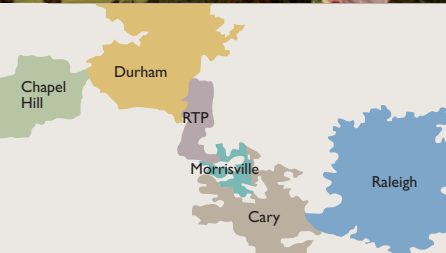


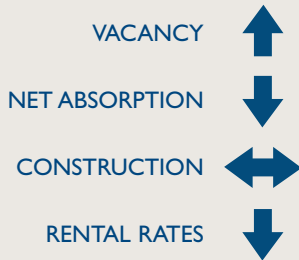
Market Report

OFFICE | THIRD QUARTER | 2009



MARKET INDICATORS

Q3 2009



UPDATE

SIGNIFICANT TRANSACTIONS

Semiconductor Research Corp. renewed its lease for 19,000 SF at Brighton Hall.

Deutsche Bank leased 35,000 SF at CentreGreen IV.

Tekelec renewed its lease for 315,600 SF at 5200 E. Paramount Parkway.

AECOM Technology Corp. leased 18,000 SF at Colonnade II.

PBS&J renewed and expanded into 23,000 SF at Brook Forest.

OVERVIEW

The 3rd Quarter of 2009 closed with the Triangle office market still following the trends of the current economic downturn. The typical “lag effect” of deteriorating real estate market fundamentals following economic contraction is presently playing out and is expected to continue into the coming year. The Triangle Office Market remains a “tenant’s market” as transaction volume remains anemic compared to recent historical performance.

Vacancy and Absorption

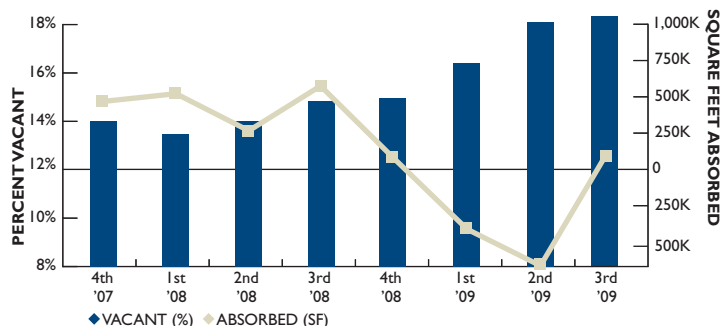
According to the Triangle Business Journal, Q3 '09 market-wide net absorption for the Triangle office market was approximately +65,000 square feet, including +129,000 square feet in the Class A sector. This was offset by -37,000 and -27,000 square feet in the Class B and Class C markets, respectively. For the past four quarters, market-wide net absorption for all office classes has measured approximately -700,000 square feet, including just -17,000 square feet in the Class A market. By contrast, Class B office absorption over the past year has measured nearly -560,000 square feet, as tenants have taken the opportunity to both “move up” and take advantage of current market conditions. Albeit under different circumstances, these trends are comparable to those experienced in the dot.com recessionary period of 2002 when the Triangle Market survived net absorption of -1.45 million square feet during Calendar Year 2002. Notable deliveries this past quarter included Dominion Partner’s 134,000 square foot headquarters for Genworth Mortgage Insurance at Six Forks Road and Monument Lane.

Market-wide vacancy rates for 3rd Quarter 2009, ended up slightly at approximately 18.67%, from last quarter’s 18.56%. All classes remaining relatively static. The RTP/I-40 Submarket, the Triangle’s largest office submarket at approximately 10.4 million square feet, saw its overall vacancy rate climb a modest twelve basis points to 25.88%, including a slight decrease in Class A vacancy from approximately 17.88% to 17.69% from 2nd Quarter to 3rd Quarter. However, the RTP/I-40 submarket accounts for one-third of all office vacancy in the Raleigh-Durham Market. Both the Raleigh and Durham CBD’s saw their overall and Class A vacancy rates remain below 10%.

Rents

Asking rental rates in the 3rd Quarter saw a slight decline in certain submarkets. For the year, asking rental rates for Class A office space are down approximately 7-10% and as much as 20% for certain assets. Effective rates are down another 5-10% for the 3rd Quarter, thanks to generous rental abatement periods and cash allowances.

HISTORIC DIRECT VACANCY & ABSORBED OFFICE SPACE



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Investment Sales

Investment activity in the office sector remained very quiet, with essentially no

Continued



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institutional-grade asset trades as the financing environment remains extremely challenging. What little transactions have taken place have generally been small sales for owner-occupants. Attractive SBA programs (i.e. 90% LTV and no closing costs) have generated some motivated buyers to move forward.

FORECAST

Despite the barrage of negative news, as never before it is important to remember all things are relative. The Triangle real estate market is faring better than most other markets in the United States. There are clear signs that the local economy is stabilizing, and that conditions in the Triangle office market have bottomed out. While we anticipate the 4th Quarter to be challenging for both landlords and tenants, if the Triangle can post slightly positive absorption for Q4, this could signal the worst is over for the Class A sector. While over capacity of supply remains for all other market sectors, we believe rental rates will continue to compress between Class A and Class B product, and net absorption in the Class A market is expected to buoy, as tenants upgrade with concession packages.

Sublease product and shadow space will continue to be an undermining force working against recovery of the Triangle office market. At current, it is estimated that approximately 1.0 million square feet of office space is being actively marketed for sublease. That represents about 2.2 percent of the overall market square footage. While that sum has remained relatively steady over the past two quarters, continue to watch for shadow space sitting idle, which has not yet come to market. We expect that

the inventory of sublease and shadow space will increase, perhaps markedly, in the 4th Quarter as belt-tightening continues. If the combined excess property inventory reaches 2.5 million square feet that would equate to approximately 5% of the Triangle marketplace, a record for the Triangle market. While the predominance of the shadow and sublet space will be located in the RTP/I-40 corridor, this product is reasonably well-spread across the market and across industries. This is much different than the dot.com recessionary period when the telecom industry alone accounted for over 2 million square feet of vacancy in one submarket.

For the Triangle to continue to climb the hill of recovery, it will need to clearly create jobs that drive absorption through attracting new businesses. This means that we need to see not only a continuation of announcements regarding those companies that have chosen to relocate to and/or expand within the Triangle Area, but also that these companies choose to absorb existing product versus occupy new buildings. Otherwise, absorption stemming from these corporate relocations will be limited to that which is indirect, driven by service providers and suppliers to these new employers.

The road to recovery will quite clearly extend into 2010 and likely 2011 and it will be made worse by pressures on state and local government to serve a growing population with challenging unemployment rates. Despite these challenges, Triangle residents can continue to enjoy, relatively speaking, a reasonable cost of living, attractive climate and overall, a high quality of life, all of which continue to make the Triangle one of the best places to live and work in the country.

VACANT & ABSORBED OFFICE SPACE BY SUBMARKET

THIRD QUARTER 2009

SUBMARKET	TOTAL SF INVENTORY	DIRECT VACANT SF	DIRECT VACANCY %	NET SF ABSORPTION CURRENT QTR	NET ABSORPTION PAST 4 QTRS	COMPLETIONS DURING QTR SF	SF UNDER CONST.	AVE ASKING \$/SF CLASS A/ ALL
CARY	5,468,561	915,987	16.8%	24,363	(174,982)		17,604	\$23.34 / \$17.97
CHAPEL HILL	1,458,901	263,022	18.0%	(14,964)	(12,980)		143,000	\$24.35 / \$20.55
DOWNTOWN AND CENTRAL DURHAM	2,899,782	279,602	9.6%	(9,317)	91,885	12,024	22,000	\$21.48 / \$19.80
DOWNTOWN RALEIGH AND CAMERON VILLAGE	4,380,507	386,438	8.8%	10,588	(75,131)			\$22.11 / \$19.10
EASTERN WAKE COUNTY	492,232	106,417	21.6%	(23,412)	(16,469)			\$16.80
NORTH DURHAM	1,390,054	377,556	27.2%	(5,094)	(4,380)			\$16.10
NORTH RALEIGH (SIX FORKS RD, FALLS OF NEUSE RD & US 1/CAPITAL BLVD)	7,901,894	1,437,010	18.2%	67,776	(30,673)	129,347	302,446	\$22.05 / \$17.51
SOUTHERN WAKE COUNTY	171,888	67,925	39.5%	378	(13,022)			\$16.15
WEST RALEIGH AND US 70 / GLENWOOD AVE	8,584,708	1,441,813	16.8%	(2,248)	(146,321)		161,225	\$22.49 / \$18.22
I-40 / RTP / SOUTH DURHAM	12,110,660	3,101,569	25.6%	17,339	(318,519)	19,532	60,500	\$20.03 / \$18.09
TRIANGLE MARKET TOTALS								
A	27,873,855	4,462,138	16.0%	128,841	(17,436)	129,347	580,171	\$22.00
B	13,660,055	3,210,133	23.5%	(36,590)	(559,899)	31,556	126,604	
C	3,325,277	705,068	21.2%	(26,842)	(123,257)			
TOTAL	44,859,187	8,377,339	18.7%	65,409	(700,592)	160,903	706,775	\$19.00

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Raleigh aerial courtesy of Holly Jacques.



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