Buy Canadian When it Comes to Commercial Real Estate

Description

Given the developing trade war between the U.S. and Canada, a recent *Bloomberg* article about the Canadian division of Chicago-based commercial real estate services firm **Jones Lang LaSalle Inc.** (NYSE:JLL) caught my attention.

The CEO of Jones Lang LaSalle's Canadian division is Brett Millar. Since taking the top job in 2012, he's grown the company's revenue by 1,000%. Using technology to continue growing its Canadian business, Millar aims to be the biggest of the American-based commercial real estate services firms operating in Canada.

While that's a very ambitious goal, here's why you should pass on JLL stock and look to Canada's own **Colliers International Group Inc.** (TSX:CIGI)(NASDAQ:CIGI) instead.

Buy Canadian

While *Bloomberg* reports that Jones Lang LaSalle is looking to set up a service to help landlords provide co-working facilities for interested companies, Colliers has actually gone out and hired someone in its UK office to do just that. If it's successful, you can be sure that a similar position will make its way into the Canadian operations.

So, just who is Colliers International?

Collliers is a global real estate service firm with over 15,000 professionals in over 35 countries managing two billion square feet of commercial real estate space and executing over $102 billion in real estate transactions on behalf of its clients worldwide — all from its Toronto headquarters.

Part of **First Service Corp.** (TSX:FSV)(NASDAQ:FSV) until it was spun off in 2015, the company's revenues have grown by 19% annually since First Service acquired the largest Colliers operations for $88 million in 2004.

Today, the company has a market cap of $4 billion and is one of the five largest (Jones Lang Lasalle is another) commercial real estate services firms in a $240 billion global marketplace.

Successful spinoff

Back in May 2017, I recommended Colliers International stock over its former stablemate because it had a more reasonable valuation. I doubled down on my Colliers recommendation a year later this past May because Jay Hennick, the founder of FirstService and the man who created so much value for both FirstService and Colliers' shareholders, runs the commercial real estate services firm.

In my experience, founder-led companies tend to outperform those that aren't. In 2017, CIGI stock had a total return of 54%, which is 15 percentage points greater than FirstService. Year to date, CIGI is up 32% compared to 14% for FirstService.

Unless something unforeseen occurs, I don't see this trend changing over the remainder of 2018 and into 2019.

Colliers International continues to diversify

Back in 2004, when FirstService acquired Colliers International, the company generated 85% of its revenue from its sales and brokerage business with the rest from outsourcing and advisory services. In 2017, it managed to generate 35% from its outsourcing and advisory services business, thereby providing a more balanced business than 13 years earlier.

Its growth over the last five years is even more impressive — revenues and adjusted EBITDA have grown by 15% and 23%, respectively — putting it on track to generate US$3.4 billion in revenue and US$390 million in adjusted EBITDA by 2020.

In its latest quarter, Colliers International's Europe, Middle East and Africa (EMEA) operating segment had a small operating loss due to increased investment in some of its revenue-generating services. I'd look for it to rebound over the remainder of fiscal 2018, possibly adding to the bottom line.

In my opinion, it makes no sense to buy stock in an American firm when you can own a piece of a Canadian business that's also global in scope.

As I said earlier: buy Canadian.

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