

OFFICE OVERVIEW HAMPTON ROADS, VIRGINIA

First Quarter 2006

The Hampton Roads office market marches on in the expansion phase of the commercial real estate cycle. As it has for the last three plus years, the vacancy rate continued to drop -- coming in at a strong 6.1% -- while the direct weighted average rental rate on full service leases climbed 11 cents, to \$16.55 per square foot (psf). Roughly 1.4 million square feet (sf) of new office space is currently under construction with another 1.5 million sf of proposed office space still in the pipeline to be developed.

Sales activity in the office market during the first quarter was flat. The most significant transfer that took place was the sale of the Oyster Point Office Park portfolio of Liberty Property Trust, consisting of four buildings (The Atrium at Oyster Point, Rock Landing II, Rock Landing IV, and Rock Landing V) totaling 132,445 sf of rentable space to BGK Equities for \$15.25 million (\$115 psf).

The market leased 344,000 sf of office space during the first quarter. This amount of activity has been fairly consistent over the last several quarters, generally in the low-to-mid 300,000 sf range. Considering that new construction completions have introduced an average of 115,000 sf over the last three quarters, there has been a steady level of absorption of new and existing space alike. This trend will be challenged by the influx of new properties being introduced on the market in the upcoming months.

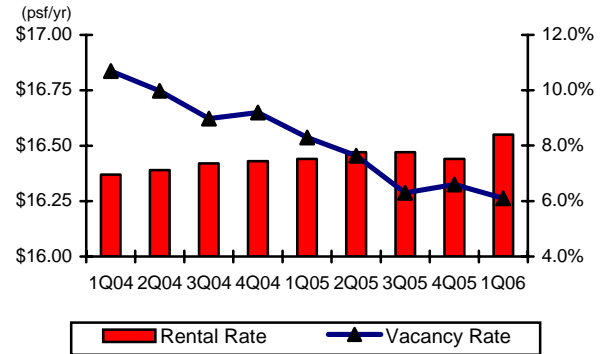
The Peninsula's largest submarket, Oyster Point, turned in a strong first quarter with 143,500 sf of new class A inventory delivered to the market, over forty thousand sf of office space leased, and a drop in the overall vacancy rate to 5.7%. Merchants Walk One and One City Center, both mixed-use buildings featuring ground floor retail, completed construction in January and February respectively. They are the fourth and fifth of six buildings that make up the core of the City Center mixed-use district.

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The low vacancy rates, rising rental rates, and the significant increase of new inventory over the next year point to the Hampton Roads office market being at or near the peak of the expansion phase of the real estate cycle. The high costs of construction may actually be responsible for extending this phase since it has slowed down the introduction of new buildings to the market. ■

Direct Rental vs. Vacancy Rates



While the Southside delivered a low 40,500 sf of new inventory, it has nearly 800,000 sf currently under construction. The majority of the new construction will be concentrated among three submarkets: Norfolk-ODU/Ghent (200,000 sf), Princess Anne (159,667 sf), and Greenbrier (136,000 sf). Chesapeake's Greenbrier submarket accounted for over one-quarter of the Southside's total leasing activity while the Hilltop/Great Neck submarket led the way in direct absorption.

The first quarter of 2006 was uneventful for the Downtown Norfolk CBD. Leasing activity was slightly above average; however, the net direct absorption was a meager 4,500 sf. Rental rates showed little change. The new 220,000-sf Trader building at 150 Granby Street is under construction and should be

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

BUILDING	SUBMARKET	TENANT	SQUARE FEET	CLASS
1301 Executive Blvd	Greenbrier	American Funds	25,000	A
One City Center	Oyster Point	C2 Technologies	17,500	A
3719 E Virginia Beach Blvd	Central Norfolk	AGL Resources	22,382	B

Significant 1Q06 Sale Transactions

BUILDING	SUBMARKET	BUYER	SQUARE FEET	PURCHASE PRICE
Oyster Point Office Portfolio	Oyster Point	BGK Equities	132,445	\$ 15,250,000
1853 Old Donation Pkwy	Hilltop/Great Neck	N/A	20,000	\$ 3,943,060
361 Southport Circle	S Independence/Holland Rd	N/A	15,821	\$ 2,100,000

Significant 1Q06 Construction Completions

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
One City Center	Oyster Point	C2 Technologies	87,500	January 2006
11820 Merchants Walk	Oyster Point	N/A	56,000	January 2006

Significant Projects Under Construction

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
150 Granby St	Downtown Norfolk	Trader Publishing	220,000	October 2006
Innovation Research Park I & II	Central Norfolk	N/A	200,000	April 2007
100 Exploration Way Bldg 4/5	Oyster Point	N/A	120,000	October 2006

THALHIMER MARKET/CLASS STATISTICS

Market/Class	Inventory	No. of Bldgs.	Overall Vacancy Rate	Direct Vacancy Rate	YTD Leasing Activity	Under Construction	YTD Construction Completions	YTD Direct Absorption	Direct Wtd. Avg. Class A Rental Rate*
CBD	4,575,977	95	7.9%	7.3%	46,178	285,000	0	4,500	
Class A	1,794,460	7	8.3%	7.5%	34,617	285,000	0	7,474	\$19.76
Class B	2,499,627	71	8.0%	7.4%	11,561	0	0	1,926	
Class C	281,890	17	4.6%	4.6%	0	0	0	(4,900)	
Non-CBD/Southside	20,456,339	1,237	6.1%	5.7%	221,945	778,687	40,500	90,786	
Class A	3,732,453	57	6.3%	5.1%	81,594	670,505	0	21,580	\$19.26
Class B	11,380,794	497	6.3%	6.1%	122,863	108,182	16,000	82,037	
Class C	5,343,092	683	5.5%	5.1%	17,488	0	24,500	(12,831)	
Non-CBD/Peninsula	10,059,203	749	6.8%	6.6%	76,340	287,120	143,500	57,346	
Class A	2,242,795	32	6.5%	5.7%	34,437	120,000	143,500	90,485	\$18.94
Class B	7,252,779	626	5.9%	5.8%	40,703	117,120	0	(30,245)	
Class C	563,629	91	19.9%	19.9%	1,200	50,000	0	(2,894)	
Total	35,091,519	2,081	6.1%	5.7%	344,463	1,350,807	184,000	152,632	\$19.31

* Rental rates reflect \$psf/year