

Wilmington seeks to spur office construction



Jeff Mordock, The News Journal August 12, 2016

Wilmington needs companies to start construction on office projects, but attracting those companies proves challenging



Mark Vergnano, CEO of the DuPont spinoff Chemours, is shown on July 29. More than 1 million square feet of office space has been approved for construction in downtown Wilmington. (Photo: JENNIFER CORBETT/THE NEWS JOURNAL)

Story Highlights

- More than 1 million square feet of office space approved for construction in downtown.
- Banks are hesitant to finance such projects without a commitment from a major tenant.
- Crime continues to be a obstacle to attracting tenants.

If you build it, the corporations will come.

But first Wilmington developers need to build it.

More than 1 million square feet of office space has been approved for construction in prime downtown Wilmington locations. That space could be ideal to entice a major corporation to relocate its headquarters here. However, banks are hesitant to finance such projects without a commitment from a major tenant, and corporations are uneasy about signing a lease for an unfunded speculation project.

"You run into the old issue of the chicken and the egg," said Pete Davisson, a commercial real estate broker in the city for more than 30 years.

Last week Chemours, a \$6 billion chemical company spun off from DuPont, announced plans to keep its global headquarters in downtown Wilmington. The company is based in the iconic DuPont Building along Rodney square, but will spend the next six to eight months scouting potential new sites in the city.

Chemours' decision keeps 1,000 jobs in the state, including 800 in Wilmington. City officials are hopeful it sends a signal to other corporations that Wilmington is an attractive city for a headquarters.

Yet, there are only two Wilmington buildings that can support the roughly 200,000 square feet or so a company would need for a headquarters. The Brandywine Building at 1000 N. West St. has about 240,000 square feet, while the Hercules Building at 1313 N. Market St. has more than 200,000 square feet of available space.

The city posted a 17.9 percent office vacancy rate in the second quarter of 2016, according to a report from commercial brokerage firm Jones Lang LaSalle. However, that number drops to 15 percent for Class A space, which would be a requirement for any corporate headquarters. Also, much of that space is not contiguous, which companies will likely demand for a headquarters.

Davisson said the 15 percent vacancy rate for Class A space is solid for a small city like Wilmington.

"The ideal number is between 10 and 14 percent," he said. "Everyone is happy when it is in that range because you have space left to help existing tenants grow."



A parcel near Justison Landing has been approved for as much as 300,000 square feet of office space. (Photo: Jeff Mordock/The News Journal)

That leaves new construction as the city's best option to create the world class facilities today's companies desire.

Jeff Flynn, economic development director for Wilmington, said there are at least five sites in downtown Wilmington and along the Riverfront approved for new office construction. He said some of these locations could support buildings as large as 300,000 square feet. Those sites sit at around 800 Delaware Ave., 1200 Market St., 1003 Jefferson St. in downtown and two other parcels are near Justison Landing, according to Flynn.

"I've never had a problem recruiting a company because of a lack of space," Flynn said.

The biggest reasons companies are foregoing downtown are the advantages offered by larger, suburban campuses, said Blaise Fletcher, executive vice president of Jones Lang LaSalle's Wilmington office. One such benefit to being based in the suburbs is the employees don't

have to pay a tax on their salaries like they do in Wilmington.



Blaise Fletcher, executive vice president of Jones Lang LaSalle, in the conference room of his Wilmington office. (Photo: SUCHAT PEDERSON/THE NEWS JOURNAL)

Wilmington's suburbs posted a 15.3 percent vacancy in the second quarter, according to the Jones Lang LaSalle report. Fletcher said the difference, while small, is indicative of the amenities offered by suburban locations such as free parking, easier access to roads, more space to grow and newer buildings.

Developers have started building 148,000 square feet of office space in Northern New Castle in second quarter, according to Jones Lang LaSalle.

Meanwhile, in downtown Wilmington, no shovels have hit the ground on a new office project this year.

"We've made strides to improve it, but there is a lack of amenities downtown," Fletcher said. "We just don't have the critical mass to make it an around-the-clock city."

Rich Heffron, president of the Delaware State Chamber of Commerce, said Wilmington's reputation for violent crime is also an impediment to luring companies looking to relocate. He did note, however, that the crime rate has improved recently, but it will take some time before the city's reputation changes.

A December 2014 Newsweek article called Wilmington "Murder Town USA," and last year ABC said it had signed a development deal for a crime drama titled "Murder Town." The city has 81 shooting incidents so far this year, 16 of which were homicides. That puts the city on track to approach last year's near-record high of 26 homicides and 131 shootings.

Wilmington had a 17.9 percent office vacancy rate in the second quarter of 2016. Concern about crime is cited as a factor discouraging firms from locating to the downtown area. (Photo: SUCHAT PEDERSON/THE NEWS JOURNAL)

"You cannot talk about it pretend it doesn't exist," Heffron said of the crime rate. "But it does and it doesn't help talking people into staying here."

John Boyd is a Princeton, New Jersey-based corporate relocation expert and agreed with Heffron that Wilmington's crime rate is an obstacle to attracting companies into downtown.

"You just can't get around the image," Boyd said. "The image is of tough downtown environment."

Boyd said the city can get past its reputation for high crime by emphasizing the positive. He said Wilmington offers a lower cost to do business than other cities in the Mid-Atlantic such as Philadelphia and Baltimore, access to airports and train stations, a skilled labor force and ability to recruit from a large population base in Pennsylvania and New Jersey.

"There is a case to be made," he said.

Economic development has been one of the issues in this year's mayor's race. Candidates have sparred over how to best build income opportunities for residents in Wilmington's poorest neighborhoods, touting job creation as the best way to fight crime in the city.

Flynn said the city is making the case and even emphasizing tax incentives to lure potential corporate tenants. In the case of Chemours, the state agreed to provide the company with \$7.9 million in taxpayer funds in exchange for retaining 900 jobs in Delaware through 2020. About \$695,000 of that incentive package will be set aside to upgrade Chemours' headquarters. The city approved an additional \$2 million if Chemours keeps a minimum of 550 jobs in Wilmington for 10 years. Other incentives such as property tax abatements were also provided to Chemours.

But sometimes, it just depends on luck. Flynn said he worked with a company that was interested in relocating to downtown Wilmington, but ultimately decided not to move after some negotiation with the city.

"You can have the tax incentives and fundamentals, but sometimes a decision is made by upper management that a move isn't going to happen," he said. "We don't have the control sometimes we think we are going to have."