

BRIEF | Creating Resilience

Subtenants Take Time Shopping in an Open Office Market

By Yemas Ly
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Surpassing the previous all-time high of 3.5% during the Great Financial Crisis in 2008, the sublease availability rate surged to 6.2% at the start of 2023. Tenants renege on their lease commitment has become increasingly common; both the ubiquity of remote work and the onset of the pandemic have caused subleasing to skyrocket, ramping up again after calming in 2021.

While overall leasing volume in 2023 has been dull compared to 2022, the average time on market has remained somewhat steady, at around a year on market for subleases signed in each year. Examining the subleases on a bell curve reveals that 95% of listings spend between 301 to 492 days on market before being signed, as prospective tenants are leveraging the down market for the best deal terms.

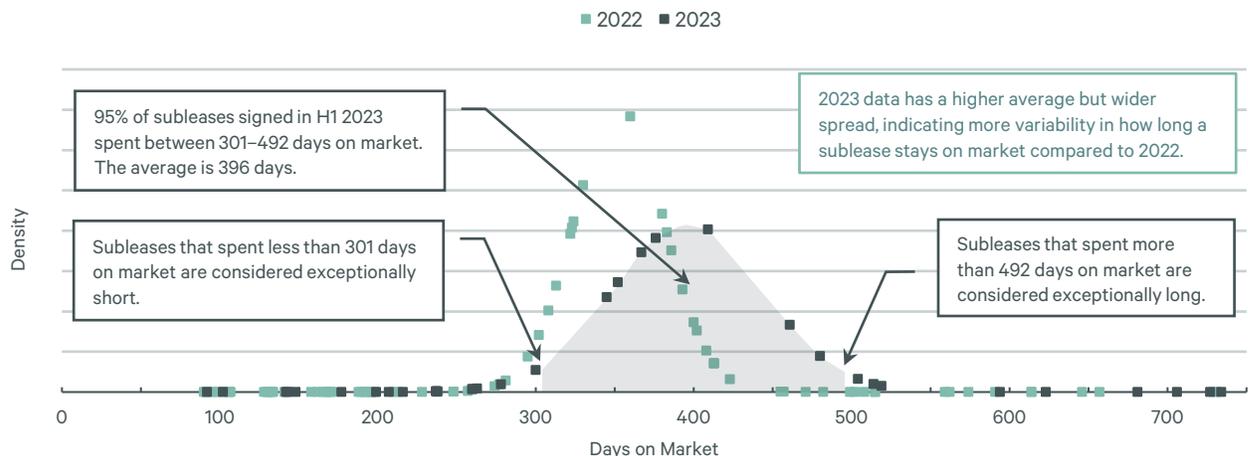
Puget Sound Sublease
Average Time on Market
(Large Spaces over 10 KSF)

476 days

Puget Sound Sublease
Average Time on Market
(Small Spaces under 10 KSF)

338 days

FIGURE 1: Puget Sound Market Normal Distribution of Average Days on Market for All Sublease Deals



Source: CBRE Research, Q2 2023.

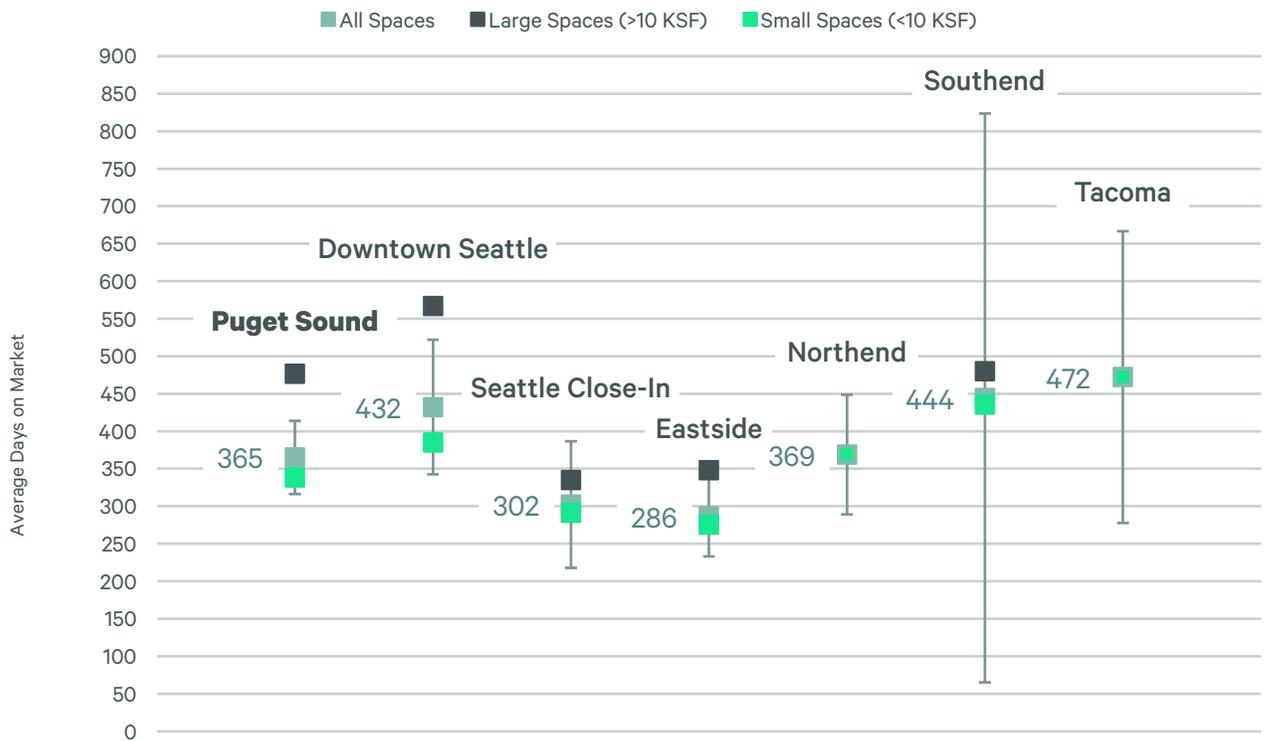
*Data includes large outliers not shown

Large spaces in the Puget Sound area typically spend more time on market before being signed than small spaces, due to larger commitment and more intricate negotiation for deal terms. The difference in the averages for time spent on market between small and large sublease deals is 138 days. With the overall weighted average sublease term length being 3.4 years (new leases signed after Q1 2020), sublessors may be in for a wait.

These metrics are more pronounced in the Downtown Seattle submarket, where the withdrawal from technology tenants has had a deeper impact. Downtown Seattle not only has the largest inventory out of the submarkets, but also a variety of premium and vintage buildings from which tenants of diverse industries may choose. Prospective subtenants do not feel rushed with the buffet of options available, which may contribute to the large standard deviation. In the Downtown Seattle submarket, 95% of sublease listings are signed within 342–522 days.

In an office market with healthy leasing activity by small and medium users, large-scale blocks of sublease space listed by Big Tech may be skewing the data. For example, Amazon advertised Rainier Square for sublease several quarters before its delivery, adding weight to overall time on market. Its longer sublease term length also tends to attract long-term traditional users, which also increases overall sublease term length.

FIGURE 2: Puget Sound Market Standard Deviation Average Days on Market for Sublease Deals

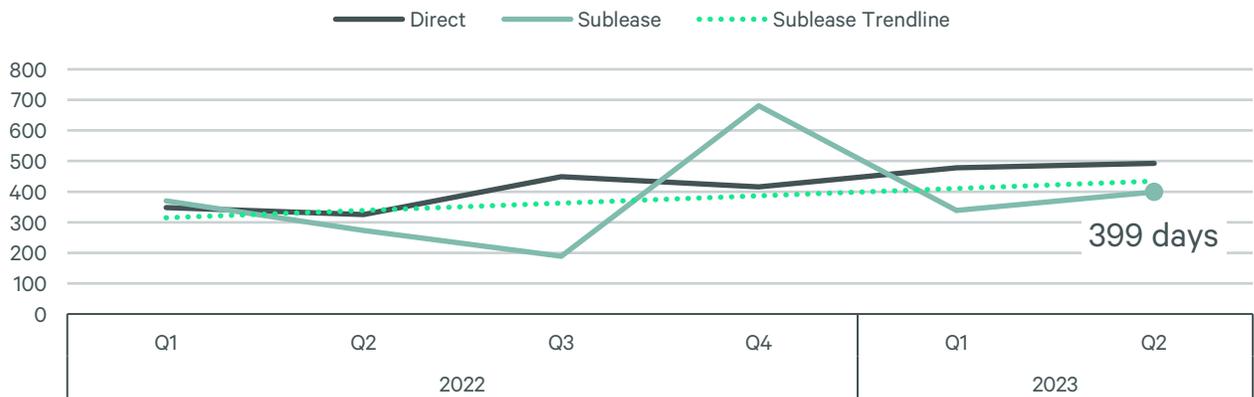


Source: CBRE Research, Q2 2023.

The Age of Subleases in Downtown Seattle

The Downtown Seattle submarket stood out in Q2 as the lone submarket in which sublease vacancy decreased, even as sublease availability continued to rise. Juxtaposed with the dramatic quarter increase of over 1 million sq. ft. in direct vacancy, the new phenomenon suggests that more sublease listings are transitioning to direct space, becoming the landlord’s responsibility (i.e., sublessors ran out of time waiting for their qualified subtenant).

FIGURE 3: Downtown Seattle Submarket Average Days on Market

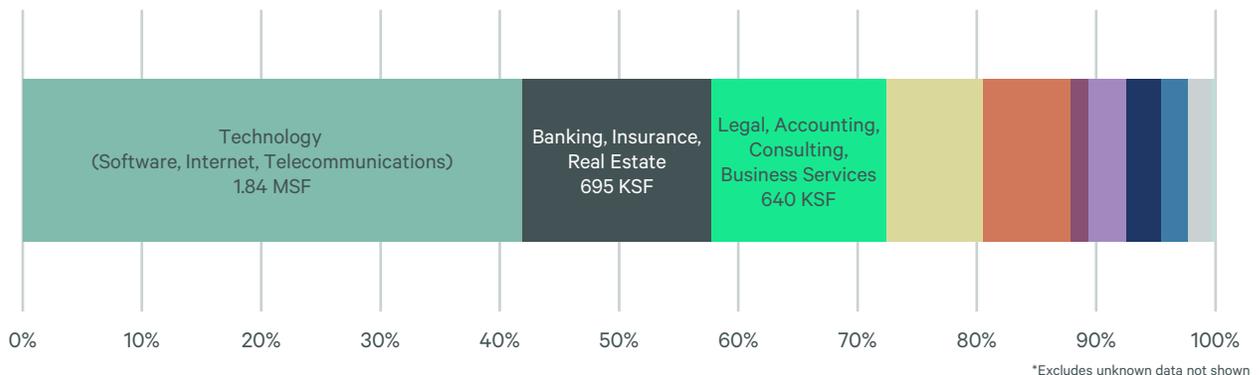


Source: CBRE Research, Q2 2023.

Sublease Supply

Echoed over the past few years, technology companies have been shedding office space, due to overleasing pre-pandemic or through a re-evaluation of space needs. Space listed for sublease by technology tenants comprise 43% of overall sublease availabilities in the Downtown Seattle submarket.

FIGURE 4: Downtown Seattle Sublease Availabilities Listed by Business Sector



*Excludes unknown data not shown

Source: CBRE Research, Q2 2023.

Local brokers have been reporting over the past few quarters that premium market-ready suites with flexible terms are in high demand. Sublease space can often come with furniture, as it had already been built out by the original tenant, and the packaged suite would dampen moving costs for an incoming subtenant.

Built-out technology and creative spaces tend to have an open layout and are more malleable to a new subtenant while traditional office spaces with private offices require more tenant improvements.

Downtown Seattle
Class A Subleases Leased
(Past 12 Months)

352,792 SF

0.85% of Class A Inventory

Sublease Demand

- Since 2021, spaces listed by an outgoing technology tenant were leased more than spaces listed by any other business sector.
- The majority of these tracked technology subleases were signed in Class A buildings. The volume of Class A technology space taken off the market was almost triple the amount of that in Class B subleased at 232,597 sq. ft.

Downtown Seattle
Class B Subleases Leased
(Past 12 Months)

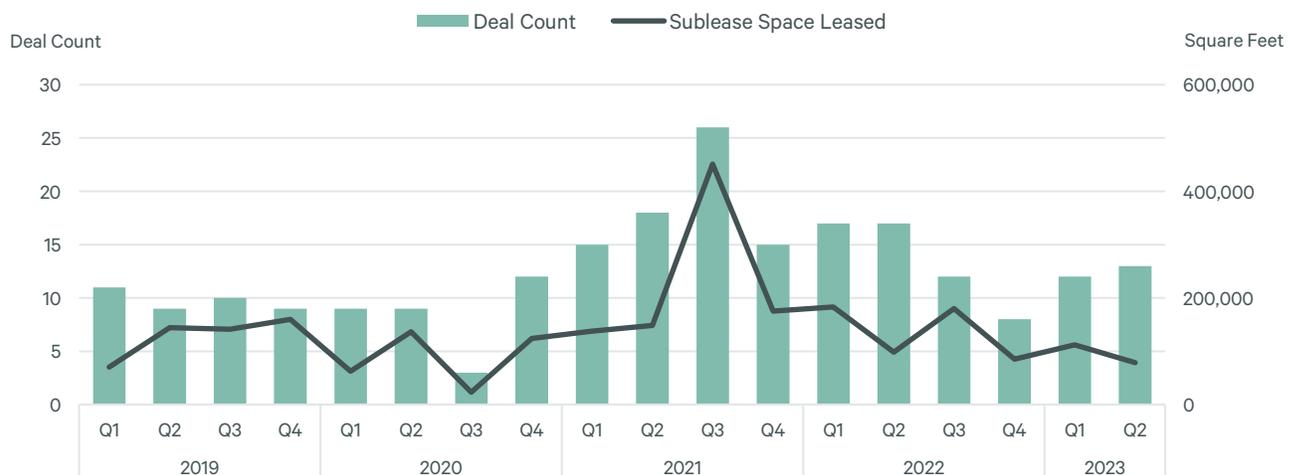
100,677 SF

0.91% of Class B Inventory

While the average size of a sublease deal has contracted throughout all classes of property, Class A subleases that were leased continued to be larger and more in demand. The average size for a Class A sublease signed was 12,600 sq. ft. compared to 6,331 sq. ft. for Class B, which tend to be of older vintage, over the past 12 months.

Since the end of 2022, sublease volume plateaued while deal count increased, reflecting the current makeup of small and medium users leading demand in the market.

FIGURE 5: Downtown Seattle Submarket Quarterly Sublease Volume



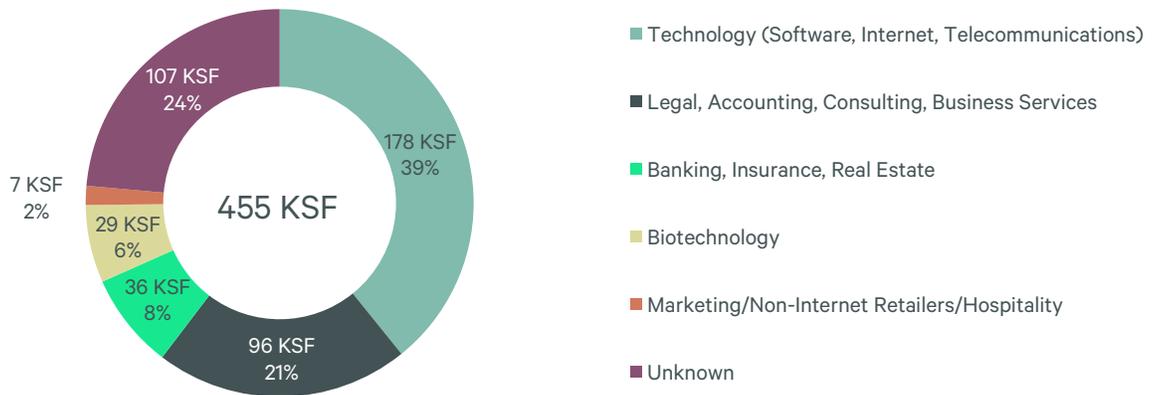
Source: CBRE Research, Q2 2023.

Currently, the three most active business sectors in the Downtown Seattle submarket are technology, legal and business services, and banking and professional services. While they are listing the most space for sublease, they are also leasing the most sublease space.

Despite the current sentiment of technology tenants receding into the background, they are still the dominant sector individually for advertising and successfully leasing office space.

Overall, market activity has been slow. With 2 million sq. ft. in direct and sublease space requirements, tenants in the market have time to assess which space is most suitable for them.

FIGURE 6: Downtown Seattle Submarket Sublease Leasing by Industry, Previous 12 Months



Source: CBRE Research, Q2 2023.

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