

# Savills U.S. Law Firm Activity Report



## Q4 2020

The COVID-19 pandemic continues to cause significant dislocation across North American commercial real estate markets. Office demand declined substantially over the year with leasing volume down 40% nationally from 2019, with larger declines in dense urban cores including New York, San Francisco and Chicago. Available sublease space has increased by 52% across all markets as organizations look to shed real estate in order to reduce costs. The rapid addition of sublease space is pushing availability up across all markets (20.8% U.S.-wide) and tenant options are plentiful.



**Tom Fulcher**  
Chair, Legal Tenant  
Practice Group  
+1 202 624 8527  
tfulcher@savills.us



**Sarah Dreyer**  
Vice President  
Head of Americas Research  
+1 202 540 5510  
sdreyer@savills.us

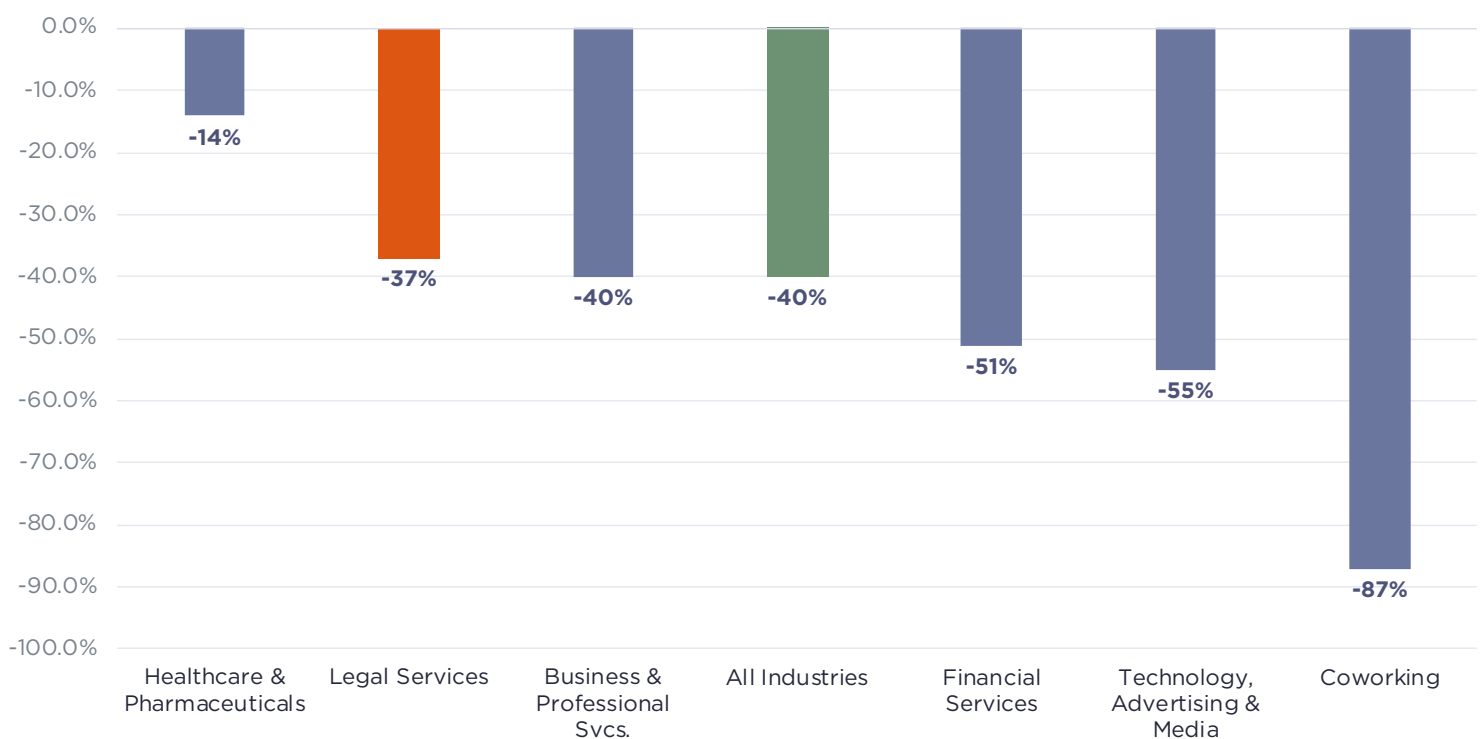
The pandemic has had a mixed impact on law firm real estate trends over the course of 2020, but there are some clear signs of resiliency in the sector. Further, new opportunities are emerging given the rapid softening of market leasing conditions. The Legal Tenant analyzed law firm transactions over 20,000 square feet (sf) across key U.S. markets. to share insight on activity throughout 2020.

## Law firm activity down 37% year over year; shows some resilience compared to other sectors

Law firms using over 20,000 sf leased a total of 5.4 million square feet (msf) across major markets in 2020, down 37% from 2019 volume. The fourth quarter saw the lowest amount of activity as leases that had been in the works pre-pandemic dried up. Comparatively, law firm activity did not see as sharp of a decline as other services sectors, including professional and business services (down 40%), financial services (down 51%), or sectors more heavily impacted by the shift to work-from-anywhere environments, including the technology, advertising and media sector (down 55%) and the coworking sector (down 87%).



### Year-Over-Year Decline in Leasing (by Total Volume) Select Industries



## Impact varies market by market, some see increase in activity boosted by large renewals

The pandemic's impact on law firm leasing varied greatly by market, with a handful of cities seeing an increase in law firm leasing (measured by total square feet leased). Large renewals boosted activity in Washington, DC, Los Angeles and San Francisco, pushing total law firm volume for 2020 above that seen in 2019.

In Washington, DC, law firm activity increased by 42% over the year, while the overall market saw a 24% decline in activity. Demand came from notable renewals by Jones Day (205,581 sf) and Mayer Brown (173,483 sf), and an extension by Skadden, Arps, Slate, Meagher & Flom (199,902 sf). Additionally, Wiley Rein leased 166,250 sf at a new development, relocating from two buildings that it had occupied for over 30 years.

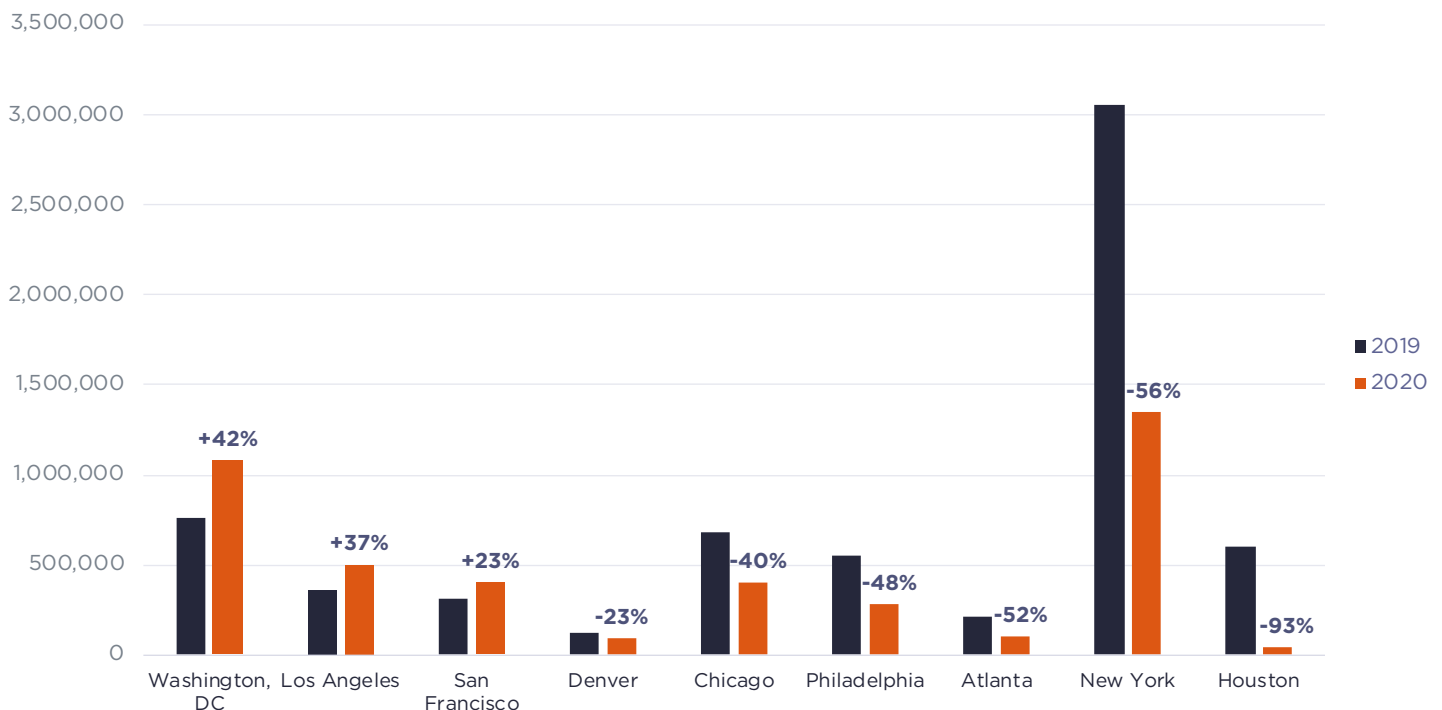
The decline in law firm activity across other major markets was not surprising, given the overall drop in activity experienced throughout the pandemic.

In Los Angeles, law firm activity increased by 37%, driven by renewals, while the overall market saw a 47% decline in leasing volume. Morgan Lewis (101,000 sf), Reed Smith (67,368 sf) and Allen Matkins (63,000 sf) all made decisions to stay in place this year.

And in San Francisco, one of the markets hardest hit by pandemic impact, law firm activity increased by 23% over the year, while it dropped by 68% for all industries, as both Morgan Lewis (153,323 sf) and Latham & Watkins (134,154 sf) signed renewal transactions.

The decline in law firm activity across other major markets was not surprising, given the overall drop in activity experienced throughout the pandemic. In terms of volume, New York City registered the largest decline seeing just 1.4 msf of law firm leasing in 2020 compared to close to 3.1 msf in 2019.

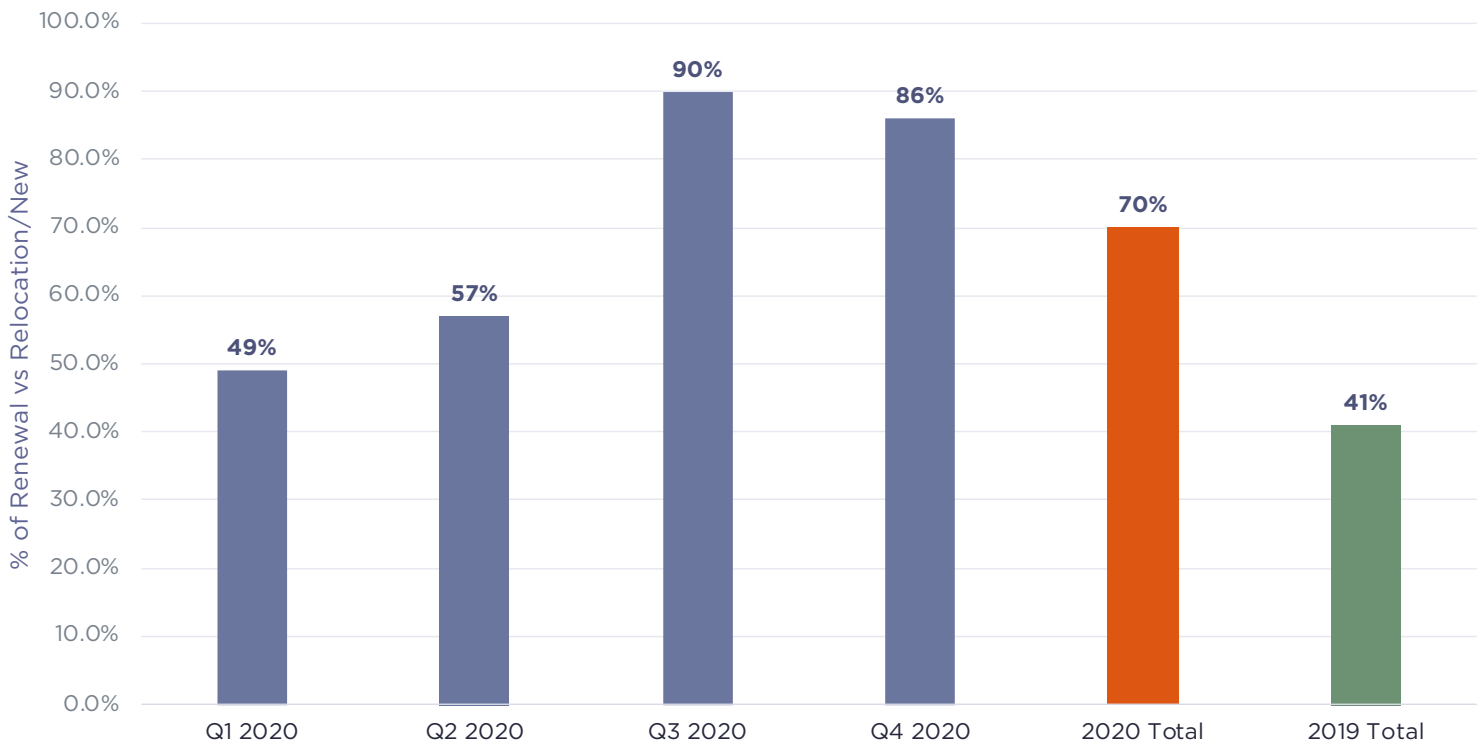
### Year Over Year Change in Law Firm Leasing (by Total SF Leased)



### Renewals dominated activity and terms are shortening

The pandemic has caused many organizations to delay or defer real estate decisions while taking stock of both business needs and workplace strategy going forward. As a result, very few firms were willing to relocate this year, with renewals (including extensions and restructures) comprising 70% of law firm transactions in 2020. As uncertainty grew so did the propensity to stay in place, both short- and longer-term, with renewals seeing a 49% share in Q1 growing to 90% by the third quarter. Of the sixteen law firm transactions over 100,000 sf tracked, only two were relocations.

## % of Law Firm Activity - Renewals / Extensions / Restructures

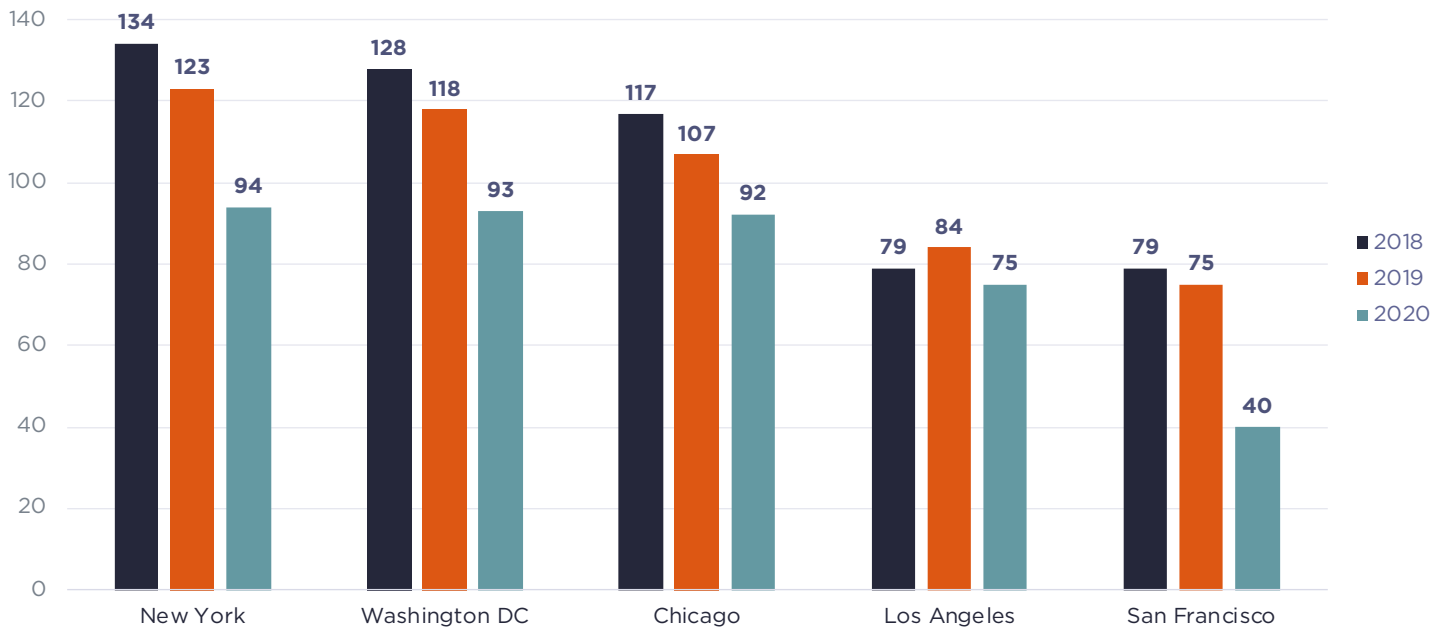


With the push to delay real estate decisions until there is more clarity on widespread vaccination and return-to-work timelines, renewal lease term lengths have shortened substantially over 2020. Looking across major markets, law firm renewal terms declined by an average of 23% from 2019 to 2020. San Francisco, one of the markets most impacted by the pandemic and related business restrictions, saw the greatest decline in average term, indicating that short-term renewals are prevalent while the market awaits any sort of reopening. Flexibility in both length of term and options secured in a transaction are top of mind for firms right now. One example of this is Blank Rome renewing in Philadelphia with no set square footage--the firm secured the option to decide on final reduction of space ahead of lease commencement.



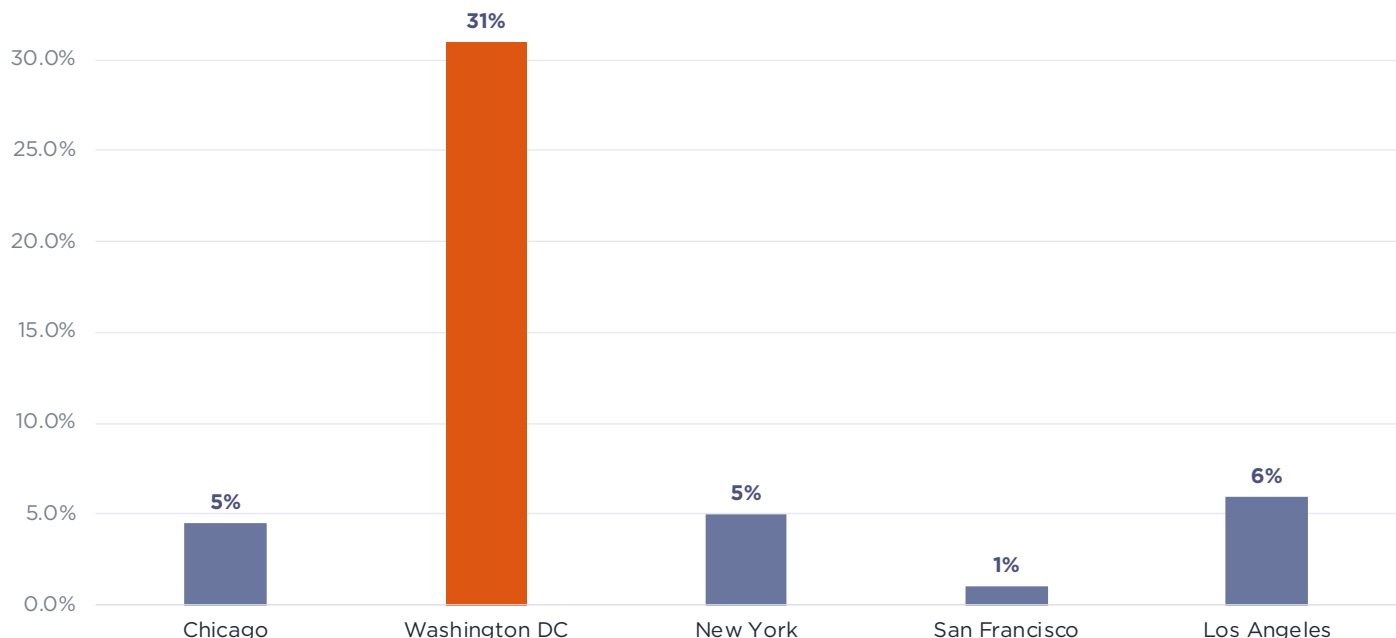


## Average Law Firm Renewal Term (Months)



As noted earlier, sublease space has swelled across the U.S. as businesses focus on cost reduction given current circumstances and impact on activity. Companies that are unsure if they will use their full office footprint, both in the short-term and possibly longer as COVID-19 spurs more flexible in-office work patterns, are putting space up for sublease. Law firms appear to be a counter trend to this, however. There are certainly firms out there looking to offload space today and prepare for a different use of space going forward, but generally law firms are not contributing to the rise in sublease availability in most markets. Aside from Washington, DC, law firm subleases represent 6% or less of the sublease space that has become available in major markets since the first quarter of 2020. While technology, media, advertising and professional and financial services firms are putting up large blocks of sublease space across the U.S., there are very few sizable blocks coming from the law firm sector – indicating that firms are weathering the current storm with the space they have while uncertainty persists on future real estate plans.

## % of Law Firm Subleases of Total Sublease Space Added Post-COVID



The current vaccine rollout gives hope that there is an end to the pandemic in sight and we may see a more widespread repopulation of office space in the latter half of this year. Pent-up demand stemming from deferred real estate plans and short-term solutions will be prevalent in the coming years. Still, the past year was undeniably challenging for real estate markets and the softening of market fundamentals presents opportunities for those occupiers willing to make decisions now and in the foreseeable future. Landlords are likely to offer more flexibility in renewals and extensions to keep tenants in place, as well as offer increasingly generous concession packages to secure tenants in relocations. Law firms, seemingly more resilient, are well-positioned to leverage softer markets and gain favorable terms.



#### Notable Law Firm Transactions 2020 (Over 100,000 SF)

Market	Law Firm	Building	Size (SF)	Transaction Type
New York	Goodwin Procter	620 Eighth Avenue	216,247	Renewal
Washington, DC	Jones Day	300 New Jersey Avenue / 51 Louisiana Avenue NW	205,581	Renewal
Washington, DC	Skadden, Arps, Slate, Meagher & Flom LLP	1440 New York Avenue / 700 14th Street NW	199,902	Extension
Philadelphia	Blank Rome	130 N 18th Street	196,000	Renewal
New York	Stroock & Stroock & Lavan LLP	180 Maiden Lane	192,816	Renewal
Washington, DC	Mayer Brown	1999 K Street NW	173,483	Renewal
Washington, DC	Wiley Rein LLP	2050 M Street NW	166,250	Relocation
New York	Quinn Emanuel	51 Madison Avenue	159,562	Renewal
San Francisco	Morgan Lewis	1 Market Street	153,323	Renewal
New York City	Allen & Overy	1221 Avenue of the Americas	143,331	Renewal
San Francisco	Latham & Watkins	505 Montgomery Street	134,154	Renewal
Northern New Jersey	McCarter & English, LLP	4 Gateway Center	117,300	Renewal
New York City	McLaughlin & Stern LLP	260 Madison Avenue	112,000	Renewal
Chicago	Faegre Drinker Biddle & Reath LLP	320 S Canal Street	105,000	Relocation to New Construction
Los Angeles	Morgan Lewis	300 S Grand Avenue	101,000	Renewal and Expansion

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