JLL News Release

Beyond Trophy Space: Lack of Supply, Rising Rents Challenging Law Firm Office Norms in Portland

JLL report shows shift in legal sector office space toward client proximity, talent attraction and space efficiency

PORTLAND, Oct. 27, 2014 – Law firms have long been an outlier in the evolution of the American workplace, holding steadily to trophy space along the premier addresses of U.S. central business districts. But according to JLL's newly released Law Firm Perspective, the legal sector has embraced change—and some surprising new zip codes.

Law firms are looking beyond their traditional trophy locations to locate near clients, attract new talent and reduce expenses. Lack of supply – not cost – is actually the driving force.

In Portland, law firms have typically gravitated to the central part of the city's CBD. But with space there becoming tighter with very few large blocks of space available as tech companies expand, larger firms are looking to the west and north as redevelopment opens up markets with buildings like Park Avenue West, Pearl West and additional opportunities in the Pearl District. Small and mid-sized firms with requirements under 20,000 s.f. have far more options in today's market, especially in backfilling space vacated by larger firms as part of their rightsizing strategies.

"The main challenge for law firm tenants in Portland is that they face stiff competition for the most sought after spaces from tech and creative service users. This steady growth for those requirements in the CBD is pushing rents higher, making it tough for smaller and mid-sized firms in particular to secure value," says Andrew Rosengarten, vice president, JLL. "On the flip side, when current redevelopment and development projects are delivered over the next 24 months, law firms and other users will have more options from which to choose," he added.

Revenue for the legal sector is up by 4.4 percent, according to *The American Lawyer*, but that growth is tempered by rising rents and a shortage of available space in typical law firm office locations. JLL's report predicts 77 percent of North American cities will see a rise in rents due to scarcity of available offices. On average, law firms have seen rents rise 3.3 percent year-over-year and pay an 18.1 percent premium for trophy space.

In some markets such as Boston, Houston and San Francisco, rents have jumped more than twice that rate. The result is law firms are finding new places – not necessarily ways – to work.

"Growth may be back in the legal sector, but firms are keeping productivity, efficiency and innovation front and center as they continue to re-define who they are and how they operate," said Elizabeth Cooper, co-lead of JLL's law firm practice group. "Following years of retrenching, they are proceeding cautiously and strategically to become more nimble to meet client demands, overcome supply challenges and adjust to a rapidly-changing workforce."

The Efficiency Plateau

JLL's review of the top 35 U.S. law firm markets indicated that market-by-market, 55 to 90 percent of law firms have already devised substantial efficiency measures in new or restructured leases. In Washington, D.C., for example, 82 percent of firms have embraced rightsizing strategies in the current cycle. That figure is telling, as law firms in the nation's capital comprise the largest segment of the tenant base with 45 percent of the core Class A office market.

Rightsizing has begun to plateau in certain markets, and the industry has responded by rushing to new locations and secondary cities to reduce cost. New neighborhoods near amenities that attract and retain younger talent and secondary-city locations providing valuable cost savings are slowly pulling U.S. law firms into uncharted territory.

There are unique resource models such as Fish & Richardson shifting a substantial part of its non-revenue functions to Minneapolis or White & Case recently doing the same in Tampa, Florida. Innovative workplace strategy has driven examples like Foley & Lardner providing 12,000 square feet of space and pro-bono office hours for a digital co-working community in Chicago's River West area, potentially creating new revenue for the firm.

"A good real estate strategy is central to overcoming some of the key challenges law firms face in managing costs and productivity," said Tom Doughty, co-lead of JLL's law firm practice group. "As the real estate market continues to strengthen, larger firms are considering moving some administrative employees to less costly cities located beyond major metropolitan hubs. And in all their locations, they're exploring ways to use space more efficiently."

Follow the Clients
As firms move away from the CBD, they are drawn to areas with proximity to their client base. This transition comes with its own benefits and challenges. For example, law firms find themselves competing for prime space with fast-growing tech companies in markets like Silicon Valley, Seattle and Austin, Texas.

In Silicon Valley, law firms now occupy 20 percent of the office market, compared with eight percent in 2011. Prime office locations are limited, especially in Palo Alto where law, venture capital, private equity and growing tech firms are all jockeying for the same space until anticipated development delivers new space available in nearby Menlo Park.

In Dallas, several national law firms have opened offices recently in the booming energy hub, including McGuireWoods, Holland & Knight and Schiff Hardin. While the percentage of law firms occupying the market has held steady at 14 percent since 2011, they are taking over larger blocks of space, indicating growth. Currently, 31 firms are using more than 50,000 square feet of office space, compared with 22 firms in 2011. New construction is already underway.

Luring Talent
As firms follow pockets of growth and stretch beyond core city centers, they are recognizing the benefits of moving to locations closer to where their top young attorneys live, work and play. Hiring is expected to pick up for law firms in the second half of 2014, especially among candidates with three to seven years of experience who can "hit the ground running," according to legal staffing firm Robert Half Legal.

These emerging law firm locations help attract and retain talent. In Washington, D.C., more firms are considering options located in the emerging Mount Vernon Triangle segment of the East End. New office developments in Denver hope to attract more firms to the city's LoDo district, the lower downtown area that has seen major renovation and restoration in recent years. In New York, law firms have increasingly shifted their office searches to Midtown West and downtown, including new developments in the Hudson Yards neighborhood.

Relocating Non-Revenue Functions
While the legal sector has been hesitant to adopt open-office workplace strategies, the layout for many law firms is changing in its composition. Firms are re-shuffling the people they house in urban centers, placing revenue-generating attorneys in prime locales and moving non-revenue functions to less expensive locations

Baker & McKenzie recently launched a second global service center in Belfast, Northern Ireland, to provide tech and legal support to the firm's network. Pillsbury, which leased more than 250,000 square feet of space in D.C., expects to save significant costs as it downsized and moved its headquarters a few blocks east this year, occupying approximately 105,000 square feet in the District. The move included shifting lower-revenue and non-revenue functions to Nashville, Tennessee.

"For law firms with upcoming lease expirations, market timing is critical," said John Sikaitis, JLL Director of Office Research. "Much of the new construction will not hit the market for another 24 to 36 months and repositioned buildings are picking up pace, but slow to come to the surface. A combination of continued efficiency measures – not just better space utilization but also offshoring – and tenancies in new construction will be the best bet for firms to combat an increasingly competitive real estate landscape."

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