CBRE

Omicron Impact on U.S. Office Demand Persists in January

The CBRE Pulse of U.S. Office Demand slowed in January, as occupiers paused on leasing activity in the face of the omicron surge. However, an uptick in tenant requirements suggests the slowdown in leasing is likely to be temporary. Occupiers continue to pursue longer-term plans to take on new office space. Despite the slowdown, markets that had been making strong progress toward recovery largely maintained their positions, while markets that have been struggling to gain momentum continued to do so.

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.

January Findings

The U.S. Tenants in the Market (TIM) Index increased to 89, up three points from December. Three markets—Houston (121), Boston (117) and Denver (105)—exceeded pre-pandemic levels, while another four—Dallas/Fort Worth (96), Seattle (91), Chicago (91) and Manhattan (90)—were 90% or more of their pre-pandemic levels. Overall, seven markets saw their TIM index levels increase or remain stable, indicating that a significant share of occupiers are staying the course on longer-term plans for pursuing new leases.

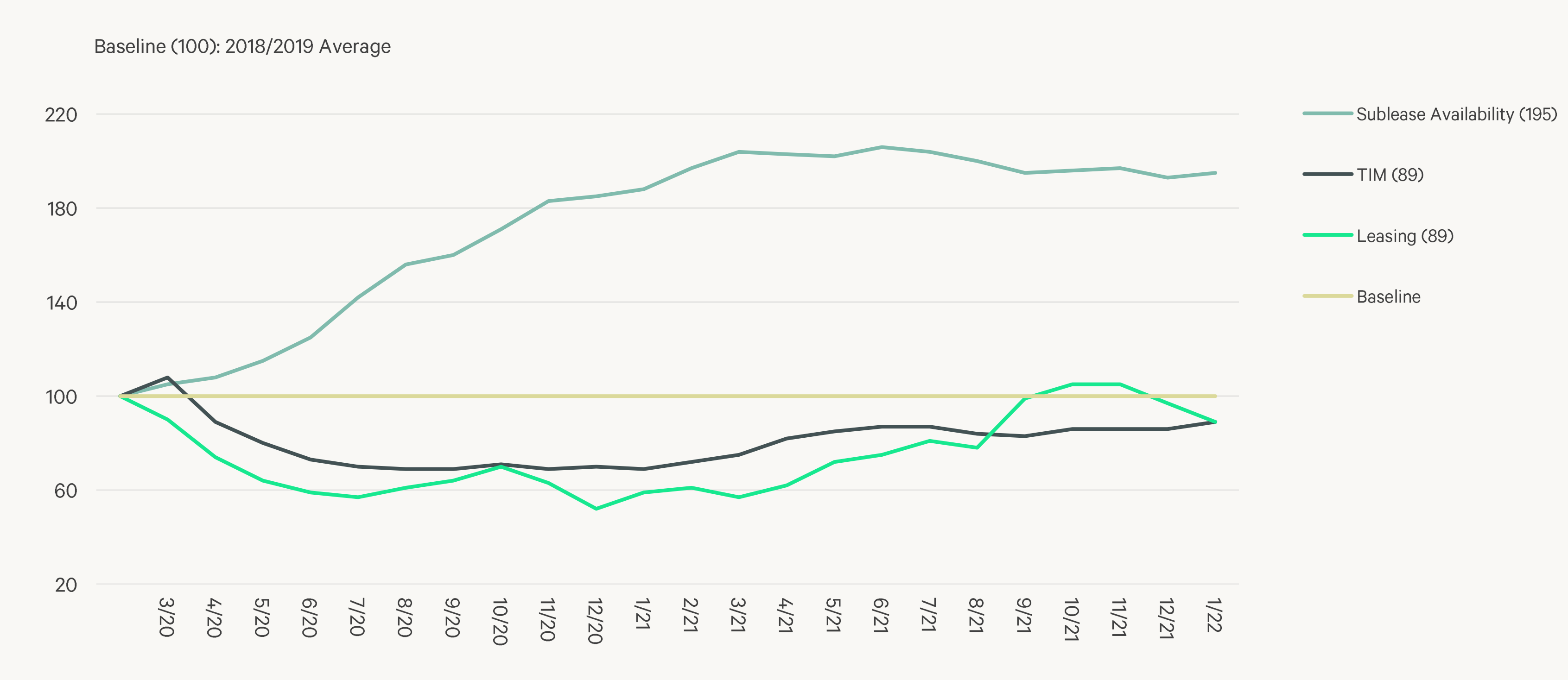
The U.S. Leasing Index declined to 89 in January, down 8 points from December, as many occupiers paused on signing new leases amid the omicron surge. The caution was broadly evident, as 10 of the 12 markets saw their Leasing Index levels fall, with the biggest declines in Boston (156, down 44 points), Manhattan (76, down 24 points), and Atlanta (90, down 21 points). Meanwhile, Denver (117) saw a strong surge in its Leasing Activity index, while Seattle saw modest improvement.

The U.S. Sublease Availability Index increased 2 points to 195 in January. The index has bounced around this same level for several months and is down a modest 11 points since peaking in June 2021, demonstrating the challenge that surplus sublease space poses to the U.S. office market recovery. Seven of the 12 markets saw their sublease inventory increase in January, while four saw decline and one market 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

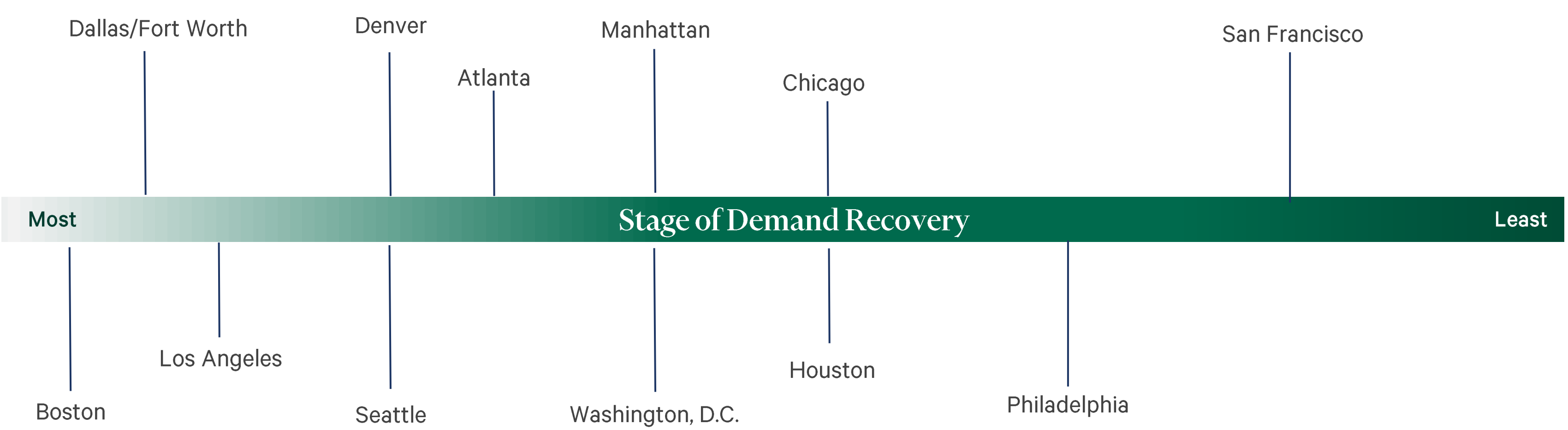


Source: CBRE Research, January 2022.

Office Demand Expected to Regain Momentum

The slowdown in office demand that was evident in December and January is likely to linger through February. However, with the omicron surge in COVID infections now declining rapidly, many occupiers are already looking ahead to re-starting their delayed plans for a large-scale return to the office. This positive development, along with the continued economic growth, should spur an uptick in office leasing by the second half of Q1 2022. The continued surplus of sublease space remains an enticement to occupiers looking to take advantage of favorable market conditions.

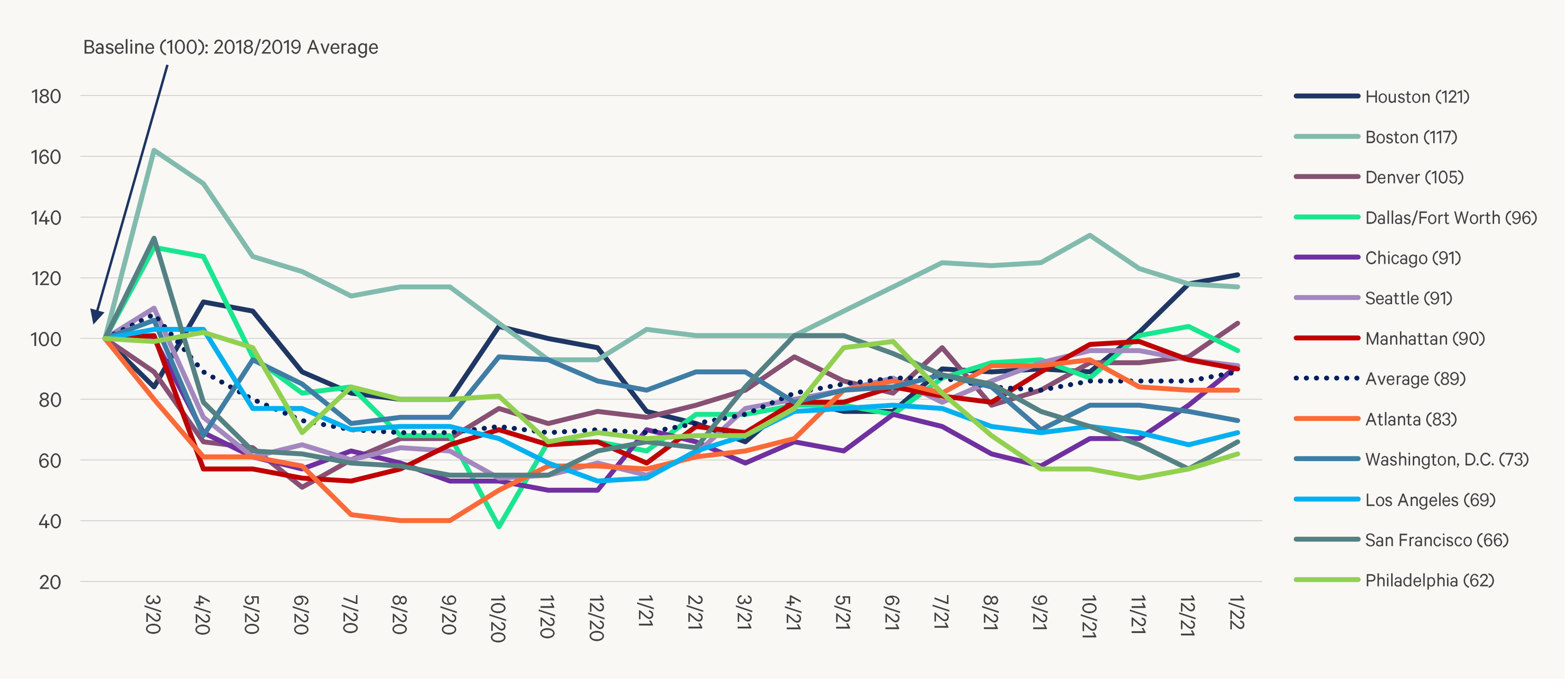
FIGURE 2: January Office Market Recovery Scale, Top U.S. Markets



Source: CBRE Research, January 2022.

Tenants in the Market Index

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



Source: CBRE Research, January 2022.

Tenants in the Market Index

The U.S. TIM Index improved in January to 89, up three points from December. The increase in tenant requirements is an early indicator that tenants may now be looking past omicron toward future leasing.

Three markets—Houston (121), Boston (117) and Denver (105)—had TIM levels that exceeded their pre-pandemic levels, while another three—Dallas/Fort Worth (96), Seattle (93), Chicago (91) and Manhattan (90)—were at 90% or more of their pre-pandemic levels. Chicago's index rose 13 points, the biggest improvement month-over-month, and continuing its trend of strong, steady improvement. Denver saw a significant 12-point jump in January.

Overall, six of the 12 markets saw their TIM levels increase in January, including San Francisco (66) and Philadelphia (62) where TIMs recovery has been slow. Progress toward recovery has also stalled somewhat in other markets, including Atlanta (83) and Washington, D.C. (73).

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

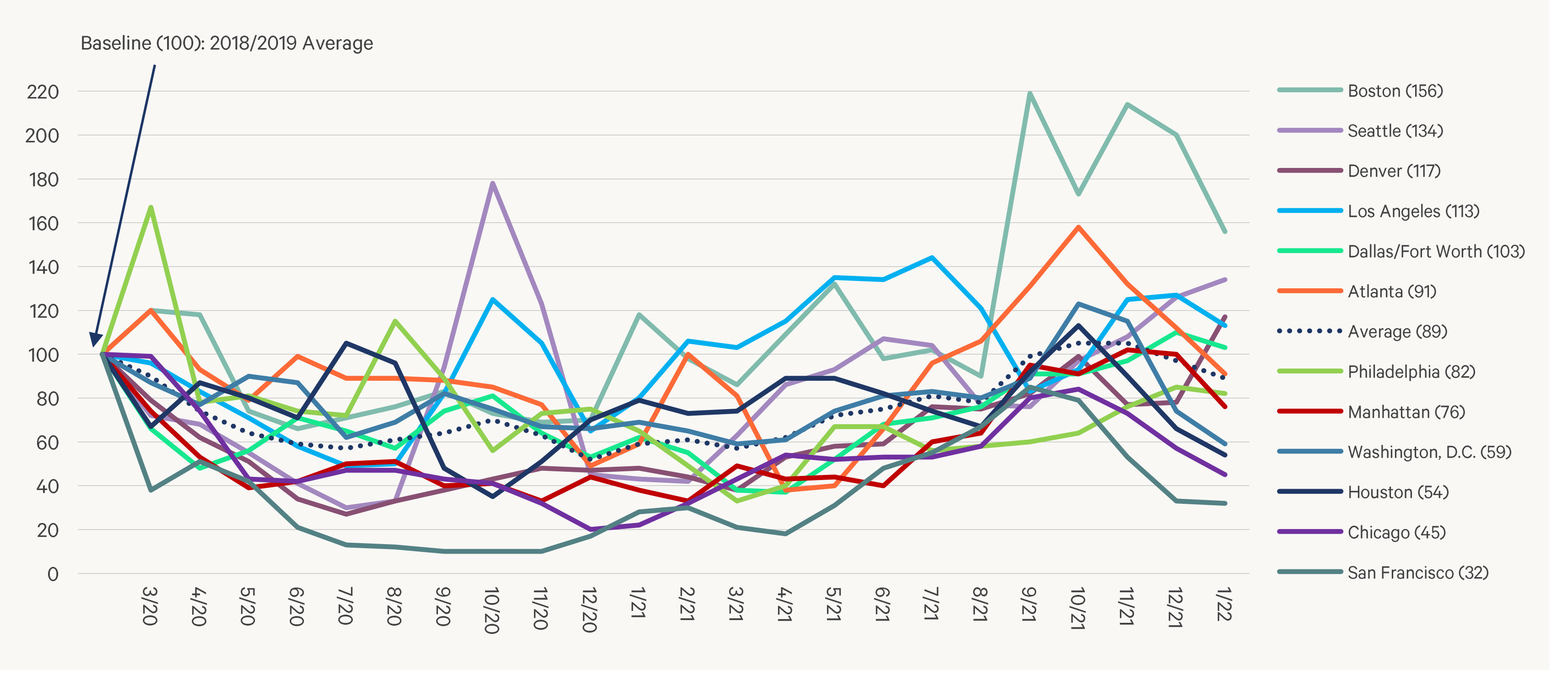
Rank	Market	Score	MoM Up/Down
1	Houston	121	Up
2	Boston	117	Down
3	Denver	105	Up
4	Dallas/Fort Worth	96	Down
5	Chicago	91	Up
5	Seattle	91	Down
7	Manhattan	90	Down
8	Atlanta	83	Flat
9	Washington, D.C.	73	Down
10	Los Angeles	69	Up
11	San Francisco	66	Up
12	Philadelphia	62	Up
	U.S. average	**89**	**Up**

Source: CBRE Research, January 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, January 2022.

Leasing Activity Index

Occupier concerns over the surging COVID-19 omicron variant persisted in January, contributing to an 8-point decline in the U.S. Leasing Activity Index[2] to a level of 89. The caution was widespread, as 10 of the 12 markets saw their leasing levels decline month-over-month.

Despite the broad slowdown, several markets maintained Leasing Index levels above their pre-pandemic baseline, including Boston (156), Los Angeles (113), and Dallas/Fort Worth (103). Seattle (134) and Denver (117) were the only markets to see their leasing index levels increase in January.

The January slowdown in leasing was most evident in Atlanta (91) and Manhattan (76), where Leasing Index levels fell 21 and 24 points, respectively. Both markets had seen leasing pick up significantly in the latter half of 2021, and expectations are for these markets to bounce back quickly as omicron further recedes.

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

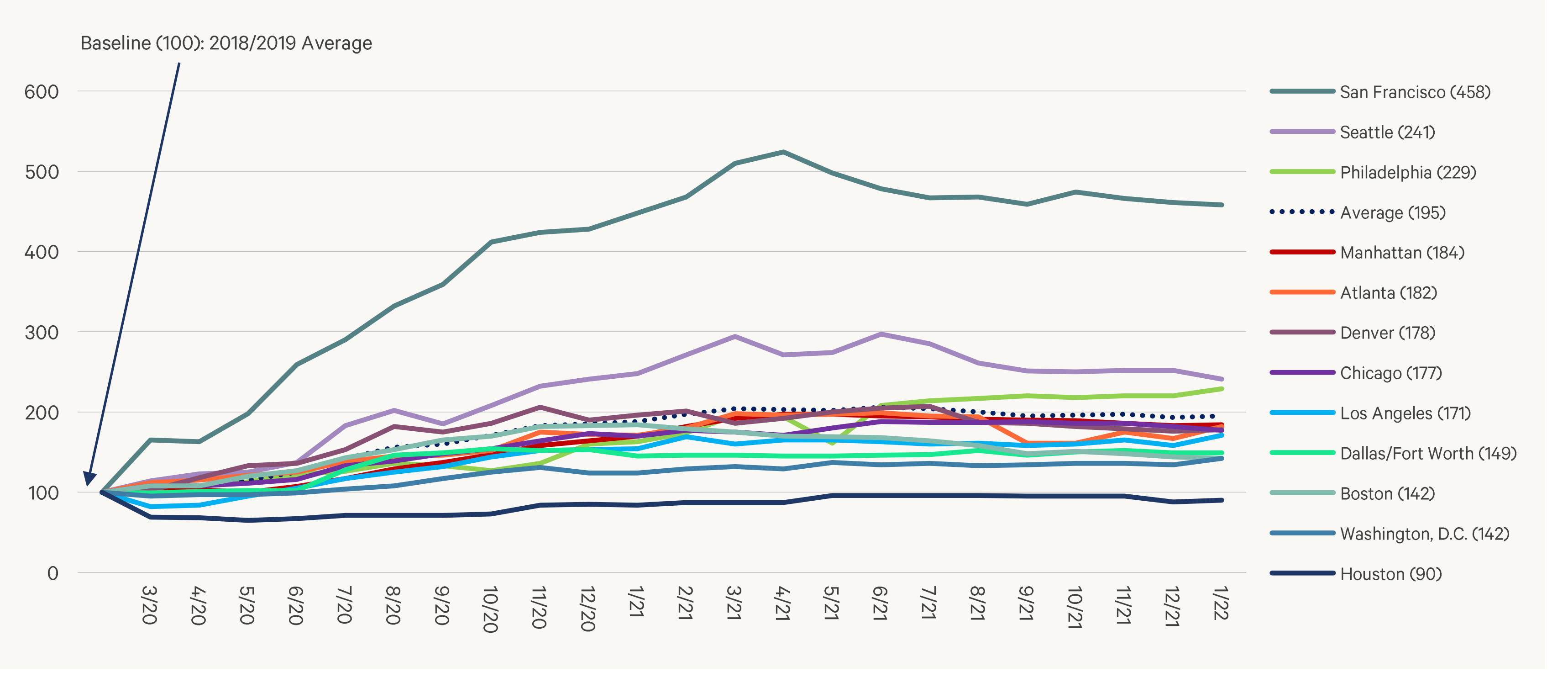
Rank	Market	Score	MoM Up/Down
1	Boston	156	Down
2	Seattle	134	Up
3	Denver	117	Up
4	Los Angeles	113	Down
5	Dallas/Fort Worth	103	Down
6	Atlanta	91	Down
7	Philadelphia	82	Down
8	Manhattan	76	Down
9	Washington, D.C.	59	Down
10	Houston	54	Down
11	Chicago	45	Down
12	San Francisco	32	Down
	U.S. average	**89**	**Down**

Source: CBRE Research, January 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, January 2022.

Sublease Availability Index

The U.S. Sublease Availability Index climbed 2 points in January to 195—a modest increase over the pandemic low point reached in December. The uptick was driven by a slowdown in the absorption of existing sublease space amid omicron, rather than by significant new sublease space coming on the market.

Seven markets saw their Sublease Index levels increase month-over-month. The biggest increase was in Atlanta (182), up 16 points, followed by Los Angeles (171), up 13 points and Philadelphia (229), up 9 points. Houston (90), Washington D.C. (142), Denver (178) and Manhattan (184) also saw modest increases in their sublease availability index levels.

Four markets bucked the national trend, with Sublease Index declines in January, including Boston (142), Chicago (177), Seattle (241) and San Francisco (458).

The glut of surplus sublease space remains the biggest challenge facing the U.S. Office market heading into 2022.

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

Rank	Market	Score	MoM Up/Down
1	Houston	90	Up
2	Washington, D.C.	142	Up
2	Boston	142	Down
4	Dallas/Fort Worth	149	Flat
5	Los Angeles	171	Up
6	Chicago	177	Down
7	Denver	178	Up
8	Atlanta	182	Up
8	Manhattan	184	Up
10	Philadelphia	229	Up
11	Seattle	241	Down
12	San Francisco	458	Down
	U.S. average	**195**	**Up**

Source: CBRE Research, January 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 Regain Momentum As Omicron Fades

The slowdown in office demand that was evident in December and January is likely to linger through February. However, with the omicron-driven surge in COVID infections declining rapidly, many occupiers are looking ahead to re-starting their delayed plans for a large-scale return to the office. This positive development, along with continued economic growth, will spur an uptick in office leasing by the second half of Q1 2022. The persistent surplus of sublease space remains an enticement to occupiers looking to take advantage of favorable market conditions.

Atlanta Market Insights

MARKET RECOVERY REMAINS ON PAUSE

TIM Index: 83

Space requirements of tenants in the market are at 83% of the pre-pandemic baseline. Atlanta ranks eighth and is six points below the U.S. average of 89.

Atlanta's TIM Index level was unchanged from December.

Leasing Activity Index: 91

Leasing activity is 91% of the baseline level. Atlanta ranked sixth in leasing recovery, two points above the U.S. average of 89.

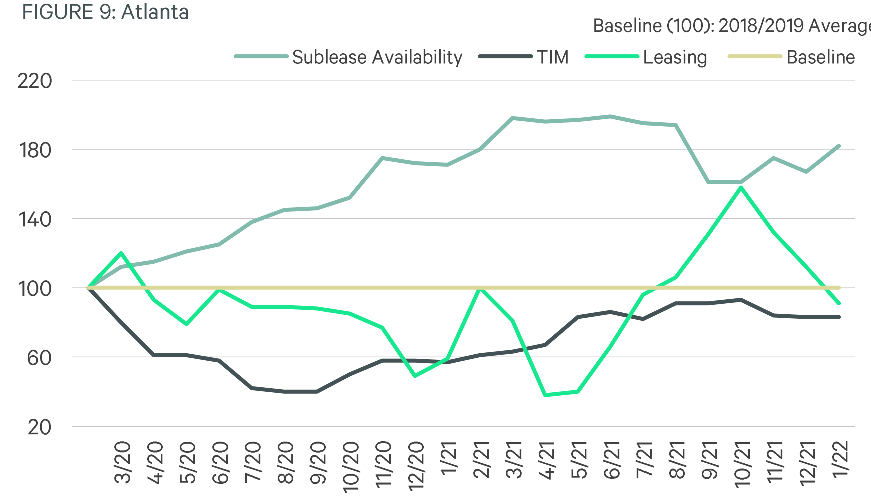
The index fell by 21 points in January following several strong months of leasing and as deal activity slowed through the holiday season. Leasing is expected to pick up again in Q1 2022.

Sublease Availability Index: 182

The amount of available sublease space is 82% above the baseline level. Atlanta ranks eighth lowest for available sublease space, 13 points above the U.S. average of 195.

The index rose by 15 points in January.

FIGURE 9: Atlanta



Source: CBRE Research, January 2022.

Boston Market Insights

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

TIM Index: 117

Space requirements of tenants in the market are 17% above the baseline level. Boston ranks second in the recovery of tenant requirements, 28 points above the U.S. average of 89.

The index decreased by one point in January 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: 156

Leasing activity in January was 56% above the baseline level. Boston ranked first, 67 points ahead of the U.S. average of 89. Boston's Leasing Index has consistently outperformed throughout the pandemic on the strength of a thriving life sciences market.

The index decreased by 44 points in January.

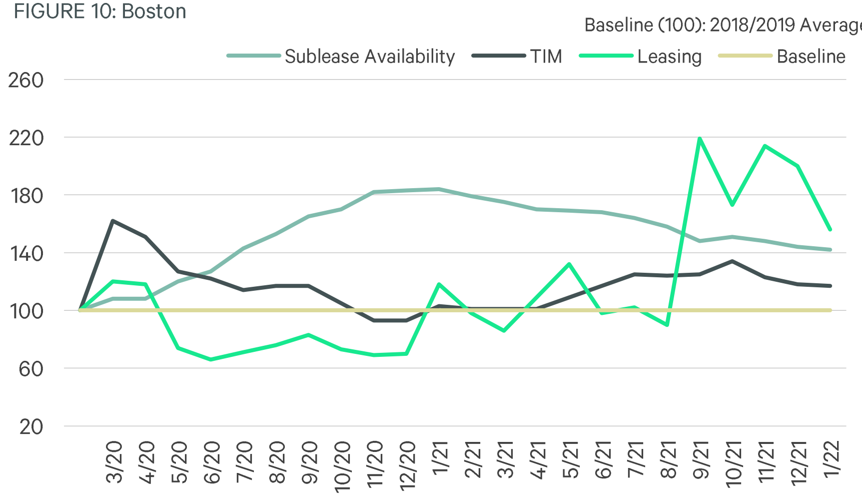
Sublease Availability Index: 142

The amount of available sublease space is 42% above the pre-pandemic baseline. Boston ranks second lowest for available sublease space, 53 points below the U.S. average of 195.

The index fell by two points in January, the third consecutive monthly decline.

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

FIGURE 10: Boston



Source: CBRE Research, January 2022.

Chicago Market Insights

UPTICK IN TENANT INTEREST CONTINUES

TIM Index: 91

Space requirements of tenants in the market are 91% above the baseline level. Chicago ranks fifth in the recovery of tenant requirements, two points above the U.S. average of 89.

The index increased by 13 points in January, up from an index score of 67 in November, partially powered by one million square feet of new requirements in December.

Leasing Activity Index: 45

Leasing activity is at 45% of the pre-pandemic baseline. Chicago ranked 11th, 44 points below the U.S. average of 89.

The index fell by 12 points in January, down from a pandemic-era peak of 84 in September 2021.

Many Chicago tenants have curbed their "wait-and-see" approach and are committing to new and upgraded spaces. More than 80% of the deals in Downtown Chicago in Q4 were new leases.

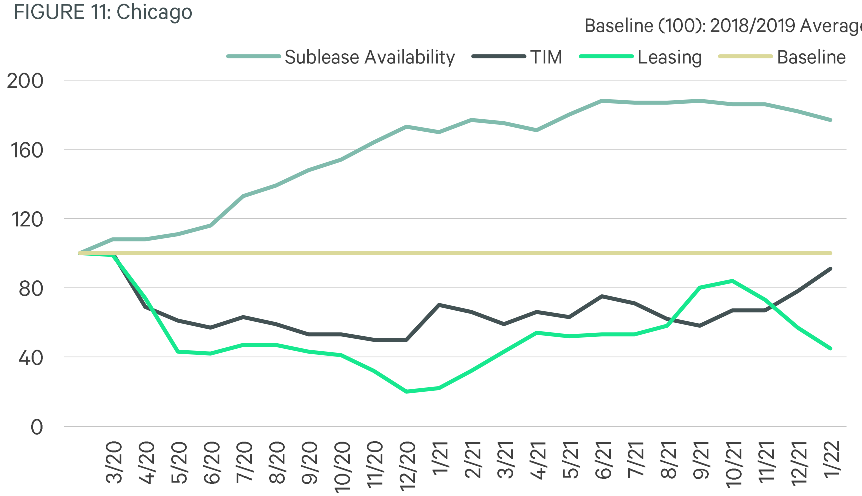
Despite the decline in Chicago's index in January, market activity is improving and the score is expected to rise through Q1.

Sublease Availability Index: 177

The amount of available sublease space is 77% above the pre-pandemic baseline. Chicago ranks sixth lowest, 18 points below the U.S. average of 195.

The index fell by 5 points in January, the largest decrease in sublease space since the index peaked at 188 in June 2021.

FIGURE 11: Chicago



Source: CBRE Research, January 2022.

Dallas/Fort Worth Market Insights

MODEST SETBACK FOR A REBOUNDING MARKET

TIM Index: 96

Space requirements of tenants in the market are 96% of the pre-pandemic baseline. Dallas/Fort Worth ranks fourth and is seven points above the U.S. average of 89.

The index fell by 8 points in January.

Leasing Activity Index: 103

Leasing activity is 3% above the pre-pandemic baseline. Dallas/Fort Worth ranks fifth and is 14 points above the U.S. average of 89.

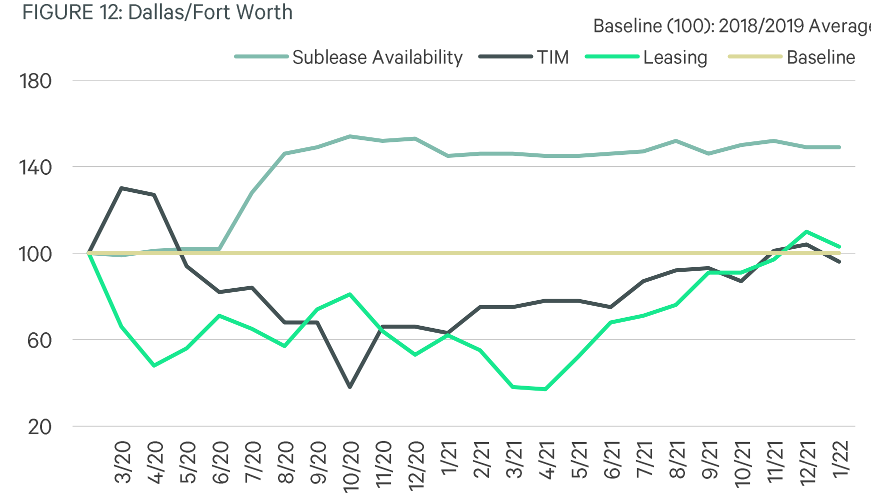
The index fell by 7 points in January.

Sublease Availability Index: 149

The amount of available sublease space is 49% above the pre-pandemic baseline level. Dallas/Fort Worth ranks fourth lowest and is 46 points below the U.S. average of 195.

The index was unchanged from December.

FIGURE 12: Dallas/Fort Worth



Source: CBRE Research, January 2022.

Denver Market Insights

SURGE IN LEASING AND ONGOING RECOVERY OF TENANT REQUIREMENTS SHOW IMPROVING DEMAND

TIM Index: 105

Space requirements of tenants in the market are 5% above the pre-pandemic baseline level. Denver ranks third and is 16 points above the U.S. average of 89.

The index increased by 11 points in January.

Leasing Activity Index: 117

Leasing activity is 17% above the pre-pandemic baseline. Denver ranked third and is 28 points above the U.S. average of 89.

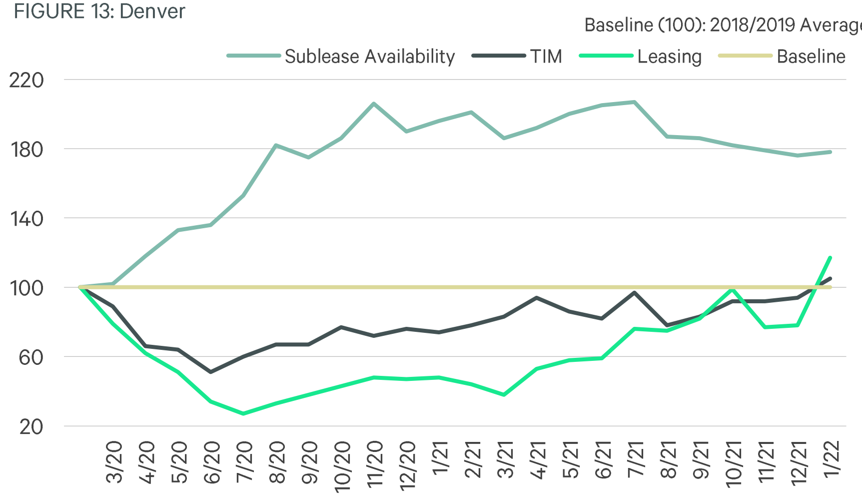
The index was up 39 points in January.

Sublease Availability Index: 178

Available sublease space is 78% above the pre-pandemic baseline. Denver ranks seventh lowest and is 17 points below the U.S. average of 195.

The index rose by two points in January, reversing five consecutive months of declines.

FIGURE 13: Denver



Source: CBRE Research, January 2022.

Houston Market Insights

GROWING TENANT REQUIREMENTS YET TO TRANSLATE TO IMPROVED LEASING

TIM Index: 121

Space requirements of tenants in the market are 21% above the pre-pandemic baseline. Houston ranked first and is 32 points above the U.S. average of 89.

The index rose by three points in January.

Leasing Activity Index: 54

Leasing activity is 54% of the pre-pandemic baseline. Houston ranked tenth and is 35 points above the U.S. average of 89.

The index decreased by 12 points in January, the third consecutive monthly decline after a pandemic-era peak of 113 in October 2021.

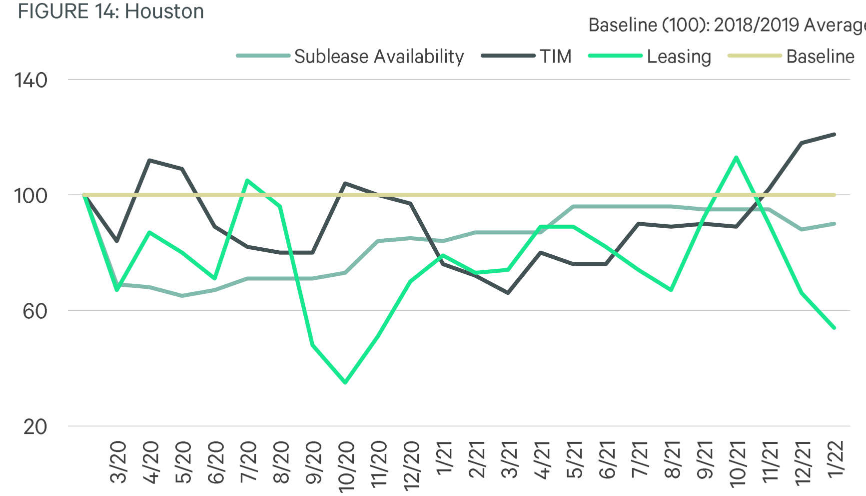
Sublease Availability Index: 90

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 at historically high levels.

The index rose by two points in January.

FIGURE 14: Houston



Source: CBRE Research, January 2022.

Los Angeles Market Insights

LEASING REMAINS STRONG DESPITE OMICRON SLOWDOWN

TIM Index: 69

Space requirements for tenants in the market are at 69% of the pre-pandemic baseline. Los Angeles ranked 10th and is 20 points below the U.S. average of 89.

The index rose by four points in January.

Leasing Activity Index: 113

Leasing activity is 13% above the pre-pandemic baseline. Los Angeles ranks fourth and is 24 points above the U.S. average of 89.

The index fell by 14 points in January.

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.

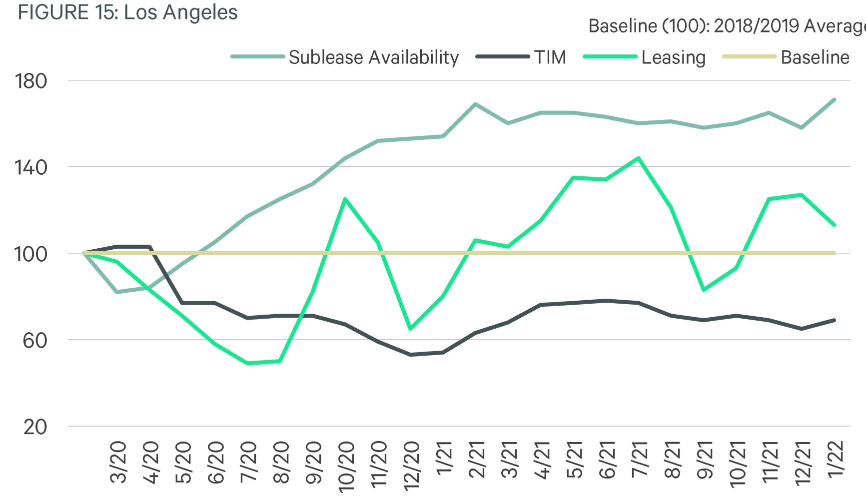
Leasing in Downtown Los Angeles remains subdued and several tenants in this submarket are targeting footprint reductions.

Sublease Availability Index: 171

Available sublease space is 71% above its pre-pandemic baseline level. Los Angeles ranks fifth lowest and is 24 points below the U.S. average of 195.

The index rose by 13 points in January to a new pandemic-era peak following two large sublease additions.

FIGURE 15: Los Angeles



Source: CBRE Research, January 2022.

Manhattan Market Insights

OMICRON SLOWS MARKET'S RECOVERY TREND

TIM Index: 90

Space requirements for tenants in the market are at 90% of the pre-pandemic baseline. Manhattan ranked seventh and is one point above the U.S. average of 89.

The index fell by three points in January, the second consecutive monthly decline.

Leasing Activity Index: 76

Leasing activity is at 76% of the pre-pandemic baseline. Manhattan ranked eighth and is 13 points below the U.S. average of 89.

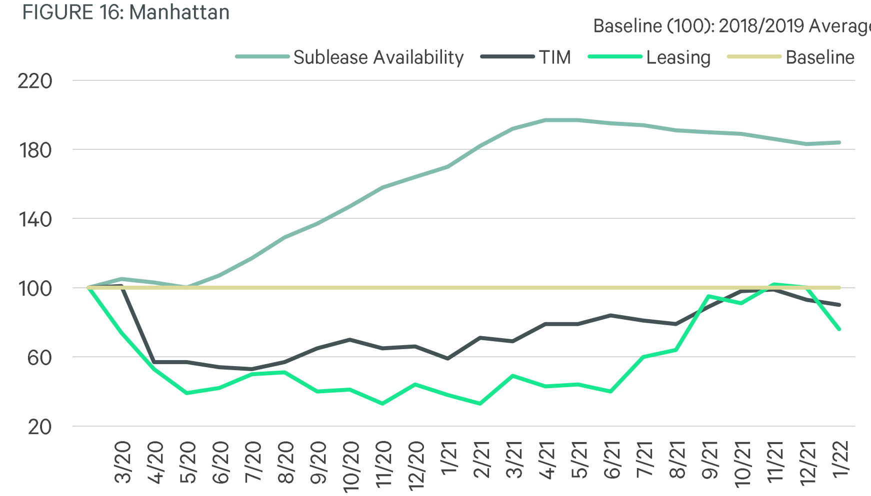
The index fell by 24 points in January.

Sublease Availability Index: 184

Available sublease space is 84% above its pre-pandemic baseline level. Manhattan ranks ninth lowest and is 11 points below the U.S. average of 195.

The index increased by one point in January, the first increase after seven consecutive monthly declines in sublease availability.

FIGURE 16: Manhattan



Source: CBRE Research, January 2022.

Philadelphia Market Insights

INCREASING TENANT REQUIREMENTS A POSITIVE SIGN AS OVERALL MARKET RECOVERY REMAINS ELUSIVE

TIM Index: 62

Space requirements of tenants in the market are at 62% of the pre-pandemic baseline. Philadelphia ranked 12th and is 27 points below the U.S. average of 89.

The index rose by five points in January but remains below the pandemic-era peak of 99 in June 2021.

Leasing Activity Index: 82

Leasing activity is at 82% of the pre-pandemic baseline. Philadelphia ranked seventh and is seven points below the U.S. average of 89.

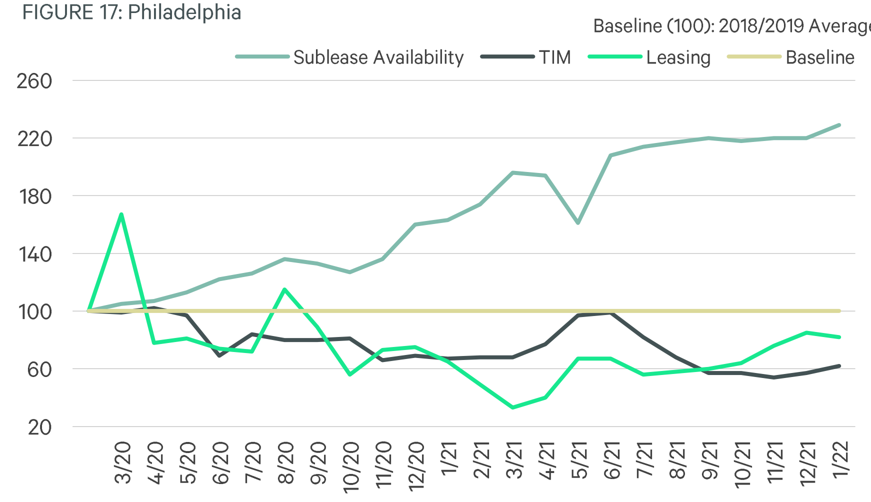
The index fell by three points in January after five consecutive months of improvement.

Sublease Availability Index: 229

Available sublease space is 129% above the pre-pandemic baseline level. Philadelphia ranks 10th lowest and is 34 points above the U.S. average of 195.

The index increased by nine points in January.

FIGURE 17: Philadelphia



Source: CBRE Research, January 2022.

San Francisco Market Insights

SUBLEASE INVENTORY TICKS DOWN; SUSTAINED RECOVERY YET TO BEGIN

TIM Index: 66

Space requirements of tenants in the market are at 66% of the pre-pandemic baseline. San Francisco ranked 11th and is 23 points below the U.S. average of 89.

The index rose by nine points in January.

Leasing Activity Index: 32

Leasing activity is 32% of the pre-pandemic baseline. San Francisco ranked 12th and is 57 points below the U.S. average of 89.

The index decreased by one point in January.

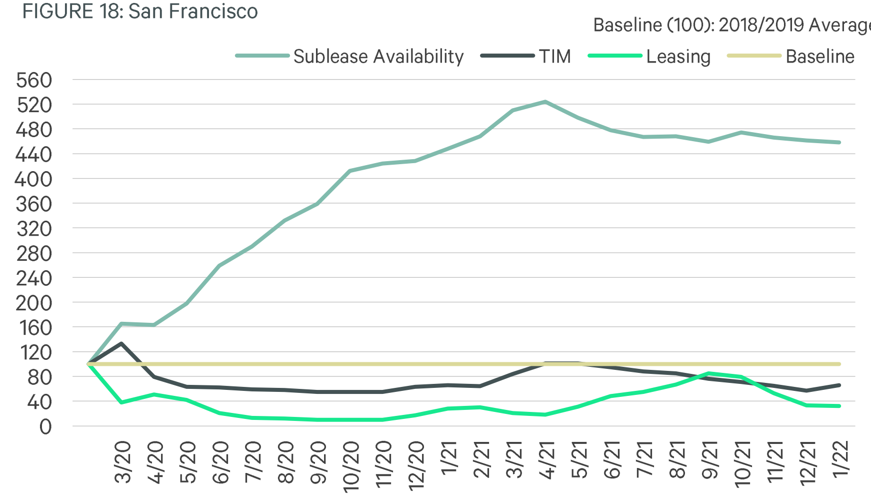
Sublease Availability Index: 458

Available sublease space is 358% above the pre-pandemic baseline level. San Francisco ranks last and is 263 points above the U.S. average of 195.

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 three points in January, the third consecutive monthly decrease; however, several large blocks of sublease space are still expected to become available.

FIGURE 18: San Francisco



Source: CBRE Research, January 2022.

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

Seattle Market Insights

MARKET BUCKS OMICRON WITH SECOND CONSECUTIVE MONTH OF STRONG LEASING

TIM Index: 91

Space requirements of tenants in the market are 91% of the pre-pandemic baseline. Seattle ranked fifth and is two points above the U.S. average of 89.

The index fell two points in January.

Leasing Activity Index: 134

Leasing activity is 34% above the pre-pandemic baseline. Seattle ranked second and is 45 points above the U.S. average of 89.

The index rose by eight points in January as tech companies remained active.

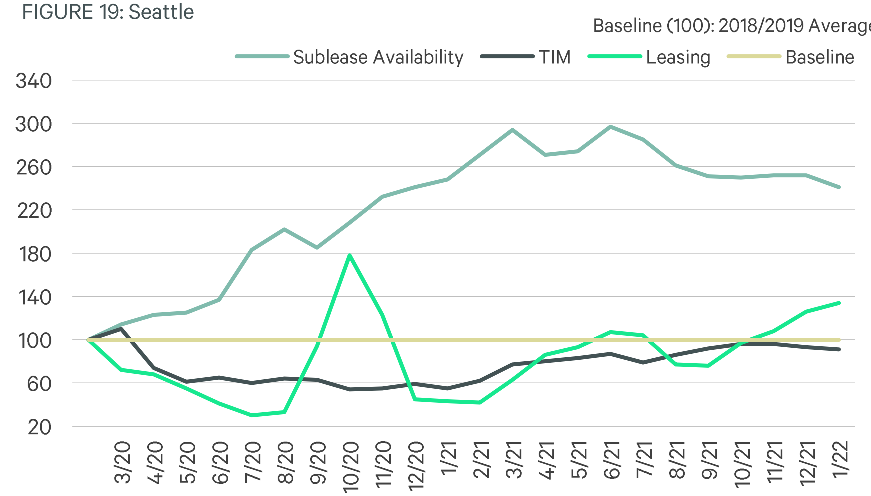
Sublease Availability Index: 241

Available sublease space is 141% above the pre-pandemic baseline level. Seattle ranks 11th lowest and is 46 points above the U.S. average of 195.

The index decreased by 11 points in January and is down considerably from the 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 firms seek out short-term sublease deals. Professional services and media firms 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, January 2022.

Washington, D.C. Market Insights

OMICRON TAKES TOLL ON MARKET'S RECOVERY

TIM Index: 73

Space requirements of tenants in the market are 73% of the pre-pandemic baseline. Washington, D.C. ranked ninth and is 16 points below the U.S. average of 89.

The index fell by three points in January.

Leasing Activity Index: 59

Leasing activity is at 59% of the pre-pandemic baseline. Washington, D.C. ranked ninth and is 30 points below the U.S. average of 89.

The index decreased by 15 points in January.

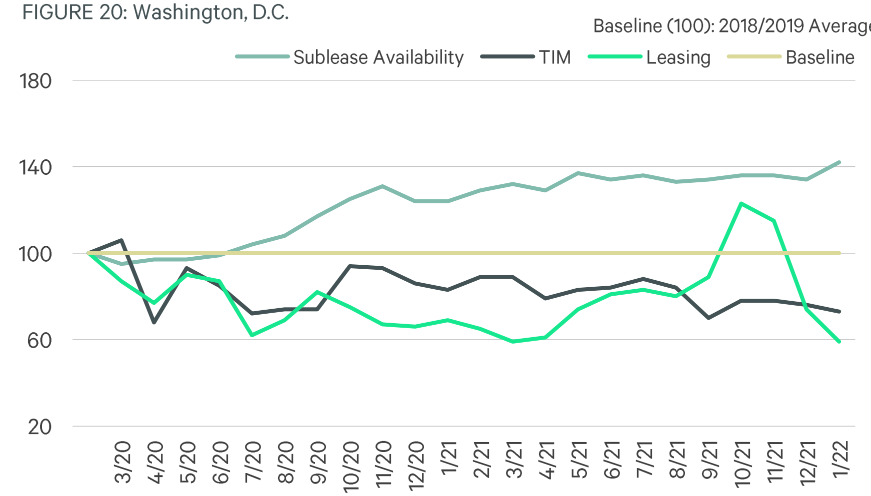
Sublease Availability Index: 142

Available sublease space is 42% above the pre-pandemic baseline level. Washington, D.C. ranks second lowest and is 53 points below the U.S. average of 195.

The index rose by eight points in January. Washington, D.C. has a relatively small amount of sublease space compared with other Pulse markets; however, there has been little progress in reducing it and 142 represents a new pandemic-era peak.

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, January 2022.

CBRE

Contacts

Nicole LaRusso
Senior Director,
Research & Analysis

1 212 984 7188
nicole.larusso@cbre.com

Ben Wurtzel
Senior Research Analyst,
Thought Leadership

1 212 984 8174
ben.wurtzel@cbre.com

Julie Whelan
Global Head of Occupier
Thought Leadership

1 617 912 5229
julie.whelan@cbre.com

Richard Barkham
Global Chief Economist, Head of Global
Research & Head of Americas

1 617 912 5215
richard.barkham@cbre.com