

Research Triangle Is on the Rebound

The Raleigh-Durham Economy is Back in the Game.

Less than five years after the tech bust prompted telecom and computer companies to slash jobs, the area encompassing North Carolina's Research Triangle Park is collecting business relocation and expansion announcements like Michael Jordan collected NBA championship rings.

The so-called Research Triangle, while containing a large, suburban-office component, comprises a trio of cities. It includes Raleigh, N.C., the state's capital, the area's largest city by population and the home to North Carolina State University, with a strong biotechnology curriculum; Durham, N.C., which has been converting former tobacco warehouses into office space and is the hometown of Duke University and its medical school; and the tony Chapel Hill, N.C., largely a residential-and-university town that is home to the University of North Carolina, where Mr. Jordan first gained fame as a basketball phenomenon.

The headquarters of RBC Centura, a Royal Bank of Canada subsidiary that moved last year from Rocky Mount, N.C., will anchor a 29-story, mixed-use building expected to open in downtown Raleigh in 2008.

The American Institute of Certified Public Accountants plans to begin moving some 400 jobs to Durham this summer, largely from New Jersey. Pharmaceuticals company Merck & Co. is building a \$300 million vaccine-manufacturing facility in Durham that could employ up to 600.

The commercial real-estate market in the region is rebounding, albeit not as quickly as the economy.

Above-average job expansion pushed March employment levels 4.8% above a prebust high for the same month, hit in March 2001, according to the Bureau of Labor Statistics. Though the stronger retail sector has seen rental rates exceed levels before the bust, average vacancies in the office and warehouse sectors are above lows hit before the downturn. Average office-rental rates stabilized in the low \$18 per-square-foot range last year, off the \$20.25 peak hit in third quarter of 2001, said Property & Portfolio Research Inc., a Boston real-estate research firm.

"It was a pretty tough slump from the latter part of 2001 right through 2004 for everyone," said Edward J. Fritsch, chief executive of Highwoods Properties Inc., a Raleigh real-estate investment trust that owns about 4.1 million square feet of office space in the region. The halting recovery can in part be traced to the overexpansion of many corporations during the boom -- space that will take some time to absorb. Last year was the first with strong job expansion and it normally takes a couple of years to cut into vacancy rates, said Mark Vitner, senior economist with Wachovia Corp.

Much of the gradual improvement in the region's commercial real estate is being driven by relocations and expansions of companies attracted in part by the region's lower costs, according to a December report on the region's economy by Wachovia. Job expansion and a cost of living 7% below the national average has given the seven-county area an above-average surge in population, which rose to 1.4 million last year, according to Moody's Economy.com, a unit of Moody's Corp.

The area's highly educated work force, with its strong technology and biotech skills base, is attracting financial-services concerns such as Credit Suisse Group and technology-and-biotech companies that have long been drivers in the region.

Some office developers say it makes sense to increase their construction because much of the vacant space is in older buildings, while higher-end office space is dwindling. About 1.2 million square feet of new space is scheduled to be completed this year, double last year's level, Property & Portfolio Research said.

In addition to Highwoods Properties' RBC Centura mixed-use tower project, downtown Raleigh is opening the former Fayetteville Street pedestrian mall to auto traffic this summer and adding a convention center.

Andrew Kelton, senior vice president of Duke Realty Corp.'s Raleigh operations, said Duke has about 600,000 square feet under construction, including a large build-to-suit project. The company is increasing its offerings after whittling down the office-vacancy rate in its 2.8 million square foot Raleigh-area portfolio to about 3% in the first quarter from a high of 22% at the end of 2003. "It's kind of hard to get brokers to come show your space," Mr. Kelton said, "when you have no space to show."
