

# WILMINGTON OFFICE MARKET

## BIG SUBURBAN MOVES MARK THIRD-QUARTER ACTIVITY

Wilmington's office market accumulated approximately 22,000 square feet in net positive absorption during the third quarter of 2019, a modest recovery from last quarter, which experienced the largest uptick in vacancy in more than a decade. Significant tenant relocations within the suburbs dominated market activity: Invista's A&AT spinoff occupied 25,752 square feet at One Little Falls in Wilmington West and in Wilmington South, CAI relocated to 32,521 square feet at 700 Prides Crossing in Wilmington South; Comcast's 150,000-square-foot, state-of-the-art call center opened at 400 Commerce Drive, also in Wilmington South, where they consolidated existing operations from 4008 North DuPont Highway and 300 North Wakefield Drive.

While these tenants successfully secured high-quality space, others with requirements in the suburbs have been stymied by a tight market over the past few years. Suburban vacancy dropped 220 basis points year-over-year to 12.5% and indeed, is tighter than the suburban Philadelphia market (14.1%) by a wide margin. However, there are now a handful of large block availabilities over 100,000 square feet in the market which should offer prospective suburban tenants some fresh options. And while not directly affecting the office inventory, Chemours' R&D space in Chestnut Run went on the market this quarter as the company gears up to move operations into the under-development Chemours Discovery Hub in Newark next year. This expansive R&D campus (over 400,000 square feet) will provide a unique opportunity in a market consistently strapped for available lab space. NKF Research is tracking several large occupiers with requirements spanning the CBD and suburban markets; where they land remains to be seen, but certainly there are now options in both markets.

In Wilmington's CBD, vacancy narrowed slightly to 22.4%, as Westside Family Health moved into 8,792 square feet at 300 Water Street, and 6,000 square feet of vacant space at the DuPont Building was converted into a fitness center, enriching the building's amenities base. Vacancy is likely to increase following Amtrak's withdrawal from the market this year, but the CBD has seen the worst of the waves of vacancies and is forecast to improve slightly in 2020.

Capital markets activity in the Wilmington office market has been heightened thus far in 2019. Year to date, \$114.6 million in office sales volume closed, already more than doubling 2018's annual volume. Transactions closed in the third quarter were especially notable for the

## CURRENT CONDITIONS

Market-wide vacancy dropped 10 basis points quarter-over-quarter to 16.6%.

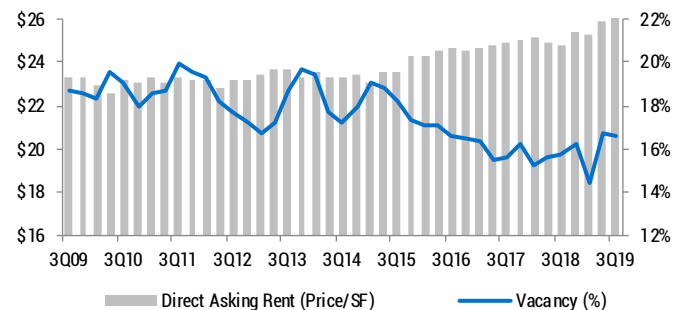
The largest move-in this quarter was Comcast's occupancy of the 150,000-square-foot 400 Commerce Drive.

Capital markets activity was heightened this quarter, with two cross-border investment sales closing.

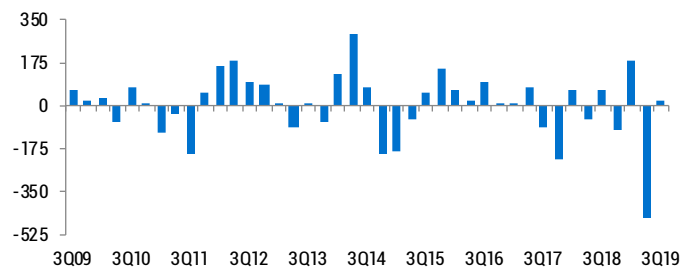
## MARKET ANALYSIS

### 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	18.0 MSF	18.4 MSF	↑
Vacancy Rate	16.6%	16.7%	15.8%	↑
Quarterly Net Absorption	21,548	-459,711	68,650	↓
Average Asking Rent	\$26.05	\$25.90	\$24.81	↔
Under Construction	0.03 MSF	0.03 MSF	0.0 MSF	↓
Deliveries	0.0 MSF	0.0 MSF	0.14 MSF	↑

investor makeup. Three office properties traded this quarter: 300 North Wakefield Drive, newly vacated by Comcast, 400 Commerce Drive, into which Comcast relocated, and Chemours' 283,000-square-foot office condo in the DuPont Building. The latter two sold to foreign-backed investors – an unprecedented dose of quarterly cross-border capital flowing into the Wilmington market. Both were single-tenant, net-lease investment vehicles, which are attractive to investors seeking strong additions to a portfolio with higher cap rates than major metro markets. Wilmington is undoubtedly a secondary market, but at this mature date in the cycle, it offers investors chasing yield the opportunity for value-add plays as well as safe bets such as single-tenant, net-lease office properties. With a number of properties marketed for sale or likely being launched soon, 2019's capital markets volume will likely grow further in the fourth quarter.

## 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	-	22.4 %	21,511	-403,467	\$27.71	\$23.84	\$26.68
Wilmington North	3,592,100	-	9.9 %	-13,011	75,120	\$30.47	\$25.55	\$28.73
Wilmington South	4,633,580	-	13.3 %	-20,376	41,060	\$22.84	\$21.98	\$22.25
Wilmington West	2,375,371	32,000	15.1 %	33,424	32,361	\$29.16	\$26.89	\$27.08
<b>Delaware Market Area</b>	<b>18,041,486</b>	<b>32,000</b>	<b>16.6 %</b>	<b>21,548</b>	<b>-254,926</b>	<b>\$27.44</b>	<b>\$24.39</b>	<b>\$26.05</b>

## DELAWARE SELECT SALE/LEASE TRANSACTIONS

Tenant/Buyer	Building	Submarket	Type	Square Feet
Arch Street Capital Advisors (Soor Capital)	DuPont Building	Wilmington CBD	Investment Sale	283,069
Trinova Real Estate	400 Commerce Drive	Wilmington South	Investment Sale	154,086
Lilycap	300 N. Wakefield Drive	Wilmington South	Investment Sale	115,664
Bayada Home Healthcare	4250 Lancaster Pike	Wilmington West	Direct Lease	21,178
Charles Schwab	4250 Lancaster Pike	Wilmington West	Renewal	7,500

## ECONOMIC CONDITIONS

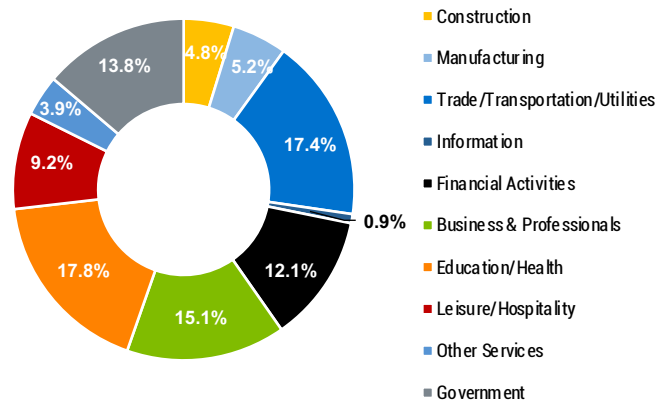
Preliminary numbers showed the Wilmington Metro Division's unemployment rate ticked up slightly in the third quarter to 3.9%, although job growth in New Castle County has been bright thus far in 2019. According to the latest U.S. Bureau of Labor Statistics figures, 289,803 people were employed in New Castle County in March 2019, a year-over-year gain of 1.2%.

As the job market has been doing well, so has the region's multifamily market. Multifamily development has boomed in New Castle County over the past few years, providing fresh new residential options to a long-underserved market. Since 2010, 5,000 new units have delivered, and vacancy in the third quarter was 5.0%; the market has not seen negative absorption since 2011. Year to date, approximately 450 apartment units have been absorbed, and recent historical velocity bodes well for the 700-plus units under construction across the county.

As job growth in the region continues, new, available multifamily product may compel more commuters to explore options closer to their place of employment.

## EMPLOYMENT BY INDUSTRY

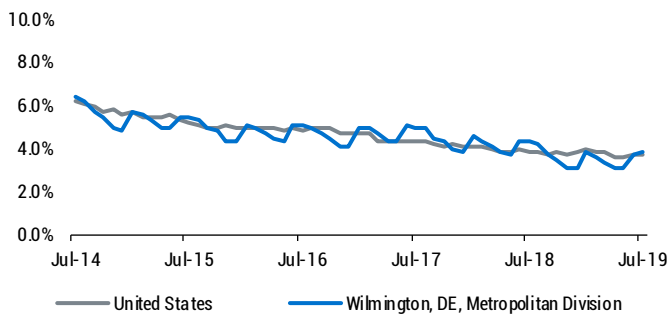
Wilmington, DE, Metropolitan Division, Annual Average 2018



Source: U.S. Bureau of Labor Statistics

## UNEMPLOYMENT RATE

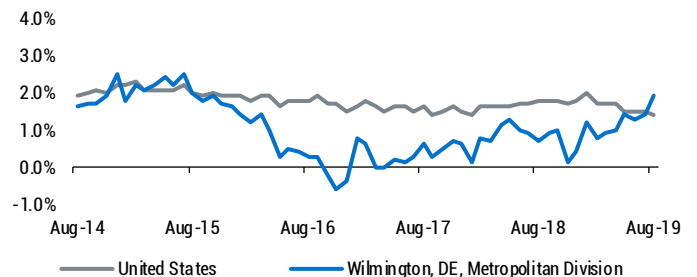
Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

## PAYROLL EMPLOYMENT

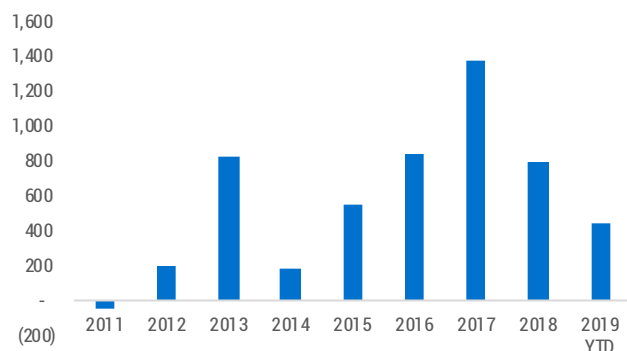
Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



Source: U.S. Bureau of Labor Statistics

## MULTIFAMILY ABSORPTION

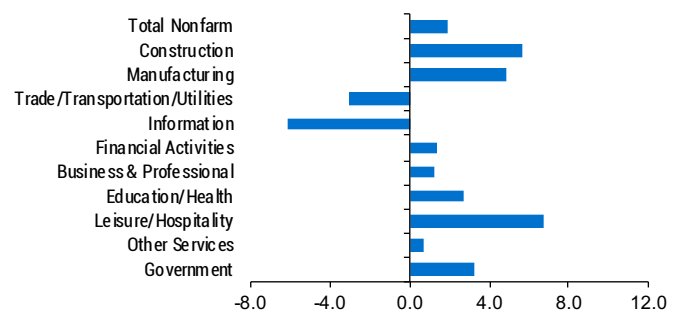
New Castle County, Number of Units



Source: NKF Research, CoStar

## EMPLOYMENT GROWTH BY INDUSTRY

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



Source: U.S. Bureau of Labor Statistics



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