

GLOBAL OCCUPIER MARKETS - 2024

SPOTLIGHT ON THE LEGAL SECTOR

Key Takeaways

Global law firms are re-adjusting international expansion strategies, while domestic firms navigate various challenges and opportunities in different markets. What unites all is the prioritisation of talent in real estate decisions, balanced against the need to optimise real estate related costs.

- Fierce competition for talent is influencing locational decisions across the legal market, with some firms expanding outside of markets with a large legal footprint due to cost of talent.
- Globally, most legal practices maintained the same size of office space in H1, with notable regional exceptions. In Europe, London, Paris and Brussels stand out as hotspots for expansion. Meanwhile in China, international firms are increasingly reducing their physical footprints, while top domestic counterparts relocate to larger offices.
- Flight to prime continues to raise the price premiums of best-in-class assets around the world but particularly in the US, as top-tier space becomes harder to secure in many leading office markets.
- 56% of the top 50 in the Global 200 mandate three or more days per week in the office, with legal professionals typically exceeding minimum office attendance requirements.



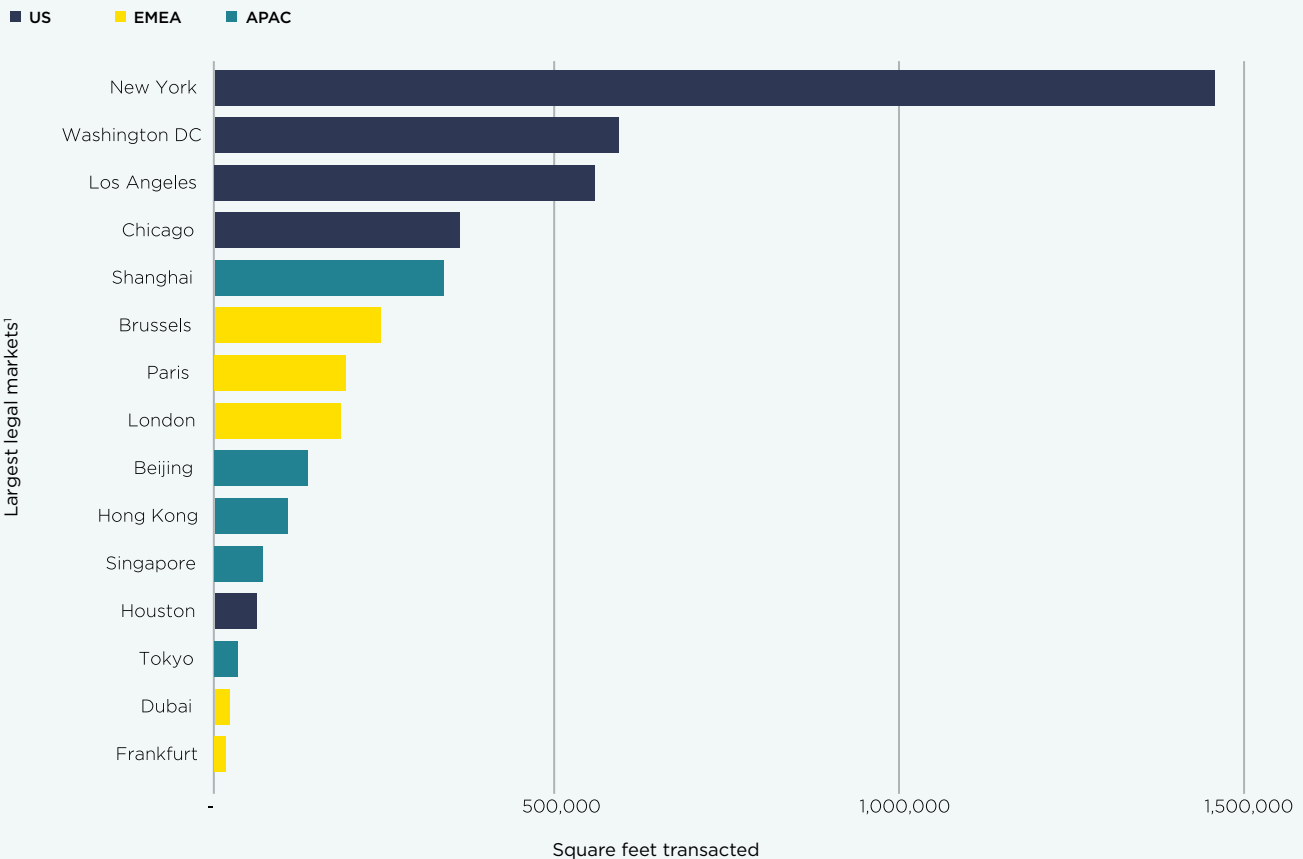
Which global cities saw the highest levels of law firm leasing activity in H1 2024?

Cities in the US accounted for 69% of overall legal leasing activity in the world's largest legal markets, reflecting the dominance of American firms in the sector overall, as well as the tendency for US legal offices to have a lower occupancy density. New York accounted for a third of all leasing deals across the same markets, reflecting its position as the world's biggest legal hub.

Domestic firms drove leasing activity in Asia Pacific in the first half, accounting for 87% of all deals transacted in the largest legal markets in the region. In Shanghai, domestic incumbents accounted for over half over the overall transaction volume in H1.



H1 2024 legal transaction volume



Source: Savills Research

¹ Largest legal markets determined by total number of offices of top 25 ranked law firms in Global 200.

Where are law firms increasing or consolidating space?

Globally, the majority of the legal sector is maintaining the same or equivalent square footage when renewing their leases or relocating. Just under a quarter are increasing space, and approximately a third are consolidating to smaller footprints. 40% of firms in EMEA expanded office space in the first half of the year, with the picture in the US and in Asia Pacific more nuanced as some practices continue to right-size and adjust their real estate portfolios.

International firms that expanded into China in recent years continue to re-evaluate their physical presence in the region. Many firms have announced office closures this year, while others, typically those with a long-standing presence in the region, have renewed space at equivalent or smaller square footage in H1 2024. Concerns for global legal occupiers include a prolonged capital market downturn in China, shifting business environment, ongoing geopolitical tensions, and increasing competition for work from government-preferred Chinese law firms. At the same time, leading domestic practices have been in expansion mode, taking advantage of the opportunity to grow market share as their international counterparts decrease presence in the region.

Across a number of EMEA locations, global firms are in expansion mode. In Dubai, nearly all deals in H1 2024 expanded floor plates. In mainland Europe, global firms are expanding in Brussels and Paris. These cities host important national and international political centres, such as the EU headquarters, which create a clustering effect of top legal practices. Some firms also anticipate an uptick in European M&A opportunity.

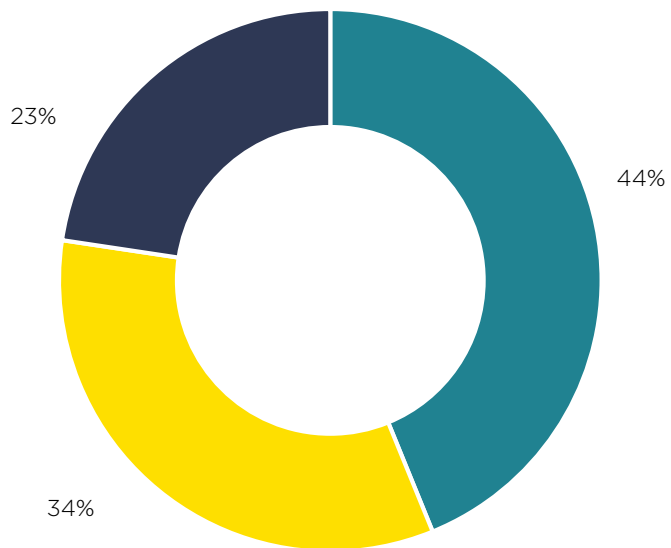
Large American and global law firms, typically the largest and most profitable in the world, continue to increase their dominant share of London's legal market. This trend has already redrawn the London legal market, with US firms now making up the dominant share of law firms in the UK's capital.

China's "red circle" continue to increase expansion efforts in European markets, mainly serving China-based clients and working for fees that are materially lower than those of western rivals. In the first half of 2024, one leading Chinese firm opened a new office in Madrid, whilst another is rumoured to be opening an office in London.

As Japan further opens up its legal market, with a simplification of the registration process for foreign lawyers introduced by the Japanese Ministry of Justice on 31 July 2024, it is anticipated that more international practices will expand in this region.

Legal sector holding steady versus change

■ Expanding ■ Maintaining square footage ■ Consolidating



Source: Savills Research, survey of broker network



What do legal tenants want?

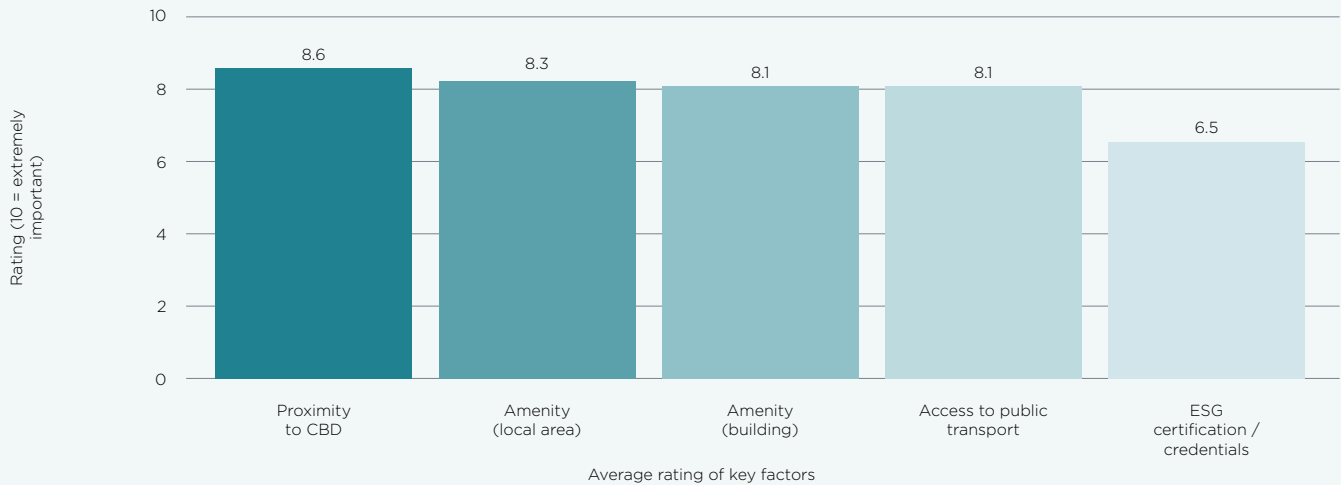
Legal occupiers looking to attract and retain top talent, drive performance, and prioritise ESG requirements are demanding premium space that provides vibrant employee experiences and positive environmental impact. This is true for all firms across the rankings, but particularly pronounced amongst top-tier global law firms that are investing heavily in the best-in-class assets in markets across the world.

The flight to prime continues to drive relocations as well as price premiums, especially in tight markets. In the US, price premiums for ultra-prime offices are particularly significant.

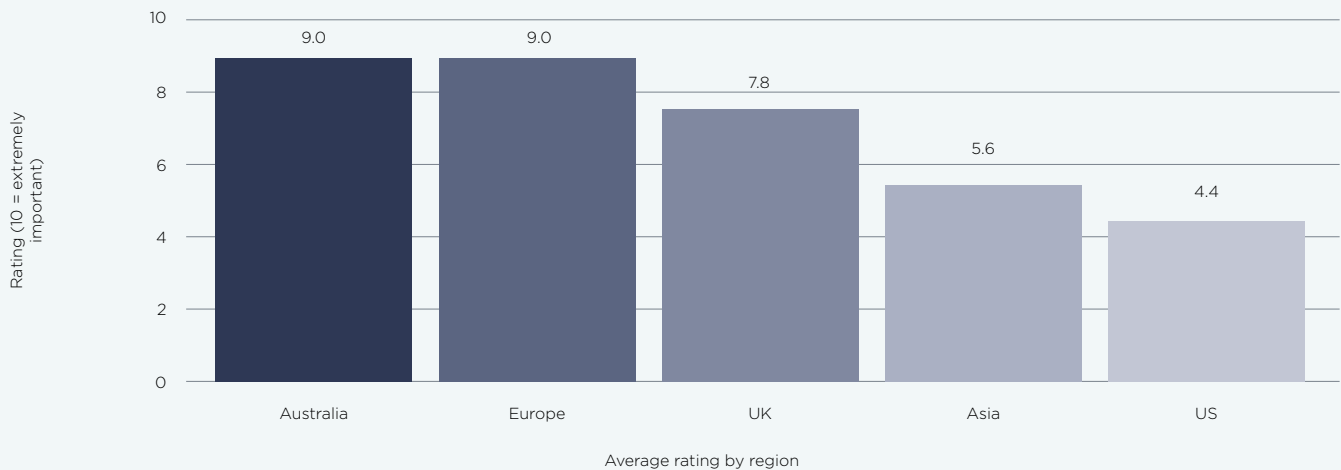
Occupiers demand premium, highly-amenitised space in accessible and attractive urban environments in order to recruit and retain talent and drive productivity.

ESG certification is also a top consideration for all legal tenants, with Europe and Australia significantly ahead of the US and Asia.

How important are the following locational factors on a scale of 1 to 10?



How important is the ESG certification and standards of a building, on a scale of 1 to 10?



Source: Savills Research, survey of broker network

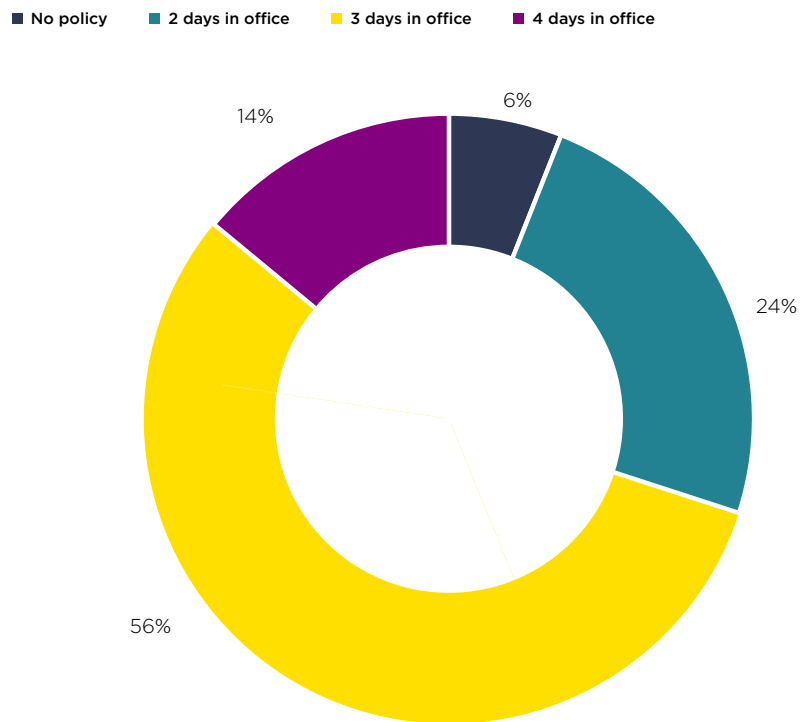
How have hybrid working models changed in the legal sector this year?

With legal occupiers investing heavily in high-quality offices, effective space utilisation is key to successful real estate strategies. In the last year there has been a trend to formalise hybrid working policies firm-wide.

According to Savills research based on publicly available information, 70% of the top 50 in the Global 200 mandate three or more days per week office attendance, with a number of firms (mainly US and international) having increased the number of required days from three to four in the last year. According to analysis of announcements and published articles, law firms are more likely to frame an expectation of full-week office attendance, rather than mandate 5-day working weeks firm-wide.

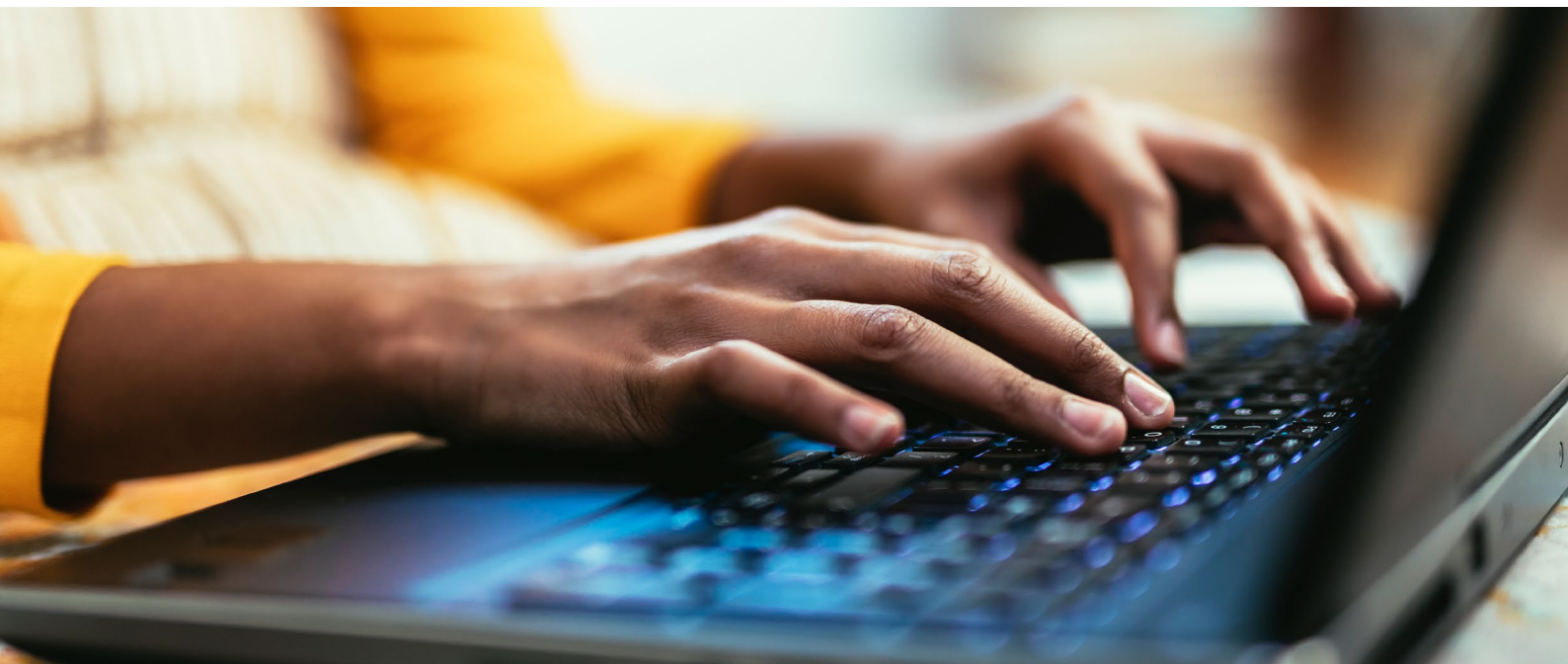
Some firms have tied office attendance to bonuses or performance reviews, but this approach is not widely adopted. Most legal practices report that legal professionals value being in the office, with many exceeding minimum requirements whilst also appreciating the flexibility offered by hybrid policies. Anecdotal research suggests some lawyers perceive a link between attendance and career progression.

Top 50 ranked global law firms: hybrid working policies²



Source: Savills Research, survey of broker network

²Based on sample of the top 50 firms as ranked by The American Lawyer in the Global 200.



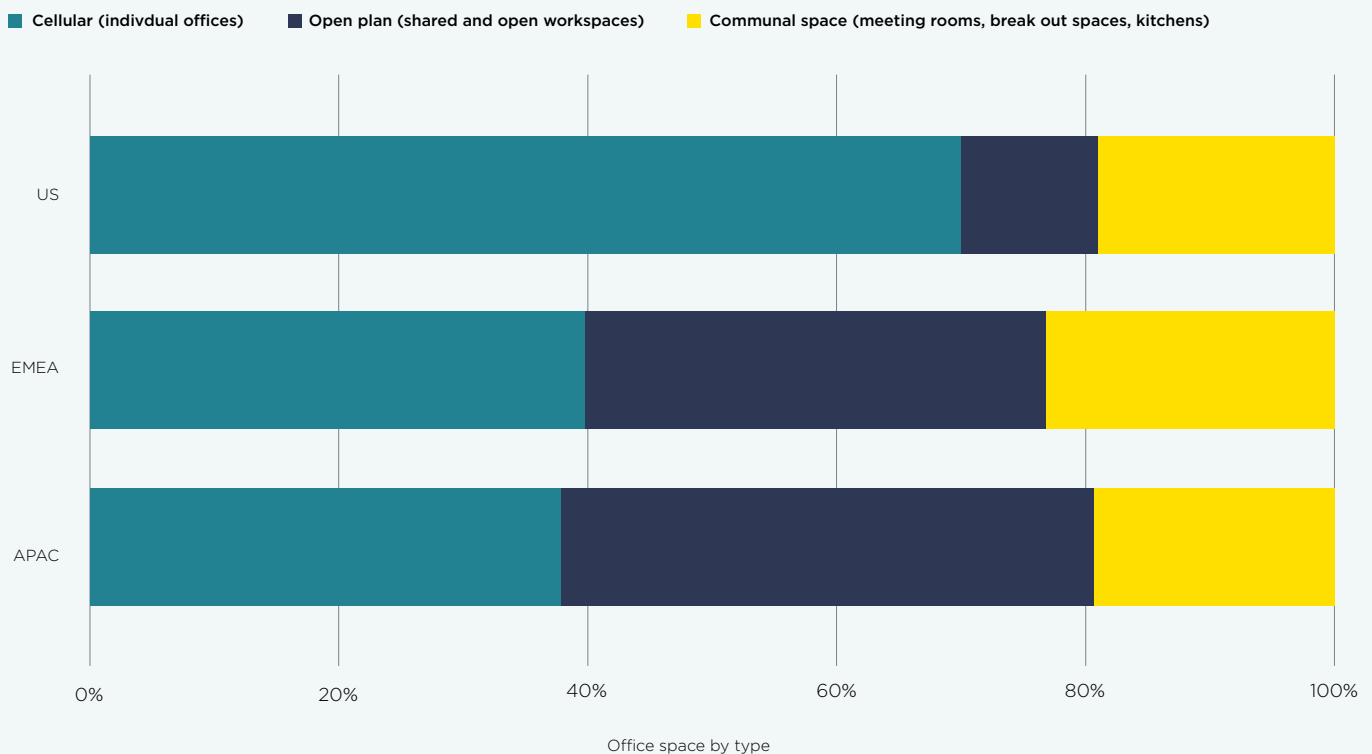
How is legal office design responding to new ways of working?

Legal occupiers are adapting to hybrid working patterns with more flexible, tech-enabled office designs that support modern ways of working. Whilst there is regional variation, the majority of firms today are dedicating more area to multi-purpose shared spaces, which can be used for team-wide meetings, collaborative tasks, or client-facing events. Acoustic design is also key, both in terms of privacy and noise pollution absorption in open plan spaces, to remove disruptions to concentration and productivity.

The sector, already ahead of other professional service sectors in its adoption of AI, is trending to smart technology that optimises office utilisation and facility management. One example is that firms are moving away from legacy meeting room booking systems, to intelligent solutions that select rooms based on attendance by in-person and remote attendees, easing pressures on meeting rooms.

While law firms continue to require private offices for their lawyers, many are shifting to more open plan layouts better suited to maximising utilisation rates in hybrid working models, particularly in European and Asian markets. In open plan layouts, office neighbourhood seating has gained traction as a way of organising workspaces, so that legal professionals who need to work with each other sit together. Germany is an exception in Europe, where regulation and expectation around personal working space drives a preference for a cellular layout. Individual offices are also culturally embedded in US markets, where an average of 70% of office space is dedicated to private offices, compared to below 40% in EMEA and Asia Pacific. A trend to same-size offices for partners and associates is gaining traction across the sector, particularly in the US and Asia Pacific, reducing overall square footage and fostering a greater sense of office comradery, an important element for attracting and retaining staff.

Office space type breakdown among legal occupiers



Source: Savills Research, survey of broker network

Where are salary wars influencing location decisions?

International expansion of US firms has had a profound impact on legal salaries across the globe. US practices represent the top of the market in lawyer remuneration in all the legal markets we analysed. As mid-sized and domestic incumbents navigate the challenges of talent retention in this context, some look to alternative locations with lower average salaries and often lower real estate costs.

In the UK, where the influx of US firms has transformed the London legal market, many of the British counterparts look to secondary cities

such as Manchester, Birmingham and Glasgow when considering office growth strategies, where legal salaries are, on average, 47% lower.

A similar trend is seen in Australia, where some look to Brisbane and Melbourne, rather than Sydney, when bolstering practices. In all cases, firms continue to have prestigious addresses in the main legal markets. Elsewhere in Asia Pacific, global law firms are pushing up salaries in markets such as Singapore, where nearshoring may become an attractive strategy to reduce overhead costs; legal salaries in Kuala Lumpur,

for example, are 84% lower than those of Singapore.

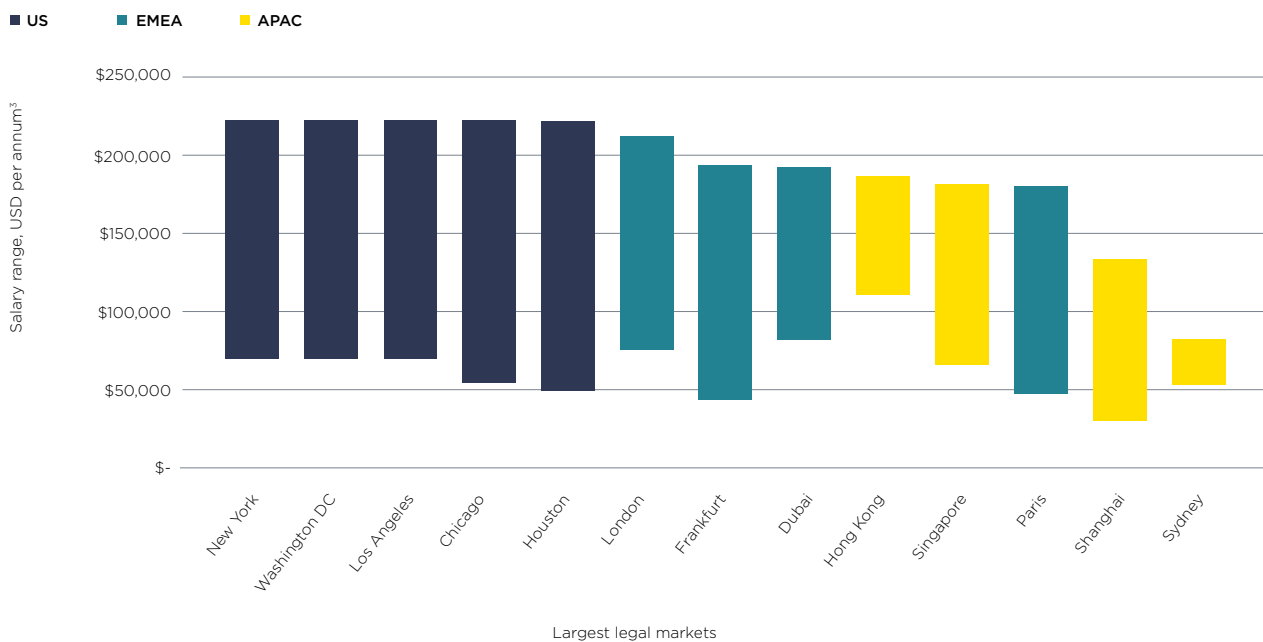
In the US, firms have responded to the post-pandemic migration of talent and business opportunities by expanding into cities that previously had minimal Am Law 100 presence (the ranking of top 100 legal firms). Key growth markets include Miami, Tampa, Salt Lake City, Austin, Houston, and Dallas. Lower salaries may also be an additional factor considered in their location strategy.

-47% UK secondary city average salaries lower than London

-19% Australian secondary city average salaries lower than Sydney

-84% Kuala Lumpur average salaries lower than Singapore

First year associate salaries in key global markets



Source: Savills Research using Taylor Root and Chambers and Partners

³ Reflects base salary paid by a variety of legal practices, including boutique and mid-size firms, as well as the international top-tier. Base salary range is exclusive of bonuses.



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