Pulse of U.S. Office Demand

As the U.S. economy improves and vaccination levels increase, there are signs that the U.S. office market is turning a corner, though the latest Covid surge is a headwind.

To gauge the pace of recovery, CBRE has developed 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 monthly indices illuminate the state of office market activity and provide early indications of when and where momentum in office market demand may be shifting.

Three metrics—space requirements of active tenants in the market (TIM), leasing activity and sublease availability – paint a picture of generally improving office demand in 2021. TIM, a leading indicator of occupier interest, and leasing activity have both shown gradual improvement in 2021.

The biggest challenge remains the sublease space overhang across the U.S., which will take several quarters to work down. Nevertheless, some markets are beginning to see sublease space decline, while new sublease additions are slowing in others.

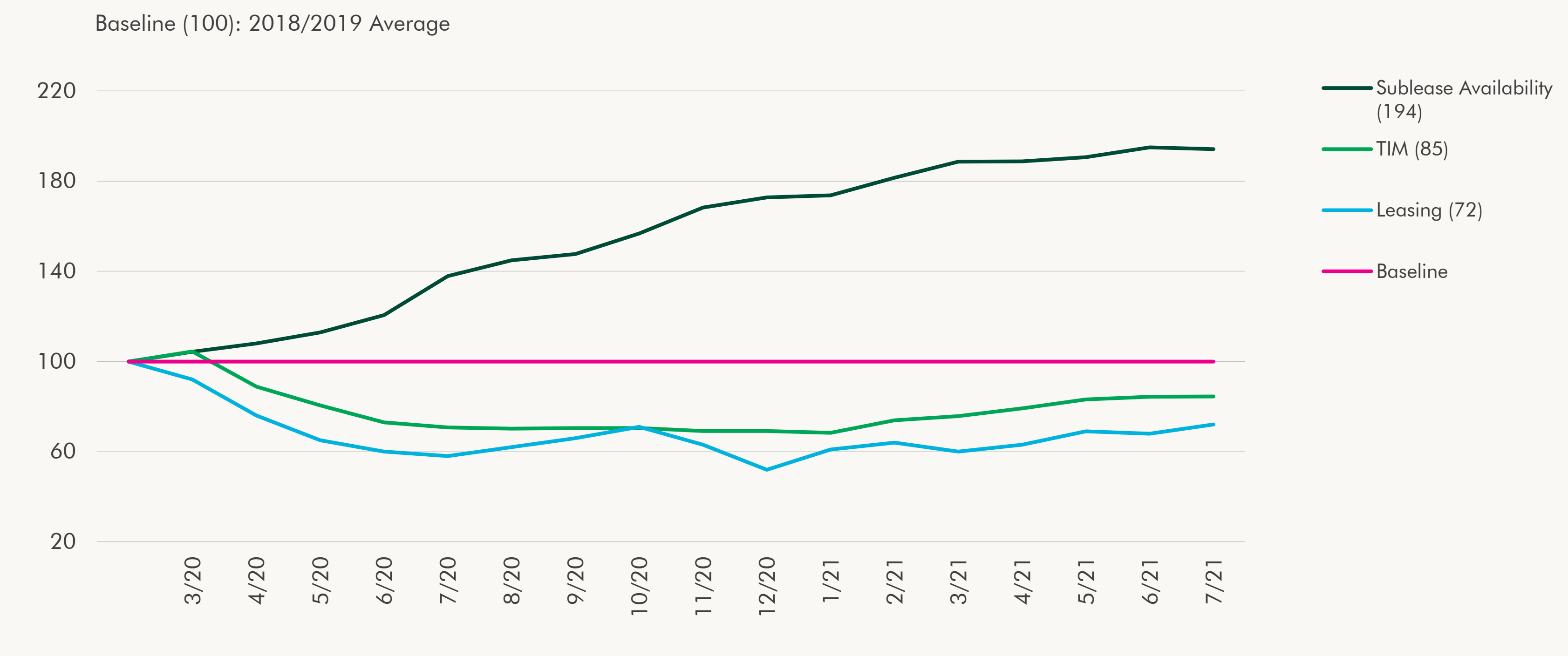
The recent flare-up in Covid cases, particularly in the Deep South and Florida, is a headwind. There could be an impact on August and/or September data as occupiers delay their return-to-the-office plans and defer long-term leasing decisions. However, early signs that the recent Covid resurgence may be peaking is a cause for optimism.

Note: All market data is for the metropolitan area with the exception of Manhattan and San Francisco which includes the city and the peninsula.

U.S. Average Performance Index

MODEST, GRADUAL PROGRESS IN OFFICE DEMAND SEEN ACROSS THE TOP U.S. MARKETS

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

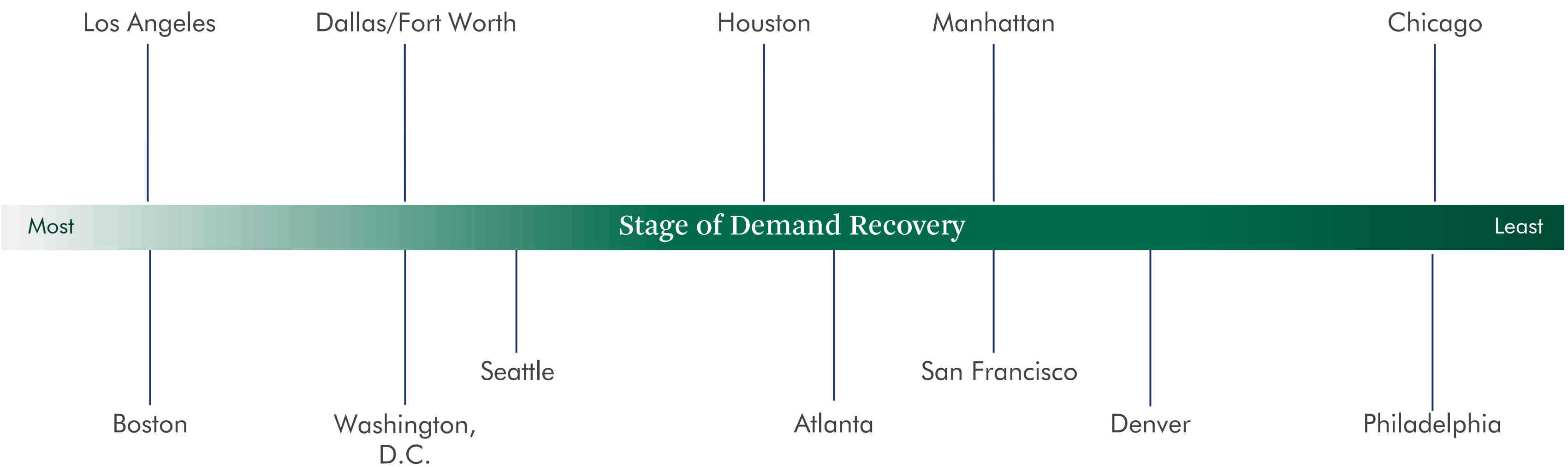


Source: CBRE Research, July 2021

July Demand Recovery by Market

Boston and Los Angeles stand out as the markets that have best withstood the downturn and are in relatively strong position as of July 2021. Though gains in leasing have been modest to date, Dallas/Fort Worth and Washington, D.C. are showing positive signs relative to other top markets, owing to their strong TIM levels and comparatively modest supply of available sublease space. Strong leasing of late has helped Seattle and Atlanta make gains relative to other markets. Even Manhattan, Denver and San Francisco, the markets that saw the most pronounced Covid-induced decline in tenant activity, have begun showing early signs of improvement.

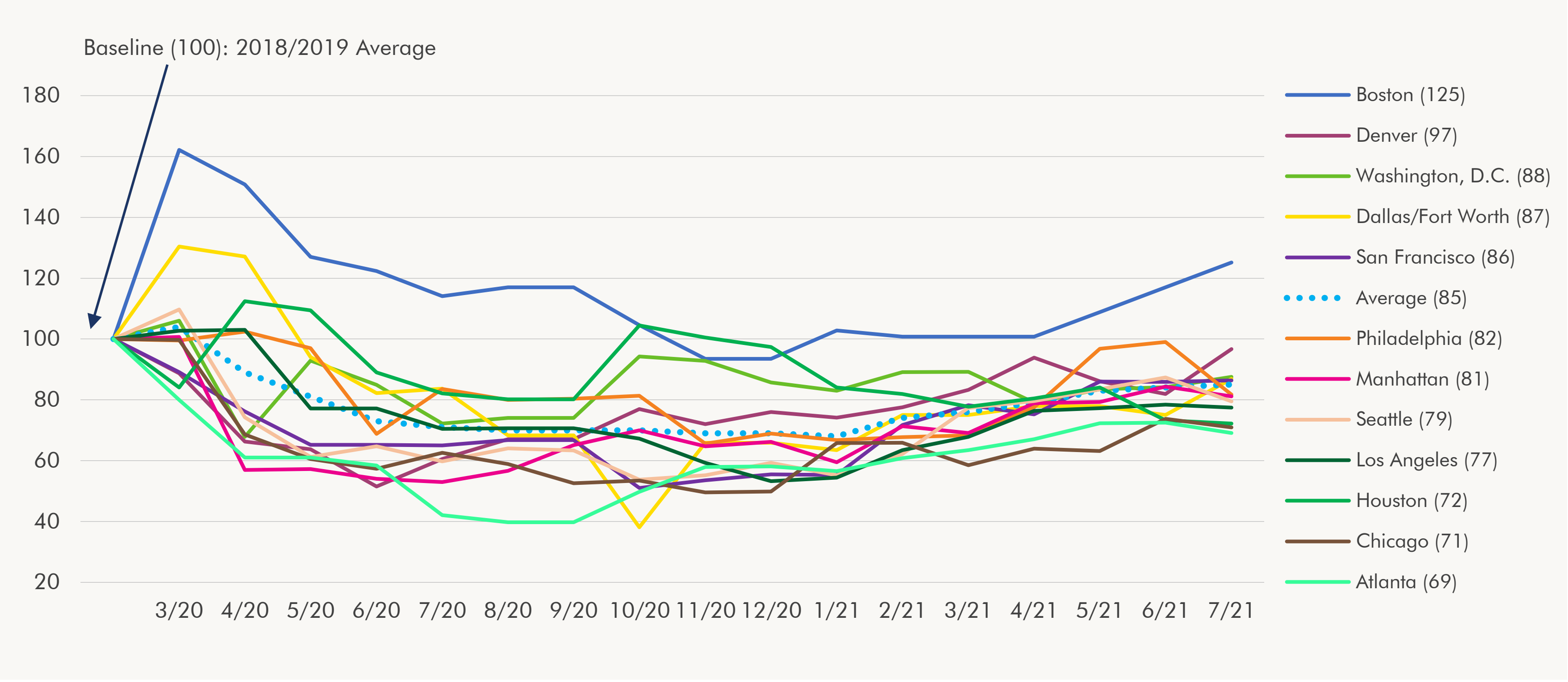
FIGURE 2: July Office Market Recovery Scale, Top U.S. Markets



Source: CBRE Research, July 2021

Tenants in the Market Index

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



Source: CBRE Research, July 2021

Tenants in the Market Index

Throughout 2020, the largest office markets saw tenants delay or cancel plans for new leases and expansions amid the pandemic, causing the volume of active TIM requirements to fall well below pre-pandemic levels. Since hitting a low point of 71 in January 2021, the U.S. TIM Index (baseline: 100) shows that the 12 largest office markets have turned a corner. The TIM index rose to 85 by July, the sixth straight monthly gain.

Top-performing Boston (125) has maintained strong TIM activity thanks to the large and growing life sciences sector that continued to expand throughout 2020 and 2021. Boston's TIM index has averaged a very strong 115 since March 2020 and has grown steadily in recent months.

In the first seven months of 2021, seven of the 12 markets showed considerable monthly improvement in TIM volume. New large tenant requirements arrived in both Denver (97) and Dallas/Fort Worth (87) in July, boosting their indices to their highest levels in over a year. San Francisco (86), Manhattan (81), Seattle (79), and Atlanta (69) have also made steady gains in 2021.

Additionally, Chicago (71) had a big jump of 11 points in June alone to reach 74, its highest index level of the pandemic era, before declining modestly in July.

Washington D.C. (88) has maintained a relatively high TIM index level for most of the pandemic period. D.C.'s index level ranged from 79 to 94 between October 2020 and March 2021. Additional indicators point to growing tenant interest, as space tours at Washington, D.C. properties have increased steadily throughout 2021.

Overall, most of these 12 markets should see improved leasing activity in the coming months, as the increasing volume of TIM transitions to signed leases.

FIGURE 4: July 2021 TIM Index–Top 12 U.S. Markets

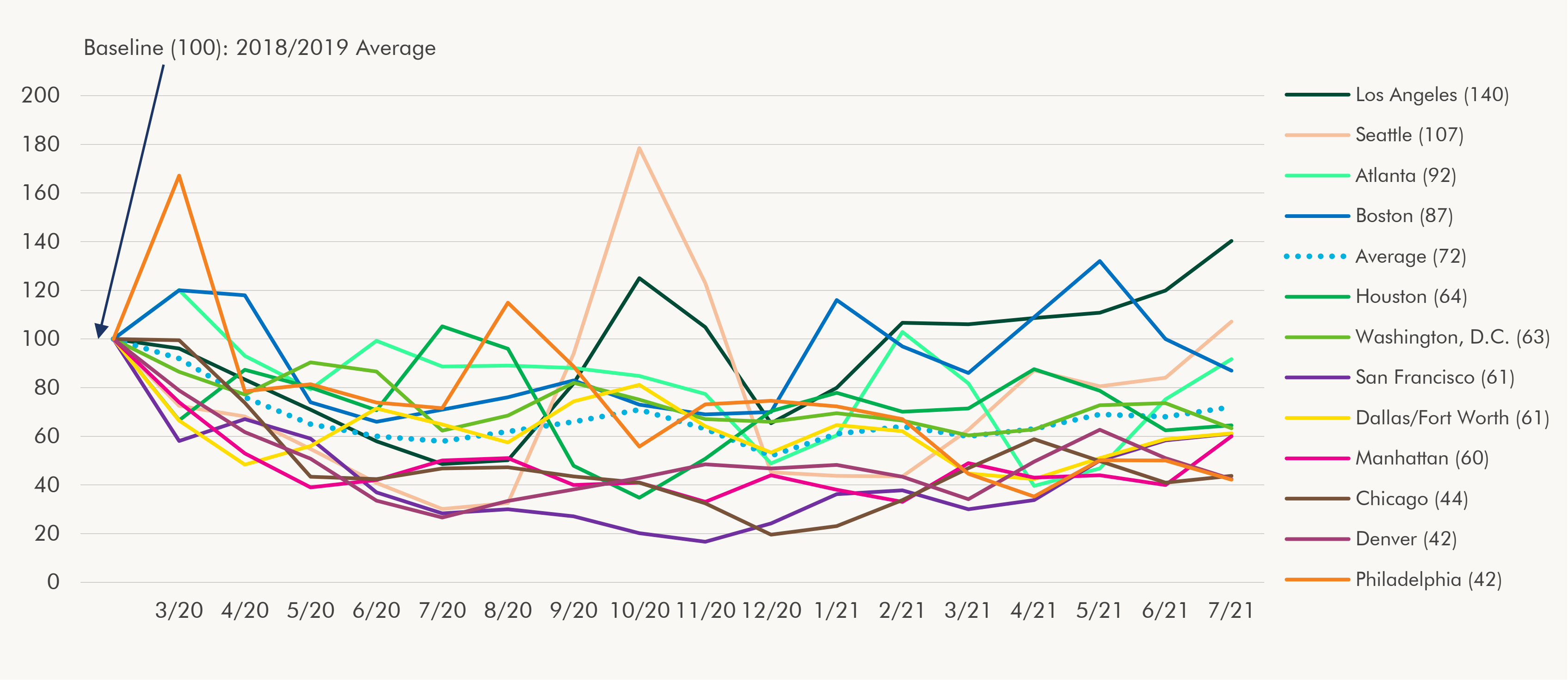
Rank	Market	Score	MoM Up/Down
1	Boston	125	Up
2	Denver	97	Up
3	Washington, D.C.	88	Up
4	Dallas/Forth Worth	87	Up
5	San Francisco	86	Flat
6	Philadelphia	82	Down
7	Manhattan	81	Down
8	Seattle	79	Down
9	Los Angeles	77	Down
10	Houston	72	Down
11	Chicago	71	Down
12	Atlanta	69	Down
	U.S. Average	**85**	**Up**

Source: CBRE Research, July 2021

TIM Index methodology note: CBRE tracks the total square footage of requirements from active tenants in the market, with minimum a requirement of 10,000 sq. ft. The TIM index is created by comparing 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, July 2021

Leasing Activity Index

Like TIM, monthly leasing activity has begun to rebound from its pandemic low. CBRE's Leasing Activity Index stood at 72 in July – up from its low of 52 in December 2020.

Los Angeles (140), Seattle (107), Atlanta (92), and Boston (87) all exceeded the U.S. average in July. Los Angeles and Boston have exhibited strength through 2021, with average leasing activity index levels of 110 and 104 respectively.

The other eight markets trail behind the top markets, though many of them have seen modestly improved Leasing Activity Indices. Houston (64), Washington, D.C. (63), San Francisco (61), Dallas/Fort Worth (61) and Manhattan (60) have all recovered more than halfway toward pre-pandemic leasing levels.

Chicago (44) has seen uneven progress, with declines in May and June, before a modest rebound in July. Despite the recent ups and downs, Chicago's Index is higher than the mid to low 20s it recorded in late 2020 and early 2021.

FIGURE 6: July 2021 Leasing Activity Index – Top12 U.S. Markets

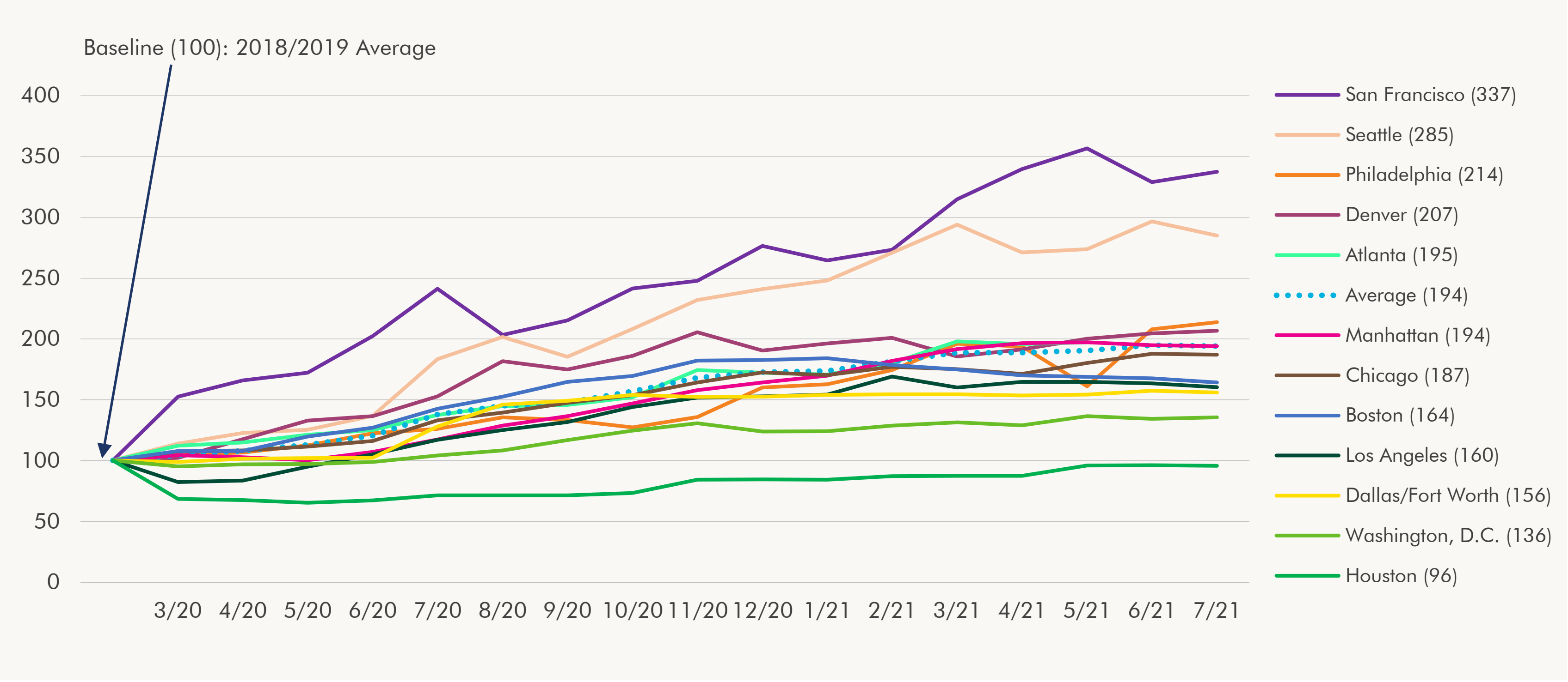
Rank	Market	Score	MoM Up/Down
1	Los Angeles	140	Up
2	Seattle	107	Up
3	Atlanta	92	Up
4	Boston	87	Down
5	Houston	64	Up
6	Washington, D.C.	63	Down
7	San Francisco	61	Up
7	Dallas/Fort Worth	61	Up
9	Manhattan	60	Up
10	Chicago	44	Up
11	Denver	42	Down
11	Philadelphia	42	Down
	U.S. Average	**72**	**Up**

Source: CBRE Research, July 2021

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. For most markets the weighting 20% for the current month, 50% for the previous month and 30% for two months prior. For New York and Boston, where 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 figure is compared with a pre-pandemic baseline, which is the average monthly leasing activity in 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, July 2021

Sublease Availability Index

The U.S. Sublease Availability Index was at 194 for July. Nearly all 12 markets still have relatively high amounts of sublease availability since many occupiers reduced their office footprints when they shifted to more remote working during the pandemic.

However, there are signs of improvement. After rising by an average monthly rate of nearly 6% for most of 2020, U.S. Sublease Availability Index growth slowed to an average of less than 2% per month in 2021. July 2021 marked the first month that the index level fell to 194 from the peak level of 195 in June since the pandemic began.

As of July, six of the 12 markets have an index reading lower than the U.S. average: Houston (96), Washington D.C. (136), Dallas/Ft. Worth (156), Los Angeles (160), Boston (164) and Chicago (187). Manhattan (194) was on par with the U.S. average, while Atlanta (195) was just a single point above.

Houston had the lowest Sublease Availability index in July; however this market has seen its sublease availability grow over the pandemic period, hitting its highest level in May 2021 and remaining constant for two months. While currently available sublease space is below its peak in 2016, Houston's sublease inventory remains historically high.

Meanwhile, Atlanta, Boston, Chicago, Dallas/Forth Worth, Los Angeles and Manhattan saw the pace of sublease growth moderate in the spring, and the index levels all fell in July.

Denver (207), Philadelphia (214), Seattle (285) and San Francisco (337) have sublease availability index levels above the U.S. average. Seattle saw decline in July, falling from 297 in June. San Francisco's index dropped 28 points in June, its first monthly decline in the pandemic period, before increasing again in July. In Denver and Philadelphia, total sublease availability has continued to rise in recent months.

FIGURE 8: July 2021 Sublease Availability Index – Top 12 U.S. Markets

Rank	Market	Score	MoM Up/Down
1	Houston	96	Flat
2	Washington, D.C.	136	Up
3	Dallas/Fort Worth	156	Down
4	Los Angeles	160	Down
5	Boston	164	Down
6	Chicago	187	Down
7	Manhattan	194	Down
8	Atlanta	195	Down
9	Denver	207	Up
10	Philadelphia	214	Up
11	Seattle	285	Down
12	San Francisco	337	Up
	U.S. Average	**194**	**Down**

Source: CBRE Research, July 2021

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 set to 100.

Office Markets Poised for Improvement, Though Delta Variant Is a Headwind

At the end of July 2021, the 12 largest U.S. office markets are recovering by varying degrees. This reflects the loosening of Covid restrictions and strengthening economic growth as more people are vaccinated. However, this progress could be hampered if the recent sharp rise in infections due to the delta variant persists.

We do not foresee widespread lockdowns reminiscent of the spring of 2020. Absent such, most of the largest U.S. office markets appear poised for improvement, based on growing tenant interest, increased leasing activity and an ebbing of sublease space additions.

Atlanta Market Insights

RECENT MOMENTUM IN LEASING ACTIVITY CAUSE FOR CAUTIOUS OPTIMISM

TIM Index: 69

Space requirements for tenants in the market are 69% of the pre-pandemic baseline. Atlanta ranks 12th and is 16 points below the U.S. average of 85.

Following five consecutive months of improvement, the modest 4 point decline in July reflects recent conversions of TIM to signed leases.

Leasing Activity Index: 92

Leasing activity is at 92% of the baseline level. Atlanta ranks third in leasing recovery, 20 points ahead of the U.S. average of 72.

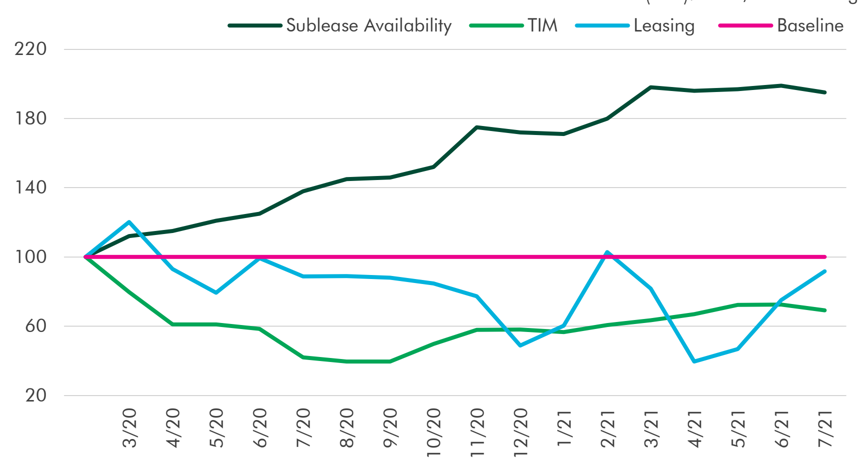
The July index is an increase of 17 points from June 2021 and the third largest gain among the top U.S. markets. The July index was at its highest level since February.

Sublease Availability Index: 195

The volume of available sublease space is 95% above the baseline level. Atlanta ranks eighth in terms of available sublease space, 1 point above the U.S. average of 194.

The July index is down 4 points from June 2021 but has hovered between 195-198 since March 2021.

FIGURE 9: Atlanta



Source: CBRE Research, July 2021

Boston Market Insights

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

TIM Index: 125

Space requirements for tenants in the market are 25% above the baseline level. Boston ranks first in the recovery of tenant requirements, 40 points above the U.S. average of 85.

The index increased by 8 points from June 2021 and has consistently performed at or above pre-pandemic levels throughout 2020 and 2021. Demand from life science tenants has been a strong driver of this measure.

Leasing Activity Index: 87

Leasing activity in July was 13 points below the pre-pandemic baseline level. Boston ranked fourth, 15 points ahead of the U.S. average of 72. The Boston leasing index has consistently outperformed throughout the pandemic and has averaged 104 throughout 2021.

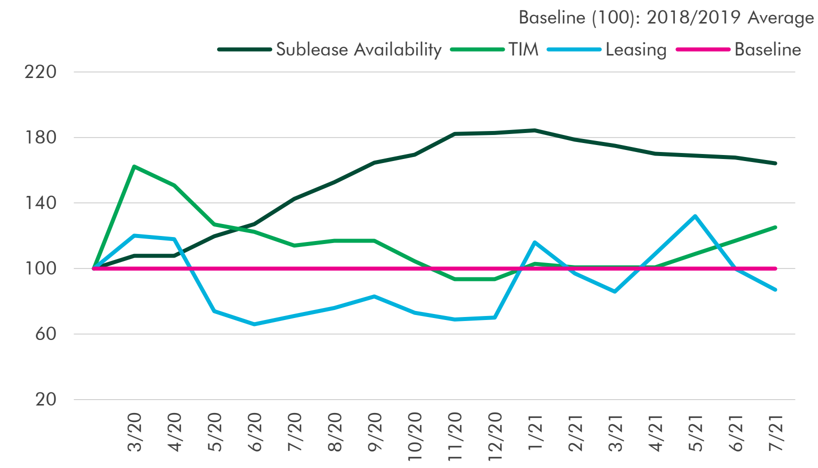
The July index decreased by 13 points from June 2021, the largest decline of any market. Despite this monthly decline, demand remains strong and leasing is expected to be robust through 2021.

Sublease Availability Index: 164

The volume of available sublease space is 64% greater than the pre-pandemic baseline. Boston ranks fifth in terms of available sublease space, 30 points below the U.S. average of 194.

The July index decreased 4 points from June 2021 and has been on a steady decline from its peak of 184 in January 2021.

FIGURE 10: Boston



Source: CBRE Research, July 2021

Chicago Market Insights

WAITING FOR POSITIVE MOMENTUM TO TAKE HOLD

TIM Index: 71

Space requirements for tenants in the market are 71% of the pre-pandemic baseline level. Chicago ranks 11th and is 14 points behind the U.S. average of 85.

The July index decreased by 3 points from June 2021, a modest pullback from the month prior when a significant financial services requirement grew the Chicago TIM index by 12 points to its highest level of the pandemic period.

Leasing Activity Index: 44

Leasing activity is 44% of the pre-pandemic baseline. Chicago ranked 10th, 28 points below the U.S. average of 72.

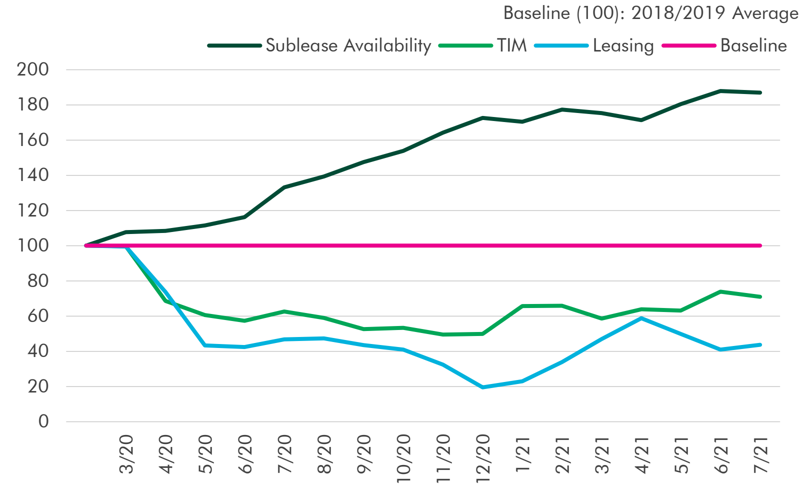
In a typical summer slowdown, the July index decreased from a pandemic-era peak of 59 in April 2021. Volume is expected to increase later this year as large law firm deals close and activity in Fulton Market continues at a feverish pace.

Sublease Availability Index: 187

The volume of available sublease space is 87% above the pre-pandemic baseline. Chicago ranks sixth, 7 points below the U.S. average of 194.

The July index decreased by 1 point from June 2021.

FIGURE 11: Chicago



Source: CBRE Research, July 2021

Dallas/Fort Worth Market Insights

IMPROVING CONDITIONS POINT TOWARD RECOVERY

TIM Index: 87

Space requirements for tenants in the market are 87% of the pre-pandemic baseline. Dallas/Fort Worth ranks fourth and is 2 points above the U.S. average of 85.

The July index increased by 12 points from June 2021, taking Dallas from ninth to fourth in the rankings.

Leasing Activity Index: 61

Leasing activity is 61% of the pre-pandemic baseline. Dallas/Fort Worth ranks seventh and is 11 points below the U.S. average of 72.

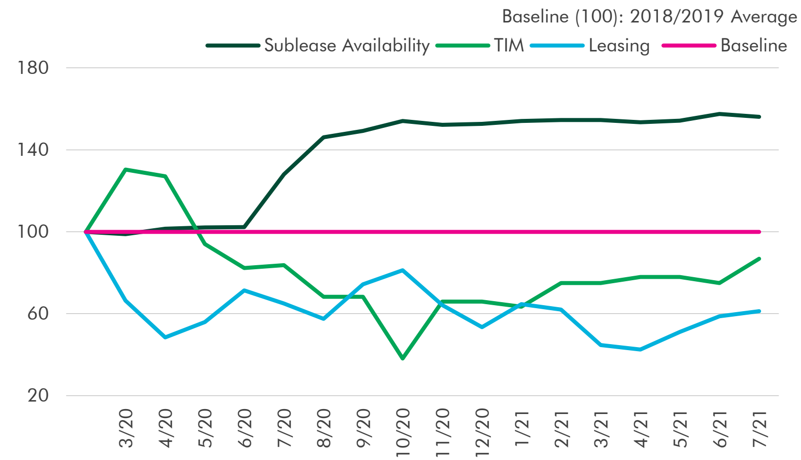
The July index increased by 2 points from June 2021.

Sublease Availability Index: 156

The volume of available sublease space is 56% above the pre-pandemic baseline level. Dallas/Fort Worth ranks third and is 38 points below the U.S. average of 194.

The July index decreased by 1 point from June 2021 and has been relatively stable for several months, ranging from 153 to 157 in 2021.

FIGURE 12: Dallas/Fort Worth



Source: CBRE Research, July 2021

Denver Market Insights

TENANT INTEREST NEARS PRE-PANDEMIC LEVEL

TIM Index: 97

Space requirements for tenants in the market are 97% of the pre-pandemic baseline level. Denver ranks second, 12 points ahead of the U.S. average of 85.

The July index increased by 15 points from June 2021, surpassing the record of 94 that Denver achieved in April 2021.

Leasing Activity Index: 42

Leasing activity is 42% of the pre-pandemic baseline. Denver ranked eleventh and is 30 points below the U.S. average of 72. The turmoil in the energy sector early in 2020 weakened the market prior to the pandemic, compounding the negative impact.

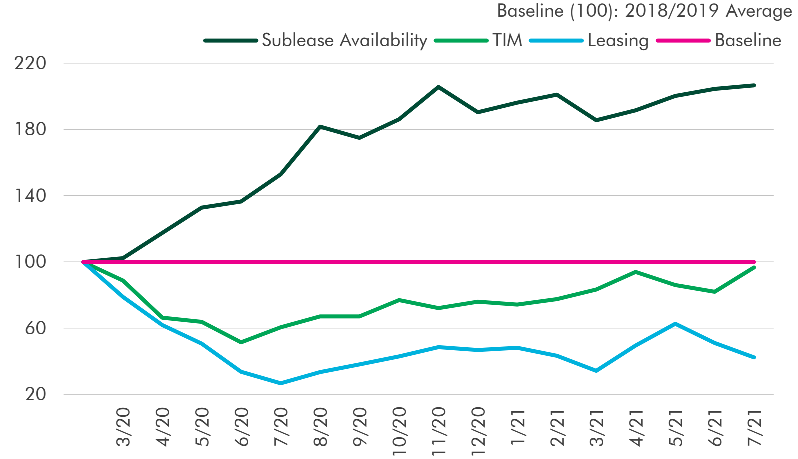
The July Index decreased by 9 points from June 2021, the second consecutive monthly decline. However, on a quarterly basis, leasing was up in Q2 2021 after a very strong showing in April and May.

Sublease Availability Index: 207

Available sublease space is 107% above the pre-pandemic baseline. Denver ranks ninth and is 13 points above the U.S. average of 194.

The July index increased by 2 points from June 2021 and is at the highest level of the pandemic period, despite sublease space being taken in some of the largest recent leases. Much of the sublease inventory is the result of ongoing consolidation in the energy industry, a major occupier in downtown Denver.

FIGURE 13: Denver



Source: CBRE Research, July 2021

Houston Market Insights

WAITING FOR POSITIVE MOMENTUM TO TAKE HOLD

TIM Index: 72

Space requirements for tenants in the market are 72% of the pre-pandemic baseline. Houston ranked 10th and was 13 points below the U.S. average of 85.

The July index decreased by 1 point from June 2021, the second consecutive month of decline. The July level marks the lowest point in 2021.

Leasing Activity Index: 64

Leasing activity is 64% of the pre-pandemic baseline. Houston ranked fifth and is 8 points below the U.S. average of 72.

The July index increased by 2 points from June 2021, however leasing volumes in Houston remain down from the first months of 2021.

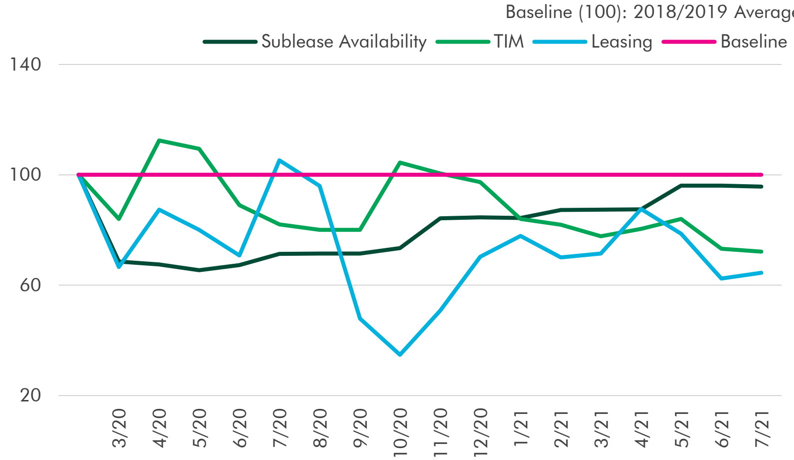
Sublease Availability Index: 96

Available sublease space is 4% below its pre-pandemic baseline level. Houston ranks first and is 98 points below the U.S. average of 194.

Although it had the lowest July index level, Houston saw consistent sublease availability growth from May 2020 to May 2021, with the level holding steady since. While currently available sublease space is below the peak in 2016, Houston's sublease inventory remains at historically high levels.

The July index was unchanged from May 2021 but has been gradually rising throughout the pandemic period.

FIGURE 14: Houston



Source: CBRE Research, July 2021

Los Angeles Market Insights

LEADIING IN PANDEMIC-ERA OFFICE MARKET PERFORMANCE

TIM Index: 77

Space requirements for tenants in the market are 77% of the pre-pandemic baseline. Los Angeles ranked ninth and was 8 points below the U.S. average of 85.

The July index decreased by 1 point from June 2021, the first monthly decrease for Los Angeles since December, a modest decline for a market that has experienced a steady recovery of requirements.

Leasing Activity Index: 140

Leasing activity is 40% above its pre-pandemic baseline. Los Angeles ranked first and is 68 points above the U.S. average of 72.

The July index increased 20 points from June 2021, bringing Los Angeles to its strongest month of leasing in the pandemic period.

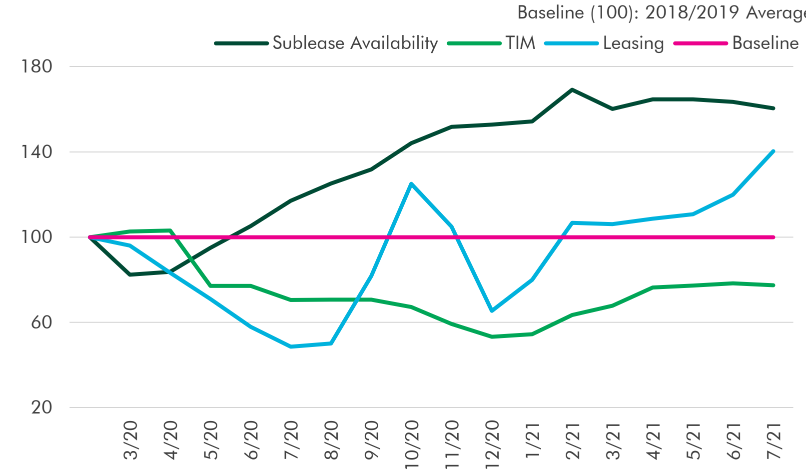
Creative and production-oriented submarkets including Burbank and Hollywood have been performing strongly, driven by larger occupiers seeking Class A space in creative office buildings. Submarkets dominated by professional services firms like Downtown LA and Century City, though, continue to face reduced interest in their stock of "commodity" office space.

Sublease Availability Index: 160

Available sublease space is 60% above its pre-pandemic baseline level. Los Angeles ranks fourth and is 34 points below the U.S. average of 194.

The July index declined by 3 points from June 2021 and appears to be stabilizing after rising steadily through Q1 2021 and peaking at 165 in April 2021.

FIGURE 15: Los Angeles



Source: CBRE Research, July 2021

Manhattan Market Insights

EARLY SIGNS OF IMPROVING TENANT DEMAND

TIM Index: 81

Space requirements for tenants in the market are 81% of the pre-pandemic baseline. Manhattan ranked eighth and was 4 points below the U.S. average of 85.

The July index decreased by 3 points from June 2021 but has been trending upward overall after bottoming out in Q3 2020.

Leasing Activity Index: 60

Leasing activity is 60% of the pre-pandemic baseline. Manhattan ranked ninth and is 12 points below the U.S. average of 72.

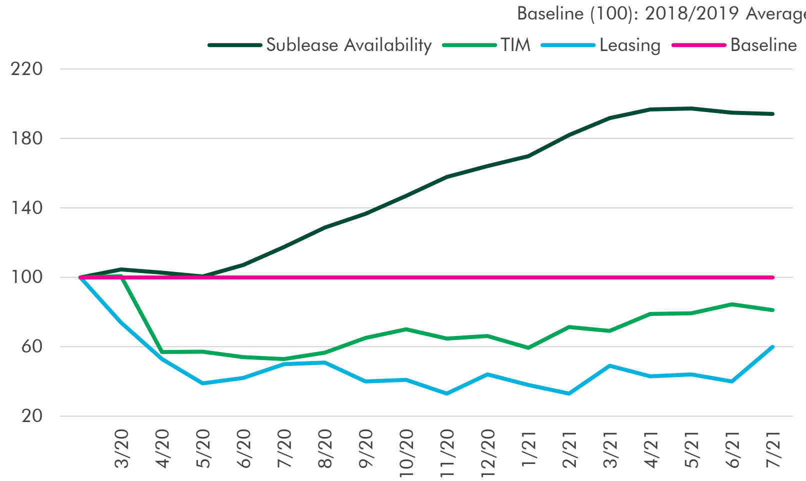
The July index increased 20 points from June 2021, and significant gain and cause for cautious optimism.

Sublease Availability Index: 194

Available sublease space is 94% above its pre-pandemic baseline level. Manhattan ranks seventh and is even with the U.S. average of 194.

The July index declined by 1 point from June 2021 and appears to be stabilizing after steadily rising since Q2 2020.

FIGURE 16: Manhattan



Source: CBRE Research, July 2021

Philadelphia Market Insights

TENANTS RETURNING TO THE MARKET WITH NEW REQUIREMENTS

TIM Index: 82

Space requirements for tenants in the market are 82% of the pre-pandemic baseline. Philadelphia ranked seventh and was 3 points below the U.S. average of 85.

The July index decreased by 17 points from June 2021 as some large deals moved toward closing. Prior to the July decline, Philadelphia had a strong run of resurgent tenant interest, largely driven by life sciences requirements that began in early Q2.

Leasing Activity Index: 42

Leasing activity is 42% of the pre-pandemic baseline. Philadelphia ranked eleventh and is 30 points below the U.S. average of 72.

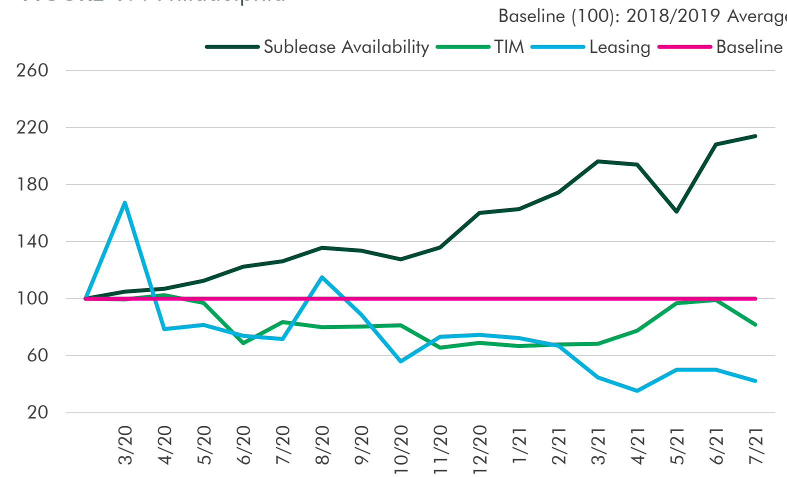
The July index decreased by 8 points from June 2021 as leasing continues to trend down in 2021, however several large deals have moved toward closing in recent weeks. The Leasing Activity Index looks poised to improve in August and September.

Sublease Availability Index: 214

Available sublease space is 114% above the pre-pandemic baseline level. Philadelphia ranks 10th and is 20 points above the U.S. average of 194.

The July index increased by 6 points from June 2021, continuing its rise after briefly dropping in May. While sublease space continues to increase, it has also attracted significant leasing activity, mostly within smaller, 'plug-and-play' spaces.

FIGURE 17: Philadelphia



Source: CBRE Research, July 2021

San Francisco Market Insights

MOMENTUM SLOWLY BUILDING AS LEASING PICKS UP

TIM Index: 86

Space requirements for tenants in the market are 86% of the pre-pandemic baseline. San Francisco ranked fifth and was 1 point above the U.S. average of 85.

The July index has remained unchanged from May and June 2021, as San Francisco continues to maintain a strong level of interest despite a relatively slow leasing market.

Leasing Activity Index: 61

Leasing activity is 61% of the pre-pandemic baseline. San Francisco ranked seventh and is 11 points below the U.S. average of 72.

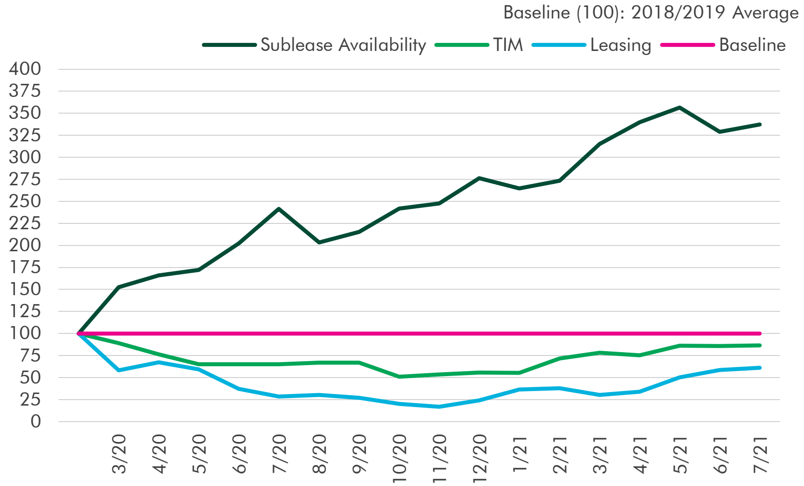
The July index increased by 3 points from June 2021, the fourth consecutive monthly increase as the city continues to build momentum.

Sublease Availability Index: 337

Available sublease space is 237% above the pre-pandemic baseline level. San Francisco ranks 12th and is 143 points above the U.S. average of 194.

The July index increased by 8 points, after a sharp decline in the prior month. San Francisco's high index also reflects the low base of available sublease space that existed during the 2018-19 baseline period.

FIGURE 18: San Francisco



Source: CBRE Research, July 2021

Seattle Market Insights

LEASING ACTIVITY ON THE RISE

TIM Index: 79

Space requirements for tenants in the market are 79% of the pre-pandemic baseline. Seattle ranked seventh and was 6 points below the U.S. average of 85.

The July index decreased by 8 points from June 2021, ending five consecutive months of improvement.

Leasing Activity Index: 107

Leasing activity is 107% of the pre-pandemic baseline. Seattle ranked second and is 31 points above the U.S. average of 72.

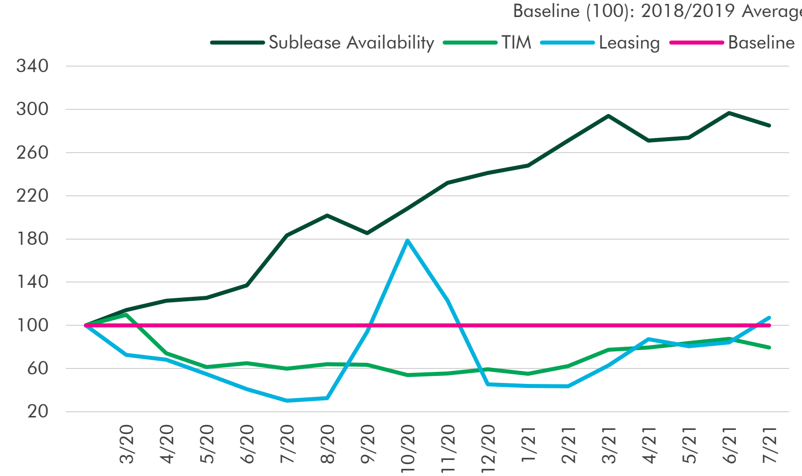
The July index increased by 23 points from June 2021, the second consecutive monthly increase. The Seattle leasing market rebounded beginning in Q2 2021 after a sluggish winter.

Sublease Availability Index: 285

Available sublease space is 185% above the pre-pandemic baseline level. Seattle ranks 11th and is 91 points above the U.S. average of 194.

The July index decreased by 12 points from the pandemic-era peak seen in June 2021.

FIGURE 19: Seattle



Source: CBRE Research, July 2021

Washington, D.C. Market Insights

CAUTIOUS OPTIMISM AS RECOVERY CONTINUES

TIM Index: 88

Space requirements for tenants in the market are 88% of the pre-pandemic baseline. Washington, D.C. ranked third and was 3 points above the U.S. average of 85.

The July index increased by 4 points from June 2021.

Leasing Activity Index: 63

Leasing activity is 63% of the pre-pandemic baseline. Washington, D.C. ranked sixth and is 9 points below the U.S. average of 72.

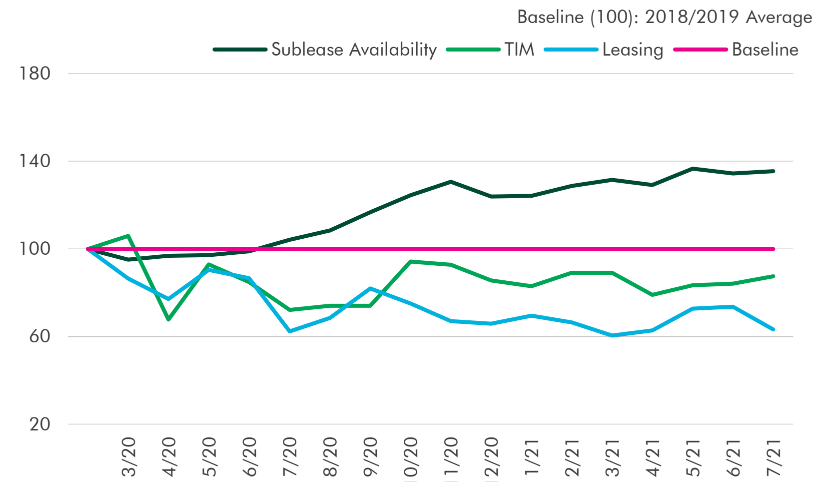
The July index decreased by 11 points from June 2021, which was the highest level in 2021. Leasing in Washington, D.C. was up 60% in Q2 compared with Q1.

Sublease Availability Index: 136

Available sublease space is 36% above the pre-pandemic baseline level. Washington, D.C. ranks second and is 58 points below the U.S. average of 194.

The July index increased by 2 points from June 2021. While the Washington, D.C. metro area has experienced a gradual increase in sublease availability, driven by Northern Virginia, downtown Washington, D.C. has stabilized.

FIGURE 20: Washington, D.C.



Source: CBRE Research, July 2021

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