

Darkening clouds?

In the short term, banking and finance-related work will sustain many law firms in Lisbon, but the longer term outlook is more uncertain and legal market consolidation is looking likely

Banking and finance-related work will be the lifeblood of Lisbon's law firms for some years to come. The country's financial institutions have not yet eradicated all of their problems and, in addition to the expectation that the banking sector will undergo a further period of consolidation, lawyers will also be able to feed off the plentiful finance-related litigation that is currently ongoing. But while law firms' prospects look good in the medium to short term, the outlook for the long term is less certain. Lisbon lawyers have benefitted from the global financial crisis as their firms have steadily grown revenue, but if the day comes when the Portuguese economy finds itself on a firmer footing, a number of firms could find themselves starting to struggle. Indeed, some lawyers predict that, despite the plentiful legal work available, some Lisbon firms will be forced to merge much sooner – perhaps even in the next year – in order to remain viable entities.

Managing partners are also bracing themselves for the prospect of the 'Big Four' consultancy firms upping their efforts to muscle into the Portuguese legal market. In



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MLGTS

what way will they do this? It's unclear at present, but the fact that Deloitte welcomed Lisbon firm CTSU – Sociedade de Advogados into its legal network in the

last year, perhaps gives us an indication of the strategy they will adopt. Indeed, senior figures in the legal market expect two other members of the 'Big Four' to make significant moves in this respect in the coming 12 months.

Unsolved problems

Banking and finance-related matters are creating considerable opportunities for lawyers, according to Antonio Villacampa, partner at Uriá Menéndez. He adds that the Portuguese financial sector has not solved its problems and highlights the problems surrounding the proposed privatisation of Novo Banco. In addition, Villacampa adds that there is also a significant amount of M&A, litigation and restructuring work.

Paulo Câmara, managing partner of Sêrvulo & Associados,

says law firms are experiencing an increase in workload in the areas of real estate and data protection. He adds that the “pressing need” for banking sector consolidation will also create opportunities for lawyers. Câmara says that new players – particularly venture capitalists – are targeting investments in the Portuguese market.

Real estate and tax-related matters are creating a lot of work for lawyers in Portugal, according to Caiado Guerreiro managing partner João Caiado Guerreiro. He also says that lawyers are receiving plenty of instructions in relation to the restructuring of the financial sector, and fintech in particular. Abreu Advogados founding partner Miguel Teixeira de Abreu says that, while Portugal is not a market that generates major M&A work, there is currently a real estate boom in the country: “There are a lot of family offices investing in real estate, and I think the real estate prices have considerable potential for growth.” In general, Teixeira de Abreu says opportunities



for M&A work for law firms in Portugal are declining as the market reduces in size. He continues: "Over the past years, a lot of the work has been related to damage control, such as insolvency matters, restructuring and reorganisation." Meanwhile, CCA Ontier partner Domingos Cruz says there is a shift in Portugal to more innovative industries, which is generating a lot of foreign investment. He adds that this trend is creating plenty of opportunities for law firms.

Paying the right price

Pricing is currently a major challenge for law firms in Portugal, according to one partner at a Lisbon firm. He adds: "Law firms are growing, but Portugal has the lowest hourly rates in Western Europe." In general, demand for legal services is growing in Portugal, according to Nuno Azevedo Neves, partner at ABBC. "It's now about managing the growth and the profitability of firms, but having growth and having profitability are different things with different challenges," he adds. "The world, and the way business is done, is becoming more complex, but crises are also opportunities, both in the domestic market and in outbound work, which represents a particularly big opportunity."

Nuno Galvão Teles, managing partner of MLGTS, says that one of the biggest challenges for law firms is how to manage people. He adds: "The younger generation of lawyers are different from previous generations, work-life balance is more important to them." Retaining talent is one of the key issues for law firms, says Rodrigo Almeida Dias, partner at FCB Sociedade de Advogados. He continues: "There is also pressure to reduce fees so the challenge [for law firms] may ultimately be to keep a good economic balance and not increase bank debt."

Luís Pais Antunes, managing partner of PLMJ, says a key challenge facing law firms is "attracting and retaining talent". He adds: "The professionals of

What are currently the biggest opportunities for law firms in the Lisbon market?

"Most departments are very busy, with M&A, banking, real estate, litigation and oil & gas standing out. I expect this trend to continue. The biggest opportunities lie in the fast and ever-changing economic landscape, which has transformed the legal market. It is now much more transparent, a level playing field where firms compete for clients who put aside decades-old alignments to look for the quality and price that suits them better." **João Vieira de Almeida, managing partner, Vieira de Almeida**

"We are seeing different types of deals happening such as loan portfolio sales, disposal of real estate assets, corporate restructurings and bonds issues. Some of these deals are still driven by distressed sellers or in relation to distressed assets. On the other hand, the banking sector continues its process of restructuring and consolidation. For example, the sale process of Novo Banco is under way, Fosun announced its interest in acquiring a qualified stake in BCP, the recapitalisation of the state-owned bank Caixa Geral de Depósitos was just approved by the European Commission – and may imply the issuance of some debt instruments by Caixa – and Banco BPI is subject to a takeover launched by CaixaBank. Furthermore, following the resolution measure applied last year to Banif, a new SVP was incorporated (Oitante) with the purpose of selling some of the assets previously owned by Banif that were not acquired by Banco Santander. Such deals have attracted a new set of international investors – including private equity houses – that are now showing an interest in Portuguese assets." **António Soares, national managing partner (Portugal), Linklaters**

"Whether via privatisation of state-owned assets, restructuring, distressed deals or more standard transactions, quite a significant number of sophisticated international players entered the Portuguese market, many as newcomers. Both the nature and the number of transactions – as well as the type of investors – were uncommon if not unseen in the past. These factors increased the need for high-level legal advice in the market to a level compared to that in any major business centre around the world. This ongoing demand for high-end legal advice presents the biggest opportunity." **Francisco Peña, Lisbon resident partner, Gómez-Acebo & Pombo**

"The market in Portugal is sending mixed signals. In some sectors there is an increase in legal work and mandates, but others are still at a low level. The real estate retail, M&A, restructuring and financial sectors show some growth, but this has not happened in other areas. The growth is mainly due to foreign investment in Portugal, as in general, domestic investment by Portuguese companies in Portugal remains low. This is not a good scenario because it does not allow growth to consolidate and become solid. However, for foreign investors there are great opportunities, especially in real estate and in the transactional market involving medium and large companies. These investment opportunities also end up being opportunities for law firms." **Nelson Raposo Bernardo, managing partner, Raposo Bernardo**

"There are two different kinds of opportunities in the Portuguese market for law firms. One kind is related to the immigration flow our country has been registering for the past few years, mainly because of 'Golden Visa' and non-permanent residents programmes, with the related real estate and corporate matters that are usually associated with those sorts of applications. On the other hand, Portuguese law firms – and in this case we refer mainly to those based in Lisbon – have great opportunities to grow their international business, either by advising investors who wish to enter the Portuguese market or by advising Portuguese investors who wish to expand their business abroad." **Vítor Marques da Cruz, managing partner, Marques da Cruz & Associados**



the future have new values and law firms need to promote a cultural change." One partner remarks that managing young lawyers is a "major difficulty". He adds: "It used to be that young lawyers wanted to be litigators or criminal lawyers, but now they want to do

different types of law, they want to have a life outside the office. I'm very worried about how to deal with these guys – there used to be a degree of predictability in the way you managed young lawyers." João Vieira de Almeida, managing partner of Vieira de

Almeida, says it is not possible to categorise all young people as "one generation". He adds that young lawyers "don't want to die in the firm, but they are hardworking, focused and highly motivated and some want to make partner". One partner highlights some of the tensions between older and younger generations at law firms, citing the example of some older partners at firms wanting to institute start times – that is, a time when lawyers should arrive at the office – but "millennials" wanting to be more flexible. "Managers of law firms have to adapt," he adds.

What are currently the biggest challenges Lisbon law firms face?

"Adjusting to new client demands in terms of their expectations on timings of execution and cost efficiency. Clients are seeking prompt advice, proactivity and efficiency. Cost control is naturally a main concern for clients and they want to know exactly how the work will be structured and performed and how much they will pay for legal advice, even before it starts. We witnessed an increase of foreign investment in Portugal, including international investors that usually are not very active in Portugal and are used to working in different business environments and having a different culture, so it is important to understand and to adapt our practices to correspond to their expectations. Retaining talent is also a challenge. I believe that we have a new generation of lawyers very well prepared from a technical point of view, but very eager to have exciting experiences in terms of work and continuous training, which requires permanent attention and monitoring if we are fulfilling their expectations."

António Soares, national managing partner (Portugal), Linklaters

"A substantial amount of work is generated by international clients. Law firms that have strong relationships with international law firms have an advantage. Law firms also have to face internal organisation issues – one of them is how to make the transition from the old to the new generation of partners." **Benjamim Mendes, partner, ABBC**

"The health of the Portuguese economy and its public finances is again under discussion. The Budget for 2017 is now starting to be discussed under the shadow of both expectation and concern. Due to this environment, law firms expect that some projects and transactions will be put on hold or slowed down in the next few months. This scenario calls for cost-efficient teams and departments and the expansion of firms' cross-border activities." **Miguel Lorena Brito, partner, FCB Sociedade de Advogados**

"The biggest challenges lie definitely in the lack of stability in the Portuguese tax system and the State's General Budget for 2017. The indications are that a new property tax is likely to be approved and personal income scales – and the progressive tax table – is expected to be changed as well which may potentially have a negative impact on foreign investment. Also, political and economic uncertainty are highlighted as negative aspects by investors when considering Lisbon as a destination for their investment." **Sandra Teixeira da Silva, partner, AVM Advogados**

"As result of the economic crisis, clients are frequently looking at expanding into new markets. This means clients are more cost conscious and demanding of quality, thus they are pushing us to improve our service with the goal of adding more value to their businesses." **Rogério M. Fernandes Ferreira, founding partner, RFF & Associados**

Gender equality

Transparency and clarity are highly valued by the new generation of lawyers, according to Cuatrecasas, Gonçalves Pereira's Portugal managing partner Maria João Ricou. "They want to know what the plan [for the firm] is and what the future is for them," she adds. Ricou says that consequently, law firms need to improve the level of information they provide young lawyers. She continues: "There is a desire for new models of work, with more gender equality and flexibility and greater use of technology – I believe this shift will make our firm stronger and better prepared for the challenges the legal market will be facing."

Gonçalo Anastácio, partner at SRS Advogados, acknowledges that it is now more difficult for most law firms to make new partners. Consequently, some lawyers say it is more difficult to manage younger lawyers. However, there is a consensus among lawyers that there are very few jobs in Portugal where young people can earn more money than they would working at a law firm. One partner at a Lisbon firm says law firms cannot tell young lawyers that they will "become a partner in ten years", for example. He adds: "They still

want to become lawyers, but they don't want to specialise and they are more prepared to adapt."

Dual qualification

João Miranda da Sousa, partner in charge of Garrigues' Portugal practice, says young people want "mobility" in their careers. He adds: "There is rigidity [in the legal profession], we are too restricted by the boundaries of our own jurisdiction. In Spain, England and France, there is a greater possibility of dual qualification." Miranda da Sousa adds that there have been "preliminary exploratory talks" with universities in Portugal and in Spain about increasing the opportunities for Portuguese and Spanish lawyers to become dual

qualified to practice in both jurisdictions.

Lawyers also anticipate that two members of the 'Big Four' consultancy firms will make "significant moves" in the Portuguese legal market in the coming year. In the last year, six-partner law firm CTSU – Sociedade de Advogados joined the Deloitte Legal Network. Despite anticipated competition from the 'Big Four', there is considerable optimism among some partners. Vieira de Almeida says: "Portugal has some of the most resilient law firms in Europe and a number of leading firms will move to new premises in the next year – the

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PLMJ



challenge is to manage to change in the economic landscape." Anastácio adds that there is likely to be some consolidation among Portuguese law firms in the coming year.

"The legal market is performing well," says one partner at a Lisbon firm. "I think there will be even better performance in the medium term, though in-bound work could suffer if there is a negative perception of the Portuguese government." Meanwhile, the political situation in Mozambique and Angola is a concern for some lawyers, with some saying that Portuguese law firms need to begin targeting new jurisdictions to compensate for potential decreases in revenues from Lusophone Africa. One partner says: "All of our [Portuguese firms' key] international markets are in bad shape." He adds: "If the left-wing parties in Portugal achieve a consensus, centrist parties might not get back into power."

Of concern will be the fact that some lawyers at leading law firms in Lisbon have grave doubts about their organisations' ability to change in the face of new technological innovations. One partner remarks: "My main concern is that we like to say we are adapting to new technology, but I'm not sure firms are really prepared for it."

With regard to the future, the diminishing loyalty of clients is another worry. One managing partner remarks that a key challenge is clients' greater desire to switch between legal providers. He adds: "Fifty per cent of our clients change every year."



Lisbon lawyers boosted by activity in the finance, real estate and tourism sectors

Significant investment in the financial, real estate and tourism sectors set to continue, while clients' data protection concerns increase

Finance, real estate and tourism are the sectors that are currently generating the most significant opportunities for law firms in Portugal, according to PLMJ managing partner Luis Pais Antunes.

"The financial sector is an important market for legal activity, along with everything related to real estate and tourism," he says. "There is a lot of investment in those sectors and that will remain so in the next few years." In addition, data protection issues are becoming a key concern for clients, according to Pais Antunes. He adds that, in this context, "there is a clear trend in Portugal for significant support for start-ups and innovation".

Pais Antunes says there are three key challenges currently facing law firms. "The first one is adapting ourselves to the environment," he explains. "We live in an environment of uncertainty at a national and international level and this creates difficulties for the legal profession."

Pais Antunes says the second key challenge is the need for law firms to adapt the way they manage lawyers. "Needs are different and it's a big challenge for law firms to manage lawyers' careers," he says. Pais Antunes adds that the third challenge is focusing on the evolving economy and issues relating to new technology.

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Good yields in real estate market attracting investors

Good yields in the Portuguese real estate market, along with growth in the tourism sector are generating a significant amount of work for lawyers, according to Duarte Garin, managing partner of Uría Menéndez-Proença de Carvalho in Lisbon.

"Right now, the Portuguese market is being driven by three sectors – real estate, banking and tourism," he says. "Real estate, in particular, has been one of the main drivers for our firm over the last 12 months." Garin adds that such activity is not just confined to tourism, or foreigners acquiring properties for non-habitual resident tax purposes, but also commercial real estate-related business. "There are now hotels popping up like mushrooms – in fact, many owners of small buildings want to convert them into boutique hotels," he says.

Regarding the reasons for such activity, Garin believes that aside from Portugal's current "trendy status", there

are several other factors at play. "Despite significant growth, it's becoming more difficult for investors to acquire real estate in Europe as the yields have compressed too much," he says. "Compared to other European countries though, Portugal still has some interesting yields."

Furthermore, while Portugal echoes Spain in terms of real-estate activity being mainly confined to the high-end of the market – that is, international investors trying to acquire core properties in a good location with quality tenants – unlike its neighbour, Portugal is focused on existing properties and has not had to deal with the effects of a burst property bubble. "Portugal has always had a much smaller housing market," says Garin. "The property demand was never the same as it was Spain, where you were anticipating the demand would just continue for a couple of years, only to wake up with a stockpile of never-ending houses."



Duarte Garin