

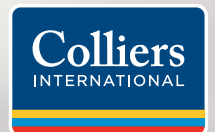
North America

LAW FIRM SERVICES GROUP

SUMMER 2019

SPOTLIGHT REPORT:

Real Estate Trends in the Legal Sector



Accelerating success.



Key Observations

- › **Space allocations for legal professionals are down by 6% over the past 18 months**
- › **Where law firms are moving to new premises, or renewing in place, the reduction in footprint is generally greater**
- › **Floorspace per partner and attorney is falling in primary markets while showing little change in secondary locations**
- › **The average gross rent per square foot of space being paid by law firms has risen by 6.5%**
- › **Total occupancy costs are holding static, having increased by less than 1% per partner and attorney**
- › **The average rent being paid is 10% less than current Class A asking rates**

Overview

The need to balance real estate costs with space efficiency is a primary consideration for office tenants, and law firms are no exception. The hiring market is extremely competitive, and occupiers are increasingly leasing high-end office space to attract and retain the best talent.

This new space comes with higher rents. Reducing the amount of space leased and finding the optimal floorspace layout are essential in order to balance costs and foster collaboration and productivity. The level of amenities and the attractiveness of the surrounding environment are additional factors for consideration.

Wind the clock back to the early 2000's and the picture was very different. Major law firms were focusing on leasing large-floorplate properties to house their needs, often including a library. Today's shift to digitalization of records and the reduction in support staff have combined to cut space needs. In addition, most progressive firms are phasing out large corner offices for senior partners in favor of fewer offices and more collaborative space.

In this report we seek to quantify these shifts by studying law firm space allocations and rental costs across the downtown areas of 19 North American office markets. The current survey, undertaken in Q2 2019, is compared against our prior survey from Q4 2017. In addition, we offer some thoughts on premises strategy going forward.



Floorspace Allocations

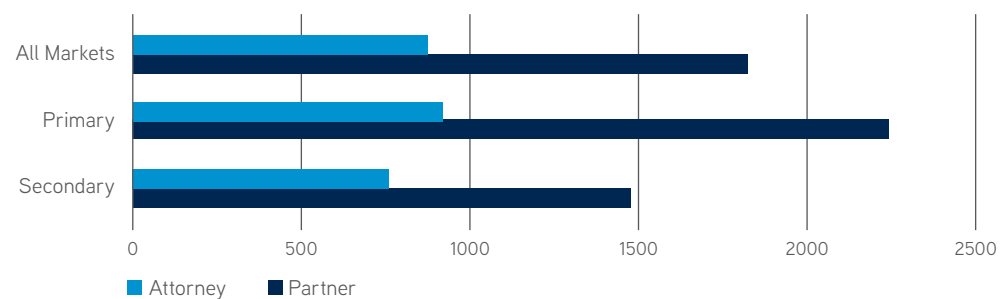
Space allocations per partner and attorney have fallen at a similar rate since our 2017 survey. Average floorspace per partner stands at 1,825 square feet, reflecting a reduction of 6.3%. Floorspace allocated to attorneys has fallen by 5.9% to 836 square feet. Despite having the highest average paid rent among the 19 markets, Manhattan has by far the greatest space allocation per partner at 3,815 square feet. Dallas is second at 2,482 square feet per partner.

The greatest reductions in space allocations occurred in Philadelphia, San Francisco and South Florida. San Francisco leads, with a fall of 18.5% in space per partner and 19.7% per attorney. This reflects the low vacancy and high rents in the downtown San Francisco office market.

Law firms that have had the opportunity to relocate or renegotiate their leases in the last 18 months are achieving greater space efficiency. Typically, this can be in the range of 10% to 20%. Our 2017 and 2019 surveys largely focus on the same firms, the majority of which are still in the same premises, hence the smaller average reduction of 6%. Significant changes can occur where a new lease has been signed in the interim or firms are in growth mode and increasing staffing.

FLOORSPACE ALLOCATIONS

SF/Professional: Q2 2019



Source: Colliers International



Rents and Costs

The change in gross rents paid almost balances out the savings accruing from reduced space allocations. The average gross rent paid across the 19 markets is \$44.68 per square foot, representing an increase of 6.5%. However, due to falling space allocations, the cost per legal professional has shown minimal change. Cost per partner is down by 0.2% compared with a 0.6% reduction in cost for attorneys.

The greatest increase in gross rent paid was in San Francisco, at 17.3%, followed by Denver (14.4%), Manhattan (8.5%) and Nashville (8.1%). Denver and Nashville are two tech-centric, secondary office markets that are seeing outsized growth as firms expand or establish new offices. Accordingly, the largest cost increases were in Denver (+15% per attorney) and in Nashville (+10.9%).

How does rent paid by law firms compare with current overall Class A asking rates? The average asking rent for the 19 markets stood at \$49.53 per square foot as of Q1 2019. This is almost 10%

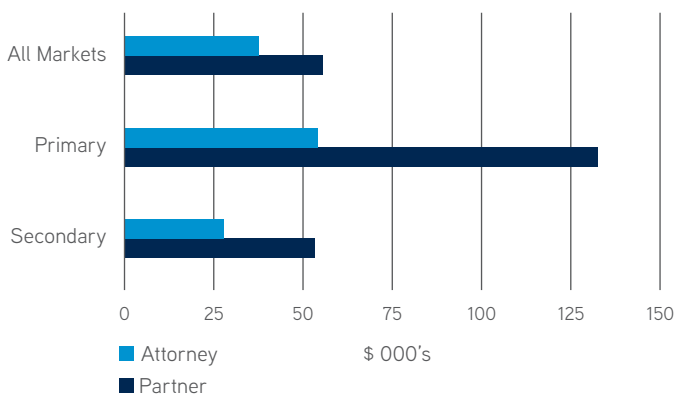
higher than actual rents being paid by law firms. Markets where rent being paid is markedly lower than current Class A asking rents are led by Nashville (21.2% below), San Francisco (19.3% below) and Vancouver (17.1% below).

In some markets, most notably Chicago, Dallas and Philadelphia, rent being paid is higher than the current market average. This is not reflective of downward shifts in such markets, but a function of several leading law firms moving to premier space in the past 18 months.

Average rent paid by the largest firms (those with 150 or more partners) is the highest in terms of practice size, at \$59.77 per square foot. Firms of this size are primarily located in higher-cost, primary markets. However, this is offset by such firms having the lowest square foot per partner allocation among all practice sizes, at 1,748 square feet, resulting in a cost per partner of \$104,478 per square foot.

COSTS

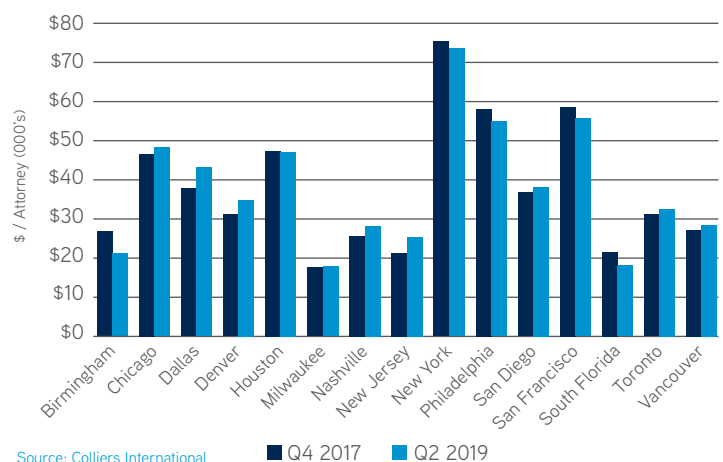
\$/Year/Professional: Q2 2019



Source: Colliers International

CHANGE IN COST PER ATTORNEY

Annual Rent Paid \$/Attorney: Q2 2019 v. Q4 2017



Source: Colliers International

■ Q4 2017 ■ Q2 2019



Primary Versus Secondary Markets

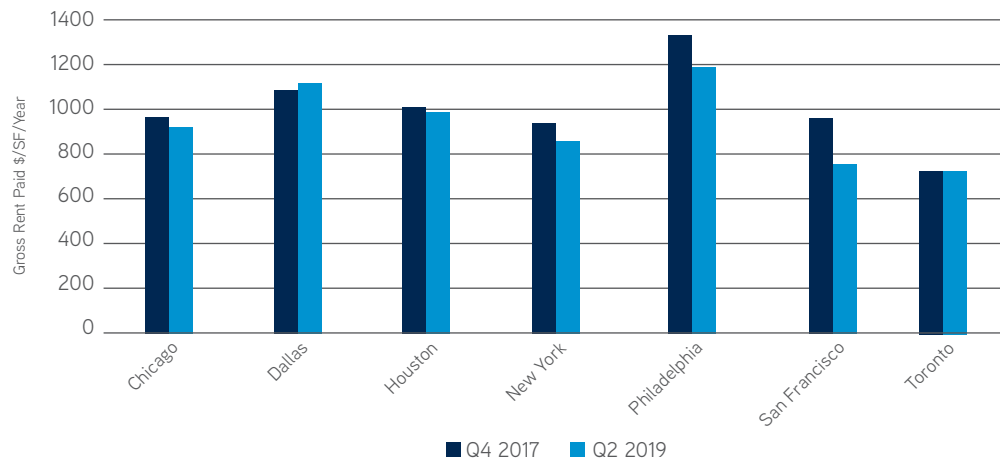
Rental costs and space allocations are notably higher in primary than in secondary markets, but the primary markets have seen the greatest shifts since our prior survey. The primary markets are defined as Chicago, Dallas, Houston, New York, Philadelphia, San Francisco, Seattle and Toronto, with the remaining 11 markets comprising the secondary group.

Floorspace allocations in primary markets stand at 2,264 square feet per partner and 912 square feet per attorney. The comparable figures for secondary markets are 1,486 square feet and 774 square feet respectively. However, space standards have fallen in the primary markets while remaining largely unchanged in their secondary counterparts. In the primary markets, space per partner is down by 6.4%, with a 4.9% reduction in space per attorney. The comparable changes in the secondary group show reductions of 2.5% and 0.7% respectively.

This is a function of both significantly higher costs in primary markets and the more static nature of smaller, local practices in some secondary locations. There is wide delta in the average gross rent paid between \$58.14 per square foot in the primary markets, and \$36.37 per square foot in the secondary group. This is exacerbated further by the difference in rental appreciation. Rents are up by 11.9% in primary markets compared with 7.7% in secondary locations.

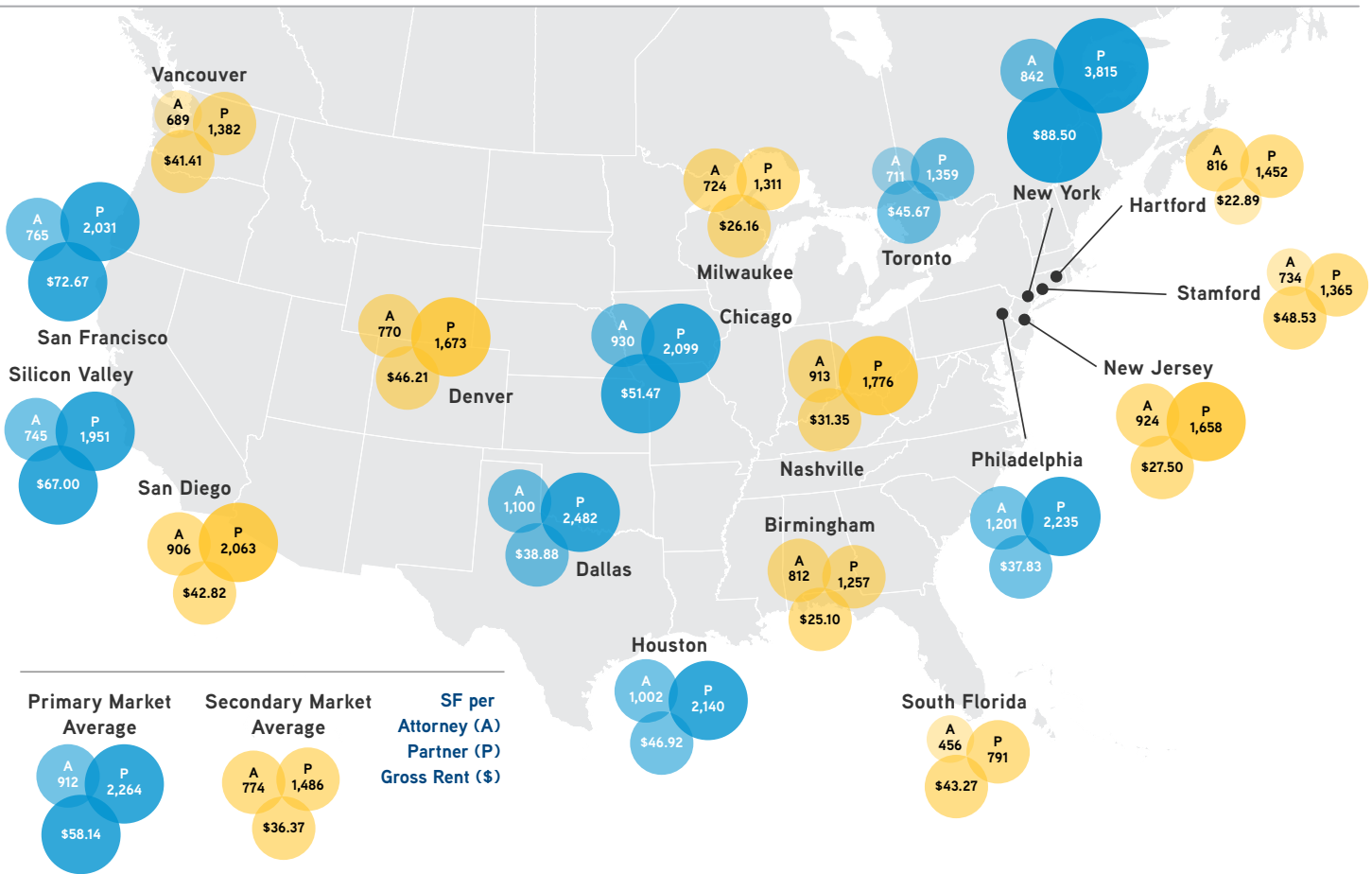
PRIMARY MARKETS: CHANGE IN SF PER ATTORNEY

SF/Attorney: Q2 2019 v. Q4 2017



Source: Colliers International

NORTH AMERICAN LAW FIRMS: Space Allocations and Gross Rent Paid (Q2 2019)

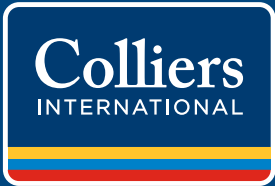


Premises Strategy and Outlook

The legal industry continues to look for innovative ways to execute on their business strategy, whether it's in client delivery or progressive ways to utilize office space. Some firms are considering suburban offices to attract or retain support staff and younger lawyers. While we believe this is still a ways away, the focus is primarily on efficiency and how to utilize space better.

Real estate is just one factor in reviewing a law firm's business strategy and is being seen in how practices design their space. Law firms are also increasingly thoughtful about designing premises that enhance culture, knowledge transfer, provide for different practices to interact and, perhaps most critically, the attraction and retention of the best and brightest talent.

Top line revenue is important, but a firm's expenses are increasingly under the microscope. The focus on efficiency of space with smaller offices, standardized offices, minimal or no law libraries is now the new norm. Going forward, look to see law firm spaces better reflect their clients' expectations and more accurately reflect their brand. Do law books from the early 1900's and oil paintings of ex-managing partners say innovative? The world is changing fast and while the legal industry is slow to change, it is changing.



Accelerating success

DANIEL ARENDS

Principal | Chicago

+1 312 612 5908

daniel.arends@colliers.com

COLIN SCARLETT

Executive Vice President | Vancouver

+1 604 661 0879

colin.scarlett@colliers.com

STEPHEN NEWBOLD

National Director of Office Research | USA

+1 202 534 3630

stephen.newbold@colliers.com

colliers.com/lawfirmsservices



Copyright © 2019 Colliers International.

The information contained herein has been obtained from sources deemed reliable. While every reasonable effort has been made to ensure its accuracy, we cannot guarantee it. No responsibility is assumed for any inaccuracies. Readers are encouraged to consult their professional advisors prior to acting on any of the material contained in this report.