



Yardi® Matrix

National Office Report

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Sublease Space Weighs on Office Market

- Vacancy rates have risen in nearly every market over the last year, and even doubled in places. Some of this can be explained by the economic turmoil surrounding the pandemic, some is due to firms letting leases expire while staff works from home, and in other markets a glut of ill-timed new supply has sent vacancy rates skyrocketing. But a big factor is that nearly every market has seen large spikes in the amount of sublease space available.
- Among the top 30 markets covered by Yardi Matrix, 20 saw total available sublease space more than double. The largest increases were in Sacramento (420% increase), Boston (379%) and Raleigh Durham (361%). And while only seven of the top 30 markets had sublease rates above 1% before COVID-19, today 20 of them have more than 1% of all space listed for sublease and seven are north of 2%. The highest sublease rates are in San Francisco (4.4%), the Bay Area (3.7%) and Seattle (3.7%).
- Some notable companies and spaces have entered the sublease market of late. JP Morgan listed 700,000 square feet at 4 New York Plaza, Experian is listing 177,500 square feet in the Chicago suburbs, and Salesforce is listing parts of its San Francisco offices at 350 Mission St.
- The impact of sublease space can be seen in Denver. Newmont Mining Co. relocated its headquarters months before the pandemic's arrival, signing a lease for the sixth through 10th floors of 6900 Layton. During the pandemic, Newmont reevaluated its needs and listed two of the floors for sublease. DCP Midstream, a gas and oil firm, has agreed to take the ninth and 10th floors at the start of 2022, vacating 170,000 square feet at Republic Plaza in the CBD. Now, two of the Fortune 500 firms headquartered in the Denver market will occupy roughly half the space they did previously.
- With firms reducing space and eyeing hybrid work models, demand for office space will have to be buoyed by job creation. While office-using jobs have performed better than the labor market as a whole during the pandemic, these sectors lost jobs in April for the first time since the pandemic began last year. According to the Bureau of Labor Statistics, professional and business services, the largest of the office-using sectors, lost 79,000 jobs, while the information and financial activities sectors had slight gains. We think it most probably a blip, but if not, the implication is disconcerting.

