

HOW LAW FIRMS CAN REMAIN COMPETITIVE WITH THEIR REAL ESTATE

Strategies for More Efficient Office Space to Adapt to the New Paradigm in Legal Services

Amid an extended industry decline, law firms today are struggling to overcome a flurry of market factors that continue to drive down revenues and profits. Battered from all sides, the legal industry is weighed down by declining demand, intense competition from old and new sources, commoditization of legal services, pricing pressures, widespread overcapacity, and increasing attrition.¹

As a result, law firms can no longer depend on revenue increases of three to four percent each year. In fact, firm leaders are generally pessimistic about their ability to grow profitably and are struggling to transition their firms to a new, more efficient future.

In response, a focused drive to decrease operating costs is heating up. Savvy firm leaders are looking to reduce one of their largest operating expenses: real estate. Second only to payroll for most firms, occupancy costs can reach as high as 10 percent of revenues. With this in mind, commercial real estate represents a significant opportunity to help struggling law firms regain their footing and reshape themselves to better suit the new legal marketplace.



MARKET DEMAND FOR LEGAL SERVICES HAS FAILED TO RETURN TO PRE-RECESSION LEVELS IN A MAJORITY OF US LAW FIRMS.¹



SUCCESSION PLANNING IS A
 MAJOR CONCERN FOR MANY
 FIRMS... AS MANY AS 40% OF
 ACTIVELY PRACTICING ATTORNEYS
 ARE AT OR NEAR RETIREMENT
 AGE... TRANSITIONING FROM
 THE FIRST TO THE SECOND
 GENERATION OF LEADERSHIP IS A
 DIFFICULT TASK THAT BRINGS ITS
 OWN SET OF OBSTACLES.²

What Can a Smart Real Estate Strategy Achieve for Today's Law Firms?

Take a thoughtful look at your firm's current office space use – and in turn, how much space goes unused – in combination with your firm's work culture and operational needs today. There are likely many opportunities to create greater efficiencies with your real estate.

A strategic CRE plan can help drive down costs, including the cost-per-attorney, by 15 to 20 percent or more. It can also help firms:

- Streamline operations
- Attract and retain desirable lawyers
- Enhance brand image
- Increase competitive advantage

Using CRE metrics and analysis, your firm can “right-size” your office space to support current and future workspace needs with a flexible and highly efficient real estate plan.

Unused Space: There's Probably More Than You Realize

The legal industry is undergoing a period of transformation. Technology has changed the way we work, and the economy and market forces are leading to mergers, consolidations, and downsizing. Firms of all sizes are taking stock of their operations and business strategies.

The way office space is used today has changed significantly from the past, and many firms have yet to update their offices to reflect this. Several factors have caused an increase in unused space, including:

New Technology: The integration of smartphones, tablets, Wi-Fi and other technology has created a shift in how office space is used.

Highly Mobile Attorneys: Due in part to technology, today's lawyers are frequently off-site and may not need dedicated space all day, every day. However, they do require comfortable and convenient space in various locations to do their jobs effectively.

Contingent Staff: More than half of all law firms are using part-time lawyers (59%) and contract lawyers (56%) to meet demand as needed.¹ These contingent staff create the need for more flexible workspaces to perform large document reviews and other temporary but demanding projects.

Overcapacity and Underutilization: Resulting from declining demand, increased competition, and other market factors, many firms are struggling with a surplus of lawyers among equity and non-equity partners, especially in large firms.

Duplicate Functions Due to a Merger: Following a merger, each firm may continue to maintain support or administrative space, even though the functions and workflows have been combined.

To optimize real estate costs, law office space needs to reflect actual office usage. Firms can begin by assessing how much space is being used (and how much goes unused), and how those spaces are used.

Reduce Occupancy Costs by Optimizing Real Estate

The pace of change isn't slowing down anytime soon, and law offices should be structured to adjust as usage dictates. Smart real estate strategies will right-size your office for the needs of today while introducing flexibility that allows easy adaptation. This approach provides law firms with a workspace that can be reconfigured cost-effectively and quickly to grow as they grow, reduce if needed, and adjust to changing future work styles. This concept of adaptable and reconfigurable design is often referred to as "future proofing".

Benchmarking: How Many SF Per Person?

Office sizes are being reduced in most industries, and law firms are no exception. Firms need to reconfigure the offices of both partners and associates to drive improved effectiveness while reducing the square footage per attorney.

Law firms average 315 usable square feet (USF) per person³ – more on average than any other industry, including accounting (265 sf), financial services (300 sf), and communications (257 sf).

These numbers are declining over time, as law firms are redesigning their space to save occupancy costs. Forward-thinking firms have been able to reduce their space by 15 to 40 percent while increasing headcount by introducing universal office sizes, wall-less offices, and mobility (work from anywhere) programs.³



THIS CHART FROM MARGULIES PERRUZZI ARCHITECTS SHOWS USF/WORKER NUMBERS THAT DIFFER SLIGHTLY FROM THE CRESA DATA MENTIONED ABOVE, HOWEVER, THE TREND IS THE SAME. LAW FIRMS STILL HAVE THE MOST USABLE SQUARE FEET PER OFFICE WORKER OF ANY INDUSTRY AND CONTINUE TO USE PRIMARILY PRIVATE OFFICES, WHILE OTHER SECTORS ARE MORE IN LINE WITH CHANGING INDUSTRY STANDARDS.



One Size Fits All: Saving Space with Universal Office Sizes

Utilizing universal offices is a concept that is shaking up the age-old allocation of space based on seniority and title. Firms with one-size offices across the board typically take up 20 percent less space than firms with variable office sizes. Among firms that have implemented universal-size offices, they average 150 to 160 square feet per office.³

Hoteling: Flexible, Private Office Space for Mobile Attorneys

When you walk into a typical law office of 20,000 sf or larger, it's common to find the majority of offices empty. Attorneys are out meeting with clients, working from home, or in court. In fact, with today's growing mobile workforce, nearly 50 percent of dedicated workstations or offices can be left empty on any given workday.

One option to make more efficient use of this space – and to allow firms to reduce their overall footprint by maximizing their capacity – is hoteling. This concept uses a system in which people are not assigned permanent offices; instead, they reserve an office for their temporary use just for the days/times they will be in the office. This approach creatively reduces the overall footprint while maintaining the private space necessary for confidential work.

More Efficient Support Functions

Some firms are reducing real estate costs by moving non-client-facing, back office support functions to external offices in less expensive areas or buildings, such as outlying markets or smaller cities with lower labor costs. Another cost-effective measure is to consolidate these functions across office locations, by opening a single shared services center.

To fulfill non-core, back-office functional needs, many firms already supplement their own in-house resources with outsourced services – including document processing, admin services, marketing, IT, HR and finance. This trend will likely continue as pressure to optimize workflows and costs intensifies, leading more and more firms to move to a fully outsourced model for all non-core functions.

The Disappearing Law Library

Between 2015 and 2016, the median linear feet of books kept in a law firm's physical space fell by half: from 3,333 feet in 2015 to 1,650 feet in 2016.⁴ Rooms of sprawling legal tomes have been replaced by virtual law libraries: computers and online services commanded by tech-savvy paralegals.

Many law firms are struggling with adapting their office space to a new model of work. As market forces continue to exert pressure on the legal industry, firms that embrace the new paradigm and push themselves to adapt will be more likely to thrive in the future.

Learn More

Get expert guidance to understand how much space your firm truly uses and needs, and how best to structure that space for maximum efficiency. Cresa only represents tenants, which means we never have a conflict of interest and will always have your best interests in mind.

¹ Altman Weil, "Law Firms in Transition 2016" | ² ALA/Novitex Report, "2016 Trends Impacting the Legal Industry"

³ Cresa, "Scaling Back Space in Law Firm Design" | ⁴ ALM Legal Intelligence, 2016 Law Librarian Survey