

PHILADELPHIA BUSINESS JOURNAL



RESERVATION FOR ONE

Law firms consider hotel-like office bookings
as space needs shrink.

JEFF FUSCO FOR PHILADELPHIA BUSINESS JOURNAL

JEFF BLUMENTHAL, 12-16

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hoteling

[ho-tel-ing] / noun

The practice of giving space in an office to an employee for a limited time only.

'I'm not sure the juice is worth the squeeze'

Ongoing pandemic makes law firms weigh dramatic changes to their real estate footprints

BY JEFF BLUMENTHAL | jblumenthal@bizjournals.com

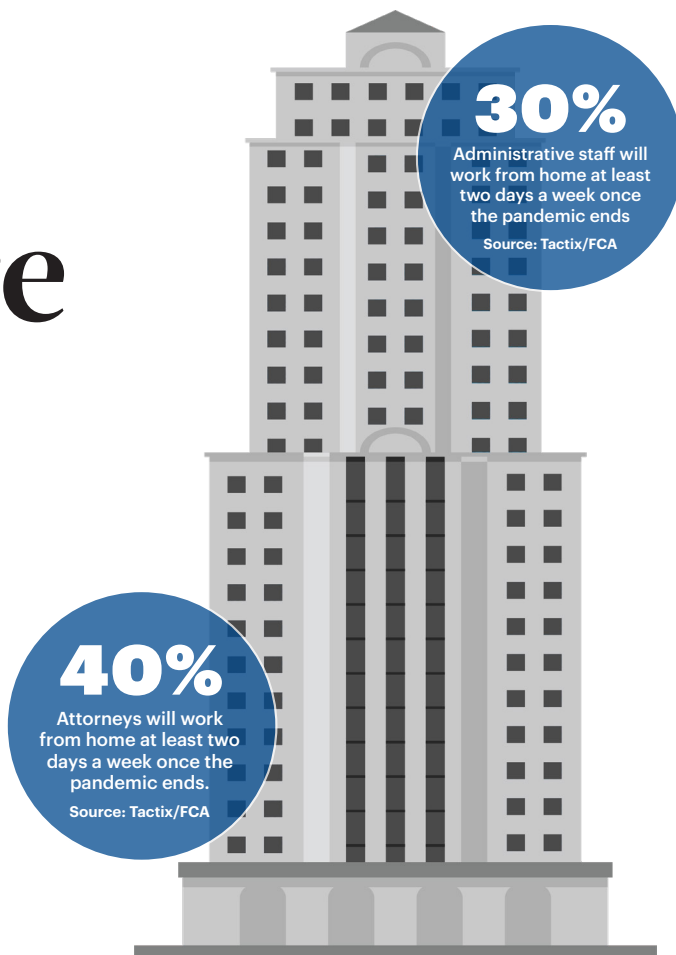
When Weber Gallagher lawyers come to work at the firm's headquarters at 2000 Market St., they no longer have a designated office. Instead, they must log onto an online portal to reserve one as if they were booking a hotel room. The 113-lawyer Philadelphia firm began implementing what it calls a hybrid work model with no designated offices – even for its biggest rainmakers – before the onset of Covid-19.

Such de-emphasizing of personal space would not have been a consideration just a year ago for much of an industry that has operated for over a century on the premise that a lawyer's office size is indicative of their prominence at the firm. But Weber Gallagher's strategy now looks prescient after the Covid-19 pandemic showed lawyers can have success working remotely, causing law firms to rethink how they use their real estate – the second-largest cost center for the industry behind only personnel.

Weber Gallagher began subletting one of its two floors at 2000 Market last year and redesigned the other one to fit all of its lawyers and staff.

"We were probably too conservative with that," Weber Gallagher Chairman Andy Indeck said. "Because we've since discovered that most of them don't plan on coming back to the office much when this is over. We asked our attorneys if they would be willing to sacrifice having a designated office if it meant they could work from home most of the time. And the overwhelming response was yes."

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As part of the reservation system, lawyers and staff can pick the office or work station they want on a first-come, first-served basis by reviewing the floor plan to see which printer is nearby and how many computer monitors are in that specific office. An office can be reserved for up to five consecutive days.

Indeck said the last of the firm's nine office leases isn't up for renewal until 2028, but that is not keeping the firm from implementing its strategy by engaging in subletting arrangements. The end result is giving back about half of the firm's space, which Indeck said will increase profits by 10%.

Cutting back on space

According to a recent survey of mid-Atlantic law firms conducted by Tactix Real Estate Advisors and Francis Cauffman Architects, Weber Gallagher appears to be among the most aggressive in the industry when it comes to rightsizing its real estate. Only 9% of survey respondents said they plan to reduce space by between 41% and 50%. Thirty-six percent indicated they plan to cut their space by between 21% and 40%, and another 36% want to cut it by 11% to 20%. The rest expect to reduce office space by 10% or less.

Only 19% of firms said their plan is to have lawyers return to their workplace with a dedicated office and no hoteling arrangement for individual offices. Half see work arrangements being a mix of remote working and hoteling, while about 31% will continue allowing lawyers to retain a dedicated office while they work remotely part-time.

"The big question is whether lawyers will be OK with not having a dedicated office space," Tactix Principal Doug Simon said. "Firms have been nibbling around the edges but cutting dedicated offices for lawyers is a big step."

Law firms used to give lawyers larger offices as a reward as they advanced by bringing in business and taking on leadership roles. Some of those offices could be 250 square feet with four windows. Firms have always figured out how much space they needed by counting the number of lawyers and then figuring out how many windows were on each floor to correspond.

The advent of the personal computer gradually changed that approach – eliminating or greatly reducing the need for law libraries and paper file storage. Lawyer-to-secretary ratios have gone from 1-to-1 to 5-to-1 at many large and midsize firms, with plans for that number to hit 10-to-1 in the coming years.

A key metric all firms use to evaluate space usage is square feet per lawyer. The target number has shrunk from more than 1,000 square feet per lawyer

to between 600 or 700 over the past few decades. That target will likely be between 400 and 500 square feet per lawyer moving forward, said Tim Monahan, senior managing director of real estate firm Savills.

A major cultural and organizational shift

The relentless drive toward efficiencies over the past 20 years has led to a lot of empty space on the interior of floor plans. Law firms have flirted with interior lawyer offices, introduced a larger variety of collaborative work spaces and break areas, as well as cut back on individual lawyer office sizes, as most clients wind up being ushered into conference space. But not having a dedicated office at all is something new for lawyers.

"This is a major cultural and organizational shift," FCA Philadelphia Office Managing Principal Anthony Colciaghi said. "In the past, you earned space as you moved up the ranks. Now space is thought of as shared community space. That concept has been around in corporate America for quite some time. But not so much for law firms."

Monahan called the pandemic the largest change catalyst for how law firms use space in 25 years. Philadelphia has not exactly led the charge with past changes, lagging behind more expensive markets like New York. And both Colciaghi and Monahan said lawyers are risk averse, so firms do not want to be the first of their peers to try something new. They would rather a competitor do that.

"People want to learn from someone else's mistakes," Monahan said.

Monahan believes that, on average, firms will have much less space – he suggests an average of 25% to 30% less, though that could fluctuate based on how much empty space a firm has in their current offices and what kind of remote working arrangement it plans to adopt.

Here's how Monahan said firms might be able to cut that much space: Lawyers who are not coming into the office four to five days a week are less likely to have assigned seating. Firms that haven't already done so will apply smaller, one-size-fits-all offices, with collaboration and conference space being flexible. Firms will also save money on travel to meet with clients and colleagues in other offices, and some will use those savings to reinvest in technology. Lawyers could work staggered hours to prevent bottlenecks at elevator banks during morning and afternoon rush hours.

"It's going to take a while to roll through the population," Monahan said. "Many firms just signed new leases in the past few years. They will have to sublease space."

Monahan said Troutman Pepper is looking to sublease two floors at Two Logan Square while Reed Smith is seeking to do the same at Three Logan Square. Baker Hostetler cut its space in half with its lease agreement at 1735 Market, while three of the city's biggest firms – Morgan Lewis & Bockius, Dechert and Blank Rome – are angling to implement significant efficiencies as well.

The potential impact on the Philadelphia real estate market from the legal industry alone could be significant. Tactix Principal Glenn Blumenfeld estimated that law firms take up about 15%, or 6 million square feet, of office space in Philadelphia.

"If they take up a third less, you are talking about 2 million square feet gone," Blumenfeld said. "That's like all of Center Square."

What other firms are doing

Of the six large and midsize law firms interviewed for this story, only Weber Gallagher seems to have full clarity about its specific direction. Dechert did not respond over a two-week period to requests for comment, but landlord Brandywine Realty Trust told the Philadelphia Business Journal earlier this year that Dechert is in discussions to occupy 110,000 square feet in the upper floors of Cira Centre, down from the 240,000 square feet it currently leases.

In January, Blank Rome signed a new 16-year lease at One Logan Square,

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which it has called home since 1997. The firm currently occupies 196,000 square feet – a significant chunk of which it does not put to good use. It has not determined how much space it will take in the new lease, which kicks in next year. Managing Partner Grant Palmer said the lease arrangement would require any potential returning of space to landlord Brandywine Realty Trust to take place in the first two years, but it also allows the firm to expand if it completes an in-city acquisition.

Sarah Bouchard, Philadelphia office managing partner for Morgan Lewis, said her firm is in the same boat. The city's largest law firm signed a 20-year lease in January 2020 to relocate to 2222 Market St. from its current headquarters at 1701 Market St. It will be the sole tenant and is committed to consuming 305,000 square feet when it moves in 2023, but Bouchard said the firm is still figuring out how it can best use the space and how much of its back office personnel currently at 1801 Market St. will now be able to fit.

Not every firm is planning to cut space. Flaster Greenberg's current lease at 1835 Market St. was scheduled to expire Jan. 31 but was extended one year under a mutual agreement with the landlord after the pandemic began. It will be looking to grow from its current 12,000 square feet to roughly 20,000 because it plans to add five to 10 lawyers there in the coming years and most of its lawyers made it clear they plan to return to the office post-pandemic and do not want hoteling arrangements.

Ballard Spahr and Cozen O'Connor are reviewing space needs at each office as leases expire, and both can use their South Jersey offices as models.

Lynne Pierce, chief of real estate and office operations at Ballard Spahr, said the firm's Cherry Hill office is moving to Mount Laurel in April. The 20-lawyer office will be able to reduce overall square footage by 16% by implementing same-size offices on the perimeter, reducing the amount of space dedicated to file storage and having a limited number of hoteling arrangements. The firm increased its conference and collaboration space there by 23%.

Cozen O'Connor Managing Partner Vincent McGuinness, Jr. said the firm's Cherry Hill office will be relocating and after surveying its 12 lawyers, management determined it only needed a third of its current space. Two of

the lawyers said they planned to retire soon and would not need dedicated offices and a few others seemed fine with hoteling arrangements. Cherry Hill will be a pilot for Cozen's new office model that will stress flexibility.

McGuinness said the firm will not be moving to virtual work, nor will it operate as its pre-pandemic self. The key will be finding a balance. Many lawyers have found that remote work has allowed them to be more efficient. At the same time, younger lawyers and staff need supervision for certain tasks and that becomes more difficult when working remotely.

"I think the jury is still out on remote working," McGuinness said. "The question is how long can you operate like that. Once everyone gets the vaccine, I think there will be a lot going on. People are going to want to re-engage and connect."

Concerns over remote working arrangements

Major concerns about hoteling and remote working arrangements revolve around culture and training. Law firms are under a great deal of client pressure to not assign their young associates to certain matters, as they tend to be less efficient – something that is not ideal for clients when the model is often charging by the hour. That means that firms want to get those first- and second-year lawyers up to speed as soon as possible. But if the more senior lawyers who routinely train them are working remotely much of the time, that will slow development – and extend the wait until newcomers can make money for their firms.

Blumenfeld said his top concern with this new work model is that it will be hard to decipher the difference in cultures between law firms, and more lawyers could switch jobs after feeling disconnected without the bonds created by working in the office. Ultimately, the money saved by cutting back on space might not be worth it.

"You have to ask what have you created from a cultural standpoint with not all of your lawyers being in the office," Blumenfeld said. "If you lose one attorney because of it, that could be \$750,000 in billings. That's more than a month's rent. And I'm not sure the juice is worth the squeeze." 