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## CHRISTINA UNGARO ON THE COMMERCIAL REAL ESTATE SERVICES INDUSTRY

EPISODE 188

Will: Hello Christina, welcome to the show.

Christina: Hi Will, thanks for having me.

Will: Christina, tell me what are some of the trends, maybe underreported trends that you see in the real estate advisory space?

Christina: So there's a lot going on right now Will, in real estate. I think a couple things that I would highlight. One is just that, institutional investors, pension funds, 401(k)s, even hedge funds, are allocating an increasing percentage of their investments to real estate, so that percentage has been increasing over time. And so it's becoming a bigger asset class and it's actually the biggest asset class in the world in terms of assets under management, but that trend overall is creating a lot of tailwinds for the real estate industry.

Obviously the great recession in '08, in '09, the industry took a big hit. That was a very real estate, especially residential, real estate driven recession. But since then, the last eight, nine years, the industry's really been on a tear. And so we've had a lot of positive trends that are boosting real estate asset prices. And that's creating a whole lot of work for real estate advisors and services firms like JLL where I work.

Will: Yeah, tell us a little bit about JLL. It's a big company, not like a consumer name that a lot of people would necessarily know if they're not in real estate. So just tell us ... give us a little background on your firm.

Christina: Sure. So JLL, which stands for Jones Lang LaSalle, is global real estate services and advisory firm. We are number two, I would say overall just behind CBRE. So you might see CBRE, JLL or Cushman & Wakefield signs around town advertising commercial real estate and that's where we play. So we provide

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broad scale brokerage services across commercial real estate, office, retail and hotels and we do a lot of project management and property management. What we don't do for the most part, is we don't develop our own real estate, so that's not where we sit. That's really more the institutional investor side of things, but we advise on all matters of real estate and help owners and investors and tenants with all of their commercial needs.

Will: So my understanding is you were brought in to really build the corporate development function there. Tell us a little bit about that and about the type of services firms that you've been acquiring.

Christina: Sure. So real estate services as an industry is, we've got a few Goliaths and JLL is one of them, but it's also very fragmented and what that results in is lots of continued consolidation. So there's been a lot of M&A in the real estate industry and JLL has grown over the years through mergers and acquisitions, just like others in the industry. And I was brought in about five years ago to put some real structure around the M&A function. And at the time that I joined, there was no dedicated mergers and acquisitions team, so I was the first head count in that function and have since built a team of four individuals now who are dedicated to corporate development and M&A activity.

And we've been tasked with overseeing all the acquisition execution in the Americas region. So everything from Canada down through South America, though the bulk of our activity has been in Canada and the U.S. And we've completed 32 acquisitions over the last five years, so it's been a very busy period. And most of the M&A that we do is professional services M&A. So we are buying other brokerage firms, project management firms, property management and occasionally we acquire some technology or some technology enabled services. But for the most part, we are acquiring ... most of our transactions, we're looking for talent.

Will: How do you go about the sourcing of it? I can imagine two ends of the spectrum. One, it's people in your company sort of ad hoc notice a competitor or someone with some capability and they recommend them. And the other end of the spectrum, there's some exhaustive search that's identified every real estate services firm in the universe and kind of do some screening. Could you talk a little bit about how you go about doing that screening process to identify potential firms to start discussions with?

Christina: Sure. So in our case, I would say about 75% of the acquisitions that we do are sourced at the grassroots level. And what I mean by that is, real estate, no matter how global firm you are, it's inherently a really local business. And so we rely on our business leaders who are managing local markets and regions to source opportunities for us to fill in areas where we have gaps. And so most

of the opportunities that we pursue are on the smaller side and tend to be boutique real estate advisory firms that serve a particular market or region and those really bubble up through the business, so that's the majority. And then I would say the balance are a mix of either opportunities that we proactively looked for using research tools and other things to scan the market as well as inbound activity coming from investment banks. So we do see a pretty healthy amount of opportunities coming to us that companies that are in a formal sale process with a banker.

Will:

A lot of the listeners of this show are consultants running professional services firms, sometimes independent consultants or small boutique firms. I think a lot of us would be interested in, how do you think about valuing a business like that?

Christina:

Yeah, so it's interesting. There are things that will enhance value and things that will temper value. What we look for in a professional services firm is first and foremost cultural fit, so that's vitally important. It's really going to be a marriage. We're going to be working together and we want to retain the talent. That's why we're acquiring the firm, so the cultural fit's really important. And everybody says cultural fit, but what does that really mean? And in our case it means we share the same values. We have ... they have high standard of ethics, collaborative teamwork-oriented cultures, but also somewhat entrepreneurial, very client focused. So those are some of the things that we look for. We want to make sure that we share the same values with the targets that we're talking to.

And then we look for, how have they built and grown their business over time? Have they relied on a small number of people to generate and manage client relationships and revenue or have they actually put some thought into recruiting new talent and training the next generation of leaders for their company, even if it's a small company. So I would say, the deeper the bench, the more value is going to inherently be in the business. And then of course we look for strong financial profile revenue and good revenue and profit trends, that's table stakes, but also some client diversification and strong recurring client relationships.

All of those things taken together will increase the value of the firm. And ultimately we look at things from a fairly traditional approach, very business school like approach, applying discounted cashflow models. But when it comes to that ... assessing that terminal value, that's where these things really come into play. And terminal value in our view is really going to be driven by, have the owners of this business really set it up for the long-term and if they haven't, then we're going to take a more conservative view around the terminal value.

Will: So I think what I'm hearing is that for the kind of same exact financial performance, it would probably be much more attractive for you if there is a repeatable business development process that people can be trained in and plugged into versus if it was all being generated by the two or three founders of the company.

Christina: Exactly. And make no mistake, we've acquired companies on both ends of the spectrum, but yes, it does impact value. So I think if there is a good repeatable business development process and then once those client relationships are identified and won, how are they nurtured going forward and is it a collaborative team-based approach to nurturing those relationships or does one individual really hold the relationship by themselves, such that if that individual left, there would be a significant gap? And so that's really what we look for and so the more collaborative the business and the more team-based approach they take to managing their client base, the greater value we see because there's going to be ... those relationships are going to be more likely to endure over time.

Will: Are there any thumb rules that you use for valuation? Maybe like a multiple of revenues or a multiple of EBITDA, what's typical for a services business in terms of multiples of revenue for the final valuation?

Christina: Yeah. So I can share with you sort of what's typical as an output, but we certainly don't value companies by using multiples. We really do take a very future cashflow-based approach, but that does result in multiples that tend to fall in the same range. And I would say for a small services firm, I'm talking maybe five to 15 million, 15 or 20 million of revenue, we typically structure some guaranteed purchase price in the neighborhood of four to six times EBITDA.

And then we might structure some additional purchase price through an earnout or other retention-based incentives that give the individuals in the firm that carrot that's needed to continue showing up and really putting in that effort in growing the business, even after we close the acquisition. But that's where we tend to land on a revenue basis. It tends to be maybe one, one and a half times revenue, again, in guaranteed purchase price and then some additional purchase price through an earnout and really depends on ... on a revenue basis, really depends on what the profit margins are.

Will: You talk about how you look for shared values. Now probably very few entrepreneurs if you ask them, tell me about your values, they'd say well we cheat wherever we can and we try to really get the last dollar and ... So how do

you kind of go about evaluating the values of the people that run the business?

Christina: So we ask them a lot of questions. Some of the questions we ask are, how are decisions made every day and if a new business proposal comes in, how would you handle that? Is it ... do you get three people in a room and it's very command and control, tops down driven decision as to how you're going to respond to that request or is it more of a team-based, consensus-based approach? And so we really try to get at ... really get underneath how decisions get made in the organization sort of day-to-day and how big opportunities are approached. That can be very telling in terms of the responses we get back on that because we really look for again, that more collaborative consensus-based decision making which would be more aligned with how we do things.

And we also might ask them to give us some concrete examples of clients who ... clients that they lost or clients that were dissatisfied with them and what happened and how did they deal with that? And we really try to probe on that to understand how the organization responds to adverse situations with clients. So that's just two examples of some of the questioning that we might put forward to them because to your point, everyone's going to say that they are ethical and client-focused and all of that, but really need to go a few layers deeper to see ... ask them some situational questions to see how that actually plays out day-to-day.

Will: Can you give us any sanitized examples of deals that you started down the path with but then backed out for some reason? For our listeners that is thinking about trying to sell their firm in several years, it'd be interesting to hear what are some things that could be a roadblock to getting a deal done?

Christina: Yeah. It's been ... it's rare that we've gotten very far down the road with a target and backed out for qualitative reasons. More often than not we have ... we get to an impasse on valuation. That is the number one reason why we don't go forward with transactions, we just can't get to terms on the value. And I think the challenge is that as a seller of a business, you of course see tremendous value in your business because you expect to be around forever. So you're going to take a long view of that. But from the buyer's perspective, the value is only as good as the length of the noncompete. So we typically structure five year noncompetition agreements to go along with our services acquisitions.

And after that five years is up, we often see ... sometimes we see some attrition, sometimes we see folks coming back and asking for retention packages and so there's ... sometimes there's continued investment required

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once those noncompetes are up and we have to take that into account. So we really try to structure things around that five year period, try to get our payback and that's how we look at things. But of course from the sellers perspective, they're going to see things differently and so that's where we sometimes just run into an impasse on overall valuation. We have more of a short-term view because of the risks involved. They have more of a long-term view.

Will: I'd love to go back and learn a little bit more from you about the nature of the different types of services that is included in what ... the broad topic of real estate advisory.

Christina: Sure.

Will: It's not an industry I know much at all about. I mean I've been inside some buildings, but other than that it's sort of if you're not in real estate, it's sort of a little bit of a black box. Could you tell us about kind of the structure of the industry? You mentioned some of the other players, you talked about owning a building, developing it. What are kind of ... how would you sort of structure the different main services, structure of the commercial real estate industry and what are some of the things that JLL does?

Christina: Sure. So when I talk to people about the industry, I always start with brokerage, which is the easiest thing to comprehend. I think all of us have worked with a real estate broker at some point in time to find a house or rent an apartment and that's exactly what we do on the commercial side. So we will work with corporate tenants who are looking for space, we'll help them find that space. We'll also work on the other side of that equation with the landlord to help them find tenants. So we ... That's all generally known as leasing and tenant representation. And then we also help individuals buy and sell large office buildings, retail spaces and hotels and so we ... and that's more of an institutional market I would say.

So we're lining up, one investor has a large office building that they would like to sell and it's probably going to trade to another investor ... don't see too many individuals in that market. But buying and selling property is a big part of what we do and that's generally falls under the umbrella of what we call capital markets. So that's all sort of the brokerage side of things, transacting in real estate. And then on top of that, we will do project management. So if you are a corporation, you just leased some new space and you need to build out your office, we'll help you design and project manage that whole process, to get from initially getting the keys to moving your people in. And we'll even supervise the actual moving process too, so we do all of that. Helping people

get new space, move spaces, consolidate space, leave space and then on an ongoing basis, we help manage space.

So we will represent both landlords and tenants in the ongoing day-to-day management of physical space. And that, for a large corporation like Bank of America or IBM, those are some large clients of ours where we manage a lot of their real estate needs for them. We are basically a major extension of their real estate department. And so we will just help them manage their overall footprint and all the way down to day-to-day activities like coordinating snow removal in the parking lots and coordinating vendors for the cafeteria and janitorial activities that take place in the building. So what we'll do, we will manage ... help manage all of that activity that takes place in a physical building, whether it's on behalf of the tenant or the landlord. So those are ... that pretty much encapsulates, I would say, 90% of what we do on a day-to-day basis.

Will: I've seen some news about some companies, like there's Knotel and there's probably some competitors like Knotel, that are really focusing on shorter term rentals to to fast growing companies. Curious to hear your perspective on that sector, how big is that sector right now? Do most companies still want to get the long leases or what do you see going on with this short-term rental industry?

Christina: So what you're describing is generally known as coworking and Knotel and WeWork and Regus are some of the big names in that space. And I think ... Regus is actually ... the company has been around a lot longer than WeWork or Knotel, they just didn't have the notoriety that those companies had. But basically, the notion of short-term space initially, was really targeted towards startups, freelancers and other tenants that might have more on demand or flexible workplace needs. But it has really migrated towards now a lot of enterprise corporations are looking at some of this more flexible space as a way to more easily sort of [inaudible 00:18:30] up and down their space needs. So IBM is a big client of WeWork and I believe has at least a couple of floors, maybe a whole building from them to fulfill some of their space needs.

So you're seeing that coworking model sort of extend itself into the enterprise very similar to how cloud started. So it's very ... lot of parallels with what the cloud market in general, how it's just now coworking is really moving up into the enterprise. But the long and short of it is, WeWork and Knotel have ... they have turned the workplace into not just a short-term, flexible option, but they're creating a membership community and they are very focused on amenities and making that experience of being in that space a first class experience. And that is something that is changing the entire industry

because it's just ... it's raising expectations across the board for what the workplace should feel like and look like.

And we're actually seeing a lot of corporate customers come to us and say, "Hey, this WeWork thing, it's pretty cool. We want our offices to look like that too." And so we're helping ... we're actually helping corporate clients reinvigorate their space and make it more of a WeWork environment, a very collaborative environment, lots of services and amenities for the employees. And it's becoming a big ... in this tight labor market, it's becoming a very necessary recruiting and retention tool to reinvent your workplace that way.

Will: What other trends do you see, particularly any thoughts around ... as more employees want to work remote for part of the time, do you see more kind of hot-desking or people not having dedicated space or fewer cubicles and more ... I guess you mentioned sort of the companies building their own spaces, more like a WeWork but having more flexible types of arrangements, love to hear your thoughts around that.

Christina: Absolutely. We're seeing that everywhere and we see it in our own offices too at JLL in Manhattan, what we call it ... yeah, hot desking is one term. We also call it densification projects where we're working with clients as well as internally to remap the whole floor plan and get as many desks in as possible and then you have to create some more collaboration spaces too and meeting rooms to make the environment effective for people. But we're seeing a lot of companies move to that hybrid approach where there might be one desk for every two employees or maybe even every three employees.

And it's a way to obviously reduce occupancy expense and afford people some of that flexibility that they can work from home two or three days a week. But you have to do it effectively so that you don't have a situation where a lot of people are showing up everyday and wandering around looking for a desk. That's the ... you need some technology behind it to help people understand where they're going to go each day.

Will: What would you say are some of the best sources of insight on the real estate industry? So are there trade journals or websites that are your go-to for the latest news?

Christina: Yeah. There's a number of trade associations out there. One that we ... we work with a lot of them. The Urban Land Institute, ULI, is a big one that is focused on urban development and they run a lot of conventions and publications that can provide some really good insight into commercial real estate, particularly in some of the more urban markets where they're focused. There's also a big organization called CoreNet, which is more focused on sort

of the property and facilities management side of things and they host some pretty interesting conferences each year. They invite a lot of startups actually that can come showcase new technologies and services that they're offering to the industry and that can ... those are some pretty good events that they hold.

And then there's lots of other ... there's lots of other publications. One research firm that I find has done a pretty good job of mapping out all of the new technology and investment that's happening in commercial real estate is CB Insights, don't know if you're familiar with them, but they've put together some pretty good research and taxonomies that kind of lay out a where all the startups are playing. So that's been a new trend over the last few years, is just for the first time really seeing a lot of new real estate focused technology coming to market and a lot of VC investment going into that segment, which didn't exist five or six years ago.

Will: Let's talk a little bit about ... kind of back to your role a little bit. In terms of integrating these acquisitions, what have you learned over the past several years as you've gone through these 32 acquisitions about making sure you manage a successful integration?

Christina: We're acquiring talented people and it's all about the people. I think we do a really good job historically of getting folks onboarded and we throw maybe sometimes too much information at them over the first couple of weeks just so ... all the new systems and tools that they have access to and introducing them to JLL. I think where ... what we've learned though is that, we need to keep up those touch points because sometimes we go through the integration and then we sort of back away and then folks that we brought in feel a little bit lost.

They haven't worked for a big company maybe before or in a long time. And so, it's hard to navigate large organizations without some help and some hands-on guidance. So I think the number one thing that we've learned, we're always trying to get better at, is maintaining dedicated support for new acquisitions and new teams that are coming in, just maintaining those human touch points, which are really important.

Will: And have you kind of, after so many of these, built some templates and some standard processes and checklists and so forth? How do you go about it?

Christina: We have. Yeah, we do have an integration playbook, a lot of which is very tactical, sort of function by function, all the things that we need to do to integrate a company. And we do by and large fully integrate most of the acquisitions that we do. But then there are always going to be some custom or

unique things, tasks that need to be done on each acquisition and that just creates continual learning. But we do have a lot of ... we do have a lot of playbooks and checklists and that sort of thing, but we have to be ... anybody who operates that way has to also be flexible. We try to be as flexible as possible and when new situations come up ... I would say one of the things that's great about JLL is it's not a, this is how we've always done it kind of culture. When new challenges come up, we really try to look for new ways to do things and nothing is necessarily impossible.

Will: For somebody that has been asked to come in and set up a centralized corporate development function, sort of like you did five years ago, what advice would you give that person?

Christina: I would say the most important thing is to look for some diversity of talent in building the organization. You're going to want some folks who have very good analytical skills and strong roots in finance and accounting, but also strategic thinkers. It's a really ... Corporate development's a very interesting skillset. It demands proficiency in a lot of different areas and so I think it's important to build the right team and just get the right talent. And then I think it is important to put consistent processes in place and those checklists and playbooks are helpful in certain situations and taking the time to get that set up is important. And then I think also, one of the most important things is to establish a consistent approach to how you're going to value companies and how you're going to measure performance and success after you close the acquisition because that's ... You're going to get asked that continually by leaders in the company and that's an important thing to think about up front.

Will: For yourself personally, any habits that you've adopted over the past year or two that you find have really worked well for you that make you more effective?

Christina: Habits that have worked well for me, I think one thing I've gotten good at is, we encounter ... every deal is very unique and there's always unique issues that come up and so we've gotten very good at unearthing those issues quickly and escalating as quickly as possible, getting experts involved where needed and just speaking up. We can't assume that we know ... have the answer to everything or that we know how to tackle every issue that comes up in due diligence or what have you. So I've gotten very good at learning who to go to for certain challenges and escalating things quickly and just being transparent when those challenges do come up so we can get to resolution. That's probably the most critical thing to ... one of the most critical things to success in our ... in what we do because every deal's going to have some unique things that come up.

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Will: Christina, would you like to give any websites or links where people can learn more about JLL or about you?

Christina: Sure. Well our website is [jll.com](http://jll.com). There's lots of great information on there and I'm on LinkedIn, Christina Ungaro and I guess that's where ... if you wanted to reach out to me, feel free to reach out via LinkedIn.

Will: Fantastic. I'll include that link in the show notes. Well Christina, this has been super educational for me. I really appreciate you joining and being on the show.

Christina: Thanks so much Will. It's been great for me as well. I really appreciate it.