

COVID-19 UPDATE ARE BUSINESSES LEAVING CITIES?



November 2020

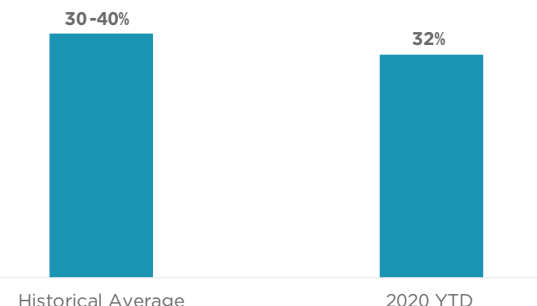
Q: Are businesses moving from large expensive cities to small cities due to COVID-19?

A: Too soon to say.

Cushman & Wakefield tracks 87 office markets across the U.S. totaling 5.4 billion square feet of inventory. According to our data, historically 30-40% of all new office leases nationwide occur in the six gateway cities—Los Angeles, Chicago, Washington, DC, New York, San Francisco and Boston. Through Q3 2020, the share of new office leases in these markets represented 32.0%, falling within the typical range, albeit at the lower end. However, given the data represents a small sample size in an unusual year, and these cities are more sensitive to fluctuations in the global economy we can't draw any firm conclusions yet. That said, we will be keeping an eye on that number over the next several quarters.

One thing we are observing is a greater softness in gateway city rents, but that is likely a function of the heavy building that occurred in these markets leading up to the recession. On average, gateway cities had 3% of total inventory under construction vs. 2.2% for non-gateway markets.

PERCENTAGE OF TOTAL LEASING IN GATEWAY CITIES



Source: Cushman & Wakefield Research

Q: Are businesses moving en masse out of CBDs and into the Suburbs?

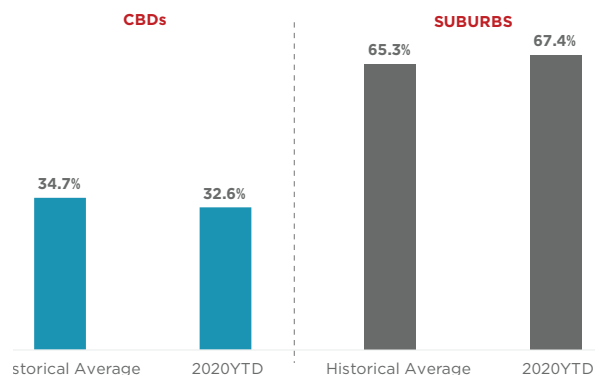
A: No. Or at least, not yet.

Given the recession and the ongoing pandemic, leasing activity is down everywhere. Total leasing—i.e., new leases and renewals—totaled 46 million square feet (msf) in Q3 nationally. Compare that to a normal quarter at 96 msf. In a typical pre-pandemic year, CBDs have accounted for 31-37% of total leasing, while the suburbs have accounted for 63-69%. And while leasing activity is down, the data doesn't show any significant shift in that mix year-to-date. Through September, CBDs accounted for 32.6% of total leasing and the suburbs have accounted for 67.4%.

Moreover, renewals in downtown markets are somewhat higher in Q3 2020 (33%) versus the historic norm (20%), further suggesting that during periods of heightened uncertainty, many businesses simply opt to stay put.

While businesses may not be leaving CBDs, housing data suggests that residents are. Home prices in the suburbs and rural areas are growing at a faster rate than urban prices. Likewise, apartment rental data is also starting to capture some flow out of cities and into the suburbs. For example, in the suburbs, current and pre-crisis apartment demand are on par while apartment demand in CBDs is down substantially. In addition, according to CoStar data, asking rents in the suburbs have been rising since May while asking rents in downtown markets continue to fall. This may simply amount to a temporary COVID-19 trend—a move to the suburbs until the virus is stamped out—but we are keeping a close eye on these trends.

U.S. % OF TOTAL LEASING: CBD VS. SUBURBS



Source: Cushman & Wakefield Research

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Q: During past downturns, many businesses opted to renew their existing leases rather than look for new space. Is that playing out this year?

A: Yes.

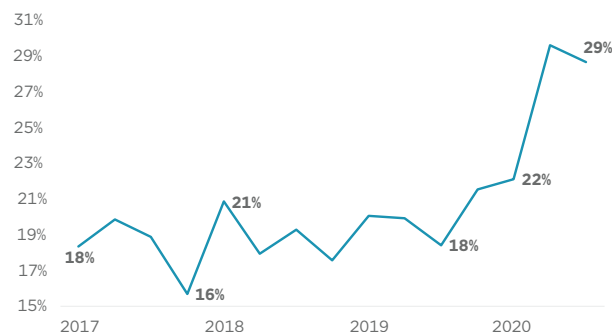
In the second and third quarters of 2020, renewals accounted for 29% of total leasing, much higher than the historical average of 19%.

Q: When businesses renew, are they generally signing for less space this year?

A: Difficult to say.

Generally, businesses are not signing leases for less space. In 2020, 34.5% of renewal transactions have been for less space while 41.9% were for additional space. The remaining balance (23.6%) were for the same amount of space. However, in a growing economy we would expect more of the renewal transactions to be expansions. For instance, when we looked at pre-pandemic upcycle trends, the share of transactions that renewed for less space totaled only 19.7%, a much smaller share than we are seeing this year. Therefore, it does appear that a larger share of businesses are downsizing when compared to previous years. However, the sample is small.

RENEWALS AS A PERCENT OF ALL LEASES



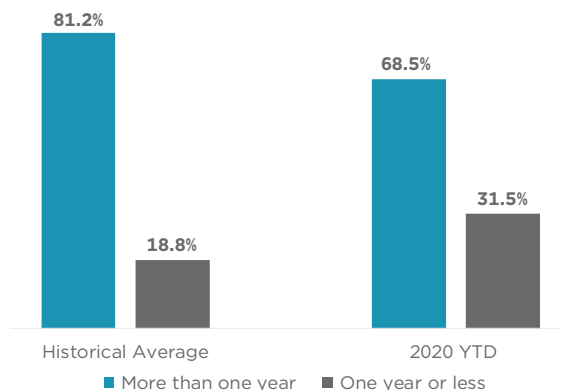
Source: Cushman & Wakefield Research

Q: Are businesses signing shorter-term leases this year as a bridge to a better day?

A: Yes, on average, but not dramatically so.

The average CBD lease term for 2020 is currently 5.75 years compared to 4.51 years in the suburbs. These are both below the 10-year average of 6.44 and 4.90 years respectively. However, growing evidence suggests that a higher share of businesses are signing very short-term leases or simply extending leases for 3-12 months. On average, 31.5% of all renewals signed in 2020 are for fewer than 12 months compared to the norm of 18.8%. Again, we emphasize this is a very small sample in an unusual year.

MORE SHORT-TERM RENEWALS



Source: Cushman & Wakefield Research

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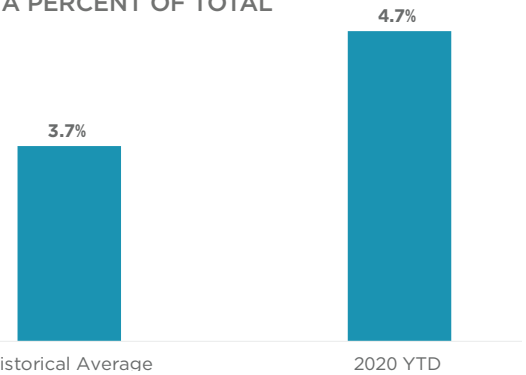
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Q: Are any office sectors in obvious growth mode?

A: Yes.

Although the overall amount of leasing in the U.S. has slowed dramatically in 2020, some sectors are faring better than others. In general, the technology sector remains the largest for leasing, although it has not been as dominant as in recent years. Also, the technology sector is a major source of the sublease space that is affecting some markets. Nonetheless, within that large sector, we are seeing strength in life sciences. Life sciences accounted for 4.7% of all leasing in the first three quarters of 2020 up from its historical average of 3.7%.

LIFE SCIENCES LEASES AS A PERCENT OF TOTAL



Source: Cushman & Wakefield Research

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