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Jones Lang LaSalle, Inc. (JLL)

Q1 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Welcome to the Q1 2024 JLL Earnings Conference Call. My name is Benjamin, and I will be your operator for today's call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session. [Operator Instructions] As a reminder, the conference is being recorded.

I will now turn the call over to Scott Einberger, Head of Investor Relations. Scott, you may begin.

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

Thank you and good morning. Welcome to the first quarter 2024 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 provide 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 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.

Thank you, Scott. Hello and welcome to our first quarter 2024 earnings call. I'm very pleased with our first-quarter results. We were able to grow both Resilient and Transactional revenue and turn that into meaningful profit growth. The year started with some positive momentum highlighted by an increase in bidders and the closing of several large deals in North America. These green shoots encapsulate investor willingness to deploy capital when market conditions warrant. However, once inflation data came in higher than expected and the hope for several interest rate cuts later this year diminished, real estate capital markets became much quieter again.

In the first quarter, global commercial real estate investments totaled $135 billion, a year-over-year decline of 4% according to JLL Research. The pace of decline moderated in the quarter across the Americas and EMEA, while Asia Pacific experienced its second consecutive quarter of growth. Debt market conditions improved in early 2024, both in terms of pricing and liquidity. However, commercial real estate markets have taken a pause over the last several weeks as lenders and investors adapt to a shift in the interest rate outlook. Lender confidence remains varied, and it's strongest for industrial, living, and data centers, especially for high-quality assets at smaller deal sizes.

Turning to office leasing, activity improved in the quarter, albeit compared to a subdued 2023 level. Globally, office leasing volumes increased 7% year-over-year according to JLL Research. Both the US and Asia Pacific saw increases in demand as occupiers continue to upgrade to premium-quality, sustainable space that improves the employee experience. In Europe, limited available space continues to dampen transaction activity. The number of large lease transactions improved in the quarter, but it's still well below pre-pandemic levels. The global office vacancy rate ticked up 30 basis points to 16.5% in the first quarter, driven mainly by North America where the market continues to process leases that require 10% to 15% less space.

On the industrial side, first-quarter leasing activity declined globally as decision-making slowed amid geopolitical and economic uncertainty. In the US, occupiers continue to manage through the record amount of space that was leased following the pandemic. Across much of Europe and Asia Pacific, a limited supply of modern energy-efficient space is constraining activity. While growth in average rental rates moderated across all three regions, long-term fundamentals in the industrial sector remain strong, supported by nearshoring requirements and demand for high-quality, sustainable space that allows for technology integration and automation. Finally, in the retail sector, consumer spending and international tourism remains resilient, supporting demand for space in prime location.

Turning to JLL, our first-quarter results were driven by both revenue growths and the cost management actions we have taken. Collectively, our Resilient revenue base grew 12% in the quarter as clients leverage the full suite of services we provide across our Workplace and Property Management platforms. Our Leasing Capital Markets business performed well, given the broader industry and economic environment. As we noted, in the past, JLL has the number-one US debt origination platform as well as the leading equity placement platform according to the Mortgage Brokers Association. We are uniquely positioned to manage the upcoming wave of debt maturities and capitalize on an eventual increase in commercial real estate transactions.

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

Karen Brennan

Chief Financial Officer, Jones Lang LaSalle, Inc.

Thank you, Christian. Before I comment on our performance, there are a few items to note regarding changes to our reporting presentation effective in January that we previewed during the fourth-quarter call in late February. First, JLL Technologies' and LaSalle's equity earnings have been excluded from adjusted EBITDA and adjusted net income calculations. While excluding these investment-related items, equity earnings from our operating ventures across the other segments continue to be included.

Second, our definition of LaSalle's assets under management now includes uncalled committed capital and cash, conforming with the industry standard. This definition change has no impact on the fees we earn. Third, following the conclusion of a comment letter from the SEC in February, we no longer report on the non-GAAP measure of fee revenue. As such, our discussion of revenue and associated growth rates are inclusive of gross contract costs and net noncash MSRs. This primarily impacts the Work Dynamics segment and the Property Management business line within the Markets Advisory segment. Given the absence of fee revenue in our reported financials, we no longer specifically report adjusted EBITDA margin.

Importantly, these presentation changes have no impact on how we manage our business nor on our profitability or cash flow. Nearly all of the information we previously provided is included in or can be derived from our new presentation. Comparable historical information is available at ir.jll.com. Separately and consistent with prior practice, variances discussed are against the prior-year period in local currency unless otherwise noted.

Now, on to the discussion of our performance. Revenue increased 9% to $5.1 billion on continued strength in our Resilient revenues and a return to growth in our Transactional revenues. The revenue growth, along with the benefits of our cost reduction, were the primary drivers of the 70% increase in adjusted EBITDA to $187 million and a 168% increase in adjusted diluted EPS to $1.78. The first quarter reflects the strength and diversity of our platform, as well as our continued focus on improving operating efficiency. The 12% increase in our Resilient revenues was consistent with the pace in the fourth quarter and was led by growth in Workplace Management and Property Management. A notable increase in investment sales activity, albeit on a soft 2023 comparison, drove a 1% increase in Transactional revenue, the first year-over-year increase since the second quarter of 2022.

The 1% decline in platform operating expenses are a testament to our cost management actions as well as our ongoing initiatives to enhance efficiency. The increase in profitability led to a 6% year-over-year improvement in free cash flow and a reduction in leverage while we continue to invest in our business and return capital to shareholders. We remain focused on positioning our business to best capitalize on near- and long-term opportunities to drive growth, profitability, and cash flow.

Moving to a detailed review of our operating performance by segments. Beginning with Markets Advisory, the 5% growth in revenue in the quarter was mainly driven by Property Management. Portfolio expansions in the Americas and the UK and incremental pass-through expenses drove 8% Property Management revenue growth. After five down quarters, Leasing revenue returned to growth, increasing 2%, though on a soft prior-year quarter. The growth was led by mid-single-digit growth in the US, as most other geographies were down. Increased deal size and transaction volumes in the office sector drove the growth in the US, which more than offset declines in the industrial sector globally. We continue to see more sustained leasing demand for high-quality assets and saw a pickup in large deals, both of which are favorable for our business mix. Still, occupiers continue to delay leasing decisions, and large deals remain materially below the long-term average.

Our global growth Leasing pipeline continues to hold up, supported in part by the contractual nature of leases. The improvement in the OECD Business Confidence Index from late 2023 through March, which generally leads leasing activity by two to three quarters, along with limited new office and industrial building starts and stabilization and sublease space provides optimism for pickup in activity in the latter part of 2024 and over the longer term. We will be closely watching whether the recent escalation in geopolitical tension impacts business confidence metrics. The revenue growth and cost management actions to drove a 33% increase in Markets Advisory adjusted EBITDA.

Shifting to our Capital Markets segment, revenue increased 6% in the quarter, though off a muted prior-year quarter, even as economic, geopolitical, and interest rate outlook uncertainty prolongs investor decision-making. Our global investment sales revenue, which accounted for nearly 40% of segment revenue in the quarter, grew 20% and compared favorably with the 4% decline in the global sales volume Christian referenced. Revenue increased across most geographies, led by Japan and Germany, and nearly all major asset classes, notably office and health care. Investment sales revenue in each region performed notably better than their respective market activity led by Asia Pacific, according to JLL Research.

Our US Investments Sales, Debt and Equity Advisory, which accounts for approximately a third of segment revenue, grew low single digit. The Capital Markets adjusted EBITDA improvement was predominantly driven by revenue growth, as well as cost management actions, which more than offset an increase in our multifamily loan loss reserve. 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. 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. We continue to anticipate higher growth rates in the second half of 2024. However, as Christian described, the volatility in and outlook for interest rates, along with elevated geopolitical tension, continue to weigh on investor sentiment and are impacting deal timing and closing rates, particularly in the near term.

Moving next to Work Dynamics. 11% revenue growth was led by a 15% increase in Workplace Management revenue as the 2023 global client wins and mandate expansion further ramped up. Within Project Management, lower pass-through costs drove the 3% decline in revenue as management fees were flat. In addition, the softer leasing activity in 2023 has moderated new project contracts. The increase in Work Dynamics adjusted EBITDA was primarily attributable to the revenue growth, absence of Tetris contract losses we noted last year, and ongoing cost management. Overall, the vast market opportunity, demand for our services, and our well-positioned global platform give us confidence and the sustainability of the segment's revenue and profit growth trajectory over the coming years.

Workplace Management continues to see solid new sales trends alongside strong contract renewal and expansion rates. The large 2023 wins will continue to support solid momentum through the first half of 2024, though likely at a more moderate pace than the past few quarters. We remain focused on securing additional project management mandates. However, the slower economic backdrop and soft late 2023 leasing environment may dampen near-term growth rates.

Turning to JLL Technologies, lower bookings in the second half of 2023, as well as delays in client decisions were the primary drivers of the 12% decline in revenue. We continue to see strong retention rates of JLL Technologies' software revenue. However, the combination of the change in our go-to-market approach, which primarily consisted of reducing our sales and marketing expenses in the latter part of 2023, and delays in client decisions is likely to continue to pressure growth in the near term. The reduction in certain expenses associated with cost management actions and incremental operating efficiency gains drove an improvement in JLL Technologies' adjusted EBITDA, which more than offset the lower revenue. While the path is unlikely to be linear, we aim to strike an appropriate balance between investing to drive growth and progressing to sustained profitability within the segment. The combination of the revenue pressures and timing of expenses, including carried interest accruals, may adversely impact JLL Technologies' profitability in the near term.

Now to LaSalle. Revenue from advisory fees declined 7% in the quarter, primarily on the impact of ongoing valuation declines within our assets under management over the past year, as well as lower fees in Europe from structural changes in our business mix. We anticipate valuation declines to pressure our assets under management over the next few quarters. Absent foreign currency exchange movements, assets under management were 3% lower than a year earlier, entirely attributable to valuation reduction. Capital raising and deployment activity continue to be subdued in the evolving market environment, which also shows in the muted transaction and incentive fees in the quarter. The decline in LaSalle's adjusted EBITDA in the quarter was largely attributable to lower revenue, mostly offset by benefits from cost management actions and lower compensation accruals.

Turning to free cash flow. The growth in earnings more than offsets the modest growth-related working capital headwind and drove a 6% improvement in free cash flow, which was a net outflow of $721 million in the quarter. As a reminder, the first-quarter outflow primarily stems from annual incentive compensation payments coinciding with typically seasonally slower business performance. Cash flow conversion is a high priority, and we're very focused on our working capital efficiency.

Shifting to our balance sheet and capital allocation, liquidity totaled $2.3 billion at the end of the first quarter, including $1.9 billion of undrawn credit facility capacity. As of March 31, reported net leverage was 1.9 times, down from 2.0 times a year earlier due to a reduction in net debt, partially offset by lower cash earnings over the trailing 12 months. The first quarter typically marks the seasonal high point for leverage, given the nature of our cash flows. Over the medium term, we intend to manage the business towards the middle of our 0-to-2-times leverage range.

During the quarter, we selectively deployed capital towards growth initiatives and repurchased $20 million of shares during the quarter. Organic reinvestment in our business remains the top priority for capital allocation, augmented with targeted M&A. Considering seasonality of cash flow, current leverage, and the broader macro and geopolitical volatility, we anticipate near-term share repurchases to continue at a pace that will at least offset expected full-year stock compensation dilution. Looking further out, the amount of share repurchases will be dependent on the performance of our business, particularly cash generation, and the macroeconomic outlook will also weigh against our broader investment opportunity set.

Regarding our 2024 full-year financial outlook, growth trends in our more Resilient business lines collectively remain solid. The timing of a sustained recovery in the Transactional business lines continues to be difficult to confidently predict, considering the volatility and interest rate outlook, elevated geopolitical risks, and mixed economic indicators. Still, given our pipeline activity, we're cautiously optimistic for a pickup in transaction activity in the latter part of the year. We continue to scale our platform and invest to both capture future growth opportunities and drive operating leverage. While we previously provided a full-year 2024 target margin range, to conform with our new presentation format, we have shifted to an adjusted EBITDA dollar target range. For full-year 2024, we are targeting an adjusted EBITDA range of $950 million to $1.15 billion, which is consistent with our previously communicated range.

Our midterm targets, again, aligning with our new presentation format, now consist of revenue and gross contract cost ranges, which are $25 billion to $30 billion and $15 billion to $19 billion respectively, as well as an adjusted EBITDA range of $1.6 billion to $2.1 billion. Importantly, these ranges are consistent with our previously communicated midterm targets. The timeframe to achieve these targets will depend in part on the timing and pace of recovery in the Transactional markets. The many strategic initiatives we have undertaken to drive growth and efficiency give us confidence in the long-term resiliency and the value creation prospects of our business.

Christian, back to you.

Christian Ulbrich

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

Thank you, Karen. Let me look out to later this year. The market will adapt to a higher-for-longer interest rate environment. Pricing for the very best assets is beginning to stabilize in the US, UK, and Australia, but prices have declined 15% to 35% from peak levels. According to JLL's proprietary Global Bid Intensity Index, there has been a growing number of bidders across most sectors in early 2024 with dynamic strongest for the industrial and living sectors. Real estate as an asset class remains attractive based on its unique investment characteristics and returns. In Leasing, we expect the strong demand for high-quality, sustainable space to continue. And due to the shortage of this type of space, to drive an increase in rental rates. In today's changing world, we have proven our ability to deliver superior client outcomes while effectively managing profitability.

Our One JLL model brings together the unique capabilities of our platform across the commercial real estate space, allowing us to sell more services and products to the same clients. Our technology and data tools provide our clients with leading insights into market trends and differentiate our offering while also helping to increase productivity. We remain focused on growing our business as well as also expanding our margins, especially in our Resilient business lines. As we're strengthening our service and product offerings, we will selectively add people and capabilities both organically and through very targeted M&A. Despite an ongoing, challenging operating environment, the prospects of JLL a bright and we are optimistic for 2025 and beyond.

Before I close, I would like to thank our colleagues for their foremost commitment to always serving our clients. Operator, please explain the Q&A process.

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now begin the question-and-answer session. [Operator Instructions] And your first question comes from the line of Stephen Sheldon with William Blair. Please go ahead.

Stephen Sheldon
Analyst, William Blair & Co. LLC

Q

Hey, good morning and thanks for taking my questions. First one here, I just wanted to ask: it seems like there are at least some signs of life in Capital Markets. So, how are you thinking about your capacity there if things potentially improve later this year? Karen, I think you had some positive commentary there on talent levels, etcetera. So, can you give us some more detail there? How much of capacity at producer levels that may be changed to the very high level? And are you still investing there? Are you planning to continue investing there as we think about the rest this year maybe ahead of a broader pickup in activity?

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

A

Morning, Stephen. It's Christian. We haven't reduced our producer capacity at any kind of notable number. And so, we have more than enough capacity to drive higher revenues [ph] through our folks and (00:24:38) the market has been turning in the second part of this year. We are using this current market environment to add. Yeah, there are a few brokers where we believe there's room for more capacity within our teams, but – so, that is [ph] not (00:24:58) a relatively small number.

Stephen Sheldon
Analyst, William Blair & Co. LLC

Q

And then just in Work Dynamics, a nice step-up in profit this quarter. Can you maybe help parse out some of the moving pieces there? I think you had a drag from the Tetris contract. And maybe just kind of how that cost containment efforts have maybe helped support a higher profit level there. Just any detail on the step-up in Work Dynamics' profit.

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

A

Yeah, we were just calling out that last year we had a drag in the Tetris contract. So, year-over-year, [ph] that didn't build (00:25:32) the numbers this year and just to bring that back to people's attentions. Overall, as we noted in previous earnings calls, we had significant wins last year, which then obviously were taking life, and we are benefiting from that this year. And on top of that, we are constantly trying to increase our productivity within all our service lines but also within Work Dynamics. And the combination of that top line growth, more business coming in, and the efforts around productivity has resulted in this margin expansion this quarter.

Stephen Sheldon
Analyst, William Blair & Co. LLC

Q

Got it. That's helpful. Congrats on the nice results.

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

A

Thank you.

Operator: Your next question from the line of Peter Abramowitz with Jefferies. Please go ahead.

Peter Abramowitz
Analyst, Jefferies LLC

Q

Yes. Thank you. So, I know you – with the reporting change, you're now switching to the adjusted EBITDA number you gave for the full year. Just wondering if you have any sort of outlook or to put brackets around, I guess what you expect from a margin perspective as we think of it on a total revenue basis with the new reporting.

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

A

Yes. Hi, Peter. This is Karen. Good morning. We're going to be talking about our targets, whether it's an in-year target or a – the midterm targets on a adjusted EBITDA dollars basis now; sort of margin basis. But I will say that the adjusted EBITDA dollar targets that we communicated are equivalent to what we previously communicated for our targets on a margin basis. So, if you recall, previously, our 2024 targets were on a 12.5% to 14.5% adjusted EBITDA margin. That's now been converted to $950 million to $1.15 billion for 2024. And then the same goes for our midterm target approach.

Peter Abramowitz
Analyst, Jefferies LLC

Q

Okay. Got it. And then I wanted to ask about some of the strength in the US office leasing that you called out in your presentation. Was that kind of mainly – you mentioned tenants looking to kind of trade up and get the best possible space. I guess could you talk about – is it almost strictly kind of in the Class A trophy segment? Have there been any signs of life sort of further down market? Just wondering if you could kind of provide more context around that.

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

A

Sure. So, we're continuing to see incremental signs of improvement in office broadly. That's generally being led by the highest-quality, best space available. And you're seeing rents continuing to increase in that space. One other thing we closely monitor is the activity around large lease deals, which we categorize as those deals over 100,000 square feet in the US. And those are returning to the market as well. But that's still depressed compared to the pre-pandemic averages. Right now, it's still almost 50% below that level. So, that is still ticking up, but not yet all the way back.

A couple other comments on Leasing while we're on this topic. We're seeing an increase in new tenant requirements as we did last quarter, and those are within approximately 30% of pre-pandemic levels. And then importantly, the sublease vacancy rate is continuing to fall. And so, we're seeing both new additions decreasing and then notable backfill activity incurring, particularly in the Bay Area in the US and also in New York.

Peter Abramowitz
Analyst, Jefferies LLC

Q

All right. That's helpful. Thanks, Karen.

Operator: Your next question comes from the line of Michael Griffin with Citigroup. Please go ahead.

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

Q

Great. Thanks. I wanted to go back to sort of those midterm financial targets that you highlighted, Karen. Obviously, if the base case is for rent cuts to come in the back half of the year, consistent with transaction activity really picking up, should we interpret that as being able to hit those midterm targets by 2026? And conversely, if the recovery is pushed out further into 2025, would that mean that you'd reach those adjusted EBITDA dollar amounts in the, call it, 2027 or so timeframe?

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

A

Yeah, at this stage, we're still categorizing those as midterm targets. We really want to look at how the remainder of the year transpires in terms of the recovery of the Transactional market before committing a specific calendar year to achieve those. One of the things we are saying as it relates to our midterm targets is certainly we're very focused on having accelerated growth and the adjusted EBITDA relative to the revenue trends. And so, that's something we're very focused on regardless of the shape of the recovery in the top line.

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

Q

Great. Thanks. And then I just wanted to ask on free cash flow. Obviously, it improved this quarter relative to this time last year. But how should we think about the cadence going forward? And do you have a maybe percentage amount in mind for free cash flow conversion for the year?

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

A

Yeah. So, first, let me just talk a little bit about [ph] reminder (00:31:05) of the major drivers of free cash flow in the quarter, and I'll talk about outlook for the year. So, we were an outflow of $721 million, which was slightly better than the $676 million outflow last year. That was primarily due to cash from improvement in earnings. And then that was partially offset by some working capital headwinds as the business grew, particularly in our Workplace Management business, along with the timing of some payables. As we think about the rest of the year, the key drivers on a full-year basis will certainly be reflective of our overall earnings level. But importantly, the business mix for those earnings will also impact the working capital outcomes. So, you'll have business lines like Workplace Management growth being a headwind, and then you'll have some tailwinds from Capital Markets in the US to the extent that is growing strongly.

A couple other things to call out as we think about our free cash flow. The ability to ensure we're continuing to timely collect the receivables remains very important. So, we're very – continue to be focused on that. And I also would want to call out for this year that we will expect some lumpiness associated with the timing of cash tax payments on an individual-quarter basis compared to last year. So, you may see that materialize as the year progresses.

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

Q

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

Operator: Your next question comes from the line of Anthony Paolone with JPMorgan. Please go ahead.

Anthony Paolone
Analyst, JPMorgan Securities LLC
Q

Yeah. Thank you. Just on Work Dynamics, you've got the change in presentation. You talked about some of the Project Management drags and then also some of the wins. Can you maybe just put that all together and give us a sense as to kind of where organic revenue growth is likely to be for that business as we look ahead the next few years? I mean, maybe just back to the old way of thinking about it in terms of more fee revenue.

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

Well, first of all, all the growth you have seen is organic. We haven't done any M&A recently, and we said the Workplace Management business has had some significant wins last year, and it's continued to win at a very nice pace. And so, we expect that business to continue to show good growth, but that growth may not be as it has been in the last quarter; double digit, that may fall back to what we have called out for the longer term. We are aspiring something in the high single digit overall. Our Project Management business had a slower quarter. And that correlates very much with the activity on the Leasing front. And so, as Leasing picks up the delay of two to three quarters, we would expect that business to show stronger growth rates again. And so, overall, as we have stated in previous calls, we are very optimistic about our Work Dynamics business over the next couple of years.

Anthony Paolone
Analyst, JPMorgan Securities LLC
Q

Beside the Project Management ebb and flow, the idea is that Work Dynamics overall, you still see as a high single-digit grower. Is that fair?

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

Yeah, I mean, every quarter has made so little differences. As you saw this quarter, we had this very strong growth from our Workplace Management business. But overall, in the longer term, you should see on average a high single digit. That's our aspiration here.

Anthony Paolone
Analyst, JPMorgan Securities LLC
Q

Okay. And then in terms of just the EBITDA guidance for the full year, can you talk a bit about just where you see the pressure points, either on the upside or downside, are in sort of that guidance? And also, should we anticipate 2Q to show a progression from 1Q because 1Q came in pretty strong, it seemed like?

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

[ph] So, my (00:35:14) – I'll kick it off, and then Karen will add. Well, listen, the main uncertainty is coming from the Transactional side. We are pretty comfortable with forecasting our annuity-type businesses, especially from our Work Dynamics business, as well as the Property Management business. But the Transactional business is much harder to forecast. We see an unusual correlation between daily interest rate movements and the Capital Markets Transactional business. And until that is not kind of getting back to some normality that people look through those interest rate developments and just focus on the underlying assets and whether that's a good deal or bad deal, it is so hard to predict the volume. So, if the market's coming back on the Transactional side,

especially within Capital Markets, later this year, that will help the performance this year to get us to the upper end of the range. And if the market continues to be so muted as it was in the first quarter, notwithstanding our own performance, the overall market was very muted, then it is more ambitious to get to the upper end.

Karen, do you want to add anything?

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

Yeah. The only thing I would add is that, at this stage, we typically have seasonality over the course of individual quarters. And at this stage, we don't anticipate any material deviation from that seasonality. And as the year progresses, expect to see similar trends from where we've had.

Anthony Paolone
Analyst, JPMorgan Securities LLC
Q

Okay. Thank you.

Operator: Your next question comes from the line of Alex Kramm with UBS Financial. Please go ahead.

Alex Kramm
Analyst, UBS Securities LLC
Q

Yes. Hello, everyone. Maybe just to delve into the previous question a little bit more, Christian, you made this comment that the marketplace is slowly adjusting to a higher interest rate environment. So, coming back to the guidance for this year, did you think that doesn't imply any rate cuts? Do you think rate cuts are needed, or do you think you can perform like you've outlined even if markets just stabilize and rates stay where they are currently?

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

Yes, we didn't anticipate that interest rates were coming down so quickly as the broader market did. So, we were more on the cautious side. And so, our own planning doesn't need any rate cuts. But if the question was more towards what would drive us to the upper end of our range, and for the upper end of the range, some support from the Transactional side would be helpful. If there is no support, then we will deliver as we planned for it.

Alex Kramm
Analyst, UBS Securities LLC
Q

All right. Good. Thanks for clarifying. Then maybe just on the Leasing side, I don't think you mentioned this, but obviously a 2% growth for the year. I think last quarter you mentioned that Leasing should be a similar picture than what you expected in – or what you had in 2023. So, just curious. Do you think the environment has gotten better, or do you think that low-single-digit range is a good outlook for the full year, or do you think kind of flat with last year is the better way to think about it, which obviously would imply a little bit of a slowdown? Didn't sound like it.

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

Yeah, we're early in the year. So, I think the number you quoted is from a first-quarter perspective. And so, we continue to expect modest growth over the course of the year. And we're seeing continued pickup in office and some more softness in industrial. But we expect that will also return to growth and stabilize towards the end of the year. So, just the pace of acceleration is really what will determine the ultimate growth rate. One of the things we keep pointing to over the last couple of quarters is really the level of business confidence, and so we've been referencing the OECD Business Confidence Index because there's a high correlation. But you look at that globally or for the US on a two- to three-quarter lag of an uptick in Business Confidence Index and kind of the overall market volumes recovering. So, that – up through the uptick again in March, and we're looking to see what happens in April considering a lot of the negative macro headlines came out during April.

Alex Kramm
Analyst, UBS Securities LLC

Q

Good. Thanks, guys.

Operator: Your 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. Do you see a big opportunity in private credit driven by the pullback in the banks? And if so, how do you expect that to manifest in the business? Would you look to acquire any companies or retarget brokers on certain key relationships? Just if you could comment on the opportunity in private credit.

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

A

So, it is correct that traditional lenders are not as active as they have been in the past. And I think it is very likely that this will continue to be the case for the foreseeable future, which obviously offers a lot of opportunity for nontraditional lenders to come in. We are actually pretty agnostic to the question where the money is coming from. We have an excellent overview on all the players in the market and are trying to arrange the best debt opportunities for our clients, which are available in the market. So, this is, for us, normal course of business, and it doesn't need any kind of M&A on our side to tap into that market.

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

Q

In terms of the GSE multifamily business, that's another area where banks – certain banks are pulling back. Do you see that as presenting opportunity to gain market share?

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

A

We have a very strong market share in that business already. And we still believe that there's room for us to continue to grow. I would be much more optimistic about the lending environment in the multifamily business because, overall, the demographics are in most geographies quite helpful here, and that has demonstrated in the past to be a very, very resistant and resilient business – asset class. And so, I think going back to your previous question, the lending – the changes we see in the lending environment are much more visible in the commercial space than in the multifamily space.

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

Q

Thanks very much. And finally, just on JLL Technologies. The slowdown in sales was somewhat surprising. I know that profitability still requires additional scale, but was that different from your prior outlook, or was that anticipated? And when do you expect that trend could reverse itself?

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

A

Well, I mentioned it in our third-quarter earnings call that we took actions on the sales-and-marketing expense, and that will have an impact going forward. So, what you have seen in the first quarter is part of that impact. That was also then kind of complemented – unfortunately complemented by some delayed decisions by several large of our technology solutions clients who kind of scaled back on the speed of new implementations. What is important to note is that the SaaS business within JLL Technologies performed reasonably well. And so, we would expect that this shortage is going on for maybe one or two more quarters before we will see pickup again.

But more importantly, as we pointed out already last year, we have decided in the current uncertain environment that we are putting profitability above top line growth. And so, we are very, very focused on the bottom line. And once we have that business back to this kind of at least breakeven point, then we will look at the overall market environment. And if the overall market environment is then in a situation which would encourage us to kind of go stronger on sales and marketing expenses, we will do so, and that will then drive a stronger top line growth again.

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

Q

Thanks very much.

Operator: [Operator Instructions] And your 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

Good morning. What are you guys seeing right now in terms of average office lease duration? Are companies more willing to sign longer leases at this point in the cycle?

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

A

Hi, Patrick. Good morning. I'll give some stats around the US office market. It's easiest to get the data on that. So, for the first quarter, we didn't see much movement from the – from what we had last year. The weighted average lease term overall was 7.8 years, which was the same as it was for all of 2023. If you go back, it's still below pre-pandemic levels on a total basis. If you go back to 2019, the weighted average lease term was 8.6 years. I will say that, due to the increased sublease activity that I mentioned earlier, so people leasing are taking subleases instead of the direct leases, that is actually pulling down the overall weighted average lease term, and we expect that will continue while the market works through some of that [ph] base (00:45:42) overall. If I look at the direct – to give you an example, if I look at the direct weighted average lease term, that's 8.3, and the sublease weighted average lease term is 4.3 years. So, quite a big difference.

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

Q

Got it. That's helpful. Thank you. And then have your changes in financial reporting methodology due to your communications with the SEC, have those changes impacted how you're managing the business in any way? Do you guys still think about margins internally?

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

A

No. So, it hasn't changed how we manage the business internally or how we think about things. So, along with a host of other KPIs, we still use both the fee revenue and adjusted EBITDA margin metrics internally. And our management team is still compensated in part under the adjusted EBITDA margin calculated. And we disclosed that in our proxy statement. So, we'll continue to do that. And then just to highlight, that information needed to calculate both of these is still available in all of our earnings release information that we provide.

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

Q

Perfect. Thank you.

Operator: Your next question comes from the line of Anthony Paolone with JPMorgan. Please go ahead.

Anthony Paolone
Analyst, JPMorgan Securities LLC

Q

Yeah. Thanks. I just had a follow-up on JLL Tech. I know it's not a big revenue line, but when I look at that, I always think of like Building Engines and such where, when a client adopts it, it's likely a pretty recurring business, but it was down a bunch. And so, I don't know, maybe help me out with that. Just understand what was happening there and how to think about it on a go-forward basis.

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

A

Anthony, as I just stated, the JLLT revenue bucket is mostly built up by our SaaS revenue products. One of them is Building Engines. Corrigo is another one. And then our technology solutions business where we usually help clients by implementing third-party software and service that. And that third-party software business, that declined this quarter quite significantly for the two reasons I stated. We reduced our sales-and-marketing teams as stated in the third-quarter call last year, and we had some delays in decision-making from clients for new assignments.

On the SaaS business, that has been relatively steady this quarter. You mentioned Building Engines. Building Engines is very often connected to transactions. The owner of a building is changing, and the new owner is implementing Building Engines. And so, with the Transactional markets relatively muted, that has an impact on Building Engines. But on the other hand, we have brought that product now into Asia, a very successful implementation in Australia, and so medium to longer term, we are very bullish that the growth numbers will come back again to the levels where we expect them to be.

Anthony Paolone
Analyst, JPMorgan Securities LLC

Q

Okay. Thanks for the color.

Operator: That concludes our Q&A session. I will now turn the conference back over to Christian Ulbrich for closing remarks.

Christian Ulbrich

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

Thank you. 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 second quarter.

Operator: Ladies and gentlemen, that concludes today's call. Thank you, all, for joining. You may now disconnect.