



# Wilmington Office Market

## Q3 Marked Improvement in Vacancy; Increase in Asking Rental Rates

The New Castle County office market, which encompasses Wilmington, Delaware, continues to face issues related to COVID-19 and the Delta variant. The expected migration of workers back to the office after Labor Day didn't come to fruition as many large employers pushed return dates out to early 2022. According to Kastle Systems, 34.2% of the Philadelphia Metropolitan Statistical Area (MSA) has made a return to the office as of the third quarter.

Space consolidations by larger tenants, particularly in the Central Business District (CBD), appear to be a current trend, as some notable Delaware employers have reevaluated their space needs in order to accommodate their remote workforce. Activity in the Suburban Wilmington office market is slightly better than the Wilmington CBD, which remains largely dormant. Leasing velocity remains slow, although new leases and renewals are being signed, but they are generally smaller and short-term in nature. There has also been an increase of office-to-apartment building conversions in the CBD market, including the 121,000-square-foot property at 901 North Market Street which Westover purchased in 2017 and is now finally under construction to be converted to 82 apartments.

### Current Conditions

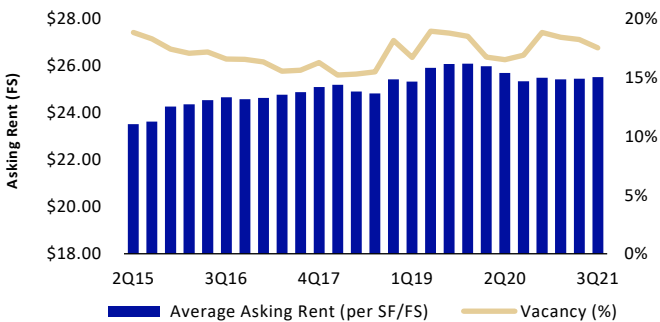
- Net absorption measured positive 159,887 square feet in the third quarter.
- Vacancy decreased 70 basis points from the previous quarter to 17.5%.
- Average asking rents increased to \$25.50/SF in the third quarter, a 0.2% increase quarter-over-quarter.

### Market Summary

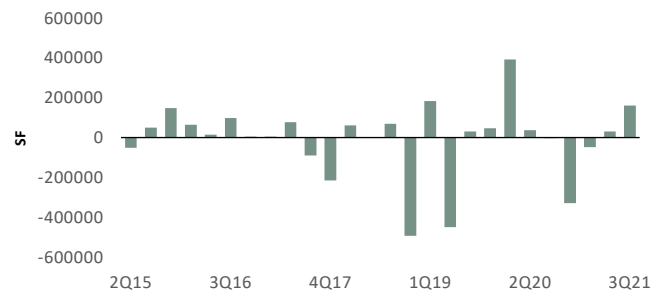
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	16.7 M	16.7 M	17.8 M	→
Vacancy Rate	17.5%	18.2%	16.5%	↑
Quarterly Net Absorption (SF)	159,887	31,308	37,740	↑
Average Asking Rent/SF	\$25.50	\$25.44	\$25.67	→
Under Construction (SF)	-	0.06 MSF	-	→

### Market Analysis

#### ASKING RENT AND VACANCY RATE



#### NET ABSORPTION



## RESEARCH Q3 2021

The overall vacancy rate declined 70 basis points to 17.5% this quarter, down from 18.2% in the second quarter, however, this is 100 basis points higher than a year ago. Asking rental rates increased to \$25.50/SF, up 0.2% quarter-over-quarter but also down in comparison with last year by 0.7% when the average rate was \$25.67/SF. Year-to-date absorption remains positive at 143,094 SF. Marlette Funding's 60,000-square-foot build-to-suit project at 3419 Silverside Road in the Wilmington North submarket finished construction this quarter which contributed significantly to positive absorption totals. At the end of last quarter, Delaware Claims Processing moved into 66,630 square feet at 1000 North West Street in Wilmington which also factored into this year's positive absorption. On the plus side, available sublease space has declined over the past two quarters. After climbing to 468,702 square feet in the first quarter of 2021, sublease availability has declined significantly since then by 17.0% to 400,556 square feet.

In reference to tenant consolidations, in the Wilmington CBD, Capital One announced it will be leaving 91,000 SF of space at 800 Delaware Avenue and consolidate into its 240,000-square-foot building at 802 Delaware Avenue. In the Chestnut Run R&D Campus, at Renaissance Building 735, Corteva put 41,365 square feet on the market for lease this quarter.

Notable leases signed included the State of Delaware – Division of Public Health leasing 12,000 square feet in the Cambridge Building located at 263 Chapman Road in Newark. At Brandywine Plaza West, located at 1521 Concord Pike in Wilmington, Ferry Joseph, P.A. leased 9,036 square feet. Additional leases signed included Tata America International Corporation renewing for 8,929 square feet at 4250 Lancaster Pike in Wilmington, Buchanan Ingersoll & Rooney PC taking 3,784 square feet at 500 Delaware Avenue in the Wilmington CBD, and Compassionate Care Hospice of Delaware, LLC leasing 3,606 square feet at 111 Continental Drive in Newark.

Moving into the fourth quarter and toward 2022, occupancy is expected to improve in the New Castle County office market, particularly in the Wilmington CBD. While some tenants may continue to downsize their space requirements, the amount of available sublease space appears to have reached its peak back in the first quarter of 2021. Asking rental rates are expected to remain steady, as landlords will remain firm in their asking rates but may offer increased concessions for longer term leases. Construction activity will be a non-factor as there are no new buildings expected to break ground over the next several months.

### Submarket Statistics

	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Class A Asking Rent (Price/SF)	Class B Asking Rent (Price/SF)	Total Asking Rent (Price/SF)
Wilmington CBD	7,331,930	-	23.4%	-33,498	71,014	\$27.58	\$23.76	\$26.21
Wilmington North	3,488,120	-	15.7%	156,146	104,106	\$31.14	\$23.96	\$27.95
Wilmington South	4,573,878	-	12.9%	24,313	-30,098	\$22.98	\$21.02	\$21.83
Wilmington West	1,359,378	-	5.9%	12,926	-1,928	\$28.14	\$22.78	\$25.29
<b>Market</b>	<b>16,753,306</b>	<b>-</b>	<b>17.5%</b>	<b>159,887</b>	<b>143,094</b>	<b>\$27.36</b>	<b>\$22.95</b>	<b>\$25.50</b>

### Delaware Lease/User Transactions

Tenant/Buyer	Submarket	Building	Type	Square Feet
State of Delaware – Division of Public Health	Wilmington South	263 Chapman Road	New Lease	12,000
Ferry Joseph, P.A.	Wilmington North	1521 Concord Pike	New Lease	9,036

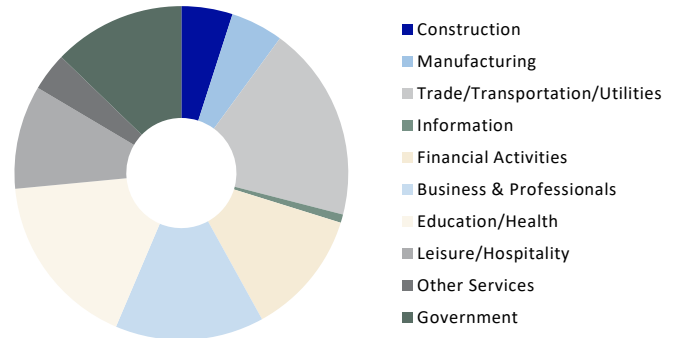
### Economic Conditions

The unemployment rate for the Wilmington, Delaware metropolitan division declined by 350 basis points year-over-year, from 9.1% in August of 2020 to 5.6% in August of 2021. After 13 straight months of negative growth, payroll employment has been positive over the past five months. Except for the financial activities sector, every tracked industry in the Wilmington, Delaware metro division has demonstrated positive growth over the past 12 months. The leisure and hospitality (+27.4%), trade and transportation (+6.3%) and the construction (+5.4%) sector all experienced the largest gains of all industries.

The unemployment rate is expected to decline further moving into the fourth quarter of 2021. Payroll employment is also projected to increase as more tenants are expected to return to the office which will spur further employment across all industries.

### Employment by Industry

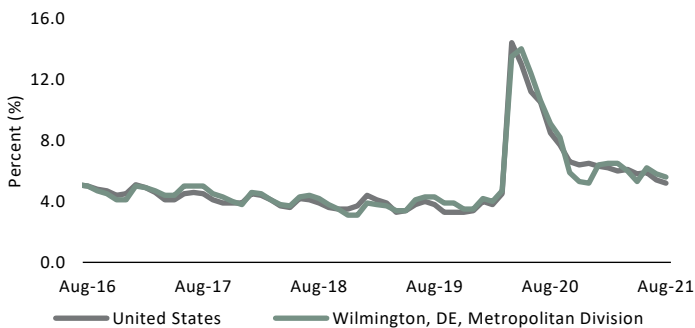
WILMINGTON, DE, METROPOLITAN DIVISION, 2021 AVERAGE



Source: U.S. Bureau of Labor Statistics, August 2021.

### Unemployment Rate

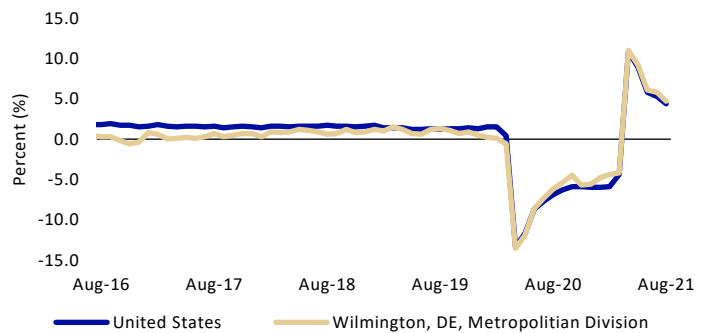
NOT SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics, August 2021.

### Payroll Employment (Total Nonfarm)

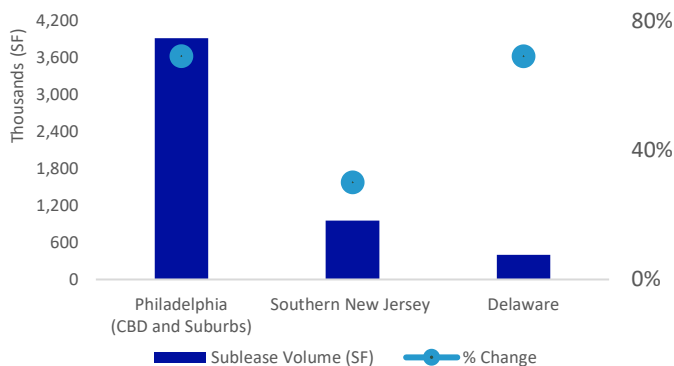
NOT SEASONALLY ADJUSTED, 12-MONTH % CHANGE



Source: U.S. Bureau of Labor Statistics, August 2021.

### Greater Philadelphia Markets Sublease Analysis

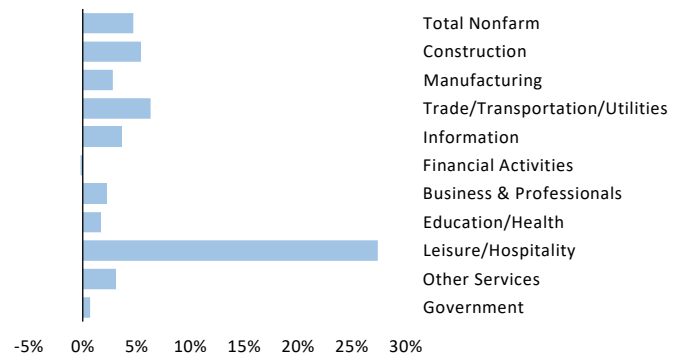
SQUARE FEET AND 12-MONTH % CHANGE, 2Q21



Source: Newmark Research, August 2021.

### Employment Growth by Industry, August 2021

WILMINGTON, DE METRO DIVISION, 12-MONTH % CHANGE



Source: U.S. Bureau of Labor Statistics, August 2021.

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