DowntownRaleigh

SECOND QUARTER 2007

ECONOMIC DEVELOPMENT, BID REPORT AND REAL ESTATE ANALYSIS

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The Downtown Raleigh Alliance is a non-profit corporation, organized pursuant to Section 501(c)(6) of the IRS Code. It is a membership organization open to any person, association, corporation or partnership. The Downtown Raleigh Alliance provides economic development, advocacy, marketing, safety, hospitality, and sidewalk cleaning services for the Downtown Raleigh Improvement Business District (BID). The Alliance has also established Raleigh Civic Ventures, a 501(c)(3) tax exempt organization, to receive contributions from businesses and individuals who want to improve Downtown Raleigh, make it a point of pride in the city and leave a legacy for future generations. The information in this report can be considered accurate and reliable, but is not guaranteed. For questions concerning this report, please email info@downtownraleigh.org.
*To protect the commercial interests of property owners and managers who submit confidential information for the purpose of generating market-level analysis, the detailed section of the multi-tenant inventory is included only in the version of this report submitted to the City of Raleigh public officials.

ECONOMIC DEVELOPMENT REPORT

HIGHLIGHTS

New Developments Announced

During the second quarter of 2007, two new projects were publicly announced for Downtown Raleigh. Winston Hotels announced plans for an 180-room Hampton Inn combined with an 80-room boutique Starwood Hotel on the block roughly bounded by Hillsborough, West, Edenton and Harrington Streets. The hotel(s) will sit atop a signature restaurant and could include hundreds of residential units. Construction is set to begin early 2008 and finish in 2010. Winston Hotels will contribute 260 of the 595 planned and existing hotel rooms between the 200 and 400 blocks of Hillsborough St.
Another development announcement, Person Street Plaza, is a mixed-use residential center and has been approved for the block roughly bounded by Person, Franklin and Delway Streets in the upper northeast section of the Capital District. The project is being built by JT Hobby and Sons and will include 52 residential units above 16,000 sq. ft. of ground-level retail space. Completion is expected late 2009.

Designed Approved for City Plaza

During the second quarter, approval was given to the design of City Plaza at the 500 block of Fayetteville St. The design will include four light towers with the ability to display images on surrounding buildings, infrastructure with capacity to support future celebrations and concerts, four glass retail pavilions, flexible seating and water features. The final design of the plaza was a result of numerous public meetings and input from the community.

The City Plaza is estimated to cost $21 million dollars and to be completed by summer 2008. Since the reopening of Fayetteville Street in July 2006, the district has seen an estimated $200 million dollars of private investment in planned and under construction projects.
Phase Two of Fayetteville Street Renaissance Project was also approved to begin construction and is slated to be finished summer 2008. Phase Two will extend Fayetteville Street to Lenoir Street at the south end. The Marriott Hotel, convention center and city plaza all are expected to be finished by third quarter 2008.

Ground-Level Business Relocations and Openings

Second quarter shows six new business openings including one new restaurant, Fin's. Since July 2006 to present, the Downtown Raleigh Alliance has confirmed 12 business relocations bringing the total business openings in one year (7/1/2006-6/30/2007) for Downtown Raleigh to 38. The most prevalent place this is seen is Fayetteville St. Since July 2006, 11 of the 13 vacant spaces are now occupied.
Downtown is now home to over 150 bars, restaurants and cafes with 19 more expected to open by fourth quarter 2009.

Office Market

The market for multi-tenant office space in Downtown Raleigh saw a net absorption of 2,276 sq. ft, bringing a one-year total absorption to 157,297 sq. ft. or about 6% of the surveyed market's total space. The occupancy rate for multi-tenant space at 92.1% for 2007 is currently higher than Cary, Central Durham and Chapel Hill for all class A, B & C office space. All square feet absorbed in the second quarter occurred within the Fayetteville Street District.
Particularly noteworthy are the number of square feet expansions within existing downtown businesses.
Second quarter provided four moves within downtown resulting in over 10,000 sq. ft. of net absorption. Major contributors include Kimley-Horn, Stewart Engineering and Shannahan Law Firm.

Website Update

Second quarter 2007 showed an estimated 145,721 visits. Of these, 48,396 were unique visits or 33% of all visits to the website and averaging 1,601.33 visits per day.
Since the launch, the collaboration between the Downtown Raleigh Alliance and the City of Raleigh continues to attract and inform downtown information seekers. Second Quarter statistics show the website received an estimated average of 1,366 visits per day between June 2006-July 2007.

Media Exposure/Accolades

Raleigh generated seven "top ten cities in America" honors within the second quarter. Particularly noteworthy, both Forbes.com and Inc. Magazine listed Raleigh #1 as the "Best Place for Business in America." Bizjournals Magazine rated Raleigh as the fourth "hottest job market for young adults" and Business 2.0 ranked Raleigh the third hottest city with the best jobs.
Also released second quarter, the U.S. Census Bureau recorded Raleigh as the 8th fastest growing city in the nation for 2005-2006 surpassing St. Louis in overall population.

DEMOGRAPHICS

REAL PROPERTY SQUARE FOOTAGE WITHIN THE BID

Existing Space	Square Feet
Commercial Office	4,806,389
Retail	1,218,398
Governmental Office	5,180,445
Residential	1,246,647
Other (Education, Religious, etc.)	5,248,177
Total Existing Space	17,700,056
Under Construction Space	
Commercial Office	275,000
Retail	35,000
Government/Other	500,000
Planned Space	
Commercial Office	435,000
Retail	156,000
Government/Other	320,000
Total Planned and Under Construction Space	1,741,500
Combined Existing, Planned and Under Construction	19,421,556

HOTEL ROOMS

Existing Rooms	610
Planned and Under Construction Rooms	645

RESIDENTIAL UNITS

Existing Units Inside BID	2845
Existing Units Inside 1-mile Radius of Downtown Centerpoint	5661
Planned and Under Construction Residential Units Inside BID	1360
P & UC Units Inside 1-mile Radius of Downtown Centerpoint	1922
Combined Existing, Planned and Under Construction Units Inside BID	4205
Combined Existing, P & UC Units Inside 1-mile Radius of Downtown	7583

POPULATION DESCRIPTIVE STATISTICS

Residents within 1-mile Radius of Downtown Centerpoint	15,065
Average Household Income Within 1-mile Radius of Downtown	$58,306
Number of Households Within 1-mile Radius	6,039
Average Household Size Within 1-mile Radius	1.64
% of Residents Within 1-mile Radius With Bachelor's Degree or Higher	48.4%
Median Age for Residents Within 1-mile Radius	34.8

ANNUAL TRENDS

ANNUAL TRENDS	1999	2000	2001	2002	2003	2004	2005	2006	2007-to date
Street Level Business Openings	34	37	24	24	21	26	20	36	13
Street Level Business Closings	29	24	19	25	13	18	8	25	11
Year-End Office Occupancy	92.7%	96.0%	95.6%	91.8%	88.2%	85.9%	86.6%	89.6%	92.1%
Projects Announced	8	13	13	9	16	26	34	11	3
Public Investment (millions)	$47.5	$78.1	$27.1	$0.3	$3.2	$237.4	$330.0	$0.0	$21
Private Investment (millions)	$13.3	$69.65	$92.6	$157.6	$202.1	$353.5	$615.0	$503.2	n/a
Projects Completed	2	2	2	1	0	2	7	3	5
Public Investment (millions)	$0	$0	$0	$10.5	$0	$0	$2.0	$11.5	$0
Private Investment (millions)	$21.1	$8.5	$12.5	$0	$0	$106.0	$90.0	$0.7	$93

2ND QUARTER STREET LEVEL BUSINESS ACTIVITY

Business Openings:	Address	Month
Fin's	110 E. Davie St.	May
Velvet Lounge & VIP Room	401 N. West St.	June
York, Simpson Underwood	226 Fayetteville St.	May
Raleigh Eye Care Center	121 Fayetteville St.	June
Buckhead Saloon	411 W. Morgan St.	June
Kimball & Company	207 Fayetteville St.	June

Business Closings:		
Whimsical Cookies	317 Blake St.	May
The Dirty	401 N. West St.	May
North Carolina Chamber	225 Hillsborough St.	June
Cure Americas	224 E. Davie St.	April
Fly	209 Glenwood Ave.	July
Poole's Diner		

2nd Quarter Totals
Openings: 6
Closings: 6

ANNOUNCED / COMPLETED DEVELOPMENT IN 2ND QUARTER

Project Name	Project Type	Construction Cost	Announced/Completed
Heilig Levine	Mixed-use residential	$8,000,000	Completed
Palladium Plaza	Mixed-use residential	$20,000,000	Completed
Winston Hotels	Mixed-use hotel	N/A	Announced
Person St Plaza	Mixed-use residential	N/A	Announced

Total Projects Completed This Quarter: 2 / Total Projects Announced This Quarter: 2

DEVELOPMENT IN THE PLANNING STAGES

Project Name	Project Type	Construction Cost	Status
City Plaza/Fayetteville St Phase II	Civic Infrastructure	$21,000,000	Design Approved by City Council
Solas	Commercial	$3,000,000	Approved
1 Eleven Seaboard	Mixed-use residential	$16,000,000	Proposed

Reynolds Tower	Mixed-use Commercial	$60,000,000	Approved
The Hue	Mixed-Use Residential	$60,000,000	Approved
Blount Street Historic Conversions	Mixed-Use	$80,000,000	Approved
Boylan Flats	Residential	$3,000,000	Approved
Contemporary Art Museum	Arts & Entertainment	$15,000,000	Developer Selected
Green Square	Museum/Cultural	$100,000,000	Proposed
Glen on Peace	Residential	$5,000,000	Approved
Shaw University Science Center	Education	$4,000,000	Approved
630 North	Mixed-Use Residential	$24,000,000	Proposed
Site 1	Mixed-Use Residential	$130,000,000	MOU Approved
Site 4 (Lafayette Hotel)	Mixed-Use Residential	$70,000,000	Development Agreement Approved
Wake County Wrapped Deck	Mixed-Use Residential	$50,000,000	Proposed
Total Planned Development		$641,000,000	

DEVELOPMENT UNDER CONSTRUCTION

Progress Energy/ Wrapped Deck	Mixed-use transportation	$14,200,000	Under Construction
712 Tucker	Residential	$25,000,000	Under Construction
222 Glenwood	Mixed-Use Residential	$40,000,000	Under Construction
Bloomsbury Estates	Residential	$55,000,000	Under Construction
Chavis Heights Hope VI	Residential	$33,000,000	Under Construction
Convention Center	Hospitality	$235,000,000	Under Construction
Marriott Hotel	Hospitality	$71,000,000	Under Construction
South End Underground Parking Facility	Parking	$30,000,000	Under Construction
West at North	Mixed-Use Residential	$70,000,000	Under Construction
RBC Plaza	Mixed-Use	$100,000,000	Under Construction
Total Development Under Construction		$693,000,000	

BID SERVICES REPORT

SAFETY AMBASSADORS SERVICE INFORMATION

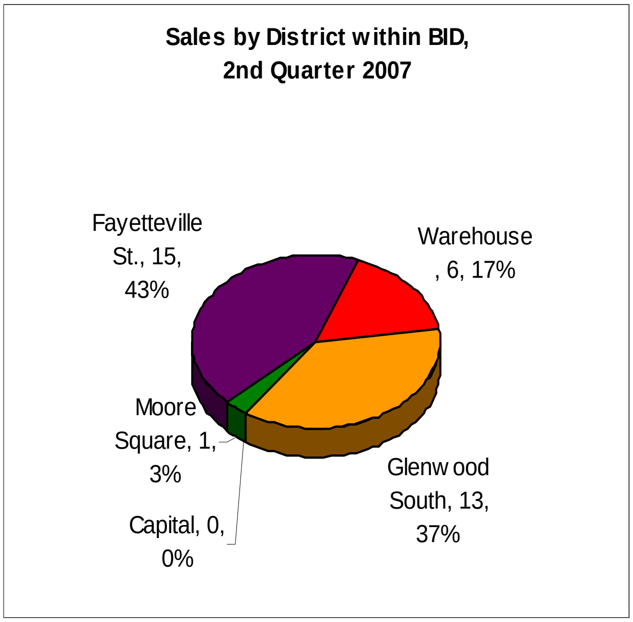
	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Year to Date
Maps, Brochures, Restaurant & Club Guides	3060	1378	1626	1698	2529	1597							11888
Directions, Assistance, AAA	576	558	986	1156	1294	928							5498
Disturbing the Peace, Trespass, Panhandlers	15	7	17	13	12	16							80
EMS, Fire, Police	3	2	7	4	4	7							27
Establishment/Property Owner Contact	121	99	243	290	349	182							1224
Escorts	49	31	38	51	48	46							263
Total Personal Interactions	3824	2075	2917	3212	4326	2776							19040

CLEAN AMBASSADORS SERVICE INFORMATION

	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Year to Date
Graffiti Removal (# of instances)	1	13	10	11	12	2							49
Litter / Debris Removed (pounds)	10117	9327	6256	5123	9221	6615							46659
Sidewalk Sweeper (hours)	71	82	29	29	110	66							387
Weed Removal (block faces)	4	0	15	8	69	34							130

RESIDENTIAL REAL ESTATE ANALYSIS

Figure 1



GEOGRAPHIC DISTRIBUTION OF SALES

Figure 1 illustrates that during the second quarter of 2007, the sales recorded for downtown residential properties were concentrated in Fayetteville Street and Glenwood South District. The most sales, 13 in all, occurred at the Hudson on Fayetteville Street. All together, the second quarter saw a total of 35 residential units sold, with 20 of those sales occurring as new construction absorption. The second quarter's other 15 sales were resales that occurred in The Atrium, Founder's Row, West Lane Townhomes, 510 Glenwood Ave, 610 Hillsborough, The Paramount, The Dawson, Martin Place and Park Devereux. Compared to the previous two quarters' sales volumes, the second quarter data reflects 20 more closings than the first quarter 2007, and 24 more closings than the fourth quarter of 2006. The increase in sales volume is attributed to more units of new construction becoming available in Downtown Raleigh and a price reduction in the 13 sold at the Hudson.

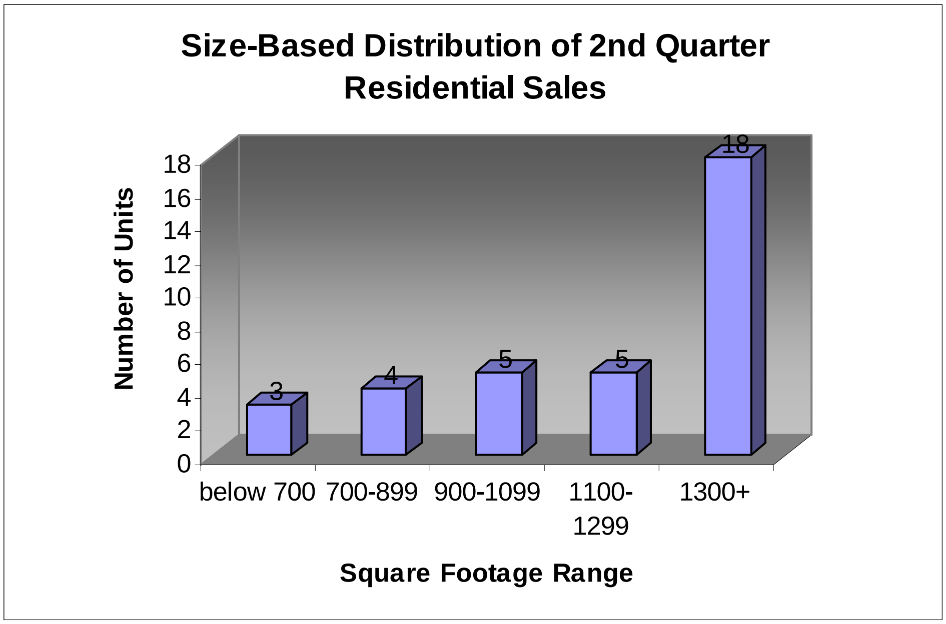
It is important to clarify that these figures represent the actual closings on real estate transactions and do not include the reservations made on planned or under construction projects. At this point, the disparity in sales by district appears to be the result of differing inventories of properties becoming available for sale and occupancy by district rather than a market preference for a particular district within Downtown Raleigh.

CATEGORICAL DISTRIBUTION OF SALES BY UNIT SIZE

The chart in Figure 2 provides a categorical distribution of housing units sold in the second quarter, separated into five 200-square foot categories. Particularly noteworthy in the chart is the sale of units 1,100 square feet or greater. Units over 1,100 sq. ft. accounted for 65% of total amount sold during the second quarter. As suggested in the previous four quarters, the market's emphasis toward larger units is most likely a reflection of the available sizes of product offered by new residential projects rather than a market preference.

158 of the 701 existing condominiums/townhomes in downtown are less than 1,000 sq. ft. or 22% of total units. Of these, only one remains for sale.

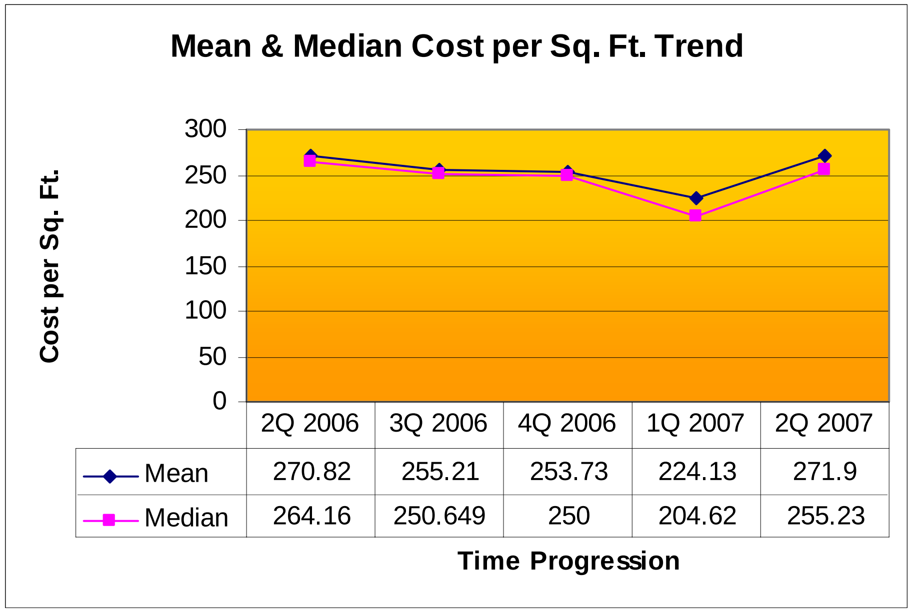
Figure 2



COST PER SQUARE FOOT TRENDS

Both the mean and median costs per square foot for residential properties sold in the second quarter rose for the first time since first quarter 2006. The second quarter mean gained nearly $48 per square foot, while the median gained almost $51 per square foot. This upward trend is a result of the 7 units that sold at the Quorum Center at an average of $369.98 per square foot. It should also be stated the market's mean and median rates rose despite the nearly $50 per sq. ft. decline in the Hudson's 13 sales since it first went on the market. Regarding the highs and lows of the first quarter residential market, the most expensive unit ($/sq.ft.) sold during second quarter 2007 was a 1,763 square foot unit in the Quorum Center for $499.15 per square foot, while the least expensive was an 1,157 square foot unit at Founder's Row for $185.83 per square foot.

Figure 3



	2Q 2006	3Q 2006	4Q 2006	1Q 2007	2Q 2007
Mean	270.82	255.21	253.73	224.13	271.9
Median	264.16	250.649	250	204.62	255.23

CUMULATIVE GEOGRAPHIC DISTRIBUTION OF SALES

Figure 4

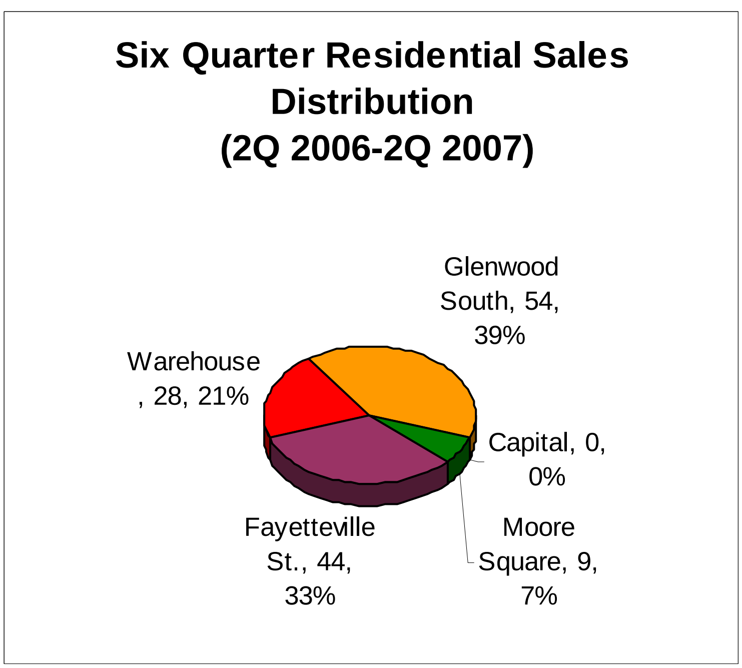


Figure 4 provides a geographic breakdown of residential sales over the last six quarters, beginning with the fourth quarter of 2005. The chart is more an indication of where product is becoming available for closing and occupancy rather than an indication of consumer preference. The openings of the Dawson, the Paramount and the Quorum Center produced a slightly higher sale-volume towards the western half of Downtown Raleigh, and the Warehouse and the Glenwood South districts, respectively (60% of all sales within the BID).

The chart is expected to change considerably over the next few quarters as new information for the Palladium Plaza become available.

Sales in the Hudson increased the Fayetteville Street district's 2007 cumulative total to 24 units absorbed. All of the districts should not only provide insight into the appreciation rate of downtown residential, but also help to determine the relative strengths of district location and product quality in determining appreciation and consumer preference.

Each component of the residential sales data provides the most sound indicator of the residential market' s direction, preferences and strength.

MULTI-TENANT OFFICE MARKET INVENTORY (GREATER THAN 10,000 SQ. FT.)

Total: 2,713,278 Available: 217,572 Absorption: -2,267 Vacancy: 8.0%

ESTIMATED MULTI-FAMILY RESIDENTIAL PRODUCT DELIVERY TIMELINE

Project Name	Planned/Under Construction	Product Type	District	Project Completion Date	# of units
Carlton Place	Completed 1Q 07	Mixed-income rental	Moore Square	1Q 07	81
Quorum Center	Completed 1Q 07	For-sale condos	Glenwood South	1Q 07	37
Palladium Plaza	Completed 2Q 07	For-sale condos	Moore Square	2Q 07	66
				2007 Total	184
Chavis Heights	Under Construction	Mixed-income rental	Moore Sqaure	1Q 08	165
Bloomsbury Estates I	Under Construction	For-sale condos	Warehouse	1Q 08	55
222 Glenwood	Under Construction	For-sale condos	Glenwood South	3Q 08	117
Glen on Peace	Planned	For-sale condos	Glenwood South	4Q 08	18
RBC Plaza	Under Construction	For-sale condos	Fayetteville Street	4Q 08	140
Blount St Phase I	Planned	For-sale condos	Capital	4Q 08	100
				2008 Total	595
West at North	Under Construction	For-sale condos	Glenwood South	1Q 09	170
CAM	Planned	For-sale condos	Warehouse	2Q 09	50
Bloomsbury Estates II	Planned	For-sale condos	Warehouse	2Q 09	55
1 Eleven Seaboard	Planned	For-sale condos	Capital	2Q 09	52
The Hue	Planned	For-sale condos	Warehouse	2Q 09	207
712 Tucker	Under Construction	Apartment rentals	Glenwood South	2Q 09	179
Reynolds Tower	Planned	For-sale condos	Warehouse	3Q 09	25
630 North	Planned	For-sale condos	Glenwood South	3Q 09	42
Blount St. Phase II	Planned	For-sale condos	Capital	3Q 09	100
Lafayette	Planned	For-sale condos	Fayetteville Street	4Q 09	80
Moore Square Apartments	Planned	Apartment rentals	Moore Square	4Q 09	175
				2009 Total	1,135
Site One	Planned	For-sale condos	Fayetteville Street	1Q 10	154
Boylan Flats	Planned	For-sale condos	Glenwood South	1Q 10	14
Blount St Phase III	Planned	For-sale condos	Capital	2Q 10	100
				2010 Total	268
Blount St. Phase IV	Planned	For-sale condos	Capital	1Q 11	100
				2011 Total	100