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2Q24

# Delaware Office Market Overview



**NEWMARK**

# Market Observations

## Economy

- Unemployment in the Wilmington MSA registered 3.7% as of May, 30 basis points below the national rate. Annual employment growth in May 2024 was 1.3%, a ten-basis-point increase from the month prior. While the Wilmington MSA's yearly employment growth dipped below the U.S. rate at the end of 2023, it has since ticked back up.
- For the 12 months ending in May, 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 the Leisure/Hospitality, Government and Education & Health sectors, which combined comprise 41% of the region's employment.
- Office-using employment grew by 1.2%, marking its strongest 12-month growth rate since the beginning of 2023. The uptick in office-using employment was driven by the region's Financial Activities and Professional & Business Services sectors, which recorded growth of 1.5% and 1.3%, respectively.

## Major Transactions

- Leasing activity during the second quarter was lighter than average, with few deals larger than 10,000 square feet. However, several prominent law firms extended leases in the 5,000-10,000 square foot range.
- Incyte purchased the Bracebridge I and III office buildings at 1100 N King Street and 1100 N French Street for owner occupancy, removing a substantial amount of vacant space from the CBD's inventory. This significantly improved the region's vacancy rate and caused a slight dip in asking rents.

## Leasing Market Fundamentals

- Incyte's purchase of Bracebridge I and III removed more than 500,000 square feet of vacant space from market inventory, thus reducing the vacancy rate by 270 basis points to 18.5% in the second quarter despite negative 7,038 square feet of net absorption year-to-date.
- The available space at Bracebridge I and III had been marketed at an asking rent of \$27.50/SF—above the market's average—and thus its removal also depressed the market's overall weighted average asking rental rate to \$25.69/SF, a decline of 0.7% from the prior quarter and 1.0% from a year ago.
- Nearly 100,000 square feet of leases were signed during the second quarter, putting the region behind the leasing pace at this time a year ago. Combined with the approximately 140,000 square feet of leasing in the first quarter, the region has registered approximately 240,000 square feet of leasing through the first half of 2024.

## Outlook

- After a few years of occupancy losses, vacancy appears to be stabilizing in the Delaware office market, helped along by the removal of vacant inventory via owner-occupier purchases.
- There were no office deliveries in the market during the second quarter, with Avenue North and the Walkers Mill Building being the only developments left in Delaware's construction pipeline. Avenue North is expected to deliver next quarter, while the Walkers Mill Building is slated to deliver in 2025. Both properties are more than 50% preleased, so will not contribute to any significant uptick in vacancy upon delivery.
- Modern offices built after the year 2000 are significantly outperforming the overall market. These contemporary spaces boast a vacancy rate of only 12.5%, a substantial 600 basis points lower than the market average, underscoring the strong demand for modern work environments and further evidenced by robust preleasing activity.

1. Economy
2. Leasing Market Fundamentals
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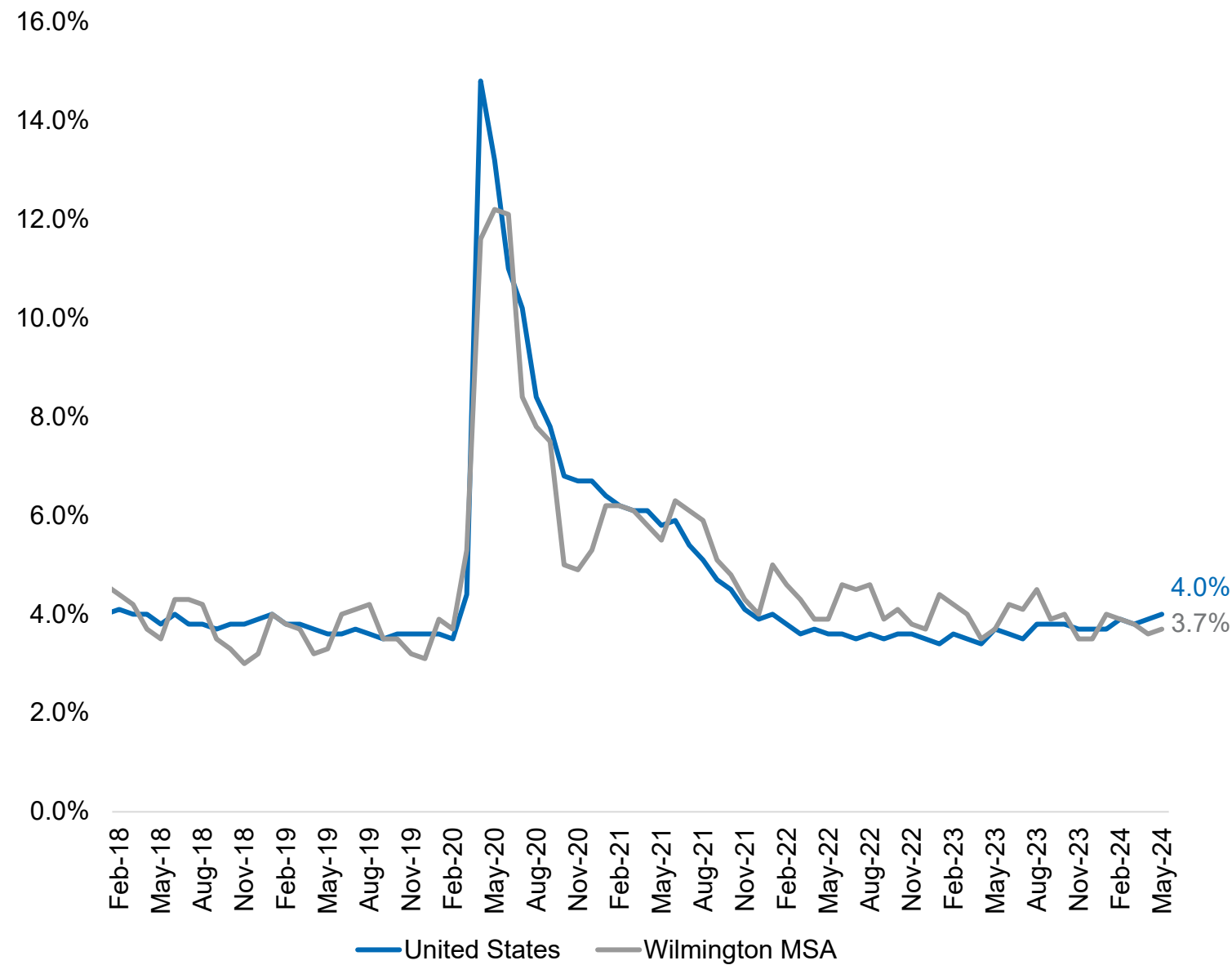
# 1. Economy



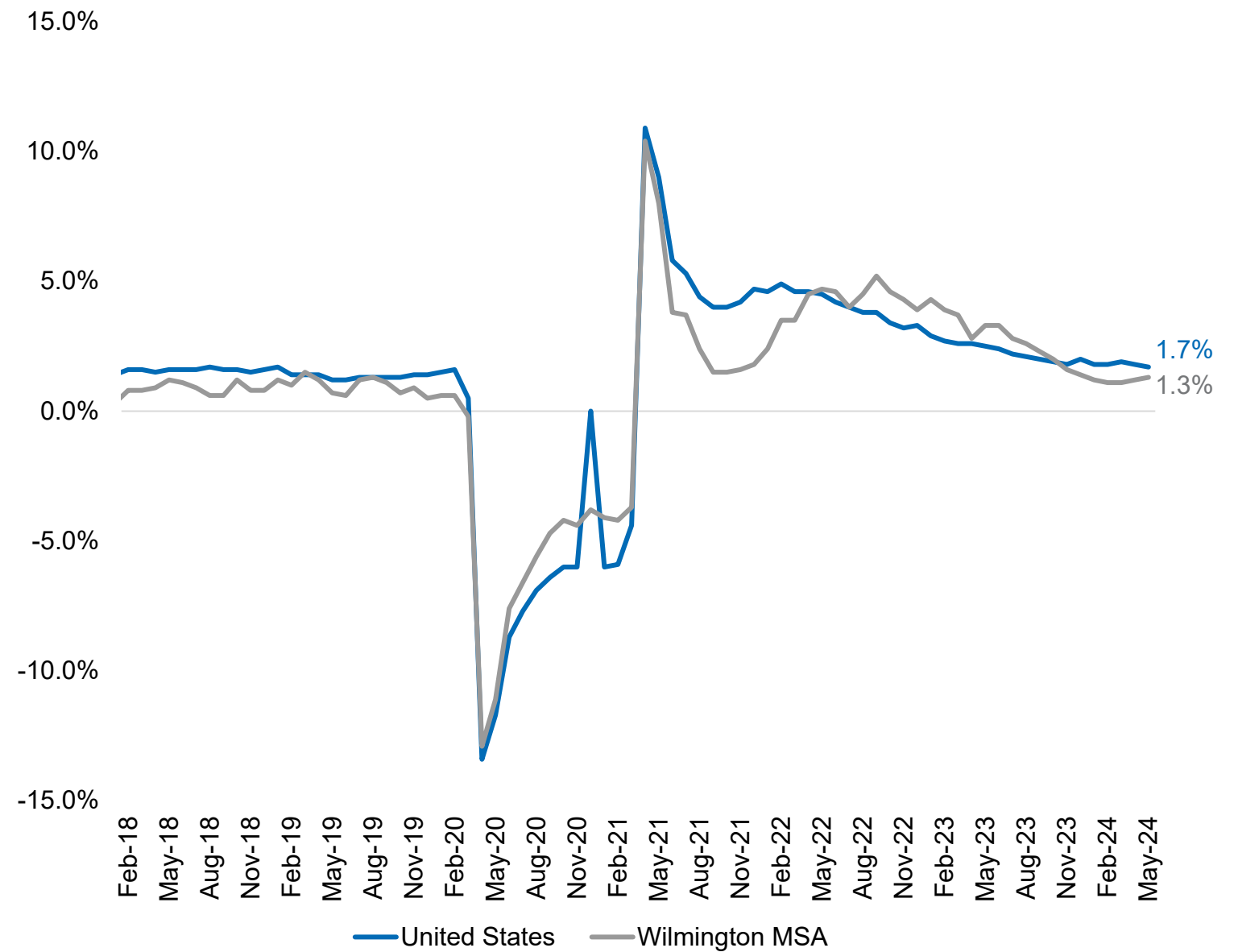
# Pace Of Employment Growth Moderates In the First Quarter of 2024

Unemployment in the Wilmington MSA registered 3.7% as of May, 30 basis points below the national rate. Annual employment growth in May 2024 was 1.3%, a ten-basis-point increase from the month prior. While the Wilmington MSA's annual employment growth dipped below the U.S. rate at the end of 2023, it has since ticked back up.

Unemployment Rate, Seasonally Adjusted



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



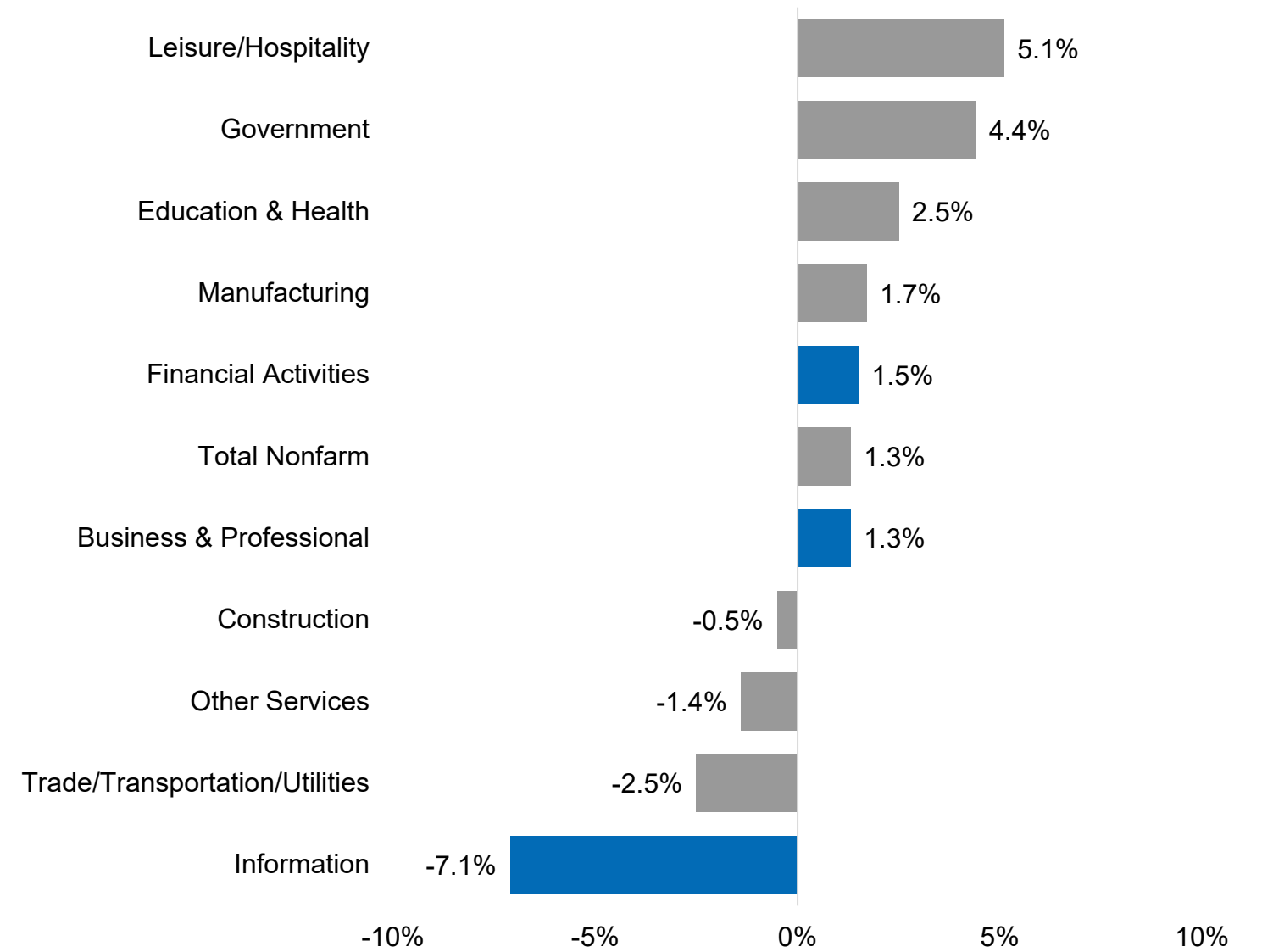
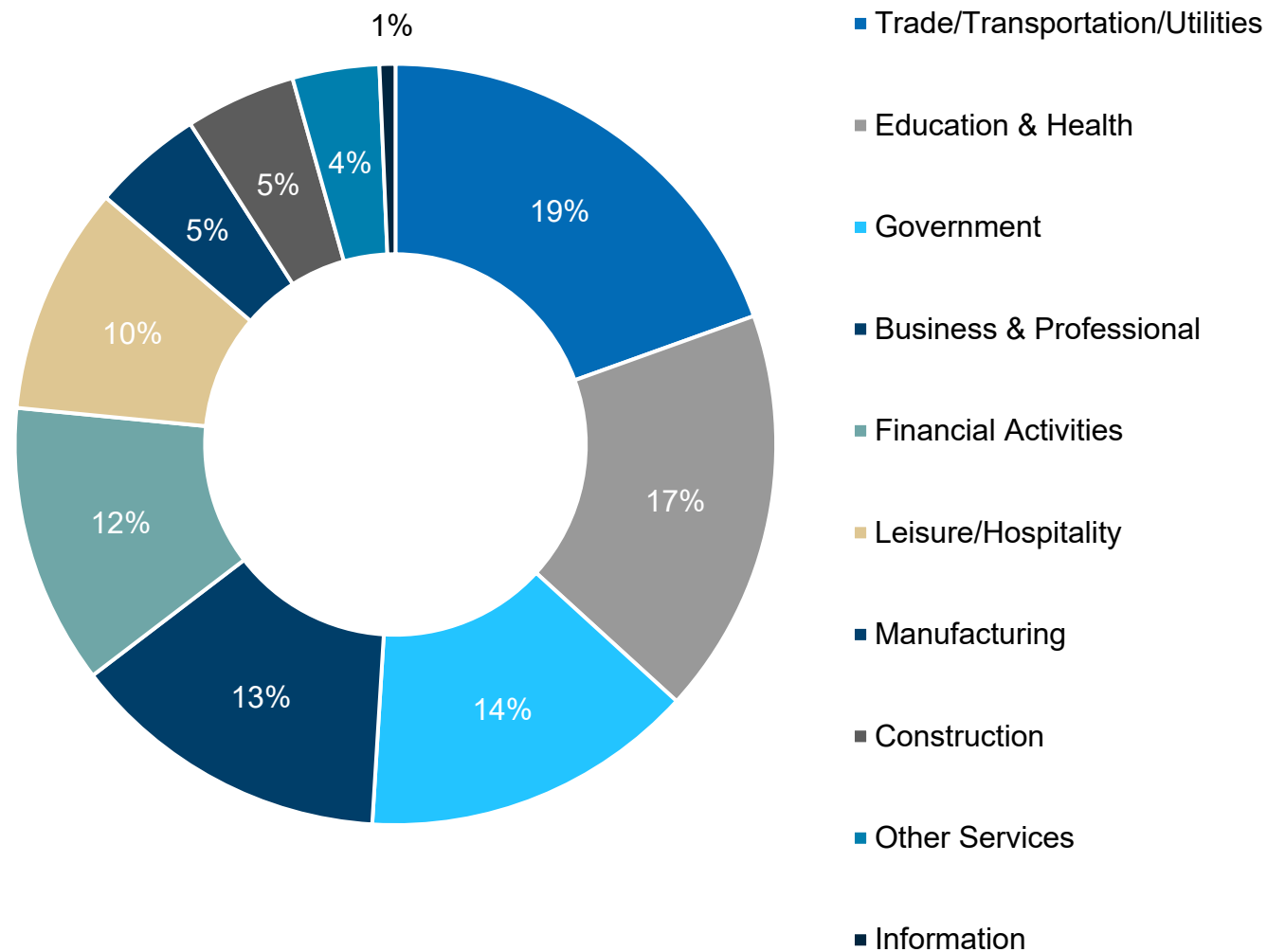
Source: U.S. Bureau of Labor Statistics, Wilmington MSA

# Employment In Office-Using Industries Trends Slightly Higher

For the 12 months ending in May, 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 the Leisure/Hospitality, Government and Education & Health sectors, which combined comprise 41% of the region's employment. While the Information sector experienced significant losses at -7.1%, it is the region's smallest industry, with only 1% of total employment.

Employment by Industry, May 2024

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

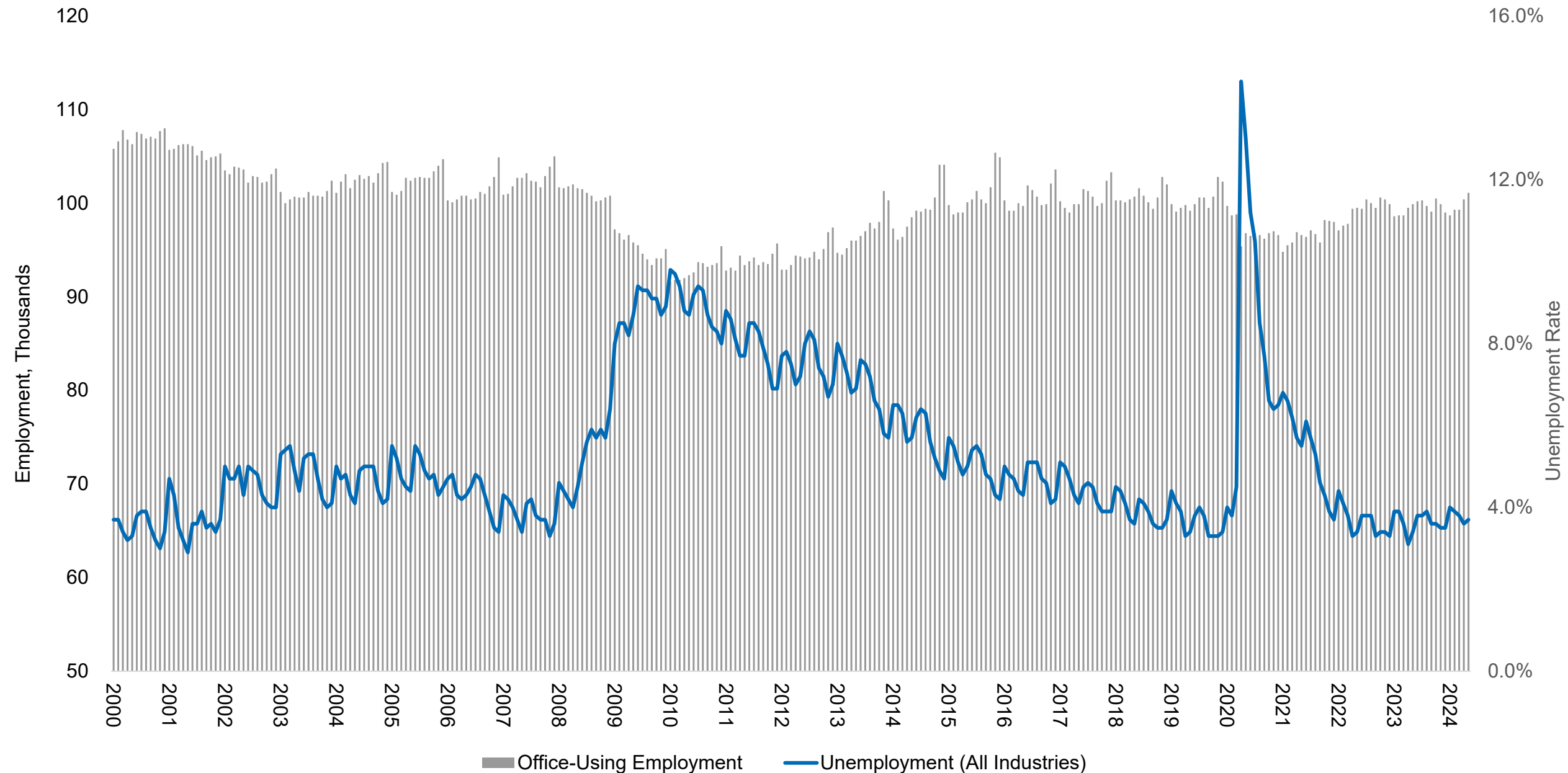


Source: U.S. Bureau of Labor Statistics, Wilmington MSA

# Overall Office-Using Employment Slowly Recovering

For the 12 months ending in May 2024, office-using employment grew by 1.2%, marking its strongest 12-month growth rate since the beginning of 2023. The uptick in office-using employment was driven by the region's Financial Activities and Professional & Business Services sectors, which recorded growth of 1.5% and 1.3%, respectively, over the past 12 months.

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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## 2. Leasing Market Fundamentals

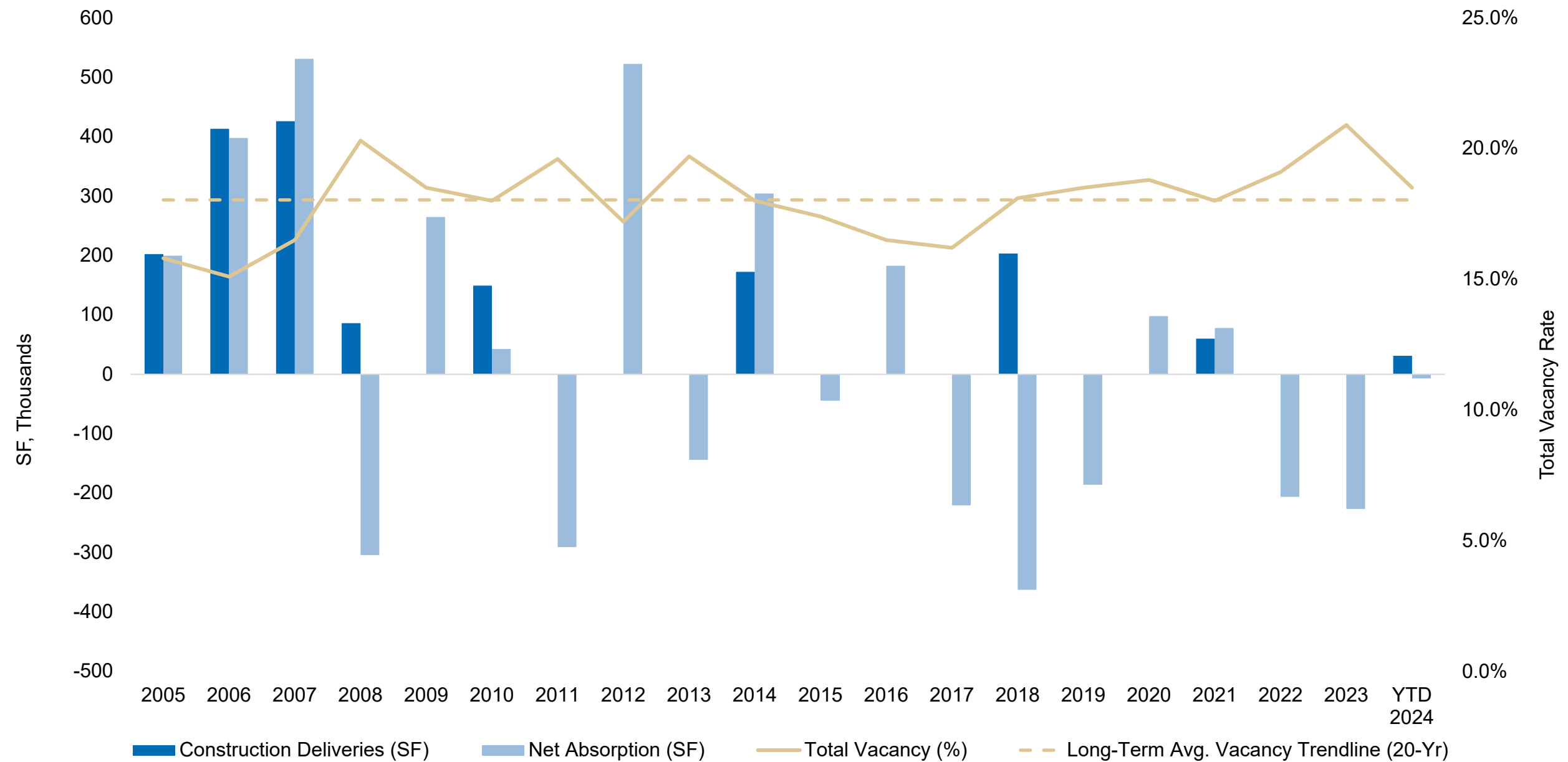




# Inventory Removal Stabilizes Market Vacancy

Incyte's purchase of Bracebridge I and III removed more than 500,000 square feet of vacant space from market inventory, thus reducing the vacancy rate to 18.5% in the second quarter despite negative 7,038 square feet of net absorption year-to-date. After a few years of occupancy losses, vacancy appears to be stabilizing in the Delaware office market, helped by the removal of vacant inventory via owner-occupier purchases.

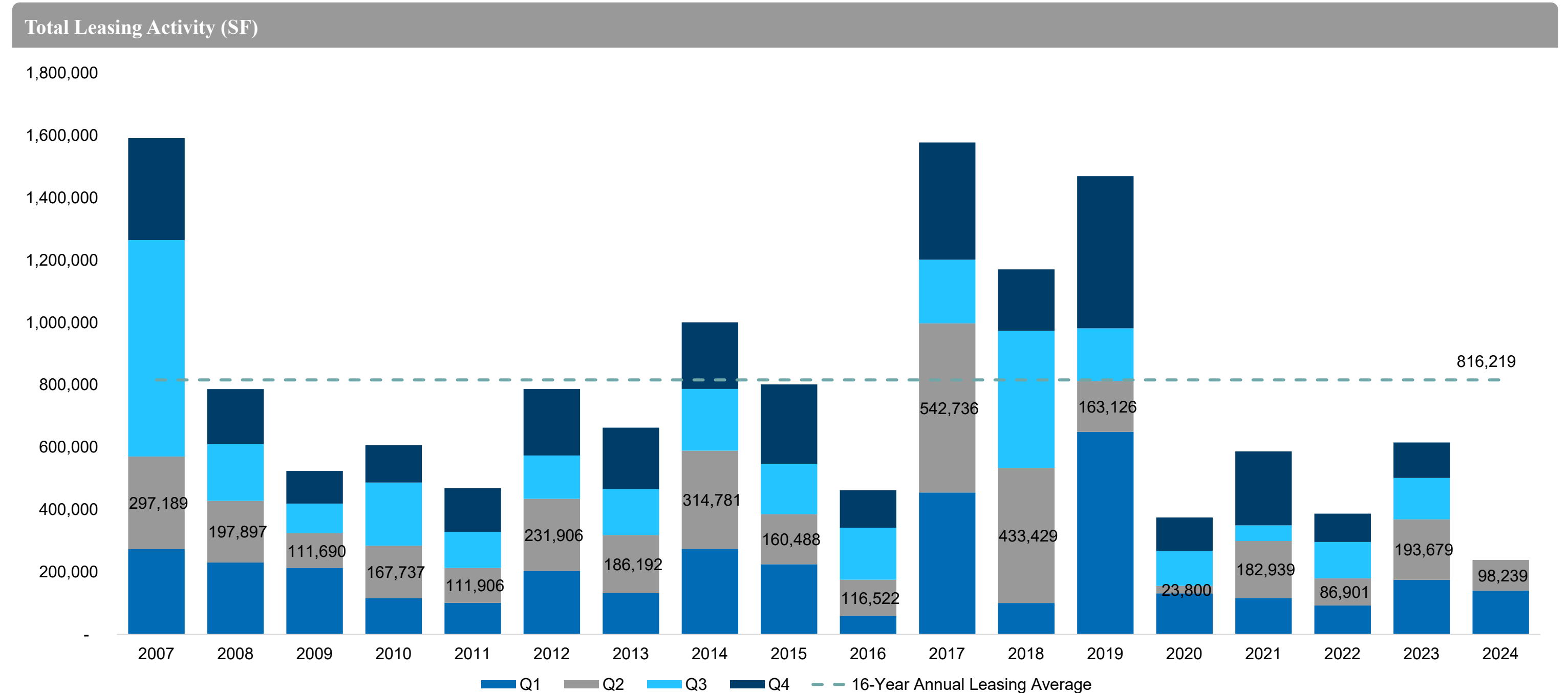
## Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research

# Leasing Activity Behind Last Year's Pace

Nearly 100,000 square feet of leases were signed during the second quarter, putting the region behind the leasing pace at this time a year ago. Combined with the approximately 140,000 square feet of leasing in the first quarter, the region has registered approximately 240,000 square feet of leasing through the first half of 2024.

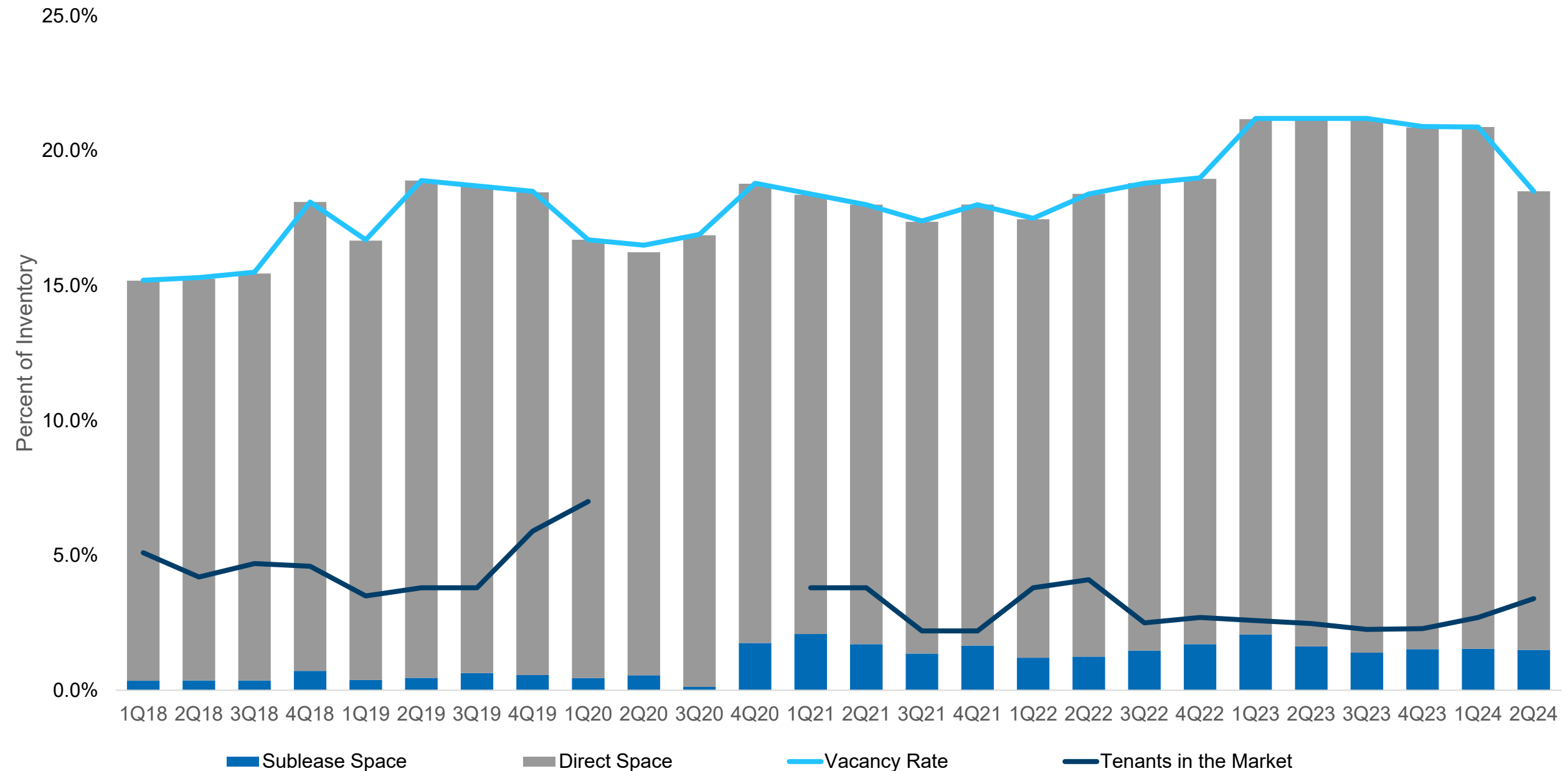


Source: Newmark Research, CoStar

# Expanding Government Entities Increase Space Demand

In the first half of 2024, expansion requirements from government-related entities significantly boosted overall demand in the Delaware office market. Total requirements accounted for 3.4% of the market's inventory, marking a 90-basis-point increase year over year and the highest level since the second quarter of 2022. While government requirements increased demand, legal entities remain the leading segment of market demand, comprising 30% of the total.

Available Space and Tenant Demand as Percent of Overall Market



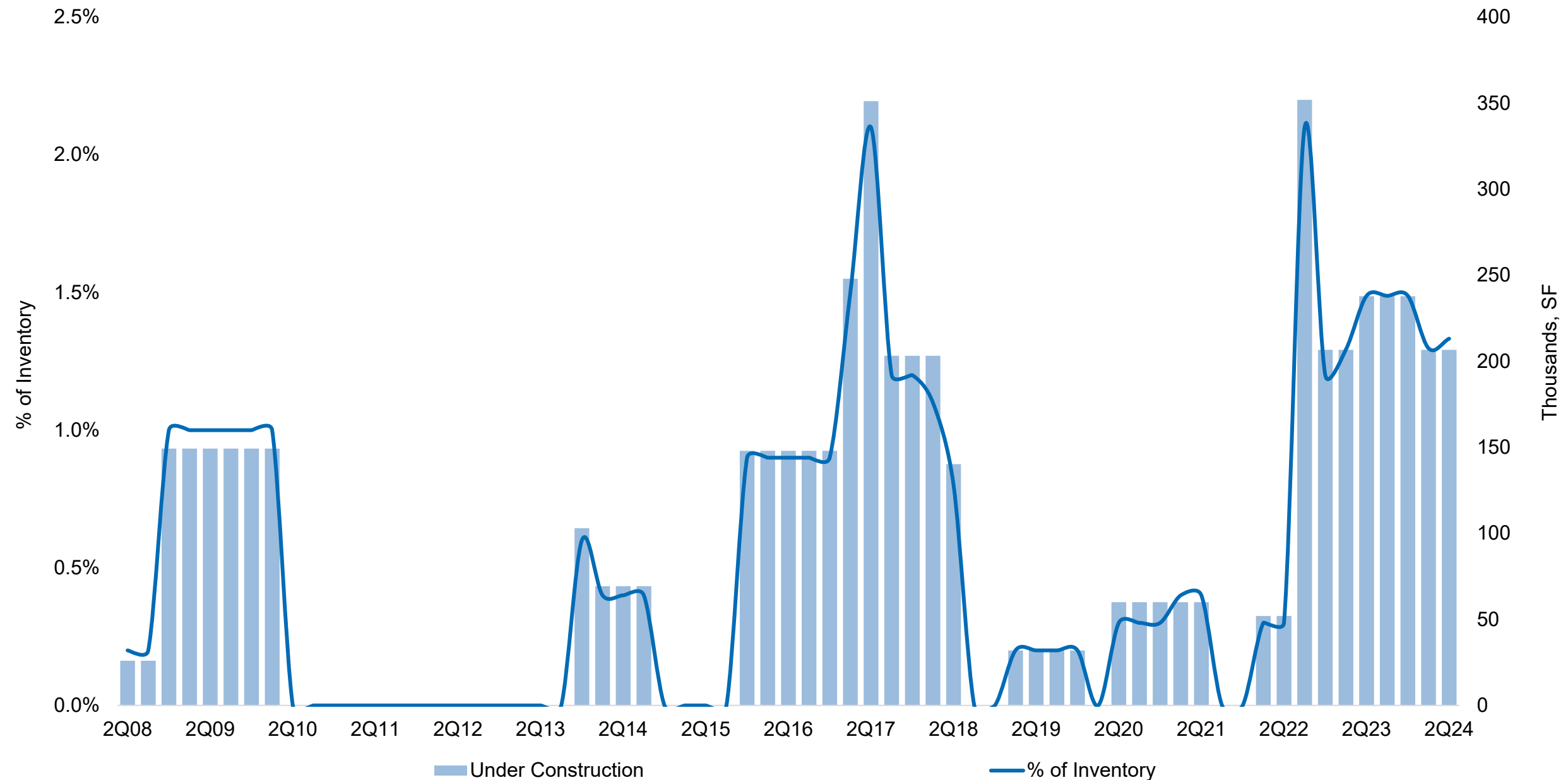
Source: Newmark Research

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

# Office Pipeline Remains Stable With No Deliveries During Second Quarter

There were no office deliveries in the market during the second quarter, with Avenue North and the Walkers Mill Building being the only developments left in Delaware's construction pipeline. Avenue North is expected to deliver next quarter while the Walkers Mill Building is slated for 2025. Both properties are more than 50% preleased, so they will not contribute to any significant uptick in vacancy upon delivery. The slight uptick in construction as a percent of inventory results from approximately 500,000 square feet removed from inventory during the quarter due to Incyte's owner/user purchase of Bracebridge I and III.

Office Under Construction and % of Inventory

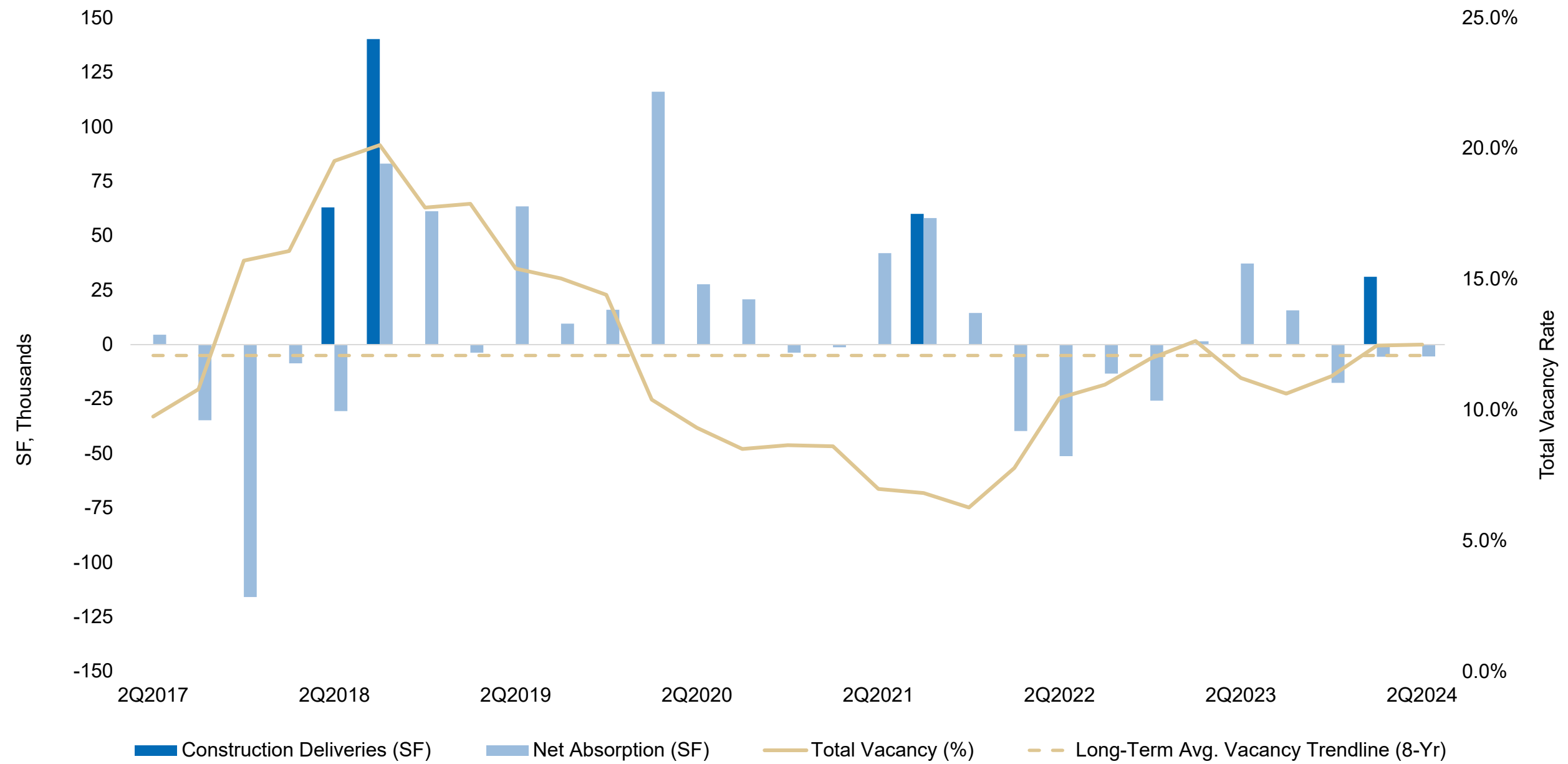


Source: Newmark Research, CoStar

# Modern Buildings Thrive In Market Downturn

Modern offices built after the year 2000 are significantly outperforming the overall market. These contemporary spaces boast a vacancy rate of only 12.5%, a substantial 600 basis points lower than the market average, underscoring the strong demand for modern work environments and further evidenced by robust preleasing activity. For instance, 800 Creek View Road, which delivered last quarter, was 75% leased upon completion. Furthermore, the lease of Morris James at Avenue North has resulted in only four floors remaining available in the developing tower. The high level of interest in the tower's available spaces suggests it may be fully leased upon completion in 2025.

Historical Construction Deliveries, Net Absorption, and Vacancy For Modern Buildings\*

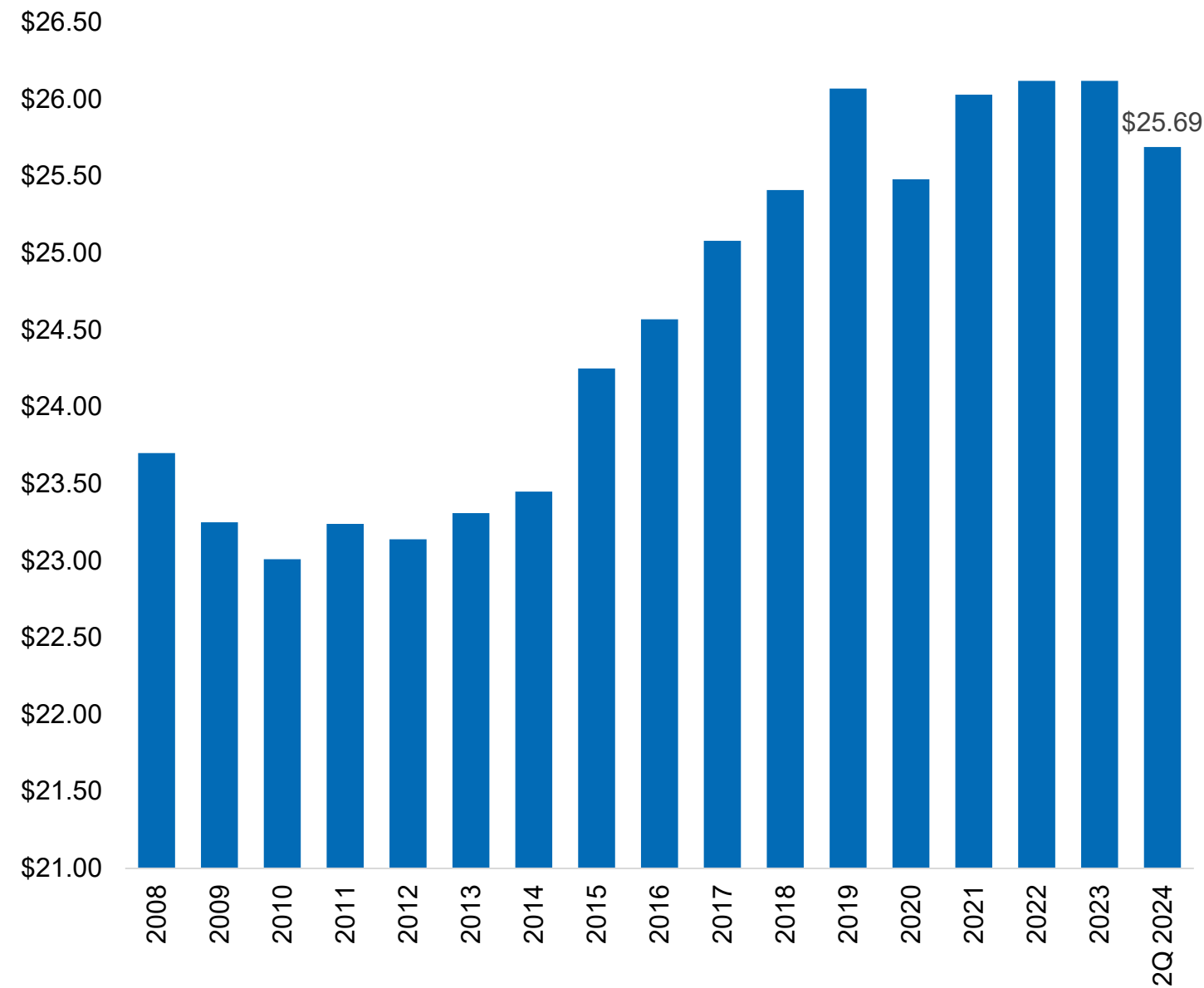


Source: Newmark Research  
 \*Modern buildings are all offices built in 21<sup>st</sup> century

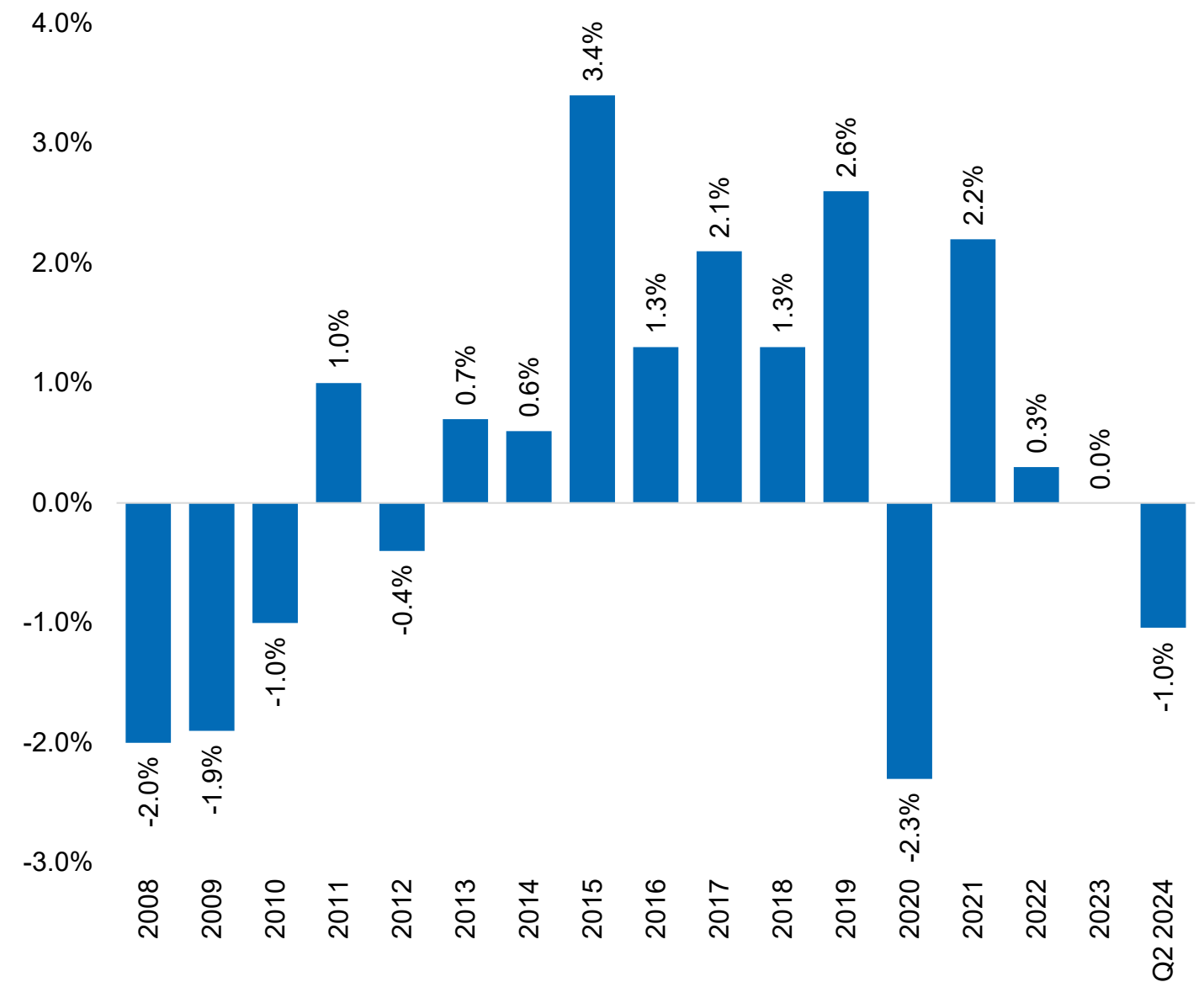
# Rents Decline With Removal Of Class A Inventory

The removal of Bracebridge I and III from competitive inventory removed approximately 500,000 square feet of vacant office space, significantly improving the market's overall vacancy rate. However, this space was offered at an asking rent of \$27.50/SF—above the market's average—and thus, its removal also depressed the market's overall average asking rental rate to \$25.69/SF, a decline of 0.7% from the prior quarter and 1.0% from a year ago.

Office Average Asking Rent, \$/SF, FS



Year-over-Year Asking Rent Growth Rate



Source: Newmark Research, CoStar

# Law Firms Dominate Second-Quarter Leasing Activity

Leasing activity during the second quarter was lighter than average, with few deals larger than 10,000 square feet. However, several prominent law firms extended leases in the 5,000-10,000 square foot range.

## Notable 2Q24 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
ATI Physical Therapy	4051 Ogletown Road	Wilmington South	Direct Lease	25,237
Robinson & Cole LLP	1201 N Market Street	Wilmington CBD	Lease Extension	7,516
Murphy & Landon, P.A.	1011 Center Road	Wilmington West	Lease Extension	6,924
Bernstein Litowitz Berger & Grossmann LLP	500 Delaware Avenue	Wilmington CBD	Lease Extension	6,923
Montgomery McCracken Walker & Rhoads, LLP	1105 N Market Street	Wilmington CBD	Lease Extension	5,968

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## 3. Appendix





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## Submarket Overview

Please reach out to your  
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## 2Q24 Wilmington CBD Overview

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