

# MarketView

## Raleigh-Durham Office

### The Triangle Region

SECOND QUARTER 2008

#### QUICK STATS

	Current	Change from last* Yr.	Qtr.
Vacancy	14.39%	↑	↑
Lease Rates	\$20.18	↑	↑
Net Absorption	377,284	↓	↓
Construction	2,292,660	↑	↑

\*The arrows are trend indicators over the specified time period and do not represent a positive or negative value. (e.g. absorption could be negative, but still represent a positive trend over a specified period.)

#### HOT TOPICS

- Office space absorption in the Triangle was steady in the second quarter, with companies leasing a total of 377,284 square feet more office space than they vacated in Wake, Durham and Orange counties.
- Class A office rental rates averaged \$21.44, 14 percent higher than they were two years ago.
- The Cary submarket welcomed the opening of the 80,000-square-foot Weston II office building on Weston Parkway. The building opened with 51,650 square feet (approximately 66%) filled by tenants including Crosland and Ply Gem Industries.

The Raleigh-Durham office market is an area covering three counties, Wake County, Durham County and Orange County, and is commonly referred to as the Triangle. At the close of the second quarter of 2008, the Triangle's office space inventory totaled 43.5 million square feet, an increase of about 2.1 million square feet. This inventory is divided into 15 submarkets. A number of major companies are headquartered in the Raleigh-Durham region including SAS Institute (the nation's largest private software company) and Progress Energy (No. 248 on the Fortune 500 list).

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Office vacancy increased to 14.4 percent in the second quarter from 13.7 percent in the first quarter as several new buildings were delivered non-preleased. The 126,926 square-foot Colonnade II office building on Six Forks Road in Raleigh opened with no tenants signed, and the 4100 North Roxboro Road building in north Durham reopened after extensive renovations

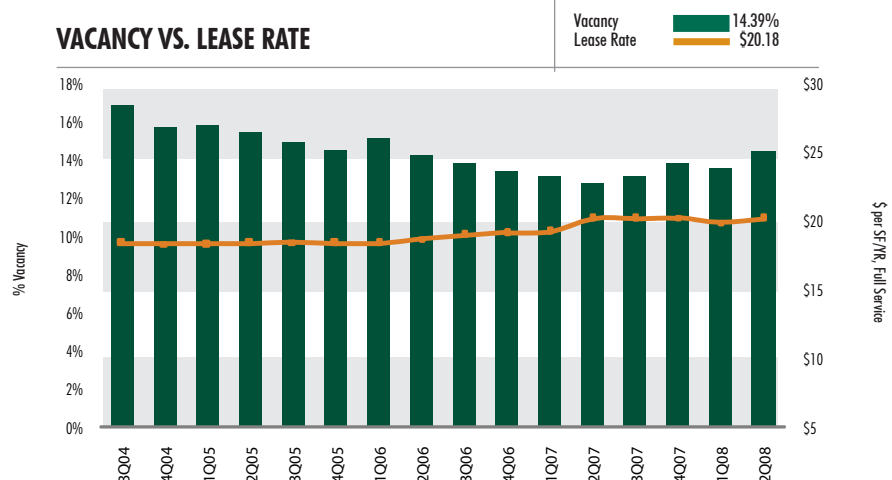
with only 13 percent of its 156,000 square feet leased.

The news is not all bad though as the economic downturn is not affecting the Triangle market as badly as in 2002. In 2002 the office vacancy rate was at 15 percent, and it continued to climb through the end of 2003. During 2008, there are fewer business spaces to sublease in the Triangle as the current economic demise has been concentrated to a large degree in the housing and banking industries - and, for a variety of reasons, those industries in the Triangle have been protected from the worst of the woes, limiting the number of layoffs and office closures.

The Central Durham submarket has been going through a transformation the past couple of years with the redevelopment of many downtown buildings and construction of several new properties. In the second quarter, Capitol Broadcasting Corp.'s new Diamond View II office building opened along the left-field wall of Durham Bulls Athletic Park. With 150,000 square feet of office space, the building is 45 percent occupied. Scientific Properties also completed the redevelopment of its Golden Belt property at 807 E. Main Street in the second quarter.

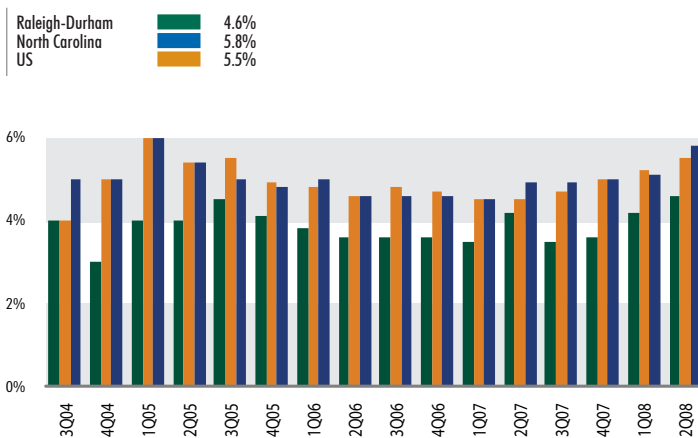
*“The national mortgage market is in crisis. Financing for new construction and property acquisitions has turned anemic, but the Triangle’s commercial real estate market has so far weathered the economic storm”*

#### VACANCY VS. LEASE RATE



Market	Rentable Area	Vacancy Rate %	Net Absorption SF	Under Construction SF	Average Lease Rate Rent SF/YR	Availability Rate %*
West Raleigh	5,007,306	8.66%	16,480	169,282	\$21.37	12.2%
Six Forks Road	2,651,284	16.26%	-21,610	302,446	\$21.29	29.9%
US 1/ Capitol Boulevard	1,860,775	14.05%	15,106	72,426	\$19.57	20.6%
Cameron Village	586,809	6.09%	-5,240	0	\$17.52	6.1%
Southern Wake County	198,186	19.30%	4,004	0	\$20.71	19.3%
US 70/ Glenwood Avenue	3,419,474	15.02%	106,840	121,472	\$22.69	20.0%
Falls of Neuse Road	3,320,608	15.97%	22,781	0	\$20.57	17.4%
Downtown Raleigh	3,457,166	4.77%	6,575	450,000	\$20.67	18.8%
Eastern Wake County	514,670	14.82%	-2,015	0	\$17.00	14.8%
Cary	5,122,766	10.90%	69,952	385,596	\$20.55	21.0%
RTP/ I-40 Corridor	9,822,849	19.08%	-4,726	551,518	\$18.30	23.6%
North Durham	1,485,709	20.02%	26,707	0	\$16.62	21.6%
Orange County	1,394,281	13.51%	188,433	160,920	\$23.72	25.1%
Central Durham	2,789,967	15.25%	125,057	79,000	\$21.89	21.1%
South Durham	1,920,502	22.76%	-16,674	0	\$20.17	23.8%
<b>Market Totals</b>	<b>43,552,352</b>	<b>14.39%</b>	<b>327,284</b>	<b>2,292,660</b>	<b>\$20.18</b>	<b>19.69%</b>

### UNEMPLOYMENT RATE



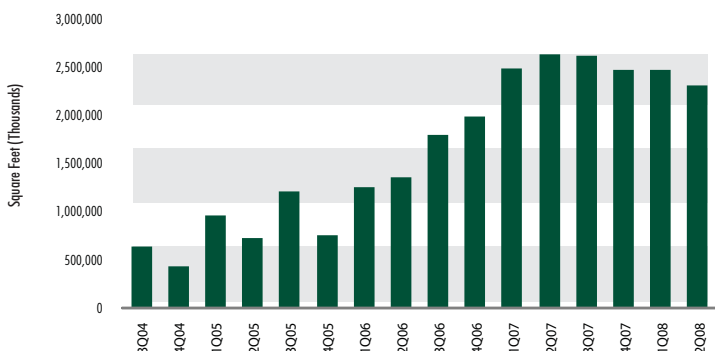
Source: US Dept. of Labor and Statistics and NC Employment Security Commission

As of June 2008, the unemployment rate for the Raleigh-Durham MSA, was 4.6%, up from 4.2% at the end of the first quarter of 2008. North Carolina's 5.8% unemployment rate during the first quarter of 2008 was up from 5.2% during the first quarter. Nationwide, unemployment was 5.5% in June, up from 5.1% in March 2008. The civilian workforce in North Carolina totaled a little over 4.5 million, a year-over-year increase of 45,500.

The Raleigh-Durham MSA consistently ranks in the top 12 major markets nationally for lowest unemployment. More than 865,000 make up the region's labor force which is supplemented each year by graduates of the area's top tier universities (Duke University, The University of North Carolina, North Carolina State University and North Carolina Central University) and by workers and companies relocating from outside the area.

### CONSTRUCTION

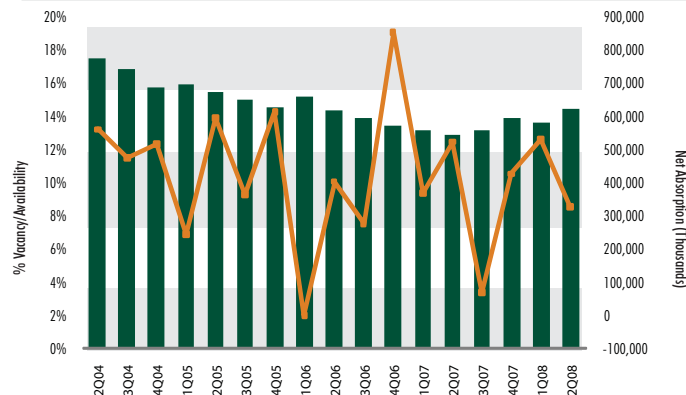
Construction 2,292,660 SF



At the end of the second quarter of 2008, 23 office buildings totaling just over 2.2 million square feet were under construction in the Raleigh-Durham area. 877,984 square feet of the space under construction (or approximately 38%) is pre-leased, while 62 percent remains available. Construction activity has averaged almost 2.2 million square feet since the fourth quarter of 2006. The most active submarkets of Raleigh-Durham in terms of construction activity during the second quarter are Downtown Raleigh, Cary, the RTP/I-40 Corridor and Six Forks Road. Each of these submarkets have over 300,000 square feet of ongoing office construction.

### VACANCY/NET ABSORPTION

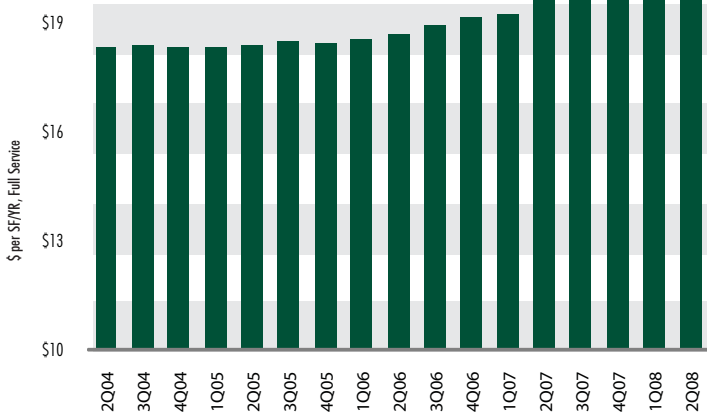
Vacancy 14.40%  
Absorption 327,284 SF



The office vacancy rate in the Raleigh-Durham area increased to 14.4%, up from 13.58% at the end of the fourth quarter. Leasing activity picked up during the second quarter however, as absorption totaled 327,284 square feet. Class A space accounted for 310,213 square feet of the quarterly absorption while Class B and C space absorbed 5,144 square feet and 11,927 square feet, respectively. Annual absorption averaged 510,204 square feet from 2004 through 2007. Absorption totaled 1,183,548 square feet from the preceding 12 month period.

### LEASE RATES

Average Asking Rent \$20.18/PSF



The average rent rate for office product in the Triangle at the close of the second quarter was \$20.18 per square foot, full service, up from \$19.85 at the end of the first quarter of 2008. The average rent for buildings under construction in the Triangle at the end of the quarter was \$23.96, compared to \$20.18 for existing product. Rental rates vary by class, age and location. In general, Class A buildings are offering space in a quoted range of \$18.00 to \$25.00 per square foot, full service. Class B and C rental rates range widely. The general range for middle-market space is \$14.00 to \$18.00 per square foot.

### MARKET OUTLOOK

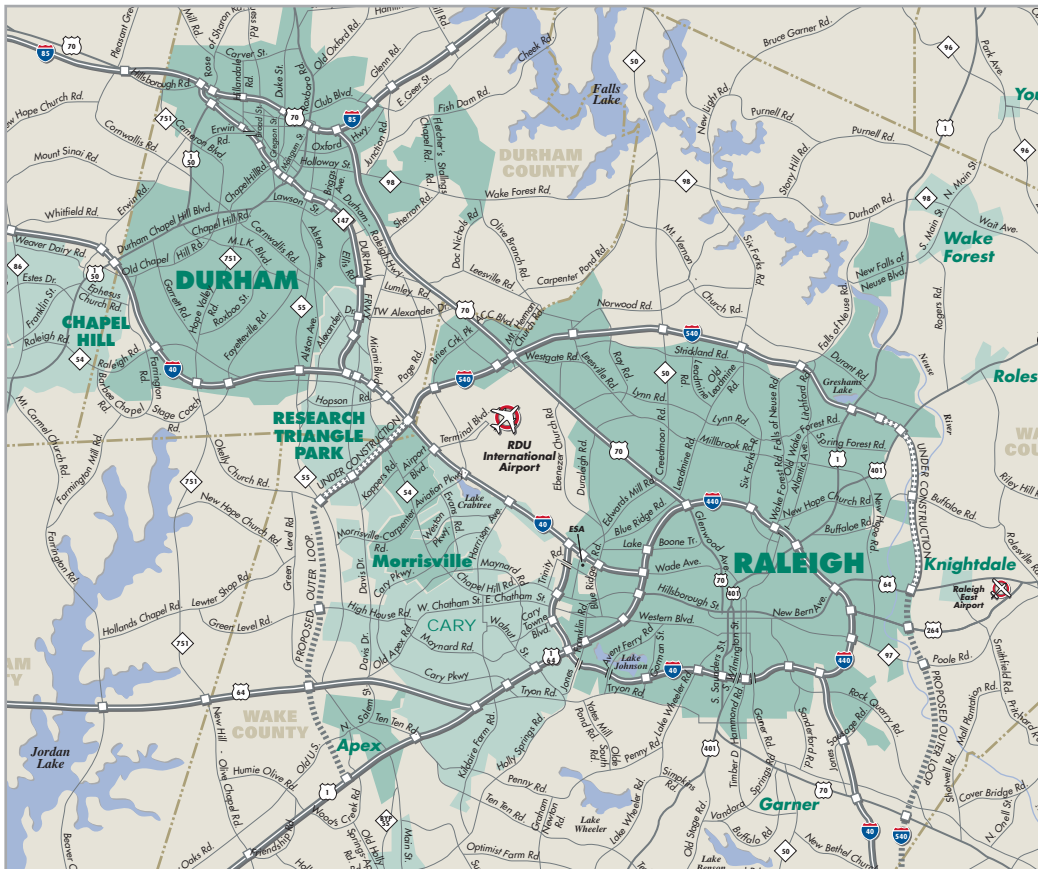
We are optimistic about the Raleigh-Durham office market in 2008 and forecast the following for the year:

- Market conditions remain stable
- Stable to higher rents in new Class A product
- Concessions stabilizing
- Reasonable market wide demand
- Slow to non-existent investment sales activity
- Debt market turmoil to continue through 2008 and into early 2009
- Slower new construction

**TOP RALEIGH-DURHAM LEASE TRANSACTIONS DURING 2008**

Size (Sq. Ft.)	Tenant	Address/ Building
70,000	UNC Dental School	Research Commons
27,028	ACS	Parker Place
26,721	Census Metering	Forum Office Park
20,729	Red Prairie	400 Regency Forest
19,776	Syngenta	One Park Drive
16,412	Cree	Keystone

**RALEIGH-DURHAM AREA MAP**



**AVERAGE ASKING LEASE RATE**

Rate determined by multiplying the asking net lease rate for each building by its available space, summing the products, then dividing by the sum of the available space with net leases for all buildings in the summary.

**NET LEASES**

Includes all lease types whereby the tenant pays an agreed rent plus most, or all, of the operating expenses and taxes for the property, including utilities, insurance and/or maintenance expenses.

**MARKET COVERAGE**

Includes all competitive office buildings 10,000 square feet and greater in size.

**NET ABSORPTION**

The change in occupied square feet from one period to the next.

**NET RENTABLE AREA**

The gross building square footage minus the elevator core, flues, pipe shafts, vertical ducts, balconies, and stairwell areas.

**OCCUPIED SQUARE FEET**

Building area not considered vacant.

**UNDER CONSTRUCTION**

Buildings which have begun construction as evidenced by site excavation or foundation work.

**AVAILABLE SQUARE FEET**

Available Building Area which is either physically vacant or occupied.

**AVAILABILITY RATE**

Available Square Feet divided by the Net Rentable Area.

**VACANT SQUARE FEET**

Existing Building Area which is physically vacant or immediately available.

**VACANCY RATE**

Vacant Building Feet divided by the Net Rentable Area.

**NORMALIZATION**

Due to a reclassification of the market, the base, number and square footage of buildings of previous quarters have been adjusted to match the current base. Availability and Vacancy figures for those buildings have been adjusted in previous quarters.



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