JONES LANG LASALLE INC
Form 10-Q
November 03, 2016

United States
Securities and Exchange Commission
Washington, D.C. 20549

Form 10-Q

x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2016

Or

o Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____

Commission File Number 1-13145

| | |
|---|---|
| Jones Lang LaSalle Incorporated | |
| (Exact name of registrant as specified in its charter) | |
| Maryland | 36-4150422 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| 200 East Randolph Drive, Chicago, IL | 60601 |
| (Address of principal executive offices) | (Zip Code) |

Registrant's telephone number, including area code: 312-782-5800

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

| | |
|---|---|
| Large accelerated filer x | Accelerated filer o |
| Non-accelerated filer (Do not check if a smaller reporting company) o | Smaller reporting company o |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes o No x

The number of shares outstanding of the registrant's common stock (par value $0.01) as of the close of business on October 31, 2016 was 45,207,945.

Table of Contents

Table of Contents

Part I. Financial Information
Item 1. Financial Statements
JONES LANG LASALLE INCORPORATED
CONDENSED CONSOLIDATED BALANCE SHEETS

| (in millions, except share and per share data) (unaudited) | September 30, 2016 | December 31, 2015 |
|---|---|---|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | $228.4 | 216.6 |
| Trade receivables, net of allowances of $40.9 and $23.2 | 1,702.0 | 1,591.7 |
| Notes and other receivables | 317.8 | 267.3 |
| Warehouse receivables | 326.4 | 265.2 |
| Prepaid expenses | 91.3 | 77.8 |
| Deferred tax assets, net | — | 132.9 |
| Other | 152.4 | 99.3 |
| Total current assets | 2,818.3 | 2,650.8 |
| Property and equipment, net of accumulated depreciation of $480.6 and $449.2 | 468.7 | 423.3 |
| Goodwill, with indefinite useful lives | 2,546.8 | 2,141.5 |
| Identified intangibles, net of accumulated amortization of $169.1 and $139.0 | 299.5 | 227.2 |
| Investments in real estate ventures, including $204.0 and $155.2 at fair value | 359.9 | 311.5 |
| Long-term receivables | 181.8 | 135.2 |
| Deferred tax assets, net | 183.7 | 87.2 |
| Deferred compensation plan | 168.7 | 134.3 |
| Other | 89.2 | 76.1 |
| Total assets | $7,116.6 | 6,187.1 |
| Liabilities and Equity | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | $763.6 | 712.6 |
| Accrued compensation | 774.9 | 1,088.9 |
| Short-term borrowings | 55.7 | 49.2 |
| Deferred tax liabilities, net | — | 21.1 |
| Deferred income | 150.6 | 114.8 |
| Deferred business acquisition obligations | 27.8 | 54.7 |
| Warehouse facility | 322.3 | 263.1 |
| Other | 201.9 | 200.8 |
| Total current liabilities | 2,296.8 | 2,505.2 |
| Credit facility, net of debt issuance costs of $20.7 and $15.4 | 1,084.3 | 239.6 |
| Long-term senior notes, net of debt issuance costs of $2.4 and $2.7 | 272.6 | 272.3 |
| Deferred tax liabilities, net | 37.4 | 33.0 |
| Deferred compensation | 191.9 | 156.2 |
| Deferred business acquisition obligations | 69.1 | 42.9 |
| Other | 309.6 | 208.5 |
| Total liabilities | 4,261.7 | 3,457.7 |
| Redeemable noncontrolling interest | 7.4 | 11.1 |
| Company shareholders' equity: | | |
| Common stock, $.01 par value per share, 100,000,000 shares authorized; 45,200,670 and 45,049,503 shares issued and outstanding | 0.5 | 0.5 |
| Additional paid-in capital | 1,007.9 | 986.6 |

| | | |
|---|---|---|
| Retained earnings | 2,182.7 | 2,044.2 |
| Shares held in trust | (6.1 ) | (6.2 ) |
| Accumulated other comprehensive loss | (387.2 ) | (336.3 ) |
| Total Company shareholders' equity | 2,797.8 | 2,688.8 |
| Noncontrolling interest | 49.7 | 29.5 |
| Total equity | 2,847.5 | 2,718.3 |
| Total liabilities and equity | $ 7,116.6 | 6,187.1 |

See accompanying notes to Condensed Consolidated Financial Statements.

Table of Contents

JONES LANG LASALLE INCORPORATED
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| (in millions, except share and per share data) (unaudited) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Revenue | $1,705.2 | 1,501.3 | $4,645.6 | 4,078.2 |
| Operating expenses: | | | | |
| Compensation and benefits | 1,012.0 | 896.0 | 2,750.4 | 2,459.1 |
| Operating, administrative and other | 568.3 | 440.1 | 1,546.5 | 1,245.3 |
| Depreciation and amortization | 35.9 | 26.7 | 98.5 | 77.1 |
| Restructuring and acquisition charges | 18.0 | 18.2 | 35.9 | 20.8 |
| Total operating expenses | 1,634.2 | 1,381.0 | 4,431.3 | 3,802.3 |
| Operating income | 71.0 | 120.3 | 214.3 | 275.9 |
| Interest expense, net of interest income | (12.4) | (6.8) | (32.2) | (20.4) |
| Equity earnings from real estate ventures | 5.5 | 25.4 | 27.7 | 63.9 |
| Other income | — | — | 13.3 | — |
| Income before income taxes and noncontrolling interest | 64.1 | 138.9 | 223.1 | 319.4 |
| Provision for income taxes | 15.9 | 25.7 | 55.3 | 71.5 |
| Net income | 48.2 | 113.2 | 167.8 | 247.9 |
| Net income attributable to noncontrolling interest | 0.2 | 2.7 | 15.1 | 5.2 |
| Net income attributable to the Company | 48.0 | 110.5 | 152.7 | 242.7 |
| Dividends on unvested common stock, net of tax benefit | — | — | 0.2 | 0.2 |
| Net income attributable to common shareholders | $48.0 | 110.5 | $152.5 | 242.5 |
| Basic earnings per common share | $1.06 | 2.45 | $3.38 | 5.40 |
| Basic weighted average shares outstanding (in thousands) | 45,188 | 45,001 | 45,135 | 44,905 |
| Diluted earnings per common share | $1.05 | 2.43 | $3.35 | 5.34 |
| Diluted weighted average shares outstanding (in thousands) | 45,612 | 45,453 | 45,515 | 45,395 |
| Dividends declared per share | — | — | 0.31 | 0.27 |
| Other comprehensive income (loss): | | | | |
| Net income attributable to the Company | $48.0 | 110.5 | $152.7 | 242.7 |
| Change in pension liabilities, net of tax | — | 3.4 | — | 4.3 |
| Foreign currency translation adjustments | (15.0) | (78.5) | (50.9) | (133.9) |
| Comprehensive income attributable to the Company | $33.0 | 35.4 | $101.8 | 113.1 |

See accompanying notes to Condensed Consolidated Financial Statements.

Table of Contents

JONES LANG LASALLE INCORPORATED
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016

| | Company Shareholders' Equity | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| (in millions, except share and per share data) (unaudited) | Common Stock Shares | Common Stock Amount | Additional Paid-In Capital | Retained Earnings | Shares Held in Trust | Accumulated Other Comprehensive Loss | Noncontrolling Interest | Total Equity |
| December 31, 2015 | 45,049,503 | $ 0.5 | 986.6 | 2,044.2 | (6.2 ) | (336.3 ) | 29.5 | 2,718.3 |
| Net income | — | — | — | 152.7 | — | — | 15.1 | 167.8 |
| Shares issued under stock-based compensation programs | 209,014 | — | 1.3 | — | — | — | — | 1.3 |
| Shares repurchased for payment of taxes on stock-based compensation | (57,847 ) | — | (6.7 ) | — | — | — | — | (6.7 ) |
| Tax adjustments due to share vestings and exercises | — | — | 1.2 | — | — | — | — | 1.2 |
| Amortization of stock-based compensation | — | — | 24.7 | — | — | — | — | 24.7 |
| Dividends paid, $0.31 per share | — | — | — | (14.2 ) | — | — | — | (14.2 ) |
| Shares held in trust | — | — | — | — | 0.1 | — | — | 0.1 |
| Foreign currency translation adjustments | — | — | — | — | — | (50.9 ) | — | (50.9 ) |
| Increase in amounts attributable to noncontrolling interest | — | — | — | — | — | — | 5.1 | 5.1 |
| Acquisition of redeemable noncontrolling interest | — | — | 0.8 | — | — | — | — | 0.8 |
| September 30, 2016 | 45,200,670 | $ 0.5 | 1,007.9 | 2,182.7 | (6.1 ) | (387.2 ) | 49.7 | 2,847.5 |

See accompanying notes to Condensed Consolidated Financial Statements.

Table of Contents

JONES LANG LASALLE INCORPORATED
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Nine Months Ended September 30, | |
|---|---|---|
| (in millions) (unaudited) | 2016 | 2015 |
| Cash flows used in operating activities: | | |
| Net income | $167.8 | 247.9 |
| Adjustments to reconcile net income to net cash used in operating activities: | | |
| Distributions of earnings from real estate ventures | 24.4 | 41.2 |
| Other adjustments, net | 111.3 | 50.5 |
| Changes in working capital, net | (455.4) | (357.8) |
| Net cash used in operating activities | (151.9) | (18.2) |
| Cash flows used in investing activities: | | |
| Net capital additions – property and equipment | (139.4) | (87.6) |
| Acquisition of investment properties (less than wholly-owned) | (63.7) | (0.9) |
| Business acquisitions | (418.6) | (102.9) |
| Capital contributions to real estate ventures | (78.5) | (40.8) |
| Distributions of capital from real estate ventures | 43.3 | 40.9 |
| Other, net | 39.5 | 6.8 |
| Net cash used in investing activities | (617.4) | (184.5) |
| Cash flows provided by financing activities: | | |
| Proceeds from borrowings under credit facility | 2,530.0 | 1,389.0 |
| Repayments of borrowings under credit facility | (1,680.0) | (1,143.7) |
| Payments of deferred business acquisition obligations and earn-outs | (46.6) | (48.8) |
| Payment of dividends | (14.2) | (12.3) |
| Noncontrolling interest contributions (distributions), net | 7.7 | (11.1) |
| Other, net | (17.6) | (12.9) |
| Net cash provided by financing activities | 779.3 | 160.2 |
| Effect of currency exchange rate changes on cash and cash equivalents | 1.8 | (14.4) |
| Net change in cash and cash equivalents | 11.8 | (56.9) |
| Cash and cash equivalents, beginning of the period | 216.6 | 250.4 |
| Cash and cash equivalents, end of the period | $228.4 | 193.5 |
| Supplemental disclosure of cash flow information: | | |
| Cash paid during the period for: | | |
| Interest | $24.3 | 12.3 |
| Income taxes, net of refunds | 111.8 | 97.6 |
| Non-cash investing activities: | | |
| Business acquisitions, including contingent consideration | $90.5 | 36.9 |
| Capital leases | 7.9 | 5.2 |
| Non-cash financing activities: | | |
| Deferred business acquisition obligations | $53.1 | 14.2 |

See accompanying notes to Condensed Consolidated Financial Statements.

Table of Contents

JONES LANG LASALLE INCORPORATED
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
1. INTERIM INFORMATION

Readers of this quarterly report should refer to the audited financial statements of Jones Lang LaSalle Incorporated ("JLL," which may also be referred to as "the Company" or as "we," "us" or "our") for the year ended December 31, 2015, which are included in our 2015 Annual Report on Form 10-K, filed with the United States Securities and Exchange Commission ("SEC") and also available on our website (www.jll.com), since we have omitted from this quarterly report certain footnote disclosures which would substantially duplicate those contained in such audited financial statements. You should also refer to the "Summary of Critical Accounting Policies and Estimates" section within Item 7 and to Note 2, Summary of Significant Accounting Policies, in the Notes to Consolidated Financial Statements in our 2015 Annual Report on Form 10-K for further discussion of our significant accounting policies and estimates.

Our Condensed Consolidated Financial Statements as of September 30, 2016 and December 31, 2015, and for the three and nine months ended September 30, 2016 and 2015, are unaudited. In the opinion of management, we have included all adjustments (consisting solely of normal recurring adjustments) necessary for a fair presentation of the Condensed Consolidated Financial Statements for these interim periods. We have reclassified certain prior year amounts to conform to the current year presentation, including condensing the comparative information in the Condensed Consolidated Statements of Cash Flows.

Historically, our quarterly revenue and profits have tended to increase from quarter to quarter as the year progresses. This is the result of a general focus in the real estate industry on completing transactions by calendar year-end, while we recognize certain expenses evenly throughout the year. Our LaSalle Investment Management ("LaSalle") segment generally earns investment-generated performance fees on clients' real estate investment returns and co-investment equity gains when assets are sold, the timing of which is geared toward the benefit of our clients. Within our Real Estate Services ("RES") segments, revenue from capital markets activities is driven by the size and timing of our clients' transactions and can fluctuate significantly from period to period.

A significant portion of our compensation and benefits expense is from incentive compensation plans, which we generally accrue throughout the year based on progress toward annual performance targets. This process can result in significant fluctuations in quarterly compensation and benefits expense from period to period. Non-variable operating expenses, which we recognize when incurred during the year, are relatively constant on a quarterly basis.

We provide for the effects of income taxes on interim financial statements based on our estimate of the effective tax rate for the full year, which is based on forecasted income by country and expected enacted tax rates. Changes in the geographic mix of income can impact our estimated effective tax rate.

As a result of the items mentioned above, the results for the periods ended September 30, 2016 and 2015 are not fully indicative of what our results will be for the full fiscal year.

Table of Contents

## 2. NEW ACCOUNTING STANDARDS

In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-15, Classification of Certain Cash Receipts and Cash Payments, which addresses appropriate presentation and classification of certain cash receipts and cash payments within the statement of cash flows under Topic 230. Specifically, this ASU provides clarification guidance on eight cash flow issues intended to improve comparability across financial statements. This ASU is effective for annual and interim periods beginning after December 15, 2017, with early adoption permitted. We do not believe this guidance will have a material impact on our financial statements and related disclosures.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments - Credit Losses (Topic 326), which creates a new framework to evaluate financial instruments, such as trade receivables, for expected credit losses. This new framework replaces the existing incurred loss approach and is expected to result in more timely recognition of credit losses. ASU No. 2016-13 is effective for annual and interim periods beginning after December 15, 2019 and early adoption is not permitted until years beginning after December 15, 2018. We are evaluating the effect this guidance will have on our financial statements and related disclosures.

In March 2016, the FASB issued ASU No. 2016-09, Improvements to Employee Share-Based Payment Accounting, which simplifies various aspects of the accounting for share-based payment transactions. This includes the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as the presentation of related amounts within the statement of cash flows. The ASU is effective for annual and interim periods beginning after December 15, 2016, with early adoption permitted. We do not believe this guidance will have a material impact on our financial statements and related disclosures.

In March 2016, the FASB issued ASU No. 2016-08, Principal versus Agent Considerations (Reporting Revenue Gross versus Net), which clarifies the implementation guidance on principal versus agent considerations and together with ASU No. 2014-09 (collectively the "ASUs"), as discussed below, amends and comprises ASC Topic 606, Revenue from Contracts with Customers. In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. These ASUs, and other related ASUs, will replace most existing revenue recognition guidance in U.S. generally accepted accounting principles ("U.S. GAAP") when effective. The final standard is effective for annual and interim periods in fiscal years beginning after December 15, 2017, with early adoption permitted for annual and interim periods in fiscal years beginning after December 15, 2016.

We plan to apply the full retrospective approach to adopt ASC Topic 606. Based upon analyses performed to the date of this report, we anticipate ASC 606 will result in an acceleration of the timing of revenue recognition for certain contracts that include variable consideration or other aspects, such as contingencies, that preclude revenue recognition contemporaneous with the satisfaction of our performance obligations within the existing revenue recognition framework. We have not completed our analysis of the effect ASC Topic 606 and related ASUs, including the impact of the updated principal versus agent considerations incorporated within ASU No. 2016-09, will have on our financial statements and disclosures.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which increases transparency and comparability by recognizing lease assets and lease liabilities on the balance sheet as well as requiring the disclosure of key information about leasing arrangements. The ASU is effective for annual and interim periods beginning after December 15, 2018, with early adoption permitted. We anticipate the adoption of this ASU will result in an increase to the Condensed Consolidated Balance Sheet to reflect right-of-use assets and lease liabilities primarily associated with our office leases around the world, but have not yet quantified the impact. We continue to evaluate any other effect the guidance will have on our financial statements and related disclosures.

In November 2015, the FASB issued ASU No. 2015-17, Balance Sheet Classification of Deferred Taxes, which requires entities with a classified balance sheet to present all deferred tax assets and liabilities as noncurrent. The ASU is effective for annual and interim periods in fiscal years beginning after December 15, 2016, with early adoption permitted. We adopted this ASU effective January 1, 2016 as a change in accounting principle. We elected prospective application and, therefore, we did not retrospectively adjust the comparative balance sheet information. Had we adopted ASU No. 2015-17 retrospectively, our total Deferred tax assets and total Deferred tax liabilities would have each decreased $41.3 million, as of December 31, 2015. The adoption of ASU No. 2015-17 had no impact on our condensed consolidated statements of comprehensive income or cash flows.

Table of Contents

In April 2015, the FASB issued ASU No. 2015-03, Interest - Imputation of Interest, which simplifies the presentation of debt issuance costs by requiring them to be presented as a direct deduction from the related debt liability on the balance sheet, consistent with the treatment of debt discounts. In August 2015, the FASB issued ASU No. 2015-15, Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements, which permits the presentation of debt issuance costs associated with line-of-credit arrangements as an asset, regardless of whether there are any outstanding borrowings on the arrangement. ASU No. 2015-03 is effective for annual and interim periods in fiscal years beginning after December 15, 2015, and requires retrospective application, and ASU No. 2015-15 is effective upon the adoption of ASU No. 2015-03. We adopted ASU No. 2015-03 (and therefore ASU No. 2015-15) effective January 1, 2016 as a change in accounting principle. As retrospective application is required, we adjusted the comparative balance sheet information; we have reclassified debt issuance costs of $18.1 million as of December 31, 2015 from Other assets to Credit facility ($15.4 million) and Long-term senior notes ($2.7 million). The adoption of ASU No. 2015-03 had no impact on our condensed consolidated statements of comprehensive income or cash flows.

In February 2015, the FASB issued ASU No. 2015-02, Amendments to the Consolidation Analysis, which improves targeted areas of the consolidation guidance and reduces the number of consolidation models. The amendments in the ASU are effective for annual and interim periods in fiscal years beginning after December 15, 2015, with early adoption permitted. We adopted ASU No. 2015-02 effective January 1, 2016 as a change in accounting principle and elected modified retrospective application. The adoption of ASU No. 2015-02 had no material impact on our Condensed Consolidated Financial Statements.

3. REVENUE RECOGNITION

We earn revenue from the following principal sources:

- Transaction commissions;
- Advisory and management fees;
- Incentive fees;
- Project and development management fees; and
- Construction management fees.

We recognize transaction commissions related to leasing services and capital markets services as revenue when we provide the related services, unless future contingencies exist. We recognize advisory and management fees related to property and facility management services, valuation services, corporate property services, consulting services and investment management in the period in which we perform the related services. We recognize incentive fees in the period earned, based on the performance of funds' investments, contractual benchmarks and other contractual formulas. If future contingencies exist, we defer recognition of the related revenue until the respective contingencies have been satisfied.

We recognize project and development management and construction management fees by applying the percentage of completion method of accounting. We determine the extent of progress towards completion by applying the "costs incurred to total estimated costs" method.

Gross and Net Accounting

We follow the guidance of the FASB's Accounting Standards Codification ("ASC") 605-45, Principal and Agent Considerations, when accounting for reimbursements received from clients. In certain of our businesses, primarily those involving management services, our clients reimburse us for expenses incurred on their behalf. We base the treatment of reimbursable expenses for financial reporting purposes upon the fee structure of the underlying contract. Accordingly, we report a contract that provides for fixed fees, fully inclusive of all personnel and other recoverable expenses, on a gross basis. When accounting on a gross basis, our reported revenue comprises the entire amount billed to our client and our reported expenses include all costs associated with the client. Certain contractual arrangements in our project and development service line, including fit-out business activities, along with our facility management service line, tend to have characteristics that result in accounting on a gross basis. In Note 4, Business Segments, for client assignments in property and facility management and in project and development services accounted for on a gross basis, we identify the reimbursable gross contract costs, including vendor and subcontractor costs ("gross contract costs"), and present separately their impact on both revenue and operating expense in our RES segments. We exclude these gross contract costs from revenue and operating expenses in determining "fee revenue" and "fee-based operating expenses" in our segment presentation.

Table of Contents

We account for a contract on a net basis when the fee structure is composed of at least two distinct elements, namely (1) a fixed management fee and (2) a separate component that allows for scheduled reimbursable personnel costs or other expenses to be billed directly to the client. When accounting on a net basis, we include the fixed management fee in reported revenue and net the reimbursement against expenses. We base this accounting on our consideration of the following factors, which define us as an agent rather than a principal:

- The property owner or client, with ultimate approval rights relating to the employment and compensation of on-site personnel, and bearing all of the economic costs of such personnel, is determined to be the primary obligor in the arrangement;
- Reimbursement to JLL is generally completed simultaneously with payment of payroll or soon thereafter;
- The property owner is contractually obligated to fund all operating costs of the property from existing cash flow or direct funding from its building operating account and JLL bears little or no credit risk; and
- JLL generally earns little to no margin on the reimbursement aspect of the arrangement, obtaining reimbursement only for actual costs incurred.

We account for the majority of our service contracts on a net basis. The presentation of expenses pursuant to these arrangements under either a gross or net basis has no impact on operating income, net income or cash flows.

Contracts accounted for on a gross basis resulted in certain costs reflected in both revenue and operating expenses (gross contract costs) of $258.0 million and $214.0 million for the three months ended September 30, 2016 and 2015, respectively, and $735.5 million and $580.0 million for the nine months ended September 30, 2016 and 2015, respectively.

4. BUSINESS SEGMENTS

We manage and report our operations as four business segments:

The three geographic regions of RES including:

(1) Americas,

(2) Europe, Middle East and Africa ("EMEA"), and

(3) Asia Pacific;

and

(4) LaSalle, which offers investment management services on a global basis.

Each geographic region offers our full range of real estate services, including agency leasing and tenant representation, capital markets and hotels, property management, facilities management, project and development management, energy management and sustainability, construction management, and advisory, consulting and valuation services. We define "property management" to mean services we provide to non-occupying property investors, "facilities management" means services we provide to owner-occupiers. LaSalle provides investment management services to institutional investors and high-net-worth individuals.

Operating income represents total revenue less direct and allocated indirect expenses. We allocate all indirect expenses to our segments, other than interest and income taxes, as nearly all expenses incurred benefit one or more of the segments. Allocated expenses primarily consist of corporate global overhead, which we allocate to the business segments based on the budgeted operating expenses of each segment.

For segment reporting, we present revenue net of gross contract costs in our RES segments. Excluding these costs from revenue and expenses results in a "net" presentation of "fee revenue" and "fee-based operating expenses" that we believe more accurately reflects how we manage our expense base and operating margins. See Note 3 for additional information on our gross and net accounting policies. In addition, our measure of segment operating income excludes Restructuring and acquisition charges.

Table of Contents

The Chief Operating Decision Maker of JLL measures the segment results net of gross contract costs and excluding Restructuring and acquisition charges. We define the Chief Operating Decision Maker collectively as our Global Executive Board, which, as of September 30, 2016, was composed of our Global Chief Executive Officer, President, Global Chief Financial Officer, the Chief Executive Officers of each of our four business segments, and the Chair of the Global Corporate Solutions Board.

Summarized financial information by business segment is as follows.

| (in millions) | Three Months Ended September 30, 2016 | 2015 | Nine Months Ended September 30, 2016 | 2015 |
|---|---|---|---|---|
| Real Estate Services | | | | |
| Americas | | | | |
| Revenue | $771.1 | 639.4 | $2,047.5 | 1,791.0 |
| Gross contract costs | (52.6 ) | (52.2 ) | (144.8 ) | (158.0 ) |
| Total fee revenue | 718.5 | 587.2 | 1,902.7 | 1,633.0 |
| Operating expenses: | | | | |
| Compensation, operating and administrative expenses | 686.9 | 566.7 | 1,848.9 | 1,606.9 |
| Depreciation and amortization | 22.9 | 15.6 | 60.2 | 46.5 |
| Total segment operating expenses | 709.8 | 582.3 | 1,909.1 | 1,653.4 |
| Gross contract costs | (52.6 ) | (52.2 ) | (144.8 ) | (158.0 ) |
| Total fee-based segment operating expenses | 657.2 | 530.1 | 1,764.3 | 1,495.4 |
| Segment operating income | $61.3 | 57.1 | $138.4 | 137.6 |
| Equity earnings | 0.1 | 4.5 | 0.8 | 5.4 |
| Total segment income | $61.4 | 61.6 | $139.2 | 143.0 |
| | | | | |
| EMEA | | | | |
| Revenue | $522.7 | 447.0 | $1,373.4 | 1,189.1 |
| Gross contract costs | (146.2 ) | (114.1 ) | (407.3 ) | (276.0 ) |
| Total fee revenue | 376.5 | 332.9 | 966.1 | 913.1 |
| Operating expenses: | | | | |
| Compensation, operating and administrative expenses | 511.6 | 413.8 | 1,338.4 | 1,116.0 |
| Depreciation and amortization | 8.0 | 6.8 | 23.8 | 18.1 |
| Total segment operating expenses | 519.6 | 420.6 | 1,362.2 | 1,134.1 |
| Gross contract costs | (146.2 ) | (114.1 ) | (407.3 ) | (276.0 ) |
| Total fee-based segment operating expenses | 373.4 | 306.5 | 954.9 | 858.1 |
| Segment operating income | $3.1 | 26.4 | $11.2 | 55.0 |
| Equity earnings (losses) | — | — | (0.1 ) | 0.7 |
| Total segment income | $3.1 | 26.4 | $11.1 | 55.7 |

Table of Contents

Continued: Summarized financial information by business segment is as follows.

| (in millions) | Three Months Ended September 30, 2016 | Three Months Ended September 30, 2015 | Nine Months Ended September 30, 2016 | Nine Months Ended September 30, 2015 |
|---|---|---|---|---|
| Real Estate Services | | | | |
| Asia Pacific | | | | |
| Revenue | $331.1 | 280.7 | $916.9 | 798.0 |
| Gross contract costs | (59.2) | (47.7) | (183.4) | (146.0) |
| Total fee revenue | 271.9 | 233.0 | 733.5 | 652.0 |
| Operating expenses: | | | | |
| Compensation, operating and administrative expenses | 310.2 | 264.3 | 871.6 | 753.7 |
| Depreciation and amortization | 4.2 | 3.7 | 12.4 | 10.9 |
| Total segment operating expenses | 314.4 | 268.0 | 884.0 | 764.6 |
| Gross contract costs | (59.2) | (47.7) | (183.4) | (146.0) |
| Total fee-based segment operating expenses | 255.2 | 220.3 | 700.6 | 618.6 |
| Segment operating income | $16.7 | 12.7 | $32.9 | 33.4 |
| Equity earnings | 0.5 | 0.2 | 0.5 | 0.2 |
| Total segment income | $17.2 | 12.9 | $33.4 | 33.6 |
| | | | | |
| LaSalle | | | | |
| Revenue | $80.3 | 134.2 | $307.8 | 300.1 |
| Operating expenses: | | | | |
| Compensation, operating and administrative expenses | 71.6 | 91.5 | 238.0 | 227.8 |
| Depreciation and amortization | 0.8 | 0.5 | 2.1 | 1.6 |
| Total segment operating expenses | 72.4 | 92.0 | 240.1 | 229.4 |
| Segment operating income | $7.9 | 42.2 | $67.7 | 70.7 |
| Equity earnings | 4.9 | 20.7 | 26.5 | 57.6 |
| Total segment income | $12.8 | 62.9 | $94.2 | 128.3 |
| | | | | |
| Segment Reconciling Items | | | | |
| Total revenue | $1,705.2 | 1,501.3 | $4,645.6 | 4,078.2 |
| Total segment operating expenses before restructuring and acquisition charges | 1,616.2 | 1,362.8 | 4,395.4 | 3,781.5 |
| Operating income before restructuring and acquisition charges | 89.0 | 138.5 | 250.2 | 296.7 |
| Restructuring and acquisition charges | 18.0 | 18.2 | 35.9 | 20.8 |
| Operating income | $71.0 | 120.3 | $214.3 | 275.9 |

Table of Contents

## 5. BUSINESS COMBINATIONS, GOODWILL AND OTHER INTANGIBLE ASSETS

2016 Business Combinations Activity

During the nine months ended September 30, 2016, we completed 22 new acquisitions, as presented in the table below. These acquisitions reflect continued expansion of our annuity businesses while also more broadly growing scale in key regional markets across all business lines.

| Acquired Company | Quarter of Acquisition | Country | Primary Service Line |
|---|---|---|---|
| ACREST | Q1 | Germany | Property & Facility Management |
| Big Red Rooster | Q1 | United States | Project & Development Services |
| Bill Goold Realty | Q1 | Canada | Capital Markets & Hotels |
| Cobertura SA | Q1 | Portugal | Capital Markets & Hotels |
| Colliers Baltimore | Q1 | United States | Leasing/Property & Facility Management |
| Huntley, Mullaney, Spargo & Sullivan, Inc. | Q1 | United States | Capital Markets & Hotels |
| Morii Appraisal and Investment Consulting | Q1 | Japan | Advisory, Consulting and Other |
| Strategic Advisory Group | Q1 | United States | Advisory, Consulting and Other |
| Trussard Property Consultants | Q1 | South Africa | Leasing |
| Washington Partners | Q1 | United States | Leasing |
| CTH | Q2 | France | Project & Development Services |
| Dazheng | Q2 | China | Advisory, Consulting and Other |
| Harry K. Moore | Q2 | United States | Leasing |
| Merritt & Harris | Q2 | United States | Project & Development Services |
| Procofin | Q2 | Finland | Project & Development Services |
| Véronique Nocquet | Q2 | France | Leasing |
| BRG | Q3 | United States | Property & Facility Management |
| Integral UK Ltd. | Q3 | England | Property & Facility Management |
| MSCI Global Occupiers | Q3 | England | Advisory, Consulting and Other |
| PDM International | Q3 | Greater China | Project & Development Services |
| Sage Capital Advisors | Q3 | United States | Capital Markets & Hotels |
| Travis Commercial Real Estate Services | Q3 | United States | Leasing |

Aggregate terms of these acquisitions included: (1) cash paid at closing of $418.6 million, (2) guaranteed deferred consideration of $53.1 million subject only to the passage of time, and (3) contingent earn-out consideration of $90.5 million, which we will pay upon satisfaction of certain performance conditions and which we have recorded at their respective acquisition date fair value.

A preliminary allocation of this purchase consideration resulted in goodwill of $440.4 million, identifiable intangibles of $96.0 million, and other net assets (acquired assets less assumed liabilities) of $25.8 million. As of September 30, 2016, we have not completed our analysis to assign fair values to all of the identifiable intangible and tangible assets acquired and, therefore, we may further refine the purchase price allocations for our 2016 acquisitions during their open measurement periods.

During the nine months ended September 30, 2016, we paid $46.6 million for deferred business acquisition and earn-out obligations for acquisitions completed in prior years. We also paid $2.8 million to acquire a portion of the redeemable noncontrolling interest related to our 2014 acquisition of Tenzing AB, a Swedish real estate services provider.

On July 31, 2016, we closed on the previously announced acquisition of Integral UK Ltd., a leading provider of mechanical and electrical property maintenance in the UK. The acquisition makes JLL one of the largest mobile engineering services providers for property worldwide and strengthens our ability to self-perform property maintenance for clients within EMEA, adding to the already strong base of transactional services.

Table of Contents

2015 Business Combination Activity

During the nine months ended September 30, 2016, we made adjustments to our preliminary allocation of the purchase consideration for certain acquisitions completed in 2015. These adjustments resulted in a $10.2 million increase to goodwill and related decreases of $4.5 million and $5.7 million to identifiable intangibles and other net assets acquired (assets less acquired liabilities), respectively. As of September 30, 2016, we have not completed our analysis to assign fair values to all the identifiable intangible and tangible assets acquired and, therefore, we may further refine the purchase price allocations for our 2015 acquisitions with open measurement periods.

Earn-Out Payments

As of September 30, 2016, we had the potential to make a maximum of $417.0 million (undiscounted) in earn-out payments on 47 completed acquisitions, subject to the achievement of certain performance criteria. We accrued $210.1 million, representing the fair value of these obligations as of September 30, 2016, which we include in Other current and Other long-term liabilities within our Condensed Consolidated Balance Sheet. Assuming the achievement of the applicable performance criteria, we anticipate making these earn-out payments over the next seven years.

As of December 31, 2015, we had the potential to make a maximum of $230.4 million (undiscounted) in earn-out payments on 28 completed acquisitions, subject to the achievement of certain performance criteria. We accrued $127.3 million, representing the fair value of these obligations as of December 31, 2015, which is included in Other current and Other long-term liabilities within our Condensed Consolidated Balance Sheet.

Goodwill and Other Intangible Assets

Significant portions of our goodwill and unamortized intangibles are denominated in currencies other than the U.S. dollar, which means a portion of the movements in the reported book value of these balances is attributable to movements in foreign currency exchange rates. The tables below detail the foreign exchange impact on our goodwill and intangible balances. Goodwill and unamortized intangibles of $2,846.3 million as of September 30, 2016 consisted of: (1) goodwill of $2,546.8 million with indefinite useful lives that are not amortized, (2) identifiable intangibles of $290.7 million amortized over their remaining finite useful lives, and (3) $8.8 million of identifiable intangibles with indefinite useful lives that are not amortized.

The following tables detail, by reporting segment, movements in goodwill with indefinite useful lives.

| | Real Estate Services | | | | |
|---|---|---|---|---|---|
| (in millions) | Americas | EMEA | Asia Pacific | LaSalle | Consolidated |
| Balance as of December 31, 2015 | $1,161.1 | 696.2 | 266.6 | 17.6 | 2,141.5 |
| Additions, net of adjustments | 174.2 | 239.8 | 36.6 | — | 450.6 |
| Impact of exchange rate movements | 0.8 | (50.8) | 6.2 | (1.5) | (45.3) |
| Balance as of September 30, 2016 | $1,336.1 | 885.2 | 309.4 | 16.1 | 2,546.8 |

| | Real Estate Services | | | | |
|---|---|---|---|---|---|
| (in millions) | Americas | EMEA | Asia Pacific | LaSalle | Consolidated |
| Balance as of December 31, 2014 | $1,008.3 | 650.4 | 230.8 | 18.4 | 1,907.9 |
| Additions, net of adjustments | 15.3 | 77.5 | 42.5 | — | 135.3 |
| Impact of exchange rate movements | (0.8) | (32.8) | (9.5) | (0.5) | (43.6) |
| Balance as of September 30, 2015 | $1,022.8 | 695.1 | 263.8 | 17.9 | 1,999.6 |

Table of Contents

The following tables detail, by reporting segment, movements in the gross carrying amount and accumulated amortization of our identifiable intangibles.

| | Real Estate Services | | | | |
|---|---|---|---|---|---|
| (in millions) | Americas | EMEA | Asia Pacific | LaSalle | Consolidated |
| Gross Book Value | | | | | |
| Balance as of December 31, 2015 | $297.1 | 48.5 | 14.3 | 6.3 | 366.2 |
| Additions, net of adjustments | 55.6 | 51.8 | 5.7 | — | 113.1 |
| Impairments [1] | — | — | — | (6.5) | (6.5) |
| Impact of exchange rate movements | (0.3) | (4.7) | 0.5 | 0.3 | (4.2) |
| Balance as of September 30, 2016 | $352.4 | 95.6 | 20.5 | 0.1 | 468.6 |
| | | | | | |
| Accumulated Amortization | | | | | |
| Balance as of December 31, 2015 | $(97.0) | (32.6) | (9.3) | (0.1) | (139.0) |
| Amortization, net | (25.5) | (7.0) | (1.3) | — | (33.8) |
| Impact of exchange rate movements | 0.4 | 3.5 | (0.2) | — | 3.7 |
| Balance as of September 30, 2016 | $(122.1) | (36.1) | (10.8) | (0.1) | (169.1) |
| | | | | | |
| Net book value as of September 30, 2016 | $230.3 | 59.5 | 9.7 | — | 299.5 |

(1) In the third quarter of 2016, we fully impaired an indefinite-lived intangible asset related to a 2011 acquisition of an Australian property fund management business.

| | Real Estate Services | | | | |
|---|---|---|---|---|---|
| (in millions) | Americas | EMEA | Asia Pacific | LaSalle | Consolidated |
| Gross Book Value | | | | | |
| Balance as of December 31, 2014 | $103.4 | 43.8 | 9.5 | 7.0 | 163.7 |
| Additions, net of adjustments | 4.6 | 6.1 | 5.3 | — | 16.0 |
| Impact of exchange rate movements | (0.1) | (1.9) | (0.5) | (0.9) | (3.4) |
| Balance as of September 30, 2015 | $107.9 | 48.0 | 14.3 | 6.1 | 176.3 |
| | | | | | |
| Accumulated Amortization | | | | | |
| Balance as of December 31, 2014 | $(84.9) | (31.0) | (8.9) | (0.1) | (124.9) |
| Amortization, net | (5.3) | (2.4) | (1.7) | — | (9.4) |
| Impact of exchange rate movements | — | 1.3 | 0.1 | — | 1.4 |
| Balance as of September 30, 2015 | $(90.2) | (32.1) | (10.5) | (0.1) | (132.9) |
| | | | | | |
| Net book value as of September 30, 2015 | $17.7 | 15.9 | 3.8 | 6.0 | 43.4 |

We amortize our identifiable intangible assets with finite lives on a straight-line basis over their estimated useful lives. The remaining estimated future amortization expense by year as of September 30, 2016 is presented in the following table.

| (in millions) | |
|---|---|
| 2016 (3 months) | $14.8 |
| 2017 | 54.1 |
| 2018 | 50.2 |
| 2019 | 42.0 |
| 2020 | 35.7 |
| 2021 | 25.6 |
| Thereafter | 68.3 |
| Total | $290.7 |

Table of Contents

## 6. INVESTMENTS IN REAL ESTATE VENTURES

As of September 30, 2016 and December 31, 2015, we had Investments in real estate ventures of $359.9 million and $311.5 million, respectively.

Approximately 65% of our investments are direct co-investments in 52 separate property or commingled funds for which we also have an advisory agreement. Our investment ownership percentages in these funds generally range from less than 1% to 15%. The remaining 35% of our Investments in real estate ventures as of September 30, 2016 were attributable to investment vehicles that use our capital and outside capital primarily provided by institutional investors to invest in certain real estate ventures that own and operate real estate. Of our investments attributable to investment vehicles, the majority was invested in LaSalle Investment Company II ("LIC II"), in which we held an effective ownership interest of 48.78%.

Typically, our investments in real estate ventures are not redeemable until the earlier of the disposition of the underlying real estate investments or the end of the fund's life, which is generally five to seven years.

As of September 30, 2016, LIC II had unfunded capital commitments to underlying ventures of $70.4 million and a $10.0 million revolving credit facility (the "LIC II Facility"), principally for working capital needs. LIC II's exposure to the liabilities and losses of the underlying real estate ventures in which it has invested is limited to existing capital contributions and remaining unfunded capital commitments. Considering our proportionate share of LIC II's commitments to underlying funds and our exposure to fund our proportionate share of the then outstanding balance on the LIC II facility, our maximum potential unfunded commitment to LIC II was $69.6 million as of September 30, 2016. We expect LIC II to draw down on our commitments over the next three to five years to satisfy its existing commitments to underlying real estate ventures.

The following table summarizes the above discussion relative to LIC II:

| ($ in millions) | September 30, 2016 | |
|---|---|---|
| Our effective ownership interest in co-investment vehicle | 48.78 | % |
| Our maximum potential unfunded commitments in LIC II | $ 69.6 | |
| Our share of unfunded capital commitments to underlying funds | 34.4 | |
| Our share of exposure on outstanding borrowings | 0.9 | |
| Our maximum exposure, assuming LIC II Facility is fully drawn | 4.9 | |

Exclusive of our LIC II commitment structure, we have potential unfunded commitments to other similar investment vehicles or direct investments, the aggregate maximum of which is $143.6 million as of September 30, 2016.

Table of Contents

We evaluate our less-than-wholly-owned investments to determine whether the underlying entities are classified as variable interest entities ("VIEs"); we assess each identified VIE to determine whether we are the primary beneficiary. We have determined that we are the primary beneficiary of certain VIEs and accordingly, we have consolidated such entities. The assets of the consolidated VIEs are available only for the settlement of the obligations of the respective entities and the mortgage loans of the consolidated VIEs are non-recourse to JLL.

Summarized financial information for our consolidated VIEs is presented in the following tables.

| (in millions) | September 30, 2016 | December 31, 2015 |
|---|---|---|
| Property and equipment, net | $ 13.9 | 32.6 |
| Investment in real estate venture | 10.1 | 6.6 |
| Other assets (1) | 77.8 | 4.9 |
| Total assets | $ 101.8 | 44.1 |
| Mortgage indebtedness | $ 9.7 | 25.8 |
| Other liabilities (1) | 37.3 | — |
| Total liabilities | 47.0 | 25.8 |
| Members' equity | 54.8 | 18.3 |
| Total liabilities and members' equity | $ 101.8 | 44.1 |

(1) Balances primarily represent investment properties and their corresponding liabilities, classified as held for sale.

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| (in millions) | 2016 | 2015 | 2016 | 2015 |
| Revenue (2) | $2.6 | 4.6 | $5.6 | 7.1 |
| Operating and other expenses | (3.7) | (1.0) | (5.7) | (2.8) |
| Gain on sale of investment | — | — | 13.3 | 1.3 |
| Net income | $(1.1) | 3.6 | $13.2 | 5.6 |

(2) Includes $3.3 million for the three and nine months ended September 30, 2015, representing our proportionate share of the gain on the sale of real estate by an investment of one of our consolidated VIE's that was accounted for pursuant to the equity method.

We allocate the members' equity and net income of the consolidated VIEs to the noncontrolling interest holders as Noncontrolling interest on our Condensed Consolidated Balance Sheets and as Net income attributable to noncontrolling interest in our Condensed Consolidated Statements of Comprehensive Income, respectively.

Impairment

We evaluate our investments in real estate ventures accounted for under the equity method on a quarterly basis, or as otherwise deemed necessary, for indications we may not be able to recover the carrying value of our investments and whether such investments are other than temporarily impaired. Our assessments consider the existence of impairment indicators in the underlying real estate assets that comprise the majority of our investments. We base such assessments, in regard to both the investment and underlying asset levels, on evaluations of regular updates to future cash flow models and on factors such as operational performance, market conditions, major tenancy matters, legal and environmental concerns, and our ability and intent to hold each investment. When events or changes in circumstances indicate the carrying amount of one of our investments in real estate ventures may be other than temporarily impaired, we consider the likelihood of recoverability of the carrying amount of our investment as well as the estimated fair value and, as applicable, record an impairment charge. Impairment charges to write down the carrying value of the real estate assets underlying our investments, our proportionate share of which we recognize within Equity earnings from real estate ventures, are generally the result of completing discounted cash flow models that primarily rely upon Level 3 inputs to determine fair value. Impairment charges aggregated to $0.2 million and $0.1 million for the three months ended September 30, 2016 and 2015, respectively, and $0.9 million and $4.2 million for the nine months ended September 30, 2016 and 2015, respectively.

Table of Contents

Fair Value

We report our investments in certain real estate ventures at fair value. For such investments, we increase or decrease our investment each reporting period by the estimated change in fair value, which activity we reflect as gains or losses in our Condensed Consolidated Statements of Comprehensive Income within Equity earnings from real estate ventures. The table below shows the movement in our investments in real estate ventures reported at fair value.

| (in millions) | 2016 | 2015 |
|---|---|---|
| Fair value investments as of January 1, | $155.2 | 113.6 |
| Investments | 59.8 | 28.0 |
| Distributions | (32.6) | (5.6) |
| Change in fair value | 14.2 | 18.5 |
| Foreign currency translation adjustments, net | 7.4 | (4.2) |
| Fair value investments as of September 30, | $204.0 | 150.3 |

7. STOCK-BASED COMPENSATION

Restricted Stock Unit Awards

Along with cash-based salaries and performance-based annual cash incentive awards, restricted stock unit awards represent an important element of our compensation program. Restricted stock unit activity is presented in the following tables.

| | Shares (thousands) | Weighted Average Grant Date Fair Value | Weighted Average Remaining Contractual Life (in years) |
|---|---|---|---|
| Unvested as of June 30, 2016 | 817.3 | $112.58 | 2.00 |
| Granted | 27.0 | 112.75 | |
| Vested | (96.2) | 101.71 | |
| Forfeited | (2.4) | 107.79 | |
| Unvested as of September 30, 2016 | 745.7 | $114.00 | 1.91 |
| Unvested shares expected to vest as of September 30, 2016 | 726.0 | $114.10 | 1.92 |
| | | | |
| Unvested as of June 30, 2015 | 805.4 | $102.39 | 2.14 |
| Granted | 27.6 | 149.94 | |
| Vested | (129.9) | 75.79 | |
| Forfeited | (4.1) | 96.94 | |
| Unvested as of September 30, 2015 | 699.0 | $109.24 | 2.24 |
| Unvested shares expected to vest as of September 30, 2015 | 679.2 | $109.42 | 2.24 |

Table of Contents

| | Shares (thousands) | Weighted Average Grant Date Fair Value | Weighted Average Remaining Contractual Life (in years) |
|---|---|---|---|
| Unvested as of December 31, 2015 | 706.0 | $ 111.78 | 2.03 |
| Granted | 277.6 | 107.96 | |
| Vested | (190.8 ) | 96.51 | |
| Forfeited | (47.1 ) | 116.07 | |
| Unvested as of September 30, 2016 | 745.7 | 114.00 | 1.91 |
| Unvested shares expected to vest as of September 30, 2016 | 726.0 | $ 114.10 | 1.92 |
| | | | |
| Unvested as of December 31, 2014 | 745.3 | $ 90.43 | 2.38 |
| Granted | 158.0 | 159.00 | |
| Vested | (186.1 ) | 77.65 | |
| Forfeited | (18.2 ) | 93.82 | |
| Unvested as of September 30, 2015 | 699.0 | $ 109.24 | 2.24 |
| Unvested shares expected to vest as of September 30, 2015 | 679.2 | $ 109.42 | 2.24 |

We determine the fair value of restricted stock units based on the closing market price of the Company's common stock on the grant date. As of September 30, 2016, we had $32.8 million of unamortized deferred compensation related to unvested restricted stock units, which we anticipate recognizing over varying periods into 2020.

Shares that vested during the three months ended September 30, 2016 and 2015, had grant date fair values of $9.8 million and $9.8 million, respectively, and $18.4 million and $14.4 million for the nine months ended September 30, 2016 and 2015, respectively. Shares we granted during the three months ended September 30, 2016 and 2015, had grant date fair values of $3.0 million and $4.1 million, respectively, and $30.0 million and $25.1 million for the nine months ended September 30, 2016 and 2015, respectively.

## 8. FAIR VALUE MEASUREMENTS

We measure certain assets and liabilities in accordance with ASC 820, Fair Value Measurements and Disclosures, which defines fair value as the price that would be received for an asset, or paid to transfer a liability, in an orderly transaction between market participants on the measurement date. In addition, it establishes a framework for measuring fair value according to the following three-tier fair value hierarchy:

- Level 1 - Quoted prices for identical assets or liabilities in active markets accessible as of the measurement date;
- Level 2 - Inputs, other than quoted prices in active markets, that are observable either directly or indirectly; and
- Level 3 - Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

We had no transfers among levels of the fair value hierarchy during the three and nine months ended September 30, 2016 and 2015. Our policy is to recognize transfers at the end of quarterly reporting periods.

### Financial Instruments

Our financial instruments include Cash and cash equivalents, Trade receivables, Notes and other receivables, Warehouse receivables, restricted cash, Accounts payable, Short-term borrowings, Warehouse facility, Credit facility, Long-term senior notes and foreign currency exchange contracts. The carrying amounts of Cash and cash equivalents, Trade receivables, Notes and other receivables, Warehouse receivables, restricted cash, Accounts payable, and the Warehouse facility approximate their estimated fair values due to the short-term maturity of these instruments. The carrying values of our Credit facility and Short-term borrowings approximate their estimated fair values given the variable interest rate terms and market spreads.

Table of Contents

We estimated the fair value of our Long-term senior notes as $296.0 million and $282.0 million as of September 30, 2016 and December 31, 2015, respectively, using dealer quotes that are Level 2 inputs in the fair value hierarchy. The carrying value of our Long-term senior notes was $272.6 million and $272.3 million as of September 30, 2016 and December 31, 2015, respectively, and includes debt issuance costs of $2.4 million and $2.7 million, respectively.

We record Warehouse receivables at the lower of cost or fair value based on the committed purchase price. When applicable, we determine the fair value of Warehouse receivables based on readily observable Level 2 inputs.

Investments in Real Estate Ventures at Fair Value

We report certain direct investments in real estate ventures at fair value, for which we increase or decrease our investment each reporting period by the change in the fair value of these investments. We report these fair value adjustments in our Condensed Consolidated Statements of Comprehensive Income within Equity earnings from real estate ventures.

We estimate fair value using the NAV per share (or its equivalent) our investees provide. Critical inputs to NAV estimates included valuations of the underlying real estate assets and borrowings, which incorporate investment-specific assumptions such as discount rates, capitalization rates, rental and expense growth rates and asset-specific market borrowing rates. We did not consider adjustments to NAV estimates provided by investees, including adjustments for any restrictions to the transferability of ownership interests embedded within investment agreements to which we are a party, to be necessary based upon (1) our understanding of the methodology utilized and inputs incorporated to estimate NAV at the investee level derived through LaSalle's role as advisor or manager of these ventures, (2) consideration of market demand for the specific types of real estate assets held by each venture, and (3) contemplation of real estate and capital markets conditions in the localities in which these ventures operate. As of September 30, 2016 and December 31, 2015, investments in real estate ventures at fair value were $204.0 million and $155.2 million, respectively. As these investments are not required to be classified in the fair value hierarchy, they have been excluded from the following table.

Recurring Fair Value Measurements

The following table categorizes by level in the fair value hierarchy the estimated fair value of our assets and liabilities measured at fair value on a recurring basis.

| | September 30, 2016 | | December 31, 2015 | |
|---|---|---|---|---|
| (in millions) | Level 2 | Level 3 | Level 2 | Level 3 |
| Assets | | | | |
| Foreign currency forward contracts receivable | $6.0 | — | 9.5 | — |
| Deferred compensation plan assets | 168.7 | — | 134.3 | — |
| Total assets at fair value | $174.7 | — | 143.8 | — |
| Liabilities | | | | |
| Foreign currency forward contracts payable | $6.0 | — | 21.2 | — |
| Deferred compensation plan liabilities | 164.5 | — | 129.4 | — |
| Earn-out liabilities | — | 210.1 | — | 127.3 |
| Total liabilities at fair value | $170.5 | 210.1 | 150.6 | 127.3 |

Foreign Currency Forward Contracts

We regularly use foreign currency forward contracts to manage our currency exchange rate risk related to intercompany lending and cash management practices. These contracts are on our Condensed Consolidated Balance Sheets as current assets and current liabilities. We determine the fair values of these contracts based on current market rates. The inputs for these valuations are Level 2 inputs in the fair value hierarchy. As of September 30, 2016 and December 31, 2015, these contracts had a gross notional value of $2.05 billion ($1.08 billion on a net basis) and $2.28 billion ($1.26 billion on a net basis), respectively.

Table of Contents

The revaluations of our foreign currency forward contracts resulted in no net gain as of September 30, 2016 and a net loss of $12.5 million as of September 30, 2015. We recognize gains and losses from the revaluation of these contracts as a component of Operating, administrative and other expense. They are offset by the gains and losses we recognize on the revaluation of intercompany loans and other foreign currency balances. The impact to net income was not significant for either of the three or nine months ended September 30, 2016 or 2015.

We record the asset and liability positions for our foreign currency forward contracts based on the net payable or net receivable position with the financial institutions from which we purchase these contracts. The $6.0 million asset as of September 30, 2016 was composed of gross contracts with receivable positions of $6.4 million and payable positions of $0.4 million. The $6.0 million liability as of September 30, 2016 was composed of gross contracts with receivable positions of $0.7 million and payable positions of $6.7 million. As of December 31, 2015, the $9.5 million asset was composed of gross contracts with receivable positions of $10.0 million and payable positions of $0.5 million. The $21.2 million liability as of December 31, 2015, was composed of gross contracts with receivable positions of $0.9 million and payable positions of $22.1 million.

Deferred Compensation Plan

We maintain a deferred compensation plan for certain of our U.S. employees that allows them to defer portions of their compensation. We invest directly in insurance contracts which yield returns to fund these deferred compensation obligations. We recognize an asset for the amount that could be realized under these insurance contracts at the balance sheet date, and we adjust the deferred compensation obligation to reflect the changes in the fair value of the amount owed to the employees. The inputs for this valuation are Level 2 inputs in the fair value hierarchy. We recorded this plan on our Condensed Consolidated Balance Sheet as of September 30, 2016 as Deferred compensation plan assets of $168.7 million, long-term deferred compensation plan liabilities of $164.5 million, included in Deferred compensation, and as a reduction of equity, Shares held in trust, of $6.1 million. We recorded this plan on our Condensed Consolidated Balance Sheet as of December 31, 2015 as Deferred compensation plan assets of $134.3 million, long-term deferred compensation plan liabilities of $129.4 million, included in Deferred compensation, and as a reduction of equity, Shares held in trust, of $6.2 million.

Earn-Out Liabilities

We classify our earn-out liabilities within Level 3 in the fair value hierarchy because the inputs we use to develop the estimated fair value include unobservable inputs. We base the fair value of our earn-out liabilities on the present value of probability-weighted future cash flows related to the earn-out performance criteria on each reporting date. We determine the probabilities of achievement we assign to the performance criteria based on the due diligence we performed at the time of acquisition as well as actual performance achieved subsequent to acquisition. See Note 5, Business Combinations, Goodwill and Intangibles, for additional discussion of our earn-out liabilities.

The tables below present a reconciliation for earn-out liabilities using significant unobservable inputs (Level 3) for the three and nine months ended September 30, 2016.

| (in millions) | Balance as of June 30, 2016 | Net decrease due to change in assumptions | Foreign currency translation adjustments | Purchases | Settlements | Balance as of September 30, 2016 |
|---|---|---|---|---|---|---|
| Earn-out liabilities | $ 169.6 | (0.6 ) | 0.2 | 43.3 | (2.4 ) | 210.1 |

| (in millions) | Balance as of December 31, 2015 | Net decrease due to change in assumptions | Foreign currency translation adjustments | Purchases | Settlements | Balance as of September 30, 2016 |
|---|---|---|---|---|---|---|
| Earn-out liabilities | $ 127.3 | (1.5 ) | (1.0 ) | 90.5 | (5.2 ) | 210.1 |

Table of Contents

Non-Recurring Fair Value Measurements

We review our investments in real estate ventures, except those investments otherwise reported at fair value, on a quarterly basis, or as otherwise deemed necessary, for indications of whether we may be unable to recover the carrying value of our investments and whether such investments are other than temporarily impaired. When the carrying amount of the investment is in excess of the estimated future undiscounted cash flows, we use a discounted cash flow approach or other acceptable method to determine the fair value of the investment in computing the amount of the impairment. Our determination of fair value primarily relies on Level 3 inputs. We did not recognize any investment-level impairment losses during either of the three or nine months ended September 30, 2016 or 2015. See Note 6, Investments in Real Estate Ventures, for additional information, including information related to impairment charges recorded at the investee level.

9. DEBT

Short-term borrowings and long-term debt obligations are composed of the following.

| (in millions) | September 30, 2016 | December 31, 2015 |
|---|---|---|
| Short-term borrowings: | | |
| Local overdraft facilities | $ 39.4 | 24.6 |
| Other short-term borrowings | 16.3 | 24.6 |
| Total short-term borrowings | 55.7 | 49.2 |
| Credit facility, net of debt issuance costs of $20.7 and $15.4 | 1,084.3 | 239.6 |
| Long-term senior notes, 4.4%, face amount of $275.0, due November 2022, net of debt issuance costs of $2.4 and $2.7 | 272.6 | 272.3 |
| Total debt | $ 1,412.6 | 561.1 |

Credit Facility

On June 21, 2016, we amended and expanded our credit facility (the "Facility"), which resulted in: (1) an increase in our borrowing capacity from $2.0 billion to $2.75 billion; (2) an extension of the maturity date from February 25, 2020 to June 21, 2021; (3) modifications to certain add-backs to Adjusted EBITDA (as defined in the Facility) for the calculation of the leverage ratio to provide additional operating flexibility; (4) a range of pricing from LIBOR plus 0.95% to 2.05%, with pricing as of September 30, 2016 at LIBOR plus 1.05%; (5) an increase in the permitted amount for certain new indebtedness; and (6) the removal of limitations on the amount of Investments in real estate ventures. Consistent with our prior agreement, our leverage ratio cannot exceed 3.50 to 1, except immediately following a material acquisition, in which case, the leverage ratio maximum is 4.00 to 1 for up to four consecutive quarters. Other key terms and conditions of the Facility were unchanged as part of the current amendment and expansion.

The average outstanding borrowings under the Facility were $1,211.3 million and $334.7 million during the three months ended September 30, 2016 and 2015, respectively, and $904.2 million and $296.7 million during the nine months ended September 30, 2016 and 2015, respectively. In addition to outstanding borrowings under the Facility presented in the above table, we had outstanding letters of credit under the Facility of $18.2 million as of September 30, 2016 and December 31, 2015. The effective interest rates on our Facility were 1.4% and 1.2% for the three months ended September 30, 2016 and 2015, respectively, and 1.4% and 1.1% during the nine months ended September 30, 2016 and 2015, respectively.

We remained in compliance with all covenants under our Facility as of September 30, 2016, including a minimum cash interest coverage ratio of 3.00 to 1 and the maximum leverage ratio discussed above.

We will continue to use the Facility for, but not limited to, business acquisitions, working capital needs (including payment of accrued incentive compensation), co-investment activities, dividend payments, share repurchases and capital expenditures.

Short-Term Borrowings and Long-Term Notes

In addition to our Facility, we have the capacity to borrow up to an additional $70.4 million under local overdraft facilities. Amounts outstanding are presented in the debt table presented above.

As of September 30, 2016, our issuer and senior unsecured ratings are investment grade: BBB+ (stable outlook) from Standard & Poor’s Ratings Services and Baa2 (positive outlook) from Moody’s Investors Service, Inc.

22

Table of Contents

## 10. COMMITMENTS AND CONTINGENCIES

We are a defendant in various litigation matters arising in the ordinary course of business, some of which involve claims for damages that are substantial in amount. Many of these litigation matters are covered by insurance (including insurance provided through a consolidated captive insurance company as further discussed below), but they may nevertheless be subject to large deductibles and the amounts being claimed may exceed the available insurance. Although we cannot determine the ultimate liability for these matters, based upon information currently available, we believe the ultimate resolution of such claims and litigation will not have a material adverse effect on our financial position, results of operations or liquidity.

In order to better manage our global insurance program and support our risk management efforts, we supplement our traditional insurance coverage for certain types of claims by using a wholly-owned captive insurance company. The level of risk retained by our captive insurance company, with respect to professional indemnity claims, is up to $2.5 million per claim, inclusive of the deductible. We contract third-party insurance companies to provide coverage of risk in excess of this amount. When a potential loss event occurs, we estimate the ultimate cost of the claim and accrue the amount in Other current and long-term liabilities on our Condensed Consolidated Balance Sheets when probable and estimable. In addition, we have established receivables from third-party insurance providers for claim amounts in excess of the risk retained by our captive insurance company. In total, these receivables were $3.4 million and $9.0 million as of September 30, 2016 and December 31, 2015, respectively, and are included in Notes and other receivables and Long-term receivables on our Condensed Consolidated Balance Sheets.

The following table shows the professional indemnity accrual activity and related payments.

| (in millions) | |
|---|---|
| December 31, 2015 | $19.2 |
| New claims | 7.5 |
| Prior year claims adjustments | (1.6 ) |
| Claims paid | (15.2 ) |
| September 30, 2016 | $9.9 |
| | |
| December 31, 2014 | $9.2 |
| New claims | 2.4 |
| Prior year claims adjustments | 0.2 |
| Claims paid | (0.3 ) |
| September 30, 2015 | $11.5 |

Table of Contents

## 11. RESTRUCTURING AND ACQUISITION CHARGES

For the three and nine months ended September 30, 2016, we recognized Restructuring and acquisition charges of $18.0 million and $35.9 million, respectively. For the nine months ended September 30, 2016, we recognized $1.5 million related to net decreases to earn-out liabilities that arose from prior period acquisition activity. For the three and nine months ended September 30, 2016, we recognized a $6.5 million charge related to the write-off of an indefinite-lived intangible asset. In addition, we recognized a $2.3 million loss for the three months ended September 30, 2016 included in Restructuring and acquisition charges for a foreign currency derivative relating to an acquisition payment which fully offset the corresponding $2.3 million gain recognized in the second quarter.

For the three and nine months ended September 30, 2015, we recognized Restructuring and acquisition charges of $18.2 million and $20.8 million, respectively. Included in these amounts was $12.8 million for the three and nine months ended September 30, 2015 related to the write-off of indemnification assets that arose from acquisition activity in previous periods.

In all periods, the remaining charges primarily consist of (1) severance and employment-related charges, including those related to external service providers, incurred in conjunction with a structural business shift, which can be represented by a notable change in headcount, change in leadership, or transformation of business processes, (2) lease exit charges, and (3) other acquisition and integration-related charges. The following tables show the restructuring and acquisition accrual activity and related payments, which are exclusive of the adjustments individually noted above.

| (in millions) | Severance & Employment-Related | Lease Exit | Other Acquisition Costs | Total |
|---|---|---|---|---|
| December 31, 2015 | $ 2.7 | 5.7 | 0.2 | 8.6 |
| Accruals | 16.0 | — | 14.9 | 30.9 |
| Payments made | (5.1 ) | (0.4 ) | (11.4 ) | (16.9 ) |
| September 30, 2016 | $ 13.6 | 5.3 | 3.7 | 22.6 |

| (in millions) | Severance & Employment-Related | Lease Exit | Other Acquisition Costs | Total |
|---|---|---|---|---|
| December 31, 2014 | $ 3.0 | 4.2 | 0.4 | 7.6 |
| Accruals | (0.1 ) | 0.2 | 7.9 | 8.0 |
| Payments made | (1.9 ) | (2.7 ) | (4.5 ) | (9.1 ) |
| September 30, 2015 | $ 1.0 | 1.7 | 3.8 | 6.5 |

We expect the majority of accrued severance and other accrued acquisition costs as of September 30, 2016 will be paid during the next twelve months. Lease exit payments depend on the terms of various leases, which extend as far out as 2020.

## 12. NONCONTROLLING INTEREST

We reflect changes in amounts attributable to noncontrolling interests in the Condensed Consolidated Statement of Changes in Equity. We present changes in amounts attributable to redeemable noncontrolling interests in the following table.

| (in millions) | |
|---|---|
| Redeemable noncontrolling interests as of December 31, 2015 | $ 11.1 |
| Acquisition of redeemable noncontrolling interest [1] | (3.6 ) |
| Impact of exchange rate movements | (0.1 ) |
| Redeemable noncontrolling interests as of September 30, 2016 | $ 7.4 |

(1) Reflects our redemption of a portion of the redeemable noncontrolling interest related to our 2014 acquisition of Tenzing AB and includes $0.8 million representing the difference between the redemption value and the carrying value of the acquired interest.

Table of Contents

## 13. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) BY COMPONENT

The tables below present the changes in Accumulated other comprehensive income (loss) by component.

| (in millions) | Pension and postretirement benefit | Cumulative foreign currency translation adjustment | Total |
|---|---|---|---|
| Balance as of June 30, 2016 | $ (35.8 ) | (336.4 ) | (372.2) |
| Other comprehensive loss before reclassification | — | (15.0 ) | (15.0 ) |
| Amounts reclassified from AOCI after tax expense of $ - , $ - and $ - | — | — | — |
| Other comprehensive income (loss) after tax expense of $ - , $ - and $ - | — | (15.0 ) | (15.0 ) |
| Balance as of September 30, 2016 | $ (35.8 ) | (351.4 ) | (387.2) |

| (in millions) | Pension and postretirement benefit | Cumulative foreign currency translation adjustment | Total |
|---|---|---|---|
| Balance as of June 30, 2015 | $ (62.5 ) | (192.2 ) | (254.7) |
| Other comprehensive income (loss) before reclassification | 3.4 | (78.5 ) | (75.1 ) |
| Amounts reclassified from AOCI after tax expense of $ - , $ - and $ - | — | — | — |
| Other comprehensive income (loss) after tax expense of $ - , $ - and $ - | 3.4 | (78.5 ) | (75.1 ) |
| Balance as of September 30, 2015 | $ (59.1 ) | (270.7 ) | (329.8) |

| (in millions) | Pension and postretirement benefit | Cumulative foreign currency translation adjustment | Total |
|---|---|---|---|
| Balance as of December 31, 2015 | $ (35.8 ) | (300.5 ) | (336.3) |
| Other comprehensive loss before reclassification | — | (50.9 ) | (50.9 ) |
| Amounts reclassified from AOCI after tax expense of $ - , $ - and $ - | — | — | — |
| Other comprehensive income (loss) after tax expense of $ - , $ - and $ - | — | (50.9 ) | (50.9 ) |
| Balance as of September 30, 2016 | $ (35.8 ) | (351.4 ) | (387.2) |

| (in millions) | Pension and postretirement benefit | Cumulative foreign currency translation adjustment | Total |
|---|---|---|---|
| Balance as of December 31, 2014 | $ (63.4 ) | (136.8 ) | (200.2) |
| Other comprehensive income (loss) before reclassification | 4.3 | (133.9 ) | (129.6) |
| Amounts reclassified from AOCI after tax expense of $ - , $ - and $ - | — | — | — |
| Other comprehensive income (loss) after tax expense of $ - , $ - and $ - | 4.3 | (133.9 ) | (129.6) |
| Balance as of September 30, 2015 | $ (59.1 ) | (270.7 ) | (329.8) |

For pension and postretirement benefits, we report amounts reclassified from Accumulated other comprehensive income (loss) in Compensation and benefits within the Condensed Consolidated Statements of Comprehensive

Income.

Table of Contents

## 14. SUBSEQUENT EVENTS

On November 2, 2016, we announced that our Board of Directors declared a semi-annual cash dividend of $0.33 per share. We will make the dividend payment on December 15, 2016 to holders of record as of the close of business on November 15, 2016. Concurrently, we will pay a dividend-equivalent in the same per share amount on outstanding but unvested shares of restricted stock units granted under our Stock Award and Incentive Plan.

Subsequent to September 30, 2016, we announced the completion of the following additional business acquisitions:

- Integra Realty Resources, Houston LLC - the Houston affiliate of Integra Realty Resources, a leading network of independent commercial real estate valuation, counseling and advisory firms,
- Advanced Technologies Group (ATG) - a U.S. technology consulting firm that helps hospitals, health systems and universities automate and address regulatory compliance requirements, and
- PMX - a Canada-based project management firm.

Total consideration payable for these additional acquisitions could be up to $56 million.

Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with the Condensed Consolidated Financial Statements, including the notes thereto, for the three and nine months ended September 30, 2016, and our audited Consolidated Financial Statements and notes thereto for the fiscal year ended December 31, 2015, which are included in our 2015 Annual Report on Form 10-K, filed with the SEC and also available on our website (www.jll.com).You should also refer to Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations contained in our 2015 Annual Report on Form 10-K.

The following discussion and analysis contains certain forward-looking statements generally identified by the words anticipates, believes, estimates, expects, forecasts, plans, intends and other similar expressions. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause JLL's actual results, performance, achievements, plans and objectives to be materially different from any future results, performance, achievements, plans and objectives expressed or implied by such forward-looking statements. See the Cautionary Note Regarding Forward-Looking Statements included within this section for further information.

We present our quarterly Management's Discussion and Analysis in the following sections:

(1) A summary of our critical accounting policies and estimates;
(2) Certain items affecting the comparability of results and certain market and other risks we face;
(3) The results of our operations, first on a consolidated basis and then for each of our business segments; and
(4) Liquidity and capital resources.

SUMMARY OF CRITICAL ACCOUNTING POLICIES AND ESTIMATES

An understanding of our accounting policies is necessary for a complete analysis of our results, financial position, liquidity and trends. See Note 2, Summary of Significant Accounting Policies, of the Notes to Consolidated Financial Statements in our 2015 Annual Report on Form 10-K for a complete summary of our significant accounting policies.

The preparation of our financial statements requires management to make certain critical accounting estimates and judgments that impact (1) the stated amount of assets and liabilities, (2) disclosure of contingent assets and liabilities at the date of the financial statements, and (3) the reported amount of revenue and expenses during the reporting periods. These accounting estimates are based on management's judgment. We consider them to be critical because of their significance to the financial statements and the possibility that future events may differ from current judgments or that the use of different assumptions could result in materially different estimates. We review these estimates on a periodic basis to ensure reasonableness. Although actual amounts likely differ from such estimated amounts, we believe such differences are not likely to be material.

A discussion of our critical accounting policies and estimates used in the preparation of our Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q can be found in Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2015. There have been no material changes to these critical accounting policies and estimates during the nine months ended September 30, 2016.

The following are the critical accounting policies and estimates discussed in Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2015:

- Revenue Recognition;
- Allowance for Uncollectible Accounts Receivable;
- Goodwill;
- Investments in Real Estate Ventures;
- Income Taxes; and
- Self-Insurance Programs.

In addition to the aforementioned critical accounting policies, we believe the calculation of our quarterly tax provision is critical to understanding the estimates and assumptions used in preparing the Condensed Consolidated Financial Statements in Item 1.

Table of Contents

### Quarterly Income Tax Provision

We base our fiscal year estimated effective tax rate on estimates we update each quarter. Our effective tax rate for the nine months ended September 30, 2016 and our forecasted effective tax rate for 2016 is 24.8%. We provide for the effects of income taxes on interim financial statements based on our estimate of the effective tax rate for the full year, which we base on forecasted income by country and expected enacted tax rates. We evaluate our estimated effective tax rate on a quarterly basis to reflect forecast changes in our geographic mix of income and legislative actions on statutory tax rates and other relevant matters effective in the quarter in which the legislation is enacted.

The geographic mix of our income can significantly impact our effective tax rate. Very low tax rate jurisdictions (those with effective national and local combined tax rates of 25% or lower) that provide the most significant contributions to our effective tax rate include: Hong Kong (16.5%), Singapore (17%), the United Kingdom (20%), The People’s Republic of China (25%), and the Netherlands (25%). We do not project any other jurisdictions with effective rates of 25% or lower to materially impact our 2016 global effective tax rate.

## ITEMS AFFECTING COMPARABILITY

### Macroeconomic Conditions

Our results of operations and the variability of these results are significantly influenced by (1) macroeconomic trends, (2) the geopolitical environment, (3) the global and regional real estate markets, and (4) the financial and credit markets. These macroeconomic and other conditions have had, and we expect will continue to have, a significant impact on the variability of our results of operations.

### Acquisitions

The timing of acquisitions may impact the comparability of our results on a year-over-year basis. Our results include incremental revenues and expenses from the completion date of an acquisition. In addition, there is generally an initial adverse impact on net income from an acquisition as a result of pre-acquisition due diligence expenditures and post-acquisition integration costs, such as fees from third-party advisors engaged to assist with onboarding and process alignment.

### LaSalle Investment Management Revenue

Our investment management business is in part compensated through incentive fees where performance of underlying funds' investments exceeds agreed-to benchmark levels. Depending upon performance, disposition activity, and the contractual timing of measurement periods with clients, these fees can be significant and vary substantially from period to period.

Equity earnings from real estate ventures also may vary substantially from period to period for a variety of reasons, including as a result of: (1) gains (losses) on investments reported at fair value, (2) gains (losses) on asset dispositions, and (3) impairment charges. The timing of recognition of these items may impact comparability between quarters, in any one year, or compared to a prior year.

The comparability of these items can be seen in Note 4, Business Segments, of the Notes to Condensed Consolidated Financial Statements and is discussed further in Segment Operating Results included herein.

### Foreign Currency

We conduct business using a variety of currencies, but we report our results in U.S. dollars. As a result, the volatility of currencies against the U.S. dollar may positively or negatively impact our results. This volatility can make it more difficult to perform period-to-period comparisons of the reported U.S. dollar results of operations, because such results may indicate a growth or decline rate that might not have been consistent with the real underlying growth or decline rates in the local operations. Consequently, we provide information about the impact of foreign currencies in the period-to-period comparisons of the reported results of operations in our discussion and analysis of financial condition in the Results of Operations section below.

Table of Contents

Transactional-Based Revenue

Transactional-based fees, that are impacted by the size and timing of our clients' transactions, from real estate investment banking, capital markets activities and other services within our RES businesses, and LaSalle, increase the variability of the revenue we earn. The timing and the magnitude of these fees can vary significantly from year to year and quarter to quarter, and from region to region.

Seasonality

Historically, our quarterly revenue and profits have tended to increase from quarter to quarter as the year progresses. This is a result of a general focus in the real estate industry on completing or documenting transactions by calendar year-end and the fact that certain expenses are constant through the year. Historically, we have reported a relatively smaller profit in the first quarter and then increasingly larger profits during each of the following three quarters, excluding the recognition of investment-generated performance fees and realized and unrealized co-investment equity gains and losses (each of which can be unpredictable). We generally recognize such performance fees and realized co-investment equity gains or losses when assets are sold, the timing of which is geared toward the benefit of our clients. Non-variable operating expenses, which we treat as expenses when incurred during the year, are relatively constant on a quarterly basis.

A significant portion of our Compensation and benefits expense is from incentive compensation plans, which we generally accrue throughout the year based on progress toward annual performance targets. This quarterly estimation can result in significant fluctuations in quarterly Compensation and benefits expense from period to period. Consequently, the results for the periods ended September 30, 2016 and 2015 are not fully indicative of the results we expect to realize for the full fiscal year.

RESULTS OF OPERATIONS

We operate in a variety of currencies but report our results in U.S. dollars. As a result, the volatility of these currencies against the U.S. dollar may positively or negatively impact our reported results. This volatility may result in the reported U.S. dollar revenue and expenses showing increases or decreases between years that may not be consistent with the real underlying increases or decreases in local currency operations. In order to provide more meaningful year-to-year comparisons of our reported results, we have included detail of the movements in certain reported lines of the Condensed Consolidated Statements of Comprehensive Income in both U.S. dollars and in local currencies in the tables throughout this section.

We define market volumes for Leasing as gross absorption of office real estate space in square feet for the U.S., Europe and selected markets in Asia Pacific. We define market volumes for Capital Markets as the U.S. dollar equivalent value of investment sales transactions globally.

Unless otherwise noted, fee revenue excludes gross contract costs. Refer to Note 3, Revenue Recognition, of the Notes to Condensed Consolidated Financial Statements for additional information on gross contract costs.

Reclassifications

We have reclassified certain prior year amounts to conform to the current presentation. These reclassifications have not been material and have not affected reported net income.

Table of Contents

Consolidated Operating Results

| ($ in millions) | Three Months Ended September 30, 2016 | 2015 | Change in U.S. dollars | | % Change in Local Currency |
|---|---|---|---|---|---|
| Revenue | | | | | |
| Real Estate Services: | | | | | |
| Leasing | $448.7 | 417.8 | 30.9 | 7 % | 8 % |
| Capital Markets & Hotels | 240.9 | 223.9 | 17.0 | 8 | 10 |
| Property & Facility Management | 503.0 | 376.4 | 126.6 | 34 | 40 |
| Property & Facility Management Fee Revenue | 383.6 | 268.8 | 114.8 | 43 | 49 |
| Project & Development Services | 294.0 | 232.3 | 61.7 | 27 | 30 |
| Project & Development Services Fee Revenue | 155.4 | 125.9 | 29.5 | 23 | 25 |
| Advisory, Consulting and Other | 138.3 | 116.7 | 21.6 | 19 | 22 |
| LaSalle | 80.3 | 134.2 | (53.9) | (40) | (39) |
| Total revenue | $1,705.2 | 1,501.3 | 203.9 | 14 % | 17 % |
| Gross contract costs | 258.0 | 214.0 | 44.0 | 21 | 27 |
| Total fee revenue | $1,447.2 | 1,287.3 | 159.9 | 12 % | 15 % |
| Compensation, operating and administrative expenses excluding gross contract costs | 1,322.3 | 1,122.3 | 200.0 | 18 | 21 |
| Gross contract costs | 258.0 | 214.0 | 44.0 | 21 | 27 |
| Depreciation and amortization | 35.9 | 26.7 | 9.2 | 34 | 39 |
| Restructuring and acquisition charges | 18.0 | 18.2 | (0.2) | (1) | (2) |
| Total operating expenses | $1,634.2 | 1,381.0 | 253.2 | 18 % | 22 % |
| Operating income | $71.0 | 120.3 | (49.3) | (41%) | (44%) |
| Adjusted EBITDA | $127.3 | 187.9 | (60.6) | (32%) | (34%) |

n.m. - not meaningful

Table of Contents

Consolidated Operating Results (continued)

| ($ in millions) | Nine Months Ended September 30, 2016 | 2015 | Change in U.S. dollars | | % Change in Local Currency |
|---|---|---|---|---|---|
| Revenue | | | | | |
| Real Estate Services: | | | | | |
| Leasing | $1,183.9 | 1,103.3 | 80.6 | 7 % | 8 % |
| Capital Markets & Hotels | 630.6 | 624.7 | 5.9 | 1 | 3 |
| Property & Facility Management | 1,299.2 | 1,111.0 | 188.2 | 17 | 22 |
| Property & Facility Management Fee Revenue | 964.8 | 786.1 | 178.7 | 23 | 27 |
| Project & Development Services | 843.4 | 603.5 | 239.9 | 40 | 43 |
| Project & Development Services Fee Revenue | 442.3 | 348.4 | 93.9 | 27 | 29 |
| Advisory, Consulting and Other | 380.7 | 335.6 | 45.1 | 13 | 17 |
| LaSalle | 307.8 | 300.1 | 7.7 | 3 | 3 |
| Total revenue | $4,645.6 | 4,078.2 | 567.4 | 14 % | 17 % |
| Gross contract costs | 735.5 | 580.0 | 155.5 | 27 | 33 |
| Total fee revenue | $3,910.1 | 3,498.2 | 411.9 | 12 % | 14 % |
| Compensation, operating and administrative expenses excluding gross contract costs | 3,561.4 | 3,124.4 | 437.0 | 14 | 17 |
| Gross contract costs | 735.5 | 580.0 | 155.5 | 27 | 33 |
| Depreciation and amortization | 98.5 | 77.1 | 21.4 | 28 | 31 |
| Restructuring and acquisition charges | 35.9 | 20.8 | 15.1 | 73 | 72 |
| Total operating expenses | $4,431.3 | 3,802.3 | 629.0 | 17 % | 20 % |
| Operating income | $214.3 | 275.9 | (61.6 ) | (22%) | (26 %) |
| Adjusted EBITDA | $372.1 | 432.3 | (60.2 ) | (14%) | (16 %) |

n.m. - not meaningful

We define EBITDA attributable to common shareholders ("EBITDA") as Net income attributable to common shareholders before interest expense net of interest income, income taxes, and depreciation and amortization. Adjusted EBITDA attributable to common shareholders ("Adjusted EBITDA") represents EBITDA further adjusted for items we do not consider directly indicative of our ongoing performance in the context of certain performance measures, including restructuring and acquisition charges as well as mortgage servicing rights ("MSR") - net non-cash activity. MSR - net non-cash activity consists of the balances presented within Revenue composed of (a) the gains we recognized in conjunction with the origination and sale of mortgage loans offset by (b) the amortization of the corresponding MSR intangible assets generated upon such gain recognition over the estimated period during which we project net servicing income will be received. We calculate such gains and the corresponding MSR intangible assets as the present value of estimated cash flows over the estimated mortgage servicing periods.

Although EBITDA and Adjusted EBITDA are non-GAAP financial measures, they are used extensively by management in normal business operations to develop budgets and forecasts as well as measure and reward performance against those budgets and forecasts, exclusive of the impact from capital expenditures reflected through depreciation expense along with other components of our capital structure. EBITDA and Adjusted EBITDA are believed to be useful to investors and other external stakeholders as supplemental measures of performance and are used in the calculation of certain covenants related to our revolving credit facility. However, these measures should not be considered alternatives to net income determined in accordance with U.S. GAAP. Any measure that eliminates components of a company's capital and investment structure as well as costs associated with operations has limitations as a performance measure. In light of these limitations, management also considers results determined in accordance with U.S. GAAP and does not solely rely on EBITDA and Adjusted EBITDA. Because EBITDA and Adjusted EBITDA are not calculated under U.S. GAAP, our measures may not be comparable to similarly titled measures used by other companies.

Table of Contents

Gross contract costs, which are managed on certain client assignments in the Property & Facility Management and Project & Development Services service lines, are presented on a gross basis in both revenue and operating expenses, consistent with U.S. GAAP. Gross contract costs are excluded from revenue and operating expenses in determining "fee revenue" and "fee-based operating expenses," respectively. Excluding these costs from revenue and operating expenses more accurately reflects how the company manages its expense base and its operating margins and, accordingly, is believed to be useful to investors and other external stakeholders for evaluating performance. However, fee revenue and fee-based operating expenses should not be considered alternatives to revenue and operating expenses, respectively, determined in accordance with U.S. GAAP. Because fee revenue and fee-based operating expenses are not calculated under U.S. GAAP, our fee revenue and fee-based operating expenses measures may not be comparable to similarly titled measures used by other companies.

Below is the reconciliation of revenue and operating expenses to fee revenue and fee-based operating expenses.

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| (in millions) | 2016 | 2015 | 2016 | 2015 |
| Revenue | $1,705.2 | 1,501.3 | $4,645.6 | 4,078.2 |
| Gross contract costs | (258.0) | (214.0) | (735.5) | (580.0) |
| Fee revenue | $1,447.2 | 1,287.3 | $3,910.1 | 3,498.2 |
| | | | | |
| Operating expenses | $1,634.2 | 1,381.0 | $4,431.3 | 3,802.3 |
| Gross contract costs | (258.0) | (214.0) | (735.5) | (580.0) |
| Fee-based operating expenses | $1,376.2 | 1,167.0 | $3,695.8 | 3,222.3 |

Net income margin attributable to common shareholders is calculated by dividing Net income attributable to common shareholders by Total revenue. Adjusted EBITDA margin, calculated on a local currency basis, is calculated by dividing Adjusted EBITDA by fee revenue. Below is a reconciliation of Net income attributable to common shareholders to EBITDA and Adjusted EBITDA, as well as the Adjusted EBITDA margin (on a fee revenue basis):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| (in millions) | 2016 | 2015 | 2016 | 2015 |
| Net income attributable to common shareholders | $48.0 | 110.5 | $152.5 | 242.5 |
| Add: | | | | |
| Interest expense, net of interest income | 12.4 | 6.8 | 32.2 | 20.4 |
| Provision for income taxes | 15.9 | 25.7 | 55.3 | 71.5 |
| Depreciation and amortization | 35.9 | 26.7 | 98.5 | 77.1 |
| EBITDA | $112.2 | 169.7 | | |