



Delaware business: NCCo office space market stabilizes

Vacancy rates steady in Wilmington; renting picks up in suburbs

By ERIC RUTH • The News Journal • August 5, 2010

The market for office leasing in northern New Castle County is starting to stabilize after a dismal 2009, and likely will continue to strengthen through the last half of the year, an industry veteran said Wednesday in his annual midyear [market report](#).

With local companies seeing better [earnings](#) and slowly increasing staffs, some vigor has returned to the commercial real estate sector, but sustained momentum will depend on the economic rebound's strength, said Pete Davisson, partner at Jackson Cross Partners in Wilmington.

Over the past six months, vacancy rates have been steady in the city's central [business](#) district and rose only slightly in suburban office markets. Rental rates remain steady, but leasing activity is still below 10- and 20-year averages, Davisson said.

"The office market follows the economy -- for example, the end of a recession -- by 18 months," so it will probably be mid- to late 2011 before the market has pulled completely out of its slide, Davisson said.

In Wilmington, vacancy rates for top-quality Class A office space now stand at 14.8 percent, down from 15.8 percent at the end of 2009. Combined with Class B vacancy rates, which rose in the first half of 2010 to 33.3 percent, the combined central business district vacancy rate is 20.5 percent.

At the same time, rents for Class B space dipped 3.5 percent to an average of \$20.45 per square foot as the market tightened. Class A asking rates were unchanged at \$26.35.

In the suburbs, leasing activity has picked up, and now stands at 65 percent of the total activity in

2009. Davisson said vacancy rates in the suburbs remain high, at 23.4 percent of Class A space and 22 percent of Class B space.

Davisson sees some troubling signs in the rise of subleasing activity, which he considers a strong indicator that business are trying to shed excess space as they rein in expenses.

The city enjoyed two notable successes as the market sought stability -- the Pettinaro Co, recently completed its 163,000-square foot Star Building on the Riverfront, and is refitting the historic Rodney Square courthouse for a major law firm.

In the suburbs, Morgan Stanley signed a new 24,947-square-foot lease at the Delaware [Corporate Center II](#) during the second quarter, according to Brandywine Realty Trust.

"The first quarter was a little flat in 2010, but I'm seeing some good uptick in the second quarter and the beginning of the third quarter," said Chuck White, president of White Realty Associates in Greenville. Some of that strength has been generated by efforts from Gov. Jack Markell and the Delaware Economic Development Office to retain firms and attract others to the state, he said.

The county also has a big occupancy in the pipeline -- student lender Sallie Mae is currently hunting for room to expand after deciding to move its headquarters to Delaware from Virginia. Local [commercial real estate](#) insiders said Wednesday that

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a decision on a property to supplement the facility the lender owns in Christiana has apparently not yet been made.

As Sallie Mae looks for space, there's some concern that Wilmington soon could be looking for tenants. More city firms have been considering a relocation to the suburbs, Davisson said, especially law firms facing a new city tax.

Inside the city and outside, real estate financing lingers as a drag on the market, he said. Investors have the cash to buy, but are finding it harder to put together a feasible deal as banks have started demanding 30 percent to 40 percent down payment instead of 10-20 percent.

That tight credit market will also continue to complicate existing mortgages, he said.

"Refinancing is the most imminent problem, because in 2010, '11 and '12 there's a trillion dollars in commercial mortgages that will be 'rolling,' that will be coming due," but borrowers won't be able to come up with the cash they will need to compensate for lower property values.

And by one key measure -- absorption, the net increase or decrease in occupied space -- the market's recovery "has a way to go," Davisson said.

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The historic Rodney Square courthouse in Wilmington is being renovated for a major law firm. The market for office leasing in showing positive signs in New Castle County. (News Journal file/FRED COMEGYS)

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