

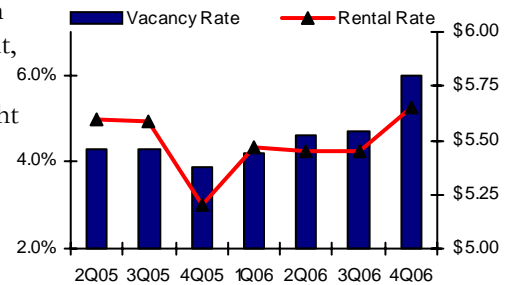
The Hampton Roads industrial market continued on its stable path during the fourth quarter as small 2,000 to 3,000-square foot (sf) condos and multi-tenant buildings in the 5,000 to 10,000 sf range generated real interest. Leasing slowed during the same period for large box industrial distribution and warehouse space, requiring owners to be patient. Overall distribution vacancy rates are still low on the Peninsula at 2.1% compared to 9.8% on the Southside. Flex rates are also lower on the Peninsula with an overall rate of 3.8% versus 7.4% on the Southside.

While there has been a dearth of large developers for some time in the Hampton Roads industrial arena, times are changing as 2006 saw the completion of several large speculative developments. 1.1 million square feet (msf) of modern distribution space in 5 buildings were delivered in 2006 with 130,000 sf leased. On the land front, McDonald Windward Partners IV closed a land deal in November to purchase 100 acres along the east side of Kenyon Road between the old Virginia Railroad right of way and the CSX Railroad in Suffolk.

Watch for rail to make a comeback in the coming year after two long decades of disinterest as gas prices continue to rise, transportation becomes more congested, and rail improvements are made nationally. Some speculate that a land rush, particularly in the Suffolk area, will be a result of an increased dependence on railway systems and the opening of the long-anticipated new Maersk port. Some activity has already been noted with much more expected in the first quarter of 2007. The new port will make the biggest difference in the warehouse/distribution market which also showed a year-to-date negative absorption rate at the end of the fourth quarter of negative 49,478 sf on the Peninsula, and a much healthier absorption rate of positive 315,159 sf on the Southside.

Fallout from Ford Motor Co.'s decision to close a local plant in mid-2007 has been slow to unfold. A 230,000-sf building across the street from the Ford plant, the Indian River Distribution Center, is currently looking for tenants. It is estimated that up to 700,000 sf of space in Hampton Roads could become available when Ford closes, as a direct result of local suppliers to Ford relocating, downsizing or shutting down. With the previously cited reasons, rail and expanded ports, most auto suppliers are expected to remain and shift their business to other manufacturers across the nation.

Overall Vacancy vs. Rental Rates



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The Airport Industrial Park has a new tenant, New River Casual Furniture, leasing 30,456 sf and in the Greenbrier market, Givens, Inc. is now occupying 80,500 sf at 400 Woodlake Drive. Industrial leasing activity was flat in the fourth quarter but was seen as part of a normal six to eight month cycle.

Westpark Warehouses I and III totaling 515,486 sf were sold in the fourth quarter for \$32 million and Austin Fairbanks Trust purchased Middle Ground Center, a 77,125 sf multi-tenant property in Newport News, during the fourth quarter for \$5.9 million. Additionally, the 1 million sf Cost Plus Distribution Center in Windsor sold for \$52 psf

to Inland, a tenant-in-common (TIC) syndicate. Smaller office warehouses are becoming more available with more businesses looking to purchase rather than lease.

The new Dominion Commerce Park is the only park in Chesapeake south of the Intracoastal Waterway. The approximately 300 acre park will be a phased project with half of the infrastructure already in place. Availabilities in phase I include 2 - 24 acres of light industrial land for sale and approximately 120,000 sf of one and two story professional office space with an additional 70,000 plus sf of flex space for lease. Adjacent to the park is the new \$65,000,000 Grassfield High School. Dominion Commerce Park is located directly off of the new Route 17 and is only 4.6 miles from Interstates 64 & 464. ■

THALHIMER MARKET HIGHLIGHTS**Significant 4Q06 New Lease Transactions**

BUILDING	SUBMARKET	TENANT	SQUARE FEET	PROPERTY TYPE
400 Woodlake Drive	Greenbrier	Givens, Inc.	80,500	Distribution
2000 Gateway Boulevard	Copeland	N/A	40,000	Warehouse
5909 Thurston Ave	Airport Industrial Park	New River Casual Furniture	30,456	General Industrial

Significant 4Q06 Sale Transactions

BUILDING	SUBMARKET	BUYER	SQUARE FEET	PURCHASE PRICE
Cost Plus Distribution	Windsor	Inland	1,000,000	\$52,000,000
Westpark Warehouses I & III	Hampton Roads Center	High Street	515,486	\$32,000,000
Middle Ground Center	Newport News	Austin Fairbanks Trust	77,125	\$5,950,000

Significant 4Q06 Construction Completions

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
Enterchange at Hampton - A	Copeland	N/A	243,219	October 2006
Holland Commerce Park	Isle of Wight	N/A	329,766	December 2006

Significant Projects Under Construction

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
Enterchange at Hampton - B	Copeland	N/A	458,744	May 2007
Northgate Logistics Center	South Suffolk	N/A	300,000	March 2007
NLA Norfolk Logistics Center	Cavalier	NYK Logistics (Target)	130,800	May 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	31,142,350	796	6.1%	5.3%	284,932	8,500	779,992	339,136	\$5.14
Flex	2,202,252	115	3.8%	3.8%	38,704	8,500	5,600	94,866	\$7.69
Distribution	6,785,385	107	2.1%	2.1%	40,787	0	763,972	(49,478)	\$4.72
Manufacturing	11,367,233	295	3.7%	3.7%	32,170	0	0	(191,332)	\$5.34
General Industrial	10,787,480	279	11.5%	9.2%	173,271	0	10,420	485,080	\$5.04
Southside	64,208,295	1,851	5.9%	5.7%	1,307,651	719,825	1,727,614	372,316	\$5.86
Flex	11,484,048	542	7.4%	7.3%	527,505	136,805	397,403	52,549	\$9.26
Distribution	11,808,029	130	9.8%	9.8%	228,564	130,860	859,766	315,159	\$4.33
Manufacturing	11,142,071	251	2.4%	2.3%	34,660	0	0	(24,220)	\$5.31
General Industrial	29,774,147	928	5.1%	4.8%	516,922	452,160	470,445	28,828	\$5.42
Total Market	95,350,645	2,647	6.0%	5.6%	1,592,583	728,325	2,507,606	711,452	\$5.64
Flex	13,686,300	657	6.8%	6.7%	566,209	145,305	403,003	147,415	\$9.16
Distribution	18,593,414	237	7.0%	7.0%	269,351	130,860	1,623,738	265,681	\$4.37
Manufacturing	22,509,304	546	3.1%	3.0%	66,830	0	0	(215,552)	\$5.33
General Industrial	40,561,627	1,207	6.8%	5.9%	690,193	452,160	480,865	513,908	\$5.24

*Rental rates reflect \$psf/year