



your officespace says a lot

Legal administrators play critical roles in assessing office spaces as defining elements of their firms' business strategies and cost structures.

BY ED POLL

Regardless of a law firm's size, office space is an increasingly large expenditure – likely in the top three expense categories for any firm. In these days of home offices, telecommuting, and virtual offices, some futuristic thinkers declare that where lawyers practice is irrelevant, so long as clients can call or e-mail them.

In an abstract sense, that may be true. But, just as electronic files are unlikely to totally replace books and paper, the physical setting where lawyers interact with clients and colleagues will remain essential to defining almost all practices, especially larger ones.

A photograph of a modern office interior. The space features a reception desk made of light-colored wood panels. A woman is seated behind the desk, working on a computer. A prominent white cylindrical pillar stands in the center. The walls are also clad in wood panels, with a horizontal orange light fixture. A bright yellow cube sits on the floor. The ceiling is white with recessed square lights. The floor is a light gray tile with a subtle pattern.

– are you listening?

SHORTCUT

A firm's legal administrator plays a pivotal role in emphasizing to attorneys and staff that office space should not be merely managed. Its cost, composition, and financing must be part of the law firm's overall strategic plan, and all of the key players should agree on the firm's plan.

WHAT DO CLIENTS AND LAWYERS WANT?

Your office space speaks loudly and clearly to clients and lawyers about what kind of firm you are. For clients, the size and location of office space makes a statement. A startup entrepreneur might prefer going to a strip mall location with ample free parking, while a corporate client seeks assurance in the prestige from a multipurpose, marble-and-glass high-rise with valet parking. A large office with conference rooms speaks to the potential for team meetings and collaboration; small and simple offices suggest simpler, less adversarial approaches. Such messages define your firm much more clearly than any marketing brochure or advertisement.

Lawyers' personal tastes and professional styles are also reflected in office space. Some small firm or solo practitioners may like being in a diverse professional environment, sharing space with accountants, brokers, and other non-lawyers. Others may be comfortable with a "Fegen suite," where lawyers share the expense of a reception area, conference rooms, clerical staff, and office equipment. And large corporate firms typically want to reflect the hierarchical approaches of their clients, complete with corner offices for firm leaders and office perks defined by partner status.

WHAT SHOULD OFFICE SPACE COST?

Not long ago, I received a call from a lawyer wanting to know what percentage of his gross revenue should be allocated to rent. He wanted to know whether his percentage was in line with other law firms. I cited one study that put the average at 9 percent. My response didn't satisfy him; he went to another consultant and was told the average was 12 percent.

Such generic numbers totally miss the point on two levels. First, they allow lawyers to become self-satisfied that they are the same as others, and that they need not try to do better than the average. In fact, real-estate costs that are lower than average make a statement about how the law firm runs its operation – that it is sensitive to the cost structure for the benefit of not only its equity partner owners, but also its clients (because lower overhead could

translate into a lower fee structure). In other words, the cost of office space is a statement about the law firm itself, raising marketing issues that should be addressed in a strategic plan.

On a broader level, why does it matter what others pay for rent? Certainly you cannot be too far out of line with your competitors and still stay in business. This, however, relates to the whole of your business/practice, not to any single item.

The real issues and questions are far more complex than a simple answer to this one question. Is your rent competitive for the geographic area in which you're located? Is your current physical location one that you, your clients, and your prospects are comfortable with? Would you like to improve the quality of your professional life by moving to other, better appointed quarters, and can you "afford" it? Would your current and prospective clients think more of your firm if it had better quarters – and thereby allow the firm to take on better cases and charge more for them? If the answers to these questions mean that you pay 13 percent of revenue for rent, then so be it. You've asked the proper questions and made conscious choices consistent with your firm's culture and goals.

CAN OFFICE COSTS BE NEGOTIATED?

Regardless of the size of the practice, selecting an office is a complicated and difficult project and requires considerable thought, preplanning and coordination. (See Chapter 36, *The Attorney & Law Firm Guide to The Business of Law*, 2nd ed. – ABA 2002.) Even though the list of things to be done is long and extensive, you have to define the space that you want, physically and contractually.

The best foundation for planning office space is to survey lawyers and staff to learn about very precise wants and needs: the number of electrical outlets in each person's space, locations of data and telephone cables, proximity of copiers and fax machines to work areas, etc. This list becomes a tool to share with brokers and leasing agents as a qualifier for the spaces they want to show you.

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can afford, what features are most critical to you and your firm, and to what you're obligating the firm. Remember that virtually everything can be negotiated before you sign the papers. These are just some of the items to consider:

- **Tenant improvements and betterments (TIBs).** These are the improvements made to the space for your occupancy, to be paid for by the landlord, tenant, or both as negotiated. Usually, the larger the firm, the more extensive the TIBs – and the greater the chances for delays. Allow time for them in your planning.
- **The contractor.** The landlord may use someone regularly. This is not a bad option to consider, as the contractor will know the landlord and the building and can proceed more quickly. But, this contractor may not be sensitive or responsive to your needs and wants.
- **Free rent.** Depending on market conditions, you may be able to negotiate one or several months rent-free as an inducement to signing the lease. Know your market – and check to see what other law firms have done – before attempting to negotiate this.
- **A tenant broker.** A commercial real-estate broker who only represents tenants, not landlords, may be your best ally in locating and negotiating space requirements.

DO YOU HAVE THE RIGHT SPACE?

You must ensure that your firm is a good match for its office space. The best way to do that is to work with a commercial space planner who is familiar with law firms' office requirements. Work with the space planner, using your initial list and tenant improvement budget, to finalize all space requirements. These elements are essential:

- Solicit input from your firm's technical specialists – those who work with the computers, phones and files – to make sure the space is efficient for their needs.

- Establish what goes where by using drawings and cutouts to scale, so that everything you're planning to use actually fits into the new space.
- Locate telephone, electrical, and computer hookups according to your schematic space layout, and be sure to err on the side of too many. They are more expensive to add later.
- Give one person in the firm the authority to coordinate all essentials with the landlord's representative, the space planner, the contractor, and the mover. This minimizes costly and confusing change orders.
- Schedule multiple inspections with representatives of your landlord, telephone company, computer network installer, and copier/fax company before you assume any office space, to uncover and hopefully resolve any last-minute problems.

WHERE WILL THE MONEY COME FROM?

Whether purchasing or leasing office space, many law firms seek financing from their bankers. (See *The Successful Lawyer-Banker Relationship: A LawBiz® Management Special Report* – LawBiz® 2006.) Banks often have set guidelines for the kinds of loans they extend to lawyers. A loan for new or expanded office space may be in the form of a line of credit (the lawyer borrows and repays at will up to the amount of the credit line, which is reviewed annually and reconfigured as circumstances warrant), a revolving line of credit (a designated sum is converted to a term loan, repayable over a period of years), or a term loan (as long as seven to 10 years for a large law firm, three to five for a smaller one). Bankers make lending decisions based on the firm's finances (cash flow, receivables, revenue, and profits), its qualifications under the "Four Cs" test (character, capacity to repay, capital, and collateral), and its FICO credit score (which estimates default risk based on credit history).

Collateral and capital are the critical determinants in getting a real-estate loan. Collateral is defined as

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comprising the tangible and intangible assets given to the bank to secure the loan: real estate or equipment used in the operation of the law firm, a personal guarantee, securities, or a lien on accounts receivable. Remember that technology ages quickly – its collateral value to the bank isn't nearly so great as a hard asset like real estate, no matter how expensive the technology is. Conversely, capital is an essential consideration in loans because the bank wants to know how much of the cost will be covered by the law firm's assets.

Ultimately, the bank wants to make sure the firm can repay the loan. If the law firm has an adequate capital base in the investment, the bank is more comfortable helping to complete the purchase.

DO YOU HAVE A PLAN?

Office space should not be merely managed. Its cost, composition, and financing must be part of the law firm's overall strategic plan, and all of the key players should agree on the firm's plan. If the

partners disagree about the overall goals as well as specific objectives and strategies, then the planning process is bound to be sabotaged and of little use. Partners need to "buy in" to any plan involving the purpose, structuring, and cost of office space. The starting point is to gather historical information about the firm's business performance, analyze it, and develop a realistic approach for the future.

The administrator's role is crucial in this process. You can demonstrate and emphasize that office space is not a matter of giving lawyers the carpeting and paneling they want, but instead is a defining element of the firm's business strategy and cost structure. The result will be a stronger, more viable firm. ✨

about the author

Ed Poll is the principal of LawBiz Management and an internationally recognized coach, law firm management consultant, and author of the legal business blog at www.lawbizblog.com. Contact him at edpoll@lawbiz.com.

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ALA Resources

These titles are available through the ALA Bookstore, www.alanet.org/bookstore.

- *The Complete Guide to Designing Your Law Office*, by Suzette S. Schultz and Jon S. Schultz
- *Building Security: Handbook for Architectural Planning and Design*, by Barbara A. Nadel

The following articles are accessible via ALA's Legal Management Resource Center, <http://thesource.alanet.org>. Type keywords "office design" in the search engine to find the articles.

- "Office Relocation and Design"
- "Office Space Planning: Designs for Tomorrow's Workplace"
- "Office Planning and Design Desk Reference"

The following articles are available in the *ALA Management Encyclopedia* (ALAME), www.alanet.org/alame:

- "Relocating a Law Firm – Working With the Designer"
- "Creating the Team for the In-House Planning Process: Law Firm Interior Design"

The following articles are available in the online archives of ALA's journal, *Legal Management*, at www.alanet.org/publications/legalmgmtarchives.html:

- "Driven by Design: Emerging Trends in Contemporary Law Firms" by William T. Eberhard, May/June 2006 issue of *Legal Management* – www.alanet.org/publications/issue/mayjun06/DrivenByDesign.pdf
- "Success by Design" by Douglas Zucker, October/November 2006 Special Issue of *Legal Management* – www.alanet.org/publications/issue/octnov06/Zucker.pdf

Off the Shelf

The following titles are available for purchase or download through many online retailers, including www.amazon.com.

- *The Inspired Workspace: Designs for Creativity and Productivity*, by Marilyn Zelinsky
- *The 21st Century Office*, by Jeremy Myerson and Philip Ross
- *Office Space Planning: Designs for Tomorrow's Workplace*, by Alexi Ferster Marmot and Joanna Eley