CUSHMAN & WAKEFIELD

SUBLEASE SPACE

AT A GLANCE

STILL ON THE RISE, BUT AT A SLOWER PACE

NORTH AMERICA
FEBRUARY 2021

NORTH AMERICAN OFFICE SUBLEASE VACANCY

Q4 2020

- **Shaking Off the Cobwebs:** In the wake of the global economic and health disruption, occupiers continue to be **cautious** with big real estate decisions. This means less overall leasing, more renewals, shorter terms (when possible), and consideration of strategic subleasing of excess space. That said, as economies across North America open-up further, tenant demand, in some cases, has started to rise as well.

- **Subleases Still Rising:** Across 83 North American markets tracked by Cushman & Wakefield, office sublease space **increased by 80%** in 2020.
  - United States: +79%
  - Canada: +89%
  - Mexico City: +291%

- **Current Peak:** Total sublease vacancy climbed to **124.2 million square feet** (msf) at the end of Q4 2020, surpassing the Great Financial Crisis (GFC) peak, but remained just below Dot-Com Recession (DCR) levels.

- **Overall Vacancy:** Sublease space accounted for **14.1% of total vacancy** compared to 9.4% at the end of 2019.

Source: Cushman & Wakefield Research

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- **It's all Relative:** Sublease vacancy as a percentage of inventory across the Americas was 2.1%, up from 1.2% at the end of 2019, just above the GFC (1.8%) and well below the DCR (2.9%).

- **It's all Local: Ten markets shrank sublease** figures year-over-year with the three most significant being Houston (-0.71 msf), Washington, DC (-0.15 msf) and Birmingham, AL (-0.13 msf). Meanwhile, **14 markets** recorded a decline from the third quarter to the fourth quarter of the year, indicating sublease supply may be peaking.

- **Markets with Most Significant Increases:** The two markets that recorded the largest square footage increase for 2020 were **Manhattan** followed by **San Francisco.** However, that trend shifted somewhat quarter-over-quarter in Q4, with **Manhattan** still adding the most, but then followed by **Chicago, Boston, Toronto** and **San Francisco**.

- **Suburbs Have More:** The suburbs accounted for 56% of sublease vacancy compared to the Central Business Districts (CBD) at 44%.
  - **Pace of Increase Higher in the CBD:** Sublease space in CBD submarkets grew faster in 2020, jumping up by 99% while non-CBD submarkets increased by 68%.

Source: Cushman & Wakefield Research

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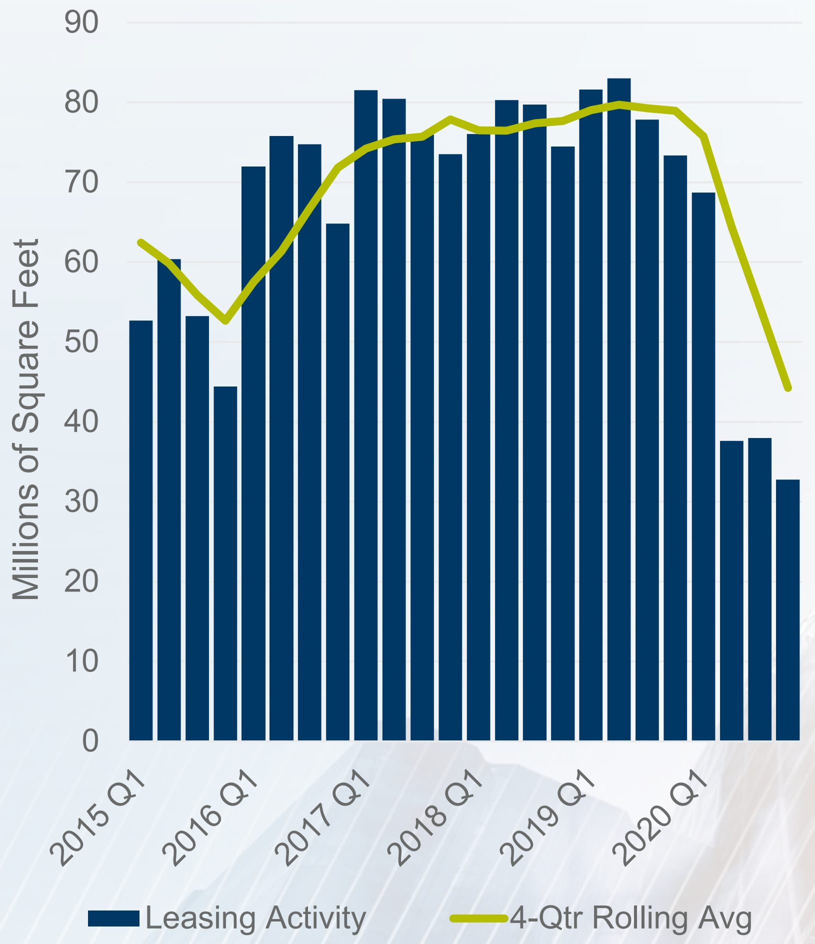
2020 TRENDS

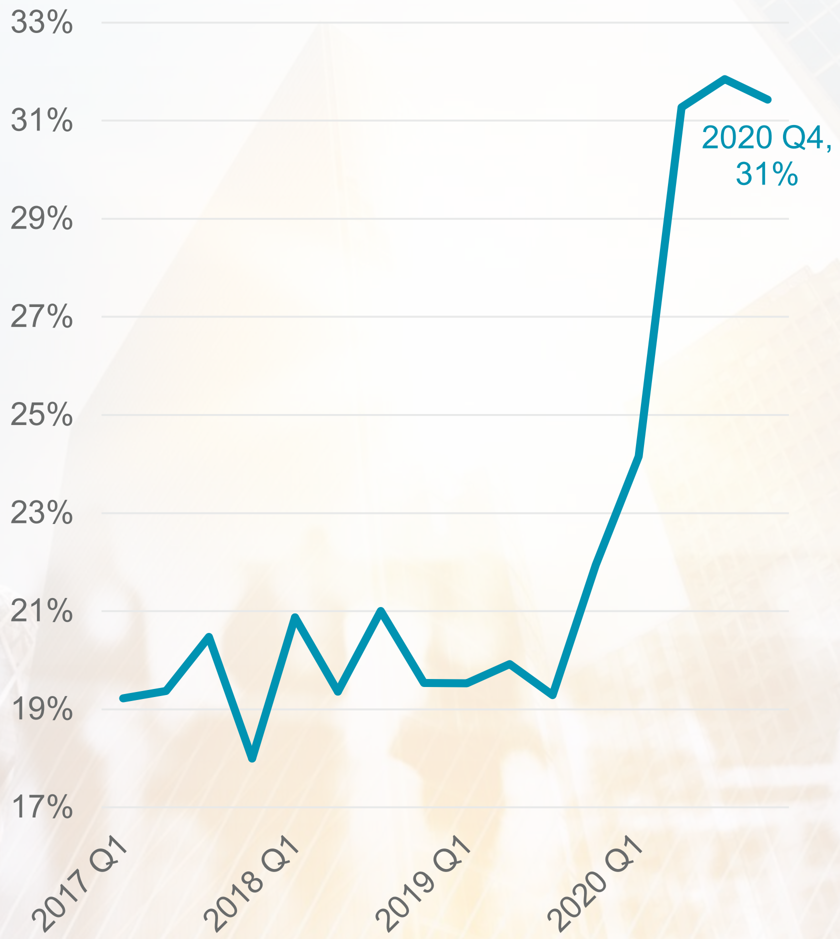
North America

OCCUPIERS ARE HOLDING OFF ON BIG REAL ESTATE DECISIONS

Leasing Activity Down 2020 (U.S.)



Renewals as Percentage of All Leasing



Source: Cushman & Wakefield Research

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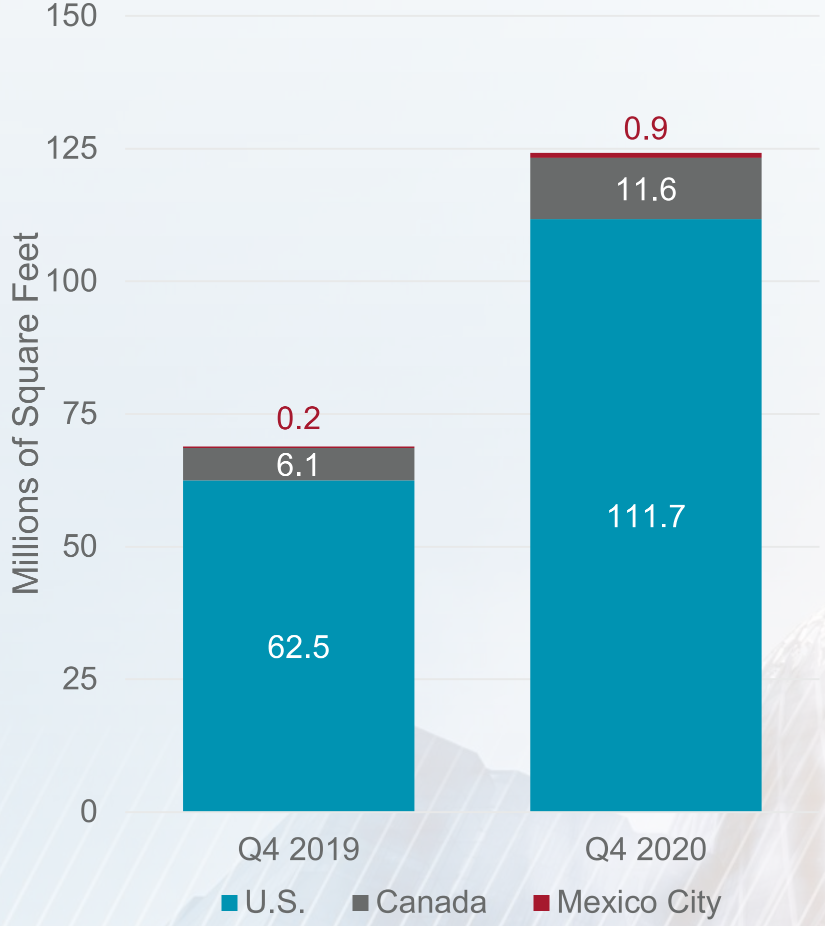
Key Takeaways

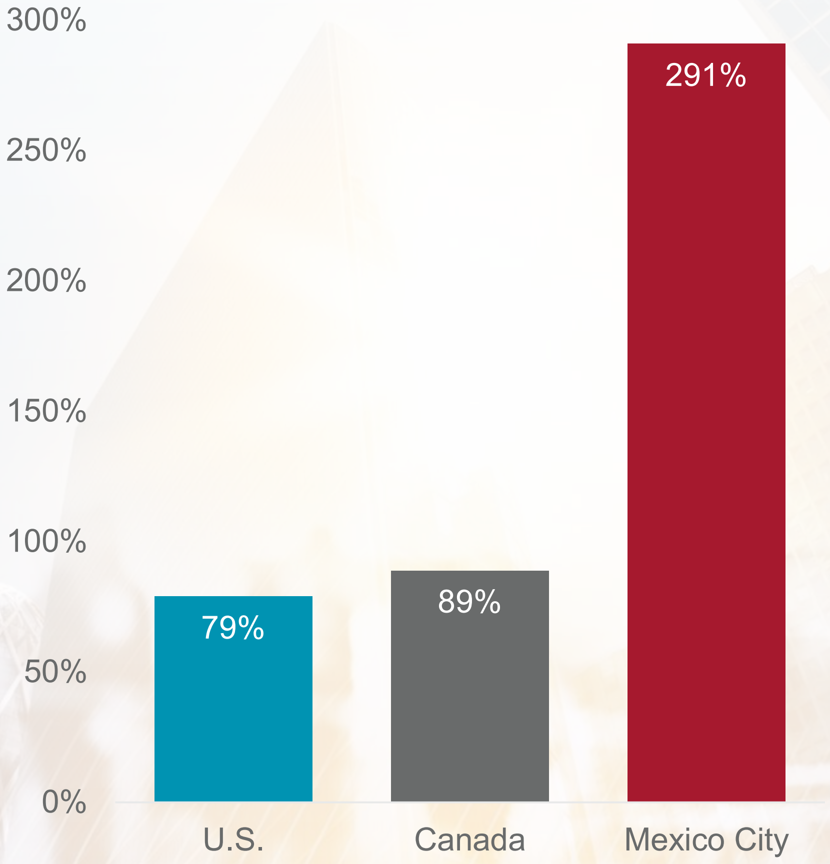
- Uncertainty related to the current health and economic climate is causing occupiers to limit long-term decisions.
- Overall leasing activity declined in 2020. The four-quarter rolling average ended the year at an average of 44.3 msf per quarter.
- Renewals accounted for a disproportionate share of 2020 leasing. Nearly a third of the year's renewals were for one-year or shorter terms, up from the historical average of 19%.

SUBLEASE CONTINUES TO RISE

North American Sublease Space Up 80%



Growth in Sublease Space Since Q4 2019



Source: Cushman & Wakefield Research

Key Takeaways

- North American sublease space has increased 80% since the end of 2019, from 68.9 msf to 124.2 msf.
- Over that time, there were 13 markets that recorded an increase of greater than 200% including:

  San Francisco (+587%)

  Jacksonville (+325%)

  Seattle (+307%)

  Mexico City (+291%)

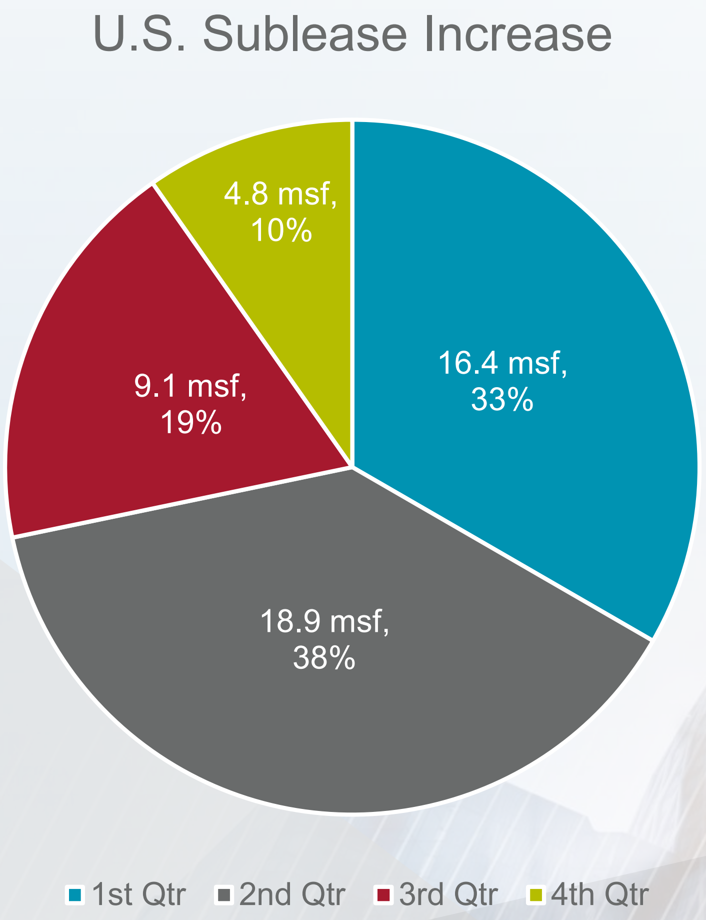
  Nashville (+288%)

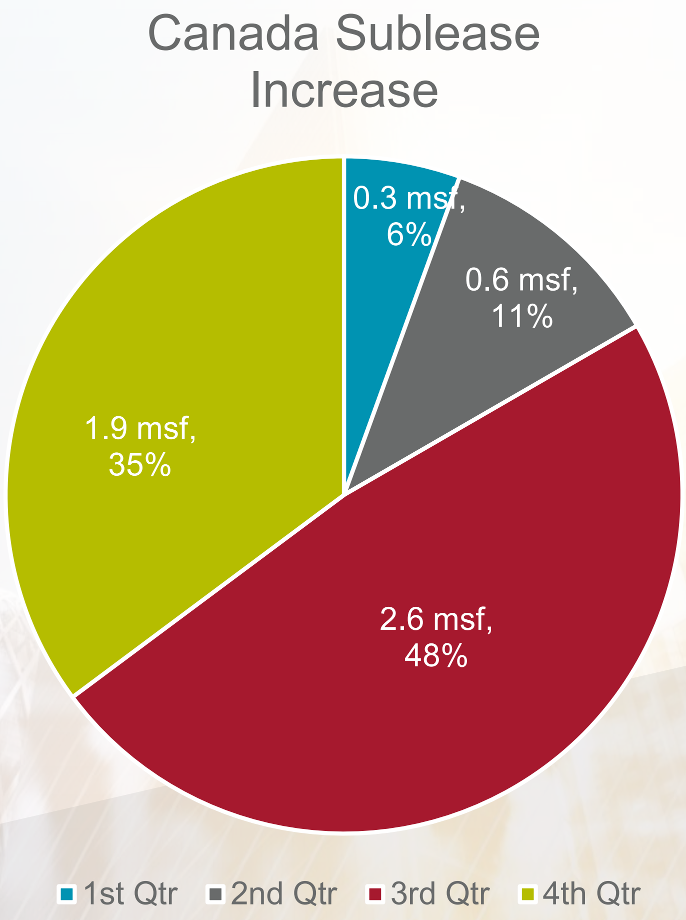
  Vancouver (+264%)

  Puget Sound - Eastside (+262%)

  Austin (+218%)

ADDITION OF NEW SUBLEASE SPACE PEAKED IN Q2 FOR U.S., Q3 FOR CANADA





Source: Cushman & Wakefield Research

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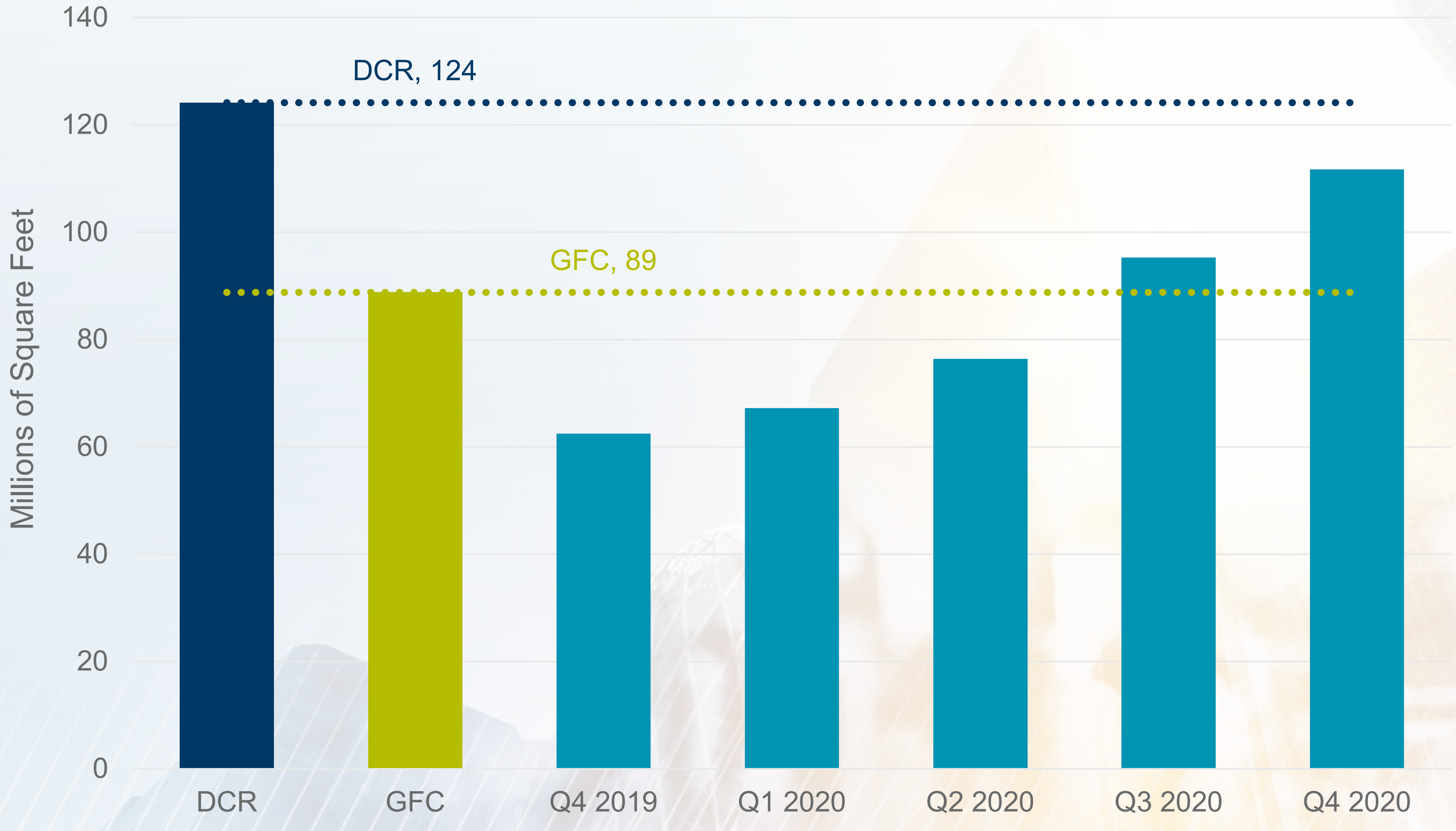
Key Takeaways

- The growth in sublease space did slow down in Q4 2020. In the U.S., new sublease space halved QoQ in both Q3 and Q4 (going from 19 msf to 9 msf to just under 5 msf).
- Of the top 10 North American markets for sublease vacancy, only two recorded a greater percentage increase in Q4 than in Q3: Chicago and Boston.
- Mexico City sublease vacancy dipped -35% in Q1 2020 before increasing by +188% in Q2, +63% in Q3 and +29% in Q4.

UNITED STATES: HOW DOES SUBLEASE SPACE COMPARE WITH PAST PEAKS?



GFC – Great Financial Crisis (peak Q4 2009)
DCR – Dot-Com Recession (peak Q2 2002)

Source: Cushman & Wakefield Research

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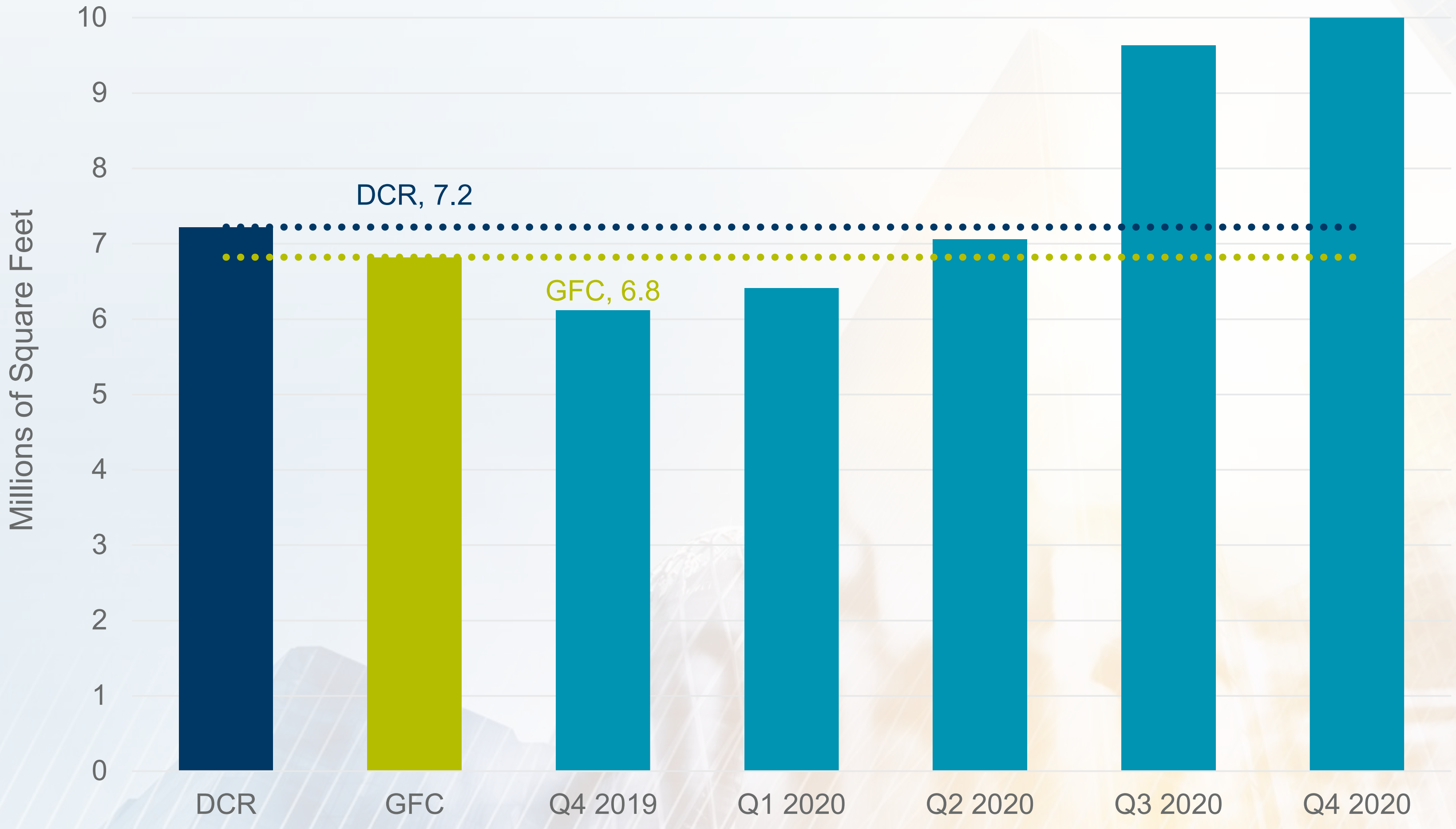
Key Takeaways

- Sublease space has grown by 80% in the U.S. in 2020 and has closed in on its peak recorded at the DCR in 2002 (124 msf).
- The amount of sublease space on the market is 25.8% higher than at the height of the GFC and has climbed above the proportion of total inventory (2.1% at Q4 2020 vs. 1.8% at Q4 2009). It remained below the DCR in both absolute numbers and as a percentage of total inventory.

CANADA: HOW DOES SUBLEASE SPACE COMPARE TO PAST PEAKS?



GFC – Great Financial Crisis (peak Q4 2009)
DCR – Dot-Com Recession (peak Q2 2002)

Source: Cushman & Wakefield Research

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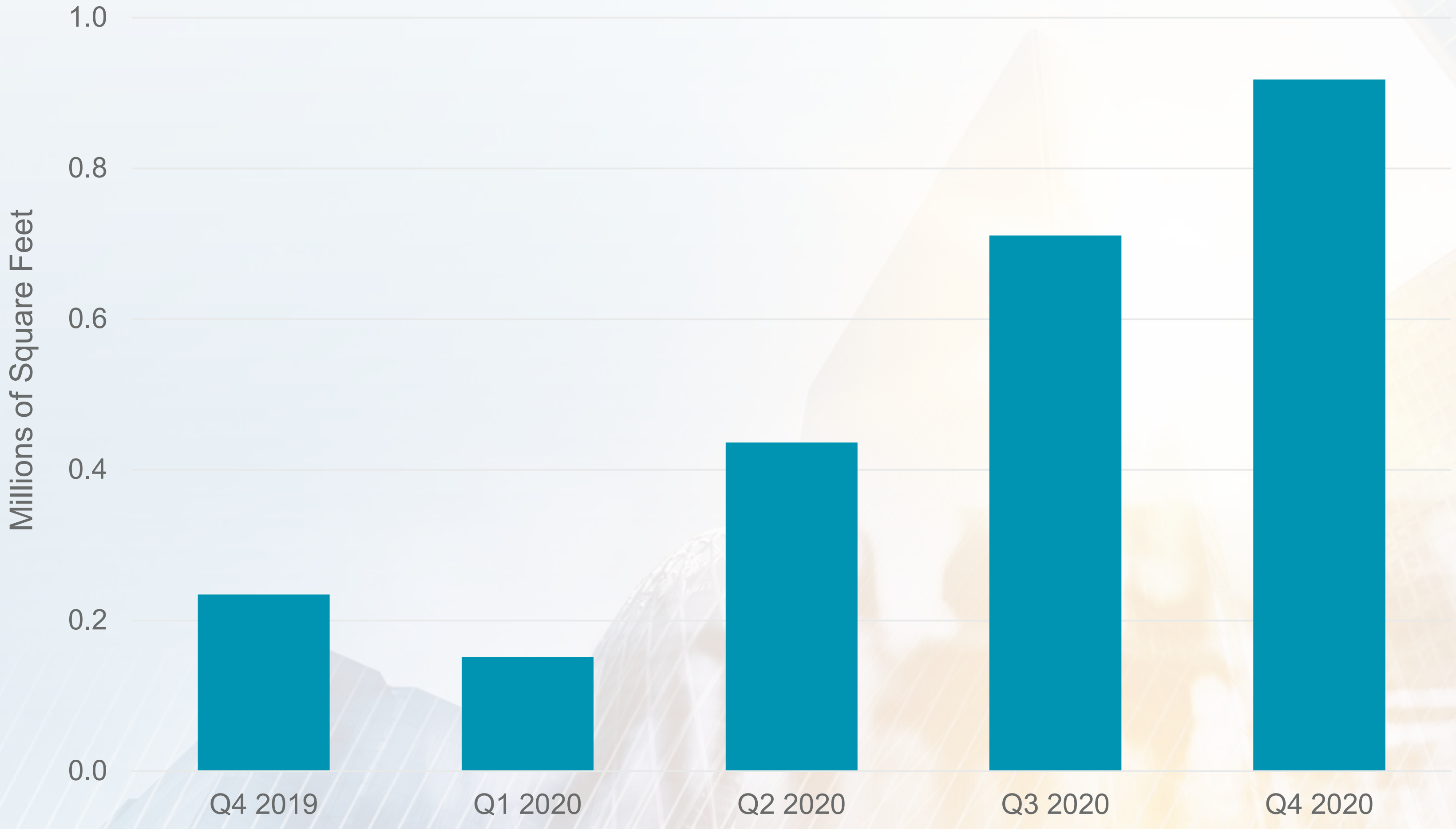
Key Takeaways

- The four Canadian markets (Calgary, Toronto, Montreal, and Vancouver) recorded a 20% increase during Q4 2020 from 9.6 msf to 11.6 msf.
- Sublease space was up 89% in 2020 from 6.1 msf at the end of 2019—60% higher than the DCR peak and 69% above the height of the GFC.

MEXICO CITY: SUBLEASE SPACE TRENDING UP, BUT STILL MINIMAL



Source: Cushman & Wakefield Research

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Key Takeaways

- 2020 vacant sublease space was up by 683,368 sf or 291%.
- Sublease vacancy as a percentage of inventory was just 0.8% in Mexico City.
- Sublease vacancy as a percentage of total vacancy was 5.7% at the end of 2020, which is well below U.S. and Canada.

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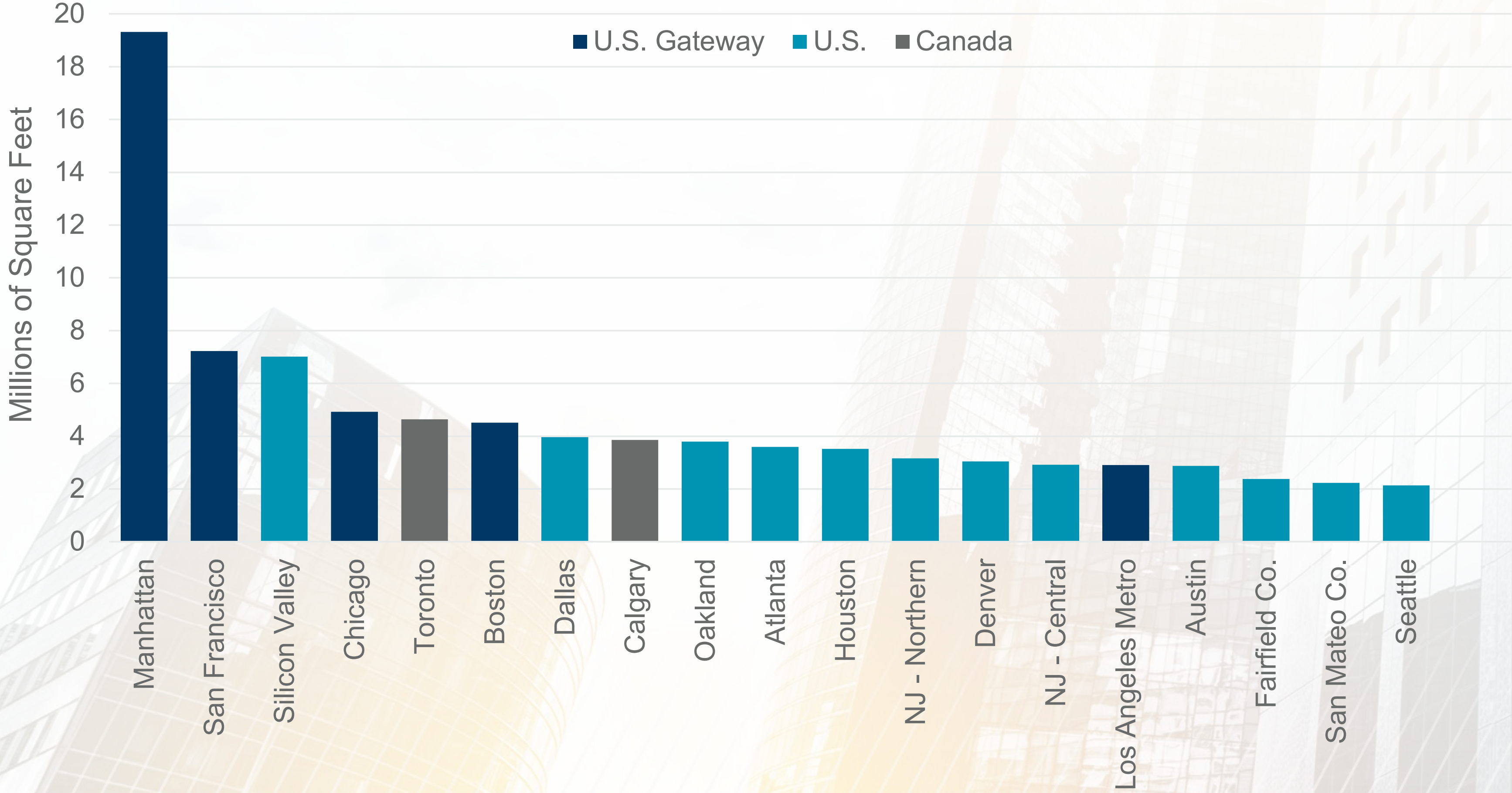
MARKET LEVEL

North America

HOW DO MARKETS STACK UP?

WHERE SUBLEASE VACANCY IS >2.0 MSF



Source: Cushman & Wakefield Research

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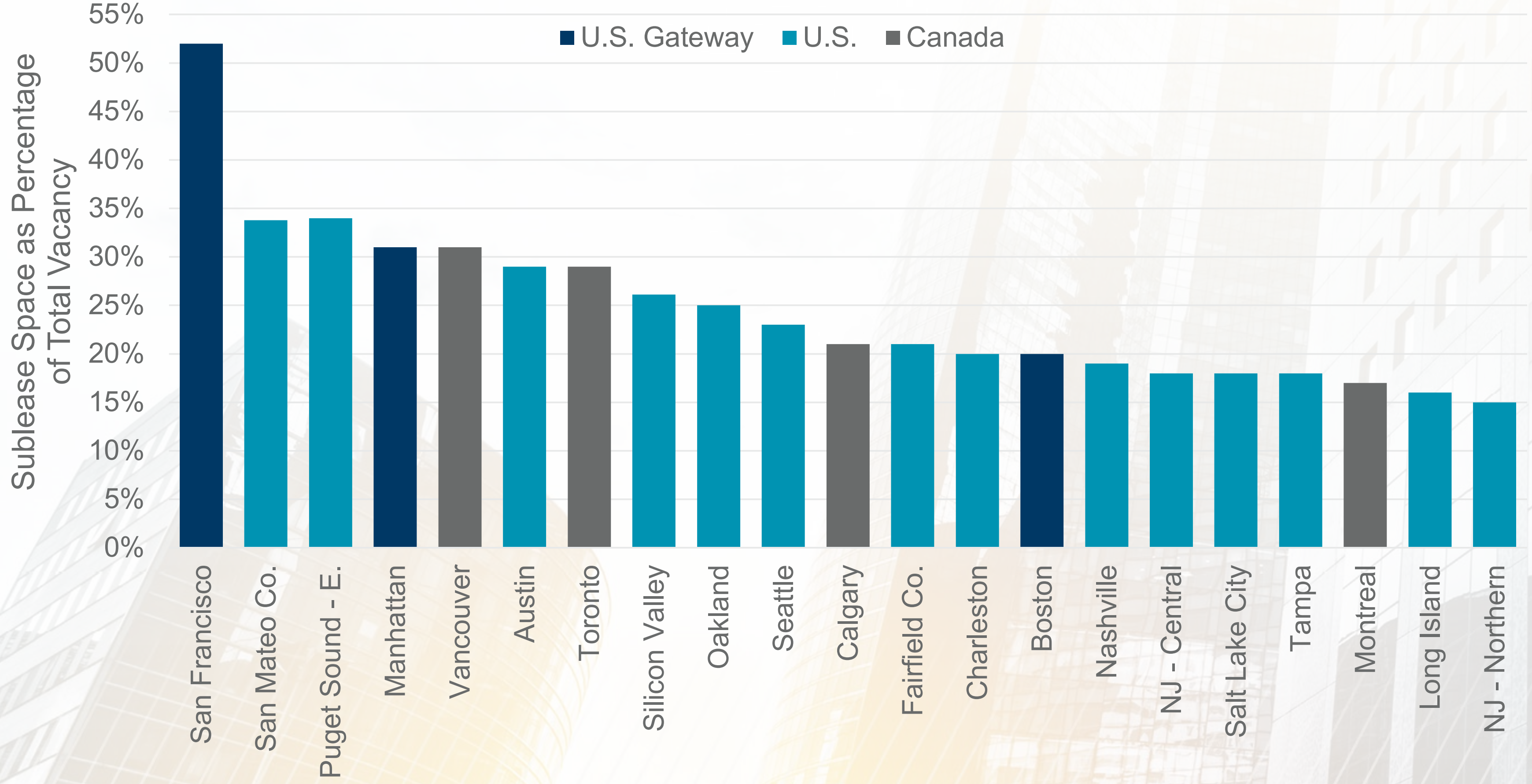
Key Takeaways

- There were 32 markets that had 1.0 msf+ of sublease vacancy at the end of 2020; 19 markets had 2.0 msf+ (shown on graph).
- Manhattan continued to have the most sublease space of any market (19.3 msf), but as the largest North American market by far, it doesn't have the largest proportion of sublease space. (*See next page.*)
- The 83-market average is just under 1.5 msf.

HOW DO MARKETS STACK UP?

WHERE SUBLEASE VACANCY IS >15% OF ALL VACANCY



Source: Cushman & Wakefield Research

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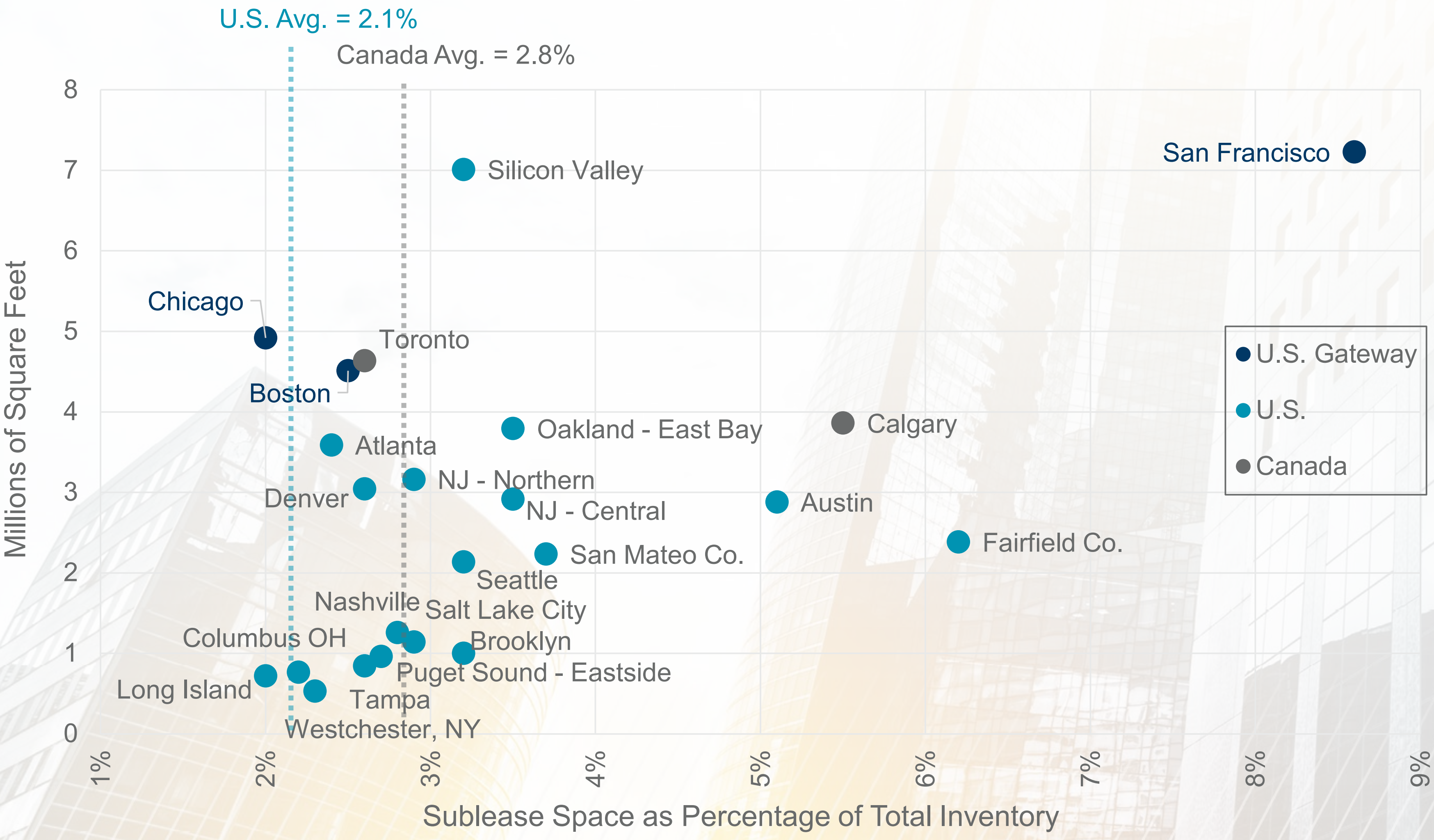
Key Takeaways

- There are 21 markets where sublease was at least 15% of all vacancy.
- Across North America, sublease space accounted for 11.8% of all vacancy with 28 markets at or above that average.
- Sublease space accounted for the highest proportion of vacancy in the SF Bay Area. San Francisco, San Mateo County, Silicon Valley and Oakland/East Bay are all among the top 10 markets.
- San Francisco is the only market of the 83 that had more sublease vacancy than direct vacancy at 51.8%.

HOW DO MARKETS STACK UP?

TOTAL AS PERCENTAGE OF INVENTORY, SELECT MARKETS



Source: Cushman & Wakefield Research

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Key Takeaways

- Twenty-four markets had vacant sublease space that accounted for 2.0% or greater of total office inventory, led by:

  San Francisco (8.6%)

  Fairfield County, CT (6.2%)

  Calgary (5.5%)

  Austin (5.1%)

- Manhattan (not shown in the chart) had 19.3 msf of sublease space, which accounted for 4.8% of the market's office inventory.
- The U.S. average was 2.1%, and the Canadian average was 2.8% of total inventory.

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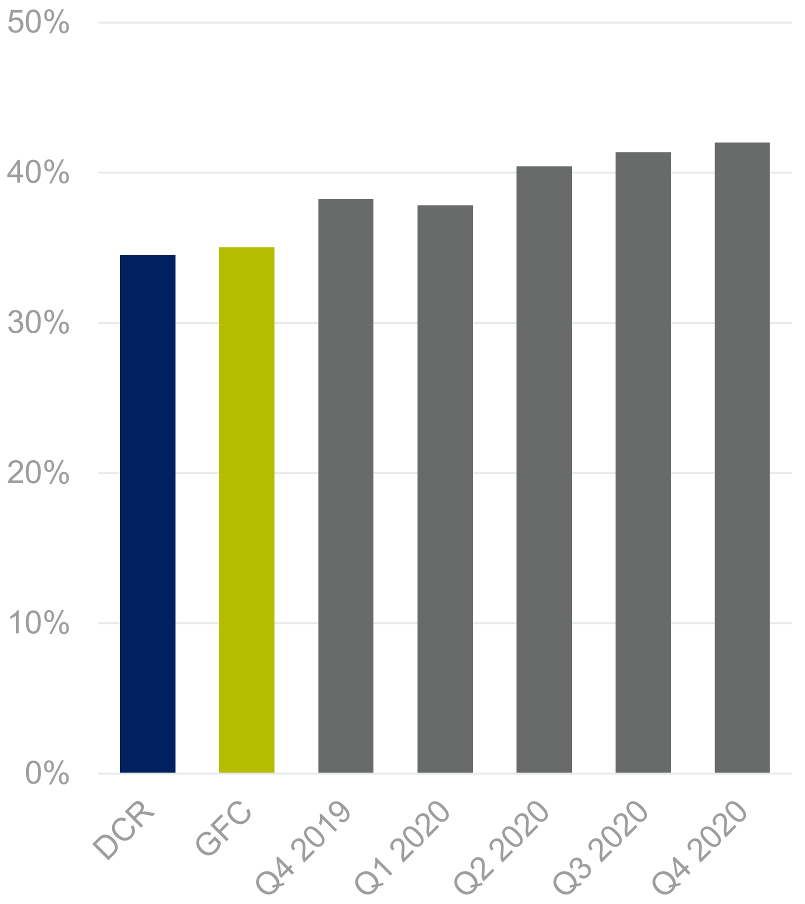
CBD vs. NON-CBD

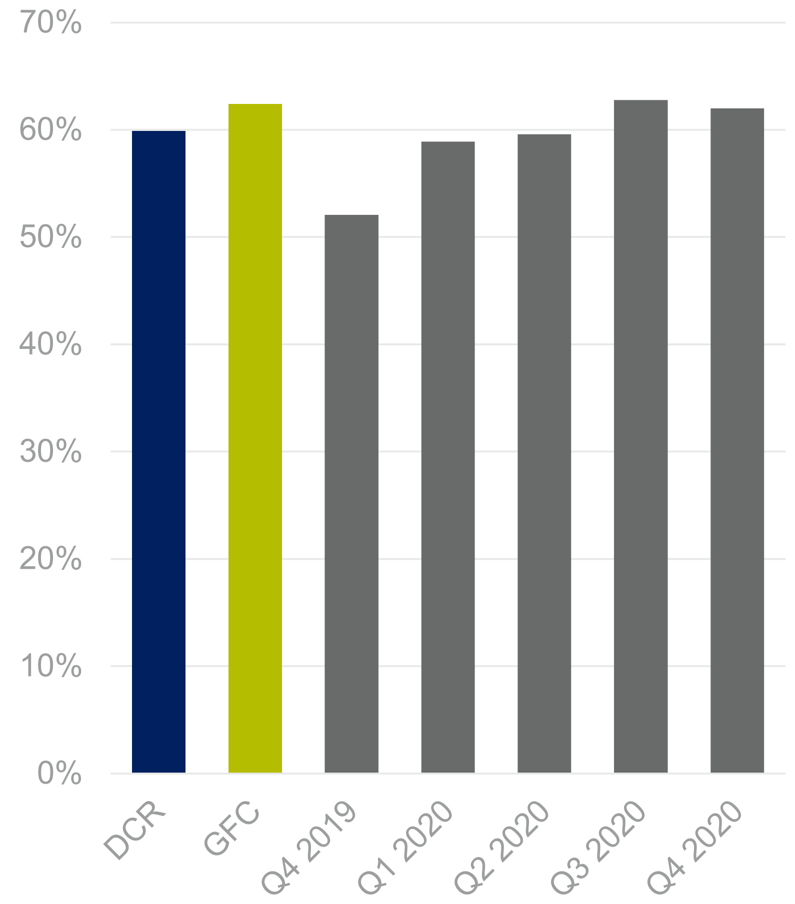
North America

SHARE OF SUBLEASE SPACE IN THE CBD TRENDED HIGHER THROUGHOUT 2020

CBD: Share of Sublease Space (U.S.)



CBD: Share of Sublease Space (Canada)



GFC – Great Financial Crisis (peak Q4 2009)
DCR – Dot-Com Recession (peak Q2 2002)

Source: Cushman & Wakefield Research

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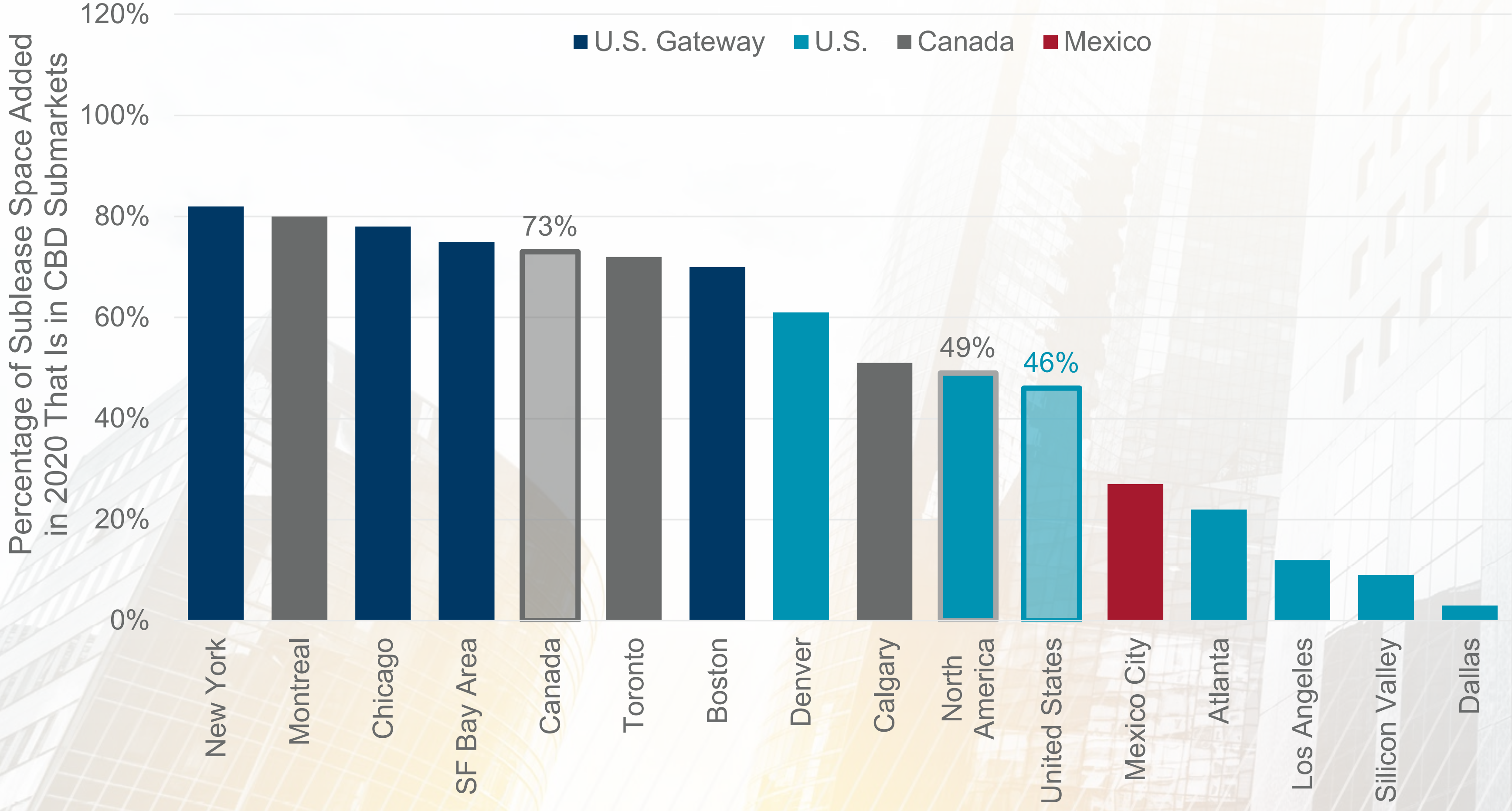
Key Takeaways

- The share of sublease space in the CBD for the U.S. increased the last three quarters of 2020 and stood at 42%. In Canada, the ratio of 62% remained in line with previous recessionary peaks.
- The trend is quite different in Mexico City where sublease space was just over double that of Q4 2019 in the CBD but was more than five times higher in suburban submarkets.

CBD SHARE INCREASING IN MANY MARKETS

PERCENTAGE OF 2020 SPACE IN CBD, SELECT MARKETS



Source: Cushman & Wakefield Research

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Key Takeaways

- Nearly half of U.S. sublease space added to the market in 2020 was in the CBD. In Canada, the trend is even higher—73% of new sublease space was in the CBD.
- For 2020, in Houston, both the CBD and Suburban markets recorded a decline in sublease vacancy; sublease vacancy also declined in the District of Columbia while rising in its suburban markets.

DC Metro = Washington, DC, Northern VA and Suburban MD.

New York = Manhattan, Brooklyn, Westchester County, Long Island and Northern New Jersey.

SF Bay Area = San Francisco, Oakland/East Bay, San Francisco North Bay and San Mateo County.

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CLOSING THOUGHTS

North America

NORTH AMERICAN OFFICE SUBLEASE VACANCY

Q4 2020

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- Sublease space **increased 80%** in 2020 across the 83 markets in North America. It remained below the 6.2% DCR peak of 2002; the 2.1% proportion of sublease to total office inventory has overtaken the GFC (1.8%) but remained below the DCR (2.9%).
- In most markets, sublease vacancy accounted for a small proportion of total office inventory. But there are exceptions, as **11 North American markets recorded sublease vacancy exceeding 3%** of the total market's inventory.
- Both CBD and Suburban submarkets have been affected by the increase in sublease vacancy with CBD submarkets at 54.1 msf and Suburban submarkets at 71.1 msf at the close of 2020. However, the **increase for the year was most pronounced within the CBD up 98.9% while Suburban was up 68.3%.**
- Office usage—even when occupiers have "reopened" their offices—continues to be well **below historical levels**. A successful vaccine rollout should create opportunities for occupiers to return to the office to a greater degree during the second half of 2021.
- Markets, whether CBD or Suburban, that are **less dependent on mass transit** will initially be more successful in getting workers back into the office until employees in more dense markets are comfortable again with mass transit.
- The significant amount of sublease vacancy in markets that recorded low vacancy rates and high asking rents "pre-pandemic" could initially benefit "post-pandemic" as **tenants lock down significantly lower pricing for quality space**.

Source: Cushman & Wakefield Research

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About Cushman & Wakefield

Cushman & Wakefield (NYSE: CWK) is a leading global real estate services firm that delivers exceptional value for real estate occupiers and owners. Cushman & Wakefield is among the largest real estate services firms with approximately 53,000 employees in 400 offices and 60 countries. In 2019, the firm had revenue of $8.8 billion across core services of property, facilities and project management, leasing, capital markets, valuation and other services. To learn more, visit www.cushmanwakefield.com or follow @CushWake on Twitter.

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