



GlobeSt

November 19, 2022

Savills Says Legal Leasing Back to 'Normal Dynamic'

Volume has held up while the technology sector pauses as it considers an upcoming recession.

This year has signaled a return to more normal dynamics for legal leasing, but where firms are signing leases has seen a substantial change, according to Savills' U.S. Law Firm Activity Report Q3 2022.

While firms are keeping significant footprints in core law firm markets, they are also moving into new cities that previously had little to no Am Law 100 presence.

For Savills, The Legal Tenant analyzed law firm transactions over 20,000 square feet (sf) across key U.S. markets and found that the legal sector seems to be back on course with steady quarterly leasing numbers since Q3 2021 – after a severe slump at the end of 2020 and a slow start to 2021.

A total of 1.7 million square feet (msf) was leased during the quarter which is slightly more than in Q2 and above the four-year quarterly average of 1.6 msf.

Legal tenant leasing volume has held up as other pandemic-darling sectors such as technology are pausing given ongoing talk of an upcoming recession.

Major law firms, which typically sign 10- to 15-year leases, don't generally make their real estate decisions based on short-term economic conditions.

"As a result, firms actively in the market may benefit from a second headwind of instability in the marketplace as it continues to put pressure on landlords and creates extra leverage for tenants looking for space," wrote Savills.

'Big Law' Remains Committed to Its Leasing

Bradley Tisdahl, CEO of Tenant Risk Assessment, tells GlobeSt.com that there hasn't been the shift that Savills is indicating.

"We're seeing renewals, extensions, and relocations in primary markets, including leases in Austin, Nashville, and Denver signed by big law," Tisdahl said.

"The main trend we saw was that big law remained committed to its leasing and real estate throughout the pandemic, and while new leases were typically at reduced space, ultimately the leases we underwrote had a similar complexion to big law leases we reviewed pre-pandemic."

Satellite Offices Adding to Volume

Jonathan J. Larsen, principal & managing director, Avison Young, tells GlobeSt.com, that overall, law firm leasing activity has been slowly picking up with new satellite offices being opened up across the US.

“I believe this trend will continue into 2023,” Larsen said. “An elevated portion of leasing activity has been in secondary and tertiary locations where law firms have not been occupiers traditionally.

“There are a couple reasons for this – the first being that their clients are requiring them to establish new satellite locations proximate to specific judicial sites where they are conducting business, and second, because they want to service clients in areas that are closer and more convenient for them to access. Oftentimes, these offices feature smaller footprints and are focused on a specific legal business niche.

Finally, Am Law 100 firms that are a hybrid office/work-from-home model are continuing to reduce their office size, while there are still a significant number of attorneys that are expanding their space because they are requiring everyone to be in the office. It depends on the culture of the law firm and type of law being practiced.

Legal Looking for Smaller, Efficient Spaces

Eric Menkes, partner at Duval & Stachenfeld, tells GlobeSt.com that law firms, like many other tenants today, are relocating to smaller, more efficient spaces.

“Perhaps the most significant change that I am seeing among law firm tenants is that they are building spaces with smaller offices and nicer communal areas,” Menkes said.

“In two recent large leases I negotiated, the tenants planned to construct their spaces with the same size offices for associates and partners. The greater emphasis today is on creating common areas that offer amenities and which encourage people to come into the office.”

Hybrid and Remote Work ‘Starting to Wane’

Michael J. Romer, managing partner, Romer Debbas, tells GlobeSt.com that office leasing growth in Q3 is heavily tied to the workforce returning to the office.

“The phenomena of hybrid or remote work, which was normalized over the last few years, is absolutely starting to wane,” Romer said.

“Although some aspects of remote work will remain a part of office culture, employers and company owners realize that the true keys to success and employee retention are in-person collaboration and what comes from overall in-person company culture. Without it, there truly is no glue that binds employees to employers.

“Also, many companies are either moving to or expanding into other areas of the country where the tax structure or quality of life is better. Many companies have simply grown frustrated with high taxes in some states and are simply shifting headquarters to more tax-friendly (or even tax free) states. This has resulted in new leases throughout the US.”

As Managing Partner of an NYC based real estate law firm that just doubled its footprint (now renting approximately 15k sf in midtown Manhattan), “I can personally attest to benefits of the

workforce returning,” Romer said. “Also, if an owner of a real estate law firm doesn’t believe in the office leasing market then who will? My sincere hope is that this return-to-office trend continues.”

Majority of Leases are Relocations, Driven by Flight to Quality

Savills said that firms are choosing to relocate into newer construction. In Q3, 54.5% of leasing activity (by square footage) was made up of relocations. Of the 16 relocations that occurred, 11 of the moves, or 68.8%, were into newer Class A buildings.

“The legal sector has been very thoughtful in its real estate strategy and firms are looking to ensure that they have a foothold where their clients and employees are located after the labor migration caused by the pandemic,” according to the report.

Markets booming with new moves include Miami, Tampa, Salt Lake City, Austin, Houston, and Dallas.

Elizabeth Cooper, vice chairman tenant representation, co-chair global law firm group, JLL, tells GlobeSt.com that more AmLaw 100 firms have opened offices in markets such as Denver, Seattle and Salt Lake City in 2022.

“Moreover, AmLaw firms have shown an interest in locating to new areas of cities like LODO in Denver,” Cooper said. “There remained a strong interest this year in trophy assets and new construction, as firms look for buildings that provide quality amenities and help firms meet their sustainability goals.”

Locality Drives Legal Lease Demand

John Quinn, discussing Quinn Emanuel’s office footprints during an upcoming episode of Berkeley Research Group’s Insights from the Top podcast, tells GlobeSt.com, “In terms of the demand for in-office utilization, it varies “very much” by locality.

“In Los Angeles, where I am, even before the pandemic, I would say that at most 40 percent of the offices ever saw a human being in them. And the pandemic has only made the utilization lower.

“So, we have given up three floors of space in our offices in downtown Los Angeles. We’ve given up a floor of space in San Francisco. We’re going to be looking closely at space utilization and needs as leases come up.

“You know, there are people who want to be in the office. So, we also must think about them and how we create a vibrant and attractive office environment for people who want to come in.”

Quinn said that part of that is “having a certain amount of density. It doesn’t help if you have six or seven floors of space with a handful of people on each floor and they still feel like they’re pretty much alone. So, we want to create an in-office experience, which will be attractive to those people who want to have that.”

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