

Market Report

INDUSTRIAL | THIRD QUARTER | 2008



MARKET INDICATORS

Q3 2008

VACANCY

NET ABSORPTION

CONSTRUCTION

RENTAL RATES

UPDATE

MAJOR TRANSACTIONS

Deere & Co. purchased the 79,200-square-foot Airtech Distribution Center located at 225 International Drive in the RTP/I-40 submarket.

North State Express subleased 56,235 square feet from Synthon Pharmaceuticals at Research Tri-Center South in the RTP/I-40 submarket.

Safelite Autoglass leased 44,000 square feet at Walnut Creek Business Park in the East Wake County submarket.

Metech International leased 31,005 square feet at Research Tri-Center South in the RTP/I-40 submarket.

Introduction

The third quarter was a positive one for the Raleigh-Durham industrial market. Both the warehouse and flex sectors experienced positive absorption during the period despite a slowdown in overall deal activity. The diminished leasing activity has been a trend since the start of the year, but is now becoming more acute since the onset of the global financial crisis. We continue to project that the market is extremely well poised to weather a coming recession, since new speculative construction continues to be virtually non-existent. Additionally, the Raleigh-Durham industrial market has diversified its tenant base significantly from the tech-heavy days of the late 1990's providing for less risk during a protracted downturn.

Warehouse

The Raleigh-Durham warehouse market reversed a negative trend during the third quarter of 2008 with 106,660 square feet of positive net absorption. The two previous quarters produced market-wide negative absorption of over 400,000 square feet. The RTP/I-40 submarket saw most of the new leasing activity, but it was not enough to offset new vacancies, ending the period with a negative net absorption of -6,395 square feet. The East Wake submarket was the most successful of the larger submarkets with 35,660 square feet of positive absorption.

Warehouse vacancy rates dropped slightly this quarter to 16.98%, down from 17.45% in the previous period which ended in June. The RTP I-40 submarket continues to exhibit the lowest vacancy rates in the market at 6.71%, which remained steady from the second quarter. However, sublease space is becoming a factor as USCO and Phillips Electronics now offer over 230,000 square feet of space within the submarket. This number will rise dramatically in the fourth quarter resulting from Silverline Window Company's recent announcement to close its 434,000-square-foot facility in Durham. Not including Silverline, there are presently 852,311 square feet of sublease space available market-wide.

Although rental rates have risen dramatically over the past three years, this trend appears to be leveling off as leasing volume slows. Despite the slowdown in activity, rental rates should hold steady, rather than decrease, in the coming months. Sublease space could begin to factor into the deal terms equation but is not expected to dramatically alter the landscape for new lease terms.

Flex

The Raleigh-Durham flex market posted its fourth consecutive quarter of positive absorption, with 72,554 square feet of net new leasing market wide. The Triangle's largest submarket, the RTP/I-40 corridor, was the major contributor posting third quarter net absorption of 82,008 square feet during the period. In contrast, several of the smaller submarkets posted negative net absorption. There was also an increase of 22,880 square feet of sublease space that came available during the quarter, which can be attributed to Adaptec vacating their space early at 511 Davis Drive located in Keystone Technology Park.


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Market-wide vacancy rates dropped to 13.30%, down from 13.84% at the end of the previous quarter. Among the largest industrial submarkets, the US-1/Capital Boulevard submarket continues to exhibit the lowest vacancy rates in the market at 9.69%. Developers have been watching these rates fall steadily over the last couple of years and announcements for new flex buildings have begun to crop up. BPG is beginning construction of a new 55,000-square-foot flex building at Presidential Park West, located in the RTP/I-40 corridor, with delivery expected during the second quarter of 2009.

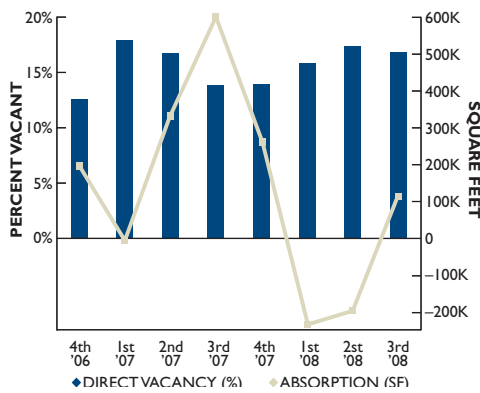
Forecast

The fourth quarter will likely demonstrate some signs of weakening in the Raleigh-Durham industrial market as the U.S. economy moves toward recession. However, the market is extremely well positioned to weather any protracted economic slowdown. Speculative construction remains virtually non-existent

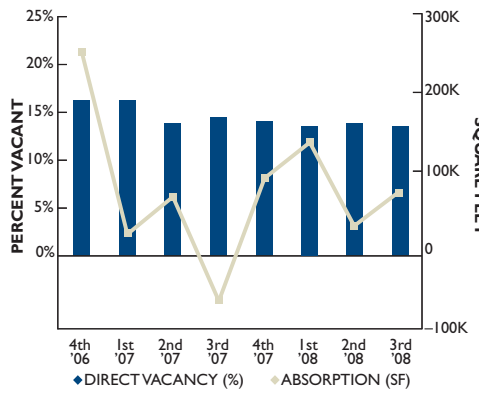


and warehouse vacancy rates in the RTP/I-40 submarket are at an all time low. The market has diversified its tenant base dramatically since 2000 when IBM and Nortel Networks dominated the landscape. Over the next few years, the lack of development land for industrial product in the RTP/I-40 corridor should significantly benefit surrounding submarkets. Most notably, the Eastern Wake County submarket along Interstate 40 and the North Durham submarket along Interstate 85 could be the big winners for new industrial development.

HISTORIC WAREHOUSE VACANT & ABSORBED



HISTORIC FLEX VACANT & ABSORBED



WAREHOUSE MARKET OVERVIEW THIRD QUARTER 2008

	RTP/ I-40	US-1/ CAPITAL	E.WAKE	TOTAL TRIANGLE
TOTAL INVENTORY	10,105,517	3,885,798	4,035,379	23,796,611
VACANT SF	678,239	552,279	1,055,791	4,040,824
VACANCY RATE	6.71%	14.21%	26.16%	16.98%
NET ABSORPTION 3RD QUARTER	-6,395	-13,080	35,650	106,660
ABSORPTION LAST 12 MONTHS	-9,771	143,273	-63,020	-47,260
SF UNDER CONSTRUCTION	0	0	150,000	150,000
SUBLEASE VACANCY	494,771	246,940	15,600	852,311

FLEX MARKET OVERVIEW THIRD QUARTER 2008

	RTP/ I-40	US-1/ CAPITAL	E.WAKE	TOTAL TRIANGLE
TOTAL INVENTORY	5,878,260	4,039,597	1,422,017	15,235,299
VACANT SF	768,751	391,384	226,023	2,025,985
VACANCY RATE	13.08%	9.69%	15.89%	13.30%
NET ABSORPTION 3RD QUARTER	82,008	-6,008	-7,094	72,554
ABSORPTION LAST 12 MONTHS	116,562	71,586	-25,593	302,203
SF UNDER CONSTRUCTION	55,592	0	0	71,432
SUBLEASE VACANCY	231,156	86,172	27,600	379,332

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