

# Record Rents Drive Design Changes for San Francisco Firms

By Rebecca Cohen

**S**ilicon Valley may have the glitz these days, and Los Angeles still has the glamour. But when it comes to law firm real estate expenses, they still can't match San Francisco.

Firms in San Francisco are paying an average of \$62,000 per attorney in rent, according to a recent report by real estate services company Jones Lang LaSalle—more than in any city besides D.C. or New York. That's compared with a prerecession average of \$51,000.

In Los Angeles, rent hit a peak of \$44,900 per attorney, while competition with tech companies for limited office space drove rents in Silicon Valley to \$50,000 per attorney.

Meanwhile, the average space per attorney in San Francisco has shrunk from 800-900 square feet to 750-875 square feet, following a national trend for law firms. That's forcing firms to rethink their designs—shrinking or abandoning libraries, single-sizing attorneys' offices, or moving support staff offsite.

"There's always the pressure of attracting and retaining people, and the image they want to portray to their clients, and to have a healthy and productive work environment," JLL managing director



**Kilpatrick Townsend & Stockton's renovated offices at 2 Embarcadero Center in San Francisco.**

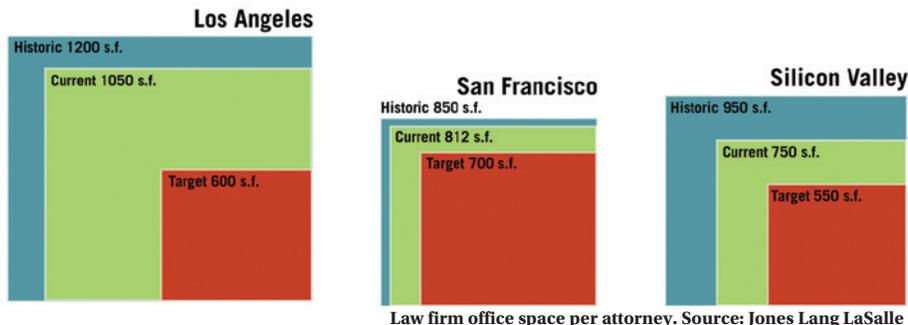
*Jason Doiy / The Recorder*

Harry Schoening said. "But what we're seeing is they're under tremendous pressure to contain costs. [And] the way you save rent is not by having a broker reduce your rent by \$3 per foot per year, it's by reducing your footprint."

Factors at play in San Francisco's legal real estate market, according to JLL's report, include the trend of landlords converting offices into open floor plans—great for startups, less so for lawyers. An increase in law firm mergers and failures has also

caused landlords to demand extra securitization, in the form of longer lease contracts or higher security deposits.

Schoening said he's helped some firms that had to renew their leases this year sign on for three or five years instead of the more standard 10, so that they won't be locked into 2016's exceptionally high rates for so long. Firms have also sought out spaces that have been vacated by other law firms, which tend to require less renovation.



Law firm office space per attorney. Source: Jones Lang LaSalle

### Contemplating Space

When Kilpatrick Townsend & Stockton’s lease ended in May, it went from occupying three floors at 2 Embarcadero Center to occupying two floors of the same building. To fit all its attorneys into the new space, it sent administrative staff to Walnut Creek, and it moved its partners into offices that were the same size as the associates’—a decision office managing partner Mehrnaz Boroumand Smith said took some explaining.

“We asked people to look around the space they were currently in and contemplate how much of that they actually used,” she said. “They thought about that, and they thought about the cost of real estate in San Francisco. It was definitely a point of multiple discussions, but people seemed to come around to it once they understood the reasoning.”

Despite the initial hesitation, Boroumand Smith said the new layout has been a hit. The design features a lot of glass, which makes the individual lawyers’ spaces feel larger and more connected to the rest of the office. And it also includes a “collaboration hub”—a space where attorneys can hold meetings, have lunch with clients or even play foosball.

“We started thinking, ‘What is the law firm of the 21st century going to look like?’” she said. “Some of our clients have said it reflects their space.

Some of them have actually come to hotel in our space, if they work down in the Valley.”

Sidley Austin also had to navigate the San Francisco real estate market this year. It renewed its lease at 555 California St. and picked up an additional quarter floor. Though the price went up, managing partner Sharon Flanagan said, “We still feel good about where we came out.” But even with the added space, Sidley ended up shrinking its library down to the bare minimum. It’s hardly missed, Flanagan said.

“People don’t sit in the library and research,” she said. “They do it on their computers.”

The remodel also gave Sidley the chance to experiment with an open plan, since everyone moved into cubicles for six months while the office was under construction. That innovation proved less promising.

“That was very challenging,” Flanagan said. “We would not go there again. Lawyers need quiet space to work.”

### California Moves

Other firms that signed or renewed leases in San Francisco this year included Sheppard, Mullin, Richter & Hampton, Seyfarth Shaw, Lief Cabraser Heimann & Bernstein and Severson & Werson.

“The hottest real estate market in the country, San Francisco is an

important part of our California footprint and the firm’s global platform,” Seyfarth’s San Francisco managing partner Christian Rowley said in an email. “As the firm continues to grow, we look forward to expanding our presence here as well.”

Schoening said JLL is hopeful that rents will stabilize next year, if not decline. In the meantime, he recommends that firms look for space in the north Financial District, where the rents tend to be a bit cheaper.

“SoMa is where the tech firms want to be,” he said. “Those rents got driven up, and firms want to be near their clients, so the south Financial District got driven up.”

Eighty percent of Los Angeles firms chose to renew their leases this year rather than move because of the high cost of relocation, according to the JLL report. That includes Quinn Emanuel Urquhart & Sullivan, whose downtown lease renewal for 135,000 square feet was one of the largest real estate deals in LA County this summer. Firms that moved offices in LA included McGuireWoods and Allen Matkins.

In Silicon Valley, firms that signed or renewed leases included Paul Hastings, Kilpatrick Townsend and Kaye Scholer.

Contact the reporter at [rcohen2@alm.com](mailto:rcohen2@alm.com).



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