

**For the Hampton Roads industrial market the word of the day is “growth”.** Vacancy rates remained low at a paltry 4.4%. The direct weighted average asking rental rate on triple net leases rose \$0.10 cents per square foot (psf) during the second quarter to \$4.78 psf. Currently, over 1.4 million square feet (msf) of industrial space is under construction with another 1.3 msf still in the proposed/planning stage of development. Should there be concern over whether or not the market will be able to absorb this new inventory? Absolutely not!

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%. Through May of 2006, volume has already increased by 6.7% over the same period in 2005. The new APM Terminal being built in Portsmouth, expected to open in 2007, will greatly expand the port's capacity. The Virginia Port Authority estimates that cargo volume at the port will double by 2020.

Given the existing demand as well as the future demand created by the explosive growth of the ports, and the current lack of availability, the Hampton Roads industrial market should easily be able to absorb any new construction currently in the pipeline.

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Looking forward, the Hampton Roads industrial market will continue to be a strong performer.

Leasing activity during the second quarter was fairly flat at 126,029 sf. In the Central Norfolk submarket, Givens Trucking is expanding their operation at 1157 Production Road to 149,000 sf. In North Suffolk, TGIB Marketing leased 35,200 sf of the former General Electric plant.

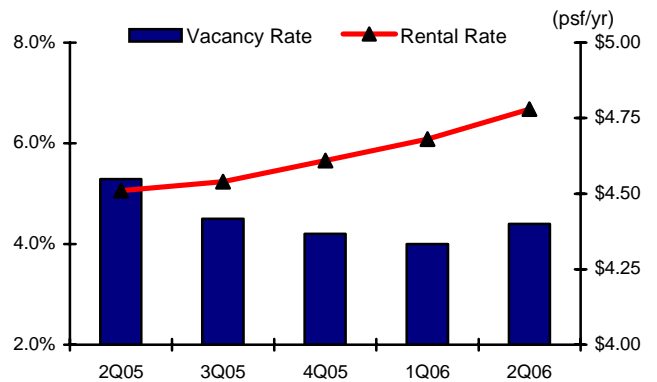
Sales activity in the Hampton Roads industrial market remained slow during the second quarter. Among the most significant transfers of the quarter are the sale of a 56,000-sf light manufacturing building at 541-545 Central Drive in Virginia Beach to Central Drive Condos LLC for \$4.8 million (\$86.61 psf) and Central Norfolk's MDV Warehouse, a 52,811-sf structure purchased by Syd LLC for approximately \$2.4 million (\$45.35 psf).

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Only two buildings were completed during the second quarter. The Indian River Distribution Center, a new 230,000-sf facility in the Greenbrier submarket was delivered in May as was the new headquarters of the London Bridge Trading Company. The company, which designs, develops and manufactures quality equipment for military and law enforcement organizations, is in the process of moving its operations into a new 70,000-sf site on London Bridge Road designed expressly for their manufacturing requirements.

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**



**THALHIMER MARKET HIGHLIGHTS****Significant 2Q06 New Lease Transactions**

BUILDING	SUBMARKET	TENANT	SQUARE FEET	PROPERTY TYPE
1157 Production Road	Central Norfolk	Givens Trucking	149,000	Warehouse
Bay Warehouses	Cavalier	Victory	57,545	Warehouse
Former GE Suffolk Plant	North Suffolk	TGIB Marketing	35,200	Warehouse

**Significant 2Q06 Sale Transactions**

BUILDING	SUBMARKET	BUYER	SQUARE FEET	PURCHASE PRICE
541-545 Central Drive	Lynnhaven	Lefcoe Development	56,000	\$ 4,850,000
MDV Warehouse	Central Norfolk	Syd LLC	52,811	\$ 2,395,000
1013 Executive Blvd	Bainbridge	Strong Company Inv LLC	10,500	\$ 1,500,000

**Significant 2Q06 Construction Completions**

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
2601 Indian River Rd	Greenbrier	N/A	230,000	May 2006
585 London Bridge Rd	Lynnhaven	London Bridge Trading Co. Ltd.	75,000	May 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	December 2006

**THALHIMER 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*
<b>Peninsula</b>	<b>28,762,839</b>	<b>675</b>	<b>4.7%</b>	<b>4.6%</b>	<b>93,607</b>	<b>287,534</b>	<b>10,600</b>	<b>78,724</b>	<b>\$5.14</b>
Copeland	12,769,235	347	7.9%	7.8%	5,157	0	5,000	(160,318)	\$4.70
Gloucester	65,243	2	0.0%	0.0%	0	0	0	0	\$0.00
Oakland	4,811,698	114	1.3%	1.3%	77,200	0	5,600	(36,592)	\$5.34
Oyster Point	4,176,300	137	2.3%	2.3%	1,250	0	0	(21,558)	\$7.43
Williamsburg Extended	6,940,363	75	2.6%	2.6%	10,000	287,534	0	297,192	\$7.25
<b>Southside</b>	<b>47,469,173</b>	<b>1,241</b>	<b>4.3%</b>	<b>4.2%</b>	<b>203,836</b>	<b>1,116,866</b>	<b>368,945</b>	<b>117,689</b>	<b>\$4.73</b>
Airport Industrial Park	2,795,735	50	2.5%	2.5%	21,939	0	0	59,600	\$5.34
Bainbridge	7,599,891	234	1.5%	1.5%	13,800	63,500	0	(4,395)	\$6.10
Cavalier	5,108,496	155	5.0%	4.3%	47,616	344,000	52,000	68,714	\$5.23
Central Norfolk	2,467,982	76	6.4%	6.4%	5,700	0	0	(81,476)	\$3.93
Cleveland	1,906,602	56	1.5%	1.5%	0	0	0	(1,800)	\$5.00
Greenbrier	1,360,698	41	18.0%	16.9%	42,600	0	230,000	107,750	\$4.39
Isle of Wight	2,099,994	11	7.4%	7.4%	0	329,766	0	0	\$3.26
Lynnhaven	4,743,494	150	1.2%	1.2%	13,343	20,800	86,945	78,078	\$7.19
Norfolk Industrial Park	7,630,759	175	3.8%	3.8%	15,844	0	0	(164,197)	\$4.77
North Suffolk	908,000	3	1.1%	1.1%	0	0	0	135,500	N/A
Portsmouth	3,674,534	159	7.6%	7.6%	0	58,800	0	114,056	\$5.14
South Suffolk	4,870,627	41	4.2%	4.2%	35,860	300,000	0	(202,560)	\$5.13
West Norfolk	2,302,361	90	7.5%	7.5%	7,134	0	0	8,419	\$4.63
<b>HAMPTON ROADS</b>	<b>76,232,012</b>	<b>1,916</b>	<b>4.4%</b>	<b>4.4%</b>	<b>297,443</b>	<b>1,404,400</b>	<b>379,545</b>	<b>196,413</b>	<b>\$4.78</b>

\* Rental rates reflect \$psf/year