



## LINCOLN HARRIS RE:SOURCE RALEIGH-DURHAM 3Q 2011

After a temporary setback in occupancy gains during the second quarter, net absorption expanded by a stellar 337,445 square feet during the third quarter as local expansions, building purchases, and some shuffling of temporary space needs boosted the market.

### ECONOMY

The Raleigh-Durham metro area has continued to thrive amidst the economic sluggishness of much of the nation, creating well-paying jobs, attracting new residents to build on the area's robust population and household growth rates, and fostering a community approach to business development that marries the needs of both the public and private sectors. Accordingly, the region's many and diverse accolades stem from the strong business and quality of life fundamentals that have led the Raleigh-Durham market through the downturn relatively unscathed. Forbes.com, for example, ranked the city of Raleigh as not only the #1 Best Place for Business and Careers, as well as the #1 City for Families, but also the #2 Best City for Young Professionals in 2011 alone. It follows then that Raleigh would also be the #1 Best City in America, according to Businessweek.com, and have the #1 Healthiest Housing Market for 2011 as said by Builder Magazine.

Though the metro has seen a moderate downshift in growth over the past quarter, the area remains on a positive growth trajectory with nearly 5,000 new positions added in the past 12 months ending August 2011 – a 0.6 percent overall boost – with education and health services and, surprisingly, construction posting the largest increases overall, creating 3,700 and 2,100 new jobs, respectively, during the time period. Office-using sectors also contributed positively to the metro's employment picture, adding 2,700 positions in total, though all net creation occurred in the professional and business services sector which totaled 4,300 jobs, resulting in a 1.5 percent year-over-year employment increase. The most significant declines were concentrated in the financial services and leisure and hospitality services sector which, respectively, dropped 1,300 and 1,400 positions since August 2010. On a combined basis, the two metros that comprise the Raleigh-Durham area had a 7.9 percent unemployment rate in August 2011, down from 8.2 percent in June 2011. A number of corporate expansions have helped nudge the unemployment rate down recently with ACS pledging to hire 1,500 temporary and permanent workers, Lord Corporation adding 117 positions at its Cary headquarters, and EMC opening a new data storage and research and development facility in Durham. Vaccine manufacturer Medicago USA also completed a 97,000 square foot manufacturing plant for its influenza vaccines, while Fidelity and Red Hat both enhanced their presences and commitments to the area through building acquisitions or expansions, respectively.

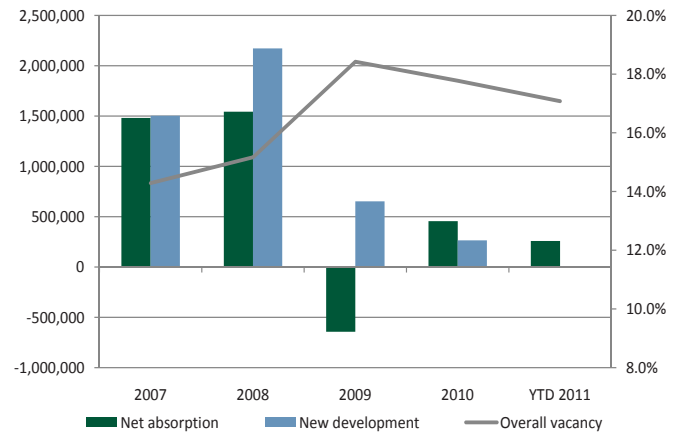
### OFFICE MARKET

#### Overview

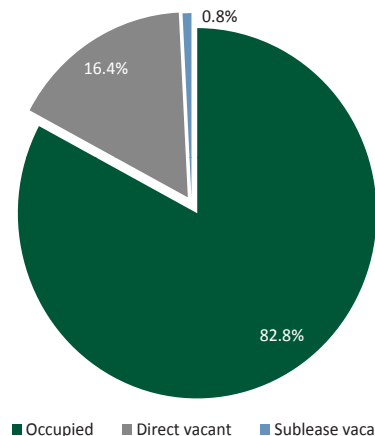
After a temporary setback in occupancy gains during the second quarter, net absorption expanded by a stellar 337,445 square feet during the third quarter as local expansions, building purchases, and some shuffling of temporary space needs boosted the market. For the first time in several quarters, this surge in activity resulted in net absorption gains by both Class A and Class B product, though higher-quality Class A product did enjoy the majority of move-in activity. Garnering nearly 74.0 percent of the metro's occupancy movements, Class A buildings snagged 247,953 square feet of tenant activity, while Class B space gained 89,492 square

	3Q 2010	3Q 2011	12 MONTH FORECAST
Market Supply (SF)	36,482,630	36,482,630	↕
Under Construction (SF)	0	73,713	↕
Under Construction Preleased %	N/A	43.4%	↕
Direct Vacancy	17.6%	16.4%	↕
Total Vacancy	18.4%	17.2%	↕
Total Net Absorption	226,852	337,445	↕
YTD Net Absorption	278,559	258,662	↕
Direct Asking Rent	\$20.21	\$20.04	↕
Class A Direct Asking Rent	\$21.89	\$21.83	↕
Class B Direct Asking Rent	\$18.09	\$17.89	↕

### STATISTICS AND TRENDS



### HISTORICAL VACANCY AND NET ABSORPTION



### SPACE BREAKDOWN



For the suburban submarkets, where recovery has been more mottled and tenants have significantly more space options than in the two urban cores, rental rates have largely languished during the past couple of quarters, averaging \$19.92 per square foot in third quarter 2011, after posting quarter-over-quarter losses for the four preceding quarters.

feet of net absorption. This robust absorption resulted in an overall market decline in vacancy from 17.1 percent in second quarter 2011 to 16.4 percent in third quarter. As tenants with expiring leases remain in or trade up to Class A product, that segment of the market saw vacancy fall to 14.4 percent – below 15.0 percent for the first time since the beginning of 2009. As is typical, the largest move ins during the quarter were into Class A space, as HTC partially filled the former GlaxoSmithKline space at American Tobacco Campus, Salix Pharmaceuticals completed their transition into the entire Colonnade II building, and Duke Medicine took the whole Riverbirch building. Additionally, the market’s top-tier product have been especially adept at attracting tenants in recent months – even at prices of \$30.00 per square foot or greater – as Raymond James and Brown Investment relocated to East 54 in Orange County and Regus leased 14,010 square feet at CapTrust Tower in the 6 Forks submarket. However, less well-appointed Class B buildings experienced a slight drop in vacancy by 30 basis points quarter-over-quarter to 20.1 percent primarily due to the removal of several large, vacant blocks of space in RTP that were purchased by owner-occupiers and removed from the competitive office set.

The largest move of the quarter was Progress Energy’s lease of and occupation of 124,944 square feet at 200 Lucent Lane as their former building undergoes renovations for Red Hat. This activity was due to Red Hat’s decision to retain its headquarters in Wake County and led naturally to the decision to sublease and backfill the 366,000 square foot Two Progress Plaza building, which Progress Energy would likely have vacated after completion of its merger with Charlotte-based Duke Energy.

### Supply

As large local operations cement their commitments to the Triangle region by purchasing office campuses and locations, the competitive non-owner-occupied supply of office product in the metro declined by nearly 736,000 square feet – or roughly 2.0 percent of the overall market supply in second quarter 2011. Fidelity’s \$34.3 million purchase of Nortel Networks’ former campus near the corner of Highway 54 and Davis Drive in Durham removed the 676,000 square foot facility that was only 32.5 percent occupied by a Fidelity sublease. Additionally, Cree bought the vacant 59,902 square foot Pinnacle Park I building at 4400 Silicon Drive – the closest office building to its headquarter location on the same road – for \$3.7 million.

With Downtown Durham’s vacancy rate at 8.0 percent during the third quarter, Durham-based Measurement Incorporated decided to tap into the submarket’s strong demand fundamentals and broke ground in July 2011 on its 73,713 square foot mixed-use building at 404 Hunt Street. The company intends to occupy approximately half of the building’s office component.

### Rental rates

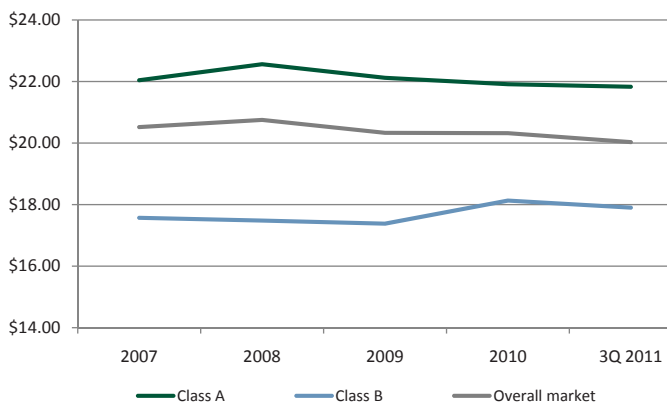
With vacancy rates in both Downtown Durham and Downtown Raleigh submarkets below 10.0 percent for nearly two years, it comes as no surprise that urban rental rates have increased moderately since the beginning of 2011; Downtown Durham rates experienced a 3.3 percent jump to \$21.86 per square foot since first quarter 2011 as American Tobacco Campus maintained nearly 100 percent occupancy, while Downtown Raleigh saw a 1.0 percent rise to \$21.77 per square foot during the same period as the market digests the impact of Red Hat’s sublease of Two Progress Plaza. For the suburban submarkets, where recovery has been more mottled and tenants have significantly more space options than in the two urban cores, rental rates have largely languished during the past couple of quarters, averaging \$19.92 per square foot in third quarter 2011, after posting quarter-over-quarter losses for the four preceding quarters.

Hit with three straight years of net absorption declines, Class B product has seen direct asking rental rates have decline 1.3 percent since year-end 2010 to average \$17.89 per square foot to partially correct for a 6.0 percent pop since the beginning of 2010. However, due to tenants’ widespread preference for Class A product, especially at a cyclically low price point, Class A rental rates have remained much more stable, losing only 0.4 percent since the end of 2010 to average \$21.83 per square foot.

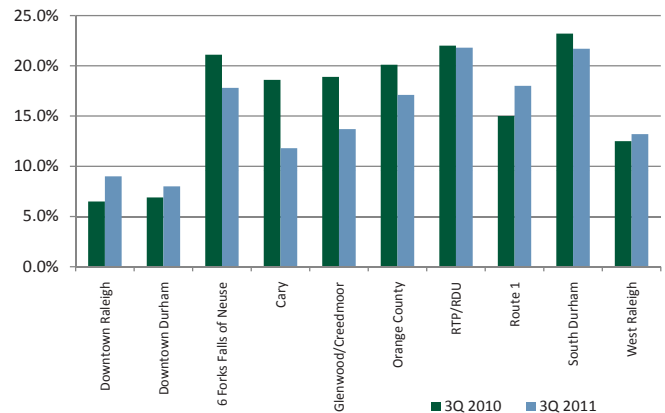
### SUBMARKET ANALYSIS

The relatively small urban submarkets – Downtown Raleigh and Downtown Durham – continue to experience the tightest vacancy rates in the market at 8.3 and 8.0 percent, respectively, while the overall suburban market persists in struggling with elevated vacancy averaging 18.3 percent. With its abundance of available spaces, however, the suburban office market captured the vast majority of occupancy activity and accounted for 320,958 square feet, or about 95.0 percent of occupancy growth, in third quarter. The 6 Forks Falls of Neuse submarket saw a burst of activity during the quarter,

HISTORICAL DIRECT RENTAL RATES



SUBMARKET-BY-SUBMARKET VACANCY TRENDS

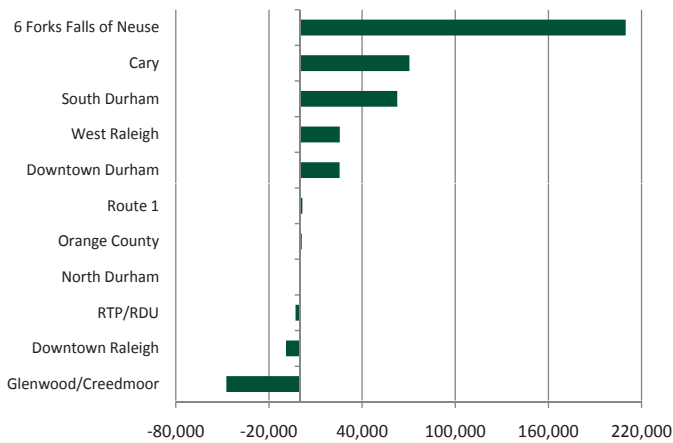




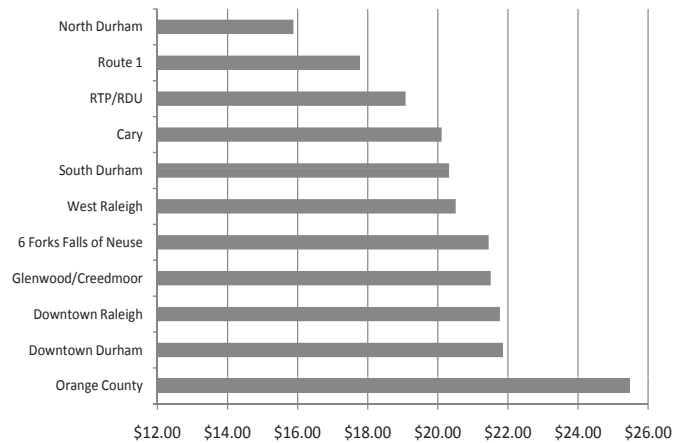
totaling 209,766 square feet as CapTrust continued to welcome new tenants such as Regus and to see current tenants like Olgree expand their current operations at the building. Salix Pharmaceuticals also completed their relocation and expansion at Colonnade II, taking down the entirety of the 126,965 square foot building – including a 26,363 square foot expansion from their previous Colonnade I location – while also freeing up displaced Colonnade I tenant Jubilant Clinsys to expand into 13,441 square feet in building II. Overall, the vacancy rate for the 6 Forks Falls of Neuse submarket dropped by 490 basis points quarter-over-quarter to 17.8 percent at the end of third quarter 2011. Other submarkets with notable positive occupancy

growth were Cary, which posted net absorption of 70,525 square feet as Progress Energy took temporary space at 200 Lucent Lane, as well as Downtown Durham, which saw current tenant HTC take more space at both the Crowe and Fowler buildings. The RTP/RDU submarket did have yet another quarter of negative net absorption, but the 2,849 square feet lost is a positive sign in an area plagued by both large-scale campus closings and owner-occupied campus consolidations, such as Fidelity engaged in during the third quarter. Much of the move-in activity was due to Duke Medicine occupying the entire 62,185 square foot Riverbirch building in Creekstone Park.

SUBMARKET-BY-SUBMARKET 3Q 2011 NET ABSORPTION



SUBMARKET-BY-SUBMARKET 3Q 2011 DIRECT ASKING RENTAL RATES



### COMPLETED LEASE TRANSACTIONS

TENANT	ADDRESS	SUBMARKET	SF	MARKET EFFECT
Red Hat	Two Progress Plaza	Downtown Raleigh	366,000	Sublease, expansion
Progress Energy	200 Lucent Lane	Cary	124,944	Relocation, contraction
HTC	Crowe & Fowler Buildings	Downtown Durham	47,000	Expansion
XS Inc.	1500 Perimeter Park Drive	RTP/RDU	27,649	Renewal, expansion
nVIDIA Corporation	2700 Meridian Parkway	South Durham	25,952	Renewal
Regus	CapTrust Tower	6 Forks Falls of Neuse	14,010	New
PharPoint Research	Central Park South	RTP/RDU	12,919	Relocation, expansion
GMA Healthcare and Infina Connect	1000 Centre Green Way	Cary	12,356	Sublease, expansion
Drucker & Falk	7200 Creedmoor	Glenwood/Creedmoor	11,941	Relocation, expansion
SpecComm International	3101 Poplarwood Court	Route 1	7,693	Relocation, expansion
Slate Pharmaceuticals	CapTrust Tower	6 Forks Falls of Neuse	7,562	Relocation, expansion

### INVESTMENT SALES TRANSACTIONS

BUILDING/ADDRESS	SF	SALE PRICE	SALE PRICE/SF	BUYER
Network Center 4004 Highway 54, Raleigh	676,000	\$34.3 million	\$51	Fidelity Investments
4400 Silicon Drive 4400 Silicon Drive, Durham	59,902	\$3.7 million	\$61	Cree Inc
1901-1903 Harrison Avenue 1901-1903 Harrison Avenue, Cary	31,320	\$3.7 million	\$119	Grubb Properties

# RE:SOURCE

## RALEIGH-DURHAM 3Q 2011



### SPACE STATISTICS

URBAN									
	3Q 2011 Inventory (SF)	3Q 2011 Overall Vacant SF	3Q 2011 Overall Vacancy %	3Q 2011 Total Net Absorption (SF)	4Q 2010-3Q 2011 Total Net Absorption (SF)	4Q 2010-3Q 2011 Total Net Absorption (% of inventory)	3Q 2011 Overall Direct Asking Rent (PSF)	4Q 2010-3Q 2011 Completions (SF)	Under Construction (SF)
DOWNTOWN DURHAM	2,576,821	205,660	8.0%	25,485	-28,788	-1.1%	\$21.86	0	0
DOWNTOWN RALEIGH	2,189,226	197,701	9.0%	-8,998	-55,110	-2.5%	\$21.77		
<b>URBAN TOTALS</b>	<b>4,766,047</b>	<b>403,361</b>	<b>8.5%</b>	<b>16,487</b>	<b>-83,898</b>	<b>-1.8%</b>	<b>\$21.80</b>	<b>0</b>	<b>0</b>
SUBURBAN									
	3Q 2011 Inventory (SF)	3Q 2011 Overall Vacant SF	3Q 2011 Overall Vacancy %	3Q 2011 Total Net Absorption (SF)	4Q 2010-3Q 2011 Total Net Absorption (SF)	4Q 2010-3Q 2011 Total Net Absorption (% of inventory)	3Q 2011 Overall Direct Asking Rent (PSF)	4Q 2010-3Q 2011 Completions (SF)	Under Construction (SF)
6 FORKS FALLS OF NEUSE	4,280,886	762,469	17.8%	209,766	142,334	3.3%	\$21.45	0	0
CARY	4,091,370	483,788	11.8%	70,525	276,166	6.7%	\$20.11	0	0
GLENWOOD/ CREEDMOOR	1,671,297	229,675	13.7%	-47,446	85,777	5.1%	\$21.51	0	0
NORTH DURHAM	513,311	295,403	57.5%	0	0	0.0%	\$15.88	0	0
ORANGE COUNTY	1,334,698	228,075	17.1%	1,139	39,716	3.0%	\$25.47	0	0
ROUTE 1	1,646,982	296,910	18.0%	1,573	-50,466	-3.1%	\$17.78	0	0
RTP/RDU	10,125,640	2,268,596	22.4%	-2,849	23,723	0.2%	\$19.09	0	0
SOUTH DURHAM	2,702,582	587,593	21.7%	62,628	40,445	1.5%	\$20.23	0	0
WEST RALEIGH	5,349,817	706,697	13.2%	25,622	-38,201	-0.7%	\$20.51	0	0
<b>SUBURBAN TOTALS</b>	<b>31,716,583</b>	<b>5,859,206</b>	<b>18.5%</b>	<b>320,958</b>	<b>519,494</b>	<b>1.6%</b>	<b>\$19.92</b>	<b>0</b>	<b>0</b>
<b>METRO TOTALS</b>	<b>36,482,630</b>	<b>6,262,567</b>	<b>17.2%</b>	<b>337,445</b>	<b>435,596</b>	<b>1.2%</b>	<b>\$20.04</b>	<b>0</b>	<b>0</b>

### LARGEST AVAILABLE CONTIGUOUS SPACES

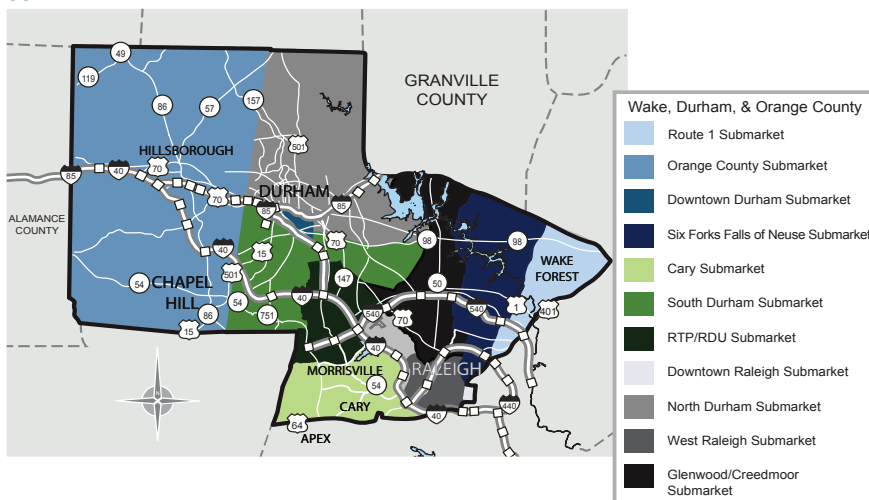
BUILDING	ADDRESS	SUBMARKET	SF Available
8001 Development Drive	8001 Development Drive	RTP/RDU	262,000
7001 Development Drive	7001 Development Drive	RTP/RDU	205,310
800 Park Drive	800 Park Drive	RTP/RDU	140,999
Signature Commons	4100 N Roxboro Road	North Durham	136,000
600 Park Drive	600 Park Drive	RTP/RDU	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

As the Raleigh-Durham metro area continues to boast relatively strong job creation and to enjoy well-established, growing companies such as Cree, Red Hat, and HTC, the region's office market should benefit from further near-term tightening of conditions. With vacancy on a modest but steady downward trend during the past two years – currently hovering slightly above 17.0 percent in a market with equilibrium that averages 15.5 percent – well-placed landlords may be able to wean tenants off of falling and cyclically low rental rates within the next several quarters. However, the biggest challenge is forward-looking occupancy growth, which seems to have lost steam after the resurgence in expansionary plans enacted during the spring of 2011 have largely played out during the third quarter. One positive sign is the abundance of for-sale office product, which by some accounts comprises nearly 10.0 percent of the competitive market, as owners confident in their in-place numbers seek to benefit from increased institutional interest in the market's fundamentals. Additionally, southwestern Wake County, including the towns of Cary, Apex, and Holly Springs, has proved to be a burgeoning growth corridor in the metro and is going to be linked more directly to the region's major interstate transportation linkages by the December 2011 opening of the Western Wake Freeway; the first phase of this continuation of I-540 south, from I-40 to Highway 64, will directly impact the accessibility of office product in the RTP/RDU and Cary submarkets and, indirectly, will result in opening central and northern Raleigh areas to south Wake County residents.

## 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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