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4Q24

# Delaware Office Market Overview



**NEWMARK**

# Market Observations

## Economy

- Unemployment in the Wilmington MSA registered 4.7% as of November. Though 70 basis points above the national rate, unemployment dropped 290 basis points from the end of August, reflecting the lowest unemployment rate we have seen in almost two years. Annual employment grew by 80 basis points from the month of November, 60 basis points below the national 12-month growth rate. Payrolls also increased by 20 basis points for the 12 months ending in November.
- For the 12 months ending in November, annual employment growth was recorded in six 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, Education and Health, and Manufacturing, comprising 27% of the region's employment.
- Office-using employment grew by 60 basis points, marking the 10<sup>th</sup> month of positive office-using employment growth this year. The uptick was driven by the region's Financial Activities and Professional & Business Services sectors, which recorded growth of 130 basis points and 20 basis points, respectively.

## Major Transactions

- Leasing activity in 2024 surpassed the levels seen since 2019. While most deals involved spaces under 10,000 square feet, several notable leases stood out. Young Conway renewed at the former courthouse for 143,894 SF. Prelude Therapeutics renewed 101,876 SF at 175 Innovation Boulevard. Potter Anderson renewed 82,758 SF at 1313 N Market Street. Troutman Pepper leased 15,150 SF on the 10<sup>th</sup> floor of the Hercules building. Morris James, currently in the CBD, signed a 43,000 SF lease for the Avenue North building for the first six floors upon the building's completion. DaSTOR renewed for 34,299 SF at 1201 N Market Street.

## Leasing Market Fundamentals

- 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: 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.
- There was a net absorption of 43,292 square feet in Q4, with Wilmington West and Wilmington South leading demand at 38,009 SF and 23,231 SF, respectively.
- The pipeline remained stable with no new office deliveries in Q4. Only Avenue North remains in the construction pipeline and is expected to deliver next quarter. In 2024, over 443,000 square feet of leases were signed, outpacing leasing volume over the last four years.
- Vacancy rates decreased by 20 basis points to 18.9%. This decline is primarily attributed to lower vacancies in the Wilmington South (14.9%) and Wilmington West (15.8%) submarkets.

## Outlook

- Strong leasing activity in 2024 hints at increased office demand into 2025. As return to office trends increase throughout the year, many companies will start to lease more space to support their five-day work weeks.
- After a few quarters of vacancy increases, Delaware experienced its lowest vacancy rates of 2024 in the fourth quarter. The decrease in vacancy rates can be credited to the changing sentiment toward in-person work as CEO's continue to bring employees back into the office five days a week.
- Modern offices built after the year 2000 are significantly outperforming the overall market. These contemporary spaces boast a vacancy rate of only 14.0%, a substantial 490 basis points lower than the market average of 18.9%. This underscores the strong demand for modern work environments and amenities, further evidenced by robust pre-leasing activity in newly constructed buildings.

1. Economy
2. Leasing Market Fundamentals
3. Market Statistics



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# 1. Economy

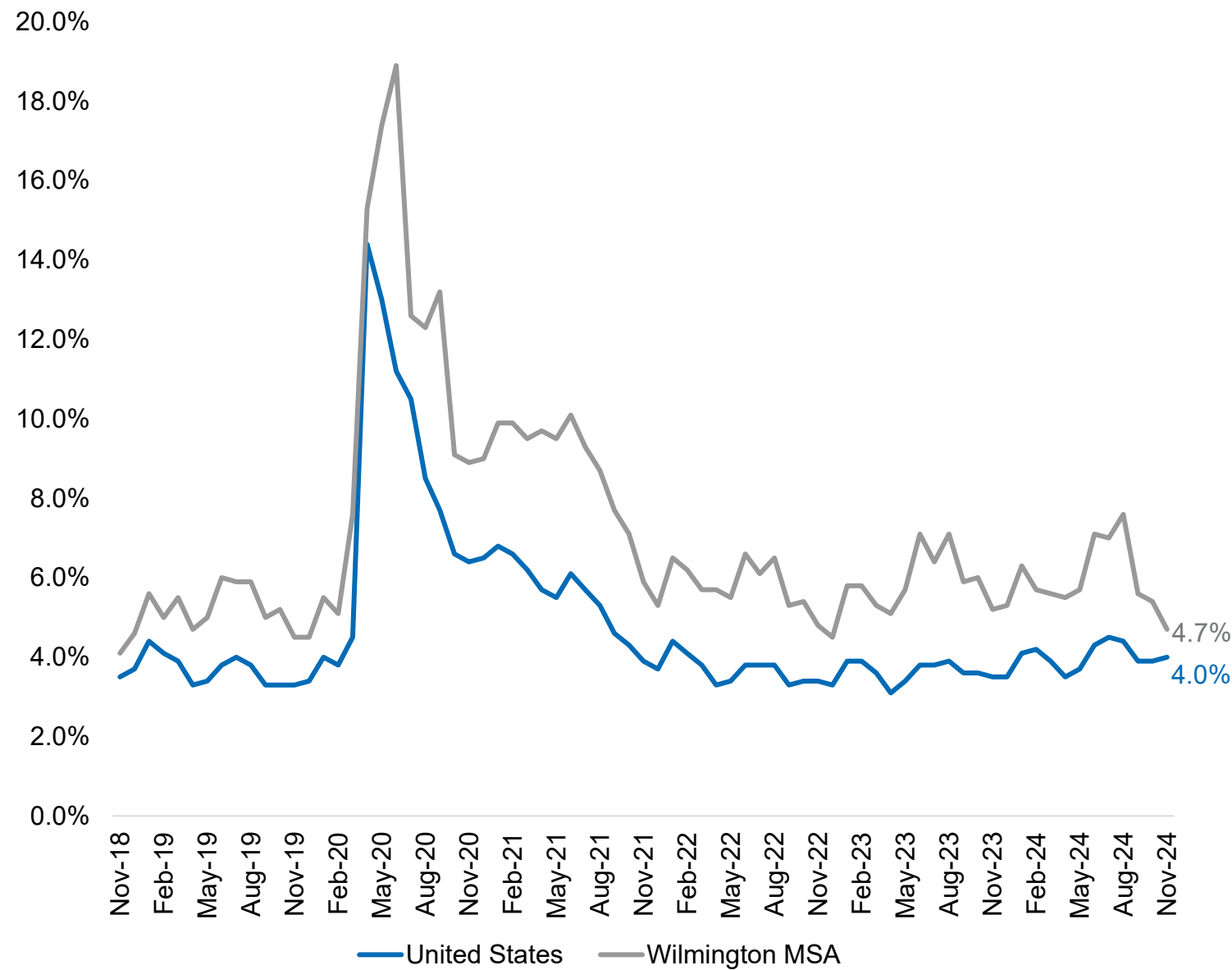




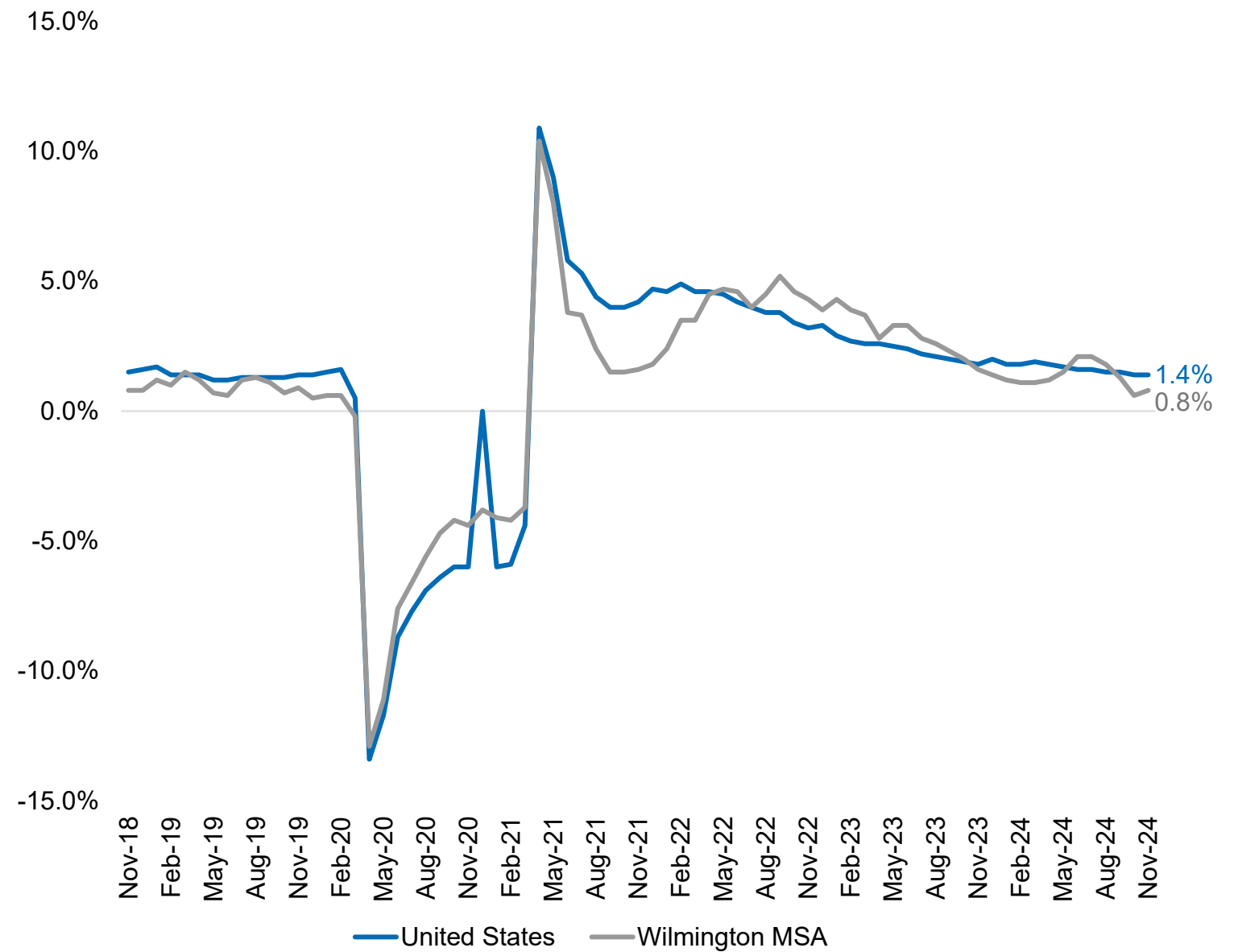
# Wilmington Unemployment Significantly Decreases

Though still 70 basis points above the US unemployment rate, Wilmington's unemployment decreased by 290 basis points from August, when it was at its highest rate of 7.6% in 2024. Annual nonfarm payroll employment growth in August 2024 was 0.8%, a twenty basis point increase 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



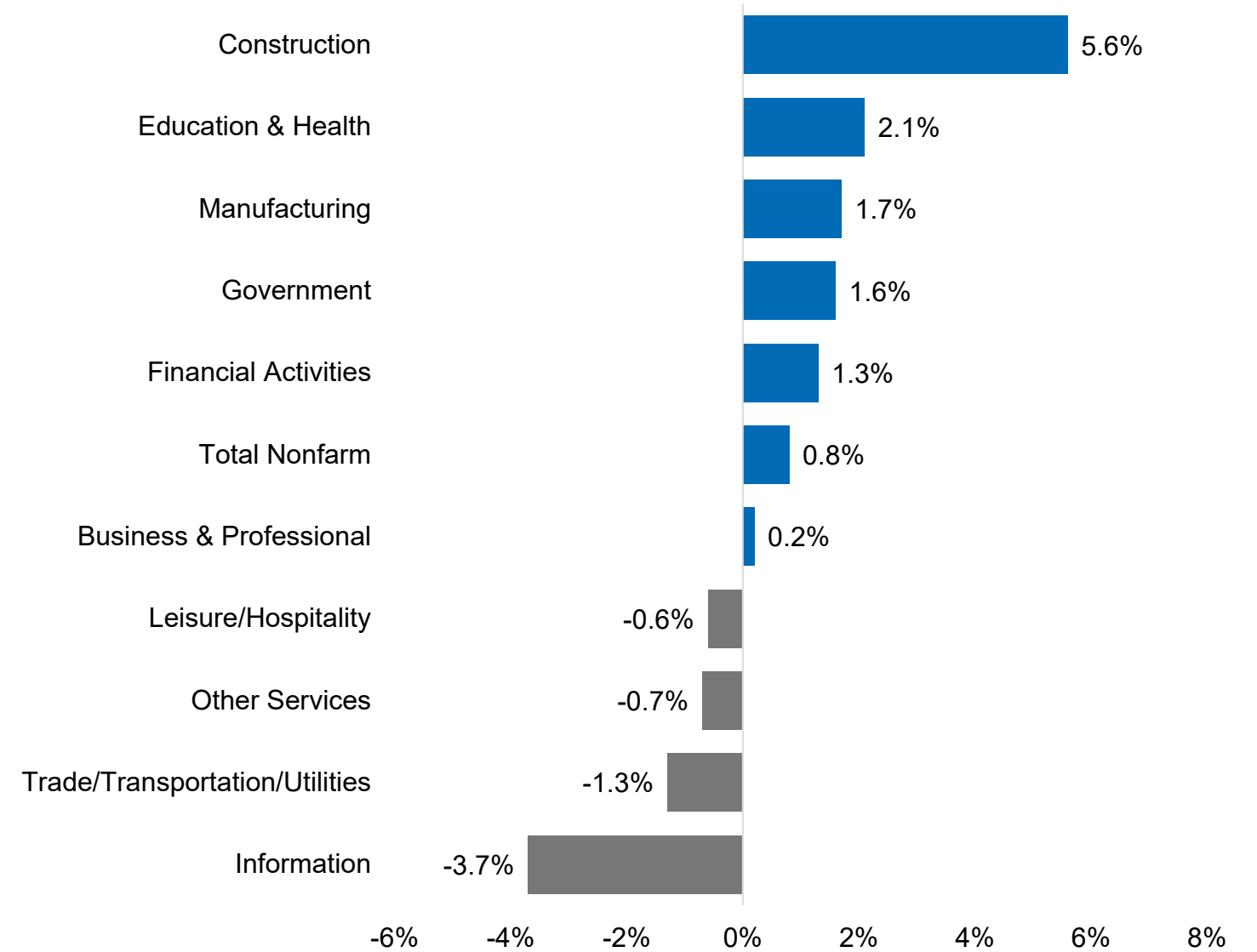
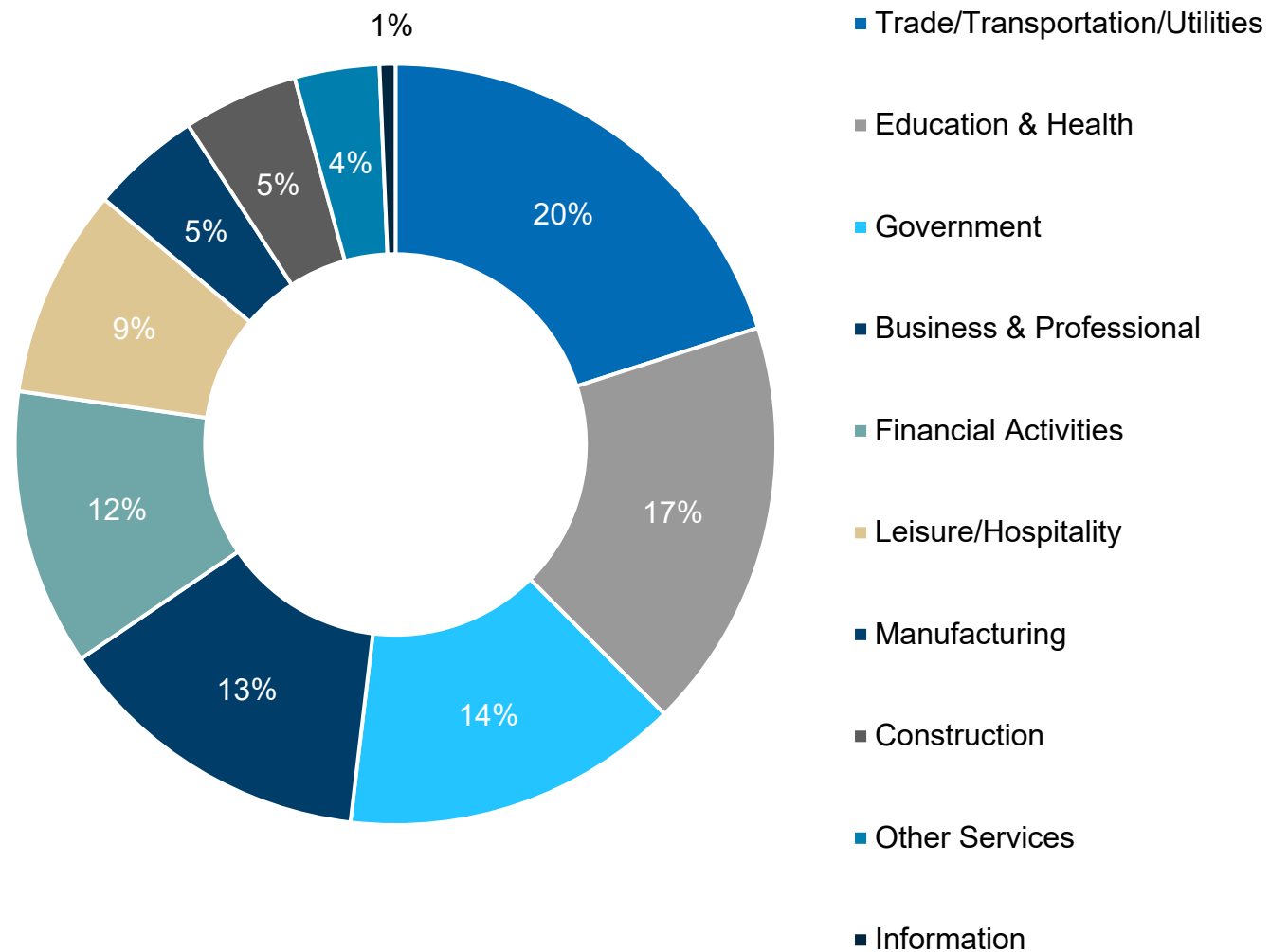
Source: U.S. Bureau of Labor Statistics, Wilmington MSA

# Employment In Office-Using Industries Trends Slightly Higher

For the 12 months ending in August, annual employment growth was recorded in six of the ten primary industries in the Wilmington MSA, with two of three office-using sectors experiencing growth. The strongest gains were in Construction, Education and Health, and Manufacturing which combined comprise over 27% 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, November 2024

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

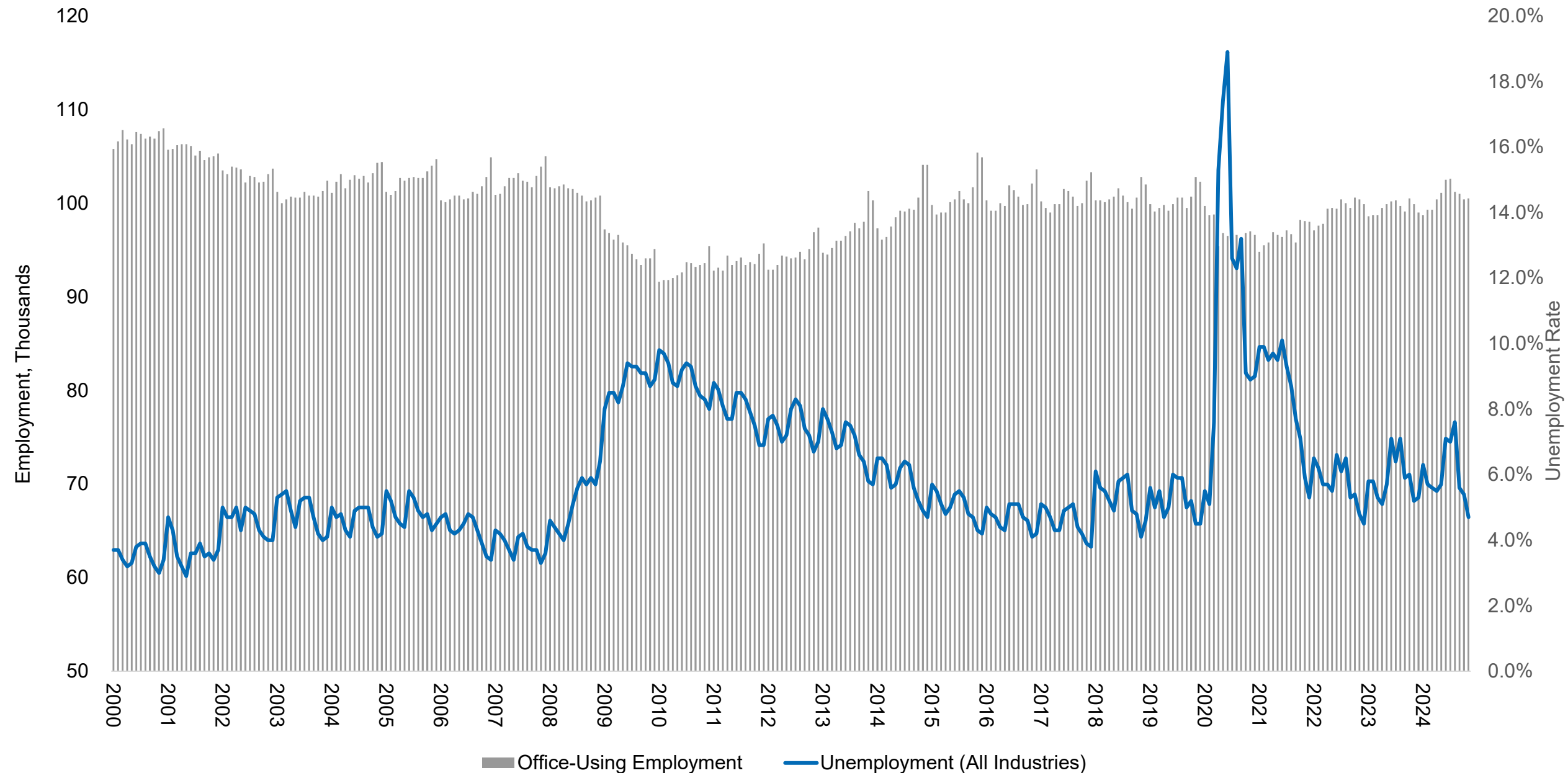


Source: U.S. Bureau of Labor Statistics, Wilmington MSA

# Overall Office-Using Employment Slowly Recovering

For the 12 months ending in November 2024, office-using employment grew by 60 basis points. The uptick was driven by the region's Financial Activities and Professional & Business Services sectors, which recorded growth of 130 basis points and 20 basis points, 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

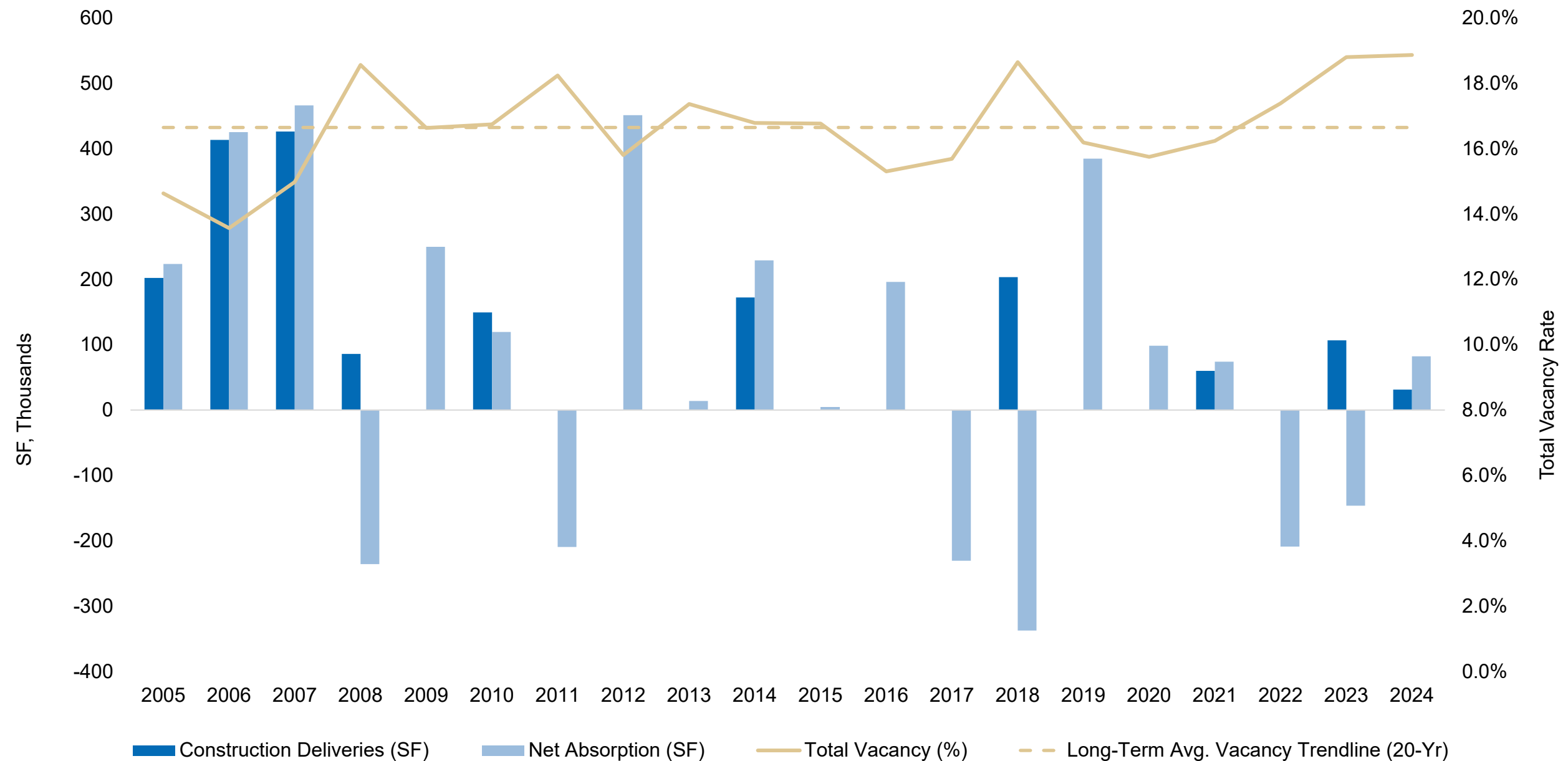




# Vacancies Rise But Net Absorption Turns Positive

Vacancy fell 20 basis points between the third and fourth quarter of 2024 but remains 10 basis points above the fourth quarter vacancy rate in 2023. The top-performing submarkets were Wilmington CBD and Wilmington South, with year-to-date net absorption of 87,917 and 50,539 square feet, respectively. Wilmington showed some green shoots in the office market, experiencing its first positive annual net absorption. Potter Anderson & Corroon LLP and Morris James moved into 82,758 and 45,851 square feet of space, respectively, making them the main contributors to this year's positive net absorption in the Wilmington office market.

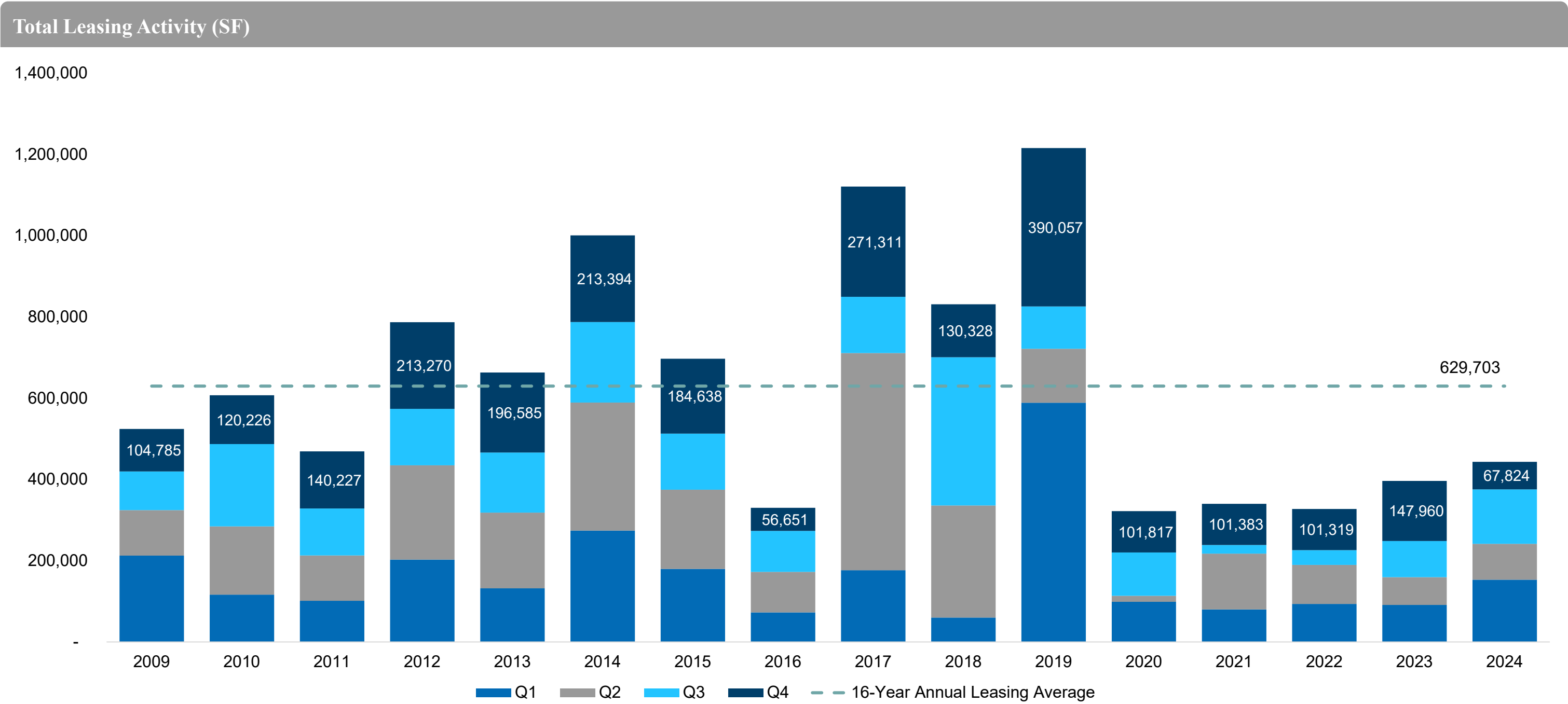
## Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research

# Wilmington Leasing Activity Beats Last Year's Numbers

Nearly 68,000 square feet of leases were signed during the fourth quarter, making 2024 the most active year of office demand since 2019. The region has registered over 443,000 square feet of leasing year-to-date.



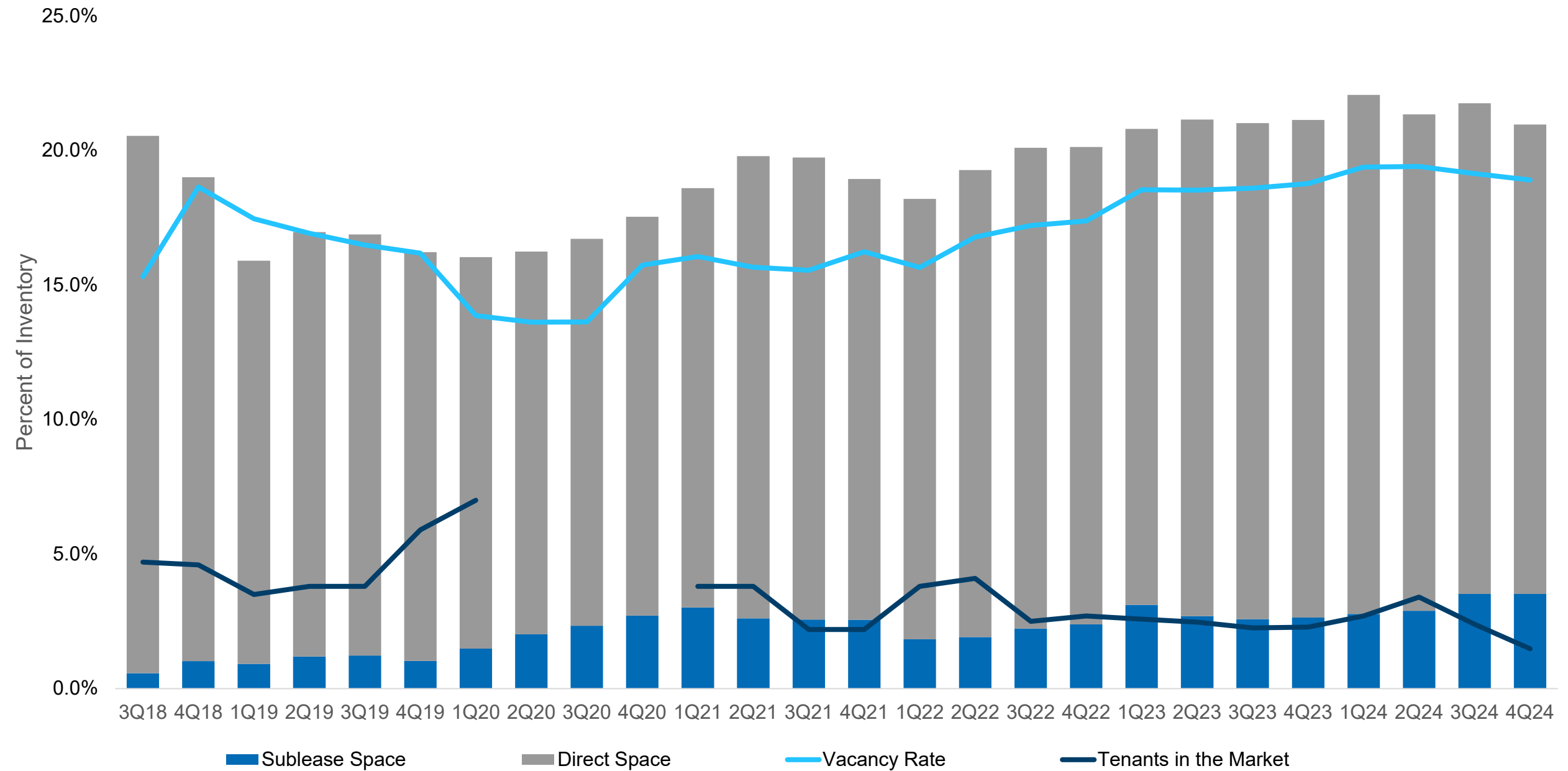
Source: Newmark Research, CoStar



# Availability Decreases As More Leases Are Signed

Office demand in Delaware decreased by 0.9% in Q4 2024 due to active deals closing with signed leases. Total requirements accounted for 1.5% of the market's inventory, marking a 80-basis-point decrease 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

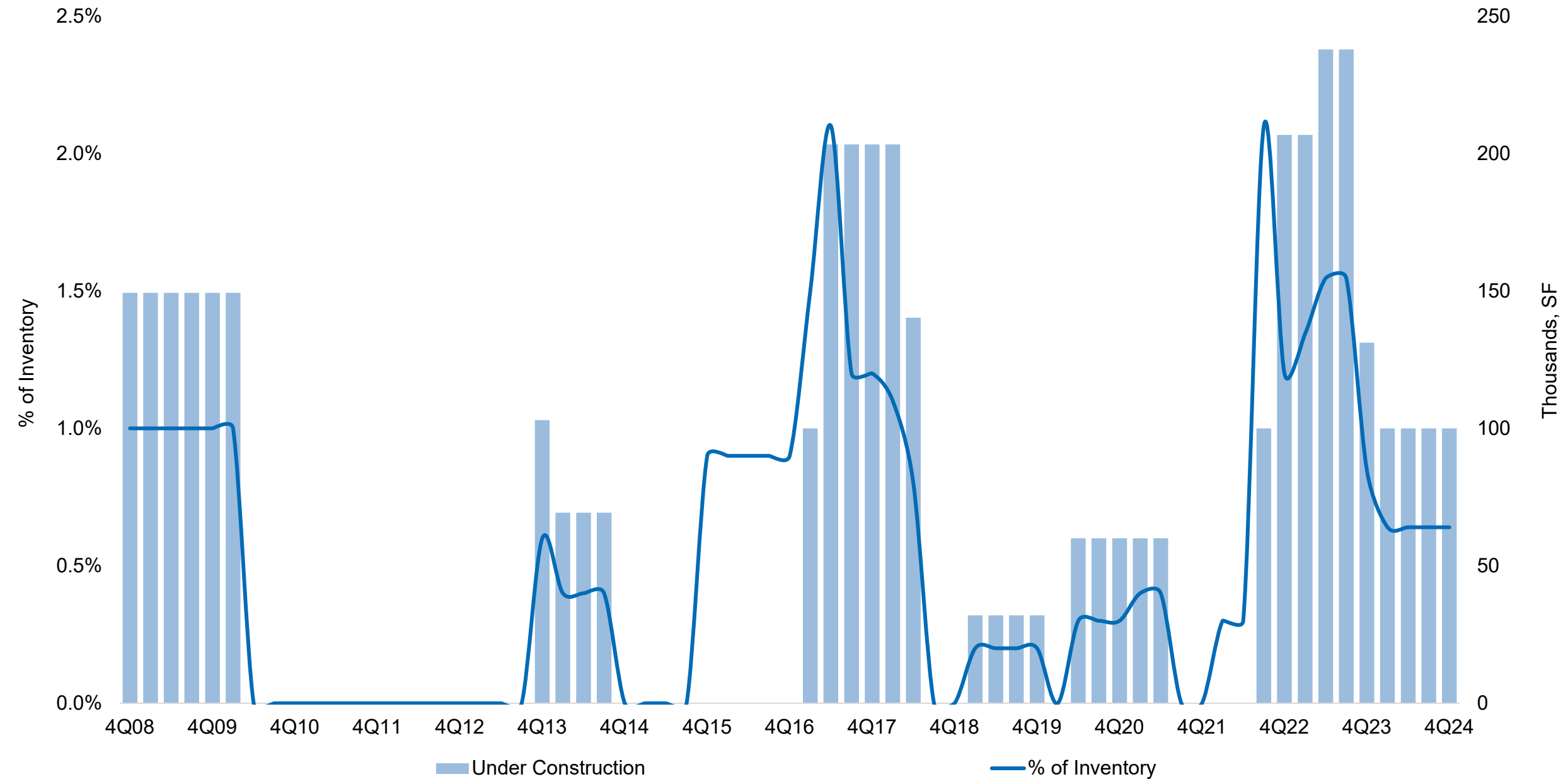


Source: Newmark Research  
 Note: No tenants in the market surveys were produced between Q2 2020 and Q4 2020 due to the COVID-19 Pandemic

# Office Pipeline Remains Stable With No Deliveries During The Fourth 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 Avenue North building is a \$1B redevelopment plan that is set to be over 75% occupied before its delivery, thanks to large leases being signed, such as Morris James 15-year lease for 43K SF of space in the building.

## Office Under Construction and % of Inventory



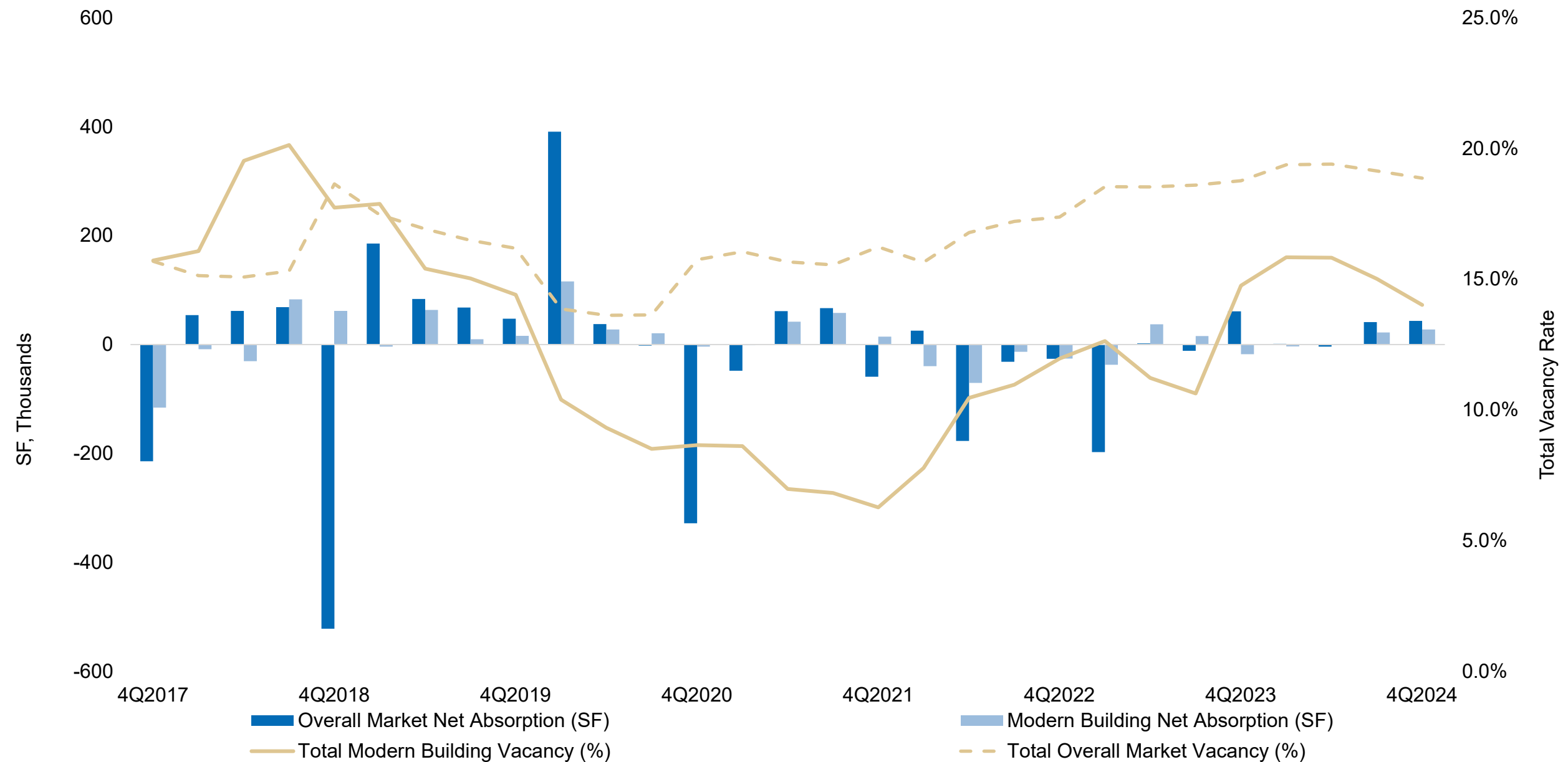
Source: Newmark Research, CoStar, Philadelphia Business Journal



# 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 14.0%, which is 490 basis points lower than the market average of 18.9%. 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 completion in the first quarter of 2025.

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

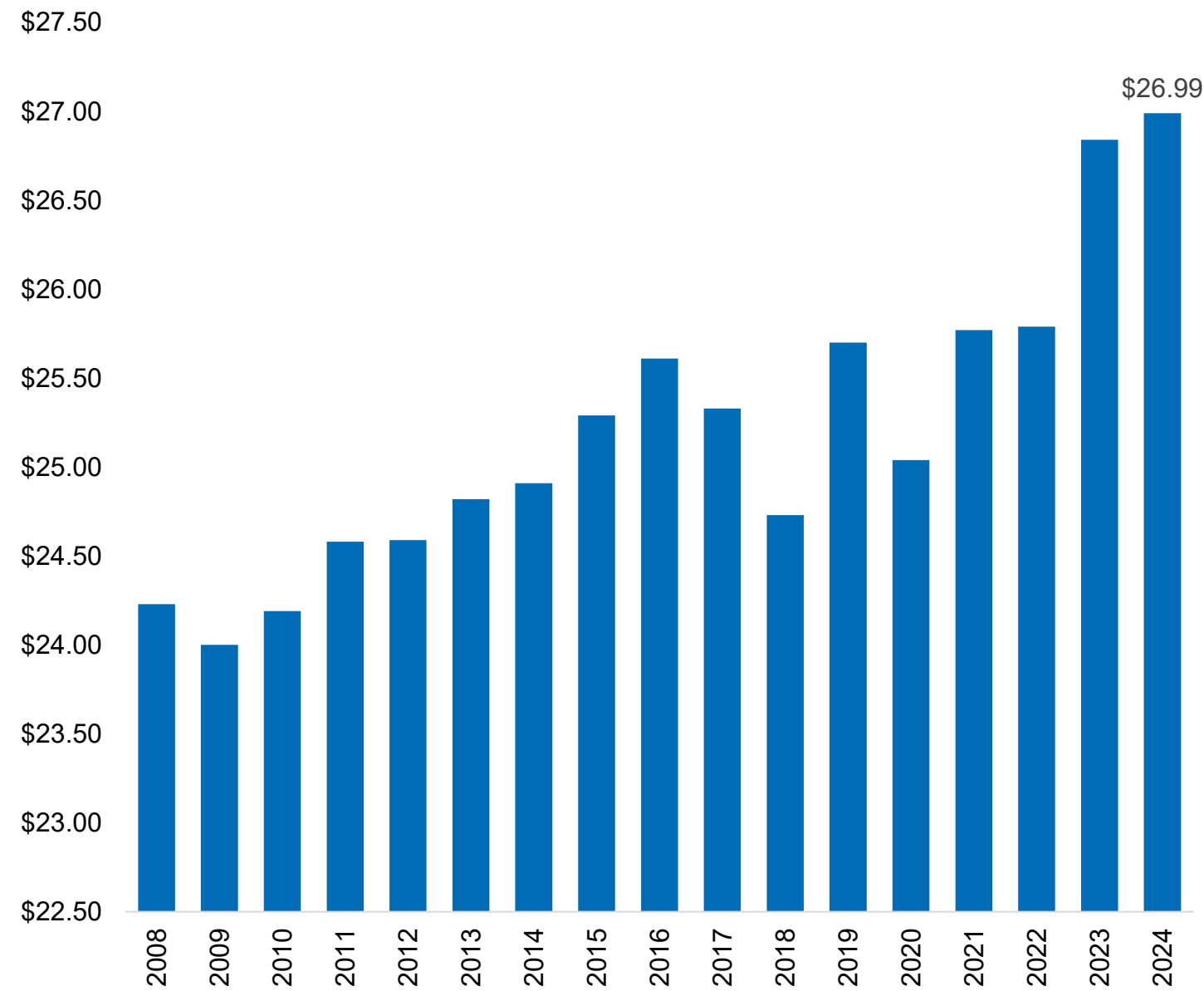


Source: Newmark Research  
 \*Modern buildings are all offices built in 21<sup>st</sup> century

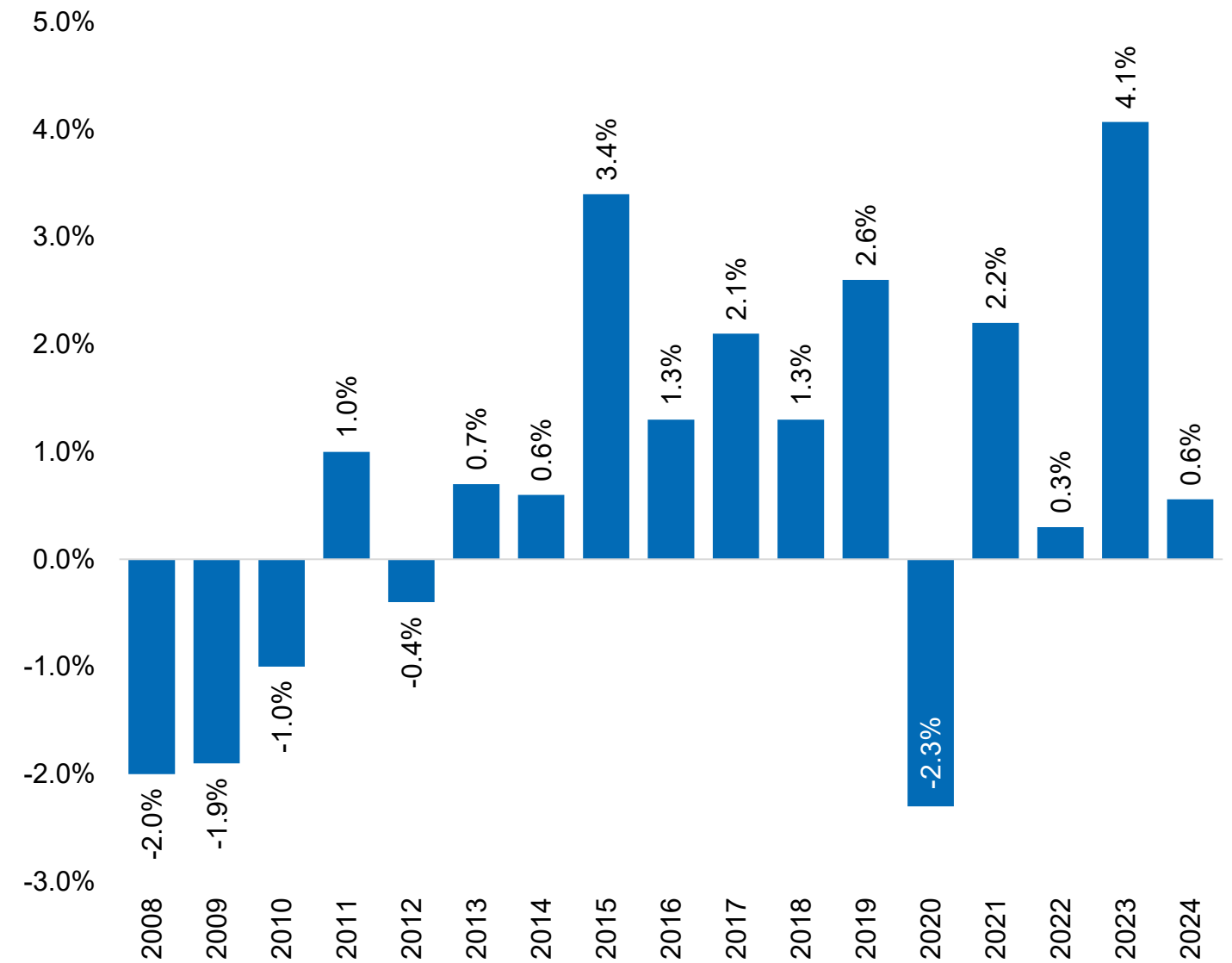
# Asking Rents See A Big Increase

Asking rents rose to \$26.99/SF in the fourth quarter. Since 2021, rents have steadily increased despite declining demand. Recent quarters have shown a spike in year-over-year asking rent growth, with a 60-basis point increase this quarter compared to the fourth quarter of 2023. Some 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	20.2%	1,511,194	77,543	23.5%	4,637	\$26.22
Wilmington North	3,116,387	23.4%	773,205	79,422	24.8%	-22,585	\$28.99
Wilmington South	4,597,057	14.9%	766,323	389,222	16.7%	23,231	\$22.89
Wilmington West	1,466,586	15.8%	223,143	3,120	15.2%	38,009	\$34.19
<b>Wilmington – Total</b>	<b>15,618,909</b>	<b>18.9%</b>	<b>3,273,865</b>	<b>549,307</b>	<b>21.0%</b>	<b>43,292</b>	<b>\$26.99</b>



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