RE:SOURCE
CHARLOTTE OFFICE 1Q 2011

LINCOLN HARRIS RE:SOURCE CHARLOTTE 1Q 2011

The three office-using sectors of information, finance, and professional and business services produced 9,200 new jobs in the 12 months ending February 2011, fortelling near-term stabilization in the office market.

ECONOMY

Charlotte remains committed to economic diversification in the aftermath of the 2007-2009 recession that dealt a blow to the national and local economy in general and to Charlotte's substantial financial sector in particular. Though the effects of the recent downturn continue to ripple through the metro, the Charlotte MSA has created a positive number of month-over-month jobs in 10 of the 14 months since January 2010. In the past 12 months ending February 2011, the metro added 5,500 new positions, with gains in all three of the office-using sectors of information, finance, and professional and business services. Combined, these three sectors produced 9,200 jobs in 12 months, including the robust growth of the professional and business services sector that added 8,000 jobs; this growth foretells near-term stabilization in the office market as the area's unemployment rate dipped from 11.2 percent in January 2011 to 10.7 percent in February 2011. Additionally, recovery is happening in Charlotte more quickly than in most regions, with the MSA ranked in the top quartile of metros nationally based on the number of jobs created in the past 12 months, underscoring Charlotte's road to recovery and economic strength.

Selected as the location for the Democratic National Convention (DNC) in 2010, Charlotte is the smallest metro area to hold either party's convention in nearly 50 years. The 2012 DNC will be the largest political gathering ever held in the area and speaks to Charlotte's growing clout and recognition of its political, economic, and demographic importance. Duke Energy, one of the main players in recruiting the DNC to Charlotte, is undergoing its own transformation with a January 2011 announcement that it will merge with Raleigh-based Progress Energy, pending regulatory approval. With the merged company's headquarters in Charlotte, the area – and Uptown specifically – is likely to benefit from this union. HVM/Extended Stay Hotels announced at the end of March that it is moving its headquarters from Spartanburg, SC to Ballantyne Corporate Park, creating 170 new jobs, while consulting and technology services company Capgemini revealed in January that it is adding 550 new jobs in the next three years and will lease office space in Charlotte Plaza. Several 2010 announcements, such as BAE Systems, have already resulted in office leasing activity and local hiring. The Charlotte area is recovering strongly from the downturn with a healthy mix of organic growth and corporate and regional branch relocations to the region.

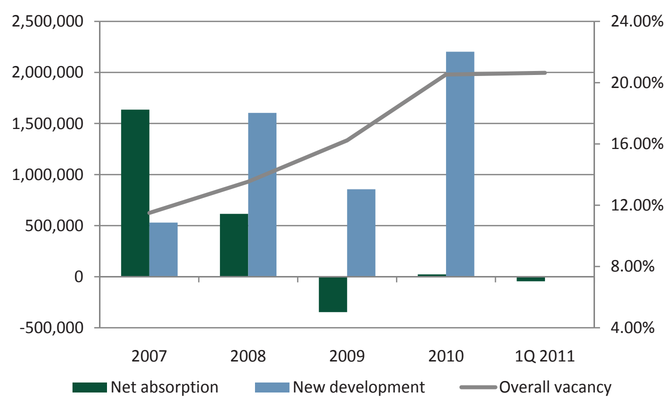
OFFICE MARKET

Overview

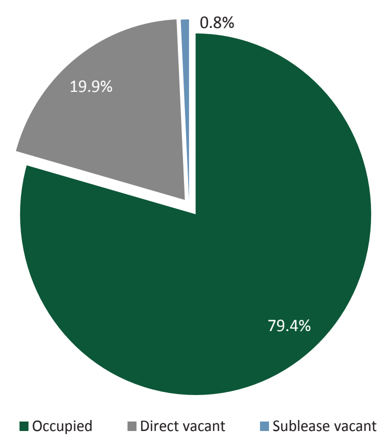
Despite negative net absorption of 45,350 square feet during the first quarter of 2011, the regional economy and Charlotte's office market are seeing a conglomeration of positive signs that point to true resurgence. Certainly, the mid-term overarching drags on office absorption growth are still present: Bank of America and Wells Fargo are only in the first year of their three-year plan to consolidate the majority of employees into bank-owned buildings. There is a large overhang of supply from the nearly 4.7 million square feet of product – totaling 11.0 percent of the office market's current size – delivered since 2008. However, the market is rapidly approaching a tipping point where positive forces are beginning to overshadow

	1Q 2010	1Q 2011	12 MONTH FORECAST
Market Supply (SF)	41,531,259	42,434,569	↑
Under Construction (SF)	903,310	313,930	→
Under Construct. Preleased %	0.0%	54.5%	↑
Direct Vacancy	17.9%	19.9%	↓
Total Vacancy	18.8%	20.6%	↓
Total Net Absorption (SF)	7,004	-45,350	↑
YTD Net Absorption (SF)	7,004	-45,350	↑
Direct Asking Rent	$20.73	$19.92	↑
Class A Direct Asking Rent	$23.58	$22.48	↑
Class B Direct Asking Rent	$16.86	$16.67	→

STATISTICS AND TRENDS



HISTORICAL VACANCY AND NET ABSORPTION



SPACE BREAKDOWN

Over the past two years, lease negotiations have focused on shorter terms, space consolidations, and early termination options. The market seems to have turned a corner recently, with leasing activity trending towards more traditional terms of five to ten years, expansion options, and renewal discussions.

- Jubal Early, Senior Vice President

leftover challenges from the past recession. Though the market continues to be preoccupied by renewals, fewer tenants are giving back space as they predict a similar or larger headcount in the next three to five years. Additionally, tenants are approaching their landlords with incremental expansion needs in the 1,000 to 5,000 square foot range.

Positive net absorption continues from relocation announcements, such as BAE Systems' 37,800 square foot occupancy at the former Lending Tree Two building, and the synergies that they foster; several energy companies like Babcock & Wilcox and Westinghouse Electric are contemplating expanding their local presences. Non-local firms such as Lockton, Total Quality Logistics, and Alcoa are testing the waters in Charlotte opening small branch offices. Again, net absorption was most positive for Class A properties, which garnered 22,382 square feet of newly occupied space, whereas Class B properties lost negative 67,732 square feet during the quarter. The vacancy and rent growth divide widens between the two segments as Class A net absorption has been negative for only two of the past eight quarters, but Class B properties have recorded negative net absorption for nine straight quarters. As of first quarter 2011, vacancy for Class A and Class B office product stands at 19.3 and 23.3 percent, respectively. If Uptown's vacancy is measured by economic vacancy instead of physical occupancy of space, then vacancy in Uptown would stand at 8.9 percent – less than half the 18.0 percent physical vacancy in the submarket – and the metro's vacancy rate would drop to 16.9 percent.

Charlotte's office market recovery is expected to truly have legs in the second half of 2011 as the flurry of leasing activity signed in first quarter or pending signature in second quarter comes to fruition and moves net absorption firmly into positive territory. One example is Wake Forest University, which signed a 28,741 square foot lease at International Trade Center in Uptown that will increase its space by more than twofold. HVM/Extended Stay Hotels is expected to sign for nearly 63,000 square feet in second quarter in Ballantyne, while Capgemini is slated to finalize negotiations in April for 48,144 square feet in Uptown's Charlotte Plaza. Staggered pull down dates for many of these large occupancies will cause positive net absorption to be spread out into several quarters.

Supply

Current office development projects are winding down, and both buildings under construction in the first quarter are slated for completion in April 2011. The 142,930 square foot speculative Calhoun Building in Ballantyne has not engendered any leasing activity and is expected to deliver completely vacant. On the other hand, the FBI's new 171,000 square foot building on Microsoft Way in the Airport submarket began construction in 2009 with a commitment from the FBI for the entire building.

As lenders and developers remain cautious about supply and demand fundamentals, build-to-suit activity has picked up as a safe way to tap into signs of economic growth and targeted capital availability. SPX's new headquarters location in Ballantyne for approximately 230,000 square feet will likely break ground in the next few months, while American Honda Finance also recently announced pending construction of a 25,000 square foot office building in Ballantyne to house its regional presence.

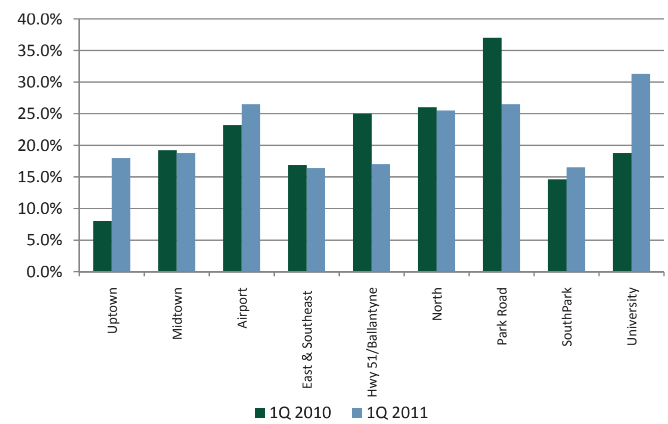
HISTORICAL DIRECT RENTAL RATES

Rental rates

The market's overall asking rental rate may have finally hit its nadir at the end of 2010, ramping up 0.7 percent during first quarter 2010 with asking rates increasing from $19.79 to $19.92 per square foot. Quarter-over-quarter rising rental rates were measured in eight of the nine submarkets, with Uptown being the exception. Class B properties, which have suffered the largest rental rate declines as they contend with competitively priced Class A properties, rebounded strongly in first quarter and grew 3.5 percent to average $16.67 per square feet. Class A office product also swelled during the quarter by 1.4 percent as landlords, sensing growing demand from tenants, were able to regain some negotiating power.

Tenants in the market

Current tenants in the market that Lincoln Harris was tracking at quarter-end have approximately 775,000 square feet of space leased in the market and are looking for more than 1.1 million square feet as a large majority of local companies seek expanded spaces and non-local companies assess if Charlotte will fit their needs. Lincoln Harris has heard whispers of several out-of-town companies that are evaluating sizable moves into Charlotte, with varying degrees of likelihood, for about 500,000 square feet.



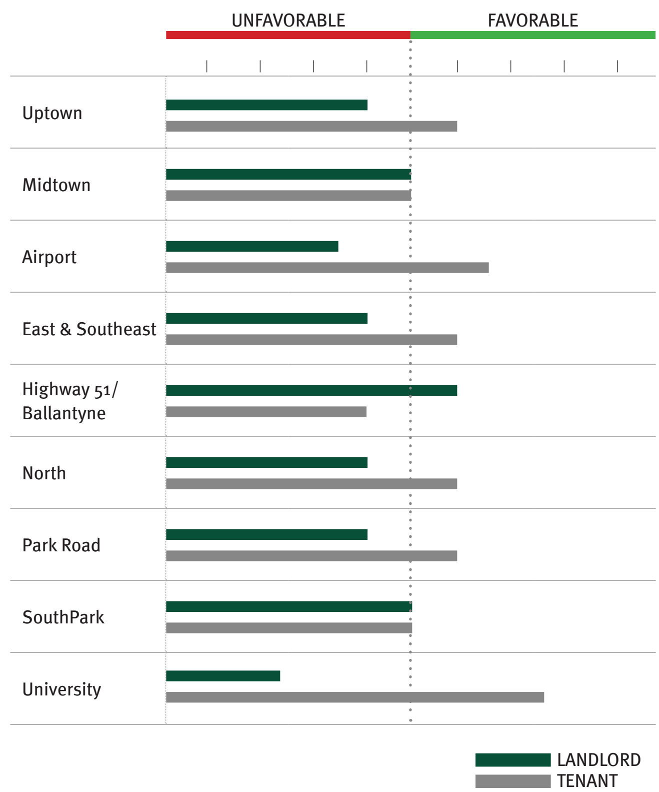
SUBMARKET-BY-SUBMARKET VACANCY TRENDS

SUBMARKET ANALYSIS

The market's recovery is occurring unevenly across submarkets, with only half of the submarkets – Midtown, East & Southeast, Highway 51/ Ballantyne, North, and Park Road – enjoying a first quarter 2011 vacancy rate lower than at the beginning of 2010. Park Road and Highway 51/ Ballantyne have experienced the greatest vacancy rate reductions in the past four quarters as they have successfully absorbed new supply. Tranquil Court in the Park Road submarket has only two suites – or 8.1 percent of its office space – still available and the strong leasing activity for the project has caused the submarket's vacancy to drop from 34.3 percent in first quarter 2010 to 27.0 percent in the current quarter. On a larger scale, the Bissell Companies' Ballantyne product continues to attract tenants locally and nationally, which has abated the submarket's vacancy from 25.3 to 17.2 percent in the past year. The Highway 51/ Ballantyne submarket has achieved more than 484,000 square feet in positive net absorption since the first quarter of 2010, including 55,476 square feet in first quarter 2011 due primarily to BAE Systems' 37,800 square foot move in at the former Lending Tree Two building and Highland Capital Brokerage's taking 8,013 square feet at Brixham Green I. Also, after three straight quarters of negative net absorption, the SouthPark submarket enjoyed net absorption of 15,676 square feet because of sizable submarket entrants such as Kimco's 14,498 square feet at One SouthPark Center, ICS for 12,763 square feet at Rexford Park I, and a flurry of small expansions by Swisher, Garretson Firm Resolution Group, West End Advisors, and RSLI, to name a few. Finally, Uptown saw a net absorption setback of 100,449 square feet as Bank of America occupied two more floors at 1 Bank of America Center for a total of 58,400 square feet, but moved out of nearly double that space at other locations.

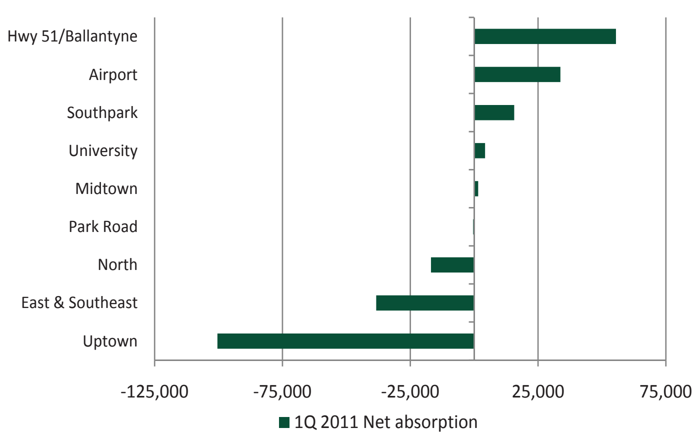
With the exception of Uptown, all submarkets saw either stagnation or rental rate escalation quarter-over-quarter. Uptown's average rental rates fell from $25.24 to $24.84 per square foot almost entirely because of the repricing of 241,807 square feet at NASCAR Plaza – from $27.00 to $24.50 per square foot – that occurred after that property's December 2010 sale. The largest gains were made in submarkets that are notably constrained in their land availability, such as Midtown and SouthPark, which have rental rates normalizing at the fastest clip: quarter-over-quarter, Midtown rates jumped 5.9 percent to $23.38 per square foot, while SouthPark rates strengthened 2.6 percent to $21.64 per square foot.

LANDLORD/TENANT CONDITIONS



With metrowide vacancy remaining largely unchanged during the past three quarters – staying in the 20.4 to 20.6 percent range – tenants still typically have the upper hand in negotiations. However, with rental rates solidifying in most submarkets, tenants looking to substantially curb real estate costs or expand cheaply have an increasingly small window to lock in favorable rental rates in key submarkets. One of the positives of relatively widespread vacancy is that tenants looking to expand their space are more likely to be able to do so within their current building or office park. In terms of leasing language, brokers are seeing a shift in focus away from short-term survival strategies like one to two year leases and early termination options as tenants are moving towards more normal five to ten year leases, renewals, and expansion options. For the tenants that are still

SUBMARKET-BY-SUBMARKET ASKING RENTAL RATES



SUBMARKET-BY-SUBMARKET NET ABSORPTION

struggling, many are waiting until their lease expirations to give up space instead of putting part of their space up for sublease. A lot of this hesitation is due to sluggishness in the sublease sector of the market.

Landlords across the market are beginning to benefit from an upswing in rental rates during the first quarter 2011 that is likely to continue as vacancy comes down slowly over the next several years. Owners in Midtown, SouthPark, Uptown, and the Highway 51/Ballantyne submarkets that have the most desirable buildings are increasingly able to present prospective tenants with an offer with very little negotiating room. These strong landlords with robust occupancy rates are able to push rents on their available spaces, though they have to keep in mind that they are competing with weaker landlords that might yield on price points to get tenants in the door. With pending FASB changes that will require leases to come onto companies' balance sheets, landlords have to contend with changing lease accounting rules that are pushing well capitalized tenants to build their own buildings, though only a small slice of the tenants able to do so are currently willing to make that commitment.

COMPLETED LEASE TRANSACTIONS

TENANT	ADDRESS	SUBMARKET	SF	MARKET EFFECT
McGuireWoods	Fifth Third Center	Uptown	46,684	Relocation, expansion
Wake Forest University	International Trade Center	Uptown	28,741	Relocation, expansion
Selective Insurance Co. of America	Toringdon VIII	Highway 51/Ballantyne	22,000	Renewal
Natl Board of Examiners in Optometry	BB&T Center	Uptown	21,169	Expansion
GSA	Whitehall Corporate Center III	Airport	19,000	Renewal
Childress Klein Properties	One Wells Fargo Center	Uptown	14,544	Renewal
Power Plant Management Services	10710 Sikes Place	East & Southeast	12,900	Expansion
Reznick Group	525 N Tryon Street	Uptown	12,892	Expansion
Undisclosed	Bank of America Corporate Center	Uptown	12,116	Renewal, contraction
HealthStat	4601 Charlotte Park Drive	Airport	11,335	Renewal
Bank of America	Carnegie VIII	SouthPark	9,929	Renewal
American Cancer Society	1901 Brunswick Avenue	Midtown	9,000	Relocation, expansion
Prudential Carolina Realty	Toringdon I	Highway 51/Ballantyne	8,500	Renewal, contraction
Highland Capital Brokerage	Brixham Green I	Highway 51/Ballantyne	8,013	Relocation, expansion
Merrick & Company	Morehead Square	Midtown	5,408	Renewal
Pease Associates	Park Avenue Building	Midtown	4,598	Relocation, contraction

CHARLOTTE COMMERCIAL REAL ESTATE FIRM CHANGES

Local firms have affiliated with national companies entering the market

LOCAL FIRM	NATIONAL COMPANY	AFFILIATION	KEY BROKERS AFFECTED	AFFILIATION OCCURRED
First Commercial Real Estate Advisors	Mohr Partners	Mohr Partners	Keith Bell, Jack Glasgow	January 2011
Commercial Carolina	Thalhimer	Cushman & Wakefield	Warren Snowden, Ralph Oldham	January 2011

Local firms have merged with national companies and other local players

RESULTING COMPANY	MERGING COMPANIES	KEY BROKERS AFFECTED	MERGER OCCURRED
Jones Lang LaSalle	Jones Lang LaSalle Keystone Partners	Chase Monroe, Jim Thorp, Brad Cherry, Pete Pittroff	March 2011
Grubb Properties	Grubb Properties Colony Development Partners	Jonathan Nance, Jana Foreman, Kara Schroer	March 2011

The nation's and metro's nascent emergence from the past recession comes only after three years of pain that was felt acutely by commercial real estate firms. There was a lot of movement in the area's commercial real estate firms this quarter, as local players merged with local and national firms that were able to broaden the resulting firms' service lines. For example, Jones Lang LaSalle – a relatively new brand to the market – was able to capitalize on Keystone Partners' strong agency leasing and property management presence. Additionally, local firms such as Commercial Carolina and First Commercial Real Estate Advisors have partnered with national affiliates that allow them to benefit from the tools of a national platform and local referrals from other regional offices.

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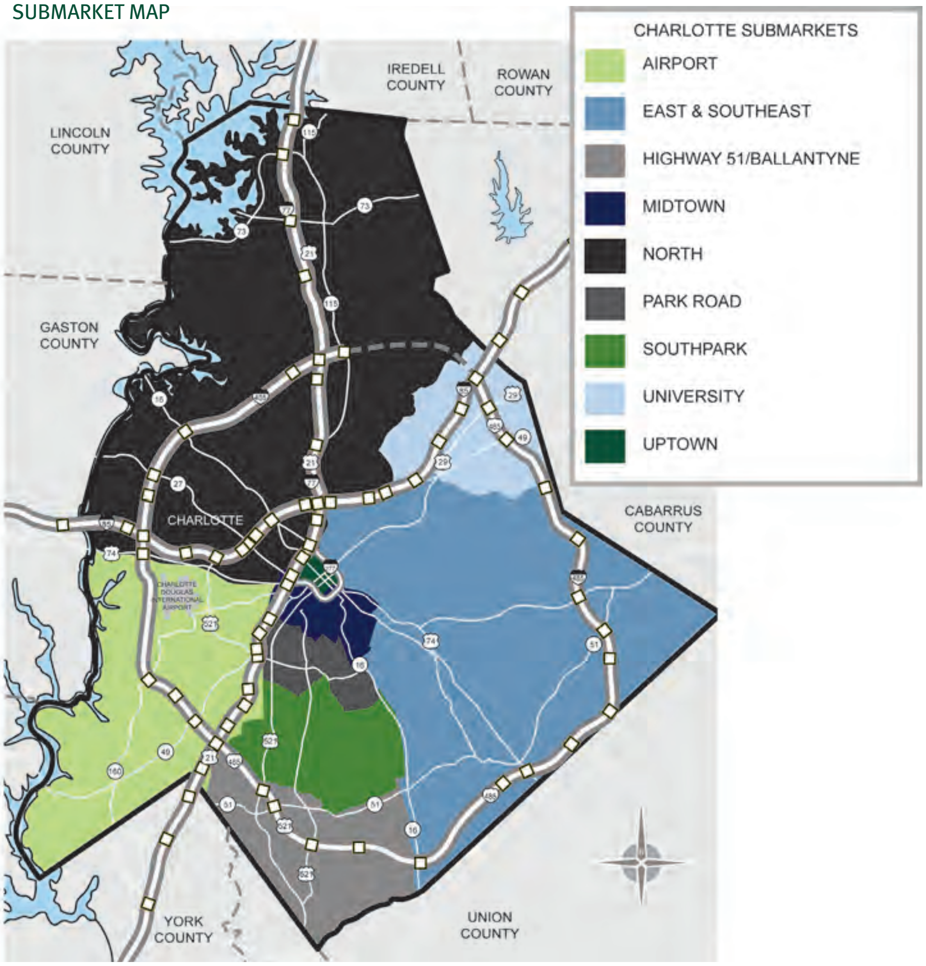
OFFICE FORECAST

Lincoln Harris still expects the Charlotte office market to achieve net absorption of 500,000 square feet by year-end as the economy continues its revitalization, local companies expand their operations in-house, and national and international companies see an opportunity to harness Charlotte's brainpower by relocating or opening new offices here. The Democratic National Convention's decision to host the 2012 nomination in Charlotte will also play a role in this year's expansion as money flows in for the convention's activities and as the nation looks at Charlotte in a new light. There are strong numbers for tenants in the market looking for space, including a number of national companies considering relocations or expansions here; even if these moves do not come to fruition, they are an indicator of Charlotte's draw as a business friendly location with a quality workforce. Not only are several large leases out for signature, there has been a pickup in organic expansions by local companies that have started out small this quarter – with expansions of 1,000 to 5,000 square feet – that will hopefully amplify as growing tenants move to lock in cyclically low rental rates.

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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