



LINCOLN HARRIS RE:SOURCE RALEIGH-DURHAM 4Q 2011

Coming off of third quarter's 386,662 square foot net absorption – the strongest since 2008 – occupancy gains of 41,494 square feet in fourth quarter seem a bit disappointing. However, much of the perceived pause in office usage growth is actually because two of the largest lease deals signed during fourth quarter were for sublease spaces.

ECONOMY

The combined Raleigh-Durham metro economy generated 9,200 new positions in 2011, accounting for nearly a quarter of all jobs created in North Carolina during the year. With a combined unemployment rate of 7.7 percent at year-end – 7.5 percent in Durham and 8.0 percent in Raleigh – the area's multiple engines of job creation have helped lower the unemployment rate 50 basis points from the 8.2 percent rate recorded at the beginning of 2011. Office-using employment sectors added 3,900 additional jobs throughout the year, with professional and business services producing the entirety of that growth by adding 5,100 positions as the information and financial services sectors shed a total of 1,200 jobs. The other largest gainers were education and health services; trade, transportation, and utilities; and manufacturing, which filled 3,400, 1,500, and 1,000 positions, respectively. As expected in this budgetary environment, government positions were hardest-hit and fell by 1,600 during 2011.

During fourth quarter, several of the area's largest and most prominent companies grappled with changes that could weaken the recovery headwinds the area has enjoyed recently. PNC Financial Services won the Federal Reserve's approval in December to buy RBC Bank's consumer banking arm, which is slated to cost Raleigh nearly 200 high-paying positions. Also, though energy regulators put the brakes on Progress Energy's marriage with Charlotte-based Duke Energy in December, denying another proposed merger deal, it is widely expected to win approval by mid-2012; the job impact hinges on attrition and buyout acceptance rates but loss estimates range from 700 to 1,000 positions. Also, two of the area's most successful publicly traded companies, Tekelec and PPD, both accepted private equity bids during the quarter and are moving towards private ownership. Of course, the area's skilled workforce continues to attract the likes of software developers SugarCRM and Wireless Generation, which both opened offices in the area and promised to create more than 60 combined jobs, while genetics research firm Sequenom hopes to produce 242 new positions in the area in the next several years. Established firms such as SAS and ACS are also on the hiring upswing.

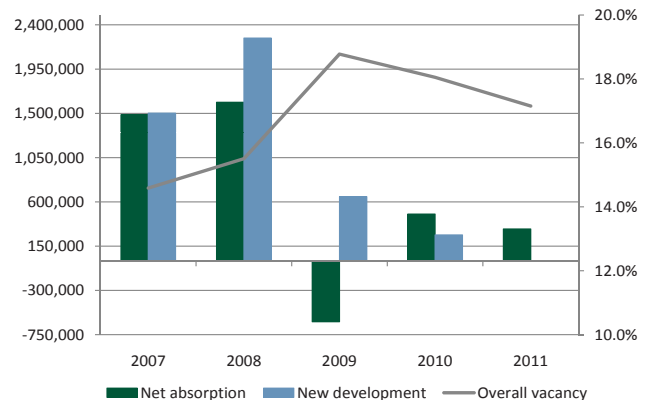
OFFICE MARKET

Overview

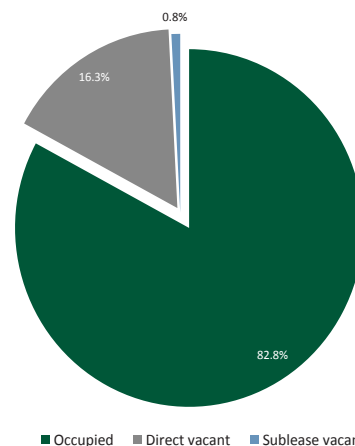
Coming off of third quarter's 386,662 square foot net absorption – the strongest since 2008 – occupancy gains of 41,494 square feet in fourth quarter seem a bit disappointing. However, much of the perceived pause in office usage growth is actually because two of the largest lease deals signed during fourth quarter were for sublease spaces; Royal Bank of Canada pledged to expand into the former 43,278 square foot Inspire Pharmaceuticals headquarter at Brier Creek Corporate Center VI, as Sequenom subleased the entire 48,236 square foot Alexandria Innovation Center building. Red Hat's finalized 366,000 square foot sublease deal at Two Progress Plaza, which is

	4Q 2010	4Q 2011	12 MONTH FORECAST
Market Supply (SF)	36,015,202	36,015,202	↕
Under Construction (SF)	0	73,713	↕
Under Construction Preleased %	N/A	0.0%	↕
Direct Vacancy	17.2%	16.3%	↕
Total Vacancy	18.1%	17.2%	↕
Total Net Absorption	177,934	41,494	↕
YTD Net Absorption	476,146	324,363	↕
Direct Asking Rent	\$20.34	\$19.96	↕
Class A Direct Asking Rent	\$21.91	\$21.83	↕
Class B Direct Asking Rent	\$18.13	\$17.85	↕

STATISTICS AND TRENDS



HISTORICAL VACANCY AND NET ABSORPTION



SPACE BREAKDOWN



Overall 2011 occupancy totaled 324,363 square feet and that vacancy has dropped 90 basis points since year-end 2010 due to lease expansions and a nearly 1 million square foot reduction in competitively owned space.

slated to lock in tens of millions of dollars in savings for Red Hat over the 20-plus years of term, is another example of essentially zero-sum leasing activity as Progress moves their employees into a former Lucent location in Cary. Of course, Progress finalizing the sublease of that building before a merger has been approved with Duke Energy puts the company in an interesting situation if the unification should be delayed. Though these positive movements in the market clear the way for less space competition, they do not directly affect the area's vacancy rate which only dropped down 10 basis points quarter-over-quarter to 17.2 percent. Much of the drag on activity during the quarter came from Salix Pharmaceuticals moving out of 77,239 square feet at 1700 West Perimeter Park as it consolidates in Colonnade II.

With a slowdown in net move-in activity during fourth quarter, it is important to note that overall 2011 occupancy totaled 324,363 square feet and that vacancy has dropped 90 basis points since year-end 2010 due to lease expansions and a nearly 1 million square foot reduction in competitively owned space. Class A product, which has experienced positive net absorption for eight straight quarters, continued to enjoy positive activity of 549,808 square feet in 2011 that overshadowed the negative 225,445 square foot step back that Class B space took. The positive Class A momentum is clearly systemic, with 1,153,481 square feet of Class A product absorbed since the beginning of 2010, while Class B growth vacillated between positive and negative territory nearly every quarter for a two-year net absorption loss of 352,972 square feet. The impact on vacancy rates are stark: while Class A space has dropped vacancy from 19.2 at year-end 2009 to 15.1 percent at the end of 2011, the Class B segment of the market has seen vacancy rise from 18.1 to 20.8 percent during the same period.

Supply

Waning office demand and significantly tightened lending standards in 2009 and 2010 led to no new additions to the Triangle's office supply in 2011. However, as the employment picture has improved over the past two years and tenant demand has returned in pockets, developers have begun to take the plunge. The Measurement Group's 73,713 square foot building on Hunt Street in Downtown Durham broke ground during third quarter 2011; though the namesake company originally intended to occupy half

of the building's office space, at the end of the year the entire building was listed as available. Another speculative office building, 130,000 square foot Diamond View III, has been on hold for a number of years but could break ground as early as spring 2012 in Downtown Durham as American Tobacco Campus' vacancy has hovered around 2.0 percent for more than half a year. In addition, Craig Davis Properties began work on the speculative 145,894 square foot Alliance Center at NCSU's Centennial Campus in fourth quarter, despite the 192,418 square feet of sublease space at Venture Center III and 1801 Varsity that Red Hat put on the market several months ago.

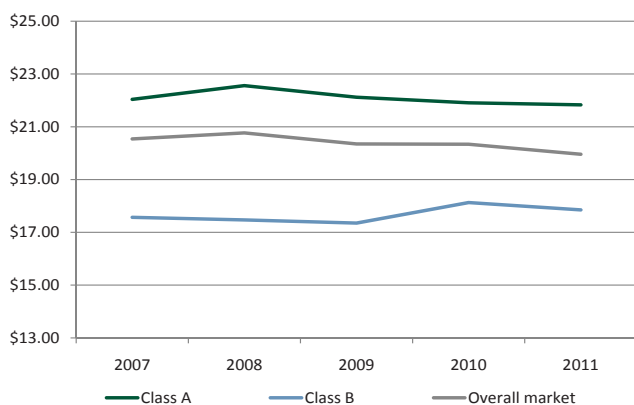
Rental rates

Though the Triangle office market is comfortably making steady progress towards positive occupancy at this point in the recovery, rental rate growth remains weak as competing spaces propose aggressive pricing to prospective tenants willing to make a move. As landlords focus on their individual balancing act between in-place financials, vacancy, and rollover schedules, those singular decisions multiplied over the metro have resulted in a general unwillingness to push rental rates and instead to focus on occupancy gains. Direct asking rental rates in fourth quarter 2011 averaged \$19.96 per square foot – the lowest rate since the beginning of 2010 – as rates stagnated during the second half of 2011 and have fallen 1.9 percent since year-end 2010; this weakness was not confined to just 2011 as year-over-year rent rate declines have occurred in all but one quarter during the past three years. The increasingly uneven distribution of recent net absorption has exacerbated the disparity in rent growth rates amongst building classes, with Class A and B averaging \$21.83 and \$17.85 per square foot, respectively. Class A buildings, which have also experienced less value and demand erosion over the past year, have rates down 0.4 percent year-over-year compared to the 1.5 percent decline for Class B spaces. With 42.9 percent of Class A buildings with available spaces asking for \$20.00 per square foot or less, these moderately priced Class A buildings have advantageously positioned themselves to woo Class B tenants.

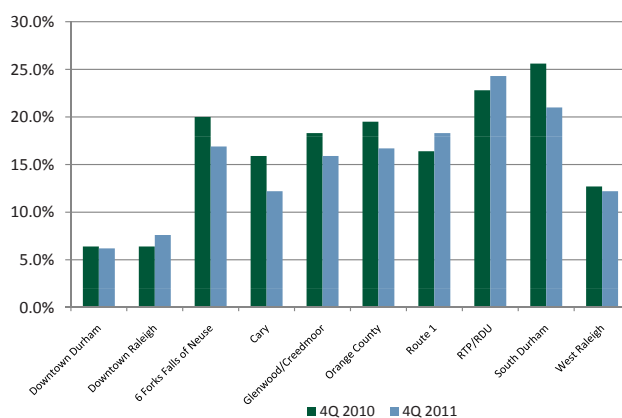
SUBMARKET ANALYSIS

During fourth quarter, Downtown Durham and West Raleigh experienced the largest readings of net absorption, racking up 45,132 and 56,491 square feet, respectively. Downtown Durham's net absorption was boosted substantially

HISTORICAL DIRECT RENTAL RATES



SUBMARKET-BY-SUBMARKET VACANCY TRENDS

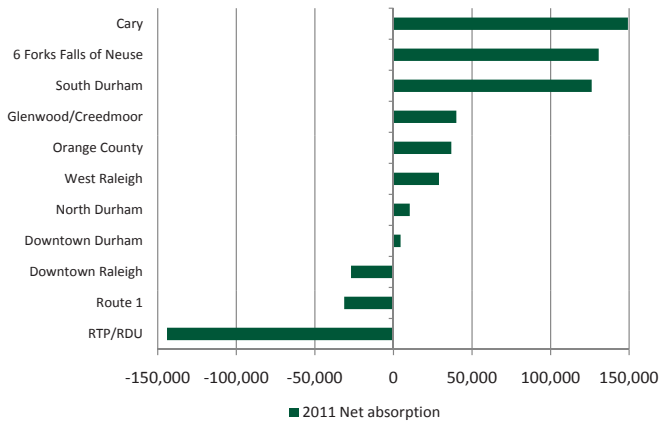




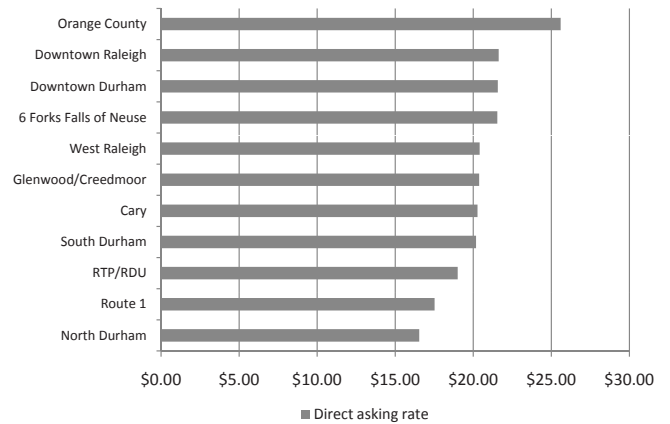
by GlaxoSmithKline leaving 88,000 square feet at American Tobacco Campus, allowing the area to diversify its tenant roster to include Wireless Generation in 12,810 square feet at the Crowe Building and to more than double HTC's footprint to approximately 48,000 square feet. With that influx of activity, the submarket netted 4,520 square feet of net absorption during 2011 overall and saw vacancy slide 20 basis points during the year to 6.2 percent. Additionally, centrally located West Raleigh saw substantial positive activity as PRA International moved into a full floor at 3737 Glenwood, Piedmont Community Bank Holdings took possession of roughly 15,000 square feet at 3600 Glenwood as it grows by acquisition with Crescent State Bank, and TEKsystems expanded by 3,283 square feet at Trinity Place. Again, the RTP/RDU submarket absorbed another full-building move out as Salix Pharmaceuticals left the 77,239 square foot 1700 West Perimeter Park location; RTP/RDU vacancy continued its upward march to 24.3 percent in fourth quarter, which is 1.5 percentage points higher than at year-end 2010.

The Triangle's office occupancy strength during 2011 was, for the most part, far-reaching and touched all but three of the area's submarkets; Downtown Raleigh, mired in uncertainty from the Progress Energy merger for most of the year, took a hit, while RTP/RDU continued to grapple with the drag of obsolescent properties, and Route 1 struggled with locational challenges. However, the rest of the market benefitted from a general sense of optimism that was backed up by a number of expansionary leases and new tenants to the market. As the urban submarkets enjoyed an average vacancy rate of 6.9 percent in Downtown Durham and 7.6 percent in Downtown Raleigh – and only three spaces in the urban areas offer 15,000 square feet or greater, growing tenants had to look towards the suburbs for spaces. Accordingly, five of the nine suburban submarkets – Orange County, Glenwood/Creedmoor, Cary, 6 Forks Falls of Neuse, and South Durham – garnered sufficient year-over-year net absorption to drop their vacancy rates by a range of 2.4 to 4.6 percentage points.

SUBMARKET-BY-SUBMARKET 4Q 2011 NET ABSORPTION



SUBMARKET-BY-SUBMARKET 4Q 2011 DIRECT ASKING RENTAL RATES



COMPLETED LEASE TRANSACTIONS

TENANT	ADDRESS	SUBMARKET	SF	MARKET EFFECT
Sequenom	Alexandria Innovation Center	RTP/RDU	48,236	Sublease
Royal Bank of Canada	Brier Creek Corporate Center VI	RTP/RDU	43,278	Sublease
PRA International	3737 Glenwood Avenue	West Raleigh	29,000	Expansion
Veritas Collaborative	Hock Plaza II	South Durham	21,000	Relocation, contraction
Access Point	1100 Crescent Green Drive	Cary	19,146	Renewal
Piedmont Community Bank Holdings	3600 Glenwood Avenue	West Raleigh	15,000	Relocation, expansion
Entegriion Inc.	79 TW Alexander Drive	RTP/RDU	12,685	Renewal
Wireless Generation	Crowe Building	Downtown Durham	12,600	New
Sessoms & Rogers	Generation Plaza	RTP/RDU	11,796	Relocation, expansion
Brooks, Pierce, McLendon, Humphrey & Leonard	Wells Fargo Capitol Center	Downtown Raleigh	9,165	Expansion

INVESTMENT SALES TRANSACTIONS

BUILDING/ADDRESS	SF	SALE PRICE	SALE PRICE/SF	BUYER
Carolina Place 2626 Glenwood Avenue	99,974	\$15,600,000	\$156	New Boston Fund
Trinity Place 1201 Edwards Mill Road	111,762	\$15,400,000	\$138	Brookdale Group
Glenwood Corporate Center 5811 Glenwood Avenue	38,493	\$5,000,000	\$131	Booth & Associates

RE:SOURCE

RALEIGH-DURHAM 4Q 2011



SPACE STATISTICS

URBAN									
	4Q 2011 Inventory (SF)	4Q 2011 Overall Vacant SF	4Q 2011 Overall Vacancy %	4Q 2011 Total Net Absorption (SF)	2011 Total Net Absorption (SF)	2011 Total Net Absorption (% of inventory)	4Q 2011 Overall Direct Asking Rent (PSF)	2011 Completions (SF)	Under Construction (SF)
DOWNTOWN DURHAM	2,576,821	160,528	6.2%	45,132	4,520	0.2%	\$21.57	0	73,713
DOWNTOWN RALEIGH	2,261,558	172,803	7.6%	24,898	-27,014	-1.2%	\$21.63	0	0
URBAN TOTALS	4,838,379	333,331	6.9%	70,030	-22,494	-0.5%	\$21.61	0	73,713
SUBURBAN									
	4Q 2011 Inventory (SF)	4Q 2011 Overall Vacant SF	4Q 2011 Overall Vacancy %	4Q 2011 Total Net Absorption (SF)	2011 Total Net Absorption (SF)	2011 Total Net Absorption (% of inventory)	4Q 2011 Overall Direct Asking Rent (PSF)	2011 Completions (SF)	Under Construction (SF)
6 FORKS FALLS OF NEUSE	4,250,352	717,744	16.9%	17,503	130,647	3.1%	\$21.54	0	0
CARY	4,091,798	501,157	12.2%	-17,369	149,234	3.6%	\$20.27	0	0
GLENWOOD/ CREEDMOOR	1,672,202	265,734	15.9%	-36,059	40,052	2.4%	\$20.38	0	0
NORTH DURHAM	513,311	285,043	55.5%	10,360	10,360	2.0%	\$16.54	0	0
ORANGE COUNTY	1,334,698	22,916	1.7%	5,159	36,829	2.8%	\$25.60	0	0
ROUTE 1	1,646,982	301,047	18.3%	-4,137	-31,317	-1.9%	\$17.52	0	0
RTP/RDU	9,567,808	2,321,680	24.3%	-73,077	-144,088	-1.5%	\$19.00	0	0
SOUTH DURHAM	2,753,827	578,187	21.0%	12,593	126,177	4.6%	\$20.18	0	0
WEST RALEIGH	5,345,845	650,206	12.2%	56,491	28,963	0.5%	\$20.41	0	0
SUBURBAN TOTALS	31,176,823	5,643,714	18.1%	-28,536	346,857	1.1%	\$19.85	0	0
TOTALS	36,015,202	5,977,045	16.6%	41,494	324,363	0.9%	\$19.96	0	73,713

LARGEST AVAILABLE CONTIGUOUS SPACES

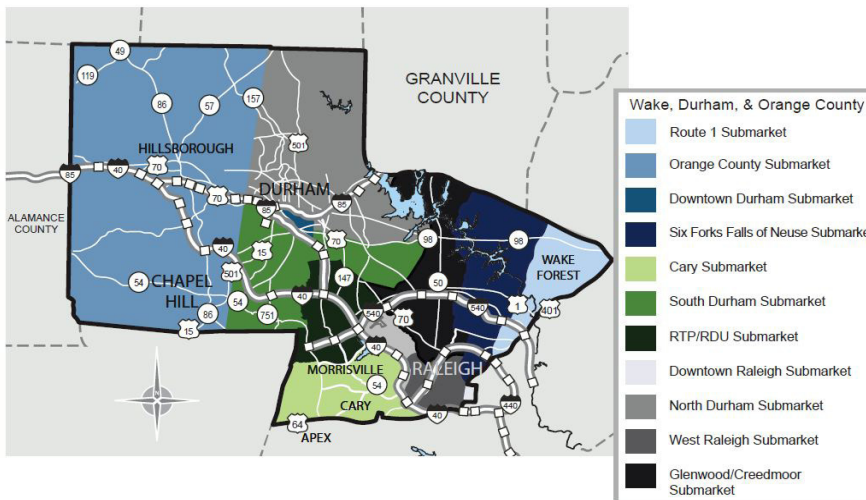
BUILDING	ADDRESS	SUBMARKET	SF Available
8001 Development Drive	8001 Development Drive	RTP/RDU	262,000
7001 Development Drive	7001 Development Drive	RTP/RDU	205,310
800 Park Drive	800 Park Drive	RTP/RDU	140,999
Signature Commons	4100 N Roxboro Road	North Durham	136,000
600 Park Drive	600 Park Drive	RTP/RDU	129,046
500 Park Drive	500 Park Drive	South Durham	125,742
700 Park Drive	700 Park Drive	RTP/RDU	120,473
RDU Center III	2121 RDU Center Drive	RTP/RDU	114,518
Pinnacle Park II	4401 Silicon Drive	RTP/RDU	80,264
Pinnacle Park III	4407 Silicon Drive	RTP/RDU	80,260



OFFICE FORECAST

With the Progress-Duke and PNC-RBC mergers both working their way through the market, the true office impact of these unions is unclear as reorganization details are scrutinized. In particular, Royal Bank of Canada, the parent of RBC Bank USA, is working towards partially softening the blow by adding back office support for Canadian customers in a new Brier Creek Corporate Center location. Additionally, in a market that has benefitted from very constrained construction during the past two years, the ability of the market to absorb the nearly 350,000 square feet of new product that is potentially coming online in 2012 and 2013 – roughly 1.0 percent of year-end 2011 inventory – could dampen vacancy rates even in a positive net absorption environment. Despite ongoing changes and challenges, the strength of the market in 2010 and 2011 nearly ensures that the market will persist in benefitting from positive occupancy from both organic and out-of-market growth. Investment sales have also been vigorous in the area, even though the Triangle is a tertiary market to many investors. Sales for all property types – led by investment in multifamily properties in this fast-growing area – have resulted in increased interest for well-positioned office buildings as well. The recent sales of Carolina Place and Trinity Place have indicated a price floor for well-leased and high-quality assets in strong suburban areas.

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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