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JLL - Q3 2017 Jones Lang LaSalle Inc Earnings Call

EVENT DATE/TIME: NOVEMBER 06, 2017 / 2:00PM GMT

OVERVIEW:

Co. reported 3Q17 revenues of $1.9b, adjusted net income of $90m and adjusted diluted EPS of $1.96.

CORPORATE PARTICIPANTS

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PRESENTATION

Operator

Good day, and thank you for standing by. Welcome to Jones Lang LaSalle Incorporated's Third 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 third 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 everyone joining today's review of our results for the third quarter and first 9 months of the year. As always, our CFO, Christie Kelly, joins me on the call, and she will provide details about our performance in a few minutes.

To summarize, we delivered a strong third quarter with broad-based, balanced and mostly organic growth and margin expansion in our real estate services and at LaSalle. We continued to strengthen our operating cash flows. On the back of our performance, our Board of Directors declared a semiannual dividend of $0.37 per share to be paid in December. Total 2017 dividends will reach $0.72 a share as a result, 13% higher than a year ago.

For the quarter, revenue increased $1.9 billion, 13% above the third quarter of 2016 in local currency. Fee revenue totaled $1.6 billion, a 12% increase over the same period last year. For the first 9 months of the year, revenue totaled $5.4 billion, an 18% increase in local currency from the same period a year ago. Fee revenue totaled $4.5 billion, up 17% from the first 9 months of 2016.

Adjusted net income was $90 million for the quarter, up from $65 million for the third quarter in 2016. Year-to-date adjusted net income reached $194 million compared with $190 million in the same period a year ago.

Adjusted diluted earnings per share totaled $1.96 for the quarter compared with $1.42 for the same period last year. For the first 9 months, adjusted diluted earnings per share reached $4.23 compared with $4.17 for the same period in 2016.

From a macro perspective, 2017 is proving to be a good year for commercial real estate. Global GDP growth is projected to reach 3.6% this year, up from 3.1% in 2016. For details, please see the slides posted in the Investor Relations section of jll.com.

Slide 6 shows activity in Capital Markets and Leasing and Real Estate markets worldwide. At $165 billion, global transactional volumes in the third quarter were virtually the same as Q3 2016, bringing year-to-date volumes to $464 billion, 2% higher than the same period last year.

Capital value growth for prime assets in 26 major office markets rebounded to nearly 6%. Several of those office markets, including Frankfurt in Hong Kong, recorded a double-digit capital value growth over the past year, the result of steady income growth and further yield compression. While prime office yields remained stable on average across these 26 markets, they're beginning to diverge. Of the past year, for example, yields have decompressed by 10 to 40 basis points in the U.S. gateway cities, as they move into a later stage of the cycle. By contrast, several European and Asia Pacific cities, including Brussels, Hong Kong and Sydney, have registered further yield compression of 25 basis points or more.

Office Leasing activity remained solid for the first 9 months of the year, up 3% globally compared with the same period in 2016. The global office vacancy rate increased marginally to 12% during the third quarter. Rents for prime office space in 26 major markets are growing at 4% year-on-year compared with the 2.7% increase recorded for the full year in 2016. For detailed comments on our performance and this market environment, I'll 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 our results for the quarter and year-to-date, so I will move directly to the details of our performance.

Revenue growth occurred across all geographic segments, reflecting expansion of both transaction and annuity businesses, as well as strong organic gains again for the quarter and year-to-date. With respective fee revenue growth in our real estate services business, organic revenue increases accounted for nearly 70% for the quarter and 50% year-to-date, with the balance coming from acquisition contributions after the third quarter of 2016.

During the quarter, strong growth in operating leverage occurred across all JLL geographic segments as well as LaSalle, which contributed to margin expansion for the business overall. The EMEA and APAC geographic regions demonstrated the most notable contributions to organic growth and margin expansion. Larger than anticipated LaSalle incentive fees and higher equity earnings also improved margin performance during the quarter.

Turning to specific service line results, all service lines grew organically. Total JLL Leasing revenue increased 4% for the quarter and 12% year-to-date. This growth was substantially all organic, led by EMEA and the U.S. for the quarter and year-to-date respectively. Total JLL Capital Markets fee revenue grew 13% for the quarter and 10% year-to-date, primarily through organic means. We saw strong transaction execution in EMEA and Asia Pacific for the quarter and strong growth across all regions year-to-date.

Our Property & Facility Management fee revenue grew 13% for the quarter and 35% year-to-date. A majority of growth for the quarter and year-to-date resulted from the Integral acquisition.

Year-to-date, Property & Facility Management generated a 6% organic growth rate, fueled by annuity growth momentum in Asia Pacific. Project & Development Services fee revenue grew 18% for the third quarter and 17% for the year. Year-to-date reflects a 13% organic growth rate, driven primarily by the Americas and Asia Pacific. Advisory & Consulting grew nearly 18% for the quarter and 23% year-to-date, with contributions from both organic and M&A activity.

We have provided additional information regarding our margin on Page 7 of our supplemental slides. Adjusted EBITDA margin, calculated on a fee revenue basis, was 10.3% for the quarter and 8.9% year-to-date, an improvement of 150 basis points and decline of 60 basis points, respectively.

For the third quarter, nearly 60% of the margin expansion is attributed to the increased level of incentive fees and equity earnings. We also had positive organic accretion from growth in transactional businesses, combined with improved profitability from operating leverage and cost-saving initiatives across all regions. Continued investments in technology and data slightly offset this quarter's margin improvement. As previously reported, results at Integral also partially offset our margin improvement.

We continue to make progress, integrating our Integral acquisition, as well as making additional investments into our outsourcing platform and EMEA. These efforts, including Integral, had a higher-than-anticipated negative impact on our adjusted EBITDA margins for the year-to-date of approximately 70 basis points when compared with pre-Integral consolidated margins. This was due to some integration delays and service mix declines, which do not materially impact the strategic benefits of our acquisition.

Consistent with our capital allocation strategy, we have shifted investments primarily to technology and data, and slowed the pace of M&A to focus on integration. As it relates to technology investments, nearly 60% continues to be focused on front-end client-facing tools and data management, while the balance supports our legacy systems and infrastructure, as well as our service centers and supply chain capabilities. Our balance sheet reflects total net debt of $1 billion as of September 30, 2017, a decrease of $254 million or 20% from last quarter, primarily due to business performance and ongoing improved working capital management.

In the third quarter, we generated approximately $300 million of operating cash flow. As we move forward, we will remain focused on disciplined working capital management to maximize free cash flow. We remain committed to an investment-grade balance sheet.

Turning to segment results all in local currency, except for Capital Markets, which aligns with U.S. dollar-denominated research data. Third quarter fee revenue in the Americas increased 5% over third quarter 2016 and 14% year-to-date. Nearly 60% of the third quarter growth was achieved organically through increases in Leasing and Project & Development Services, as well as Advisory & Consulting. Capital Markets fee revenue declined by 2% for the quarter against a reduction in overall market volumes of 20%. While our investment sales decreased, consistent with market conditions, our outperformance reflects organic growth, driven by debt-related activity in multifamily.

Our Leasing business performed relatively in line with market growth absorption of 4%. The growth in revenue was driven by favorable market conditions in the U.S. Northwest, New York and New England markets.

Property & Facility Management, Project & Development Services and Advisory, Consulting grew by 2%, 8% and 37%, respectively. Performance was driven by new clients and portfolio expansions, as well as by acquisitions, such as BRG, ATG and our U.S. valuations business that are generating additional cross-selling. Through the end of the third quarter, Corporate Solutions tracked to a record high renewal rate of 98%, and has been a notable contributor to Leasing and Advisory, Consulting growth for both the quarter and year-to-date.

Adjusted EBITDA margin for the quarter was 12.1% on a fee revenue basis, up 60 basis points from the prior year. Positive margin expansion was driven by organic gains in transactional businesses, operational cost management, including scaling the support in industrial related property management and improve Technology Solutions profitability, following the completion of integration and first year transition of the Corrigo and BRG acquisitions, as well as the RED technology platform. Slightly offsetting these were investments in our ERP system upgrade and other technology and data investments.

Turning to EMEA. The third quarter's top line reflects double-digit growth across all service lines. Organically, we achieved a 14% organic growth rate, primarily as a result of increases in Leasing and Project & Development Services. Total fee revenue grew by $87 million or 21%, with 1/3 driven by the acquisition of Integral in August of 2016.

Capital Markets fee revenue in the third quarter grew 23%. This performance was largely in line with investment sales volume increases of 24%, and was led by favorable market conditions in the U.K., as well as good performance across several Continental European countries, all of which brought Capital Markets fee revenue back in line with pre-Brexit third quarter 2015 levels.

EMEA Leasing revenues were up 9% for the quarter, compared with 7% growth in market growth absorption. We saw strong organic growth in office and industrial Leasing in the U.K., France and Germany. Property & Facility Management fee revenue grew 27% for the quarter, primarily due to the acquisition of Integral in the U.K. Project & Development Services fee revenue grew 36%, driven by activity in MENA and our Tetris business in France, U.K., Poland and Germany. Advisory, Consulting revenue grew 13% organically, driven by the U.K. and MENA.

The EMEA region delivered adjusted EBITDA margins of 2.7% in the third quarter, an improvement of 40 basis points from the prior year. Solid growth in transactional businesses across a number of countries, combined with expense management and improvement in receivables collections, expanded margins organically. However, the continued Integral integration, together with investments in technology and data, as well as in our European IFM platform, partially offset this margin expansion.

Moving to Asia Pacific. Total revenue grew by $82 million or 24%. Fee revenue increased by $38 million or 13%, with Australia, Greater China and Japan contributing notably to performance in the quarter. Capital Markets revenue increased by 33% for the quarter, over performing market volumes that were up 5%. The revenue increase was due to organic gains, driven by strength throughout the region.

Leasing revenue for the third quarter grew 5% year-over-year, while market growth absorption increased 3%. We saw a particularly good performance in Greater China, plus positive gains in Japan. A highlight in Asia Pacific continues to be the strength of organic fee revenue growth in Property & Facility Management, Project & Development Services and Advisory & Consulting, with increases of 11%, 22% and 6%, respectively. Notably, fee revenue for our annuity businesses accounted for nearly half of the growth for the quarter and reflects an organic growth rate of 12%. Annuity businesses have been the fastest growing services in Asia-Pacific for the past 7 quarters at increasingly accretive margins. Third quarter adjusted EBITDA margins of 9.8% were up 160 basis points compared with the third quarter last year. Margins were positively impacted by strong Capital Markets performance, cost management initiatives and accretive growth in annuity businesses.

LaSalle Investment Management delivered a solid performance for the quarter, with total revenue of $102 million, an increase of 28% over the prior quarter. The growth was driven by outsized incentive fees and equity earnings. Incentive fees were up $27 million compared with the prior year, earned on real estate asset dispositions from opportunistic funds. The activity represents an acceleration of 2018 incentive fees based on client-driven asset disposition, primarily in Asia Pacific. Equity earnings were $11.6 million compared with $4.9 million in the prior year. The increase in equity earnings was primarily a result of net valuation increases across our co-investment portfolio and represents an approximate 4% improvement. Nearly 90% of our portfolio today is influenced by fair value accounting, and therefore, any changes in valuation, up or down, will be reflected in current period results.

Assets under management grew 2% to $59 billion despite dispositions and withdrawals totaling $1.8 billion. Capital raising remains active, as LaSalle raised $800 million of new capital in the quarter. LaSalle has $6 billion in dry powder to deploy, with active acquisition plans across all regions as a result of continued client-led capital allocations into real estate.

Adjusted EBITDA margin, including equity earnings, calculated on a fee revenue basis, was 32.9% for the quarter compared with 17.6% in the prior year. The margin expansion is largely the result of the outsized incentive fees and equity earnings, combined with profitability improvement on private equity annuity revenue. As many of you know, beginning in the first quarter next year, we will adopt the ASC 606, the new GAAP revenue recognition standard. Although we are continuing to work on our analysis, we expect this change to result in a material increase in gross revenue and associated pass-through expenses we show from our annuity businesses.

Using full year 2016 as an example, associated growth revenue and pass-through expenses will both increase by approximately $6 billion. For comparability and ease of translation into the new standard, we will restate 2016 and 2017 results in accordance with ASC 606 requirements. Look for more information about the change in the 10-Q we will file this afternoon and additional communications over the coming months. And now back to Christian for closing remarks.

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

Thank you, Christie. Slide 22 shows a few of our recent business wins across service lines and geographies. Year-to-date, in our Corporate Solutions business, we have 147 new assignments, expanded existing relationships with another 60 clients and renewed 39 contracts. These 246 wins total 736 million square feet across all regions and represent a 72% win rate for new business expansions and renewals.

We earned a major global multiservice line win with HP Inc, which includes integrated facility management, project and development, as well as integrated portfolio services. The assignment covers approximately 21 million square feet in more than 60 countries around the world. Our Capital Markets and Leasing and Management business continue to record major wins around the world. They include the largest ever real estate transaction in Finland, a record broker deal U.S. multifamily debt financing and the assignment to manage the Gold Coast 2018 Commonwealth Games Village in Australia, the largest urban renewal project on the Gold Coast.

Moving through the fourth quarter, our researchers see 2017 finishing as a strong year for commercial real estate. Globally, we are on track to hit our original market projections for this year. Investor demand for real estate continues to be significant. As a result, we expect 2017 full year transaction levels to remain on par with the $650 billion recorded in 2016, and we anticipate Leasing volumes to be 2% to 5% higher than in 2016. In this environment, we remain confident about our business prospects as we move to the end of 2017.

Our business outlook established in January 2017 for the year is summarized on Slide 9. Looking ahead to 2018, while the global economic momentum remains broadly positive and real estate fundamentals continue to be stable, our JLL Research currently forecast slightly lower investment sales volume, based on an investment market with less available product to trade and greater investor discipline.

As indicated on Slide 10, market volumes are forecasted to soften by 5% to 10% next year to about $600 billion. In Leasing markets, our research indicates continued positive occupier demand in 2018, with annual volumes remaining broadly in line with 2017 levels.

Slide 10 also shows some of our key priorities for 2018, focusing on generating cash from operations to support our capital allocations priorities, which include: leveraging the scale of our Corporate Solutions platform, including the Integral integration; expanding our Capital Markets capabilities; investing in technology and data systems capabilities to differentiate JLL from competitors; and continuing to transform the JLL platform to enhance operational efficiency and productivity.

To conclude our prepared remarks on these calls, we like to mention a few of the awards and honors our people earned during the quarter. For the second year in a row, Corporate Responsibility Magazine ranked JLL #1 overall for corporate responsibility in the combined financial services insurance and real estate industries. Also, for the second consecutive year, Frost & Sullivan named us Asia Pacific Facilities Management Company of the Year. In the U.S., we were named one of Working Mothers magazines top 100 companies to work for. And for the seventh consecutive year, we were voted Thailand's #1 real estate advisor.

Thanks to all our people who contributed to these and many other awards. Thanks and great appreciation are also due to our people for their skills, actions and tireless support to help colleagues and clients affected by natural disasters in many parts of the world.

Finally, and before we take your questions, I'm pleased to announce our first Investor Day, which will be held in New York on December 13th. A live webcast will also be made available. You can find details on the Investor Relations page at jll.com.

Now to your questions. Operator, will you please explain the Q&A process?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) I'm showing we have our question from Mitch Germain with JPM (sic) [JMP] Securities.

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

Christian, to your comment about the 2018 outlook, with regards to broadening your Capital Markets capabilities, I'm curious what the game plan is to do that?

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

Mitch, as you know, we have been growing our Capital Markets business over the last couple of years. We still have a significant room to grow, especially in the Americas and the U.S. As you know, that our positioning there is very strong in the debt business, but we still see lots of room to maneuver in the area of the investment sales, so that is clearly one focus going forward. And then we are, over all, very much focused to extend our Capital Markets business across the whole capital stack, so not only buying and selling buildings and working on the debt side, but also on the equity and on the M&A side.

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

Great. Christian, while I have you, when you're into your tenure, probably not as much sleep as you're accustomed to, but maybe just talk about some of the kind of wrapping things up, some of the positives and some of the challenges that you face during this time?

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

Well, obviously, I'm very pleased that the overall market environment is favorable, and as it looks, it continues to be quite favorable going into 2018, but it's obviously kind for a new CEO to be starting in a capable market environment. This is a well-run business, which I took over, and so there wasn't many major surprises. We're working hard on becoming much more digital focused, and that takes a lot of -- the focus of the leadership team.

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

It just seem like the technology investments were less of a margin drag this quarter. Is that maybe a sign that the investment is slowing as -- just the percentage of the overall or don't read to a specific quarter here?

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

Well, I mean, we are trying to get better and better around the way we are spending money on technology. And I think we have made progress on that in becoming more efficient and taking advantage from the overall scale of our platform. So we're investing still heavily into new products, and what I would call investing into the future, whereby we are getting much more efficient in the way we run our existing systems and kind of the foundations of our technology platform. And I think that is what you see in that quarter, and I would hope that this will be pretty much the picture going forward.

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

Great. Last one for me. Obviously, the balance sheet has improved pretty dramatically. And we're hearing that the M&A environment, pricing's become a bit more rational. So is there any change in posture now that we're, I guess, have somewhat integrated the Integral business or some of the other M&A investments you've made, could we see you guys reemerge as a player in M&A?

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

Well, we have been looking at different offerings, which were out there in the market over the last 12 months. It's not that we have gone to sleep on M&A. But we clearly have risen kind of the hurdle of what is really attractive to us. And as you rightly say, we are continuing to integrate the past M&A. So I think it's the same going forward. We are looking at all the interesting targets which are out there, but it has to be really compelling. And pricing is still very, very aggressive. And so, so far, we feel comfortable that -- with our approached this year.

Operator

And I'm showing the next question is from David Ridley-Lane of Bank of America.

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

Sure. I was -- 2017 is obviously a year of significant investments in IT and people. But as the margin bridge shows, the drag has gone from 100 basis points in the first quarter, 70 basis points in the second, now just 30 basis points in the third quarter. Does 3 quarters make a trend? Or is your 2018 and other planning cycle another potential step up in investment?

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

As I said, we'll continue to invest heavily in technology. And so I wouldn't just take that as a trend because if we write that trend further, that would mean we have don't have any margin drag on technology, going forward. That won't be the case. As you know, we've announced our JLL spark activity in the second quarter of this year. That is taking pace now, and that will need more investment in 2018, obviously, than it did in 2017. So don't read too much into it. The savings, as I said, are not coming from the investments so much. The savings are more coming from more effectively efficiently run existing platforms.

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

Okay. And today, here, you write that the Integral integration delays were 70 basis points drag on year-to-date margins? And if so, can you provide a little more color on that?

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

Yes, the Integral integration is at 70 basis points drag. And a little bit more color on that, we're going deeper in the technology investments that we had, as we had communicated previously, as well as really working on the modernization of the platform, along with that technology investment, together with really driving profitable revenue performance across Europe, as we drive cross sell and set that platform up together with our European IFM platform for success in our future in alignment with our strategy.

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

Okay. Should I think of that -- the 70 basis points year-to-date as being largely nonrecurring? Or is a portion of that further around integration with your European platform and so forth, is -- some of that continue over the next few quarters?

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

I think, David, you can consider that to continue over the next few quarters, as we integrate the business and build our capabilities throughout Europe. The team's working very hard. We're really pleased with the leadership and the progress, and more to come as we develop that capability in the third leg of our stool, going forward, into 2018.

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

Okay. And then just last one for me, to pick up on a comment you made about potentially some of LaSalle's fees this quarter being pulled forward from 2018. Is -- any sort of early thoughts on LaSalle's incentive fees for 2018 relative to what you've previously communicated as kind of normalized levels?

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

I think, David, as it relates to LaSalle, it's a little too soon to call that. And as you know, we don't control the incentive fees, specifically, or the equity earnings for that matter. And so to that point, I think, going forward, for your modeling purposes for 2018 and for the benefit of everybody, I would just keep your 2018 look consistent with historical norm.

Operator

I'm showing next question is from Anthony Paolone with JPMorgan.

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

My first question is just, I guess, following up on Mitch's about M&A. If I look on Page 10, your bullet that says focused capital allocation strategy on transformational growth, I was hoping maybe you can just level set on that. Because when I read that, one takeaway is perhaps that you're out big-game hunting for acquisitions. Is that how to read that? Or how do I think about that bullet?

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

I think, Anthony, and consistently with what Christian has communicated, and in alignment with our capital allocation strategy on -- look, we're still looking. We're not out big-game hunting, but that reference point was specifically to technology and our drive for digitization, both on front-end client-facing opportunities, together with our ERP transformation, as we've grown substantially over the past decade, and now it's time to update our tools and drive operational efficiency.

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

Okay. And then if I look at the Americas and your properties and facilities management growth rate, it was down to about 2%. How do we think about where that runs on a go forward basis? It seem like the business overall should have been double digits, and I know some of the other regions had acquisitions in there. So just trying to understand where that growth rate should settle out.

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

Yes. I think, Anthony, the way to think about that is just the phasing of major RFPs in the Corporate Solutions space, as it relates to large outsourcing and facilities management. It really just is facing. And specifically, our Corporate Solutions business stacked up some significant renewals, together with new wins, that we'll see accrued benefits to the installed base of facilities management, going forward, into 2018.

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

Okay. And then if we think about your leveraging your Corporate Solutions into other business lines, where do you think we should see the most impact from that in the next, say, a year or so, and maybe perhaps even to what magnitude?

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

Well, I don't know what I can give you something around the magnitude. But obviously, it falls very much into our Leasing and P&DS services that cross sell. And that is very, very important because it goes both ways. When you have access to these corporate clients, that makes you also much more attractive for the landlords in assigning you the leasing assignments for new developments. So it's a very important cross sell factor for our Corporate Solutions business.

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

Okay. And just last question on LaSalle Investment Management. What do you think drives growth in AUM in that business over the next couple of years, like what component of it do you see the most opportunity?

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

Well, at the end of the day, it's performance. If you have an excellent performance, you have the ability to raise equity, and that will then at the end of the day drive the overall assets under management. The flip side to that is, obviously, that for many funds, it's also quite attractive to sell. And so we have -- we are very happy with the way we are able to get new equity in, but at the same time, we do lots of dispositions, and that's why you haven't seen big growth in the quarter.

Operator

I'm showing next question is from Brandon Dobell from William Blair.

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

Maybe first, leveraging off of Anthony's question, Christian mentioned leasing was the most obvious place to see some of the efforts of continued traction in Corporate Solutions. But on a geographic basis, do you see one of the regions being further ahead in your ability to cross sell or to leverage broader wallet share within clients, i.e. is EMEA more ready for that kind of approach from you guys or is the America the place where you see the most traction?

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

Well, I think, naturally, it's the Americas where there's the closest ties between our Corporate Solutions business and our Leasing and tenant rep agents. But you also have that benefit in EMEA and Asia Pacific. But it's very often the U.S. corporates, which we have as a client who we then serve in EMEA and Asia Pacific. I think the biggest difference is that the size of the deals in the Americas is significantly higher by nature than it is in Europe because Europe is much more dispersed, and that's why the major benefit is frankly in the U.S.

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

Got it, okay. Christian, remember when you first started, one of the conversations, I think, on the earnings calls, so it was just about visibility into productivity of people within JLL, whether they be in Corporate Solutions or the Transaction businesses. And want to get your sense of how you think the company has progressed there, your visibility with the technology tools. But also beyond that, as you think about the impact of that visibility on how the turnover should look the next couple of years, maybe just some color around productivity in general from you.

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

Sure. Sure, Brandon. So from a productivity perspective, we have progressed smartly in terms of not only our investment in supply chain leadership, together with our people and our JLL business services capabilities, and specifically, we've been driving productivity to substantially combat steep pressure in our business. No new news to anybody on the line. We all suffered from fee pressure. And with that, the demand to really drive productivity in our operations, which is very much part of the business case on our investment in our new ERP system. Specifically, when you look at the front end of our business, we talked a lot about revenue per head and what we were seeing in terms of productivity. We continue to invest in great people around the world. We've driven over all from a capital markets perspective, 4% to 5% revenue per head quarter-on-quarter, year-to-date on a trailing 12 basis in Capital Markets, and specifically, as it relates to our Leasing business, around the same, with leaders specifically in our Capital Markets business being Americas and Asia Pacific, as you can imagine. We'll see a nice pickup in EMEA as a result of their rebound in the third quarter and their production post-Brexit. And then from a Leasing perspective, really nice performance around the globe in the Americas, EMEA, as well as APAC. As we move forward, productivity is very much part of our agenda. That's very tied to our digitization strategy, and you can expect more of the same as we continue to drive client centricity, best-in-class services and the best operating platform in the business.

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

And maybe as a follow on to that, I'm not sure this is for you, Christie or Christian, but in the event that these productivity metrics continue to perform well, which generates pretty high incremental margins, how should we think about the company reinvesting those, let's call it, margin upside, given the trajectory on some of the spending and the Integral pressures, et cetera? I could envision a scenario where you do have significant either incremental margins or incremental profitability because of productivity. Should we expect all that to be reinvested back in the business? And given your commentary early on about cash flow as well, just trying to get a sense for how to balance some of these opposing forces, like upside versus investment?

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

Well, the issue last year, I think it was exactly a year ago that a bit of a guidance that we will run the company between a 10% to 12% EBITDA -- adjusted EBITDA margin, and nothing has changed on that assessment. So in that current market environment, we obviously have a good market in most of the markets we are active in. That allows us to accelerate some of the investments we are -- we have on our list, and that will be our approach, going forward. This is -- there's so much opportunity in driving a company like ours into the digital world that we are not running short of areas to invest in. And so picking up on your point, we'll return most of it -- of that productivity gains into further investment. For the time being, the answer is yes, as long as we are able to stay in that corridor of 10% to 12%.

Operator

I'm showing our next question is from Jason Weaver with Wedbush Securities.

Jason Price Weaver - *Wedbush Securities Inc., Research Division - SVP and Senior Equity Research Analyst*

Christie, I wonder -- I might have missed this when you said it, but what did you say the organic fee revenue growth was for Property & Facility Management in EMEA?

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

In Property & Facility Management, for the quarter, EMEA is 2% organic.

Jason Price Weaver - *Wedbush Securities Inc., Research Division - SVP and Senior Equity Research Analyst*

Okay. And then more broadly, maybe, Christian, you can help with this. Going into the seasonally biggest quarter in the fourth, what is does Capital Markets pipeline look like today versus what you saw last year?

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

It's about the same. Capital Markets is still very strong. The market environment is very favorable. It's not like 2015, but if you take a 10-year, on average, a 10-year time horizon average, it's still a very favorable environment. What we have seen last year in December was that people are becoming very, very disciplined. And so some of the deals, which would have closed in 2015 December didn't close in 2016 December, and we see still that same behavior. Although you have a long pipeline of buyer on each product you bring to the market, the buyers are very disciplined. And I think that is also the big difference to the market environment we have seen in 2006 and 2007. There is a much stronger discipline in the market, which we believe is good because that is probably one of the reason why that whole favorable market environment is continue to go forward, and we have now experienced a pretty long upward swing on that.

Jason Price Weaver - *Wedbush Securities Inc., Research Division - SVP and Senior Equity Research Analyst*

Okay. And just one more, I wonder -- I know it's similarly in the process and this is likely to get changed several times from now, but I wonder if you have any comments on the likely effects to your businesses, especially in the U.S. from the GOP's tax plan?

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

From that perspective, Jason, really too soon to call.

Operator

I'm showing our next question is from Jade Rahmani with KBW.

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

In terms of the 5% to 10% decline in investment sales market volumes you expect for 2018, can you give any color by property type and geography, maybe areas of strength to the relative weakness?

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

You know what? I think this is kind of -- I wouldn't even call it a weakness. I mean, we are coming from a very high level, and on that very high level, our researchers are forecasting that it comes a little bit down. Let's not call it a weakness. With regards to property types, I think that can go across.

As you know, we have some pressures in parts of the shopping center market and the retail market overall, so that could sit a little bit in that corner. But you can also see some of the office stats to go backwards. Because just many buyers of Class A major office towers in the world, they don't want to sell anymore. They just want to hold onto it. And so the availability of product is declining, which will have an impact on transaction volumes.

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

And how do you say the relative strength of the apartment sector ranks?

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

It continues to be very strong. We had a bit of an impact because of some of the weather disasters we have seen in the U.S. But overall, there's no sign of weakness. The environment is still very favorable for that market. And I would say, for Europe, that's even growing now. It has always been a big sector for us in the U.S., but it's now even growing in Europe, that sector. So overall, that is again a trend, which is very strong and probably will continue to be strong, going forward.

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

And in terms of the Brookdale large transaction posted about $1 billion, can you say the magnitude of earnings impact in this quarter, and also if there's a pipeline of similar size deals that you can win going forward?

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

I can't give you any number on that specific deal. And we just highlighted that one deal. We have many major deals in each quarter, but most of them, we are not allowed to talk about. So don't focus too much on a single deal. This is not a standout with regards to how it impacts our P&L.

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

In terms of the incentive fee outlook, would you say over all this is a headwind in 2018 or a tailwind? In other words, can you maintain extremely high levels of incentive fees despite the pull forward that you noted?

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

Well, we have incentive fees in our LaSalle business, and we have incentive fees in our Capital Markets business overall. And it's indeed pretty hard to predict. If you think about the yield level we are currently in from -- of all market, you would say it's becoming harder and harder every year because we are already at such a low yield level, and therefore, it's much harder to get into incentive fees in our overall Capital Markets business. But when you look at our fund business within LaSalle, it depends a little bit when you start selling off some of those products. And what Christie stated is that we saw some sales in the third quarter, which we didn't expect to happen in the third quarter. We expected them to happen in '18. But I wouldn't draw any conclusions with regards to 2018 on that, that now 2018 has to be significantly lower. We will see what our clients are saying, and how we agree with our clients, what funds will liquidate in 2018, and who will want to stay in over the past 2018.

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

In terms of the Americas Leasing, it was up about 2%, and some of your peers have reported slightly stronger growth rates than that. Can you just discuss that business?

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

Yes, that business is -- has been always a real backbone for us and it will continue to be so. Don't read too much into it. We had some major deals slipping into the fourth quarter, which we actually expected to close into the third quarter. As we saw some deals from LaSalle slipping into the third quarter, which we expected only next year, we saw some Leasing deals slipping into the fourth quarter. Our business cannot be always brought down to a quarter. But the business, Leasing, overall, is doing really, really well. We continue, over the whole year, to grow very strongly, take market share. It's a very attractive platform, and we believe that it still has quite a long way to grow...

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

And Jade, to that point, third quarter year-to-date Americas Leasing organic growth was 13%, which is all the growth.

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

So should we expect the re-acceleration in the fourth quarter, assuming timing holds?

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

I think a couple of things, Jade. We saw, as we reported before, some large transactions that came in, in the second quarter and third quarter in the Americas business. The transaction size is 25% greater than the average transaction volume, and the medium period for previous years. So from that perspective, I would say that the business is doing well. But I wouldn't expect that you would see outsized volume in the fourth quarter. And remembering, we don't give guidance.

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

And just lastly, on the Integral integration, is this running costlier than original underwriting? And can you quantify the magnitude and sort of primary areas in which things maybe are below what you originally anticipated?

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

Yes. I think in the whole scheme of things, Jade, it is running a bit longer, as I mentioned, and a bit more expensive. It's in the range of under $10 million in the whole scheme of things. While that's a lot of money, it isn't in where we're trying to go with the business, and very much in alignment with our overall capital allocation strategy for the business. In terms of areas that we're focused on, as I mentioned before, it's all around cross sell, development of the platform, together with Integral and our European ISM business, as our third strategic leg of the stool for Corporate Solutions, driving operational efficiency and updating the platform, which is very, very important for our success, going forward, in 2018. We've got a great team behind it, superb leadership, and we're looking forward to the future.

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

In terms of current business mix, should we expect something in the 6% to 8% range as a long-term EBITDA margin target? And what would you say the time frame is to get to that level?

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

I think, Jade, that why don't we circle back on that after we go through 2018 and get our work done that we have to do in front of us. And I think then we can have a more informed view for you and the rest of the world at that time.

Operator

I'm showing our next call -- our next question is from Marc Riddick with Sidoti.

Marc Frye Riddick - *Sidoti & Company, LLC - Research Analyst*

A lot of questions have already been answered. I did want to touch base on a couple of things briefly on -- one around leverage. I wasn't sure if you had mentioned, but I know, in the past, you've kind of used 2x as kind of a goal, and I was wondering if you would quantify it as something similar if there's any change in that thought?

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

No change to that thought, Marc. And to that point, I'm really pleased with our teamwork around the globe, the tools that have been developed by our Treasury Department in partnership with our finance and business leadership, together with our data. Folks around the world that give us visibility into working capital and a much better format than we've had before. So together with earnings performance and free cash flow, very pleased to report where we are in the third quarter and the momentum that we've created.

Marc Frye Riddick - *Sidoti & Company, LLC - Research Analyst*

And then I guess that kind of leads into the next question that the increase of the dividend was a little -- was more than what you've done a year ago period. I was wondering if there had been any sort of, I guess, maybe some of the things you just mentioned -- should we take that as a sign of having greater confidence, going forward, and the potential for greater dividend increases, going forward?

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

I don't know whether we have greater confidence, going forward, but we have confidence going forward, and in line with the dividend increases we have done over the last couple of years. We are continuing on as that trend and we find that is healthy for our investors.

Marc Frye Riddick - *Sidoti & Company, LLC - Research Analyst*

Okay, great. And then last, if you could just sort of maybe touch a little bit on what we've seen in the EMEA region post-Brexit, well, certainly, that seem to bear out in some of the numbers, but I wanted to get your thoughts of just the overall environment there and what might be something that can be carried forward?

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

Well, as you will know, the continent has developed from a GDP point much better over the last kind of 12 to 24 months. Some of the elections we have seen earlier this year were very supportive for that trend. And we believe that is also ongoing in 2018. There will be always little bumps on the road. The current crisis in Spain around Catalonia is not helpful, but I think we will overcome that as well. Our Spanish business is going extremely well. The situation in the U.K. is still very difficult to read. The business has developed in our JLL world very nicely in the third quarter. But I think there's also an element of kind of catching up from delayed decision-making within our client base in 2016 and earlier 2017. The overall negotiations between the U.K. and the EU about the U.K. leaving the EU are still not really taking the results, which we all would have hoped to get more certainty into the business environment. So that will be a drag, and that is really something, which we are watching carefully and also with regards where we put our investment dollars in EMEA, going forward.

Operator

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

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

Thank you. With no further questions, we will end today's call. Thank you for joining Christie and me and for your continued interest in JLL. We look forward to speaking with you again following the fourth quarter. Thank you, and bye bye.