

MarketView

Raleigh-Durham, North Carolina - Office

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First Quarter 2012

Quick Stats

	Current	Change from last	
		Yr.	Qtr.
Vacancy	18.0%	↓	↓
Lease Rates	\$19.32 FS	↓	↓
1Q Net Absorption*	107,238 SF	↓	↓
Under Construction	163,743 SF	↑	↓

* 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

- The overall office vacancy rate fell to 18.0% as did the lease rate to an average of \$19.32 per square foot.
- As the A-quality market continues to tighten up, tenants needing in excess of 30,000 square feet will be forced to consider their B-quality options. The institutional Class B landlords are astutely positioning themselves for this opportunity.
- A recent CNN analysis of Census data named Raleigh the second fastest growing city in the country, experiencing 63.4% population growth between 2001 and 2010.

The Raleigh-Durham office market consists of just over 46.5 million square feet within a geographic area commonly referred to as the "Research Triangle" after the region's world-renowned Research Triangle Park (RTP). The RTP is the region's major economic driver and home to some of the world's leading technology, biotech and pharmaceutical companies. A recent CNN analysis of Census data named Raleigh the second fastest growing city in the country, experiencing 63.4% population growth between 2001 and 2010.

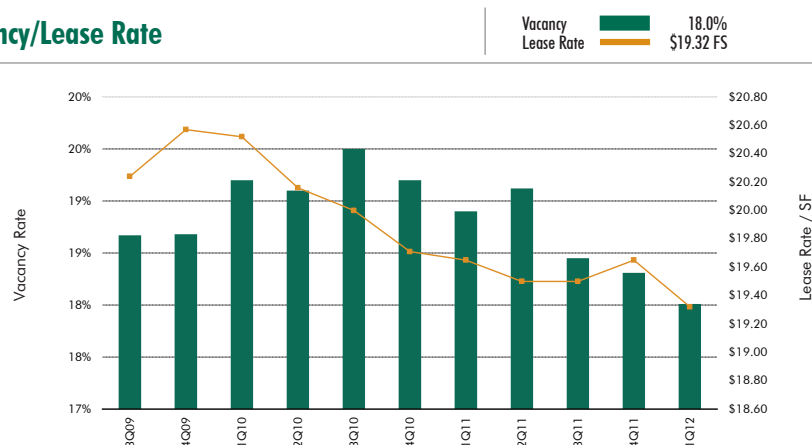
We are encouraged by an office market that is clearly trending toward equilibrium. The first quarter of 2012 marked the second straight quarter of positive net absorption, with just over 107,000 square feet absorbed. Vacancy continued its decline, falling to 18.01%, the lowest vacancy rate since the second quarter of 2009. As forecasted in late 2011, leasing activity was strong to start 2012. However, there is a consensus among office brokers that while activity has increased, leases are taking longer than usual to get done. Interestingly, the average asking rental rate across all classes declined slightly to \$19.32 per-square-foot. While this appears contradictory to what seems to be improving market fundamentals, we have drilled down into the specific reasons for this and have concluded that this decline is attributable to the large vacancies that still exist in Class B and C space. There is in excess of 17.4 million square feet of Class B and C space in the market, and nearly 4.1 million square feet or 24% of that space, is currently vacant. In an effort to attract tenants to these vacancies, landlords

have taken further steps to discount asking rates. As the A-quality market continues to tighten up, tenants needing in excess of 30,000 square feet will be forced to consider their B-quality options. The institutional Class B landlords are astutely positioning themselves for this opportunity.

Overall net positive absorption for the quarter was 107,238 square feet. The recurring theme of "flight to quality" that has best described the office market for the last two years continued. As noted above, Class B space is starting to benefit from the dwindling supply of A-quality space. Class A office space absorption for the quarter was just shy of 60,000 square feet with Class B absorption following close behind, with 54,774 square feet of positive net absorption. The majority of the Class A positive absorption was seen in the US70/ Glenwood Avenue and Falls of Neuse submarkets, where 65,492 square feet and 38,255 square feet were net absorbed respectively. A continuing lack of construction starts during the economic downturn has further helped to decrease vacancy rates.

While the underlying principals necessary for economic improvement are aligning, the road to recovery continues to mandate patience. The general consensus among those actively involved in the market continues to be that of guarded optimism. The Triangle's micro-economy will continue to rely on the employment growth within the health care, software and computing industries for ongoing growth of the region's economy.

Vacancy/Lease Rate



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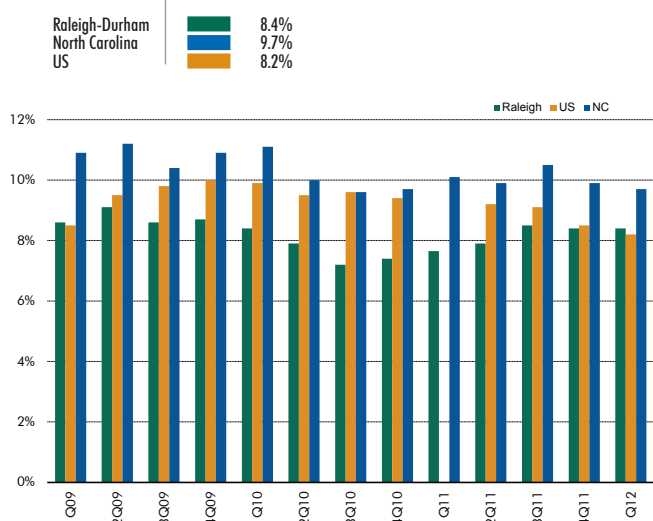
Market Statistics 1Q 2012

SubMarket	Rentable Area SF	Vacancy Rate %	1Q Net Absorption SF	Under Construction SF	Average Asking Lease Rate -\$ SF/YR	Availability Rate %**
West Raleigh	5,364,343	12.2%	-14,636	-	\$21.10	17.8%
US 70/Glenwood Avenue	3,463,357	14.6%	89,655	-	\$20.64	15.8%
Six Forks Road	3,075,252	14.4%	-6,949	18,000	\$20.82	16.07%
Falls of Neuse Road	3,037,397	20.0%	31,206	-	\$17.31	21.94%
US 1/Capital Boulevard	2,120,628	20.2%	15,661	-	\$18.59	26.11%
Downtown Raleigh	3,379,884	9.9%	3,744	-	\$19.06	12.12%
Cameron Village	680,904	14.9%	15,195	-	\$16.61	19.35%
Eastern Wake County	436,585	25.2%	-3,397	85,690	\$19.50	44.82%
Southern Wake County	243,587	46.5%	-10,564	-	\$20.06	46.49%
Cary	5,472,573	15.5%	-54,304	-	\$19.77	18.66%
RTP/I-40 Corridor	11,068,092	24.7%	20,835	-	\$18.78	26.75%
Central Durham	3,007,403	9.6%	5,583	60,053	\$18.29	11.61%
North Durham	1,325,590	41.0%	-19,995	-	\$15.97	40.95%
South Durham	1,838,472	18.3%	15,512	-	\$19.67	19.36%
Orange County	1,515,391	16.7%	19,692	-	\$23.63	16.74%
MARKET TOTALS	46,029,458	18.0%	107,238	163,743	\$19.32	23.64%

*Vacancy rate is based on the total vacant square footage compared to the total rentable square footage

**Availability Rate includes sublease and new construction space.

Unemployment Rate



As of March 2012, the unemployment rate for the Raleigh-Cary and Durham-Chapel Hill combined MSA's was 8.4%, remaining consistent with the end of 2011. Statewide, North Carolina unemployment dropped only slightly to 9.7% by the end of the first quarter. Nationally, unemployment continued to drop, from 8.5% to 8.2%. Major sectors of the non-farm labor market in Raleigh-Durham include Manufacturing (10.2%), Leisure & Hospitality (8.5%), Education & Health (15.3%), Professional & Business Services (14.3%) and Government (18.5%).

More than 815,000 people make up the Raleigh-Durham-Cary-Chapel Hill 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. Raleigh-Durham draws residents from nearby localities with higher unemployment rates in search of better opportunities.

Vacancy/Net Absorption

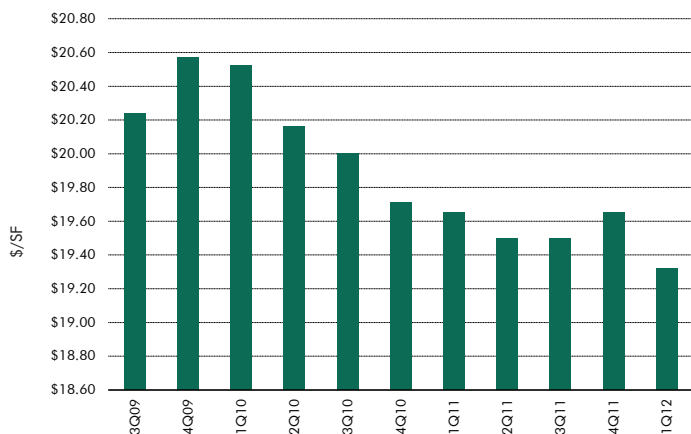
Vacancy 18.0%
Absorption 107,238 SF



The office vacancy rate in the Raleigh-Durham market decreased to 18.0% in the first quarter. Class A space had a vacancy of 14.7%, while Class B vacancy was at 23.8% and Class C vacancy was at 21.8%. Net absorption was positive 107,238 square feet. Class A and Class B space accounted for 59,910 and 54,774 square feet of positive absorption respectively. Class C space suffered 7,446 square feet of negative absorption. Net absorption totaled positive 183,857 square feet for the trailing 12-month period.

Lease Rates

Average Asking Rent \$19.32 FS

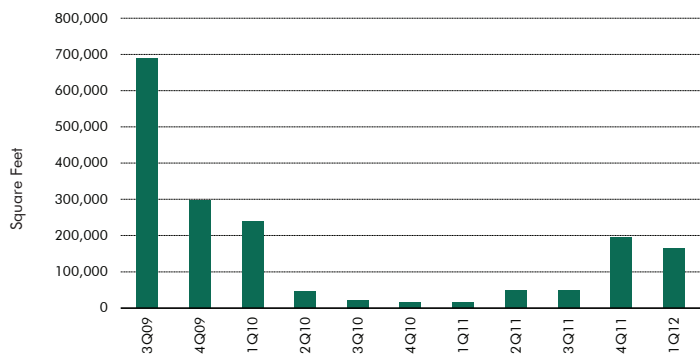


The average lease rate for office product in the Triangle at the close of the first quarter was \$19.32 per square foot. Average office rates had been steadily declining since fourth quarter of 2009 with the exception of an increase during fourth quarter 2011.

Rental rates vary by class, age and location. In general, Class A buildings are offering space in a quoted range of \$19.00 to \$30.00 per square foot, full service. Class B and C rental rates vary widely. The general range for middle-market space is \$14.00 to \$18.00 per square foot, full service.

Under Construction

Construction 163,743 SF



Duke Realty completed construction of the 48,314-square-foot WakeMed building during the first quarter and has an 85,690-square-foot building for the WakeMed Raleigh Medical Park scheduled to be completed Spring 2012. Kimberly Development has an 18,000-square-foot building on Six Forks Road to be delivered second quarter and Measurement Durham is working to deliver a 60,053-square-foot building to the downtown Durham market in August 2012.

1st Quarter Top Office Lease Transactions

Tenant	Property	Type	SF
Dex One	Weston One	Renewal	108,000
*Yardi	Brier Creek V	Exp/Renewal	52,000
*K&L Gates	Lassiter North Hills	Renewal	38,926
Veritas	Hock Plaza	New	28,800
*Reed Elsevier	2000 Regency	Sublease	28,090
*Stantec Consulting	Interchange II	Renewal	26,965
*Sprintcom Inc.	Gateway Centre	Renewal	22,585
Thomas, Judy, Tucker	4700 Falls of Neuse	New	22,400
*Allscripts	Forum II	Expansion	18,714

* denotes CBRE transaction

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Asking Lease Rate

Average of Asking Lease Rates for each property weighted by the associated Available Space. Includes Direct Available Space unless otherwise indicated.

Completions

Rentable Building Area completed during the period.

Market Coverage

'Existing' (Completed) competitive properties.

Net Absorption

The change in Occupied SF during the period for all 'Existing' properties.

Base Inventory, Base or Building Square Feet

The sum of the Rentable Building Area for all competitive properties.

Occupied Square Feet

Rentable Building Area less Vacant Space.

Under Construction

Buildings which have begun construction as evidenced by site excavation or foundation work, and is on-going.

Available Space

Space being marketed to potential occupants, in Rentable SF (direct and sublease combined, unless otherwise indicated).

Availability Rate

Available space (including Sublease and New Construction) as a percentage of the Base Inventory or Building SF.

Vacant Space

Available Space that is physically vacant, in Rentable SF.

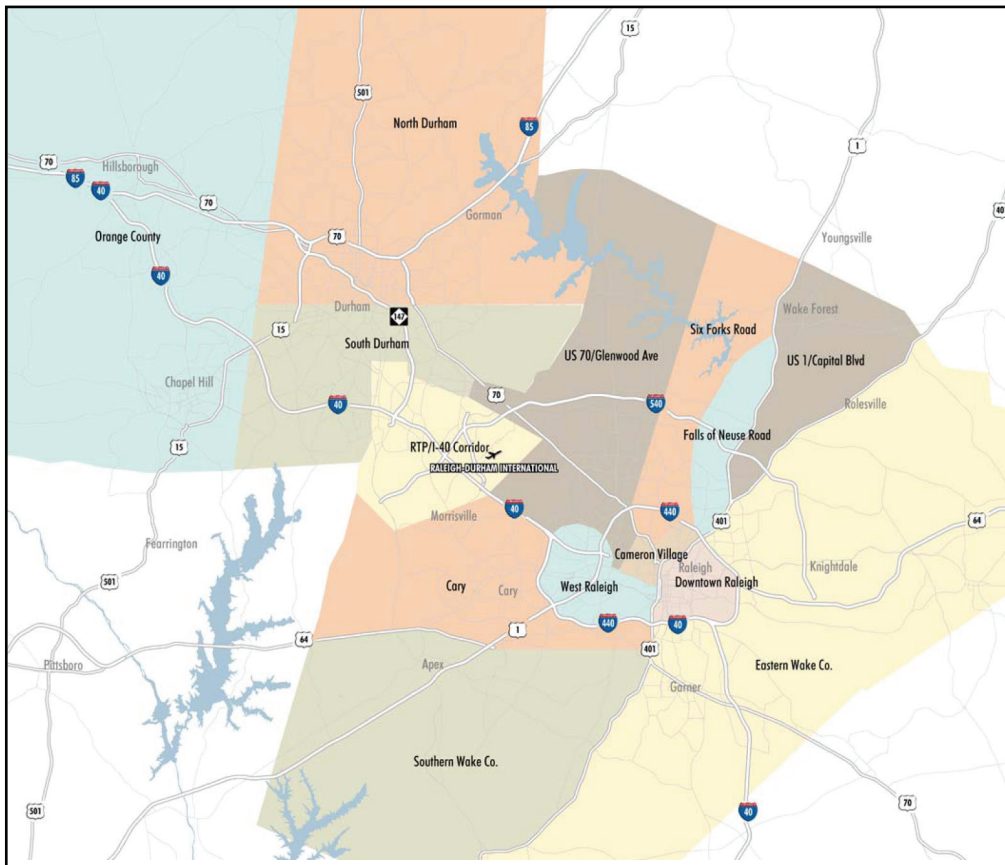
Vacancy Rate

Vacant space as a percentage of the Base Inventory or Building SF.

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Raleigh-Durham Submarket Map



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