

THOUGHT LEADERSHIP SERIES

THE EVOLVING LAW FIRM OFFICE MARKET: KEY TRENDS IN 10 MAJOR U.S. CITIES

NOVEMBER 2019

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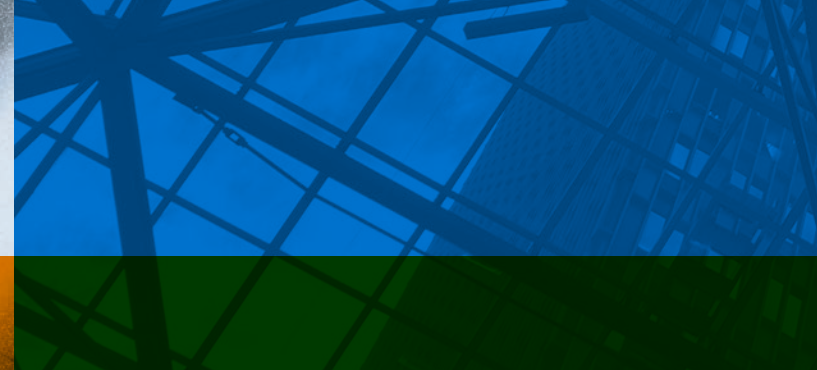


KEY FINDINGS

- » As space efficiency has become a primary real estate strategy for most major law firms, the amount of square feet leased per attorney has generally decreased over the past 10–15 years across the ten markets studied. However, factors such as fluctuating attorney counts, subleasing of space, and variances in space design versus space utilization make it difficult to draw direct conclusions from the amount of leased space per attorney. In short, the intent behind how law firms lease and use office space does not always match the reality of how much space they occupy. Nonetheless, these figures have generally trended downward even as many firms have dedicated more space to shared amenity and meeting areas.
- » Legal services employment in the 10 markets studied has remained relatively flat over the past five years, averaging only 0.5% annual growth. However, this was a considerable change from the layoffs many firms endured during and after the Great Recession. Sluggish growth in legal services employment is expected to continue with forecasted annual growth for these markets averaging only 0.2% over the next five years. Recruitment and retention is a priority.
- » Rental rates for law firm leases have increased over the past 15 years, with most cities seeing a marked rise in rents over the past five years; the 10 markets studied saw a 21% average increase in law firm rental rates during the 2015–2019 period compared with the 2010–2014 timeframe. This significant increase is mostly attributed to a flight-to-quality trend among law firms, as the increase in efficiency allowed many firms to upgrade their space while maintaining or reducing overall occupancy costs.



Factors such as fluctuating attorney counts, subleasing of space, and variances in space design versus space utilization make it difficult to draw direct conclusions from the amount of leased space per attorney. In short, the intent behind how law firms lease and use office space does not always match the reality of how much space they occupy.



I. RECENT TRENDS IN THE U.S. LAW FIRM OFFICE MARKET

Legal Services Employment has a significant impact on the commercial real estate market nationwide. As one of the largest office tenant types, trends within the law firm sector have a major effect on overall office space demand. In the markets with the largest concentrations of top-tier law firms, these trends can bring about significant change to regional market fundamentals and economic indicators. Since there is regional variance among top employment sectors—for example, financial services and banking in New York, the federal government in Washington, DC and the technology sector in San Francisco—the level of legal services employment as well as the most prevalent types of law practiced vary widely across U.S. cities.

Recently, legal services—a sector that is heavily office-using—has followed some national office trends, while staying away from others. For example, like many other industries, law firms have sought to make more efficient use of their space. In many cities, densification has been widespread, especially when firms have relocated to newer office space in recent years. On the other hand, the legal sector has not been an early adopter of coworking formats and shared-space layouts, as has been the case in other sectors. This is attributable to a variety of factors, such

as the size of firms' operations, the requirements surrounding confidentiality and branding, and the need for practice groups to work in the same office.

The markets chosen for this study represent the 10 largest national markets by legal services employment. They are geographically diverse and represent a full spectrum of law specialties. The purpose of the study is to provide a snapshot of the law firm real estate market in each major city and to see how recent trends have influenced rental rates and the amount of space leased by law firms. In order to keep the scope manageable, this study focuses primarily on Am Law 100 firms (a ranking of the 100 largest U.S. law firms by gross revenue as reported by law publication *The American Lawyer*).

As space efficiency has become a primary real estate strategy for most major law firms, the amount of square feet leased per attorney has generally decreased over the past 10–15 years across the 10 markets studied. However, factors such as fluctuating attorney counts, subleasing of space, and variances in space design versus space utilization make it difficult to draw direct conclusions from the amount of leased space per attorney.

Whether firms have renegotiated or relocated has a large impact on their space utilization. In short, the intent behind how law firms lease and use office space does not always match the reality of how much space they occupy. Nonetheless, these figures have generally trended downward even as many firms have dedicated more space to shared amenity and meeting areas. For the purposes of this study, square feet leased per attorney is presented as a range and a median to account for the variables that have affected occupancy over the course of the years studied.

In most cities studied, law firms currently lease less office space collectively than they did 10–15 years ago. This is due to both the densification trends noted previously and the fact that the law firm sector has seen slow employment growth over the past several years. Legal services employment in the 10 markets studied has remained relatively flat over the past five years, averaging only 0.5% annual growth. In addition, enrollment in law schools has declined since the Great Recession. Law school enrollment grew at a steady rate between 1985 and 2010, followed by a decline of nearly 30% by 2015, with law school graduations following a similar trend. Sluggish growth in legal

services employment is expected to continue with forecasted annual growth for these markets averaging only 0.2% over the next five years. Law firms are improving the efficiency of how they work, as new technology does some of the tasks that junior attorneys used to handle.

Rental rates for law firm leases have increased over the past 15 years, with most cities seeing a marked rise in rents over the past five years; the 10 markets studied saw a 21% average increase in law firm rental rates during the 2015–2019 period compared with the 2010–2014 timeframe. This significant increase is mostly attributed to a flight-to-quality trend among law firms, as the increase in efficiency allowed many firms to upgrade their space while maintaining or reducing overall occupancy costs.

Overall, real estate trends have been fairly consistent across these 10 markets, as many Am Law 100 firms have a national presence, and thus their real estate strategies are implemented simultaneously across multiple cities. Please see the table at the back of this report for a statistical summary of the 10 markets studied.

TRENDS IN LAW FIRM WORKPLACE STRATEGY

By Madeline Dunsmore
Regional Workplace Manager,
Washington, DC

As law firms endeavor to keep operating margins and expenses in line with revenue growth, managing partners and firm administrators are consistently evaluating the feasibility and financial impact of implementing various organizational practice- and client-driven changes. Increasingly, law firm leadership is incorporating new strategies to help support performance from a firm's people, place, and practice.

FEATURE



Thinking Through Space as a Tool



Today, a successful people-strategy includes developing a dynamic work environment flexible enough to meet the demands of a legal culture that engages partners, associates, legal support and clients. Less square footage per attorney is balanced by more collaborative spaces, connectivity, mentorship, amenities, and efficiencies that address client demands. **A smaller real estate footprint is balanced by utilizing better technology and reconfiguring office design to encourage focused work, collaboration, cross-selling and mobility.** The one-size-fits-all approach to practice areas has evolved into practice hubs that are both physical and virtual—technology and space coming together to create a tool that supports how a practice group needs to work.



Recruitment and Retention



Many of today's firms struggle in creating a sustainable pipeline of talent, particularly for associates. **The work assigned to associates is changing and many firms no longer focus on mentorship and growing associates into future partners.** There is an accelerating trend of five- or six-year associates as partners stay on longer, and many associates are frustrated by the lack of upward mobility. In some cases this has led to associates moving to smaller boutique firms that focus on one area of legal practice. This allows them to help build the business from the ground up, and potentially find more work/life balance as they develop a practice on their own terms. With the reduction in law school graduates since the 2008 recession, there is a gap in the pipeline of available associates, a potential concern with a wave of partner retirements on the horizon.



The Changing Workplace Landscape



In general, the total headcount of law firm employees is decreasing. With the reduction in number of paralegals, secretaries, and administrative personnel, there are fewer people who need office space. This, coupled with the move to single-size offices for partners and the broader focus on space efficiency, is driving down demand for law firm office space. However, firms that invest in more collaboration and community space may have a competitive advantage in attracting top talent. **One common trend for larger firms is an increase in amenity and gathering spaces—possibly a coffee bar on each practice floor with free snacks, or a large work café that doubles as an informal meeting space or happy hour spot.**



Old Law vs. New Law



Some smaller boutique firms are adopting technology at a much faster rate than large legacy firms. Especially on the West Coast, we are beginning to see the adoption of virtual teams and virtual court rooms. **This can allow some attorneys more flexibility, and more work-from-home time decreases the need for space.** Additional flexibility also serves the goal of improving retention of high-quality talent. A combination of upgraded technology and enhanced amenities further supports recruitment and retention efforts.

II. KEY LAW FIRM REAL ESTATE TRENDS FOR 10 MAJOR U.S. CITIES



The state capitol of Georgia, the Atlanta metro area has a robust legal services employment base, with more than 27,000 employees working in the industry. One-third of Am Law 100 firms have a presence in the market, counting more than 4,000 of the region's 17,000 lawyers among them. Top legal services sectors in the Atlanta metro area include real estate, mergers and acquisitions, intellectual property, and labor law. A majority of law firms in Atlanta occupy Class A office space in the Midtown submarket.

Atlanta's legal sector is following national trends, as firms push to do more with their space while spending less money. The increasing construction costs for interior build-outs mean firms must critically analyze their renew-verses-relocate scenario to achieve the most cost-effective solution. Firms that have been in their space longer than 10–15 years are more likely to see significant cost savings on a relocation scenario than firms who relocated within the last 10 years, since those new leases likely included updated and efficiency-minded design trends.

While Atlanta law firms' office design and overall approach to space configuration have usually been traditional, the pendulum is beginning to shift to a more transitional look. Some firms are incorporating same-size offices for partners and associates and

adding offices on the interior. Some offices now feature modular workstations, sliding glass office fronts, and an overall sleek design. These are all common practices seen in higher-priced office markets in other U.S. cities, but it has taken Atlanta longer to embrace these design standards given what has traditionally been a lower price-point for office space, making cost less a driver of decisions. However, cost is becoming more of a factor as Class A rents in Midtown have risen 50.2% over the past five years.

Attracted by the city's recruiting appeal and access to transportation, the urban core is attracting companies from all industries, including the legal profession. The significant amount of new office construction in Midtown will result in continued relocation of law firms, as they make up a majority of the tenant base that is willing and able to pay the highest rents in the market. A trend to watch is the impact of the redevelopment of the old industrial properties in West Midtown into new mixed-use properties. This redevelopment will yield Class A space at a significant discount from the heart of Midtown, with better access for commuters on the west side of the region. However, it remains to be seen whether law firms will embrace the less-traditional, retrofitted design.

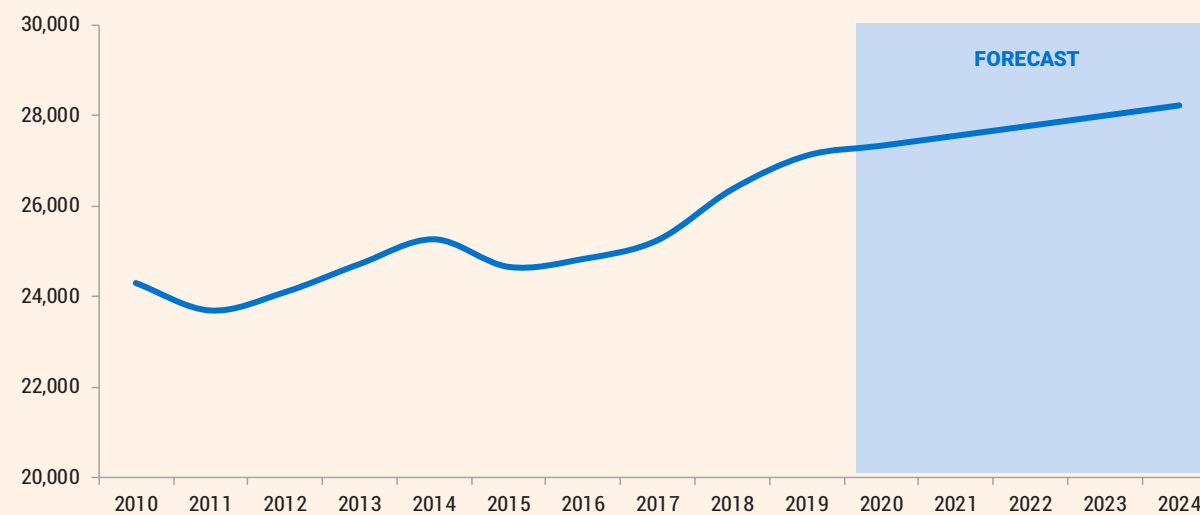
ATLANTA METRO AREA LAW FIRM MARKET BY THE NUMBERS

27,130	Legal Services Employment
1.4%	5-Year Annual Average Change in Legal Services Employment
0.8%	5-Year Forecast: Legal Services Annual Employment Change
33	Am Law 100 Firms in Market
4,236	Am Law 100 Attorneys in Market
85	Average # of Attorneys Per Firm (Among AM Law 100 Firms)
650	Median Leased SF/Attorney*
600–700	Leased SF/Attorney Range*
\$47.00–\$53.00	Average Starting Rent* (per SF, full service)
\$80.00	Average Concession Package* (per SF)

*Law firm deals signed 2015–2019

Atlanta's legal sector is following national trends, as firms push to do more with their space while spending less money. The increasing construction costs for interior build-outs mean firms must critically analyze their renew-verses-relocate scenario to achieve the most cost-effective solution.

LEGAL SERVICES EMPLOYMENT



SOURCE: JOBS EQ, NKF RESEARCH; NOVEMBER 2019

TOP 5 LAW FIRM LEASES SIGNED SINCE 2015 (BY SF)

	LAW FIRM	ADDRESS	SF LEASED	YEAR SIGNED	LEASE TYPE
1	Troutman Sanders	600 Peachtree Street NE	230,146	2016	Renewal
2	Jones Day	300 Colony Square	115,000	2019	Relocation
3	Nelson Mullins Riley & Scarborough	201 17th Street	103,156	2017	Renewal
4	Smith, Gambrell & Russell	1105 W Peachtree Street NW	96,000	2019	Relocation
5	Hall Booth Smith	191 Peachtree Tower	76,520	2017	Renewal



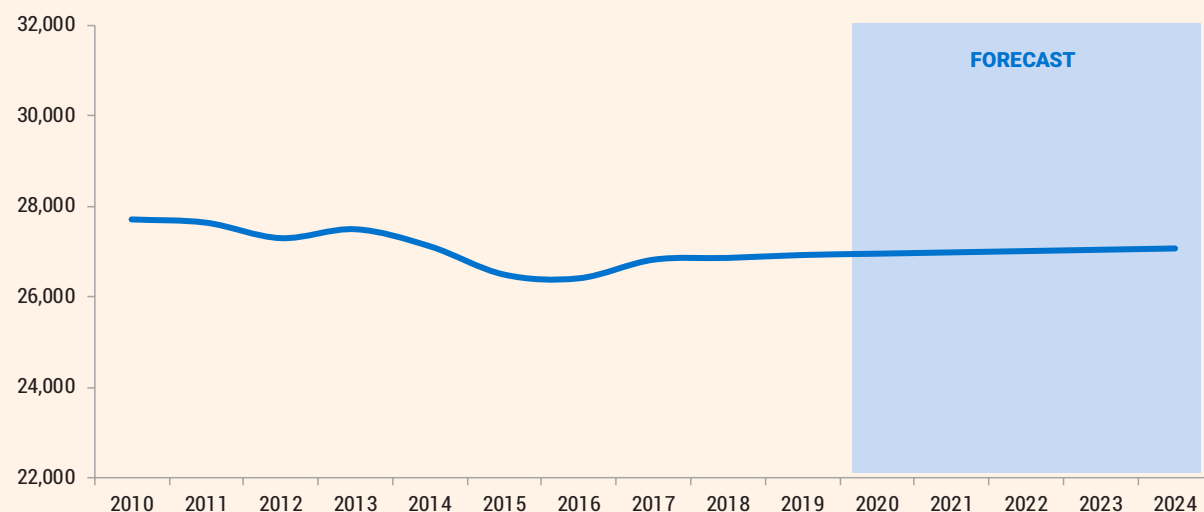
BOSTON

The Boston metro area has seen a wave of law firms entering the market over the past several years. The greater metro area employs nearly 27,000 law firm staff, more than 15,000 of which are based in the city of Boston. Forty of the Am Law 100 firms have operations in the Boston metro area, with a total lawyer count of 3,509. A majority of these firms are located in the Downtown and Back Bay submarkets within Boston's CBD, but Boston's Seaport District submarket is also home to an emerging cluster of major law firms.

Strong growth in the life science and tech industries has been a major driver of legal services growth in the region, especially among firms focused on intellectual property. Several major legal firms entered the Boston market from 2017–2018, including Hogan Lovells, Haug Partners and Kirkland & Ellis. This trend

continued into 2019 with at least five national or international firms opening a Boston office this year alone, including Orrick Herrington & Sutcliffe, Morrison & Foerster and McGlinchey Stafford. However, a continued focus on space utilization has resulted in a reduction of leased space by existing firms, counteracting this expansion trend. Seventy-three percent of the top firms that executed leases over the past five years reduced their footprint. For recent law firm lease deals, leased space per attorney ranges from about 570 to 1,170 square feet with a median of 806 square feet per attorney. Private office counts and sizes are being reduced and large libraries are no longer a necessity, with these areas increasingly being replaced by more amenity and collaboration space. While law firms will continue to play a major role in Boston's office market, we expect the densification trend to continue.

LEGAL SERVICES EMPLOYMENT



SOURCE: JOBS EQ, NKF RESEARCH; NOVEMBER 2019

BOSTON METRO AREA LAW FIRM MARKET BY THE NUMBERS

26,942	Legal Services Employment
-0.1%	5-Year Annual Average Change in Legal Services Employment
0.1%	5-Year Forecast: Legal Services Annual Employment Change
40	Am Law 100 Firms in Market
3,509	Am Law 100 Attorneys in Market
88	Average # of Attorneys Per Firm (Among AM Law 100 Firms)
806	Median Leased SF/Attorney*
569–1,166	Leased SF/Attorney Range*
\$58.95	Average Starting Rent* (per SF, full service)
\$80.00	Average Concession Package* (per SF)

*Law firm deals signed 2015–2019

Strong growth in the life science and tech industries has been a major driver of legal services growth in the region, especially among firms focused on intellectual property.

TOP 5 LAW FIRM LEASES SIGNED SINCE 2015 (BY SF)

	LAW FIRM	ADDRESS	SF LEASED	YEAR SIGNED	LEASE TYPE
1	Mintz, Levin, Cohn, Ferris, Glovsky and Popeo	1 Financial Center	205,600	2017	Renewal
2	Morgan, Lewis & Bockius	1 Federal Street	202,800	2018	Renewal
3	Foley Hoag	155 Seaport Boulevard	164,700	2019	Renewal
4	Choate Hall & Stewart	2 International Place	136,600	2015	Renewal
5	Nixon Peabody	53 State Street	105,500	2018	Relocation



Chicago is home to two of the nation's top law schools (Northwestern University and University of Chicago) and many of the best law firms in the U.S.; in fact, 57 of the Am Law 100 firms have offices in Chicago. A majority are located within Chicago's Central and West Loop submarkets in trophy and Class A office buildings, leasing large blocks of premier high-rise view space.

In line with many other industries post the Great Recession, law firms in Chicago have evolved to increase their focus on operational and cost efficiency. Millennials have entered the workplace and technology has become more advanced and integrated, requiring less administrative support space. All of this has contributed to the modernization of law firm space. The emphasis has shifted to higher space density, the inclusion of collaborative and entertainment spaces, and increased administrative support ratios. Office space programming for law firms typically now includes single size offices, the elimination of libraries, reduced onsite file storage, appropriately sized conference centers (they were too large before), and reduced wasted core space. Hoteling for retired partners and visiting attorneys have replaced empty retired partner offices and duplicate offices for attorneys that reside in other cities.

In Chicago, increased office space efficiency coincided with construction of the city's first new office towers to deliver in seven years, creating the opportunity for law firms to reposition their office space into more efficient floor plans, often reducing their space by one-third via the elimination of expansion space. In the four new office towers that were either recently delivered or are currently under construction, there are 11 law firm tenants leasing 22.3% of the 4.6 million square feet. Of these 11 tenants, eight signed leases for more than 50,000 square feet, but only two of them expanded from their previous size. In aggregate, these firms reduced their space footprint by 236,000 square feet. This trend has resulted in substantial availability of antiquated law firm space, which will need to be updated for new tenants, requiring significant capital investment.

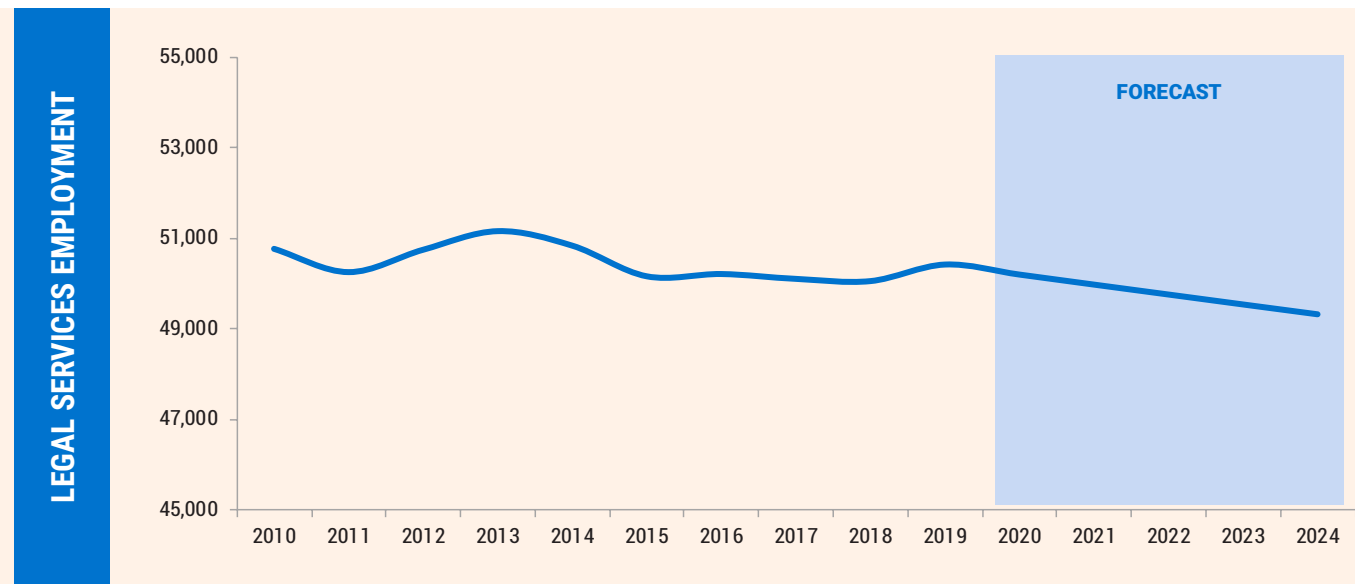
While the office needs of the legal community continue to evolve, with more than 50,000 people within the Chicago metro area employed in legal services, the sector will continue to be a driver of Class A office space demand in the downtown market as firms continue to upgrade to more efficient space to reduce occupancy costs.

CHICAGO METRO AREA LAW FIRM MARKET BY THE NUMBERS

50,422	Legal Services Employment
-0.2%	5-Year Annual Average Change in Legal Services Employment
-0.4%	5-Year Forecast: Legal Services Annual Employment Change
57	Am Law 100 Firms in Market
6,652	Am Law 100 Attorneys in Market
152	Average # of Attorneys Per Firm (Among AM Law 100 Firms)
935	Median Leased SF/Attorney*
700-1,100	Leased SF/Attorney Range*
\$50.00	Average Starting Rent* (per SF, full service)
\$145.00	Average Concession Package* (per SF)

*Law firm deals signed 2015-2019

In line with many other industries post the Great Recession, law firms in Chicago have evolved to increase their focus on operational and cost efficiency. Millennials have entered the workplace and technology has become more advanced and integrated, requiring less administrative support space. All of this has contributed to the modernization of law firm space.



TOP 5 LAW FIRM LEASES SIGNED SINCE 2015 (BY SF)

	LAW FIRM	ADDRESS	SF LEASED	YEAR SIGNED	LEASE TYPE
1	Sidley Austin	1 S Dearborn Street	575,000	2016	Renewal
2	Winston & Strawn	35 W Wacker Drive	430,000	2016	Renewal
3	Mayer Brown	71 S Wacker Drive	271,000	2015	Renewal
4	Schiff Hardin	233 S Wacker Drive	181,000	2017	Extension/ Contraction
5	Reed Smith	10 S Wacker Drive	140,000	2016	Renewal



The Dallas legal market is among the largest in Texas, on par with Houston's. Driven by a diverse legal market and robust business climate, national law firms have entered the market or expanded their existing Dallas practices in recent years. Between 2010 and 2015, 30 national firms entered the Dallas market, taking more than 700,000 SF of space. The Dallas legal market, once seen as unfriendly to out-of-state firms, has seen an influx of new firms more recently, due in part to large-scale mergers and acquisitions. Home to more than 10,000 corporate headquarters, Dallas is second only to New York City in number of Fortune 100 headquarters, presenting unique opportunities for law firms in the market. The Dallas legal market attracts firms specializing in a multitude of disciplines, including technology, healthcare, transportation, energy and intellectual property, as well as real estate and banking, finance, and corporate law. The legal services sector employs more than 30,000 people in the Dallas area. Of the Am Law 100 firms, 43 have a presence in the Dallas market, with 2,380 lawyers among them.

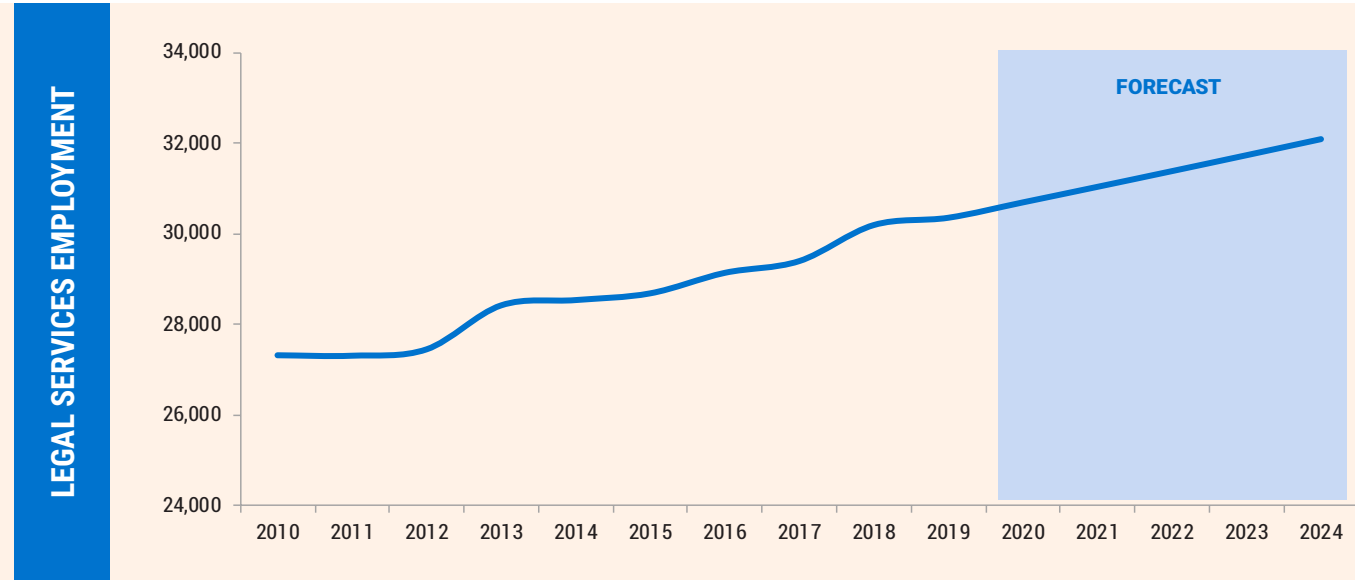
Since 2005, law firms in the Dallas Metroplex have made an impact on the real estate market, with 1,620 office lease transactions totaling more than 10.9 million square feet of space. Among the Am Law 100 firms, leased office space per attorney ranges from 336 square feet to more than 2,000 square feet per attorney, with a median of 870 square feet per attorney. Law firms are highly concentrated in Dallas' CBD with a growing number of firms migrating to the Uptown/Turtle Creek submarket. Wider office trends present throughout the Dallas region have trickled over to the legal sector, with many law firms focusing on culture and employee experience. Larger communal spaces for collaboration, technology-rich conference rooms, and recreation amenities are important aspects of attracting top talent and appealing to a wider range of clients. Mirroring the larger Dallas-Fort Worth economy, we expect these trends to continue for law firms into the next expansion cycle.

DALLAS METRO AREA LAW FIRM MARKET BY THE NUMBERS

30,365	Legal Services Employment
1.2%	5-Year Annual Average Change in Legal Services Employment
1.1%	5-Year Forecast: Legal Services Annual Employment Change
43	Am Law 100 Firms in Market
2,380	Am Law 100 Attorneys in Market
55	Average # of Attorneys Per Firm (Among AM Law 100 Firms)
870	Median Leased SF/Attorney*
336-2,337	Leased SF/Attorney Range*
\$26.36	Average Starting Rent* (per SF, full service)
\$99.00	Average Concession Package* (per SF)

*Law firm deals signed 2015-2019

Driven by a diverse legal market and robust business climate, national law firms have entered the market or expanded their existing Dallas practices in recent years.



SOURCE: JOBS EQ, NKF RESEARCH; NOVEMBER 2019

TOP 5 LAW FIRM LEASES SIGNED SINCE 2015 (BY SF)

	LAW FIRM	ADDRESS	SF LEASED	YEAR SIGNED	LEASE TYPE
1	Thompson & Knight	1722 Routh Street	154,022	2018	Renewal
2	Locke Lord	2200 Ross Avenue	152,924	2015	Renewal
3	Baker Botts	2001 Ross Avenue	139,710	2017	Renewal
4	Foley & Lardner	2021 McKinney Avenue	114,669	2016	Relocation
5	Vinson & Elkins	2001 Ross Avenue	109,200	2017	Renewal



The Los Angeles metro area ranks second in the nation for the highest level of employment in the legal sector, with more than 75,000 employees, behind only New York. Law firm payrolls have increased in recent years thanks to substantial growth from tech, media and entertainment companies in the region, which has led to more demand for legal services. From 2015 to 2019, local legal services employment jumped by 7.8%, nearly quadruple the U.S. average growth rate of 2.0% for the same period. While larger law firms generally occupy Class A space in Downtown Los Angeles and Century City, firms are opening satellite offices closer to Silicon Beach, the epicenter of the region's tech economy. Am Law 100 firms Goodwin Procter and Fenwick & West, for instance, leased new offices in Santa Monica in early 2019 to better serve their tech and start-up clients.

Despite local employment growth, law firms continue to reduce their real estate footprints. Nationally, law firm space downsizings are occurring in part from the digitization of law libraries and general space efficiency trends. Further, law firms are relocating

more frequently to accommodate the growing demand for modern offices and to attract and retain talent in a tight labor market. In Los Angeles, the median leased office space per attorney among Am Law 100 firms shrank over the past 10 years from roughly 1,102 to 852 square feet per attorney.

Local factors driving space reductions include record high office rents and limited Class A availability, especially in Century City, where high-rise occupiers such as talent agencies, finance companies and legal service firms cater to the entertainment industry. Since 2018, major law firm tenants have signed leases in Century City for a total of 27 floors, many expanding or restacking their current spaces. Vacancy in the submarket will likely reach 4.0% once these tenants take occupancy, an average that is far tighter than last cycle's low of 7.6%, reached in 2006. Some property owners are capitalizing on this landlord-favored market by increasing their asking rents by 10-20%, suggesting the Los Angeles market will continue to be tight for law firm tenants going forward.

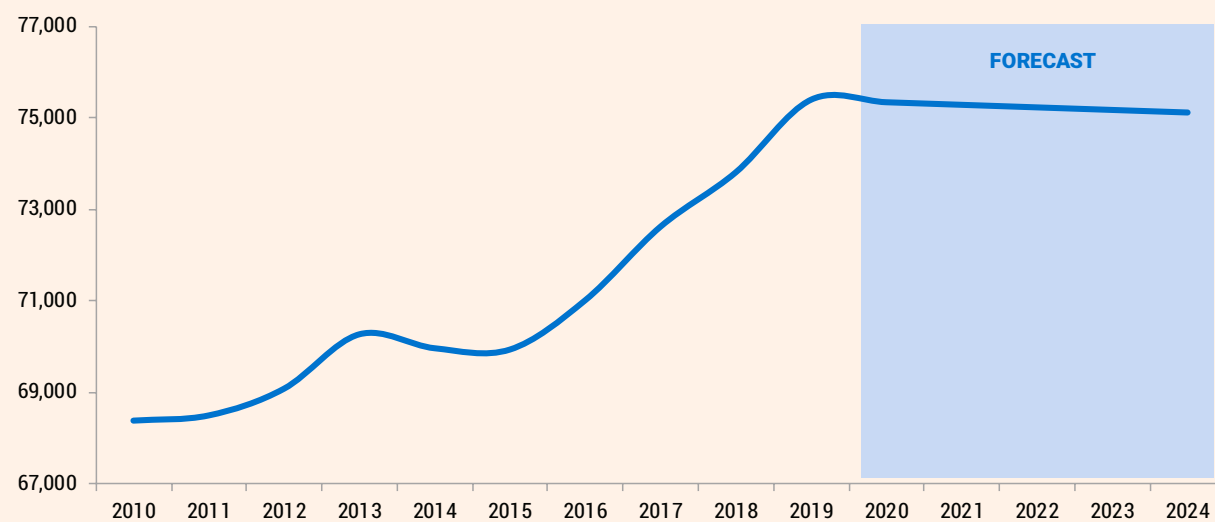
LOS ANGELES METRO AREA LAW FIRM MARKET BY THE NUMBERS

75,402	Legal Services Employment
1.5%	5-Year Annual Average Change in Legal Services Employment
-0.1%	5-Year Forecast: Legal Services Annual Employment Change
76	Am Law 100 Firms in Market
5,226	Am Law 100 Attorneys in Market
69	Average # of Attorneys Per Firm (Among AM Law 100 Firms)
852	Median Leased SF/Attorney*
501-1,253	Leased SF/Attorney Range*
\$48.77	Average Starting Rent* (per SF, full service)
\$86.00	Average Concession Package* (per SF)

*Law firm deals signed 2015-2019

While larger law firms generally occupy Class A space in Downtown Los Angeles and Century City, firms are opening satellite offices closer to Silicon Beach, the epicenter of the region's tech economy.

LEGAL SERVICES EMPLOYMENT



SOURCE: JOBS EQ, NKF RESEARCH; NOVEMBER 2019

TOP 5 LAW FIRM LEASES SIGNED SINCE 2015 (BY SF)

	LAW FIRM	ADDRESS	SF LEASED	YEAR SIGNED	LEASE TYPE
1	Lewis Brisbois Bisgaard & Smith	633 W 5th Street	215,230	2015	Renewal
2	Gibson Dunn	333 S Grand Avenue	234,573	2019	Renewal
3	Munger, Tolles & Olson	350 S Grand Avenue	150,500	2015	Relocation
4	Paul, Hastings, Janofsky	515 S Flower Street	140,000	2016	Renewal
5	Quinn Emanuel	865 S Figueroa Street	135,002	2016	Renewal

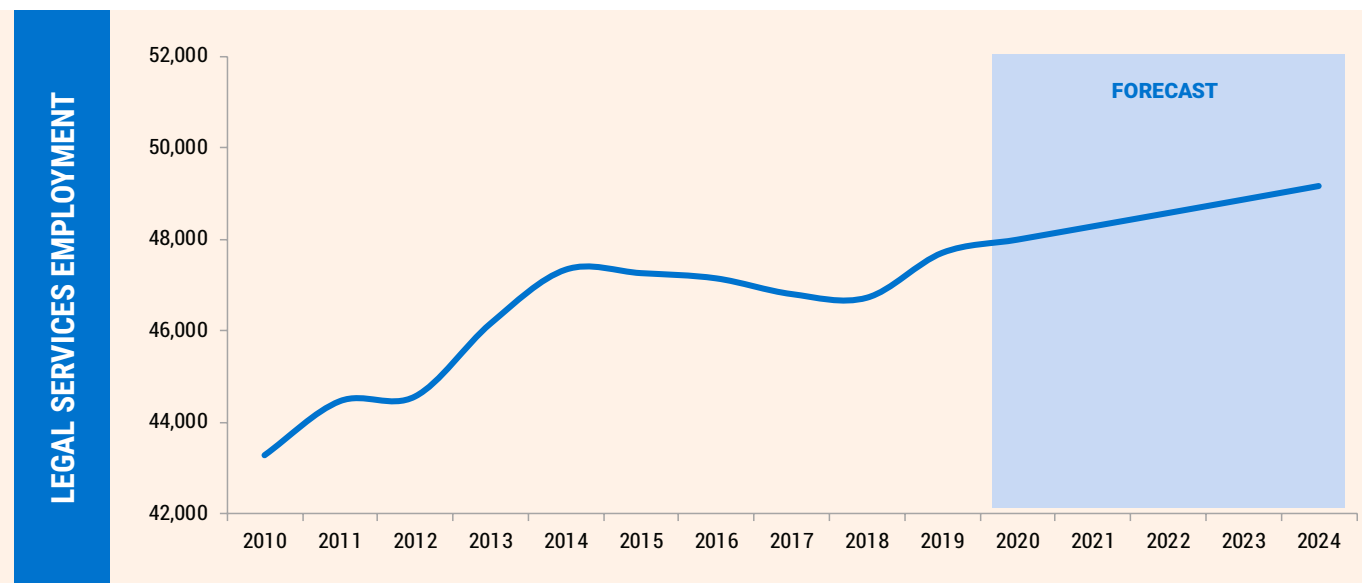


Miami has emerged as an international hub for start-ups, emerging growth and regional companies, and to a much lesser degree Fortune 500 companies. Strong growth in the region has been fueled by a multi-lingual workforce, lack of state income tax, and the area's central and easily accessible gateway to Latin America and the Caribbean. The area's legal services profession has mirrored this growth, increasing 18% over the past 15 years, with current legal services employment of nearly 48,000. The number of law practices has increased by 1,300 since 2000, growing to more than 4,600 law firms throughout Miami-Dade County. Approximately one-third of the Am Law 100 Firms have a presence in Miami, with 1,159 lawyers among them.

With Miami's reliance on international finance and trade, hospitality and tourism, government, technology, healthcare,

and logistics, local law firms have continued to specialize in international law, corporate law, real estate and transactional law, corporate litigation, criminal law and personal injury. However, with the high cost of real estate and competition for legal talent, law firms have been shifting their focus from a traditional law office design to an evolving workplace that is more attuned to recruitment and retention of the millennial generation. Leased office space per attorney currently ranges from around 450 to 625 square feet per attorney, a more efficient range than in many other major markets.

Miami's status as an international gateway market will continue to fuel its population and business growth. This in turn will attract more lawyers to Miami, with legal services employment growth projected to average 0.6% annually over the next five years.



SOURCE: JOBS EQ, NKF RESEARCH; NOVEMBER 2019

MIAMI METRO AREA LAW FIRM MARKET BY THE NUMBERS

47,707	Legal Services Employment
0.2%	5-Year Annual Average Change in Legal Services Employment
0.6%	5-Year Forecast: Legal Services Annual Employment Change
29	Am Law 100 Firms in Market
1,159	Am Law 100 Attorneys in Market
40	Average # of Attorneys Per Firm (Among AM Law 100 Firms)
619	Median Leased SF/Attorney*
444-2,100	Leased SF/Attorney Range*
\$55.00	Average Starting Rent* (per SF, full service)
\$102.00	Average Concession Package* (per SF)

*Law firm deals signed 2015-2019

With the high cost of real estate and competition for legal talent, law firms have been shifting their focus to an evolving workplace that is more attuned to recruitment and retention of the millennial generation.

TOP 5 LAW FIRM LEASES SIGNED SINCE 2015 (BY SF)

	LAW FIRM	ADDRESS	SF LEASED	YEAR SIGNED	LEASE TYPE
1	Stearns Weaver Miller Weissler	Museum Tower, 150 W Flagler Street	110,000	2015	Renewal/Expansion
2	Shook Hardy Bacon	Citigroup Center, 201 S Biscayne Boulevard	54,764	2015	Renewal
3	Hughes Hubbard & Reed	Citigroup Center, 201 S Biscayne Boulevard	23,596	2015	Renewal
4	Rumberger Kirk & Caldwell	Brickell City Tower, 80 SW 8th Street	19,651	2017	Renewal
5	Weiss Serota Helfman Cole & Bierman	2525 Ponce De Leon Boulevard	19,188	2016	Renewal



NEW YORK CITY

Law firms are one of New York City's mainstay industries, with nearly 140,000 people employed in legal services positions throughout the metro area. In fact, 95 of the Am Law 100 law firms have locations in the city. As a global financial center, 92 of these 95 firms have specialists in banking and financial law, and 88 have a focus in technology given New York's growing status as a tech hub. This is evidence of demand by financial and tech companies for law firms specializing in their respective industries. Law firms are generally concentrated within the Grand Central, Sixth Avenue/Rockefeller Center, Eastside, and Downtown East submarkets. Recently, firms have begun moving to the new Hudson Yards development.

After a period of stable starting rents from 2005 through 2014, rents for law firm leases escalated by more than \$11.00/SF to reach \$73.89/SF in the five-year period from 2015 through 2019. Over the past five years, law firms have seen rental growth of approximately 18.0%, as they improve the quality of their space.

Simultaneously, there has been a push among New York law firms in recent years to use space more efficiently. Many of these tenants are decreasing the size and number of offices and shrinking work stations. New technologies and streamlined processes have enabled firms to diminish or do away with libraries and other elements of storage, and to reduce support staff. New construction also offers more efficient floor plates.

Despite the fact that many law firms' head counts are stable or growing, many are able to take considerably less space than their counterparts in older space. Tenants relocating can achieve an average of 650–700 SF per attorney, where tenants in older space may approach 1,000 SF per attorney. Law firms are also more likely to relocate now, as firms have relocated in 62.8% of transactions since 2014, up from the 53.8% of deals that were relocations in the preceding five years. Continued active leasing velocity is on the horizon for the legal sector. More than 30 firms are in the process of looking for a combined 2.0 million square feet of space in New York City.

NEW YORK METRO AREA LAW FIRM MARKET BY THE NUMBERS

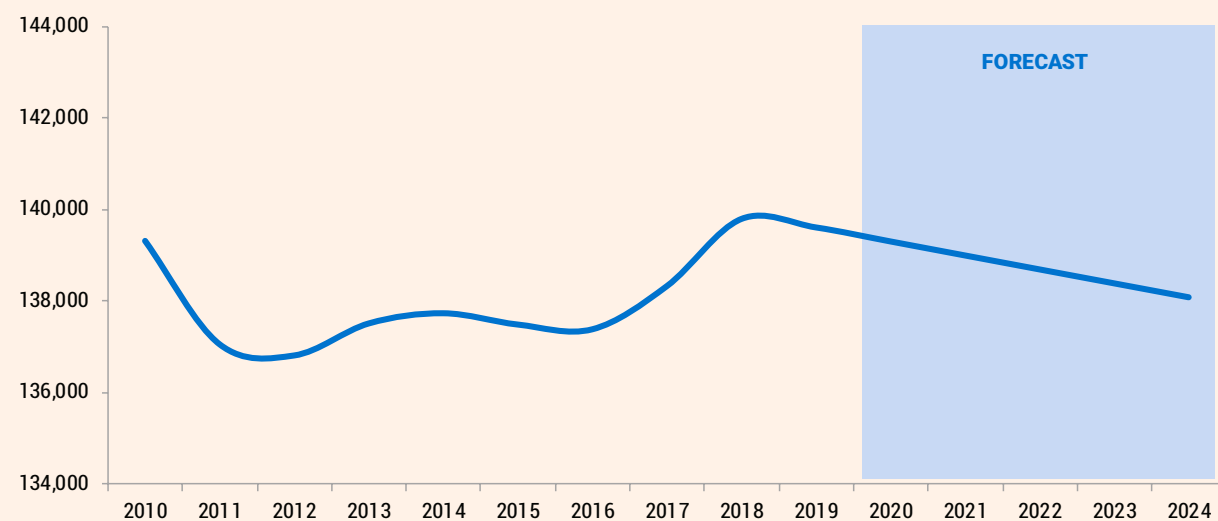
139,624	Legal Services Employment
0.3%	5-Year Annual Average Change in Legal Services Employment
-0.2%	5-Year Forecast: Legal Services Annual Employment Change
95	Am Law 100 Firms in Market
20,912	Am Law 100 Attorneys in Market
220	Average # of Attorneys Per Firm (Among AM Law 100 Firms)
869	Median Leased SF/Attorney*
370–2,431	Leased SF/Attorney Range*
\$73.89	Average Starting Rent* (per SF, full service)
\$75.00	Average Concession Package* (per SF)

*Law firm deals signed 2015–2019

NOTE: CONCESSIONS FOR NEW RELOCATION DEALS OVER 10,000 SF SINCE 2017 AVERAGE \$97.50

New technologies and streamlined processes have enabled firms to diminish or do away with libraries and other elements of storage, and to reduce support staff. New construction also offers more efficient floor plates.

LEGAL SERVICES EMPLOYMENT



SOURCE: JOBS EQ, NKF RESEARCH; NOVEMBER 2019

TOP 5 LAW FIRM LEASES SIGNED SINCE 2015 (BY SF)

	LAW FIRM	ADDRESS	SF LEASED	YEAR SIGNED	LEASE TYPE
1	Skadden, Arps, Slate, Meagher & Flom	1 Manhattan West	600,867	2015	Relocation
2	Cravath, Swaine & Moore	2 Manhattan West	481,000	2019	Relocation
3	Latham & Watkins	1271 Avenue of the Americas	407,000	2018	Relocation
4	Kirkland & Ellis	601 Lexington Avenue	400,000	2015	Renewal/Expansion
5	Sidley Austin Brown & Wood	787 Seventh Avenue	338,926	2017	Renewal



PHILADELPHIA

The Philadelphia metro is among the country's most established legal services markets. It employs more than 39,000 people and counts 19 of the Am Law 100 firms. Philadelphia is also home to the nation's oldest law firm in continuous practice, Rawle & Henderson, founded in 1783. The Philadelphia Central Business District's West Market submarket is home to the region's primary concentration of law firms, which in aggregate occupy a footprint of more than 5.0 million square feet, a fifth of the submarket's office space.

The war for talent, technological progress, outsourcing, and cost sensitivity have converged to precipitate a shift in how law firms manage space needs, and this has had an impact on leasing trends in Philadelphia. Ten to fifteen years ago, leased office space per attorney ranged from 800 to well over 1,000 SF. Now, a firm signing to relocate or renew is often downsizing to between 500 to 800 square feet per attorney. In addition, the changing role of legal support staff is affecting space considerations. In

the 20th century, the ratio of legal secretaries to attorneys was often one to one; now, a legal secretary may support three or four attorneys, sometimes more. While the densification trend has led to an overall reduction in the local legal footprint, there have been notable expansions into the market. Holland & Knight entered Philadelphia in 2018 and has since signed to double its initial footprint. Am Law 200-ranked firms Armstrong Teasdale and Ice Miller also recently established Philadelphia offices.

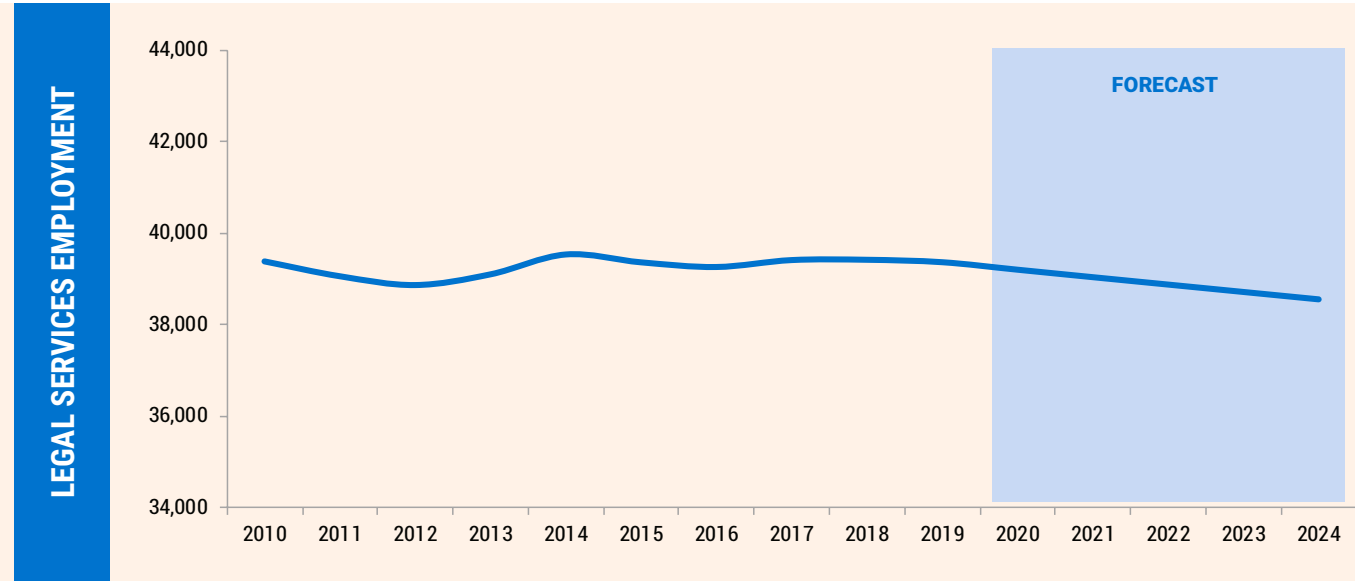
Law firms will continue to be a significant driver of Philadelphia office market activity. Blank Rome, Buchanan Ingersoll & Rooney, and Dechert are all evaluating space options in the market, and Morgan, Lewis & Bockius is in advanced development talks to anchor a new build-to-suit headquarters tower to be constructed in West Market. The deal is expected to officially sign by the end of 2019, and will be the market's largest legal transaction in over six years.

PHILADELPHIA METRO AREA LAW FIRM MARKET BY THE NUMBERS

39,358	Legal Services Employment
-0.1%	5-Year Annual Average Change in Legal Services Employment
-0.4%	5-Year Forecast: Legal Services Annual Employment Change
19	Am Law 100 Firms in Market
2,355	Am Law 100 Attorneys in Market
124	Average # of Attorneys Per Firm (Among AM Law 100 Firms)
832	Median Leased SF/Attorney*
500-1,079	Leased SF/Attorney Range*
\$30.26	Average Starting Rent* (per SF, full service)
\$65.00	Average Concession Package* (per SF)

*Law firm deals signed 2015-2019

The war for talent, technological progress, outsourcing, and cost sensitivity have converged to precipitate a shift in how law firms manage space needs, and this has had an impact on leasing trends in Philadelphia.



SOURCE: JOBS EQ, NKF RESEARCH; NOVEMBER 2019

TOP 5 LAW FIRM LEASES SIGNED SINCE 2015 (BY SF)

	LAW FIRM	ADDRESS	SF LEASED	YEAR SIGNED	LEASE TYPE
1	Duane Morris	30 S. 17th Street	257,000	2016	Renewal
2	Morgan Lewis & Bockius	1801 Market Street	97,189	2017	Renewal
3	Montgomery McCracken Walker & Rhoads	1735 Market Street	75,038	2016	Relocation
4	Post & Schell	1600 John F Kennedy Boulevard	69,411	2018	Renewal
5	Obermayer Rebmann Maxwell & Hippel	1500 Market Street	66,000	2015	Relocation

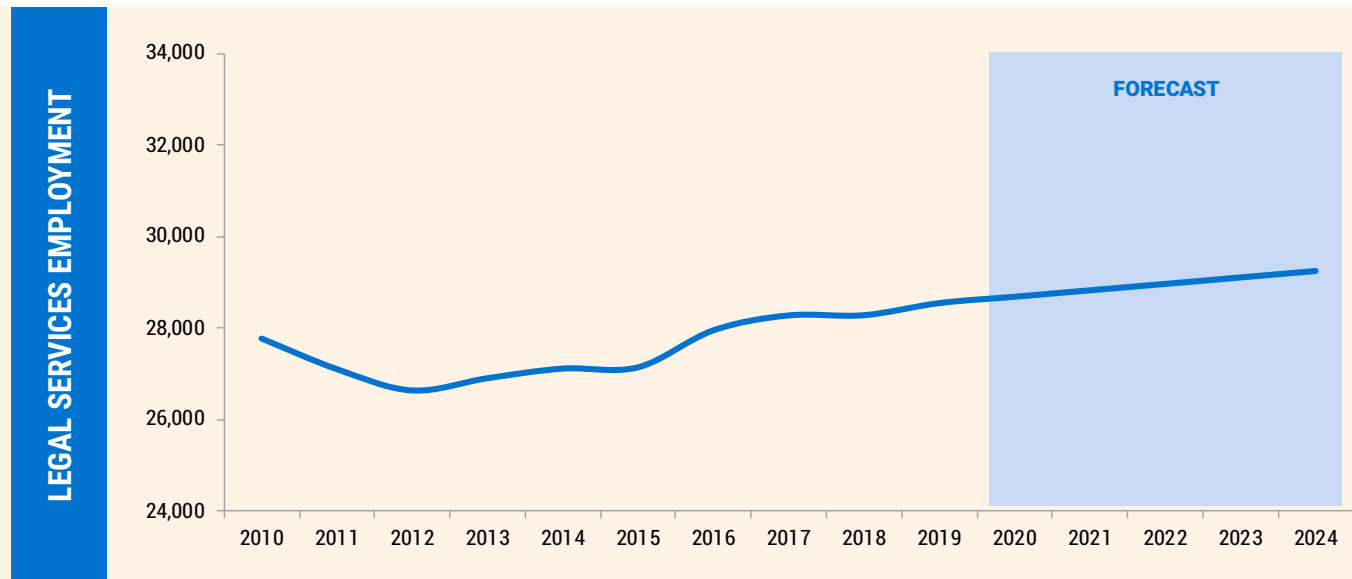


SAN FRANCISCO

In the heart of the tech sector, the San Francisco area has a robust legal services employment base, with more than 28,000 employees working in the market, or nearly 1.1% of the regional workforce. More than 60% of Am Law 100 firms have a presence in San Francisco, counting 4,587 lawyers among them, and 7,247 lawyers work for the top 75 largest area firms. Top legal services subsectors in the San Francisco Bay Area include corporate and commercial litigation, mergers and acquisitions, intellectual property, tech and life sciences, private equity, real estate, and cannabis.

A majority of law firms in San Francisco occupy Class A office space in the North Financial District, and many have additional

offices in Palo Alto or Menlo Park. While the densification trend has affected San Francisco metro area law firms—the median square feet per attorney contracted by 13% over the past ten years—the number of firms that grew during that period is nearly the same as the number of firms that downsized, resulting in a net increase of total office space leased by this sector. With the constant innovations in the tech market, along with the significant investments involved, law firms with tech specialties will continue to play a major role in the San Francisco Bay Area’s economic growth and demand for office space.



SOURCE: JOBS EQ, NKF RESEARCH; NOVEMBER 2019

SAN FRANCISCO METRO AREA LAW FIRM MARKET BY THE NUMBERS

28,555	Legal Services Employment
1.0%	5-Year Annual Average Change in Legal Services Employment
0.5%	5-Year Forecast: Legal Services Annual Employment Change
62	Am Law 100 Firms in Market
4,587	Am Law 100 Attorneys in Market
127	Average # of Attorneys Per Firm (Among AM Law 100 Firms)
790	Median Leased SF/Attorney*
323–1,379	Leased SF/Attorney Range*
\$71.61	Average Starting Rent* (per SF, full service)
\$95.02	Average Concession Package* (per SF)

*Law firm deals signed 2015–2019

While the densification trend has affected San Francisco metro area law firms—the median square feet per attorney contracted by 13% over the past ten years—the number of firms that grew during that period is nearly the same as the number of firms that downsized, resulting in a net increase of total office space leased by this sector.

TOP 5 LAW FIRM LEASES SIGNED SINCE 2015 (BY SF)

	LAW FIRM	ADDRESS	SF LEASED	YEAR SIGNED	LEASE TYPE
1	Kirkland & Ellis	555 California Street	140,000	2017	Renewal/Expansion
2	Cooley	3 Embarcadero Center	127,640	2018	Relocation
3	Keker & Van Nest	633 Battery Street	90,300	2019	Renewal
4	O'Melveny & Myers	2 Embarcadero Center	79,920	2019	Renewal
5	Covington & Burling	415 Mission Street	78,414	2018	Relocation



WASHINGTON

As the seat of the federal government, the Washington, DC metro area has a large legal services employment base, with more than 47,000 total workers. A full 95% of Am Law 100 firms have a presence in the market, counting nearly 12,000 lawyers among them. Top legal services sectors in the Washington metro area include government relations, campaign and election law, immigration, lobbying services, real estate, and tax law. A majority of law firms in the District of Columbia occupy Class A and trophy office space in the Central Business District and East End submarkets. However, emerging submarkets are beginning to capture interest from law firms, with Williams and Connolly recently signing a lease to relocate from the East End to The Wharf, a new waterfront development in the Southwest submarket. Densification has been a persistent trend among Washington law firms as they seek workspace efficiency.

Over the past 10 years, 58% of District of Columbia law firm lease transactions have resulted in a reduction of space, leading to 2.4 million square feet of negative net absorption from the legal sector alone. Concessions average \$173 per square foot for law firm deals in Washington, allowing firms an opportunity to relocate with little or no out-of-pocket costs. In Washington, leased office space per attorney among the Am Law 100 firms ranges from around 500 to more than 1,200 square feet per attorney, with a median of 864 square feet per attorney. This significant variance is due to several factors including staffing changes or layoffs that have not aligned with lease term, differing amounts of shared/amenity space (space design vs. utilization), and differences in firm culture or preference. Because of the importance of the federal government and the industries that depend on it, law firms will continue to play a vital role in the office market in the Washington metro area.

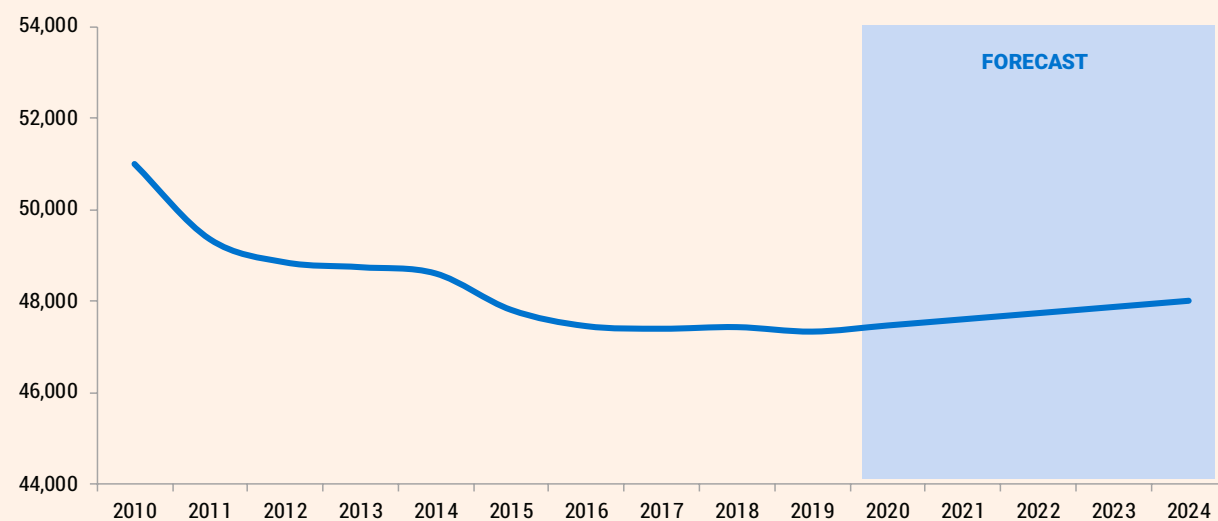
WASHINGTON METRO AREA LAW FIRM MARKET BY THE NUMBERS

47,325	Legal Services Employment
-0.5%	5-Year Annual Average Change in Legal Services Employment
0.3%	5-Year Forecast: Legal Services Annual Employment Change
95	Am Law 100 Firms in Market
11,988	Am Law 100 Attorneys in Market
126	Average # of Attorneys Per Firm (Among AM Law 100 Firms)
864	Median Leased SF/Attorney*
495-1,236	Leased SF/Attorney Range*
\$69.60	Average Starting Rent* (per SF, full service)
\$173.00	Average Concession Package* (per SF)

*Law firm deals signed 2015-2019

This significant variance is due to several factors including staffing changes or layoffs that have not aligned with lease term, differing amounts of shared/amenity space (space design vs. utilization), and differences in firm culture or preference.

LEGAL SERVICES EMPLOYMENT



SOURCE: JOBS EQ, NKF RESEARCH; NOVEMBER 2019

TOP 5 LAW FIRM LEASES SIGNED SINCE 2015 (BY SF)

	LAW FIRM	ADDRESS	SF LEASED	YEAR SIGNED	LEASE TYPE
1	Williams & Connolly	690 Maine Avenue SW	293,953	2018	Relocation
2	WilmerHale	2100 Pennsylvania Avenue NW	275,000	2017	Relocation
3	DLA Piper	505 9th Street NW	208,000	2018	Renewal
4	Kirkland & Ellis	1301 Pennsylvania Avenue NW	188,000	2015	Relocation
5	Akin Gump	2001 K Street NW	185,000	2016	Relocation

III. MARKET SUMMARY AND ACTION STEPS

Comparison of Key Law Firm Real Estate Metrics for 10 Major U.S. Cities

Note: The leased square feet per attorney is impacted by factors such as fluctuating attorney counts, subleasing of space, and variances in space design versus space utilization. As a result, these figures tend to vary significantly. However, most markets have generally seen a downward trend in these figures over time, as firms have focused on space efficiency.

	ATLANTA	BOSTON	CHICAGO	DALLAS	LOS ANGELES	MIAMI	NEW YORK	PHILADELPHIA	SAN FRANCISCO	WASHINGTON
Legal Services Employment (Metro Level)	27,130	26,942	50,422	30,365	75,402	47,707	139,624	39,358	28,555	47,325
5-Year Annual Average Change in Legal Services Employment	1.4%	-0.1%	-0.2%	1.2%	1.5%	0.2%	0.3%	-0.1%	1.0%	-0.5%
5-Year Forecast¹: Legal Services Annual Employment Change	0.8%	0.1%	-0.4%	1.1%	-0.1%	0.6%	-0.2%	-0.4%	0.5%	0.3%
Number of Am Law² 100 Firms in Market	33	40	57	43	76	29	95	19	62	95
Number of Am Law² 100 Attorneys in Market	4,236	3,509	6,652	2,380	5,226	1,159	20,912	2,355	4,587	11,988
Average Number of Attorneys per AM Law 100 Firm	85	88	152	55	69	40	220	124	127	126
Leased SF per Attorney										
Deals Signed 2005–2009	Range: 700–900 Median: 800	Range: 761–1,424 Median: 878	Range: 1,000–1,700 Median: 1,536	Range: 431–1,048 Median: 695	Range: 890–2,498 Median: 1,102	Range: 458–2,171 Median: 791	Range: 335–1,922 Median: 889	Range: 800–1,500 Median: 1,000	Range: 389–1,818 Median: 908	Range: 525–1,523 Median: 1,058
Deals Signed 2010–2014	Range: 650–850 Median: 750	Range: 591–1,533 Median: 936	Range: 800–1,300 Median: 1,200	Range: 346–3,000 Median: 971	Range: 545–1,287 Median: 861	Range: 450–2,200 Median: 675	Range: 372–1,922 Median: 879	Range: 600–1,100 Median: 850	Range: 328–1,758 Median: 857	Range: 585–1,532 Median: 803
Deals Signed 2015–2019	Range: 600–700 Median: 650	Range: 569–1,166 Median: 806	Range: 700–1,100 Median: 935	Range: 336–2,337 Median: 870	Range: 501–1,253 Median: 852	Range: 444–2,100 Median: 619	Range: 370–2,431 Median: 869	Range: 500–1,079 Median: 832	Range: 323–1,379 Median: 790	Range: 495–1,236 Median: 864
Average Starting Rent for Law Firm Office Leases (Per SF, Full Service)										
Deals Signed 2005–2009	\$34.74	\$44.30	\$40.32	\$25.58	\$36.10	\$42.00	\$63.13	\$21.51	\$42.16	\$54.00
Deals Signed 2010–2014	\$34.02	\$46.65	\$46.80	\$21.36	\$42.46	\$45.00	\$62.63	\$29.14	\$47.93	\$65.00
Deals Signed 2015–2019	\$50.00	\$58.95	\$50.00	\$26.36	\$48.77	\$55.00	\$73.89	\$30.26	\$71.61	\$69.60
Average Concession Package for Law Firm Office Leases (Deals signed 2015–2019, per SF)	\$80.00	\$80.00	\$145.00	\$99.00	\$86.00	\$102.00	\$75.00	\$65.00	\$95.02	\$173.00

¹Forecast sourced from JobsEQ. Methodology: forecasts for overall employment growth by metro area are developed based on historical trends and expected growth in the local labor force. Industry and occupation level forecasts are derived from a blending of the overall regional growth rate with national level expected growth rates for industries and occupations per the latest available national projections as published by the U.S. Bureau of Labor Statistics ("10-year" EPP projections).

²Am Law 100 refers to the ranking of the 100 largest U.S. law firms by gross revenue as reported by law publication *The American Lawyer*.

SOURCES: JOBSEQ, THE AMERICAN LAWYER, AMERICAN CITY BUSINESS JOURNALS, NKF RESEARCH

Action Steps for Law Firm Tenants

- With law firm employment growth projected to be relatively stagnant over the next five years, taking inventory of existing space and planning for future occupancy levels and locations is prudent. Particularly important is evaluating whether the design of existing space meets the functional needs of the practice.
- In a competitive environment for the top talent, upgrading office space can be a differentiator when recruiting. Striking the proper balance between private space for focused work and collaborative space for team-oriented tasks is essential. Importantly, the confidential nature of legal work necessitates maintaining some private spaces.
- An upcoming lease expiration presents an opportunity to reexamine space needs. Most major U.S. markets are in the midst of an office construction boom. The oncoming supply of Class A and trophy space may provide opportunities for law firm tenants to work with their broker to negotiate attractive concession packages to incentivize a move or renewal.

Action Steps for Asset Owners Who Lease Space to Law Firms

- Law firm employment is expected to grow at a modest rate over the next five years, suggesting the law firm densification trend will continue. Proactive negotiation with existing law firm tenants may help mitigate potential scaling down or relocations.
- Offering attractive concession packages to law firm prospects – and in-place law firms that require extensive renovations – will make owners more competitive and will help to secure occupancy ahead of a possible national economic downturn. Spending more on concession packages up front may be less costly than future vacancy.
- Upgrading branding opportunities and building amenities that can extend a law firm's presence in a building, such as rooftop decks for private events, can be an efficient way to retain occupancy.



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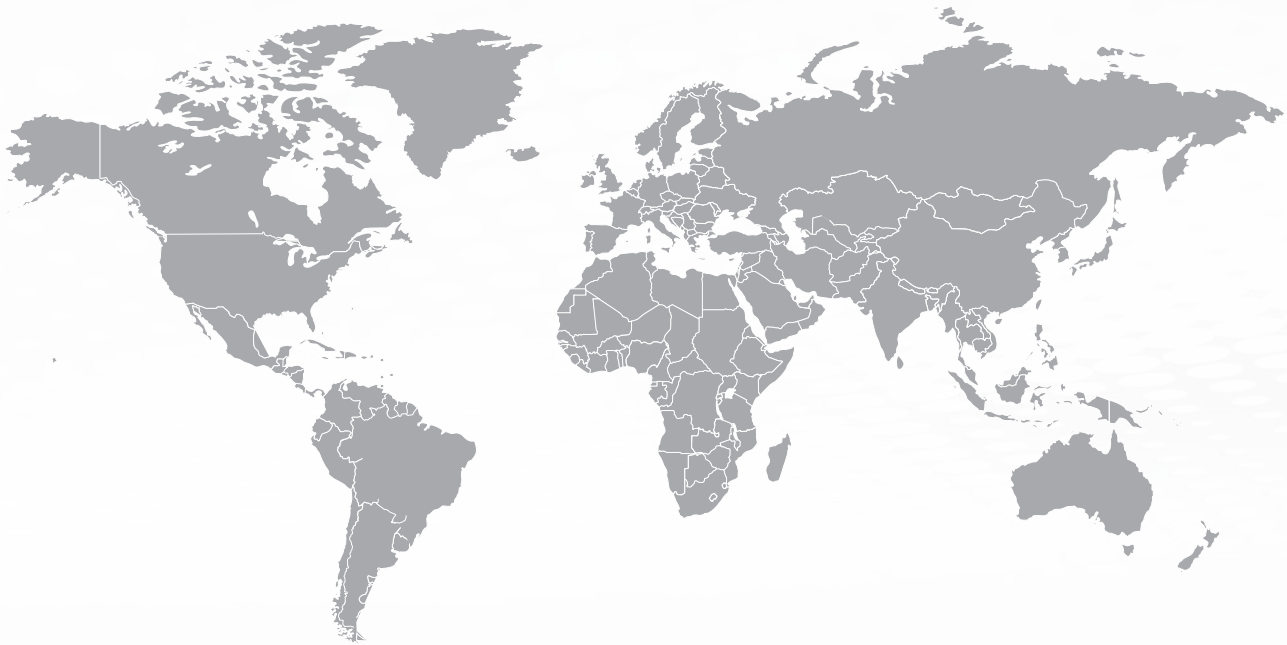
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