



Wilmington Office Market

Office Tenants Shed Space in the Fourth Quarter

The Wilmington, Delaware office market has remained relatively quiet throughout the pandemic as many tenants paused transaction activity to reassess their commercial real estate needs. While other office markets in the greater Philadelphia region felt the strain of the pandemic more immediately and more acutely, in Wilmington there was no significant increase in the volume of sublease space, nor many announced major downsizings in the first three quarters of the year. Yet, there were signs in the fourth quarter to indicate some office tenants have made the decision to reduce their footprint. Negative net absorption tallied approximately 328,000 square feet in the fourth quarter, although the annual absorption figure was positive, due to strong gains in the first half of the year.

Despite numerous tenants downsizing their office footprint in the fourth quarter, a significant indication of continuing resilience is the relative lack of new sublease introductions. While overall sublease volume remains elevated at approximately 421,000 square feet, much of that predates the pandemic. In fact, there were only two notable sublease additions market-wide since the close of Q3.

Current Conditions

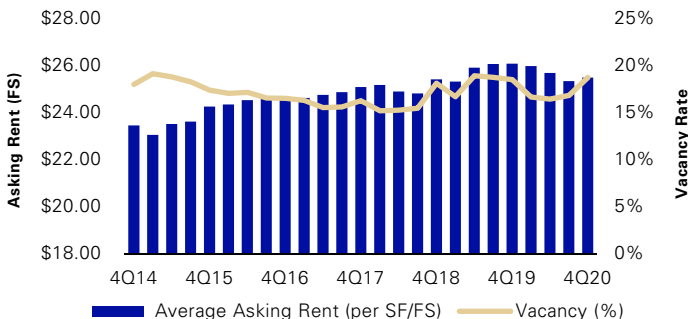
- Net absorption measured a negative 328,174 square feet in the fourth quarter.
- Vacancy rose from 18.5% to 18.7% year-over-year, and remains highest in the Wilmington CBD.
- Average asking rents have softened year-over-year, decreasing from \$26.07/SF to \$25.48/SF.
- Relatively few subleases have been added to the market directly related to COVID-19

Market Summary

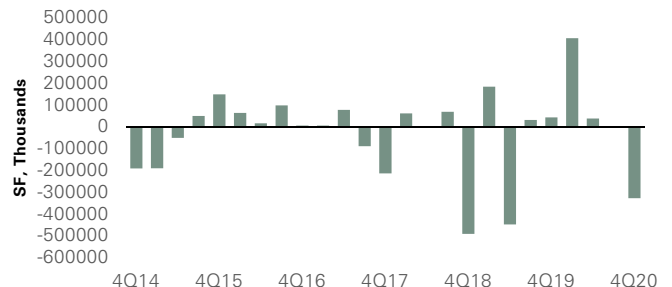
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	17.2 M	17.2 M	18.0 M	→
Vacancy Rate	18.7%	16.8%	18.5%	↑
Quarterly Net Absorption (SF)	(328,174)	(2,563)	43,047	↑
Average Asking Rent/SF	\$25.48	\$25.33	\$26.07	↓
Under Construction (SF)	0.06 MSF	0.06 MSF	0.03 MSF	↑

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION



RESEARCH Q4 2020

Wilmington's Central Business District (CBD) grapples with the highest vacancy rate of the four submarkets, with nearly a quarter of its office inventory vacant. Net occupancy losses in the CBD were modest over the past three months, tallying approximately 25,000 square feet of negative absorption. This was mostly driven by Citi, who renewed their lease at the Brandywine Building during this quarter but downsized their footprint by a floor.

On the other hand, the suburbs sustained over 300,000 square feet in occupancy losses between the North and South submarkets. Among notable contributors: KBR downsized at 248 Chapman Road by 38,000 square feet and Cigna vacated 60,000 square feet at 300 Bellevue Parkway. In addition, Farmers Insurance continues to list its entire 210,000 square feet at 3 Beaver Valley Road for sublease and has no plans of reoccupying through its 2024 lease expiration.

Wilmington West was the only one of the submarkets to see positive absorption (7,693 square feet).

New occupancies were very limited and small in scale during the fourth quarter, unsurprising in light of worsening conditions surrounding the spread of COVID-19. While the state government has not levied the same lockdown measures seen in the height of the pandemic's first wave during Spring 2020, actual occupancy of leased office space remains low in the Wilmington market at around 25%. Encouragingly, however, this metric is the highest observed throughout the office markets comprising the tri-state Greater Philadelphia region.

Overall, uncertainty continues to reign for the Wilmington office market. Indicators of resilience, such as limited new sublease volume, help to counter concern over a precipitous dip in new demand: 2020 leasing volume was down 63% from 2019. Understandably, office users will remain hesitant to make major decisions in the short term, but the commencement of vaccine campaigns in mid-December bring hope that the end of the crisis is on the horizon. Once safety issues are mitigated, office demand is naturally expected to improve from current measures, but further downsizing is expected in the interim.

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	-	24.4 %	-24,863	-17,966	\$27.61	\$24.02	\$26.30
Wilmington North	3,514,373	60,000	17.1 %	-266,243	120,641	\$30.97	\$24.16	\$27.93
Wilmington South	4,573,580	-	12.3 %	-44,761	-70,455	\$22.98	\$21.99	\$22.35
Wilmington West	1,750,868	-	14.7 %	7,693	81,152	\$29.46	\$22.86	\$25.98
Market	17,172,662	60,000	18.7 %	-328,174	113,372	\$27.15	\$23.30	\$25.48

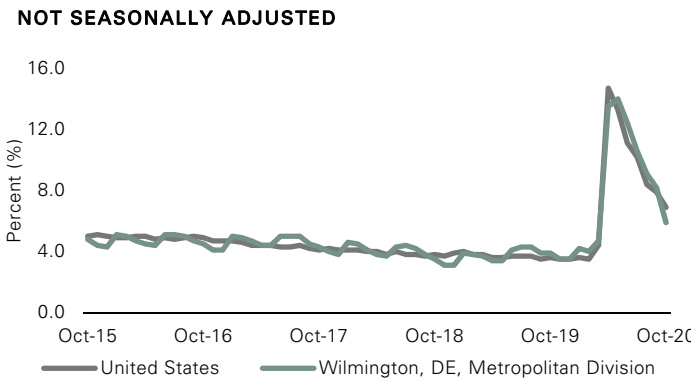
Delaware Lease/User Transactions

Tenant	Submarket	Building	Type	Square Feet
Citibank	Wilmington CBD	1000 N. West Street	Renewal/Downsize	67,000
Morgan Stanley	Wilmington North	2 Righter Parkway	Renewal	17,212
Berger Harris	Wilmington CBD	1105 N. Market Street	Renewal/Expansion	13,500
Kaleidoscope Therapy	Wilmington North	1405 Foulk Road	New Lease	4,400

Economic Conditions

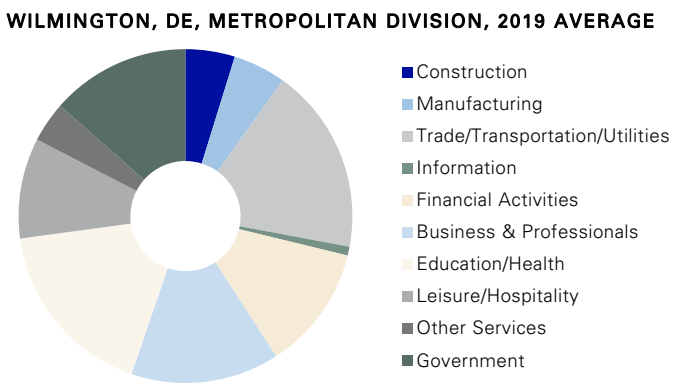
The Wilmington Metropolitan Division’s unemployment rate fell to 5.9% in October 2020, a major improvement from the lofty height reached in May 2020 during the worst of the pandemic-led recession (14%). The local economy has steadily recuperated lost jobs since then, but a setback occurred in the fourth quarter amid a devastating new wave of COVID-19 infections. The trade/transportation/utilities sector continued a robust job recovery in November, and a modest improvement in the government sector was realized, but all other sectors either stalled in recovery, or lost jobs. Experts portended the winter season would be challenging and indeed, the local – and national – recovery is struggling. Yet, there are many reasons for an optimistic outlook and a return to recovery in 2021, foremost among them, a massive immunization campaign underway that promises a return to “normality” by the end of 2021.

Unemployment Rate



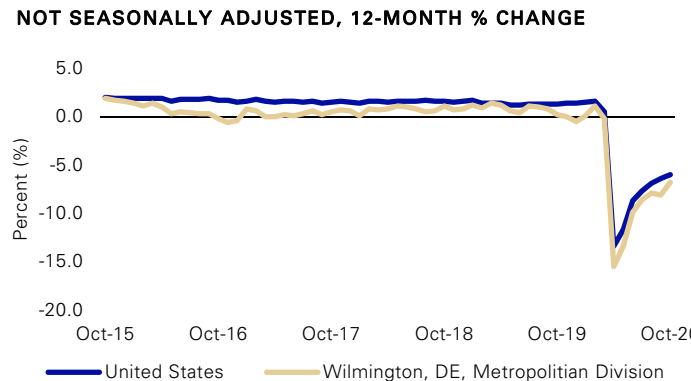
Source: U.S. Bureau of Labor Statistics, December 2020

Employment by Industry



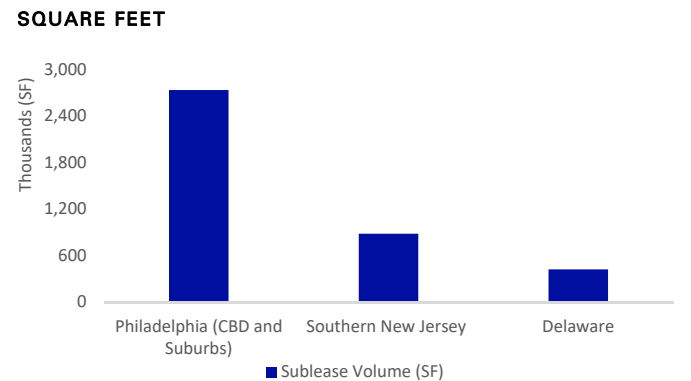
Source: U.S. Bureau of Labor Statistics, December 2020.

Payroll Employment (Total Nonfarm)



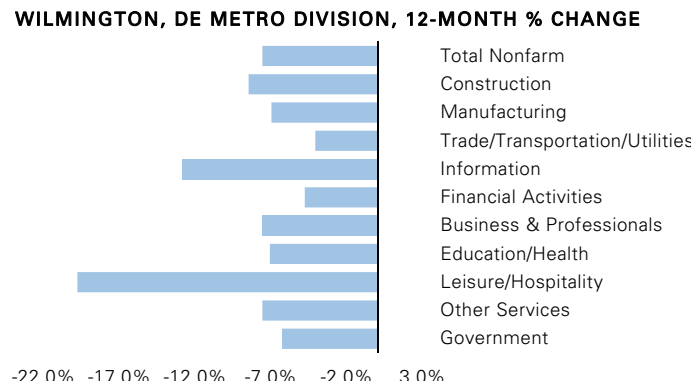
Source: U.S. Bureau of Labor Statistics, December 2020

Greater Philadelphia Markets Sublease Analysis



Source: Newmark Research, December 2020.

Employment Growth by Industry, October 2020



Source: U.S. Bureau of Labor Statistics, December 2020

For more information:

Philadelphia

2005 Market Street
Suite 900
Philadelphia, PA 19103
t 215-561-8300

Lisa DeNight

Research Manager
t 215-246-2725
lisa.denight@ngkf.com

nmrk.com

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