

# Office Market Trends Raleigh-Durham

Grubb & Ellis Research

Third Quarter 2008



## Vacancy Flat Despite Construction Deliveries

### Executive Summary

The Triangle office market held its own in the third quarter. Vacancy remained flat despite the completion of more than 770,000 square feet of new construction, and absorption surged as the space hit the market 71 percent pre-leased. Conditions will likely soften in the fourth quarter as construction comes on line with significantly less pre-leasing and tenants delay decision making as the credit crisis and elections unfold. New construction continues to send average asking rates higher, but landlords are becoming more competitive with concessions.

*The Triangle provides fertile ground for entrepreneurs. As is typically the case during economic downturns, new businesses will emerge to help fuel the local economy.*

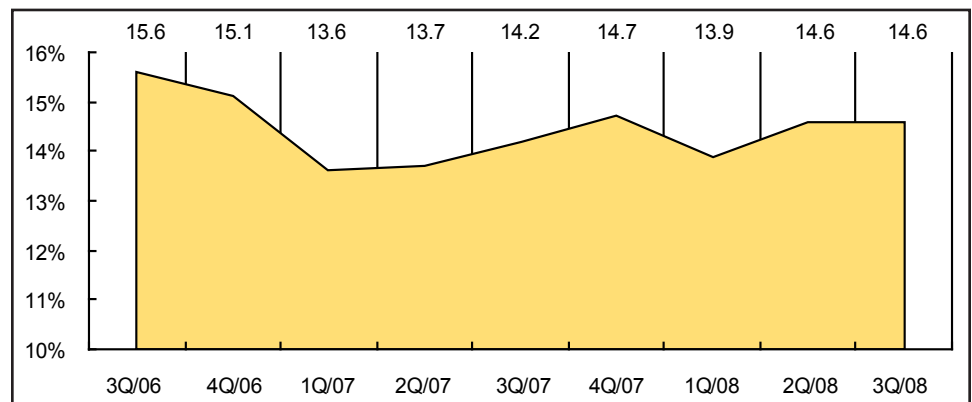
### Third Quarter Activity of Note

Absorption was strongest in downtown Raleigh, where the 276,000-square-foot RBC Plaza was delivered 97 percent leased. The building is now home to RBC Centura's headquarters, as well as law firms Poyner & Spruill and Williams Mullen. With a published asking rate of \$28.95, building's completion pushed downtown Raleigh's average Class A rental rate up by 6 percent. Vacancy in the submarket rose as well, however, as positive absorption was offset in part by the addition of 22,688 square feet of sublease space at Wachovia Capitol Center. Construction activity was also strong in Cary. The 120,000-square-foot Regency Creek building was completed 75 percent leased with ABB as its anchor tenant. Gregson Place was completed with none of its 62,000 square feet leased, causing vacancy to increase by 80 basis points. In the I-40/Research Triangle Park (RTP) submarket, 2250 Perimeter Park was delivered 62 percent pre-leased with ZC Sterling as anchor. Also contributing to a decline in vacancy, tenants including medical device manufacturer Smith & Nephew leased more than 62,000 square feet at Carlisle Place.

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Office Vacancy Rate\*

\*All Classes of Space

## Office Market Snapshot Raleigh-Durham Third Quarter 2008

| By Submarket<br>(All Classes) | Total (1)  | Vacant (2) | Vacant % | Net Absorption |              | Under Const. (3) | Asking Rent (4)        |          |
|-------------------------------|------------|------------|----------|----------------|--------------|------------------|------------------------|----------|
|                               | SF         | SF         |          | Current Qtr.   | Year-to-Date | SF               | Class A                | Class B  |
| Downtown Raleigh              | 3,694,174  | 257,563    | 7.0%     | 262,028        | 327,930      | 144,000          | \$22.66                | \$19.72  |
| CBD Total                     | 3,694,174  | 257,563    | 7.0%     | 262,028        | 327,930      | 144,000          | \$22.66                | \$19.72  |
| Cary                          | 5,295,501  | 667,198    | 12.6%    | 155,987        | 257,448      | 189,604          | \$21.21                | \$18.76  |
| Chapel Hill                   | 1,524,768  | 248,442    | 16.3%    | 4,806          | (68,121)     | 160,920          | \$23.33                | \$21.68  |
| Durham                        | 6,025,373  | 1,076,333  | 17.9%    | 98,144         | 351,313      | 79,659           | \$22.85                | \$17.13  |
| Cameron Village               | 504,460    | 30,553     | 6.1%     | (1,613)        | (8,183)      | -                | -                      | \$18.69  |
| Capital Boulevard             | 1,803,709  | 256,492    | 14.2%    | (28,562)       | (23,469)     | 161,354          | \$20.74                | \$16.56  |
| East Raleigh/I-64             | 205,036    | 30,455     | 14.9%    | 7,018          | 4,628        | -                | -                      | \$18.29  |
| Glenwood/Creedmoor            | 3,330,882  | 408,276    | 12.3%    | (5,300)        | 246,940      | 121,472          | \$23.01                | \$18.70  |
| Six Forks Road                | 2,589,591  | 412,440    | 15.9%    | 46,875         | (16,278)     | 302,446          | \$21.40                | \$16.62  |
| Falls of Neuse                | 2,902,339  | 406,326    | 14.0%    | 15,008         | 113,321      | -                | \$21.27                | \$18.02  |
| West Raleigh                  | 5,266,736  | 497,369    | 9.4%     | 62,449         | 206,036      | -                | \$21.70                | \$18.63  |
| Research Triangle Park        | 9,710,035  | 1,969,670  | 20.3%    | 85,275         | 123,663      | 444,118          | \$20.49                | \$17.04  |
| Suburban Total                | 39,158,430 | 6,003,554  | 15.3%    | 440,087        | 1,187,298    | 1,459,573        | \$21.59                | \$17.80  |
| Totals                        | 42,852,604 | 6,261,117  | 14.6%    | 702,115        | 1,515,228    | 1,603,573        | \$21.68                | \$17.95  |
| By Class<br>(All Submarkets)  |            |            |          |                |              |                  | Available for Sublease |          |
|                               |            |            |          |                |              |                  | CBD                    | Suburban |
| Class A                       | 27,150,504 | 3,890,147  | 14.3%    | 692,195        | 1,351,722    | 1,422,314        | 35,905                 | 449,386  |
| Class B                       | 12,483,319 | 1,751,290  | 14.0%    | 22,420         | 100,732      | 181,259          | -                      | 10,409   |
| Class C                       | 3,218,781  | 619,680    | 19.3%    | (12,500)       | 62,774       | -                | 22,090                 | -        |
| Totals                        | 42,852,604 | 6,261,117  | 14.6%    | 702,115        | 1,515,228    | 1,603,573        | 57,995                 | 459,795  |

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

(2) Vacant SF includes space available for sublease.

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

(4) Asking rates are per square foot per year full service. Rates for each building are weighted by the size of the building.

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

Absorption of existing space in Durham sent vacancy down by 150 basis points. The Veteran's Administration leased 36,404 square feet at Legacy Tower, Duke Medicine leased 24,250 square feet at Pavilion East, and Duke University leased more than 25,000 square feet at West Village. Vacancy also improved along Six Forks Road, where John Hancock leased 11,500 square feet at Colonnade II, Arks Funding leased 14,000 square feet at Six Forks Place and 15,000 square feet was absorbed at Anderson Plaza. Vacancy rose in West Raleigh due primarily to the completion of the 97,000-square-foot Wade II, which was delivered 49 percent leased. Approximately 72,000 square feet was also delivered at Trinity Corporate Park III, 56 percent of which was pre-leased by Raleigh Neurology. The US 1/Capital Boulevard submarket witnessed negative absorption for the quarter due primarily to RBC Centura vacating more than 47,000 square feet at Highwoods Tower II. The vacancy was partially offset by the completion of New Hope Professional Center. The 20,000-square-foot building was delivered 100 percent leased to the N.C. Office of Administrative Hearings.

## Outlook

Triangle office vacancy will resume its upward trend in the fourth quarter. Of the nearly 500,000 square feet due for completion before the end of the year, just 21 percent has been pre-leased. We expect leasing activity to slow as the ongoing credit crisis and election-year uncertainty lead business owners to sit on their hands. Although the Triangle is better positioned than many areas of the country, it is not immune from what many project will be a deep recession. Layoffs have recently been announced by some of the region's major employers. Among the most significant, Sony Ericsson announced that it will cut 400 jobs at its RTP facility, and Qimonda plans to cut 50 percent of its Cary work force. These challenges breed opportunity, however, and the Triangle provides fertile ground for entrepreneurs. As is typically the case during economic downturns, new businesses will emerge to help fuel the local economy.