

WILMINGTON OFFICE MARKET

THE THIRD QUARTER SEES CHANGES BUT MUTED DEMAND IN THE WILMINGTON OFFICE MARKET

Wilmington office market activity was very limited in the third quarter of 2020 amid unprecedented circumstances resulting from the pandemic. Many office occupiers across industries continued with either partial or full work-from-home strategies, and actual occupancy of leased office space remained low in the Wilmington region, albeit higher than neighboring office markets, such as the Philadelphia Central Business District (CBD), according to market participants. Despite headwinds, the Wilmington office sector was remarkably stable in the third quarter. Few companies offered their space up for sublease, in contrast with other office markets in Greater Philadelphia, which have seen waves of this kind of space added to the inventory since the pandemic began. Overall net absorption hovered around zero, as modest expansions and new occupancies balanced out a handful of vacancies. One notable change occurred in the Wilmington market this quarter: massive-scale demolition of the long-vacant Barley Mill Plaza office park completed, removing over half a million square feet of office space from the inventory. A transformative redevelopment of this property spearheaded by local developer Pettinaro will yield a mixed-use campus anchored by Delaware's first Wegmans grocery store.

Leasing volume in the Wilmington region during the third quarter was essentially half what it was in third-quarter 2019. While there is limited evidence the market is about to realize substantial vacancies caused by COVID-19, overall demand for office space is, and will continue to be, impacted for the indefinite future. Yet, at least one sector is responding to the pandemic-induced economic turmoil with greater demand for office space. Activity among local law firms in the Wilmington CBD has been commensurate with the increase in corporate bankruptcy filings at Delaware's Bankruptcy Court, also located in the CBD. Multiple legal tenants leased new space or expanded an existing footprint during the third quarter, including Wilson Sonsini Goodrich & Rosati, which renewed its existing space at 222 Delaware Avenue and expanded by an additional 10,000 square feet.

On the capital markets front, Newmark Knight Frank was retained to market the 279,377-square-foot Crescent Building at 125 South West Street on the Wilmington Riverfront as an investment opportunity. Aside from ground-floor retail tenants, the building is fully leased to Barclays and like similar Class A, single-tenant office properties that sold locally last year, it is expected to draw strong interest from a plethora of national and international buyers searching for a safe, quality investment.

CURRENT CONDITIONS

Net absorption measured a negative 2,563 square feet in the third quarter.

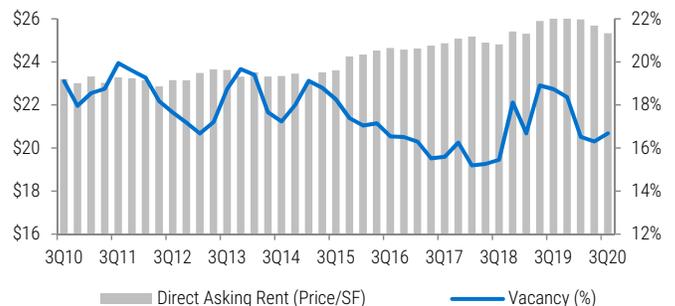
Rents have slightly softened for the past three quarters, closing the third quarter at a market wide average of \$25.33/SF.

The Crescent Building on the Wilmington Riverfront is being marketed for sale and will draw strong investor interest.

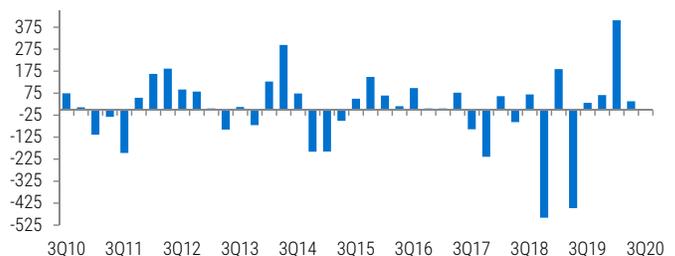
MARKET ANALYSIS

Asking Rent and Availability

Asking Rent and Vacancy



Net Absorption (SF, Thousands)



MARKET SUMMARY

	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory	17.2 MSF	17.7 MSF	18.0 MSF	↔
Vacancy Rate	16.7%	16.3%	18.7%	↑
Quarterly Net Absorption	(2,563)	37,740	30,902	↓
Average Asking Rent	\$25.33	\$25.68	\$26.06	↔
Under Construction	0.00 MSF	0.00 MSF	0.03 MSF	↔
Deliveries	0.00 MSF	0.00 MSF	0.00 MSF	↔

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	-	23.8 %	1,045	6,897	\$27.64	\$23.51	\$26.08
Wilmington North	3,514,373	-	9.6 %	-17,131	386,884	\$30.97	\$24.14	\$27.79
Wilmington South	4,573,580	-	11.4 %	5,872	-25,694	\$22.80	\$21.86	\$22.20
Wilmington West	1,750,868	-	15.2 %	7,651	73,459	\$29.38	\$22.83	\$25.95
Delaware Market Area	17,172,662	-	16.7 %	-2,563	441,546	\$27.19	\$22.98	\$25.33

DELAWARE SELECT LEASE TRANSACTIONS

Tenant/Buyer	Building	Submarket	Type	Square Feet
Wilson Sonsini Goodrich & Rosati	222 Delaware Avenue	Wilmington CBD	Renewal/Expansion	24,180
ILC Dover	100 Discovery Boulevard	Wilmington South	New Lease	10,005
Registered Agents Legal Services	1013 Centre Road	Wilmington West	Renewal	4,313

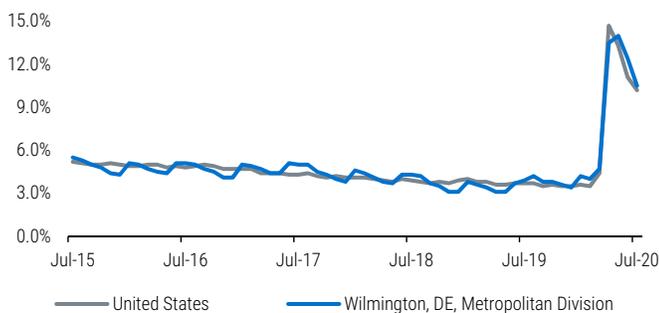
ECONOMIC CONDITIONS

The Wilmington Metropolitan Division's economy underwent a stark contraction between March and April 2020, in which more than 53,000 jobs were lost in the height of economic turmoil. In the third quarter of 2020, the region continued on the long road to recovery by adding back more than 5,000 jobs, roughly half of which were in the leisure/hospitality sector.

The overall unemployment rate for the Wilmington Metro fell from May's high of 14.0% to 10.5% in July – still a far cry from the 4.0% unemployment rate captured in pre-pandemic February. As more businesses and individuals resume routine activities, the labor market is expected to improve further, barring significant increases in COVID-19 case counts, which medical experts are cautious about as the fall and winter seasons approach. In addition, uncertainty surrounding the upcoming presidential election could impact both consumer and corporate confidence. It is clear the worst economic fallout from COVID-19 has already hit the region, but further fluctuations in the economy may occur in the immediate to mid-term.

UNEMPLOYMENT RATE

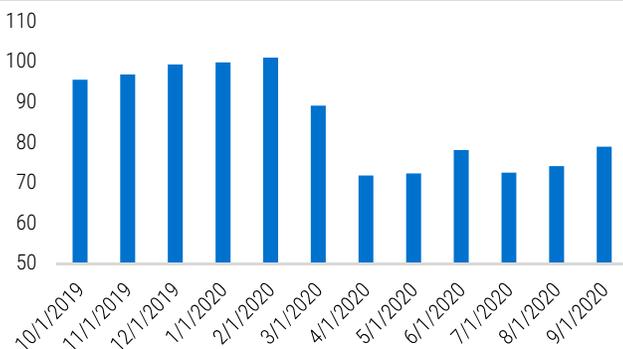
Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

CONSUMER SENTIMENT INDEX

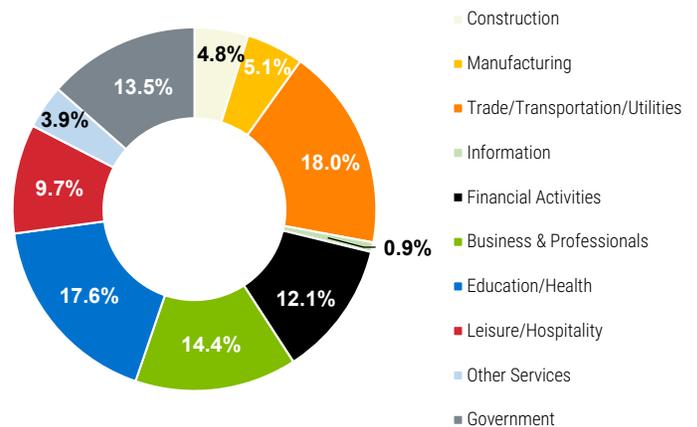
United States



Source: University of Michigan

EMPLOYMENT BY INDUSTRY

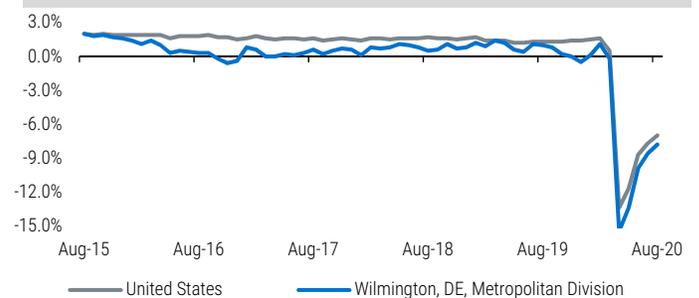
Wilmington, DE, Metropolitan Division, Annual Average 2019



Source: U.S. Bureau of Labor Statistics

PAYROLL EMPLOYMENT

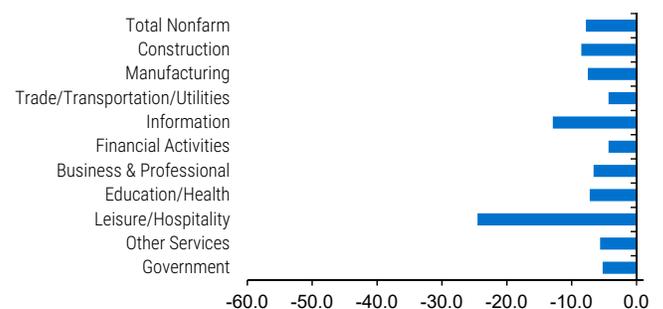
Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



Source: U.S. Bureau of Labor Statistics

EMPLOYMENT GROWTH BY INDUSTRY

Wilmington, DE Metropolitan Division, August 2020, 12-Month % Change



Source: U.S. Bureau of Labor Statistics



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