

4Q23

# Delaware Office Market Overview

NEWMARK



# Market Observations

## Economy

- The Wilmington MSA experienced a decline in unemployment during the fourth quarter of 2023, thanks to total nonfarm payroll employment growth. In November, the unemployment rate reached a low of 3.5%, matching the annual low and surpassing the national rate by 20 basis points.
- Strong hiring in the transportation, education and health services, and government sectors was observed in the last quarter of 2023. These three industries are some of the largest employers in the Wilmington MSA. Growth in these sectors is a positive sign for the state of the economy.
- According to Delaware’s WARN notice website, no significant layoffs were announced in the fourth quarter of 2023.

## Major Transactions

- Wilmington Savings Fund Society (WSFS) signed a 30,989-square-foot lease at 300 Bellevue Parkway to consolidate three separate offices.
- The proposed construction of a 400,000-square-foot office and lab building by Incyte on the current site of Wilmington Friends School's Lower School campus has been abandoned. The project became unfeasible due to the difficulties of rezoning the site and community pushback.
- Hatzel & Buehler added to its presence at the Delaware Corporate Center by leasing 16,875 square feet for its corporate headquarters.
- Fox Rothschild signed a long-term lease for the 12<sup>th</sup> floor of 1201 N Market Street. The law firm previously occupied a similar footprint at 919 N Market Street.

## Leasing Market Fundamentals

- Quarterly absorption in the Delaware office market was 52,929 square feet, the highest total since the third quarter of 2021. Notable vacancy reductions, particularly in the Wilmington South submarket, were observed.
- Vacancy has stabilized in 2023. In the first three quarters of the year, the vacancy rate was 21.2%, decreasing slightly to 20.9% in the fourth quarter.
- Asking rents are also stable. The \$26.12/SF market average is unchanged compared to the fourth quarter of 2022 but is an increase of \$0.08/SF quarter over quarter.

## Outlook

- During Brandywine Realty Trust’s October 23<sup>rd</sup> earnings call, CEO Jerry Sweeney discussed potentially converting their 300,000-square-foot office building at 300 Delaware Avenue into a multifamily development.
- During the call, Jerry Sweeney stated, “The existing zoning provides for residential and office use. We’re looking at a potential residential conversion and a tenant move-out plan over the next several years. That would be a project either Brandywine could undertake or simply sell it based upon the conversion plan we put in place.”
- Now that many financial and law firms have fully implemented their post-COVID space reductions, vacancies and availabilities have stabilized.

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



4Q23

# 1. Economy

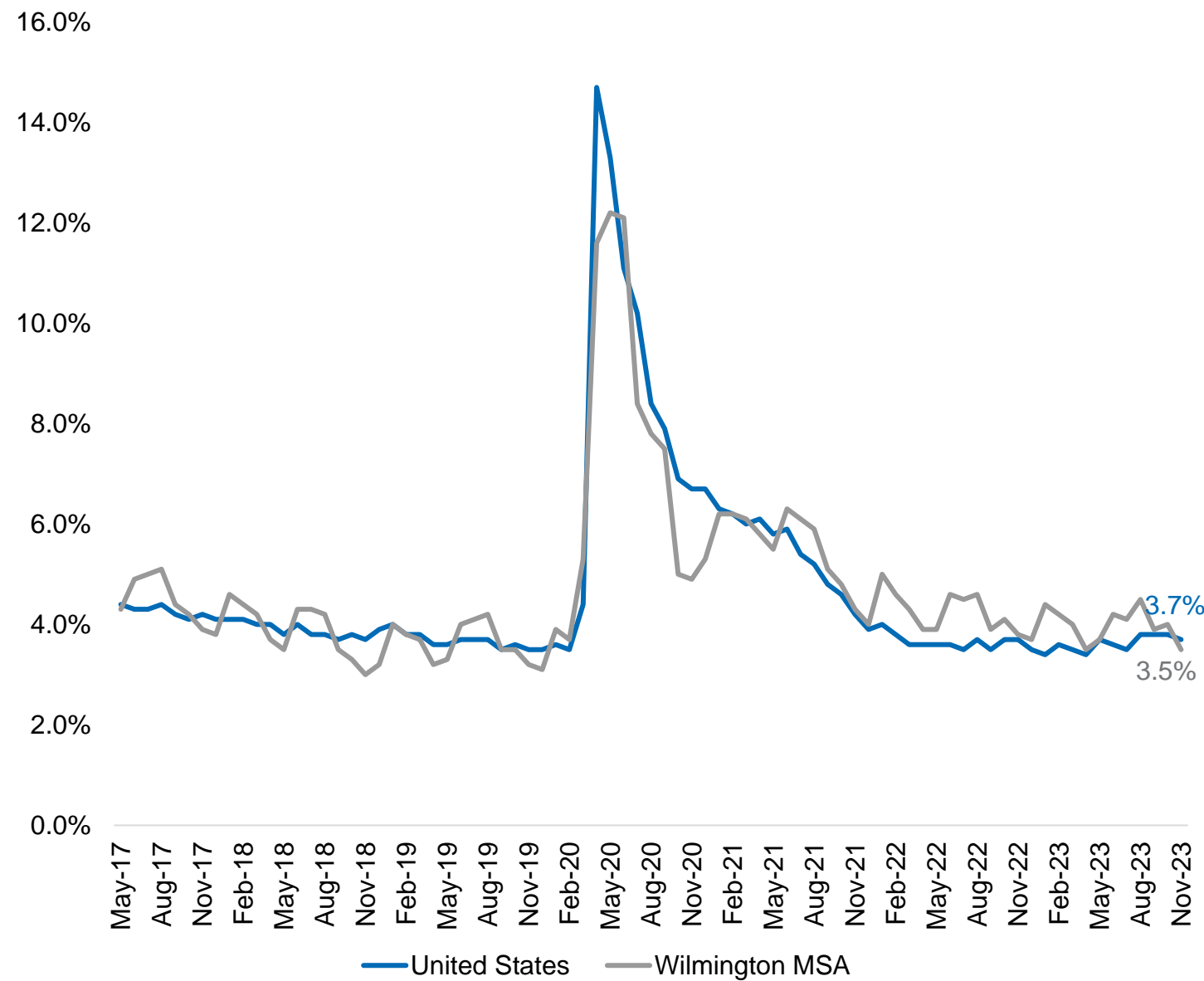




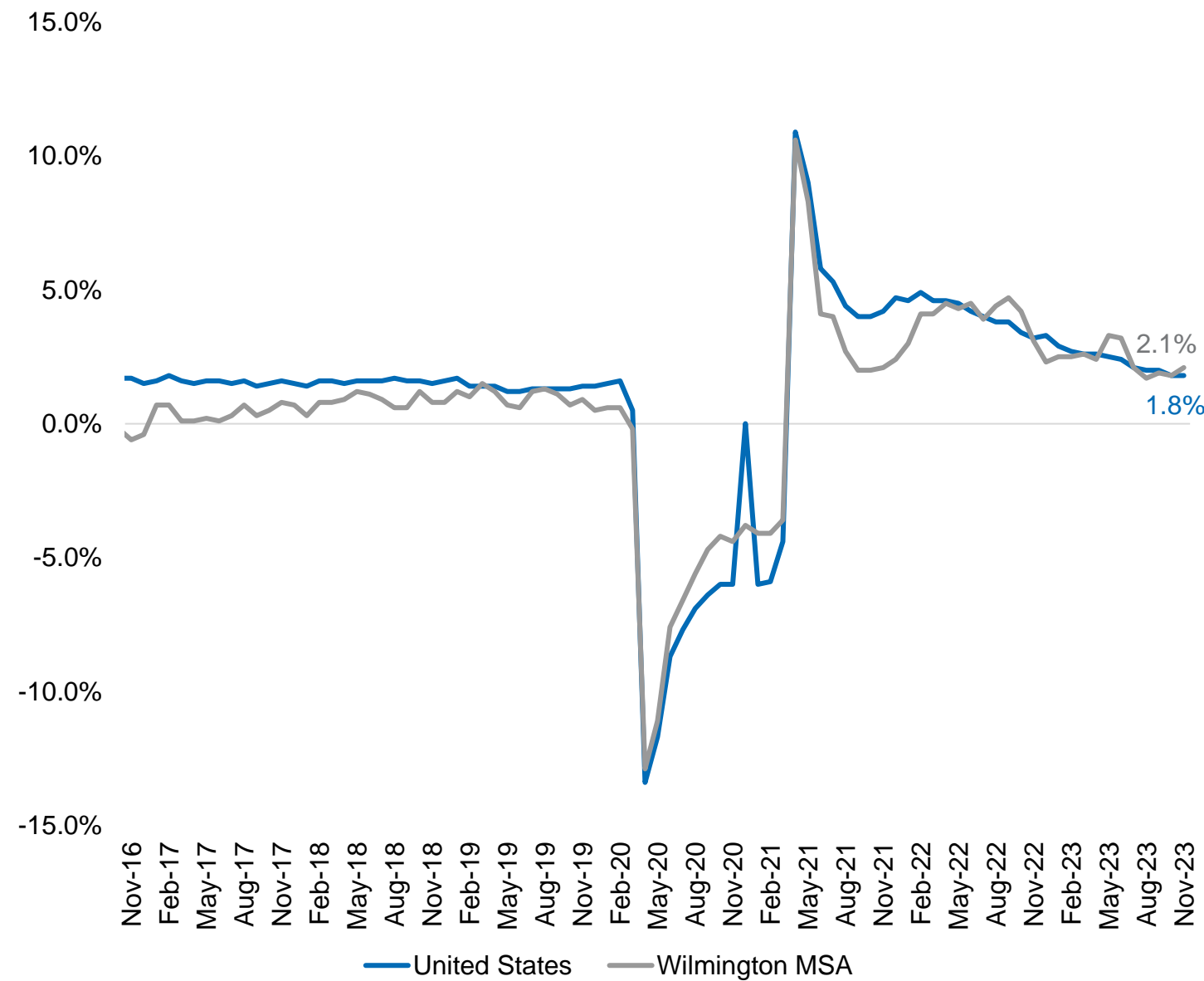
# Strong Hiring in the Second Half of 2023 Leads to Lower Unemployment

Job gains in multiple industries caused Wilmington MSA’s unemployment to drop in the second half of 2023. In November 2023, the robust hiring activity resulted in annual employment growth surpassing the national average. This marked the first time since June 2023 that the region outperformed the nation in terms of employment growth.

Unemployment Rate, Seasonally Adjusted



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

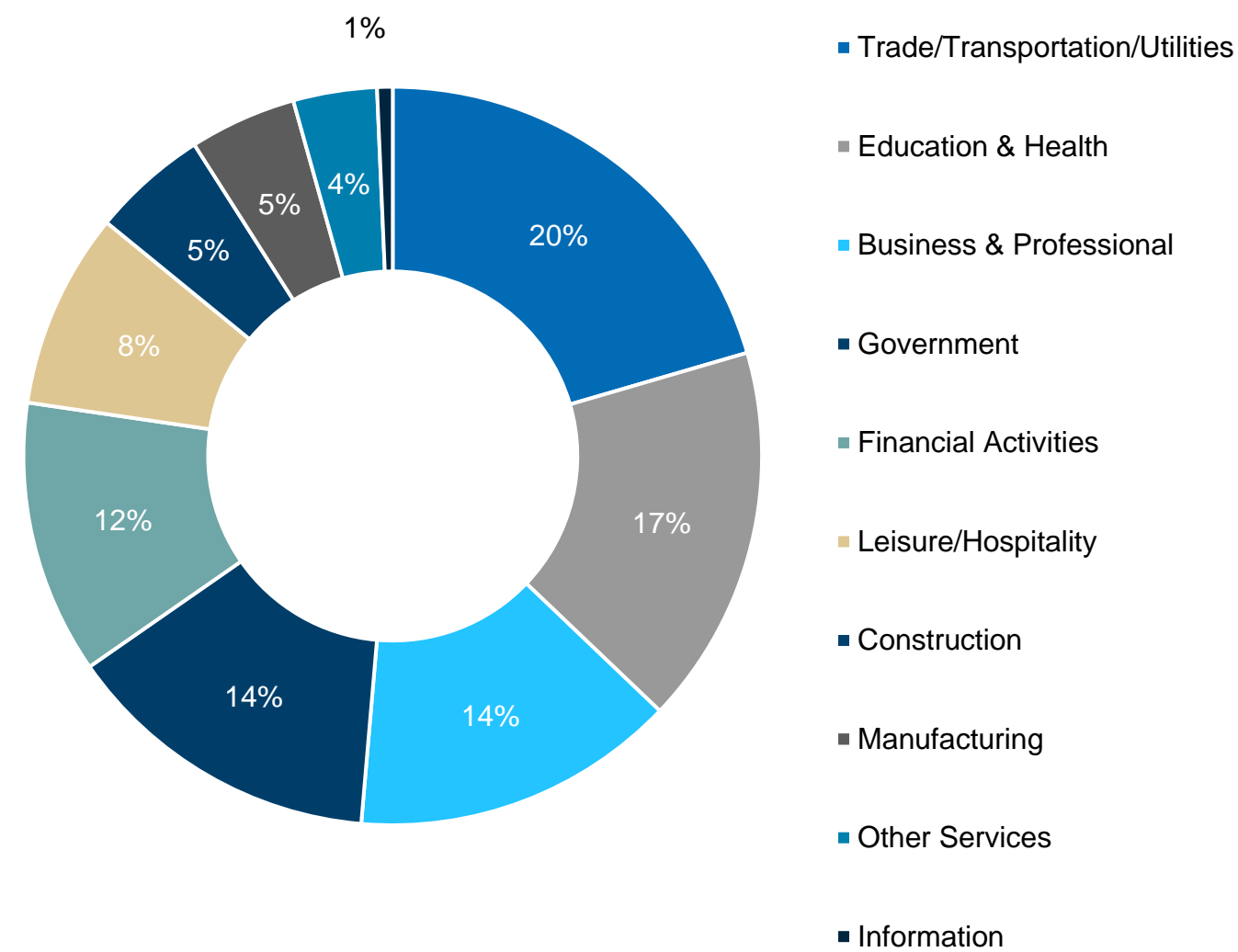


Source: U.S. Bureau of Labor Statistics, Wilmington MSA

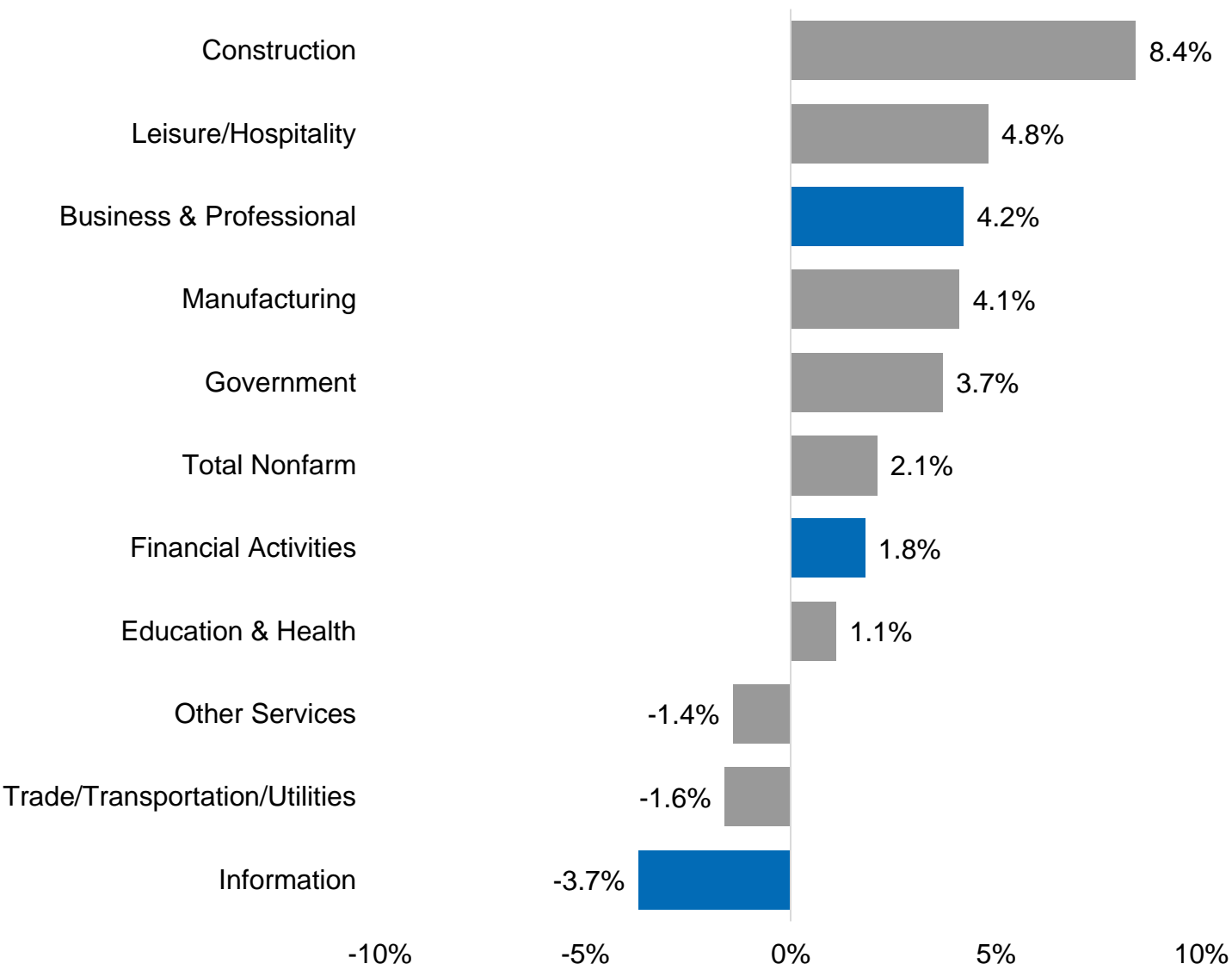
# Job Gains in Office-Using Industries is a Mixed Bag

Despite having an annual growth rate below the metro average, the education and health service industry had a 3-month growth rate of 3.1%. The business and professional service sector had the highest annual growth rate of all the office-using sectors.

Employment by Industry, November 2023



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

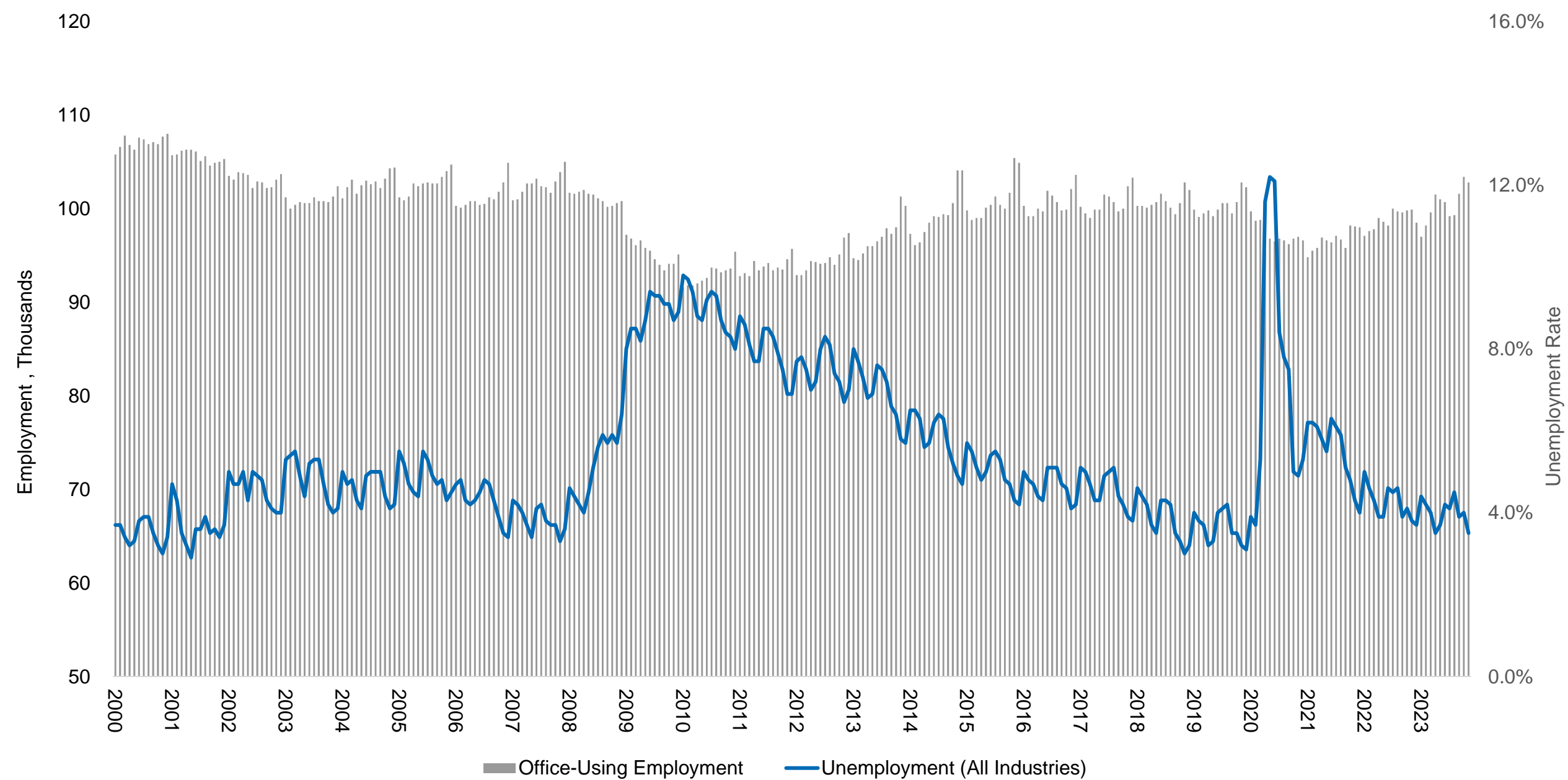


Source: U.S. Bureau of Labor Statistics, Wilmington MSA

# Overall Office-Using Employment Slowly Recovering

Office-using employment eclipsed 102,000 for the first time since December 2019 in November 2023. The business and professional service industry leads the way in job gains out of all office-using sectors.

Office-Using Employment\* and Unemployment Across All Industries



Source: U.S. Bureau of Labor Statistics, Wilmington MSA  
Note: November 2023 data is preliminary.  
\*Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.



4Q23

## 2. Leasing Market Fundamentals

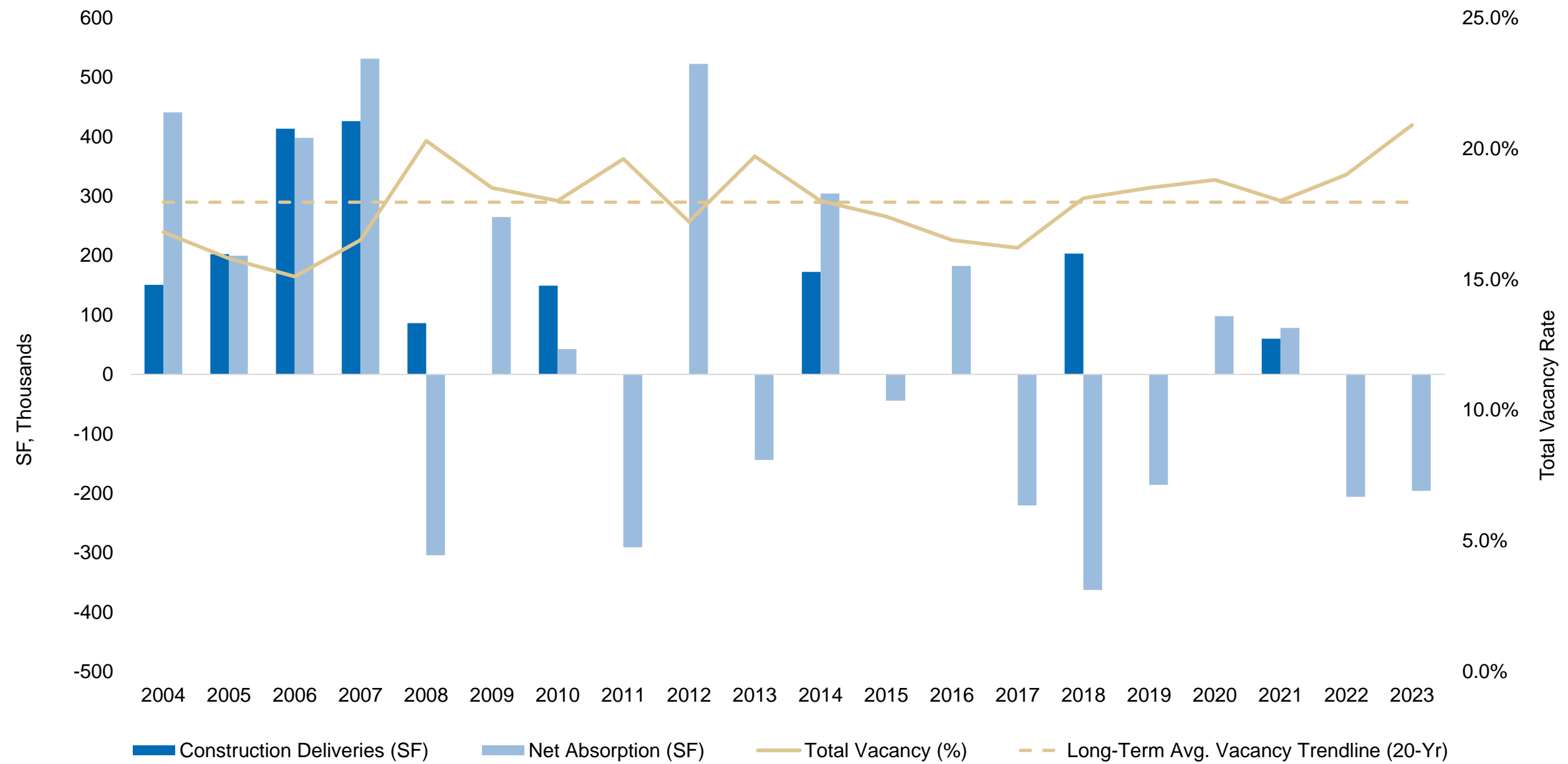




# Vacancy Rises but is Beginning to Stabilize

At the end of 2023, Delaware's vacancy rate stood at 20.9%, reflecting a 190 basis point rise compared to the previous year. However, there are indications that the market is showing signs of stabilization. From the first to the third quarters of 2023, the vacancy rate remained relatively steady at 21.2%.

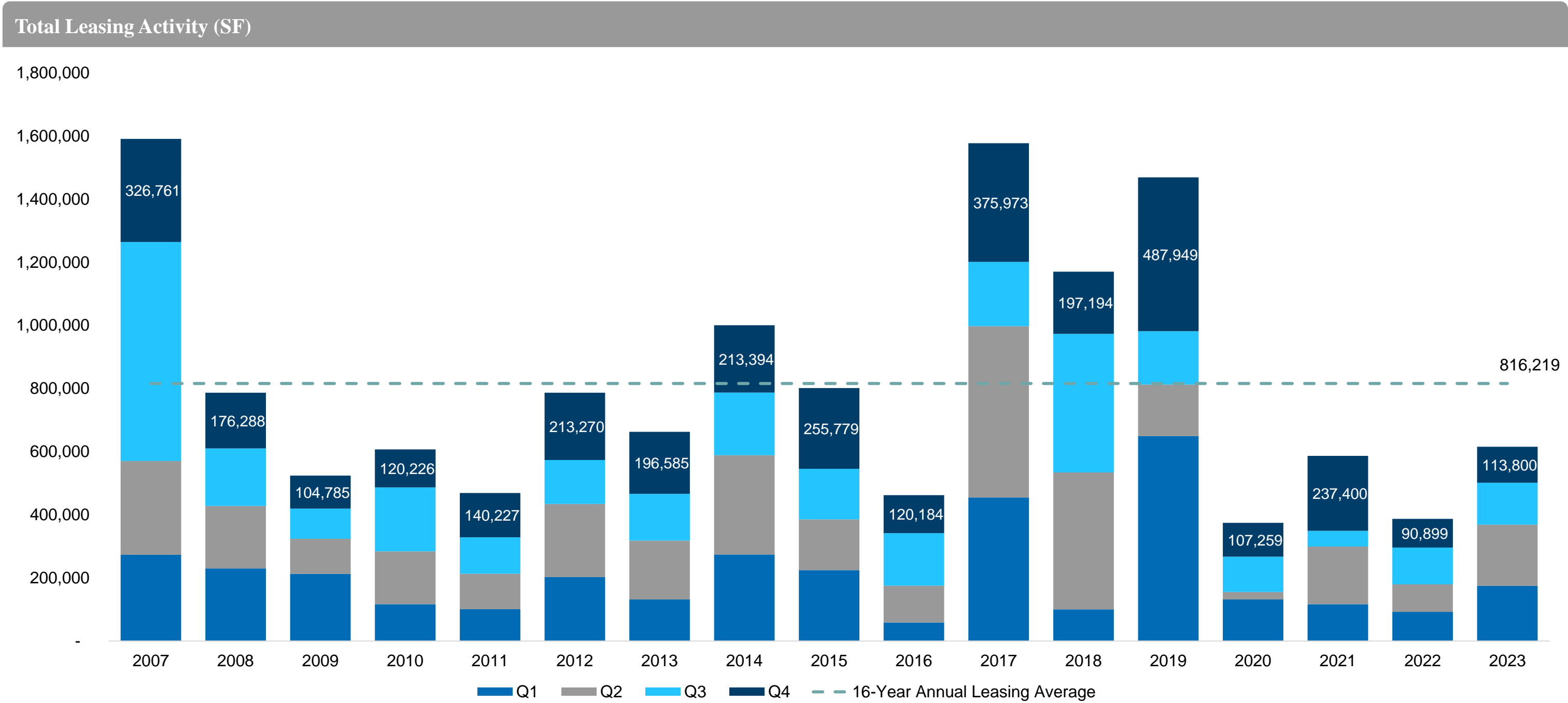
Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research

# Leasing Activity Posts Best Year Since Covid

WSFS' lease at 300 Bellevue Parkway was a significant contributor to leasing totals in the fourth quarter of 2023. The 113,800 square feet in signed leases pushed the annual leasing activity to a post-pandemic high of 615,558 square feet. This is 32% less than the 2010-2019 10-year annual average.



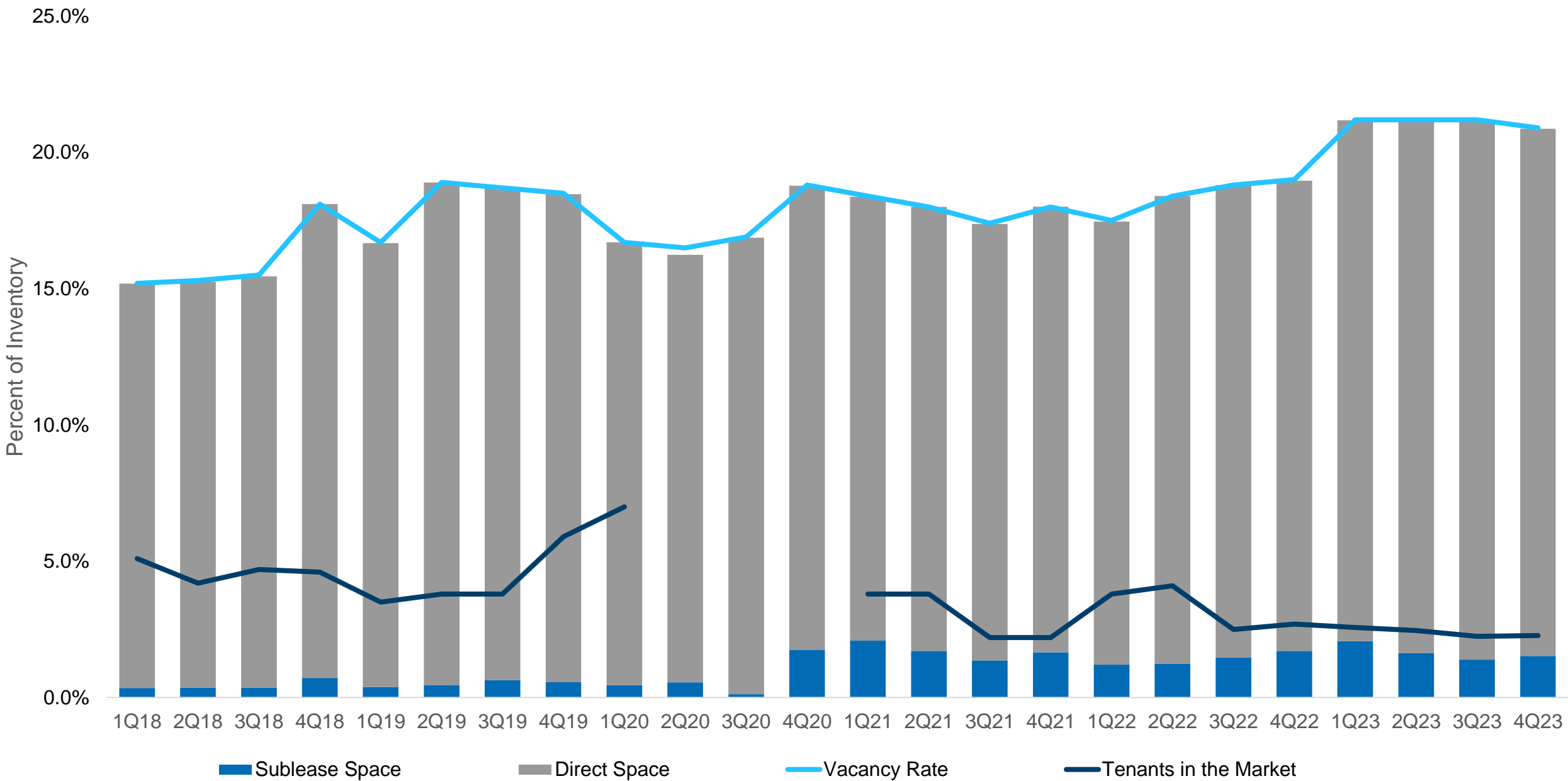
Source: Newmark Research, CoStar



# Tenant Demand Edges Lower

There was minimal quarter-over-quarter change in tenant demand in the fourth quarter of 2023. Total space requirements have declined slightly throughout the year. Demand accounted for 2.6% of the overall market in the first quarter of 2023 but dropped to 2.3% at the end of the year.

Available Space and Tenant Demand as Percent of Overall Market

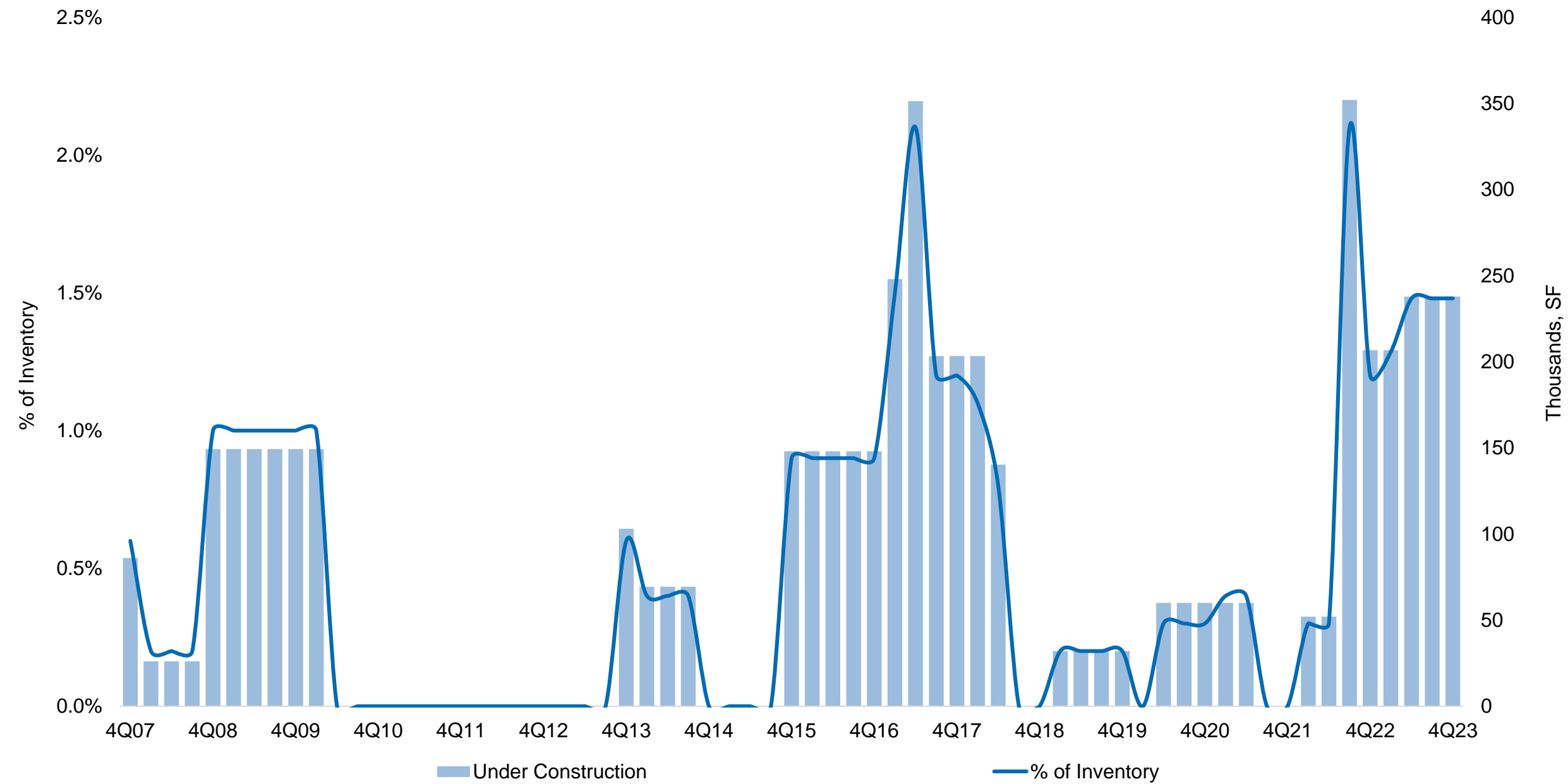


Source: Newmark Research  
Note: No tenants in the market surveys were produced between Q2 2020 and Q4 2020 due to the COVID-19 Pandemic

# Delaware's Construction Pipeline Remains Unchanged

The construction pipeline has stayed the same since the second quarter of 2023. The Walkers Mill Building and The Tower at Avenue North are the only projects in development, with the former targeting a completion date sometime in the first half of 2024.

Office Under Construction and % of Inventory



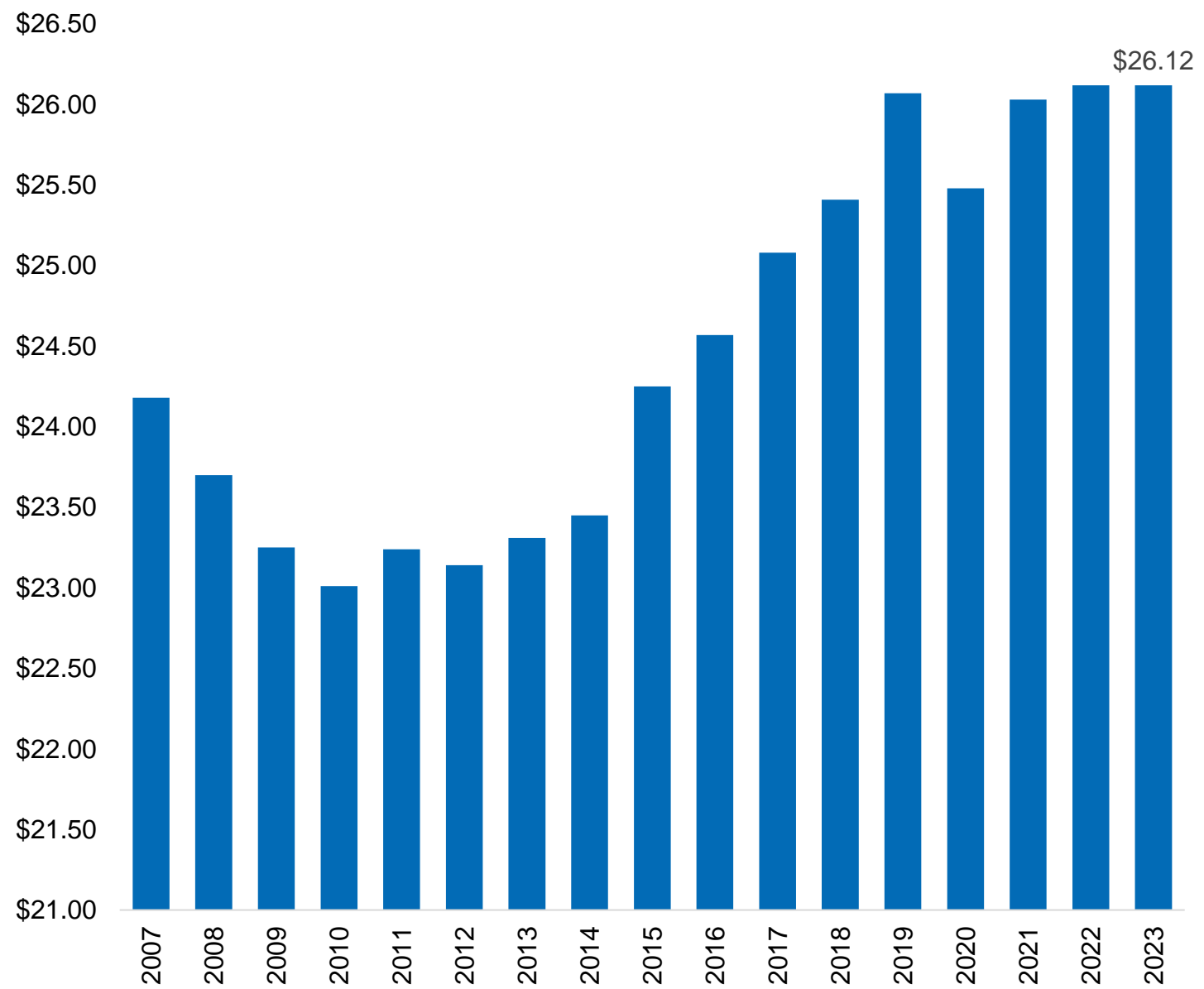
Source: Newmark Research, CoStar



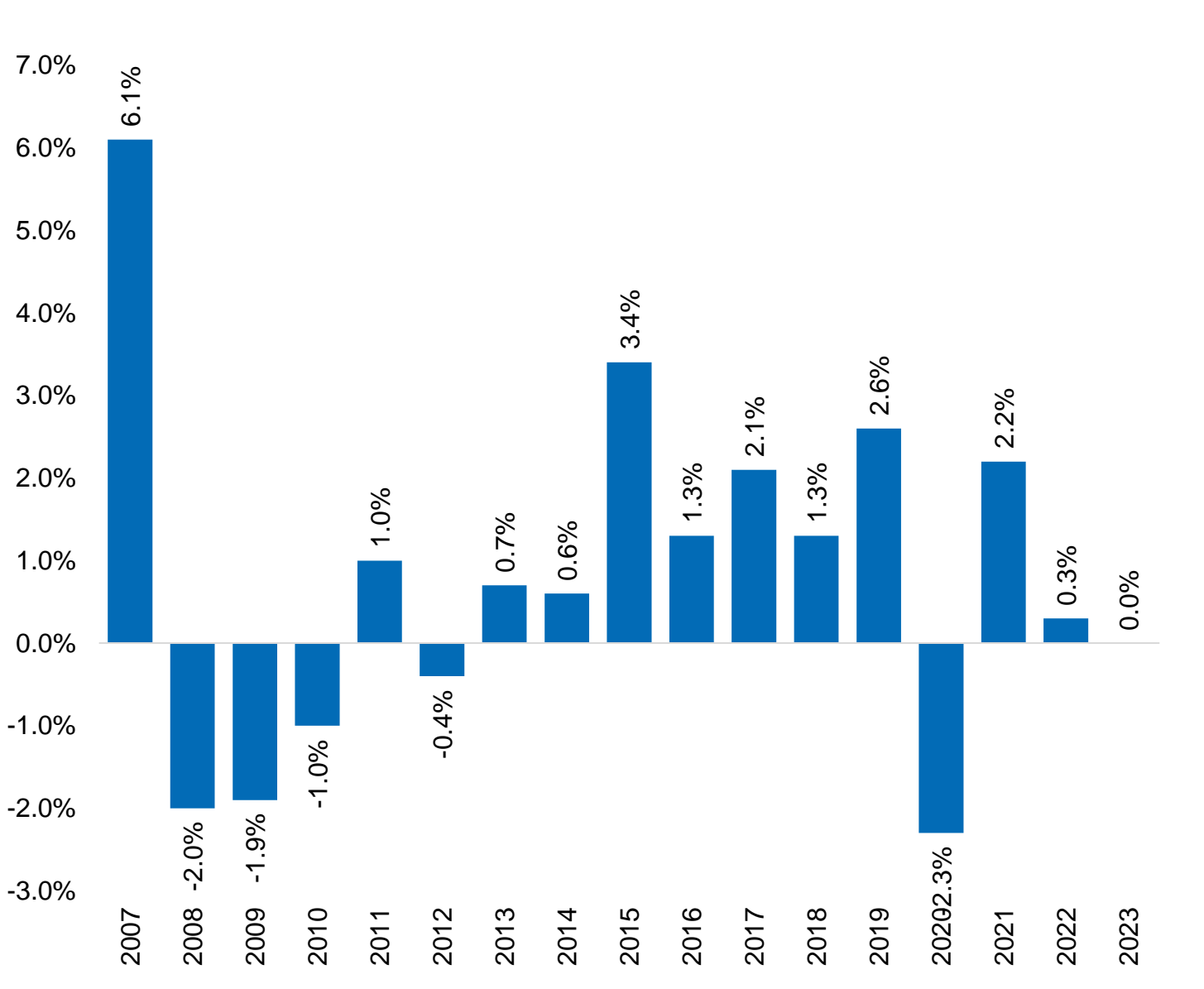
# Rents Stagnate as Demand Weakens

Asking rates in the Delaware market are unchanged compared to the year prior. The year-end average in 2023 was \$26.12/SF. Asking rates fluctuated throughout 2023, even going as low as \$25.96/SF in the second quarter, but they recovered by year’s end.

Office Average Asking Rent, \$/SF, FS



Year-over-Year Asking Rent Growth Rate

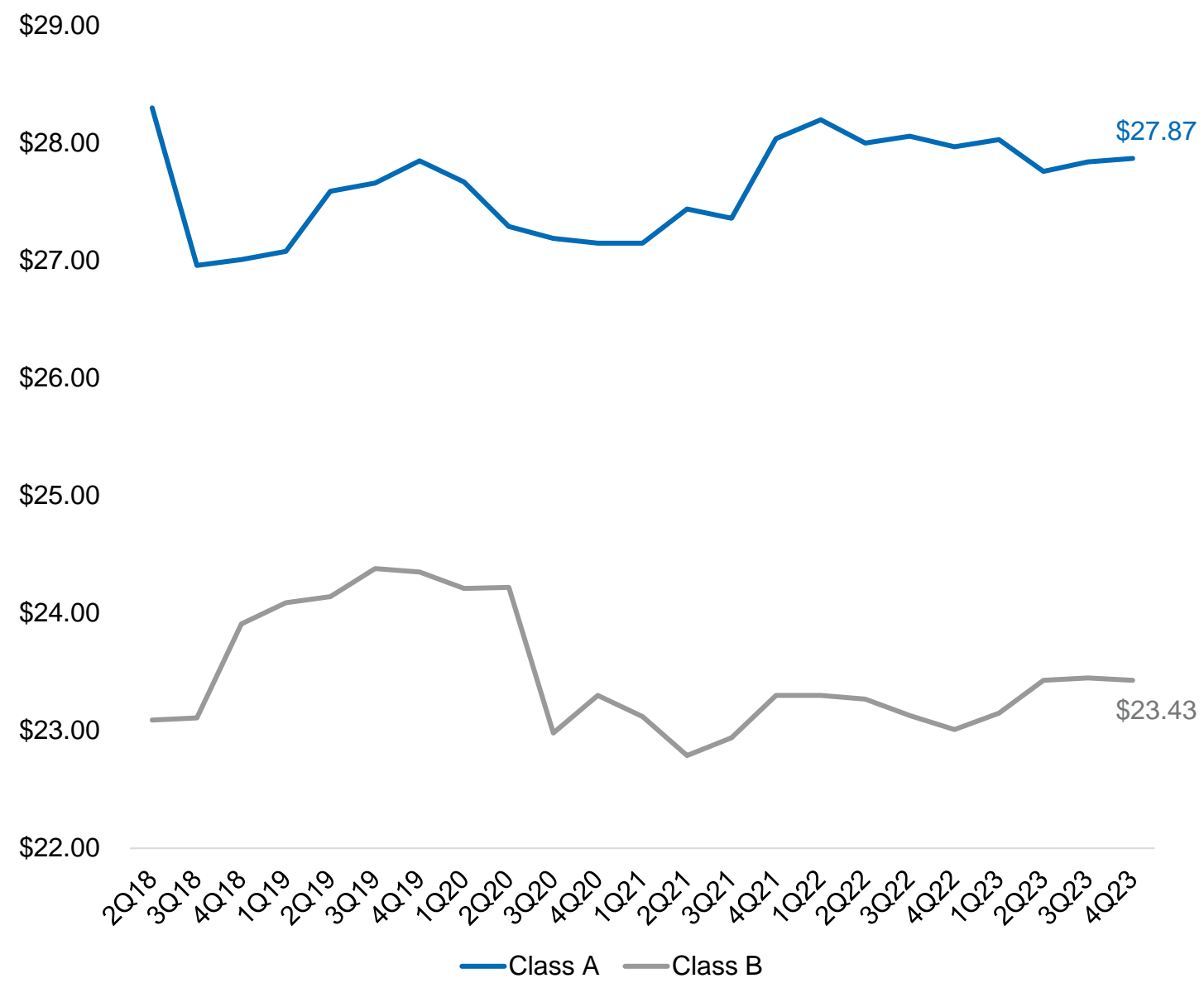


Source: Newmark Research, CoStar

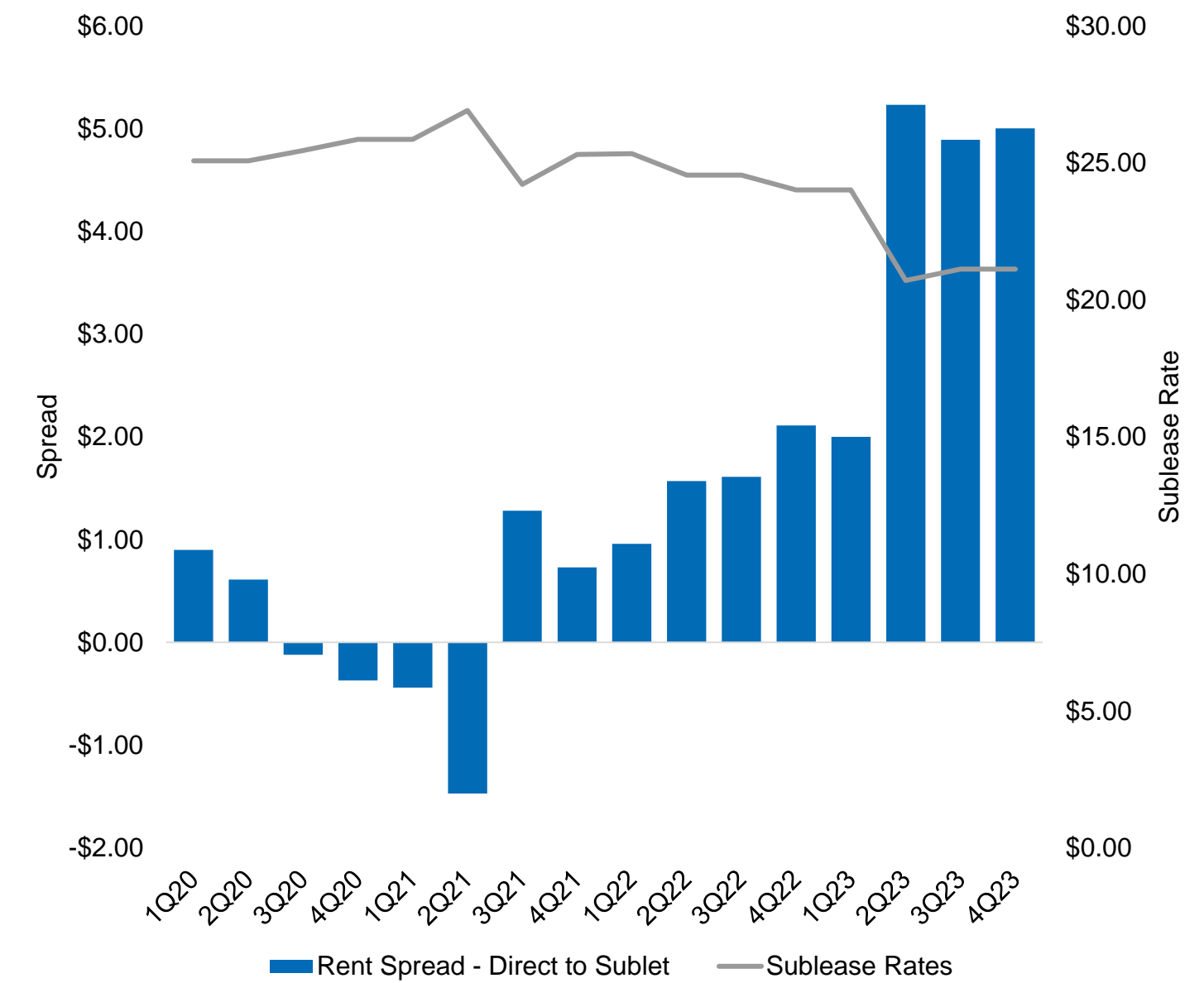
# Class A Rents Show Small Signs of Growth

Since declining to a year-low of \$27.76/SF in the second quarter of 2023, Class A asking rents rebounded to \$27.87/SF by the end of 2023. The year-end Class A asking rent is a \$0.10/SF decrease since the end of 2022, as landlords have been unable to uphold asking rates in the face of weaker demand. Since the second quarter of 2023, sublease rates have remained virtually unchanged due to limited leasing activity for sublease space.

Class A and Class B Asking Rents



Sublease Rates



Source: Newmark Research



# WSFS Headlines Fourth Quarter Leasing Activity

The combined size of the three offices WSFS is consolidating is similar to the footprint of the bank’s new location at 300 Bellevue Parkway. The offices that are being combined are 4001 Kennett Pike, 501 Carr Road, and 20 Montchanin Road.

Notable 4Q23 Lease Transactions				
Tenant	Building(s)	Submarket	Type	Square Feet
Wilmington Savings Fund Society (WSFS)	300 Bellevue Parkway	Wilmington North	Direct Lease	30,989
WSFS is consolidating three Delaware offices. The combined footprint of the separate offices is comparable to WSFS's new office				
Hatzel & Buehler	1 Righter Parkway	Wilmington North	Lease Expansion	16,875
Wheeler, Wolfenden & Dwares, P.A.	4550 Linden Hill Road	Wilmington West	Lease Renewal	13,109
Fox Rothschild LLP	1201 N Market Street	Wilmington CBD	Direct Lease	12,400

Source: Newmark Research



4Q23

## 3. Appendix





# Submarket Overview

## Submarket Statistics – All Classes

	Total Inventory (SF)	Total Vacancy Rate	Total Available (SF)	Sublease Available (SF)	Total Availability Rate	Qtr Net Absorption (SF)	Total FS Asking Rent (Price/SF)
Wilmington CBD	7,136,588	28.1%	2,114,884	61,373	29.6%	30,260	\$25.99
Wilmington North	3,116,387	20.1%	644,620	39,935	20.7%	-40,311	\$29.12
Wilmington South	4,466,920	13.7%	911,577	299,222	20.4%	65,393	\$23.05
Wilmington West	1,359,888	8.2%	137,176	8,452	10.1%	-2,413	\$26.48
Wilmington – Total	16,073,783	20.9%	3,808,257	408,982	23.7%	52,929	\$26.12

Source: Newmark Research

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