

LEGAL SECTOR TRENDS IN **SOUTH FLORIDA**

OPTIMIZING SPACE TO IMPROVE
EFFICIENCY & PROFITABILITY

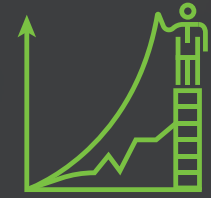
BIRD'S EYE VIEW

SOUTH FLORIDA INDUSTRY HIGHLIGHTS



**47.6K
JOBS**

3RD LARGEST U.S.
LEGAL SERVICES MARKET



**30%
LAWYER
GROWTH**

3X JOB MARKET IN
PAST 10 YEARS

**26 AM 100*
LAW FIRMS**



**11 AM 200*
LAW FIRMS**

WITH PRESENCE ACROSS SOUTH FLORIDA



**2,743 (13.5%)
LAWYERS**

AT SOUTH FLORIDA'S
TOP 30 FIRMS



**3RD FASTEST
GROWING
U.S. CLASS A**

OFFICE RENTAL MARKET
OVER PAST 5 YEARS

SOUTH FL LAW FIRM STRATEGIC ISSUES



TARGETING EFFICIENCY TO IMPROVE
PROFITABILITY



BILLABLE HOURS MODEL UNDER PRESSURE



WAR FOR TALENT DUE TO FEWER LAW
SCHOOL GRADUATES



OUTSOURCING & LOWER COST
ALTERNATIVES

NEW WORKPLACE STRATEGY



SMALLER LAWYER OFFICES WHERE LOCATION
(NOT SIZE) DENOTES SENIORITY



MULTI-PURPOSE FUNCTIONAL SPACES



INCREASED TECHNOLOGY UTILIZATION



IMPROVED COLLABORATION, HEALTH &
WELLNESS

Source: CBRE Research

INTRODUCTION

After human capital, office space is a law firm's second biggest asset. It is an integral part of a law firm's strategy and an asset that successful law firms deploy to both increase efficiency and profitability as well as to attract talent.

In this report, we take stock of the South Florida legal services industry and examine how large South Florida law firms have deployed space as an asset to help them convert future challenges into opportunities.

South Florida is the country's third largest Legal Services market, employing 47,600 people. The region's legal services industry has witnessed impressive growth over the past decade, from 2006 to 2016, with the number of South Florida lawyers growing by 30%, three times the rate of the total job market, over this same period.

Growth has been fueled by Miami's rising status as a key global city, an improving U.S. economic environment, a sharp rise in trade and business between Latin America and the U.S. and an increasing number of national and international law firms choosing to establish presence in South Florida.

Expansion has brought with it challenges, some of which are the result of increased competitive pressure, especially on fees, and others, that are primarily associated with client demands, adoption of technology, and an aging workforce.

Large law firms in South Florida are reconsidering long-held assumptions about how they work and have begun to utilize technology and space as key strategy pillars. They have also thrived in attracting talent and deploying that to service an increasingly global portfolio of clients.

SOUTH FLORIDA IS A TOP 5 LEGAL SERVICES U.S. MARKET

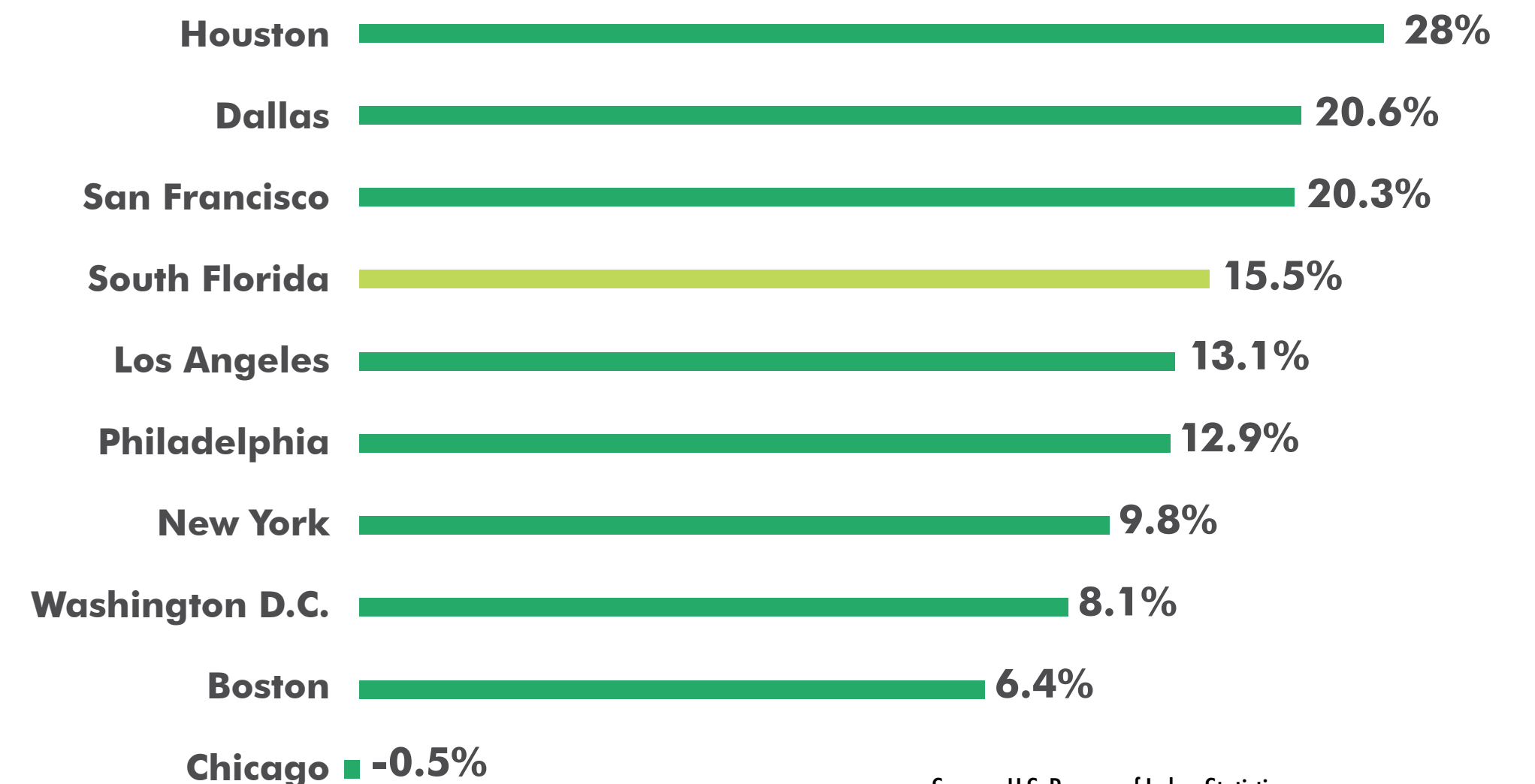
South Florida is the 3rd biggest legal services market and is home to the country's 4th fastest growing lawyer population over the past five years. The rapid growth has translated into increased real estate needs for South Florida law firms, and coupled with rising rents and other business costs, space management has become an even more important strategic consideration for South Florida Law Firms.

Figure 1: Fastest Legal Occupation Growth Metros (2011 to 2016)

Metro	Legal Occupation	Lawyers
1. New York	136,500	75,800
2. Los Angeles	66,500	33,000
3. South Florida	47,600	20,400
4. Chicago	47,300	25,700
5. Washington D.C.	45,500	44,400
6. Philadelphia	39,200	19,100
7. Dallas	27,000	13,500
8. San Francisco	26,100	16,700
9. Boston	25,000	15,700
10. Houston	24,800	12,700

Source: U.S. Bureau of Labor Statistics

Figure 2: Fastest Lawyer Growth Metros (2011 to 2016)



Source: U.S. Bureau of Labor Statistics

SOUTH FLORIDA LEGAL SERVICES MARKET SHARE & GROWTH

GROWTH IN THE MARKET

South Florida is home to over 20,000 lawyers. The market grew by over 4,700 lawyers over the past decade. This represents a growth of more than 30% - three times faster than the rest of the job market. Miami hosts South Florida's largest Legal Services community with 46% of the region's lawyers. Miami increased its lawyer population by 24% and Palm Beach by 15%. Broward county almost doubled

its lawyer population over the past decade, adding 2,010 lawyers, making it the region's fastest-growing legal services sub-market. The growth in South Florida's legal community has been driven by economic growth, firms adding expertise & capabilities, an increase of business ties with Latin America and new firms establishing presence in the South Florida area.

Figure 3: Growth of the Market

	LEGAL SERVICES		LAWYERS		
	South Florida	South Florida	Miami	Broward	Palm Beach
2005	41,500	15,620	7,570	3,980	4,070
2016	47,600	20,360	9,420	5,990	4,950
Added	6,100	4,740	1,850	2,010	880
Growth	15%	30%	24%	51%	22%
All Market Share		100%	46%	29%	24%
Total Firms		4,914	2,777	1,244	893
Top 30 Firms		30	30	23	22
Top 30 Lawyers		2,743	1,613	732	398
Top 30 Share		100%	62%	23%	15%
AM100 Firms		26	25	5	6
AM200 Firms		11	10	6	4
Higher Concentration			MIA CBD	FTL CBD	WPB CBD

Miami hosts South Florida's largest legal services community with 46% of the region's lawyers.

Source: U.S. Bureau of Labor Statistics, Martindale, CBRE, 2016.

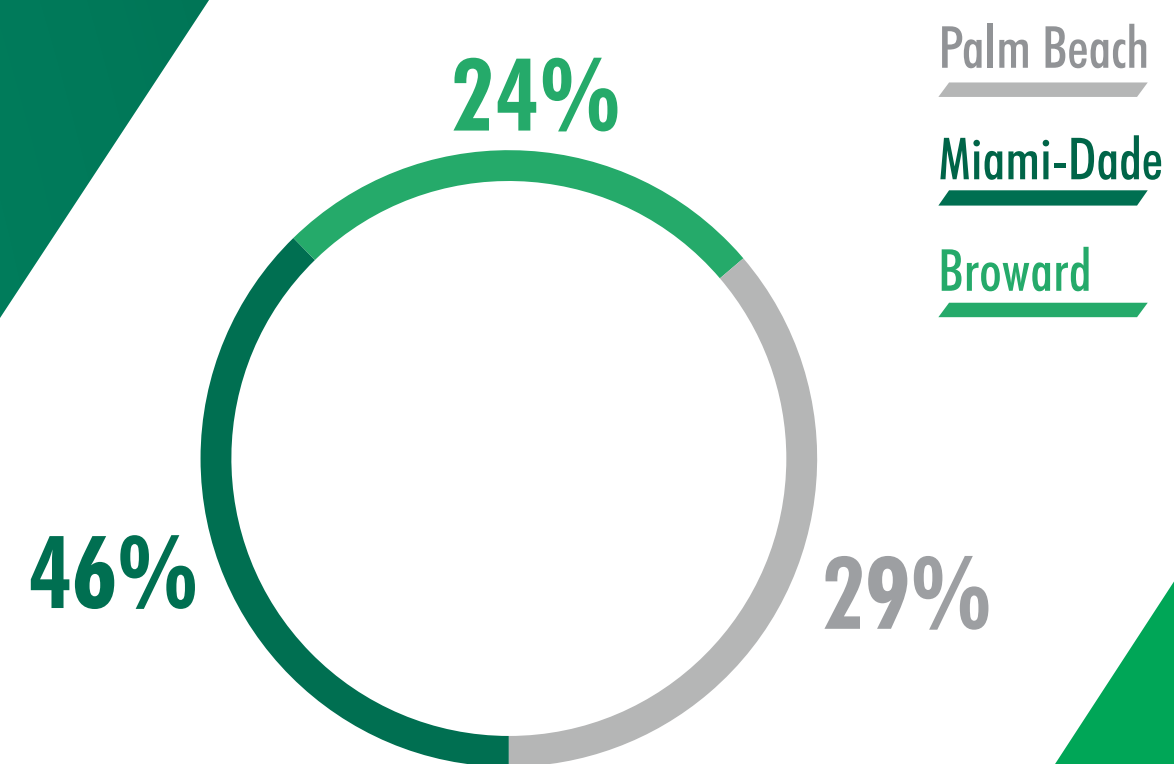
SOUTH FLORIDA LEGAL SERVICES INDUSTRY SNAPSHOT

INDUSTRY SNAPSHOT

13.5% of South Florida's lawyers work for Top 30 firms and 62% of those are based in Miami, the region's largest law firm hub. Fort Lauderdale and West Palm Beach are home to 23% and 15% of the region's Top 30 lawyers.

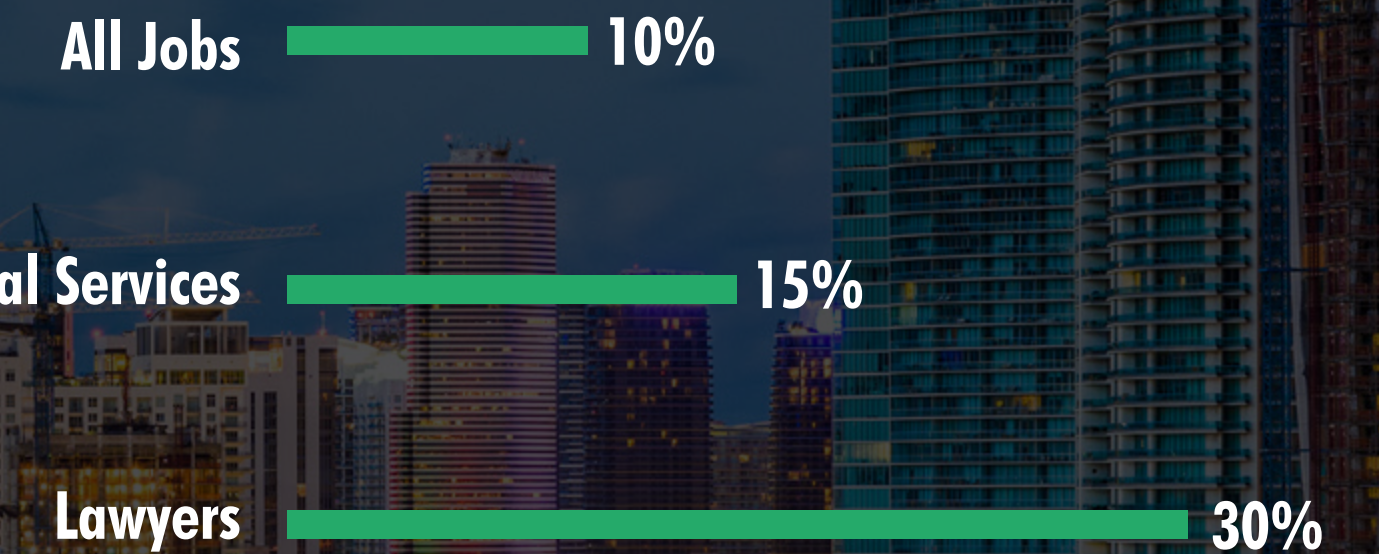


Figure 4: South Florida Lawyers by County



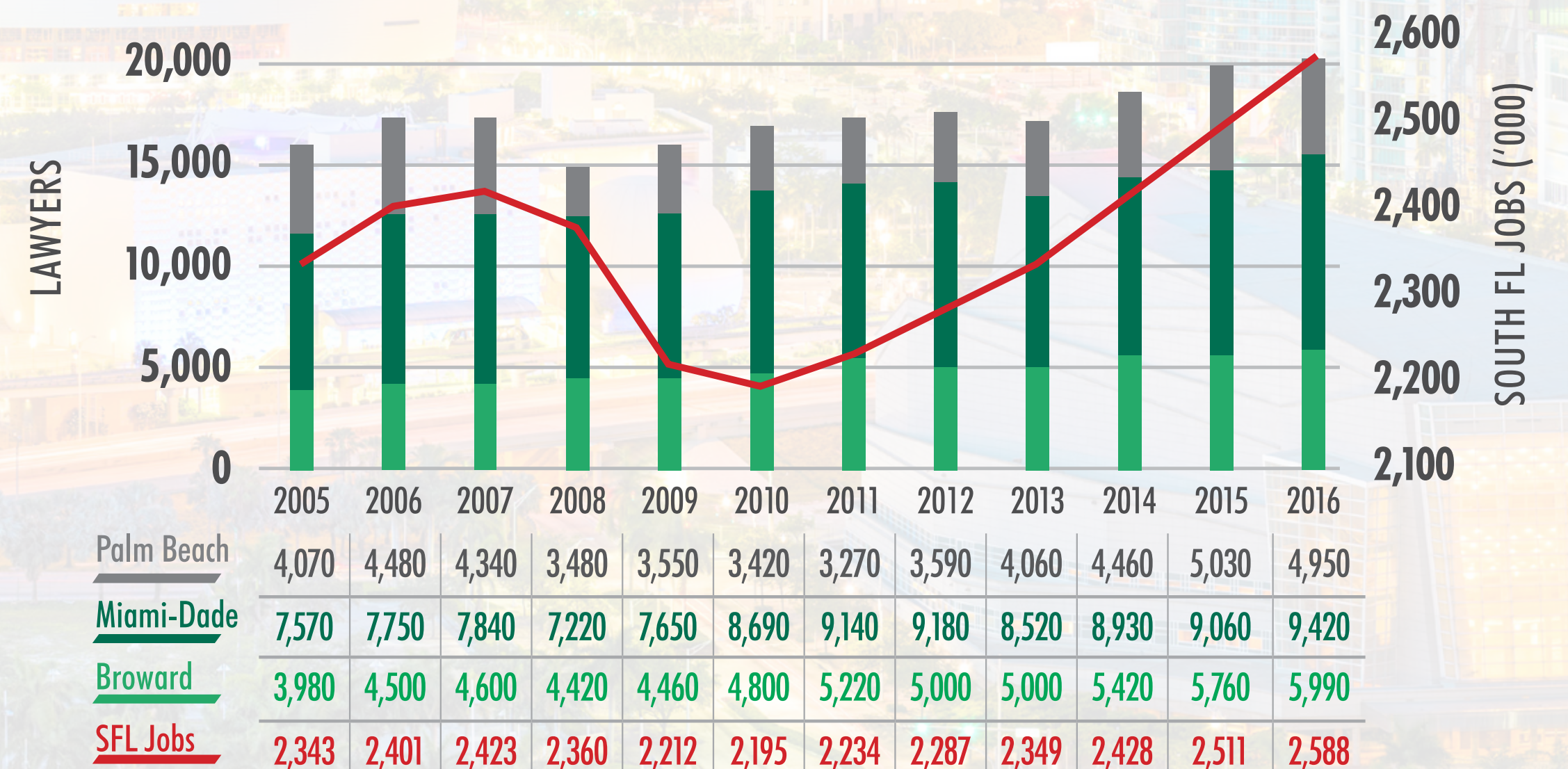
Source: U.S. Bureau of Labor Statistics, CBRE

Figure 5: South Florida 10-Year Growth



Source: U.S. Bureau of Labor Statistics, CBRE

Figure 6: South Florida 10-Year Growth



Source: U.S. Bureau of Labor Statistics, CBRE

FIRMS ESTABLISHING SOUTH FLORIDA PRESENCE DROVE MERGER & ACQUISITION ACTIVITY

Merger & Acquisition (M&A) transactions involving South Florida firms are a part of what is driving the region's growth story. As South Florida continues to experience economic prosperity, law firms have continued to seek ways to grow their talent pools as well as gain access to expertise and new opportunities.

There have been 31 M&A transactions involving 215 target firm lawyers for the five years to 2017. The busiest year by far was 2016 and Miami firms comprised close to 60% of the activity. The majority (63%) of the South Florida M&A transactions involved national firms establishing presence in the South Florida area, either by opening new offices or by buying firms in the area to establish presence. Just over one quarter of transactions involved firms buying or merging with other firms in the South Florida area. A little over 10% of M&A transactions involved South Florida firms that sought to expand their reach and recruit skills and expertise by buying or merging with national firms.

M&A transactions tell a story of large and medium sized regional firms building their capabilities and size in order to more effectively compete with larger regional and national firms that are well established in South Florida. The majority of transactions, 60%, represented large and medium sized acquirers buying smaller local firms. National Am100 acquirers accounted for 40% of the transactions.

Figure 7: South Florida M&A Transaction Activity over the Past Five Years

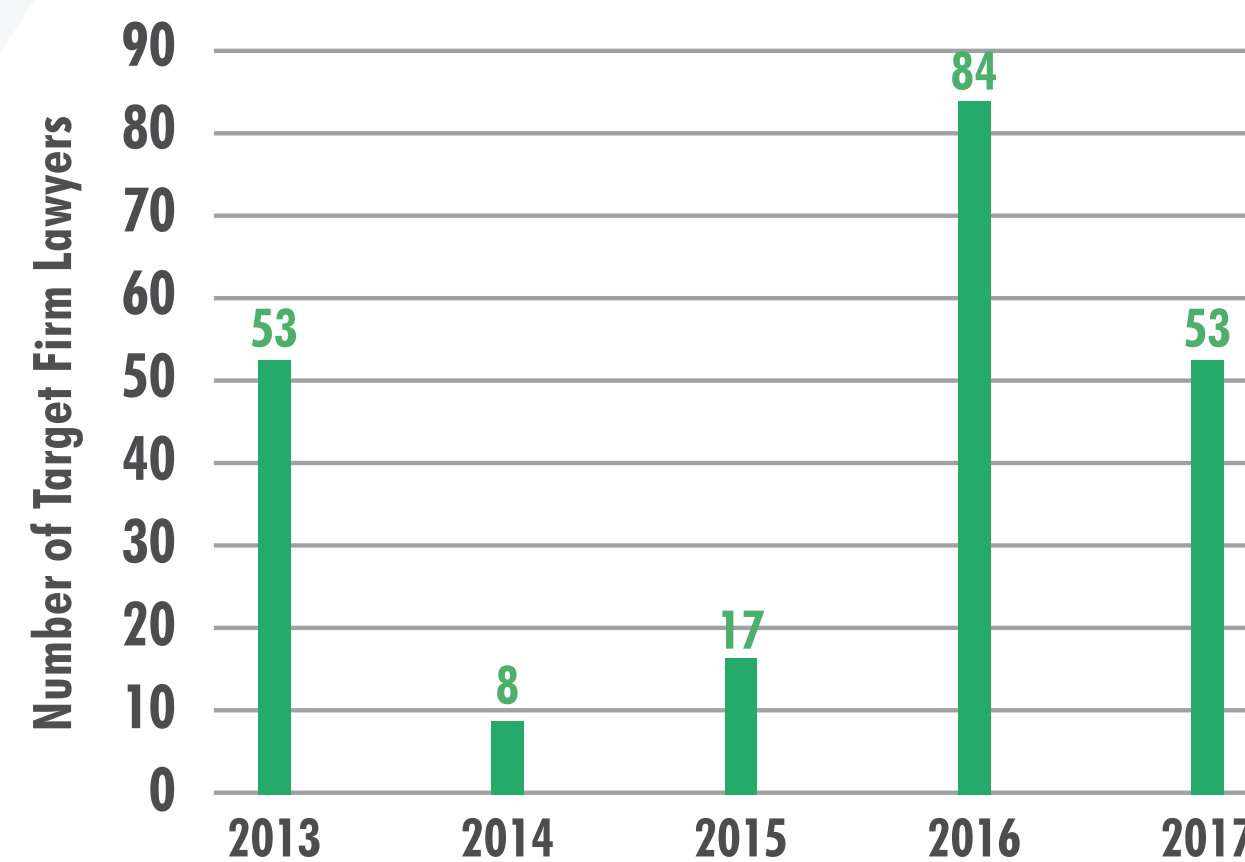
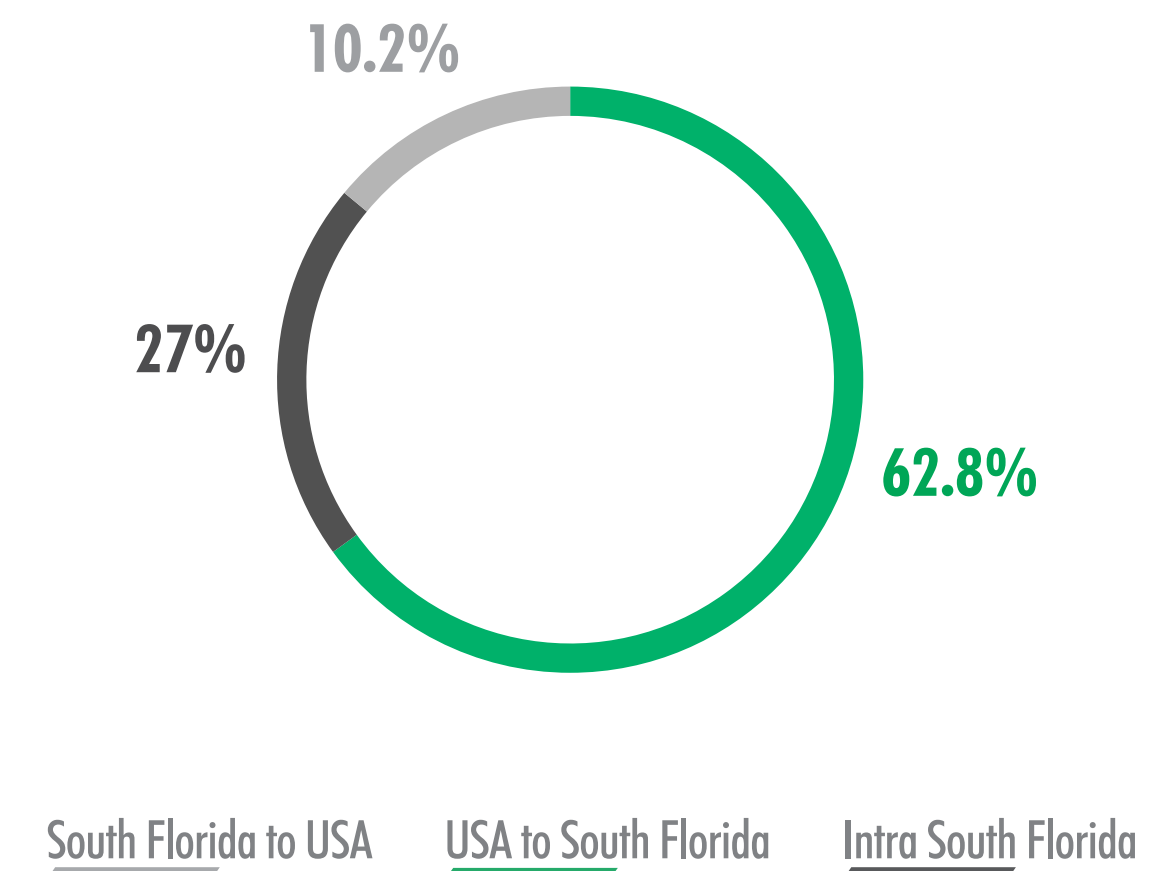


Figure 8: South Florida M&A Activity by Acquirer Origin



Source: Altman Weil Inc.

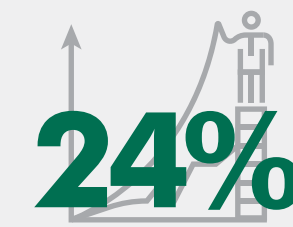


SIGNIFICANT INCREASE OF AM100 FIRMS COMING TO MIAMI

(PAST 5 YEARS)



**NEW SOUTH FLORIDA
AM100 FIRMS**



**INCREASE OF
AM100 FIRMS**



**NEW AM100 FIRM
LAWYERS**

Figure 9: AM100 Expansion in Miami

#	YEAR	FIRM	LAWYERS	EXPANSION RATIONALE
2	2017	Lewis, Brisbois, Bisgaard & Smith	13	Strengthen International Arbitration Practice
		Pillsbury Winthrop Shaw Pittman	7	Strengthen International Dispute Resolution Practice & Latin American reach
1	2014	Bryan Cave	8	Focus on insurance, construction, securities, and criminal law
1	2013	Jones Day	33	Better serve national critical litigation needs in the areas of asbestos defense, products liability, construction defect, employment law, general liability, business disputes, and maritime law
1	2012	DLA Piper	30	Strengthen commercial litigation and tax practices

Source: CBRE Research

M&A STRATEGIC CONSIDERATIONS

While mergers can result in significant economies of scale and cost savings, particularly for larger firms, post-merger failures highlight the importance of managing the process effectively. Mergers and acquisitions typically shine a spotlight on a host of wider strategic and tactical issues for a firm. However, given the high cost implications, real estate needs to be addressed as a priority. The key areas of real estate focus during an M&A process include:

OPERATIONAL CONSIDERATIONS

- + Determining the right location is critical, particularly for firms with overlapping footprints. Options include consolidation and rightsizing into existing premises, relocating or deferring the decision if part of a multi-market portfolio. For firms with shadow space, it can be an opportunity to absorb excess capacity.
- + Unexpired lease terms can be a serious liability. Explore cost mitigation measures including consolidating and optimizing separate footprints. For excess real estate, subletting space and negotiating early terminations can be mitigants.
- + Undertake space utilization and growth planning to reflect realistic headcount.

HUMAN & CULTURAL CAPITAL

- + Law firms are driven primarily by human capital concerns. As a result, real estate decision makers need to be cognizant that any changes in space need to both set and reflect the culture of the merged firm. By materially affecting brand and reputational value, real estate can assist in critical talent recruiting and retention.

FINANCIAL ISSUES

- + Key elements include cash flow analysis, scenario planning combined with benchmarking and occupancy redundancy analysis. Quantifying partnership liability and unamortized costs can assist with capital deployment decisions.

Early and thoughtful planning of all relevant real estate elements is a key driver of a merger's ultimate success. Comprehensive real estate due diligence, undertaken during the early stages of a merger or acquisition, can help to ensure that the real estate is on a complementary track with the overall M&A process.

LAW FIRM KEY STRATEGIC CONSIDERATIONS

BUSINESS CHALLENGES

TECHNOLOGY ADVANCEMENT

Rise of automation and artificial intelligence will significantly impact traditional legal tasks.

Mobile devices, virtual networks, video conferencing and cloud storage have created a virtual workplace that has changed how lawyers work.

CLIENT DEMAND

Alternative fee arrangements & clients moving to non-traditional law firms for legal services have placed pressure on the billable-hours pricing model and therefore firm profitability.

As companies globalize, they expect outsource providers such as legal services to do the same, increasing the amount of cross-border expertise law firms need to remain competitive.

AGING WORKFORCE

Millennials are the largest contingent of the national workforce, but the legal profession is aging. Rapidly retiring baby boomers are creating succession planning challenges for law firms.

National unemployment is at the lowest level in 16 years and the amount of young professionals choosing law is declining. This is creating intense competition for attracting and retaining skilled talent.

FUTURE-PROOF STRATEGY

Create agile workplace strategies through configurable office design and flexible lease structures to de-risk uncertain head-count requirements.

Provide a modern work environment, anchored with sophisticated technology, offering employees an unmatched experience that draws them to the firm.

Optimize the real estate portfolio to avoid excess expenses on antiquated workplaces that value space per attorney over client expectations.

Partner with global providers that have breadth & expertise in real estate strategy to aid smart decision-making in cross-border activity.

Foster a workplace with collaborative, inclusive and social environments that promote knowledge sharing between generations and aid in succession planning.

Modernize your workplace to reflect your culture and branding, and ultimately use it as a competitive differentiator when recruiting talent.

PRACTICAL STEPS

- Technology replacing human resources
- Technologic advances aimed at increasing lawyer efficiency
- Outsourcing non-lawyer functions

- More efficient lawyer to support staff ratio
- Employ contract and part time-lawyers
- Fixed fee structures become more popular
- Larger firms cutting fees to low margin or even loss leaders to win business

- Firms make succession planning a major strategic issue going forward
- Recruitment & retention imperative to a firm's future success

43% of employees in the legal industry work remotely some of the time, and the time associated with remote working is rising.


Source: Gallup, State of American Workplace, 2017.

55% of clients currently review their legal suppliers or will do so in the next 12 months.

Source: Deloitte Futures Trends for Legal Services- Global Research Study – 2016.

16% of partners will retire in the next five years and 38% will retire in the next decade.

Source: American Lawyer, 2016.




Law firms are reconsidering long-held assumptions about how their attorneys work and when determining their space needs, the services and technology they need to be most effective.

WORKPLACE STRATEGY

South Florida law firms are moving from legacy floor plans to progressive configurations that deploy space as a key asset in meeting a firm's strategic objectives, improving efficiency, improving recruiting & retention and increasing profitability.

	OLD SCHOOL LEGACY	NEW SCHOOL EFFICIENCY
SPACE PER LAWYER	800-1,000 SF Per Lawyer	550-700 SF Per Lawyer
OFFICE SIZE & LOCATION	Primarily two sizes: 15 x 15 for Partners 10 x 15 for Associates	Glass front one-sized offices with seniority being recognized by location instead of size
PLACEMENT OF SUPPORT STAFF	Centralized support functions, often on different floors	Pooled space embedded within teams or practices to facilitate efficient sharing of secretarial resources
SUPPORT STAFF RATIOS	2 - 4:1, especially secretarial support	5 -10:1, utilizing technology to enhance efficiency
AMENITIES	Often not part of office plans	Amenities that focus on employee health and wellness, such as fitness centers and bike storage units
COLLABORATION AREAS	Limited Flexibility: More formal conference areas with limited flexibility. Team rooms/war rooms/casework rooms are created on an as-needed basis	Multipurpose: Smaller 'on demand' meeting rooms provisioned with interactive technology will be scattered throughout the practice area, serving multiple functions
LUNCHROOMS & CAFETERIAS	Dedicated cafeteria space or small central lunch areas along window lines	Focus on a place to socialize with greater emphasis on social gathering, adoption of a lunch space that has a prominent area along a window line
STORAGE	Physical storage units across the office	Move towards a less paper-full way of working, primarily through cloud storage
TECHNOLOGY	IT related primarily	Enhanced technology support (often remote) to promote mobility, connectivity and productivity.



CBRE expects these bold strides in strategic portfolio planning and workplace strategy to continue across the national legal services industry and stands ready to support law firms in navigating this changing landscape.

COST OF SPACE ON THE RISE

NATIONAL MARKET DRIVERS

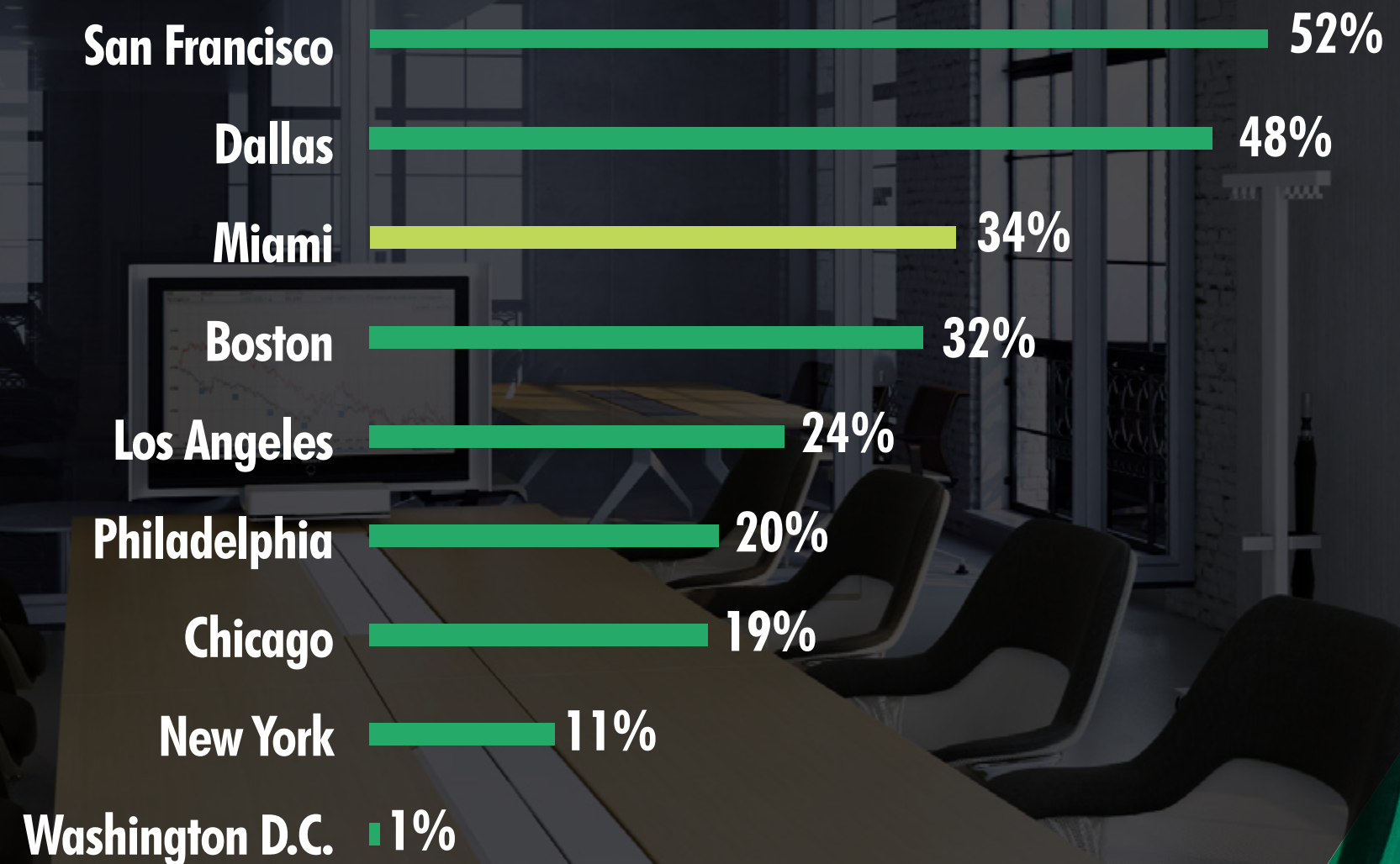
Rents have increased significantly over the past five years in major legal services markets across the country. Law firms typically occupy offices in the higher-end Class A and trophy buildings and those rents have increased more than the general office market. A strong economy has translated into companies expanding and demand for office space rising. Together with limited supply these dynamics have led to significantly higher prices.

The rising tide across the country has also impacted rents in South Florida with Miami registering the country's third highest rent increases over the past five years. Class A rents in the Miami CBD, Fort Lauderdale CBD and West Palm Beach, all prime South Florida Law firm locations, have risen by well over 30% over the past five years. Rent rises have been consistent across South Florida, with the Miami CBD leading the way.

The rises have been fueled by both a rising general U.S. economic environment and by South Florida market specific considerations.

A favorable national economic environment has translated into a sharp increase in office using jobs leading to increased demand for space. The South Florida economy also continued to perform very well, in fact, beating the national average on many fronts. Decreasing vacancy and increasing absorption rates, together with development space limitations, are all factors that have driven the cost of space up.

Figure 10: National Office Rate Increases over the Past Five Years



Source: CBRE Research, All Building Classes

SOUTH FLORIDA MARKET DRIVERS

South Florida's Big Law Firms primarily occupy class A CBD space across the region's three counties. These tend to be the most sought-after buildings, therefore market conditions tend to be somewhat different from the rest of the market. In order to get a clearer picture, we have included in our analysis statistics from such buildings.

Over the past five years, South Florida saw roughly 300,000 square-foot of new class A office product reach the market. Low new product delivery and rising rents indicate that the market demand is outstripping supply.

The limited space availability dynamic will likely continue to propel rents up over the next five years. The rate of the increase will largely depend on the national economic environment. While some economists see the possibility of a recession in 2019, there is currently no concrete evidence that is a realistic scenario. Barring a sharp economic downturn, rents will continue to rise, albeit at a slower pace than the past five years.

A more level market will increase bargaining power for occupiers, however, the rates are unlikely to decrease significantly. It is more likely that landlords will be more keen to offer concessions and other type of flexibility in order to fill vacant space at the same or slightly higher prices.

Figure 11: South Florida Law Firm Hubs

CLASS A LAW FIRM HUBS	MIA CBD	FTL CBD	WPB CBD
Number of Buildings	16	8	10
Average Number of Floors	31	21	14
Total Area (Million Sq.Ft.)	7.4	2.2	1.9
Class A CBD Rates ²	52.1	53.0 ¹	67.0 ¹
Ten-Year Rent Increase	+32.6%	+31.2%	+25.6%
Five-Year Rent Increase	+22.8%	+35.5%	+44.4%
New Deliveries Over Past 5 Years (Thousand Sq.Ft.)	295 (+4%)	0 (0%)	0 (0%)
CBD Planned Buildings (Million Sq.Ft.)	1.9	0.5	0.3

¹ FTL CBD and WPB CBD are inclusive of operating expenses of \$15 and \$20 respectively, Miami CBD reported gross.

² Rent rates as of Q4 2017 for select CBD Class A buildings only.

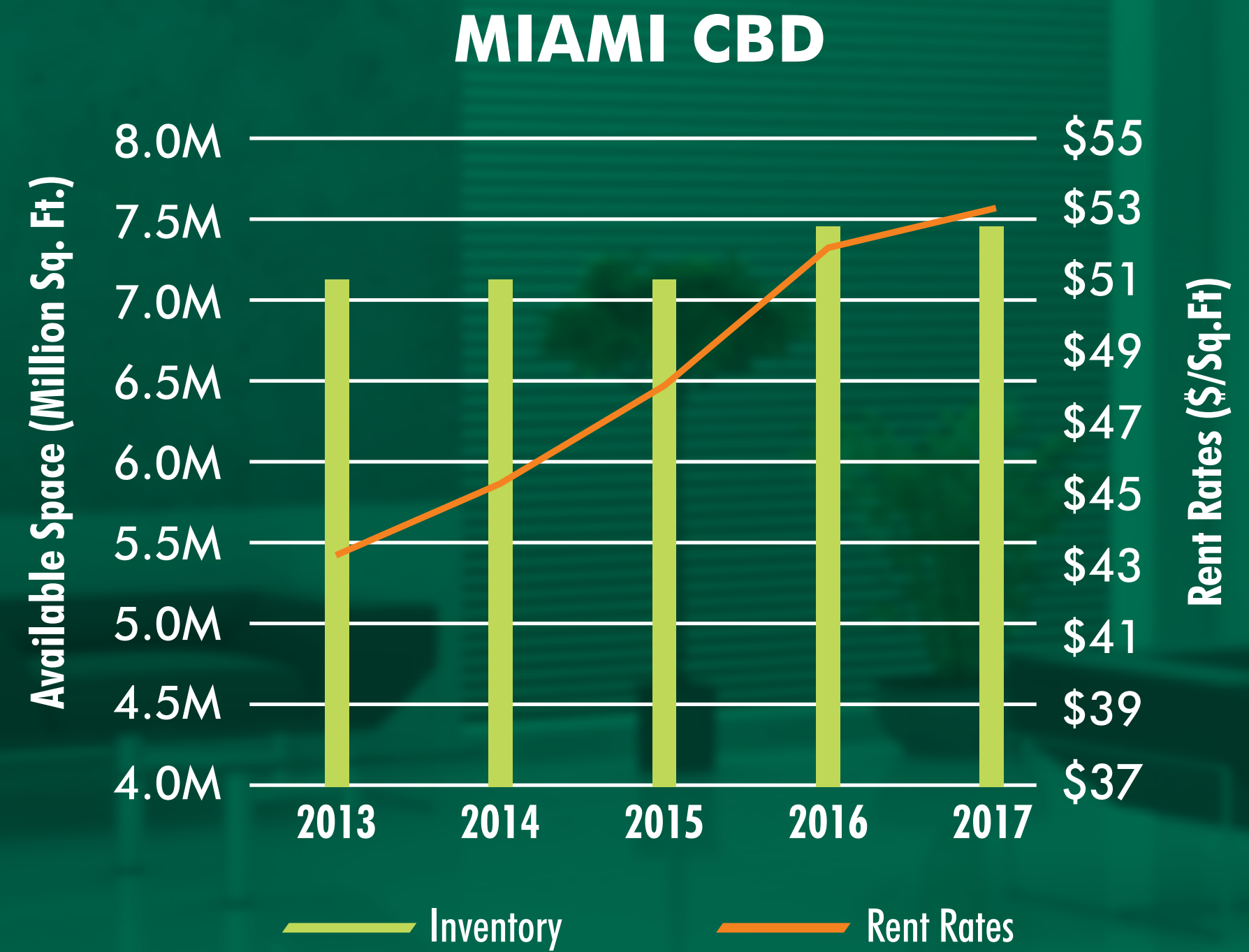
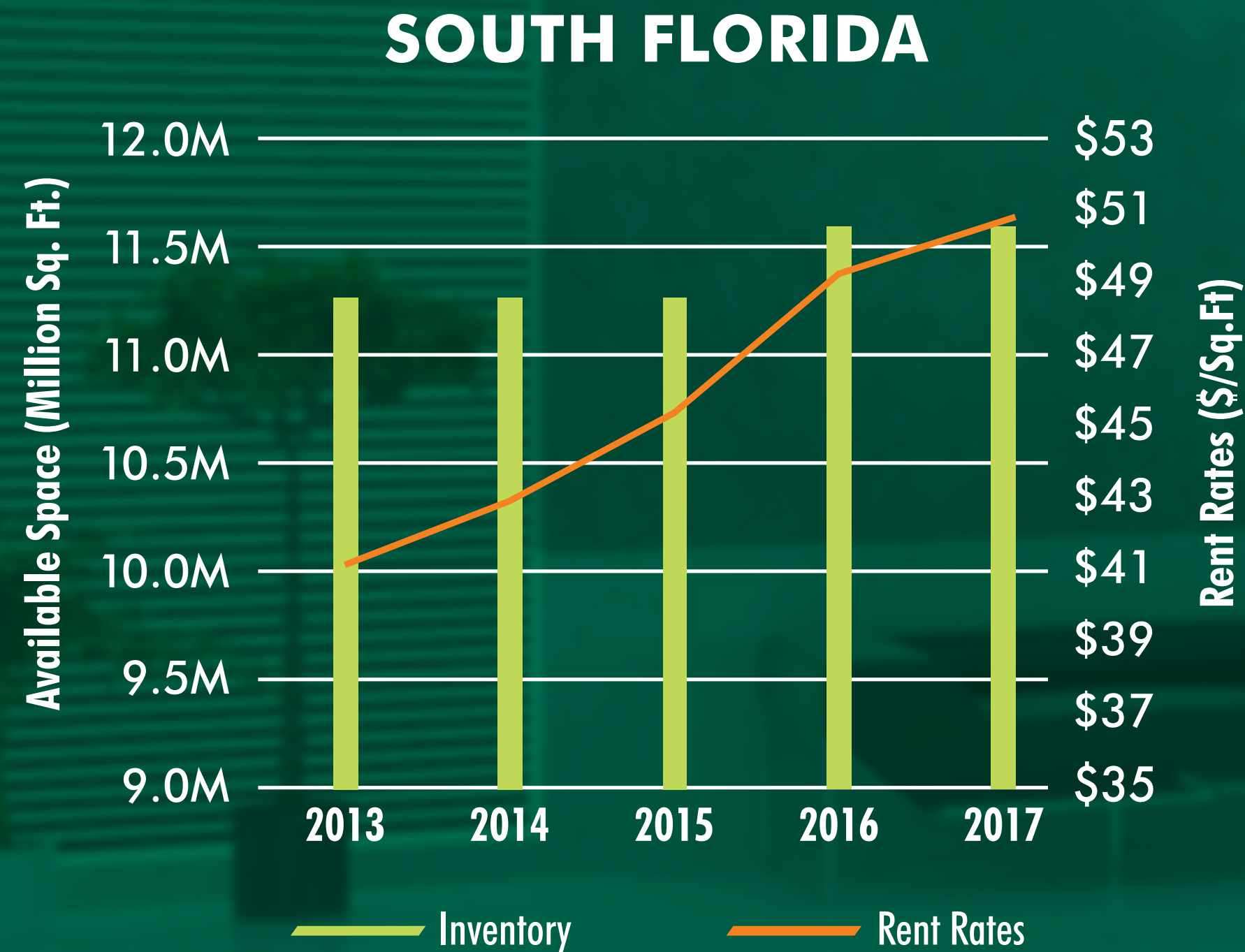
Source: CBRE Research, Q4 2017.

SOUTH FLORIDA LAW FIRM REAL ESTATE MARKET DRIVERS

LAW FIRM HUB INVENTORY AND RENT RATES

Rental rates have continued to climb over the past five years, but Class A office product inventory increased very little across the three South Florida counties over the same period. Sharply rising rents across the Class A market suggest that demand far out-weighted supply over the past five years.

Figure 12: Inventory to Rent Rates

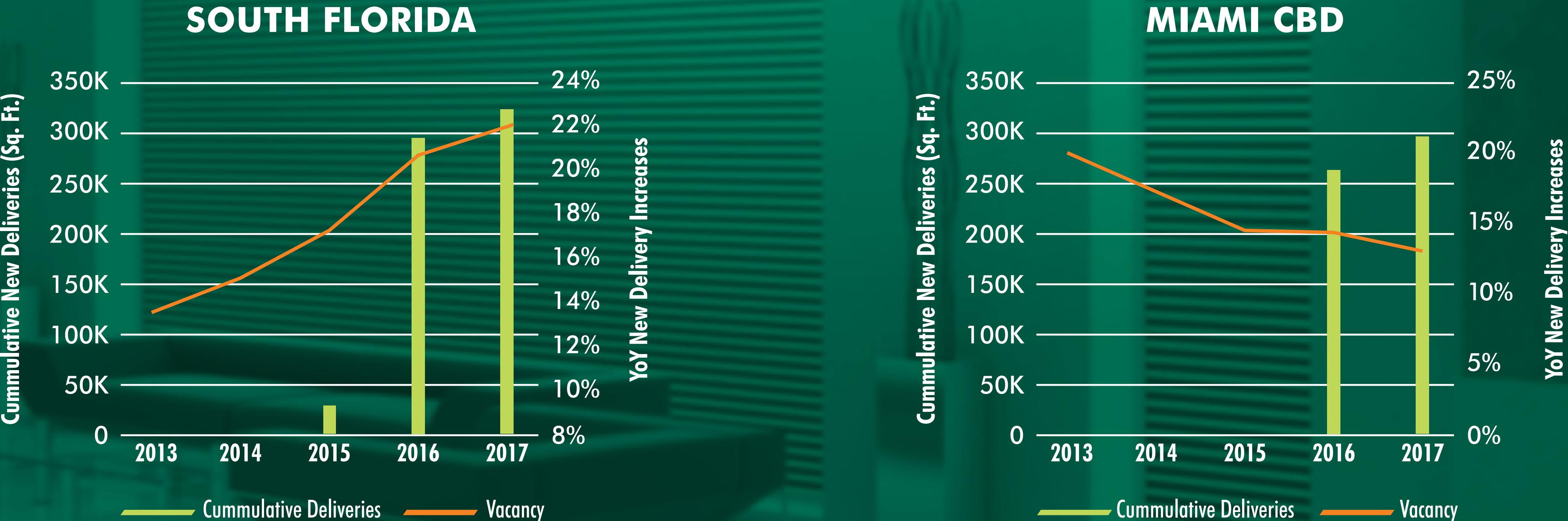


Source: CBRE Research, Econometric Advisors

CLASS A NEW DELIVERIES VERSUS VACANCY RATES

Vacancy rates declined sharply over the past five years while very little Class A product has been delivered to the market. The decrease in supply has led to Class A office product demand pushing vacancy rates to historical lows.

Figure 13: Cummulative Deliveries to Vanancy



Source: CBRE Research, Econometric Advisors

THE LAW FIRM PRACTICE GROUP

CBRE's Global Law Firm Practice Group is dedicated to advising law firms on real estate and business strategies around the world. Having worked with 87% of the Am Law 100, the group offers a full-service platform and seamless delivery of services to its law firm clients, including access to the most comprehensive, proprietary market research in the commercial real estate industry.

With more than 50 law firm industry experts covering major, secondary and emerging law markets worldwide, the group understands the unique issues in the legal industry and accommodates individual firm goals and business strategies with every real estate transaction.



CONTACTS

SOUTH FLORIDA

Arden Karson

Senior Managing Director
+1 305 374 1000
arden.karson@cbre.com

Shay Pope

Senior Vice President
+1 305 381 6444
shay.pope@cbre.com

Grant Killingsworth

First Vice President
+1 305 381 6493
grant.killingsworth@cbre.com

Zach Wendelin

Senior Vice President
+1 954 462 5655
Zach.Wendelin@cbre.com

Scott Brenner, JD, CCIM, SIOR, RPA, CAM

Executive Vice President
+1 954 304 3855
Scott.Brenner@cbre.com

THOUGHT LEADERSHIP

Christos Costandinides

Senior Research Analyst
+1 305 912 5236
christos.costandinides@cbre.com

Dan Wagner

Divisional Research Director
+1 404 923 1238
dan.wagner@cbre.com

Julie Whelan

Head of Occupier Research
+1 617 912 5229
julie.whelan@cbre.com
Follow Julie on Twitter: @JulieWhelanCBRE

GLOBAL WORKPLACE STRATEGY

Lenny Beaudoin

Senior Managing Director
Workplace Strategy
+1 212 984 8139
lenny.beaudoin@cbre.com

Georgia Collins

Senior Managing Director
Workplace Strategy
+1 415 772 0159
georgia.collins@cbre.com

LAWFIRM PRACTICE GROUP

Jamie Georgas

Global Chair
+1 312 935 1455
jamie.georgas@cbre.com

CBRE