

The industrial market in the Hampton Roads region continues to grow. Over 1.1 million square feet (msf) of new space has been introduced to the market in 2006, with another 1.6 msf currently under construction. During this time, the vacancy rate has remained in the low 4% range, while the direct weighted average rental rate for triple net leases has climbed from \$4.67 per square foot (psf) at the end of 2005 to \$4.90 psf at quarter's end.

The third quarter saw over 750,000 square feet (sf) of new industrial space delivered to the market. Haynes Furniture started using their new 275,000-sf distribution center in Williamsburg. Bridgeway Commerce Center III, a 168,000-sf warehouse building, also opened it's doors for business in the North Suffolk submarket.

Construction began on another 500,000 sf of new space during the quarter, the most significant new project being the 460,000-sf warehouse being built in Enterchange at Hampton in the Copeland submarket. Currently, over 1.2 msf of industrial space is in the planning/proposal stages with all but 300,000 sf slated to be built in Hampton Roads' Southside.

The Virginia Port Authority (VPA) continues to make improvements to their facilities to improve the efficient performance of its shipping operations. "For their efforts to facilitate the export of American-made goods," the U.S. Department of Commerce recently awarded the Export Achievement Award to the VPA. The expansion of the facilities along with the continual process improvement at the VPA has increased the demand for warehouse space in a market already starved for it.

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

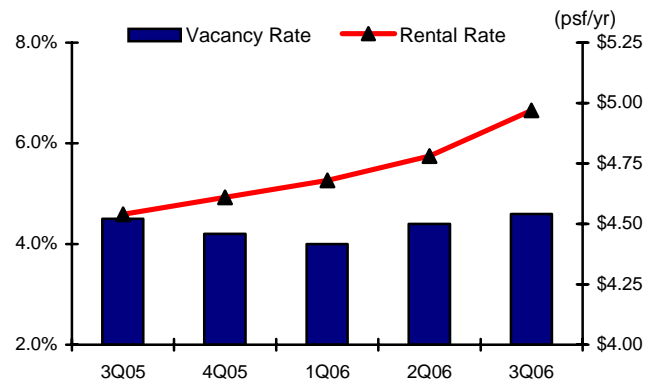
Given the existing demand as well as the future demand created by this explosive port growth and the current lack of availability, the Hampton Roads industrial market should easily be able to absorb any new construction currently in the pipeline.

The direct vacancy rate in Hampton Roads dropped 0.2% to 4.2% during the third quarter – somewhat surprising considering the amount of new space that was delivered during that time frame. Even with this significant change in the inventory, the market was able to experience positive absorption of nearly 70,000 sf.

On the Southside, average direct rent rates have risen 46 cents to \$4.87 psf in the past year, while on the Peninsula, average rates have hovered consistently in the \$5.00 range.

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 3Q06 New Lease Transactions**

BUILDING	SUBMARKET	TENANT	SQUARE FEET	PROPERTY TYPE
200 Port Centre Pky	Portsmouth	Massimo Zanetti Beverage Inc.	228,564	Warehouse
Cavalier Distribution Center	Cavalier	Cornerstone Systems Inc.	50,400	Warehouse
Stonehouse Commerce Park	Williamsburg Ext	Aaron Rents, Inc.	20,000	Manufacturing

Significant 3Q06 Sale Transactions

BUILDING	SUBMARKET	BUYER	SQUARE FEET	PURCHASE PRICE
Orca Yacht Facility	Cavalier	Steel Street Terminals LLC	126,056	\$ 3,600,000
909 W. 25 th St	West Norfolk	KLS Associates LP	26,600	\$ 1,750,000
5721 Thurston Ave	Airport Industrial Park	N/A	14,100	\$ 1,150,000

Significant 3Q06 Construction Completions

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
Haynes Distribution Center	Williamsburg Ext	Haynes Furniture	277,534	September 2006
Bridgeway Commerce Ctr III	North Suffolk	N/A	168,000	September 2006
Truck Enterprises Bldg	Cavalier	Truck Enterprises	60,000	July 2006

Significant Projects Under Construction

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
Enterchange at Hampton	Copeland	N/A	458,744	June 2007
Holland Comm. Park, Bldg 1	Isle of Wight	N/A	329,766	October 2006
Northgate Commerce Pky	South Suffolk	N/A	300,000	June 2007

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*
Peninsula	28,678,703	677	5.1%	5.1%	186,207	458,744	531,353	234,967	\$4.99
Copeland	13,017,454	349	9.2%	9.2%	89,877	458,744	248,219	(420,161)	\$4.90
Gloucester	65,243	2	0.0%	0.0%	0	0	0	0	\$0.00
Oakland	4,815,698	114	2.9%	2.9%	77,200	0	5,600	(62,192)	\$4.90
Oyster Point	3,748,800	136	2.0%	2.0%	9,130	0	0	(931)	\$7.44
Williamsburg Extended	7,031,508	76	0.6%	0.6%	10,000	0	277,534	718,251	\$7.25
Southside	51,176,196	1,280	3.9%	3.8%	576,990	1,146,066	617,745	40,596	\$4.87
Airport Industrial Park	2,799,956	50	2.6%	2.6%	60,519	0	0	56,254	\$6.09
Bainbridge	8,248,293	240	3.8%	3.8%	42,800	63,500	230,000	153,780	\$4.94
Cavalier	5,174,452	156	5.3%	4.7%	108,016	284,000	112,000	49,564	\$5.61
Central Norfolk	2,508,932	78	5.5%	5.5%	15,360	0	0	(60,331)	\$3.93
Cleveland	1,910,602	57	1.2%	1.2%	0	0	0	2,961	\$5.00
Greenbrier	811,906	36	1.8%	0.0%	45,200	0	0	5,450	\$6.07
Isle of Wight	2,301,935	20	6.8%	6.8%	0	329,766	0	0	\$3.42
Lynnhaven	4,749,399	149	1.5%	1.5%	13,343	22,000	107,745	98,552	\$7.34
Norfolk Industrial Park	7,618,783	173	3.5%	3.4%	15,844	0	0	(144,597)	\$4.80
North Suffolk	1,313,500	5	13.6%	13.6%	0	0	168,000	(32,500)	N/A
Portsmouth	3,679,409	160	2.2%	2.2%	228,564	58,800	0	80,996	\$5.14
South Suffolk	7,745,898	64	2.7%	2.7%	35,860	388,000	0	(169,900)	\$5.13
West Norfolk	2,313,131	92	7.9%	7.9%	11,484	0	0	367	\$4.39
HAMPTON ROADS	79,854,899	1,957	4.3%	4.2%	763,197	1,604,810	1,149,098	275,563	\$4.90

* Rental rates reflect \$psf/year