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Jones Lang LaSalle, Inc. (JLL)

Q3 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning. My name is Audra. And I will be your conference operator today. At this time, I would like to welcome everyone to the third quarter 2024 Jones-Lang LaSalle Incorporated Earnings Conference Call.

Today's conference is being recorded. All lines have been placed on mute to prevent any background noise. After the speaker's remarks, there will be a question-and-answer session. [Operator Instructions]

At this time, I would like to turn the conference over to Brian Hogan, Investor Relations Officer. Please go ahead.

Brian Hogan
Global Head-Analytics and Insights & Interim Head of Investor Relations, Jones Lang LaSalle, Inc.

Thank you, and good morning. Welcome to the third quarter 2024 Earnings Conference Call for Jones Lang LaSalle Incorporated. Earlier this morning, we issued our earnings release, along with a slide presentation and AN 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 referenced 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. We also referenced resilient and transactional revenues, which we define in the footnotes of our earnings release. 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 our reports filed with the SEC. The company disclaims any undertaking to publicly update or revise any forward-looking statements.

Finally, a reminder that percentage variances are against the prior year period in local currency, unless otherwise noted. 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, Brian. Hello and welcome to our third quarter 2024 earnings call. In the third quarter, JLL delivered strong financial results, which demonstrated our ability to drive operating leverage across our platform. And we announced strategic actions that strengthen our position in our leasing, property management and LaSalle business lines.

Beginning with our financial results, our three largest business lines, Market Advisory, Capital Markets, and Work Dynamics, all delivered double-digit revenue growth in the quarter. We saw growth acceleration in leasing and investment sales, debt and equity advisory and our Work Dynamics segment continues to exceed our expectations. These results reflect our strength in transaction markets that are still in the early stages of recovery and our continued momentum in expanding our services to clients.

Importantly, we have demonstrated our ability to drive operating leverage across our platform through continued focus on process efficiency and cost management. The consolidated enterprise adjusted EBITDA increased by 37% and adjusted EPS delivered 60% growth. During the quarter, we announced strategic actions to further improve our leasing offering to clients and to enable our people to enhance platform tools.

To supplement JLL's existing leasing technology, we recently acquired Raise Commercial Real Estate, a San Francisco technology-powered brokerage that provides client solutions using a transformative digital real-estate platform.

Raise strengthens JLL's platform with market leading technology, seasoned brokers and elite engineers to build innovative products for the full leasing lifecycle from transaction and lease management to workplace and portfolio analytics. In addition, in 2025 we will bring together all building management groups under one segment to better capitalize on synergies across platform operations, innovation and client experience.

As a result of this realignment, the property management business will report to Neil Murray our Work Dynamics, CEO. Following this shift on January 1st, our Markets Advisory segment will be renamed Leasing Advisory and our Work Dynamics segment will be renamed Real Estate Management Services and include Workplace Management, Property Management, Project Management and Portfolio Services.

Finally, there's high demand for an innovative product offering within LaSalle's US open-ended growth funds for high net-worth investors, JLL Income Property Trust. We have committed a $100 million incremental investment in that fund which will be used to acquire assets to be syndicated to a 1031 exchange vehicle and recycled across multiple syndication offerings. These vehicles are expected to accelerate the growth of their flagship funds' assets under management over time.

I will now turn the call over to Karen to provide more detail on our financial results and our full year outlook.

Karen Brennan

Chief Financial Officer, Jones Lang LaSalle, Inc.

Thank you, Christian. Our strong performance in the quarter reflects our focus on differentiating JLL services and improving platform operating efficiency. Our talented teams and the investments we are making in our business are driving superior value for our clients and creating long-term stakeholder value. I will now review our operating performance by segments, beginning with Markets Advisory, the increase in revenue in the quarter was driven primarily by leasing, which generated double-digit growth across most geographies, notably in the US, India and the UK and nearly all asset classes. The office sector, which saw both increased deal size and transaction volume led the acceleration with 34% growth.

Globally the industrial sector was flat to the prior year quarter, ending a multi-quarter trend of declines in the sector as deal size rebounded. Large transactions where we've historically had a proportionately higher weighting continue to increase, though it's still below the pre-pandemic average, portfolio expansions in the Americas and Asia-Pacific, including incremental pass-through expenses, led property management revenue growth. We continue to see growth in active tenant requirements and demand for high quality assets, combined with the general stability of the OECD Business Confidence Index since earlier this year, we are optimistic for continued pickup in activity.

The leasing revenue growth combined with our continued cost discipline, drove the 77% increase in Markets Advisory adjusted EBITDA. The timing of prior year incentive compensation accruals also positively impacted year-over-year profitability.

Shifting to our Capital Markets segment, revenue grew as improved investor sentiment along with interest rate reductions from many central banks, pent up demand, significant dry powder, and improved debt availability all contributed to an 18% increase in investments sales, debt and equity advisory excluding non-cash MSR activity. Revenue increased across most geographies led by the US and Europe, and nearly all asset classes, with notable growth in hotels, office and industrial.

Our global investment sales revenue, which accounted for nearly 40% of segment revenue in the quarter, grew 15%. The US and Europe performed notably better than their respective market activity recorded by JLL Research. The Capital Markets adjusted EBITDA growth was predominantly driven by higher transactional revenues and continued cost discipline. Looking ahead, the global investment sales debt and equity advisory pipeline is up high single-digits compared with this time last year, and client engagements continue to increase.

Moving next to Work Dynamics, revenue growth was led by a 20% increase in Workplace Management, largely from continued US mandate expansions, as Christian referenced. Project Management revenue grew as shifts in business mix and a focus on higher margin project led to lower pass through costs, which offset mid-single digit growth in management fees.

Portfolio Services demonstrated growth, which was mostly overshadowed by the absence of fees associated with a large transaction in the prior year. The increase in Work Dynamics' adjusted EBITDA was primarily attributable to the revenue growth, which more than offset the negative impacts from the timing of certain revenue related expense accruals.

We started to lap the onboarding of large 2023 Workplace Management new client wins in the third quarter. So, the sustained growth of 29% on a two-year stacked basis has exceeded our expectations. In Project Management, we remain focused on securing additional mandates. However, the current level of corporate CapEx spending may dampen near-term growth rate.

Turning to JLL Technologies, continued growth in software revenue was more than offset by lower solutions bookings over the past few quarters, which drove the decline in revenue. Adjusted EBITDA declined from a year ago as benefits from cost discipline and incremental operating efficiency gains over the past 12 months were more than offset by the lower revenue and a $5 million benefit from incentive compensation true up in the prior year quarter. In addition, there was a $2 million year-over-year increase in carried interest accrual associated with our Spark Venture Funds. We are progressing to sustain profitability within this segment as we balance investing to drive growth.

Now, to LaSalle. Revenue decreased on the impact of valuation declines within our assets under management over the past 12 months, as well as lower fees in Europe from the structural changes in our business mix we discussed in previous quarters. Absent foreign currency exchange movements, assets under management were 7% lower than a year earlier. Valuation headwinds have moderated but are likely to continue through the balance of 2024.

The contraction in LaSalle's adjusted EBITDA in the quarter was driven by the lower revenue and the absence of an incentive compensation throughout the benefit of the prior year quarter. Though muted compared to normalized levels, capital raising and deployment is up year-over-year and we are seeing early indications of increased investor interest.

Turning to this quarter's free cash flow. Higher cash from earnings, from improved business performance, was more than offset by the repurchase of the loan from Fannie Mae described last quarter, higher cash taxes, and working capital headwinds from net reimbursables as a result of Workplace Management growth. We do not expect the year to date higher cash taxes, the loan repurchase, and growth related receivable and net reimbursable headwinds to reverse in the fourth quarter.

Shifting to our balance sheet and capital allocation. Liquidity totaled $3.4 billion at the end of the third quarter, including $3 billion of undrawn credit facility capacity. We issued $800 million under our previously announced commercial paper program, with proceeds used to reduce borrowings on our credit facility and provide interest expense savings. As of September 30, reported net leverage was 1.4 times, down from 1.9 times a year earlier due to both a reduction in net debt and higher adjusted EBITDA over the trailing 12-months. Over the medium term, we intend to manage the business to a full-year average near the middle of our 0 times to 2 times leverage range.

During the quarter, we deployed capital towards growth initiatives and repurchased $20 million of shares. Our acquisitions of SKAE in the second quarter and Raise in mid-October are reflective of our targeted M&A strategy within our overall capital allocation framework.

Regarding our 2024 full-year financial outlook, growth trends in our resilient business lines remain solid, while transaction activity is improving, although nuanced across geographies. Together with our cost discipline, ongoing focus on improving operating efficiency, and strong year to date performance, we are raising the bottom end of our full-year 2024 adjusted EBITDA target range by $150 million. Our full-year target range is now $1.15 billion to $1.2 billion, which reflects a 7% increase at the midpoint.

We continue to see significant growth opportunities ahead to enhance the resiliency of our business, financial returns, and cash flow.

Christian, back to you.

Christian Ulbrich

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

Thank you, Karen. The increase in our full-year target adjusted EBITDA range reflects continued momentum across our three largest business segments, which we expect will continue through 2025. We are in early stages of recovery for the real estate capital markets. According to JLL's proprietary Global Bid Intensity Index, bid activity further improved in the third quarter from what we saw in the first half of the year, particularly for larger institutional transactions. We believe we're very well positioned to grow revenues in our Capital Markets segment based on the quality of our people and the platform investments we have made over the last several years, which enable higher quality data backed advice to clients.

I would also like to again highlight the 20% organic growth in Workplace Management which exceeded our expectations. This is largely related to expanding the contract scope and achieving KPIs for existing clients, some of which were new 2023 mandates where we delivered strongly against our original commitments. The runway in this business is powerful as we continue to win new mandates, which scale revenues and capitalize on our global full service platform.

2024 marks the 25th anniversary of being listed on the New York Stock Exchange under the JLL ticker. And to celebrate this occasion, we will be ringing the closing bell on November 13. While 25 years is short in the context of a nearly 250-year history, it is an important milestone to recognize our journey as a public company. Alongside delivering the best of JLL to our clients, we're driven to generate strong shareholder value.

I would like to thank our colleagues for all you do for JLL. I look forward to what we can achieve together.

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] We'll go first to Stephen Sheldon at William Blair.

Stephen Sheldon
Analyst, William Blair & Co. LLC

Q

Hey, thanks. And really nice results here. First, Karen, I think you may be mentioned the Capital Markets pipeline is up, if I heard it correctly, high single-digits. So just curious how you guys are thinking about maybe the potential cadence of a Capital Markets recovery as we think about the next two years to three years? What could that potentially look like?

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

A

Hi, it's Christian. Listen, the Capital Markets environment has improved pretty steadily over the last couple of months. And so far, we also haven't seen any pause, just because of the 10-year treasury going up again over the last couple of weeks. So, we expect that to continue. There will be no kind of flood of new deals coming, but we will see a seasonal uptick now in the fourth quarter and then we expect the continuous improvement over the course of 2025.

Stephen Sheldon
Analyst, William Blair & Co. LLC

Q

Got it. That's helpful. And then, nice to see the acquisition of Raise. Maybe can you talk to them about how you plan to leverage those capabilities across your existing leasing business? And then, any detail on, is that – does that come over with any material revenue or what are the general profit implications there? Thank you.

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

A

Yes, Raise is primarily a tenant representation leasing brokerage firm. And the uniqueness is that they have developed their technology platform for use by our own brokers as a workflow tool, but it also provides a direct digital experience to clients. They are active in a couple of markets so far. It's a fairly small business, so the amount of revenue which is coming over is nice, but not meaningful for all leasing platform. But the attractiveness is that we are going to roll out that workflow tool to all our leasing brokers across the US over the course of the next 18 months. And that will make them much more productive, but it also changes the experience for our clients.

Stephen Sheldon
Analyst, William Blair & Co. LLC

Q

Great. Appreciate the detail, and congrats on the results again.

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

A

Yeah, let me just add a bit on the – you asked – the second part of the question around, did it come with any revenue and how do we think about profitability? So, from a revenue perspective, relatively small amount, it's around 1% of our overall fee revenues in leasing. But how we're approaching this, given the desire to roll this out across our entire leasing platform, is to focus on making room in our overall expense profile by cutting other investments that we were previously making and to focus on achieving attractive margins for this overall business as we absorb it into JLL. So, we will generate a very attractive ROIC from our perspective within three years. And then with cost offsets, we're making our minimum ROIC hurdles achieve from year two onwards.

Operator: We'll go next to Anthony Paolone at JPMorgan.

Anthony Paolone
Analyst, JPMorgan Securities LLC

Q

Yeah, thanks and nice quarter. So just a question on margins. I mean, it just looks like just backing into your guidance for the year that you'll end this year in the 14s in terms of margin. And it's shaking out to be a pretty good year. Your long term range is 16% to 19%, and so I was wondering if you just, one, tell us if that's still feels like the right level we should be thinking about over time. And two, what do you think needs to happen in terms of just the broader market to get there?

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

A

First, maybe I start by commenting on a little bit more color on the full-year and the range that we're providing. So, we have given a range, the midpoint of our range is based on our transaction business pipelines at this point, which reflect typical seasonality in Capital Markets, slightly suppressed seasonality in leasing, and then a continuation of the trends that where we've seen in our resilient business lines just calling out that we're mindful of we're lapping new client wins in Workplace Management, and also some really strong growth there. So, that's the midpoint.

If you think about the low end of our range, that's contemplating a slowdown in transaction activity from what we're experiencing to-date. And that could result from any macro-economic and geopolitical or interest rate risks that manifest in the market in the coming weeks. And then the high end of our range contemplates a more meaningful pickup in transaction activity, most notably in leasing. So, that's how we're thinking about full-year 2024.

We do expect continued momentum going into 2025 based on the trends we're seeing today. And we'll give more specifics on expectations for overall 2025 after the fourth quarter. And I will call out that the mid-term margin range that we previously communicated did assume some level of recovery in the transactional business lines overall.

Anthony Paolone
Analyst, JPMorgan Securities LLC

Q

Okay. So, but that 16% to 19%, you still need – we should still think about that as needing a further recovery beyond kind of what we've been seeing recently and sort of leasing and Capital Markets.

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

A

Yeah.

Anthony Paolone
Analyst, JPMorgan Securities LLC
Q

Okay. And then can you maybe just talk about capital allocation and where you see using your cash at this point?

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

Yeah. So, from a capital allocation perspective, no change to what we've previously communicated on that topic. We're focused on continuing to reduce our leverage to the midpoint of our overall target range to reinvest in our business organically, and then to pursue select M&A and share repurchases.

Anthony Paolone
Analyst, JPMorgan Securities LLC
Q

Okay. [indiscernible] (22:39) Thank you.

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

Thanks.

Operator: We'll go next to Michael Griffin at Citi.

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

Great. Thanks. Just on the leasing numbers for this quarter, wondering if I could get some more context, particularly around the office portion. Are you noticing if most of the demand is coming from the higher quality space or has there been maybe incremental demand from, not top of the tier market product. And then have decision makers, they've been kicking the can down the road for the office space needs for a couple of years now. Have they firmed up their expectation for office footprints?

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

Yeah. So, a few different questions in there. I guess the first one is what trends do we see in office broadly in this quarter? So, it's certainly we still are seeing a focus on high – the highest quality office assets. And that's a trend that has really persisted over the last several quarters. One notable thing that we're continuing to see is the increase of larger transaction sizes overall. That's something we've talked about that they had been more muted. They still remain, and if you look at the US office transactions over 100,000 square feet are still below pre-pandemic historical averages by about 50%. But we did see a meaningful uptick of around 45% in this quarter. So, that's a notable trend overall.

The second part of the question, which could you repeat? I'm sorry, I forgot it.

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

Oh, yes. No, no problem. Just have you noticed if space tenants are more confident in signing leases as opposed to kicking the can down the road?

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

A

Yeah. So, we have seen some more signs of confidence, I guess a couple of different things we're looking at. There is sort of what has been signed and then what is the overall outlook. The what has been signed, we look at the availability rate relative to the overall vacancy rate. So, the availability rate will include leases that have been signed but not yet commenced. So that will include both downsizing, expansions and overall net new leasing. Importantly in the US, the availability rate has decreased for the first time since the pandemic. So we find that to be really notable and encouraging.

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

Q

Thanks, Karen. Appreciate the color there. And then maybe just some more insights into US Capital Markets activity. You called out that it was up about 30% year-over-year. That seems pretty strong to me. I mean, anything you're seeing in the US from a growth perspective or investor interest that might have contributed to that relative to some of the other regions?

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

A

Sure. I mean, first and foremost, the US market is usually the market which is reacting the fastest on any kind of change in the market environment. And so, it went down first and it will come up first.

Secondly, if you look at the Capital Markets from a global perspective, the investable markets are unfortunately shrinking in the world. And there's a tremendous amount of capital out there from some international investors. And they will look to invest into the US, probably more so than investing into any other market at this point in time. So, we see this significant demand coming from those type of investors into the US market, and that will be a strong support into 2025.

We still have this kind of bifurcation between the different asset classes. Multifamily is still by far the strongest, but we see now that the interest in offices is starting to increase. The challenge there is that there's very little new product coming to the market, and so there is a focus on the super high quality products and we see now much more of a competitive environment for those type of products when they come to market.

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

Q

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

Operator: We'll move next to Alex Kramm at UBS.

Alex Kramm
Analyst, UBS Securities LLC

Q

Yes. Hey, good morning, everyone. Just on Work Dynamics, I think you mentioned a couple of times that you've exceeded your expectations here so far this year. I know you're lapping some of the onboarding. And I think, Christian, you made a comment about benefiting really from the things that you had put in place in 2023. So just wondering if you look forward here over next year, if you – how you think about the expectations in general and maybe you can talk about competition in that space as well. Thanks.

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

A

Sure. I mean, the performance of our overall Work Dynamics business and specifically the workplace management business have been very, very strong in the third quarter, again, frankly, exceeding our own expectations. The underlying trend going forward is still very positive. You are asking about the competitive environment. The amount of companies who can really provide a global experience to our clients is very limited. And so, we expect continuous strong demand from our services, from existing clients, but as we have seen in the third quarter, again from a lot of new clients coming to market. And so, we are just very happy about the outlook and we'll continue to put a lot of focus and emphasis on that business going forward.

Alex Kramm
Analyst, UBS Securities LLC

Q

All right. Fair enough. And then maybe a little bit of a nitty gritty question here on the margin side, in particular in Capital Markets, given the strong performance, I think, I would have expected the incremental to be a little bit better year-over-year. I think, leasing was really strong, but in Capital Markets, certainly softer. So, is there anything one-timers going on there? And should we think about the incremental similarly in the fourth quarter which is obviously a very strong quarter for Capital Markets expectations?

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

A

Yeah. So from quarter-to-quarter, you can see some level of anomaly in the longer-term average incremental margins that we experienced in certain business lines. And that certainly holds true for capital markets. The things that can impact that are really a mix of business both by geography and by service line. And then certainly timing of expenses, which could impact the margin profile on a particular quarter. If you look at the year-to-date for capital markets and you adjust out for the $18 million Fannie Mae loan expenses, it's around just over 40% year-to-date, which is really more in line with our historical average incremental of 35% to 40%.

Alex Kramm
Analyst, UBS Securities LLC

Q

All right. Very good. Thank you.

Operator: We'll go next to Peter Abramowitz at Jefferies.

Peter Abramowitz
Analyst, Jefferies LLC

Q

Thanks for the time. Yes, I just wanted to dive a little deeper into Karen's comment around the pipeline for investment sales and debt and equity advisory up high single-digits. I guess, just trying to frame how we should think about that? Is that kind of how you're thinking about revenue growth into the fourth quarter and then potentially that's kind of what you're building on into 2025?

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

A

Well, as we said before, the overall environment is continuously improving in our Capital Markets business and that is true for the investment sales side as well as it is for the debt advisory side. So, I'm not quite sure that I completely get your question, where you want to have us to be more specific here. The outlook is very positive on all areas in our Capital Markets business and we continue to win market share in that business.

Peter Abramowitz
Analyst, Jefferies LLC

Q

Right. I guess I'm just trying to understand whether that's sort of a proxy for what you expect your revenues to be up in that line in the fourth quarter when you say high single-digit.

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

A

No, no, it's not.

Peter Abramowitz
Analyst, Jefferies LLC

Q

Okay. Got it, got it. And then one on the leasing side. One of the themes in office, I think from – especially earlier this year is pent-up demand coming off of the sidelines from deals that were sort of put aside in 2023, whether it was recession fears or the regional banking fears. So that seems to have helped the market in 2024, I guess just curious, how you're thinking about sort of that segment of office leasing, whether that's something that's sustainable into 2024 and any other themes we should be thinking about in 2025 as you sort of plan around for what you're expecting?

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

A

Yeah. So, if we think we're largely through a lot of the initial pent-up demand and people are pushing to take decisions now. One of the things we look at is the OECD Confidence Index because that tends to be a leading indicator for the two to three quarter period of time, in terms of what will happen, in terms of new decisions being taken. That's holding steady. So, we feel good about that and it has been positive for the last few quarters and we're seeing that continue, some of what we expect to see is continued RTO impacts for the Fortune 100 companies.

The average return to office requirements have increased from a year ago at 2.2 days per week to 3.3 days per week. And so, we expect to see some more positive momentum there as well. And so, we don't at this stage expect any major deviations from the trends we're seeing in office, which is [ph] following (33:07) – is different to what's happening in industrial leasing at the moment.

Peter Abramowitz
Analyst, Jefferies LLC

Q

Got it. And I guess, if I could ask one more. What are your expected expectations around industrial leasing? I know, it's been maybe a weaker spot on the leasing side, Joe. So just, I know you mentioned in the slide deck, declining deliveries. So that should help on the supply side. But any other thoughts to frame out how we should think about industrial leasing into 2025?

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

A

Yeah, industrial leasing, it's an interesting one because we're saying, oh, it's slowing and there's reduced growth levels, but it's off of an extremely high starting point. And so, leasing volumes are down, demand has moderated and continues to moderate. Right now, activity is in line with pre-pandemic averages though and the long-term outlook remains favorable, as we work through some of the current demand pull back. For the US specifically, just to give a little bit more color.

Leasing volumes are down 26% year-over-year and the vacancy rose slightly, but it's still at 6.8%, right. So still a healthy vacancy rate there. And then we're seeing an uptick in pre-leasing of new construction. The pre-leasing rates in the quarter improved modestly to around 40% of space under construction. And there's still positive rental growth in the US at just over 3%. So some softness relative to where it's been that we expect will persist here for a bit. But no meaningful change to the medium and longer-term strength that we expect in industrial markets.

Peter Abramowitz
Analyst, Jefferies LLC

Q

All right. That's all for me. Congrats on a great quarter.

Operator: Our next question comes from Jade Rahmani at KBW.

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

Q

Based on what you're seeing so far, would you characterize the outlook for commercial real estate recovery as modest or potentially very strong, past cycles where interest rates were lower? We did see sharp recovery. So, just want to get a sense for how you think about things?

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

A

That's a pretty wide range between modest and very strong. I would place it exactly into the middle. It's certainly better than modest. But I wouldn't say it's very strong. But the outlook is positive for 2025.

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

Q

And you commented that so far you haven't seen any impact from higher treasury rates on transaction pipeline. But do you expect higher treasury rates to dampen the outlook, particularly for multifamily?

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

A

At least for the probably next couple of quarters? I don't think that we will have any negative impact from higher treasury rates. I expect to see an increased demand across all asset classes for our Capital Markets business, whatever the interest rates will do longer-term, if it goes up too far, then that may have an impact on multifamily. Because that is a sector which is still very much driven by domestic investors. But on the other hand, as I alluded to earlier, office, industrial and large retail is also very interesting for international investors. And they are coming to the US from an allocation point of view and they are less impacted, whether the interest rates are 50 basis points higher or lower.

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

Q

In terms of the announcement to strengthen building operations and focus on digital leasing capabilities. Now what went into the thinking there, if you could explain more about the strategic rationale?

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

A

So you are talking about our property management realignment?

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

Q

Yeah.

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

A

We are constantly looking at our organizational design and any opportunities to capture further synergies and to drive a better experience for our clients and frankly also to become more productive as a platform. And this is exactly what we are doing here. The primary goal is to drive those synergies across our platform, innovation and client experience because our property management business provides a pretty similar expertise and has a pretty similar operating model as our workplace management business, which sits within Work Dynamics. And so, that's the reasoning why we are putting that under one leadership. And we also believe that it makes JLL just easier to understand because these operationally similar businesses are now grouped together under one P&L.

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

Q

Lastly would be just around 2025. I know you haven't given any outlook, you'll do that next quarter. But in terms of growth expectations, do you think something similar to what we saw this quarter is reasonable to extrapolate? I think most are assuming around 15%, 20% growth in leasing and Capital Markets, at least for next year, just wondering if you think the growth is sustainable.

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

A

Yeah look why don't – we prefer to see the full results of the year before we comment on growth rates to extrapolate into 2025? So, we're all clear on the baseline we're starting from for that conversation. So stay tuned.

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

Q

Thank you very much.

Operator: We'll move next to Patrick O'Shaughnessy at Raymond James.

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

Q

Hi. Good morning. Can you speak to the relative importance to the industry of the short end of the rate curve versus the long end of the curve? So as we think about the long end moving up in recent weeks. But now expectation of the Fed to continue cutting the Fed funds rate. How does the net impact of that impact the industry?

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

A

That's a great question. I'm not sure that anybody has a scientific answer to that. Short-term interest rates are obviously very relevant for any kind of developments. They are relevant more so on the high-end opportunistic markets or the high yielding products versus the core assets. Long-term holders are relating more to the long-term. So that makes it difficult to translate that into the amount of business we can expect from those interest rate movements. And how relevant they are for us. But I would go back to what I said earlier.

Overall the trend line we see around interest rates is favorable for the recovery of the Capital Markets environment and we expect that to be the case even though we see that uptick on the 10-year rates over the last couple of weeks. But I wouldn't get overly concerned about that looking forward.

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

Q

Got it. Thank you. And then you took out or you borrowed $800 million of commercial paper in the quarter and paid down most of your credit facility. Can you speak to the rationale of switching your borrowing methodology a little bit?

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

A

Sure. I'll take that, it's really to reduce the overall interest rate on our outstanding borrowings. That was approximately a 60 basis points differential in benefit.

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

Q

Great. Thank you.

Operator: And 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.

Well, thank you for that. 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 fourth quarter.

Operator: And this concludes today's conference call. Thank you for your participation. You may now disconnect.