

## 10 steps to make your real estate strategy support your law firm's business plan

Look at the expense lines on a law firm's annual budget, and real estate costs will usually be the second-largest item, exceeded only by salaries. That's a big expense. If you want to use it wisely, plan for the need to reshape space to meet contingencies.



Law firms are awakening to the fact that real estate decisions play a critical role in a firm's strategic planning and management. However, the ability to effectively project and manage real estate expenses is challenged by two significant trends: the increasingly prevalent dynamic of fluid law firm sizes, and complex, competitive real estate markets.

How can you make a solid plan when the economic environment is in flux like this? Keep your space strategy fluid in response. By planning for ongoing change in space needs and usage, you can minimize real estate costs while supporting your business plans and, better still, enhancing your firm's functionality. Here are 10 guidelines and other ideas to help you on your way.

### 1. Review space needs on a regular basis

Consider your real estate requirements at least once a year. Law firms can no longer simply wait until their next lease option comes up, which usually occurs every five years. The typical firm constantly experiences fluctuations with the arrival and departure of lawyers, and even entire practice groups.

A good time to review current space requirements is in conjunction with developing the firm's annual budget. In this way, any related costs in using or modifying space can be integrated into the budget.

The need for ongoing review also applies to firms that have already planned a move. For example, in the sometimes as much as four-year period from selecting a new building location to its anticipated move, the firm should still regularly review its growth by each practice area. This allows the firm to adjust the stacking of its new space accordingly, thereby meeting changing spatial requirements in advance of the move. Some firms have allowed for these changes by having an option to increase or decrease their total leased area prior to lease commencement.

### 2. Project growth over the duration of the lease and all option periods

It is important to look farther into the future by projecting lawyer growth models during the life of your lease. Taking such a long view can seem challenging and even intimidating for many firms. In reality, however, having an order-of-magnitude best guess will allow you to maintain lease options that more correctly correspond to actual needs. For example, one large firm realized 10 years into a long-term lease that it had options on two floors that, according to projections, the firm would never need. This allowed the broker to gain a positive negotiating position by offering to eliminate the future options on these floors in exchange for something the tenant needed. Likewise, a firm anticipating sudden rapid growth can seek to secure other space in its building until its official option space becomes available.

One executive director ensures that his firm has lease options to accommodate its growth by projecting growth on an annual basis and checking it against his firm's available space. This analysis also provides a good indication of how much space is available in the event the partners begin discussions with a lateral group. The recession dramatically illustrated this reality.

### **3. Anticipate realistically, even if the growth projection isn't positive**

Although firms used to hope that they would always have a positive growth model, the reality is that most firms have plateau and contraction periods. A particular trend that will soon be affecting firms of all sizes is the beginning of baby boomer retirements, meaning that partner numbers will start to shrink in many firms. This, of course, will bring corresponding changes in total space requirements as well as individual space usage (think corner offices).

Integrated into the space design at one firm is the flexibility to have administrative staff areas laid out for future use by lawyers. This allows the firm to adjust its space based on the varying growth needs of a number of diverse practice areas.

### **4. Adjust policies on offices for retired partners**

The retirement of baby boomer partners is a cause for examining another issue. Many firms used to provide senior partners with an "office for life," ensuring that partners continue to have workspace and various support mechanisms after they retire from active practice.

One large firm realized that if it adhered to this policy, the firm would have two entire practice floors devoted to retired partners. In addition, most of the partners have indicated that after retirement they would not be using office space, as did the previous generation. With remote access via the Internet, their anticipated support needs from the firm would be minimal.

Similarly, summer associates, the future of any firm, are treated like royalty in boom years and are glad simply to have an opportunity in down cycles. Most firms have growth offices which are vacant for most of the year. Utilizing this inventory for summer hires provides an adequate number of offices in most years. With strong growth just before a future option, there may be no surplus windowed offices. This problem is really a sign of the firm's success and can usually outweigh having less desirable offices for a few years.

### **5. Sublease excess real estate inventory, if possible**

It can be very expensive to warehouse excess space to accommodate the potential growth that might occur before your next lease option. But you needn't keep all this space on hand all the time. Through careful planning, firms can often divide and sublease their excess future-growth space for varying lengths of time. One executive has successfully used subleasing over the years to handle the growth of the firm's office. One firm's executive director is actually so successful at subleasing that it protects its high-growth projections with sublet space that has longer terms and totals almost an additional 20 percent of the firm's total space. A smaller-scale tactic used by other firms is to "sublease" single offices to firm clients.



### **6. Move services departments to remote floors or another location**

When a firm adds lawyers but lacks warehouse space inventory, it needs to come up with additional space through a different route. It is usually important to keep the lawyers together—and it is often critical when dealing with a lateral group or a firm merger. One viable option is to relocate non-lawyer groups such as IT, accounting and human resources off the practice floors and on to remote floors.

Lower-level floors with less-expensive rents are ideal locations for certain departments. In fact, office service departments—including copy centers, mail rooms and record departments—can often function more effectively with the easier delivery paths and heavier floor loads available on lower levels.

More firms, especially multi-office firms, realize certain departments can even be relocated to off-site locations. Many firms have relocated their firmwide administrative group out of the firm's main office building into less expensive real estate either nearby or more remote.

### 7. Locate document-intensive case files remotely

Firms that have document-intensive cases could consider moving the majority of the documents off the practice floors. Critical documents can be located in case rooms on the practice floors, with the balance of the files on a remote floor, in the basement or even in a separate building. This enables a firm to have this separate space on a shorter-term lease. Many firms with large-case litigation practices have chosen to locate the bulk of these documents in a less-expensive, off-site facility.

For longer-term space planning, keep in mind that coding of imaged documents continues to become more cost-effective. Eventually, then, remote document-storage space could be terminated independent from the main office space.



### 8. Allow enough time to complete renovation projects

Renovation takes planning and time. If a firm is in discussions with a lateral group, making it highly probable the firm will exceed the capacity of its current facilities, space needs should be addressed posthaste. Even if space is readily available, it might take months to build it out.

Even minor expansions take time. With a new design, the approval process will take weeks, and construction documents usually involve additional time. Bidding or negotiating with contractors can take from several days to several weeks. It can take from one day to six weeks to receive the permit and then another four to twelve weeks to do the build-out work. This entire process can, in effect, take two or more months.

An executive director followed the right strategy when he started the relocation of the firm's Houston office 18 months in advance of its lease expiration. Beginning the process early enough fully ensured that there was adequate time to select the building, design the space and build it out.

### 9. Reevaluate staff ratio

Ratios of lawyers to support staff are shifting all the time. The typical secretary-to-lawyer ratio is approaching 1:4, and the paralegal-to-lawyer ratio varies from 1:2 to 1:8 nationally. Partner-to-associate ratios are also changing. Accordingly, you should regularly review any fluctuations in the staff ratios among all your practice groups and gauge any immediate effect on space use.

In an innovative approach to such changing ratios, one firm has flexible modules that can house secretaries, paralegals, printers, file banks or mini-conference rooms as needed. This planning strategy enables the firm to meet changing functional requirements in a very short time. The director of administration can effect alterations to a module's use overnight by simply moving furniture.

### 10. Put maximum flexibility into your planning strategy

Last but not least, building flexibility into a room's physical design can allow you to make modifications without major disruption or costs. Libraries are disappearing, lunchrooms are growing, and conference rooms need to be added as the firm grows. Meeting rooms must change sizes, seating options must be altered, and technology applications, such as presentation and videoconferencing equipment, need to be accounted for. Many firms are implementing multipurpose spaces to accommodate variable uses.

One firm has gone so far as to put predesigned locations for walls in its renovated offices. In this way, the firm can "shift" walls as needed, to add or delete interior offices from open workroom spaces. It's a novel way of thinking about space. Perhaps this and other examples provided here will stimulate your thinking on ways to creatively use, adapt, remodel or build out your space in ways that minimize your real estate costs and enhance your firm wide functionality.

## Consensus building on key issues

	Aggressive Position	Conservative Position	Potential Compromise
Single-sized offices for all lawyers	"If we can save \$8,000 a year per partner by making all lawyer offices 150 square feet, let's do it."	"I don't care if we can save \$25,000 a year per partner, with one office size, we're talking quality of life."	Most firms are still using two sizes of offices, 225 square feet for partners and 150 square feet for associates.
Ratio of lawyers to secretaries	"We're at four lawyers per secretary, and we expect it to get better."	"We will never get better than two lawyers per secretary."	Most firms are passing 3:1 and are heading quickly to 4:1. Several are already at 7:1.
Conference rooms	"We discourage any clients from going anywhere except to conference centers."	"I bring clients back to my office all the time."	It is rare for clients to go to lawyers' offices because of the confidentiality issues of seeing files, labels on boxes, computer screens or overhearing conversation.
Lunchrooms	"I enjoy going to the bright cheery lunchroom to eat my lunch and meet other partners and staff."	"As a partner, I am too busy to go to the lunchroom and eat a sandwich. I eat at my desk two to three days a week."	Most staff and lawyers will dine in the lunchroom if the space has windows, adequate seating and diverse seating arrangements (club chairs and counters as well as tables).
Library	"We are not buying hard copies of materials that are available electronically."	"This library will not shrink in your children's lifetime."	Central libraries are disappearing and practice collections are being distributed to the attorney floors.
Workrooms	Clients are sending documents electronically, so paper is going away.	Workrooms and practice suites still need room for paper and for quick informal meetings.	Provide workrooms and practice suites for almost all practice groups, primarily for meetings and reference materials.