



CommercialEdge

National Office Report

November 2020



Available Sublease Space Spikes During Pandemic

- The national average full-service equivalent listing rate fell 25 cents in October from the previous month, to \$38.11. However, rates increased 0.6% from the same period last year. The national vacancy rate decreased 20 basis points month-over-month to 13.4%. Listing rates appear to be sticky relative to demand as owners wait out the pandemic instead of lowering rates to attract potential tenants that currently may not even exist.
- We are beginning to witness a spike in sublease availability across the country. In April 2020, the top 30 markets had a total of 50.8 million square feet of sublease space available. Over the past seven months, that number has increased 41.7% to 72.0 million. Sublease space has more than doubled in San Francisco (from 2.3 million to 5.1 million square feet) and Boston (0.8 million to 1.7 million). Currently, 3.5% of all space in San Francisco is available as a sublease. In the Bay Area, the sublease vacancy rate is even higher, at 3.8%. Austin and Dallas, currently the only two major markets with positive office-using employment growth year-over-year, have also seen available sublease space increase significantly since April.
- Positive news regarding the efficacy of a vaccine for COVID-19 should be reason for optimism in the office sector as it comes to grips with how this crisis will alter the utilization of office space in the future. While there are reasons to believe that the traditional model of 40 hours across five days a week at an office building will not return, it is also reasonable to think that companies will want to retain some office space for the social aspects of work that have diminished throughout the pandemic. Team and culture building are nearly impossible to do remotely, and once normalcy returns there will be a long, gradual reassessment of how much space companies need and how best to utilize it. An increased emphasis on experiences and the ability to adapt quickly to changing preferences will define much of the next decade of the office industry. In that manner, the challenges facing the office industry are not dissimilar to the challenges faced by retail in the last decade.
- Employment in sectors classified as office-using could also provide a ray of optimism in a sea of uncertainty. Office-using sectors, down 4.1% year-over-year, have continued to fare better than the labor market as a whole, down 6.1% year-over-year.

