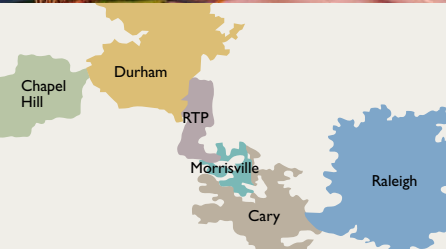


Market Report

OFFICE | THIRD QUARTER | 2008



MARKET INDICATORS

Q3 2008

VACANCY ↔

NET ABSORPTION ↑

CONSTRUCTION ↓

RENTAL RATES ↔

UPDATE

SIGNIFICANT TRANSACTIONS

Williams Mullen leased 75,000 SF at RBC Plaza

Duke University leased 58,000 SF at West Village

Patheon Pharmaceuticals leased 31,000 SF at Carlisle Place

Smith and Nephew Medical Devices leased 26,588 SF at Carlisle Place

Ward and Smith Law Firm leased 25,000 SF at Wade II

Overview

The third quarter of 2008 may, in time, prove to be the end of what has been a 4-year run of success for the Triangle's office market. While net absorption remained at healthy levels, construction remained reasonably in check and rental rates maintained historically high levels, a lag towards a market correction to occur over the fourth quarter of 2008 and into the coming year has now begun.

Trends

The Triangle office market absorbed approximately 750,000 square feet of office space in the third quarter, approximately 150% more than the Triangle's 10-year quarterly average of 300,000 square feet. Through the first three quarters of 2008, the Triangle has absorbed approximately 1.61 million square feet of office space, which is comparable to the full year total of approximately 1.37 million square feet achieved in both 2006 and 2007.

The Class A market segment continued to dominate absorption activity at 706,000 square feet for the quarter and 1.55 million square feet year-to-date. This far outweighed net absorption for third quarter 2006 and third quarter 2007. Major leases included Duke University at West Village, Williams Mullins at RBC Tower, Smith and Nephew, and Patheon Pharmaceuticals, both at Carlisle Place, and Ward and Smith at Wade II.

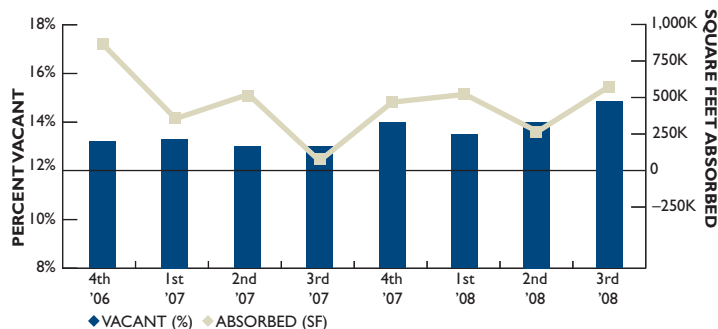
Overall office vacancy rates in the Triangle were up slightly from 14.60% to 14.80% over the previous quarter, compared with 13.10% for the third quarter of 2007. Major submarkets with the lowest vacancy rates included Raleigh's CBD at approximately 7.80% (up from 6.20% in the second quarter) and West Raleigh at approximately 9.60% (up from 9% in the second quarter). North Durham and South Durham, at approximately 22% and 29% respectively, had the greatest percentage vacancies.

While no new major office developments broke ground in the third quarter, several deliveries occurred, including 290,000 square feet at RBC Tower in Raleigh's CBD and three new buildings in Cary totaling 343,000 square feet; Crescent Lakeside II, Regency Creek I, and 305 Gregson Drive. Two buildings were completed in West Raleigh for a total of 169,282 square feet and one in the RTP/I-40 submarket of 105,000 square feet. And 1.46 million square feet of additional Class A office product is scheduled to deliver in the coming two quarters, approximately 35% of which is pre-leased.

Rental rates actually climbed further during the quarter to \$22.30 per square foot for Class A (from \$22.10 in the second quarter) and declined slightly for all office to \$19.56 per square foot (from \$19.60 in the second quarter). By comparison, in third quarter 2007, Class A averaged \$21.30 per square foot and \$18.90

Continued

HISTORIC DIRECT VACANCY & ABSORBED OFFICE SPACE



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per square foot overall. Concessions have become more generous in advance of declining asking rents. Increased relocation and up-fit costs are being met by these concessions, although users were seen to be seeking more as the perception of a slowing national economy took hold.

Forecast

The fourth quarter of 2008 and first quarter of 2009 are expected to bring flat, if not declining, results for the Triangle as the effects of devastation on Wall Street trickles to Main Street, resulting in declining demand. Despite these expectations, the net performance for the full calendar year 2008 should compare consistently with 2007 and 2006.

The second and third quarters of 2009 may bring dramatically different results. Headcount reductions and possible user defaults, occurring in fourth quarter 2008 and first quarter 2009, will become manifest as excess space hits both the direct and sublease markets. Naturally, net absorption is expected to decrease, likely running negative, and vacancy is expected to increase. Class A rental rates are expected to be flat, possibly declining, although concessions are expected to increase significantly in the interim. The Class A inventory will grow by just those projects scheduled to deliver (approximately 1.46 million square feet) but Class B vacancies will surpass 20%, providing corporate users with a wide variety of occupancy choices.

Of critical interest and importance will be how long it will take for the full impact of the financial crises to be felt by the Triangle office market. Looking to the year immediately following 9/11 for guidance and taking into account the dot.com implosion, one might conclude it will take a full year, if not longer, for the Triangle office market to feel the full effect. In the four successive quarters following 9/11, the Triangle office market experienced negative net absorption, peaking in the fourth quarter of 2002 at -815,000 square feet and -1.46 million square feet for the year. Overall vacancy rates climbed to 17.50% by year end 2002, peaking at 17.73% at the end of 2003.

Perhaps, this cycle will play out differently. The Triangle economy, while certainly not exempt from the effects of a national recession, should find continued saving grace in a variety of forms, including: continued demand by the Triangle university and medical communities and possibly state government; growth in niche industries such as contract research and gaming software; only a few speculative office projects remain under construction; Brier Creek VI (West Raleigh), RDU Center III (RTP/I-40), Pleasant Grove Business Park (RTP/I-40), Captrust Tower at North Hills (North Raleigh), the "L" building (Downtown Raleigh), and East 54 and Castilia at Meadowmont (Chapel Hill); the strength of local and regional banks is reasonably good; labor supply continues to grow through in-migration and higher education graduates.

VACANT & ABSORBED OFFICE SPACE BY SUBMARKET

THIRD QUARTER 2008

| SUBMARKET | TOTAL SF INVENTORY | DIRECT VACANT SF | DIRECT VACANCY % | NET SF ABSORPTION CURRENT QTR | NET ABSORPTION PAST 4 QTRS | COMPLETIONS CURRENT QTR SF | SF UNDER CONST. | AVERAGE ASKING \$/SF CLASS A/ ALL |
|--|--------------------|------------------|------------------|-------------------------------|----------------------------|----------------------------|------------------|-----------------------------------|
| CARY | 5,457,615 | 701,343 | 12.9% | 207,113 | 379,034 | 343,400 | 43,604 | \$23.75 / \$19.18 |
| CHAPEL HILL | 1,387,194 | 197,873 | 14.3% | (9,742) | (32,697) | | 160,920 | \$27.45 / \$21.94 |
| DOWNTOWN AND CENTRAL DURHAM | 2,876,367 | 348,170 | 12.1% | 96,666 | 324,525 | 150,000 | 79,000 | \$23.31 / \$21.00 |
| DOWNTOWN RALEIGH AND CAMERON VILLAGE | 4,325,655 | 240,196 | 5.6% | 243,560 | 288,464 | 306,000 | 204,000 | \$23.38 / \$20.85 |
| EASTERN WAKE COUNTY | 514,670 | 77,873 | 15.1% | 366 | 11,949 | 25,796 | | \$17.56 |
| NORTH DURHAM | 1,464,709 | 323,496 | 22.1% | (26,037) | 9,683 | | | \$16.04 |
| NORTH RALEIGH (SIX FORKS RD, FALLS OF NEUSE RD & US I/CAPITAL BLVD.) | 7,901,129 | 1,229,981 | 15.6% | 58,338 | 106,439 | 20,190 | 491,800 | \$22.36 / \$19.39 |
| SOUTHERN WAKE COUNTY | 198,186 | 28,114 | 14.2% | 10,142 | 13,093 | | | \$19.70 / \$17.17 |
| WEST RALEIGH AND US 70 / GLENWOOD AVE. | 8,604,075 | 1,065,544 | 12.4% | 50,394 | 630,196 | 169,282 | 121,472 | \$22.72 / \$19.77 |
| I-40 / RTP / SOUTH DURHAM | 11,726,608 | 2,293,901 | 19.6% | 85,292 | 291,519 | 105,000 | 444,118 | \$20.62 / \$18.32 |
| TRIANGLE MARKET TOTALS | | | | | | | | |
| A | 26,962,418 | 3,453,927 | 12.8% | 706,060 | 1,936,583 | 1,073,682 | 1,465,914 | \$22.30 |
| B | 13,719,001 | 2,471,452 | 18.0% | 61,231 | 82,338 | 45,986 | 79,000 | |
| C | 3,774,789 | 581,112 | 15.4% | (10,291) | (7,558) | | | |
| TOTAL | 44,456,208 | 6,506,491 | 14.6% | 757,000 | 2,011,363 | 1,119,668 | 1,544,914 | \$19.56 |

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