

In The News

Austin Legal Market Comes Of Age As Tech Drives Growth

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Law360, Dallas (January 22, 2015, 4:34 PM ET) -- In a city better known for its music festivals, bustling startup scene and booming population, the Austin, Texas, legal market is quietly growing as law firms see opportunities for expansion with clients who are demanding more sophisticated corporate and intellectual property work, firms say.

Midsized Texas firms such as Munsch Hardt Kopf & Harr PC and Cox Smith Matthews Inc. have their sights set on expanding their Austin offices in 2015, and firms that have had outposts in Austin for decades say their doors are open to strategic growth in key practice areas such as intellectual property and corporate transactional work. More national firms are joining the neighborhood too, setting up small offices to serve key clientele.

Yet despite Austin's maturation from a sleepy college town to one that boasts a dynamic business climate, its legal market is far smaller and with more niche practices than either Dallas or Houston and is likely to stay that way for years to come.

"It may never be on par with the overall size and corporate base in Houston or Dallas, but we're approaching being a third major business hub," Locke Lord LLP Austin managing partner Brian Cassidy said.

With the steady growth of tech startups and the venture capital supporting them, a life sciences industry expected to grow thanks to the city's forthcoming medical school and strong general growth — there is so much construction downtown that some joke the new state bird should be the crane — Cassidy said there is room for more and larger firms to set up shop.

"Venture capitalists are getting involved, and they want a credible presence in the financial market for the investment they've made," Cassidy said. "As startup companies mature and are getting better legs under them with financial stability, more work spins out of that."

Aileen Hooks of Baker Botts LLP has practiced in Austin for 30 years and says the city has grown up around her. Once dominated by state government and the University of Texas, Austin has matured into a well-rounded and "grown-up" legal market, she said.

"From our perspective, we have a full-service ability to handle a big transaction and to do it with Austin talent, though we work with our other offices in every direction as well," Hooks said. "Though we're established and have good client relationships, everybody needs to stay on top of their game and make sure we see the opportunities for growth."

Many of the firms who want to expand their Austin offices say they expect that growth to come through corporate work.

Dallas-based Munsch Hardt wants to bolster its transactional group to complement its Austin litigators, particularly in corporate, mergers and acquisitions and real estate, firm CEO Phil Appenzeller said.

The firm is moving this summer into a 14,768-square-foot workspace in the new Colorado Tower downtown inspired by the tech industry's open and collaborative offices — like "Google for lawyers," Appenzeller said. The firm also wants to increase its attorney count in Austin by 50 percent this year, adding five or six new lawyers, he said.

He said there's room in Austin for a middle-market firm that isn't "chasing the big, behemoth clients doing massive IPOs" but instead targeting midsize businesses and young, growing companies.

"We believe if you're going to be a Texas-based law firm, Austin has to be part of your portfolio," Appenzeller said. "But it's a much smaller market, a much tighter market."

Data from the U.S. Bureau of Economic Analysis shows Austin's economy is growing rapidly, with the GDP for the metropolitan area increasing by 25 percent between 2008 and 2013 and now ranked 33rd in the country. But that still pales in comparison to the economic juggernauts of Houston and Dallas, which rank fourth and sixth on the list, respectively. Houston's GDP is about five times that of Austin's, and Dallas boasts a GDP 4.3 times that of Austin.

And without Houston's energy base or the mix of Fortune 500 companies that call Dallas home, Austin doesn't have a huge stable of clients willing and able to pay New York billable hour rates.

Market rates for general corporate work, litigation and real estate have also been driven down over the years by Austin's boutiques and small law firms. Hourly rates in Austin typically lag those charged in Dallas and Houston, sometimes by hundreds of dollars, Austin partners say.

"There are some portions of the market where people are paying rates akin to Dallas and Houston, but not that many," Jackson Walker LLP managing partner Wade Cooper said. "This is a town that, when I moved here, had more public employees than private employees. We have a limited number of Fortune 500 companies with a huge presence here, but it's still a very entrepreneurial town. It's just different."

Cooper said Jackson Walker has thrived because it has lower overhead and is able to structure its rates to be a "good value" in the market.

"We don't have a New York office, an Abu Dhabi office," Cooper said. "National firms with higher overhead are going to have a harder time in Austin."

Cox Smith managing director Deborah Williamson said the San Antonio-based firm has since January made a not-yet-public attorney hire in Austin and added a new business development person. The firm is focused on growing in Austin, especially in its corporate and securities practice, mergers and acquisitions and private equity, she said.

She noted the firm wants to capitalize on opportunity in the marketplace by being flexible on rates with young companies. She said the firm's nonbureaucratic approach means it can approve a nonstandard pricing model within hours of talking to a potential client.

"Just as [chief financial officers] will come to new companies in Austin and take less of a salary but look for the long-term upside, we're willing to mirror that approach to an engagement," she said. "We know many of these businesses don't have in-house counsel, and legal is reporting to accounting. We recognize in talking to accounting and CFOs — we're talking budget and pricing that may vary depending on what they're looking for."

At Baker Botts, where the firm's rates are consistent across its U.S. offices, Hooks said its lawyers' experience helps them stand out. Austin clients who in the past assumed they would have to go to bigger markets for transactional representation have been "pleasantly surprised" to find Austin-based lawyers with significant

experience in capital markets and mergers and acquisitions work. Though the firm looks at opportunities for alternative fee arrangements when it makes sense, it's not doing so at a cut-rate hourly basis, she said.

"Frankly there will be times if it's a matter that the client feels they need something at a lower rate, we may lose out on that work," Hooks said. "But given the quality of work, the sophistication we bring to big transactions, big litigation, complicated environmental problems, important and complex intellectual property issues, we're comfortable where we are."

Instead, specialty and niche practices are a way for bigger firms to attract clients, Rob Lauer, the administrative partner for Haynes and Boone LLP's Austin office, said. The firm's Austin office includes practices focused on franchises, specialized litigation for first amendment law, insurance coverage, Employee Retirement Income Security Act specialists and a thriving intellectual property and patent practice that the firm is trying to grow.

"It's a smaller legal market than maybe the size of the city suggests," Lauer said. "Austin just is a unique market to find talent and people who are very talented in their field who want to be in Austin rather than Dallas or Houston."

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