

# INVESTMENT ANALYSIS

The Investment market is attaining capitalization rates that are in the 7.2 to 8.6 range for fully leased buildings with leases of 5 years or greater. The investor is changing its demand and buying attitudes as pressure is placed on them by rising interest rates (which have begun to flatten out over the last six months). Since Ben Bernake is basing potential adjustments on the Core CPI (remove food and energy) we have included a Core CPI graph showing a moderate CPI factor. The almost predictable fluctuations for CPI are only offset from outside factors such as fluctuations in oil, terrorist activity and natural disasters.

The replacement costs continue to rise for office buildings through increased off site improvement fees, prolonged approval processes and an increase in basic building material costs. The recent sale of 600 Alexander Road, \$223.00 per square foot set the mark considering it is a 1984 built Class B building in a Class A location. The challenge facing the market is the increased vacancy which is 2.3 million square feet on Route 1 and 893,000 square feet along the 295 beltway which may erode rents below replacement costs.

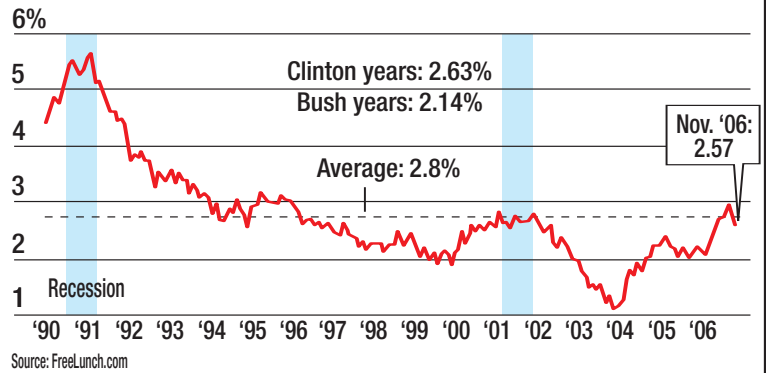
The areas where entry into the office market is limited are Lawrenceville (Intersection of 295 and Route 1) and Princeton Boro and Township. These towns have isolated vacancies of 9.0% and 2.5%.

The real estate recession we are reading about in the paper is really based upon an increased debt position in non income producing liquid assets (residential homes) compound that with the increased Consumer Debt (now 47% of all debt in the US) and it is a basis for a disaster. The commercial real estate market may be affected by developers who are heavily in residential and have high vacancies in their office and industrial portfolios. The Federal Interest rate moved from 1% to 5.5% from June 2004 to June 2006 and has plateaued, creating an inverted yield curve (short term money is more expensive then long term money). This has brought down GDP from 6% to 2% which has affected demand for industrial demand.

It is a time when purchasing real estate will require discipline, experience and understanding of the factors that affect each individual type of real estate. Pricing continued to rise this half, but should reach a plateau based upon the external factors of rising interest rates and the potential for near term lowering of rental rates.

## Subsiding Inflation

Core CPI, 1982-84=100, seasonally adjusted



## 2006 SALES BY CLASSIFICATION:

<b>CLASS A</b>	<b>SIZE S.F.</b>	<b>\$ PER S.F.</b>
1. Gillespie Building, Lawrenceville	42,000	214
2. 100 Lenox Drive Building Lawrenceville	91,000	125
		<b>Avg: \$169.00</b>
<b>CLASS B</b>	<b>SIZE S.F.</b>	<b>\$ PER S.F.</b>
1. 3 Triple A Drive, Hamilton 2 Story Class B Office	36,000	130
2. Washington Town Center	12,000	151.5
3. American Metro, Hamilton	475,000	150
4. Madison Corporate Center Hamilton	12,000	160
5. 600 Alexander Road	93,000	241
		<b>Avg: \$166.00</b>
<b>CLASS C</b>	<b>SIZE S.F.</b>	<b>\$ PER S.F.</b>
1. 8 Commerce Drive Single Story Office	16,000	103
2. 2500 Brunswick Pike, Lawrenceville Single Story Office	12,500	149
3. 2155 Brunswick Pike, Lawrenceville Small Office Building Renovated House Like on Rt.1	3,000	173
4. Whitehorse Technology Center	3,600	135
5. 2999 Franklin Corner Road Lawrenceville	11,000	172
		<b>Avg: \$146.00</b>
<b>SPECIALTY BUILDING</b>	<b>SIZE S.F.</b>	<b>\$ PER S.F.</b>
1. 1 Research Way, Plainsboro Lab Installation	49,540	168