

Savills U.S. Law Firm Activity Report

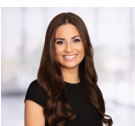


Q3 2022

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 just over Q2's leasing volume (1.6 msf), and the quarterly average for the last four years (1.6 msf).



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Legal tenant leasing volume has held up, when other sectors such as technology – which were once the darlings of the pandemic, growing quickly and taking huge blocks of space as they anticipated continued growth – are now pausing amidst talk of an upcoming recession and waiting to sign new office leases. Major law firms, which typically sign leases of 10-15 years, 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.

By the Numbers

1.7 msf

of legal sector leases over
20,000 sf signed in Q3

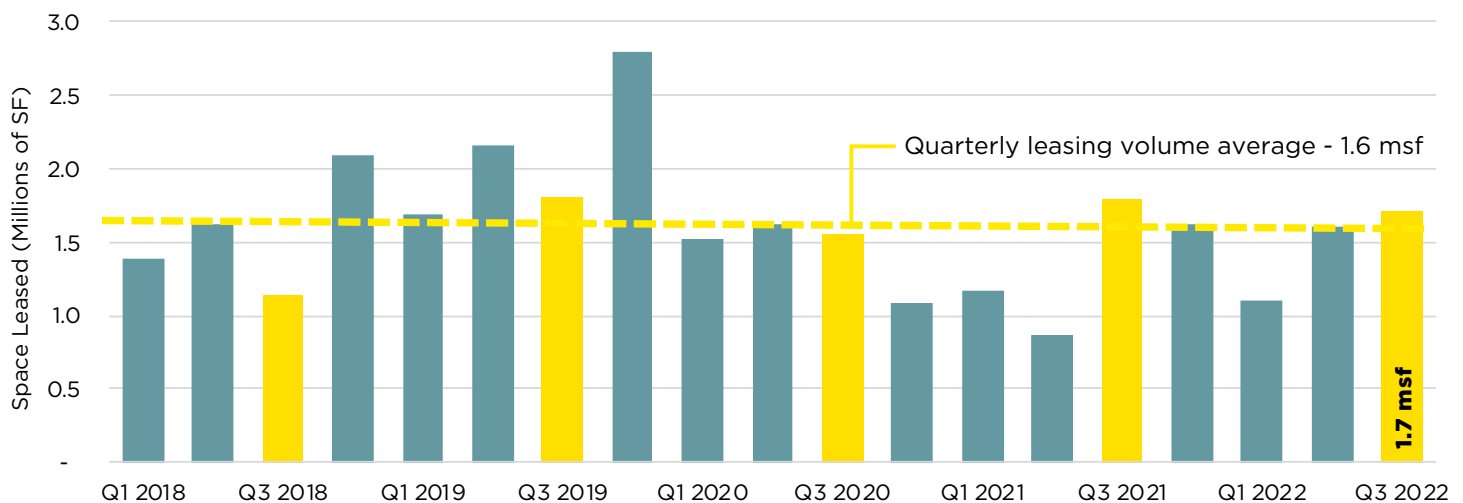
54.5%

of activity by square footage in
Q3 was made up of relocations

8

law firm leases were
completed in New York in Q3
making up 0.5 msf of activity

Quarterly Law Firm Leasing Activity



Savills data. Includes law firm leases over 20,000 square feet (sf).

Leasing amongst the legal sector has significantly improved with multiple quarters hitting or just exceeding the four-year quarterly average of 1.6 msf. 2022 had a slow start to the year, which is not uncommon in office leasing, and the year-end total is set to meet or exceed 2021's total volume. Annual leasing year to date is 4.3 msf, 79% of the way to reach the 2021 year-end total of 5.5 msf. Last year in Q3 2021, leasing levels jumped 37% due to a single lease of 662,400 sf completed by Kirkland and Ellis LLP in Chicago. Without that significant lease swinging the quarter's leasing volume, Q3 2022 would be the largest quarterly leasing total since the start of the pandemic.



Notable Law Firm Leases Signed Q3 2022

Market	Law Firm	Address	Size (SF)	Transaction Type	Quarter
New York	Freshfields Bruckhaus Deringer US LLP	3 World Trade Center	179,724	Relocation	Q3 2022
New York	O'Melveny & Myers LLP	1301 Avenue of the Americas	142,221	Relocation	Q3 2022
Boston	Foley & Lardner	111 Huntington Avenue	112,494	Renewal	Q3 2022
Nashville	Bradley Arant Boult Cummings LLP	1221 Broadway	112,380	Relocation	Q3 2022
Tampa	Shumaker, Loop & Kendrick, LLP	101 E Kennedy Boulevard	60,739	Renewal	Q3 2022
New York	Kirkland & Ellis	601 Lexington Avenue	60,513	Expansion	Q3 2022
Los Angeles	Morrison & Foerster LLP	707 Wilshire Boulevard	57,949	Renewal	Q3 2022
Los Angeles	Kirkland & Ellis LLP	2049 Century Park E	57,040	Expansion	Q3 2022
South Florida	Sidley Austin	830 Brickell Plaza	57,000	New Location	Q3 2022
Silicon Valley	DLA Piper	3223 Hanover Drive	52,252	Relocation	Q3 2022

In Q3 of 2022, there were ten leases over 50,000 sf signed. Five of these ten transactions represented expansions from the last lease or new office locations, three firms made no change to size, and two new leases were significant contractions. O'Melveny & Myers LLP originally leased 355,000 sf in their last lease at 7 Times Square but had been contracting over time and was down to 150,000 sf before signing on for 142,221 sf at 1301 Avenue of the Americas. DLA Piper announced that it is adopting a "high performance flexibility" schedule and as a result is reducing its footprint by more than half.

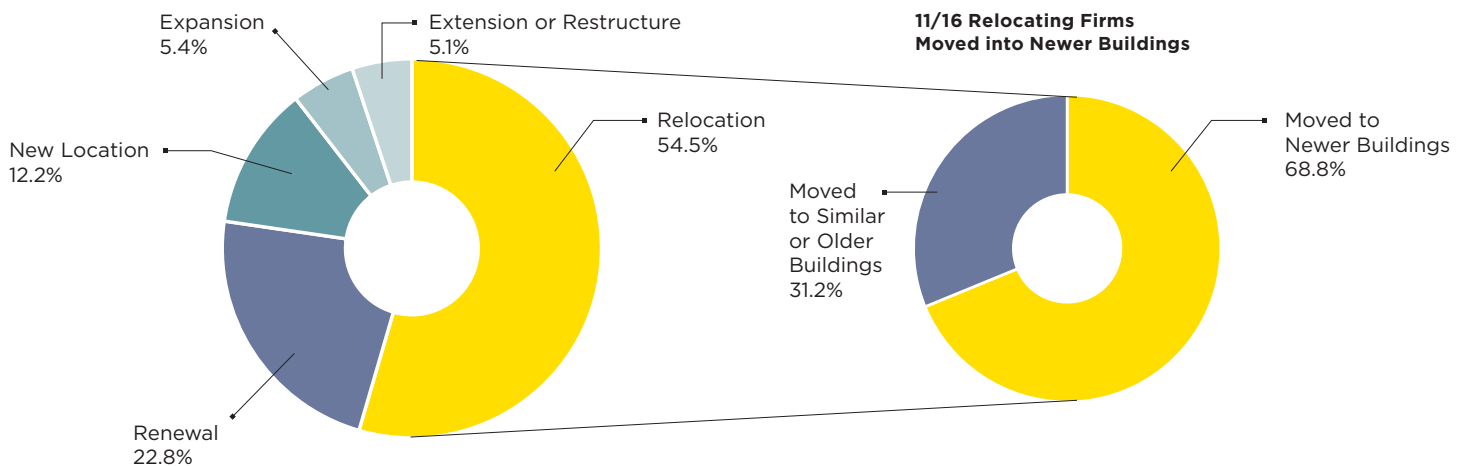
Three of the top transactions were signed in New York City. In total, New York saw eight law firm leases completed in Q3 over 20,000 sf which made up over 0.5 msf of leasing activity for the quarter. The top transaction of the quarter was leased in Manhattan by Freshfields Bruckhaus Deringer US LLP in a 179,724-sf relocation to 3 World Trade Center from 601 Lexington Avenue. The move will put the firm in an office building built in 2018, that is two decades newer than the one it is leaving, in keeping with the recent flight to quality being seen in law firm transactions around the country.

Majority of Leases are Relocations, Driven by Flight to Quality

The Freshfields decision exemplifies a trend in which 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.

At the height of the pandemic, the “stay versus go” pendulum swung heavily to “stay” as firms delayed decisions until more clarity surrounding the future of the workplace emerged. In 2020, relocations only made up 30% of leasing, however, in 2022, 64% of lease decisions shifted to “go” which is back on par with 2018 and 2019 leasing norms. Pre-pandemic, a low unemployment environment already had firms looking to upgrade their office locations and, amidst the current war for talent and a workforce that is favoring hybrid work, the flight to quality has been amplified.

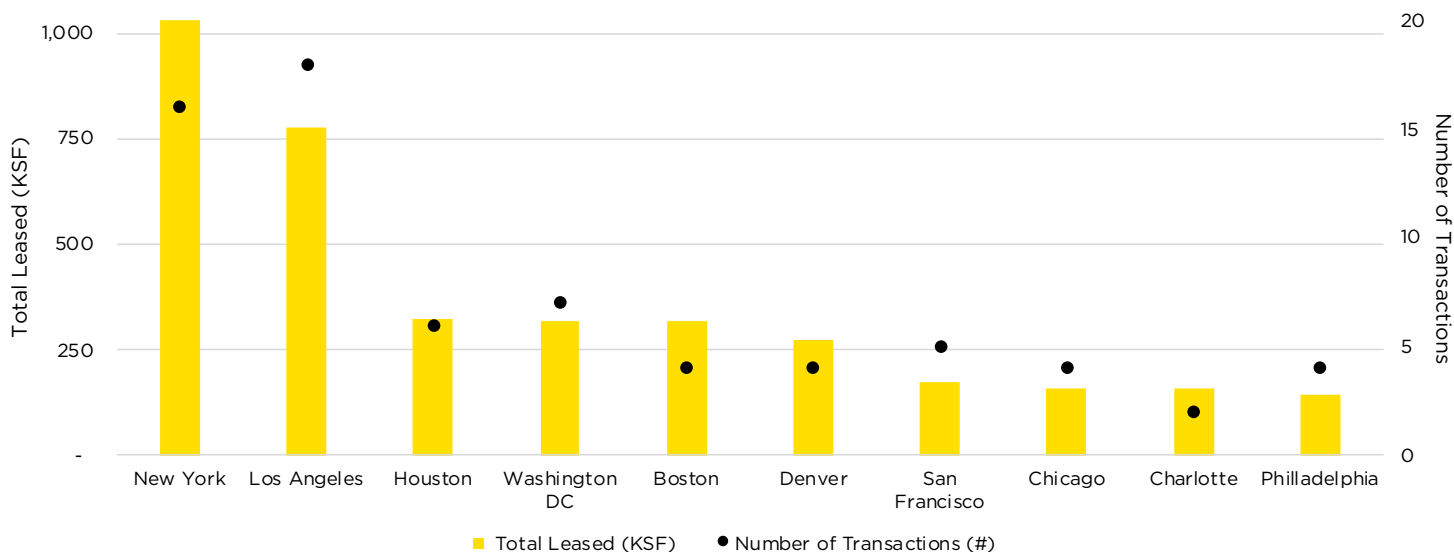
Transaction Type Breakdown by Square Footage



Savills data. Includes law firm leases over 20,000 square feet (sf).



2022 YTD Top 10 Legal Leasing Markets by Square Feet



2022 legal leasing is signaling a return to more normal dynamics, but where firms are signing leases has seen a substantial change. 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. 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. Markets booming with new moves include Miami, Tampa, Salt Lake City, Austin, Houston, and Dallas.



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