



Wilmington Office Market

End-of-Year Slowdown, But New Development Offers Hope

The Wilmington office market had a slow fourth quarter, as shown by absorption figures and recorded transactions. Many new leases projected to have 22Q4 occupancy slipped because of labor contracts and supply chain issues. In addition to an already-soft rental market, worsening public health conditions due to rising flu and COVID cases, along with the holidays, left the market flat. Sublease space reductions in the Central Business District (CBD) were observed, but sublet additions in Southern Wilmington erased gains for the entire market. As a result, quarterly absorption in the Wilmington office market was negative 12,921 square feet, with the CBD being the only submarket with positive absorption. Most of Downtown’s gains were due to the 15,136-square-foot lease signed by McDermott, Will & Emery at the Brandywine Building at 1000 N. West Street. This relatively slow quarter meant Wilmington ended 2022 with a year-to-date absorption of negative 166,270 square feet.

Rents declined slightly in the fourth quarter of 2022 from third-quarter levels; however, the \$26.07/SF average asking rate is still \$0.56/SF higher than the five-year average. Landlords are maintaining face rents by offering aggressive concession packages, but net effective rents have declined substantially since 2020 due to large expenditures by owners. Rental rates will likely remain the same in 2023, as tenants will continue to expect significant improvement allowances for office customizations and free rent to offset their out-of-pocket costs.

Current Conditions

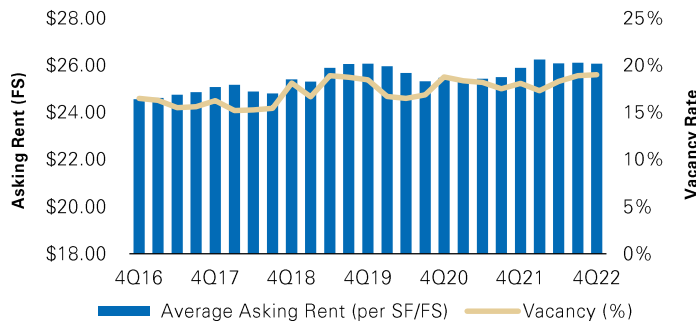
- Activity in the market is slow on account of holidays, illness and general EOY market conditions
- New construction highlights demand for new, highly-amenitized space
- Major sublease additions have been absent from the Delaware market in Q4

Market Summary

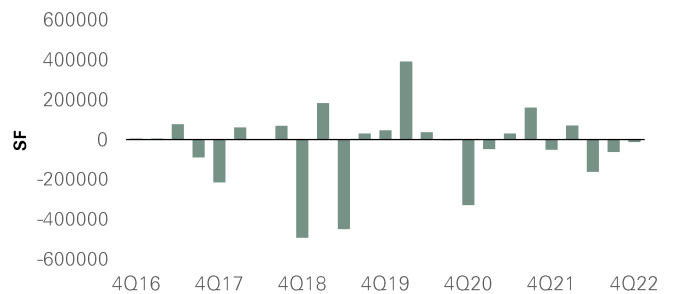
| | Current Quarter | Prior Quarter | Year Ago Period | 12-Month Forecast |
|-------------------------------|-----------------|---------------|-----------------|-------------------|
| Total Inventory (SF) | 16.55 M | 16.55 M | 16.75 M | ↓ |
| Vacancy Rate | 19.0% | 18.9% | 18.1% | ↓ |
| Quarterly Net Absorption (SF) | (12,921) | (61,496) | (50,797) | ↑ |
| Average Asking Rent/SF | \$26.07 | \$26.11 | \$26.04 | → |
| Under Construction (SF) | 206,698 | 52,000 | 0 | ↓ |

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION



RESEARCH Q4 2022

Some of the most significant leases signed in the fourth quarter of 2022 were extensions, which will benefit occupancy figures in the long term. For example, AmeriHealth Caritas Delaware, Inc. extended its 22,935-square-foot lease at 220 Continental Drive; Charles Schwab & Co., Inc. signed an extension for its 7,529-square-foot office; and Brown Brothers Harriman leased 5,302 square feet at Chestnut Run located at 4250 Lancaster Pike. Additionally, in December, the 94,770-square-foot office at 4250 Lancaster Pike was sold to Chestnut Run Holdings, LLC for \$18.2 million, or \$192.04/SF. Lastly, Online Consulting, Inc. decided to extend its lease for its 4,131-square-foot space at 503 Carr Road. Looking forward to 2023, engineering firms are expected to be a noticeable contributor to the leasing market, as many were touring space at the end of 2022.

Much of Wilmington's growth in the fourth quarter of 2022 came from existing businesses and was spurred by state grants. For example, in October, Solenis, a specialty chemical producer, received \$4.0 million from the State of Delaware for its research and development expansion at the Chestnut Run Innovation and Science Park. The company will occupy 100,000 square feet and be joined by other R&D companies when the redevelopment of the campus is complete. Also, Delaware granted the life science group Uvax Bio LLC over \$1 million to aid in renovations for its facility at 100 Biddle Avenue in Newark. The state has a growing life science and R&D industry, which is needed to reduce office vacancy as traditional users have shrunk their footprint in recent years.

In addition to life science, new office developments are poised to bring new vibrancy to the market in 2023. Currently, two projects under construction totaling 206,698 square feet are slated to be completed in the second half of 2023 and 2024. The largest is Delle Donne & Associates' development at Avenue North. The project will contain a 12-floor tower with 100,000 square feet of office space. Target tenants are wealth management and law firms with a significant presence in the Northern Wilmington submarket. Residential and retail components are part of the development, as well. It is anticipated that these offices will be leased as tenants needing space are highly focused on high-end options with robust amenities in efforts to attract employees back to the office.

The leasing market softened in the fourth quarter, and current conditions are expected to continue in 2023. Recouping occupancy losses derived from the pandemic will be difficult since office users are occupying less space due to the rise in hybrid work arrangements; however, new development of Class A product and the growing life science industry in the Wilmington area highlight the future viability of the market. New-to-market tenants are needed to reduce vacancy to pre-pandemic levels, but law firms, wealth management companies, healthcare providers, and lab users will keep occupancy near current levels.

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 | - | 25.3% | 18,069 | (102,340) | \$27.55 | \$23.33 | \$26.30 |
| Wilmington North | 3,488,120 | 100,000 | 15.1% | (9,473) | (1,480) | \$31.29 | \$24.85 | \$29.06 |
| Wilmington South | 4,573,878 | - | 15.6% | (10,020) | (41,367) | \$23.15 | \$21.43 | \$21.88 |
| Wilmington West | 1,359,888 | 106,698 | 7.4% | (11,497) | (21,083) | \$29.82 | \$22.74 | \$26.15 |
| Market | 16,551,803 | 206,698 | 19.0% | (12,921) | (166,270) | \$27.90 | \$23.02 | \$26.07 |

Delaware Lease/User Transactions

| Tenant/Buyer | Submarket | Building | Type | Square Feet |
|-----------------------------------|------------------|--------------------|-----------------|-------------|
| AmeriHealth Caritas Delaware Inc. | Wilmington South | 220 Continental Dr | Lease Extension | 22,935 |
| Charles Schwab & Co., Inc. | Wilmington West | 4250 Lancaster Pk | Lease Extension | 7,529 |
| Brown Brothers Harriman | Wilmington West | 4250 Lancaster Pk | Direct Lease | 5,302 |
| Online Consulting, Inc. | Wilmington North | 503 Carr Rd | Lease Extension | 4,131 |

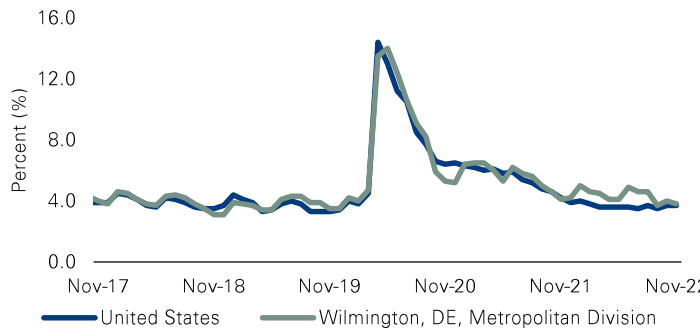
Economic Conditions

A hawkish Federal Reserve and rising interest rates slowed the economy significantly in the fourth quarter as the Central Bank tried to bring inflation down to its 2.0% target. The policies have improved the situation, but November’s CPI of 7.1% shows that more tightening and interest rate hikes are likely needed to resolve the issue of price increases. Industries sensitive to interest rate escalations and consumer spending have begun to shed jobs. The information industry in the Wilmington Metro has shrunk by 3.6% from previous levels. Additionally, despite a year-over-year gain in employment of 5.3%, the leisure and hospitality sector has declined 11.9% from June 2022 job figures. Manufacturing in the Wilmington area remains strong, as employment levels in the industry grew 6.7% as of November 2022.

The Wilmington Metro has a collective unemployment rate of 3.8%, 10 basis points higher than the national average. This figure is expected to increase in 2023 due to worsening economic conditions, but not to alarming levels.

Unemployment Rate

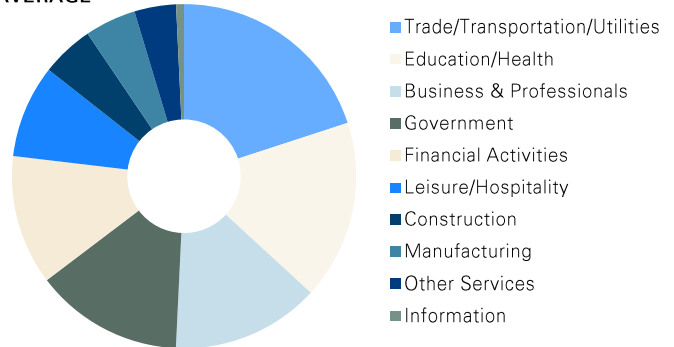
NOT SEASONALLY ADJUSTED



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

Employment by Industry

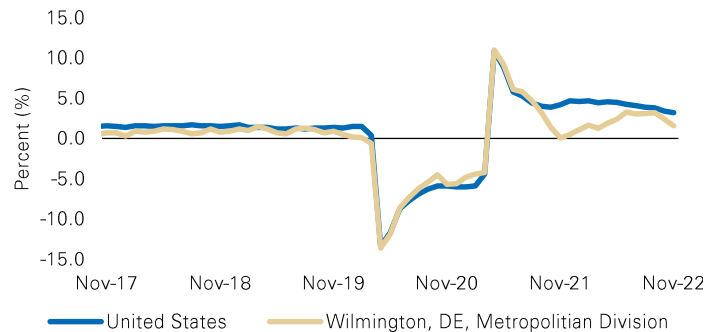
WILMINGTON DE, METROPOLITAN DIVISION, DECEMBER 2022 AVERAGE



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

Payroll Employment (Total Nonfarm)

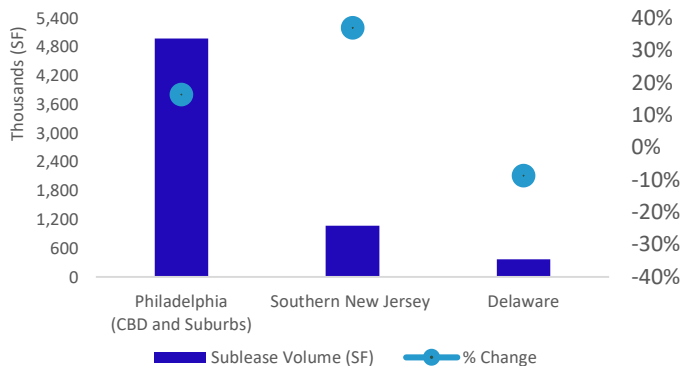
NOT SEASONALLY ADJUSTED, 12-MONTH % CHANGE



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

Greater Philadelphia Markets Sublease Analysis

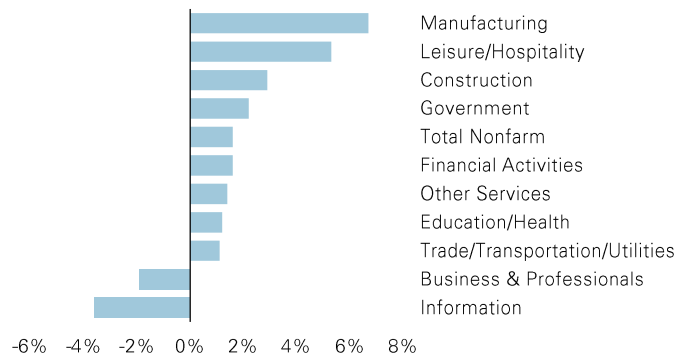
SQUARE FEET AND 12-MONTH % CHANGE, 4Q22



Source: Newmark Research, December 2022.

Employment Growth by Industry, December 2022

WILMINGTON, DE METRO DIVISION, 12-MONTH % CHANGE



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

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