



Wilmington Office Market

Q4 Increase in Vacancy Due to New Sublease Space; Absorption Positive for 2021

The New Castle County office market, which encompasses Wilmington, Delaware, continues to face return-to-work issues related to the COVID-19 Omicron variant. According to Kastle System’s occupancy data, 37.2% of the Philadelphia metropolitan statistical area’s (MSA) workforce has made a return to the office, which is lower than the current major metro average of 39.8%. Due to the recent spike in COVID cases, significant numbers of employees will not be returning to the office at the beginning of January as was hoped. However, per CNBC, some researchers say Omicron could actually hasten the virus’ transition from pandemic to endemic; this lends hope to the notion that this disruptive nightmare may be coming to an end.

With much uncertainty lingering in the Wilmington office market, tenants are still taking a wait-and-see approach to real estate needs. Active tenants are generally looking for less space than they previously occupied in reaction to current work-from-home or hybrid models. Short-term renewals continue to be prevalent and velocity for new leases remains weak. Activity in the Wilmington suburbs remains slow but velocity there is better than we are seeing in the Wilmington Central Business District (CBD). While new sublease introductions continue as an issue, 92,297 square feet of positive absorption was realized in 2021. That said, be on the lookout for three major law firms to announce long terms lease commitments in the CBD.

Current Conditions

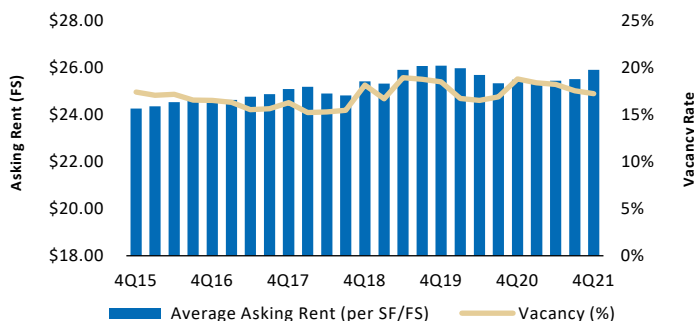
- Year-to-date net absorption measured 92,297 square feet in the fourth quarter of 2021.
- Vacancy increased by 60 basis points from the previous quarter to 18.1%.
- Average asking rents increased to \$26.04/SF in the fourth quarter, a 2.1% increase quarter-over-quarter.

Market Summary

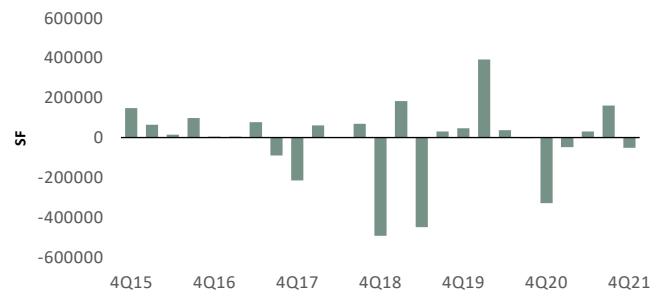
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	16.7 M	16.7 M	17.2 M	↓
Vacancy Rate	18.1%	17.5%	18.7%	↓
Quarterly Net Absorption (SF)	(50,797)	159,887	(328,174)	↑
Average Asking Rent/SF	\$26.04	\$25.50	\$25.48	↑
Under Construction (SF)	-	-	60,000	→

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION



RESEARCH Q4 2021

The overall vacancy rate increased by 60 basis points quarter-over quarter from 17.5% to 18.1% year-end 2021. Despite the increase since last quarter, year-over-year vacancy declined by 60 basis points. The fourth quarter of 2021 closed out the year with negative 50,797 square feet of absorption. The Wilmington South submarket contributed to the increase, when Comcast introduced the entire 154,086-square-foot office building they lease at 400 Commerce Drive in the Christiana Corporate Center in Newark to the market for sublease. This addition caused vacancy in the Wilmington South submarket to increase by 240 basis points from 12.9% to 15.3%.

More positively, there were two user sales in the New Castle Corporate Commons this quarter that helped offset some of the negative absorption in the submarket. The 48,000-square-foot building at 2 Reads Way was purchased by Analytical Biological Services, Inc. for \$4.9 million and the 24,000-square-foot building at 11 Reads Way was purchased by Nurses 'n Kids from NAI Emory Hill for \$2.5 million. Nurses 'n Kids plans to convert the building to a medical day care center. They will relocate in 2022 from 904 Churchman's Road in New Castle.

Asking rental rates increased by 2.1% quarter-over-quarter, from \$25.50/SF in the third quarter to \$26.04/SF in the fourth quarter. Compared to a year ago, the asking rental rates jumped by 2.2%, up from \$25.48/SF. Class A asking rents also increased by 2.5% quarter-over-quarter to \$28.04/SF and

by 3.3% from a year ago when the rate was an average of \$27.15/SF.

There were several notable leases signed this quarter. Academia Antonia Alonso inked the largest of the quarter for 115,000 square feet at 300 North Wakefield Drive in Newark. It will move into the building during the second quarter of 2022, which will contribute significantly to positive absorption totals. In the Wilmington North submarket, Advanced Materials Technology, Inc. leased 30,467 square feet at 3521 Silverside Road in Talleyville. With the support of the state grants, AMT will expand its lab space at Concord Plaza by nearly 10,500 square feet. In the Wilmington CBD, Barnes & Thornburg signed a 24,180-square-foot lease at 222 Delaware Avenue in the PNC Bank Center. They will relocate from the Brandywine Building at 1000 North West Street in the Wilmington CBD.

Moving into 2022, the overall vacancy rate is projected to decline as sublease space additions appear to have peaked. Asking rental rates were strong in 2021, which can be expected moving into 2022. New construction deliveries will not be a factor, as no new office projects are currently in the pipeline to deliver in 2022.

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	-	23.2%	17,980	88,994	\$27.60	\$23.76	\$26.17
Wilmington North	3,488,120	-	15.9%	-10,127	93,979	\$31.26	\$25.12	\$28.98
Wilmington South	4,573,878	-	15.3%	-59,651	-89,749	\$23.65	\$21.43	\$22.16
Wilmington West	1,359,378	-	5.8%	1,001	-927	\$28.22	\$22.75	\$25.38
Market	16,753,306	-	18.1%	-50,797	92,297	\$28.04	\$23.31	\$26.04

Delaware Lease/User Transactions

Tenant/Buyer	Submarket	Building	Type	Square Feet
Academia Antonia Alonso	Wilmington South	300 North Wakefield Drive	New Lease	115,000
Analytical Biological Services, Inc	Wilmington South	2 Reads Way	User Sale	48,000
Advanced Materials Technology, Inc.	Wilmington North	3521 Silverside Road	New Lease	30,467
Barnes & Thornburg	Wilmington CBD	222 Delaware Avenue	New Lease	24,180

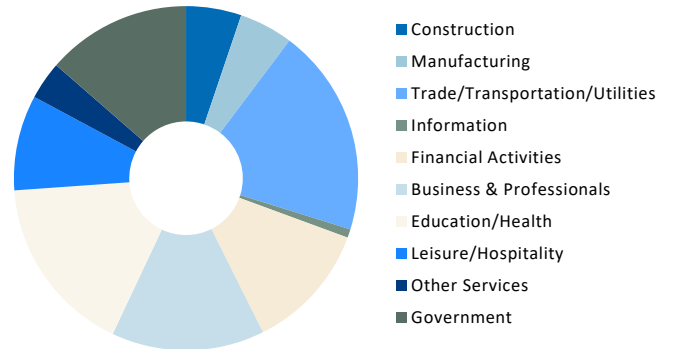
Economic Conditions

The unemployment rate for the Wilmington, Delaware metropolitan division declined to 4.6%, from 5.9% a year ago. Except for the business and professional services and information sectors, all of Wilmington’s tracked sectors demonstrated positive growth year-over-year. The leisure and hospitality (+16.4%), construction (+10.0%), and trade and transportation (+6.2%) sectors experienced the largest growth of all sectors. Payroll employment increased by 2.9% in October 2021, marking the 7th consecutive month of payroll employment growth in the Wilmington Metropolitan Division.

The unemployment rate is expected to decline further moving into 2022. Payroll employment is also expected to be positive in 2022 as more employers return to the office. Despite the lingering effects of the Omicron variant, the Wilmington office market is better poised than a year ago and we anticipate the market will perform better in 2022.

Employment by Industry

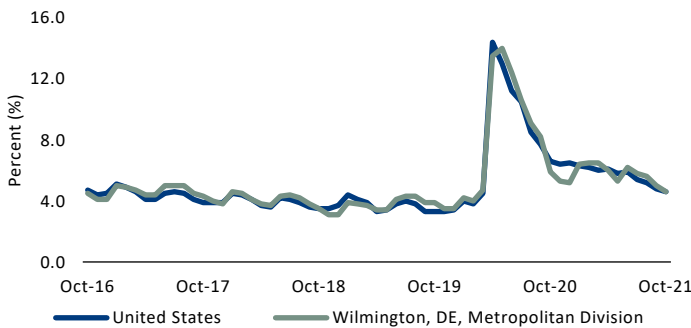
WILMINGTON, DE, METROPOLITAN DIVISION, 2021 AVERAGE



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

Unemployment Rate

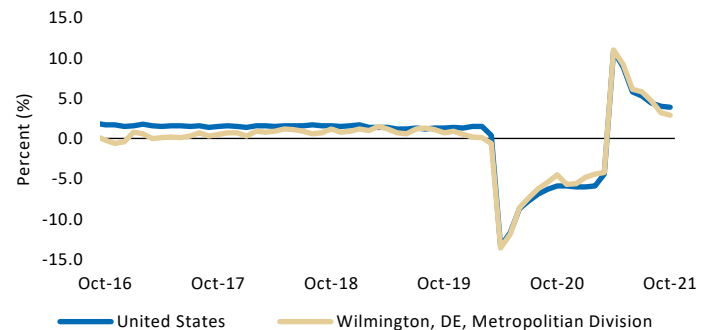
NOT SEASONALLY ADJUSTED



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

Payroll Employment (Total Nonfarm)

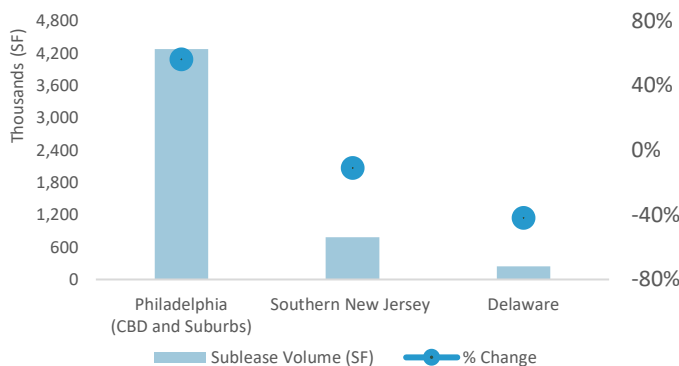
NOT SEASONALLY ADJUSTED, 12-MONTH % CHANGE



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

Greater Philadelphia Markets Sublease Analysis

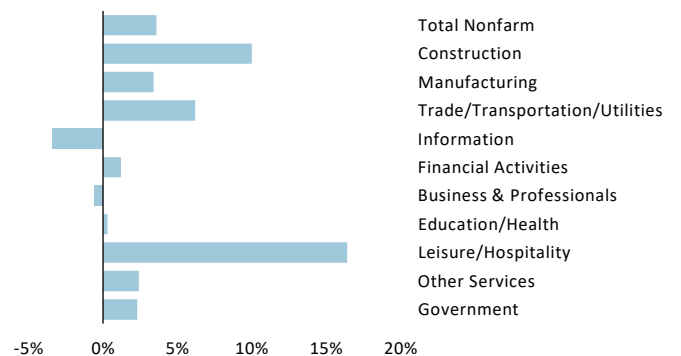
SQUARE FEET AND 12-MONTH % CHANGE, 4Q21



Source: Newmark Research, October 2021.

Employment Growth by Industry, November 2021

WILMINGTON, DE METRO DIVISION, 12-MONTH % CHANGE



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

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