
3Q23

Wilmington Office Market Overview



NEWMARK

Market Observations

Economy

- The Wilmington MSA unemployment rate has been on an upward trajectory for much of 2023 and matched the 2023 high of 4.4%. Overall office-using employment has decreased by 1.4% quarter-over-quarter.
- Year-over-year job gains fell below the national average in the third quarter of 2023. The 1.7% annual gain is 30 basis points below the US average. Industries like information and professional & business services have shed the most jobs since the third quarter of 2022.
- The construction industry remained in expansion mode, adding 800 jobs since the end of the second quarter of 2023.

Major Transactions

- Deluxe Corporation extended its lease for the 61,662 square feet it occupies at 400 White Clay Center Drive in Newark. The lease was the largest known deal signed in Wilmington during the third quarter of 2023.
- The health and wellness company, GOLO, opened its new 22,000-square-foot office at the Iron Hill Corporate Center in Newark.
- Early in the third quarter of 2023, President Joe Biden announced Wilmington as his headquarters for his upcoming re-election campaign. The Delaware native's 2020 campaign HQ was in Philadelphia.

Leasing Market Fundamentals

- Absorption in the Wilmington market was -12,903 square feet and leasing activity was described as sluggish in the summer months but increased after the Labor Day weekend. This is typical for the market as average absorption in the third quarter going back 5 years is only 4,702 square feet.
- Large leases by Deluxe Corporation and Kimmel, Carter, Roman & Peltz, PA decreased space requirements in the market to its lowest level since 2021.
- Vacancy increased marginally quarter-over-quarter, rising 10 basis points to settle at 21.6%. Sublease vacancy decreased from 1.6% in the second quarter of 2023 to 1.4% in the third quarter of 2023. The term remaining on some sublease space expired and became directly available.

Outlook

- Weaker demand for office space paired with rising interest rates will continue to impact sales activity in the Wilmington market. No known office sales occurred in the third quarter of 2023.
- Amenities are not the end-all-be-all attraction they once were in the early stages of the pandemic. Tenants in the market are increasing the scrutiny put on landlords' finances to ensure owners can adequately fund TI packages and fulfill obligations.
- Rent growth will remain neutral or decline in the coming quarters. Current demand for office space could force landlords to reduce asking rents to improve the chances of increased interest in their listings.

1. Economy
2. Leasing Market Fundamentals
3. Appendix / Tables

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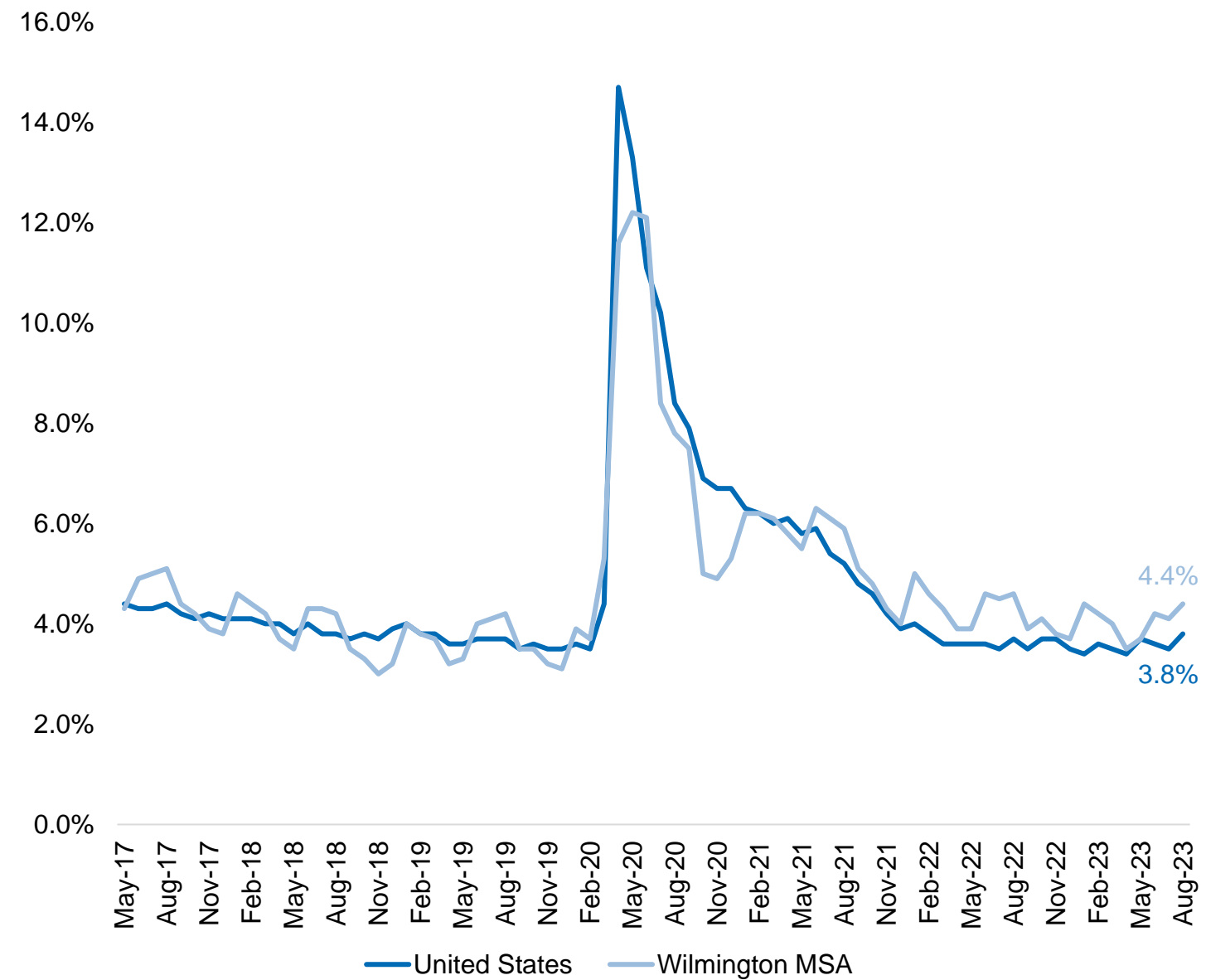
Economy



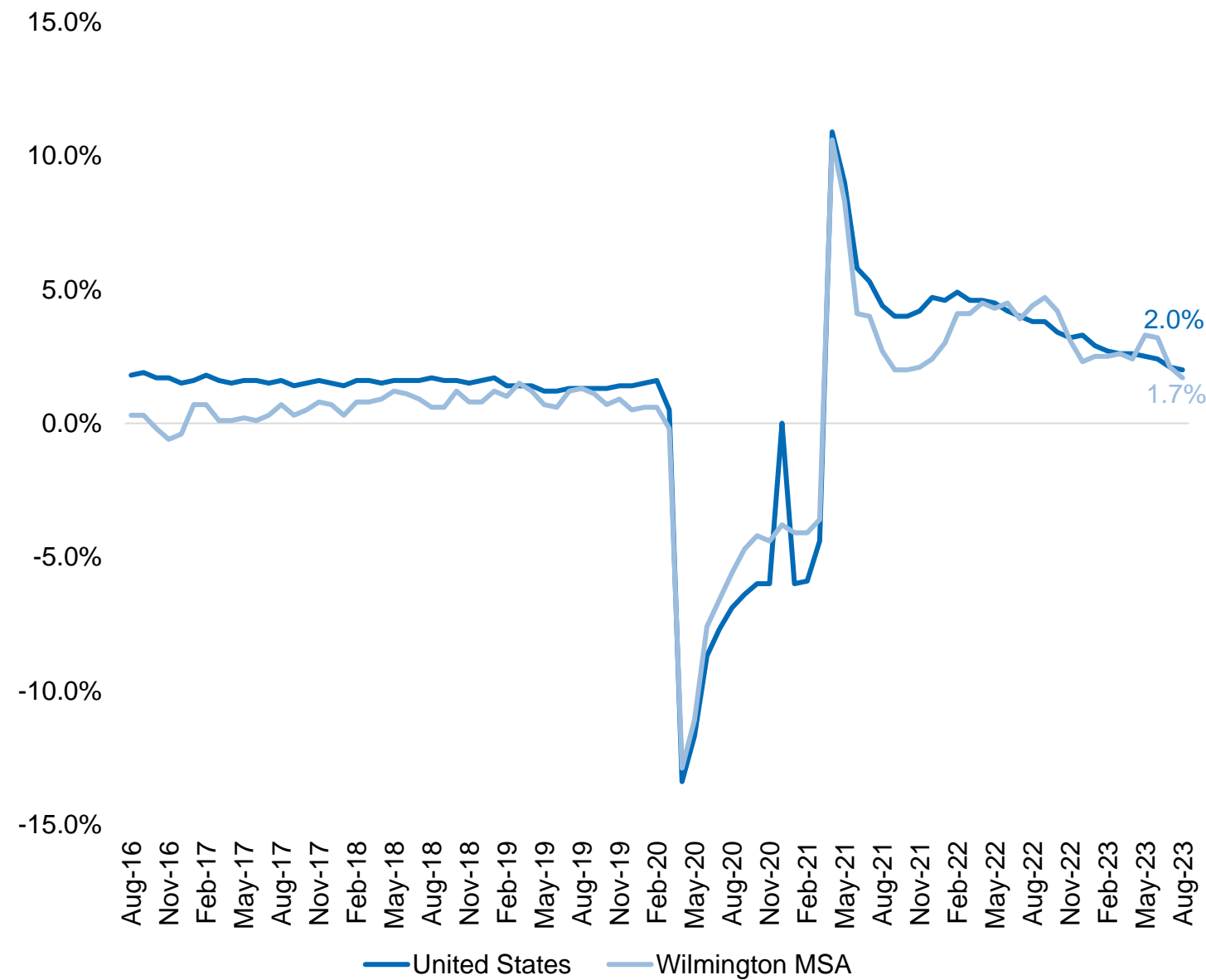
Metro Employment Trends Signal A Slowing Economy

The unemployment rate for the Wilmington Metro increased by 20 basis points since the second quarter of 2023. In August, the three-month net change in total employment was -1.4%. The government shed 7.7% of jobs in the three-month span between August and May; this was the largest headcount reduction of any industry.

Unemployment Rate, Seasonally Adjusted



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



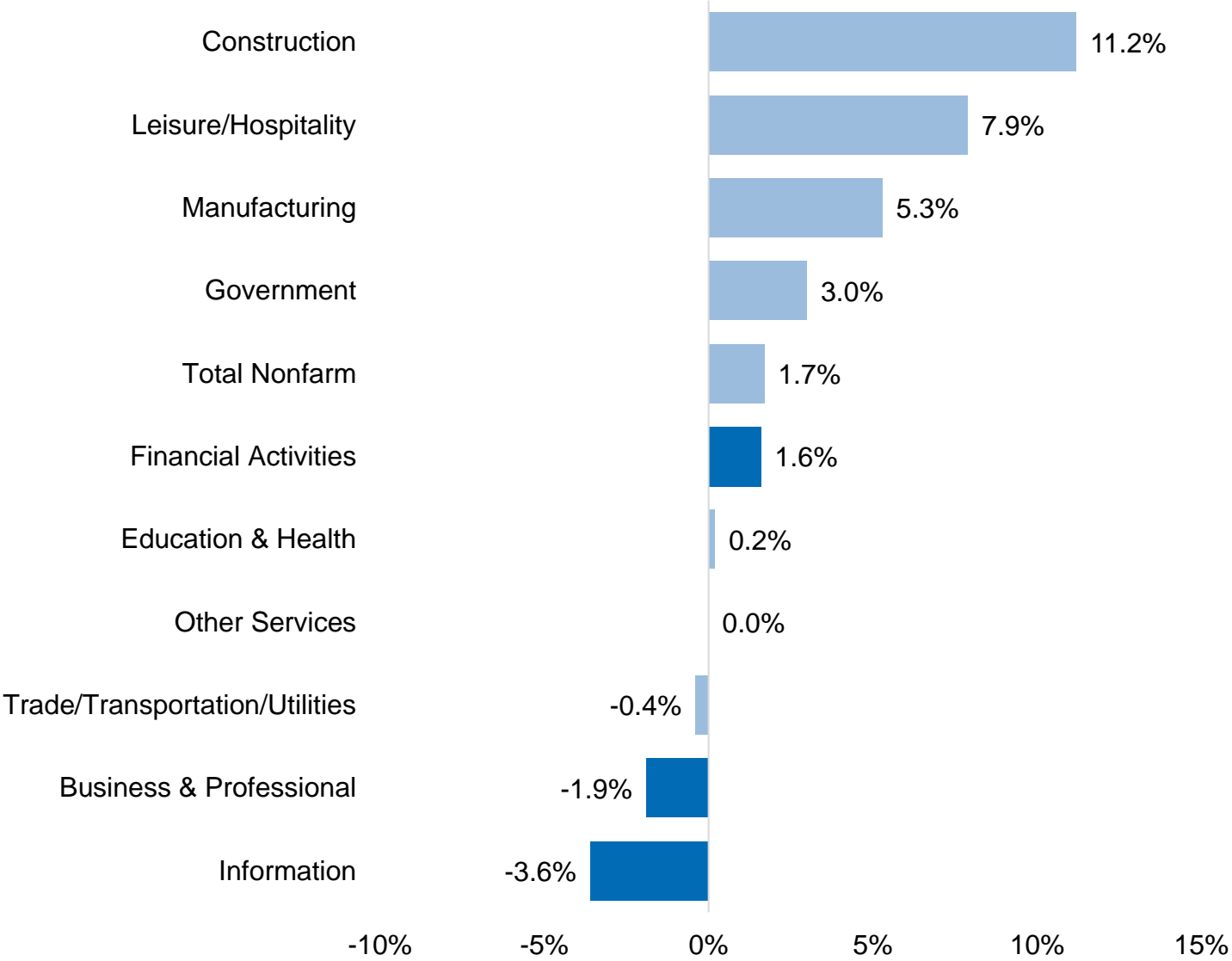
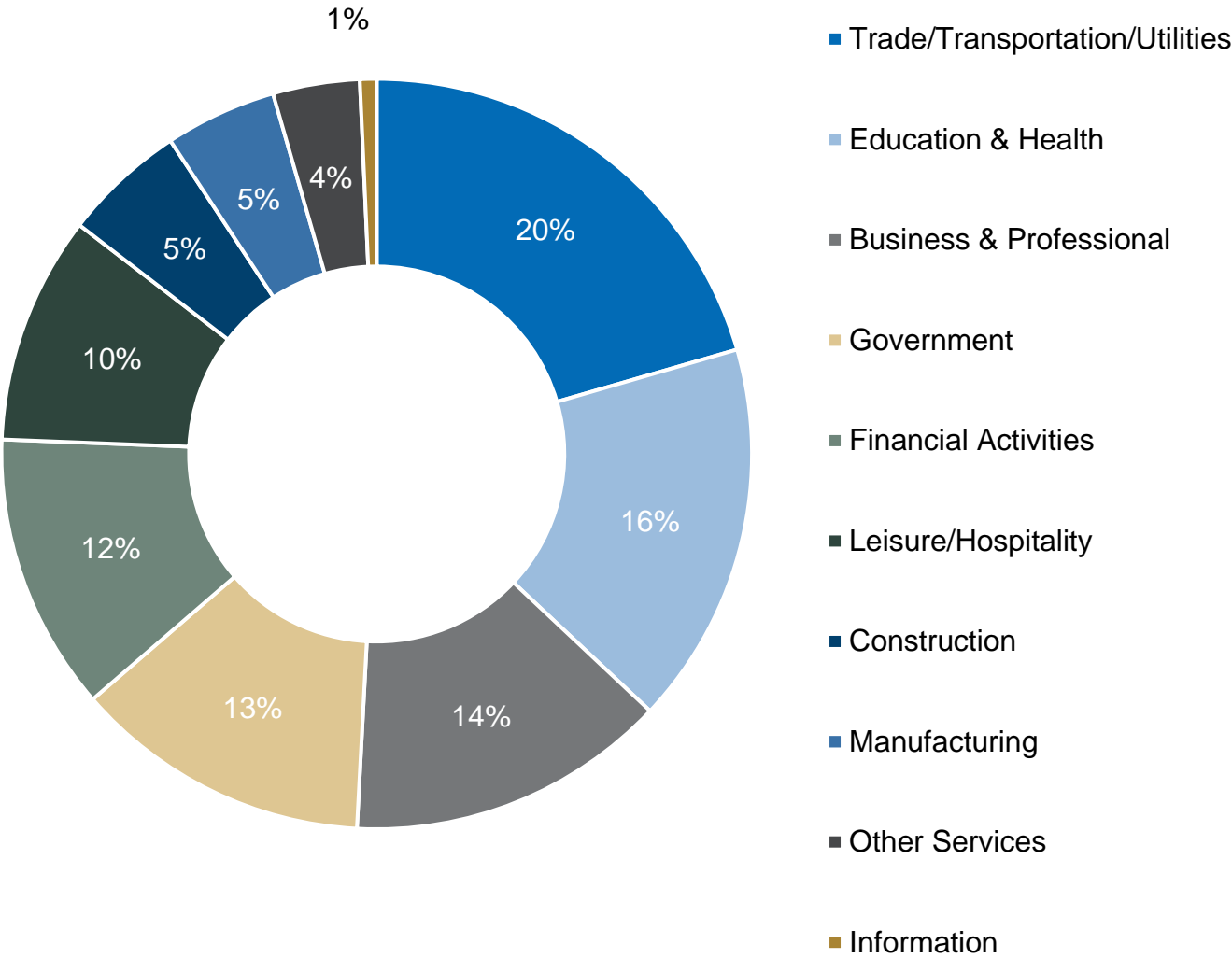
Source: U.S. Bureau of Labor Statistics, Wilmington MSA

Expanding Industries Lead in Job Gains

Blue-collar and service-type industries had the most significant year-over-year gains in employment in the third quarter of 2023. Despite being the largest laggard, the information industry has maintained a consistent level of employment since October 2022.

Employment by Industry, August 2023

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

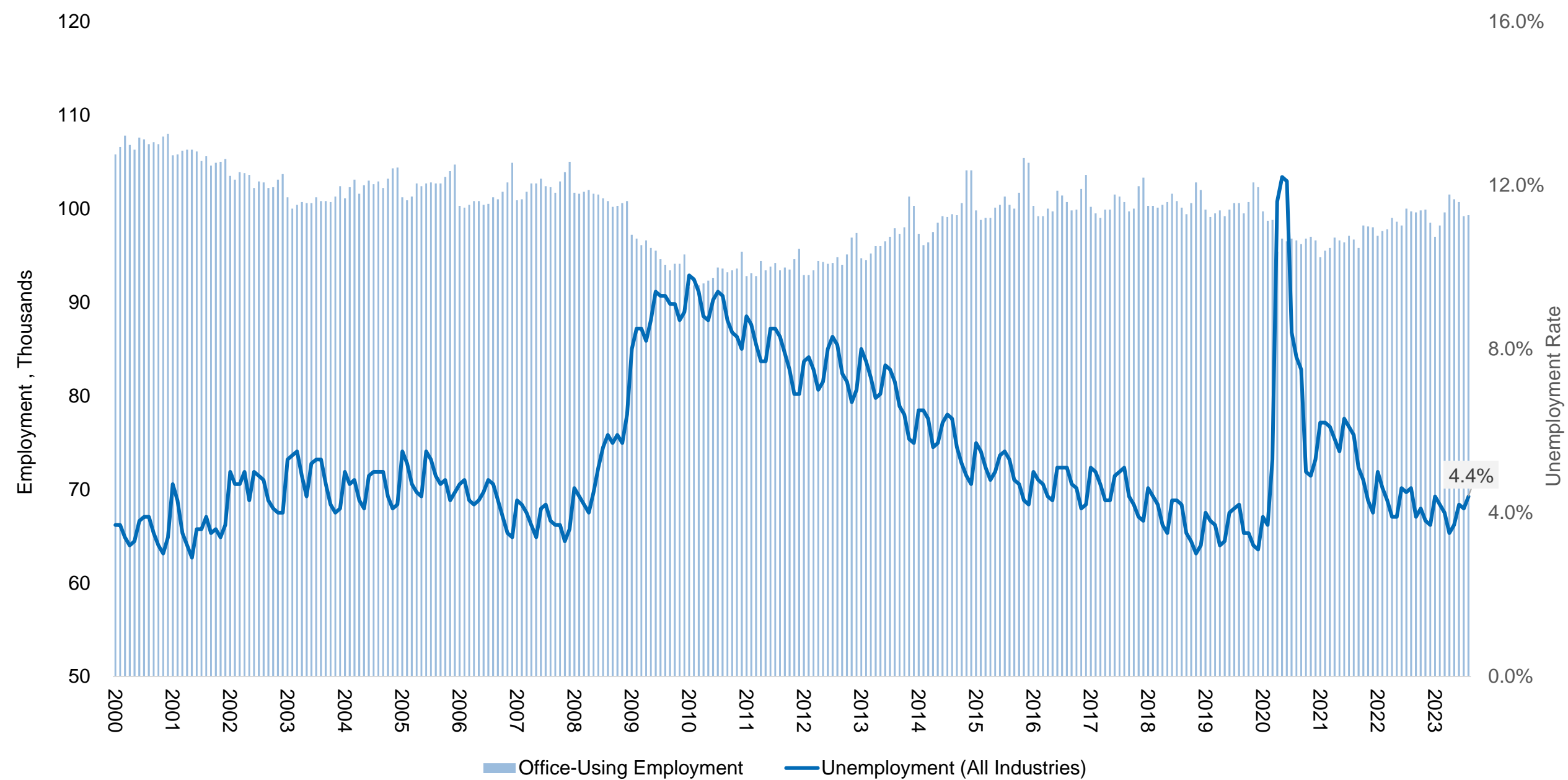


Source: U.S. Bureau of Labor Statistics, Wilmington MSA

Overall Office-Using Employment Has Declined Slightly in 2023

Declining office-using employment in 2023 has been met with increasing unemployment in the Wilmington Metro.

Office-Using Employment* and Unemployment Across All Industries



Source: U.S. Bureau of Labor Statistics, Wilmington MSA
Note: August 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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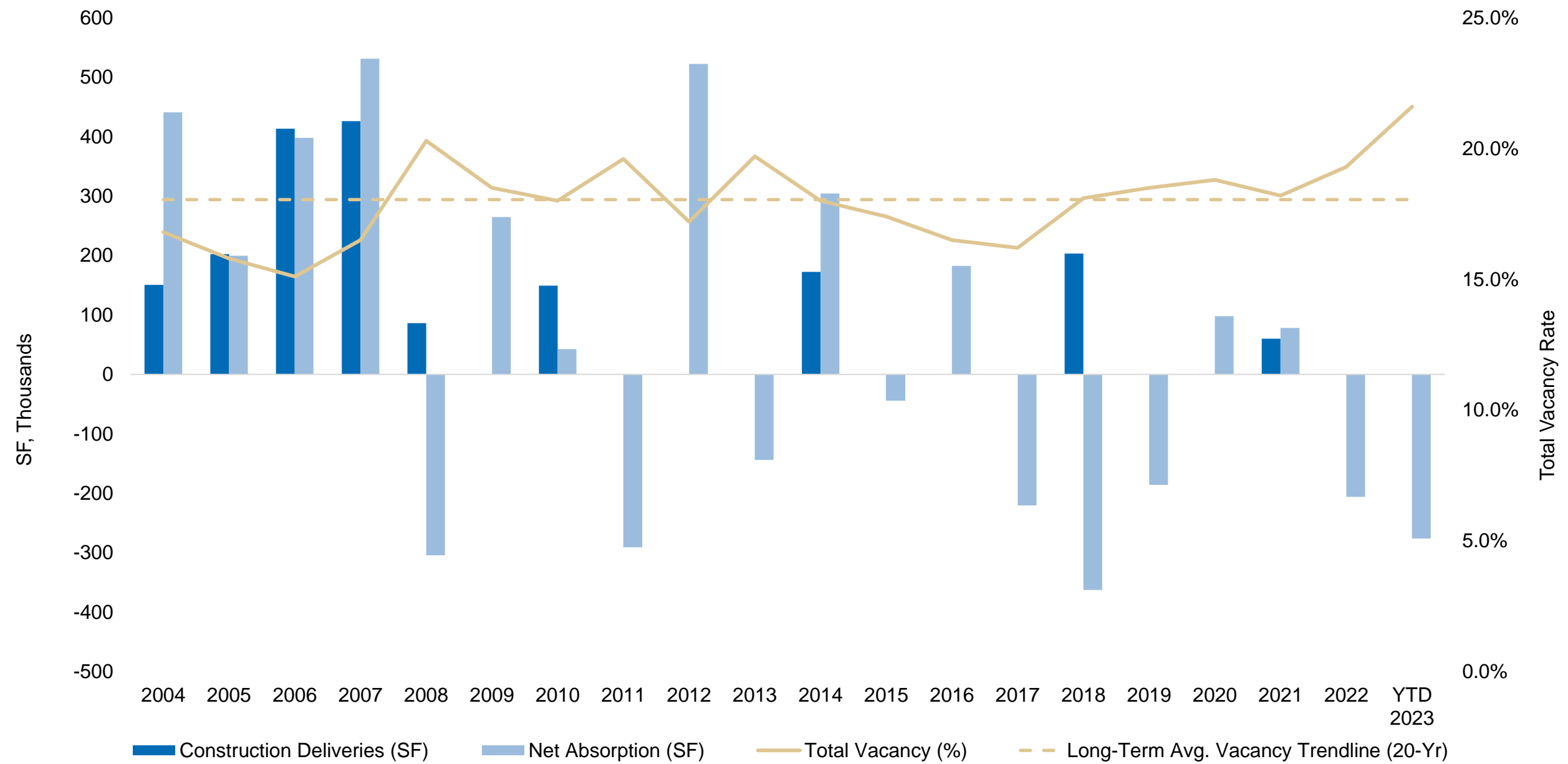
Leasing Market Fundamentals



Vacancy Rises as Wilmington Heads Towards Another Down Year

Wilmington’s vacancy rate has steadily increased since the onset of the COVID-19 pandemic. Footprint reductions and space givebacks by some of the area’s largest office-using employers, such as Capital One, have created a large void difficult to backfill in a period of weaker office demand.

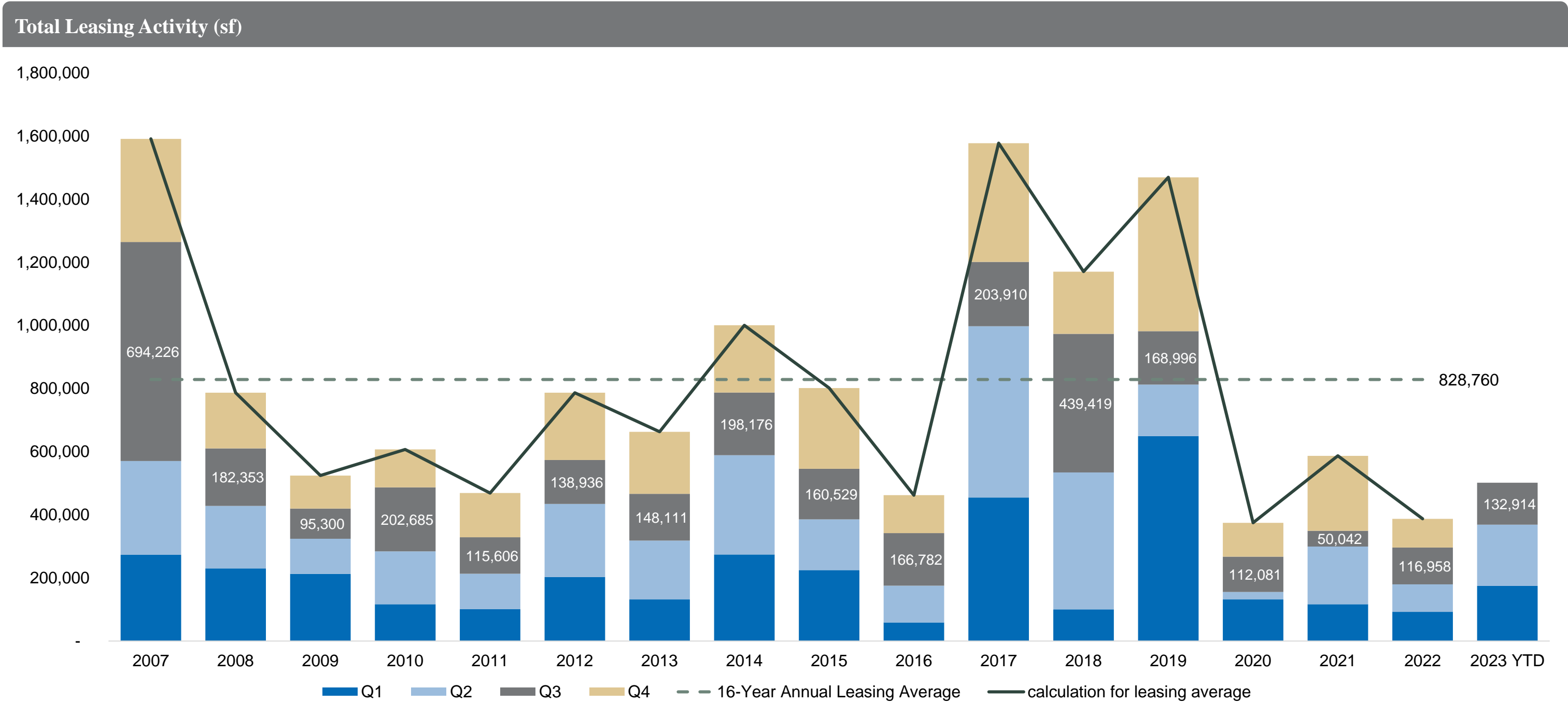
Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research

Leasing Activity On Pace For Best Year Post Pandemic

Large lease extensions by Deluxe Corporation and Kimmel, Carter, Roman & Peltz, PA brought year-to-date leasing activity in 2023 above the entirety of 2022. They accounted for 58% of total quarterly leasing activity in the third quarter. A solid finish to the year could push total leasing volumes to post-pandemic highs.

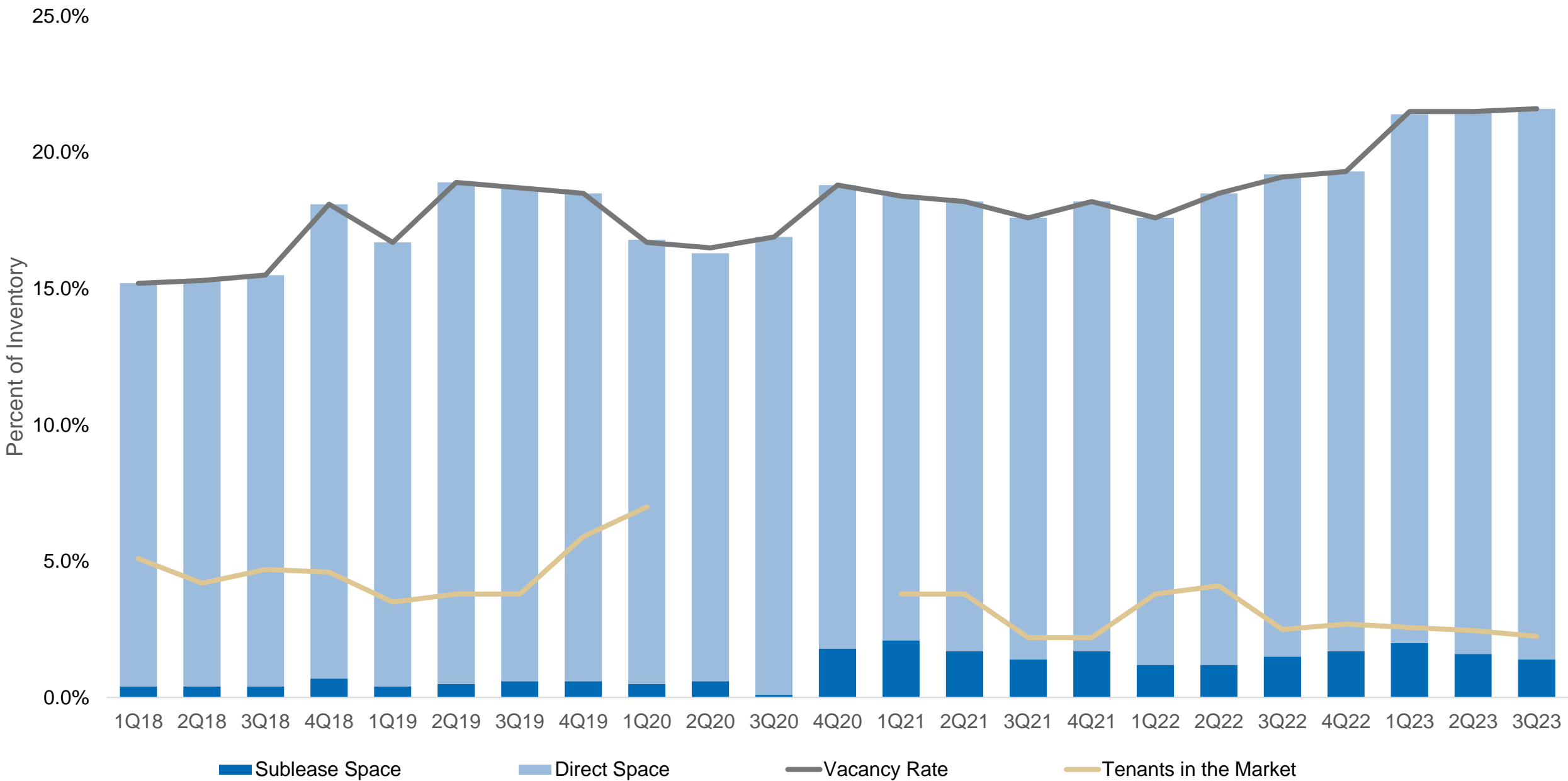


Source: Newmark Research, CoStar

Availability Continues to Increase While Tenant Demand Drops

Large deals signed in the third quarter of 2023 brought tenant demand to its lowest level since 2021. It will take some time for the deal pipeline to replenish during a down period of office demand. Legal and FIRE tenants make up nearly 70 percent of active space requirements.

Available Space and Tenant Demand as Percent of Overall Market

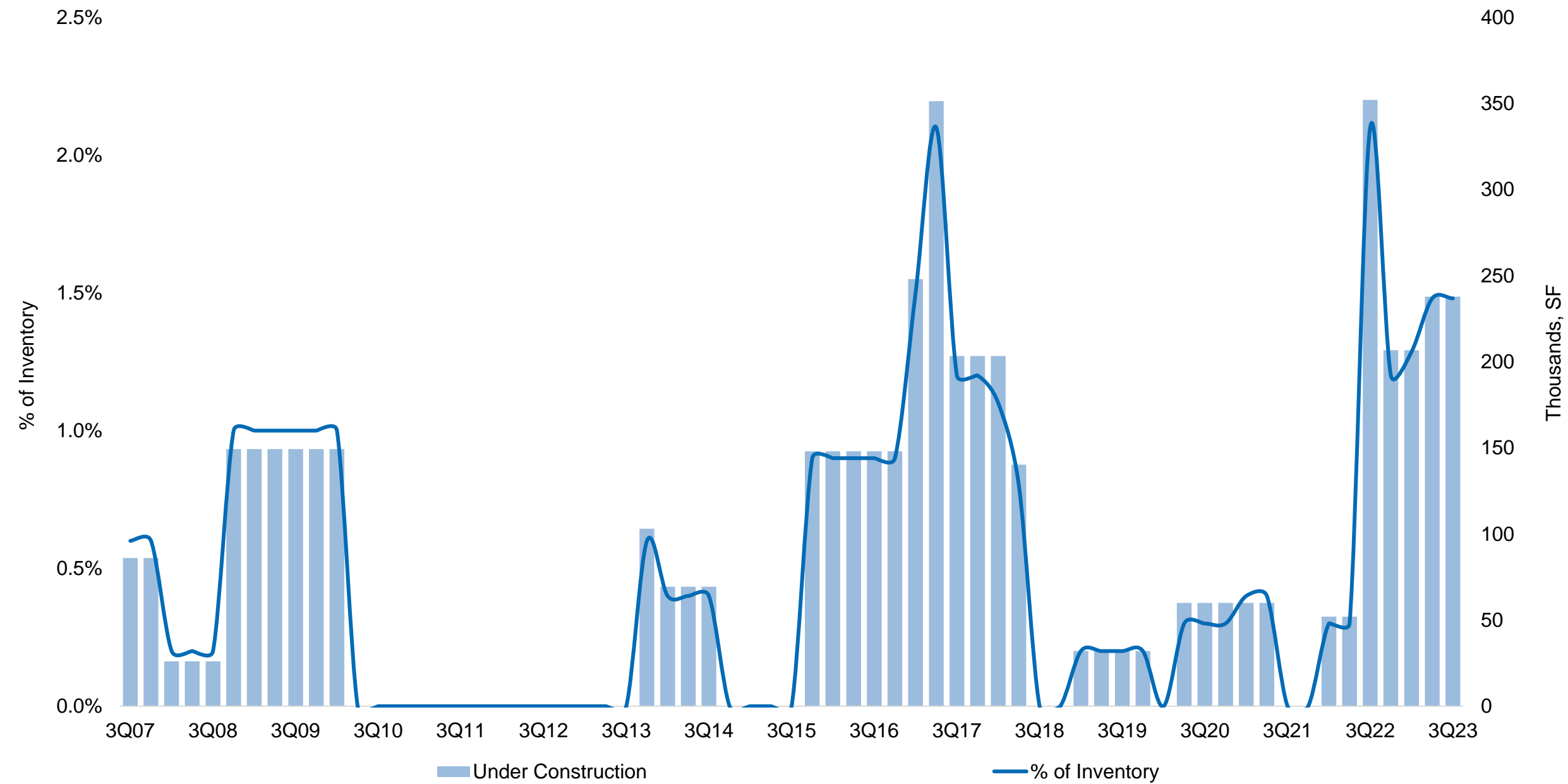


Source: Newmark Research
Note: No tenants in the market surveys were produced between Q2 2020 and Q4 2020 due to the COVID-19 Pandemic

Deliveries Continue While New Construction Slows

The construction pipeline remained unchanged compared to last quarter. Current market fundamentals suggest the market is oversupplied; however, demand for newer-built product remains strong. The vacancy rate for offices built in the past twenty years is 11.5%, nearly half of the overall market. Additionally, year-to-date absorption for modern buildings is 28,539 square feet. The 100,000-square-foot tower at Avenue North headlines the construction pipeline that includes 800 Creek View Road and The Walkers Mill Building.

Office Under Construction and % of Inventory

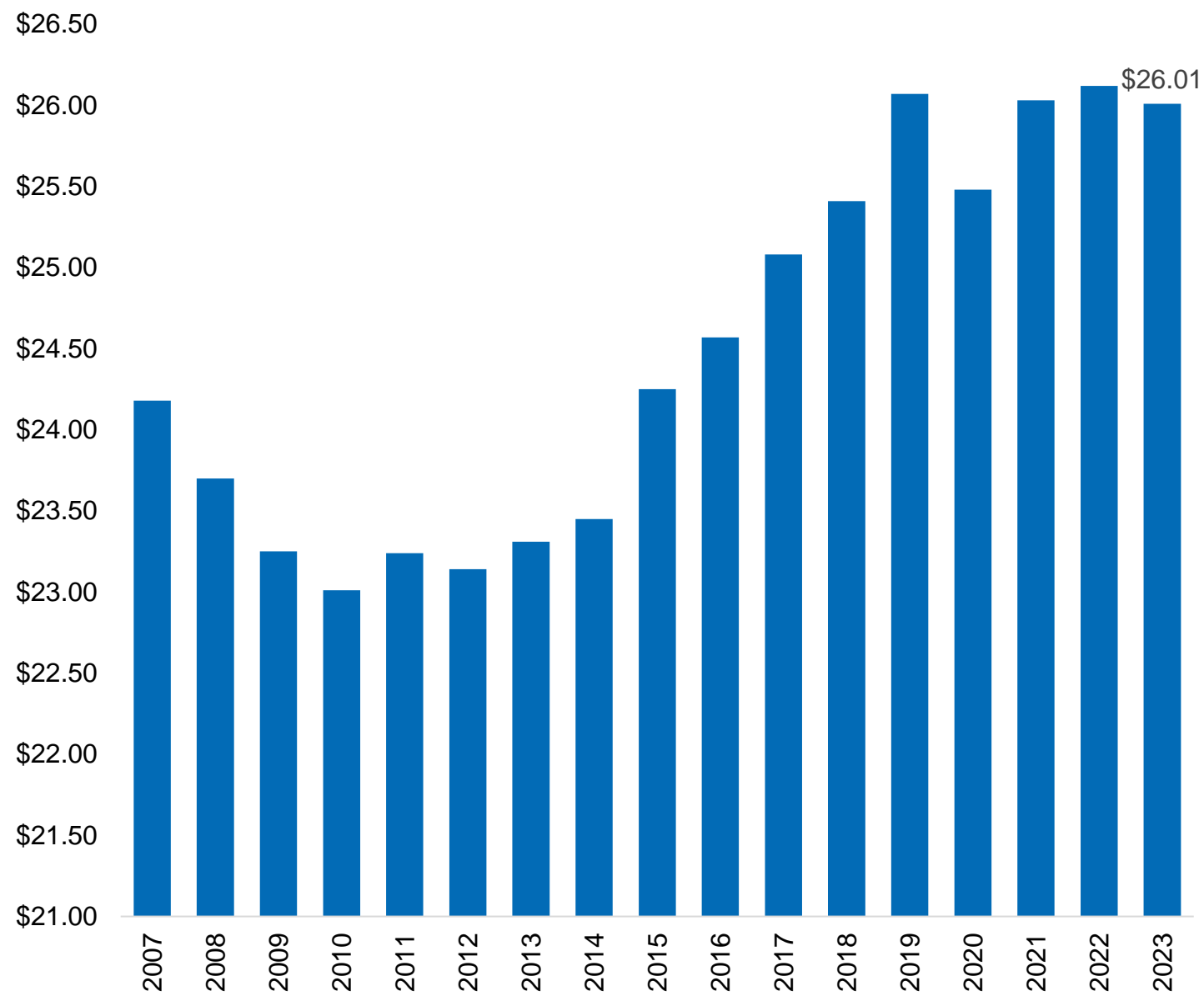


Source: Newmark Research, CoStar

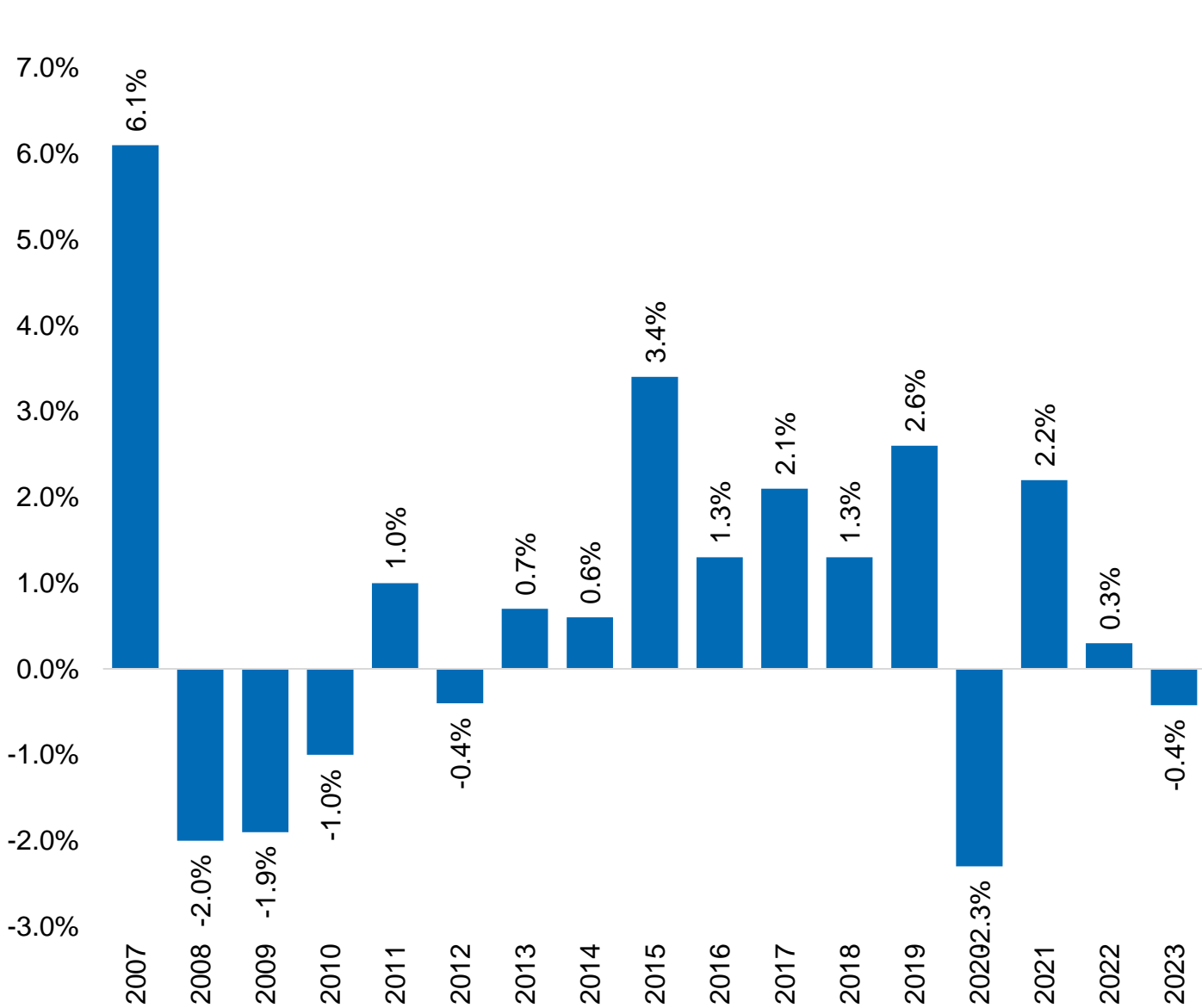
Rents Decline as Demand Weakens

Asking rates at the end of the third quarter of 2023 were 0.4% lower than 2022's. Landlords have been unable to maintain rents in the face of weaker demand.

Office Average Asking Rent, \$/SF, FS



Year-over-Year Asking Rent Growth Rate

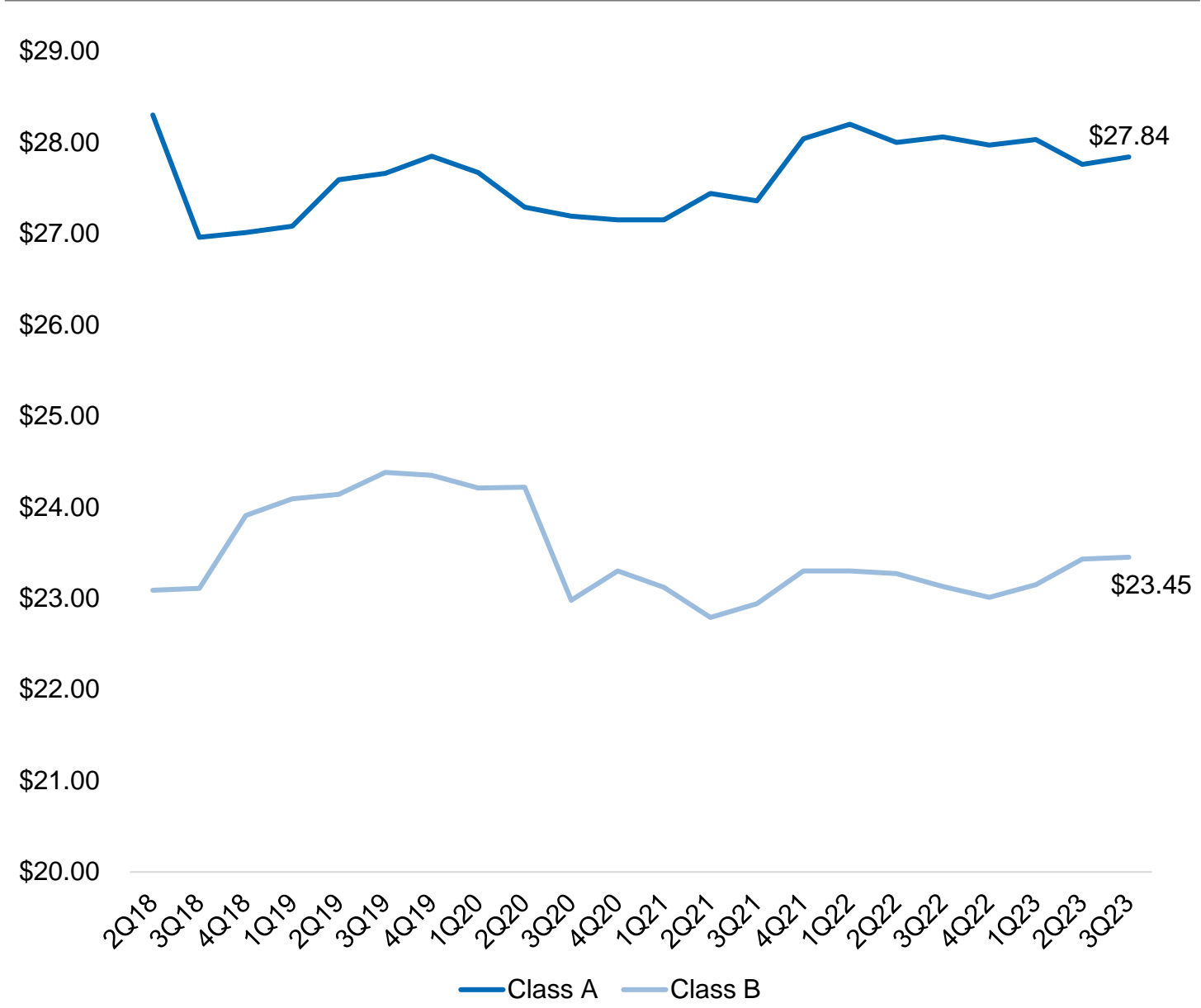


Source: Newmark Research, CoStar

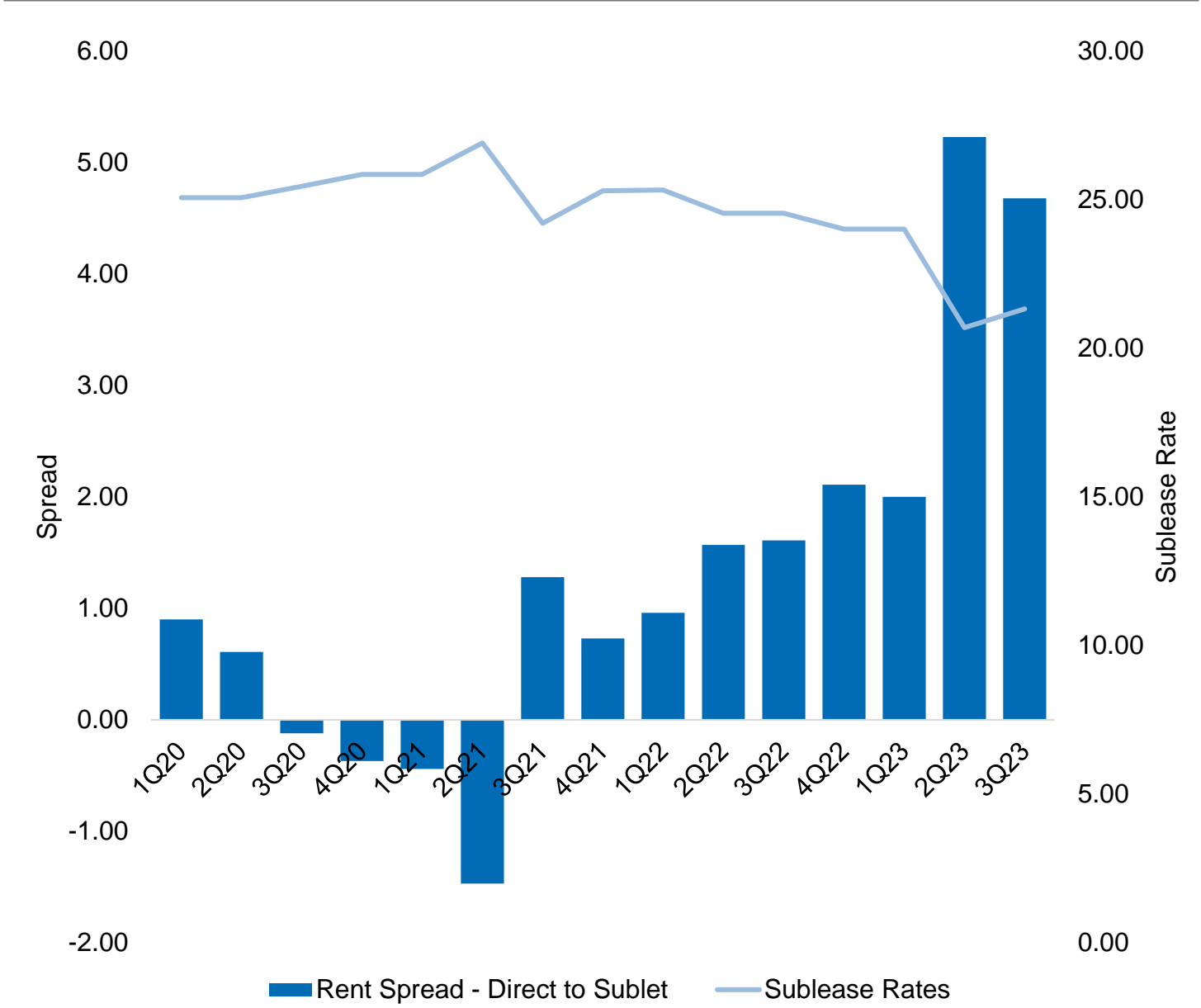
Asking Rents Dip as Spreads Between Sublet and Direct Space Widen

As of the third quarter of 2023, the asking rates in the Wilmington market have decreased by 0.6% compared to the previous year. The most significant declines were observed in the CBD and West submarkets. Since the third quarter of 2022, sublease rates have dropped by 13.1%. However, sublease demand in Wilmington has not been as strong as in other markets in Greater Philadelphia, resulting in an adjustment of asking rates.

Class A and Class B Asking Rents



Sublease Rates



Source: Newmark Research

Leasing Activity Headlined by Law Firms

Many of Wilmington’s largest leases in the third quarter of 2023 were signed by legal service groups. Traditionally, law firms have driven much of the market’s leasing activity and continue to do so.

Notable 2Q23 Lease Transactions				
Tenant	Building(s)	Submarket	Type	Square Feet
Deluxe Corporation	400 White Clay Center Drive	Wilmington South	Lease Extension	61,662
Kimmel, Carter, Roman & Peltz, PA	56 W Main Street	Wilmington South	Lease Extension	14,963
DeNovix, Inc.	3411 Silverside Road	Wilmington North	Lease Expansion	11,415
The biotechnology company already occupied 6,384 square feet and expanded its footprint by 5,031 square feet				
Delaware State Bar Association	704 N King Street	Wilmington CBD	Direct Lease	9,600
Paul, Weiss, Rifkind, Wharton & Garrison LLP	1313 N Market Street	Wilmington CBD	Direct Lease	8,052

Source: Newmark Research

Appendix



Submarket Overview



Please reach out to your
Newmark business contact for this information

Rents Continue to Drop Slowly



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