

BRIEF | Intelligent Investment

Sublease inventory increases as industrial tenants rescale footprints

GREATER LOS ANGELES, ORANGE COUNTY & INLAND EMPIRE

by Deepa Shah, Rick Cozart and David Barnett

As the industrial market continues to normalize, tenants are shedding underutilized space. CBRE’s [national industrial sublease brief](#) saw sublease availability more than double from June 2022, yet still represented less than 1% of the total industrial inventory. The Inland Empire market was the top market for available sublease blocks of 300,000 sq. ft. and above at 5.9 million sq. ft. as of September 2023.

The context of industrial sublease space, however, is important. The increase in industrial sublease space seen in the past six quarters does not necessarily equate to falling market conditions. While economic uncertainty remains, there are other factors to consider.

Tenants may sublease space for a short term until they are able to use the space again, while others may be subleasing their space as part of a consolidation plan that was already scheduled. Additionally, given current lease rates, some tenants are subleasing space as an opportunity to profit on highly-valued yet underutilized warehouse space.

GLA/OC/IE Subleases, Class A

31.9%

GLA/OC/IE Subleases, Class B

44.0%

GLA/OC/IE Subleases, Class C

24.2%

FIGURE 1: Industrial Sublease Availability by Market



Source: CBRE Research, Q2 2023.

The IE leads nation in sublease availability, but this is not a bad thing

In the Inland Empire (IE), 10.2 million sq. ft. of sublease space was on the market as of September 2023. 53% of the sublease space in the IE was for spaces 250,000 sq. ft. and above.

With sublease asking rates commanding \$0.24 less than direct asking rates (\$1.22 NNN vs. \$1.46 NNN per sq. ft. per month), subleasing a portion of a facility is an enticing option for several occupiers. For companies that signed their lease prior to the accelerated rent growth of 2021, subleasing has the potential to generate enough revenue to exceed their entire rental obligation given the rapid growth in taking rents. Nationally, taking rents have increased nearly 67% over the past three years, while they've grown a striking 160% in the IE.

While the Inland Empire continues to see increasing sublease space, the amount available is less than 2% of total Inland Empire industrial inventory and will not threaten the market's consistent growth and demand.

Greater Los Angeles (GLA)
Total Availability, Q2 2023

3.8%

Orange County (OC)
Total Availability, Q2 2023

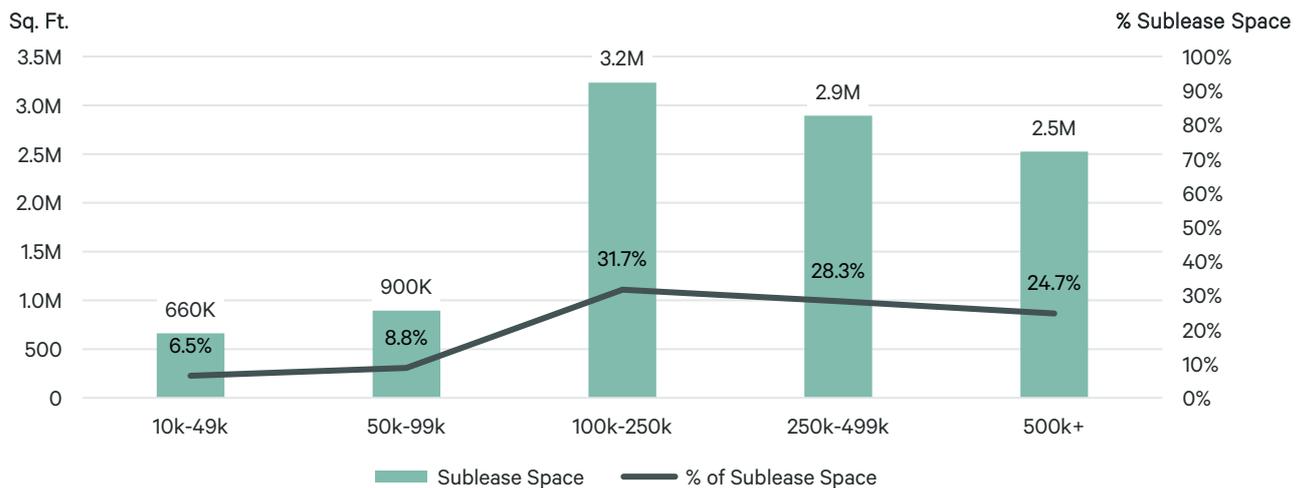
3.4%

Inland Empire (IE)
Total Availability, Q2 2023

5.9%

Note: Total availability includes direct and sublease spaces.

FIGURE 2: Inland Empire Industrial Sublease Availability by Size Range



Source: CBRE Research, September 2023.

Contacts

Deepa Shah
Research Manager
Field Research
OC-IE
deepa.shah@cbre.com

Rick Cozart
Sr. Research Analyst,
Field Research
IE
rick.cozartii@cbre.com

David Barnett
Director of Research,
Thought Leadership
GLA-OC-IE
david.barnett@cbre.com

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