



LINCOLN HARRIS RE:SOURCE RALEIGH-DURHAM 1Q 2011

In the 12 months ending March 2011, the region's employment grew at a brisk 2.2 percent; most of that growth was in the professional and business services sector, which added 10,800 positions and expanded at an annual clip of 9.2 percent.

ECONOMY

The Raleigh and Durham MSAs both continue to rank among the top tier of U.S. regions in terms of their economic recovery. Though the region never experienced double-digit unemployment like many parts of North Carolina and the nation, the combined metros only had 7.5 percent unemployment in March 2011 – down from 8.1 percent in January 2011 and on par with the unemployment rate in January 2009. The primary engines of economic growth in the Triangle – technology, government, education, health care, and leisure and hospitality – were tangentially affected by the previous recession, but were not at the epicenter of the financially-led downturn. With the metros adding 17,200 new jobs in the past 12 months ending March 2011, the region's employment grew at a brisk 2.2 percent; almost 63 percent of that growth came from gains in the professional and business services sector, which added 10,800 positions and expanded at an annual clip of 9.2 percent.

The Raleigh-Durham area has seen a plethora of positive news during first quarter 2011 that cements the region's revival as real and self-sustaining. Red Hat confirmed that they would retain their headquarters in Raleigh and add 540 new positions in the next five years. A number of technology and pharmaceutical companies are growing organically in the metro, adding jobs and facilities, including Merck, SAS, Novartis, United Therapeutics, and Cree; combined, these companies have announced the creation of nearly 850 new jobs over the next several years. One dark spot is Progress Energy's pending merger with Charlotte-based Duke Energy that would move the combined company's headquarters to Charlotte and strip the area of one of its two Fortune 500 headquarters.

OFFICE MARKET

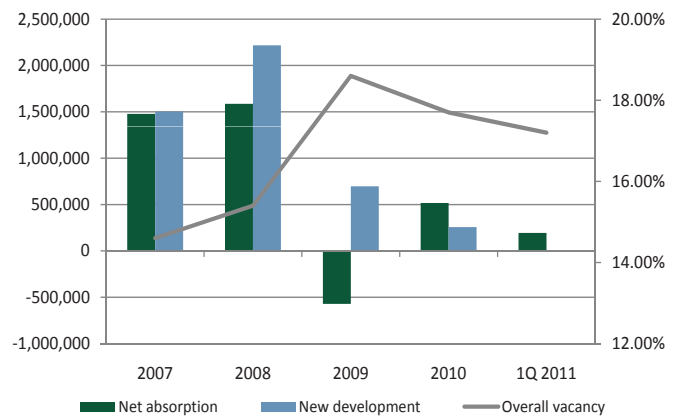
Overview

The first quarter of 2011 saw nearly widespread growth continue in the Raleigh-Durham office market with 194,343 square feet of net absorption that pushed vacancy from 17.7 percent at year-end 2010 to 17.2 percent during first quarter. With sturdy positive net absorption averaging 205,105 square feet per quarter since the second quarter of 2010, the metro has rebounded early and powerfully compared to most metros nationally; since the first quarter of 2010, vacancy has plunged 210 basis points, from 19.3 percent, as the metro absorbed 820,421 square feet amid a dearth of construction completions. Class A product, offering client-friendly appeal at a relatively low price – the average asking rent disparity between Class A and B space is only \$3.88 per square foot, captured all positive net absorption during the quarter, adding 246,747 square feet, while Class B space lost 52,404 square feet. As tenants weigh the tradeoff between price and quality, many decision makers are choosing to relocate into Class A space: in the past four quarters, Class A buildings have gained 81.0 percent of the net move ins (totaling 664,594 square feet), yet account for only 63.4 percent of the metro's office inventory.

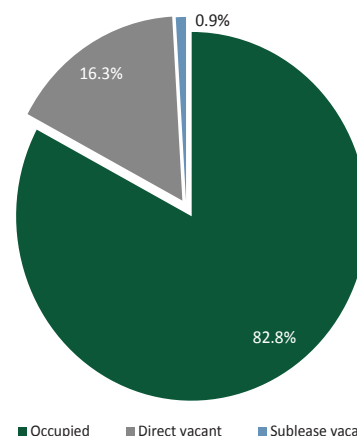
The Raleigh-Durham market has benefited from a confluence of organic expansions – such as Salix Pharmaceuticals and Duke University – while also enjoying the effect of research-heavy companies entering and expanding in the market; new firms such as mobile device makers HTC, which is

	1Q 2010	1Q 2011	12 MONTH FORECAST
Market Supply (SF)	37,385,686	37,455,716	↔
Under Construction (SF)	70,030	0	↔
Under Construction Released %	80.8%	N/A	↔
Direct Vacancy	18.3%	16.3%	↓
Total Vacancy	19.3%	17.2%	↓
Total Net Absorption	-109,851	194,343	↑
YTD Net Absorption	-109,851	194,343	↑
Direct Asking Rent	\$19.85	\$20.15	↑
Class A Direct Asking Rent	\$21.98	\$21.82	↔
Class B Direct Asking Rent	\$16.89	\$17.97	↑

STATISTICS AND TRENDS



HISTORICAL VACANCY AND NET ABSORPTION



SPACE BREAKDOWN



The office market's turnaround has had the staying power over the past four quarters to embolden many landlords to nudge their rental rates upwards for the first time in several years.

taking 27,000 square feet at American Tobacco Campus, and Research In Motion, which is opening two new offices at 2530 Meridian Parkway and CentreGreen Four totaling nearly 22,000 square feet, are responding to pent-up growth unleashed by resurgent corporate and consumer demand for electronics.

Supply

There are currently no competitive office buildings over 30,000 square feet under construction. The area's construction pipeline emptied out in the first half of 2010 with the delivery of 256,755 square feet in three buildings - Keystone Centennial Science Center, Patterson Place phase II G4, and 5213 S Alston Avenue.

In the near-term, it remains possible that some of the most constrained submarkets, notably Downtown Durham, will see office projects break ground. However, Downtown Raleigh, which last quarter would have been a possible submarket to watch for new development, is a less viable candidate after Progress Energy's merger with Charlotte-based Duke Energy was announced in January. The merger's regulatory approval would result in a combined company headquartered in Charlotte, thus raising questions about Progress' more than 750,000 square feet leased in Downtown Raleigh; nearly equal amounts of their space have lease expirations in 2013 and 2035.

Rental rates

The office market's turnaround has had the staying power over the past four quarters to embolden many landlords to nudge their rental rates upwards for the first time in several years. After enduring falling year-over-year direct asking rates in 2008 and 2009, market stabilization in 2010 and the first quarter of 2011 resulted in a moderate 1.5 percent annual uptick in average rates to \$20.15 per square foot in first quarter 2011. With the suburban market's large size and dominance in winning leasing activity, that segment of the market has seen rental rates increase from \$19.71 to \$20.07 per square foot in the first quarters of 2010 and 2011, respectively, for a rally of 1.8 percent. However, the much smaller urban submarkets had direct asking rental rates decline 3.2 percent during the same period from \$22.39 to \$22.01 per square foot, as tenants have tended to prefer suburban locations; one of the largest deterrents to leasing space in the two downtown submarkets is availability: there are 10 buildings with 10,000 contiguous square feet and only two buildings that

offer more than 20,000 square feet of contiguous availability.

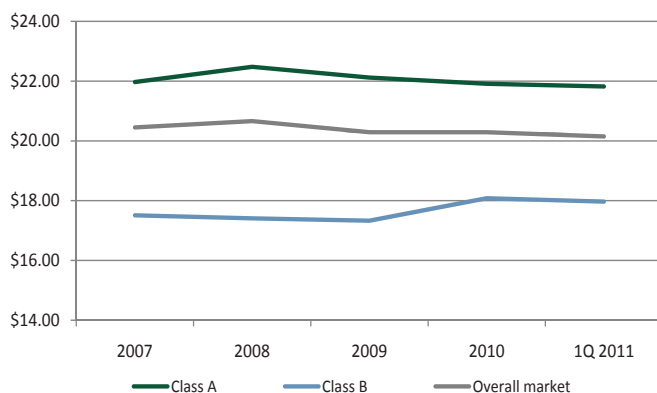
As is typical of newly expanding market, the best-located and highest-quality Class A properties have received the lion's share of relocations and expansions, taking top dollar Class A spaces off of the market. Therefore, the average overall direct asking rate for Class A product has not advanced in the past year, dropping a modest 0.6 percent during the past four quarters. Class B space, on the other hand, has jumped substantially during the same time period, ascending 6.4 percent from \$16.89 to \$17.97 per square foot in the first quarters of 2010 and 2011, respectively, as B+ spaces price themselves up to compete with A- spaces.

SUBMARKET ANALYSIS

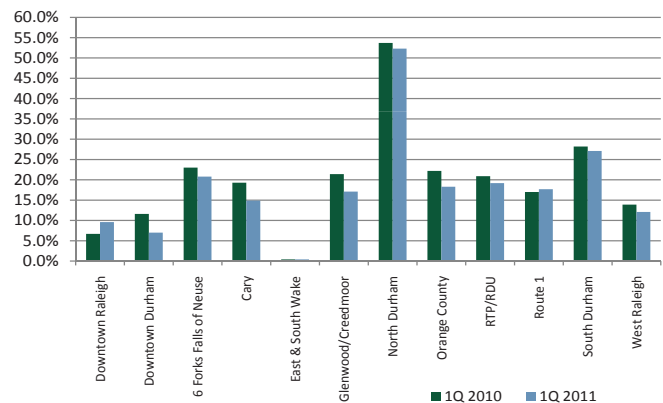
The RTP/RDU cluster and the surrounding submarkets of Cary, Glenwood/Creedmoor, and South Durham have experienced the largest positive net absorption numbers this quarter with a combined 246,455 square feet; leading the pack was the Cary submarket, which enjoyed net absorption of 101,973 square feet. Notable lease transactions in this hub include ITT Educational Services' 19,709 square foot lease at 3518 Westgate Drive, as well as RMF Engineering's relocation and expansion into 13,500 square feet at Brier Creek Corporate Center VI. Downtown Raleigh, with its constrained available spaces for expansion, took the largest step back of any submarket in the first quarter, losing 64,177 square feet of net absorption as tenants moved to suburban markets with greater accessibility and space flexibility.

The Orange County submarket continues to garner the highest rental rates in the metro – averaging \$26.04 per square foot in first quarter – due to the area's high barriers to development. The Class A, mixed-use Meadowmont and East 54 projects are both asking for at least \$30.00 per square foot, and even the Class B office product on Franklin Street is charging north of \$21.00 per square foot. Interestingly, unlike many other national markets, some suburban submarkets like West Raleigh and Orange County are able to command higher direct asking rental rates than the urban core; however, that trend does not bear out in the aggregate numbers: urban properties achieve an average direct asking rate of \$21.20 per square foot, whereas suburban spaces ask for \$19.87 per square foot. The large RTP/RDU submarket currently offers more than 2.7 million square feet of available space – including 12 buildings over 50,000 square that are entirely empty – with an average rate of \$19.30 per square foot.

HISTORICAL DIRECT RENTAL RATES



SUBMARKET-BY-SUBMARKET VACANCY TRENDS



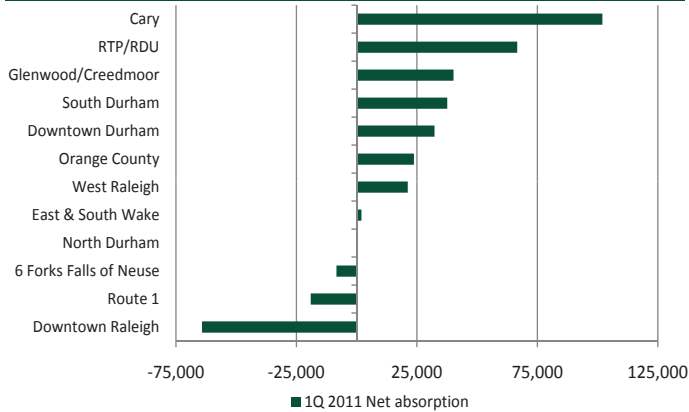
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RALEIGH-DURHAM 1Q 2011

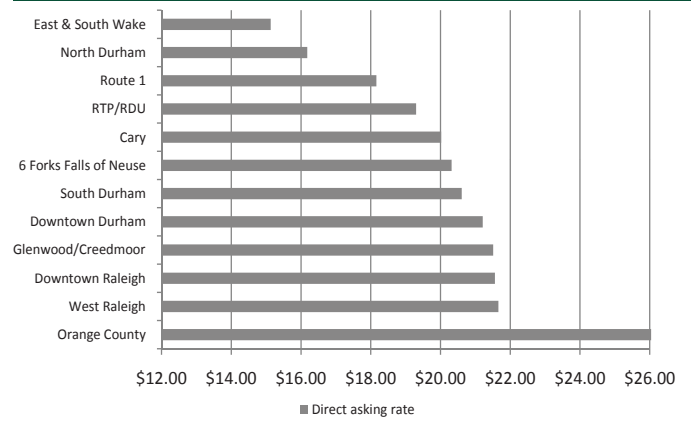


SUBMARKET TRENDS

SUBMARKET-BY-SUBMARKET 1Q 2011 NET ABSORPTION



SUBMARKET-BY-SUBMARKET ASKING RENTAL RATES



COMPLETED LEASE TRANSACTIONS

TENANT	ADDRESS	SUBMARKET	SF	MARKET EFFECT
Salix Pharmaceuticals	Colonnade I & II	6 Forks Falls of Neuse	153,000	Relocation, expansion
ChannelAdvisor Corp.	2701 Aerial Center Parkway	RTP/RDU	42,960	Renewal
ABB	1021 Main Campus Drive	West Raleigh	27,334	Relocation
ITT Educational Services	3518 Westgate Drive	South Durham	19,709	Relocation
Art.com	5580 Centerview Drive	West Raleigh	16,684	Sublease
Umicore Building Products USA	3600 Glenwood Avenue	West Raleigh	15,200	Relocation, expansion
RMF Engineering	Brier Creek Corporate Center VI	RTP/RDU	13,500	Relocation, expansion
Mediant Communications	Regency Forest I	Cary	11,440	Relocation
Research in Motion	2530 Meridian Parkway	South Durham	11,315	Expansion
Chimerix	2505 Meridian Parkway	RTP/RDU	11,056	Renewal
Wasserman	Captrust Tower	6 Forks Falls of Neuse	10,294	Relocation
Research in Motion	CentreGreen Four	Cary	10,141	Expansion

INVESTMENT SALES TRANSACTIONS

BUILDING/ADDRESS	SF	SALE PRICE	SALE PRICE/SF	BUYER
Quintiles Plaza 4820 Emperor Boulevard, Durham	259,531	\$75.8 million	\$292	Franklin Street Properties Corporation
Nottingham Hall 4505 Emperor Boulevard, Durham	105,363	\$13.62 million	\$129	The Brookdale Group
Hock Plaza I 2424 Erwin Road	339,060	\$98 million	\$289	Hines Interests LP
U.S. Citizenship & Immigration Services 301 Roycroft Drive, Durham	23,530	\$8.32 million	\$353	NGP V Fund LLC

INVESTMENT SALES ACTIVITY

With institutional investors increasingly focused on in-place income and properties located within a burgeoning area, the Raleigh-Durham area has been viewed as a relatively safe investment haven during the downturn. The area has begun to see several notable, high-quality product, such as Quintile's iconic LEED-Silver certified 11-story office building with Interstate 40 visibility, Hock Plaza I, and the U.S. Citizenship & Immigration Services facility trade for prices near or over \$300 per square foot. Even the sale of Nottingham Hill, which was 93 percent occupied at time of sale,

garnered a \$129 per square foot price on par with the market's average price of all 2006 office investment sales. The area's values have been prevented from erosion due in part to the dearth of major distressed office sales, and cap rates have remained in the 7.0 to 7.6 percent range for the past several years. The in-place income and quality of buildings sold in 2010 and 2011 have pushed average prices per square foot to \$215 and \$245, respectively, much higher than the 2007 and 2008 averages of \$160 and \$172 per square foot.

RE:SOURCE

RALEIGH-DURHAM 1Q 2011



SPACE STATISTICS

URBAN									
	1Q 2011 Inventory (SF)	1Q 2011 Overall Vacancy (SF)	1Q 2011 Overall Vacancy %	1Q 2011 Total Net Absorption (SF)	2Q 2010-1Q 2011 Total Net Absorption (SF)	2Q 2010-1Q 2011 Total Net Absorption (% of inventory)	1Q 2011 Overall Direct Asking Rent	2Q 2010- 1Q 2011 Completions (SF)	Under Construction (SF)
DOWNTOWN DURHAM	2,657,091	184,692	7.0%	-7,435	124,079	4.7%	\$22.50	0	0
DOWNTOWN RALEIGH	2,189,226	209,966	9.6%	-64,177	-64,134	-2.9%	\$21.56	0	0
URBAN TOTALS	4,846,317	394,658	8.1%	-71,612	59,945	1.2%	\$22.01	0	0
SUBURBAN									
	1Q 2011 Inventory (SF)	1Q 2011 Overall Vacancy (SF)	1Q 2011 Overall Vacancy %	1Q 2011 Total Net Absorption (SF)	2Q 2010-1Q 2011 Total Net Absorption (SF)	2Q 2010-1Q 2011 Total Net Absorption (% of inventory)	1Q 2011 Overall Direct Asking Rent	2Q 2010- 1Q 2011 Completions (SF)	Under Construction (SF)
6 FORKS FALLS OF NEUSE	4,279,258	891,502	20.8%	-8,404	92,241	2.2%	\$20.32	0	0
CARY	4,196,337	627,118	14.9%	101,973	183,889	4.4%	\$20.02	0	0
EAST & SOUTH WAKE	327,540	1,200	0.4%	2,000	0	0.0%	\$15.13	0	0
GLENWOOD/ CREEDMOOR	1,579,429	269,610	17.1%	40,194	67,760	4.3%	\$21.51	0	0
NORTH DURHAM	565,055	295,403	52.3%	0	8,144	1.4%	\$16.18	0	0
ORANGE COUNTY	1,334,698	244,286	18.3%	23,773	52,042	3.9%	\$26.04	0	0
ROUTE 1	1,634,099	288,801	17.7%	-19,071	-10,263	-0.6%	\$18.16	0	0
RTP/RDU	10,540,267	2,024,712	19.2%	66,666	177,710	1.7%	\$19.30	0	0
SOUTH DURHAM	2,828,345	767,475	27.1%	37,622	30,720	1.1%	\$20.61	0	0
WEST RALEIGH	5,324,371	642,407	12.1%	21,202	158,233	3.0%	\$21.66	70,030	0
SUBURBAN TOTALS	32,609,399	6,052,514	18.6%	265,955	760,476	2.3%	\$20.10	70,030	0
METRO TOTALS	37,455,716	6,447,172	17.2%	194,343	820,421	2.2%	\$20.18	70,030	0

LARGEST AVAILABLE CONTIGUOUS SPACE

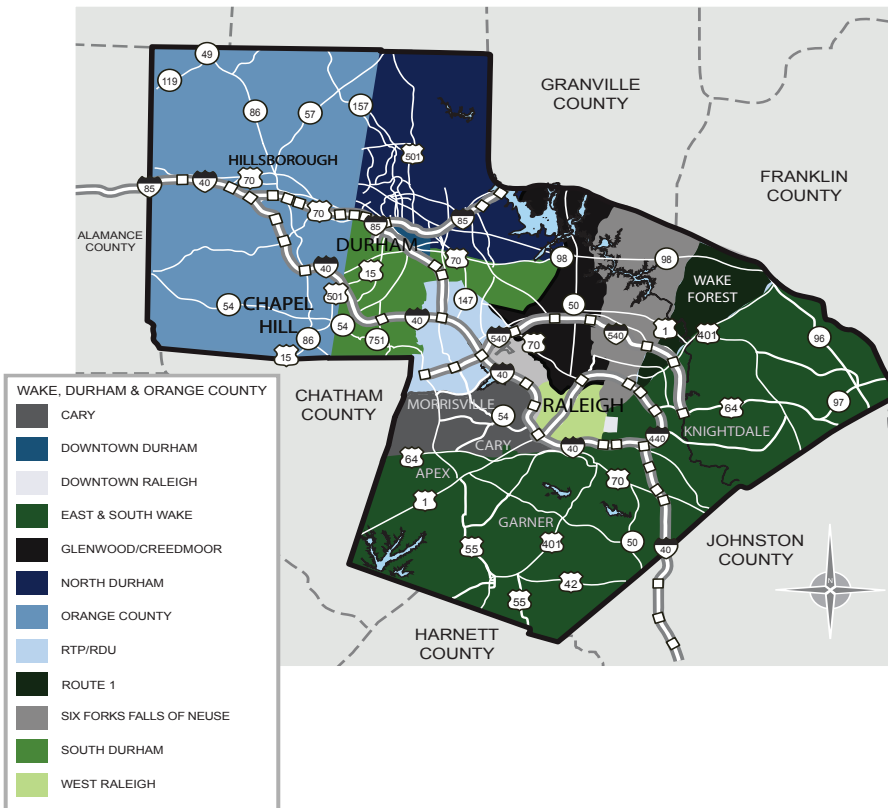
BUILDING	ADDRESS	SUBMARKET	SF Available
Network Center	4004-4010 NC Highway 54	RTP/RDU	456,745
8001 Development Drive	8001 Development Drive	RTP/RDU	262,000
7001 Development Drive	7001 Development Drive	RTP/RDU	205,310
Signature Commons	4100 N Roxboro Road	North Durham	136,000
600 Park Drive	600 Park Drive	RTP/RDU	129,046
500 Park Drive	500 Park Drive	South Durham	125,742
Lucent Lane 200	200 Lucent Lane	Cary	124,544
700 Park Drive	700 Park Drive	RTP/RDU	120,473
RDU Center III	2121 RDU Center Drive	RTP/RDU	114,518



OFFICE FORECAST

The Raleigh-Durham economy and office market are both clearly on the upswing after hitting their troughs in mid-2010. The area's strong demographics, rebounding job creation, and wide appeal to a variety of companies – from research to high-tech manufacturing to risk management – ensure that Raleigh-Durham's positive net absorption trend is likely to continue in the near-term. However, though the private sector is making a robust recovery in the area, with technology firms leading the way with increased business and consumer activity, the mid-term future of state government and educational spending remains shaky; many state agencies and the university system are bracing for sizable proposed cuts to their budget that would certainly have negative ripple effects throughout the region. The metro will also have to take a "wait and see" approach to the effects of Progress Energy's announced merger to Charlotte-based Duke Energy, which – if approved – will likely result in Progress Energy moving out of substantial space in Downtown Raleigh. Additionally, Red Hat's announcement that they are doubling their headquarter space in Raleigh to 300,000-400,000 square feet will move the market's needle if they land in existing space, but will have less of an effect if they go the build-to-suit route.

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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