

M&A Boom Heats Up Legal, Lateral Markets In Texas

By **Ben James**

Law360, New York (March 22, 2011) -- As the deal market thaws and inbound investments roll in, the Lone Star State — and particularly Houston — is becoming one of the most sought-after locales for national or international law firms to set up shop.

Workloads at corporate and M&A practices at Texas firms have been on the rise, according to Akin Gump Strauss Hauer & Feld LLP partner Ken Menges, who noted that many of the same factors that have drawn companies to Texas are attracting law firms as well.

"National firms that may be heavily concentrated on both coasts look to Texas as a great market opportunity. There's quite a bit of interest in coming here," Menges said.

The inbound investment trend is happening, at least in part, because companies want to take advantage of Texas' business-friendly climate and significant population growth.

Texas' population surged to over 25 million residents over the past decade, and the state has seen a 20.6 percent increase in its population — nearly 4.3 million new residents — since 2000, according to U.S. Census data. The U.S. population overall grew by less than half that rate, increasing by 9.7 percent since 2000.

That growth translates to more residents who will need services like health care and insurance, and strategic buyers are taking notice, said Menges, who added that he started seeing the uptick in inbound investment in Texas in the first quarter of 2010.

"We're all seeing increases in activity. Institutions that have been on the sidelines for years are moving back in. That is going to cause more people to invest in the legal market as well," said Cadwalader Wickersham & Taft LLP partner Robert Stephens.

Just because Houston may be an attractive destination for law firms doesn't mean that it's fertile ground for everyone. New York-based Chadbourne & Parke LLP opened an office in Houston office in 2002, only to shutter it in 2009.

In some ways, Houston is an insular city, and a law firm trying to get its foot in the door has to deal with the fact that many companies have longstanding relationships with entrenched Houston firms that are tough to dislodge, said Houston-based Mayer Brown LLP partner Robert Gray.

Gray said he saw that reality first-hand when he moved to Mayer Brown in 2005, after spending the better part of three decades with Fulbright & Jaworski LLP, which was founded in Houston in 1919.

"There are institutional relationships between these companies and the law firms that are very difficult to break," Gray said.

The fact that the Houston market is so difficult to break into means that established corporate attorneys are a hot commodity. Firms looking to make inroads to Houston compete vigorously for potential lateral hires, according to Menges.

"There appears to be a direct relationship between the increase in investments and the increased interest in lateral hiring," Menges said.

And it is commercial, corporate lawyers who are most in demand, especially in Houston and likely in Dallas as well, according to Gray.

Getting the wrong type of attorneys on board could spell trouble for law firms looking to set up shop, Gray added.

But lawyers said they didn't expect the barriers to entry to chill the firms' interest in establishing a presence in Texas.

For a long time, firms in Houston hewed to unwritten rules about not poaching each others' partners, according to Stephens, who moved to Cadwalader's Houston office for the January launch after having been at McDermott Will & Emery LLP.

But the lateral market for corporate lawyers in Houston has now become much more active. Stephens started to see lawyers move between firms around 10 years ago. In the past five years, the lateral market has opened up dramatically, he said.

When Latham & Watkins LLP opened a Houston office in January 2010, the firm scored three top energy lawyers from rival firms. Michael E. Dillard and J. Michael Chambers came over from Akin Gump, where Dillard had been head of the energy and global transactions practice. Sean T. Wheeler, who specializes in M&A and securities offerings, joined Latham from Baker Botts LLP.

Lawyers in Houston also said they weren't particularly worried about reaching a saturation point, where the city would have too many lawyers and not enough work.

"If history is any guide, I think rather than seeing saturation, you'll see some firms that are successful, and firms that are not will ultimately leave or they will maintain a very small presence in the state. If you look at the roster of national firms with offices in Houston and Dallas, some of those offices are very small," Menges said.

Attorneys also said they didn't expect law firms' interest in opening offices in Houston to abate any time soon. Menges said he expected more firms to open offices in Houston and Dallas in the near future.

"I don't think anybody's worried because of the entrenchment of locals, so to speak," said Gray. The bottom line, according to Gray, is that big-dollar transactions are a magnet for lawyers.

There are more Fortune 500 companies headquartered in Texas than any other U.S. state except New York, Gray noted.

"I promise you law firms know that, and they are going where the money is," he said.

--Editing by Jonathan Jacobson.

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