CBRE

U.S. Office Demand Slowed in February

The CBRE Pulse of U.S. Office Demand slowed for a second consecutive month in February. Occupiers remained hesitant to make new commitments and leasing activity tapered. However, tenant requirements were unchanged for the month and have improved since the second half of 2021. This suggests the decline in leasing may be temporary, and that leasing may pick up as omicron caseloads continue to rapidly decline.

What is the CBRE Pulse Report?
To gauge the pace of recovery, CBRE has created three indices for the 12 largest U.S. office markets—Atlanta, Boston, Chicago, Dallas/Fort Worth, Denver, Houston, Los Angeles, Manhattan, Philadelphia, San Francisco, Seattle, and Washington, D.C.

Using CBRE data, these indices measure office market activity each month and provide early indications of when and where momentum in office demand may be shifting. These metrics—space requirements of active tenants in the market (TIM), leasing activity and sublease availability—provide a clear picture of office demand amid the COVID-19 pandemic.

February Findings
The U.S. Leasing Index fell by 18 points month-over-month in February to a level of 76—the biggest monthly decline since CBRE began tracking the Pulse report data in March 2020. Occupiers exercised caution and delayed long-term leasing decisions. As a result, the Leasing Index levels of 10 of the 12 markets tracked by CBRE fell in February. The biggest declines occurred in Seattle (-50 points), Atlanta (-39 points) and Denver (-21 points). Nevertheless, Denver and Seattle remained among the top six markets for leasing activity. Dallas/Fort Worth and San Francisco were the only markets without declines in their leasing index levels, unchanged at 93 and 40, respectively.

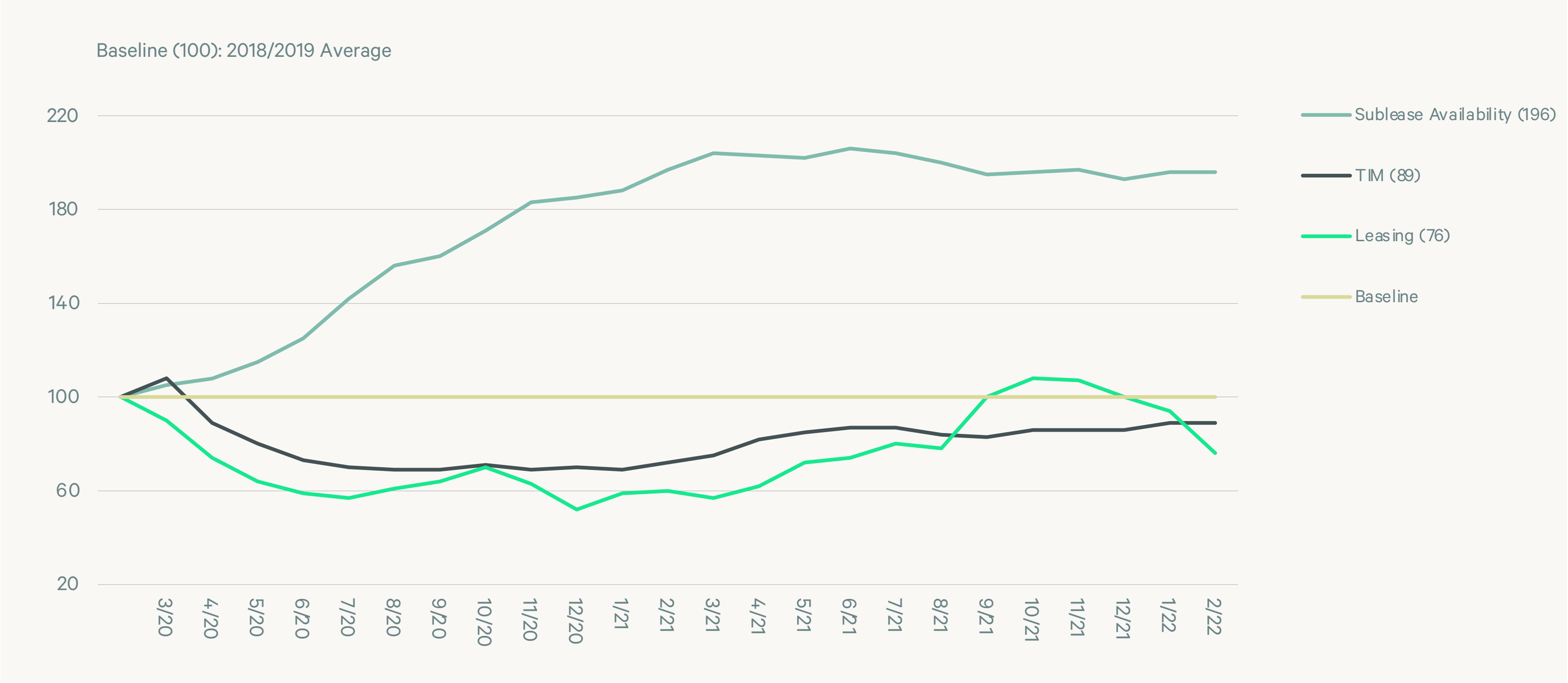
The U.S. Tenants in the Market (TIM) Index was unchanged at 89 in February, signaling that the downturn in leasing activity may soon be over now that the omicron wave is receding. Three markets—Houston (126), Boston (118) and Dallas (116)—had TIM Index levels that exceeded pre-pandemic levels, while another three—Manhattan (99), Denver (96) and Seattle (92)—were nearing their pre-pandemic levels. Overall, the TIM Index increased or remained stable in seven markets.

The U.S. Sublease Availability Index was unchanged in February at 196. The index has roughly stayed at this level since September 2021, down by a modest 10 points since peaking in June 2021. High sublease availability continues to hamper the U.S. office market recovery. Nine of the 12 markets recorded an increase in their sublease inventory in February, while two declined and one was flat.

Notes: All market data is for the metropolitan area except for San Francisco, which only includes the downtown market, and for Manhattan.
Prior months data has been revised from previous reports to reflect new information. Data presented in this report supersedes that of previous editions of the Pulse of U.S. Office Demand.

U.S. Average Performance Index

FIGURE 1: Indexed Average Performance of Sublease Availability, TIM and Leasing Activity for the Top 12 U.S. Markets

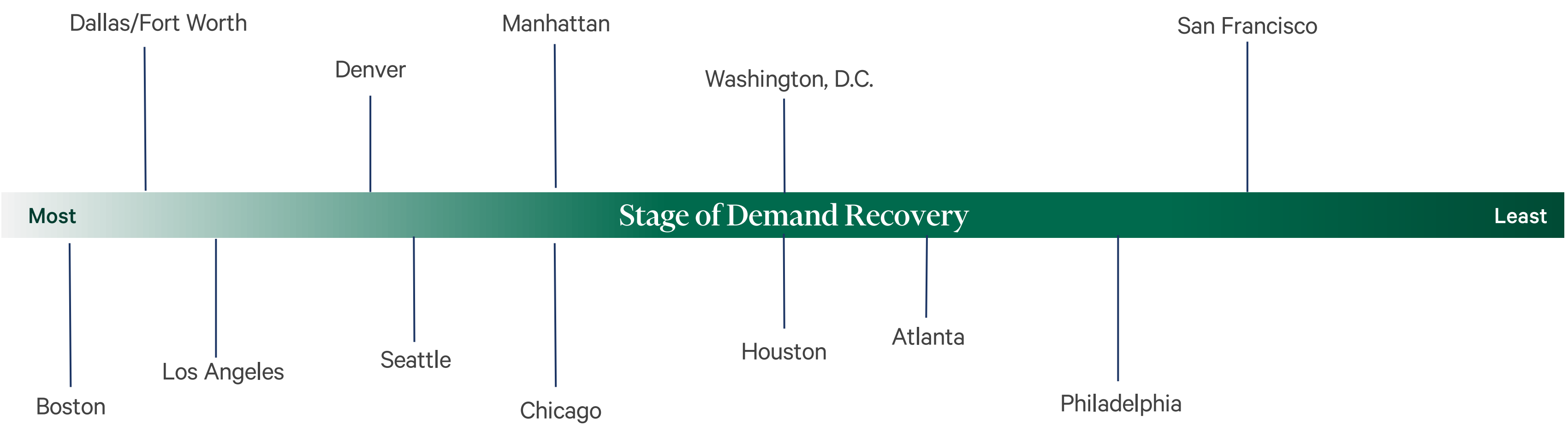


Source: CBRE Research, February 2022.

February Demand Recovery by Market

Boston, Dallas/Fort Worth and Los Angeles remained the leaders for office demand recovery in February, followed by Seattle and Denver. Continued occupier caution was most apparent in Atlanta, Houston and Manhattan, where progress toward recovery has paused. However, conditions are expected to improve as the omicron surge fades and more occupiers encourage their employees to return to the office.

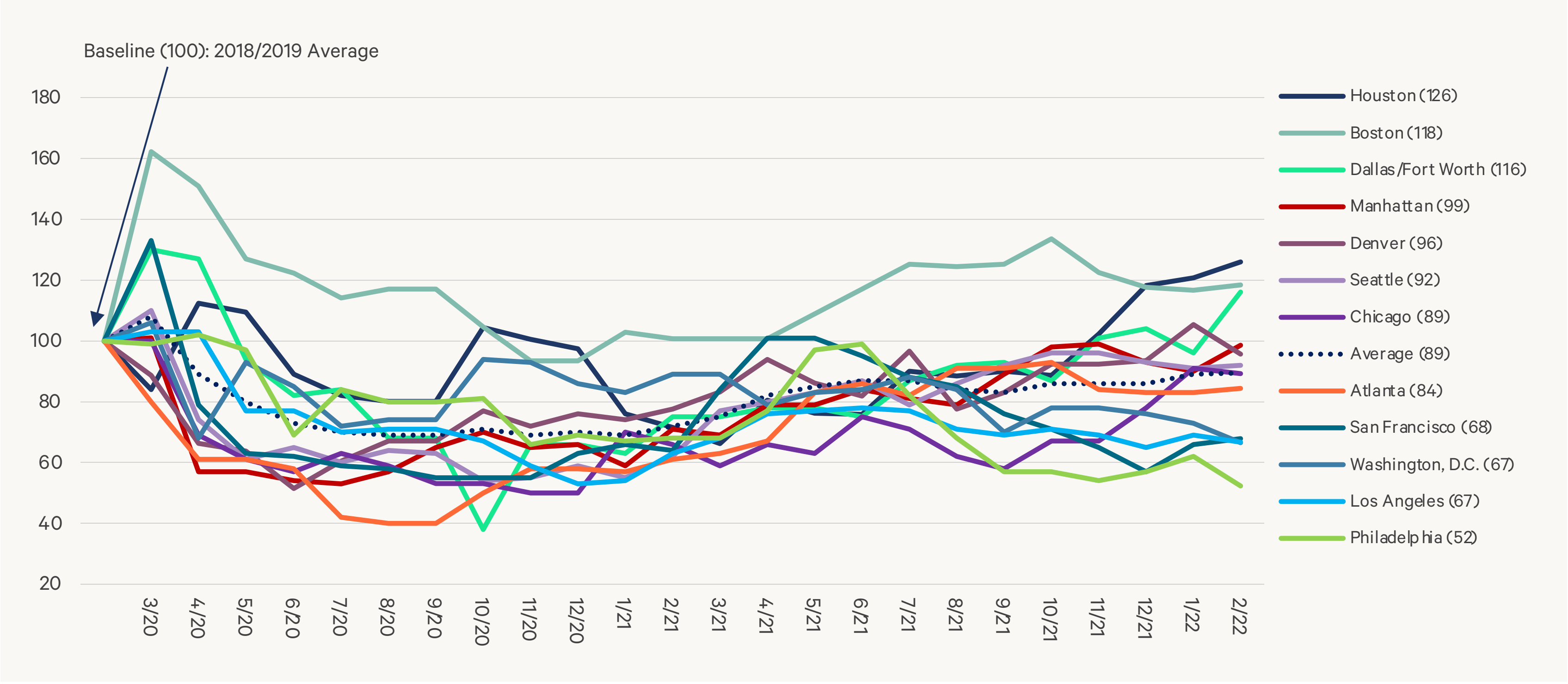
FIGURE 2: February Office Market Recovery Scale, Top U.S. Markets



Source: CBRE Research, February 2022.

Tenants in the Market Index

FIGURE 3: Indexed Square Footage of Tenant Requirements Compared with 2018/2019 Average



Source: CBRE Research, February 2022.

Tenants in the Market Index

The U.S. TIM Index was unchanged in February at a level of 89. The index has increased since the omicron surge in December and is at its highest level since April 2020, which indicates that the improving health situation has motivated tenants to resume their search for office space.

Three markets—Houston (126), Boston (118) and Dallas/Fort Worth (116)—had TIM levels that exceeded their pre-pandemic levels, while another three—Manhattan (99), Denver (96) and Seattle (92)—were at more than 90% of their pre-pandemic levels. Dallas/Fort Worth's index level jumped 20 points in February—the biggest month-over-month increase—and Manhattan posted an 8-point gain.

Overall, TIM levels increased in seven of the 12 markets in February, including San Francisco (+2 points) where TIMs recovery has been slow. TIM Index levels fell in the other five markets, including Denver (-10 points), Philadelphia (-10 points) and Washington, D.C. (-6 points).

FIGURE 4: February 2022 TIM Index–Top 12 U.S. Markets

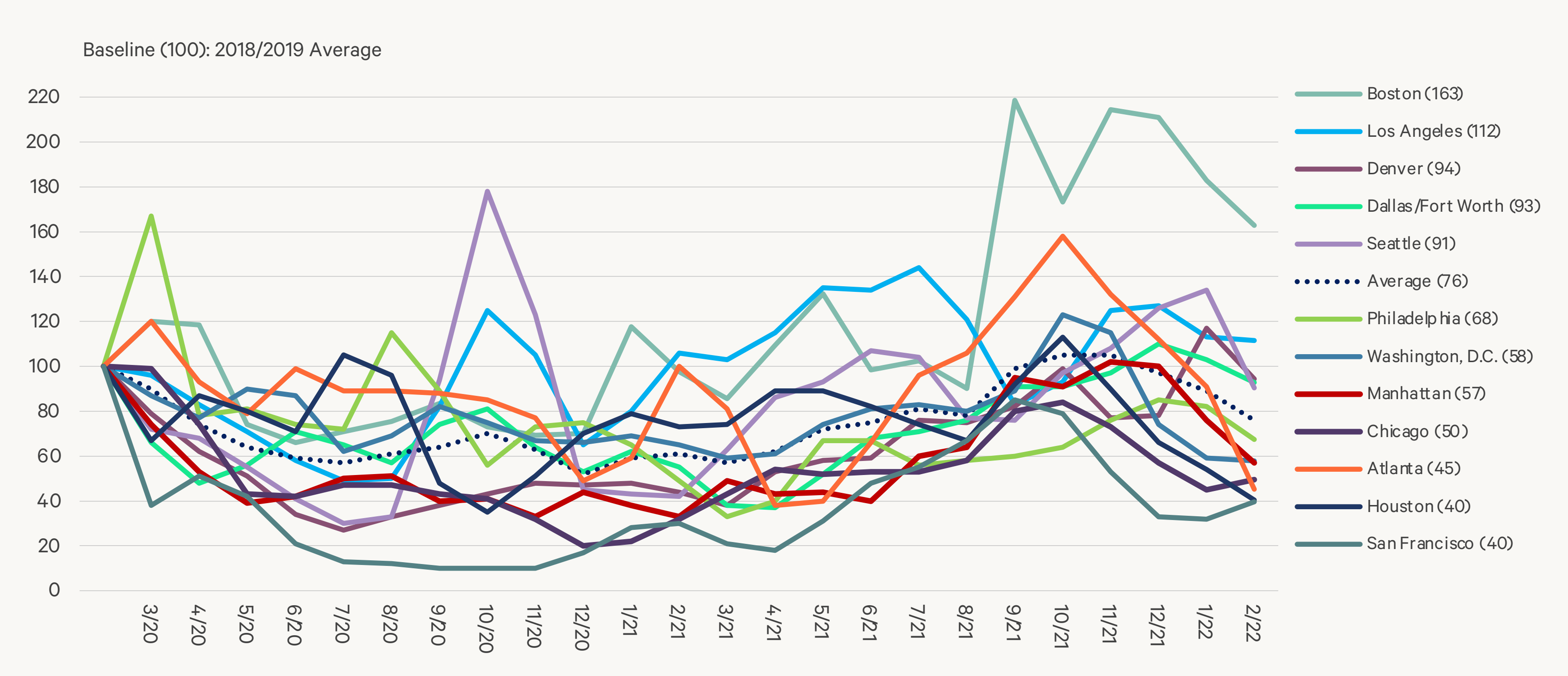
Rank	Market	Score	MoM Up/Down
1	Houston	126	Up
2	Boston	118	Up
3	Dallas/Fort Worth	116	Up
4	Manhattan	99	Up
5	Denver	96	Down
6	Seattle	92	Up
7	Chicago	89	Down
8	Atlanta	84	Up
9	San Francisco	68	Up
10	Washington, D.C.	67	Down
10	Los Angeles	67	Down
12	Philadelphia	52	Down
	U.S. average	**89**	**Flat**

Source: CBRE Research, February 2022.

TIM Index methodology note: CBRE tracks the total square footage of requirements from active tenants in the market, with minimum requirements of 10,000 sq. ft. The TIM Index compares the total monthly TIM requirements to a pre-pandemic baseline, which is the average of TIM requirements recorded by CBRE in 2018 and 2019. The index level for the baseline is 100. In most cases, when tenant requirements are given as a range, the index uses the minimum square footage., However, Seattle records TIM using the average requirement within the tenants' size range, while Philadelphia uses the maximum square footage.

Leasing Activity Index

FIGURE 5: Indexed Monthly Leasing by Market Compared with 2018/2019 Average



Source: CBRE Research, February 2022.

Leasing Activity Index

The U.S. Leasing Activity Index fell for a second consecutive month to a level of 76. The drop in activity was widespread, with leasing index levels down in 10 of the 12 markets and flat in the remaining two.

The slowdown in leasing has persisted for four consecutive months in Washington D.C. (58), Chicago (50) and Houston (40), all of which have Leasing Index levels that are well below their pre-pandemic baselines. Despite the monthly slowdowns, a few markets maintained Leasing Index levels above their pre-pandemic baseline, including Boston (163) and Los Angeles (112). Additionally, Denver (94), Dallas/Fort Worth (93) and Seattle (91) are near their pre-pandemic levels.

The February slowdown in leasing was most evident in Atlanta (45), which recorded a substantial decline in its index level since peaking at 166 in October 2021. Manhattan's Leasing Index level (57) has also declined after briefly reaching its pre-pandemic baseline in November and December 2021.

FIGURE 6: February 2022 Leasing Activity Index – Top12 U.S. Markets

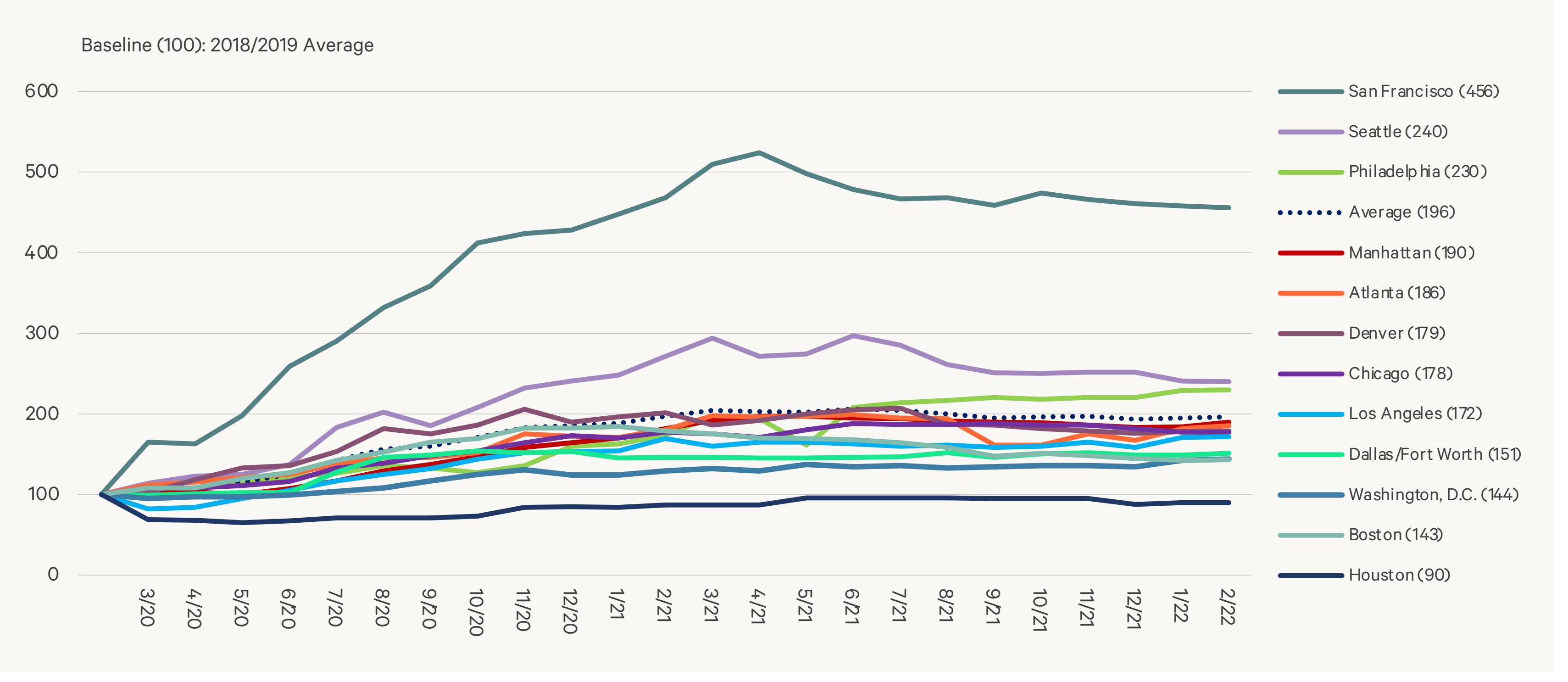
Rank	Market	Score	MoM Up/Down
1	Boston	163	Down
2	Los Angeles	112	Down
3	Denver	94	Down
4	Dallas/Fort Worth	93	Flat
5	Seattle	91	Down
6	Philadelphia	68	Down
7	Washington, D.C.	58	Down
8	Manhattan	57	Down
9	Chicago	50	Down
10	Atlanta	45	Down
11	Houston	40	Down
12	San Francisco	40	Flat
	U.S. average	**76**	**Down**

Source: CBRE Research, February 2022.

Leasing Index methodology note: Leasing activity includes all new leases, expansions and renewals of 10,000 sq. ft. or more that close each month. The Leasing Activity Index uses a rolling three-month average of leasing activity. Most markets the weighted 20% for the current month, 50% for the previous month and 30% for two months prior. For New York and Boston, where more accurate leasing data is available by the end of each month, the weights are 50% for the current month, 30% for the previous month and 20% for two months prior. The monthly rolling average is compared with a pre-pandemic baseline, which is the average monthly leasing activity between 2018 and 2019. The index level for the baseline is 100.

Sublease Availability Index

FIGURE 7: Indexed Sublease Availability by Market Compared with 2018/2019 Average



Source: CBRE Research, February 2022.

Sublease Availability Index

The U.S. Sublease Availability Index level was unchanged in February at 196. While the index remains stubbornly high, it is down from the first half of 2021 as the pace of sublease additions gradually slows.

Nine of the 12 markets recorded an increase in their sublease indices in February, though the rise was a nominal 1 to 2 points in seven of those markets. Manhattan had the biggest monthly increase of 5 points in February to a level of 190, followed by a 3-point increase in Atlanta to a level of 186.

Two markets—San Francisco and Seattle—had modest declines of 5 and 1 points, although they still had the highest index levels of 456 and 240, respectively.

The surplus of sublease space will continue to weigh on the U.S. office market recovery in 2022.

FIGURE 8: February 2022 Sublease Availability Index – Top 12 U.S. Markets

Rank	Market	Score	MoM Up/Down
1	Houston	90	Flat
2	Boston	143	Up
2	Washington, D.C.	144	Up
4	Dallas/Fort Worth	151	Up
5	Los Angeles	172	Up
6	Chicago	178	Up
7	Denver	179	Up
8	Atlanta	186	Up
8	Manhattan	190	Up
10	Philadelphia	230	Up
11	Seattle	240	Down
12	San Francisco	456	Down
	U.S. average	**196**	**Flat**

Source: CBRE Research, February 2022.

Sublease Index methodology note: Sublease availability measures the total square footage of sublease space available for occupancy. The Sublease Availability Index compares monthly sublease availability totals with a pre-pandemic baseline, which is the average amount of sublease space available in 2018 and 2019. The index level for the baseline is 100.

Note: In contrast to the Leasing and TIM Indices, a higher score on the Sublease Index is considered undesirable as it reflects an increase in available sublease space.

Office Demand Expected to Stabilize

Office demand is expected to stabilize in the near term as more companies encourage employees to return to the office due to a sharp decline in COVID infections.. The improving health outlook and resurgent U.S. economy should support office leasing activity in the second half of 2022. Occupiers can capitalize on continued highly favorable market conditions due to the large sublease space glut.

Atlanta Market Insights

MARKET RECOVERY REMAINS STALLED

TIM Index: 84

Space requirements of tenants in the market are at 84% of the pre-pandemic baseline. Atlanta ranks eighth and is 5 points below the U.S. average of 89.

Atlanta's TIM Index level rose by 1 point in February.

Leasing Activity Index: 45

Leasing activity is 45% of the baseline level. Atlanta ranked 10th in leasing recovery, 31 points below the U.S. average of 76.

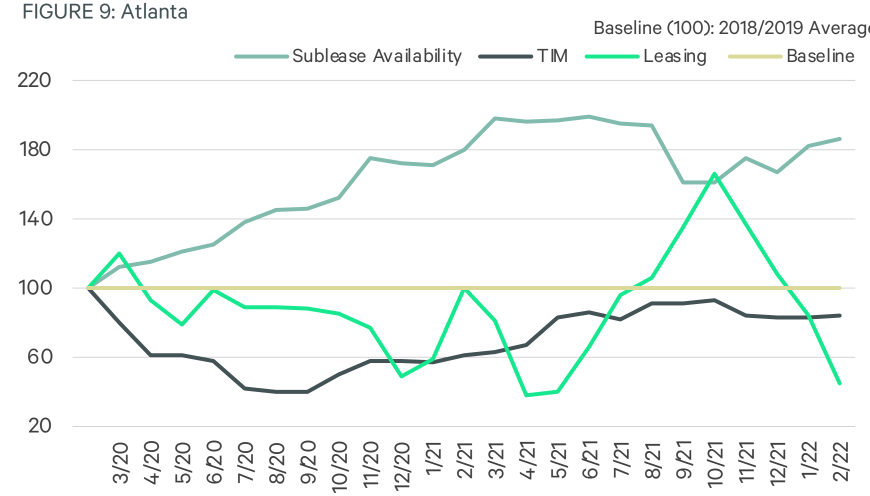
The index fell by 39 points in February, following a significant decline in January.

Sublease Availability Index: 186

The amount of available sublease space is 86% above the baseline level. Atlanta ranks eighth lowest for available sublease space, 10 points below the U.S. average of 196.

The index rose by 3 points in February.

FIGURE 9: Atlanta



Source: CBRE Research, February 2022.

Boston Market Insights

U.S. LEADER IN PANDEMIC-ERA OFFICE MARKET PERFORMANCE

TIM Index: 118

Space requirements of tenants in the market are 18% above the baseline level. Boston ranks second in the recovery of tenant requirements, 29 points above the U.S. average of 89.

The index increased by 1 point in February but has consistently performed at or above pre-pandemic levels since the start of the pandemic. Demand from life sciences tenants has been a strong driver of new requirements.

Leasing Activity Index: 163

Leasing activity in February was 63% above the baseline level. Boston ranked first, 87 points ahead of the U.S. average of 76. Boston's Leasing Index has consistently outperformed throughout the pandemic on the strength of a thriving life sciences market.

The index decreased by 20 points in February.

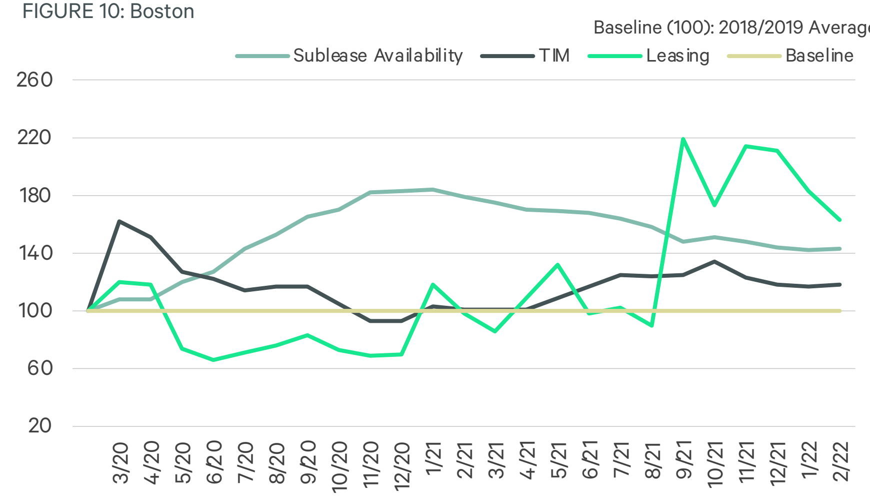
Sublease Availability Index: 143

The amount of available sublease space is 43% above the pre-pandemic baseline. Boston ranks second lowest for available sublease space, 53 points below the U.S. average of 196.

The index increased by 1 point in February, reversing three consecutive monthly declines.

The overall downward trend in sublease availability is attributable to an increasing volume of subleasing and sublease withdrawals by tenants who plan to reoccupy their space.

FIGURE 10: Boston



Source: CBRE Research, February 2022.

Chicago Market Insights

MARKET RECOVERY SLOWS, BUT TENANT INTEREST REMAINS ELEVATED

TIM Index: 89

Space requirements of tenants in the market are 89% of the baseline level. Chicago ranks seventh in the recovery of tenant requirements, even with the U.S. average of 89.

The index decreased by 2 points in February.

Leasing Activity Index: 50

Leasing activity is at 50% of the pre-pandemic baseline. Chicago ranked ninth, 26 points below the U.S. average of 76.

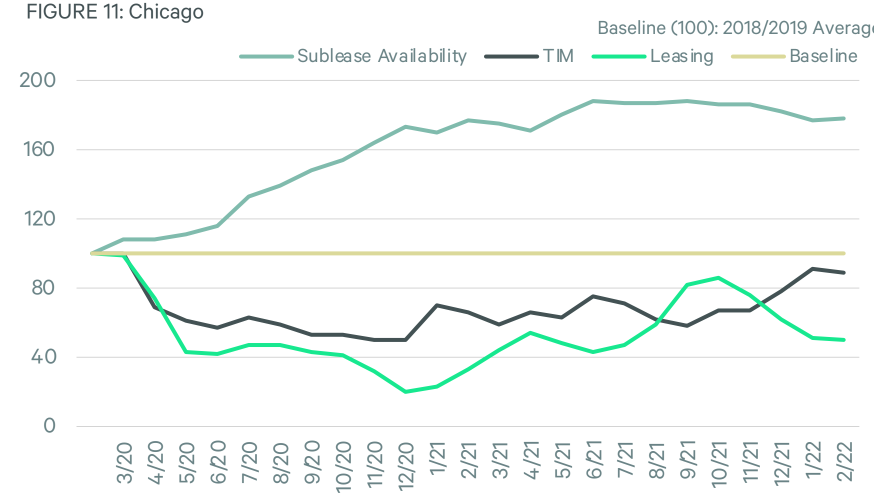
The index fell by 1 point in February and remains well below its pandemic-era peak of 86 in October 2021.

Sublease Availability Index: 178

The amount of available sublease space is 78% above the pre-pandemic baseline. Chicago ranks sixth-lowest, 18 points below the U.S. average of 196.

The index rose by 1 point in February but remains below the pandemic-era peak of 188 in June 2021.

FIGURE 11: Chicago



Source: CBRE Research, February 2022.

Dallas/Fort Worth Market Insights

TENANT REQUIREMENTS JUMP IN FEBRUARY

TIM Index: 116

Space requirements of tenants in the market are 16% above the pre-pandemic baseline. Dallas/Fort Worth ranks third and is 27 points above the U.S. average of 89.

The index rose by 20 points in February.

Leasing Activity Index: 93

Leasing activity is 7% below the pre-pandemic baseline. Dallas/Fort Worth ranks fourth and is 17 points above the U.S. average of 76.

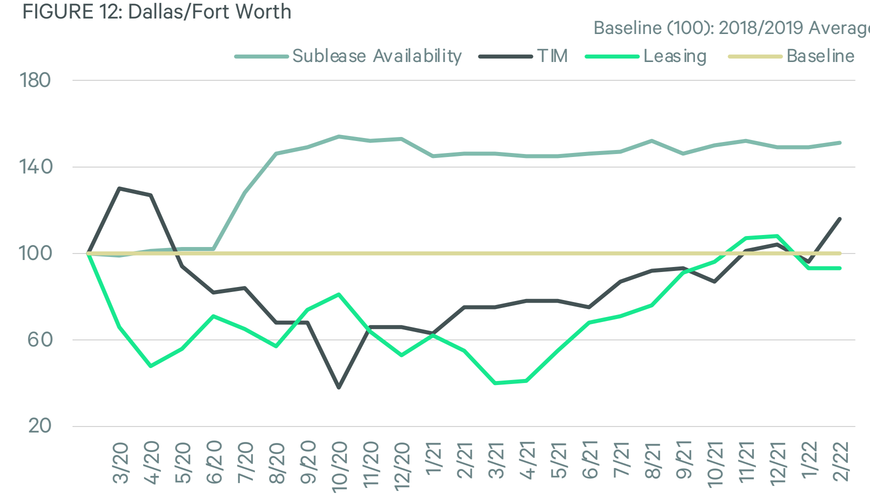
The index was unchanged from January.

Sublease Availability Index: 151

The amount of available sublease space is 51% above the pre-pandemic baseline level. Dallas/Fort Worth ranks fourth lowest and is 45 points below the U.S. average of 196.

The index rose by 2 points in February.

FIGURE 12: Dallas/Fort Worth



Source: CBRE Research, February 2022.

Denver Market Insights

MARKET CONDITIONS REMAIN RELATIVELY STRONG

TIM Index: 96

Space requirements of tenants in the market are 4% below the pre-pandemic baseline level. Denver ranks fifth and is 7 points above the U.S. average of 89.

The index decreased by 9 points in February.

Leasing Activity Index: 94

Leasing activity is 6% below the pre-pandemic baseline. Denver ranked third and is 18 points above the U.S. average of 76.

The index fell by 22 points in February.

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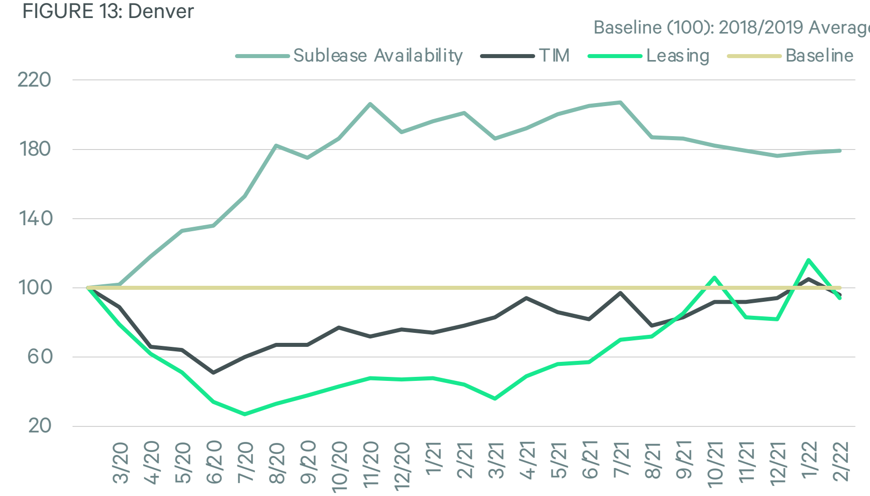
Sublease Availability Index: 179

Available sublease space is 79% above the pre-pandemic baseline. Denver ranks seventh lowest and is 17 points below the U.S. average of 196.

The index rose by 1 point in February, the second consecutive monthly increase after five consecutive monthly declines.

FIGURE 13: Denver



Source: CBRE Research, February 2022.

Houston Market Insights

TENANT REQUIREMENTS ON THE RISE

TIM Index: 126

Space requirements of tenants in the market are 26% above the pre-pandemic baseline. Houston ranked first and is 37 points above the U.S. average of 89.

The index rose by 5 points in February.

Leasing Activity Index: 40

Leasing activity is 40% of the pre-pandemic baseline. Houston ranked 11th and is 36 points below the U.S. average of 76.

The index fell by 16 points in February, the fourth consecutive monthly decline after a pandemic-era peak of 113 in October 2021.

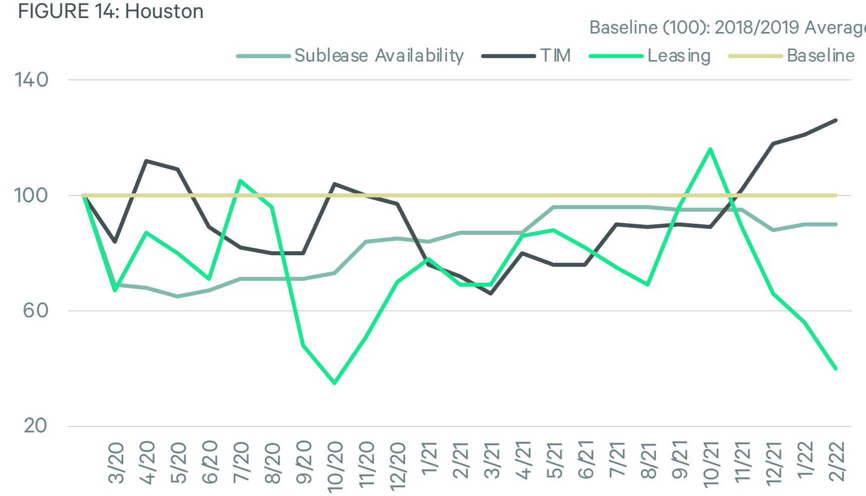
Sublease Availability Index: 90

Available sublease space is at 90% of its pre-pandemic baseline level. Houston ranks lowest and is 105 points below the U.S. average of 195.

While currently available sublease space is below the peak in 2016, Houston's sublease inventory remains historically high.

The index was unchanged in February.

FIGURE 14: Houston



Source: CBRE Research, February 2022.

Los Angeles Market Insights

LEASING REMAINS ELEVATED BUT SUBLEASE TROUBLES PERSIST

TIM Index: 67

Space requirements for tenants in the market are at 67% of the pre-pandemic baseline. Los Angeles ranked 10th and is 22 points below the U.S. average of 89.

The index fell by 2 points in February.

Leasing Activity Index: 112

Leasing activity is 12% above the pre-pandemic baseline. Los Angeles ranks second and is 36 points above the U.S. average of 76.

The index fell by 18 points in February.

A greater share of Los Angeles's leasing activity is comprised of new leases and expansions, a marked change from the short-term renewals that dominated earlier in the pandemic period. Several large deals remain in the region's leasing pipeline and demand in media-centric submarkets, such as West LA and Tri-Cities, remains strong.

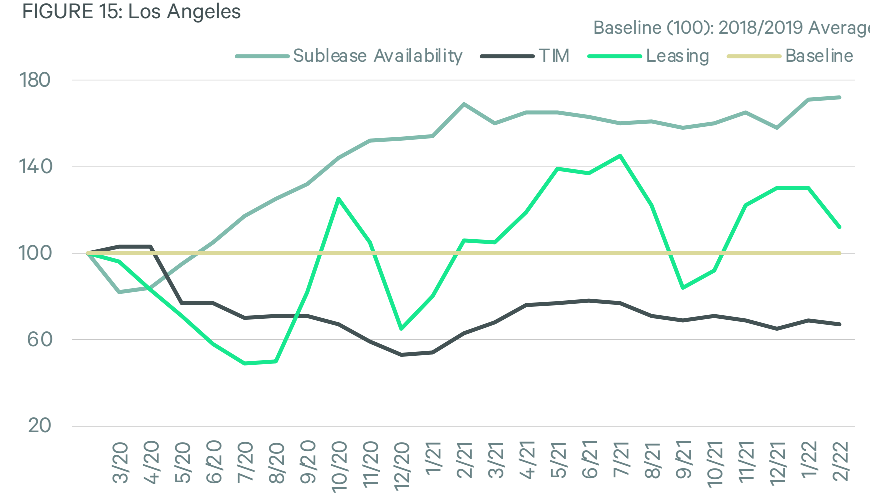
Leasing in Downtown Los Angeles remains subdued and several tenants in this submarket are planning space reductions.

Sublease Availability Index: 172

Available sublease space is 72% above its pre-pandemic baseline level. Los Angeles ranks fifth lowest and is 24 points below the U.S. average of 196.

The index rose by 1 point in February to a new pandemic-era high.

FIGURE 15: Los Angeles



Source: CBRE Research, February 2022.

Manhattan Market Insights

LEASING SLOWS BUT TENANT INTEREST CONTINUES TO CLIMB

TIM Index: 99

Space requirements for tenants in the market are at 99% of the pre-pandemic baseline. Manhattan ranked fourth and is 10 points above the U.S. average of 89.

The index rose by 9 points in February, reversing two consecutive monthly declines.

Leasing Activity Index: 57

Leasing activity is at 57% of the pre-pandemic baseline. Manhattan ranked eighth and is 19 points below the U.S. average of 76.

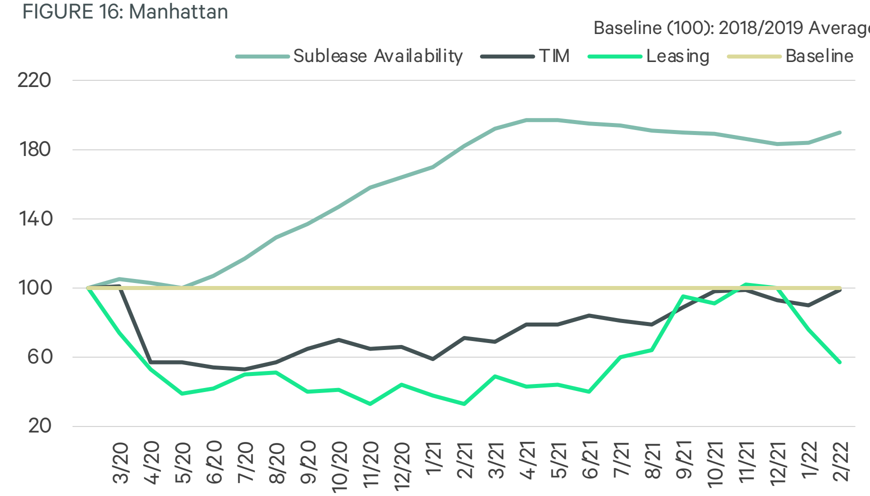
The index fell by 21 points in February.

Sublease Availability Index: 190

Available sublease space is 90% above its pre-pandemic baseline level. Manhattan ranks ninth lowest and is 6 points below the U.S. average of 196.

The index increased by 6 points in February, the second consecutive monthly increase after seven monthly declines.

FIGURE 16: Manhattan



Source: CBRE Research, February 2022.

Philadelphia Market Insights

MARKET RECOVERY STALLS

TIM Index: 52

Space requirements of tenants in the market are at 52% of the pre-pandemic baseline. Philadelphia ranked 12th and is 37 points below the U.S. average of 89.

The index fell by 10 points in February.

Leasing Activity Index: 68

Leasing activity is at 68% of the pre-pandemic baseline. Philadelphia ranked sixth and is 8 points below the U.S. average of 76.

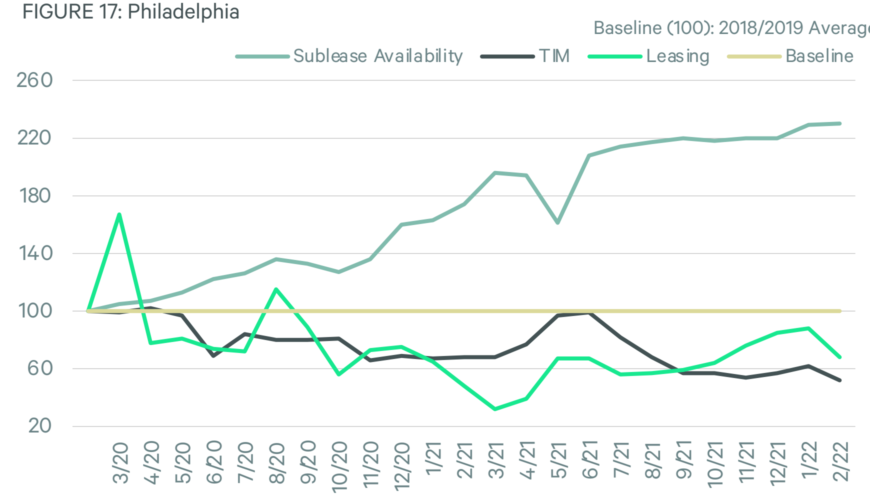
The index fell by 20 points in February.

Sublease Availability Index: 230

Available sublease space is 130% above the pre-pandemic baseline level. Philadelphia ranks 10th lowest and is 34 points above the U.S. average of 196.

The index increased by 1 point in February.

FIGURE 17: Philadelphia



Source: CBRE Research, February 2022.

San Francisco Market Insights

SUBLEASE INVENTORY TICKS DOWN; SUSTAINED RECOVERY YET TO BEGIN

TIM Index: 68

Space requirements of tenants in the market are at 68% of the pre-pandemic baseline. San Francisco ranked ninth and is 21 points below the U.S. average of 89.

The index fell by 2 points in February.

Leasing Activity Index: 40

Leasing activity is 40% of the pre-pandemic baseline. San Francisco ranked 11th and is 49 points below the U.S. average of 89.

The index was unchanged in February.

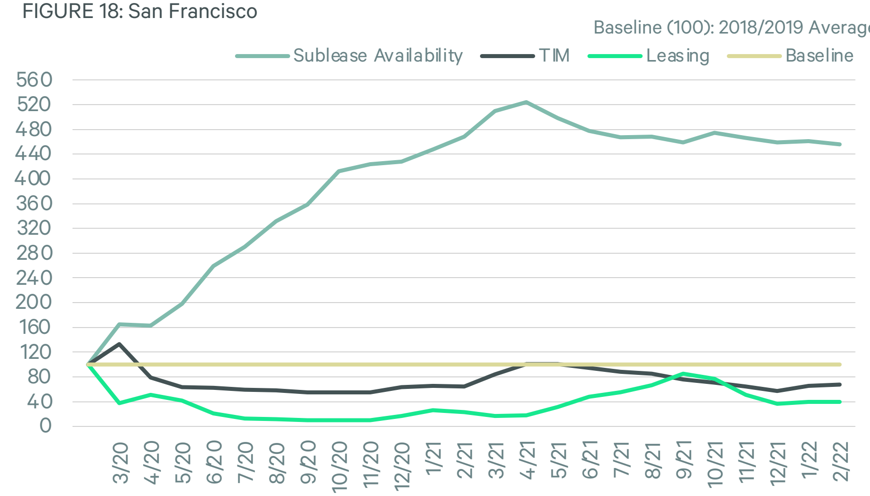
Sublease Availability Index: 456

Available sublease space is 356% above the pre-pandemic baseline level. San Francisco ranks last and is 260 points above the U.S. average of 196.

San Francisco's high index level reflects the low base of available sublease space that existed during the 2018-19 baseline period.

The index fell by 5 points in February, the fourth consecutive monthly decrease; however, several large blocks of sublease space are still expected to become available.

FIGURE 18: San Francisco



Source: CBRE Research, February 2022.

Note: San Francisco's market data includes downtown San Francisco.

Seattle Market Insights

LEASING DECLINES BUT MARKET IMPROVEMENT CONTINUES

TIM Index: 92

Space requirements of tenants in the market are 92% of the pre-pandemic baseline. Seattle ranked sixth and is 3 points above the U.S. average of 89.

The index rose 1 point in February.

Leasing Activity Index: 91

Leasing activity is 91% of the pre-pandemic baseline. Seattle ranked fifth and is 15 points above the U.S. average of 76.

The index fell by 50 points in February.

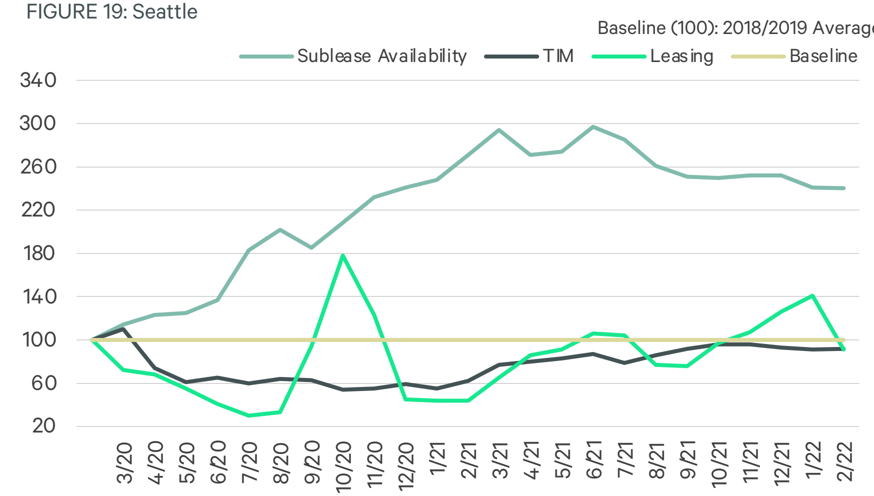
Sublease Availability Index: 240

Available sublease space is 140% above the pre-pandemic baseline level. Seattle ranks second highest and is 44 points above the U.S. average of 196.

The index decreased by 1 point in February and is down by 57 points from its peak of 297 in June 2021. The volume of sublease additions is slowing slightly, while existing subleases of all sizes are seeing activity.

Sublease space availability continues to decline as tech companies seek short-term sublease deals. Professional services and media companies have also been attracted to Class A sublease space with modern finishes. The bulk of Seattle's sublease space is concentrated in the downtown and Eastside submarkets.

FIGURE 19: Seattle



Source: CBRE Research, February 2022.

Washington, D.C. Market Insights

MARKET FACES HEADWINDS IN WAKE OF OMICRON SURGE

TIM Index: 67

Space requirements of tenants in the market are 67% of the pre-pandemic baseline. Washington, D.C. ranked 10th and is 22 points below the U.S. average of 89.

The index fell by 6 points in February.

Leasing Activity Index: 58

Leasing activity is at 58% of the pre-pandemic baseline. Washington, D.C. ranked seventh and is 18 points below the U.S. average of 76.

The index decreased by 10 points in February.

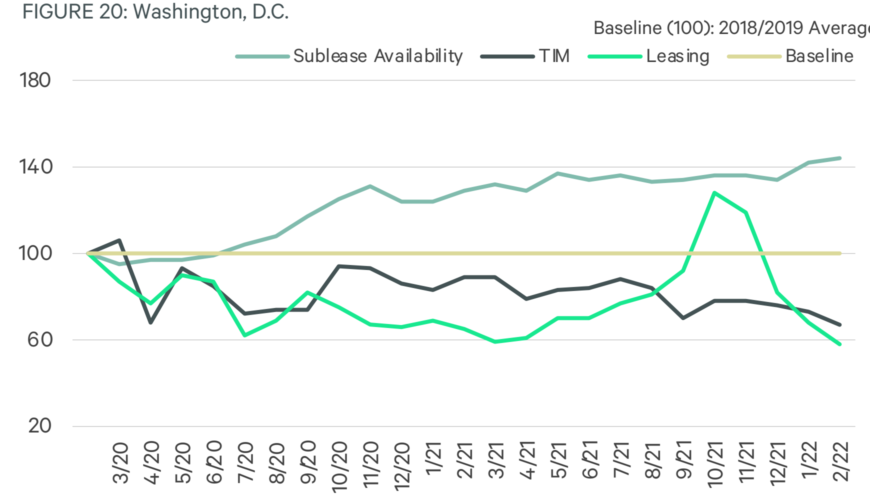
Sublease Availability Index: 144

Available sublease space is 44% above the pre-pandemic baseline level. Washington, D.C. ranks third lowest and is 52 points below the U.S. average of 196.

The index rose by 1 point in February. Washington, D.C. has a relatively small amount of sublease space compared with other Pulse markets; however, it is at a pandemic-era high.

Washington, D.C.'s sublease availability has been uneven across the region, with Downtown availability 14% below its peak, Northern Virginia still climbing and suburban Maryland relatively stable.

FIGURE 20: Washington, D.C.



Source: CBRE Research, February 2022.

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