

WILMINGTON OFFICE MARKET

CHALLENGES AND OPPORTUNITIES ON WILMINGTON'S ROAD AHEAD

The Wilmington office market is no stranger to challenging conditions. It has been pockmarked in the past with major space withdrawals from advanced manufacturing and financial institutions, yet it has always (slowly but surely) recovered, thanks to an exceptional location in the Northeast Corridor, good office supply, and a strong pool of highly educated talent. However, the second quarter of 2019 proved particularly daunting for the Wilmington market, and for the Central Business District (CBD) specifically, as it dealt with the repercussions of the Bank of America retraction at Bracebridge I and III. As a result of the more than 500,000 square feet of negative absorption, vacancy in the CBD rose from 16.1% to nearly 23.0%. The rate is likely to rise higher in the coming years due to a planned retraction from Amtrak and Capital One's consolidation.

Market-wide, vacancy rose from 14.3% to 16.6%, a jump mitigated by positive absorption in each of the suburban submarkets. Over 70,000 SF of new occupancy was tallied in the suburban market, largely due to one significant occupancy: Connections CSP moved into 64,992 SF at 590 Naamans Road. At 12.3% vacancy and with little available prime office space, the suburban market remained tight in 2Q19.

In contrast, the CBD is now charting one of the highest vacancies of any office submarket in the Greater Philadelphia region. The last time Wilmington's CBD market witnessed vacancy at such heights was in 2015, following the retraction of Ashland Inc. from Hercules Plaza. Yet, over time the submarket rebounded due to a combination of organic demand growth and thoughtful repurposing of existing vacant office space into more community-enriching uses. This latter trend was well alive in the CBD in the second quarter. The office property at 1220 North Market Street was removed from statistical inventory following its sale to a Florida-based hotelier, Driftwood Hospitality Management. Benefitting from its designation in a Qualified Opportunity Zone, the office will undergo conversion into a hotel, joining the over 500,000 SF of new development in multifamily and hospitality underway in the CBD. The downtown is experiencing a real renaissance as a vibrant destination to visit – and in which to live – and it is likely that its quality office supply featuring competitively priced large-block availabilities will eventually attract more companies to participate in the popular live/work/play model.

CURRENT CONDITIONS

Wilmington CBD's vacancy rate jumped due to the long-foreseen Bank of America retraction at Bracebridge I and III.

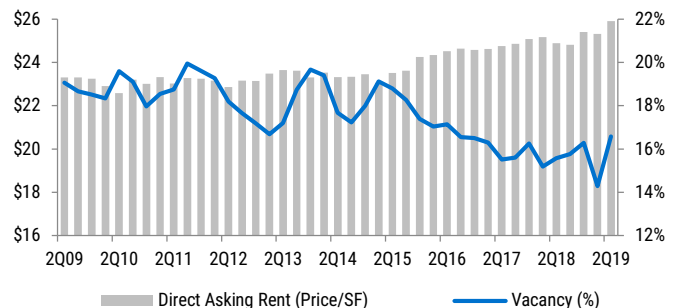
The largest move-in this quarter was Connections CSP, which occupied 64,992 SF at 590 Naamans Road.

1220 North Market Street was purchased for hotel conversion.

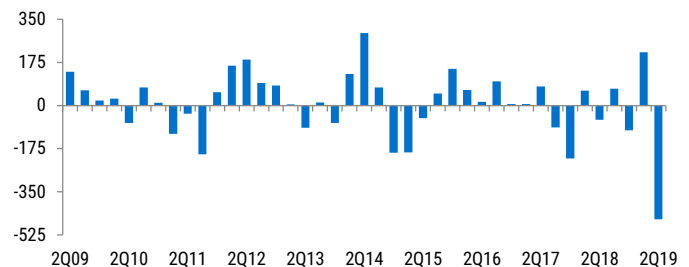
MARKET ANALYSIS

Asking Rent and Availability

Asking Rent and Vacancy



Net Absorption (SF, Thousands)



MARKET SUMMARY

	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory	18.0 MSF	18.1 MSF	18.2 MSF	↑
Vacancy Rate	16.6%	14.3%	15.6%	↑
Quarterly Net Absorption	-460,826	216,302	-57,128	↑
Average Asking Rent	\$25.90	\$25.31	\$24.89	↓
Under Construction	0.03 MSF	0.03 MSF	0.2 MSF	↓
Deliveries	0.0 MSF	0.0 MSF	0.14 MSF	↑

TRAFFIC WOES ON THE HORIZON

There is a real opportunity to underline the attractiveness of living and working in, and enjoying the amenities of downtown Wilmington now as accessibility concerns grow throughout the market, due to the looming I-95 viaduct project. In 2021, Delaware's Department of Transportation will commence a three-year-long \$200M infrastructure upgrade to a six-mile section of I-95, involving the closing of key exits along the corridor, inevitably causing major traffic disruption for commuters to not just the CBD, but to all travelling throughout the region. While this will ensure safer and more reliable travel in the future, just how much effect the active project will have on the overall office market remains a big question.

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	7,440,435	-	22.7 %	-531,547	-424,978	\$27.72	\$23.92	\$26.70
Wilmington North	3,592,100	-	9.5 %	45,777	88,131	\$30.00	\$25.37	\$28.29
Wilmington South	4,633,580	-	12.3 %	22,031	93,386	\$22.83	\$21.29	\$21.80
Wilmington West	2,375,371	32,000	16.5 %	2,913	-1,063	\$28.38	\$26.89	\$27.09
Delaware Market Area	18,041,486	32,000	16.6 %	-460,826	-244,524	\$27.35	\$24.16	\$25.90

DELAWARE SELECT LEASE TRANSACTIONS

Tenant	Building	Submarket	Type	Square Feet
Sallie Mae	90 Christiana Road	Wilmington South	Extension/Expansion	111,756
DSS Sustainable Solutions	4250 Lancaster Pike	Wilmington West	Direct	5,302
4C Health Solutions	3903 Centerville Road	Wilmington West	Direct	3,854
McCormick Taylor	220 Continental Drive	Wilmington South	Direct	3,596
Cross & Simon	1105 N Market Street	Wilmington CBD	Extension	3,283

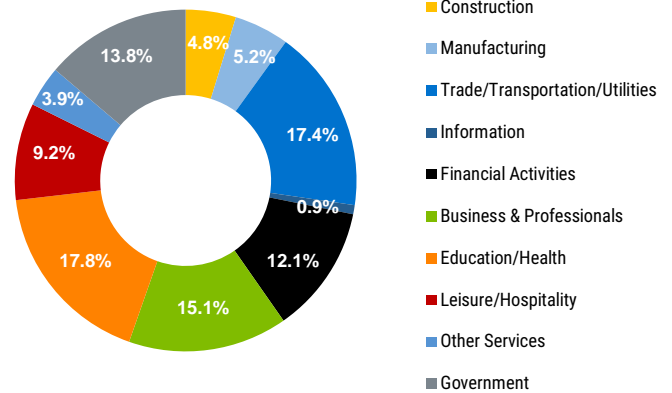
ECONOMIC CONDITIONS

The unemployment rate in the Wilmington Metropolitan Division dwindled each month so far in 2019 to a low of 3.1% as of April. While the region moves toward full employment, there were mixed announcements relating to jobs this quarter. Barclays made the decision to relocate 500 jobs from Wilmington to New Jersey, and on the other hand, M&T Bank announced a major hiring spree, to add 200 positions in Wilmington – notably, fintech positions. Hiring in this sector will likely help reverse the trend of losses in the Information industry sustained in the Wilmington Metro Division year-over-year.

Delaware's position as a legacy banking hub has it poised to succeed as an emerging fintech market. According to the recently released study by the University of Delaware, the Delaware Prosperity Partnership and the First State Fintech Lab entitled, "Delaware in a Fintech Future," Delaware has the highest relative concentration of financial services jobs of any U.S. state, and accounted for approximately 75% of all fintech investment in the Greater Philadelphia region in the past two years. This confluence is likely to benefit the growing subindustry locally as firms across the country compete for increasingly hard-to-find talent.

EMPLOYMENT BY INDUSTRY

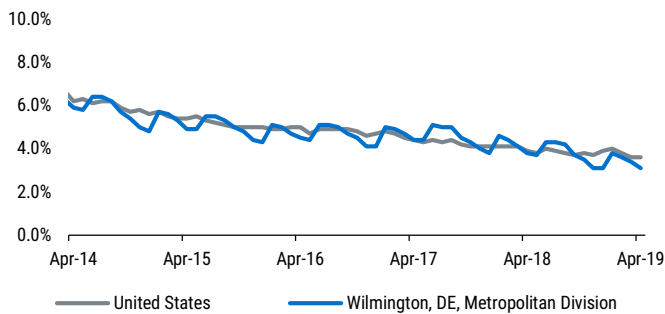
Wilmington, DE, Metropolitan Division, Annual Average 2018



Source: U.S. Bureau of Labor Statistics

UNEMPLOYMENT RATE

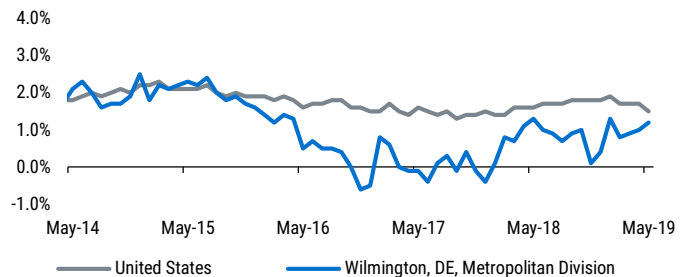
Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

PAYROLL EMPLOYMENT

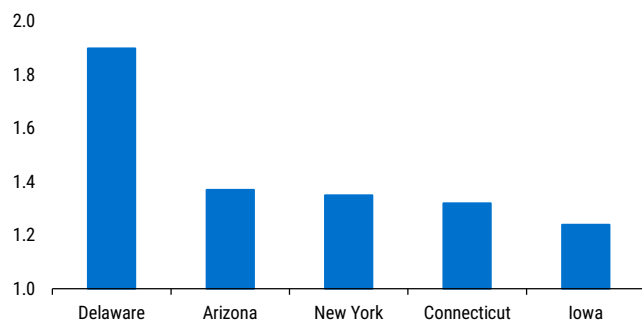
Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



Source: U.S. Bureau of Labor Statistics

FINANCIAL EMPLOYMENT CONCENTRATION

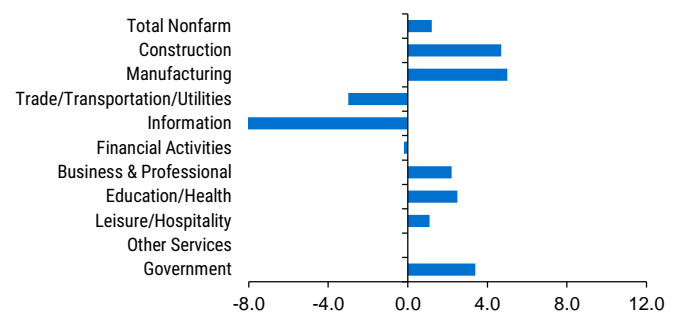
Ratio of Financial Jobs to Total Jobs, 2018 (U.S.=1)



Source: "Delaware in a Fintech Future", University of Delaware's Institute of Public Administration, the Delaware Prosperity Partnership, and the First State Fintech Lab

EMPLOYMENT GROWTH BY INDUSTRY

Wilmington, DE Metropolitan Division, May 2019, 12-Month % Change



Source: U.S. Bureau of Labor Statistics



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