

LINCOLN HARRIS RE:SOURCE CHARLOTTE 4Q 2012

Despite macroeconomic uncertainties surrounding “fiscal cliff” negotiations in Washington, the Queen City’s office market saw overall improvements in vacancy and modest rate increases.

ECONOMY

Having recorded its lowest unemployment levels since 2008 at 9.0 percent in October and November of the fourth quarter, Charlotte metropolitan statistical area unemployment rates retreated to 9.4 percent in December as fiscal cliff negotiations undoubtedly impacted short term hiring. Still, the metro added more than 26,000 nonfarm jobs over 2011 while the labor force grew more than 2.5 percent year-over-year as encouraged job seekers return to the market. In particular, professional and business services sector employment grew by 4,900 or 3.5 percent in the last year, continuing its solidly upward trend that bodes well for metro office demand. Overall, unemployment has improved by a robust one-hundred basis points from the 10.4 percent level set in December 2011. Boosted by improving housing market fundamentals in the region, economists forecast at least a 2.0 percent expansion for the Charlotte economy in 2013. Despite a palpable sense of growing optimism, persistent procrastination in resolving federal and state budget woes could dampen economic growth in the next twelve months.

OFFICE MARKET

Overview

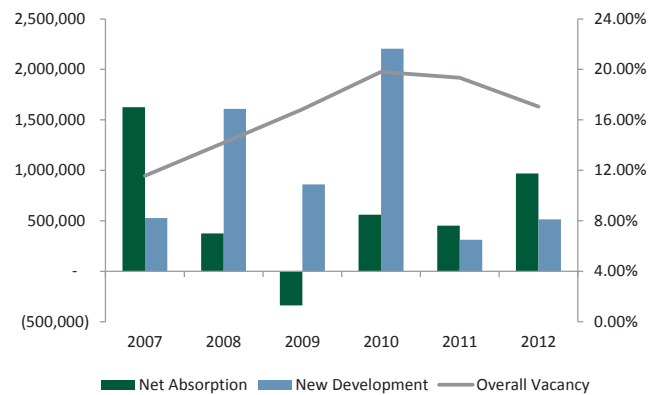
After modest improvements in the first half of the year, Charlotte office continued the strong pace set in the third quarter by recording net absorption above 300,000 square feet of space to close out the last three months of 2012 for an annual net total of just under 969,000 square feet. Overall, the vacancy rate improved to 17.1 percent. In the aggregate, Class A office space accounted for the vast majority of positive absorption in the marketplace as Class B office returned a slight negative absorption during the period.

Uptown dominated all metro submarkets with positive net absorption of 283,000 square feet for the quarter. Wells Fargo completed moving into approximately two-thirds of its planned 300,000 square foot occupancy of the Duke Energy Center for its new trading floor operation; the remaining occupation should be completed early in 2013. NASCAR Digital moved into 22,000 square feet of 550 South Caldwell Street, which follows the building’s new 137,000 square foot Chiquita Brands occupancy completed near the end of the third quarter. Such moves have resulted in a CBD vacancy rate below 10 percent. This trend should continue with additional uptown leases set to absorb in 2013 including the Charlotte School of Law’s planned move into 201 South College Street and Driven Brands taking 26,000 square feet at 440 South Church Street.

STATISTICS AND TRENDS

	4Q 2011	4Q 2012	12 MONTH FORECAST
Market Supply (SF)	43,011,782	43,527,288	↕
Under Construction (SF)	525,016	0	↕
Under Construct. Preleased %	0.0%	0.0%	↕
Direct Vacancy	19.3%	16.4%	↕
Total Vacancy	19.7%	17.1%	↕
Total Net Absorption (SF)	132,857	337,671	↕
YTD Net Absorption (SF)	467,733	968,684	↕
Direct Asking Rent	\$20.47	\$20.78	↕
Class A Direct Asking Rent	\$22.97	\$22.90	↕
Class B Direct Asking Rent	\$16.90	\$18.15	↕

HISTORICAL VACANCY AND NET ABSORPTION



As office supply tightens, we could be witnessing the return of much more favorable conditions for landlords in the Charlotte metro. It remains to be seen how the market might bear increases in asking rates and decreasing concessions.

- Campbell Walker, Vice President

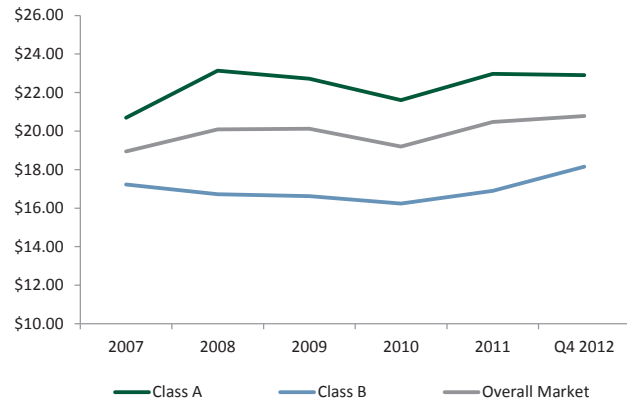
Supply

Ballantyne delivered 525,000 square feet of speculative space as the Gragg and Woodward Buildings were completed in December, pushing the submarket's vacancy rate to 23.2 percent. Media sources report that MetLife is in negotiations for up to 250,000 square feet in the Gragg Building, which could result in hundreds of jobs coming to Charlotte. Otherwise, no new major multitenant office projects were commenced in 2012. Bissell Companies' build-to-suit 241,000 square foot headquarters for SPX will deliver in spring 2013.

Rental Rates

Direct asking rates for the metro rose over the third quarter to \$20.78 per square foot, approaching pre-recession levels. Results were mixed by submarket. Decreasing vacancy Uptown pushed direct rates to a market high of \$24.45; Midtown rates also rose to \$22.73 despite modestly negative absorption in the quarter and higher vacancy. With a 12.5 percent overall vacancy, Southpark direct asking rents remained relatively flat. However, Class A space in that submarket saw fourth quarter vacancy down to 8.5 percent, its lowest level in more than ten years resulting in direct asking rates up to \$24.94. Meanwhile, Ballantyne Class A asking rates pushed above the \$25.00 mark with its new speculative space offerings.

HISTORICAL DIRECT RENTAL RATES



HIGHLIGHTED LEASE TRANSACTIONS

TENANT	BUILDING/ADDRESS	SUBMARKET	SF	MARKET EFFECT
Charlotte School of Law	Charlotte Plaza	Uptown	243,000	Relocation, Expansion
Bank of America	Transamerica Square	Uptown	144,636	Backfill
K&L Gates LLP	Hearst Tower	Uptown	109,341	Renewal
Belk	Three Coliseum Centre	Airport	53,000	Expansion
Hedrick Gardner LLP	SouthPark Towers II	SouthPark	43,150	Renewal
McGladrey LLP	Two Piedmont Town Center	SouthPark	27,000	Renewal
Driven Brands	Ally Center	Uptown	26,753	Relocation, Expansion
Marsh	Bank of America Corp. Center	Uptown	21,737	Renewal
Morgan Stanley	One Morrocroft Centre	SouthPark	20,117	Renewal

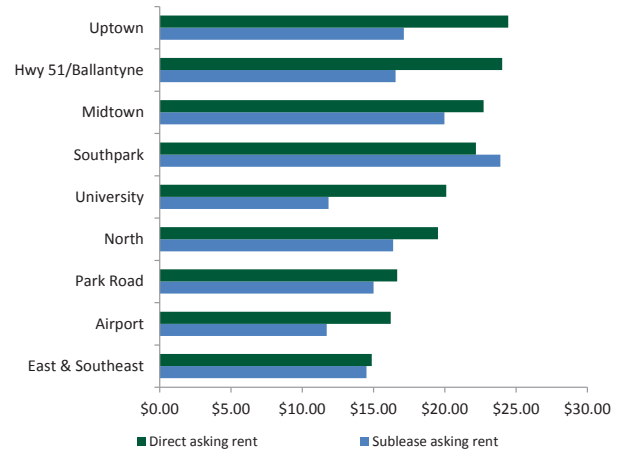
Submarket Analysis

Ballantyne followed Uptown with the second highest absorption in the metro. However, AXA Financial's planned 2013 relocation from the submarket's Rushmore One Building to the University-area's Innovation Park will open up more than 150,000 square feet in available space on top of the additional 525,000 square feet of newly online speculative space previously mentioned. The AXA move and additional occupancy from Wells Fargo in Innovation Park could push vacancy in the University submarket below the 25 percent level.

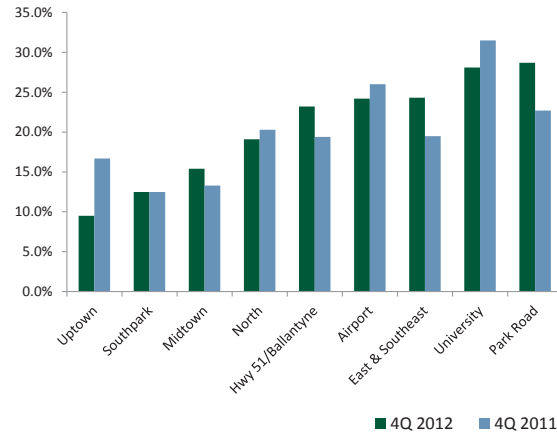
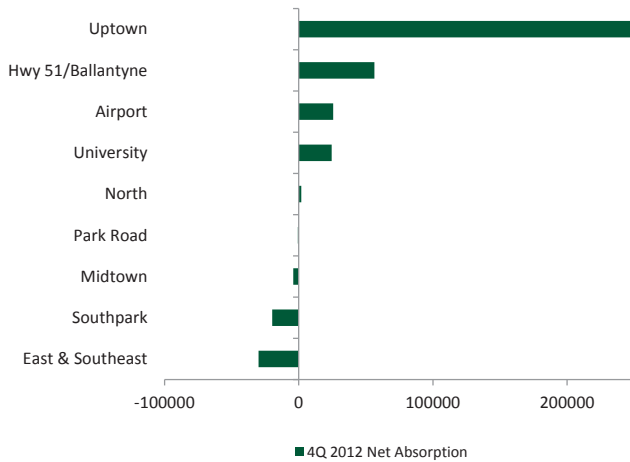
The Airport submarket improved to a 24.2 percent overall rate as 2012 expansions from the Compass Group, United Technologies, and Belk in the Coliseum Centre have tightened supply and displaced smaller tenants.

The East & Southeast submarket posted the largest decline in the quarter with -30,032 square feet in negative net absorption with the corresponding lowest direct asking rates in the metro.

SUBMARKET-BY-SUBMARKET ASKING RENTAL RATES



SUBMARKET ANALYSIS



SUBMARKET-BY-SUBMARKET NET ABSORPTION

SUBMARKET-BY-SUBMARKET VACANCY TRENDS

OFFICE MARKET STATISTICS

URBAN									
	4Q 2012 inventory (SF)	4Q 2012 overall vacant SF	4Q 2012 overall vacancy %	4Q 2012 total net absorption	1Q12-4Q12 total net absorption	1Q12-4Q12 total net absorption (% of inventory)	4Q 2012 Completions (SF)	Under construction (SF)	4Q12 overall direct asking rent (PSF)
UPTOWN	17,411,439	1,645,555	9.5%	283,667	717,624	4.1%	0	0	\$24.45
MIDTOWN	1,358,163	208,646	15.4%	-4,116	-9,582	-0.7%	0	0	\$22.73
URBAN TOTALS	18,769,602	1,854,201	9.9%	279,551	708,042	3.8%	0	0	\$24.27
SUBURBAN									
	4Q 2012 inventory (SF)	4Q 2012 overall vacant SF	4Q 2012 overall vacancy %	4Q 2012 total net absorption	1Q12-4Q12 total net absorption	1Q12-4Q12 total net absorption (% of inventory)	4Q 2012 Completions (SF)	Under construction (SF)	4Q12 overall direct asking rent (PSF)
AIRPORT	8,142,200	1,974,191	24.2%	25,677	93,724	1.2%	0	0	\$16.21
EAST & SOUTHEAST	1,638,360	398,677	24.3%	-30,032	-66,616	-4.1%	0	0	\$14.88
HWY 51/BALLANTYNE	5,255,887	1,219,536	23.2%	56,371	154,555	2.9%	525,016	0	\$24.02
NORTH	1,537,172	293,511	19.1%	1,954	9,883	0.6%	0	0	\$19.52
PARK ROAD	542,828	155,886	28.7%	-612	-14,921	-2.7%	0	0	\$16.66
SOUTHPARK	3,981,833	499,092	12.5%	-19,700	71,047	1.8%	0	0	\$22.18
UNIVERSITY	3,659,406	1,027,547	28.1%	24,462	12,970	0.4%	0	0	\$20.10
SUBURBAN TOTALS	24,757,686	5,568,440	22.5%	58,120	260,642	1.1%	0	0	\$19.56
CHARLOTTE TOTALS	43,527,288	7,422,641	17.1%	337,671	968,684	2.2%	0	0	\$20.78

RECENT INVESTMENT SALES

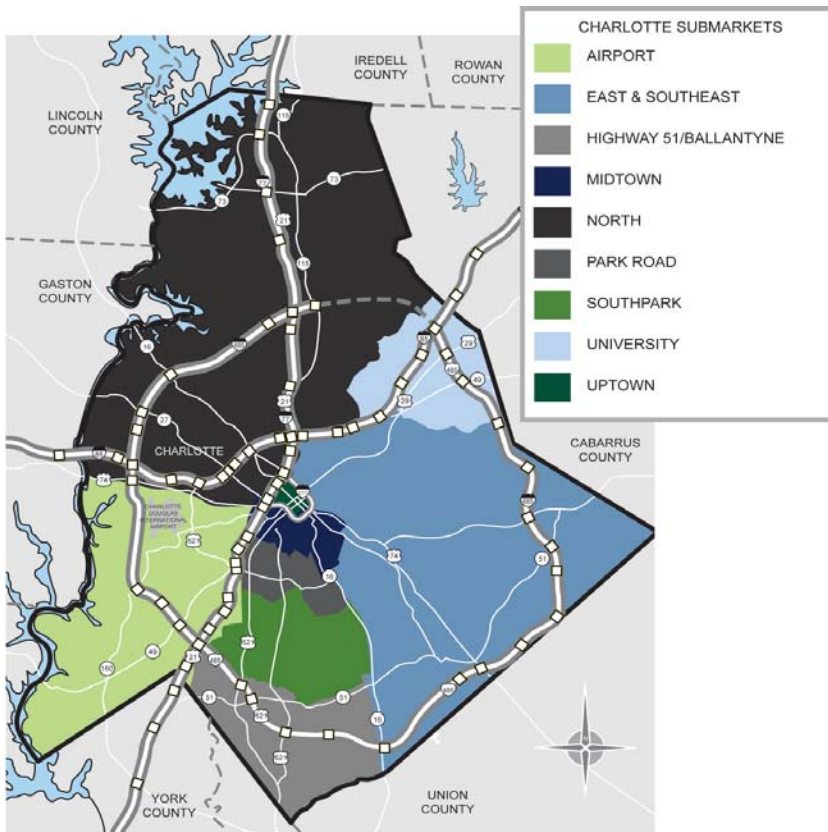
BUILDING	ADDRESS	RBA	SALE PRICE	PRICE PSF	BUYER	SALE DATE
NASCAR Plaza	550 S Caldwell St	390,000	\$99,900,000	\$256	Parkway Properties	Dec 2012
525 N Tryon St	525 N Tryon St	405,128	\$47,350,000	\$117	Parkway Properties	Dec 2012
Coliseum I & II	2300 Yorkmont Rd	294,294	\$42,171,000	\$143	Cole Corporate Income Trust	Dec 2012
Vanguard Center	77 Center Dr	531,004	\$34,600,000	\$65	True North Management	Oct 2012
14 Parkway Plaza	5620 Parkway Plaza Blvd	89,735	\$3,700,000	\$41	BECO Management	Nov 2012

The past quarter saw considerable office building sales activity over previous quarters. After purchasing the Hearst Tower earlier in 2012, Orlando-based Parkway Properties closed on the NASCAR Plaza and the 525 North Tryon Building for \$100 million and \$47 million respectively in December. The transactions represent a combination of stabilized income properties and lease-up opportunities based on anticipated demand increases for space. The most notable value play in the last quarter came with New York-based True North's acquisition of the 51 percent leased multiple-building Vanguard Center totaling 531,000 square feet for \$65 per square foot in the Airport submarket.

FORECAST

As vacancy rates decline and larger contiguous spaces become harder to find, expect rising rates and reduced concessions from landlords. Look for more major office acquisitions in the headlines as investors seek opportunities before the economy gets into a full expansionary mode. Similarly, demand for increasingly scarce space may spark activity in the development pipeline as funding could finally materialize for such projects.

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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