are now seeing more and more opportunities which we find more interesting than in the past. And usually those are in areas where it offers us the opportunity to bring in several of our different services which we are providing to clients so that it is not only touching one business line but that it's also across various business lines. They're not the biggest asset we have as JLL – our One JLL approach, we are selling various services to the same clients is something which drives a lot of our top line growth.

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

And lastly, the recent upsurge in the 10-year Treasury yield, has that had any diminishing impact on the momentum that you had been seeing building in Capital Markets?

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

It is not helpful. We are still seeing growing client interest to transact. It's always a question when is the right moment to get out into the market. So our teams are incredibly busy advising our clients. And we would have preferred, but we haven't seen that recent uptick. But it doesn't take anything away what we already said on the call about our outlook for the year.

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

Thank you for taking the follow-up.

Operator: I would now like to turn the call 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, we thank you all for participating on the call today. Karen and I look forward to speaking with you again following the first quarter.

Operator: This concludes today's call. You may now disconnect.

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