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Jones Lang LaSalle, Inc. (JLL)

Q4 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Hello, and thank you for standing by. My name is Regina, and I will be your conference operator today. At this time, I would like to welcome everyone to the Jones Lang LaSalle Fourth Quarter 2024 Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions]

I would now like to turn the conference over to Brian Hogan, Interim Head of Investor Relations. Please go ahead.

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

Thank you and good morning. Welcome to the fourth 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 as well as in our slide presentation and supplemental Excel file, we'll 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. We also reference 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 and in other 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 fourth quarter 2024 earnings call. We are pleased with our results for the fourth quarter and an overall very strong 2024, achieving the targets we laid out a year ago. The investments we have made in our platform and people drove notable revenue growth and market share gains. Our focus on enhancing operating efficiency throughout the course of 2024 is reflected in our improved profitability, free cash flow, and leverage.

Starting with our financial results, revenue in the fourth quarter grew double digits, driven by an acceleration in Transactional activity and sustained growth in Resilient revenues. Transactional revenue growth was led by our Investment Sales, Debt and Equity Advisory, Project Management, and Leasing business lines as we continue to gain market share alongside an improving real estate cycle.

At the same time, client demand for innovative real estate management solutions and industry expertise drove continued momentum within Resilient revenues. At the consolidated level, adjusted EBITDA grew 20% in the fourth quarter and adjusted EPS grew 17%. For the full year, adjusted EBITDA and adjusted EPS grew an impressive 28% and 38%, respectively, both significantly outpaced 13% revenue growth, testament to our ability to drive operating leverage across the platform.

Importantly, we are very pleased with the increase in our free cash flow generation which enables us to reinvest in our business, reduce leverage, and return capital to shareholders in 2024. Our strong balance sheet, liquidity position, and cash generation provide flexibility to prudently allocate capital where we see opportunities.

As a top priority, we continue to invest in our business to drive differentiation and deliver superior outcomes for clients. During the quarter, we announced the consolidation of our leading AI capability into one platform we call, JLL Falcon. JLL Falcon harnesses the power of AI to help our people work smarter and elevate the service we deliver to clients across our businesses with timely, revenue-generating, and cost-saving insights. The technology powers tools including JLL GPT, commercial real estate's first purpose-built generated AI assistant which launched in 2023 and is now used by nearly half of my colleagues. And JLL Azara, our data analysis application designed to transform how business leaders interact with corporate real estate and facilities management data. Combined with the extensive expertise of our people, we believe these applications will further accelerate our ability to differentiate in the market.

Combined with the extensive expertise of our people, we believe these applications will further accelerate our ability to differentiate in the market. In addition to these exciting developments, we also announced an investment into a joint venture with Slate Asset Management in the fourth quarter. Together, we will commercialize and scale JLL Asset Beacon, an asset management software to help clients optimize investment decisions.

For M&A, we continue to pursue select opportunities that we see augmenting organic initiatives and enhancing our platform to drive long-term growth. Our strategy is reflected in our 2024 acquisitions of SKAE Power

Solutions, which enhance our technical and project management capabilities for data centers, and Raise Commercial Real Estate, a technology-powered brokerage that accelerates our digital leasing platform capabilities. Those integrations are progressing in line with our expectations.

Finally, we are actively returning capital to shareholders and have $1 billion remaining on our share repurchase authorization. During 2024, share repurchases totaled $80 million. The amount of future share repurchases will depend on our cash generation, the macroeconomic outlook and geopolitical landscape, and weighed against our broader investment opportunities set. But as a minimum, we plan to offset any dilution from stock compensation.

With that, I will now turn the call over to Karen to provide more detail on our financial results and our 2025 financial targets.

Karen Brennan

Chief Financial Officer, Jones Lang LaSalle, Inc.

Thank you, Christian. Our strong top-line performance for the quarter and the year reflects the strength of JLL's differentiated platform, services and talent. The revenue growth, along with our ongoing focus on operating efficiency, produced meaningful margin expansion and earnings growth in 2024. Importantly, our initiatives to improve working capital efficiency helped drive strong conversion to free cash flow.

I will now review our operating performance by segment. Beginning with Markets Advisory, the increase in fourth quarter revenue was primarily driven by Leasing, which generated double-digit growth across most geographies, notably the US, India, and Greater China. Leasing revenue growth was broad based across asset classes and led by office, which grew 20% globally and outpaced the 7% increase in the market, according to JLL Research. The US and Asia Pacific also meaningfully outperformed respective market growth rates for office.

The slight uptick in our industrial sector leasing revenue was geographically broad based and compared favorably to the high-teens market decline. Both Asia Pacific and the Americas notably outpaced the respective industrial market growth rates. Large transactions where JLL historically has had a greater share of the market increased in nearly all asset classes, though they remained well below pre-pandemic averages.

Property Management growth in the quarter and the full year was the result of portfolio expansions in the US and several Asia Pacific countries, largely due to greater pass-through costs as management fees were flat for the quarter and increased marginally for the full year.

Higher Markets Advisory adjusted EBITDA for the quarter and full year was primarily driven by Leasing revenue growth. The timing of prior-year incentive compensation accruals adversely impacted year-over-year profitability for the quarter. Compared with the quarter, the full-year profit reflected improved platform leverage.

Looking ahead, we continue to see growth in active tenant requirements and demand for higher quality assets. The [indiscernible] (00:09:25) of the OECD Business Confidence Index throughout much of 2024 and a recent acceleration in the US provides optimism for continued leasing growth in 2025, although possible headwinds from geopolitical developments may impact decision making.

Within Property Management, we expect trends from 2024 to continue into 2025 while we work to bring together our teams and evolve our positioning under the new organizational structure we announced last quarter.

Shifting to our Capital Markets segment, an acceleration in Investment Sales, Debt and Equity Advisory revenue in the quarter and the full year was catalyzed in part by improved investor sentiment, greater interest rate stability, elevated levels of dry powder, and more liquidity entering the market, which led to more institutional investors willing to transact. In the quarter, revenue increased across asset classes with significant growth in the US multifamily sector and notable growth in industrial across the globe.

Our Investment Sales revenue, which accounted for just over 40% of segment revenue in the quarter, grew over 35%, and our global debt advisory revenue grew approximately 70%. The US and Asia Pacific performed notably better than their respective market sales activity recorded by JLL Research, driven in part by our leading platform, technology, and people.

The Capital Markets adjusted EBITDA growth for the quarter and the full year was predominantly driven by higher Transactional revenues and continued cost discipline. The full-year adjusted EBITDA growth was partially offset by nearly $20 million adverse impact from the repurchase of a Fannie Mae loan in August and a $5 million non-cash increase in loan loss credit reserves.

Looking ahead, we are encouraged by the strengthening of the real estate debt markets, banks more actively quoting on and closing loans in the US, and the general stability reflected in our proprietary Bid Intensity Index. Our global Investment Sales, Debt and Equity Advisory pipeline is robust, so the evolution of the interest rate and economic outlook will continue to influence the timing and pace of deal closings.

Moving next to Work Dynamics. Revenue growth for the quarter and the year was led by Workplace Management, stemming from both new client wins and mandate expansions as well as incremental pass-through costs in the US. The near 30% growth on a two-year stacked basis in Workplace Management revenue in the quarter reflects our differentiated platform capabilities.

Project Management revenue growth accelerated in the quarter and was broad based across most geographies as higher pass-through costs augmented the near 10% growth in management fees, largely from new wins and an increase in existing client volumes. For the year, Project Management growth was attributable to higher pass-through costs and mid-single digit management fee growth.

The Work Dynamics adjusted EBITDA for the quarter was flat as the revenue growth was offset by a lower actuarial benefit associated with US medical self-insurance and incremental investments in our platform, including technology and artificial intelligence capability, which we believe will support long-term growth and margin expansion. Looking at the full year, the margin expanded for the third consecutive year, driven by revenue growth and platform scale, which more than offset the fourth quarter items and an elevated growth receipt tax expense in the third quarter.

Entering 2025, we expect Workplace Management growth to moderate as we lap the meaningful new wins which onboarded in 2024. We remain confident in the long-term trajectory of the Workplace Management business as our sales pipeline is strong and we are focused on capturing mandate expansion opportunities.

Looking at Project Management, the recovery and leasing activity bodes well for securing additional mandates, though the current level of corporate CapEx spending may dampen near-term growth rates. We continue to align technology investments to drive superior client outcomes and platform scaling to enable further margin expansion.

Turning to JLL Technologies, continued growth in software services revenue was more than offset by lower technology solutions bookings over the past year, which drove the segment revenue decline for both the quarter and the full year. The lower revenue and impact of the year-over-year change in carried interest drove the adjusted EBITDA decline. We are progressing to sustained profitability within the segments as we balance investments to drive growth.

Now to LaSalle. Higher incentive fees and asset dispositions on behalf of clients drove the revenue increase in the quarter. Advisory fees declined in the quarter and for the full year on the impact of lower fees in Europe from the structural changes to a lower margin business we discussed in previous quarters, as well as lower assets under management over the past 12 months. Absent foreign currency exchange movements, assets under management are down 3% from a year earlier, half of which was from lower valuations. After about two-and-a-half years of declines, valuations broadly continued to stabilize and are reflected in our positive LaSalle equity earnings for the quarter.

The increase in LaSalle's adjusted EBITDA in the quarter was driven by the higher incentive fees net of related variable compensation expense. Though muted compared to normalized levels, full year capital raising and deployment was higher than the prior year and investor interest continues to pick up, particularly for credit and core products. While we see momentum and deployment opportunities adding to assets under management over the course of the year, foreign currency and recent asset dispositions are notable near-term headwinds..

Turning to free cash flow. The increase in the quarter and full year was largely due to improvement in net reimbursables and higher cash earnings from improved business performance, as well as greater incentive compensation accruals, higher receivables attributable to business growth with a partial offset for both the quarter and full year. An increase in cash taxes and the repurchase of a loan from Fannie Mae in the third quarter were also partial offsets for the full year free cash flow.

Regarding the Fannie Mae loan we repurchased, we continue to work to improve the property and towards an eventual sale. We also continue to monitor the loans originated for the agencies with confirmed or potential fraud situations. There is a portfolio of loans to a single borrower that is currently in default with confirmed borrower fraud. We have begun discussions with Fannie Mae on next steps and resolution of the situation.

Shifting to our balance sheet and capital allocation. Liquidity totaled $3.6 billion at the end of the fourth quarter, including $3.2 billion of undrawn credit facility capacity. In addition, we had $2.3 billion of untapped capacity on our commercial paper program. As of December 31st, reported net leverage was 0.7 times, down from 1.2 times the year earlier due to both a reduction in net debt and higher adjusted EBITDA over the trailing 12 months. We expect a typical seasonal increase in leverage in the first quarter, driven in part by annual incentive compensation payments, as well as the $100 million incremental growth investment in JLL Income Property Trust that we announced last quarter and subsequently made in January. As Christian mentioned, we deployed capital over the course of 2024 to further differentiate our platform and capabilities while also returning capital to shareholders and reducing leverage.

Regarding our 2025 full-year financial outlook, we are optimistic for a continued pickup in transaction activity, though the pace may be uneven and nuanced across geographies. Growth in our more Resilient business lines collectively remains solid, driven by a vast market opportunity and the uniqueness of JLL's data-driven and globally scaled platform capabilities.

As we continue to invest to both capture future growth opportunities and drive operating leverage, we are targeting a full-year 2025 adjusted EBITDA range of $1.25 billion to $1.45 billion, reflective of 14% growth at the midpoint. Our outlook reflects typical seasonality and includes the notable strengthening of the US dollar, as around 40% of revenues are generated outside the United States.

We continue to see significant opportunities to drive growth and enhance the resiliency and efficiency of our business, positioning our team to leverage our platform to deliver exceptional service to our clients.

Christian, back to you.

Christian Ulbrich

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

Thank you, Karen. The year has started with strong momentum across our businesses. Our Workplace Management business has significant growth opportunity as clients are attracted to our differentiated global platform. Our leasing business is benefiting from the increasing return to office mandate. Due to the very low development pipeline, rents will continue to grow.

While we are seeing increases in government bond yields and more tempered outlooks for rate cuts, particularly in the US, we encouraged that bidding activity remain stable within our capital markets business. We see this outlook reflected in JLL's proprietary Global Bid Intensity Index, which held firm in the fourth quarter.

Before I close the call, I want to give an update on the realignment of our business segments that went into effect on January 1. As we announced last quarter, we are bringing together all our building management groups under one reporting structure named Real Estate Management Services. With this shift, Markets Advisory will be reported as Leasing Advisory. These changes will capitalize on synergies across platform operations and improve the client experience. Concurrently, Capital Markets will be reported as Capital Market Services, LaSalle as Investment Management, and JLL Technologies as Software and Technology Solutions. While this does not change the respective reporting structure, we believe the new names provide a better description of the breadth of our diversified products and services.

We are optimistic about our ability to lead JLL to an even better future. I'd like to take this opportunity to acknowledge and thank all our colleagues around the world whose hard work and tenacity ensure we continue to deliver for our clients. I look forward to what we can achieve together in 2025.

Operator, please explain the Q&A process.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question will come from the line of Stephen Sheldon with William Blair. Please go ahead.

Stephen Sheldon
Analyst, William Blair & Co. LLC

Q

Hey, thanks for taking my questions. Maybe starting here, can you just talk roughly about what you're baking in for the high end versus the low end of the EBITDA guidance range, especially within the more Transactional businesses?

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

A

Sure, good morning. First, as I talk about the adjusted EBITDA target range broadly, I do want to highlight just a couple of things to amplify some points that I said in my prepared remarks. First, just a reminder of the typical seasonality in our business, and we don't expect any meaningful departure from the historical averages that we've experienced. So if you think about the profit contribution by quarter, the first quarter is average low-teens profit contribution compared with the fourth quarter around 40%. So that's one point.

Second point I want to note is really the impact of the strengthening dollar in our financial results overall with 40% of our revenues coming from outside the US. So then getting to the more specifics around your question, I'll start with the midpoint of the range and just our key assumptions for that. It's really anchored in the assumption of a gradual recovery path for the Transactional business lines. So we assume the current interest rate environment, current consensus GDP outlook, current pace based on our pipelines and market momentum today. And then if you think about what will bring us to the higher or the lower end of the range, it will really be determined by a slower or faster recovery than we're anticipating at that midpoint based on the market conditions at this point in time.

And another thing to call out in our modeling as we look at how the pace of the recovery takes hold over different geographies around the world, that's typically uneven in this type of environment. And so, we expect that will play out somewhat unevenly globally as well. And so, the ultimate business mix can skew some of those growth rates and kind of where we end up in that range as well.

Stephen Sheldon
Analyst, William Blair & Co. LLC

Q

Got it. That's really helpful. And maybe I wanted to ask about incremental margins, just as we think about Markets Advisory, I guess, Leasing Advisory now and Capital Markets in 2025. I know you kind of call that higher incentive comp. I think in 4Q, there's some one-off items like continued loan losses within the portfolio. I think that you mentioned, Karen, and it could be some higher spending on recruiting and retaining producers that maybe could also weigh on incremental margins.

But just, I guess, how should we be thinking about incremental margins and do you have visibility into kind of one-off items that might continue to weigh on profitability as we think about 2025?

Stephen Sheldon
Analyst, William Blair & Co. LLC

Q

Got it. That's really helpful. And maybe wanted to ask about incremental margins, just as we think about Markets Advisory, I guess, Leasing Advisory now and Capital Markets in 2025. I know you kind of called out higher incentive comp, I think, in 4Q. There were some one-off items like continued loan losses within the portfolio, I think that you mentioned, Karen. And it could be some higher spending on recruiting and retaining producers that maybe could also weigh on incremental margins.

But just, I guess, how should we be thinking about incremental margins? And do you have visibility into kind of one-off items that might continue to weigh on profitability as we think about 2025?

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

A

Yeah, great question. Let me call out some of the one-off items and how we think about what happened in 2024, and then how that would translate or might translate in 2025. So first for – and also I would say, we would really encourage everyone to look at the incremental margins on a full-year basis. There can be a fair amount of noise or distortion in an individual quarter, again due to one-off items and just timing of revenues versus expenses, and we plan our business on a longer-term horizon than just the quarter.

So, couple of things to call out from kind of one-time things that influenced even a one-year look. Within Markets Advisory, we had a higher than average incremental margin in that business. We did take the benefit in the year of a lot of cost-out actions that – and cost discipline that really materialized in that business. So that coupled with strong growth, really drove exceptionally high incremental margins in Markets Advisory and we expect that to moderate to something closer to what we've experienced historically. Within Capital Markets, the kind of one-time item there to call out in 2024 was really around the expenses associated with the Fannie Mae loan repurchase, which then, like depressed the incremental margins a bit below the historical range that we've experienced.

Within Work Dynamics, there we had a couple of items over the course of the year that impacted the incremental margins. One was the item I called out in the fourth quarter, which was year-over-year changes in the actuarial benefit associated with the US medical self-insurance. It was about $13 million year-over-year difference. And then last quarter, we talked about $10 million gross receipts tax impact. So a couple of things in Work Dynamics in 2024 that brought it down a bit.

So there were a number of things moving around. There always will be some level of one-time items, but that hopefully will help provide some more context for how we think about where we came out in 2024 relative to historical averages. And we are constantly evaluating those incremental margins and trying to find the right balance of making sure we're continuing to invest for future growth. It's really important that we're continuing to invest in our platform so that as we go forward, we can generate the same strong growth momentum across these business lines that we've experienced in the year.

Stephen Sheldon
Analyst, William Blair & Co. LLC

Q

Got it. Thank you, Karen. That's really helpful. Maybe just a last one for Christian. You continue to sound incrementally more excited, I think about what JLL is doing from an AI perspective. So, you kind of gave a little bit of commentary, but we'd just love to get more detail on how usage and utilization of some of the AI solutions you called out within Falcon, how that's been trending. Where do you see the biggest opportunities that could be kind of needle moving as we think about areas to increase productivity or efficiency for your teams? How are you thinking about it?

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

A

Sure. Yeah, I mean, we have been working really hard on our AI products. We have a couple of dozen products now ready, which are either already rolled out to clients and within JLL or at the cusp of being rolled out. There are literally no limitations on ideas at the moment, how we can make use of AI to the benefit of our clients and to increase productivity within our platform. And so, the main task is to stay really disciplined and focus on those areas where there is the biggest impact.

And what we are generally seeing is that this whole opportunity around using AI is forcing all our businesses to really focus on how they can align on how we execute the business. And once you have aligned on the steps that provides you with a great opportunity to send some of those processes into one of our business centers, and then from then on, usually you can start to using AI to really make massive productivity gains.

So this will be with us now for the future. The train has left the station and we are really excited about the productivity gains we can achieve and the increased level of services towards our clients.

Stephen Sheldon
Analyst, William Blair & Co. LLC

Q

Good to hear. Thanks for taking my questions.

Operator: Our next question comes from the line of Nick Joseph with Citigroup. Please go ahead.

Nicholas Joseph
Analyst, Citigroup Global Markets, Inc.

Q

Thanks. I was hoping you could touch on what the 2025 outlook anticipates for office leasing broadly, and then maybe more specifically what you're seeing on the West Coast.?

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

A

Sure, good morning. Let me talk a little bit about Leasing. And I'll touch on office as well as industrial because it's an important part of the story as we think about the outlook for our Leasing revenues overall. And first, I just want to start by saying, we're really pleased with the results that we experienced in our Leasing business, both in the quarter and for the full year.

So starting with office, globally, office leasing was at its highest level since 2019. It's still below the 2019 levels, but that's quite encouraging as we think about all that's transpired since 2020. And then importantly, in the US, the fourth quarter marked the first quarter of positive absorption since the fourth quarter of 2021. So a couple of bright spots to call out there.

One of the things we think about as we look at our forecast for office leasing and kind of what's going to happen in terms of positive absorption versus continued downsizing, our research team estimates that the US office leasing market is now approximately 80% of the way through the downsizing cycle that has been going on, and approximately 30% of leasing activity is now new space requirements. So, either expansions or net new demand on top of what existed before. So that's very encouraging.

And then I'd say a final point is, in the US, our research team tracks activity for deals over 100,000 square feet, and we talked about that in the past. That continued to improve in the quarter as well, it's up about 25% quarter-over-quarter. And again there I'd still call out that it's about 30% below pre-pandemic levels.

Going to the industrial side of things, it's a bit of a different story. We have a market that has experienced further declines last year in 2024. We have occupiers who are focusing on increasing utilization of their existing space. They're delaying decision-making, particularly in the US, there's still some excess capacity that built up during the pandemic. That's being worked through. All that being said, we do expect the markets for industrial leasing to stabilize during 2025. What we're seeing today, the demand is remaining really in line with pre-pandemic averages, and we see some optimism for further growth.

So taking those two together, if you think about that market context and we look at our pipelines, we do expect continued growth momentum in leasing, but will be more gradual over the course of 2025. We're not forecasting a hockey stick scenario to come through based on what we're seeing today.

And then you had asked a couple of questions about specific markets in the US. There, I would just call out the markets with the greatest growth in office leasing are New York and the surrounding areas, Kansas City, San Antonio, and Los Angeles, and San Francisco. So, an interesting list of different markets there. But again, we're seeing some good momentum across both gateway cities and secondary markets in the US.

Nicholas Joseph
Analyst, Citigroup Global Markets, Inc.

Q

Thank you. That was very helpful. And then just in terms of the free cash flow that's been generated, how are you thinking about either additional share repurchases versus executing on M&A?

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

A

Listen, it's Christian. I'm taking that question. The amount of share repurchase we do are obviously driven by our overall performance in the business and what we are seeing in the near future. We are currently in a still very volatile environment. On the one hand, we see some very strong dynamics for the real estate industry, and we are probably at the beginning of a longer term upward cycle. But on the other hand, the geopolitical environment, the trade environment. is bringing a bit of uncertainty.

And then we match the opportunity of share repurchases, obviously, against other areas of valuable investment for our shareholders, whether it's within our platform or whether it's with regards to M&A. What I can assure you that we are always intending to offset at least any kind of dilution from our share compensation.

Nicholas Joseph
Analyst, Citigroup Global Markets, Inc.

Q

Thank you.

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

Anthony Paolone
Analyst, JPMorgan Securities LLC

Q

Great. Thank you. My first question is I'd like to go back to the margin discussion. And can you give us a sense as to, at the midpoint perhaps, of your EBITDA guidance, whether you see margin expansion versus 2024 or not? And also maybe how that fits into some of the brackets you had put forth in previous calls around where you see margins for the company longer term.

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

A

Morning, Tony. So, yes, we do anticipate in our forecasting margin expansion on a consolidated basis and also across each of our business lines. And then where we end up in terms of the full year in that adjusted EBITDA range will depend on a number of factors, depending on how the shape of the revenues go over the course of the year and how that matches up with our expenses, as I mentioned earlier. We certainly have a significant portion of our profits in the back half of the year, particularly the fourth quarter. And so we'll be managing the business accordingly.

Anthony Paolone
Analyst, JPMorgan Securities LLC

Q

Okay. And do you still see those prior margin targets as being valid, and we should still think about that as where you want to be over time?

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

A

Yeah. Yeah, there's no change to that expectation.

Anthony Paolone
Analyst, JPMorgan Securities LLC

Q

Okay. And then in Work Dynamics, I mean, you talked about the tougher comps given some of the wins that hit in 2024. But if we think about top line fee revenue growth for that segment, is it still likely a double digit grower? Does that settle into mid-single digits? Like just any more context around that?

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

A

Well, listen, I think after this unusual year, 2023, where the win rate was very, very high, we are going now back to a more normalized environment, which means we are going back on that trajectory that we are expecting high-single digit, low-double digit top line growth in that business. The overall sentiment, and that is for the very long term around that business, is still very positive.

Anthony Paolone
Analyst, JPMorgan Securities LLC

Q

Okay. And then last one for me here. Christian, you mentioned number one priority is to just invest in the business, can you maybe give us a sense as to your thinking as to where you see the most opportunity to invest in improved growth versus areas that might just be running kind of along on their own at this point?

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

A

Well, I mean, we have often stated that we are interested to increase the recurring part of our business. So, our Work Dynamics business, our Property Management business, and the other elements of the very sticky parts of our business is something we are really looking to grow fast and invest heavily into it.

The other part is clearly around technology. I was talking earlier about the AI opportunities where we see strong return rates due to the increased productivity. But clearly, all areas of our business are constantly taking additional investment and building that scale, which drives then to the bottom line. This is also true for our Capital Markets and our Leasing Advisory business.

We still have tremendous room to grow, even in markets like the US, but then you can also go into other geographies where there is still an opportunity to take significant market share.

Anthony Paolone
Analyst, JPMorgan Securities LLC

Q

Okay. Thank you.

Operator: Our next question comes from the line of Julien Blouin at Goldman Sachs. Please go ahead.

Julien Blouin
Analyst, Goldman Sachs & Co. LLC

Q

Thank you for taking my question. I guess when we think about the capital markets commentary that you gave, Karen, you said the pipeline remains strong. I guess, can you give us a sense of how capital markets activity has trended in what you're seeing so far in 2025 versus the really strong fourth quarter we saw?

And then, cadence-wise, should we think about sort of a slower second half 2025, as sort of the comps in the back half of the year get tougher?

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

A

Well, first of all, in the first couple of weeks in 2025, we saw a really strong start to our capital markets business year-over-year. And if interest rates are staying more or less in line where they are today, we expect that trend to be pretty stable for the rest of the year.

So, to your second part of the question, not really. We don't expect that that trend is coming down in the second half of the year if the situation stays more or less in line what we're having at the beginning of the year. As you know, we are still coming from a fairly low base. So those increases which you have seen in 2024 are against a fairly low base. So, we still have quite a bit to grow in the transaction volumes overall to get back to levels which we have seen in 2018 and 2019.

Julien Blouin
Analyst, Goldman Sachs & Co. LLC

Q

Okay. Thank you, Christian. And I guess, thinking about the really impressive sort of industrial leasing results which were obviously well above market, do you think these market share gains are sustainable into 2025 on sort of the industrial leasing side? What is sort of driving that? And then at a high level, how should we think about sort of industrial leasing over the course of the year?

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

A

Yeah, I'll take that one. In terms of what's really driving our outperformance relative to the overall market, one of the things we look at is the mix of transaction sizes that are occurring. And there has been a return in industrial, just as I've been talking about, in office of larger transaction sizes where we tend to play well and have a larger share of our business. So, that's certainly contributing to it.

We also have been [indiscernible] (00:39:41) continuing to build and think about the shape of our industrial leasing teams over time and investing where we see growth opportunities going forward. So, it's a big area of focus for us as we continue. And as I mentioned in my remarks, the softness in industrial leasing is really – it's a shorter-term thing. In the mid-term and long-term, we still continue to believe that the industrial outlook will remain strong and generate activity in the future.

Julien Blouin
Analyst, Goldman Sachs & Co. LLC

Q

Great. Thank you so much.

Operator: [Operator Instructions] And we'll take our next question from the line of Jade Rahmani at KBW. Please go ahead.

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

Q

Thank you very much. On the office side, are you starting to see the recovery become more widespread? So far, it seems to be narrowly focused in the Class A, Class A+ buildings. You did cite the strength in New York City, for example, some of those – the Park Avenue corridor as a bellwether example. But curious if you're seeing spillover into adjacencies and the recovery becoming more widespread?

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

A

Well, as we have stated before, there is a flight to quality. And so, on that basis, it is clearly the Grade A buildings, the A+ buildings, which are taking the biggest benefit. And I was just returning from Tokyo where it's very interesting to see in a very vast office market they are only having 254 buildings, which are actually Grade A. And within those buildings, there's literally no vacancy left. Still, it could happen despite what we just said, that there's a flight to quality that you see some spillover now moving into more Grade B buildings, because there is way too little new development coming into market.

And so, there will be an opportunity for some of the Grade B buildings to get a sufficient upgrade, and then those buildings will also be leased again at better levels than we currently see. But in most cases that needs an upgrade of those buildings, which will actually help our Project Management business going forward.

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

Q

And is that something you anticipate taking place? Because we have a lot of office deals that are kind of in standstill, where the lender is contemplating taking the collateral, where the sponsor or owner doesn't have the money to put in, or interest rates are prohibitive. So, are you actually starting to see opportunities emerge in those Grade B buildings?

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

A

Yes, we do. But you are describing, obviously, still the aftermath of the crisis we are coming out, where there is still – many buildings are still kind of in a slightly uncertain environment, because of the reasons you described. They may be sitting with a lender, or they may be sitting with a sponsor who isn't willing or unable to put in more CapEx into the building.

But more and more of those situations are being sorted out, and then we also see some of the opportunistic players taking advantage of those opportunities now. And the statistics around the lack of new development coming to market are pretty transparent. And so, for those who have the availability to play that curve, it seems to be a pretty good opportunity to enter that market now.

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

Q

Thank you. And then turning to JLL Technologies, the Software and Technology Solutions business, what are your expectations for profitability going forward? Is the business on a run rate basis currently profitable? And also, if you could touch on what drove the write-downs during the quarter?

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

A

Okay. Well, we are obviously pretty eager to bring that business into profitability on a full-year basis. We have to balance that trajectory with investing into the platform, seeing specific growth areas, but at the same time, don't lose sight of bringing it back into profitability. We are clearly determined that on a full-year basis in 2026 that P&L is being profitable, and so that's the trajectory we are on.

With regards to your second question, we saw couple of write-downs on investments, though mainly concentrated in one company. And then on the other hand, we had a couple of other companies where we were able to account for gains, but there weren't enough to offset the write-down especially in that one company.

But just as a reminder, our proptech portfolio is playing a pivotal role in our technology strategy by creating a portfolio of best-in-class technology products. And the purpose is, we have spoken about before, it enhances our core business with cutting-edge technology and it delivers superior technology to clients. So, we are not overly disturbed by those variances on the equity side, talking about the gains and some losses. Overall, we are quite happy with what we are learning from that portfolio and what outcomes we can achieve for our clients and for our own platform.

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

Q

Thank you very much.

Operator: And that will conclude our question-and-answer session. And I'll now turn the call back over to Christian Ulbrich for closing remarks.

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

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 will conclude today's call. Thank you all for joining. You may now disconnect.