



Wilmington Office Market

Q1 Activity Marked by Reductions in Inventory and Occupancy Loss

The first quarter of 2021 marked a year since the pandemic emerged as a national health crisis – and an unprecedented office market disruptor. Throughout the pandemic, the Wilmington, Delaware office sector has remained relatively stable. Of the major markets in the Philadelphia metro area, it has maintained the highest utilization rate of leased office space, with approximately 25.0% actual occupancy in first-quarter 2021. Yet, in the latter half of 2020, pressure from ongoing remote-working strategies began to result in downsizing across the market. This trend continued in the first three months of 2021, with negative net absorption measuring 48,101 square feet. Vacancy stood at 18.4%, a full 170 basis points higher than measures from one year ago.

One development that attenuated further rise in vacancy this quarter was the resizing of the office market’s competitive inventory. Two vacant office properties in Foulkstone Plaza, within the Wilmington North submarket, were demolished. Over the past few years, nearly 200,000 square feet of obsolete office space has been removed from Wilmington North to make way for mixed-used redevelopment and new construction.

Current Conditions

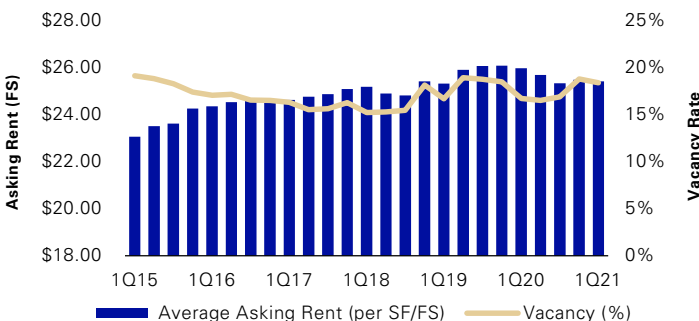
- Net absorption measured a negative 48,101 square feet in the first quarter.
- Vacancy rose from 16.7% to 18.4% year-over-year, and remains highest in the Wilmington CBD.
- Average asking rents have softened year-over-year, decreasing from \$25.97/SF to \$25.41/SF.

Market Summary

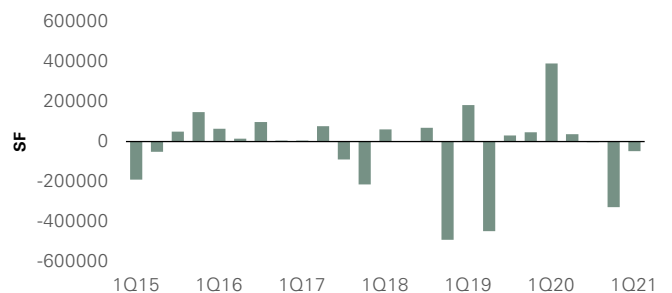
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	16.7 M	17.2 M	17.7 M	→
Vacancy Rate	18.4%	18.8%	16.7%	↑
Quarterly Net Absorption (SF)	(48,101)	(328,174)	390,813	↓
Average Asking Rent/SF	\$25.41	\$25.48	\$25.96	↓
Under Construction (SF)	0.06 MSF	0.06 MSF	-	→

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION



RESEARCH Q1 2021

Wilmington's Central Business District (CBD) continues to wrestle with the highest vacancy rate of the four submarkets, 26.4% in the first quarter, a 20-basis-point increase from year-end 2020 measures. The CBD sustained modest occupancy losses of 11,130 square feet, primarily due to Tybout, Redfearn & Pell's relocation from 750 Shipyard Drive into the suburban market, at 501 Carr Road.

Occupancy losses in the suburbs were also modest, amounting to 36,971 square feet. In the Wilmington North submarket, the aforementioned move-in by Tybout, Redfearn & Pell was offset by Nemours deciding to officially give back 42,210 square feet at 2200 Concord Pike, putting the space on the market for sublease. Elsewhere in the suburbs, smaller vacancies occurred, some due to a permanent shift to remote work, such as DuPont Sustainable Solutions (DSS), which effectively vacated 5,302 square feet at 4250 Chestnut Road in Wilmington West. DSS also added their space to the increasing volume of sublease availabilities in the market.

In total, sublease volume measured 468,702 square feet in the first quarter, the highest charted since 2010. This metric has essentially doubled since first-quarter 2020, yet remains less than 3.0% of total availabilities in the market. Some tenants with space requirements may be drawn to the flexibility and below-market-rates sublets typically offer, although around half of the current sublease volume has less than three years of term remaining, which is a limiting factor for the share of occupiers seeking a longer-term solution to their space needs.

Market asking rents continued a yearlong trend of modest decline, softening slightly from \$25.48/SF to \$25.41/SF, quarter-over-quarter. Rates for Class A space were stable, with declines visible in the Class B/C sectors. Further downsizing is expected in the Delaware office market throughout 2021 as the country emerges from the grips of the pandemic. As a consequence, we see continued downward pressure on rents, which could be tempered if the economic recovery gains more steam than is currently anticipated.

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	7,333,841	-	24.6 %	-11,130	-11,130	\$27.60	\$23.72	\$26.26
Wilmington North	3,428,120	60,000	18.1 %	-29,290	-29,290	\$31.03	\$23.61	\$26.99
Wilmington South	4,573,878	-	12.2 %	4,137	4,137	\$23.06	\$22.04	\$22.43
Wilmington West	1,359,378	-	6.6 %	-11,818	-11,818	\$28.50	\$22.80	\$25.40
Market	16,695,217	60,000	18.4 %	-48,101	-48,101	\$26.13	\$19.68	\$25.41

Delaware Lease/User Transactions

Tenant/Buyer	Submarket	Building	Type	Square Feet
Regional Orthopedic Property Investments	Wilmington South	1082 Old Churchmans Road	User Sale	9,842
Patterson Schwartz & Associates	Wilmington North	3703-05 Kennett Pike	Renewal/Downsize	8,000
Duane Morris	Wilmington CBD	1201 N. Market Street	Relocation	5,700
Turner Construction Company	Wilmington South	111 Continental Drive	New Lease	2,709

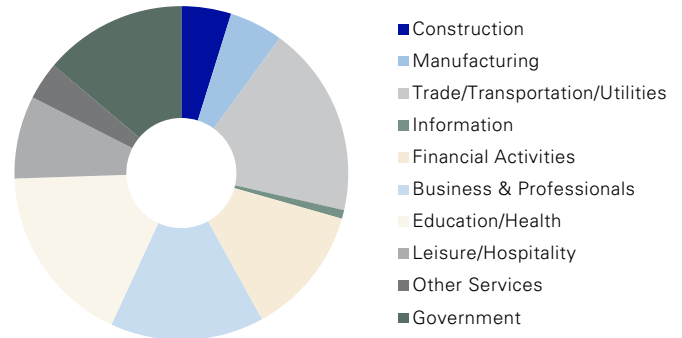
Economic Conditions

For the Wilmington Metropolitan Division as well as the nation, 2021 began with challenging economic conditions. Preliminary first-quarter local employment data demonstrated a stall in the recovery, with the loss of 7,700 jobs from year-end 2020 and the unemployment rate increasing to 6.5%.

Fortunately, the economic outlook has begun to brighten. In March, the federal government passed a \$1.9-trillion stimulus bill aimed at supporting households and businesses. In addition, vaccine campaigns have accelerated and in Delaware, 28.0% of the population received at least one dose as of March 24. The economy is poised to see marked improvement in the quarters to come.

Employment by Industry

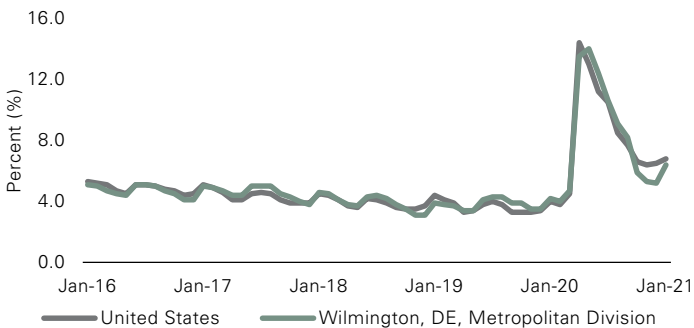
WILMINGTON, DE, METROPOLITAN DIVISION, 2020 AVERAGE



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

Unemployment Rate

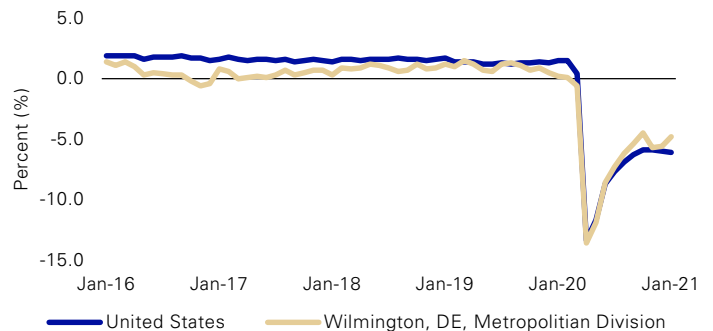
NOT SEASONALLY ADJUSTED



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

Payroll Employment (Total Nonfarm)

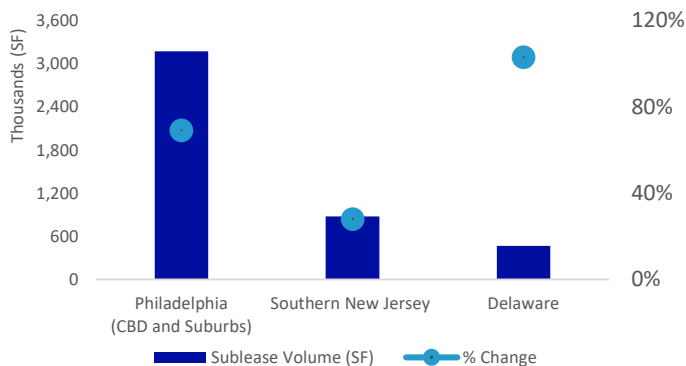
NOT SEASONALLY ADJUSTED, 12-MONTH % CHANGE



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

Greater Philadelphia Markets Sublease Analysis

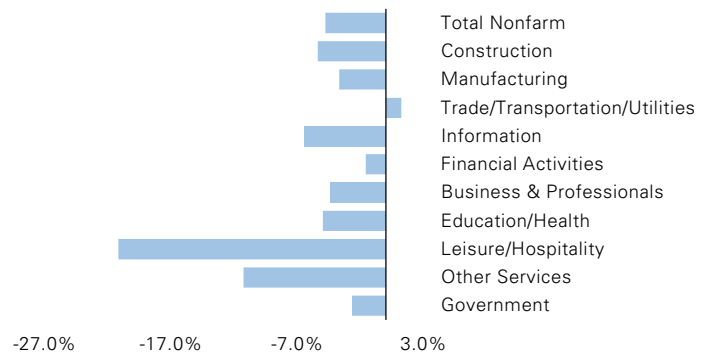
SQUARE FEET AND 12-MONTH % CHANGE, 1Q21



Source: Newmark Research, March 2021.

Employment Growth by Industry, January 2021

WILMINGTON, DE METRO DIVISION, 12-MONTH % CHANGE



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

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