



## LINCOLN HARRIS RE:SOURCE RALEIGH-DURHAM 3Q 2012

Developers are eager to start projects after nearly 5 years of being on the sidelines; however, a large lead tenant, signed pre-construction is still a prerequisite for turning plans into realities.

### ECONOMY

The combined Durham-Chapel Hill MSA and Raleigh-Cary MSA unemployment rate fell to 7.7% in August 2012, down from a recession high 8.6% one year earlier and down 20 basis points from the end of the second-quarter 2012. The region created 9,000 new jobs during third-quarter, compared to 18,300 in first half of the year for a year-to-date total of 29,300 new positions. This year's trend is exceeding the job creation in the first three quarters of 2011, which produced 18,400 new jobs. Most of the gains this year have occurred in four broad industry segments: trade, transportation, and utilities; professional and business services; education and health services; and leisure and hospitality services. At the forefront of job news in the Raleigh area are the effects of the Duke Energy-Progress Energy merger which was finalized in June of this year and was expected to strip Raleigh of some 1,000 positions. However, after the hasty firing of the Progress Energy CEO just after merger approval, the N.C. Utilities Commission has launched an investigation to determine whether Duke deliberately misled regulators. The Commission has the authority to repeal the merger; however, the outcome is still uncertain. Other job related news consists of both positive and negative reports. Research in Motion, the Blackberry maker, is in the process of cutting overhead costs and has recently moved out of one of the three Triangle buildings where it had offices. Connexion Technologies and HTC also have plans to downsize their space in the area. Conversely, several other firms still have plans to expand in the region, including Citrix which has committed to creating 337 new jobs over the next year to year and a half. The firm is renovating the Dillon Supply Warehouse and has the option to expand over time, housing as many as 830 employees. Bandwidth.com and Lenovo are each adding 200 new positions to their Raleigh workforces in the near term as well.

### OFFICE MARKET

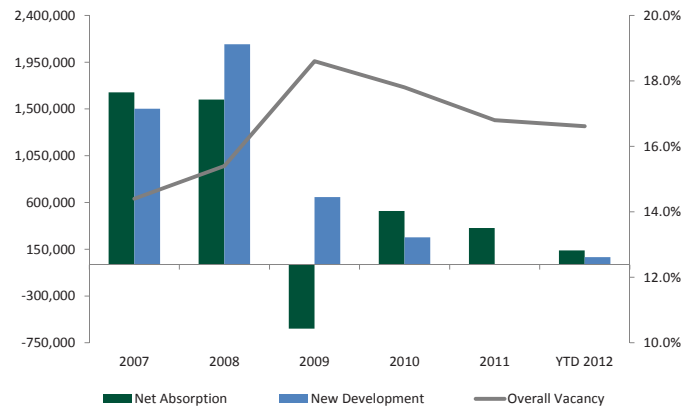
#### Overview

Net absorption in the Triangle office market remained positive for a second straight quarter as gains in net occupancy totaled 84,906 square feet, down from 337,445 square feet for the third quarter in 2011. Despite the positive gains in the period, year-to-date net absorption in 2012, which sums to almost 140,000 square feet, trails that of 2011, which was reported at nearly 260,000 square feet. The year-over-year comparison may suggest a market that is not improving; however, slow and steady absorption of available space with minimal delivery of new, speculative product has put the market on a path to recovery. The overall vacancy rate of the metro one year ago was 17.2% compared to today's rate of 16.6%. Urban submarkets remain very tight as do the premium suburban areas like Glenwood/Creedmoor, Cary, and West Raleigh.

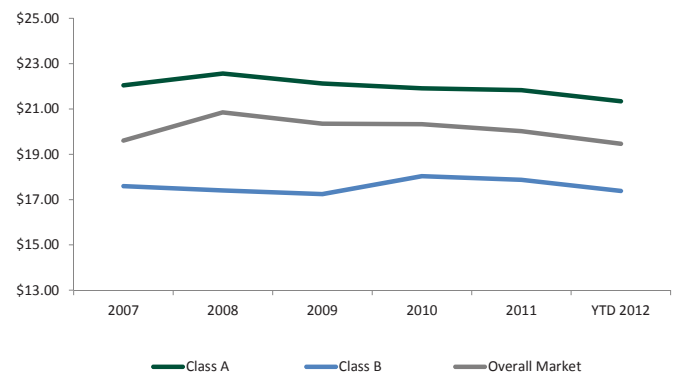
### STATISTICS AND TRENDS

	3Q 2011	3Q 2012	12 MONTH FORECAST
Market Supply (SF)	36,482,630	36,102,265	↕
Under Construction (SF)	73,313	301,000	↘
Under Construct. Preleased %	43.4%	68.8%	↕
Direct Vacancy	16.4%	15.8%	↘
Total Vacancy	17.2%	16.6%	↘
Total Net Absorption (SF)	337,445	84,906	↕
YTD Net Absorption (SF)	258,662	139,487	↕
Direct Asking Rent	\$20.04	\$19.46	↕
Class A Direct Asking Rent	\$21.83	\$21.34	↕
Class B Direct Asking Rent	\$17.89	\$17.38	↕

### HISTORICAL VACANCY AND NET ABSORPTION



### HISTORICAL DIRECT RENTAL RATES





Activity remains strong across the entire region but the market is still a tenant's market as concessions and tenant improvements are still present in most deals. Rental rates have largely remained flat in most submarkets and they are forecasted to gradually move upward, especially in the premium markets.

### Supply

The 74,000 square foot Measurement Building was delivered in third-quarter in downtown Durham and was the only new space that was brought online in the period. The 5-story Class A office and retail facility houses Measurement Incorporated as its major tenant, but a large majority of the building's square footage will be leased to other businesses. The urban submarkets continue to encompass the entire competitive under-construction office product in the area. The other downtown Durham project underway is the 130,000 square foot Diamond View III building in the American Tobacco Campus which is expected to be completed by second quarter 2013. FHI 360, a non-profit firm is relocating its headquarters to the property after signing a lease for 95,000 square feet, with the balance of the space being held off-market for FHI. Additionally, the State Employee's Credit Union (SECU) headquarters location is under construction at 119 Salisbury Street in downtown Raleigh. The 12-story, 131,000 square foot building will be primarily occupied by SECU, which is taking seven floors, but the remaining five floors are being offered to other users at \$30.00 per square foot. A number of new ground-up office developments in various submarkets are close to breaking ground. Proposals in the region include a 300,000 square foot office building in North Hills, two office buildings in Glenwood/Creedmoor, and another in Downtown Raleigh. Developers are eager to start projects after nearly 5 years of being on the sidelines; however, a large lead tenant, signed pre-construction is still a prerequisite for turning plans into realities.

### Rental rates

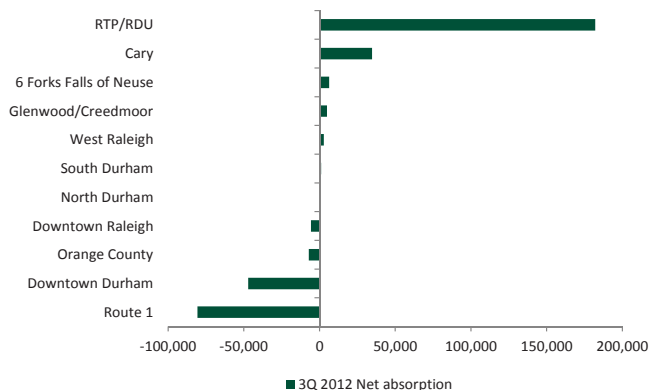
Overall, rental rates have remained stable over the first three quarters of the year. The only submarket to see an increase in asking rates was West Raleigh which only moved up by less than one percent from \$20.25 to \$20.45. The only submarket with a noteworthy move downward was

Orange County, which was solely attributable to a 50% vacant Chapel Hill office building lowering their asking rates by a few dollars. A shortage of large contiguous Class A spaces remains, and therefore, rates on larger deals for Class A have seen a decline over the past few quarters. However, Class B space and smaller Class A suites are still readily available and terms on these spaces are still tilted in favor of tenants. Rates for these deals are expected to remain below those of premium submarkets.

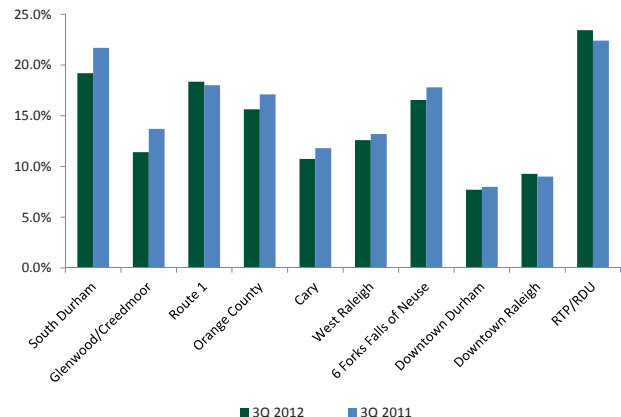
## SUBMARKET ANALYSIS

Downtown Raleigh is feeling the greatest positive impact of the submarkets in the region with Citrix's plans to locate its new headquarters in the old Dillion Supply steel warehouse at the corner of West and Hargett streets. It is likely that the move will serve as a catalyst for further redevelopment of the warehouse district as entrepreneurs seek to bring amenities to the new employees. The large financial commitment for the new building confirms the company's dedication to the Raleigh area. While Citrix builds out the new space downtown, they plan to sublease just over 45,000 square feet of space at 701 Corporate Center Drive in the West Raleigh submarket. In the RTP/RDU submarket, which continues to post the second-highest vacancy rate at 23.4%, Qualcomm inked a deal to expand by 40,672 square feet at Brier Creek Corporate Park which will give the mobile technology company a total of 173,000 square feet at the building. This submarket had some large move-ins during the quarter such as Wake County Schools at Pleasant Grove Church Road, and Oracle, PNC, Attends Healthcare and IDCON all at Brier Creek Corporate Center VI that bolstered its net absorption to 182,000 square feet. The two strongest suburban submarkets, in terms of vacancy, are still Cary and Glenwood/Creedmoor at 10.7% and 11.4%, respectively. Cary ended up with positive net absorption for quarter of 34,000 despite Connexion Technologies vacating their space at Crossroads III. Move-ins by HCL Technologies and SchoolDude helped offset the negative movement. Other less desirable areas, such as North Durham and South Durham continue to experience a soft rate environment and tenant friendly terms.

SUBMARKET-BY-SUBMARKET NET ABSORPTION



SUBMARKET-BY-SUBMARKET VACANCY TRENDS





## COMPLETED LEASE TRANSACTIONS

TENANT	BUILDING	ADDRESS	SUBMARKET	SF
Citrix Systems (prelease)	Old Dillion Supply Building	120 S. West Street	Downtown Raleigh	130,000
Xerox Corporation	4924 Green Road	4924 Green Road	Route 1	110,000
BASF	2510 Meridian Parkway	2510 Meridian Parkway	RTP/RDU	50,000
Bayer CropScience	CentreGreen Two	4000 CentreGreen Way	Cary	46,400
Qualcomm	Brier Creek Corporate Center IV	8045 Arco Corporate Drive	RTP/RDU	40,672
VCE	2635 Meridian Parkway	2635 Meridian Parkway	RTP/RDU	31,000
Progress Energy	Wells Fargo Capitol Center	150 Fayetteville Street	Downtown Raleigh	27,623
M/I Homes	Arena Centre Building	1511 Sunday Drive	West Raleigh	14,200

## RECENT INVESTMENT SALES

BUILDING/ADDRESS	SF	SALE PRICE	SALE PRICE/SF	BUYER
430-630 Davis Drive	285,592	\$48,300,000	\$169	Investcorp
2610 Wycliff Road	173,305	\$8,000,000	\$46	Garrison Investment Group

The largest property sale of the quarter was a \$48 million transaction for a portfolio of three office buildings. Investcorp, based out of New York, purchased 430 Davis Drive, 530 Davis Drive, and 630 Davis Drive adjacent to Research Triangle Park from American Real Estate Partners, of Herdon, Va. American Real Estate Partners had paid \$45 million for the buildings in 2007. Collectively, they were 84 percent leased at the time of sale.

The other notable transaction of the third quarter was Garrison Investments' purchase of the 173,305 square foot office building at 2610 Wycliff Road, which is located near the intersection of Lake Boone Trail and Interstate 440

in west Raleigh. The property, which houses tenants such as EDS/Hewlett Packard and Computer Sciences Corp., sold for \$8 million. The seller was Wycliff Ventures, LLC.

Office properties are still trading at a significant discount to replacement cost. Several large deals have dominated the market with the Archon purchase of the Duke Realty portfolio at the beginning of the year for \$103 per square foot marking the low point and the high water mark being the Palladian deal (200,000 square feet), which Clarion Partners purchased for \$180 per square foot just after the end of the third quarter of this year.



## OFFICE MARKET STATISTICS

URBAN									
	3Q 2012 Inventory (SF)	3Q 2012 Overall Vacant SF	3Q 2012 Overall Vacancy %	3Q 2012 Total Net Absorption (SF)	4Q 2011-3Q 2012 Total Net Absorption (SF)	4Q 2011-3Q 2012 Total Net Absorption (% of inventory)	3Q 2012 Overall Direct Asking Rent (PSF)	YTD Completions (SF)	Under Construction (SF)
DOWNTOWN DURHAM	2,724,324	210,021	7.7%	-47,105	-1,972	-0.1%	\$21.11	73,713	133,000
DOWNTOWN RALEIGH	2,261,558	209,935	9.3%	-5,624	16,601	0.7%	\$21.48	0	168,000
<b>URBAN TOTALS</b>	<b>4,985,882</b>	<b>419,956</b>	<b>8.4%</b>	<b>-52,729</b>	<b>14,629</b>	<b>0.3%</b>	<b>\$21.30</b>	<b>73,713</b>	<b>301,000</b>
SUBURBAN									
	3Q 2012 Inventory (SF)	3Q 2012 Overall Vacant SF	3Q 2012 Overall Vacancy %	3Q 2012 Total Net Absorption (SF)	4Q 2011-3Q 2012 Total Net Absorption (SF)	4Q 2011-3Q 2012 Total Net Absorption (% of inventory)	3Q 2012 Overall Direct Asking Rent (PSF)	YTD Completions (SF)	Under Construction (SF)
6 FORKS FALLS OF NEUSE	4,245,233	702,731	16.6%	6,317	17,014	0.4%	\$20.36	0	0
CARY	4,129,756	443,896	10.7%	34,729	18,744	0.5%	\$19.97	0	0
GLENWOOD/ CREEDMOOR	1,578,222	180,062	11.4%	4,914	47,613	3.0%	\$20.49	0	0
NORTH DURHAM	520,872	299,019	57.4%	0	-3,616	-0.7%	\$15.31	0	0
ORANGE COUNTY	1,334,698	208,771	15.6%	-7,071	24,921	1.9%	\$23.85	0	0
ROUTE 1	1,646,982	302,190	18.3%	-80,618	-36,052	-2.2%	\$16.73	0	0
RTP/RDU	9,610,134	2,251,417	23.4%	182,067	54,849	0.6%	\$18.86	0	0
SOUTH DURHAM	2,668,620	512,264	19.2%	1,094	102,635	3.8%	\$19.65	0	0
WEST RALEIGH	5,381,866	678,372	12.6%	2,772	-1,973	0.0%	\$20.45	0	0
<b>SUBURBAN TOTALS</b>	<b>31,116,383</b>	<b>5,578,722</b>	<b>17.9%</b>	<b>144,204</b>	<b>224,135</b>	<b>0.7%</b>	<b>\$19.33</b>	<b>0</b>	<b>0</b>
<b>TOTALS</b>	<b>36,102,265</b>	<b>5,998,678</b>	<b>16.6%</b>	<b>84,906</b>	<b>238,764</b>	<b>0.7%</b>	<b>\$19.46</b>	<b>73,713</b>	<b>301,000</b>

## LARGEST 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	203,488
800 Park Drive	800 Park Drive	RTP/RDU	140,999
Signature Commons	4100 N Roxboro Road	North Durham	126,640
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
Red Hat	1801 Varsity Drive	West Raleigh	120,000*
Danbury Hall	5411 Page Road	RTP/RDU	116,300*
Pinnacle Park II	4401 Silicon Drive	RTP/RDU	80,264
Pinnacle Park III	4407 Silicon Drive	RTP/RDU	80,260

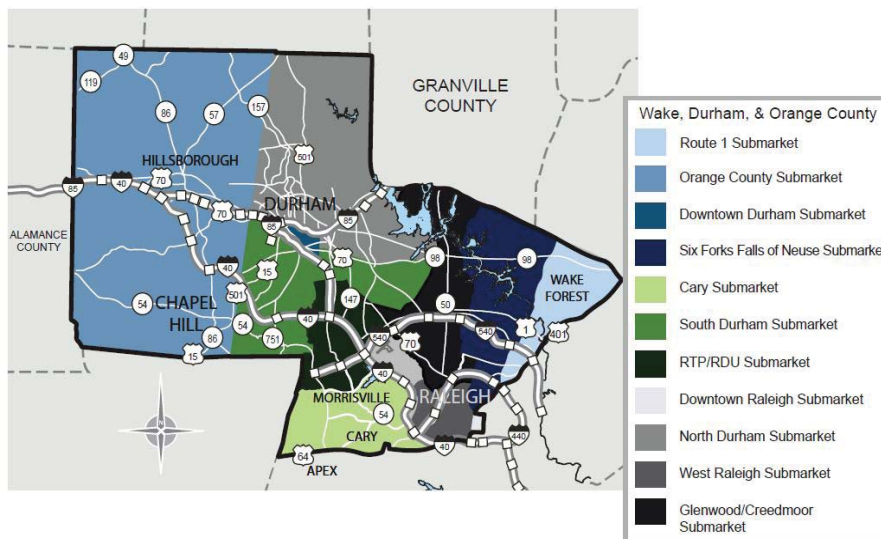
\*Sublease - available 2013



## OFFICE FORECAST

The market is expected to continue to be desirable for a variety of business sectors over the coming quarters, for new users as well as existing businesses. A large number of tenants are in the market for space, including a few for large blocks over 100,000 square feet, however, it is not yet clear exactly which submarkets will benefit. With the urban submarkets already tight, suburban submarkets will eventually benefit as lease terms downtown become less favorable to tenants. The construction activity in downtown Raleigh will free up some space but is not likely to create significant supply side pressure. Demands for procuring financing for speculative office construction remain high as a strong lead tenant, signed pre-construction is almost a requirement. With the upcoming U.S. Presidential election and continued European debt crisis undercurrents, the fourth quarter is likely to be relatively subdued. Over the long term, however, the region's continued job and population growth, coupled with a highly educated and diverse workforce, puts Raleigh/Durham in good position for growth and expansion.

## 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](http://www.lincolnharris.com).

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