



# SUBLEASE SPACE AT A GLANCE

PANDEMIC EFFECTS ONE YEAR IN

NORTH AMERICA  
MAY 2021





# OFFICE SUBLEASE VACANCY

Q1 2021



## Moving Towards a Post-Pandemic World:

Over the past year, office employees have been largely working remotely, and occupiers have been minimizing any new long-term real estate decisions. The economy is beginning to open-up as vaccinations increase, and companies are setting firmer targets for workers to return to the office. During the second half of 2021, expect most companies to have workers back in the office at least part-time. As this plays out, companies will begin to have **a clearer picture of how much space they will need** over the next few years.

## Occupier Uncertainty Leads to More Sublease Space:

In the meantime, sublease space continues to be added to the market. Total North American sublease space climbed to **138 million square feet (msf)** after 13.8 msf of new space came online during Q1 2021. Across 83 markets tracked by Cushman & Wakefield, office sublease space is up 87% year-over-year (YoY).

**Canada:** +116% (+7.4 msf)

**Mexico:** +569% (+0.9 msf)

**United States:** +83% (+55.9 msf)

## It's All Relative:

The total amount of space has now surpassed both the levels recorded during the Great Financial Crisis (GFC) and the Dot-Com Recession (DCR). Across the U.S. and Canada, sublease space accounted for **2.4% of total office inventory**, up from 1.2% at the end of 2019. That is above the GFC (1.8% of inventory) but remains below the DCR (2.9%).



# OFFICE SUBLEASE VACANCY

Q1 2021



## Growth Is Slowing:

Companies began to put more of their space on the sublease market as the pandemic directly impacted North America in Q2 2020. This activity peaked in Q3 when 22.5 msf of space was added to the market. Space continued to be added to the market in Q1 2021, but **at the slowest rate since the pandemic began.**

- The market may be nearing the peak. After the previous two recessions, sublease space increased for approximately two years, and Q1 2021 marked the sixth straight quarter of positive sublease space growth (dating back to Q4 2019).

## It's All Local:

In the past year, there have been **10 markets whose sublease inventory shrank YoY**, with the most significant being Houston (-2.3 msf), and Tucson (-0.1 msf), followed by Southern New Hampshire (-78,000 sf), Washington, DC (-69,000 sf) and Birmingham (-66,000 sf). Meanwhile, **26 markets recorded a quarter-over-quarter (QoQ) decline** in the first quarter of 2021, up from 14 in the fourth quarter of 2020. The biggest declines in Q1 2021 included:

**Washington, DC** (-13.1%)

**San Diego** (-11.4%)

**Los Angeles CBD** (-3.0%)

**Dallas** (-1.6%)

**Calgary** (-1.6%)

**Philadelphia** (-1.4%)

## Central Business District (CBD) Growth Decelerating Faster Than Suburbs:

The **suburbs account for 57%** of sublease vacancy while 43% is in the CBD. Sublease space was growing more quickly in CBD submarkets in the middle of 2020, but suburban growth was larger for both U.S. and Canadian markets in Q1 2021. After a large increase in Q3 2020, the CBD growth rate has dropped significantly (especially in the U.S.). Across North America, sublease space **increased by 13% in the suburbs QoQ versus 8.6% in CBD** submarkets.





# TRENDS

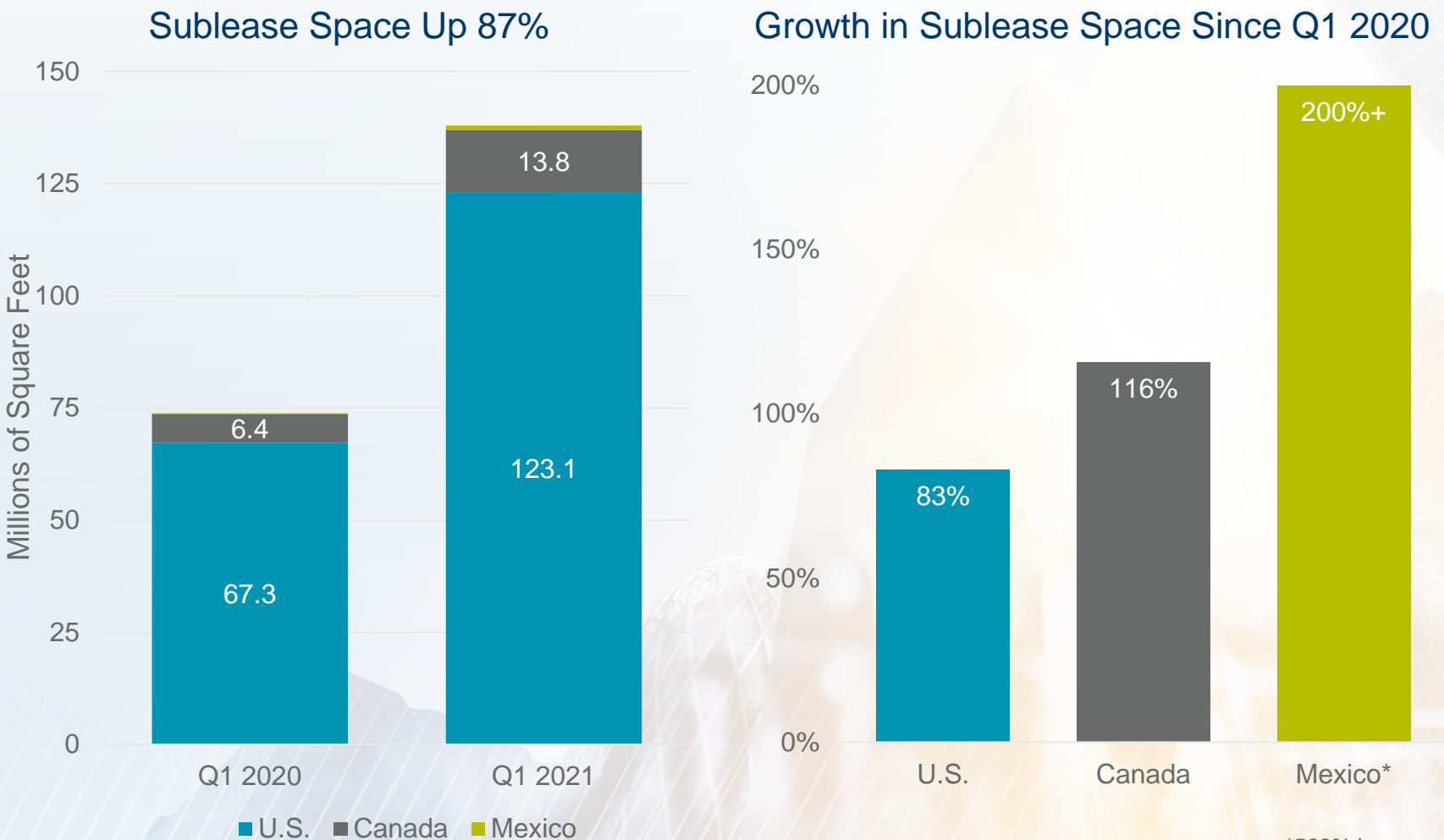


# NORTH AMERICAN SUBLEASE SPACE HAS NEARLY DOUBLED DURING THE PANDEMIC

## Occupiers Took Pause

- As companies reduced office usage during the pandemic, the amount of available sublease space increased 87%, from 73.8 msf to 138 msf.
- Since Q1 2020, nine markets have recorded an increase of 2.0 msf or more:

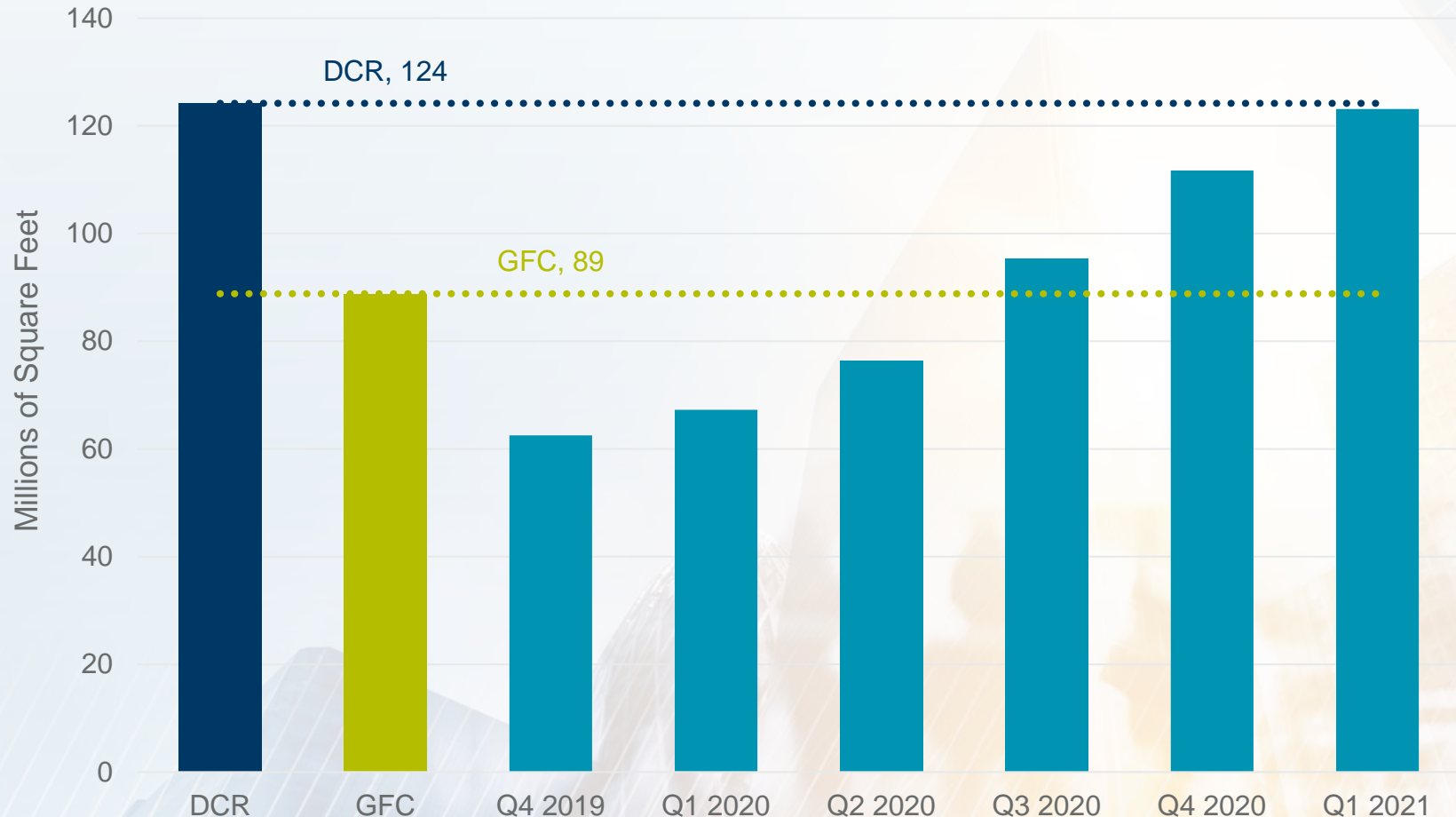
Manhattan (+8.4 msf)  
San Francisco (+5.9 msf)  
Toronto (+4.7 msf)  
Boston (+3.9 msf)  
Chicago (+3.1 msf)  
Seattle (+2.5 msf)  
Austin (+2.4 msf)  
Los Angeles Non-CBD (+2.0 msf)  
Atlanta (+2.0 msf)



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

## At Dot-Com Levels

- Sublease space has grown by 83% in the U.S. YoY and has closed in on its peak recorded at the DCR in 2002 (124 msf).
- The amount of sublease space on the market is 39% higher than at the height of the GFC and has climbed above the proportion of total inventory (2.3% in Q1 2021 vs. 1.8% in Q4 2009). It remains just below the DCR in both absolute numbers and as a percentage of total inventory.
- After peaking in Q4 2009, total U.S. sublease space dropped 28% (-25.1 msf) over the next four quarters and hit its lowest point in Q4 2013 (42 msf).



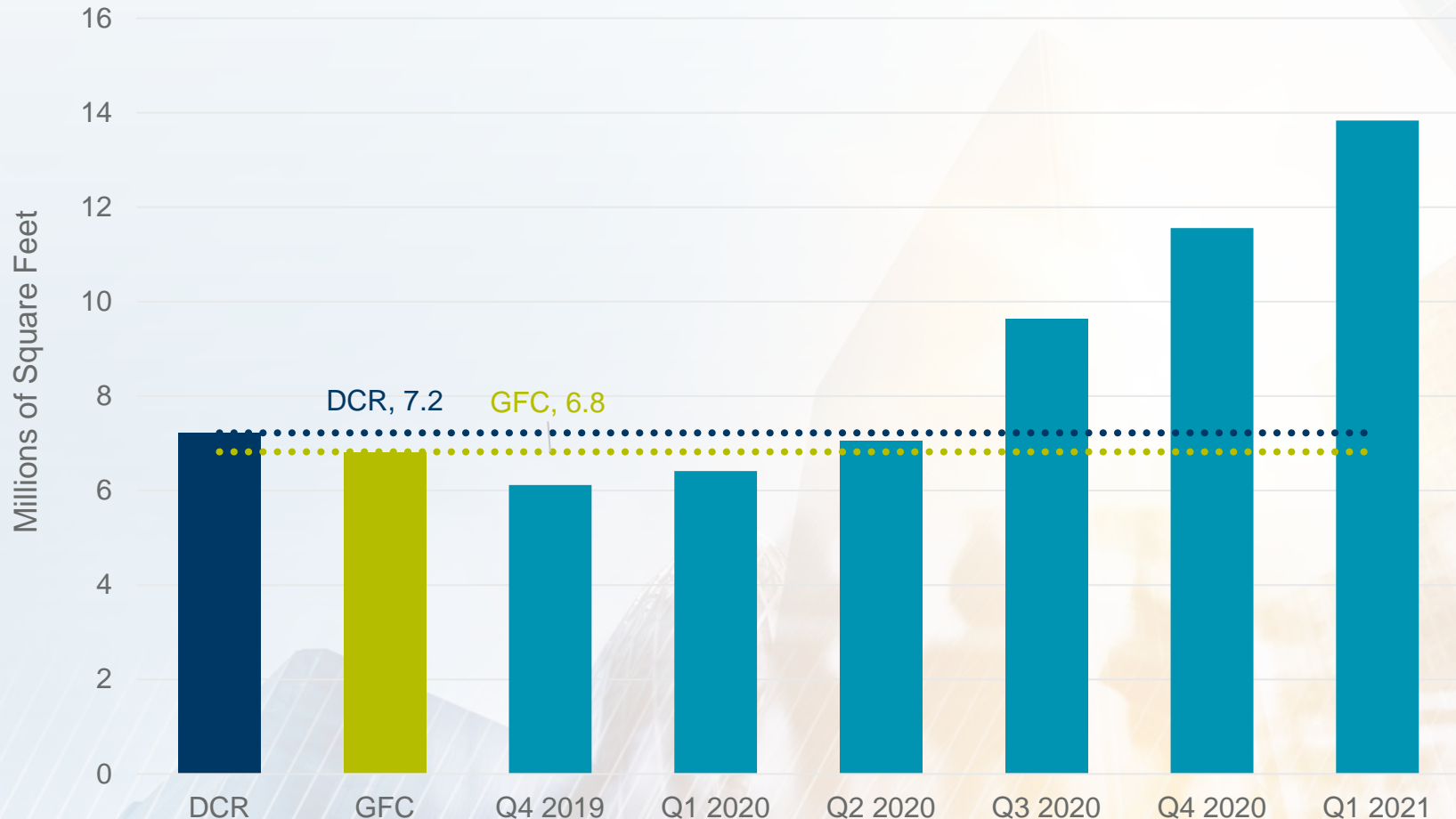


# CANADA: HOW DOES SUBLEASE SPACE COMPARE WITH PAST PEAKS?



## Key Takeaways

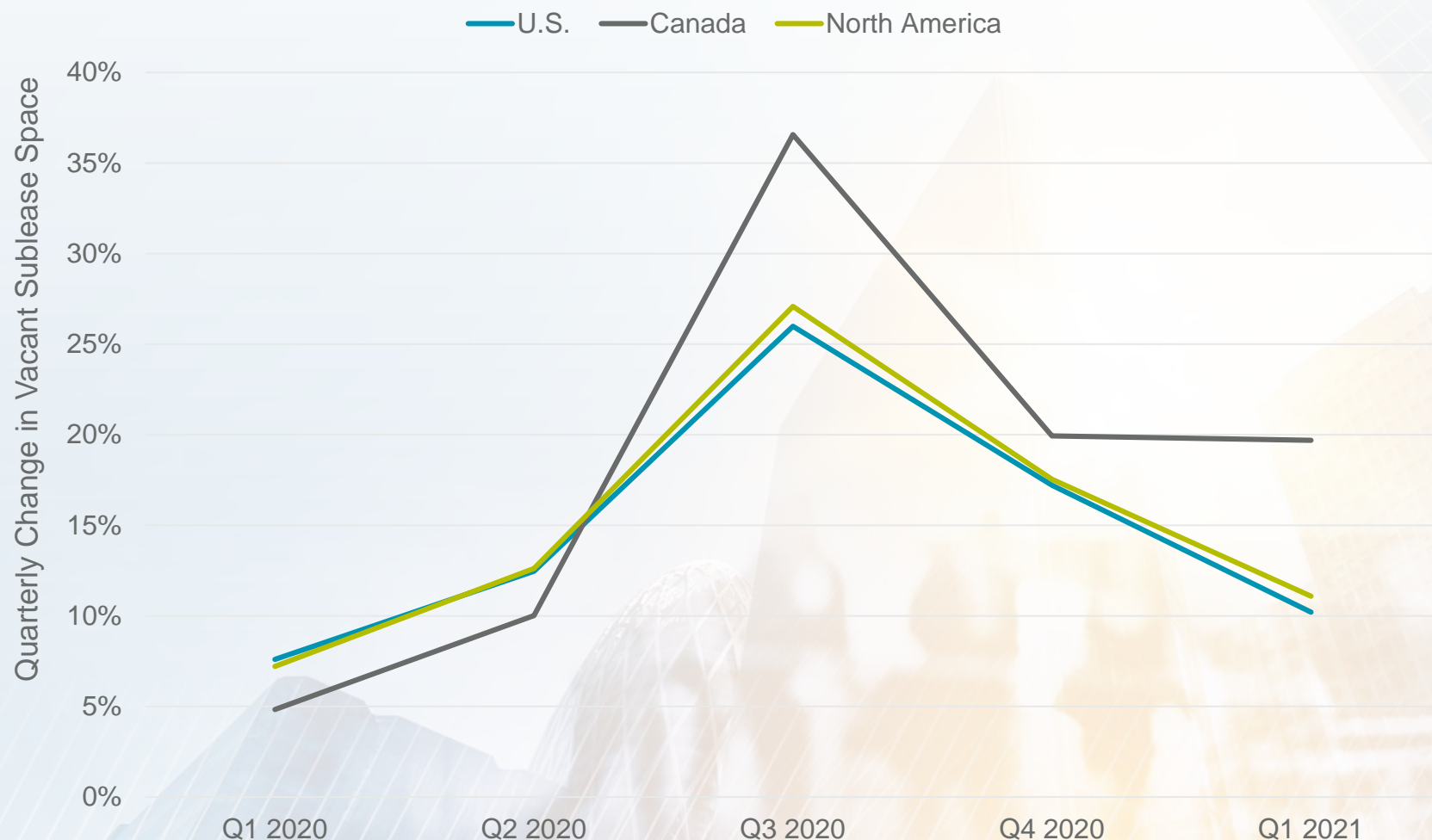
- The four Canadian markets (Calgary, Toronto, Montreal, and Vancouver) recorded a 20% increase during Q1 2021 from 11.6 msf to 13.8 msf.
- Sublease space has more than doubled (+116) YoY and is now 92% higher than the DCR peak and 103% above the height of the GFC.
- Currently, sublease space accounts for 3.3% of Canadian office space, which is higher than the DCR (2.3%) and GFC (1.9%) peaks.



# AFTER PEAKING IN Q3 2020, SUBLEASE SPACE GROWTH HAS BEEN DECELERATING



## Slowing Down of Supply



- Sublease space growth peaked in Q3 2020 for the U.S. and Canada. In Mexico (not shown), the peak occurred a quarter earlier.
- In Q1 2021, sublease space declined in a third of North American markets, including Washington, DC (-13.1%), San Diego (-11.4%), Los Angeles CBD (-3.0%), Dallas (-1.6%) and Calgary (-1.6%).
- Manhattan had a below-average QoQ increase in Q1 (+3.0%), and sublease space dropped in NYC-adjacent markets: Central NJ, New Haven, CT, Westchester Co., and Long Island.





# MARKET LEVEL

North America

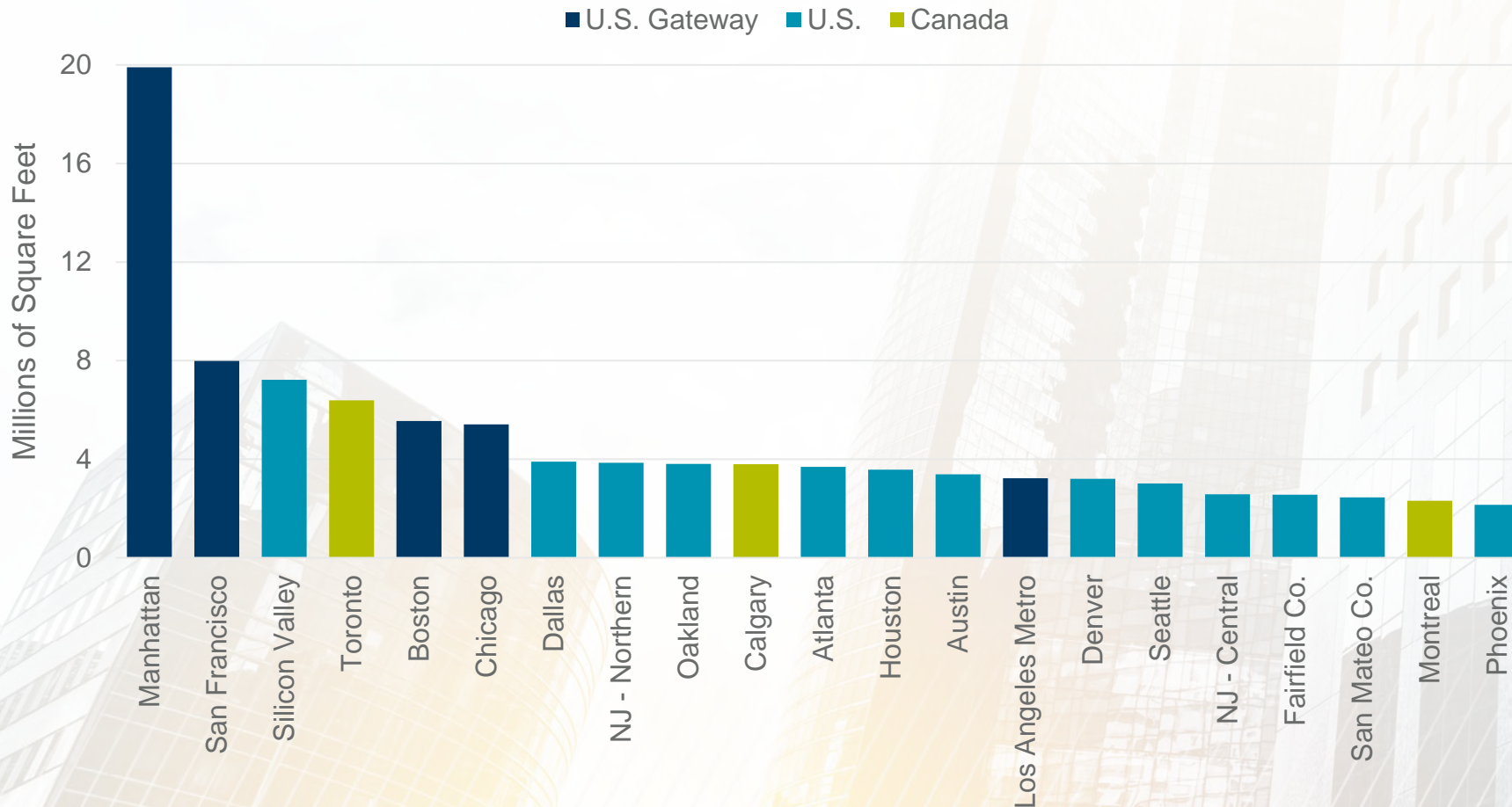


# HOW DO MARKETS STACK UP?

WHERE SUBLEASE VACANCY IS >2.0 MSF

## Key Takeaways

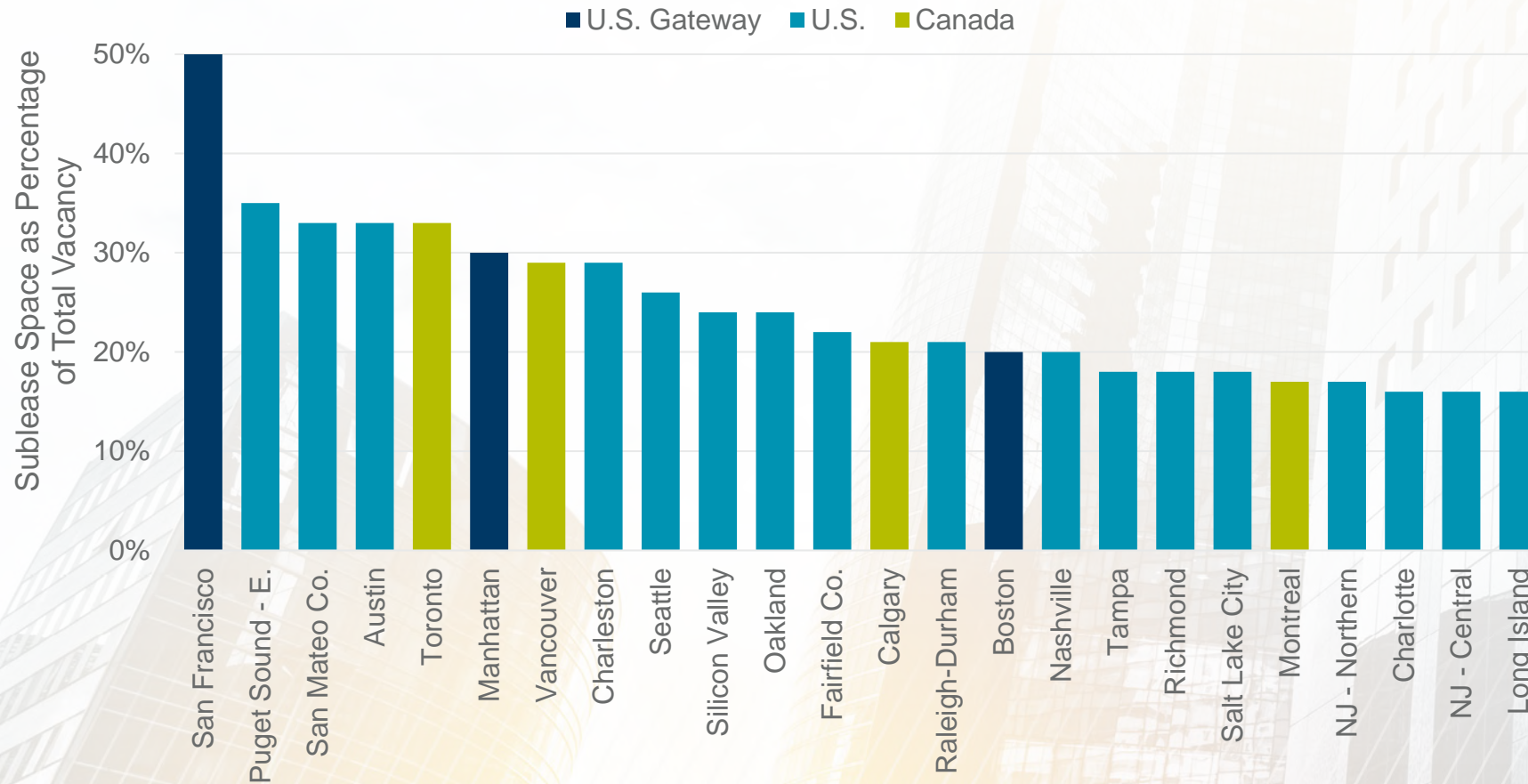
- There are 34 markets that have 1.0 msf+ of sublease vacancy in Q1 2021; 21 markets have 2.0 msf+ (shown on graph).
- Manhattan continued to have the most sublease space of any market (19.9 msf), but as the largest North American market by far, it doesn't have the largest proportion of sublease space. (See *next page*.)
- The 83-market average is just under 1.7 msf.





# HOW DO MARKETS STACK UP?

WHERE SUBLEASE VACANCY IS >15% OF ALL VACANCY



Source: Cushman & Wakefield Research

## Key Takeaways

- There are 24 markets where sublease space is at least 15% of all vacancy.
- Across the U.S and Canada, sublease space accounted for 12.4% of all vacancy with 30 markets at or above that average.
- Sublease space accounted for 30% or higher of vacancy in San Francisco, Puget Sound-Eastside, WA, San Mateo County, CA, Austin, Toronto and Manhattan.
- San Francisco is the only market of the 83 that had more sublease vacancy than direct vacancy at 50.4%.

# HOW DO MARKETS STACK UP?

## TOTAL AS PERCENTAGE OF INVENTORY, SELECT MARKETS

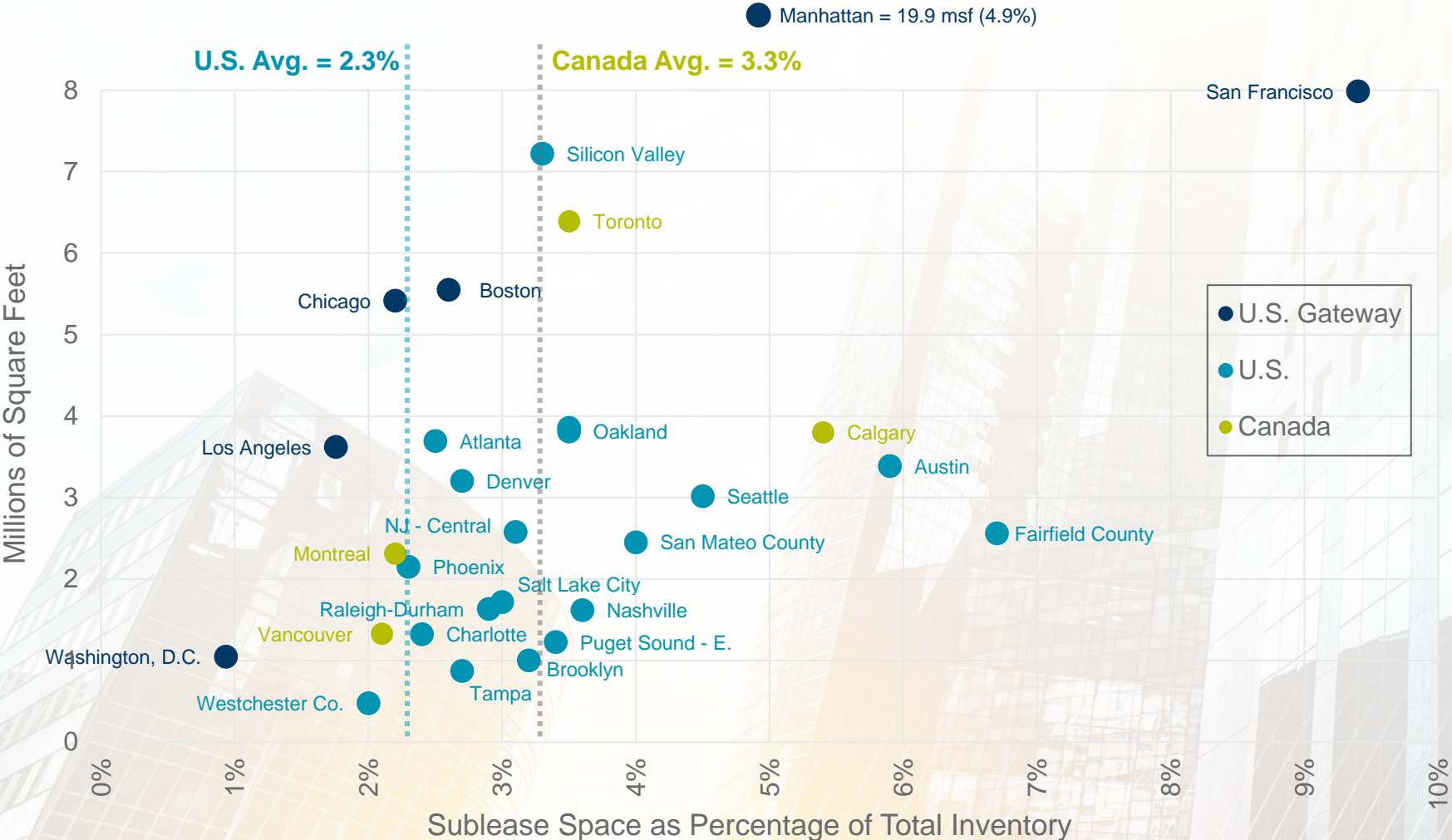


### Key Takeaways

- In Q1, 31 markets have vacant sublease space that accounts for 2.0%+ of total office inventory, led by:

San Francisco (9.4%)  
Fairfield County, CT (6.7%)  
Austin (5.9%)  
Calgary (5.4%)

- The U.S. average is 2.3%, and the Canadian average is 3.3% of total office inventory.
- Across the six U.S. gateway markets, sublease space accounts for 3.5% of office inventory.



Source: Cushman & Wakefield Research





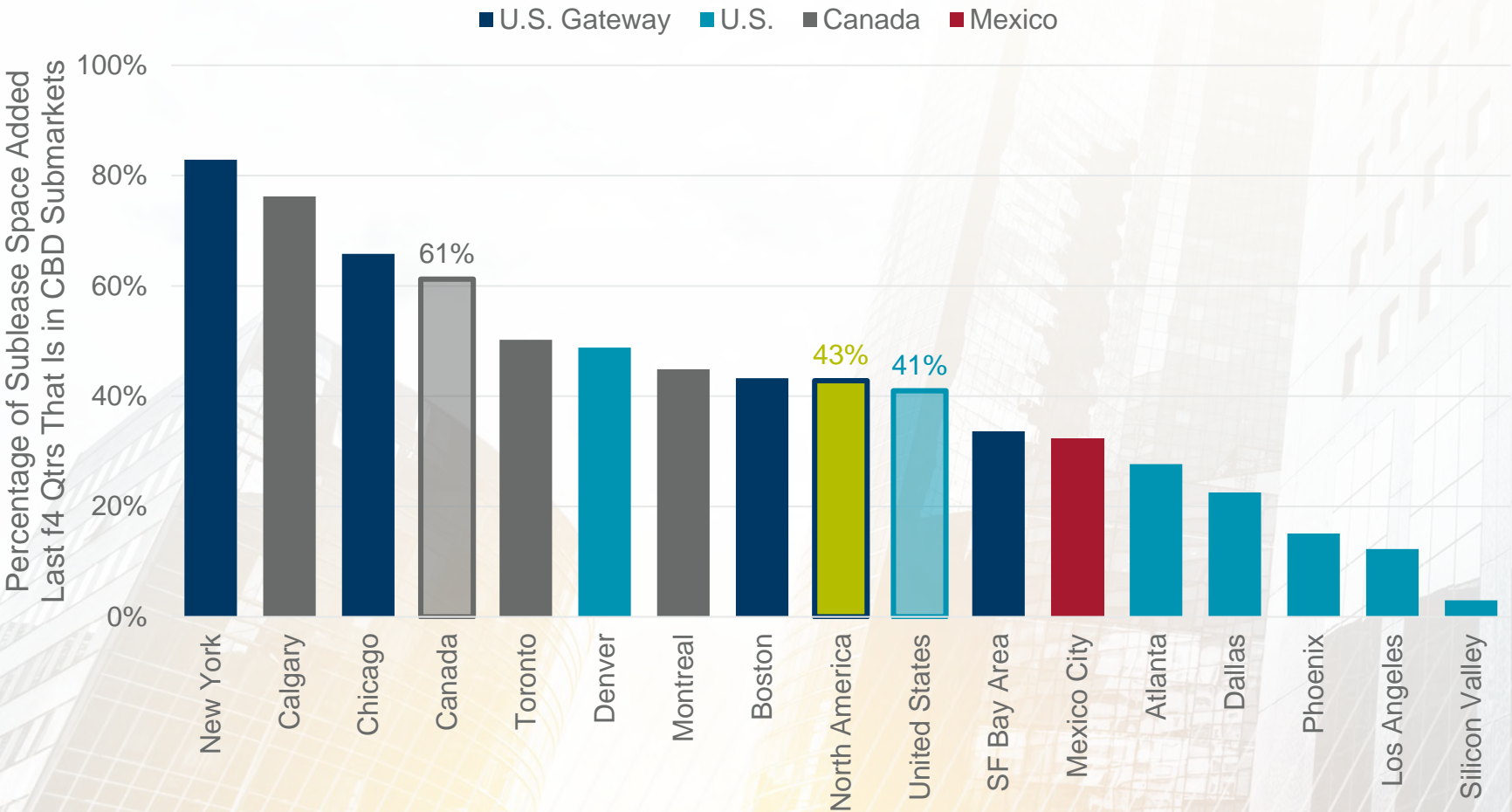
# CBD VS. NON-CBD

## North America



# CBD SHARE IS UP YOY

## PERCENTAGE OF SPACE IN CBD, SELECT MARKETS



Source: Cushman & Wakefield Research

### Key Takeaways

- In the last four quarters, 41% of U.S. sublease space added to the market was in the CBD. In Canada, the trend is higher—61% of new sublease space was in the CBD.
- In the last year, only Houston recorded a decline in sublease vacancy in both the CBD and Suburban markets; 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.

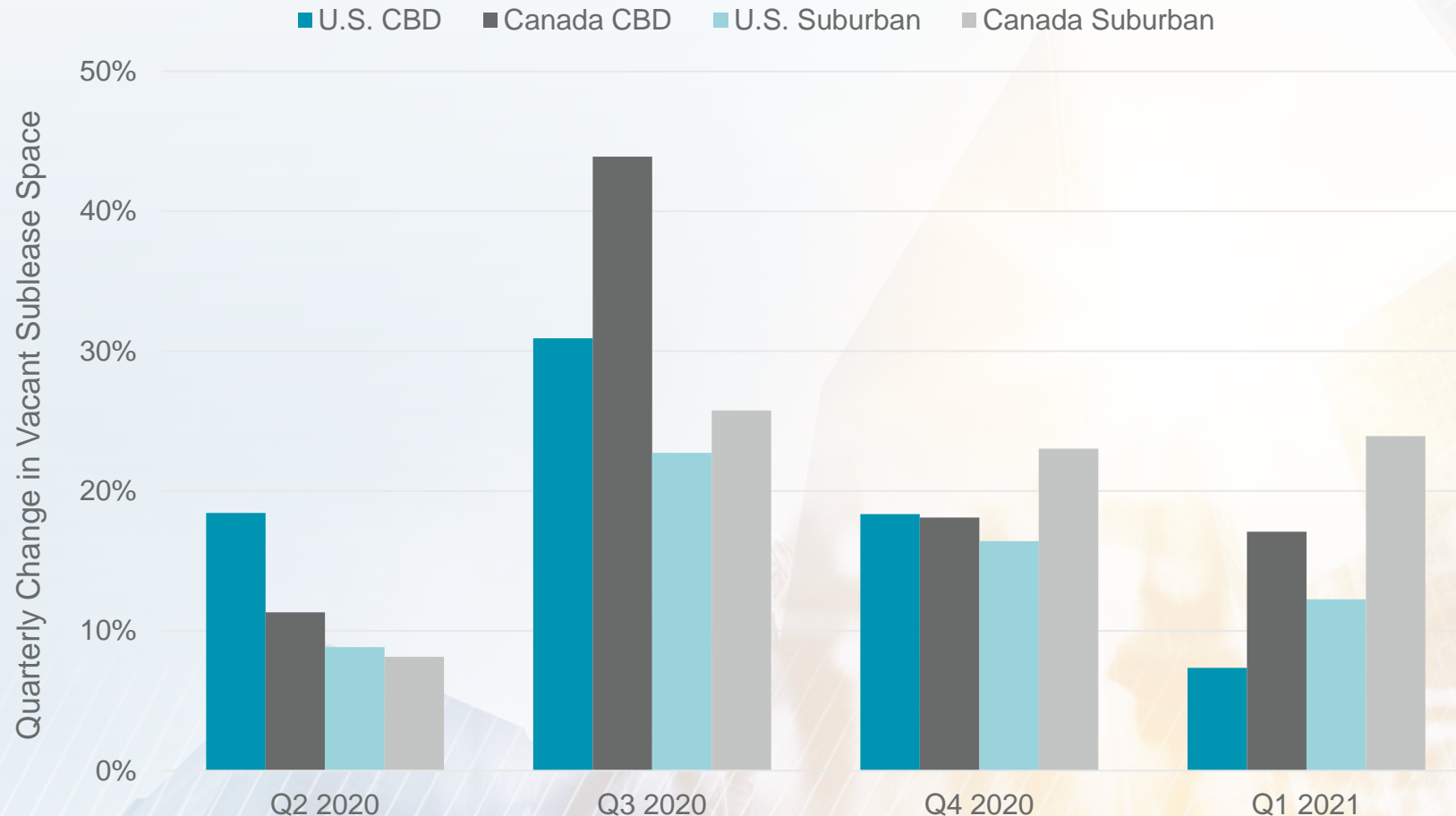
*SF Bay Area* = San Francisco, Oakland/East Bay, San Francisco North Bay and San Mateo County.



# GROWTH IN CBD PEAKED IN Q3, BUT IS NOW BELOW SUBURBAN GROWTH RATES

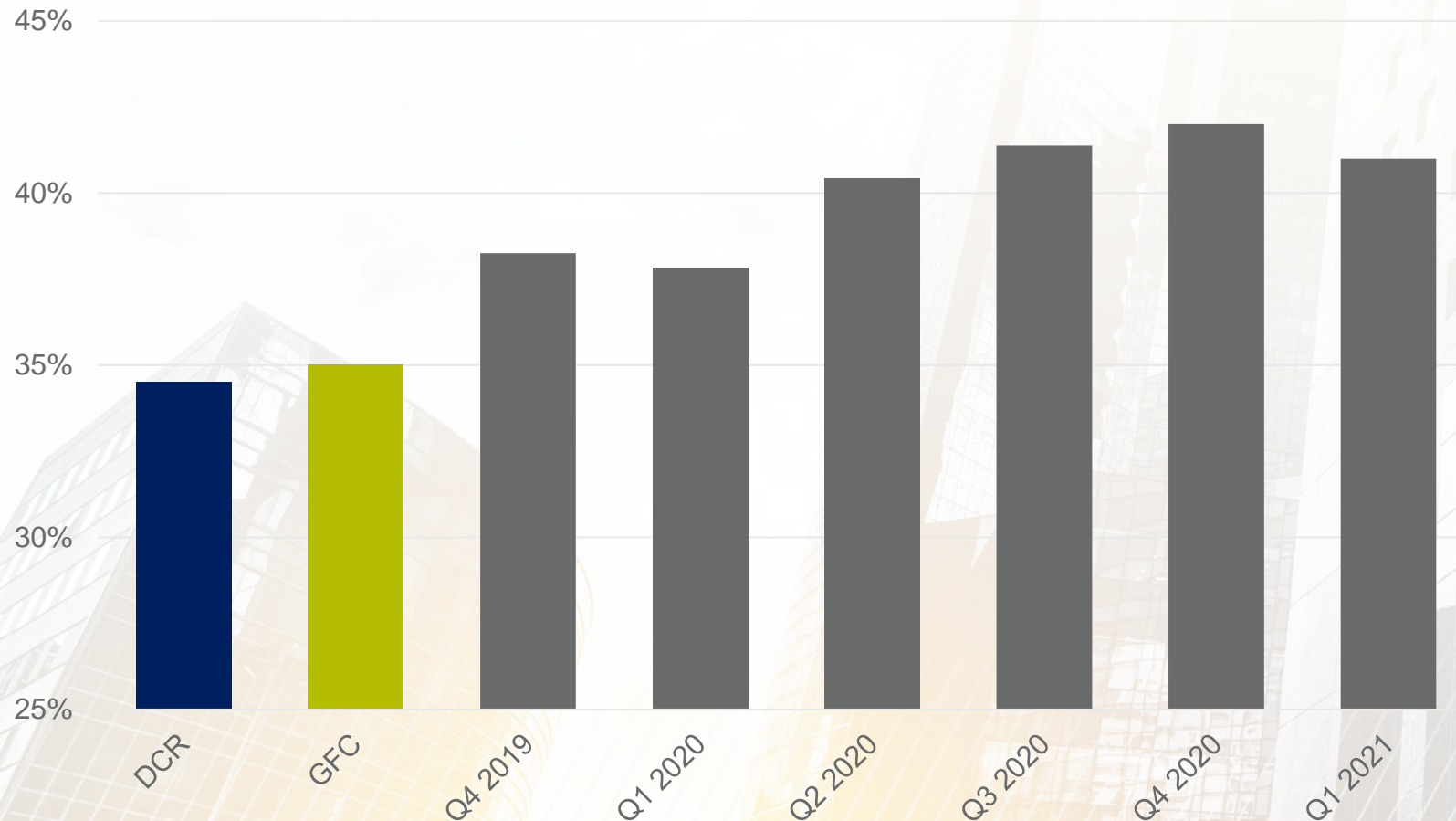
## Improvements in CBD

- Many city centers were more deeply impacted by the health and governmental impacts of the pandemic. As activity in the CBDs declined, occupiers were more likely to put some of their space on the sublease market during the summer of 2020.
- After a large increase in Q3 2020, the CBD growth rate has dropped significantly (especially in the U.S.).
- The Q1 2021 sublease space growth rate was higher in the suburbs for both Canada and the U.S.



# U.S.: SHARE OF SUBLEASE SPACE PEAKED IN Q4 2020

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



Source: Cushman & Wakefield Research

## CBD Share (U.S.)

- At the beginning of the pandemic, 37.8% of U.S. sublease space was in CBD submarkets. That rose to a peak of 42% by the end of the year.
- In Q1 2021, the share of sublease space in the CBD receded to 41.0%.

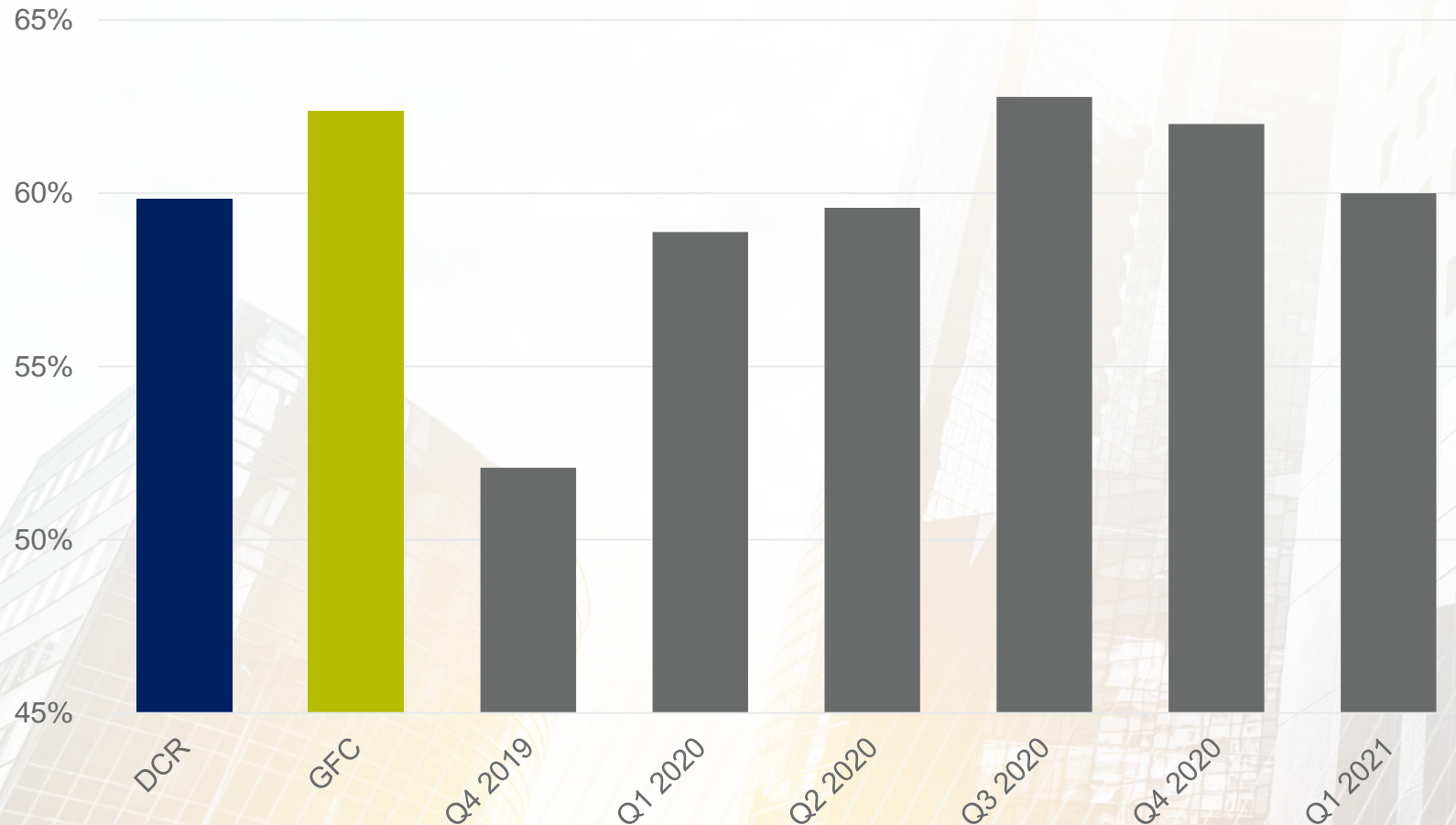
**GFC** – Great Financial Crisis (peak Q4 2009)

**DCR** – Dot-Com Recession (peak Q2 2002)



# CANADA: SHARE OF SUBLEASE SPACE PEAKED IN Q3 2020

## CBD: Share of Sublease Space (Canada)



Source: Cushman & Wakefield Research

## CBD Share (Canada)

- At the beginning of the pandemic, 52.1% of Canada sublease space was in CBD submarkets. That rose to a peak of 62.8% in Q3 2020.
- After declining for two quarters, the share of sublease space in the CBD hit 60% in Q1 2021.

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



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