



Wilmington Office Market

Law Firms Drive Q1 Absorption as Wilmington Recovers from Pandemic

The New Castle County office market, which encompasses Wilmington, Delaware, began 2022 hampered by the Omicron variant. As the quarter ended, the market rebounded nicely as evidenced by increased absorption and occupancy rates. According to Kastle Systems' data, the Philadelphia Metro office occupancy rate of 37.4% is barely higher than the 37.2% figure recorded at the end of the fourth quarter of 2021, but it shows the resiliency of the office sector as the recent COVID-19 surge caused occupancy to decline to sub 20% levels in January. This is still lower than the major metro average of 40.5%. With the pandemic waning, more employees will return to the office as employers implement return policies.

As the pandemic subsides, tenants in the Wilmington office market are becoming more confident in making real estate decisions. Employers are eager to get employees back into the office to better foster company culture and collaboration as well as train and monitor employees. General leasing activity reflects this desire as longer-term leases and renewals are being observed in the Wilmington Central Business District (CBD) and surrounding suburbs. This is a reverse trend from the shorter-term transactions made since the third quarter of 2020. During the quarter, 70,094 SF of absorption was observed owing to multiple leases consummated by law firms. Another positive trend in the first quarter was the reduction of sublease space in the amount of 111,378 SF. There remains 287,675 SF of sublease space available in the market, more than half of which is associated with one availability at 400 Commerce Drive in Newark.

Current Conditions

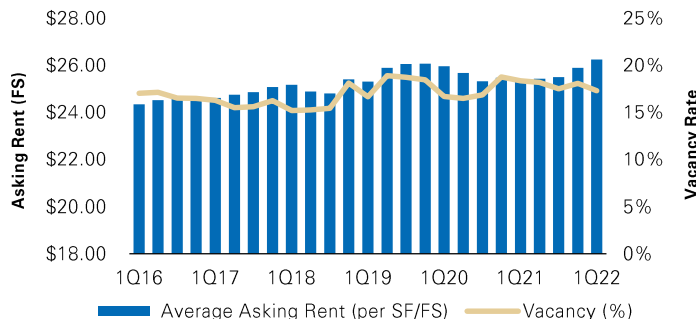
- Quarterly absorption was 70,094 SF, which was a strong reversal from the fourth quarter of 2021
- Vacancy decreased by 80-basis points from the previous quarter to 17.3%.
- Average asking rents increased to \$26.25/SF in the first quarter, a 21-cent increase quarter-over-quarter.

Market Summary

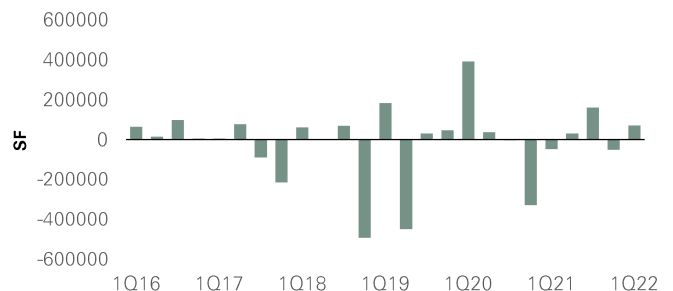
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	16.7 M	16.7 M	16.7 M	↓
Vacancy Rate	17.3%	18.1%	18.4%	↓
Quarterly Net Absorption (SF)	70,094	(50,797)	(48,101)	↑
Average Asking Rent/SF	\$26.25	\$26.04	\$25.41	↑
Under Construction (SF)	52,000	-	60,000	→

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION



RESEARCH Q1 2022

The New Castle County office market ended the first quarter of 2022 with a vacancy rate of 17.3%, an 80-basis point decrease from the fourth quarter of 2021 and 110-basis points lower than it was in first quarter of 2021. Vacancy rate declines were influenced by strong quarterly absorption. The largest contributors to absorption were the leases signed by Greenburg Truarig and Ross, Aronstam & Moritz for 13,500 and 19,347 square feet, respectively. The only submarket in New Castle County that experienced negative absorption was the Wilmington CBD where 4,564 square feet was returned to the market. The primary culprit for the increase in vacancy was Condé Nast Publications' departure from its 76,448-square-foot space at 1313 North Market Street. Otherwise, this submarket performed well, particularly in the B Class where 71,101 square feet was leased. The small absorption change in the Wilmington CBD kept the CBD's vacancy rate at 23.2%.

As the market for traditional office space continues to struggle, new developments and adaptive reuse projects centered around emerging real estate sectors like life sciences will be crucial in attracting new tenants. In late 2021, the MRA Group recognized the lack of lab availability in the market and purchased the former DuPont Chestnut Run Laboratory campus with plans to redevelop the site into a state-of-the-art life science campus. Construction of this 780,000-square-foot complex will begin this year. Conversions are expected to lower office vacancy in the quarters ahead as empty buildings are removed from the inventory. Expect life science tenants to rapidly lease this space after the campus is fully renovated.

There was a modest increase in general asking rents in Delaware during the first quarter of 2022. The market's average rent increased quarter-over-quarter from \$26.06/SF to \$26.25/SF and 3.3% since the first quarter of 2021. Class A rental rates increased last quarter from \$28.04/SF to \$28.14/SF and since the first quarter of 2021 rose from \$27.15/SF to \$28.14/SF. Landlords are holding face rents, but concessions such as free rent and tenant improvement allowance remain high as landlords try to attract new tenants into their spaces.

Many notable leases were signed this quarter in Delaware. As previously mentioned, law firms were a major player: Greenburg Truarig leased 13,500 square feet at 222 Delaware Avenue, Ross, Aronstam & Moritz LLP signed a 19,347-square-foot lease at 1313 North Market Street, Richards, Layton & Finger renewed its 133,714-square-foot lease at 920 North King Street and McElroy, Deutsch, Mulvaney, & Carpenter, LPP renewed its 2,148-square-foot lease at 300 Delaware Avenue.

Over the course of 2022, expect vacancy rates to gradually decline as the worst of the pandemic is likely over and people return to the office. Some space givebacks are expected as companies continue to reevaluate their needs; however, we do not see this trend being nearly as prevalent as it was in 2020 and 2021. A modest 52,000 square feet is in the development pipeline, which in and of itself should not suppress rents.

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%	(4,564)	(4,564)	\$27.81	\$23.60	\$26.24
Wilmington North	3,488,120	-	14.6%	16,555	16,555	\$31.26	\$25.60	\$29.14
Wilmington South	4,573,878	-	13.4%	55,311	55,311	\$23.53	\$21.61	\$22.06
Wilmington West	1,359,378	52,000	5.6%	2,792	2,792	\$28.22	\$22.96	\$25.57
Market	16,753,306	52,000	17.3%	70,094	70,094	\$28.14	\$23.31	\$26.25

Delaware Lease/User Transactions

Tenant/Buyer	Submarket	Building	Type	Square Feet
Greenburg Truarig	Wilmington CBD	222 Delaware Ave	Direct Lease	13,500
Seitz, Ross, Aronstam & Moritz	Wilmington CBD	1313 N Market St	Direct Lease	19,347
Richards, Layton & Finger	Wilmington CBD	920 N King St	Lease Renewal	133,714
McElroy, Deutsch, Mulvaney, & Carpenter	Wilmington CBD	300 Delaware Ave	Lease Renewal	2,148

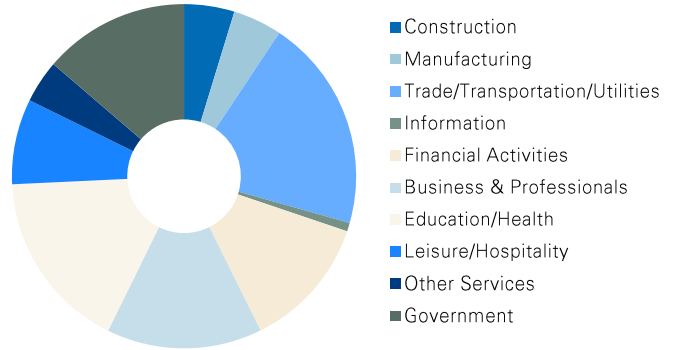
Economic Conditions

The Wilmington, Delaware Metropolitan unemployment rate continues to decline from its high in the second quarter of 2020. Year-over-year unemployment is down 100-basis points, settling at 4.2%. Twelve-month employment growth was recorded in most industries in January 2022. Leisure and hospitality (+8.1%) and information (+7.7%) were the largest gainers. Trade and transportation (-1.4%) and education and health (-3.0%) shed jobs. Employment in the manufacturing sector has remained flat since January 2021.

The unemployment rate is expected to decline further in subsequent quarters. Payroll employment will also make gains in the months ahead. A tight labor market will likely mean these gains will be marginal. The improving health and safety conditions will be a benefit to the labor market, which will allow more employees to return to the office.

Employment by Industry

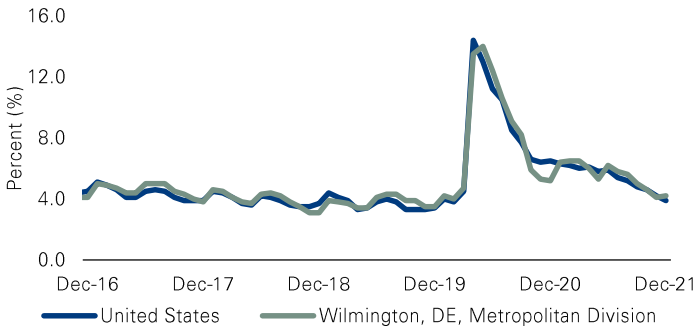
WILMINGTON, DE, METROPOLITAN DIVISION, JANUARY 2022 AVERAGE



Source: U.S. Bureau of Labor Statistics, March 2022.

Unemployment Rate

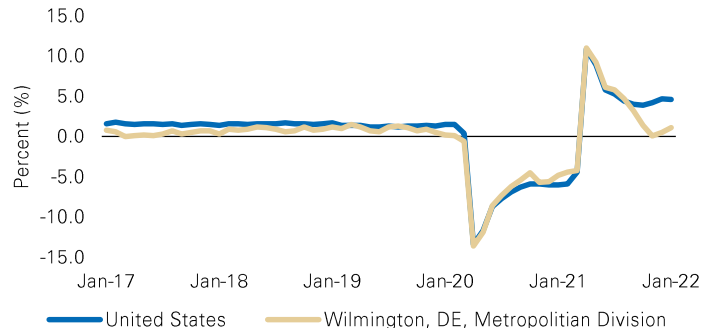
NOT SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics, March 2022.

Payroll Employment (Total Nonfarm)

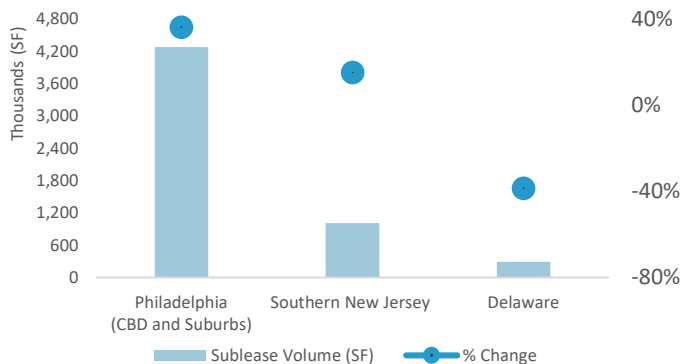
NOT SEASONALLY ADJUSTED, 12-MONTH % CHANGE



Source: U.S. Bureau of Labor Statistics, March 2022.

Greater Philadelphia Markets Sublease Analysis

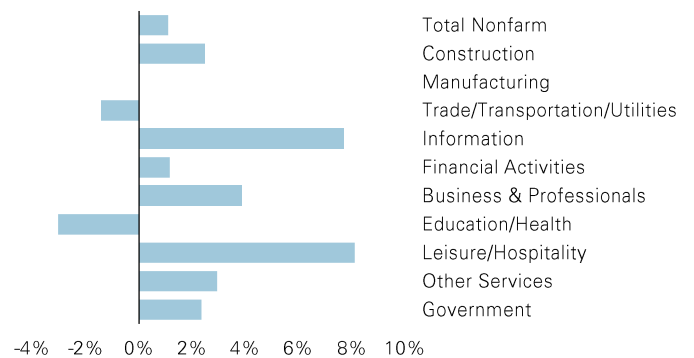
SQUARE FEET AND 12-MONTH % CHANGE, 1Q22



Source: Newmark Research, March 2022.

Employment Growth by Industry, January 2022

WILMINGTON, DE METRO DIVISION, 12-MONTH % CHANGE



Source: U.S. Bureau of Labor Statistics, March 2022.

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