CUSHMAN & WAKEFIELD

LEGAL SECTOR LEASING INSIGHTS

SEPTEMBER 2024

KEY TAKEAWAYS

- Legal leasing activity remains robust in the first half of 2024, as the 10 major legal markets started the year off strong. **Total leasing through the first half of the year reached 8.0 million square feet (msf)**, with 59% of leasing activity concentrated in major markets.

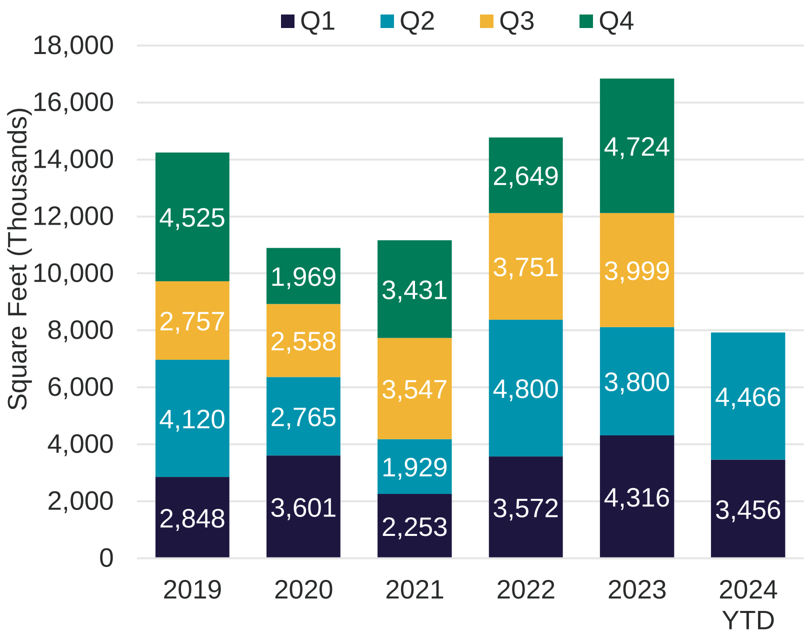
- Los Angeles, San Francisco and Dallas-Fort Worth all saw a significant year-over-year (YOY) rise in the amount of space leased by law firms. **Legal leasing accounted for more than 10% of overall office leasing activity in each of these three markets.**

- A growing share of legal tenants are electing to renew leases without making a change in the size of their office space, while **a smaller share of firms are electing to downsize.** This has caused the total net change in legal sector leasing to rise to negative 6.9%, up from negative 7.2% in 2023 and negative 13.3% in 2022.

LEASING ACTIVITY

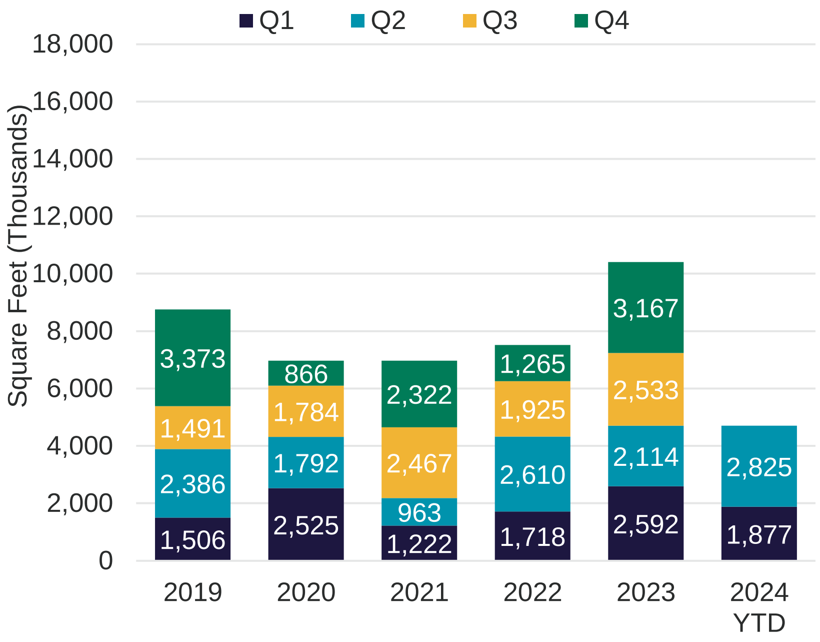
Legal sector office leasing remained robust through the first half of the year as legal tenants' appetite for space totaled 8.0 msf. The strength in demand can be partially attributed to the fury of major market[1] leasing activity that took place in the second quarter of 2024, which was the third-best quarter in the past five years and the highest second quarter on record. The share of legal leasing occurring in major markets reached 59% in the first half of 2024, which is closing in on the pre-pandemic average of 63% and represents a significant improvement over the near 50-50 split seen in 2022.

LSAG Leasing – All Markets



Source: Cushman & Wakefield Research

LSAG Leasing – Top 10 Major Markets



Source: Cushman & Wakefield Research

[1] Major legal markets are designated by Cushman & Wakefield as: Atlanta, Boston, Chicago, Dallas/Fort Worth, D.C. Metro, Houston, Los Angeles, New York City, Philadelphia and San Francisco.

Should demand persist for the second half of the year on the same trajectory that it did in 2022 and 2023, the legal sector may see 2024 leasing totals near 15 msf for the third year in a row. However, given the current economic and political environment, it is possible that occupier leasing processes may take longer, and some law firms may push leasing decisions into 2025.

Los Angeles has been a standout market through the first half of the year, with legal leasing activity 60% above the first half of 2023, while accounting for 11.2% of all office leasing in the Los Angeles market. Four individual leases contributed significantly to LA's YOY leasing activity gain, all of which were signed in the second quarter of 2024 and ranged from 41,000 square feet (sf) to 107,000 sf. Of the four leases, three expanded by 74% or more.

Both Dallas-Fort Worth and San Francisco saw significant YOY gains in leasing activity, with increases of 44% and 42%, respectively. In Dallas Fort-Worth, legal leasing activity in the first half of 2024 accounted for 13.1% of all office leasing, while San Francisco's 14.3% share was the highest of the 10 major markets. So far in 2024, there have been 39 legal leases in the U.S. exceeding 40,000 sf, including three in Dallas-Fort Worth and four in San Francisco.

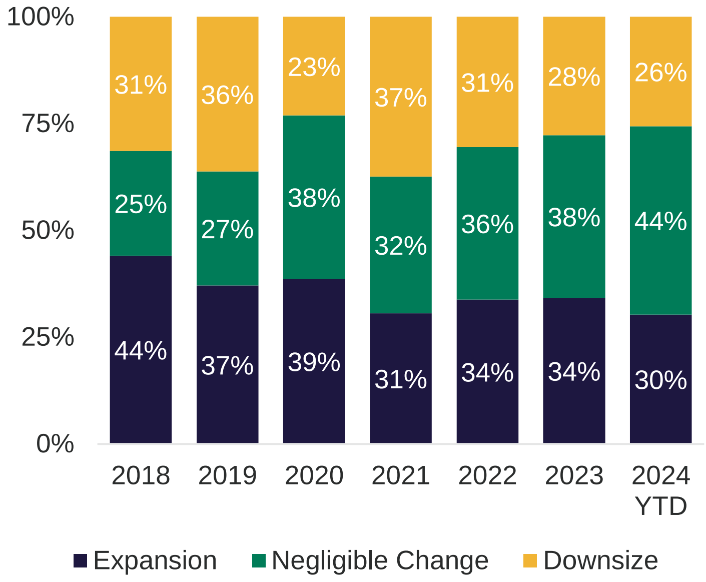
> "THE LEGAL SECTOR MAY SEE 2024 LEASING TOTAL NEAR 15 MSF FOR THE THIRD YEAR IN A ROW.

OCCUPIER BEHAVIOR

The number of legal occupiers electing to downsize has steadily decreased over the past four years. In 2021, 37% of legal occupiers opted to downsize their space, while only 26% have elected to do so through the first half of 2024. Firms that have expanded when signing a new lease have remained mostly consistent over the same period, as their share of leases has ranged from 30%-34% over the last 14 quarters. The most significant change has been in the number of firms that have held steady with their lease size, neither increasing nor decreasing by more than 2%, when signing renewals or relocating. A third (32%) of firms saw negligible change in 2021, but that share has consistently increased to 44% through the first half of 2024. Throughout the second half of 2024, and into 2025, most law firm occupiers that renew are expected to continue making negligible changes to their footprint. As our 2024 Bright Insight Survey revealed, this may be due to lingering uncertainty about future office use by attorneys.

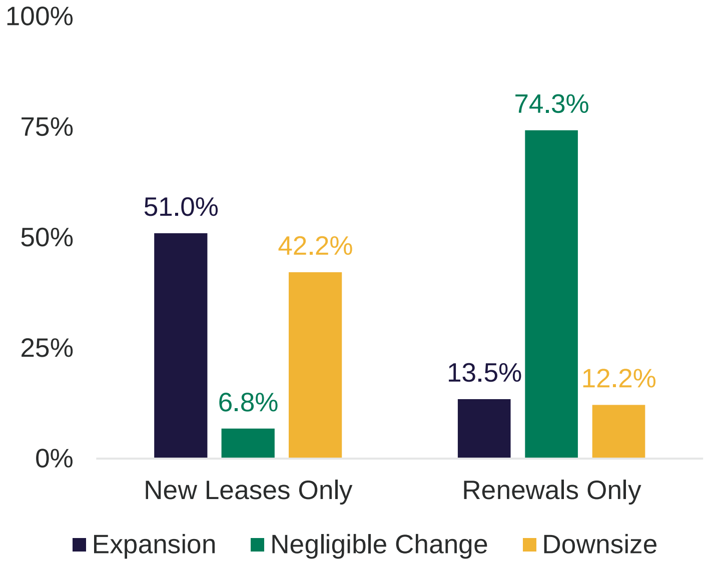
Percent of Transactions by Movement Type

All Leases



Source: Cushman & Wakefield Research

New Leases vs. Renewals (H1 2024)

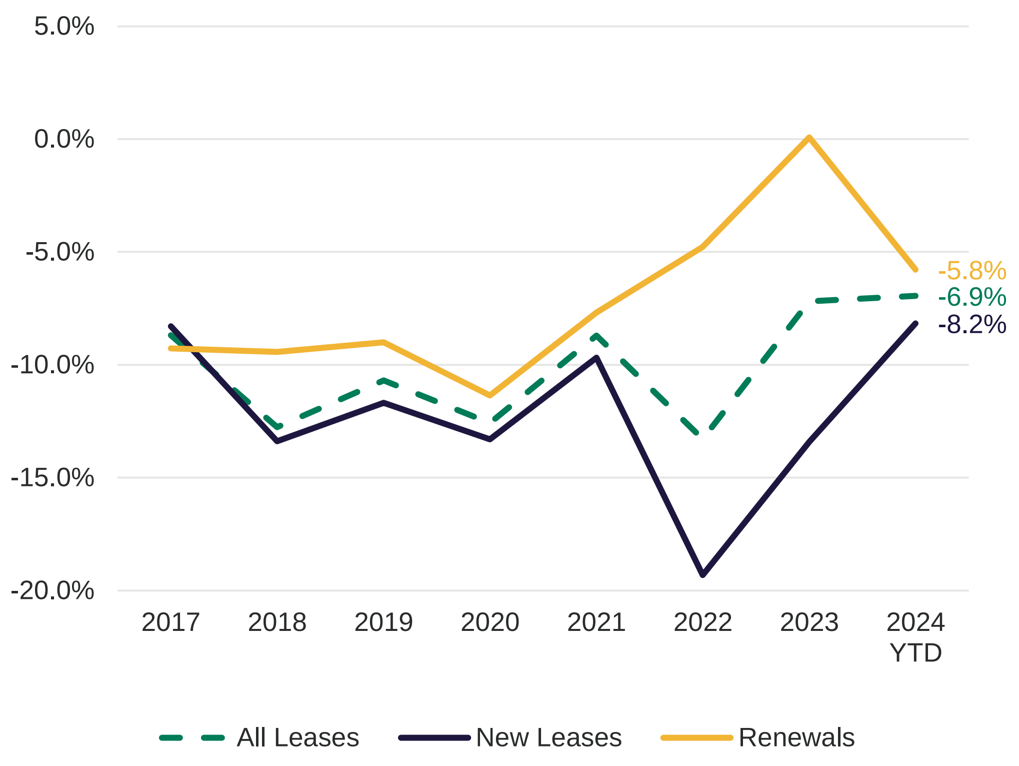


Source: Cushman & Wakefield Research

An interesting observation emerges when examining the overall net change for legal occupiers over the last 30 quarters. Between 2017-2019, total net change in lease size was negative 10.6%, with the percentage change observed in new leases and renewals tracking relatively closely to one another. Since 2020, this overall figure has improved 100 basis points (bps) to negative 9.6% on average, with both new leases and renewals moving in parallel above a negative 10% net change. However, 2022 introduced a dichotomy between firms signing new leases and those that renewed. The net change for renewing firms continued rising toward zero, whereas firms that relocated sought more efficient space in 2022 and downsized by an average of 19.3%. Across the country, 12 firms each gave back more than 40,000 sf of space since 2022, the largest of which shed 240,000 sf in New York City (down from 385,000 sf). The gap between renewals and new leases remained significant in 2023, as net change for new leases improved to negative 13.4%. Firms that renewed that year returned the first positive net change on record, at 0.1%, indicating their commitment to make little change amid hybrid work environments, economic uncertainty and an upcoming election year. So far, the first half of 2024 is more reminiscent of the pre-pandemic norm, with new leases and renewals converging once again, while the overall net change figure continues inching upward to an average of negative 6.9%, the highest point since at least 2017.

Nuance is prolific in the legal sector, and occupier norms are known to differ greatly between individual markets, where there can be differences in leasing activity, workplace design, the degree of net change in lease size, square footage per attorney ratios, and a variety of other deal points. However, the long-term trajectory of the legal sector in the U.S. is trending toward shrinking densities, office efficiency, and strategic expansions or reductions in space.

Net Change in Leasing (%) By Year



Source: Cushman & Wakefield Research

H1 2024 US LAW FIRM LEASING DEAL POINTS*

Term Length

The weighted average lease term for all leases is 88 months, which is an 8.7% increase over 2023. Renewals average 80 months in term, while new leases are 18% longer, on average, at 95 months.

Free Rent

Legal occupiers are seeing an average of 1.1 months of free rent per year of term, down 8.3% from 2023 yet still above pre-pandemic figures. Free rent for new leases remained flat YOY at 1.1 months per year of term, while renewals decreased 20% to 1.0 month per year of term.

TI Allowance

The average tenant improvement (TI) allowance per square foot (psf) is $76.37, which is 8.7% lower than 2023. TI allowances for renewals decreased 20% from 2023, dropping to $50.02 psf, Meanwhile, TI allowances for new leases showed little movement, averaging $100.95 psf in the first half of 2024. New York City law firms can expect to see the highest TI allowance, with averages at $156 psf, while firms in Chicago, which averaged $38 psf in TI allowance, can expect the least among major markets.

Effective Rent

The average effective rent across all markets is $49.67 psf, which is 8.5% higher than in 2023. Legal occupiers that sign new leases, rather than renewing, can expect to pay 22% more in effective rent, with new leases averaging $54.17 psf compared to $44.28 for renewals. The disparity between new leases and renewal rents is likely due to greater concessions offered to relocating law firms, as well as the preference of legal tenants to occupy the newest and best buildings in a market.

*(*Note: Analysis of deal points excludes leases shorter than six months or longer than 15 years.)*

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ABOUT CUSHMAN & WAKEFIELD

Cushman & Wakefield (NYSE: CWK) is a leading global commercial real estate services firm for property owners and occupiers with approximately 52,000 employees in nearly 400 offices and 60 countries. In 2023, the firm reported revenue of $9.5 billion across its core services of property, facilities and project management, leasing, capital markets, and valuation and other services. It also receives numerous industry and business accolades for its award-winning culture and commitment to Diversity, Equity and Inclusion (DEI), sustainability and more. For additional information, visit www.cushmanwakefield.com.

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