
2Q23

Wilmington Office Market Overview



NEWMARK

Market Observations

Economy

- The region’s labor market is performing in line with national averages. Wilmington’s unemployment rate of 3.7% is identical to the country’s average.
- Year-over-year job gains in the Wilmington Metro outperformed the country in the second quarter 2023. The increase of 2,300 jobs in the area’s leisure and hospitality industry gave the region a 12-month percentage change in employment of 3.2%.
- Certain industries like information and education, and health services are beginning to shed jobs. Each sector has posted neutral or negative year-over-year employment changes for the past five months.

Major Transactions

- Carvertise’s 15,000-SF lease at 974 Justison Street in Wilmington was the largest office deal of the second quarter of 2023. This lease will not factor into quarterly statistics since the office is located in a large retail center.
- The Delaware Institute for Reproductive Medicine inked a long-term lease at 620 Churchmans Road in Southern New Castle County.
- Maryland-based life science developer, South Duvall completed a ground lease with the University of Delaware to construct a 100,000 SF lab building in the Delaware Technology Park. Delivery is estimated to be sometime in 2025.

Leasing Market Fundamentals

- Overall metrics in the second quarter of 2023 showed few positives for the Wilmington markets; however, the pace of vacancy additions slowed.
- A massive split in performance remains between offices newer and older product. The vacancy rate for vintage buildings is 970 basis points higher than for new buildings.
- The Wilmington Central Business District remains the largest laggard in the Wilmington market. Currently, 28.4% of the submarket is vacant, up 50 basis points quarter over quarter with Class A vacancy standing at 31.3%. The three suburban submarkets have fared much better, posting a combined vacancy rate of 15.6%.

Outlook

- Office occupancy in the Wilmington CBD is expected to improve as the summer progresses. WSFS plans to return employees to its headquarters three to four days a week after Labor Day.
- A high vacancy rate and weak rental market are anticipated to compress asking rates in the months ahead, particularly in the CBD. The second quarter of 2023 marked the third consecutive quarter of asking rate declines in the submarket.
- The conversion of office space to alternative uses will continue in 2023. Multifamily has been a heavily discussed reuse option, but other concepts like theaters and golf simulators have also replaced formerly vacant space.

1. Economy
2. Leasing Market Fundamentals

2Q23

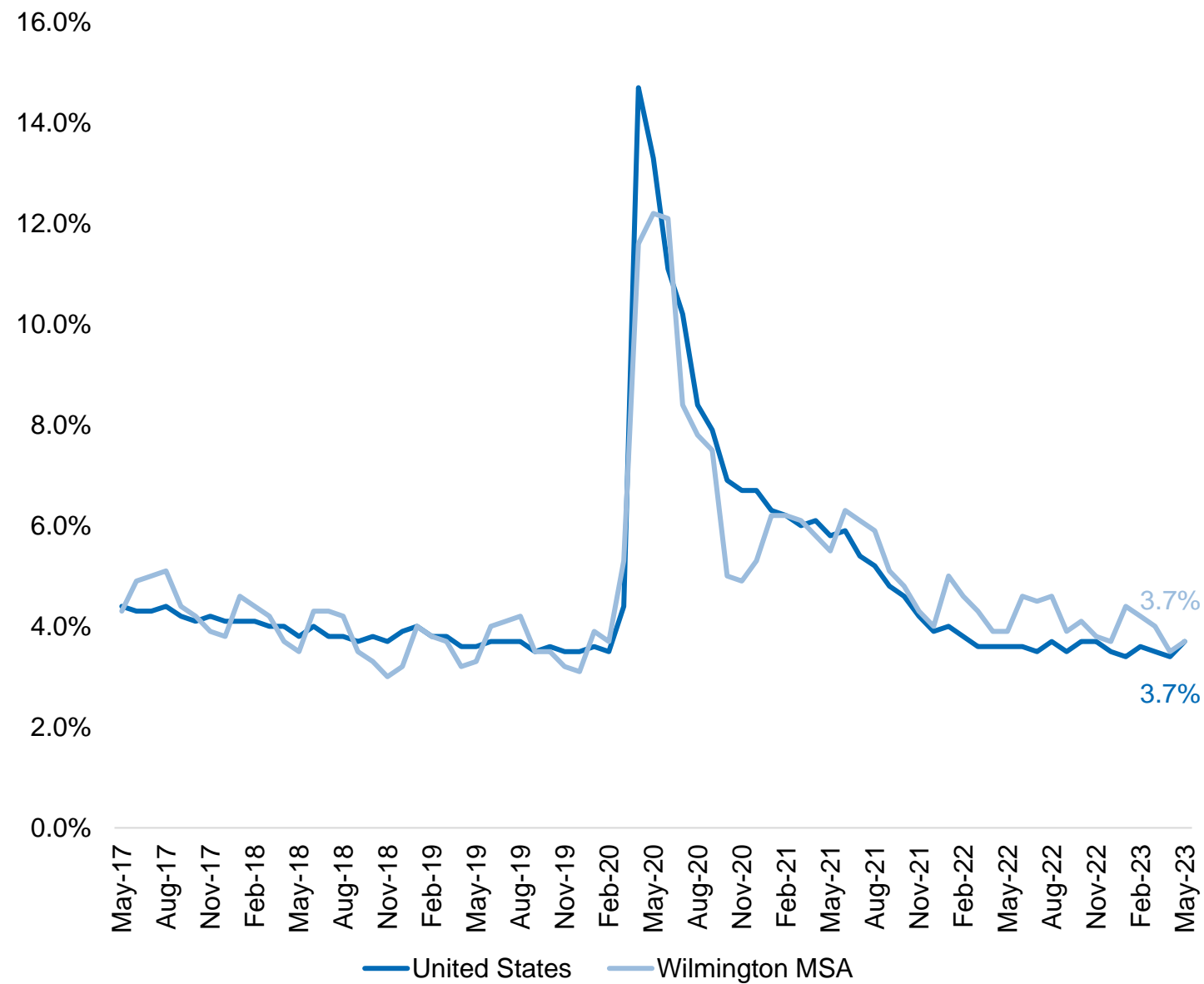
Economy



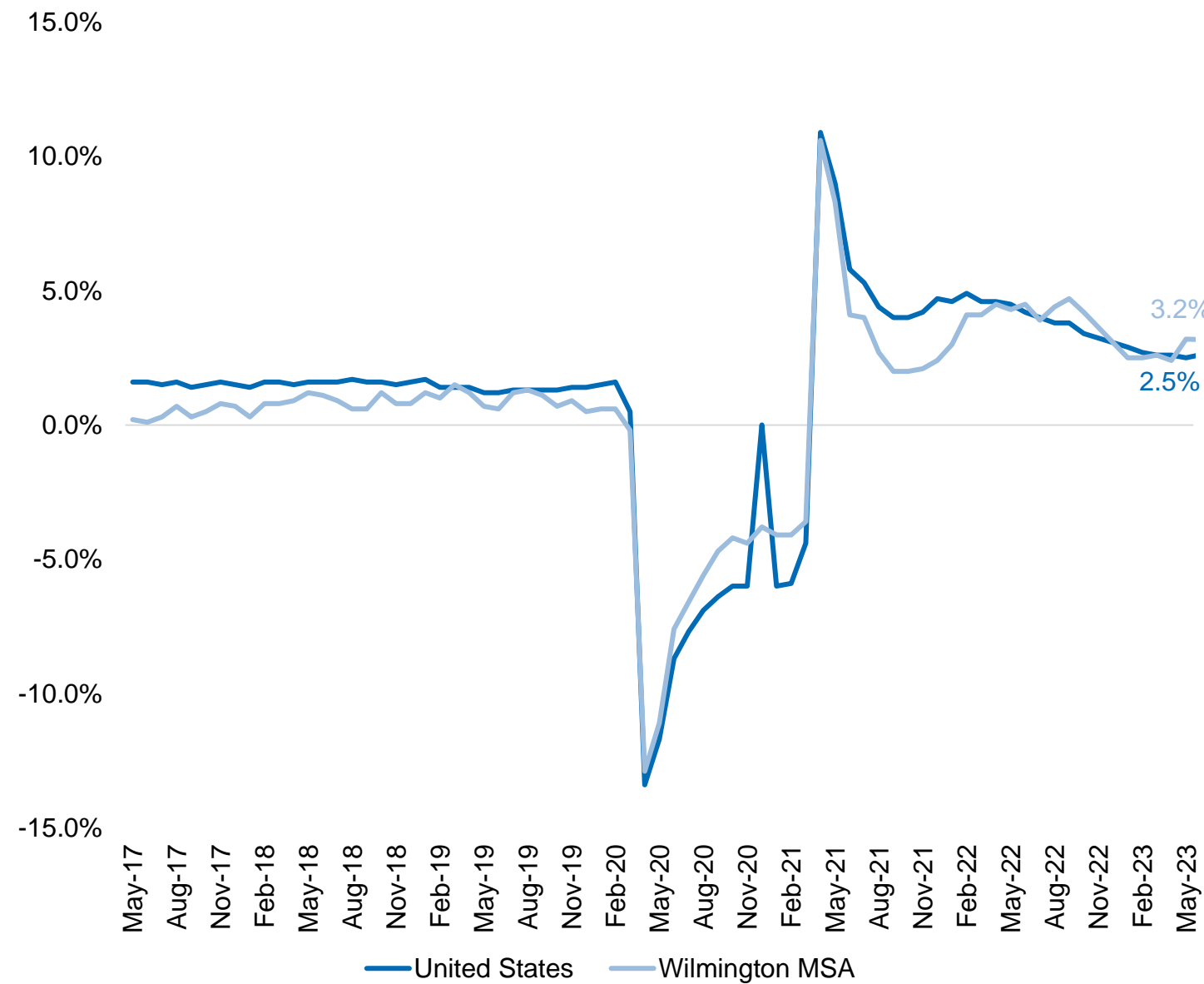
Metro Employment Trends Signal a Slowing but Strong Economy

Unemployment in the Wilmington Metro remains low, and year-over-year job growth in May was strong. The labor force and employment population are currently above pre-pandemic levels, despite a volatile macro environment.

Unemployment Rate, Seasonally Adjusted



Nonfarm Payroll Employment, Non-Seasonally Adjusted, 12-Month % Change

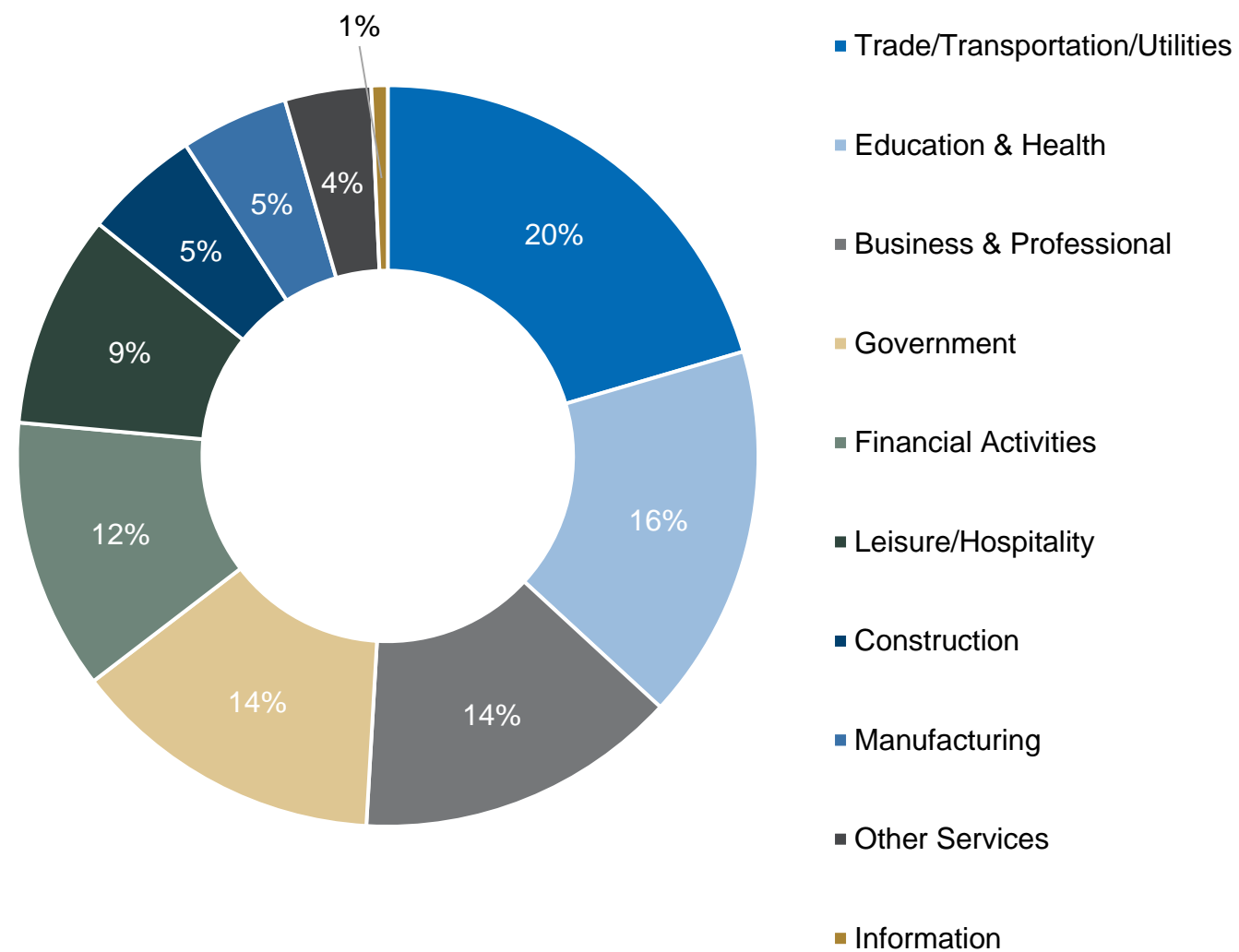


Source: U.S. Bureau of Labor Statistics, Wilmington MSA

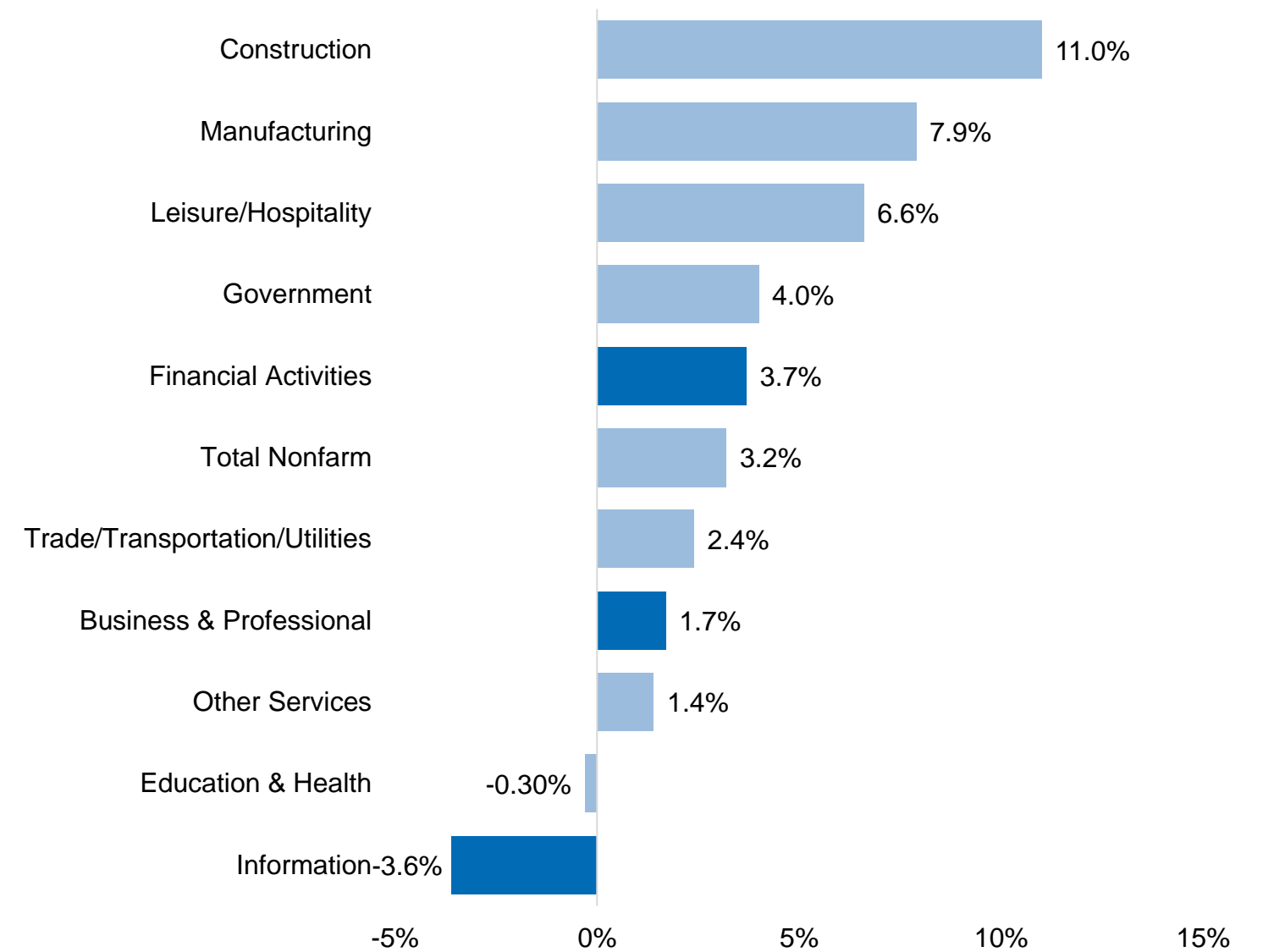
Job Growth Driven in Large Part by Blue-Collar Industries

Blue-collar and service jobs had the largest year-over-year percentage gains in employment, while the information industry struggled. Despite a large 12-month percentage loss, the information sector has maintained a consistent level of employment since October 2022.

Employment by Industry, May 2023



Employment Growth by Industry, 12-Month % Change, May 2023

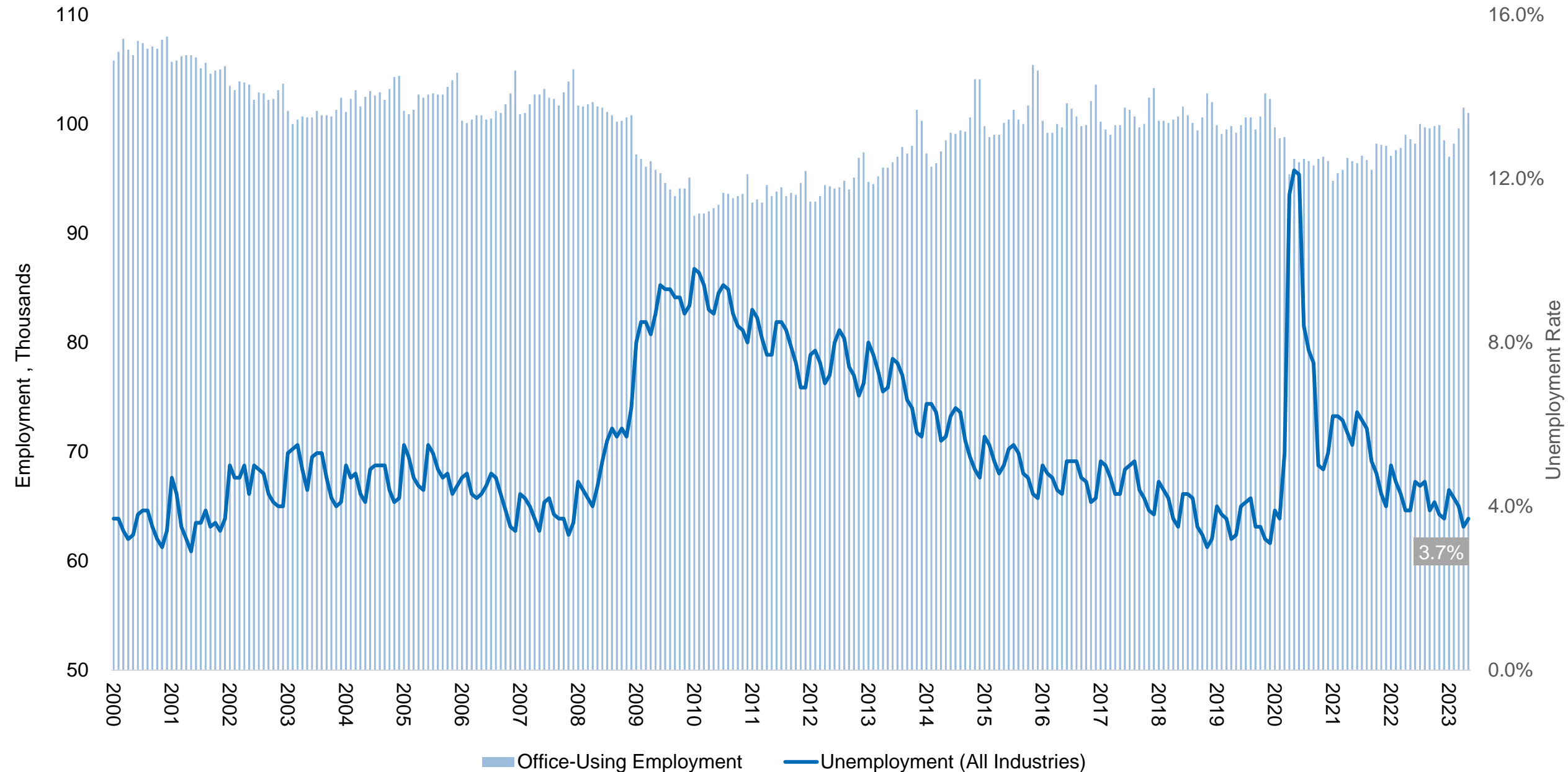


Source: U.S. Bureau of Labor Statistics, Wilmington MSA

Overall Office-Using Employment Has Rebounded

Office-using employment finally matched 2017 to 2019 averages in the second quarter of 2023. Wilmington's recovery took longer than the general Philadelphia Metro, which can be attributed to the information industry's slow recovery from the pandemic.

Office-Using Employment* and Unemployment Across All Industries



Source: U.S. Bureau of Labor Statistics, Wilmington MSA

Note: May 2023 data is preliminary.

*Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.

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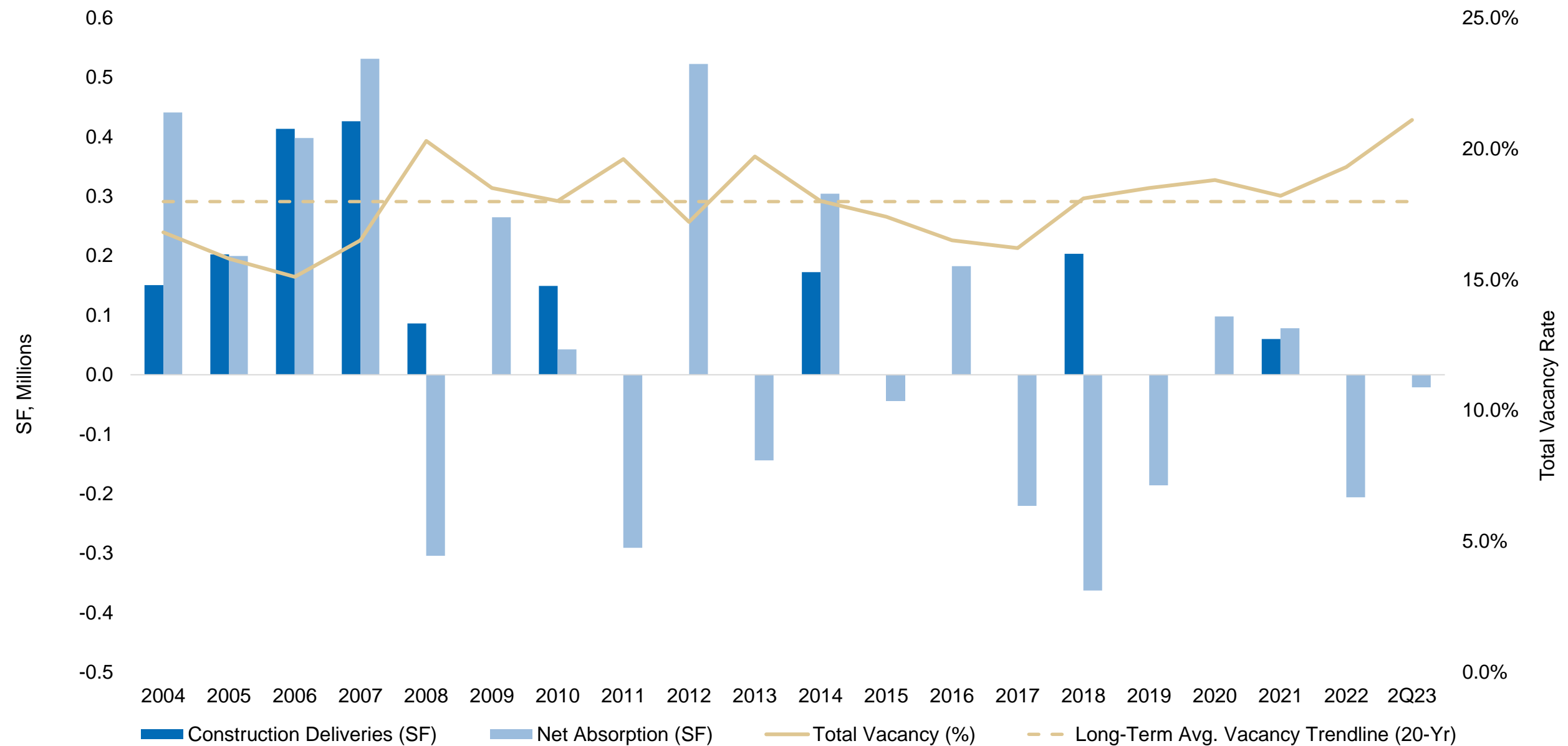
Leasing Market Fundamentals



Footprint Reductions in CBD Continue to Weigh on the General Market

Before the pandemic, the Delaware office market was already grappling with space reductions from law firms, which have traditionally been one of the largest space users in the Wilmington area. Over the past few quarters, financial service companies such as Capital One and Naviant have greatly added to vacant inventory.

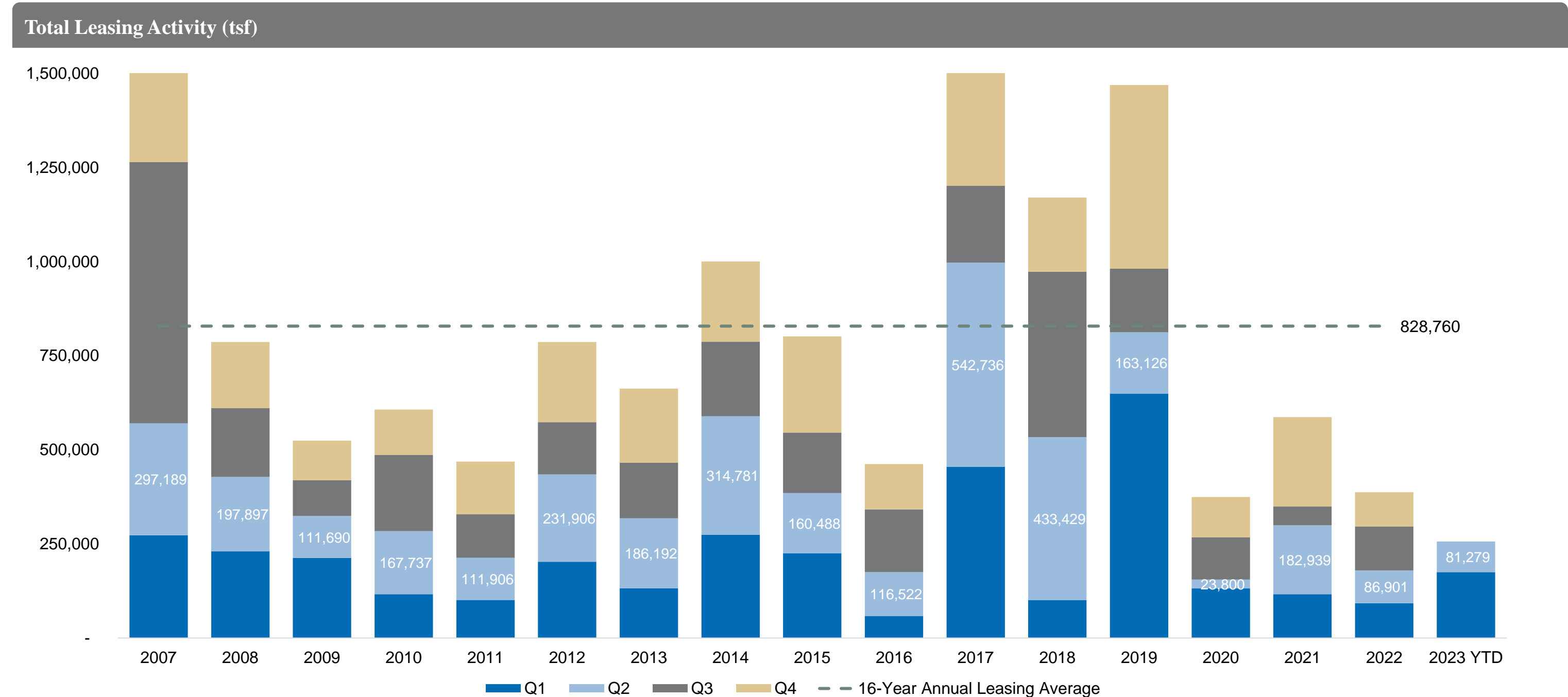
Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research

Lease Renewals Could Lead to Post-Pandemic Highs

Since the onset of COVID-19, the annual leasing average has been 449,690 SF. In 2023, the current pace of leasing is on track to exceed the previous three-year average by 14.1%. Large lease renewals are pending completion, which could lead the market to its best year since 2019.

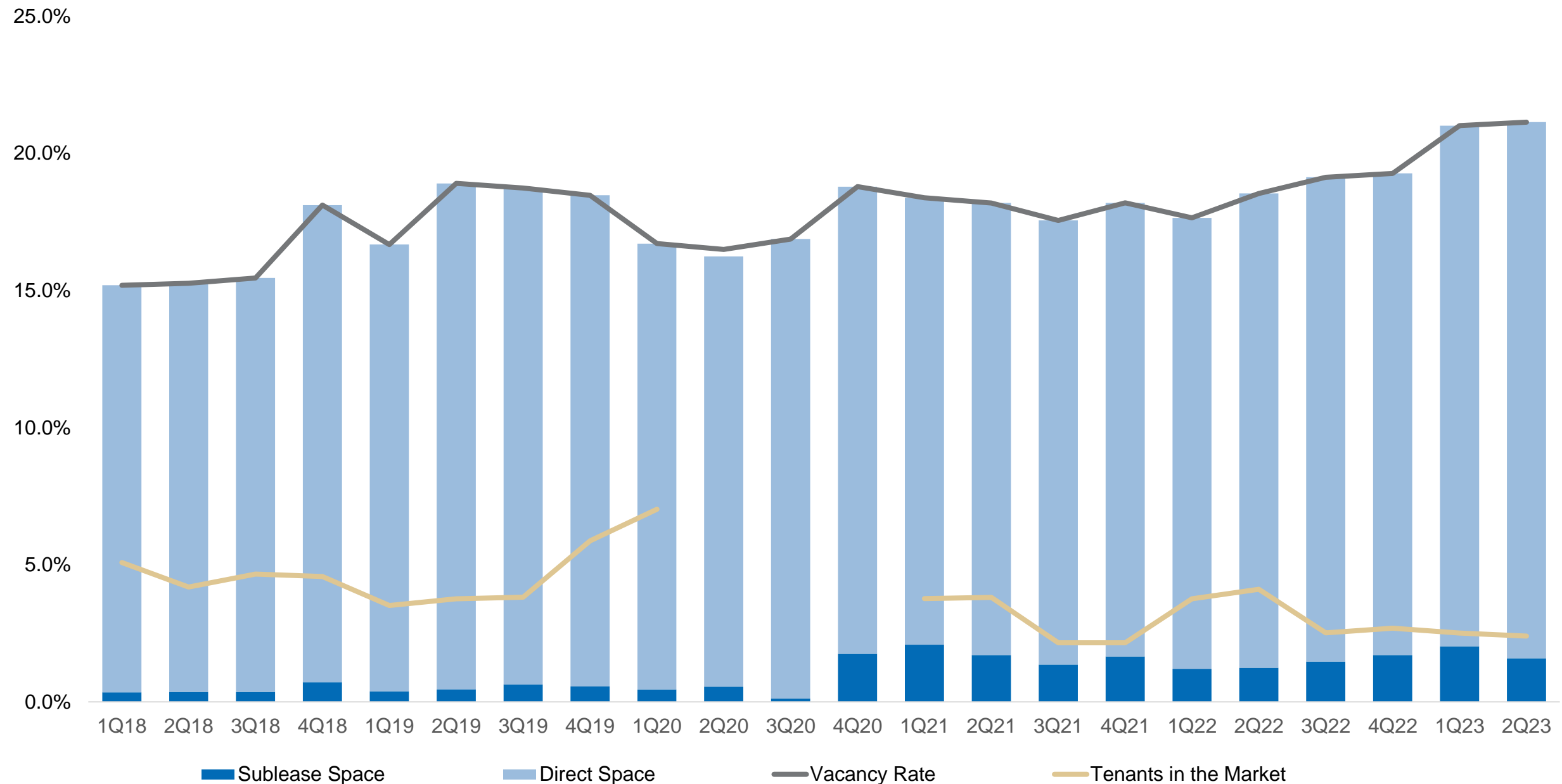


Source: CoStar

Availability Continues to Increase While Tenant Demand Drops

Before the onset of the pandemic, the leasing market was gaining momentum due to large requirements by legal and financial firms. Space needs declined due to changing workplace strategies and companies deciding to be fully remote.

Available Space and Tenant Demand as Percent of Overall Market



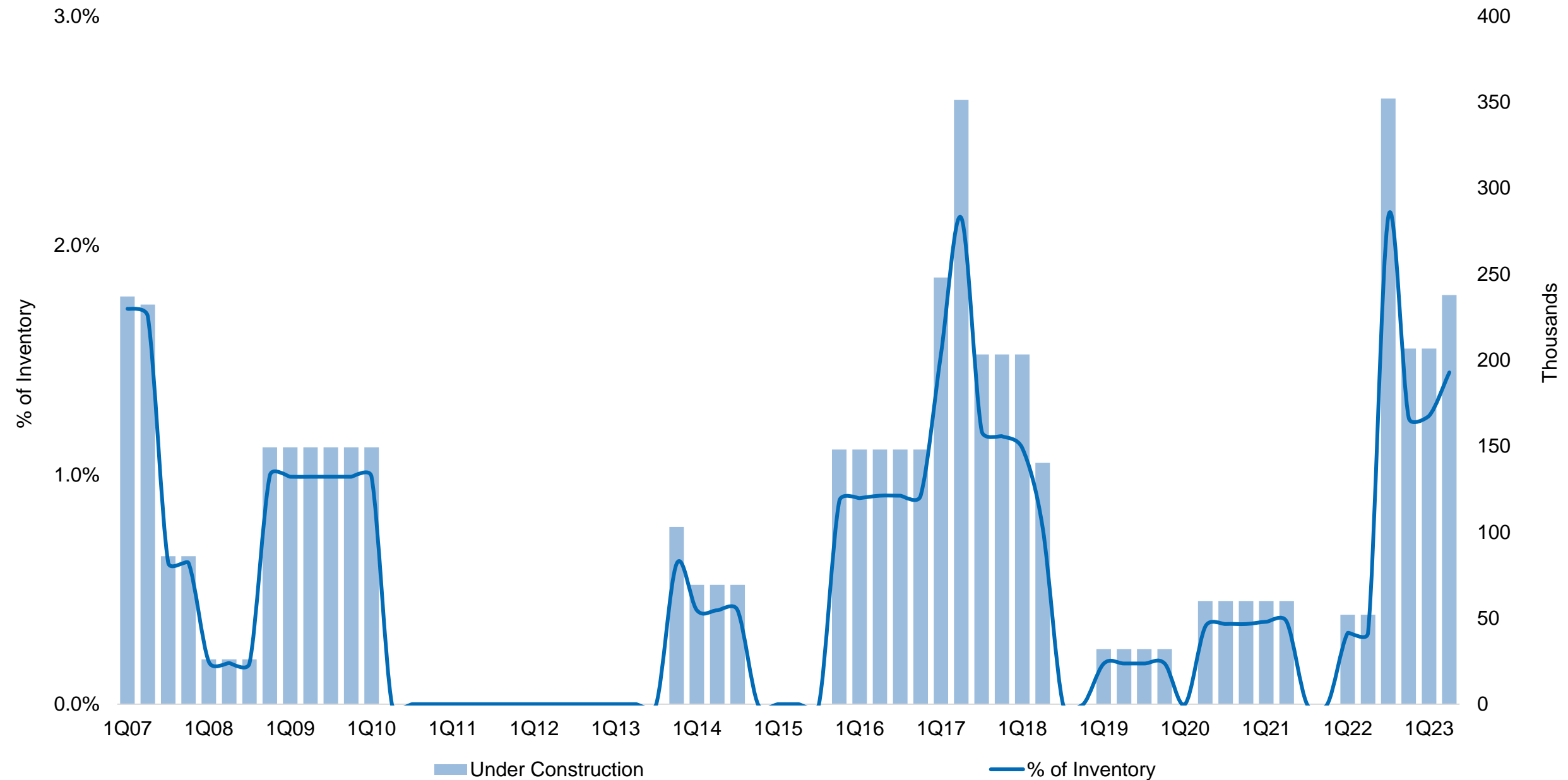
Source: Newmark Research

Note: No tenants in the market surveys were produced between Q2 2020 and Q4 2020 due to the COVID-19 Pandemic

Large Scale Deliveries Slated for Coming Quarters

Almost 240,000 SF of new office space is scheduled for completion between the third quarter of 2023 and the first half of next year. Most notable are the Avenue North and Walker Mill Building developments. The general office market in Wilmington is weaker than in previous years; however, existing demand for new, high-quality space provides favorable conditions for preleasing and lease-up efforts for these projects.

Office Under Construction and % of Inventory

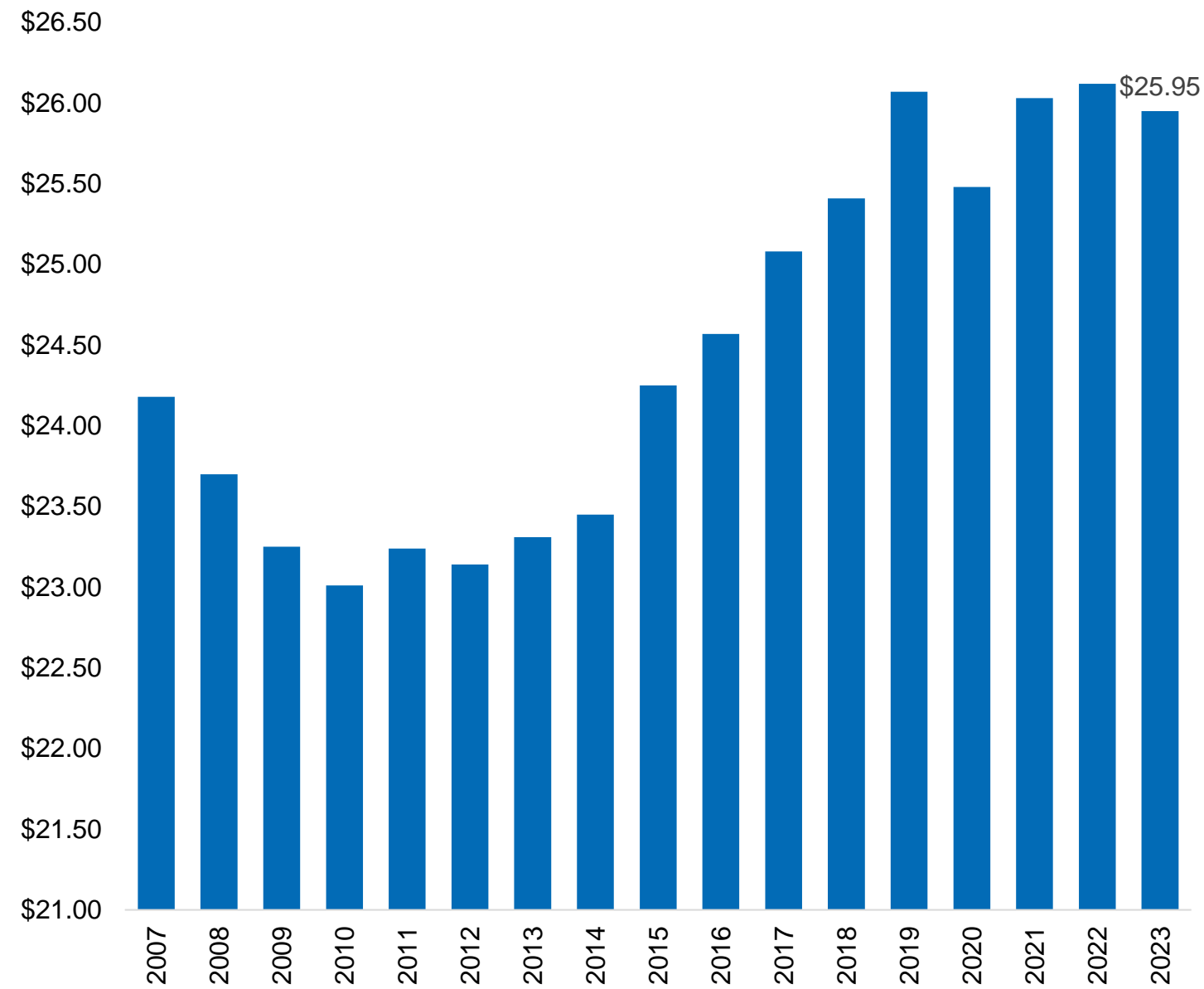


Source: Newmark Research

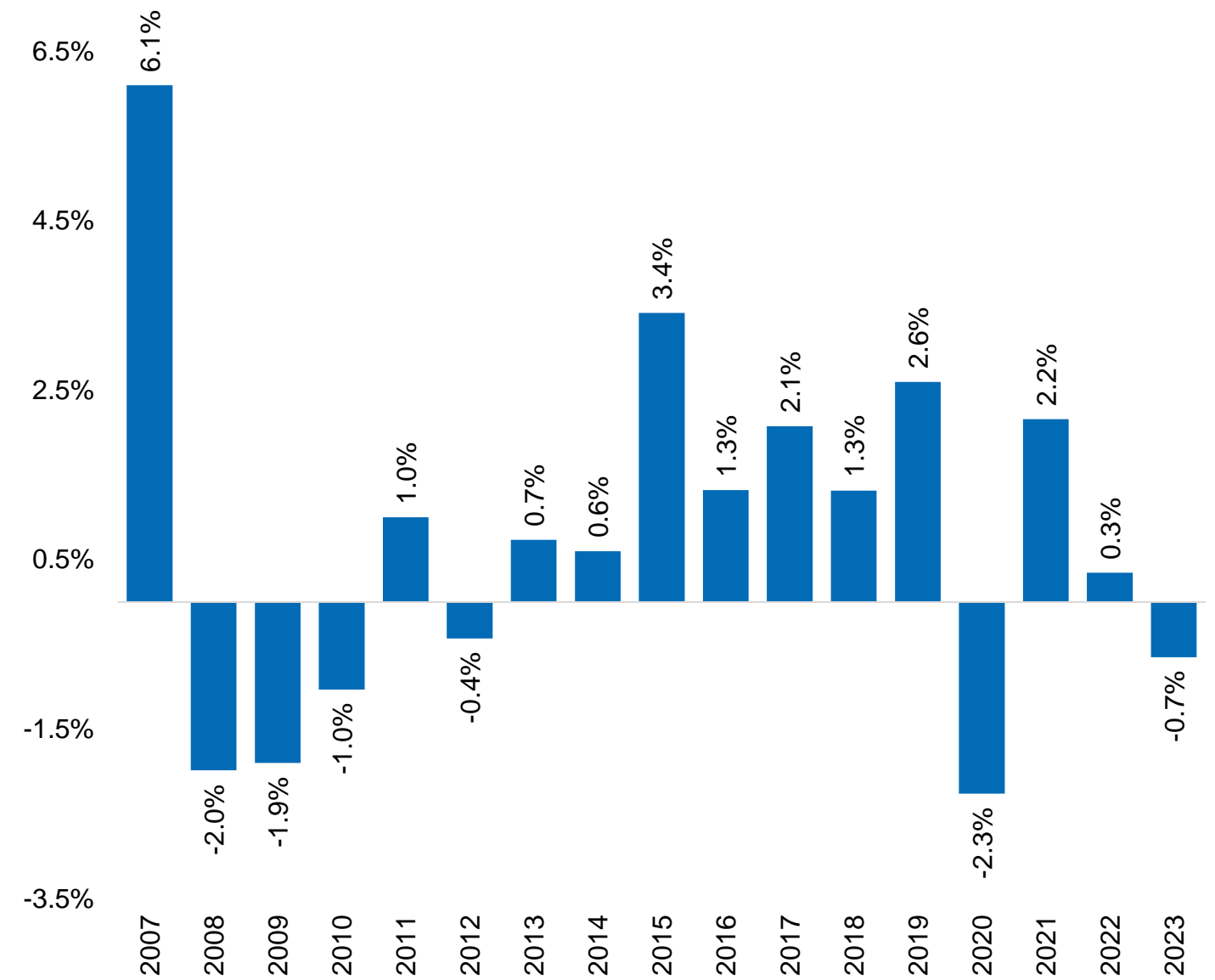
Rents Begin to Fall

Post-pandemic, the average tenant requirements is 41.8% smaller than the first quarter of 2018 through first quarter of 2020 averages. In response to a weaker leasing market, landlords are lowering asking rents and providing large concession packages to attract and retain tenants.

Office Average Asking Rent, \$/SF, FS



Year-Over-Year Asking Rent Growth Rate

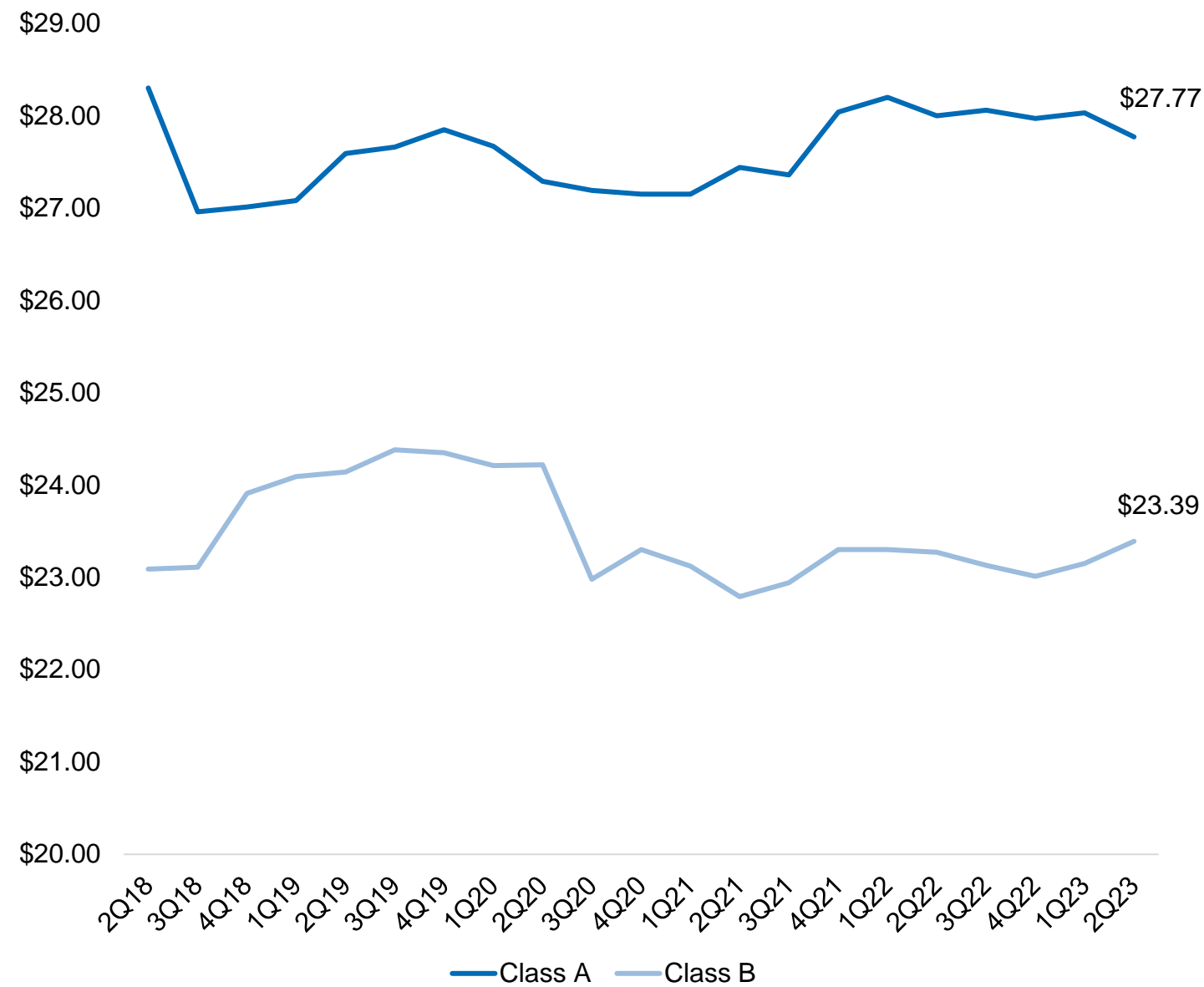


Source: Newmark Research, CoStar

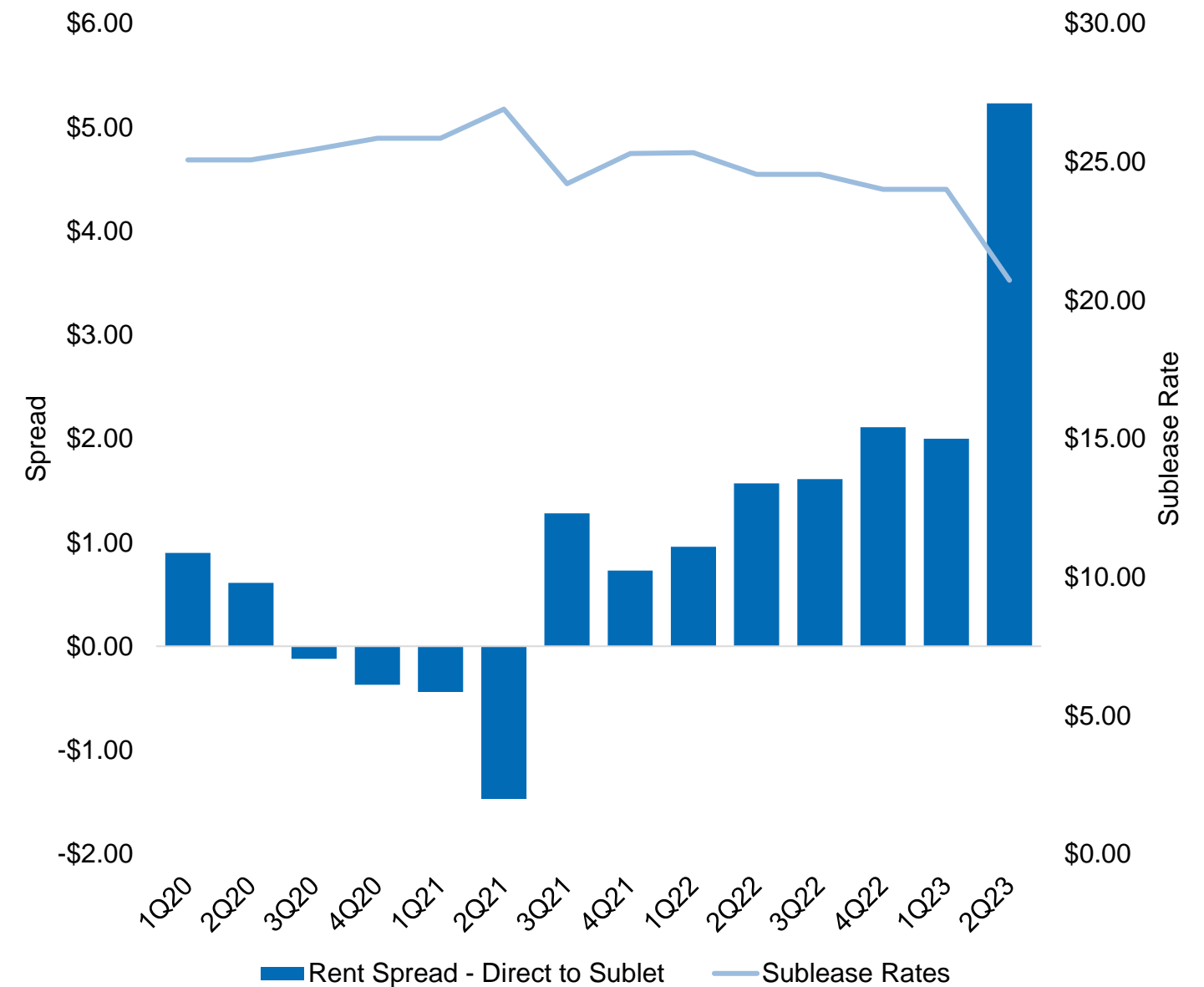
Class A Rent Compression Observed

Large space givebacks by Capital One, Naviant and other tenants have left significant blocks of available space in 2023. The rapid pace of supply additions in the Class A market caused the asking rate to decline 1.0% quarter over quarter and year over year. Sublease rates have dropped dramatically due to multiple spaces being listed at prices significantly under market rates.

Class A and Class B Asking Rents



Sublease Rates



Source: Newmark Research, CoStar

Leasing Activity Slows in 2Q23 After a Strong 1Q23

Since 2020, the second quarter has traditionally been one of the slowest periods for leasing activity. The third quarter is expected to yield better results due to multiple renewal deals closing in on completion.

Notable 2Q23 Lease Transactions

| Tenant | Building(s) | Submarket | Type | Square Feet |
|--|---------------------|------------------|-----------------|-------------|
| Carvertise | 974 Justison Street | Wilmington CBD | Direct Lease | 15,000 |
| <i>The advertising company's rapid growth spurred the need for a new office.</i> | | | | |
| Delaware Institute for Reproductive Medicine | 620 Churchmans Road | Wilmington South | Direct Lease | 13,513 |
| Great Grey | 4250 Lancaster Pike | Wilmington West | Direct Lease | 5,089 |
| Strayer University | 800 N King Street | Wilmington CBD | Lease Extension | 3,899 |

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