

LEGAL SECTOR IN WARSAW

2017



CBRE



Introduction

Law Firms have noticed an increase in demand for their services recently, but despite this positive factor the whole sector has still failed to return to the pre-recessions levels. The last financial crisis forced the legal sector to rearrange their business model and re-think their way of doing business. Increasing competitiveness, the lack of profitability and overcapacity seem to be the major challenges faced by the majority of law firms. Conversely, the conditions for the legal sector on the Polish market are significantly different. The biggest law firms are still employing more and more attorneys and lawyers, moreover they recorded increased revenues in 2015. The purpose of this report is to present the current market conditions and contemporary trends for the legal sector, which also have an impact on the real estate industry.



Executive summary

Occupancy of TOP 75
law firms in Warsaw

105,000 sq m



Legal companies
take-up in Warsaw 2016

16,300 sq m



Average office area of
Warsaw's chancellery

1,400 sq m



55 sq m per attorney
34 sq m per lawyer
20 sq m per employee



1

CUTTING COSTS IN LONDON

as a result of insufficient recovery and increasing competition, the legal sector worldwide is focused on the limitation of floor space and cost cutting.

2

OFF-SHORING

many major players have moved their non-core departments to lower cost locations (BPO/SSC sector). Poland is the major beneficiary of this trend in CEE.

5

TRENDS ON THE WARSAW MARKET

Poland is the first choice destination in the CEE region for the BPO/SSC of the most recognizable global companies. This outsourcing trend is also becoming popular in the legal sector. DLA Piper, Linklaters and Dentons have located their non-core departments in Warsaw. Law firms prefer to locate their offices in the most prestigious buildings like Rondo 1, Warsaw Financial Center and Q22, or in smaller projects placed in renovated tenement houses like Jasna 26, Matachowskiego Square or Le Palais.

3

STABLE DEMAND ON THE POLISH MARKET

competition among the top players is high but the main focus of business has changed. In recent years the most profitable areas were M&A and capital markets transactions. Nowadays, the most common areas of business are real estate and financing transactions. Additionally, arbitration disputes are becoming more popular.

4

OFFICE SPACE INCREASES

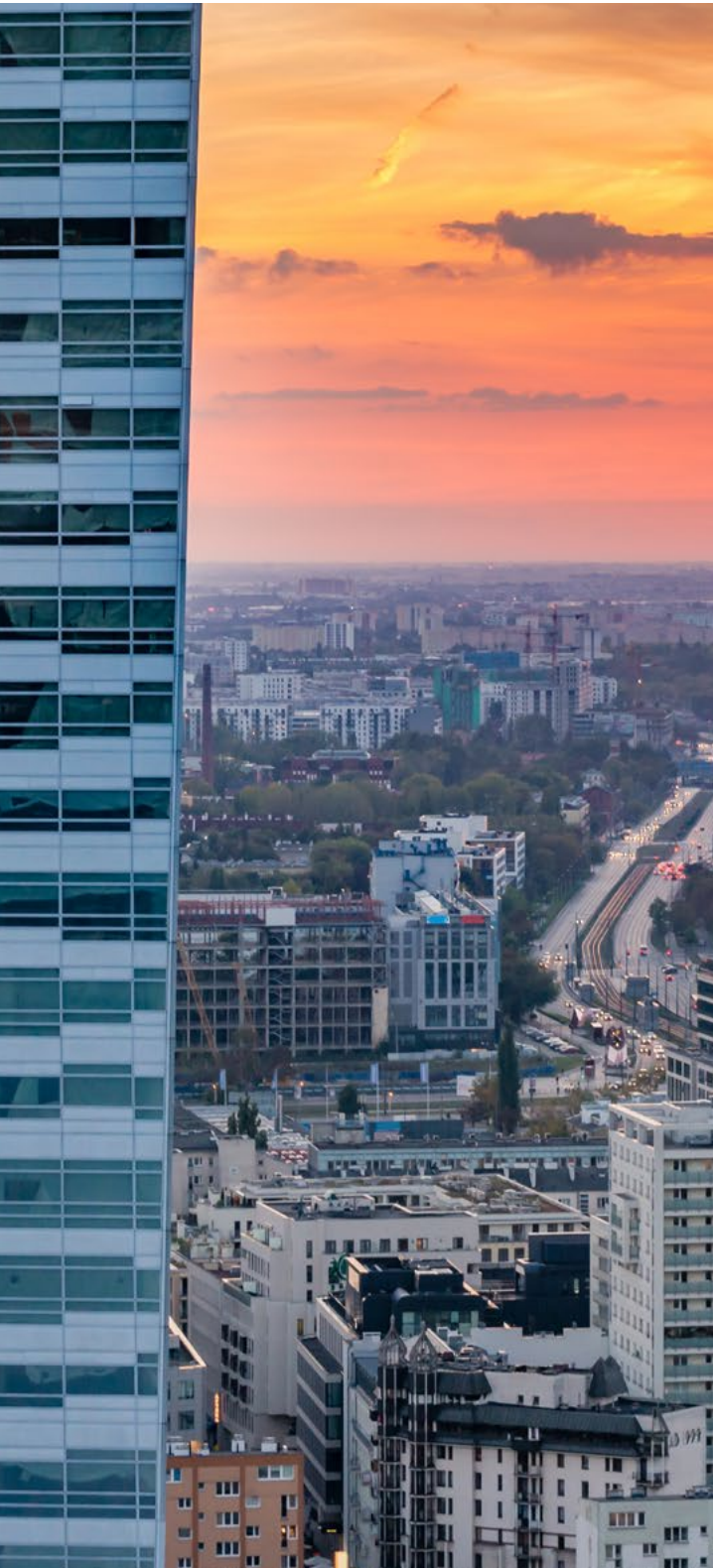
the office space leased by law firms is still growing. The total legal services occupancy in Warsaw totals approximately 105,000 sq m. The take-up in 2015 and 2016 was 42% and 18% respectively higher than the 10-year average. Moreover, the vast majority of the TOP 75 Warsaw law firms, 86% precisely, are located in the City Centre (CBD & CCF) and occupy the prime and most prestigious buildings.

“Apart from the reducing the amount of occupied space, the major reasons to implement an alternative workplace strategy are to improve collaboration with clients, colleagues and co-workers, to attract better employees and to increase the business agility and employee productivity.”



Trends in the legal industry worldwide

– economic outlook



According to the 2016 “Law in transition” by Altman Weil Flash Survey, the demand for legal services has not returned the pre-recessions levels. Moreover, law firms are now struggling with the new demanding threats like price pressures, overcapacity, inefficiency and intense competition.

The weakening of demand seems to have become the permanent trend in the global legal industry. Huge emphasis on price pressure and intense competition is forcing companies to look for cost cutting in the every aspect of the business. The worsening financial performance has triggered reorganization in many law firms. Overcapacity and underutilization is leading to basic labour arbitrage – shifting work to less costly lawyers. Part-time and contract lawyers are gaining popularity and this trend helps to meet the demand as and when required. It is predicted that law firms will cut underperformers, especially among the non-equity partners. Overcapacity is responsible for low profitability in 76% of the largest firms. Additionally, new forms of employment allow lawyers to change their offices from cellular offices to a more ‘agile’ style.

The demanding competition is forcing many attorneys to change their way of pricing for clients. Nowadays, the hourly pricing contracts are changing to alternative fee arrangements. However, although this is not consistent with the previous practice lawyers admit that their non-hourly pricing deals are as profitable as the former hourly pricing contracts. Summing up, there are many challenges ahead for the sector worldwide, but the first step is to overcome the resistance to change which is prevalent amidst the leading global law firms.

The global law firms offices

London is the greatest legal market in Europe with more than 3,100,000 sq m of the occupied space and the UK is the second largest legal services' provider globally – only after the USA. Due to the previously mentioned slowdown and structural changes in the legal industry many companies are now focused on cost-cutting and redefining their office perceptions. These trends have caused both a reduction of the amount occupied space and the implementation of alternative workplace strategies. Many global firms are endeavouring to move from old-fashioned cellular to more 'agile' offices in order to intensify the use of space and obtain the best talent. A CBRE UK Research study shows that firms operating in open plan offices pay 20% less rent and this reasonable cost policy could provide the outstanding competitive edge. Apart from the reducing the amount of occupied space, the major reasons to implement an alternative workplace strategy are to improve collaboration with clients, colleagues and co-workers, to attract better employees and to increase the business agility and employee productivity.

Implementing the 'agile' office is also connected with integrating new technologies. In the past, some law firms have shown resistance to new technology, but this has changed recently. Nowadays, secure and remote access to confidential documents is common and this will be one of the key drivers of flexible and agile working.

Summing up, new modern workplace office trends have finally reached the conventional law industry, which particularly emphasizes confidentiality and tradition as the greatest values.

The next common way of streamlining a business is to move the non-core functions to lower cost UK & Europe locations. Furthermore, employing third parties to run the back-office functions can deliver significant savings on both real estate and labour. The largest global players tend to run three BPO/SSC centres world-wide, in the different time zones, to facilitate 24hour working.



Polish law market conditions

According to the 2016 Law Firms' Ranking prepared by Rzeczpospolita, the legal industry in Poland is still booming. Due to the unabated demand for legal services the law firms are increasing their employment levels every year. However, more recently the legal services market has undergone a transformation. There has been a decreasing emphasis on IPOs and privatization transactions and lawyers have become more focused on other areas like real estate transactions, dispute resolution and financing. The recent changes show that law firms have to offer a diverse range of services focused on fully comprehensive areas of business. As a result of the more demanding market a war of talents still remains, so adopting a modern real estate policy could be the next competitive edge on the market for law firms to attract the best employees.

The increasing rivalry puts high pressure on price competition, so the adoption of a reasonable cost policy is necessary. The near-shoring trend is getting more popular on the Polish market too, and some law firms have moved their non-core departments from Warsaw to regional cities.

All things considered, the growing demand for legal services should ensure the continued development of the sector, but increased competition raises new challenges for law firms.

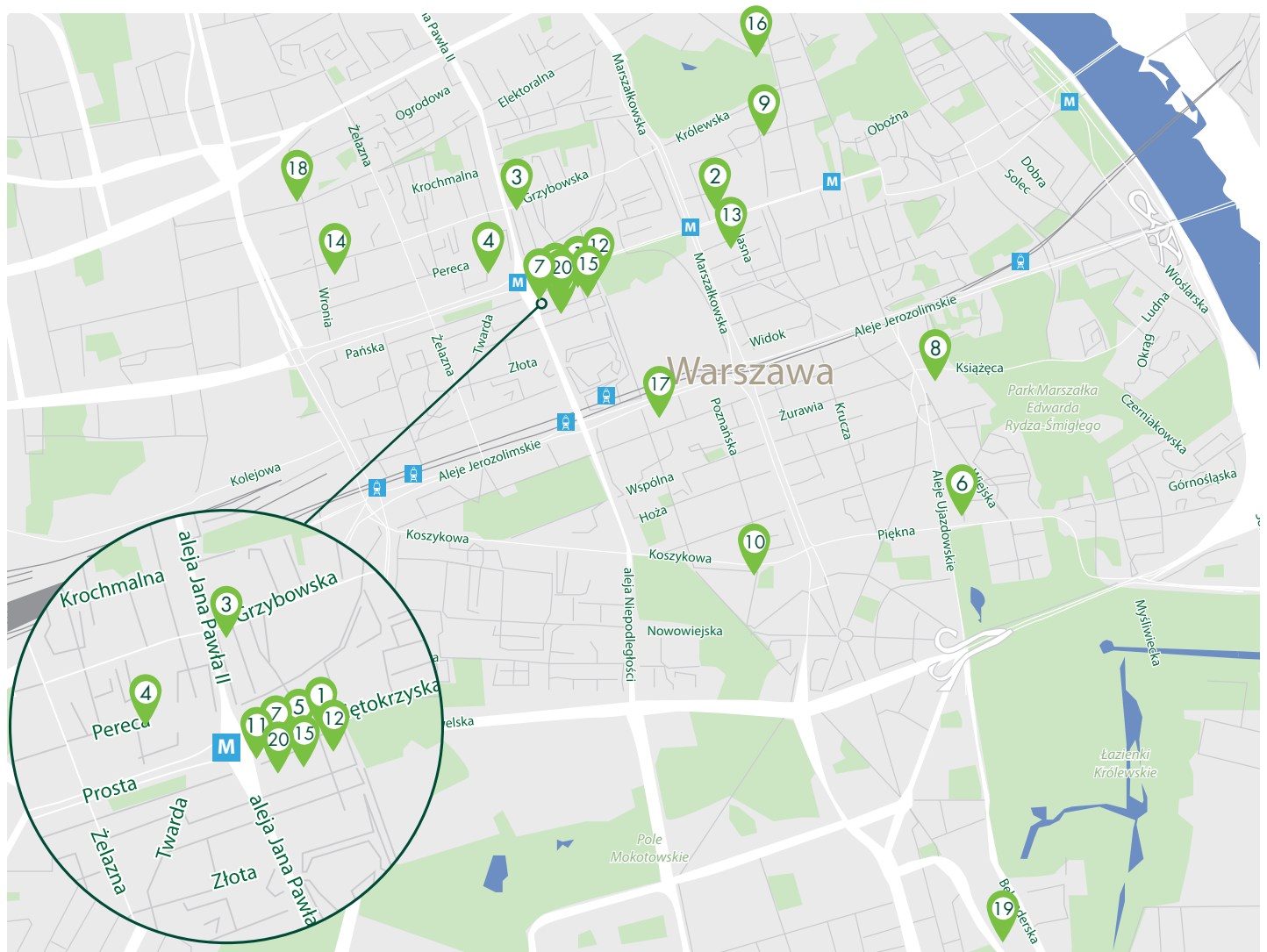
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Legal Industry in Warsaw

Location of top 20 legal firms in Warsaw
in terms of occupancy



1	CMS Cameron McKenna	6	Wardyński i Wspólnicy	11	Baker & McKenzie	16	Gide Loyrette Nouel
2	Sołtysiński Kawecki & Szlęzak	7	Dentons	12	Weil, Gotshal & Manges	17	Hogan Lovells
3	Linklaters	8	Greenberg Traurig	13	Wierzbowski Eversheds Sutherland	18	SMM Legal
4	DLA Piper	9	K&L Gates	14	White & Case	19	Drzewiecki, Tomaszek & Wspólnicy
5	Domański Zakrzewski Palinka	10	Clifford Chance	15	Allen & Overy	20	Squire Patton Boggs

Warsaw is the most developed legal market in Poland with the greatest number of lawyers. The inhabitants per attorney ratio amounts to 556 and all of the biggest domestic and global law firms have headquarters in the capital. CBRE has analysed the top 75 law firms located in Warsaw with the total occupied space amounting to 105,000 sq m. The value of the office market leased by legal companies can be estimated at nearly 25,000,000 EUR. The analysed companies employ 2,100 attorneys/solicitors, 3,300 lawyers and 5,100 employees. Due to increasing demand for legal services in Poland, these law firms engage more and more lawyers every year.

Two groups of chancelleries operate on the Polish market – international firms with offices in almost every part of the world and domestic law firms, which developed within the growing Polish market post 1989 and currently compete with the global leaders.

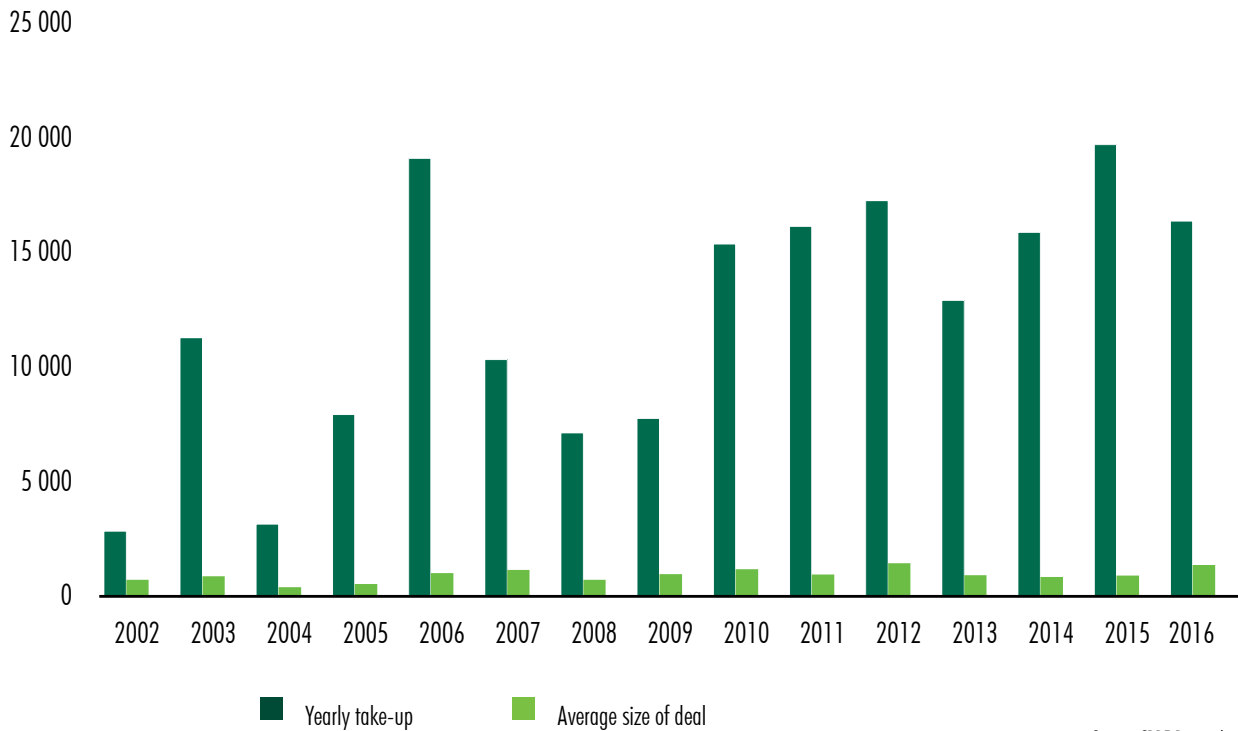
60% of the TOP 75 legal companies in terms of occupancy are Polish, but taking into consideration the amount of office space the international companies occupy 57% of the legal market. The average size of Warsaw's chancellery amounts to 1,402 sq m, resulting in 55 sq m per attorney/solicitor, 34 sq m per lawyer and 20 sq m per employee. The office space per employee ratio is two times higher than the average for the rest of the market, which fluctuates at around 10 sq m per person. Moreover, there are some law firms which generate an office space per employee ratio at more than 35 sq m. However, taking into consideration the most developed market in London, legal companies occupy office space at the ratio of 130 sq m per fee-earner, almost 4 times more than in Warsaw. Furthermore, the concentration in Warsaw is high, with the top 20 biggest law companies occupying nearly 60% of the leased space.

The development of the largest companies has been noticed in the increasing annual take-up. In 2015 the demand for office space in Warsaw was at 19,700 sq m and was 42% higher than the 10 year average figure. At the end of 2016 demand was recorded 17% lower than the year before. The average size of a single deal amounted to 895 sq m in 2015 and 1,363 sq m in 2016, respectively.

“In 2016 the demand for office space among legal companies was at 16.300 sq m and was 18% higher than the 10 year average figure.”



Last 15 years take-up in legal sector - Warsaw

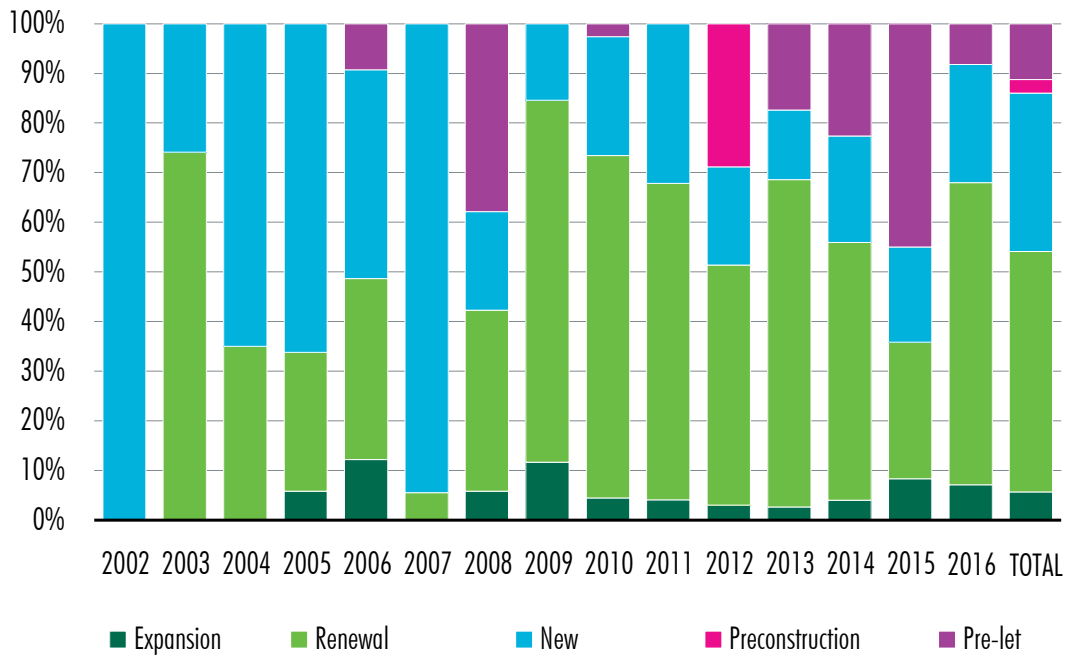


Source: CBRE Research, 04 2016

In the last 15 years almost 50% of signed deals were renewals in contrast to the whole market, for which the comparable figure reflected 30% of renewals. Law firms, which largely occupy the best prime buildings, do not change their location frequently.

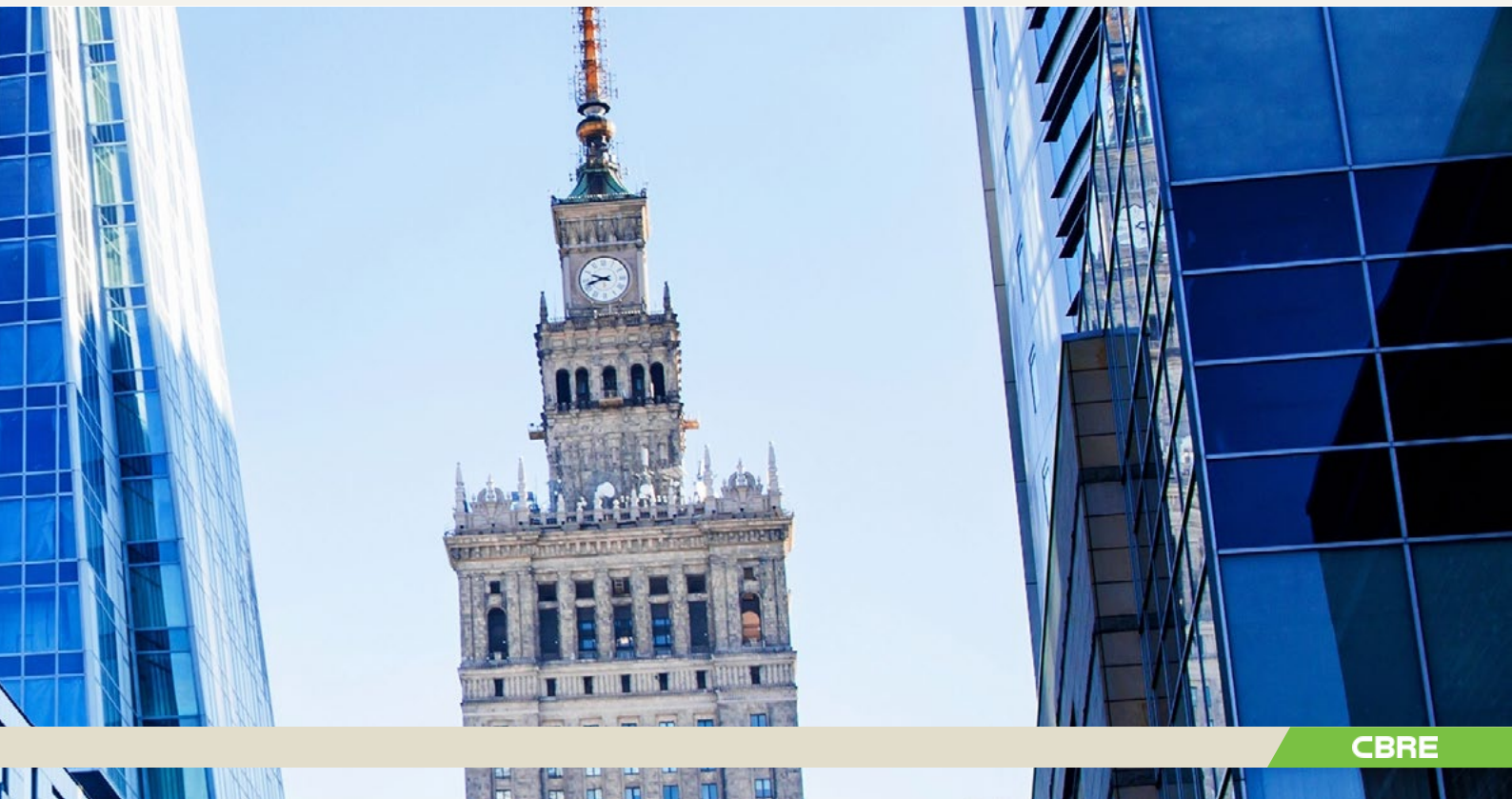


The structure of the signed deals



Source: CBRE Research, 04 2016

Law firms mostly locate their headquarters in Warsaw City Centre, a confirmation that location is an essential factor for their business. A centrally located office provides not only the proximity to clients, but adds prestige and support to attract the best talent too. Close to 87% of law firms have established their offices in the City Centre (43% in CBD and 44% in CC Fringe). The next most popular zones in Warsaw are North (Zoliborz) and Upper-South (Mokotow).



Law firms locations by zones

ZONE	SQM	SQM %
City Centre Fringe	46,000	44 %
Central Business District	45,100	43 %
North	4,100	4 %
Upper South	4,100	4 %
South East	2,500	2 %
East	1,700	1 %
West	1,100	1 %
South West	800	1 %

Source: CBRE Research, 04 2016

The most desirable buildings among the law firms are Rondo 1, Warsaw Financial Centre and Q22. These three buildings are the chosen location for more than 30% of the legal sector encompassing 13 firms including Domanski, Zakrzewski, Palinka, Dentons and CMS Cameron McKenna. Some of the law firms avoid the highest skyscrapers and locate their offices in more chambers type, smaller buildings like Jasna 26 (Sołtysinski, Kawecki & Szlęzak), Plac Małachowskiego (K&L Gates) or Le Palais (Schoenherr).



Justyna Szwech,
Counsel,
Hogan Lovells

As the real estate business is still growing (even when the forecast for 2017 is not so optimistic) the legal services devoted to that sector are more important for each Polish law office and represent bigger part of income than some years ago. In terms of the real estate transactions the non-hourly pricing policy can be observed as a standard. In practice in all "big deals" the legal remuneration is capped. Reference to alternative workplace strategies, the similar tendency can be observed on the Polish market. Hogan Lovells as a global firm applies the agile work program in various offices including Warsaw, which ensures some alternative work options as flexible hours, remote working or use of telecommuting. Anyway the specificity of legal services makes that the lawyers are quite resistant to work in the open plan office, where is difficult to focus on the legal documentation.



Rondo 1

The most popular buildings among legal companies

BUILDING	MARKET SHARE	LAW FIRMS IN THE BUILDING	BUILDING TYPE
Rondo 1	15.50%	7	Skyscraper
Warsaw Financial Center	8.60%	3	Skyscraper
Q22	7.32%	3	Skyscraper
Jasna 26	4.77%	1	Tenement house
Metropolitan	4.63%	4	Modern building
Atrium II	3.94%	1	Modern building
Al. Ujazdowskie 10	3.71%	1	Tenement house
Centrum Giełdowe	3.48%	1	Modern building
Plac Małachowskiego	3.44%	1	Tenement house
Norway House	3.36%	1	Modern building

Source: CBRE Research, 04 2016

Due to increasing competitiveness, cost policy could also be advantageous. Some of the companies have moved their non-core functions outside Warsaw and have tried to implement an alternative workplace strategy. Cellular offices still remain the most popular, but it is predicted that global firms, in particular, will implement the 'agile' office structure and abandon the 1:1 desk policy ratio to reduce fixed costs and to attract the better talent.

Warsaw's market is also a huge beneficiary of the off-shoring trend on the developed market of Western Europe. Poland, as one of the biggest BPO/SSC players in Europe, attracts many companies seeking to move their non-core departments to a more cost-effective location. The most significant transactions of this type from the beginning of 2015 include DLA Piper, Linklaters and Dentons, which all opened new SSC centres in Warsaw.

The biggest deals in the last 10 years show that law firms prefer renewals and pre-let deals to ensure the best and most prime locations. The popularity of pre-let transactions shows that law firms operate a long-term real estate strategy allowing them to secure the best space and conditions. Many developers are able to offer better lease terms for desirable and recognizable tenants like law firms. Frequently, these pre-let deals allow investors to begin their projects.

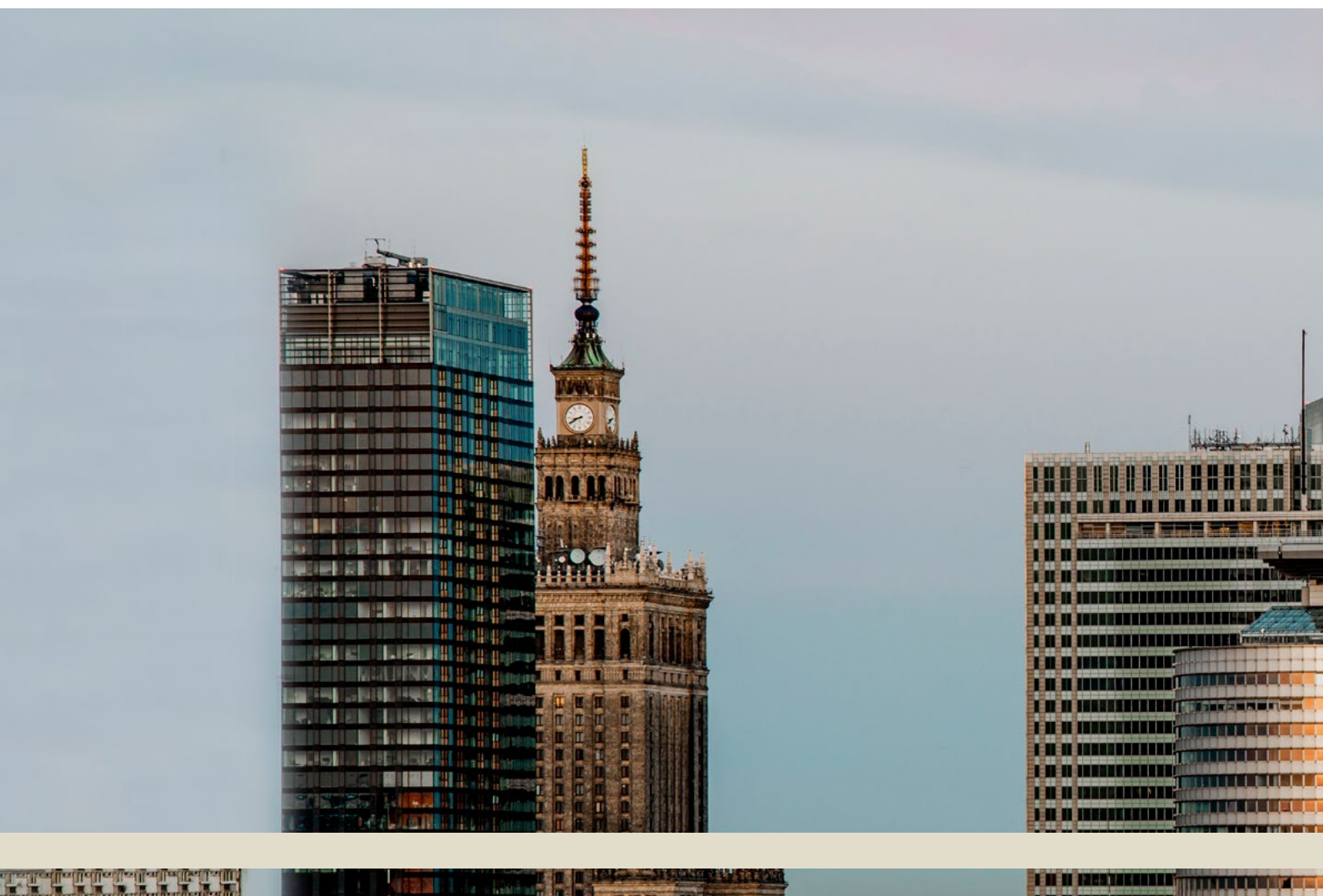


Plac Małachowskiego

Selected lease transactions in Warsaw by legal companies

YEAR	BUILDING	COMPANY	ZONE	TOTAL SIZE (sq m)	TRANSACTION
2013	Warsaw Financial Centre	CMS Cameron McKenna	CBD	5,000	renewal
2015	Q22	Linklaters	CBD	4,400	pre-let
2015	Atrium II	DLA Piper	CBD	4,100	pre-let
2014	Rondo 1	Domański Zakrzewski Palinka	CBD	4,000	renewal
2014	Plac Małachowskiego	K&L Gates	CCF	3,600	pre-let
2016	Norway House	Clifford Chance	CCF	3,500	renewal
2016	Rondo 1	Baker&Mckenzie	CBD	3,100	renewal
2016	Q22	White & Case	CBD	2,400	new
2016	Metropolitan	Gide Loyrette Nouel	CCF	2,200	renewal
2015	Rondo 1	Squire Patton Bogs	CBD	1,800	renewal

Source: CBRE, PORF, lease transactions over 1,000 sq m in 2013-2016



Summary

Looking forward, the increasing competition on the legal market will force companies to review their cost base. However, legal companies will still locate their offices in the best prime buildings but the alternative workplace strategy will become more popular. Due to the rising rental pressure the movement to new modern office buildings could also be the profitable solution for many smaller legal firms. Moreover, the rising take-up on the Warsaw market will depend on the new entrance of the BPO/SSC centres from the global leaders.

“New trends on real estate market, especially alternative workplace strategies, reach slowly the traditional legal sector, but the increasing competitiveness and battle for the best talents force chancelleries to build the competitive advantage in every business area.”



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