

## OFFICE OVERVIEW HAMPTON ROADS, VIRGINIA

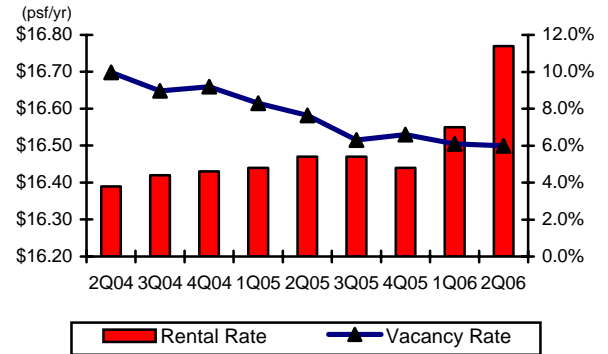
Second Quarter 2006

Whoever coined the phrase, “There’s strength in numbers” must have been analyzing the current state of the Hampton Roads office market. Vacancy rates continue to drop with the direct vacancy rate dipping below an already historic low to 6.0%. Rent rates also climbed significantly in the second quarter. The direct weighted average annual rental rate on full service leases rose \$0.22 per square foot (psf), to \$16.77 psf. Owners of class A office space saw a \$0.30 cent increase (to \$19.61 psf) - music to the ears of the owners of over 1.2 million square feet (msf) of new class A office space currently under construction in the region.

There were very few sales during the second quarter. One of the few significant transfers was the purchase of 301 Centre Pointe Drive, located in the South Independence/Holland Road submarket, for \$4.2 million (\$148.41 psf) by JMG Investments LLC. The property, a 28,300-square foot (sf) class B office building on 5.9 acres, is leased to Bryant & Stratton College for the next 7 years.

Seven new buildings, totaling 207,926 sf of rentable space, were delivered to the market in the second quarter. Leasing activity, consistently in the 300,000 sf range over the past several quarters, remained steady with 380,959 sf for this quarter. Given the size of the market and the steady stream of new construction being introduced, the absorption of new and existing space alike continues to be strong and justifies the necessity of the buildings currently under construction. It would seem that the Hampton Roads office market will have no trouble absorbing the 1.4 msf currently under construction. With over a million square feet of additional space in the proposal stages, the market will be challenged to sustain the same strong performance.

### Direct Rental vs. Vacancy Rates



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The vast majority, over 70%, of the 1.4 msf of new office space currently under construction in the Hampton Roads region will be located in Southside non-CBD submarkets, with the Princess Anne submarket expecting 210,000 sf of this new inventory. The demand for office space on the Southside has driven an increase in rents over the past two quarters, from \$16.11 psf to \$17.06 psf.

The only new delivery to the Peninsula during the second quarter was a 27,000-sf, class B office condominium building to the New Town mixed use development in Williamsburg. The recent growth of the northern portion of the Peninsula was evident in the absorption numbers with the York County and Williamsburg/James City County submarkets leading the way while only two of the other nine submarkets showed positive absorption.

The Downtown Norfolk CBD remains somewhat dormant. Leasing activity was in the normal range while the submarket experienced 22,000 sf of negative absorption. Rental rates remained steady and with all but 5,500 sf of the new 220,000-sf Trader building under construction at 150 Granby Street already leased, little change is expected in the near future.

Overall, the Hampton Roads office market appears prepared to absorb the buildings that are currently under construction. The quality of this new office space should help drive up rent rates in the non-CBD areas of the region without discouraging other construction projects currently in the proposed/planning stages. ■

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

BUILDING	SUBMARKET	TENANT	SQUARE FEET	CLASS
Crossways II	Greenbrier	Harris Connect	64,486	B
Rosemont Interstate Ctr III	Little Neck	N/A	22,414	B
3719 E Virginia Beach Blvd	Central Norfolk	Virginia Natural Gas	22,382	C

**Significant 2Q06 Sale Transactions**

BUILDING	SUBMARKET	BUYER	SQUARE FEET	PURCHASE PRICE
301 Centre Pointe Drive	S Independence/Holland Rd	JMG Investments LLC	28,300	\$ 4,200,000
361 Southport Circle	S Independence/Holland Rd	Continental Properties Corp	15,821	\$ 2,060,000
345 W. Freemason St	Downtown Norfolk	Ghent Dev. Partners, LLC	10,800	\$ 1,500,000

**Significant 2Q06 Construction Completions**

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
Bridgeway Tech Center III	Harbourview/N Suffolk	N/A	72,384	May 2006
Liberty Two	Greenbrier	American Funds	50,000	April 2006
The Gallery	Newtown/Witchduck	N/A	30,000	April 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*
<b>CBD</b>	4,648,175	97	8.1%	7.5%	83,428	220,000	0	(18,176)	\$20.73
Class A	1,794,460	7	6.4%	5.7%	45,039	220,000	0	40,004	\$20.73
Class B	2,501,099	72	6.9%	6.4%	38,389	0	0	22,308	N/A
Class C	352,616	18	25.1%	25.1%	0	0	0	(80,488)	N/A
<b>Non-CBD/Southside</b>	20,652,728	1,244	5.7%	5.5%	491,846	1,004,708	221,426	178,591	\$19.56
Class A	3,895,263	60	8.6%	7.8%	118,816	909,762	152,384	54,978	\$19.56
Class B	11,649,272	515	5.4%	5.3%	315,541	94,946	44,542	100,172	N/A
Class C	5,108,193	669	4.4%	4.1%	57,489	0	24,500	23,441	N/A
<b>Non-CBD/Peninsula</b>	10,155,815	763	6.7%	6.4%	150,062	208,323	170,500	138,463	\$18.68
Class A	2,242,795	32	6.8%	6.2%	44,494	100,000	143,500	73,882	\$18.68
Class B	7,335,624	637	5.5%	5.3%	102,936	51,323	27,000	81,377	N/A
Class C	577,396	94	21.0%	21.0%	2,632	57,000	0	(16,796)	N/A
<b>Total</b>	35,456,718	2,104	6.3%	6.0%	725,336	1,433,031	391,926	298,878	\$19.61

\* Rental rates reflect \$psf/year