

*Pratt & Whitney
Southington, CT.*

*Environmental Property Acquisition
Real Estate Review*

*Prepared for: William P. Lynott
LandBank*

*Prepared by: Kyle Cascioli
Barrett Associates, Inc.*

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Acquisition Report Outline

1. *Subject Property Feature - Benefit Analysis*
2. *Regional and State Economic Analysis*
3. *State and Enterprise Zone Economic Incentives Analysis*
4. *Assessment of Political Climate*
5. *Competitive Market Analysis*
6. *Central Connecticut Commercial Regional Market Profile*
7. *Southington Sub-Market Character Profile*
8. *Financial Transaction Analysis*
9. *Transaction Summary*

Regional and State Economic Analysis

The New England region has benefited greatly from the nation's economic growth. With regional unemployment at all time lows, this potentially *labor-constrained* economic market continues to experience exponential growth in both the service and trade industry sectors.

The Connecticut economy is on track to continue to parallel the unprecedented service and trade sector growth of both the region and the nation. A constrained labor market is applying upward pressure on wages, which potentially could inhibit growth at the state level; however, significant reductions in the State's corporate tax rate should compensate for the increased cost of labor.

New England:

- *National pay growth in 1996 outpaced the national average gain of 3.7% for the second consecutive year. Average annual pay increases grew to 4.4%, up from 4.0 in 1995*
- *Annual pay growth "varied widely by industry." Finance/Real Estate (FIRE) led the way at 8.3%. FIRE was followed by Wholesale trade at 4.9%. Manufacturing was tied with Construction for third at 4.7%, with retail pay increases following at 3.6%*
- *At \$40,826, the average pay for manufacturing is at a 12.67% premium over the national average of \$36,235*
- *The hourly compensation rate was more than \$2.00 higher than the US average of \$17.97, and was the highest among the four census regions in 1996*
- *Unemployment rate has remained below that for the nation since February, 1995*
- *Non-Farm employment gain of 154,000 jobs (1997), an increase of 2.4% compared with national average of 2.7%*

Connecticut:

- *Total compensation employment cost for private industry workers for the twelve month period from September 1996 - September 1997, rose at rate equivalent to 81.25% of that of the national average for the same period*
- *Of the six New England region's states, Connecticut was second only to Massachusetts in job growth by state. Massachusetts and Connecticut accounted for for 75% of the region's job growth during calendar 1997, with Connecticut accounting for 30.5% of that growth*
- *Of the 25 metropolitan areas in the region, Waterbury was third in relative job growth during 1997 at 4.2%. It should be noted that the subject property is located equidistant between Hartford and Waterbury, with no big block competitors identified south of the subject property in the Hartford MSA competitive property analysis*
- *The State had the second highest pay level in the US behind New York, and at \$36,579 was at a 26% premium over the national average of \$28,945 in 1997*
- *Per Capita income rose 5% to \$29,588 for the period December 1994 through December 1995*
- *Governor Rowland has cut taxes by \$1.2 billion, including a 33% corporate tax reduction*
- *State's corporate tax rate being reduced from 9.5% in 1998 to 7.5% in 2000*
- *The State's unemployment rate has dropped 1.3% during the period December 1996 through December 1997*
- *Since 1977 the State has stayed at or below the United States average for unemployment*

Connecticut's Economic Incentives

The state of Connecticut is very proactive with regard to promoting *Economic Growth* as evidenced by the major benefits identified below. And efforts to reposition this property can only be enhanced, given that it is domiciled in a *State Enterprise Zone*.

State Economic Incentives

- *Corporate tax rate reduction has been legislated, and will be reduced from 10% to 7.5% by the year 2000*
- *Additional Urban Jobs Program benefits outside of the Enterprise Zone are available at the discretion of the Commissioner of Economic and Community Development - Mr. Chet Camarata*
- *A 100% property tax abatement on new and used machinery for five years*
- *Sales and Use tax exemptions on newly acquired machinery and materials*
- *A 100% property tax credit toward corporate tax liability for computers and data processing equipment*
- *General Tax credits available for the following: Apprenticeship Training, Employee Training, Research & Development, Child Day Care, Clean Alternative Fuel, and Neighborhood Assistance*
- *State Development Authority issue Tax exempt bonds up to \$10 million dollars subject to federal tax regulations, issue general obligation bonds, and can make low interest loans with flexible terms and conditions*
- *Utility assistance - specialized reduced rate structure manufacturers, including funding toward improvements for energy conversion during build-out*
- *Labor training financial assistance*

Assessment of Political Climate

As evidenced by the data points enumerated below: The State of Connecticut's *Political Agenda* would appear to be very "business friendly," and to have broad *bipartisan* support.

- *At 37, the state's 86th Governor, republican John G. Rowland (Waterbury native) is youngest Governor in history of the state, and the Nation's youngest governor*
- *The State's surpluses have totaled nearly \$600,000,000 since 1995. An agenda of spending restraint and income tax cuts has characterized Rowland's "business friendly" administration*
- *The Governor also is empathatic to manufacturing, and has put on his agenda the creation of a "manufacturing resource center" to enhance vocational training with regard to manufacturing technologies*
- *The State has two Democratic Senators, Chris Dodd and Joe Lieberman. The New York Post describes Lieberman as "respected by Republicans and Democrats alike. Additionally, the New York Times endorsed his re-election in 1994 saying, "In only one term, he (Lieberman) has influenced the course of Federal legislation for the benefit of Connecticut and the nation*
- *In the House of Representatives, the State has six Congresspersons, two Republicans and four Democrats, one of which, Democratic Congresswoman Barbara Kennelly, is from Hartford*
- *In the State legislature, Southington has two representatives, Republican Angelo Fusco and Democrat Thomas Colapietro. Fusco, is a member of the Disabled American Veterans, and is employed in the plant engineering department of the Pratt & Whitney overhaul and repair division in Cheshire, and lives in Plantville. State Senator Colapietro is retired from the Delco Chassis Division of General Motors (a subject property competitor) where he was employed as a set-up operator for 29 years*

Competitive Market Analysis

In spite of its presently *soft* condition, the Central Connecticut and greater Hartford industrial real estate market may be stabilizing, and close to *flattening out*.

However, given the project's mass, site and facility constraints, and the industrial market's competitive depth for functionally obsolete "*Big Block*" industrial properties, this repositioning equation may be less a function of the market's recovery, and more of a function of the demand for *highly specialized production facilities*, that can fully utilize this subject properties intrinsic industrial value.

From the competitive data supplied by the local broker, and *primary research* conducted through the *Connecticut Economic Research Center (CERC)*, it would appear that there have been ongoing and recent attempts in the Connecticut industrial marketplace to *sub-divide* and *multi-tenant* these distressed "*Big Block*" properties. Please refer also to the ***Pratt & Whitney Site Geographic Market Competitor Map*** attached to the back of this report section.

As such, the cost-benefit analysis of undertaking the "*sub-division*" or "*block-busting*" of this subject property is more a function of the *lease rates* being achieved by similar "*block-busting*" competitors in this local *alternative industrial real estate space* marketplace. More information is needed, and has been requested from broker -see the attached *request for additional information* sent to Henry Reusch.

The competitive property data has been formatted, and a determinant of market condition that I find relevant is the ***Lease Sales Multiplier*** (Please refer to the "***Pratt & Whitney Competitive Property Comparison Spreadsheet*** attached to the back of this report section.)

As you can see from the spreadsheet, there are twenty comparable competitive properties capable of either satisfying the demand for *intermediate to large* blocks of industrial space, or becoming a "*block buster*" competitor in the *alternative space* marketplace. Additionally, the *lease sales multipliers* are in many cases extremely low. That is, once leased at a market rent, the investment property can quickly pay for itself.

For example, the intermediary has referenced that a ***Chicago*** investor has within the last year, invested/speculated by acquiring 1.7 million dollars worth of product, including the subject property's primary competitor - ***the Bristol Business Center***.

If you refer to the spreadsheet, you will note that the ***Bristol Business Center*** was purchased at a *lease/sales multiplier of .95!* Much like a *price/earnings ratio*, this property will quickly pay for itself, once the project matures to market occupancy levels. Other market considerations aside, it would be surprising to see the Hartford industrial investment market get much *softer* than it presently is.

A less obvious competitive threat in the *alternative commercial space market* for large blocks of "*Back-Office*" space comes from Hartford's high *office vacancies*. With the overall suburban and downtown CBD vacancy rate for *Class A* space hovering in the twenty percent range, the demand for inexpensive back-office space *alternative space* should be relatively insignificant.

In closing, the Hartford industrial market *may* have *bottomed-out*. With investment values exceedingly low relative to replacement cost, the real question is when will the market turn, and what does the future hold for manufacturing growth in Central Connecticut?

Unfortunately, we still need more information. And given the depth of competitive properties identified thus far, I feel the need to visit the subject property, and inspect the Hartford industrial marketplace firsthand.

P&W Acquisition - Request for additional information

Priority A:

1. *Identify the top three Industrial and Office REIT's with significant inventory in the Central CT/Hartford MSA Area? Are any of the competitive properties identified in your transaction package owned by REITS?*
2. *Of the sixty million square feet of industrial product inventory in the Hartford MSA, what percentage falls into facilities under 500,000 SF. What is the vacancy rate in the 500,000 SF and under facility size marketplace? What is the vacancy rate for the above 500,000 SF marketplace?*
3. *The "Sentry Market Report" referred to the sale of the "Thermos" facility in Norwich, which was vacant for ten years. Please give some background history on this facility, the transaction, and the user/purchaser.*
4. *What was the cause(s) for the "negative absorption" spike in the Hartford "industrial market trend-line" in 1995?*
5. *What is the SF inventory - by product type - of both industrial and office space in the Southington sub-market of the Hartford MSA?*
6. *How healthy is the Hartford MSA industrial "build-to-suit" marketplace? Transactions aside, how active is the market? What is the average regional lead-time for contemporary industrial "build-to-suit" projects in months? How quickly have you seen a "build-to-suit" brought to the market?*
7. *How many of these kinds of speculative industrial "block-busting" redevelopments have you seen attempted in the Hartford MSA? Please identify and advise as to the status of these comparable projects.*
8. *What was the percentage of office "build-out" in the recent "Firestone" transaction?*

Priority B:

1. *Where are the nearest factory outlet and auto malls located in conjunction to Southington?*
- 2.
3. *How many lanes are there on State Highway #229 from Southington to Bristol?*
4. *Are there any "duty free trade zones" associated with Bradley International Airport in Hartford?*
5. *Does the site have any significant visibility to Interstate #84?*

Pratt Whitney Competitive Property Comparison

Subject	Geo-Sub Market	Land (acres)	Building (Sq.Ft.)	Year Built	Land/Bldg. Coverage %	Sq.Ft. Available	Percent Occupied	Sales SF (asked)	Sales SF (actual)	Lease Rate SF	Lease/Sales Multiplier(asked)
	SW MSA	53.00	831,568	1942	36%	831,568	0%	\$13.22	\$3.80	\$3.00	4.41
131 Oak	SE MSA	15.00	200,957	1945	31%	200,957	0%	?	?	\$15.00	?
85 Nutmeg	NE MSA	5.02	109,295	1969	50%	109,295	0%	\$20.12	?	\$5.00	4.02
80 Darling	NW MSA	22.00	174,438	1976	18%	174,438	0%	\$24.65	\$14.61	\$7.04	3.50
74 Griffin	NW MSA	28.00	449,350	1986	37%	449,350	0%	\$26.15	?	\$3.95	6.62
50 Emmett	SW MSA	12.00	207,000	1942	40%	207,000	0%	\$14.00	?	\$5.00	2.80
225 Episcopal	SW MSA	25.00	212,000	1908	19%	212,000	0%	\$11.79	?	\$3.93	3.00
103 Hawthorne	MSA	5.00	470,000	?	216%	450,000	4%	\$2.12	?	\$2.00	1.06
2880 Main	MSA	5.00	118,000	1940	54%	118,000	0%	\$8.89	\$6.77	\$1.75	5.08
490 Park	W MSA	4.70	102,000	1920	50%	102,000	0%	\$19.12	?	\$15.00	1.27
460 Slater	SW MSA	17.00	112,000	?	15%	112,000	0%	?	?	?	?
475 Willard	S MSA	108.00	600,000	1966	13%	600,000	0%	\$6.67	\$5.50	\$3.25	2.05
141 Prestige	E MSA	7.20	100,000	1972	32%	100,000	0%	\$14.00	?	\$3.00	4.67
265 Rev-Moody	MSA	9.00	104,000	?	27%	104,000	0%	\$57.69	\$30.76	?	?
85 S Satellite	?	?	100,000	?	?	100,000	0%	?	\$23.50	?	?
South Street	SW MSA	90.00	580,000	1917	15%	580,000	0%	\$9.48	\$4.58	\$2.75	3.45
88 Longhill	?	?	?	?	?	?	?	?	\$13.45	\$2.75	?
550 Research	S MSA	25.19	320,000	1969	29%	143,000	55%	?	?	?	?
699 Middle	S MSA	38.00	264,000	1970	16%	?	?	?	?	?	?
45 Newell	P&W MKT	46.40	500,000	1965	25%	500,000	0%	\$60.00	?	\$3.50	17.14
Bristol B-Ctr	SW MSA	182.00	1,200,000	1967	15%	800,000	33%	\$3.58	\$3.58	\$3.75	0.95

Real Estate Services



The SiteFinder™ is a computer database of Connecticut's available commercial and industrial properties which was developed through the cooperation of Connecticut realtors and the CERC. Database searches are available free of charge to brokers, DECD regional managers, company representatives, and clients of other economic development agencies.

A selection of properties from the database will be featured here in the *Real Estate Services* portion of our website. To request a search of the SiteFinder™ database please complete and submit a [Site Search Form](#).

For a summary listing of the available properties currently featured here, please choose from the following selections:

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Industrial Properties	
<p><u>Profile 1</u></p> <p>Address: 75 Aircraft Road</p> <p>Town: Southington</p> <p>County: Hartford</p> <p>Type: Manufacturing</p> <p>Size: 830,000 s.f. on 53 acres</p> <p>Notes: Former Pratt & Whitney facility</p>	<p><u>Profile 2</u></p> <p>Address: South Street</p> <p>Town: New Britain</p> <p>County: Hartford</p> <p>Type: Manufacturing</p> <p>Size: 580,000 s.f. on 89 acres</p> <p>Notes: Former New Britain Machinery facility</p>
<p><u>Profile 3</u></p> <p>Address: 550 Research Parkway</p> <p>Town: Meriden</p> <p>County: New Haven</p> <p>Type: Ind/Whse</p> <p>Size: 320,000 s.f. on 25 acres</p> <p>Notes:</p>	<p><u>Profile 4</u></p> <p>Address: 699 Middle Street</p> <p>Town: Middletown</p> <p>County: Middlesex</p> <p>Type: Industrial</p> <p>Size: 260,000 s.f. on 38 acres</p> <p>Notes: North & Judd facility</p>

