



Wilmington Office Market

Q2 marked improvement in vacancy, increase in asking rental rates

During the second quarter of 2021 companies in Delaware continued to grapple with return to work issues related to COVID-19. While some businesses in the Wilmington market have begun to return to the offices, the majority remain remote. Mask mandates were lifted in May of 2021 for those who are fully vaccinated. To date, 47.2% of the State of Delaware’s population has been fully inoculated, and in New Castle County, 48.0% of the total population has been fully vaccinated. Expect an increase in the migration back to the office during the second half of 2021 as additional people receive their shots, and gradually become more comfortable working in an office environment.

The overall vacancy rate for the New Castle County office market, which encompasses Wilmington, declined by 20 basis points since the end of the first quarter of 2021 going from 18.4% to 18.2% currently. Despite the improvement in vacancy, the overall rate is up by 170 basis points year-over-year from 16.6% to 18.2%. Much of the increase can be attributed to the rise in available sublease space over that period. In fact, available sublease space has increased by 29.3%, from 313,617 SF to 405,732 SF since the second quarter of 2020.

Current Conditions

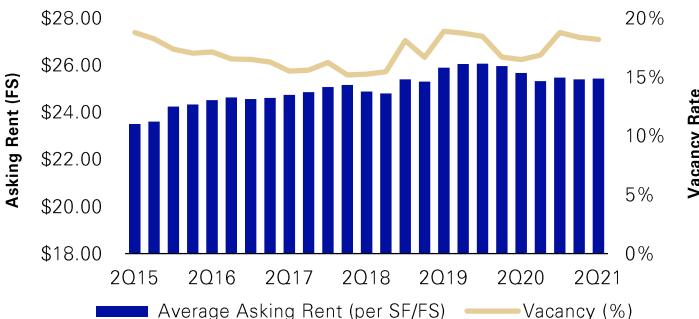
- Net absorption measured positive 31,308 square feet in the second quarter.
- Vacancy rose from 16.5% to 18.2% year-over-year.
- Average asking rents have decreased year-over-year, from an average of \$25.67 per square foot (PSF) to \$25.44 PSF.

Market Summary

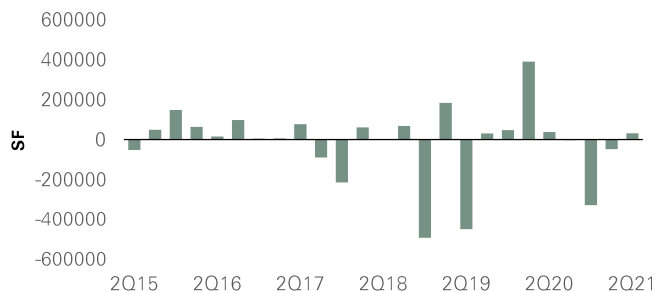
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	16.7 M	16.7 M	17.8 M	→
Vacancy Rate	18.2%	18.4%	16.5%	↑
Quarterly Net Absorption (SF)	31,308	(48,101)	37,740	↓
Average Asking Rent/SF	\$25.44	\$25.41	\$25.67	↓
Under Construction (SF)	0.06 MSF	0.06 MSF	-	→

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION



RESEARCH Q2 2021

Despite the year over year increase in sublease space, the amount now available actually decreased since last quarter by 13.8% from 468,702 SF to 405,732 SF.

Overall absorption numbers were positive in the second quarter with 31,308 square feet (SF) more space under lease in comparison with the prior period. However the year-to-date number remains in the negative at 16,793 SF. Paradoxically, asking rental rates for all classes increased by 0.1% since last quarter to an average of \$25.44 per square foot (PSF) but remain down by 0.9% year-over-year from \$25.67 PSF. Not surprisingly, much of the rental rate decline was experienced in the Class B sector as rates dropped by 5.9% year-over-year from \$24.23 PSF to 22.79 PSF. Contrary to the direction of the Class B rates, Class A rates increased over the past 12 months, rising 0.5% from \$27.29 PSF to \$27.44 PSF. New construction activity remains limited, as only one project, the 60,000-square-foot build-to-suit for Marlette Funding at 3419 Silverside Road in Wilmington, is expected to deliver during the third quarter of 2021.

New leasing activity was sparse during the second quarter in the Wilmington office market. Significant deals included, McCarter &

English, LLP extending its lease at 405 North King Street in the Wilmington CBD for 22,135 SF. ThruPore signed a new lease at 225 Corporate Boulevard in the Pencader Corporate Center in Newark, taking 9,273 SF. Discover also announced this quarter that it will be relocating and downsizing its space footprint. Discover will relocate from roughly 106,000 SF at 12 Reads Way into 28,000 SF at the Iron Hill Corporate Center in Newark. Tybout, Redfearn and Pell also completed its relocation this quarter from 750 Shipyard Drive to Rockwood Office Park in Wilmington where the company leased 14,400 SF. Investment sales activity was anemic in the Wilmington office market, as no notable buildings traded during the second quarter.

As we head into the second half of 2021 and into 2022, expect an increase in leasing activity and fewer sublease opportunities added to the market. Absorption numbers will likely remain in the negative, however could push closer to the positive by year-end 2021. Asking rental rates for Class A space are expected to remain stable, while Class B and Class C rates are likely to decline. The overall vacancy rate is expected to remain stable between now and the end of the year as no sizable tenants are expected to surrender their space.

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	-	23.0%	115,642	104,512	\$27.62	\$23.68	\$26.23
Wilmington North	3,428,120	60,000	18.7%	-22,750	-52,040	\$31.17	\$24.21	\$28.06
Wilmington South	4,573,878	-	13.5%	-58,648	-54,411	\$22.98	\$20.90	\$21.69
Wilmington West	1,359,378	-	6.8%	-3,036	-14,854	\$29.60	\$22.79	\$26.17
Market	16,695,217	60,000	18.2%	31,308	-16,793	\$27.44	\$22.79	\$25.44

Delaware Lease/User Transactions

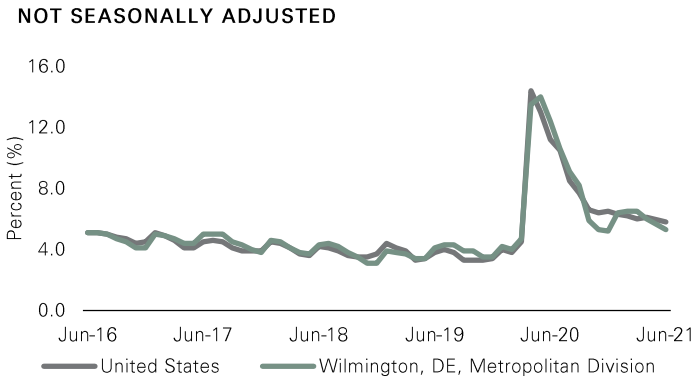
Tenant/Buyer	Submarket	Building	Type	Square Feet
McCarter & English, LLP	Wilmington CBD	405 North King Street	Lease Extension	22,135
ThruPore	Wilmington South	225 Corporate Boulevard	New Lease	9,273

Economic Conditions

While the past year has been challenging for all industries across the board, there has been positive job growth in all of Wilmington’s tracked industries over the past two months except for the professional and business services sector. For the month of May 2021, total nonfarm employment grew by 9.1%, with the trade, transportation, and utilities sector experiencing the largest improvement of all industries by 66.6%.

The unemployment rate declined to 5.3% in the month of May 2021, down from 14.0% in May of 2020 when the rate reached its pandemic peak. The economic outlook for the remainder of 2021 and into 2022 looks bright as the unemployment rate is expected to decline further and payroll employment is projected to increase.

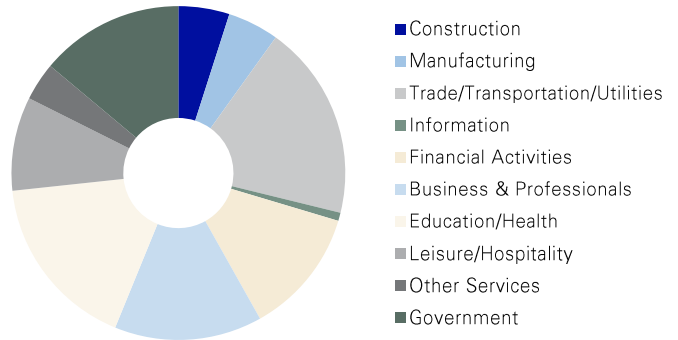
Unemployment Rate



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

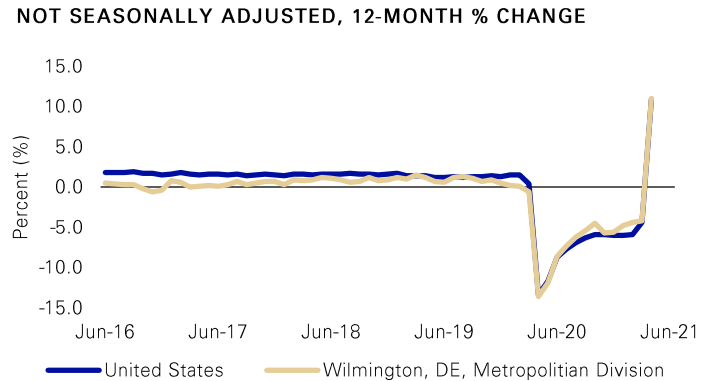
Employment by Industry

WILMINGTON, DE, METROPOLITAN DIVISION, 2020 AVERAGE



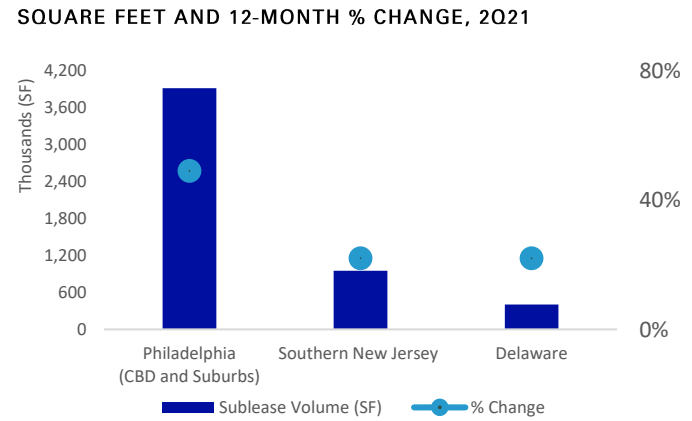
Source: U.S. Bureau of Labor Statistics, June 2021.

Payroll Employment (Total Nonfarm)



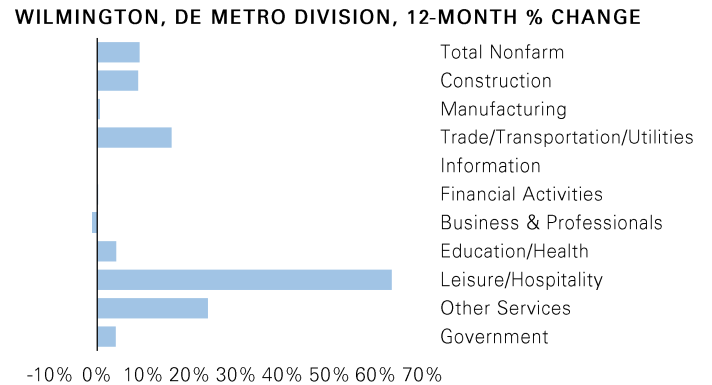
Source: U.S. Bureau of Labor Statistics, June 2021.

Greater Philadelphia Markets Sublease Analysis



Source: Newmark Research, June 2021.

Employment Growth by Industry, June 2021



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

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