

Vacancy rates in the Hampton Roads industrial market hit new lows, down to 4.0% from the 2005 year-end vacancy level of 4.2%. The direct weighted average asking rental rate on triple net leases rose 14 cents to \$4.68 per square foot (psf). A modest 74,575 square feet (sf) of new inventory was introduced in the first quarter and net absorption came in at 134,080 sf. Over 1.6 million square feet (msf) of industrial space is currently under construction with another 1.4 msf still in the pipeline to be developed.

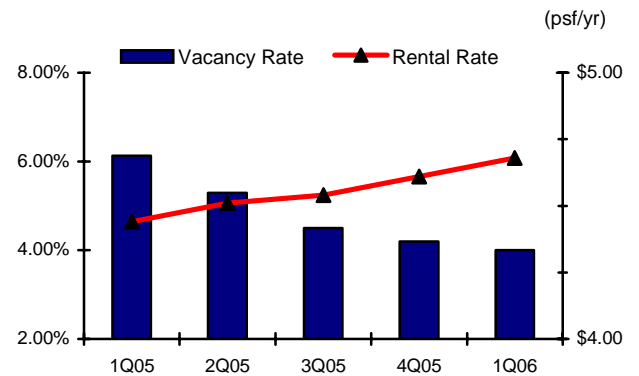
The Port of Virginia has always been a major factor in the industrial market in Hampton Roads. From 2001 through 2005, the Port of Virginia has increased the volume of TEU's (Twenty-foot Equivalent Units) it processes per year by 52%. In January and February of 2006, historically the two lightest months of the year, volume has already increased by another 11.7%. The new APM Terminal being built in Portsmouth, expected to open in 2007, will greatly expand the port's capacity. The VPA estimates that cargo volume at the port will double by 2020.

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Looking forward, the Hampton Roads industrial market will continue to be a strong performer. Although a significant amount of new space will be introduced to the market soon, the strong demand will allow the new inventory to be absorbed swiftly. This should keep the vacancy rate in the 3% – 5% range, driving rent rates steadily higher until the supply of industrial space begins to catch up to the demand created by the ports. ■

Overall Vacancy vs. Rental Rates



First quarter lease activity was low with 171,414 sf of industrial space being rented. RPM Warehouse LLC signed a short-term lease for 39,600 sf at 3050 Elmhurst Lane in Portsmouth. Late in 2005, RPM leased 80,000 sf of the neighboring 120,000 sf warehouse at 3100 Elmhurst, with plans to lease out the remainder of the space when the current tenant's lease expires.

In Chesapeake, Pioneer Photo Albums, Inc. leased 66,410 sf of space on the Bay Warehouses property at Cavalier Industrial Park.

Overall sales activity in the Hampton Roads industrial market was remarkably flat during the first quarter. No transfers of significant value to the market were recorded during this period.

MARKET HIGHLIGHTS**Significant 1Q06 New Lease Transactions**

BUILDING	SUBMARKET	TENANT	SQUARE FEET	PROPERTY TYPE
Bay Warehouses	Cavalier	Pioneer Photo Albums, Inc	66,410	Warehouse
220 Picketts Line	Oakland	N/A	48,800	Warehouse
Stone Warehouses	Portsmouth	RPM Warehouse, LLC	39,600	Warehouse

Significant 1Q06 Sale Transactions

BUILDING	SUBMARKET	BUYER	SQUARE FEET	PURCHASE PRICE
2873 CrUSAdier Cir	Oceana West	Madden Holding LLC	30,000	\$ 2,170,000
Peck Warehouse	Portsmouth	Holda Properties LP	29,500	\$ 900,000
1328 Cavalier Blvd	Cavalier	Mullen Properties LC	12,750	\$ 1,500,000

Significant 1Q06 Construction Completions

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
3530 Business Center Dr	Cavalier	N/A	52,000	January 2006
2740 Sonic Dr	Lynnhaven	N/A	11,945	February 2006

Significant Projects Under Construction

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
Holland Comm. Park, Bldg 1	Isle of Wight	N/A	329,766	August 2006
Greenmount	Williamsburg Ext	Haynes	277,534	July 2006
3808 Cook Blvd	Cavalier	N/A	130,000	June 2006

MARKET/SUBMARKET STATISTICS

Market/Submarket	Inventory	No. of Bldgs.	Overall Vacancy Rate	Direct Vacancy Rate	YTD Leasing Activity	Under Construction	YTD Construction Completions	YTD Overall Absorption	Direct Wtd. Avg. Rental Rate*
Peninsula	26,973,016	672	4.7%	4.7%	83,340	287,534	10,600	127,948	\$5.04
Copeland	12,988,180	346	7.3%	7.1%	1,890	0	5,000	(126,016)	\$4.53
Gloucester	65,243	2	0.0%	0.0%	0	0	0	0	\$0.00
Oakland	4,474,945	114	1.3%	1.3%	77,200	0	5,600	(12,500)	\$5.34
Oyster Point	4,047,477	137	2.3%	2.3%	1,250	0	0	(18,728)	\$7.47
Williamsburg Extended	5,397,171	73	3.4%	3.4%	3,000	287,534	0	285,192	\$0.00
Southside	45,726,385	1,224	3.5%	3.4%	88,074	1,133,066	63,945	6,132	\$4.63
Airport Industrial Park	2,796,271	52	2.5%	2.5%	21,939	0	0	39,600	\$5.34
Bainbridge	7,614,589	235	2.0%	2.0%	7,000	63,500	0	(55,904)	\$7.27
Cavalier	5,051,053	153	5.8%	5.2%	14,411	344,000	52,000	48,714	\$5.01
Central Norfolk	2,335,637	72	3.3%	3.3%	5,700	0	0	(4,214)	\$5.62
Cleveland	1,906,602	56	1.4%	1.4%	0	0	0	0	\$5.00
Greenbrier	1,123,496	39	2.3%	1.0%	6,500	0	0	(18,750)	\$4.39
Isle of Wight	953,046	4	16.4%	16.4%	0	329,766	0	0	\$3.26
Lynnhaven	4,560,177	149	2.1%	2.1%	0	95,800	11,945	(23,172)	\$6.95
Norfolk Industrial Park	7,566,259	174	1.9%	1.9%	15,844	0	0	(94,427)	\$4.77
North Suffolk	968,000	4	3.1%	3.1%	0	0	0	115,500	\$0.00
Portsmouth	3,647,408	157	7.8%	7.8%	0	0	0	33,000	\$4.67
South Suffolk	4,948,822	40	1.2%	1.2%	12,100	300,000	0	(21,000)	\$4.59
West Norfolk	2,255,025	89	8.5%	8.5%	4,580	0	0	(13,215)	\$4.63
HAMPTON ROADS	72,699,401	1,896	4.0%	3.9%	171,414	1,420,600	74,545	134,080	\$4.68

* Rental rates reflect \$psf/year