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**Of Counsel**  
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Lone Star Law ...

TEXAS LEGAL MARKET EXPERIENCES DYNAMIC ACTIVITY

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Perhaps no statewide legal market in the nation has been attracting as much attention recently as has Texas. It's got a lot going on.

Consider this: Dallas is booming, with robust real estate sales driving the local economy and creating heavy workloads for lawyers in this practice area; Austin is one of the fastest-growing cities in the country pulling in young lawyers from virtually every region in the United States and enticing University of Texas School of Law graduates to get their degrees, stay where they are, and settle down in the capital city. As for Houston, many lawyers are keeping a close eye on the impact the drop in oil prices have caused on the energy sector that, of course, fuels the economy there.

**\*2** Oh yes, and then there's the continued and widely reported encroachment of national firms into the Lone Star State, cherry-picking lawyers from established local firms and competing for, and often attracting, desirable clients--that is, when these out-of-state firms aren't simply following their existing clients as they move their corporate offices to or set up major operations in Texas. "Corporations have been moving their headquarters in California or Chicago or the East Coast into Houston and so therefore the law firms follow them," says Houston-based consultant William Cobb.

But Houston isn't the only migration target. Dallas, Austin, and other cities are also seeing out-of-state firms setting up shop or expanding their Texas branches that they've had for years.

"You see a lot of Texas firms faced with competition in just trying to keep their talent as national firms come in or grow their [existing] Texas offices," says Mark Sloan, managing partner of Dallas-based Thompson & Knight who adds that his firm has done well at retaining its lawyers. "Some of those out-of-state firms have deep pockets so they can throw out compensation arrangements that would make it attractive for laterals. So we focus on our culture and other things that make it appealing to stay at Thompson & Knight."

While certainly the right culture can help keep attorneys happy and "at home," so to speak, money entices, and many of those large national firms have plenty to spend. Consequently, in 2015, some Texas firms, including such powerhouses as Vinson & Elkins and Baker Botts, were forced to raise associate salaries.

Speaking of money, Cobb says any law firm that has ideas about expanding into **\*16** Texas had better be prepared to spend significant financial resources and plan for it to take time to develop business and succeed. "You've got to make a major investment," he says. "Firms have to make sure they have a critical mass. You can't just come in here with two or three lawyers and think you're going to build a practice. If you're not willing to do that and to support the investment for five years, don't even try."

Cobb goes on to say that without such a commitment, and a lot of patience, a firm will fail and that can cause problems within a partnership. After all, he says, partners in the firm's other offices will essentially ask: Why are we in Texas? That office hasn't made a profit yet?

While firms from New York, Chicago, Los Angeles, and elsewhere have made deep inroads into Houston and Dallas, Texas firms aren't simply holding tight and hoping they don't lose too much talent and business to the outside infiltration. They're also expanding by opening offices in other major cities and elbowing their way into those markets.

“While that invasion has been going on, it's not like every Texas firm is sitting here taking body blows and not growing themselves,” says Timothy Powers, managing partner of Dallas-based Haynes and Boone. “Just look at the growth of the Texas firms in the past decade in the national markets. While we've been able to maintain our top [tier] status here in Texas in terms of size, we continue to grow. We have 100 lawyers in New York now, and 50 in California.”

### **Big \$ in Big D**

In Dallas, property brokers are wheeling and dealing in one of the most vibrant real estate markets in the nation, and both buyers and sellers are keeping lawyers very busy, and not just in performing the legal nuts and bolts of the transactions.

“In 2015, we saw huge activity in real estate in almost every aspect of it-- real estate finance, land use which would be the leading edge, of course, commercial, multifamily--you name it,” says Wade Cooper, managing partner of Dallas's Jackson Walker. “A good chunk of our real estate business came from doing deals with, for example, Wall Street firms, where we're handling a part of the transaction. We may do the due diligence piece of a large portfolio deal while they're doing other parts of it.”

The Houston real estate market is a bit of a different story, although that's not to say that property sales have slowed considerably. It's just that the market is uncertain right now. “In Houston, real estate has been good, but we're all kind of holding our breath a bit to see what the impact of the oil prices is,” Cooper says. “There have been layoffs in the energy industry.”

At Haynes and Boone, real estate as well as intellectual property and private equity matters are keeping the partnership's Dallas attorneys working hard, says Powers, who adds that, like Houston, Big D is experiencing corporate growth as out-of-region companies move there.

“Corporate relocations are fueling some of this expansion, like with Toyota coming to town,” Powers says. “There are ancillary benefits of a company like Toyota coming here as many of the suppliers come too, which drives growth.”

Powers also notes that recent acquisitions by Dallas-based AT&T of television companies also boosts the local business market and, as a result, creates an increase in employment. “We have a diversified economy,” he says, “and consequently there is job growth, and when you've got job growth, you've got immigration of people across the \*17 generations, but particularly the recent college graduates and young professionals. This was all put in place years ago, because Texas is such a business-friendly place to be, with low taxes, and a reasonably low cost of living standard.”

Haynes and Boone's Houston-based attorneys are especially active in three areas related to the fall-off in oil prices, Powers says. “Our bankruptcy, restructuring, and litigation lawyers are busy as they work to find solutions because, whether it's lenders or private- equity owners, they're looking for solutions while the energy companies themselves work through this cycle,” he says. “Still, energy is a large part of what we do [in Houston] as about 30 percent of our work comes from some part of the energy industry.”

Thompson & Knight's Sloan says many of the firm's 62 lawyers based in Houston are doing a lot of work in the corporate, bankruptcy, restructuring, and tax groups, all of which feeds into the energy practice. “Low oil prices are hitting the Houston economy, but we're staying very busy,” he says. “We represent a lot of energy lenders, and there's a lot of restructuring of credit facilities to energy companies right now.”

Some mid-sized law firms in Houston seem positioned to do quite well amidst the drop in oil prices--similar to how mid-sized firms across the country pulled in more revenue and grew their ranks during the Great Recession. Take, for example, the 130-attorney Houston-based partnership Gray, Reed & McGraw.

“With energy prices where they are now, it puts more pressure on all kinds of companies to think about value propositions and consider hiring middle-market firms--those that aren't the biggest firms; that's played in our favor,” says managing partner Cary Gray. “Our rates are lower than the biggest firms, and we have some exceptionally experienced lawyers with exceptional track records. So companies look at that and see the value proposition.”

What's more, Gray points out, a lot of transactions have taken place as a result of the downturn in the market. “From the asset acquisition and investiture world, the lower energy prices have not hurt that at all,” he says. “In the oil and gas industries, you have a situation where a company will have to sell its production because they've got to raise cash. When you do that, you have to have lawyers involved in selling the production, but whoever buys the production is going to have to arrange new [legal] agreements with midstream companies to move it to market.”

### **Austin: “A Great Place to Be”**

Just as Dallas has emerged an attractive destination for young professionals, so too has Austin become a hotspot for business of all sorts. When coupled with the work generated by the state government and the University of Texas, the city is a “boomtown,” Cooper says, adding that Jackson Walker has 101 attorneys there. “This is the place for entrepreneurs to thrive. People who sold their companies in cities in other parts of the country moved to Austin. And a number of the world's technology companies are moving here because young people like to live here. So you see Google, Facebook, Intel, and Apple with big operations here. It is a very vibrant and mixed economy with lots of technology.”

\*18 Powers agrees that Austin companies provide attorneys with a significant amount of IP and technology legal work and says several lawyers use the capital city as their home base to do work in many parts of the country. “A lot of the lawyers who are very good in that market work from Austin but have a national practice,” he says. “Part of that is because University of Texas School of Law graduates love to stay in Austin. It's a great place to be.”

At Thompson & Knight, the firm's Austin-based attorneys are active working for clients on their energy-related government regulatory concerns. “We have a group down there that works in the power market, the electric project development area,” Sloan says. “Our Austin lawyers are also focused on environmental matters.”

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