

---

# CASE STUDY 2: JONES LANG LASALLE

by John McMahan

*This article represents the second in a series of case studies that began in Real Estate Issues, Summer 2002, Vol. 27, No. 2.*

## **ABOUT THE AUTHOR**

*This case was prepared by John McMahan, executive director of the Center for Real Estate Enterprise Management (Centerprise), a non-profit research and educational organization. The case is to be utilized as a basis for discussion and does not necessarily illustrate either effective or ineffective handling of a business situation. Funding for development of the case was provided by PikeNet, where this case has been previously published. John McMahan, CRE, © 2002, all rights reserved. (E-mail: [jmcmahan@centerprise.org](mailto:jmcmahan@centerprise.org))*

Jones Lang LaSalle is a leading real estate services and investment management firm, operating across more than 100 markets on five continents. The firm was created through the merger of LaSalle Partners, a U.S.-based real estate services and investment management firm, and Jones Lang Wootton, a British-based provider of global real estate services.

Jones Lang LaSalle offers comprehensive, integrated expertise, including investment, advisory, corporate, and management services on a local, regional, and global level. Clients include real estate owners, occupiers, and investors. The firm is also an industry leader in property and corporate facility management services, with a global portfolio of approximately 725 million square feet under management.

LaSalle Investment Management, a member of the Jones Lang LaSalle group, has a global portfolio of more than \$22 billion under management, and is one of the world's largest real estate investment managers.

## REAL ESTATE SERVICES SECTOR

Jones Lang LaSalle operates in the highly competitive public real estate service sector, which includes investment banks, pension fund advisory firms, and consulting firms, as well as traditional real estate service providers such as Trammell Crow Company and Insignia Financial Group, Inc. Jones Lang LaSalle also competes with several national private firms such as CB Richard Ellis,<sup>1</sup> Cushman & Wakefield, Transwestern, Staubach, Studley and a wide range of smaller companies.

In the last few years, the sector has been under significant profit pressure, largely due to a combination of several factors:

- Highly competitive market environment
- Cyclical nature of real estate earnings
- Dependency upon contingent income (i.e., brokerage commissions)
- Lack of growth in reported earnings
- Record of earnings "surprises" during the past few years
- Structural problems in absorbing global acquisitions
- Downturn in global economies
- Downturn in the real estate economy

## JONES LANG LASALLE MANAGEMENT STRATEGY

Jones Lang LaSalle places great emphasis on deepening and expanding client relationships to increase stable revenues derived from corporate strategic alliances, investor services, and investment advisory income. Success is measured by the firm's number of strategic alliances, square footage under leasing and management contracts, and growth in LaSalle Investment Management's assets under management.

In the services area, Jones Lang LaSalle's strategy is to become the "trusted real estate advisor" for global corporations. This includes not only traditional real estate services such as property management, facility management, project development, tenant representation, leasing and investment transactions, but also relatively new offerings such as data centers, mail and parcel delivery, security, employee feeding, and company transportation.

Jones Lang LaSalle's service delivery is best described by its "Client Service Model."

Figure 1



## CLIENT SERVICE MODEL

"Our mission is to deliver exceptional strategic, fully integrated global services and solutions for real estate owners, occupiers and investors."

## FINANCIAL PERFORMANCE

The firm's initial public offering occurred in late 1997, and the stock subsequently traded below its IPO price until recently. For the fiscal year ending December 31, 2001, Jones Lang LaSalle announced adjusted net income of \$40.5 million or \$1.31 per diluted share.<sup>2</sup> This was in line with First Call consensus estimates and matched the firm's record 2000 performance. For the last half of 2001 and in early 2002, Jones Lang LaSalle's stock price traded above the S&P 500 average, contrasting favorably with Trammell Crow and Insignia, both of which traded at or below the average.<sup>3</sup>

In announcing 2001 results, Chris Peacock, Chief Executive Officer, stated:

"This performance shows that our business model is flexible enough to perform well even in a very difficult and demanding year. All of our segments experienced lower revenues for the year as difficult economic conditions translated into a significant slowdown in transaction activity."<sup>4</sup>

Peacock attributed this performance to the firm's business strategy:

"We believe we have an unparalleled integrated global platform, the industry's best professionals, and clear strategic focus on core competencies and technology leadership. This combination has led to a strong backlog of business for the year and further expansion of our client base with major global engagements such as Microsoft and Rockwell Automation."

In terms of the future, he went on to say:

"We are continuing our focus on containing discretionary costs following the successful implementation of our global restructuring program but are investing appropriately in strategic business areas of the firm that offer the strongest future growth potential. As a result, our 2002 plan, although assuming flat revenues, anticipates that we will grow our comparable earnings per share by seven to ten percent year on year."

In 2002, Jones Lang LaSalle announced a new contract with Motorola to provide worldwide real estate services, reflecting the firm's increasing presence as a major global service provider.

On March 14, 2002, Moody's Investor Services upgraded Jones Lang LaSalle's senior unsecured debt from Ba2 to Ba1. In supporting the upgrade, Moody's cited the firm's material improvement in credit fundamentals, relatively stable operating results, and slightly improved margins in a challenging environment. This came largely as a result of a debt reduction of \$100 million over the prior two years.<sup>5</sup>

## JONES LANG LASALLE AND THE USE OF TECHNOLOGY

Jones Lang LaSalle prides itself on client service and the use of best in class technology. With a focus on delivering solutions and developing integrated platforms, it has been innovative in working together with other members of the real estate services industry to build applications through Project Octane. Below is a description of Jones Lang LaSalle's technology value proposition, including involvement in Project Octane.

**Project Octane**—In March 2000, Jones Lang LaSalle, CB Richard Ellis, and Trammell Crow announced the formation of Project Octane (Octane), an alliance to develop comprehensive online services platforms, including e-procurement, data integration, and transaction services for the real estate industry. The partners in Octane had completed a combined 47,000 sales and lease transactions in 1999, and as of Fall 2000, they managed more than 1.5 billion square feet of properties in the United States. Insignia Financial Group joined Octane as an equal partner on September 21, 2000.

The transaction services platform to be developed was intended to be a hardware and software application service provider offering an Internet-based marketplace, communication, collaboration, and process management vehicle for the benefit of the entire commercial real estate industry.

**Investments**—During the next year, the Octane members made several investments in real estate-related technology efforts. The largest of these was \$30 million in SiteStuff.com, an e-procurement firm. The concept was to have Octane's members purchase property management and maintenance, repair, and operations (MRO) products through

SiteStuff. According to an Octane spokesman:

“Our goal has always been to provide a reliable and advanced information-sharing mechanism that aggregates best-of-class information for the benefit of the entire commercial real estate industry.”<sup>6</sup>

The alliance also became a combined partner in a broadly based consortium called Constellation Real Technologies. Constellation had been established to:

“... form, incubate and sponsor real estate-related Internet, e-commerce and telecommunications enterprises; acquire interest in existing ‘best of breed’ companies on a synergistic basis; and act as an opportunistic consolidator across property sectors in the emerging real estate technology area.”<sup>7</sup>

The other partners in Constellation were AMB Property Corporation, Equity Office Properties Trust, Equity Residential Properties Trust, KB Home, Simon Property Group, Spieker Properties, JP Morgan Partners, and Morgan Stanley.

**workplaceIQ**—On June 13, 2001, Octane announced the selection of workplaceIQ as its Application Service Provider (ASP) for the Transaction Management Services platform. Established in 1991, the firm is headquartered in Waltham, Massachusetts, with technology development facilities in Tel Aviv, Israel and a predominately European-weighted customer base.

For more than a year, workplaceIQ had been developing a corporate solution technology that would ultimately become the foundation for Octane's transaction platform. Octane's spokesman, said:

“workplaceIQ is the perfect choice to provide the key technology components for the exchange's transaction platform - they have developed the most advanced software technology in the industry.”

For its part of the bargain, workplaceIQ received an immediate base of transactions to use in developing its platform.<sup>8</sup> John Fleming, the firm's CEO, noted:

“The Octane exchange will provide an industry knowledge base that aggregates and integrates real estate information, promotes best practices, and fosters tenant, landlord, and broker collaboration on a new level.”<sup>9</sup>

In order to fund the transaction, Octane members agreed to invest \$2.5 million each in workplaceIQ and pay approximately \$1 million a year in technology-licensing fees. For its part, workplaceIQ raised an additional \$3 million in new capital from investors in its original financing round.<sup>10</sup>

**Withdrawal from Constellation Funding**—Octane soon announced that it was withdrawing from further funding obligations in Constellation, but that it would retain its initial investment. At the same time, eight new firms joined Constellation, bringing the total capital to \$150 million.<sup>11</sup>

**Concept of Octane Questioned**—By Fall 2001, several of the high-profile real estate e-commerce sites targeting the leasing sector began to fail. These included Zethus, which burned through \$15 million of Goldman Sachs' money; RealCentric, a tenant-oriented online business that lasted only 18 months; and Cubitz, which targeted the “do-it-yourself” tenant market and failed to move beyond its first round of financing.

With these failed efforts, the concept of Octane also came under scrutiny. Eileen Circo, writing in *Development Magazine Online*, asked several penetrating questions:

“Naysayers are quick to argue that the complex risk parameters and dollar size of most real estate transactions make virtual trading on the Internet impractical. Then why on earth would the top commercial real estate service providers sink valuable resources into this endeavor, especially at a time when the changing economic tide is likely to hinder prosperity in 2001? What are the Octane/workplaceIQ members really trying to accomplish? Why would they want to cannibalize their own fee business? Are there analogies for success with a commercial-real-estate-wide platform in other industries? Can competitors really join together in industry-wide collaboration?”

Ms. Circo went on to conclude:

“ ... the success or failure of an industry-wide trading platform will rest with the collective efforts of the four Octane service providers to penetrate internally, provide incentives for their brokers, and set an enviable model of transaction behavior for their peers. It's not about lowering fees; it's all about delivering greater speed and market information accuracy to an ever-demanding client base.”<sup>12</sup>

Six months later, Finn Johnson, Vice President of eBusiness at NAI, in Hightstown, New Jersey, was quoted in the March issue of *Real Estate Forum*:<sup>13</sup>

“ ... consortiums are not going to work because you've got very fierce competitors trying to band together to produce a result and, in the final analysis, each has to decide for itself what it's going to do.”

Joseph B. Rubin, a partner and director of real estate e-business for Ernst & Young, concluded:

“The (e-business) solutions that are working today, in lending or brokerage, are those that focus on the back office. It's not in-your-face stuff, or even stuff the customer will see. It's the guts of your business, all focused on cost reduction and process efficiency. The expectation that all transactions will get done entirely via the Internet, though, is not realistic.”

This type of criticism is indicative of the sentiment among many industry players who forecasted that Project Octane would not be alive today. Yet, Project Octane recently celebrated its second anniversary and continues its steadfast commitment to deliver on its collaborative mandate.

### **JONES LANG LASALLE'S INTEGRATED INFORMATION PLATFORM**

Jones Lang LaSalle believes that the use of technology and strategic solutions differentiate it in the marketplace. Technology in and of itself is not the key, but integrating sustainable, scalable applications with leading edge process is what benefits clients. To meet this objective, Jones Lang LaSalle delivers to its clients a comprehensive integrated solution known as the Integrated Information Platform (IIP). While Octane offerings are a small part of its overall technology initiatives, the IIP is the platform where new, integrated applications

are regularly rolled out to better serve clients. The use of this platform was acknowledged in *Forbes* magazine's Best of the Web feature as the only real estate services company to partner with. The IIP is Jones Lang LaSalle's technology platform and utilizes many applications, tool sets, and a common Web services-based development and integration methodology. Jones Lang LaSalle continually reevaluates and enhances its integrated information platform to support all of its global real estate services. The platform is composed of three key elements:

- Web portal/knowledge management
- Business information warehouse
- Production systems (including Octane)

Jones Lang LaSalle's philosophy is that each element provides a vital function within the platform and ultimately will be fully integrated with the others through Web services technologies.

#### **WEB PORTAL**

This Internet-based portal provides the gateway into the world of information that Jones Lang LaSalle provides to its clients. The site offers online, real-time access to each client's transactions, project, property, and portfolio information. Information is displayed using Web capsules containing information culled from internal and external sources via Microsoft's .NET technology. Examples of information that can be accessed include:

- Executive summary information
- Portfolio information
- Portfolio/property performance
- Benchmarks
- Project status
- Research and market information
- Financial and operating reports
- Best practices
- Discussion forums
- Access to production systems
- Links to other sites

Through security authentication, designated users can be assigned to various levels of access rights to submit and retrieve information. To date, Jones Lang LaSalle has implemented more than 50 client extranet sites worldwide.

## BUSINESS INFORMATION WAREHOUSE

Jones Lang LaSalle's business information warehouse populates capsules within the Web portal with real estate operations and portfolio information. Clients and account team personnel can view data at various levels of detail and from multiple vantage points. Information can be displayed graphically or in table format from the portfolio level down to the detailed transaction level. Jones Lang LaSalle believes that this allows users to better understand and analyze business trends and benchmark performance across a portfolio, geographic region or other areas for comparative purposes.

## PRODUCTION SYSTEMS

The final element is a series of vendor-based and custom-developed solutions, linked through Jones Lang LaSalle's business information warehouse using standard technology tools to aid in analysis and consolidation. Choices between package solutions and those that are custom-developed by Jones Lang LaSalle are based on how they match the firm's best-in-class business process requirements.

Systems currently available through Jones Lang LaSalle's Web portal include:

**Lease Administration:** Jones Lang LaSalle uses its internally developed lease administration tool, CredoNet, to enable clients to monitor and receive reports on their property portfolios. CredoNet allows the user to drill down to detailed data on individual properties. The system also allows for benchmarking of key property cost data across the portfolio. CredoNet received the IDRC Global Innovator's Award for Corporate Real Estate.

**Transactions Management:** Working with Octane members, Jones Lang LaSalle will co-design and use workplaceIQ as its transactions management system. This tool allows Jones Lang LaSalle to build work processes that are specific to the needs of each client and transaction type. The system supports a collaborative database and secure environment that facilitate managing portfolio contracts, vendors, and operations.

**Project Management:** MAGNET<sup>®</sup> PTS project tracking system is used to support project management activities. The system maintains all project management activities including scope, schedule, and budget. It also allows the user to track vendors

and employee time charges as well as milestone completion.

**Property Management and Accounting:** Jones Lang LaSalle utilizes J.D. Edwards for this production function. J.D. Edwards integrates all aspects of operations with financials including real-time balance inquiry, the ability to track an unlimited number of sub-ledgers, and custom alternative client chart of account reporting. Electronic purchase order entry, routing, and approval also are available. All J.D. Edwards reports can be downloaded to other applications through simple user tools and viewed on a real-time basis through Jones Lang LaSalle's Web portal.

**Call Center:** The vendor for call center activity and facility management is Clarify. The eFrontOffice and ClearHelpDesk tools integrate, consolidate, and route every customer touch point, including telephone, fax, mail, and e-mail. Clarify provides the vehicle to assign, route, and track service requests.

**E-procurement:** Working with Octane members, Jones Lang LaSalle uses SiteStuff as its e-procurement tool. SiteStuff provides online review and approval of invoices and automated entry into the Jones Lang LaSalle payables system. SiteStuff also provides an interface for field personnel purchasing MRO goods. Jones Lang LaSalle has found that, through volume aggregation, total costs for these goods have been reduced by 10 to 20 percent per transaction.

## ISSUES AND CHALLENGES

Jones Lang LaSalle has more than 300 dedicated IT professionals in the firm working on this and other technology-related programs. To support this level of activity, the firm dedicates 10 percent of its annual revenue to investments in advanced hardware, software, and network and telecommunication systems.

Despite its strong commitment to technology, Jones Lang LaSalle is still faced with many challenges in the months and years to come. The major challenge is to complete the overall strategy and achieve a fully integrated program. This requires a determination by management to drive standards throughout the firm so that the strategy is fully embraced by Jones Lang LaSalle employees as well as various vendors supporting the effort. It also means a firm-wide commitment to product and

service innovation as well as continuous investment in technology research and development. Finally, it involves the continuing support of Jones Lang LaSalle's existing clients and the willingness of new clients to try innovative approaches to solving old problems. To meet this challenge, Jones Lang LaSalle commits its operating and capital resources, but more important, it focuses project teams on innovation, integration, and change management, the most critical component. Through dedicated change managers, Jones Lang LaSalle looks to address shifts in behavior to further the effectiveness of technology.

While this may appear to be a Herculean task, most observers believe it is the only way that Jones Lang LaSalle can achieve its goal of becoming the "trusted real estate advisor" for global corporations.

## ENDNOTES

1. Company press release, February 5, 2002.
2. Company press release, February 5, 2002.
3. Charles Schwab, March 1, 2002.
4. Company press release, op.cit.
5. Company Press Release, March 14, 2002.
6. Buildings.com, August, 2001.
7. Company press release, June 18, 2001.
8. In 2000, Project Octane's member firms managed approximately 30 percent of the office deals in the United States over \$20 million. Source: Wall Street Journal, June 13, 2001.
9. Company press release, June 4, 2001.
10. workplaceIQ raised \$8 million in Series A funding in November 1999 from Genesis Partners, Cedar Fund, CLAC Ltd., Israel Infinity Fund and Vertex Investments.
11. The new partners included Archstone Communities Trust, AvalonBayCommunities, Camden Property Trust, The Macerich Company, Taubman Centers, Inc., Starwood Hotels & Resorts Worldwide, Stichting Pensioenfond ABP, and Teachers Insurance and Annuity Association.
12. Development Magazine Online, fall, 2001. Ms. Circo is the former Managing Director of PikeNet.
13. Joseph Dobrian, "E-Tools Still Fall Short," *Real Estate Forum*, March 2002.