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3Q24

# Delaware Office Market Overview



**NEWMARK**

# Market Observations

## Economy

- Unemployment in the Wilmington MSA registered 7.6% as of August, 320 basis points above the national rate. Annual employment growth in August 2024 was 7.0%, 130 basis points below the national 12-month growth.
- For the 12 months ending in August, annual employment growth was recorded in eight of the ten primary industries in the Wilmington MSA, with two of three office-using sectors experiencing growth. The most robust gains were in Construction, Leisure/Hospitality and Government, comprising 28% of the region's employment.
- Office-using employment grew by 1.5%, the eighth consecutive positive 12-month growth rate. The uptick was driven by the region's Professional & Business Services and Financial Activities sectors, which recorded 2.3% and 0.9% growth, respectively.

## Major Transactions

- Leasing activity during the third quarter was lighter than average, deals trending towards spaces lower than 10,000 square feet. Three significant law firms secured long-term lease renewals: Young Conway extended its lease of 143,894 SF at the former courthouse on Rodney Square for 15 years, Potter Anderson renewed its lease of 82,758 SF at the Hercules building for an additional 13 years, and Troutman Pepper reduced its space at Hercules from 25,432 SF on the 5th floor to 15,150 SF on the 10th floor.
- The largest direct office lease transaction of the quarter was KCI's direct lease of 25,000 square feet at 600 White Clay in Wilmington South.

## Leasing Market Fundamentals

- Net absorption: There was a net absorption of 41,122 square feet in Q3, with Wilmington South and Wilmington CBD leading demand at 30,539 SF and 20,231 SF, respectively.
- Office pipeline: The pipeline remained stable with no new office deliveries in Q2. In Q3, around 129,000 square feet of leases were signed, aligning with the trend of the last five years.
- Vacancy rates increased slightly by 50 basis points to 18.8%. This rise is primarily attributed to higher vacancies in the Wilmington CBD (20.3%) and Wilmington North (20.9%) submarkets.

## Outlook

- After a few years of occupancy losses, vacancy appears to be stabilizing in the Delaware office market, bolstered by Incyte's purchase of two downtown buildings owned by Bank of America and located on Rodney Square; Bracebridge I at 1100 N. King St (372,118 SF) and Bracebridge III at 1100 N. French St (145,189 SF). The \$47M sale (\$92/SF) considerably altered the perception of the Wilmington CBD. The impact of the Incyte purchase on Wilmington's Class A Office Market was to substantially decrease Wilmington's Class A vacancy by one-third (from 30.5% to 20.9%). Both buildings were 100% vacant at the time of sale to Incyte.
- There were no office deliveries in the market during the third quarter, with Avenue North being the only development left in Delaware's construction pipeline. Avenue North is expected to deliver by the end of the year.
- Modern offices built after the year 2000 are significantly outperforming the overall market. These contemporary spaces boast a vacancy rate of only 15.0%, a substantial 380 basis points lower than the market average of 18.8%. This underscores the strong demand for modern work environments and amenities, further evidenced by robust pre-leasing activity in newly constructed buildings.

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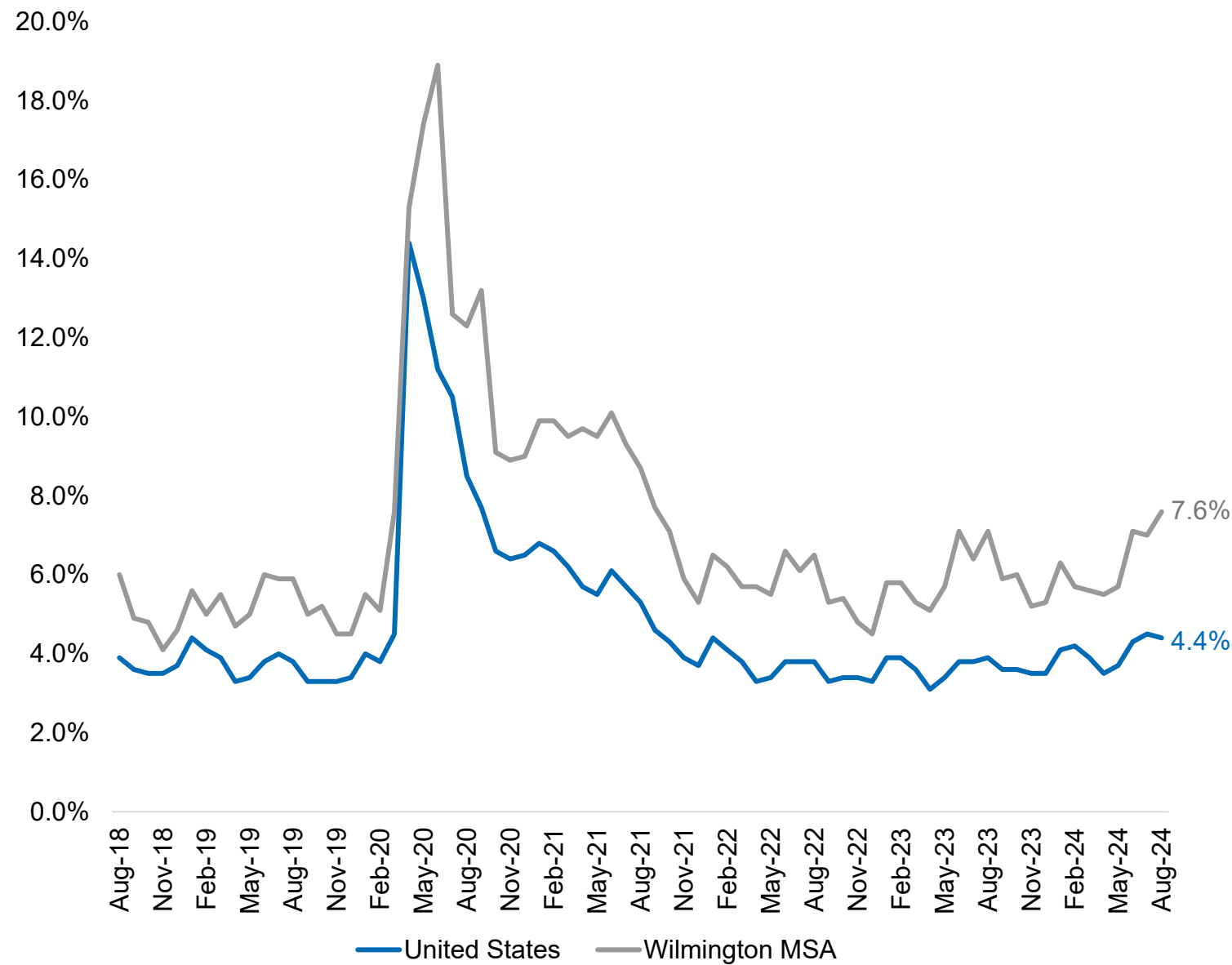
# 1. Economy



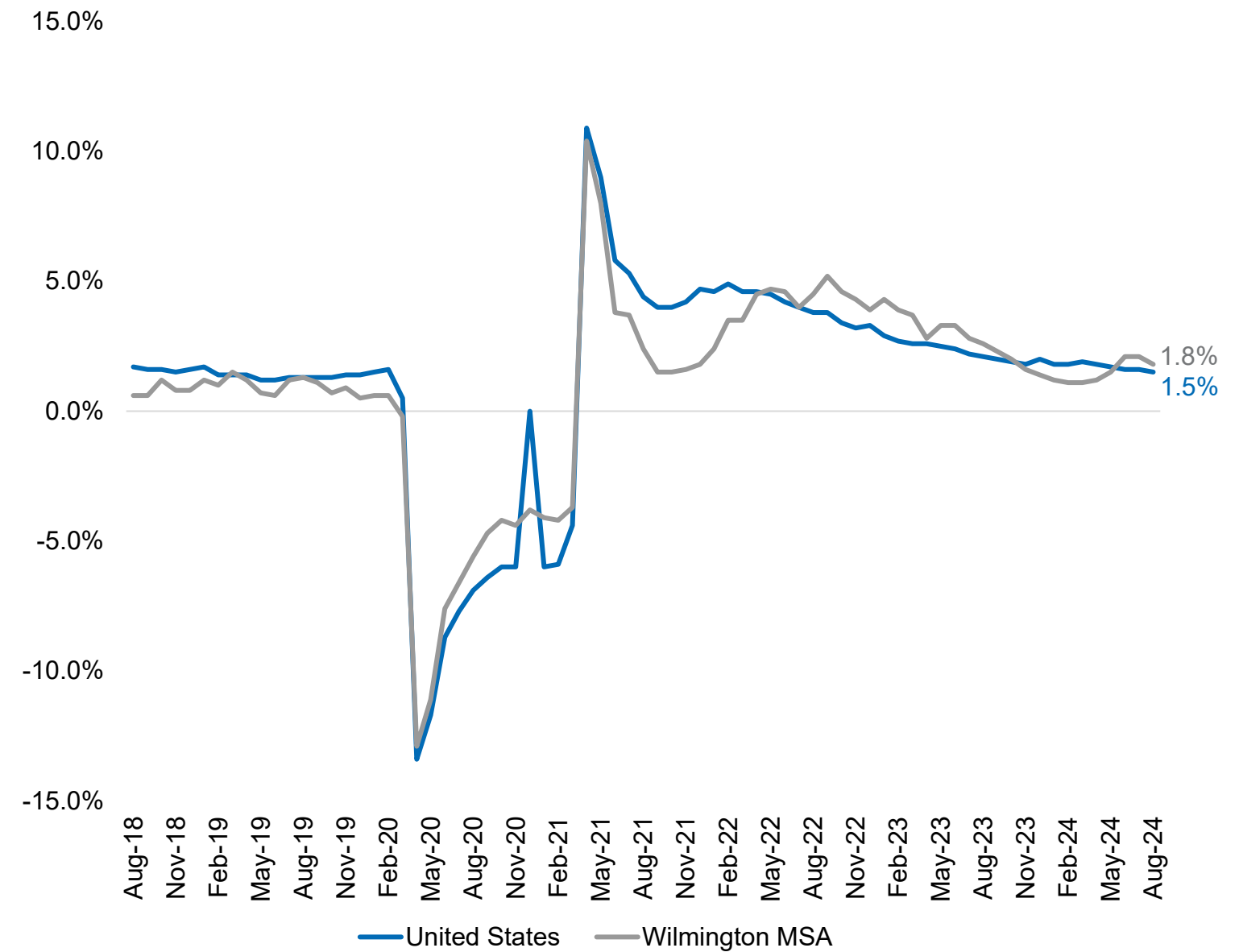
# Wilmington Unemployment Remains High Compared To National Averages

Unemployment in the Wilmington MSA registered 7.6% as of August, 3.2% above the national rate. Annual nonfarm payroll employment growth in August 2024 was 1.8%, a thirty-basis-point decrease from the month prior. Construction and Leisure and Hospitality have driven employment growth in Wilmington over the year.

Unemployment Rate, Non-Seasonally Adjusted



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

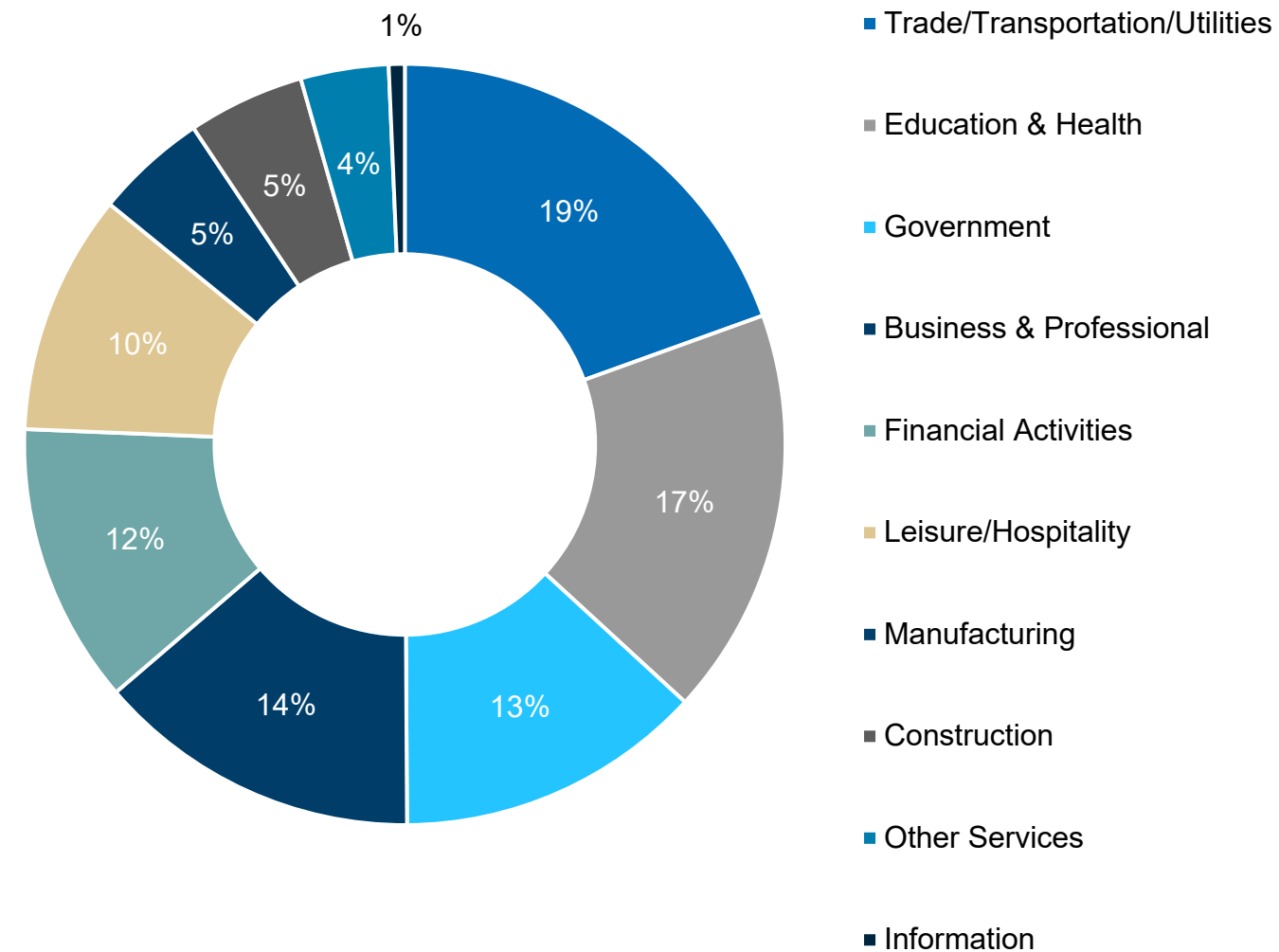


Source: U.S. Bureau of Labor Statistics, Wilmington MSA

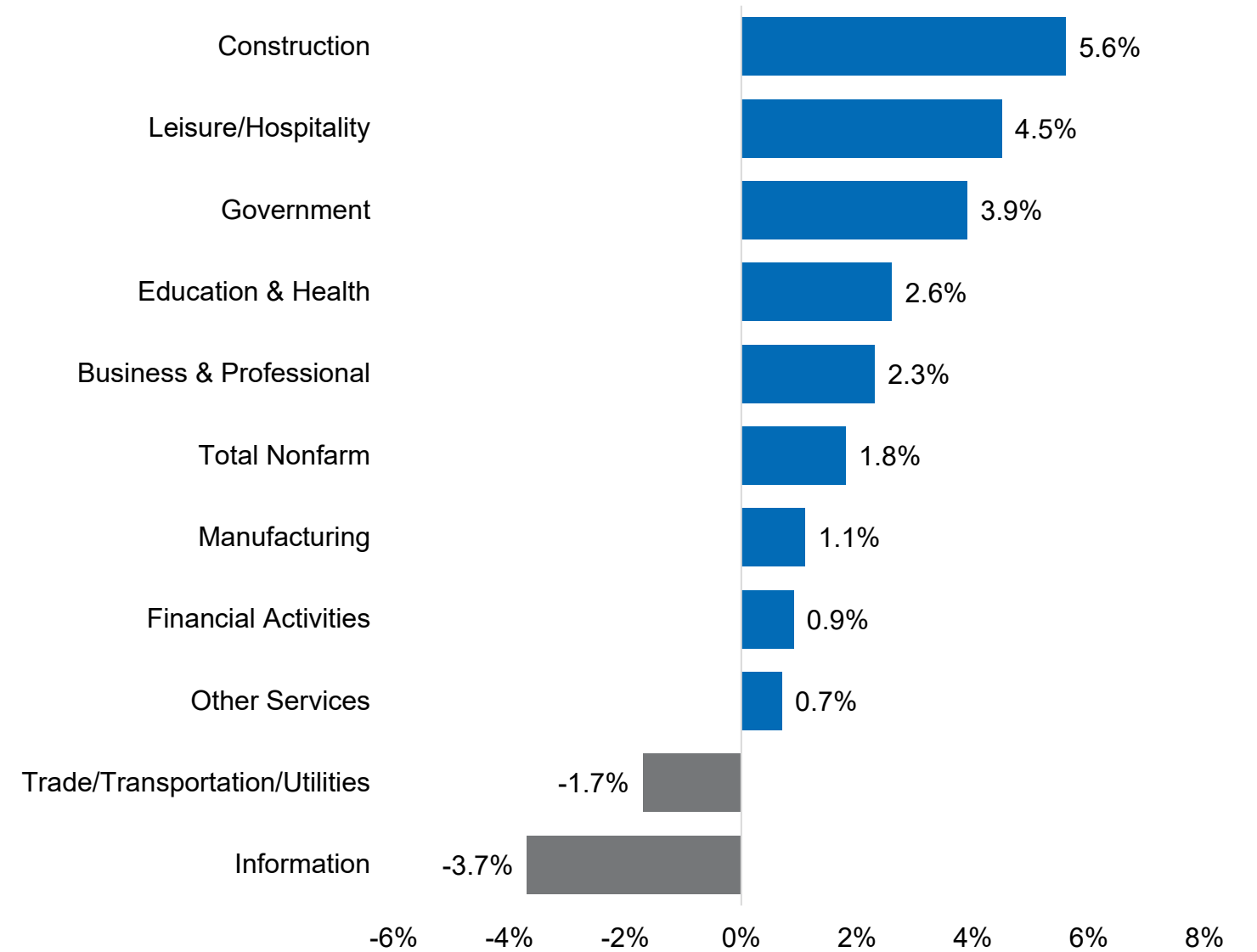
# Employment In Office-Using Industries Trends Slightly Higher

For the 12 months ending in August, annual employment growth was recorded in eight of the ten primary industries in the Wilmington MSA, with two of three office-using sectors experiencing growth. The strongest gains were in Construction, Leisure/Hospitality, and Government, which combined comprise 28% of the region's employment. While the Information sector experienced significant losses at -3.7%, it is the region's smallest industry, with only 1% of total employment.

Employment by Industry, August 2024



Employment Growth by Industry, 12-Month % Change, August 2024

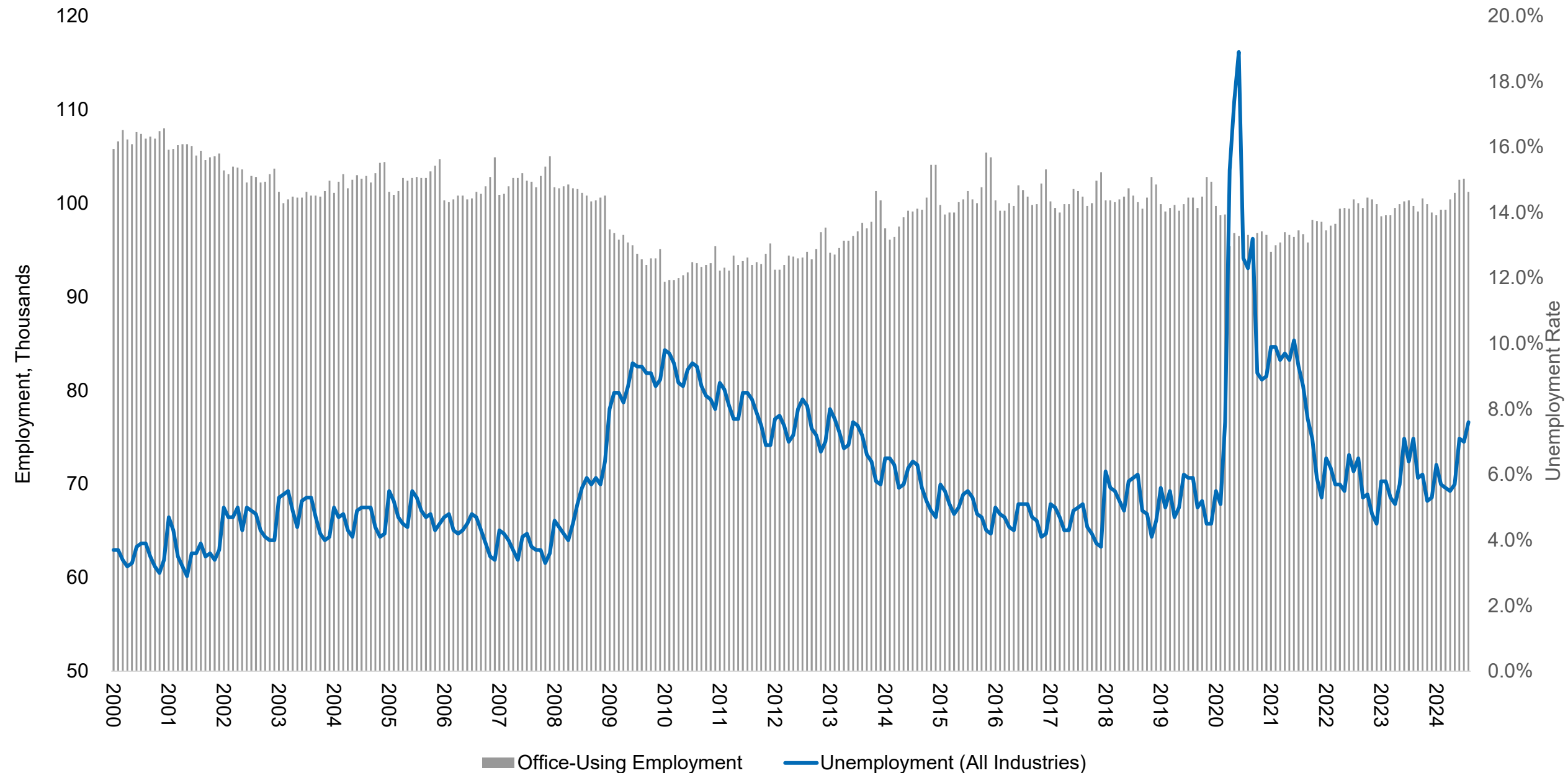


Source: U.S. Bureau of Labor Statistics, Wilmington MSA

# Overall Office-Using Employment Slowly Recovering

For the 12 months ending in August 2024, office-using employment grew by 1.5%, reflecting the eighth consecutive month of employment growth. The uptick was driven by the region's Professional & Business Services and Financial Activities sectors, which recorded growth of 2.3% and 0.9%, respectively.

## Office-Using Employment\* and Unemployment Across All Industries



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

Note: August 2024 data is preliminary.

\*Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.

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## 2. Leasing Market Fundamentals

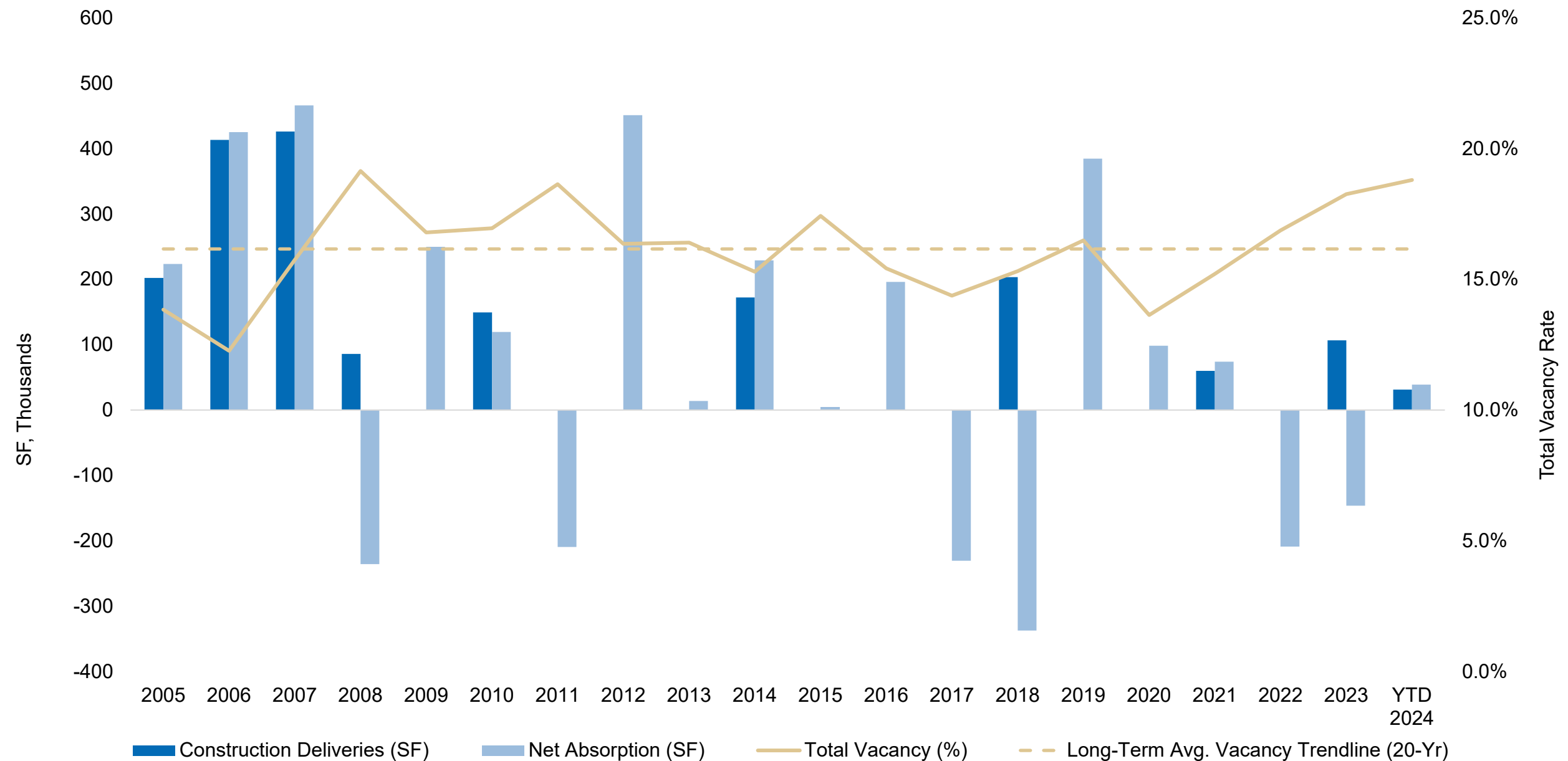




# Vacancies Rise And Net Absorption Turns Positive

Vacancy continued to rise through the third quarter of 2024. The top-performing submarkets were Wilmington CBD and Wilmington South, with year-to-date net absorption of 83,280 and 27,308 square feet, respectively. Wilmington showed some light in the office market, experiencing its first positive net absorption this year. Morris James moved into 45,851 square feet of space, making it the main contributor to this quarter's positive net absorption in the Wilmington office market.

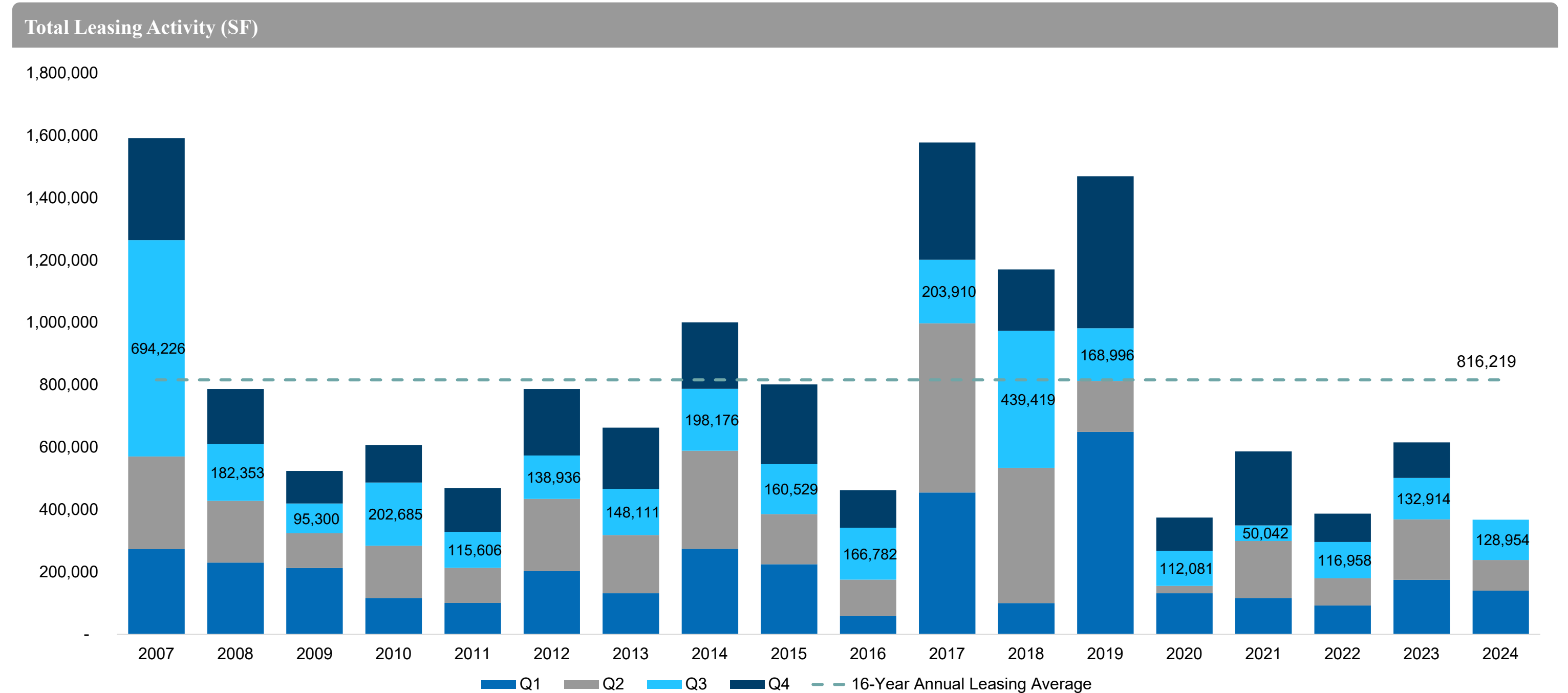
## Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research

# Leasing Activity Behind Last Year's Pace

Nearly 129,000 square feet of leases were signed during Q3, putting the region behind the leasing pace from the same period last year. Combined with approximately 98,000 square feet of leasing in Q2 and 140,000 square feet of leasing in Q1, the region has registered approximately 368,000 square feet of leasing year-to-date through 2024.

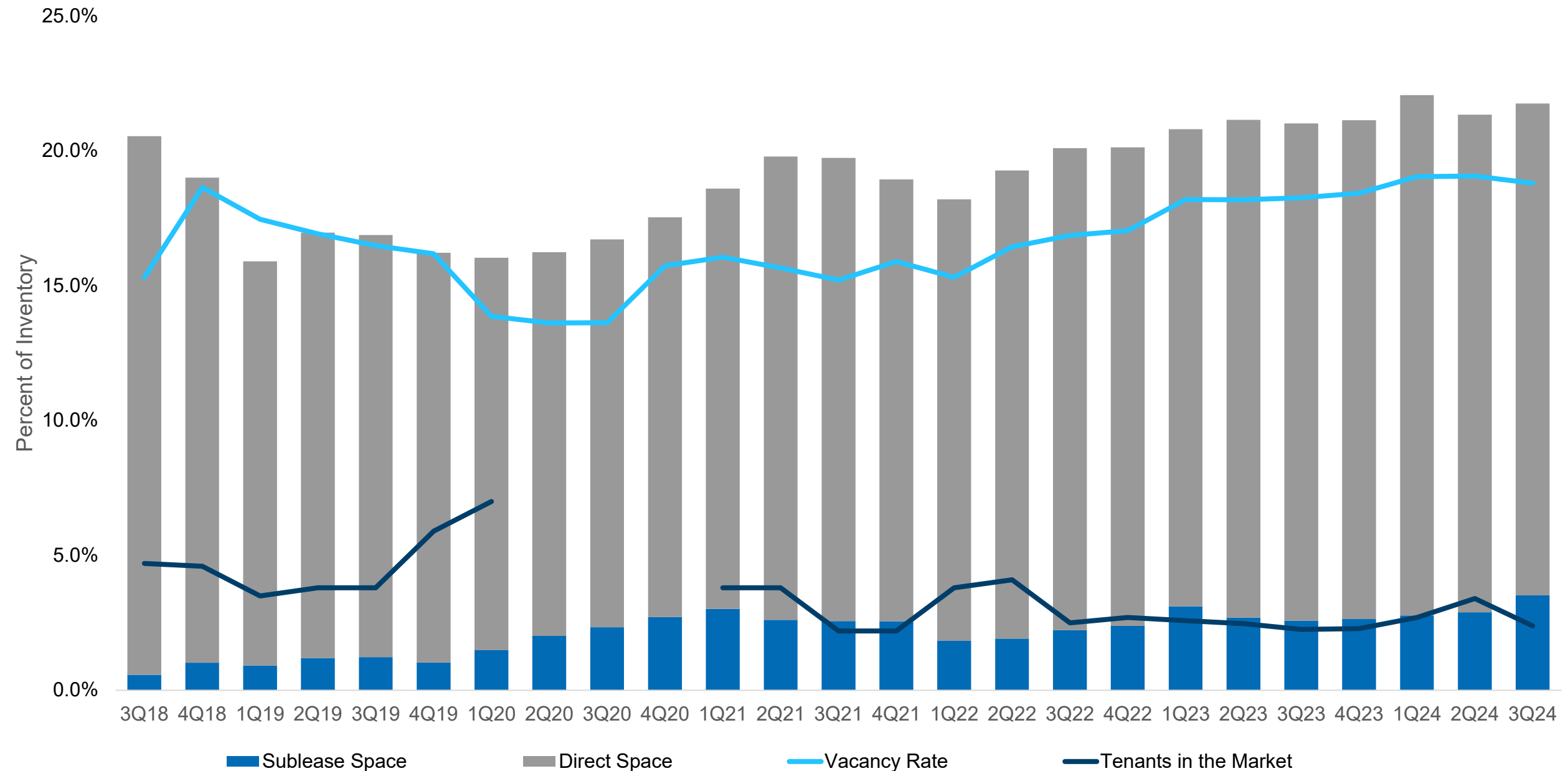


Source: Newmark Research, CoStar

# Availability Up On The Year As Tenant Demand Decreases

Office demand in Delaware decreased by 1% in Q3 2024 due to active deals closing with signed leases. Total requirements accounted for 2.4% of the market's inventory, marking a 10-basis-point increase year-over-year. While government requirements have increased demand, legal entities continue to be the leading segment of market demand.

Available Space and Tenant Demand as Percent of Overall Market



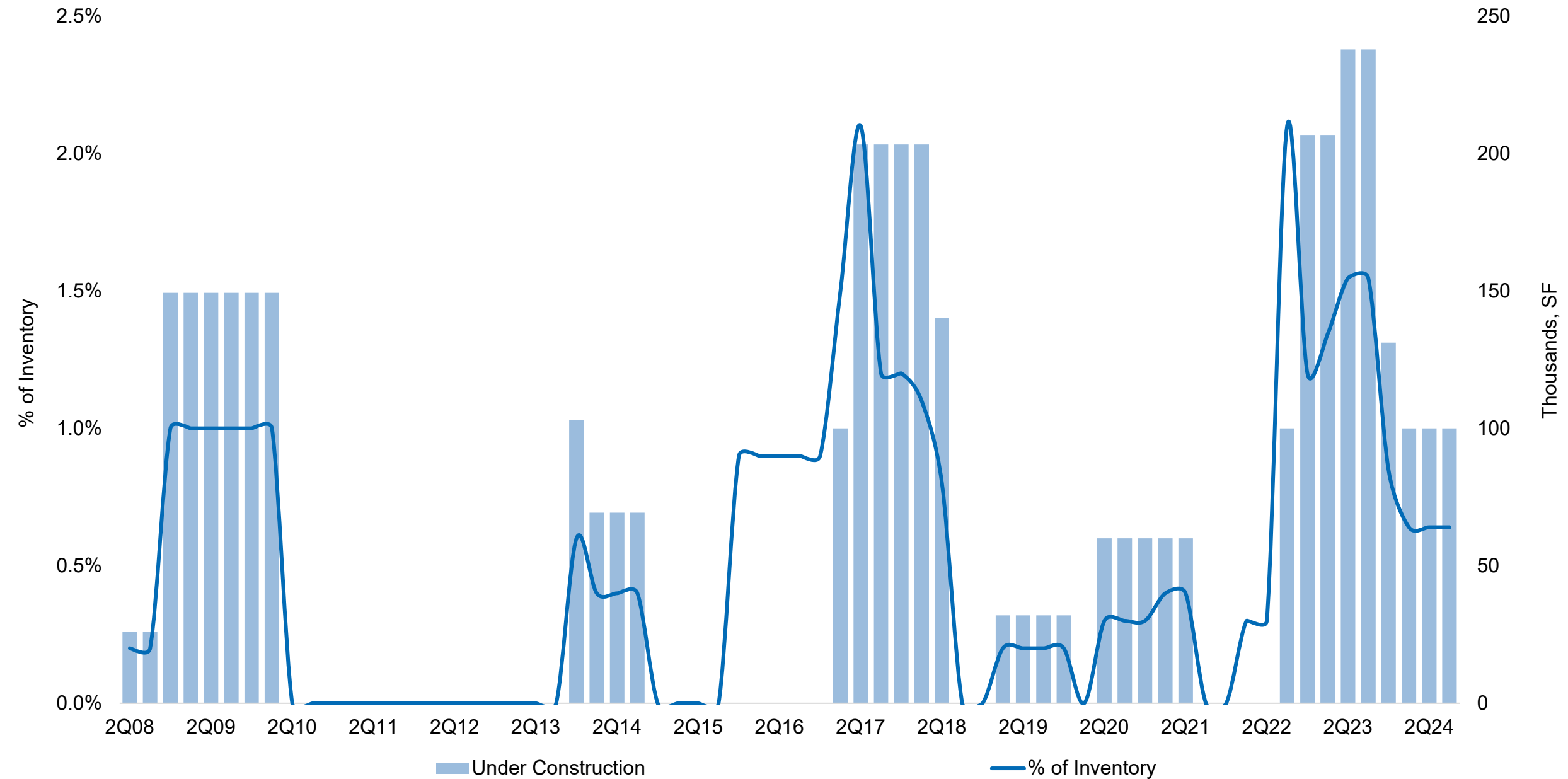
Source: Newmark Research

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

# Office Pipeline Remains Stable With No Deliveries During The Third Quarter

There were no office deliveries in the market during the second quarter, with Avenue North remaining the only development in Delaware's construction pipeline, expected to deliver next quarter. The slight uptick in construction as a percentage of inventory results from Incyte's purchase of two downtown buildings previously owned by Bank of America and located on Rodney Square: Bracebridge I at 1100 N. King St (372,118 SF) and Bracebridge III at 1100 N. French St (145,189 SF).

## Office Under Construction and % of Inventory

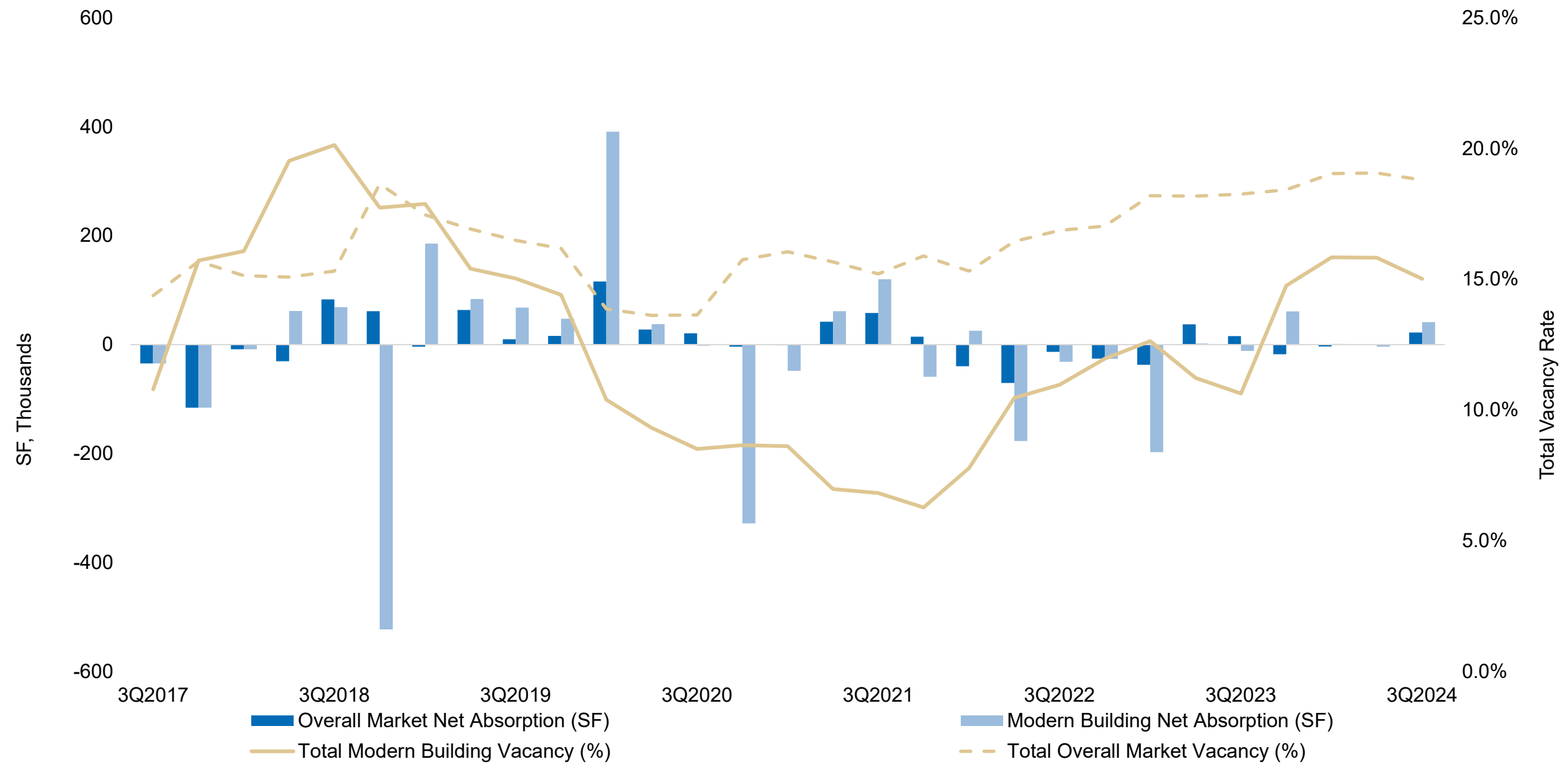


Source: Newmark Research, CoStar

# Modern Buildings Thrive In Market Downturn

Modern offices built after 2000 are significantly outperforming the overall market. These contemporary spaces have a vacancy rate of 15%, which is 380 basis points lower than the market average of 18.8%. This highlights strong demand for modern work environments, further supported by robust preleasing activity. For example, 800 Creek View Road, which delivered in the first quarter of 2024, was 75% leased upon completion. Additionally, the lease of Morris James at Avenue North has left less than 24% of space available in the developing tower, with high interest suggesting it could be fully leased by its 2025 completion.

Historical Net Absorption, and Vacancy For Modern Buildings\* And The Overall Market

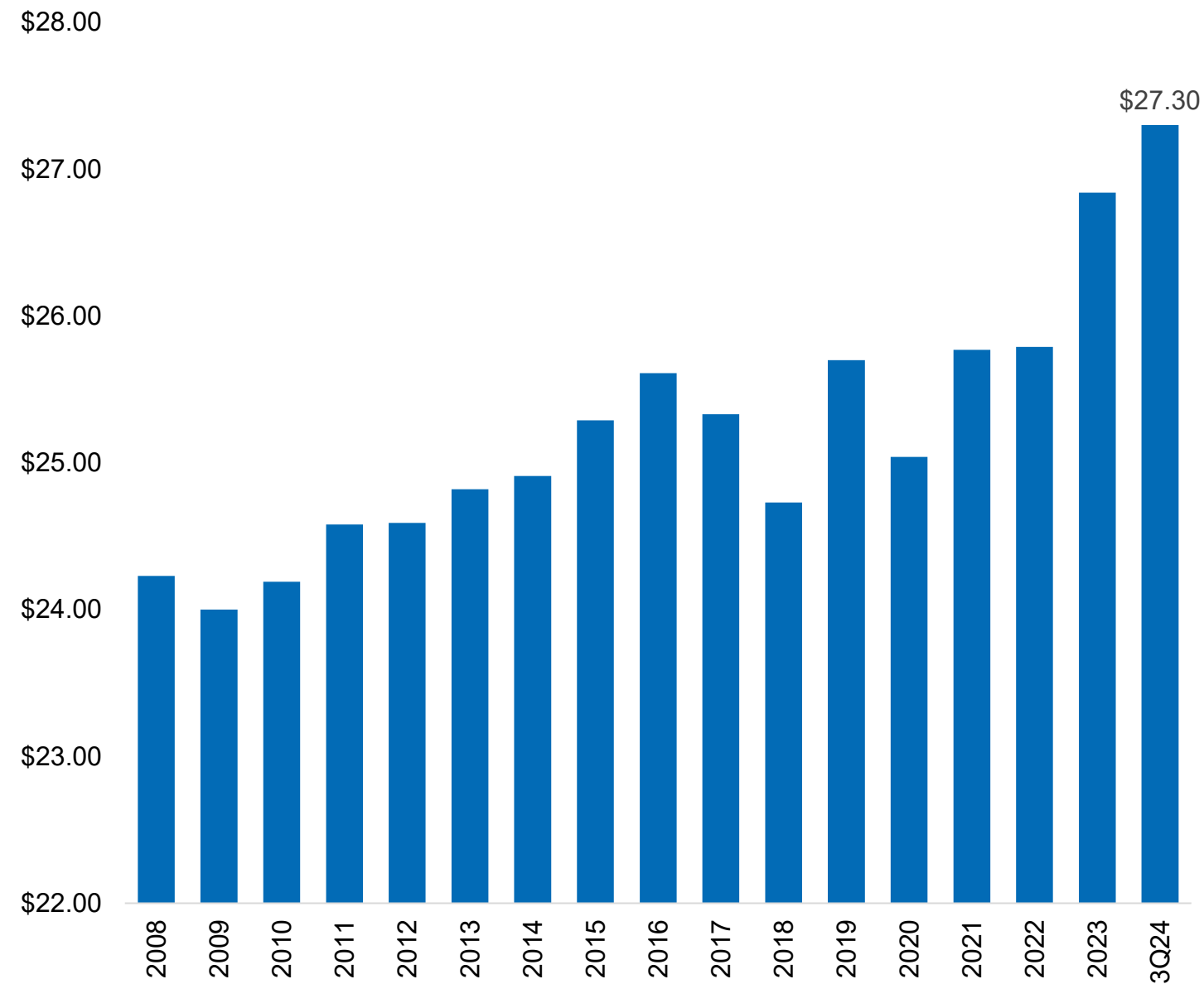


Source: Newmark Research  
 \*Modern buildings are all offices built in 21<sup>st</sup> century

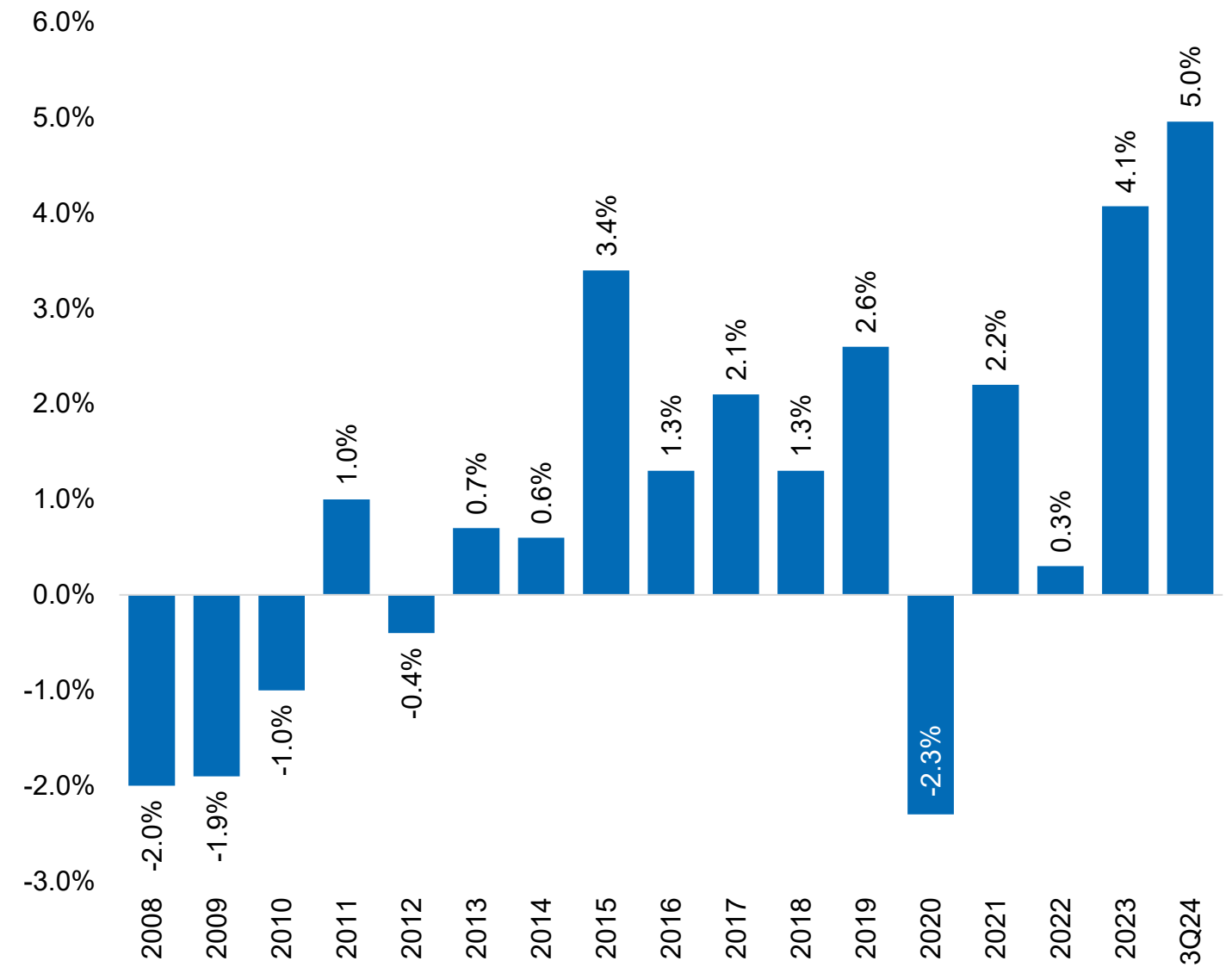
# Asking Rents See A Big Increase

Asking rents rose to \$27.30/SF in the third quarter. Since 2020, rents have steadily increased despite declining demand. Recent quarters have shown a spike in year-over-year asking rent growth, with a 500-basis point increase this quarter compared to the third quarter of 2023. Landlords are raising rents to offset the large concessions they offer to attract tenants. However, while asking rents are rising, landlords' net effective returns have decreased due to the impact of these concessions.

Office Average Asking Rent, \$/SF, FS



Year-over-Year Asking Rent Growth Rate



Source: Newmark Research, CoStar



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## 3. Market Statistics





# 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	6,438,879	20.3%	1,484,803	94,437	23.1%	20,231	\$26.37
Wilmington North	3,116,387	20.9%	788,482	63,279	25.3%	-12,590	\$28.98
Wilmington South	4,597,057	15.4%	812,802	389,222	17.7%	30,539	\$23.06
Wilmington West	1,466,586	18.4%	311,301	2,470	21.2%	2,942	\$35.87
<b>Wilmington – Total</b>	<b>15,618,909</b>	<b>18.8%</b>	<b>3,397,388</b>	<b>549,408</b>	<b>21.8%</b>	<b>41,122</b>	<b>\$27.30</b>

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