

LINCOLN HARRIS RE:SOURCE CHARLOTTE 3Q 2012

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ECONOMY

Charlotte successfully played the role of host to the Democratic National Convention in September, showing off the city's amenities and reaffirming why the region is at the top of many companies' relocation lists. After 3 straight months of increasing unemployment in the Charlotte MSA, the key metric reversed the upward trend by dropping to 9.7% in August, a 40 basis point drop from the month prior. While the short-term view of the recovery in Charlotte may seem bumpy, a comparison to the unemployment rate 12 months earlier of 11.2% indicates a slow and steady resilience. It is likely that the upcoming U.S. Presidential election and European debt crisis undercurrents will temporarily delay significant 4th quarter movement in the market; however, the forecast for the next 12 months is bright based on robust tenant activity and improving local economic fundamentals.

OFFICE MARKET

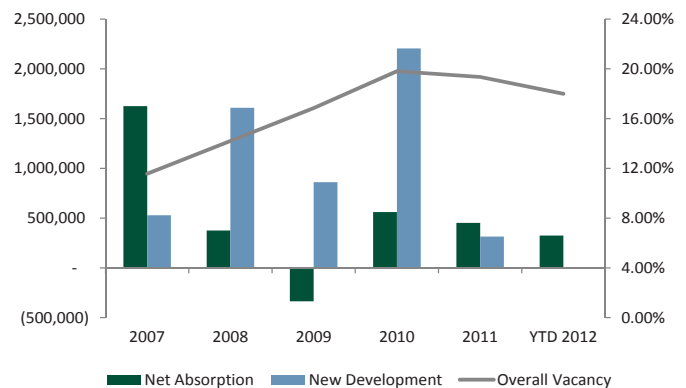
Overview

After modest gains in the 2nd quarter, the Charlotte market came back strong in the 3rd quarter, adding its sixth consecutive period of positive net absorption with over 325,000 square feet in new occupancy. The market realized the benefits from the strong leasing activity that occurred over the first half of the year. The large majority of the positive movement occurred in Class A space, while Class B space saw negative absorption in the quarter. The result of the activity was a 70 basis point decline in overall vacancy from 2nd quarter to 18.1%, and a 200 basis point decline from the same period last year. The absorption and vacancy trends are further support of the improving fundamentals in Charlotte over the last 12-18 months. The majority of tenants in the market appear to be looking for more space (expanding) rather than less space and for longer rather than shorter terms which are both contrary to the market trend over the past few years. Charlotte continued the 3rd quarter as a bifurcated market as Uptown, Midtown, and Southpark were in high demand, and the remaining suburban sectors remained soft. Despite the tightening in the stronger markets, there has yet to be a major shift away from the tenant friendly terms such as tenant improvement allowances, free rent concessions, or asking rates. New construction is also relatively unchanged as the Hwy 51/Ballantyne submarket has the only product going vertical. The Bissell Company's two speculative office buildings totaling 550,000 square feet and the SPX building totaling 241,000 square feet are scheduled for delivery over the next 6 months. Near term construction projects are likely to stay sidelined unless a major tenant gets signed, pre-construction.

STATISTICS AND TRENDS

	3Q 2011	3Q 2012	12 MONTH FORECAST
Market Supply (SF)	43,179,767	43,179,767	↕
Under Construction (SF)	791,000	791,000	↕
Under Construct. Preleased %	30.5%	30.5%	↕
Direct Vacancy	19.6%	17.7%	↘
Total Vacancy	20.1%	18.1%	↘
Total Net Absorption (SF)	333,414	325,014	↕
YTD Net Absorption (SF)	314,381	542,862	↕
Direct Asking Rent	\$20.33	\$19.75	↕
Class A Direct Asking Rent	\$22.74	\$21.95	↕
Class B Direct Asking Rent	\$16.91	\$16.92	↕

HISTORICAL VACANCY AND NET ABSORPTION



Investment interest in the Charlotte marketplace is quite high. It seems we speak with a new, institutional owner twice a month regarding the submarket activity, lease rates, etc. Clearly, the investment community is betting on Charlotte.

- Campbell Walker, Vice President

Supply

There were no new office buildings that broke ground during the third quarter, leaving the three office buildings already underway in Ballantyne as the area's only product under construction. The Gragg and Woodward buildings, totaling 275,000 square feet each, are still on track for completion in late 2012, while SPX's 241,000 square foot headquarter building is slated to be finished by spring 2013. Talks continue in the market that some potential build-to-suit users are in need of large blocks of office space, with Shaw Group foremost among them, but nothing has been set into motion yet. One project coming online at some future point is MSC Industrial's 180,000 square foot office in Davidson's Harbour Place to accommodate its co-headquarters location.

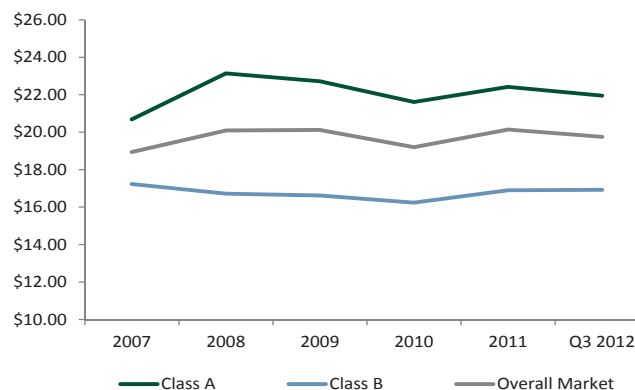
Rental Rates

Direct asking rental rates were relatively unchanged across most submarkets during the 3rd quarter. Looking back 12 months prior, however, rates have come down slightly, primarily due to a dip in the 2nd quarter of this year. Midtown saw a slight uptick from 2nd quarter to 3rd quarter as some buildings saw vacancy shrinking in their own property and in the submarket itself. Southpark saw a small upward movement in rates as well for similar reasons. Signed rental rates in Uptown (with the exception of Super-A buildings – 1 Bank of America, Hearst Tower, Duke Energy Center, Fifth Third Center and Bank of America Corporate Center which are all mid-to-high \$20s), Midtown, Southpark (with the exception of top-tier product), and Hwy 51/Ballantyne continue to hover around the \$21.00 to \$23.00 range. As availability in these amenity-rich submarkets continues to tighten, expect asking rates to increase accordingly.

COMPLETED LEASE TRANSACTIONS

TENANT	BUILDING/ADDRESS	SUBMARKET	SF	MARKET EFFECT
United Technologies	Coliseum Center Four	Airport	198,898	Renewal, Expansion
Campus Crest	Rexford Park I	Southpark	32,018	Renewal, Expansion
Balfour Beatty	Design Center of the Carolinas	Midtown	32,000	Renewal, Expansion
Navigant Consulting	Ally Center	CBD	16,956	New
Montreat College	212 South Tryon	CBD	15,000	New
Capital South Partners	Rotunda	Southpark	11,495	Renewal
Zurich American Insurance	6101 Carnegie	Southpark	10,869	New
Jefferies & Company	Rotunda	Southpark	10,779	New
URS Corporation	Southpark Towers II	Southpark	10,056	Expansion
Freedom Group, Inc.	Grinnell Waterworks	Midtown	7,900	New
Eastern Insurance	One Fairview Center	Southpark	6,500	New

HISTORICAL DIRECT RENTAL RATES



Submarket Analysis

The Uptown submarket reported the highest net absorption during the quarter at 190,000 square feet. The most significant gains in occupancy in the submarket were reported in NASCAR Plaza as Chiquita moved in to the remainder of their 130,000 square feet of space and at Duke Energy Center as Babson Capital moved into 36,000 square feet of space. Continued absorption is expected Uptown as Wells Fargo Securities will move in to the already announced 300,000 square feet in Duke Energy Center in the next 6 months. Additionally, Montreat College recently inked a deal to take 15,000 square feet 212 South Tryon, Navigant Consulting signed a lease for almost 17,000 square feet at the Ally Center, and Charlotte School of Law continues its Uptown search for a large block of space to centralize its campus.

The second-highest net absorption occurred in the Airport submarket primarily due to a 93,000 square foot move-in by the Lash Group at Corporate Center One in the LakePoint Corporate Center. Class A product in the submarket has seen positive gains over the last three quarters as other tenants have entered market including Odyssey Logistics at One LakePoint Plaza, Midrex expansion at Six LakePoint and US MEPCOM at 3545 Whitehall. Class B, on the other hand has experienced negative absorption with the departure of Montreat College and few others. The net result is a continued unhealthy vacancy rate in the submarket of 24%.

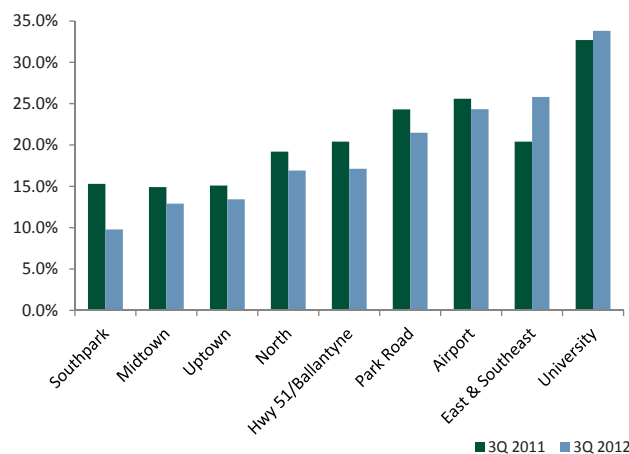
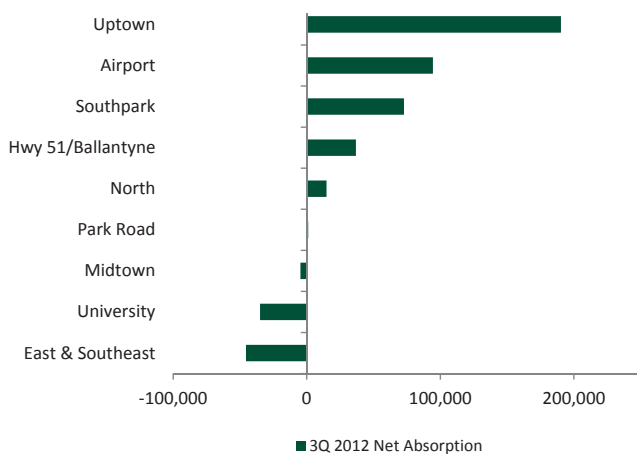
The Southpark submarket also showed some positive gains during the quarter as this desirable area continues to tighten. PNC expanded in Piedmont Town Center One after a successful merger with RBC Bank showing its dedication to keeping a presence in the Charlotte market. AGDATA moved into its new space at One Southpark Center while a number of smaller deals were signed, confirming that Southpark is a desirable home for a variety of businesses. Campus Crest renewed their existing space of approximately 16,000 square feet and made plans to expand into an additional 16,000 at Rexford Park I, Capital South Partners renewed its 11,500 square foot lease at Rotunda, Zurich American Insurance inked a deal for almost 11,000 square feet at 6101 Carnegie, Jefferies & Company signed up for a nearly 11,000 square feet at Rotunda, and Eastern Insurance agreed to terms for 6,500 square feet of space at One Fairview Center.

In Hwy 51/Ballantyne, steady net absorption of 36,000 square feet was a continuation of solid gains from previous quarters. The nearly 800,000 square feet of construction underway in the submarket will certainly create supply-side pressures, but the area is full of amenities and will maintain its desirability for companies looking to relocate.

SUBMARKET-BY-SUBMARKET ASKING RENTAL RATES



SUBMARKET ANALYSIS



SUBMARKET-BY-SUBMARKET NET ABSORPTION

SUBMARKET-BY-SUBMARKET VACANCY TRENDS

OFFICE MARKET STATISTICS

URBAN									
	3Q 2012 inventory (SF)	3Q 2012 overall vacant SF	3Q 2012 overall vacancy %	3Q 2012 total net absorption	4Q11-3Q12 total net absorption	4Q11-3Q12 total net absorption (% of inventory)	3Q 2012 Completions (SF)	Under construction (SF)	3Q12 overall direct asking rent (PSF)
UPTOWN	17,434,154	2,340,468	13.4%	190,327	240,691	1.4%	0	0	\$23.94
MIDTOWN	1,333,248	172,008	12.9%	-4,756	26,063	2.0%	0	0	\$22.34
URBAN TOTALS	18,767,402	2,512,476	13.4%	185,571	266,754	1.4%	0	0	\$23.72
SUBURBAN									
	3Q 2012 inventory (SF)	3Q 2012 overall vacant SF	3Q 2012 overall vacancy %	3Q 2012 total net absorption	4Q11-3Q12 total net absorption	4Q11-3Q12 total net absorption (% of inventory)	3Q 2012 Completions (SF)	Under construction (SF)	3Q12 overall direct asking rent (PSF)
AIRPORT	8,188,775	1,992,564	24.3%	94,457	100,456	1.2%	0	0	\$16.21
EAST & SOUTHEAST	1,640,347	423,459	25.8%	-45,513	-89,541	-5.5%	0	0	\$14.51
HWY 51/BALLANTYNE	4,785,144	819,523	17.1%	36,826	156,620	3.3%	0	791,000	\$23.98
NORTH	1,566,667	264,811	16.9%	14,809	36,530	2.3%	0	0	\$19.28
PARK ROAD	542,828	116,806	21.5%	1,088	15,200	2.8%	0	0	\$16.46
SOUTHPARK	4,034,009	394,407	9.8%	72,770	221,645	5.5%	0	0	\$22.41
UNIVERSITY	3,654,595	1,235,596	33.8%	-34,994	-36,288	-1.0%	0	0	\$20.12
SUBURBAN TOTALS	24,412,365	5,018,836	20.6%	139,443	248,050	1.0%	0	791,000	\$18.26
CHARLOTTE TOTALS	43,179,767	7,810,980	18.1%	325,014	671,376	1.6%	0	791,000	\$19.75

RECENT INVESTMENT SALES

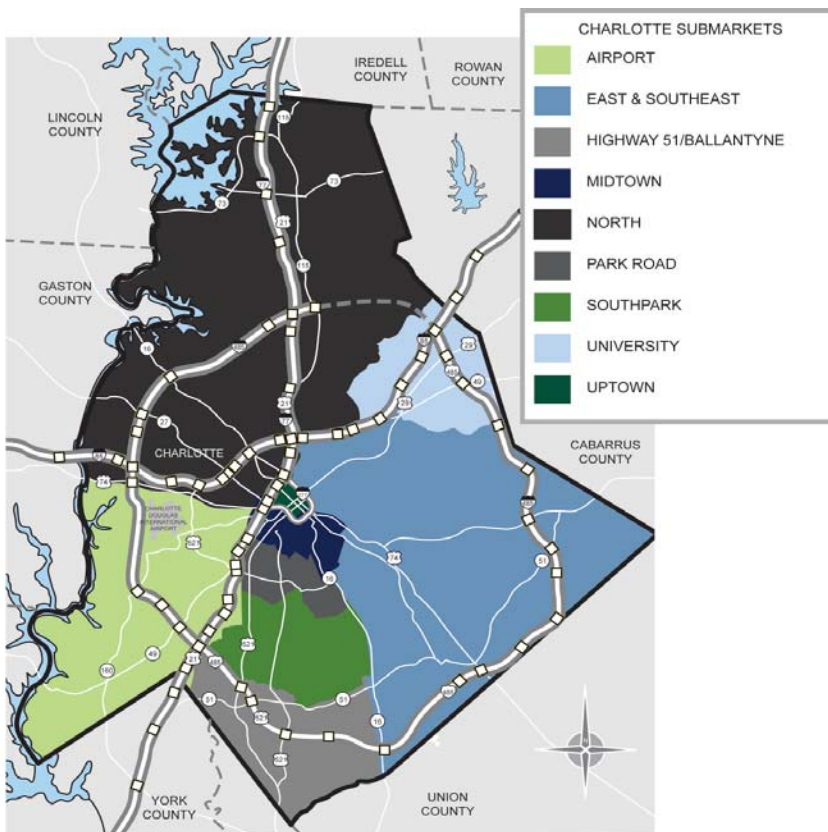
BUILDING	ADDRESS	RBA	SALE PRICE	PRICE PSF	BUYER	SALE DATE
Toringdon VI	3530 Toringdon Way	91,495	\$12,574,199	\$137	Trinity Capital Advisors	July 2012
Toringdon VIII	3426 Toringdon Way	108,606	\$12,250,000	\$113	Trinity Capital Advisors	July 2012

Sales activity quieted down during the third-quarter considerably after a busy first half as only two properties changed hands. Trinity Capital Advisors purchased Toringdon VI, a 91,495 square foot office building and Toringdon VIII, a 108,606 square foot office building for \$24.9 million. This segment of the market may come back to life sooner than later as Parkway Properties Inc., the real estate investment trust that recently purchased the Hearst Tower for \$250 million, is reported by the Charlotte Business Journal to be in talks to purchase 525 N. Tryon, a 430,000 square foot office building uptown. Sources say the firm has also expressed interest in NASCAR plaza, although 525 N. Tryon is the more likely of the two to close.

FORECAST

The next few quarters are expected to be strong in net absorption due to the robust leasing activity that continues and the number of tenants known in the market looking for large blocks of space. Wells Fargo is slated to move in to 300,000 square feet at the end of 2012 or beginning of 2013, Charlotte School of Law is looking for 250,000 square feet in Uptown, InVue Security is rumored to be in the market for close to 100,000 square feet, and numerous other smaller blocks of space are in demand across all submarkets. New product will come onboard in Ballantyne in the next 6 months; however, the net effect is likely going to be mildly declining vacancy rates and slowly eroding concessions to tenants, as Charlotte endures on the path to recovery.

SUBMARKET MAP



ABOUT LINCOLN HARRIS

Lincoln Harris, an affiliate of Lincoln Property Company, is a full-service corporate real estate company focused on development, commercial brokerage, corporate real estate services, retail services, land services, project services, property management and asset management. Based in Charlotte, NC, Lincoln Harris has twenty-three service offices across the country.

More information about Lincoln Harris can be found at www.lincolnharris.com.

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