



Wilmington Office Market

The Return to the Office and Conversions Define Wilmington's Third Quarter

As the vacation season ends, the Wilmington market is experiencing a noticeable return to the office. Commuter traffic has increased, and office key swipes are trending upward. Other factors, like retail vacancy, indicate improving conditions. The Wilmington Central Business District's current retail vacancy rate of 2.3% is 70 basis points lower from the pandemic era high in the first quarter of 2021. A more extensive assortment of amenity offerings bodes well for future occupancy increases. The general market had negative office absorption in the third quarter despite Wilmington's improved activity metrics. In total, 61,496 square feet were given back, which increased year-to-date absorption to negative 153,349 square feet. Class A properties surrendered 52,133 square feet, and Class B offices had 16,179 square feet of negative absorption. The B Class outperformance compared to high-quality space is due to the nearly 260,000 square feet removed from the market at 1007 N. Orange Street due to residential conversion.

Rents held steady this quarter as landlords continue to justify higher asking rates by offering sizable concession packages, which include free rent and outfitting costs. Unfortunately, the value of these offerings has declined as building material prices have increased dramatically, limiting the scope of enhancements. Items like cement, steel studs and drywall are in short supply and don't show an inclination of price improvement in the near term.

Current Conditions

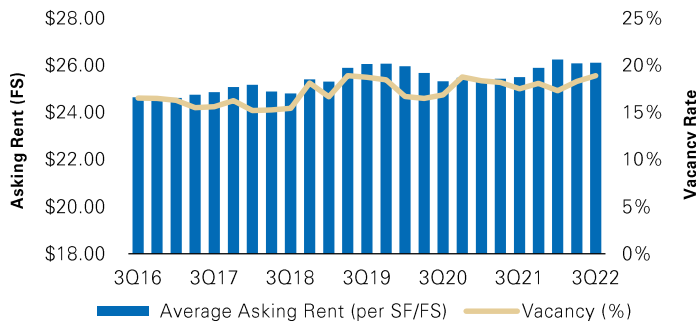
- More people are returning to the office, as evidenced by higher traffic counts and key swipes
- Office to apartment conversions are reducing available inventory
- Landlords are maintaining higher asking rates by offering large concession packages to tenants in the market

Market Summary

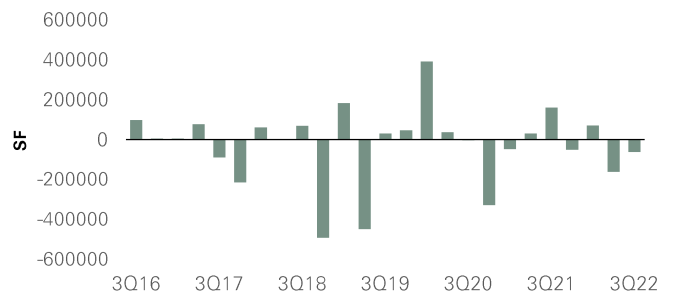
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	16.55 M	16.75 M	16.75 M	↓
Vacancy Rate	18.9%	18.3%	17.5%	↓
Quarterly Net Absorption (SF)	(61,496)	(161,947)	159,887	↑
Average Asking Rent/SF	\$26.11	\$26.08	\$25.50	→
Under Construction (SF)	52,000	52,000	0	↓

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION



RESEARCH Q3 2022

Casarino, Christman, Shalk, Ransom & Doss. P. A. signed the largest lease recorded in the third quarter, taking 7,790 square feet at 1000 N. West Street (Brandywine Building) in downtown Wilmington. In Southern Wilmington, the Christiana Corporate Center was the center of the submarket's activity. The Office of Management and Budget of the State of Delaware leased 5,093 square feet at 220 Continental Drive; Wallace Montgomery & Associates LLP inked a 2,431-square-foot deal at 200 Continental Drive; and CrossCountry Mortgage, LLC leased 2,250 square feet at 111 Continental Drive.

Throughout 2022, most of Wilmington's closed transactions have been centered around law firms, banks and other financial institutions. Given the tax benefits of incorporating and doing business in Delaware, along with the state's well-developed chancery courts, it is expected that these types of tenants will continue to be the main drivers of activity in the future, particularly in the Wilmington CBD and Northern Wilmington. The potential for startups to become more significant players in the market is also increasing due to solid venture capital funding. According to a report by York Investments, Wilmington startups received nearly \$828 million in fundraising, and Dover businesses secured around \$110 million in the second quarter of 2022. These companies will need space to conduct day-to-day operations as they expand. Unfortunately, existing tenants and startups have not been enough to decrease higher-than-average vacancy rates. New sources of absorption must be found to reduce vacant inventory.

One possible way to lower vacancies is office-to-apartment conversions. The private firm Buccini/Pollin Group (BPG) is spearheading the effort. Recently, BPG announced it was converting nine floors of office space (259,243 square feet) into residential units at the Nemours Building at 1007 N. Orange Street. Apartment conversions will likely succeed in the Wilmington market due to solid fundamentals concerning rents, population growth and demand. According to Yardi, rents in and around Wilmington have grown 31.0% since 2018 and 9.7% year-over-year. Strong population growth is also present. Between 2010 and 2022, the population of Northern New Castle County increased by 4.0% or roughly 20,000 people. A housing shortage paired with the densification of the market has elevated rental demand and buoyed the market's occupancy rate to a record-high 96.9%.

While strong multifamily performance may not solve all office market woes, it provides elements that could benefit offices in the future. Since the beginning of the pandemic, companies have been facing widespread labor shortages and have relocated to new markets to find talent. Office-to-apartment conversions are one way to support Wilmington's growing population and labor force, which could attract new businesses to backfill the market's vacant 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	7,129,917	-	25.5%	(41,086)	(120,409)	\$27.56	\$23.60	\$26.36
Wilmington North	3,488,120	-	14.8%	14,915	7,993	\$31.29	\$24.63	\$28.91
Wilmington South	4,573,878	-	15.3%	(33,549)	(31,347)	\$23.52	\$21.67	\$22.15
Wilmington West	1,359,378	52,000	6.5%	(1,776)	(9,586)	\$30.42	\$22.64	\$26.84
Market	16,551,293	52,000	18.9%	(61,496)	(153,349)	\$27.99	\$23.15	\$26.11

Delaware Lease/User Transactions

Tenant/Buyer	Submarket	Building	Type	Square Feet
Casarino, Christman, Shalk, Ransom & Doss. P.A.	Wilmington CBD	1000 N West St	Direct Lease	7,790
Office of Management and Budget of the State of Delaware	Wilmington South	220 Continental Dr	Direct Lease	5,093
Wallace Montgomery & Associates LLP	Wilmington South	200 Continental Dr	Direct Lease	2,431
CrossCountry Mortgage, LLC	Wilmington South	111 Continental Dr	Direct Lease	2,250

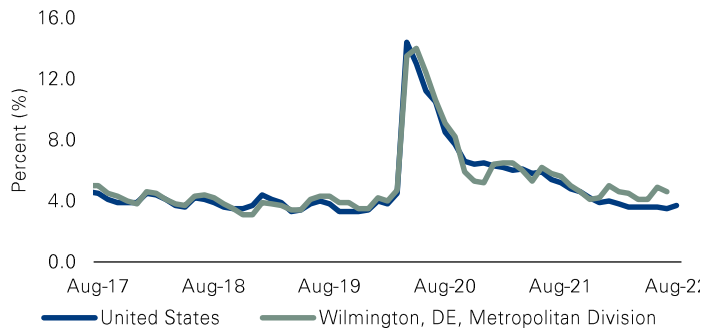
Economic Conditions

Wilmington’s unemployment rate of 4.6% in July 2022 was a slight increase from levels recorded early in the year. However, the 12-month percentage change in unemployment of 3.0% is the highest in 2022. The leisure/hospitality and manufacturing sectors led the year-over-year employment gains, growing 18.2% and 8.1%, respectively. The information industry lost 3.4% of its jobs since last year.

The third quarter was difficult for Wilmington’s economy; record inflation, labor scarcity and material shortages caused by supply chain disruptions, as well as the conflict in Ukraine, have been a drag on consumer sentiment. Adding to the pressure are the Federal Reserve’s rapid interest rate hikes precipitated by its desire to quell inflation. A recent rate increase by The Fed brought the federal funds rates to 3.0-3.25%. While this has the potential to slow the economy further, some economists believe a strong labor market can ward off a full recession.

Unemployment Rate

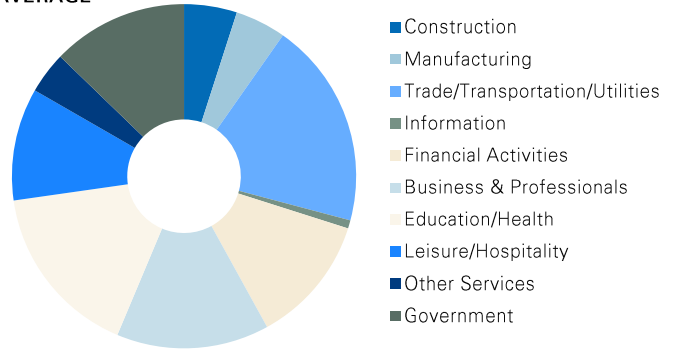
NOT SEASONALLY ADJUSTED



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

Employment by Industry

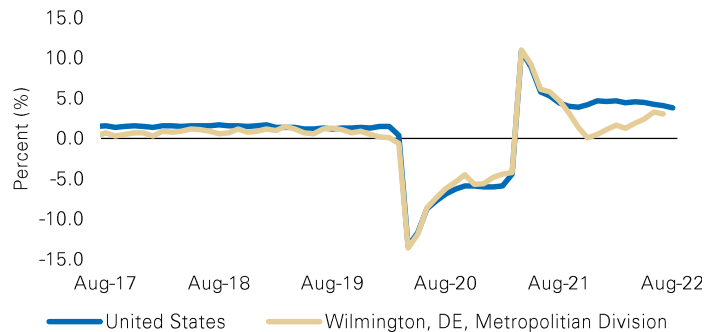
WILMINGTON DE, METROPOLITAN DIVISION, SEPTEMBER 2022 AVERAGE



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

Payroll Employment (Total Nonfarm)

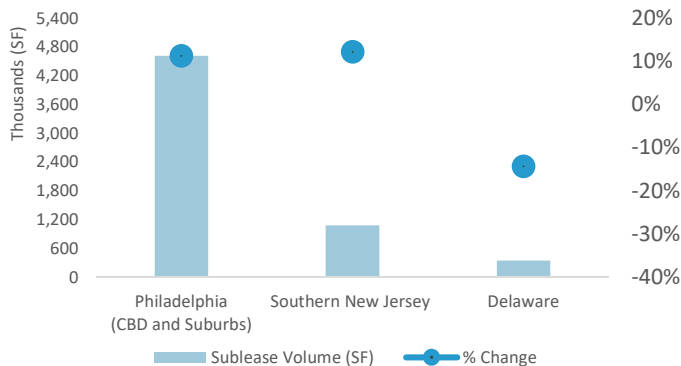
NOT SEASONALLY ADJUSTED, 12-MONTH % CHANGE



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

Greater Philadelphia Markets Sublease Analysis

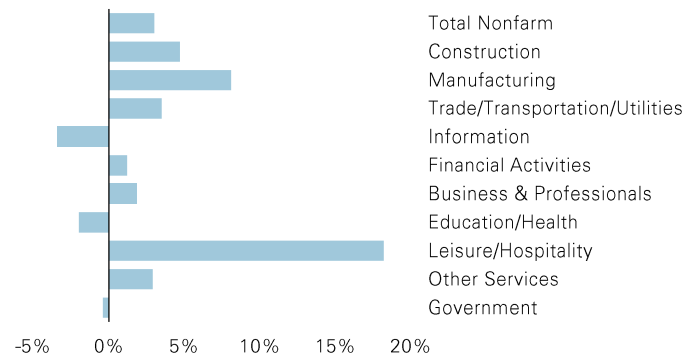
SQUARE FEET AND 12-MONTH % CHANGE, 3Q22



Source: Newmark Research, September 2022.

Employment Growth by Industry, September 2022

WILMINGTON, DE METRO DIVISION, 12-MONTH % CHANGE



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

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