

# Tenants Shifting Away from Short-term Deals

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As the COVID-19 pandemic set in last spring, office occupiers were presented with enormous uncertainty about the future – especially in the near-term. This unpredictability resulted in a dearth of new deal volume, replaced in part by short-term renewals allowing tenants to delay decisions on major transactions. The number of short-term renewals in all size ranges increased by 46% in 2020 compared to 2019. Figure 1A explores the drop in new deal volume while Figure 1B shows the change in renewals.

**Figure 1A: New Leases and Expansions | 15,000+ Sq. Ft. | Direct Deals**

YEAR	COUNT	SQ. FT.	AVG. DEAL SIZE	AVG. TERM LENGTH (YRS)
YE 2019	308	18,506,388	60,086	11.8
YE 2020	93	5,287,180	56,851	11.0
YTD 2021	51	2,147,021	42,098	10.4

Source: CBRE Research. Data as of June 1, 2021.

**Figure 1B: Renewals | 15,000+ Sq. Ft. | Direct Deals**

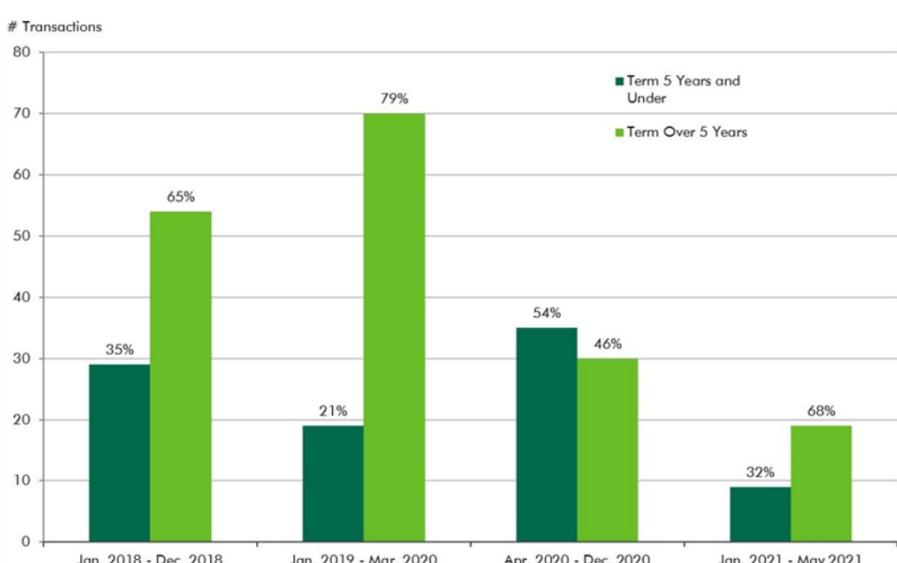
YEAR	COUNT	SQ. FT.	AVG. DEAL SIZE	AVG. TERM LENGTH (YRS)
YE 2019	72	8,590,483	119,312	9.9
YE 2020	86	7,346,486	85,424	6.8
YTD 2021	27	1,922,363	71,199	7.9

Includes transactions where any portion of the deal is a renewal.  
Source: CBRE Research. Data as of June 1, 2021.

Between April and December of 2020, 54% of renewals over 15,000 sq. ft. had term lengths of five years or less, well above the ratio seen in the years before the pandemic. Short-term renewals were popular with large tenants – NBCUniversal’s 340,000 sq. ft. renewal at 1221 Avenue of the Americas and Strock & Strock & Lavan LLP’s 191,000 sq. ft. deal at 180 Maiden Lane constituted some of the larger short-term renewals in the latter half of 2020.

Now, as the pandemic is waning and restrictions are being lifted, occupiers are gaining clarity on future space needs and appear to be shifting away from short-term deals. In the first five months of 2021 there has been a reversal – the proportion of short-term renewals has already shrunk to 32%. While some tenants, particularly smaller organizations, may continue to pursue short-term deals in the near future, the wait-and-see attitude that launched the trend does appear to be passing.

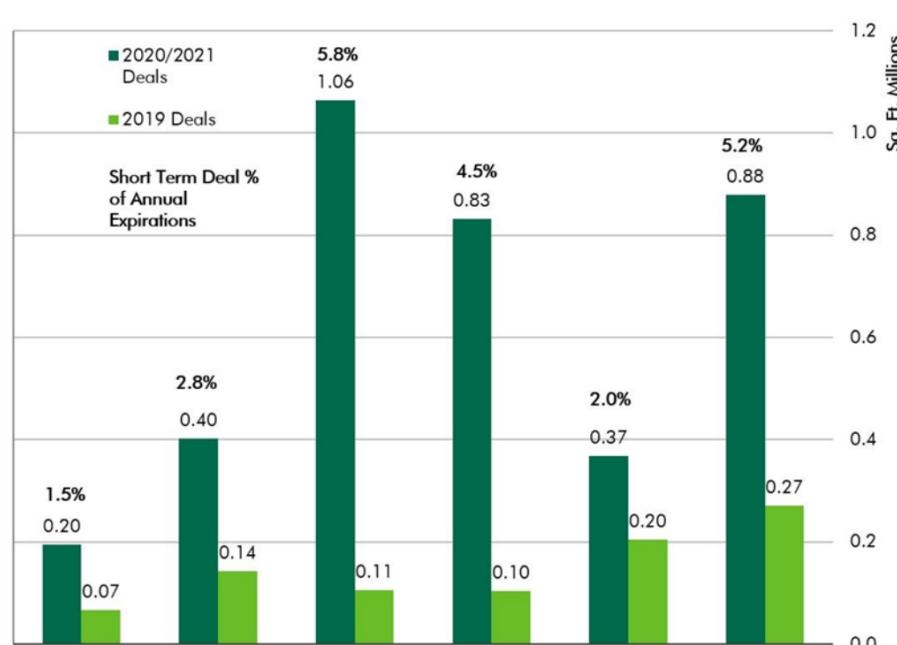
**Figure 2: Renewal Terms 2018 - 2021**



Includes transactions where any portion of the deal is a renewal, is 15,000 sq. ft. or larger, and is a direct deal.  
Source: CBRE Research. Data as of June 1, 2021.

The result of the surge of deals with shortened expiry horizons is a bump of additional demand that will manifest most heavily between 2023 and 2026. In that period, short-term deals signed in 2020 and early 2021 will account for 3.1 million sq. ft. of expiring leases – on top of the square footage expiring from longer-term leases signed pre-pandemic. That additional pandemic-induced demand makes up 4.4% of total expiries between 2023 and 2026. While the values – both absolute and in terms of percentage – are not enormous, this additional demand will add fuel to a market that will likely be busy with a combination of existing long-term requirements and new demand born of the economic recovery.

**Figure 3: Sq. Ft. Expiring from Short-term Deals 2021 - 2026**



Source: CBRE Research. Data as of June 1, 2021.

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