

MARKETBEAT

DELAWARE MARKET REPORT

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION



3Q09

ECONOMY

While the economic downturn appears to be coming to a conclusion, both the national and regional economies remain in a weakened state. Nothing tells the tale of the overall Delaware economy better than the residential development market. Two regional developers are going to auction with minimum bids at their projects coming in at a fraction of the initial asking prices. Meanwhile, two other developers are enjoying unprecedented success in selling newly constructed town homes priced in the low \$200,000's.

There has been positive employment news throughout the region as pending base realignment to Aberdeen Proving Grounds in Harford County, MD will create a shift of 28,000 jobs to the region from Fort Monmouth, NJ and in turn have a residual impact on Delaware's residential, commercial, industrial and retail demand. 21st Century Insurance and Finance Services, a division of Farmers Insurance Group, is in the process of expanding both its Information and Technology and call center staffs by a minimum of 100 positions.

The Delaware Department of Labor recently announced that September's state unemployment figure of 8.3%, while up 3.1 percentage points, year-over-year, is lower than what was previously forecasted which was much closer to the national figure of 9.7%.

OFFICE OVERVIEW

The northern Delaware office market has been impacted from a sluggish economy as property owners are experiencing competition for every size tenant. Several significant CBD tenants are searching the market for space requirements ranging from 80,000 to 130,000 square feet (sf). Corporate downsizing has caused available suburban sublease space to increase from 22,000 sf to over 170,000 sf over the past 12 months in the New Castle County Non-CBD (Computer Sciences Corporation 154,000 sf at 400 Commerce Drive). Asking rents have displayed slight declines, but taking rents have softened in the 10.0% range over the past 12 months. Year-over-year, the direct vacancy rate for class A space in the Wilmington CBD has declined 40 basis points to 15.4%, while in the New Castle Non-CBD the vacancy rate has dropped 180 basis points to 12.6% over the same time period. While statistics have shown only a modest improvement in the market, there is still significant competition on every deal.

While the velocity of leasing has dwindled, there continues to be a number of significant deals in the marketplace. Wilmington CBD law firm Young, Conaway, Stargatt & Taylor recently signed a 15-year lease expanding from 100,000 to 218,000 sf at the long vacant Daniel L. Herrmann Courthouse building.

BEAT ON THE STREET

"There continues to be some green shoots of growth in the Delaware market. The leading sectors of strength in the market are legal, medical and education. The demand for office space from corporate users continues to be limited. In order for the market to recover, occupancy by corporate users will have to significantly increase."

—John Birmingham, Director

ECONOMIC INDICATORS

| National | 2008 | 2009F | 2010F |
|-------------------|-------|-------|-------|
| GDP Growth | 0.4% | -2.6% | 1.8% |
| CPI Growth | 3.8% | -0.5% | 1.7% |
| Regional | | | |
| Unemployment | 5.3% | 8.6% | 9.3% |
| Employment Growth | -0.4% | -0.4% | 0.0% |

Source: Moody's | Economy.com

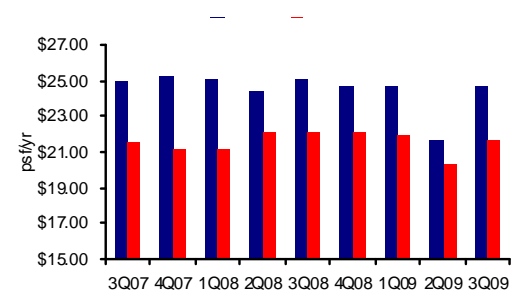
OFFICE MARKET FORECAST

LEASING ACTIVITY: tenants will continue to evaluate short-term renewal options and space reductions. ➡

RENTS: it is likely there will be little improvement in the rental rates until the vacancy rate drops below double digits. ➡

CONSTRUCTION: should be complete at the 163,800 sf 123 South Justison Street by 2010. Core and tenant improvement construction on the 218,000 sf Young Conaway Building is for completion in early 2012. ➡

DIRECT RENTAL RATES CLASS A VS. CLASS B



Meanwhile, pharmaceutical firm Astra Zeneca entered into a short-term lease for 25,000 sf to house a legal team in the Brandywine Building. Payment processing company Electronic Payment Exchange leased 12,000 sf at 1201 Market Street. In the New Castle County Non-CBD submarket, planning and engineering firm URS leased 23,150 sf in a transaction in the Saber Wing Building at the Iron Hill Corporate Center. Also at the Iron Hill Corporate Center, the Buccini/Pollin Group sold the 14,720-sf Bowman Building to the Medical Society of Delaware in a user sale for an undisclosed amount.

Construction activity in the Delaware office market continues to remain fairly limited. Pettinaro Development's Star Building continues under construction and will add 159,000 sf of class A space to the New Castle County CBD submarket and is expected to deliver by early 2010. The newest project in the CBD is the result of the Young Conaway lease at the old downtown Wilmington courthouse. Original plans called for Pettinaro to add 20 stories to the existing structure, but new plans call for the upgrade of the building to class A space and the renovation of the parking facilities and courtyard area. Plans call for the incoming tenant to occupy the space in February 2012.

INDUSTRIAL OVERVIEW

The northern Delaware industrial market continues to show weakness, but exhibit signs of stability. The direct vacancy rate in the warehouse and distribution sector has flattened out at 9.4% over the past 12 months and remains virtually unchanged from third quarter 2008. Leasing activity has also stabilized with little drop-off from the same period in 2008, as there has been 153,918 sf of leasing transactions in the overall market, year-to-date. While deal velocity is down, there have been a few notable deals in the market during the third quarter. Logistics Company Intercontinental Services of Delaware leased 94,767 sf of warehouse space at 618 Lambson Lane. Meanwhile the United States Army purchased a 193,460 sf warehouse at 1001 Ogletown Road in a user sale for \$39.97 per square foot (psf).

In other industrial activity, New Castle County has seen the closing of both the General Motors and Chrysler automobile assembly plants. On the bright side, Fisker Automotive, a manufacturer of hybrid and electric cars, has announced its intent to purchase the former General Motors' Boxwood Road plant in Wilmington for \$18.0 million. The automobile manufacturer intends on investing \$175.0 million to upgrade the facilities which would bring 2,000 new jobs to the plant over the next five years, including those formerly employed with General Motors and Chrysler in the region that lost their jobs over the previous year. More good news; the University of Delaware, has entered into an agreement to purchase

the Chrysler plant. The University of Delaware research center's primary focus will be on the development of alternative energy sources.

Industrial activity in both Kent and Sussex County has been encouraging as Delaware has been awarded \$90,000,000 in Recovery Zone Economic Development Bonds (governmental infrastructure) and \$135,000,000 in Recovery Zone Facility Bonds (private activity bonds). These and other recent economic grants from both the federal and state level have breathed signs of life into Delaware's lower counties. The Baltimore Aircoil Company, a producer of thermal storage products, will be expanding its manufacturing operations in Milford over the next two years while realizing the addition of 83 new jobs after investing its own money and receiving a modest Delaware Economic Development Office (DEDO) grant. Advanced Aerosol Acquisition, an aerosol filler company, acquired a \$1.2 million DEDO loan to allow the firm to continue operations at its Seaford manufacturing plant and pave the way for the creation of 53 jobs.

Other activity below the Chesapeake & Delaware Canal includes several potential deals that would benefit the region. The first, an international deal to import fresh flowers through the Dover Air Force base from South America would include a modification to the airbase so cargo planes could gain access to an adjacent 200,000 sf warehouse building. Further south in Sussex County, there are plans for a 450,000 sf industrial park adjacent to the Sussex County Airpark. While Delaware has not been the specific recipient of military contracts, southern Delaware has the potential to receive residual benefits from the expansion of the Wallops Flight Facility, at Wallops Island, Virginia, as NASA plans to upgrade to its launch capacity and better serve the all around aerospace market.

FORECAST

While the region is not settled there are some very positive events including the base relocation to Aberdeen and Fisker Automotive's acquisition of the General Motors plant. These major events will create demand for supporting businesses. The opening of the Fisker plant could also result in the creation of an additional 3,000 peripheral jobs once the plant is fully operational in 2014. Delaware's government is highly motivated and nimble in its approach to supporting economic development, particularly expansion in the area of alternative energy. Delaware is well positioned to enjoy the economic recovery and expects to be on the leading edge of the coming expansion. There is a general sense of optimism in the Delaware market going forward.

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*Market terms & definitions based on BOMA and NAIOP standards.

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OFFICE SUBMARKET STATISTICS

| MARKET / SUBMARKET | INVENTORY | NO. OF BLDGS. | OVERALL VACANCY RATE | DIRECT VACANCY RATE | YTD LEASING ACTIVITY | UNDER CONSTRUCTION | YTD CONSTRUCTION COMPLETIONS | YTD OVERALL ABSORPTION | DIRECT WTD. AVG. CLASS A GROSS RENTAL RATE* |
|-----------------------------|-------------------|---------------|----------------------|---------------------|----------------------|--------------------|------------------------------|------------------------|---|
| New Castle Cty-Non-CBD | 8,374,475 | 154 | 18.1% | 15.9% | 59,722 | 0 | 0 | 249,417 | \$23.37 |
| New Castle Cty- CBD | 6,785,377 | 38 | 18.9% | 18.7% | 33,511 | 158,770 | 0 | (27,112) | \$25.92 |
| NEW CASTLE CTY TOTAL | 15,159,852 | 192 | 18.4% | 17.1% | 93,233 | 158,770 | 0 | 222,305 | \$24.69 |

* Rental rates reflect \$psf/year

OFFICE MARKET HIGHLIGHTS

SIGNIFICANT 3Q09 NEW LEASE TRANSACTIONS

| BUILDING | SUBMARKET | TENANT | SQUARE FEET | BLDG CLASS |
|-------------------------------|---------------------------|-----------------------------------|-------------|------------|
| Daniel L. Herrmann Courthouse | New Castle County - CBD | Young, Conaway, Stargatt & Taylor | 218,000 | A |
| 1000 North West Street | New Castle County - CBD | Astra Zeneca | 25,000 | A |
| 4051 Ogletown Rd | New Castle County Non-CBD | URS | 23,150 | A |

SIGNIFICANT 3Q09 SALE TRANSACTIONS

| BUILDING | SUBMARKET | BUYER | SQUARE FEET | PURCHASE PRICE |
|---------------------|---------------------------|-----------------------------|-------------|----------------|
| 900 Prides Crossing | New Castle County Non-CBD | Medical Society of Delaware | 14,720 | N/A |

SIGNIFICANT 3Q09 CONSTRUCTION COMPLETIONS

| BUILDING | SUBMARKET | MAJOR TENANT | SQUARE FEET | COMPLETION DATE |
|----------|-----------|--------------|-------------|-----------------|
| N/A | | | | |

SIGNIFICANT PROJECTS UNDER CONSTRUCTION/RENOVATION

| BUILDING | SUBMARKET | MAJOR TENANT | SQUARE FEET | COMPLETION DATE |
|---------------------------|-------------------------|--------------|-------------|-----------------|
| 123 South Justison Street | New Castle County - CBD | N/A | 163,800 | 3/10 |

| MARKET/SUBMARKET | INVENTORY | NO. OF BLDGS. | OVERALL VACANCY RATE | YTD LEASING ACTIVITY | UNDER CONSTRUCTION | YTD CONSTRUCTION COMPLETIONS | YTD OVERALL ABSORPTION | **HT | DIRECT WEIGHTED AVERAGE NET RENTAL RATE* | | |
|---------------------|------------|---------------|----------------------|----------------------|--------------------|------------------------------|------------------------|------|--|--------|--------|
| | | | | | | | | | MF | OS | WD |
| New Castle County | 22,207,394 | 325 | 9.5% | 153,918 | 0 | 0 | 122,799 | N/A | \$12.00 | \$5.62 | \$4.11 |
| **Northern Delaware | 22,207,394 | 325 | 9.5% | 153,918 | 0 | 0 | 122,799 | N/A | \$12.00 | \$5.62 | \$4.11 |

INDUSTRIAL SUBMARKET STATISTICS

*Rental rates reflect \$psf/year

** HT inventory does not exist in this market

HT = High Tech MF = Manufacturing OS = Office Service W/D = Warehouse/Distribution

INDUSTRIAL MARKET HIGHLIGHTS

SIGNIFICANT 3Q09 NEW LEASE TRANSACTIONS

| BUILDING | SUBMARKET | TENANT | SQUARE FEET | PROPERTY TYPE |
|------------------|-------------------|---------------------------------------|-------------|------------------------|
| 618 Lambson Lane | Northern Delaware | Intercontinental Services of Delaware | 94,767 | Warehouse/Distribution |

SIGNIFICANT 3Q09 SALE TRANSACTIONS

| BUILDING | SUBMARKET | BUYER | SQUARE FEET | PURCHASE PRICE |
|--------------------|-------------------|--------------------|-------------|----------------|
| 1001 Ogletown Road | Northern Delaware | United States Army | 193,460 | \$7,732,000 |

SIGNIFICANT 3Q09 CONSTRUCTION COMPLETIONS

| BUILDING | SUBMARKET | MAJOR TENANT | SQUARE FEET | COMPLETION DATE |
|----------|-----------|--------------|-------------|-----------------|
| N/A | | | | |

SIGNIFICANT PROJECTS UNDER CONSTRUCTION

| BUILDING | SUBMARKET | MAJOR TENANT | SQUARE FEET | COMPLETION DATE |
|----------|-----------|--------------|-------------|-----------------|
| N/A | | | | |

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