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JLL - Q1 2017 Jones Lang LaSalle Inc Earnings Call

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Co. reported 1Q17 adjusted net income of $21m or $0.45 per diluted share.

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PRESENTATION

Operator

Good day, and thank you for standing by. Welcome to Jones Lang LaSalle Incorporated First Quarter 2017 Earnings Conference Call. For your information, this conference call is being recorded. I would now like to turn the conference over to Grace Chang, Managing Director of Investor Relations. Please go ahead.

Grace T. Chang - *Jones Lang LaSalle Incorporated - MD of Corporate Finance and IR*

Thank you, operator. Good morning, and welcome to our first quarter 2017 conference call for Jones Lang LaSalle Incorporated. Earlier this morning, we issued our earnings release, which is available on the Investor Relations section of our website, jll.com, along with the slide presentation intended to supplement our prepared remarks. During the call, we will reference certain non-GAAP financial measures, which we believe provide useful information for investors. We include reconciliations of non-GAAP financial measures where appropriate to GAAP in our earnings release and supplemental slides. As a reminder, today's call is being webcast live and recorded. A transcript of this conference call will also be posted on our website. Any statements made about future results and performance or about plans, expectations and objectives are forward-looking statements.

Actual results and performance may differ from those forward-looking statements as a result of factors discussed in the company's annual report on Form 10-K for the fiscal year ended December 31, 2016, and in other reports filed with the SEC. The company disclaims any undertaking to publicly update or revise any forward-looking comment. And with that, I would like to turn the call over to Christian Ulbrich, our Chief Executive Officer, for opening remarks.

Christian Ulbrich - *Jones Lang LaSalle Incorporated - Chair of Global Executive Board, CEO, President and Director*

Thank you, Grace, and welcome to this review. As always, our CFO, Christie Kelly, will join me on today's call and she will provide details of our performance in a few minutes.

To begin, I will summarize our results. Though the first quarter tends to be the most quiet 3 months of the year, we recorded double-digit revenue growth across all the 3 regions. Revenue was up 21% to $1.6 billion compared with the first quarter a year ago, and fee revenue also increased by 21% to $1.4 billion. Growth in revenue was led by strong leasing and capital markets contributions, particularly in the U.S. and U.K. As we continue to integrate recent acquisitions, we also saw expansion in our Property & Facility Management and Project & Development Services businesses.

Adjusted net income was $21 million for the quarter compared with $37 million a year ago. Adjusted diluted earnings per share totaled $0.45 compared with $0.82 for the same period in 2016. Organic margin accretion in our transactional businesses and in M&A completed before the first quarter of 2016 was offset by several issues: anticipated declines in LaSalle's incentive and transaction fees; expenses related to the close of a noncore U.K. business; continued investment in technology and data and in our EMEA facility management platform; and provisions for account receivables collections, all contributed to lower profits.

To put our numbers in context, let's look at global market conditions. In the first quarter, positive news about a range of leading economic indicators, particularly in manufacturing and trade data, prompted a broad upward shift in economic expectations for the year. For details, please see the slides posted in the Investor Relations section of jll.com.

Slide 5 shows first quarter activity in Capital Markets and Leasing. Despite ongoing political uncertainty in many parts of the world, Capital continued to seek investments in real estate with $136 billion of global transactional volumes recorded in the quarter, roughly level with volumes recorded a year ago. Prime yields were unchanged in most major markets. Leasing activity remained firm during the quarter as global leasing volumes increased 3% year-on-year.

The global office vacancy rate remained stable at 11.9%. And rental growth for prime offices in 26 major markets rose to 3% in the quarter, up from 2.7% in the first quarter of 2016.

I would like to add that both our Capital Markets and Leasing revenues outperformed market volumes during the quarter. And finally, reflecting the strength of our finances, our Board of Directors declared a 6% increase in our semiannual dividend to $0.35 per share. To comment on our performance in this market environment, I will turn the call over to Christie.

Christie B. Kelly - *Jones Lang LaSalle Incorporated - CFO and EVP*

Thank you, Christian, and welcome to everyone on our call. Christian provided the headline summary of results regarding revenues and earnings for the quarter, so I will move directly to business line results.

Revenue growth occurred across all geographic segments and reflected expansion of both transactional and annuity businesses with strong organic gains. Organic revenue expansion accounted for over 40% of real estate services fee revenue growth, with the balance from acquisitions completed after the first quarter of 2016. Total JLL Leasing revenues grew 18% for the first quarter, reaching $375 million, significantly better than the modest 3% increase in global market gross absorption. JLL's double-digit growth and market outperformance in Leasing held true in all 3 of our geographic regions.

Total JLL Capital Markets fee revenues grew 12% for the first quarter, reaching $194 million, also a strong performance compared to overall market statistics that indicate relatively flat investment sales in comparison to first quarter 2016. Our Property & Facility Management fee revenue grew 51% for the quarter, largely driven by the Integral UK acquisition.

Project & Development Services grew 19% for the quarter, and Advisory & Consulting grew 27%. Combined, these nontransactional businesses drove 70% of the fee revenue growth in our real estate services business.

From a margin perspective, we have provided additional information on Page 6 of our supplemental slides. Adjusted EBITDA margin, calculated on a fee revenue basis, was 5.4% for the quarter compared with 7.6% in first quarter 2016, a decline of 220 basis points or 260 basis points on a constant currency basis.

As Christian noted, we had positive organic accretion from our transactional businesses and from M&A completed before the first quarter of 2016. This positive accretion was offset by the anticipated decline in LaSalle transaction fees and equity earnings, as well as continued investments in our people, technology and data.

Also contributing to the decline are discrete items, primarily reflecting EMEA timing on receivables collections, as well as costs associated with repositioning of operations in a noncore market within the U.K., as previously reported.

We continue to focus on the integration of M&A transactions completed during 2016 and so far this year. The acquisitions we completed in 2015 and before have been integrated into our business, with continued contributions to organic growth. As noted previously, acquisitions have substantially contributed to annuity revenue growth, which will result in more stabilized performance during downturns in the real estate cycle.

A few meaningful highlights regarding acquisitions completed after the first quarter 2016 include: One, acquisitions account for nearly 60% of our quarterly consolidated real estate services fee revenue growth, including 26% for the Americas, 19% for Asia Pacific and all of the growth in EMEA.

Two, nearly 90% of the acquisitions we completed contribute to growth in annuity revenue and more stabilized performance during real estate cycle.

Three, we funded $422 million or 67% of the total estimated investment. Future payments are tied to the revenue and margin performance of our business teams. Four, we expect our acquisitions to generate nearly 16% margin excluding Integral, and nearly 9% including Integral.

Five, we are on track to generating 10% after-tax return on capital for this year. As we continue to successfully integrate the businesses we have acquired, we aim to achieve a greater return generated from synergies and cross-sell opportunities.

In the first quarter of 2017, we closed 4 primarily annuity-based transactions, representing $26 million of estimated investment, with 42% paid up front. This is indicative of our intentionally decreased M&A pace. As we move forward into the year, our focus will remain on integration in order to drive strong operating performance and to maximize return on invested capital for our shareholders. We continue to invest in our people, technology and data as we work to transform our real estate services platform.

As it relates to technology investments, nearly 60% is for front-end client-facing tools and data management, and the balance supports our legacy systems and infrastructure support, as well as our service centers and supply chain leadership capabilities. Consistent with our growth priorities and commitment to an investment-grade balance sheet, we continue to manage our leverage profile and liquidity position. Our balance sheet reflects total net debt of $1.4 billion as of March 31, 2017, an increase of $255 million from year-end due to the annual first quarter payout of 2016 variable compensation to employees, which we partially offset by improved working capital management. Our capital allocation strategy continues to focus on long-term growth and shareholder value.

Turning to segment results, where we report percentage changes in local currency, except for Capital Markets, which aligns with U.S. dollar-denominated research data. First quarter fee revenues in the Americas increased 21% over first quarter 2016. Capital Markets fee revenue was up 24% against first quarter 2016, resulting in outsized performance when compared to market volumes, which were down 5%. The growth is attributable to strong performance across multiple U.S. markets and our multifamily business.

Our Americas Leasing business captured market share with quarterly growth of 19% over first quarter 2016 compared with an increase of 8% in gross absorption volumes. This quarter's outperformance reflects robust industrial growth and solid performance in both agency and tenant representation.

Property & Facility Management fee revenue grew modestly by 8% over first quarter 2016. Considering performance beyond facility management, our multi-service Corporate Solutions contracts, which includes Leasing, Project & Development Services as well as Consulting, delivered 21% fee revenue growth in the quarter. Project & Development Services and our Advisory & Consulting businesses turned in impressive fee revenue growth for the quarter of 32% and 66%, respectively. Expanded services, new business wins and strong renewals, together with contributions from recent acquisitions completed since first quarter 2016, drove half of the growth.

Recent acquisitions such as BRG provide technology consulting and workplace solutions fueling growth and occupancy planning, relocations and project management services.

Other recent acquisitions include Integra, which serves as the foundation for a full-service national valuation business. And ATG, a health care vertical investment that provides technology solutions to help automate regulatory compliance.

Adjusted operating margin in the Americas for the quarter was 6.4% on a fee revenue basis, down 40 basis points from first quarter 2016. The reduction reflects investments that will contribute to our revenue growth, particularly in Corporate Solutions, including an increase in infrastructure support and transformative technology.

Turning to EMEA. Total fee revenues for the quarter grew $103 million or 55% over prior year first quarter 2016, reflecting the incremental revenue contribution from our Integral U.K. acquisition. EMEA's Capital Markets fee revenues for the first quarter decreased by 2% compared with overall market volumes, which were up 3%.

First quarter underperformance was driven by delayed deal execution due to transactions taking longer to close.

Our U.K. Capital Markets performance was actually up 2% compared with the 10% decline in market volume, demonstrating that despite ongoing uncertainty related to Brexit, our local teams are well positioned to capture pipeline activity as deals come to market.

EMEA Leasing revenues were up 19% against first quarter 2016, a strong performance considering an overall market decline of 2% in gross absorption. Our outperformance was driven by the U.K. and Germany. Noteworthy, in particular, our U.K. performance was up 4% with market gross absorption volume down nearly 30% year-over-year. The uncertainties surrounding Brexit continues to drive a wait-and-see approach among occupiers in the U.K., while Leasing across Continental Europe remains healthy.

Property & Facility Management fee revenue grew by 3x for the quarter, primarily due to the acquisition of Integral. Project & Development Services fee revenue was slightly down by 4% against the tough prior year comparable of 57% year-over-year growth.

Advisory & Consulting grew 8%, reflecting growth in hotels and valuations-related revenue in Spain, Germany and the U.K.

In the first quarter, EMEA delivered adjusted operating margin of negative 7.4%, a decrease of 200 basis points from first quarter 2016. The decline in profitability was impacted by $12.1 million of incremental investments in technology and the facilities management platform, costs associated with the continued wind down of operations in a noncore U.K. market, deal timing and facilities management revenue delays and provisions for losses on receivables, predominantly in Germany and France, due to timing. We are taking actions to complete the noncore business wind down, collect past due receivables and drive profitable growth.

Moving to Asia Pacific. Total fee revenue grew by $28 million or 13%, 80% of which was from strong organic growth, driven primarily by Property & Facility Management. JLL Leasing revenue across Asia for the first quarter grew 13% over first quarter 2016 compared to a 4% reduction in overall gross absorption. Our growth was all organic.

Capital Markets revenue increased by 8% for the quarter, while market volumes were up 1%. This performance also was all organic and driven by Greater China. A highlight in Asia Pacific was the continued fee revenue growth of our Property & Facility Management, Project & Development Services and Advisory & Consulting businesses with increases of 10%, 32% and 16%, respectively. The growth in these businesses was predominantly organic, with 20% attributable to M&A.

Adjusted operating margin of 1.9% for the first quarter represents a 230 basis point improvement over first quarter 2016. The change was largely driven by organic margin expansion in Leasing and property management.

LaSalle's first quarter performance reflects diverse revenue contribution across the platform totaling $88 million. Revenue decreased in comparison to last year by 9%, driven by the expected decline in transaction fees related to the J-REIT launched last year as well as lower incentive fees. As a result, adjusted EBITDA margin, including equity earnings, was 22.2%, down from 34.9% in the prior year. The equity earnings decline of $8.1 million reflects last year's substantial valuation increase related to the J-REIT. When normalizing for incentive fees, equity earnings and the J-REIT transaction, LaSalle adjusted EBITDA performance is in line with first quarter 2016.

LaSalle also delivered strong acquisition fees and raised $1 billion of new capital. As previously noted, we expect overall incentive fees and equity earnings to moderate, with no change to the operating framework provided at year-end. LaSalle equity earnings and incentive fees are still tracking to be $20 million and $30 million, respectively. For additional information regarding our 2017 business outlook and operating assumptions, please refer to Page 8 of our supplemental slides. I will now turn our call back over to Christian for final remarks.

Christian Ulbrich *- Jones Lang LaSalle Incorporated - Chair of Global Executive Board, CEO, President and Director*

Thanks, Christie. To get a sense of how we achieved these first quarter results, Slide 19 offers a few of our recent business wins across service lines and geographies. As noted in my opening remarks, our Capital Markets and Leasing business continue to record major new business wins. In our corporate services business, we won 38 new assignments during the quarter, expanded existing relationships with another 13 clients and renewed 16 contracts. These 67 wins total 180 million square feet across all regions and reflect an overall 68% win rate. LaSalle's assets under management totaled $58 billion at the end of the quarter, down 1% in local currency from year-end 2016 as dispositions and withdrawals outpaced acquisitions. LaSalle continues to deliver very healthy annuity fee income.

Looking forward, global GDP is forecast to grow by 3.4% in 2017, up from 3% in 2016.

Focusing on real estate markets, our researchers see real estate investments remaining attractive from a yield perspective this year and also anticipate an improvement in the supply of investment stock, particularly in developed markets. So we see investment transaction volumes remaining on par with 2016 levels and up to $650 billion. This will obviously work to the benefit of LaSalle Investment Management as well.

We also predict that global leasing volumes will match 2016 levels, with momentum in the U.S. leading the way. So as we look ahead, the combination of healthy market conditions and our own continued good prospects for new business gives us confidence that we will meet the expectations we set for 2017 during our fourth quarter call. As Christie mentioned, these operating assumptions are repeated on Page 8 of our current slides.

Our ongoing investments in data and technology positions us to take advantage of our industry's digital transformation. The acquisitions we have made in recent years have expanded the services we provide to our clients. And throughout this year, we will continue to focus on integrating them into the broader JLL platform. These investments are keeping us at the forefront of our dramatically changing industry, enabling JLL to respond to the increasingly sophisticated needs and demands of our clients.

To meet these and other needs, our recently published annual report focuses on our brand promise, achieve ambitions. The phrase summarizes our commitment to support the ambitions of all our stakeholders, clients, colleagues, shareholders and our communities, building enduring relationships with clients by anticipating their needs and exceeding their expectations, maintaining a work-life environment that attracts, remains and motivates the most talented people in our business; creating value for our shareholders and contributing to the well-being of all the places where we work and live. We will continue to focus on profitable growth throughout the year, strengthening our capabilities across service lines and target markets. Our strong balance sheet, investment-grade credit ratings and the financial flexibility which both provide would allow us to keep investing in the business.

Ultimately, we will rely on our excellent leadership team, and in fact, on all our talented colleagues around the world to capture the opportunities we see before us. To get a sense of the caliber of those people, Slide 20 lists some of the many awards they won during the quarter. To highlight only 3, we were named by Ethisphere as one of the World's Most Ethical Companies for the 10th consecutive year. Corporate Responsibly Magazine selected us as one of the 100 Best Corporate Citizens in the U.S. And our client, Intel, gave us its 2016 SEQI award for achieving the highest standards of quality cost technology, customer service and sustainability. Thanks to everyone who contributed to these and other honors. Now let's turn to your questions. Operator, will you please explain the Q&A process?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from the line of Mitch Germain from JMP Securities.

Mitchell Bradley Germain - *JMP Securities LLC, Research Division - MD and Senior Research Analyst*

It's been a couple of quarters now, just was curious about the integration of Integral in particular.

Christian Ulbrich - *Jones Lang LaSalle Incorporated - Chair of Global Executive Board, CEO, President and Director*

So far, it's going really well. They have come in on the quarter almost precisely on the budget that we have set up when we acquired them. We have accelerated a little bit our investment into technology on Integral. But we are so far very happy. They don't seem to be impacted by the challenges which that whole political situation around the Brexit is offering to the wider U.K., Their business is continuing unaffected by that. So we have high hopes that we continue to deliver what we expected when we acquired the company.

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Christie B. Kelly - *Jones Lang LaSalle Incorporated - CFO and EVP*

Mitch, the only thing I would add to it, just from a cultural perspective, we couldn't be more pleased with the fit with the business. They're really doing exceedingly well.

Mitchell Bradley Germain - *JMP Securities LLC, Research Division - MD and Senior Research Analyst*

Did they bring on a number of new customers for you guys to cross sell to?

Christie B. Kelly - *Jones Lang LaSalle Incorporated - CFO and EVP*

Yes, cross sell is going well. And the team's working hard on mapping that out as we move forward in 2017 and beyond.

Mitchell Bradley Germain - *JMP Securities LLC, Research Division - MD and Senior Research Analyst*

Great. I know one of your competitors have talked about M&A pricing coming back in and becoming a little more in line with kind of reasonable levels. I'm curious if that's something similar to what you're seeing as well?

Christian Ulbrich - *Jones Lang LaSalle Incorporated - Chair of Global Executive Board, CEO, President and Director*

Yes. Indeed, that is happening. I wouldn't say it's happening to a degree that it's becoming now a massive opportunity to jump on M&A. But we see pricing coming in a little bit, which is good. It has gone a little bit too far out before, but that won't change really our approach to M&A going forward. We are very, very selective for the time being because we have done a lot in the past and we still have to fully take advantage of these acquisitions. So as you have seen in the first quarter, we have been quite slow on doing for the M&A.

Mitchell Bradley Germain - *JMP Securities LLC, Research Division - MD and Senior Research Analyst*

Great. And then last one for me, Christie, just wanted to talk about the margin in EMEA. So I think you referenced $12 million of -- I'm trying to understand, how much of the $12 million represents items that are kind of new versus what you've always been doing from -- with regards to tech investment and other items in that region? So kind of I'm just trying to understand really what created the decline quarter-over-quarter for the most part.

Christie B. Kelly - *Jones Lang LaSalle Incorporated - CFO and EVP*

Sure, Mitch. I think probably the best way to think about it is a 50-50 split just in terms of the incremental losses associated with the closing of a noncore business. And then specifically, just some timing-related delays in revenue, primarily in our [IFM] platform together with collections.

Mitchell Bradley Germain - *JMP Securities LLC, Research Division - MD and Senior Research Analyst*

And should we think about the Capital Markets revenue that was somewhat delayed in the first quarter, should we think about it a bigger-than-expected lift in the second quarter from the closings?

Christie B. Kelly - *Jones Lang LaSalle Incorporated - CFO and EVP*

I think you can think about the EMEA business as a rebound in profitability.

Operator

And our next question comes from the line of Jade Rahmani from KBW.

Jade J. Rahmani - *Keefe, Bruyette, & Woods, Inc., Research Division - Director*

Wanted to ask about the non-core business you're exiting. Just can you provide any color on where that is and what business it's in, what business line? And if there are other identified businesses that are underperforming that you might look at exiting or selling?

Christian Ulbrich - *Jones Lang LaSalle Incorporated - Chair of Global Executive Board, CEO, President and Director*

No. That is a very specific situation which we have in the U.K. It's in the area of our Project and Development Services. We are not exiting that business overall, we are exiting a specific part of that business in a specific geography. And that has been going on over the last couple of months, but obviously, that business delivers a service, which goes on over a relatively long period until you finish an assignment and so we are still closing down a couple of assignments that should take a couple of more months and then we are done with it.

Jade J. Rahmani - *Keefe, Bruyette, & Woods, Inc., Research Division - Director*

Any other businesses you might look to monetize?

Christian Ulbrich - *Jones Lang LaSalle Incorporated - Chair of Global Executive Board, CEO, President and Director*

No. Not for the time being. So far, we are very happy with the services we are providing. But we are constantly kind of looking at the outlook for some of these -- some of our services. Obviously, the whole process of digitalization, which is taking place, will have impact of some of our business. So we will be constantly on the watch what will happen to some of these services. But so far, we are fine.

Jade J. Rahmani - *Keefe, Bruyette, & Woods, Inc., Research Division - Director*

The press release noted 11% organic fee revenue growth and your 2017 operating assumptions are 8% to 11% total fee revenue growth. Just wondering if you could give your organic fee revenue growth expectation for the year.

Christie B. Kelly - *Jones Lang LaSalle Incorporated - CFO and EVP*

Jade, we -- just from the perspective of moving forward, I think you can think about it as more of the same. We've isolated the growth associated with M&A transactions done since the first quarter 2016 versus the transactions that we had done previous to that point, which are now nicely integrated in -- integrating into our core business and driving a healthy organic growth. So I would think of it is more of the same. We've got healthy M&A performance and we've got healthy organic growth, thanks to the mid-cycle acquisitions that we completed over the past 3 years.

Jade J. Rahmani - *Keefe, Bruyette, & Woods, Inc., Research Division - Director*

And can you just comment on how headcount grew year-over-year, and in particular, in the Capital Markets and Leasing?

Christie B. Kelly - *Jones Lang LaSalle Incorporated - CFO and EVP*

Sure, Jade. Specifically, we're always looking for talented people. We've been able to attract the best in the industry. We're extremely selective, and to that point, we are selectively investing in both Capital Markets and Leasing producers. We've seen, in terms of headcount as well as productivity, mid-single-digit year-over-year improvement in both revenue per head as well as headcount additions.

Jade J. Rahmani - *Keefe, Bruyette, & Woods, Inc., Research Division - Director*

Okay. In Capital Markets, a lot of the market data has been choppy. And yet, the top players, yourselves included, seems to be gaining market share. Can you comment on the current market dynamic, maybe give some color on the cadence of volumes through the quarter if you saw consistency or if you saw sequential improvement. And then just what you think is driving the market share gains, is it certainty of execution and is it market shifts amongst the top layers, or really the -- from the smaller players?

Christian Ulbrich - *Jones Lang LaSalle Incorporated - Chair of Global Executive Board, CEO, President and Director*

That's a long question. I try to answer that. I would say, overall, the market is still very healthy. I mean, we have an almost ideal environment to invest into real estate, interest rates are incredibly low. The outlook for interest rates continue to be low, I mean when you look what happened to the oil price over the last couple of days, they're coming in again very much so. So the outlook for interest rates will continue to be attractive from that end. Now we saw that there was a bit of a hesitation with some investors at this point of the cycle. So it takes longer now to close deals than it did a year ago, but we think that is a healthy development because we rather want a healthy development, which continues to be there for a couple of more years in this cycle than things are going over the top. With regards to the question of market share wins, I think that's a general trend that the most professional companies with the best global footprint and the best access to investors are taking market share. Obviously, we very much enjoy that trend and we very much invest into that trend. I mean, this has been a massive investment over many, many years to build that global footprint of the top professional capital markets people all around the globe were always looking for new sources of capital and new parties to approach, and that is paying off.

Jade J. Rahmani - *Keefe, Bruyette, & Woods, Inc., Research Division - Director*

And does it feel to you that sequentially, volumes improved, accelerated through the quarter? And I don't know if you can comment on April, but have you seen consistency in setting sort of a new transaction pace?

Christian Ulbrich - *Jones Lang LaSalle Incorporated - Chair of Global Executive Board, CEO, President and Director*

Yes. We expect it to be very consistent. The only caveat I have to make is that election in France on Sunday but if that doesn't go wrong, then there's no concern that this overall healthy trend for Capital Markets will not continue. And so it should get -- it should be a normal year where the first quarter is the slowest quarter for Capital Markets, and we are building more and more momentum and then we have, again, a peak transaction volume in the fourth quarter.

Jade J. Rahmani - *Keefe, Bruyette, & Woods, Inc., Research Division - Director*

And can you comment on the Oak Grove performance, the volume of originations and how that grew year-over-year?

Christian Ulbrich - *Jones Lang LaSalle Incorporated - Chair of Global Executive Board, CEO, President and Director*

Yes. I mean, the Oak Grove performance has been outstanding. We are very, very happy with our new colleagues from Oak Grove. And then we are building fast and we have strong ambitions to grow that business even further over the next couple of years.

Jade J. Rahmani - *Keefe, Bruyette, & Woods, Inc., Research Division - Director*

Can you comment on the volume of originations in the year-over-year growth rate?

Christian Ulbrich - *Jones Lang LaSalle Incorporated - Chair of Global Executive Board, CEO, President and Director*

I'll give back to Christie to give you the detailed numbers.

Christie B. Kelly - *Jones Lang LaSalle Incorporated - CFO and EVP*

Sure. So, Jade, just in terms of overall volume, we were up close to 40% year-over-year with very nice performance by the team.

Jade J. Rahmani - *Keefe, Bruyette, & Woods, Inc., Research Division - Director*

And that flows through the Capital Markets & Hotels business line?

Christie B. Kelly - *Jones Lang LaSalle Incorporated - CFO and EVP*

That's correct, Jade.

Operator

And our next question comes from the line of Anthony Paolone from JP Morgan.

Anthony Paolone - *JP Morgan Chase & Co, Research Division - Senior Analyst*

Following up to one of, I think, Jade's questions, If I look at your fee revenue growth guidance for 2017 and I backout the first quarter now for '17 and '16, it suggests 6% to 7% top line growth for the rest of the year, and you have that 11% organic in the first quarter, so just trying to understand, what the gap is there whether it's just too early to kind of get up over your skis and playing it safe or you just had a particularly driven mix in the first quarter and kind of what -- how do you work through that gap?

Christie B. Kelly - *Jones Lang LaSalle Incorporated - CFO and EVP*

Sure, Anthony. I think the first quarter is really early in the year. And it's really too soon to call. And as you know, we don't give guidance. We really were trying to give an outlook structure for the use of yourselves and also based on feedback from investors. But further to that, I would really look at it in terms of us trying to better level our quarterly performance as well because we have so much production in the fourth quarter. We're really trying to derisk our production volume throughout the year. So my perspective is as we have provided in the supplemental slides is that we view that our expectations are in alignment with what we provided and as Christian also noted.

Anthony Paolone - *JP Morgan Chase & Co, Research Division - Senior Analyst*

Okay. And then we're 5 months into the year, can you comment bigger picture on within your outlook, where you're most surprised, either positively or negatively, in terms of what you're seeing on the ground, either regionally or by business line?

Christian Ulbrich - *Jones Lang LaSalle Incorporated - Chair of Global Executive Board, CEO, President and Director*

We were obviously very, very happy with our business in China and India. There was a lot of debate around how China will do and whether they will be able to continue their growth momentum. And I think they all -- I mean they have probably surprised a lot of people in the world how they were coming in the first 3 months in their overall GDP performance. And we can see it in our business, our activities in China are really, really strong, people are upbeat. And the same applies to India. I don't know how closely you following India, but they are really, really taking some important actions from the political side. And again, that plays really well for the real estate sector in India. The other one which certainly was a bit of a positive surprise, not to me personally, I have to say, but let's say to the wider perception, was the performance in the U.K. Because with all what's going on in the U.K., you could have thought that the U.K. would slow down in the real estate performance, but they didn't. I mean we had a really strong start to the year and we hope that continues. Now we have the election coming up, let's see whether that will slow it a little bit down. But overall, that was a bit of a positive surprise.

Anthony Paolone - *JP Morgan Chase & Co, Research Division - Senior Analyst*

Okay. Can you give us any color, maybe even some numbers, around retail, leasing, given how tropical it is these days, how that's trending for you?

Christian Ulbrich - *Jones Lang LaSalle Incorporated - Chair of Global Executive Board, CEO, President and Director*

While Christie is looking for some numbers, I can just give you a bit of the flavor. And the flavor is that, that is becoming more and more difficult around retail leasing. And so what you see is that there's a focus on really the top-quality shopping centers and the top high street locations. And whatever doesn't fit into that bucket is finding it difficult. And we even see now the first markets where the top high street locations rents are coming slightly in, which wasn't the case for all the previous years where they were still going up and up and up. So yes, there is a structural change in the retail business going on, and that finds now probably for the first time, more significantly its way into retail real estate.

Anthony Paolone - *JP Morgan Chase & Co, Research Division - Senior Analyst*

Okay. Is your -- any comment on just the magnitude of retail leasing as a percentage of your overall Leasing business to put that in perspective?

Christian Ulbrich - *Jones Lang LaSalle Incorporated - Chair of Global Executive Board, CEO, President and Director*

I don't have that at hand. Christie, do you have that at hand?

Christie B. Kelly - *Jones Lang LaSalle Incorporated - CFO and EVP*

Anthony, just from the perspective of the retail markets, we're seeing nice performance in lifestyle centers. Suburban is holding out, depending on the location, as you can imagine. And overall, from a development perspective, we're seeing very limited development pipelines, which in fact, are supporting the U.S. market performance overall.

Anthony Paolone - *JP Morgan Chase & Co, Research Division - Senior Analyst*

Okay. And then last question, the, I think, $5.3 million of incremental tech spending I think you highlighted in 1Q. Is that just kind of the growth in the baseline of spending on technology, or is that something we should think of as that will come out next year in 1Q?

Christie B. Kelly - *Jones Lang LaSalle Incorporated - CFO and EVP*

I think, Anthony, you can think about that as a norm on the run rate for the near term as to really driving as part of Christian's strategy, both the front-end client centricity tools, together with the investments in our platform from an overall modernization perspective to really drive productivity for our future on behalf of our people and our shareholders.

Operator

And our next question comes from the line of David Ridley-Lane from Bank of America Merrill Lynch.

David Emerson Ridley-Lane - *BofA Merrill Lynch, Research Division - VP*

So relative to your expectations, how does the first quarter margin performance compare, and I'm wondering, I guess, if some of the wind down cost were contemplated, or not.

Christian Ulbrich - *Jones Lang LaSalle Incorporated - Chair of Global Executive Board, CEO, President and Director*

We were pretty happy with the first quarter.

Christie B. Kelly - *Jones Lang LaSalle Incorporated - CFO and EVP*

And as Christian noted in his remarks and as I also talked about, David, our performance was very much in line with expectations.

David Emerson Ridley-Lane - *BofA Merrill Lynch, Research Division - VP*

Got it. And then we've heard anecdotally that kind of bid-ask spread on current Capital Markets sales has widened out a bit. I did hear you that the deals are taking longer to close now versus a year ago. Do you see any risk that the deals could fail to close in 2017 versus prior years?

Christian Ulbrich - *Jones Lang LaSalle Incorporated - Chair of Global Executive Board, CEO, President and Director*

There's absolutely no evidence so far. We have a very healthy situation. We have still a significant backlog of capital which tries to get into great buildings. And so we have a long list of bidders on each transaction we are doing for our clients. So no concerns at this point in time.

Operator

And our next question comes from Brandon Dobell from William Blair.

Brandon Burke Dobell - *William Blair & Company L.L.C., Research Division - Partner and Group Head of Global Services*

Wanted to I think focus on your comments, maybe it was Christie, about the corporate services wins and expansions in the quarter and get a sense for, I guess, that's call it the real a lot of quality of those wins, so thinking about margins, duration of those deals relative to what you already have, just trying to kind a sense of if what you're winning is making the business better, more predictable higher margin, is on par, or if the quality of the wins and expansions is lower than the ones you have it in the existing business?

Christie B. Kelly - *Jones Lang LaSalle Incorporated - CFO and EVP*

Hey there Brandon. I'll start and then turn it over to Christian. But we're really pleased with the performance around the globe in our Corporate Solutions business and are seeing some really nice growth year-over-year, which is significantly focused on the investments that we've made over the past couple of years in the pipeline and platform together with the acquisitions that we've done. And going forward view that it is a really nice annuity-based income stream that is absolutely countercyclical.

Brandon Burke Dobell - *William Blair & Company L.L.C., Research Division - Partner and Group Head of Global Services*

Okay. And then, I think, the growth in the advisory business was pretty strong this quarter. A couple of questions there. Overall longer period of time, should that track a particular service line, maybe it's Capital Markets, maybe it's one of the outsourcing businesses, is there a particular effort there to drive headcount to drive growth, just trying to get a better sense of how that business grows and why it grows.

Christie B. Kelly - *Jones Lang LaSalle Incorporated - CFO and EVP*

Sure Brandon. First, we've made some very strategic investments around the globe in our valuations capabilities which we view it really as head of the spear in terms of providing insights and prospects to our business at large. And specifically, it's not a headcount game. We're really looking to drive better productivity, digitization and information share in that business as we move forward. And then specifically as it relates to talent on the advisory side of the business, we're very focused on really having the services to meet our clients needs that are evolving going forward. And for that point, I'll turn it over to Christian.

Christian Ulbrich - *Jones Lang LaSalle Incorporated - Chair of Global Executive Board, CEO, President and Director*

Yes, I mean, it's frankly, almost the same as it is in our Corporate Solutions business. We are really going for value towards our clients. And so the more clients are looking for real value, which helps them to drive their productivity and to come to better outcome, the better for us because those clients tend to turn to JLL. The same applies to our Advisory business. Our valuation business, there are many offers out there to get evaluation for real estate and you can get that very cheap in the market. But if you really want to get deep insight, then people tend to turn to companies like us. And so that business is growing quite significantly. But, obviously, it is not such a market opportunity as our Corporate Solutions business because the people have received valuation services before. So whenever we grow it's a market share win, where as in the Corporate Solutions business, you still have corporates who come to the market for the first time. So that market in itself is still growing quite significantly.

Brandon Burke Dobell - *William Blair & Company L.L.C., Research Division - Partner and Group Head of Global Services*

Got it, okay. And that's helpful. And then final one for me maybe, Christie, as we think about the remaining 3 quarters of the year and the incremental primarily technology spend that runs the P&L, the cadence of that I guess, relative to how this quarter looked or relative to how the operating cost last year looked, just trying to get a sense if there's going to be seasonality in that technology spend a particular quarter or it jumps up a lot so we've got our margin hats on correct.

Christie B. Kelly - *Jones Lang LaSalle Incorporated - CFO and EVP*

Sure, Brandon. I think you can think of it is as more of the same. But as it relates to some of the investment set we're doing from a platform modernization perspective, those investments are going to build a little bit as we're moving from design into various implementations.

Operator

And at this time, I'm showing no further questions. I would now like to turn the call back over to Mr. Christian for any closing remarks.

Christian Ulbrich - *Jones Lang LaSalle Incorporated - Chair of Global Executive Board, CEO, President and Director*

Thank you, operator. Well, if there are no further questions, we will end today's call. Thank you for joining Christie and me and for your continued interest in JLL. And we look forward to talking again following the second quarter. All the best to you.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program, and you may all disconnect. Everyone, have a great day, and speakers, please stand by.