Legal Sector Leasing and Sublet Trends: Market Recovery and Shifts

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Post-covid, the legal sector is showing a strong resurgence in leasing activity, particularly in Class A buildings and central business districts (CBDs). Total leased square footage dropped sharply from 2019 to 2020, reflecting the initial pandemic disruption. Since then, however, the sector has steadily recovered, with a steady increase in 2023 and notable jumps in 2024, reaching a peak of 4.4 million total leased square footage in 2024.

Class A buildings have consistently dominated leasing volume across the legal sector, comprising significantly more leased square footage than Class O buildings. Since 2022 there is a notable increase in total leased square footage of Class A buildings in the Legal sector. However, a surprising trend was found in rents: despite lower volume, Class O buildings have seen rising average rents since 2020, surpassing Class A rent levels by 2022. Possible explanations for this are that some Class O properties may be in highly desirable locations (e.g., central business districts) but lack modern upgrades.

Firms might choose these based on convenience rather than amenities, which would drive up rent due to demand. Additionally, if Class A availability is constrained in key legal-heavy cities such as Manhattan or D.C., spillover demand can push Class O rents higher. Another possibility is that some Class O buildings may have undergone partial renovations or repositioning but haven't been reclassified. Their rents rise accordingly even if their official label doesn’t change.

Geographically, CBDs remain preferred over suburban areas. Leasing in CBDs declined from 2019–2020 but has since bounced back, outpacing suburban growth. This reflects legal firms’ sustained preference for prestige locations, proximity to clients, and access to talent. After looking at the top five markets for total leased square footage, it was shown that Manhattan stands far ahead in total leased square footage year over year. Its post-2020 trajectory shows recovery with slight volatility, reinforcing its central role in legal real estate. Other cities like Chicago and Washington D.C. maintain steady but lower leasing volumes.

Sublet availability in commercial office spaces has mirrored broader economic and workplace changes. While sublet rents often align with direct leases, variations exist: some are costlier, others heavily discounted—reflecting differing market pressures and space strategies. From 2019 to a peak of 19% in 2021, sublet space rose sharply, driven by pandemic-related shifts. A gradual decline to 15.5% by late 2024 suggests a return to office environments, economic recovery, and reduced need for flexible space.

By industry, Financial Services and Technology lead in sublet volume, likely due to restructuring and hybrid models. Sectors like Healthcare, Legal, and Construction show low sublet activity, reflecting stable or specialized space needs. A strong positive correlation with GDP ($r = 0.949$) implies that growing businesses often adjust office use via sublets. In contrast, a weak inverse relationship with unemployment ($r = -0.389$) suggests that sublets rise in stable economies, when companies are more willing to offload space. These patterns show that subletting reflects not just downsizing, but also strategic real estate management in a shifting work landscape.

In conclusion, the legal sector's leasing trends reflect a post-pandemic recovery, with growing demand for Class A spaces in CBDs. Sublet availability trends, driven by economic factors and industry-specific shifts, highlight the broader impact of evolving work environments and strategic real estate management across sectors.