

US Industrial Sublease Listings Jump to Highest Level Since 2010

West Coast Leads Nation in Sublease Availability Rates



The 487,000-square-foot listing within Goodman Logistics Center in Fullerton, California, is one of the largest industrial spaces available for sublease on the West Coast. (Darren Asay/CoStar)

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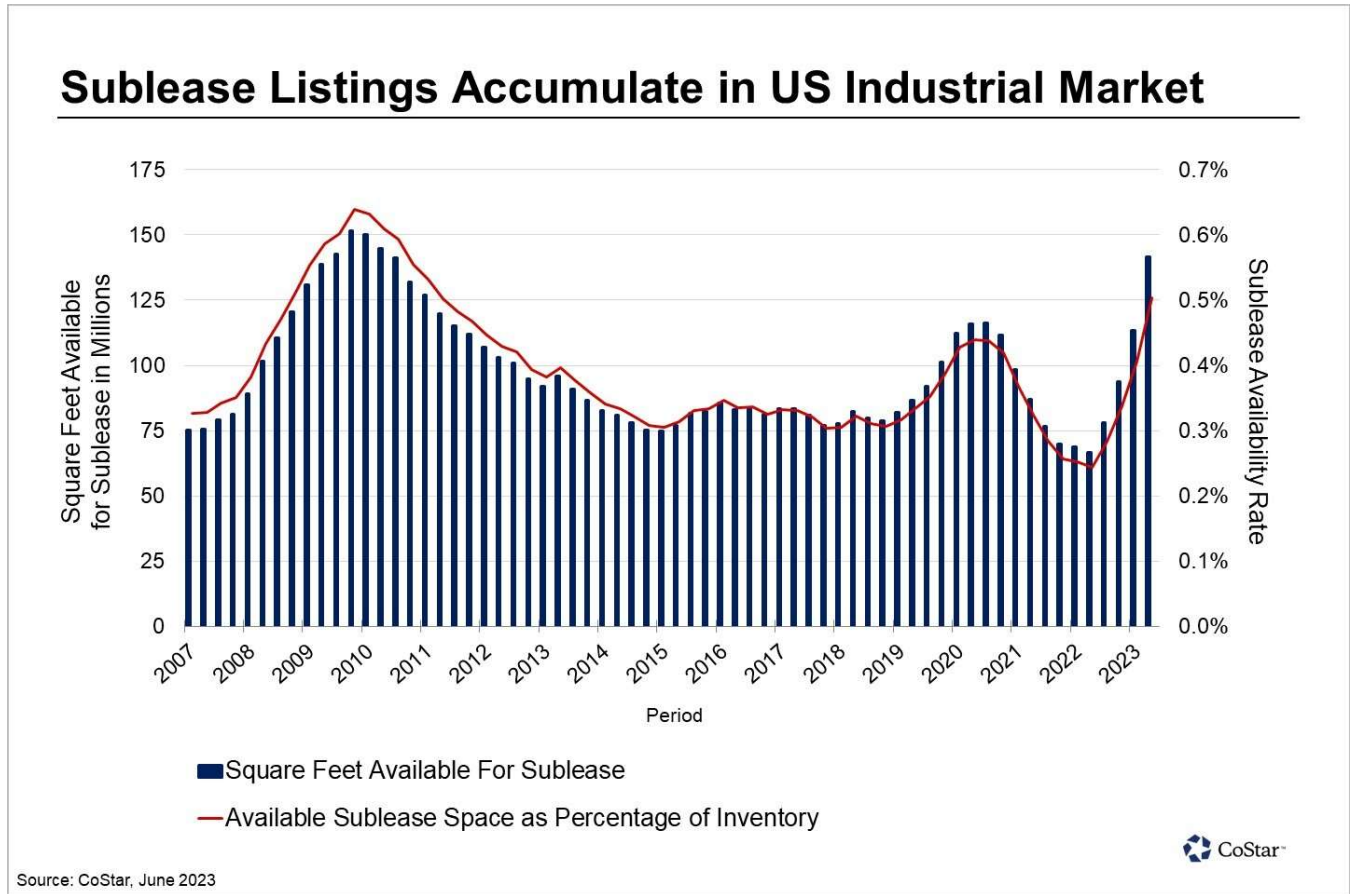
June 19, 2023 | 10:01 P.M.

At 0.5%, the portion of industrial space listed for sublease in the United States is limited and amounts to a small fraction of the current 2.0% sublease rate within the nation's office market. However, industrial sublease offerings are rising quickly.

Space listed for sublease across all existing and under-construction U.S. industrial properties began to increase in the summer of 2022, just a few months after the Federal

Reserve began raising interest rates to slow economic growth and tame inflation.

Since then, the pace at which new sublease listings have been coming to market has been accelerating. So far in the second quarter, total industrial space listed for sublease has risen by 28 million square feet, the largest quarterly increase in sublease availability CoStar has recorded since it began tracking sublease listings across all U.S. markets in 2007.



“The spaces coming to the sublease market tend to be in newly built and high-quality buildings. This is Class A space coming to market, not tied to a flight to quality,” Mark Russo, senior director and head of industrial research at Savill’s told CoStar.

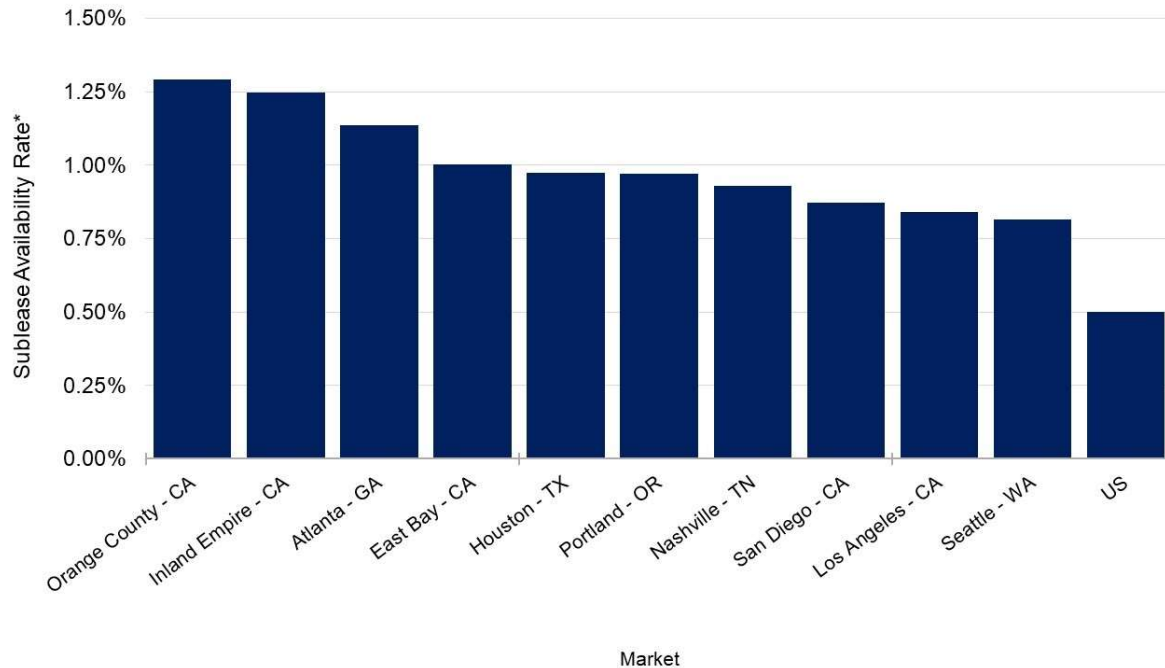
Savill’s was quick to spot this emerging trend in a recent research publication [High-Quality Warehouse Sublets Hit the Market as Occupiers Rightsize](#). “The tenant base giving back space is also quite diverse. It’s not just e-commerce companies,” Russo said.

While Amazon made headlines in early 2022 when the firm [announced plans to slow its real estate expansion](#) and offer more space for sublease, the e-commerce giant is by no means driving the overall trend. CoStar is tracking about 6.6 million square feet of industrial space listed for sublease by the e-commerce giant since June 2022, representing just under 10% of the total increase in available sublease space nationwide during that same time.

Other e-commerce retailers appear on the list of tenants offering some of the nation's largest sublease spaces. Online pet supply retailer Chewy recently put two large industrial spaces up for sublease, including 600,000 square foot space at a [distribution center near Harrisburg](#), Pennsylvania, and a [567,000-square-foot space](#) outside of Reno, Nevada.

However, with higher mortgage rates suppressing home sales, several businesses that sell higher-priced household furnishings and appliances are also offering some of the largest sublease spaces. Companies in this category include [Conn's HomePlus](#), [Keeco](#), [Big Lots](#) and [Kohler](#), all of whom are seeking to sublease spaces larger than 500,000 square feet.

Most Major West Coast Markets Have Above Average Sublease Availability Rates



*Sublease availability rates include all existing or under construction industrial space currently listed available for sublease as a percentage of each market's existing industrial stock.
Sources: CoStar, June 2023



Seven of the 10 U.S. markets that rank highest for sublease availability rates are on the West Coast. This may be partly due to higher rents in West Coast markets, which make it more financially advantageous for tenants to sublease underutilized space in those locations. Recent declines in import traffic amid tense labor contract negotiations involving West Coast dockworkers may also be playing a role in driving higher sublease rates near major ports in California and Washington state.

Until confidence in the near-term economic outlook improves, sublease offerings are likely to rise further.

“Available sublease space is closely tied to economic growth cycles,” Savill’s Russo added. “It will peak when the hopefully short and shallow recession that most economists believe we are approaching reaches its trough.”

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