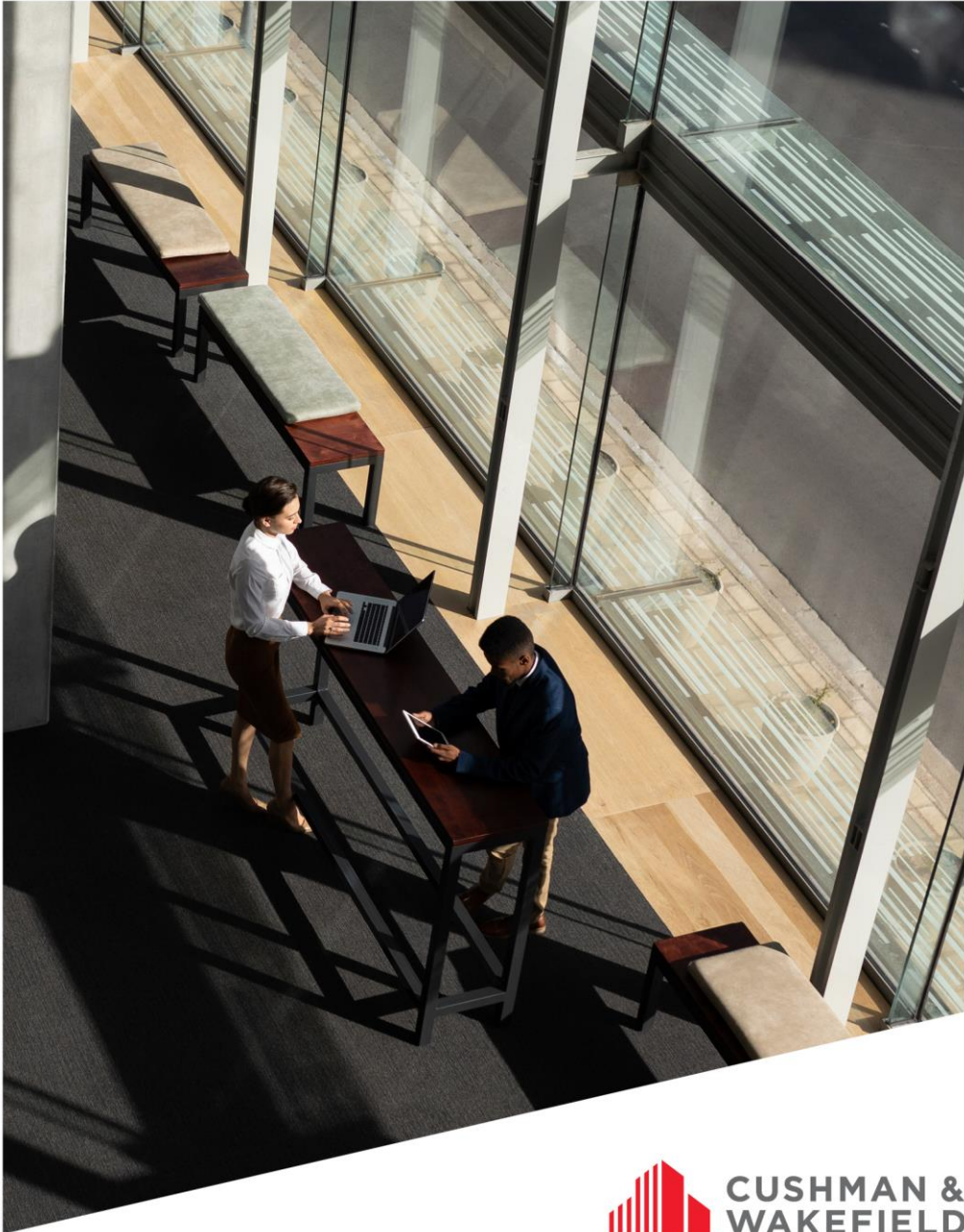


THE EVOLVING
LANDSCAPE OF
**LEGAL
SECTOR
OFFICE
LEASING**

Q1 2024



KEY TAKEAWAYS

- The legal sector has been a bright spot for office demand in 2023 with an unprecedented level of leasing activity occurring as **legal occupiers committed to 16.9 million square feet (msf)**. The lion's share of activity returned to major markets once again, bolstered by New York City's 4.3 msf of commitments during the year, as well as over 1.0 msf in both Washington, DC and Chicago.
- **Average effective rents increased year-over-year (YOY) but remain below pre-pandemic levels.** However, landlords also increased concessions in 2023, as the average tenant improvement (TI) allowance grew by 43.3% YOY for new leases and 27.0% YOY for renewals.
- A clear dichotomy exists in the leasing behavior between the 60% of legal occupiers that chose to relocate their office and the 40% that renewed their lease in place. **More than half of the law firms who chose to relocate are expanding** the size of their office space when doing so while **most law firms that opt to renew are making no meaningful change** to the size of their lease.

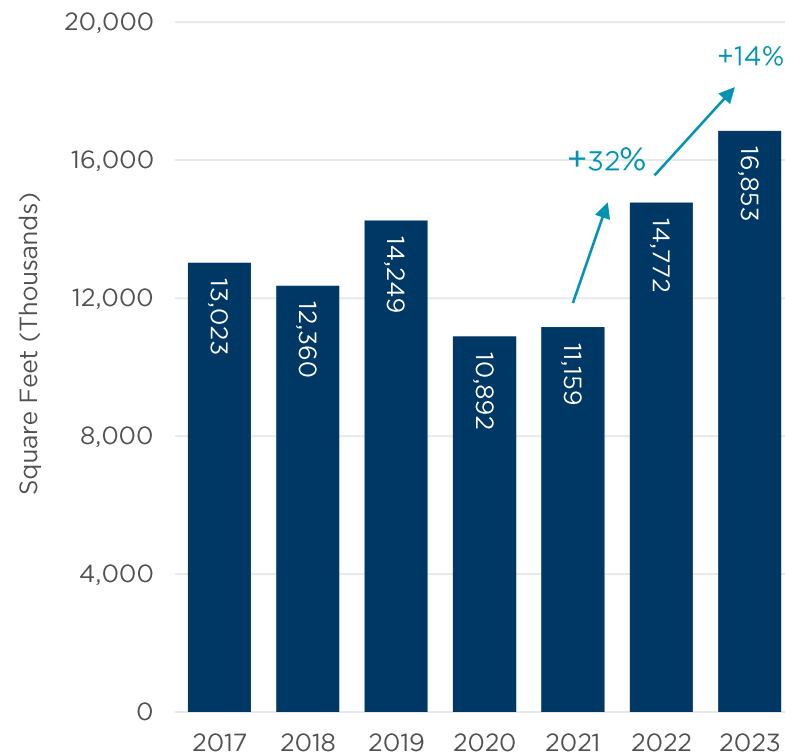


ALL-TIME HIGH LEASING VOLUME, NEW LEASES OUTWEIGH RENEWALS

New leasing highs in the legal sector were reached in 2023 as law firms committed to 16.9 msf of office space, accounting for 8.8% of all office leasing activity in the 10 major law firm markets.¹ Law firm leasing activity is now up over 50.0% from the low points of 2020 and 2021. New York City is a significant contributor to 2023's record activity as the city saw 4.3 msf of legal leasing during the year, a 198.1% YOY increase. Other gateway markets—including Chicago, the DC Metro and Boston—also saw considerable YOY gains while major Sun Belt markets fell short of their 2022 totals.

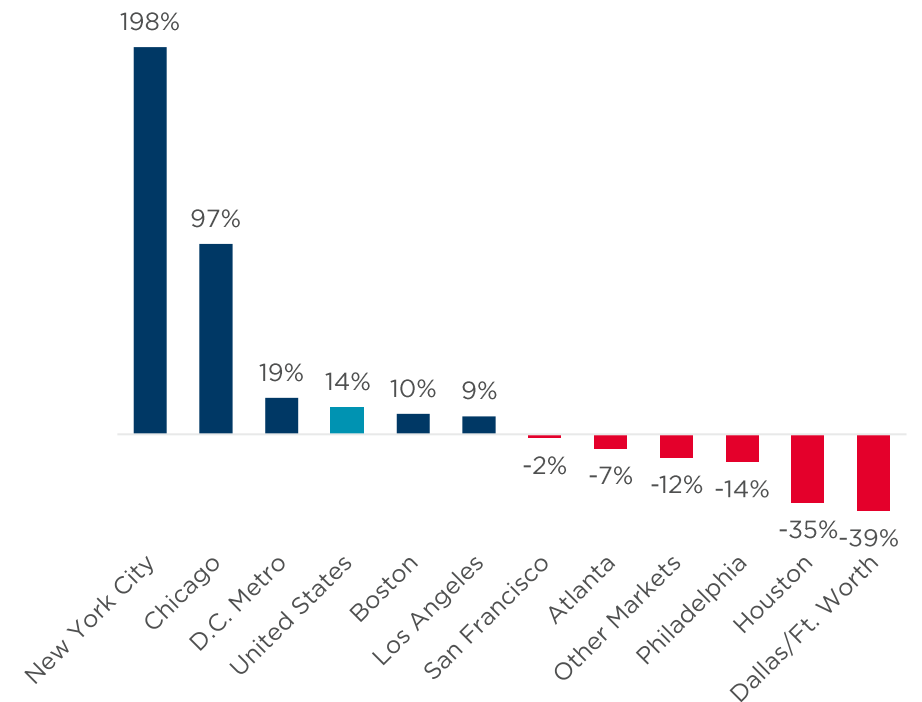
¹The 10 "major" U.S. law firm markets, as designated by Cushman & Wakefield Research, include: Atlanta, Boston, Chicago, Dallas/Ft. Worth, Houston, Los Angeles, New York City, Philadelphia, San Francisco and Washington, DC.

U.S. Legal Leasing Activity



Leasing Activity By Market, YOY Change

Total LSAG Leasing, 2023 vs. 2022



Source: Cushman & Wakefield research, 2024

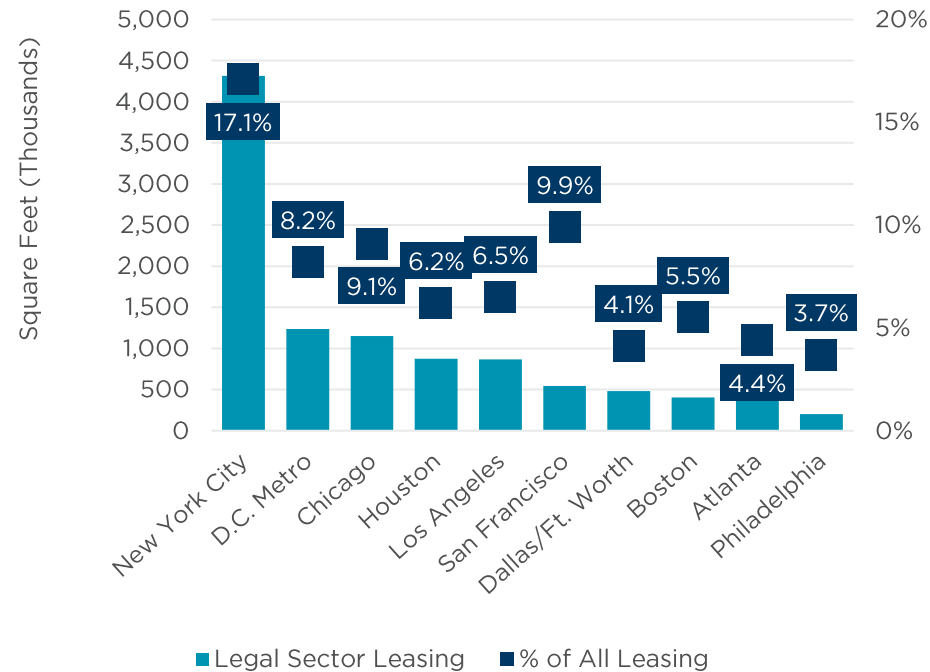
New leases, whose representation is within normal range at 53.2% of leasing activity in 2023, are driven by law firms' attraction to prime office space. These new spaces are not just more efficient, they often come with a suite of hospitality-focused amenities and floor plate configurations that better cater to modern firms. The standard legal office has evolved into a sophisticated workplace, complete with

cutting-edge technology, collaborative spaces, and comforts that align with the high-end clientele many law firms serve. Simply put, the spaces that highly successful firms seek combine operational excellence and strategic visibility. Top firms view their new space as a fundamental aspect of retaining and attracting top talent, clients and operating effectively.

The most significant legal leases of the year further highlight the strong demand for high-quality office spaces in the legal sector. Topping the list is the Paul Weiss lease, spanning 766,000 square feet (sf), in New York City. This lease will result in their relocation to the newly renovated 1345 Avenue of the Americas building, which recently completed a renovation project costing approximately \$120 million.

The spaces that highly successful firms seek combine operational excellence and strategic visibility.

LSAG Activity as % of All Leasing



Top 10 Largest Leases

Legal Sector Leasing Activity (Q1-Q4 2023)

Rank	Market	Leased SF	Change in Lease SF		Tenant	SF Per Attorney	Transaction Type	Quarter	
1.	New York City	765,931	Increase	225,931	42%	Paul Weiss	1,000	New Lease	Q4
2.	New York City	700,000	Increase	30,000	4%	Davis Polk & Wardwell	885	Renewal	Q3
3.	Chicago	204,000	Decrease	-16,000	-7%	Katten Muchin Rosenman	857	Renewal	Q1
4.	New York City	242,464	No Change	0	0%	Wachtell, Lipton, Rosen & Katz	872	Renewal	Q2
5.	New York City	225,301	Decrease	-115,506	-34%	Cadwalader, Wickersham & Taft	1,006	Renewal	Q1
6.	New York City	224,847	No Change	0	0%	Paul Hastings	760	Renewal	Q2
7.	D.C. Metro	198,877	Decrease	-191,123	-49%	Crowell & Moring	700	New Lease	Q2
8.	New York City	175,513	Increase	6,513	4%	King & Spalding	891	New Lease	Q4
9.	New York City	159,594	No Change	0	0%	Dentons	823	Renewal	Q4
10.	New York City	159,562	No Change	0	0%	Quinn Emanuel	574	Short Term Renewal	Q4

Note: SF per attorney figure based on current attorney headcount provided by ALM, not potential growth capacity.

Source: Cushman & Wakefield research, ALM, 2024

RENTS INCREASING, BUT REMAIN LOWER THAN PRE-PANDEMIC HIGHS

Average effective rents paid by legal tenants increased in 2023 due to inflationary pressure, the growing demand for top tier class A space, and increased tenant concession packages. While the broader market has been soft—overall U.S. office vacancy increased by 200 basis points (bps) in 2023—the top tier office space that many law firms are in search of is considerably tighter and more competitive. In 2023, new leases had an average effective rent of \$52.86 per square foot (psf) outside of the 10 major legal markets and \$62.05 psf within them. Renewals had slightly lower average rents at \$47.95 psf outside of major markets and \$55.01 psf within them. While these are averages, achieved rents on the high end surpassed \$125 psf for some of the most significant law firm deals in 2023. It's worth noting that both new lease and renewal rents are still lower than the pre-pandemic highs observed in 2019 despite the YOY increases.

Despite this, tenants are benefiting from greater value as landlords of top tier spaces have significantly improved their offerings. In addition to building amenities and luxurious common areas, many landlords have increased their focus on concessions that are most attractive to tenants, namely higher tenant improvement allowances, free rent (including flexibility to convert to additional TIA or spread out across lease term), and lease flexibility accommodating for future expansion or contraction needs.

Tenants are benefiting from greater value as landlords of top tier spaces have significantly improved their offerings.

Lease Comps, Major Markets

Starting Rent, Tenant Improvement Allowance & Free Rent (Q1-Q4 2023)



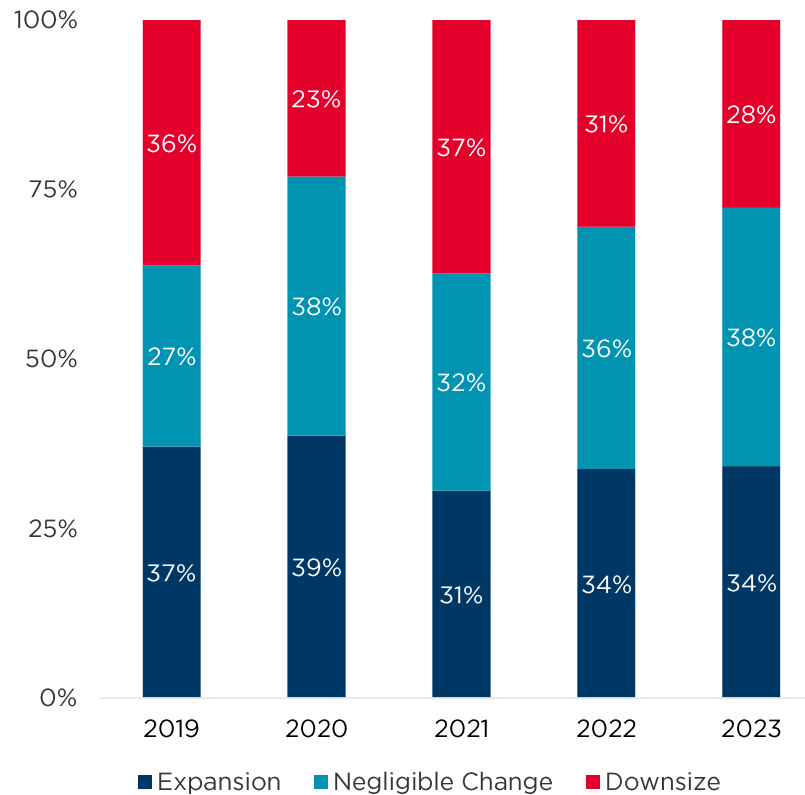
Cushman & Wakefield research, 2024

MOST RENEWALS SEE NEGLIGIBLE CHANGE, NEW LEASES SLIGHTLY FAVOR EXPANSIONS

A closer examination of space utilization trends in 2023 revealed an intriguing contrast between the 60% of legal occupiers who chose to lease new spaces and the remaining 40% who decided to renew their existing leases. 51% of law firms that opted to relocate took more space when they did, 43% percent saw it as an opportunity to do the opposite and reduce their square footage, and a small minority (6%) relocated to an office that was the same size as their previous one. However, the story is much different for firms that chose to renew their leases. 71% of law firms that renewed in place did not make meaningful changes to the size of their office space and like new leases, the number of firms expanding (17%) was greater than the number who downsized (12%).

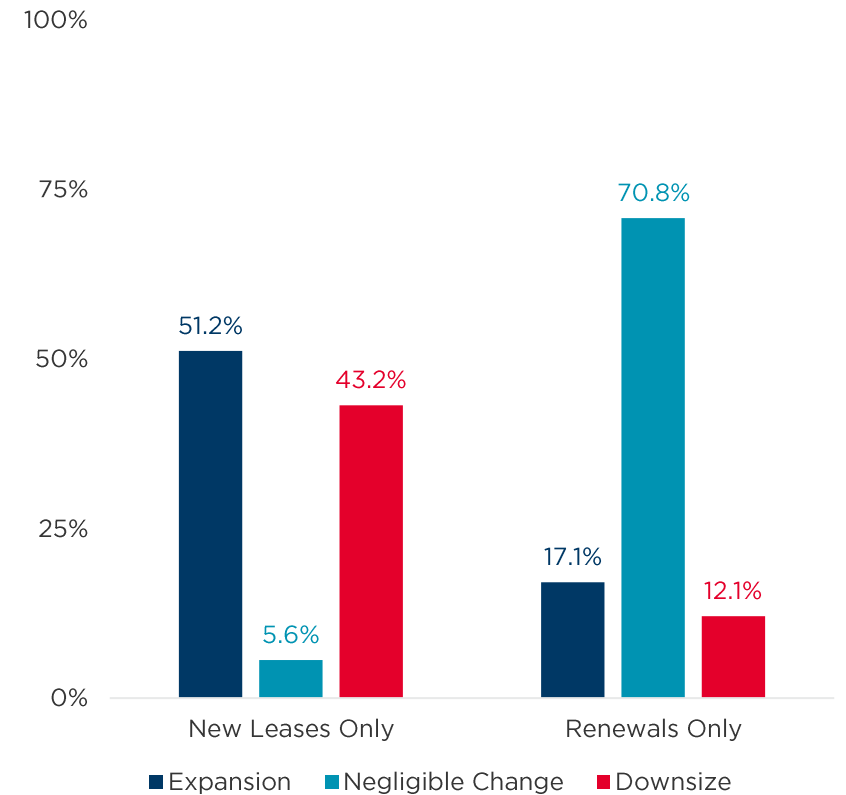
When viewing the leasing behavior exclusively through total square footage optics a contradictory net-change of 7.8% presents itself due to downsizers reducing their space more aggressively than expanders are expanding theirs. Firms that downsized reduced their space by 40% on average while those who expanded increased the size of their office by 24% on average.

All Leases - Percent of Transactions by Movement Type



Note: Negligible change comprised of firms that had +/-2% change in lease size

New Leases vs. Renewals - Percent of Transactions by Movement Type



N=646

Cushman & Wakefield research, 2024

IN CONCLUSION

The legal sector was a significant driver of office demand in 2023. Law firms have shown a greater proclivity than many other industries for in-office work, and that is playing out with the legal sector recently increasing its share of leasing activity. Moving forward, law firms continue to be in the market for new and/or upgraded space, and this activity will create more tightness in top tier office buildings. Overall vacancy is not pertinent to legal occupiers only considering the best space in the market, so it is critical to understand the current top tier office landscape and the details of the (shrinking) office construction pipeline.



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