

Industrial Market Trends Raleigh-Durham

Grubb & Ellis Research

Second Quarter 2008



Vacancy Heads North as Demand Wanes

Executive Summary

The Triangle's warehouse sector experienced its second consecutive quarter of negative absorption while the flex sector held steady. Unlike the previous cycle, very little industrial space is underway, which will aid landlords in the face of slackening demand. Just one warehouse and one flex building are currently under construction. It is also worth noting that the Triangle's two largest submarkets, Research Triangle Park (RTP)/I-40 and Capital Boulevard, have vacancy rates at or below equilibrium. These submarkets comprise 61 percent of the region's industrial space and serve as important barometers of the local market's health.

The Triangle has become more diversified since the collapse of the tech market, and little construction is underway or planned.

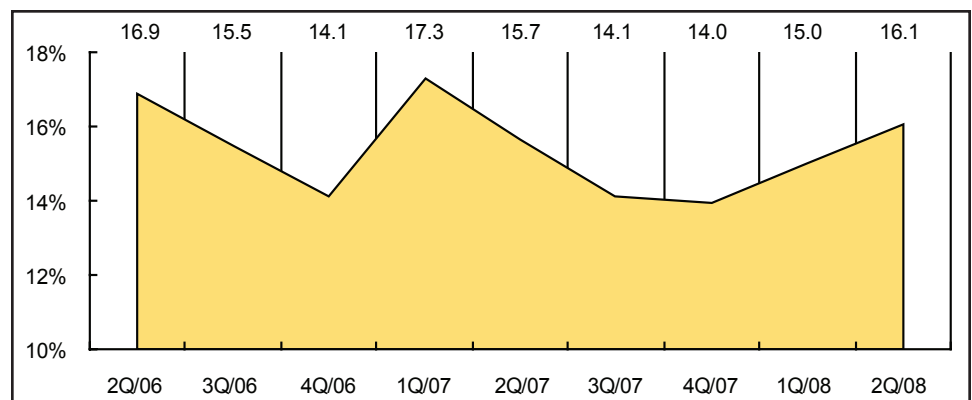
Second Quarter Activity of Note

The bulk of the warehouse sector's negative absorption resulted from the downsizing of one tenant in RTP. Electronics manufacturer Sanmina downsized by 134,514 square feet at Essex Center. The company still occupies approximately 315,000 square feet in the building. Adding to the quarter's lackluster performance, West Logistics downsized by 85,000 square feet at Research Tri-Center North. While the moves pushed vacancy up by 140 basis points, they present opportunities in what has become a space constrained submarket. RTP, the Triangle's industrial hub, maintains a warehouse vacancy rate of just 6.7 percent despite the recent negative absorption. On the positive side, Creative Recycling expanded by 25,600 square feet at Keystone Industrial Park, and White Oak Custom Cabinetry backfilled 20,586 square feet at Airport Distribution Center.

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Industrial Vacancy Rate*
*All Property Types

Industrial Market Snapshot Raleigh-Durham Second Quarter 2008

By Submarket (All Product Types)	Total (1) SF	Vacant (2) SF	Vacant %	Net Absorption		Under Const. (3) SF	Asking Rent (4)	
				Current Qtr.	Year-to-Date		R&D/Flex	Wh/Dist
West Raleigh	589,302	121,572	20.6%	5,954	17,004	-	\$10.84	\$5.38
US 70/Glenwood	1,382,364	258,874	18.7%	(102,190)	(117,135)	-	\$8.51	\$4.73
Six Forks	110,000	-	-	-	-	-	-	\$3.50
Falls of Neuse	1,082,238	171,084	15.8%	(7,913)	(22,098)	-	\$8.10	\$4.22
US 1/Capital Blvd	7,865,332	855,775	10.9%	18,336	105,956	-	\$8.77	\$4.79
Downtown Raleigh	390,001	132,326	33.9%	-	-	-	\$8.84	\$3.73
Eastern Wake	5,379,864	1,263,688	23.5%	22,240	(125,436)	150,000	\$8.68	\$4.91
Southern Wake	866,079	192,682	22.3%	18,000	18,000	15,840	\$8.24	\$3.51
Cary	828,914	101,357	12.2%	(9,092)	4,788	-	\$10.86	\$7.00
RTP/I-40	16,100,848	1,568,810	9.7%	(155,757)	(150,134)	-	\$9.45	\$4.67
Central Durham	486,400	105,000	21.6%	7,000	17,000	-	\$5.00	\$2.68
North Durham	1,061,593	225,975	21.3%	23,000	(12,000)	-	\$8.77	\$2.63
South Durham	1,979,909	1,209,360	61.1%	542	542	-	\$15.75	\$4.72
Orange County	920,500	60,500	6.6%	9,000	11,560	-	\$6.17	\$4.90
Totals	39,043,344	6,267,003	16.1%	(170,880)	(251,953)	165,840	\$9.14	\$4.61
By Product Type (All Submarkets)							Asking Rent (4)	
R&D/Flex	15,158,957	2,098,086	13.8%	28,544	165,275	15,840	\$9.14	
Warehouse	23,884,387	4,168,917	17.5%	(199,424)	(417,228)	150,000	\$4.61	
Totals	39,043,344	6,267,003	16.1%	(170,880)	(251,953)	165,840	\$7.38	

(1) Inventory includes multi-tenant and single-tenant buildings with at least 10,000 SF.

(2) Vacant space includes both direct and vacant sublease space.

(3) Space under construction includes speculative and build-to-suit for lease projects.

(4) Asking rates are per square foot per year triple net. Rates for each building are weighted by the amount of available space within the building.

*Grubb & Ellis statistics are audited annually and may result in revisions to previously reported quarterly and final year-end figures.

Eastern Wake County also had an active quarter. Duke Realty's 100,000-square-foot Walnut Creek V was delivered 80 percent pre-leased to Lagasse Sweet. Meanwhile, ATM Financial Services, which recently filed for bankruptcy amid allegations of fraud, vacated 50,000 square feet at 901 Management Way. Vacancy in the submarket rose by 230 basis points. The only other building completion of the quarter occurred in the US 70/Glenwood Avenue submarket. The Westborough Center flex building was delivered with 64 percent of its 11,000 square feet leased. Vacancy in the small submarket increased by 780 basis points, however, as a result of Amerisource Bergen vacating a 91,600-square-foot building at 8605 Glenwood Avenue. The company now occupies approximately 128,000 square feet at Airpark Distribution Center in RTP.

Outlook

Demand for industrial space will likely remain flat throughout 2008 as the economy continues to struggle. Vacancy, however, will not skyrocket as it did in the previous downturn. The Triangle's industrial tenant base has become more diversified since the collapse of the tech market, and little construction is underway or planned. In addition to the two buildings currently underway, the 100,000-square-foot Centerpoint III is the only building currently proposed in the Triangle. Land and construction costs are constraining development in the immediate market, leading some to reach into surrounding, more rural areas. An example is the 150,800-square-foot Falls Lake Commerce Center, which is under construction in Butner. Speculative construction in the Triangle market itself will remain negligible for the foreseeable future, helping to keep vacancy in check. Market-wide flex and warehouse rents, which have risen consistently over the last two years, have begun to flatten and will not rise significantly further in 2008. Individual submarkets such as RTP, where space is limited, will be exceptions. Flex buildings will face increased competition from office buildings into 2009 as office rent rates begin to flatten and a glut of Class B office space remains available in the RTP corridor.