

FINANCIAL REVIEW

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HD **Ben Gray plots rise of DTZ**
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Private equity whizz Ben Gray is plotting to turn DTZ into the world's third biggest **commercial** real **estate firm** behind CBRE and JLL.

Mr Gray, managing partner of TPG Capital, plans to do this through acquisitions and by growing DTZ's facilities management offering to take advantage of growing demand for these services from institutional investors.

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Private equity **firm** TPG has acquired DTZ from ASX-listed contractor UGL for \$1.22 billion alongside investment partners PAG, an Asian fund manager and Canadian pension fund, the Ontario Teachers' Pension Plan .

Chicago-based DTZ generated \$1.8 billion in revenues in 2013 and pre-tax earnings of \$145 million, ranking it the fourth-biggest **commercial property** services **group** on revenue behind US giants CBRE, JLL and Cushman & Wakefield.

DTZ's first acquisitive play could be for Cassidy Turley, a Washington-based **firm** with annual revenues of \$US1.2 billion (\$1.3 billion) and which is well-positioned in outsourcing real **estate** sectors such as corporate services, facilities management and portfolio management.

Further acquisitions will have the guiding hand of former CBRE global chief executive Brett White, who is understood to have played a major part in convincing Mr Gray and fellow director Simon Harle to take a look at the DTZ business.

Mr White will join the DTZ **board** in September and become executive chairman of DTZ in March.

Tod Lickerman, who replaced Robert Shibuya in October last year, will remain global chief executive of DTZ.

Under the guiding hand of Mr Gray, DTZ is expected to shift its US business - which contributed about 55 per cent of DTZ's 2013 revenues - away from low margin sectors like janitorial services to higher-margin ones including facilities management, brokerage and **transactional** services. The acquisition of Cassidy Turley would help DTZ fill out its US business and expand into these markets. DTZ earns three-quarters of its revenue from facilities management, but not enough of it comes from the high margin corporate and asset services provided by rivals CBRE, JLL and Cushman & Wakefield.

A source close to TPG said facility management was the strongest growing part of the sector, with big pension funds in the US, Canada and Australia now significant owners of **commercial property**.

"Facilities management is a very significant growth component," the source said. It's an area that is making an increasing contribution to the earnings of DTZ's global rivals.

Corporate and asset services accounted for nearly half of CBRE's first quarter revenues in 2014. Fees from real **estate** sales accounting for 14 per cent over the same period.

Property and facilities revenue was up 40 per cent across JLL's business in 2013 rising to more than \$1 billion. Cushman & Wakefield, which currently occupies the coveted third spot on the global list, is also a strong player in facilities management. Last year, it was awarded the facilities management contract for Citigroup's 27 million square foot (26 million square metres) real **estate** portfolio in the US and Canada as well as **property** management of a 17 million square foot portfolio for DLF, the largest developer in India.

TPG will also look to expand its already strong presence in **China** and the Asia-Pacific region, including Australia (where it is particularly strong in facilities management) and cement its position in Western Europe.

Mr Gray declined to comment on his intentions for DTZ. In a statement he said: "We see great opportunities in corporate real **estate** services to create a best-in-class **firm** servicing clients on a global basis.

"We believe DTZ is well progressed on this path and that together with our co-investors we can accelerate the evolution of its platform."

TPG controls Australia's second-largest private hospital operator, Healthscope, gas and electricity retailer Alinta, and the nation's biggest poultry **company**, Inghams.

Mr Gray looks to have engineered another value acquisition for TPG investors.

Morgan Stanley analyst Nicholas Robison said in a note that based on full-year earnings estimates of \$146 million, TPG had acquired DTZ on an earnings multiple of 8.3 well below that of its global peers.

JLL is currently trading at a 2015 earnings multiple of 13.8 with CBRE at 12.7, based on Bloomberg estimates.

The news has also been well received by Australian-based DTZ staff, who are said to be "upbeat" at the takeover following months of waiting.

CO ctrlyi : Cassidy Turley Inc. | otppb : Ontario Teachers' Pension Plan Board | tpgpar : TPG, Inc. | dtc : DTZ Holdings plc | lasp : JLL | uncont : UGL Ltd.

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