

## Legislation geared towards attracting new business

By James M. Weil

New Castle County saw a lot of growth during the 1980s. Much of the growth can be attributed to the 1981 Delaware Financial Center Development Act, attracting credit card banking operations to the area—and the fact that financing new construction was almost as easy as placing an order in a fast-food restaurant. Nobody has to be reminded of how things have changed. The economic climate in New Castle County is sluggish; yet brokers and developers remain optimistic.

The economy in New Castle County hinges on two basic industries: financial services and chemical manufacturing. Both industries have downsized their operations significantly. The chemical industry, dominated by DuPont, Hercules and ICI, has probably suffered the most cutbacks.

According to David Burns, vice president of Office Leasing for Stoltz Realty Company, the cutbacks have placed millions of square feet of space back on the market. The ripple-down effect has caused other companies to downsize as well. "There are a lot of industries that service DuPont, ICI and Hercules. When these companies cut back, so do supporting service industries," said Burns.

According to Philip Hoge, president of Prudential Preferred Properties, we have not seen the end yet: "I don't think the downsizing is over. We hope that it is. Companies have gotten the size of their staff down to where they can't go any lower."

Delaware, known for its favorable disposition towards business, has recently enacted more legislation to attract new business to the area. One of the more innovative bills established a \$2.5 million business relocation fund to provide out-of-state firms financial assistance for moving into the area. Although most think that \$2.5 million won't go a long way, the legislation sends a strong message to people thinking of moving into Delaware.

services, credit processors and banks. Tax credits range from \$250 to \$750 depending on what the firm is providing. Employers in certain industries can earn \$250 per new employee. If the firm hires five new employees and makes a capital investment of \$200,000, they get another \$250 per employee, plus an additional \$250 per every \$100,000 of investment. Further tax credits can be earned by recycling and reducing waste.

A proposed bill would require all insurance companies in Delaware to relocate their headquarters there or open significant branch operations. The legislation has yet to be passed. Both developers and brokers hope that the new legislation will help to absorb some of the vacant space.

The average office vacancy rate for New Castle County is 23 percent. Retail leasing remains strong, with an occupancy rate of 89 percent for the county as a whole. According to Joe Kenney of Stoltz Re-

alty, there are a lot of new tenants in town looking for sites throughout the county.

The market in New Castle County is broken into quadrants: Northern, the area closest to Pennsylvania; CBD, Downtown Wilmington; Southern, the area between Wilmington and Newark; and Western, the smallest quadrant, which is the area west of Wilmington between Greenville and High Creek.



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Recently re-enacted House Bill 415 is designed to put unemployed people back to work by offering employers new or increased tax credits. The new version expanded the types of businesses that qualify to include manufacturers, wholesalers, research and development, data processing, engineering

is so affordable there. In response to the demand, Delle Donne will resume building Brandywine Commons, a mixed-use development on Route 202. The project started with five restaurants and two hotels and has a retail component of 285,000 square feet. Phase I of the retail component, 175,000 square feet, commenced this spring.

"We are not permitted to complete the remaining 110,000 square feet for another year or two due to phasing constraints," said Delle Donne. The phasing restraints Delle Donne is referring to is a traffic mitigation agreement between Delle Donne, the county and the Delaware Department of Transportation.

The agreement is a result of the 1988 Comprehensive Development Plan of New Castle County. The purpose of the plan was to establish policy goals and objectives to guide development during a 20-year planning period. Since the adoption of the plan, specific legislative measures have either been adopted or are being considered to meet those objectives.

The transportation ordinance, still under consideration by the county council, has been de facto passed, according to Delle Donne. The ordinance would rate intersections and lane sections from A to F, with A being the best and F being the worst. The goal is to have no worse than a D rating for areas of development.

Brian Shuler, Director of Planning, said that many areas are already at less than D level. The Metroform, the Route 7 corridor at I-95, the Concord Pike and Naaman's Road are all suffering from excessive congestion. In order for a developer to build in any of these areas, he would have to provide some sort of relief to the impacted infrastructures. The traffic ordinance would slow down the approval process for new developments and represent more costs for the developer.

The Water Resource Protection Act, the most comprehensive ordinance passed so far, puts limitations on development around surface and underground aquifers and establishes quantity and quality standards for

recharging aquifers when a new development is proposed.

Delle Donne's Governor's Square development on 202 is a pilot program used by the Water Resources Agency. The award-winning project collects rain water on the roof and puts it back in the ground for an additional cost of \$250,000. "The quality of the water in that area when our project is done will be higher than the quality as it stood as an agricultural use," said Delle Donne. "I'm not saying it's easy to live with a quarter of a million dollar surcharge, but our job is to look at all component parts of a development and find the most cost effective way of building it."

### Southern Quadrant

The Southern quadrant also has strong possibilities because it is more centrally located in Delaware. It has competitive office availabilities and it's close to attractive bedroom communities with good access to I-95 and other transportation routes. It's also close to the airport.

"The Christiana area is a good example. It is one of the hotter sub-markets in the Southern quadrant. It's got a good infrastructure in place and a lot of high quality, affordable housing projects in the area," said Burns.

The area is open to further development, but not until the space currently on the market is absorbed. "I don't see that happening for another three or four years," said Burns.

Of all the developers surveyed, Lukens Development Co., is probably enjoying the most activity. Lukens Development, a subsidiary of Lukens Steel, has more funds available for building because it is a corporate development firm. The company owns 525 acres of land called Riveredge Park, located at the base of the Delaware Memorial Bridge on I-295. The land is a mile-and-a-half of frontage along the Delaware River and is one of the few business parks that has water frontage of that type.

"I think our location is one of our best features," said Claude Gittinger, president of Lukens Development Corporation. Apparently the location must be in high demand. Christiana Stationary vacated 32,000 square feet of space in December and was replaced by the second week of January. "It was an indicator of what's going on in the marketplace," said Gittinger.

"In the past we have spoken with a



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- FOXBORO CO.
- KCI TECHNOLOGIES, INC.
- SOUTHLAND CORP.

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## Downtown

Most of the downsizing has occurred in Wilmington's CBD, creating a vacancy rate there of 27 percent. The high vacancy rates have created an ultra-competitive office market. Absorption rates are decreasing, further exacerbating the problem. "Landlords in the subleasing situation are really having to convene on the basis of price alone. They have to undercut the traditional landlords in the market. There is very strong pressure to cut prices and increase concessions," said Burns. However, there does seem to be relief in sight.

"The market appears brighter—people are out looking again," said Hoge. What will help absorb space in the CBD, according to Ernest Delle Donne of Delle Donne & Associates, Inc., is the retrofitting of some of the existing buildings that have become

### NEW CASTLE COUNTY

Population: (1990)	436,082
Number of Households:	180,017
Average Household Income:	\$26,100
Employment: (1990)	248,167
Civilian Labor Force: (1990)	363,000
Total Land Area:	437 Sq. Miles
Number of Districts:	11
County Seat:	Wilmington
No. of Apartment Complexes:	175
No. of Shopping Centers:	54

Source: New Castle Development  
302-656-5050 and Realty Research

obsolete. "That's why we're thinking of building One Corporate Plaza—because there is a shortage of space that can meet the needs of today's users," said Delle Donne.

Delle Donne thinks the suburbs don't have the growth capacity to accommodate users that Wilmington has because the infrastructure in the suburbs is close to capacity. "The city is now in a position to take advantage of the infrastructure that's already in place...and take advantage of its ability to handle very large scale projects. Wilmington is going to fare very well in the '90s," said

Delle Donne.

## Northern Quadrant

The northern sector of New Castle County should rebound quickly because more and more Pennsylvania firms are considering crossing the line into Delaware to take advantage of the favorable tax laws there.

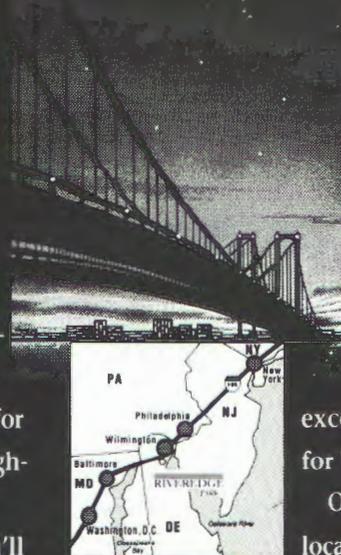
CoreStates Bank is one example. They

are considering moving their entire MAC card operation, about 100,000 square feet, from Center City Philadelphia to North Wilmington. This shouldn't be a surprise, considering Delaware's legislation offering generous incentives to financial institutions.

Route 202 (the Concord Pike) and Route 40 remain the strongest areas for retail leasing because of the influx of two income households to the area and because housing

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## The Delaware Tax Attack

Developers, realtors and corporations report the State of Delaware is aggressively pursuing business relocations, emphasizing a marked tax differential between Pennsylvania and Delaware. The following is extracted from a presentation made recently to Grubb and Ellis by the state:

	Delaware	Pennsylvania	Differential
Effective Real Property Tax	Wilmington, \$1.22/\$100		116% Higher
General Corporate Income Tax	8.7%	12.25%	40% Higher
City Wage Tax	Wilmington 1.25% regardless of residency		245% Higher
Tax on Investment Holding Companies (stocks, bonds, intangibles)	none	12.25%	
Net Loss Carryforward	permitted		
Sales Tax	none	7% Philadelphia 6% Penn. State	
Workers Comp.	Clerical \$.39/\$100		51% Higher
Unemployment Insurance	New Firms 2.2% on wages to \$8,500	New Firms 3.5% on wages to \$8,000	
Maximum Tax	\$150,000 if incorporated in Delaware, \$40 if elsewhere \$65,000 for regular investment companies		

Source: Grubb & Ellis and Ross Herbert, Commercial Realty Review

number of people in the financial community about putting freestanding buildings along our waterfront, ranging from 50 to 200,000 square feet. We have yet to close one, but it will happen. We have that kind of an area for it. We offer an excellent alternative to the CBD for financial institutions in that we can put those buildings in a green park with the Delaware River right next door," said Gittinger.

Lukens is even thinking of doing the unspeakable in today's economy—spec building. "There is room for more speculative building. We've had a number of people contact us in the last 60 days for space that we don't have, and I'm convinced that if we had a building, we could have leased it. Being a corporate developer and having different sources of cash, we have the ability to do that," Gittinger said.

All in all, Delaware has weathered the recession well. Growth in the '90s should be steady—nothing like we saw in the '80s. But, it's doubtful we'll see growth like that again for a long time.

James Weil is a freelance writer based in Philadelphia, PA.

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