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1Q24

# Delaware Office Market Overview



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# Market Observations

## Economy

- The Wilmington MSA experienced a rise in unemployment to the start of 2024. February’s 3.9% unemployment rate increased 40 basis points from the prior three months. However, this is 30 basis points below the national rate.
- The first quarter of 2024 brought a positive development for the Wilmington MSA. According to the State of Delaware, no WARN notices were issued, indicating the absence of wide-scale layoffs. This is an encouraging sign, fostering optimism about the future stability of the region's unemployment rate.
- In January, office-using employment in the Wilmington MSA grew 0.1% from the year prior. While the growth was negligible, it did snap a six-month streak of negative annual employment growth. In the following month, office-using employment grew 0.6% year-over-year.

## Major Transactions

- Law firm Morris James preleased the first six floors of the 100,000-square-foot Avenue North Tower. The 43,000-square-foot lease significantly reduces Morris James’ existing 60,000-square-foot footprint at 500 Delaware Avenue in Downtown Wilmington. Negative absorption caused by this move will take effect in 2025 when Avenue North is completed.
- The State of Delaware acquired the office building from Alpha Technologies at 704 N King Street, known as One Custom House, designating it as the new Delaware Department of Labor headquarters. Removing this vacant 87,000-square-foot building from competitive inventory significantly lowered the Wilmington CBD's vacancy rate. By the end of the first quarter of 2024, the submarket's vacancy rate had dropped to 27.2%, a reduction of 110 basis points from the previous quarter.

## Leasing Market Fundamentals

- The removal of 704 N King Street from the competitive inventory lifted Wilmington CBD’s asking rates. Average rents grew \$0.37/SF from the prior quarter to \$26.36/SF, the highest average rent recorded in the Wilmington CBD since the fourth quarter of 2022.
- The leasing activity in the Delaware market demonstrated robust performance, surpassing recent leasing averages. Approximately 140,509 square feet of space was leased in the first quarter, a notable 13.5% higher than the 2020-2024 quarterly leasing average.
- Growth requirements of government-related entities have noticeably increased demand for office space in the first quarter of 2024. Total space requirements in the first quarter of 2024 comprised 2.7% of overall market inventory, a 40-basis point increase compared to the prior quarter.

## Outlook

- The continued removal of obsolete or aging offices from competitive inventory remains crucial for the health of the Delaware office market. Overall vacancy is 20.9%, and current office demand is not sufficient to reduce vacancy to a sustainable level.
- Strong preleasing at Avenue North and the recently delivered 800 Creek View Road underscore Delaware’s demand for modern space. Offices with a post-2000 vintage have a vacancy rate that is 35% lower than the broader market.

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



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# 1. Economy

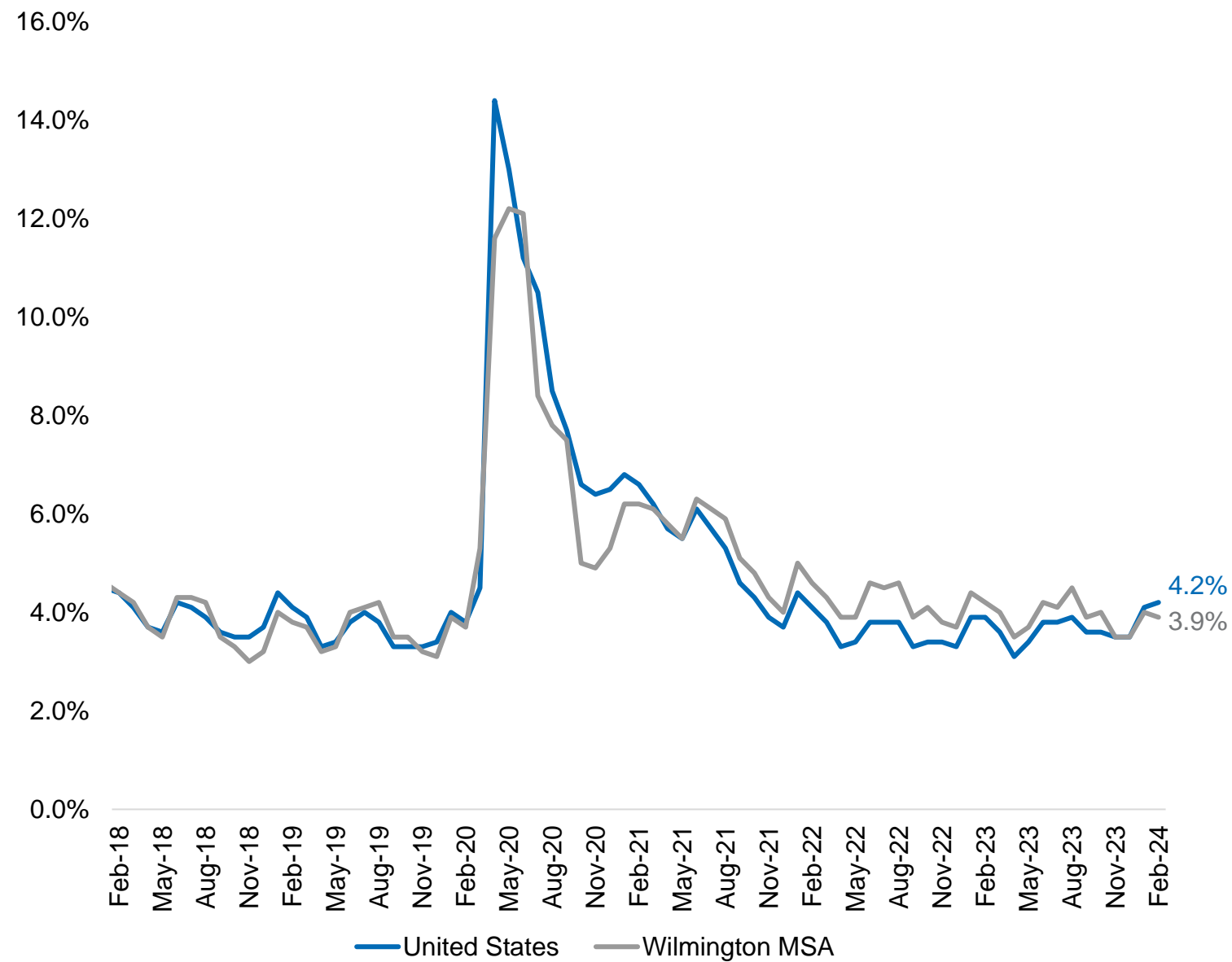




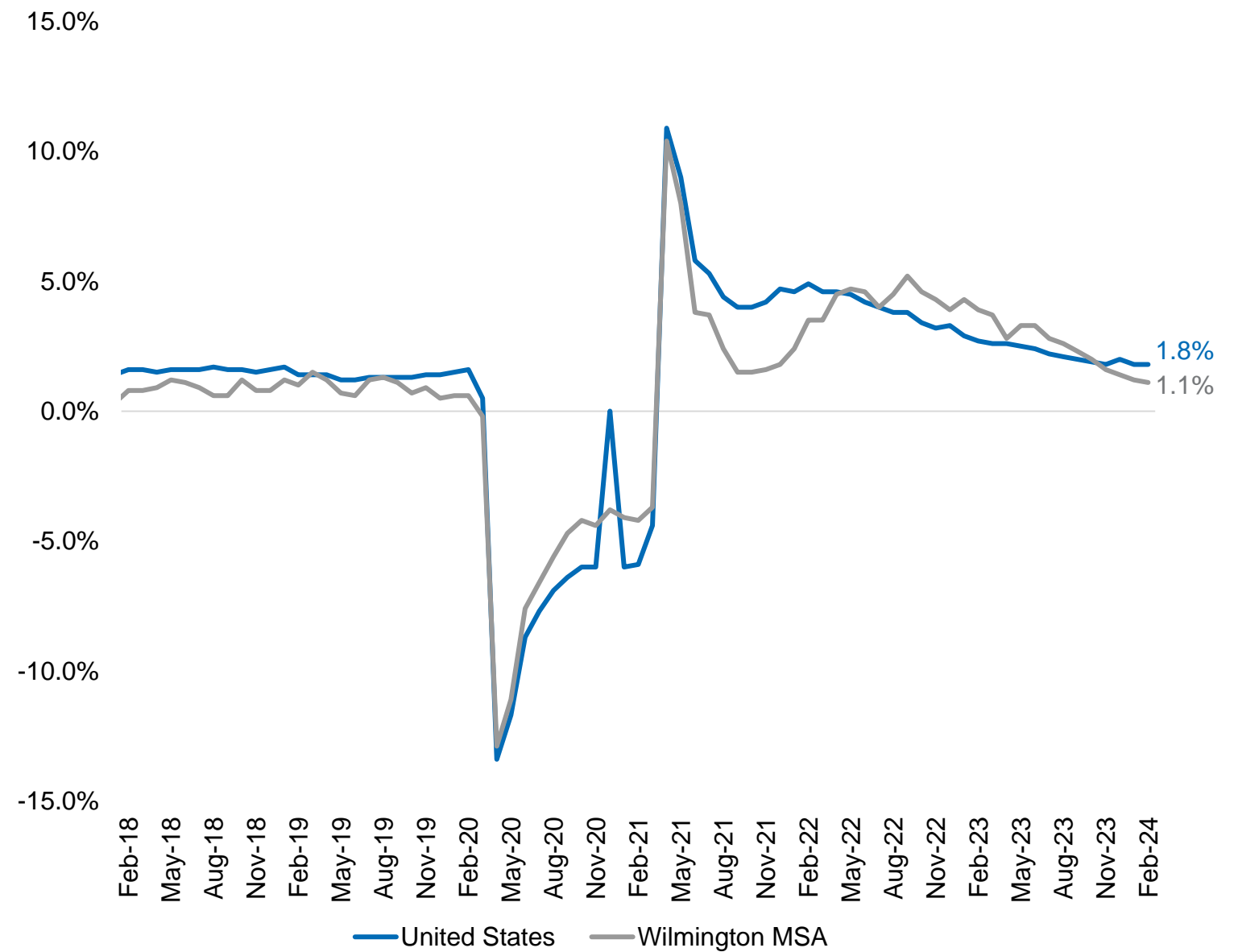
# Pace of Employment Growth Moderates in the First Quarter of 2024

Unemployment in the Wilmington MSA trended upward in the first quarter of 2024; however, it remains below the national rate. Annual employment growth in February 2024 was 1.1%, a ten-basis-point decrease from the month prior. For eight months in a row, there has been a decline in annual employment growth compared to the previous month. Employment losses in industrial sectors brought overall averages lower.

Unemployment Rate, Seasonally Adjusted



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

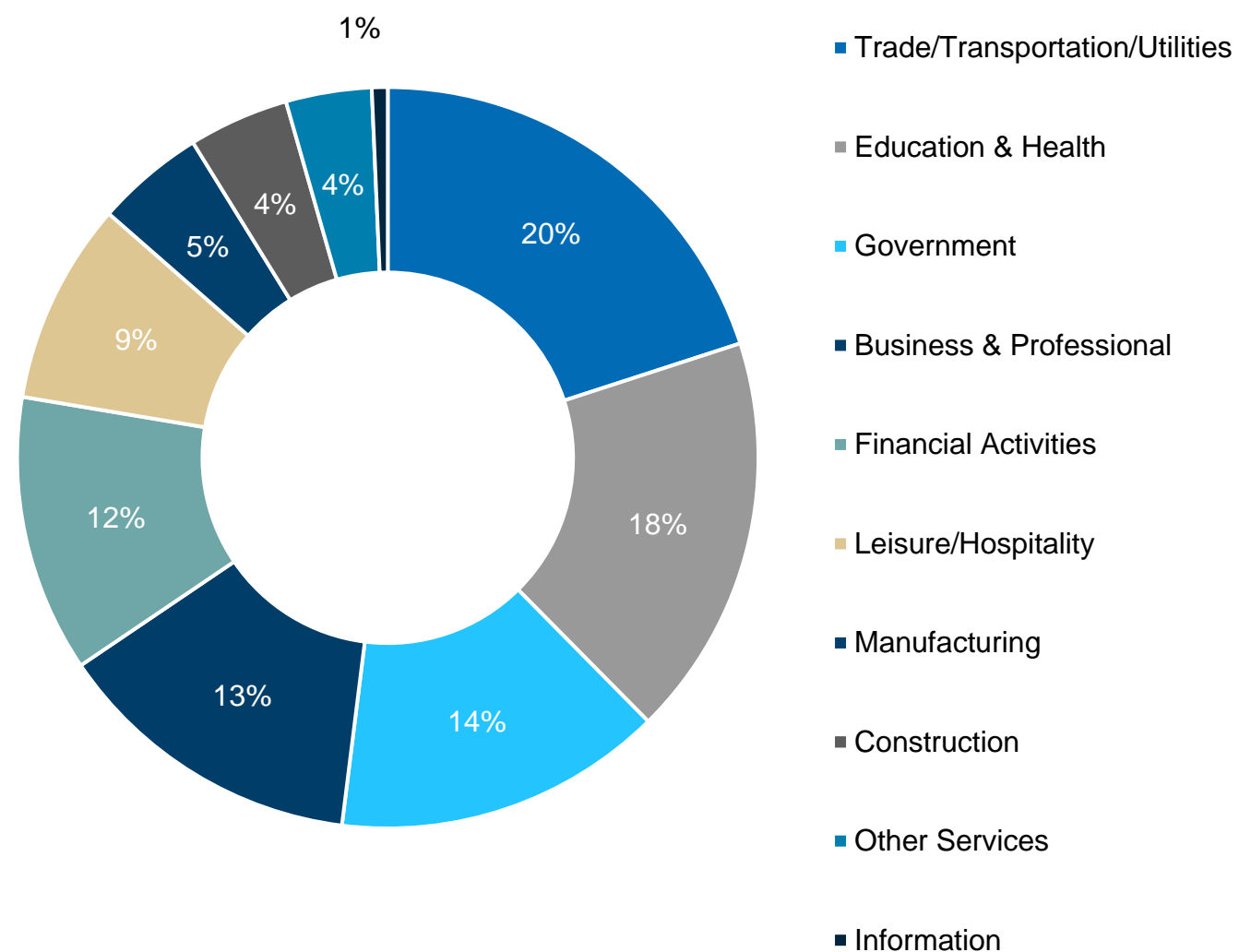


Source: U.S. Bureau of Labor Statistics, Wilmington MSA

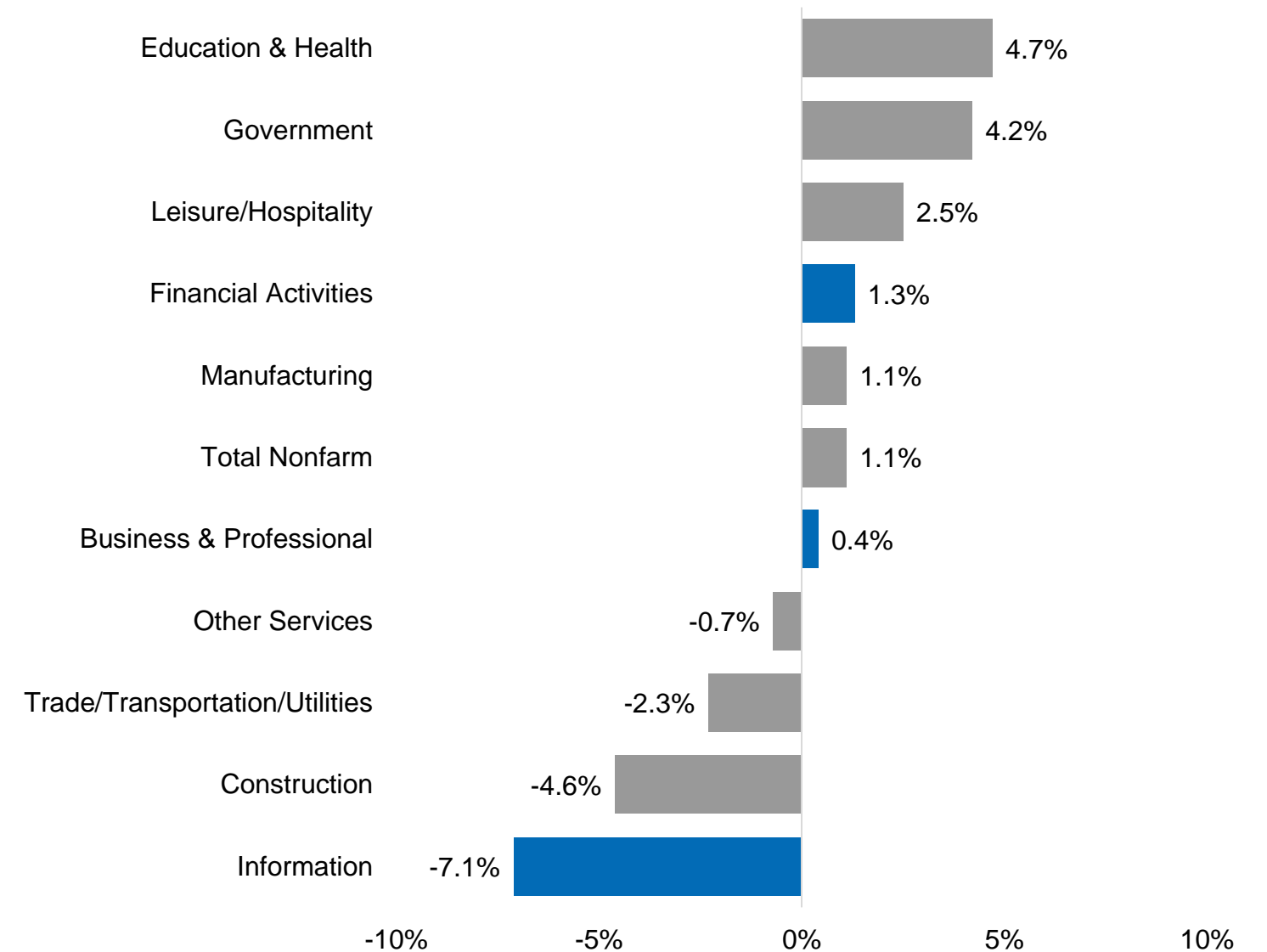
# Employment in Office-Using Industries Trends Slightly Higher

Annual employment growth was recorded in six of the ten primary industries in the Wilmington MSA, with two of three office-using sectors experiencing positive growth. Additionally, three of the four industries with negative annual growth are the smallest employers in the MSA in terms of total employment, so these job losses won't have dire consequences for Wilmington MSA's economy.

Employment by Industry, February 2024



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

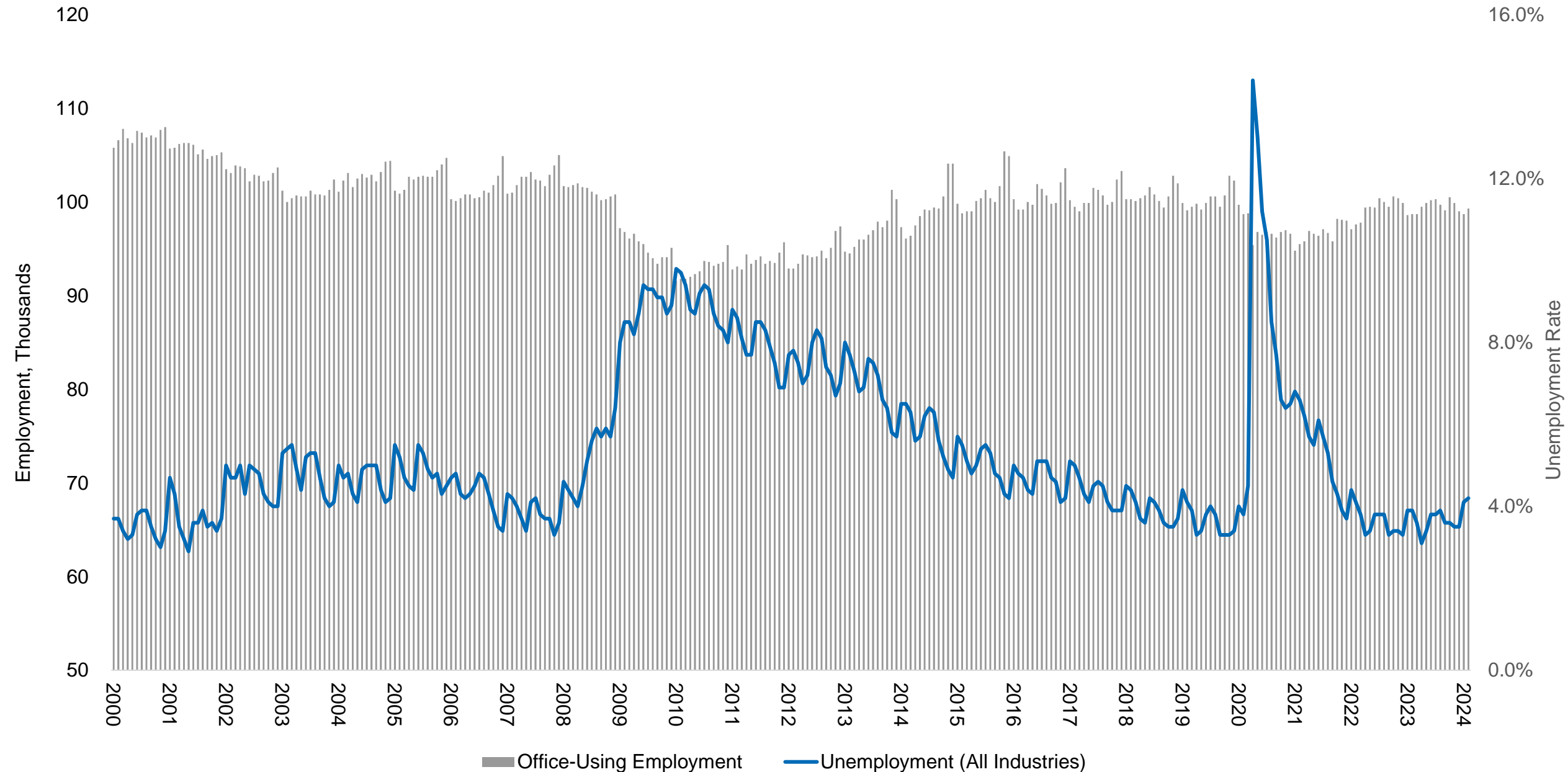


Source: U.S. Bureau of Labor Statistics, Wilmington MSA

# Overall Office-Using Employment Slowly Recovering

In January of 2024, office-using employment grew by 0.1%. While this is negligible growth, it did snap a six-month streak of negative annual growth in Wilmington's office-using industries. The following month, office-using employment grew 0.6% from the previous year, the highest reading since June of 2023. The Financial Activities sector drove office-using employment growth.

Office-Using Employment\* and Unemployment Across All Industries



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

Note: February 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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## Populations Growth is Occurring Away from the CBD

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## 2. Leasing Market Fundamentals

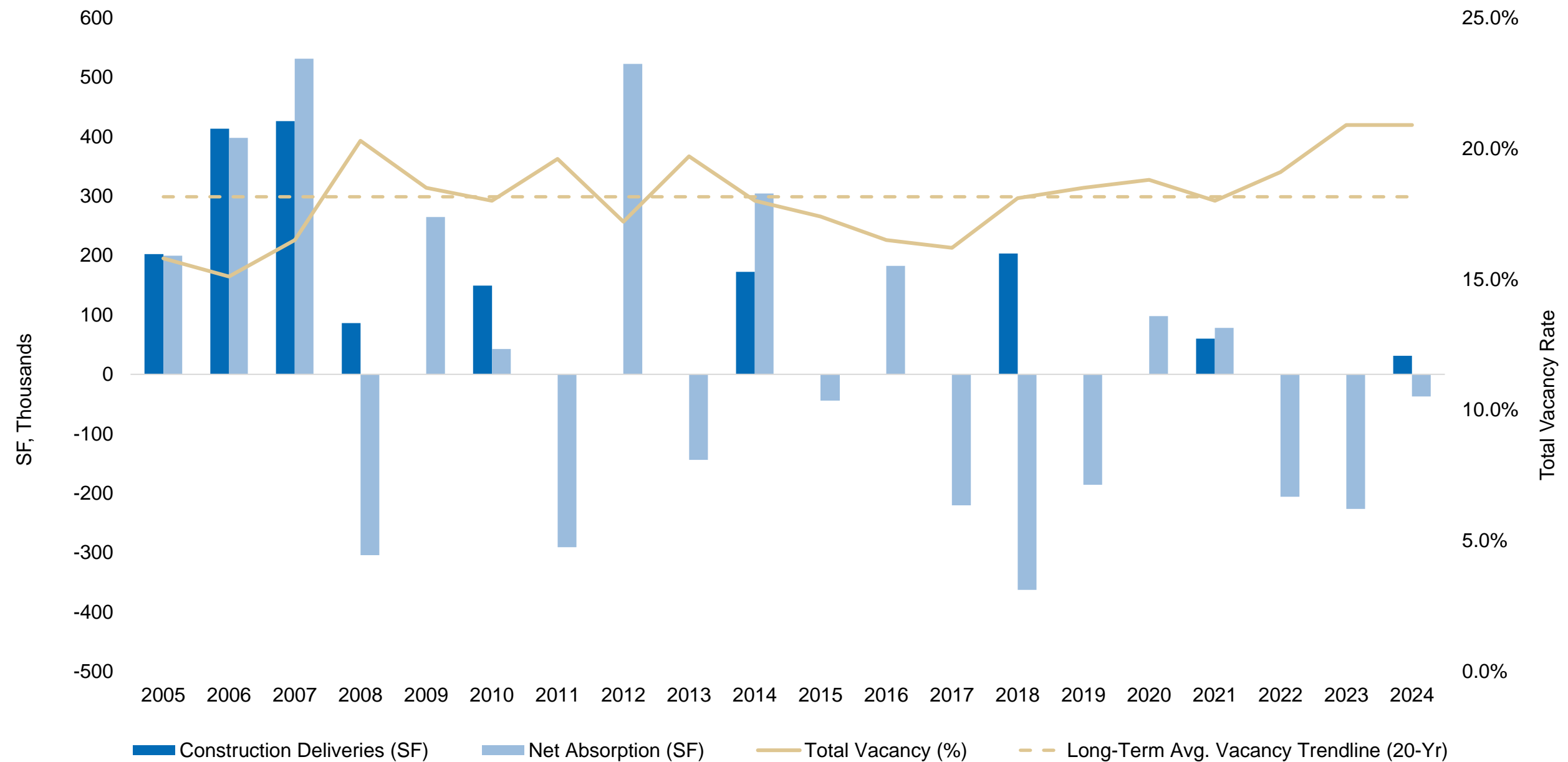




# Inventory Removal Stabilizes Market Vacancy

The State of Delaware's purchase of 704 N King Street removed a tremendous amount of vacant space from market inventory, thus stabilizing the vacancy rate at 20.9% despite -37,359 square feet of quarterly absorption. After a few years of occupancy losses, vacancy appears to be stabilizing in the Delaware office market. For the first three quarters of 2023, the vacancy rate stagnated at 21.3% and declined to 20.9% in the fourth quarter.

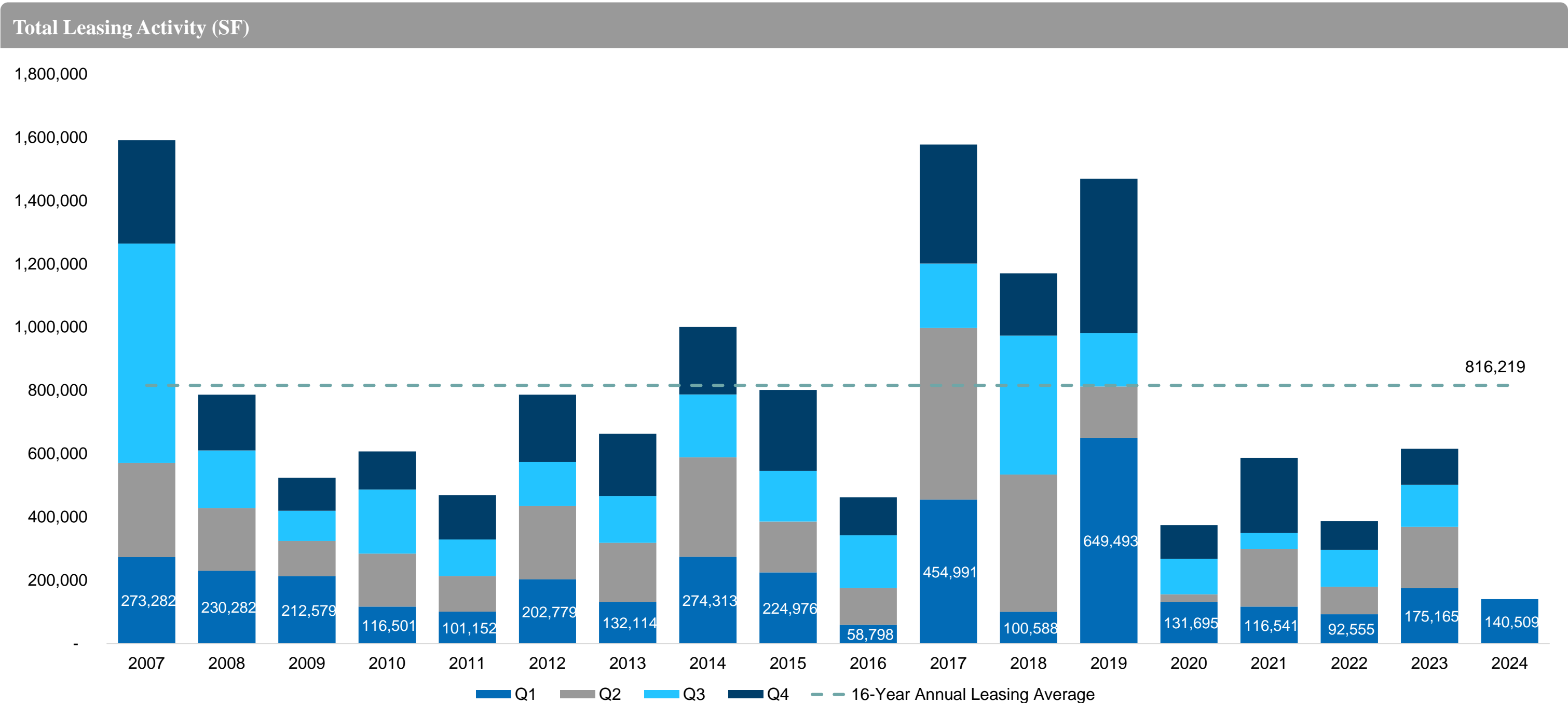
## Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research

# Leasing Activity Has Above Average Quarter

Morris James' prelease of Avenue North boosted the overall leasing volume to 140,509 square feet in the first quarter of 2024. Since 2020, leasing volume in the year's first quarter has averaged 131,293 square feet, and the average overall quarterly activity is 123,832 square feet.



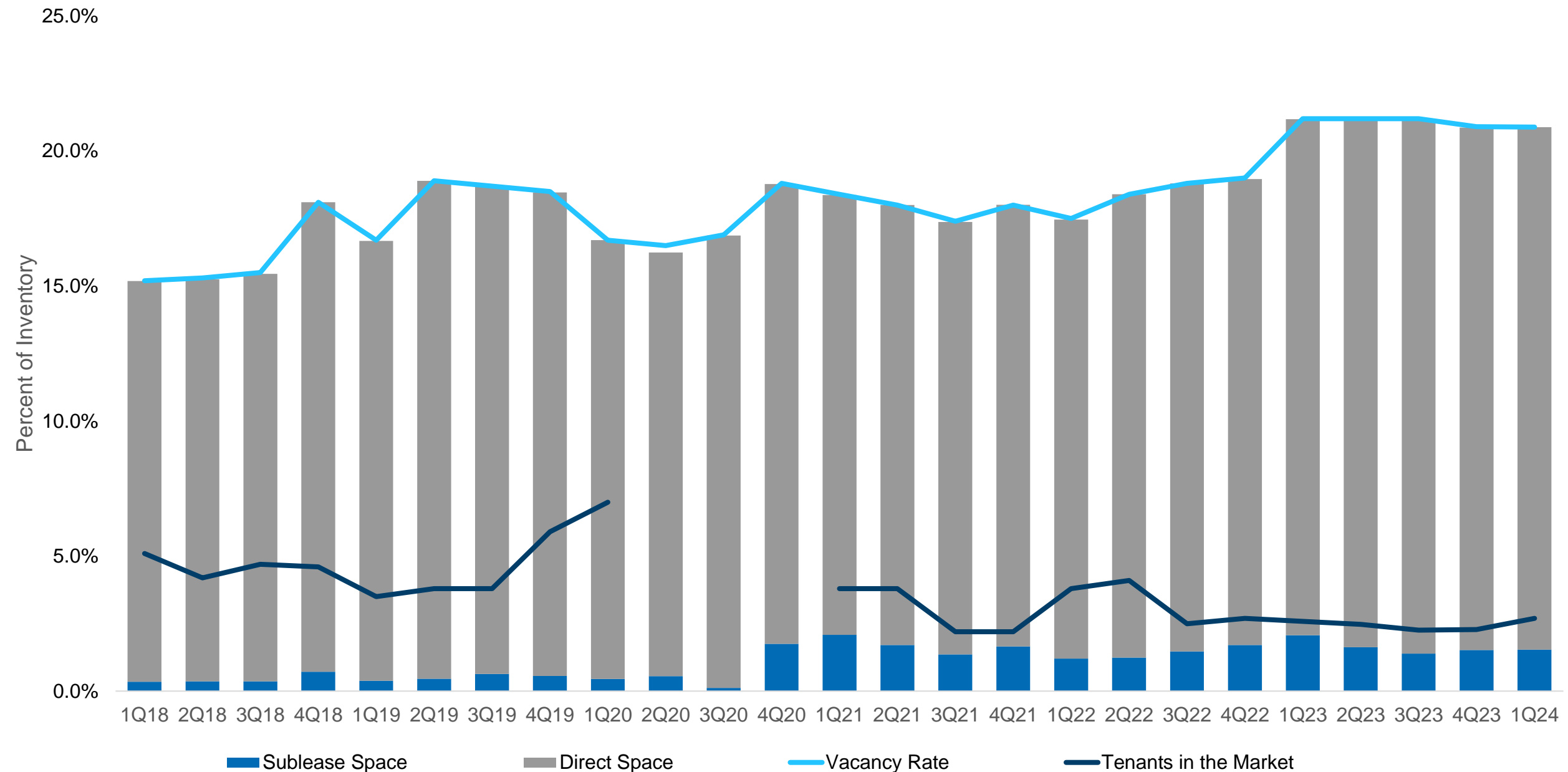
Source: Newmark Research, CoStar



# Expanding Government Entities Increase Space Demand

In the first quarter of 2024, expansion requirements from government-related entities significantly boosted overall demand in the Delaware office market. Total requirements accounted for 2.7% of the market's inventory, marking a quarter-over-quarter increase of 40 basis points—the highest level since the fourth quarter of 2022. While government requirements increased demand, legal entities remain the leading segment of market demand, comprising 35% of the total.

Available Space and Tenant Demand as Percent of Overall Market



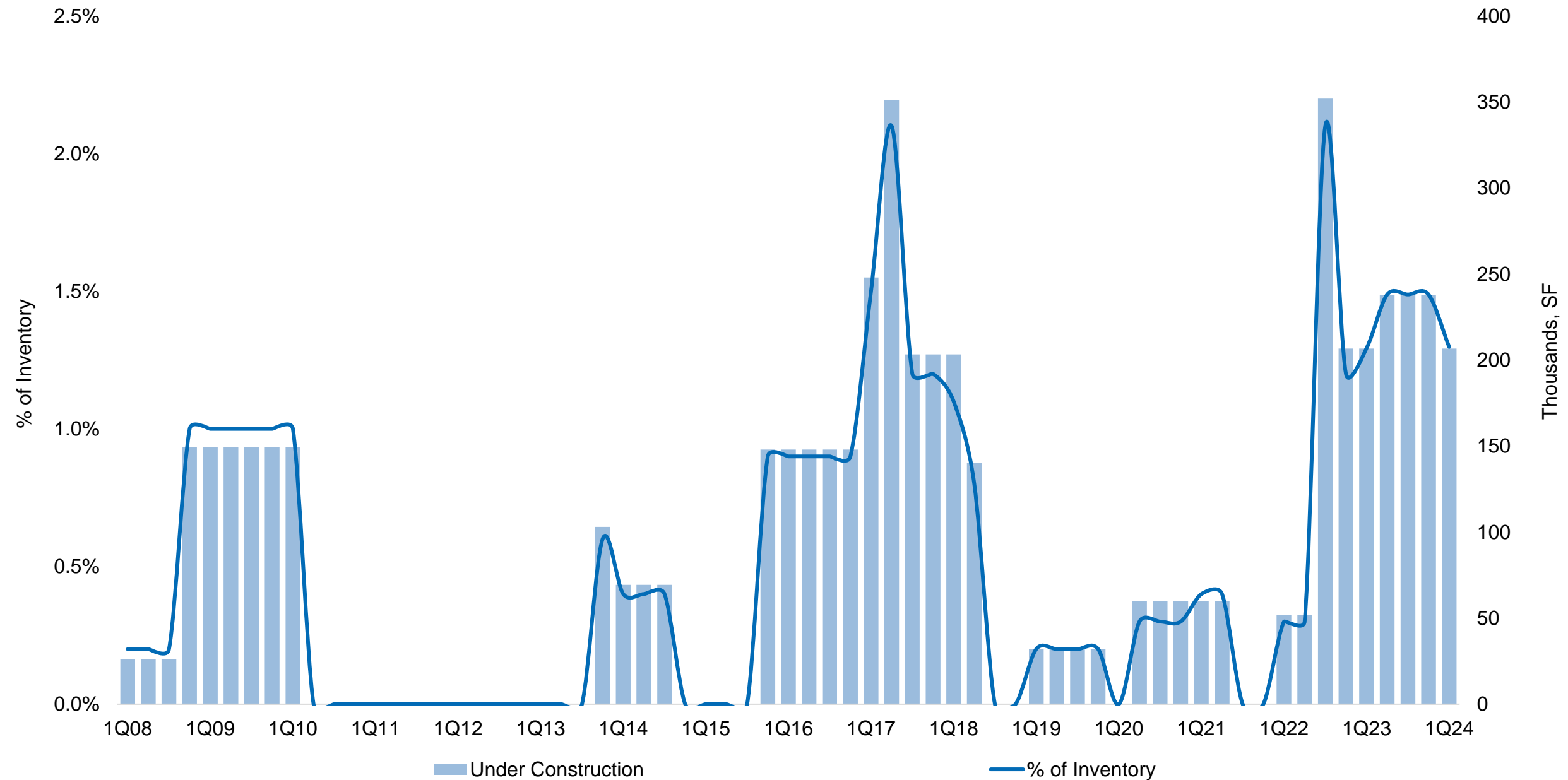
Source: Newmark Research

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

# Completion of 800 Creek View Road Shrinks Market's Pipeline

The delivery of 800 Creek View Road in Newark leaves Avenue North and the Walkers Mill Building as the only developments left in Delaware's construction pipeline. Upon completion, 800 Creek View Road was 75% leased, highlighting the more robust performance of newer vintage offices compared to the broader market. At the end of the first quarter of 2024, offices with a post-2000 vintage had a vacancy rate of 13.6%, 730 basis points less than the overall market.

## Office Under Construction and % of Inventory



Source: Newmark Research, CoStar

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## Modern Buildings Thrive in Market Downturn

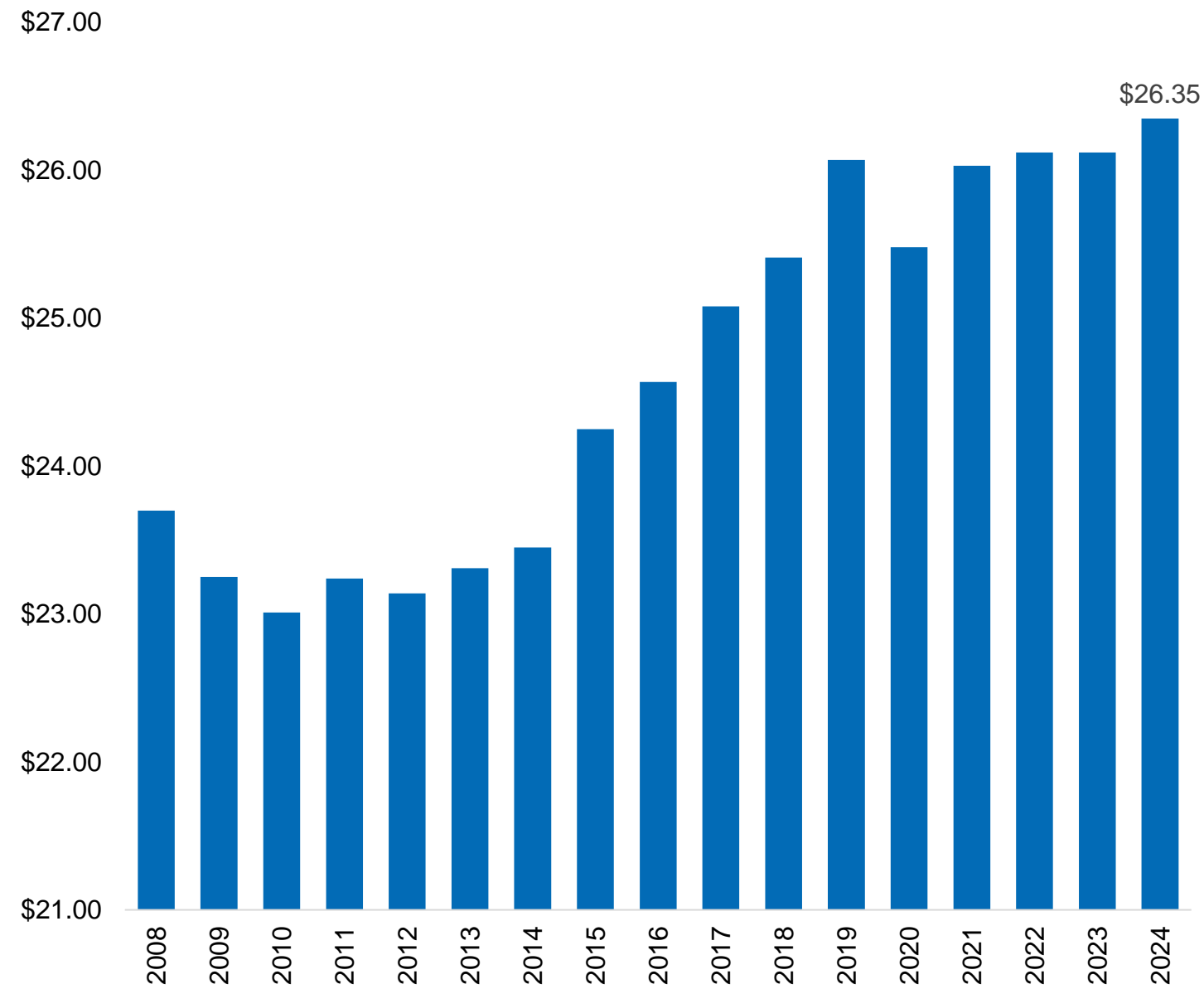
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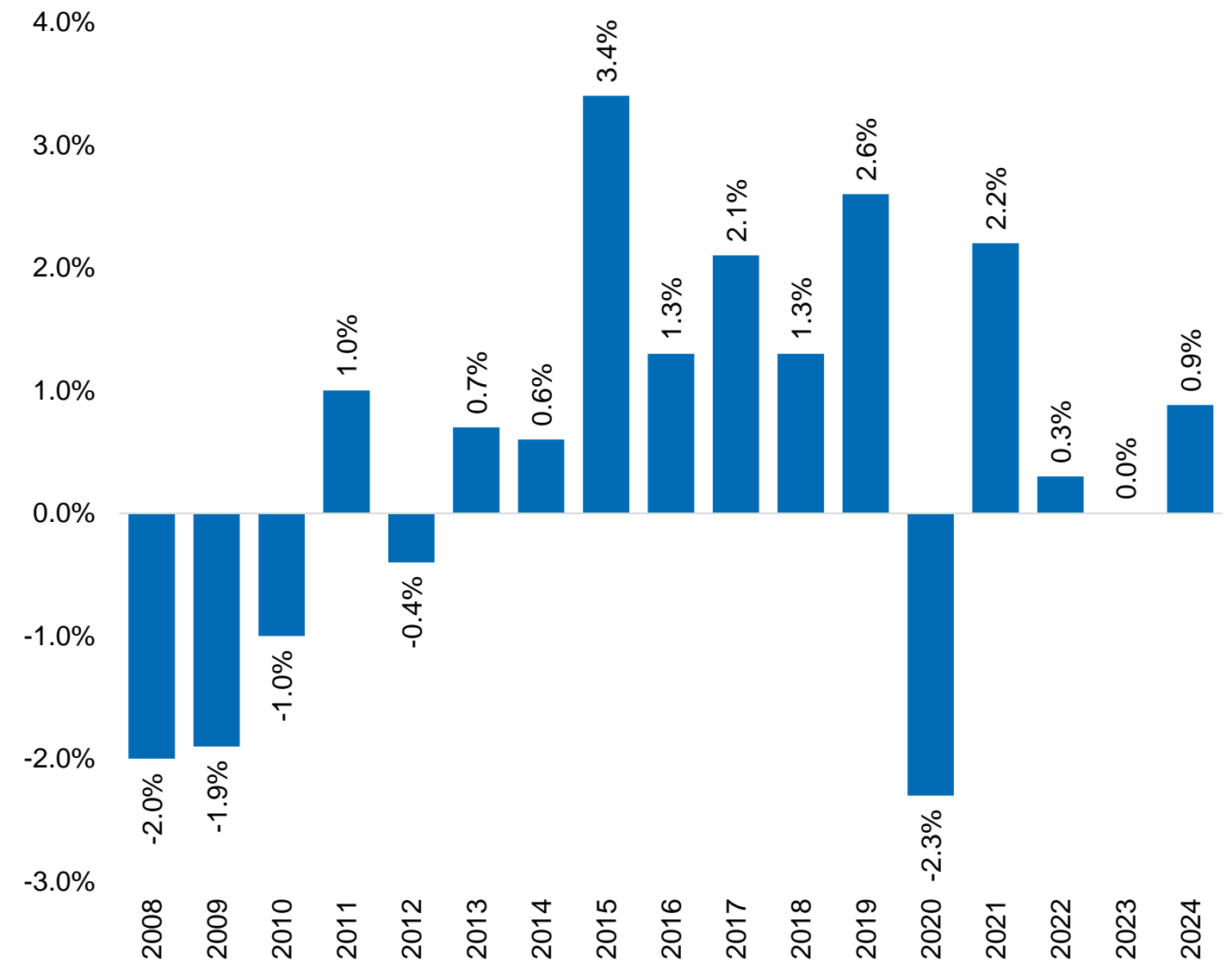
# Removal of Class C Product Improves Market Rents

One Custom House's subtraction from competitive inventory removed 87,000 square feet of less expensive Class C space from the market, resulting in notable growth in the Delaware market's average rent. As a result, the market's average rent rose to \$26.35/SF, marking a 0.9% increase from the end of 2023.

Office Average Asking Rent, \$/SF, FS



Year-over-Year Asking Rent Growth Rate

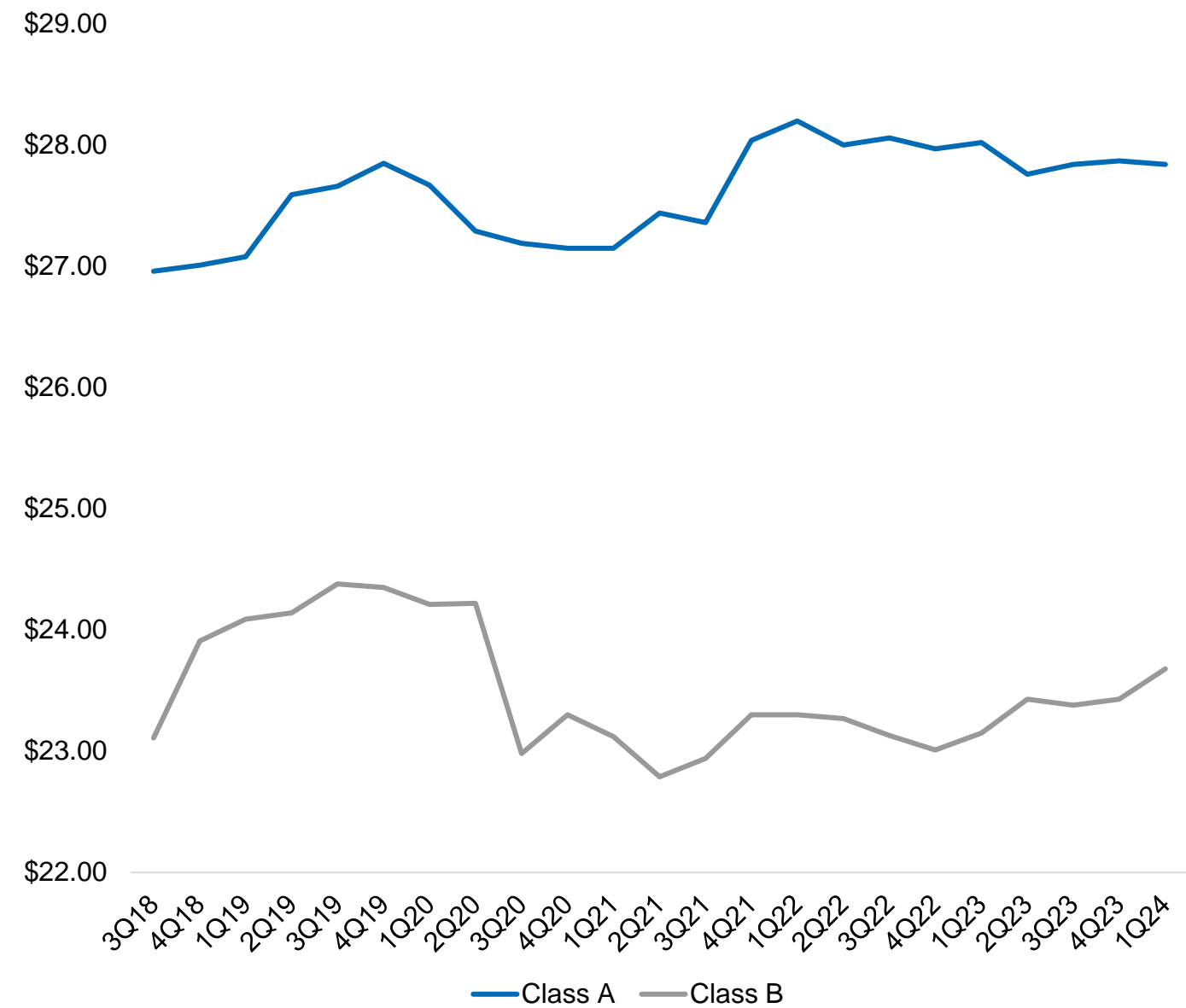


Source: Newmark Research, CoStar

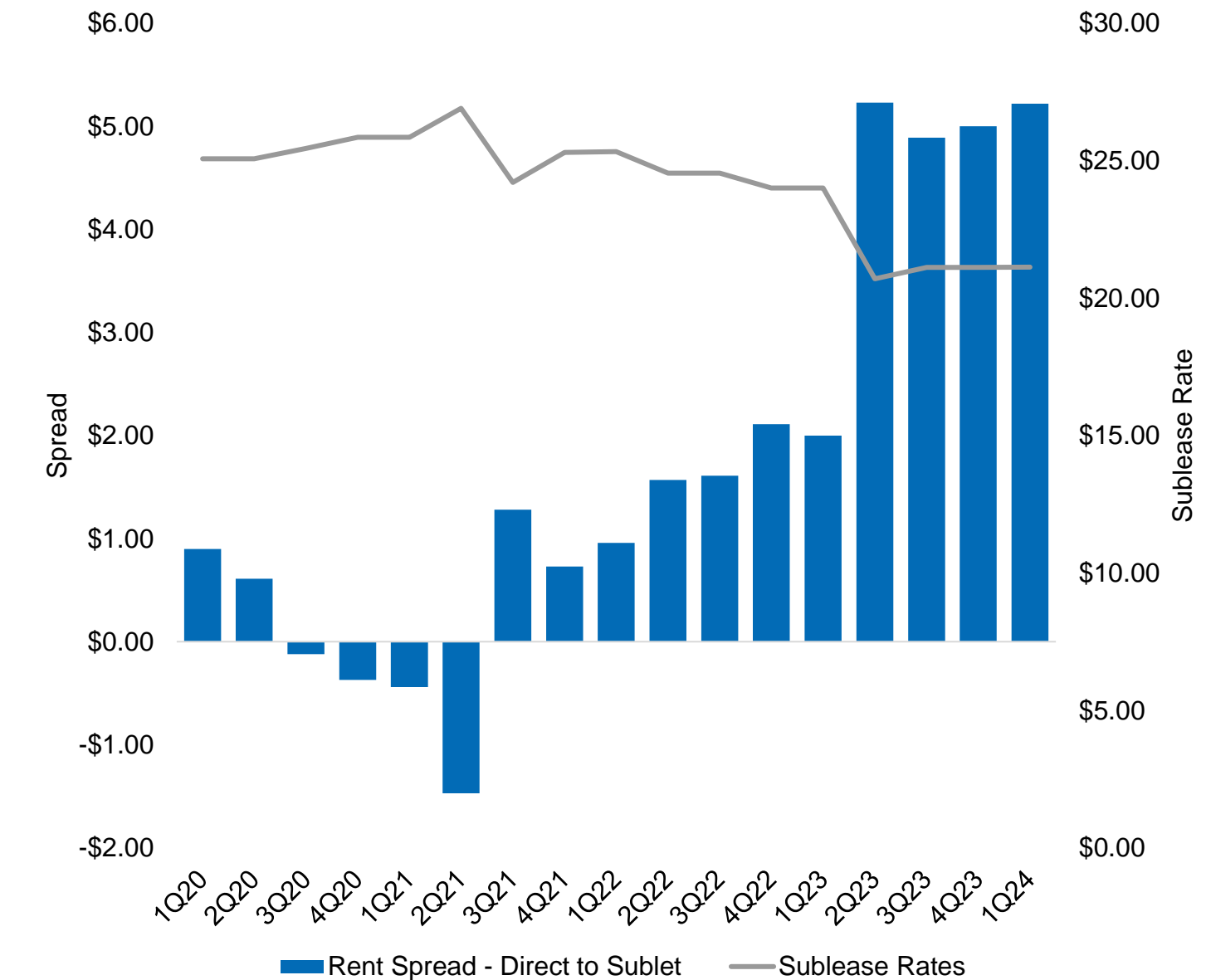
# Higher-Quality Class B Space Causes Class B Asking Rates to Grow

The influx of higher-quality, second-generation spaces in Wilmington North has prompted an increase in Class B properties' average rents. By the first quarter, these rates had risen to \$23.68/SF, a 1.1% increase from the preceding quarter. Despite this uptick, Class B rents have not yet rebounded to pre-pandemic levels, remaining 2.2% lower than the figures recorded in the first quarter of 2020.

**Class A and Class B Asking Rents**



**Sublease Rates**



Source: Newmark Research

# Morris James Headlines First Quarter Leasing Activity

Morris James' prelease of six floors at Avenue North is part of a larger trend of law firms downsizing and upgrading space in the Greater Philadelphia region. Its new lease marks a 28% reduction from its current footprint.

## Notable 1Q24 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Morris James	1800 Concord Pike	Wilmington North	Direct Lease	43,000
<i>The law firm is leaving its 60,000-square-foot office at 500 Delaware Avenue for the new tower in 2025</i>				
Citizens Bank, N.A.	111 Continental Drive	Wilmington South	Direct Lease	5,912
Halloran Farkas & Kittila LLP	5722 Kennett Pike	Wilmington North	Direct Lease	3,600



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## 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	6,956,186	27.2%	1,990,473	77,543	28.6%	16,881	\$26.36
Wilmington North	3,116,387	20.9%	671,367	46,291	21.5%	-23,792	\$28.83
Wilmington South	4,498,057	13.9%	927,258	301,408	20.6%	19,717	\$23.03
Wilmington West	1,359,888	11.9%	216,108	8,452	15.9%	-50,165	\$26.25
<b>Wilmington – Total</b>	<b>15,930,518</b>	<b>20.9%</b>	<b>3,805,206</b>	<b>433,694</b>	<b>23.9%</b>	<b>-37,359</b>	<b>\$26.35</b>

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# 1Q24 Wilmington CBD Overview

Please reach out to your  
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*For more information:*

**Carolyn Bates**

*Director*

*Mid-Atlantic Research*

carolyn.bates@nmrk.com

**Trae Hoffner**

*Research Analyst*

*Philadelphia Research*

trae.hoffner@nmrk.com

**Wilmington**

1521 Concord Pike, Ste 301

Wilmington, DE 19803

t 302-655-0600

**New York Headquarters**

125 Park Ave.

New York, NY 10017

t 212-372-2000

**[nmrk.com](http://nmrk.com)**

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