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## VA snaps up Mutual Life space

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The federal government is expanding its footprint in downtown Durham, bringing at least 200 employees to the city center.

The Department of Veterans Affairs agreed to lease 36,404 square feet at Legacy Tower, the N.C. Mutual Life Insurance building at 411 W. Chapel Hill St.

The 10-year lease will be for administrators and researchers who will move from the Durham VA Medical Center on Fulton Street, northwest of downtown.

The space will house fiscal and human resources staff and employees from the VA's Center for Health Services Research in Primary Care and the Epidemiologic Research and Information Center. The groups have academic affiliations with Duke University and UNC-Chapel Hill, conducting research on topics such as improving care for veterans with hypertension, diabetes, arthritis and other illnesses.

The deal will allow the VA to consolidate researchers from several locations and free up space for patients at the Durham VA Medical Center.

It's good news for Greenfire Development, the Durham company that bought the 42-year-old, 14-story Legacy building in late 2006. With the VA deal, the building is 98 percent leased. Greenfire has been working on the deal for about a year, said Arnold Siegmund, the Grubb & Ellis broker who represented the developer.

Greenfire's competitors will probably be pleased as well. Greenfire's space was something of a roadblock: It was one of the biggest vacancies in the submarket. And because it is older, it commanded a lower price than many newer downtown offices.

With the VA lease plugging the hole, big prospective downtown tenants likely will be driven to new offices in areas such as West Village and the American Tobacco Historic District.

Those projects helped downtown's office vacancy rate increase to 16.1 percent

at the end of June -- the highest since early 2005, according to Karnes Research, which tracks Triangle commercial real estate trends.

Still, the data belie the activity in the Bull City, Siegmund says.

"For the last two years, downtown overall has been a pretty hot market," he said. "Everyone has been looking there. [Rental] rates are going up, and space is getting harder and harder to find."

Rents in downtown Durham averaged \$19.34 per square foot at the end of June -- up 11.4 percent in the past two years.

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The push to make the Dorothea Dix Hospital campus a public park has gained another unlikely ally: Highwoods Properties.

The Raleigh real estate investment trust, one of the biggest office landlords in the Southeast, donated \$10,000 to Dix Visionaries, a group advocating for the preservation of the 306-acre property that overlooks downtown Raleigh.

Dix, a 152-year-old mental hospital, has been the subject of debate since 2002, when the state said it would close the facility after moving operations to a new hospital in Butner. The state still plans to use some of the expansive property for treating mental patients, and ownership of a few buildings has been transferred to N.C. State University.

But some fear the remainder of the land will be offered to developers.

One might assume that Highwoods would be drooling at the opportunity to build on the property. After all, that's how Highwoods, the developer of the 33-story RBC Plaza, puts money in the pockets of its investors: by building and renting out commercial space.

But Ed Fritsch, Highwoods' chief executive, says preserving the property would give the region another important amenity -- one that could attract tourists, residents or corporate tenants.

"It could be another jewel in the crown that Raleigh has to offer up," Fritsch says. With the park, "I would have a better shot at doing another building downtown, where the infrastructure is already in place, and I don't have to cut down a single tree to do it."

If the state decides to offer land to developers, Highwoods likely won't be in the bidding, he says. "There are plenty of opportunities to develop in Raleigh without negating the opportunity to make that into a world-class park."

The endorsement echoes one made last year by the Triangle chapter of the National Association of Industrial and Office Properties, a trade group representing the commercial real estate industry.

The group supports the position that a major park at Dix would create

opportunity on the park's periphery without diluting Raleigh's emerging city center.

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