

Industrial Market Trends Raleigh-Durham

Grubb & Ellis Research

First Quarter 2008



First Quarter Yields Mixed Results

Executive Summary

The first quarter of 2008 was a mixed bag for the Triangle's industrial sector. Leasing was strong among flex tenants, sending vacancy down by 32 basis points to its lowest level since 2001. Warehouse vacancy, on the other hand, rose by 188 basis points as net absorption fell into the red for the first time since 2004. The activity, both positive and negative, came from tenants in a wide range of industries. While there is concern that the market could witness significant pullback among housing and construction related companies, such a trend has not yet materialized. Speculative construction remains minimal with just one flex and one warehouse building currently underway. High land and construction costs have constrained industrial development despite improved leasing fundamentals in recent years. While vacancy remains above the equilibrium mark (10 percent), quality options have become scarce, and asking rates for warehouse space have increased by approximately 7 percent in the last 12 months.

Speculative construction remains minimal, and 69 percent of the space currently underway has been pre-leased.

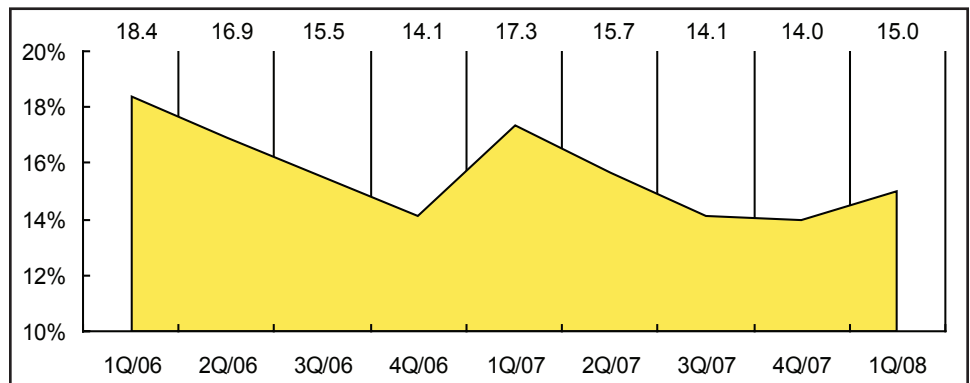
First Quarter Activity of Note

Absorption and vacancy were flat in the Research Triangle Park/I-40 (RTP) submarket as leasing activity was largely offset by move outs. In the largest transaction of the quarter, PBM Graphics expanded by more than 100,000 square feet at Research Tri-Center North. Also of note, UPS leased an additional 32,000 square feet at RTP Distribution Center. Meanwhile, FedEx moved out of 37,000 square feet of temporary space at Research Tri-Center South, Medical Innovations vacated 20,856 square feet at Airport Distribution Center, and Beltmann Group moved out of 21,600 square feet at Airtech Distribution

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Industrial Vacancy Rate*
*All Property Types

Industrial Market Snapshot Raleigh-Durham First Quarter 2008

By Submarket (All Product Types)	Total (1)	Vacant (2)	Vacant %	Net Absorption		Under Const. (3)	Asking Rent (4)	
	SF	SF		Current Qtr.	Year-to-Date	SF	R&D/Flex	Wh/Dist
West Raleigh	620,777	127,526	20.5%	11,050	11,050	-	\$10.63	\$4.83
US 70/Glenwood	1,323,435	144,684	10.9%	(14,945)	(14,945)	-	\$8.64	\$4.76
Six Forks	110,000	-	-	-	-	-	-	\$3.50
Falls of Neuse	1,137,336	170,951	15.0%	(14,185)	(14,185)	-	\$7.89	\$4.22
US 1/Capital Blvd	7,940,955	829,193	10.4%	87,620	87,620	-	\$8.75	\$4.78
Downtown Raleigh	416,001	158,326	38.1%	-	-	-	\$8.84	\$3.73
Eastern Wake	5,219,177	1,107,728	21.2%	(147,676)	(147,676)	100,000	\$8.59	\$4.90
Southern Wake	888,079	232,682	26.2%	-	-	15,840	\$8.28	\$3.51
Cary	816,500	96,195	11.8%	13,880	13,880	-	\$10.66	\$7.00
RTP/I-40	15,973,025	1,330,969	8.3%	5,623	5,623	-	\$9.49	\$4.58
Central Durham	472,400	101,000	21.4%	10,000	10,000	-	\$5.00	\$2.75
North Durham	1,037,443	243,375	23.5%	(35,000)	(35,000)	-	\$8.71	\$2.63
South Durham	1,959,909	1,209,902	61.7%	-	-	-	\$15.38	\$4.78
Orange County	920,500	69,500	7.6%	2,560	2,560	-	\$6.17	\$4.90
Total	38,835,537	5,822,031	15.0%	(81,073)	(81,073)	115,840	\$9.13	\$4.59
By Product Type (All Submarkets)							Asking Rent (4)	
R&D/Flex	15,180,473	2,062,540	13.6%	136,731	136,731	15,840	\$9.13	
Warehouse	23,655,064	3,759,491	15.9%	(217,804)	(217,804)	100,000	\$4.59	
Totals	38,835,537	5,822,031	15.0%	(81,073)	(81,073)	115,840	\$7.39	

(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.

Center. At Edinburgh Place, Tire Centers leased 30,000 square feet while Kuehne + Nagel moved out of 50,000 square feet. RTP, which is by far the region's largest industrial submarket, also posts the lowest vacancy rate, a good sign for the health of the Triangle's industrial sector. Warehouse space is in especially short supply with vacancy at just 5 percent, down from 11.5 percent one year ago and a high of 36 percent in 2003.

Net absorption was strongest in the US 1/Capital Boulevard submarket, where vacancy fell by 75 basis points. Much of the activity occurred at Sumner Business Park where a 39,887-square-foot flex building was delivered 100 percent leased to multiple tenants. The weakest performance of the first quarter came from the Eastern Wake submarket, where vacancy rose by 337 basis points due primarily to Best Lab Deals downsizing by 100,000 square feet at Bannister Park in Garner.

Outlook

The pace of recovery in the industrial market will slow in 2008. In addition to the effects of a slowdown in job growth, Class B office vacancy has risen above 15 percent in recent months as IBM/Lenovo space has come back to the market, providing additional competition for flex landlords. The effect of the housing slowdown on the warehouse market will be particularly important to watch. Companies related to housing and construction fueled a great deal of warehouse leasing activity in 2005 and 2006, potentially making the sector more susceptible to the slowdown than the region's office market. Industrial vacancy could rise if we begin to see companies contract in 2008. Fortunately, most of the activity in 2007 was driven by non-housing related tenants. Speculative construction remains minimal, and 69 percent of the space currently underway has been pre-leased.