

# Market Report

INDUSTRIAL | SECOND QUARTER | 2009



## MARKET INDICATORS

Q1 2009

VACANCY NET ABSORPTION CONSTRUCTION RENTAL RATES 

## UPDATE

### MAJOR TRANSACTIONS

**Flextronics** completed a sale-leaseback transaction with Single-Tenant Acquisition Group (STAG) for its 290,000 square foot facility in Creedmoor, North Carolina.

**Federal Express** completed a sale-leaseback transaction with Allen Avenue Housing Associates for its 128,000 square foot facility on Alexander Drive in the RTP/I-40 Corridor.

**WakeMed** leased 50,000 square feet at 901 Management Way in the East Wake submarket.

**GlaxoSmithKline** renewed its lease for 170,000 square feet at Research Tri-Center in the RTP/I-40 submarket.

## Introduction

The Raleigh-Durham industrial market continued to struggle in the 2nd quarter along with the rest of the nation's economy. Significant negative absorption in the warehouse sector prompted a rise in vacancy rates to near 20%, while the flex sector remained essentially unchanged during the period. Despite the negative absorption in the warehouse sector, the primary issue continues to be the lack of activity versus significant tenant move-outs. We remain encouraged relative to the condition of the Class-A warehouse market where facilities featuring minimum 24' clear heights are maintaining single-digit vacancy rates. Tenant renewal activity has been strong in this sector paving the way for a likely bottom by year end and a return to positive absorption in 2010.

## Warehouse

The Raleigh-Durham warehouse market took a big hit during the 2nd quarter as the Body Shop vacated over 250,000 square feet at Riverplace Commerce Center in the US-1/Capital Boulevard submarket. This accounts for more than 80% of the 301,258 square feet of negative absorption during the period. Keeping with the trend we've been experiencing the last 18 months, new leasing activity was virtually non-existent to offset the Body Shop vacancy. The only significant lease during the quarter was WakeMed's lease for 50,000 square feet at Management Way in the East Wake submarket. Tenant renewal activity in Class-A space is a bright spot as many of the largest tenants in the market continue to renew their leases. GlaxoSmithKline renewed its lease for 170,000 square feet at Research Tri-Center contributing to the continued strength within the RTP/I-40 submarket.

Vacancy rates rose significantly during the quarter to 19.78%, up from 18% in the 1st quarter of 2009. However, there continues to be a significant disparity between the performance of Class-A assets versus facilities with less than 24' clear heights. This is particularly evident in the RTP/I-40 submarket which is home to approximately 90% of the market's institutional grade inventory. Vacancy within this submarket remains remarkably healthy at 8.97% and appears poised for a nice rebound in the remainder of the year. In stark contrast is the US-1/Capital Boulevard market where vacancy rates are nearing 30%.

Sublease space is becoming an issue, particularly since Anderson Windows began offering its 435,000 square foot facility at Tri-Center North VI. Sublease space now totals 1.5 million square feet throughout the market pushing the adjusted vacancy up within the market to nearly 27%. However, the Anderson sublease is not expected to be a significant factor in the overall market since the building does not subdivide well for smaller tenants.

New speculative construction remains non-existent throughout the market. There is only one facility presently under construction, a 260,000 square foot build-to-suit for Implus Corporation in the RTP/I-40 submarket. The Keith Corporation broke ground on this facility at the end of 2008 and is scheduled for completion in August of 2009.

Rental rates have remained remarkably steady, particularly given the circumstances. In fact, many asking rates for class-A industrial facilities continue to climb, particularly in the RTP/I-40 submarket where vacancy rates remain low. However, rental rates for new transactions will likely see compression throughout 2009 as the few deals in play will be hotly contested by Landlords.

GlaxoSmithKline renewed in 170,000 square feet at Research Tri-Center



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**Flex**

Although not exactly a reason for exuberance, the 2nd quarter brought a welcome respite for the flex sector in the form of positive absorption. The market net absorbed only 15,463 square feet but was punctuated by over 43,000 square feet of net absorption in the RTP/I-40 submarket. The East Wake submarket also performed solidly with over 27,000 square feet of positive of absorption. These results were offset by -23,986 square feet of absorption within the US-1/Capital Boulevard submarket. Despite the mostly positive results in the 2nd quarter however, new leasing activity continues to remain significantly low throughout the market.

Market-wide vacancy rates dropped to 14.35%, down slightly from 14.93% at the end of the 1st quarter of 2009. As in the warehouse sector, the RTP/I-40 corridor continues to outperform the rest of the market with an 11.63% vacancy rate in the Triangle's largest submarket. Despite the negative absorption during the quarter, the US-1/Capital Boulevard submarket also maintains a relatively healthy vacancy rate of 12.25%.

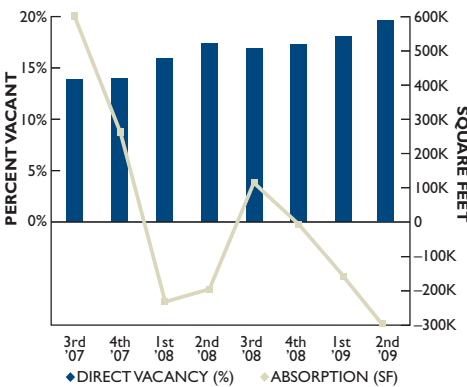
New construction is virtually non-existent throughout the market, an ongoing trend for the past six years. There are presently only two buildings under construction in the entire region totaling 34,590 square feet. Sublease space is also a

relative non-factor with only 219,485 square feet available market-wide, representing only a 1.3% increase in vacancy in the market. Thus far, rental rates have been holding relatively steady, but Landlords have been offering increased concessions to entice and retain tenants.

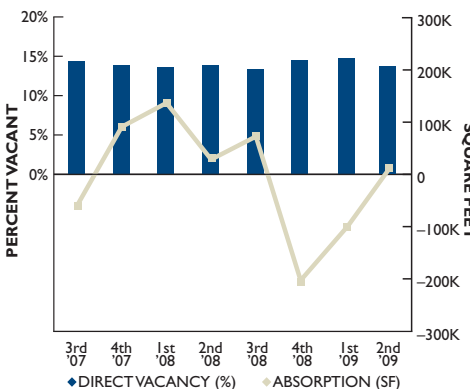
**Forecast**

The Raleigh-Durham industrial market will likely experience more negative absorption throughout the remainder of 2009. However, we do not expect the market to demonstrate any dramatic shifts in vacancy levels and 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 remain relatively healthy. 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, we expect the Eastern Wake County submarket along Interstate 40 and the North Durham submarket along Interstate 85 to be the big winners for new industrial development.

**HISTORIC WAREHOUSE VACANT & ABSORBED**



**HISTORIC FLEX VACANT & ABSORBED**



**WAREHOUSE MARKET OVERVIEW**  
SECOND QUARTER 2009

	RTP/I-40	US-1/CAP. BLVD.	E. WAKE CO.	TOTAL TRIANGLE
TOTAL INVENTORY	10,143,517	3,827,936	4,232,368	23,723,329
VACANT SF	909,878	1,121,330	967,705	4,692,398
VACANCY RATE	8.97%	29.29%	22.86%	19.787%
NET ABSORPTION 1ST QUARTER	-29,940	-287,310	31,700	-301,258
ABSORPTION LAST 12 MONTHS	-228,373	-475,282	172,200	-365,338
SF UNDER CONSTRUCTION	260,000	0	0	260,000
SUBLEASE VACANCY	1,085,394	362,144	15,600	1,571,138

**FLEX MARKET OVERVIEW**  
SECOND QUARTER 2009

	RTP/I-40	US-1/CAP. BLVD.	E. WAKE CO.	TOTAL TRIANGLE
TOTAL INVENTORY	6,042,168	4,060,439	1,414,085	15,660,494
VACANT SF	702,796	497,571	220,595	2,247,481
VACANCY RATE	11.63%	12.25%	15.74%	14.35%
NET ABSORPTION 1ST QUARTER	43,389	-23,986	27,369	15,463
ABSORPTION LAST 12 MONTHS	17,592	-124,830	520	-215,444
SF UNDER CONSTRUCTION	0	18,750	0	34,590
SUBLEASE VACANCY	22,880	86,972	41,127	219,485

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**CONTACT INFORMATION**

**RALEIGH / TRIANGLE REGION**

3110 Edwards Mill Road  
Suite 210  
Raleigh, NC 27612  
Tel: 919-789-4255  
Fax: 919-789-0268

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