Subletting in California - Advising Leasing Trends for Clients in a Tech Hub

Team D for Data - MingMing Zhang, Monica Zhu, Parithy Senthamilarasan

We first performed exploratory analysis on the datasets to narrow our scope - a heatmap was produced comparing total leased square feet by state and the three major sectors (tech, finance, and legal) and revealed that the sector state combos with the highest least sq ft total is financial services in New York (NY) and technology in California (CA). NY had the highest total leased sq ft in general, but the overwhelming contrast of the technology sector compared to financial and legal sectors in CA caught our interest. Therefore we cleaned the dataset and proceeded with a filtered dataset of the markets in CA of the three major sectors, with the less than 10k leased square ft entries taken out to reduce noise.

A question we came up with at first was "Which markets flipped from 'owner' to 'subletter' the fastest?" this is significant to the real estate market because a sudden jump from direct leases to subletting is an early warning of excess space, which is precisely where rents soften, concessions grow, and landlords look to unload or repurpose blocks quickly. Spotting the sectors and markets that flip first lets brokers steer cost-sensitive clients toward bargains and helps owners prioritise which assets need aggressive re-pricing or creative reuse strategies before vacancy drags values down.

In CA, using a time series plot to compare between the legal/finance/tech sectors, we found that tech led the rise in subletting. Sublet share of tech leases rose from 16.5 % in Q4 of 2019 to 23.5 % in Q1 of 2024 (+7 percentage points (pp)). Biggest spike was in 2023, where 77 % of all tech square footage leased that quarter was a sublease. Legal fell from 22 % to 4.8 % (–17.6 pp), so it seems law firms focused on cheaper direct deals instead of subletting space. Finance didn't change much, its sublet share stayed at around 0 throughout, so no meaningful shift. And so what this means is that tech companies are giving back a lot of their office space and listing it as subleases. That means there's lots of tech space sitting empty and up for grabs, so landlords/brokers who want to fill space or repurpose quickly will find the most options by starting with those tech subleases. On the other hand, legal firms are actually locking in new direct leases, so there isn't much leftover space to fill, and finance hasn't changed much at all.

Since the technology sector was of interest, we further investigated individual markets in CA using a dot map. San Francisco and South Bay have the highest tech sublet proportion in general but South Bay saw the highest sublet share increase, while Los Angeles saw a comparably small change in share increase post pandemic. For tech clients looking for offices in San Francisco and South Bay markets there would be a lot of sublets available, which in turn may suggest contraction among major tech firms since it's in the Silicon Valley area (may be due to layoffs and remote working shifts). Orange County and San Diego may be considered secondary markets, as there is significant sublet proportion increase pre vs post pandemic so they can be attractive to smaller clients such as startups looking for low commitment value choices with less competition.

When looking at California's leasing market from a bigger scope, we can see how unemployment and work-from-home policy played a part. Looking at unemployment, the spike in March 2020 gradually lowering in 2021 correlates with the drop in leases in the technology sector at the same time. Similarly, according to the American Community Survey from 2018 to 2023, pre-pandemic levels showed a consistent commute around 28 minutes, however this dropped to the lowest of 21.6 minutes during the pandemic, as more workers started working hybridly and prioritizing shorter travel times. Post-pandemic, unemployment was steadily rising and average commute times increased up to 25 minutes with no signs of decreasing, so leasing near residential areas would be advantageous for both employers and employees now working in-person.

Overall, tech clients can capitalize on sublet inventory in CA, particularly nearby residential areas, to cut costs and remain flexible.