

NKF PERSPECTIVES CLEVELAND

DIRECT SPACE VS. SUBLEASE

COVID-19 has awakened both building owners and occupiers to examine their space needs. In fact, the “shuffling” of space considerations greatly increased in the second quarter of 2020 and continues.

The following summarizes the Cleveland office market and beyond as it relates to direct versus sublease space:

- Sublease space availability has increased both in the total number of marketed sublease spaces and in sublease square footage that is available. *See the graphs to the right.*
- Direct space and sublease space will compete with each other as a result of the increase in sublease space coming to the market.
- How will direct space compete with sublease space?
 - Direct space will offer incentives such as free rent and tenant improvements.
 - Subleases will offer lower rates.
- As decision-makers grapple with whether to place sublease space on the market, they need to consider the potential for redesigned office space. Is 150 square feet per worker appropriate in a post-COVID world, or should that figure rise?
- Tenants need to figure out the number of people that are going to be in the space and how much space is going to be allocated to each employee.

Subleasing Nationally

Nationally, the second quarter ended with 111.0 million square feet of sublease space available, equal to 2.3% of the total office inventory and an increase of 30 basis points from one year ago.

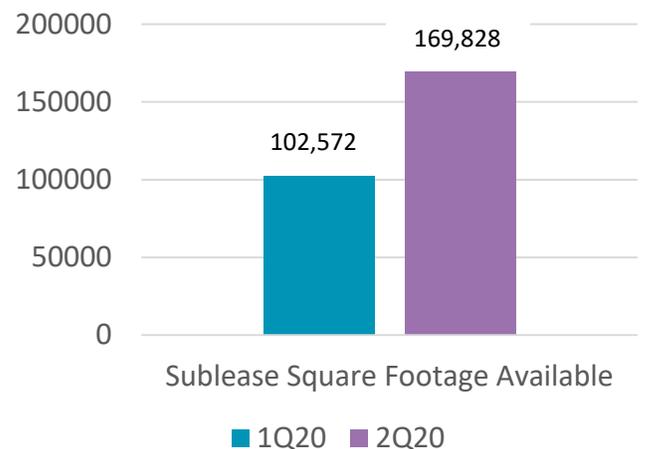
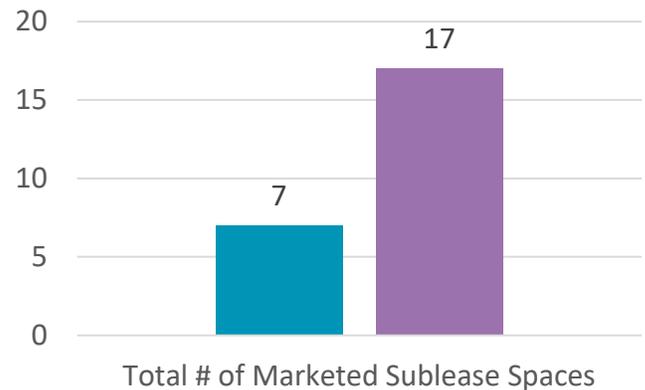
This is up from the cyclical low of 1.7% of inventory in 2014.

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- Some tenants are holding back space to accommodate social distancing plans once workers return to the office, thus yielding an increase in square feet per employee for those who are present.
- The sublease market reflects an ongoing tension between the possibility of more remote work (meaning a reduced need for space) and the need for more space per employee for those in the office due to physical distancing.
- Ultimately, the sublease conundrum for office tenants is how to control occupancy costs during a period of economic dislocation while also retaining the space needed to implement a new workplace strategy.

We invite our clients to call on us for guidance and to visit ngkf.com/covid-19 for more market information.