

Occupier Solutions

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Here to guide you

Legal Reinvention –
The Path to Agility



Be under no doubt, we are in the midst of a global revolution, driven by demographic, technological and economic factors that will see global cities take on a new context, the jobs market turned on its head, and the manner in which office space is constructed, leased, managed and occupied by legal practices changed forever.

There will be more change in the legal sector and in commercial property in the next 5 years than we have seen in the last 30 years.

The revolution is upon us.

In this paper, we review the factors fuelling this revolution, identify current trends, and forecast what lies ahead for the legal sector in Australia

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The Driving Forces



The macro picture involves many moving parts driving change, but three core factors stand out:

one Demographic



Demographic Shifts

It is estimated that by 2025, 75% of the global workforce will be from the millennial generation, or Gen Y^[1]. It's a sweeping generalisation, and one which is often debated, but it is broadly considered that today's younger people work and live differently from the generations which preceded them (don't oldies always say that!).

There is an expectation from millennials that they will be afforded the flexibility to work where they want, when they want, and how they want. Rightly so, because this is how they have been educated. And they are happy to forego the safety of working for a large established company, in favour of a riskier start-up. With some millennials on the cusp of turning 40, and many now in senior management positions, it is this generation who will lead businesses over the next 10 to 20 years.

“ ” Only 7% of Gen-Ys work for a Fortune 500 company because start-ups are dominating the workforce for this demographic in today's economy. If large corporations want to remain competitive, they need to aggressively recruit Gen-Y workers. Gen-Y will form 75% of the workforce by 2025 and are actively shaping corporate culture and expectations. Big corporations can't afford to be left behind. [2]

Dan Schawbel, founder of Millennial Branding
March 2016

From a lifestyle perspective, gone are the aspirations of moving to the suburbs and owning a large house with a pool and two cars. A compact city centre apartment is what is demanded, with the ability to walk to work, exercise, and have multiple leisure options within a short distance of home. Indeed, across Australia we are witnessing an explosion of residential development within our cities, located close to core CBD's, and providing exceptional on-site amenity.

Coming next is Gen Z, those born from the late 1990s, who are now entering the workforce, bringing yet another dynamic.

two Technological



Technological



Technological Advances

The exponential rate of technological change is well reported, with Moore's Law^[3] largely holding true since the 1970s. In short, the power of technology is increasing, and the cost decreasing, at an amazing pace.

A basic US\$99 128GB chip offers a 30 million times capacity increase on 1956 chips, and a 1,000 times capacity increase on 2005. Further, it is estimated that an entry level US\$1,000 laptop will have the processing power of a human brain by 2023, and by 2050 the equivalent will offer the power of all of the human brains in the world combined^[4].

Technology is also fully mobile. One billion people have handheld devices today^[5], and by 2025 five billion people will be connected by handheld devices^[6].

Massive, cheap, and widely available processing power has led to the development of a plethora of software platforms (including Apps). Consequently, this has created the phenomenon commonly known as 'digital disruption'.



US\$1,000
laptop will have the processing power of a human brain by

three Economic



Economic



Economic Factors

1991 to 2016 has seen 25 years of continued growth in Australia. But now, slower GDP growth has left the government struggling to fund services, and grappling with tax reform.

Australia has all but exhausted the efficiencies to be gained from traditional mass production and scale^[7], and over the next 20 years, 44% of our jobs are at risk from digital disruption, affecting some 5.1 million workers. However, over the same period, a \$57.4 billion increase in GDP could be achieved if we shift just 1% of our workforce into STEM (Science, Technology, Engineering & Mathematics)^[8].

This is why Prime Minister Turnbull is pushing for Australia to become a start-up and innovation nation.

Indeed, in pockets, the establishment of small businesses is currently very much supported. Sydney is seeking to define itself as the central hub for new business creation, and according to Sydney Councillor Angela Vithoulkas, 64% of Australia's tech start-ups are located in the City of Sydney area.

Financial backing is available for the start-ups, with private equity investors and crowd funding creating available finance for business ventures which would historically have been viewed as risky by banking institutions, and as such, suppressed.



Consistent with the swing away from being employed by big business, 30% of the Australian workforce are now freelancers^[9], and in the US, forecasts are that 40% of the massive workforce will be freelance by 2020. That's a huge shift which will impact on the recruitment and retention of lawyers significantly.

Finally, perhaps the millennials have the right idea, as 40% of today's Fortune 500 companies are forecast to disappear within the next 10 years^[10].



Global Impacts

With the driving forces explained, what are the impacts being felt at a global level?



The rise of global cities

The UN is forecasting the world's cities to increase in population by 380 million people in the next five years. Consequently, the planet will have to build the equivalent of 15 cities of the scale of Sydney every year between now and 2020, together with all of the supporting infrastructure.^[11]



Fuelling the rise of global cities are three key factors^[12]:

- The growing centrality of knowledge workers;
- The transformation of former industrial and fringe areas into new districts, bringing offices, leisure and homes closer together;
- Investors seeking higher returns on their money, offering a pool of funds to back future urban development.

We need only think of Docklands in Melbourne, or Barangaroo in Sydney as current examples of this.

It is little surprise that cities are expanding. The workers of global cities are among the most productive in the world, typically outperforming their host countries. Asia's cities have powered ahead, and companies want to capitalise on this success, resulting in a new wave of development.

And this is only the beginning. The global cities are set for further expansion, thanks to the digital revolution that is unfolding around us^[12].



The automation of 100 million jobs

With technological advances, particularly in Artificial Intelligence (AI), there are fears that smart robots may replace 100 million workers – or about one third of the world's jobs – by 2025^[13].

The roles at risk are not limited to manual jobs which can be replaced by production lines, but include clerical and administrative workers, technology and sales professionals, and a range of other roles currently considered to require knowledge, judgement and decision making. Further, the accelerated pace of AI development funded, according to Quid, by an increase in private investment from US\$1.7 billion in 2009 to US\$14.9 billion in 2014, will inevitably create a new class of intelligent automation capable of performing tasks which in the past were thought possible only for humans^[13].



The declining workforce

According to KPMG's demographic studies, the working-age population in the United States spiked in the 1960s and 1970s, following the Baby Boom, and then again in the mid-1990s through the mid-2000s, following the Echo Boom. However, the labour pool has been declining dramatically since 2010 due to lower birth rates that began in the 1980s. This decline is expected to continue for the next 10 years^[13].

In Australia, a similar trend is apparent, albeit offset by the doubling of immigration over the past 10 years.



The skills shortage

There is a perceived discrepancy between the skills possessed by the graduates being produced by our educational facilities, and those required for success in the business environment.

In the US, employers believe that college graduates are not developing the skills needed for the 21st century workplace. And nearly 8 in 10 adults (78%) agree that "If the US fails to develop a more talented workforce, it will fall behind other countries", according to a Gallup-Lumina foundation poll^[14].

So what skills are really needed for tomorrow's world? In the lead up to PWC's 'Creating Australia's Future Innovators' event, they asked keynote speaker, Harvard Innovation Lab's Tony Wagner, for his view on some of the most important skills for the 21st Century^[9]:

One Critical Thinking

All students are going to need to learn how to think critically. Students need to know how to ask really good questions. In today's world, being able to ask really good questions is much more important than memorising easy answers.

Two Collaboration

What is really important is the ability to collaborate. Increasingly, all work of significance is done collaboratively.

Three Communication

Both oral and written communication skills are important, but just as important is the ability to listen.

Four Creative Problem Solving

There are two types of innovations. There are the innovations that bring new kinds of possibilities to life – and that's a matter of a particular time and talent converging – like a Steve Jobs. Then there are the innovations that are the result of creative problem solving.

Creative problem solving is increasingly the coin of realm. It's the skill in highest demand.



Digital disruption

Digital disruption is the change that occurs when new digital technologies and business models affect the value proposition of existing goods and services.

There are a multitude of examples of digital disruption which have occurred in recent years:

- Radio took 38 years to reach 50 million users; Facebook reached 200 million users in less than a year;
- Uber is a US\$62 billion transport company that didn't exist 5 years ago, and which owns no vehicles. In early 2016, it was reported that San Francisco's largest taxi operator, Yellow Taxi, was filing for bankruptcy, with many citing ride sharing platforms such as Uber and Lyft as the main reasons for its failure;
- 6 years ago no one had an iPad, now 300 million of us do, and how we access media, shop and work has changed forever;
- Airbnb is challenging the hotel industry (yet owns no real estate), Netflix competes with TV channel content, Freelancer provides a flexible and skilled workforce, LiquidSpace provides short term commercial office accommodation, and Axiom provides access to a pool of skilled lawyers at a price point which is much lower than a traditional legal practice.

In fact, there are very few areas of business, or indeed life, where digital disruption is not having an impact, and the legal sector is far from immune in this regard.

Pulling It Apart – Making Sense of the Data

Here's what we can distil from the drivers of change and current trends which will help us to predict the future impacts for the legal sector:

Demographic	Technological	Economic
<ul style="list-style-type: none"> ▪ The best and brightest young people have different lifestyle and work aspirations; ▪ Growing centrality of knowledge workers; ▪ Smaller pool of the best talent; ▪ Not excited by big business, want to work with creative start-ups; ▪ Need to develop the following skills to succeed: <ul style="list-style-type: none"> – Critical thinking – Collaboration – Communication – Creative problem solving 	<ul style="list-style-type: none"> ▪ Exponential growth in processing power, and ever decreasing cost – The power of the human brain in your pocket by 2023; ▪ Facilitates flexibility like never before; ▪ Digital disruption is impacting every aspect of work, life and leisure. 	<ul style="list-style-type: none"> ▪ 44% of Australian jobs at risk from digital disruption – 5.1 million; ▪ Investing in start-ups and innovation is key. \$57.4 billion of GDP could be created in the next 20 years by investing in STEM; ▪ Local and Federal Government push towards start-ups and innovation businesses; ▪ 40% of Fortune 500 companies forecast to disappear within the next 10 years

We are living in an era of a declining workforce, coupled with a significant shift towards intelligent automation, and revolutionary digital disruption.

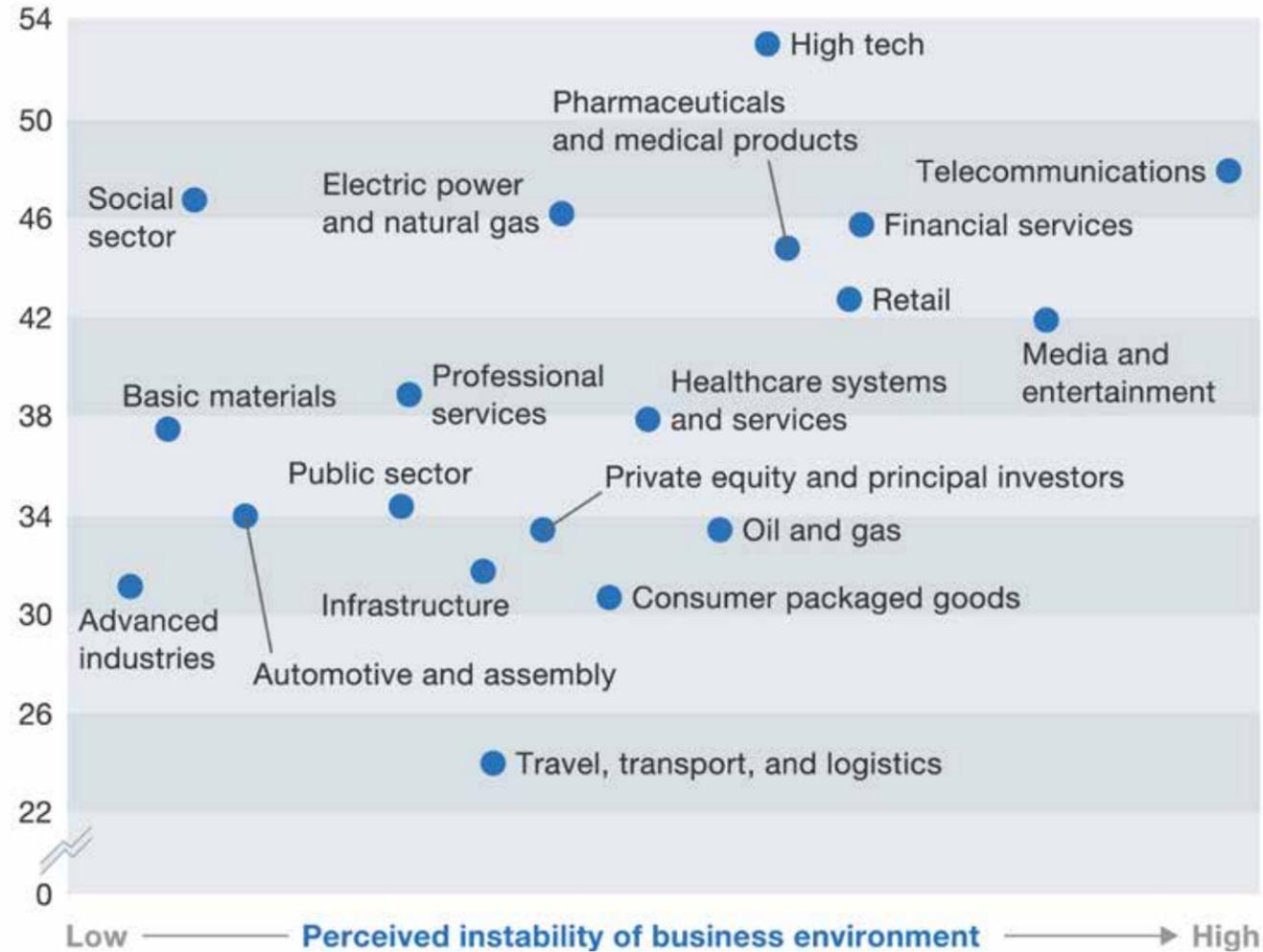
Consequently, highly skilled and educated workers are in demand, with legal practices scrambling to secure the lawyers who can place them 'ahead of the curve'.

The resounding message from around the world is that such workers want the lifestyle that is afforded by the global cities. These workers also need continued learning and development to reach their peak, so further education is key.

This demand is turning major cities into talent magnets, and consequently, legal practices feel it is necessary to locate in the heart of our global cities to compete for the best and brightest personnel, and take advantage of the benefits that the creation of industry clusters can offer, such as the technology based SOMA district of San Francisco and Shoreditch in London

The power, in essence, has shifted from employer, to employee – the companies will go where the talent is located.

% of respondents reporting organization-wide agile transformations at their companies, by industry



Source: McKinsey & Company

Studies undertaken by McKinsey & Company show that around **39%** of professional services organisations are undergoing a transformation to create an agile business structure in response to the disruptive and rapidly changing environment in which they operate.

However, the interesting point to note from the McKinsey & Company study is the range of other sectors which are undergoing transformational change - all of whom are clients of legal practices across the globe. As we know, clients want to work with like-minded organisations, so legal practices which remain static, and do not respond to the exponential business environment we face, will be left behind.

Indeed, there is no standing still - being static actually means falling behind clients and competitors, and very swiftly so. To stay relevant in today's world requires change and agility.

72%

of CEOs believe the next 3 years will be more critical for their industry than the previous 50 years ^[15].

41%

of CEOs expect to be running significantly transformed companies in 3 years time ^[15].

Putting It Back Together - The 5 Trends Shaping the Legal Sector ^[16]

one.

Winners will be those who best respond to disruptive technologies.

two.

The competitive threat to the mid-tier will intensify

three.

New market entrants are inevitable

four.

Radical changes in organisational structure will bring talent into focus.

five.

Competitiveness is a function of skill, productivity & innovation rather than scale.

1. The strength of response to the disruptive effects of technology will distinguish the future winners and losers in the legal services sector.

Rapid advances in technology will lead to process driven work historically undertaken by associates for higher margins, being automated and commoditised. Agile, tech-savvy and client focused new entrants will take increasing market share in this space, hitting the profitability of traditional law firms if they fail to adapt. Over the longer term, artificial intelligence has the potential to perform complex analytical tasks with little human input.

Furthermore, mobile technology will enable agile resourcing models. Incumbents can get ahead of the curve if they move fast, invest in and fully embrace technology, viewing it as an opportunity rather than a threat.

2. The competitive threat to the mid-tier will intensify.

The mid-tier will find their market share threatened by dual pressures from top-tier law firms who have capital to invest in technology and will increase their focus on high-end work, and from more agile market entrants able to offer process driven work at a lower cost.

Struggling to compete on fees and differentiation, the mid-tier will have little choice but to further consolidate. This consolidation will take the form of mid-tier firms merging to improve their market position and larger players picking up firms that can provide access to growth markets or specialist / niche skills.

3. After numerous false dawns, the legal services landscape will finally be reshaped and influenced by new market entrants and process re-engineering.

The legal services landscape is going to become more crowded, as alternative business structures, including legal process outsourcing providers (LPOs), legal-tech and the Big Four accounting firms, gain traction by offering clients greater efficiency, quality and service.

They are already doing this by investing heavily in technology and processes to undercut traditional law firms for high volume work. In the case of the Big Four, there is also expansion into emerging markets, a focus on legal areas that complement their own wider practices, and the targeted acquisition of top legal talent.

These additional competitive threats will force incumbents to continue to rework business models and processes in order to optimise efficiencies. Levers include automation,

outsourcing, changing the lawyer to non-lawyer ratio, on demand staffing and off-shoring or near-shoring.

4. The next five years will bring radical change to the organisational structure of law firms and a different talent requirement.

The traditional law firm staffing structure will be replaced by a leaner pool of permanent legal staff working closely with non-traditional and temporary employees. Certain roles will vanish or be redefined as work is either automated or outsourced, and an increase in the use of contract lawyers is anticipated.

Transition from law firm to legal enterprise will demand a broader range of business skills relating to technology, business analytics, data intelligence and project management. These broader skill-sets are in great demand across the services sector and will pitch law firms directly into an intense war for talent.

5. Legal services firms of the future will flourish on the triumvirate of skill, productivity and on-going innovation rather than simply scale.

Bigger will not always be better, particularly given the heightened risks of international expansion and the corresponding need to be agile to changing market conditions globally.

The most resilient firms will be those that anticipate and understand client needs, build strong relationships, convey a differentiated culture and purpose, and deliver in the most efficient and innovative (and hence profitable) way. For most, this will mean moving up the value chain to focus on more complex areas that cannot be easily replicated, automated or commoditised while continuing the unstinting focus on improving operational and cost efficiency.

Agility Working Anytime, Any Place, On Any Device

Mobile technology and the increased adoption of cloud computing is enabling more flexible ways of working and resourcing.

Efficient law firms will tap into contingent workforces, allowing them to scale up or down according to demand. At the extreme, a law firm could be the brand / workflow manager behind a team of vetted, quality freelance lawyers that work remotely or directly with the client. Axiom does this already by having lawyers work at clients' premises, from home or in its warehouse style offices. This is an increasingly compelling offer; Axiom's big name clients include Johnson & Johnson.

For in-house staff, agile working practices are becoming common place and the next generation of lawyers will demand it.

Corporate agility must, of course, be supported by a physical workplace environment which not only facilitates, but encourages the development and use of the key skills required to survive and prosper – Collaboration, Communication and Creative Problem Solving.

Many practices have taken the step to create open plan offices in various forms, but this could be considered counterproductive. In fact, lawyers require a range of work settings in which to carry out their daily activities, as not all can be conducted at a workstation, which a simple open plan environment naturally enforces.



*According to research by Kenan-Flagler Business School.

“” The future prospects for law firms are intrinsically linked to their ability to respond to and seize the opportunity from the next wave of technological innovation

Truly agile workspaces provide workstations for routine tasks, quiet focus areas for considered work and intense concentration, creative zones for collaboration and innovation, and a range of meeting spaces for interactions with colleagues and clients, some of which are open and some of which may remain within four walls.

Of course, all of these alternative work settings take up space, and individuals cannot be situated in all spaces at the same time, thus creating inherent underutilisation if every lawyer has an assigned fixed workpoint. With margins under pressure, underutilised space, often in buildings which have some of the most expensive rental levels in the country, is clearly undesirable. This is where a truly flexible workspace strategy can assist – by having non-assigned workpoints, yet providing the range of work settings necessary to facilitate the efficient completion of tasks, the lawyer and the legal practice both benefit.

Of course, the transition from cellular offices to an agile workspace is extremely challenging for many, and requires careful change management and the implementation of technology to be successful. Indeed, the direct leap from cellular offices to an agile workspace without a transition period of 'open plan' with assigned workstations is rare, but perhaps increasingly necessary given the factors influencing exponential change in the legal sector.

For flexible headcount and project teams, the proliferation of coworking facilities which are arising in our major cities offer high quality, centrally located flex space which can be occupied on a short or long term basis, thus removing the need for an expansion of the fixed real estate cost base in the longer term.

Coworking facilities have evolved significantly from the early days of their inception, and now offer quality working environments for major corporates across all sectors, as well as for smaller start-up businesses. It is inevitable that legal practices will begin to utilise these spaces to accommodate project teams, and perhaps to house the younger demographic who do not wish to be located in an older style cellular office based workspace.

There will be further swift and significant change in the legal sector, the impacts of which are difficult, if not impossible, to assess today. What we do know, however, is that we live in exponential times, where embracing and actively encouraging the challenging of established norms is the only way to prosper.

About Knight Frank

Our Global Business

Knight Frank LLP is the leading independent global property consultancy. Headquartered in London, Knight Frank and its New York-based global partner, Newmark Knight Frank, operate from 413 offices, in 60 countries, across six continents.

More than 14,000 professionals handle in excess of US\$886 billion worth of commercial, agricultural and residential real estate annually, advising clients ranging from individual owners and buyers to major developers, investors and corporate tenants.



In Australia

Within Australia and New Zealand we have a network of 27 offices and over 1,000 professionals across our business. We provide a full range of services which include:

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- Industrial Sales and Leasing
- Land Marketing
- Office Leasing
- Project Management
- Property Accounting Services
- Property Management
- Pubs and Hotels
- Research and Consultancy
- Residential and Project Marketing
- Retail Sales, Leasing and Management
- Sustainability
- Town Planning
- Valuations



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Your Contacts

For further information on this paper, or any of your workplace requirements, please contact:



JOHN PREECE

Head of Occupier Solutions,
Australia

M +61 424 225 090
John.Preece@au.knightfrank.com



BRET MADDEN

Senior Director, Occupier Solutions,
Perth

T +61 8 9225 2407
M +61 418 418 334
Bret.Madden@au.knightfrank.com



GORDON WYLLIE

Director, Occupier Solutions,
Melbourne

T +61 3 9604 4666
M +61 423 486 045
Gordon.Wyllie@au.knightfrank.com



MATTHEW MARTIN

Senior Director, Occupier Solutions,
Brisbane

T +61 7 3246 8822
M +61 419 418 468
Matt.Martin@au.knightfrank.com



JAMES O'NEILL

Director, Occupier Solutions,
Industrial, Sydney

T +61 2 9036 6766
M +61 401 701 158
James.O'Neill@au.knightfrank.com



JANET WESTON

Director, Occupier Solutions,
Industrial, Melbourne

T +61 3 9604 4646
M +61 435 963 575
Janet.Weston@au.knightfrank.com



[KnightFrank.com.au/OccupierSolutions](https://www.knightfrank.com.au/OccupierSolutions)