Analysis (/analysis/)

More Office Tenants Are Expanding Than Contracting Space Needs

Expansions in primary markets climbed to 24% last year from 17% in the final three quarters of 2020.

By **Lynn Pollack** | January 13, 2022 at 07:39 AM

(https://almreprints.com/about-reprints/#permissions)

More companies are expanding their footprints than contracting, according to new research from CBRE, suggesting tenants may have more long-term confidence in the market than would appear at first glance.

Data from the first three quarters of 2021 shows that office tenants in major US markets shifted to more relocations and expansions and focused less on status-quo lease renewals and space contractions.

Expansions in primary markets—Manhattan, Boston, Chicago, Washington, D.C., Los Angeles and San Francisco—climbed to 24% by square footage last year from 17% in the final three quarters of 2020, while relocations within the market increased to 33% from 23%. In those cities, "relocations **reflected a flight-to-quality trend (https://www.globest.com/2021/10/05/new-office-product-continues-to-outperform-even-as-sector-shifts/)**—especially in primary markets like Manhattan and Washington, D.C.—that supports tenants' efforts to attract employees back to the office more regularly," the report notes.

Meanwhile, space contractions in primary markets dipped to 5% from 10%.

The same held true for secondary markets like Atlanta, Dallas-Fort Worth, Philadelphia, and Seattle, but with a twist: those cities saw a bigger increase in new-to-market activity, with an increase to 17% in 2021 from 10% in the last three quarters of 2020. Most of that activity was concentrated in Texas and the Southeast. Around 42% of new-to-market leasing overall took place in markets with no state income-tax, like Dallas/Fort Worth, Nashville and Miami.

The report also notes that “companies’ migration to new secondary markets mirrors the movement of population to lower-cost and less-dense metro areas during the pandemic,” adding that the average lease size for companies expanding into secondary markets increased by 17% in 2021 from 2020 levels. This suggests that companies are making bigger commitments to these markets.

“Many companies are now leasing more and better space to entice employees and new hires into the office. And many are expanding into new markets,” said Julie Whelan, CBRE’s Global Head of Occupier Research. “While the ongoing impact of COVID-19 variants on activity remains hard to predict, office market resilience amid the Delta variant in 2021 provides reason for optimism.”

Overall, CBRE says leasing activity rebounded in 2021 despite uncertainty posed by the delta variant.

“A preponderance of renewals in the last three quarters of 2020 during the height of pandemic-related restrictions gave way to more long-term commitments in the first three quarters of 2021,” the report notes. “Although the omicron variant could cause short-term disruption, this data suggests that new leasing activity likely will continue to gain momentum as 2022 progresses.”

SHARE SHARE

Dig Deeper

National (/Markets/National/) Net Lease (/Sectors/Net-Lease/) Office (/Sectors/Office/)

Economy (/Economy/) Midwest (/Markets/Midwest/) Northeast (/Markets/Northeast/)

Southeast (/Markets/Southeast/) Southwest (/Markets/Southwest/) West (/Markets/West/)

Trending Stories

1. **Here Are the Multifamily Markets Poised to Outperform in 2022 (/2022/01/11/here-are-the-multifamily-markets-poised-to-outperform-in-2022/)**
2. **Apartment Demand Smashes Previous Record High by 66% (/2022/01/10/apartment-demand-smashes-previous-record-high-by-66/)**
3. **What to Do with Office Properties Amid a Work Revolution**