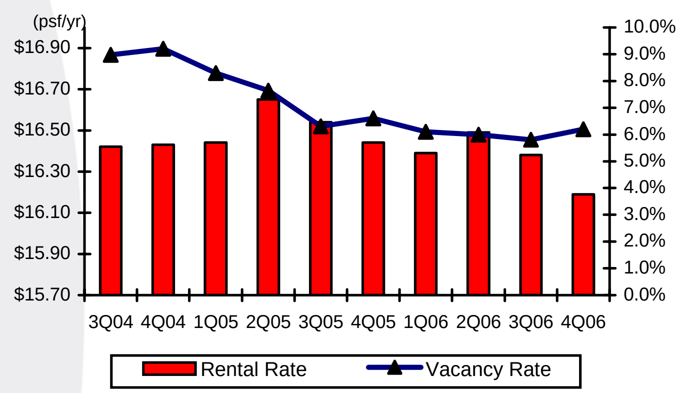
MARKETBEAT SNAPSHOT

OFFICE OVERVIEW
HAMPTON ROADS, VIRGINIA

Fourth Quarter 2006

The Hampton Roads office market showed a slight increase in overall vacancy rates from the third to the fourth quarter reflecting the normal trend of most businesses to wait until the New Year and first quarter to make any significant changes. The class A overall vacancy rate in the Southside area went from 6.7% to 7.5% and on the Peninsula from 5.4% to 6.6%. The only exception in the class A market was the Norfolk Central Business District (CBD) which had a slight decrease going from 8.4% to 8.1%. The Hampton Roads MSA still has one of the lowest overall office vacancy rates nationwide, and is well below the national average of 15.5%. Rental rates reflected the trend with a slight dip in the Southside market class A from $20.32 per square foot (psf) to $19.55 psf and on the Peninsula from $19.70 psf to $18.82 psf. Rates remained unchanged in the Central Business District with a rate of $19.89 psf in accordance with the improving occupancy rate.

Direct Rental vs. Vacancy Rates



The Peninsula showed very little vacancy in class A office space with less than 180,000 sf of direct space available out of more than 3 million square feet (msf) in inventory. Mooretown Road in Williamsburg has a three-phase office condo space under construction which will add 250,000 sf to the York submarket inventory. Lightfoot Corridor has a new medical space project to lease or buy covering eight acres and totaling 200,000 sf broken into 6,500-sf buildings across from the new Sentara building.

Oyster Point Park on the Peninsula has very little left in class A space as well. Courthouse Green has 30,000 sf ready to build with expected rates of $23.00 psf to $23.50 psf. An exception to the trend is the City Center office complex that has around 20,000 sf of class A office space at $21 psf and still has vacancies.

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A new development is under way at the Fairways at Lake Wright in Norfolk that will deliver 100,000 to 125,000 sf of new inventory. However, the high price of land is expected to lead to an average seven-dollar differential in class A rental rates, ranging from $21 psf in the older buildings to $28 psf to $32 psf for new class A office space.

The Executive Center at Corporate Landing in Virginia Beach started going vertical with their first building in the fourth quarter. Three buildings are planned with the first totaling 45,000 sf and the other two being 40,000 sf each. Many opportunities exist in the class B office condo market. There was a predominance of office condos being purchased by end-users as developers continued to build office condo space with the intention to sell.

Businesses looking for large blocks of class A office space are finding it necessary to build in order to find adequate space. The challenge to developers in the Peninsula area is to find land that is unencumbered and that can be bought at a price that makes sense. More opportunities for land are available in the Suffolk market in the Southside area.

The expectations for 2007 are to see continued growth in the office condo market barring a rise in interest rates with a steady rise in overall class A rental rates. ■

THALHIMER MARKET HIGHLIGHTS

Significant 4Q06 New Lease Transactions

BUILDING	SUBMARKET	TENANT	SQUARE FEET	CLASS
Independence Tech Center I	Battlefield	General Dynamics	60,000	A
Convergence Center I	Va Beach CBD/Pembroke	Tidewater Skanska	35,434	A
Oxford Plaza	Hampton Roads Center	Science Systems and Applications, Inc.	21,848	A

Significant 4Q06 Sale Transactions

BUILDING	SUBMARKET	BUYER	SQUARE FEET	PURCHASE PRICE
Corporate Center	Va Beach CBD/Pembroke	Kamarek Group I, LLC	27,500	$4,015,000

Significant 4Q06 Construction Completions

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
150 Granby Street	Downtown Norfolk	Trader Publishing	220,000	December 2006
Liberty Three	Greenbrier	N/A	73,246	December 2006
Sentara Princess Anne – Bldg B	Princess Anne	N/A	70,000	October 2006

Significant Projects Under Construction

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
Research Quad III	Hampton Roads Center	N/A	100,000	January 2007
Convergence Center III	Virginia Beach CBD/Pembroke	N/A	100,000	November 2007
4111 Monarch Way	Central Norfolk	N/A	100,000	April 2007

THALHIMER MARKET 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. Rental Rate
CBD	4,875,905	99	8.1%	6.7%	194,541	0	220,000	243,529	$19.89
Class A	2,347,386	10	8.1%	6.5%	101,475	0	220,000	257,629	$19.89
Class B	2,064,372	53	6.0%	4.4%	93,066	0	0	45,454	$16.56
Class C	464,147	36	17.7%	17.7%	0	0	0	(59,554)	$10.21
Non-CBD/Southside	21,660,963	1,302	6.7%	6.3%	896,680	791,448	597,001	382,293	$19.55
Class A	5,711,196	87	7.5%	6.8%	307,605	751,058	475,199	259,223	$19.55
Class B	10,287,876	475	7.6%	7.2%	527,949	40,390	97,302	71,815	$15.24
Class C	5,661,891	740	4.1%	3.9%	61,126	0	24,500	51,255	$13.32
Non-CBD/Peninsula	10,262,784	748	6.2%	5.9%	337,021	340,480	411,263	309,318	$18.82
Class A	3,028,875	45	6.6%	5.9%	132,332	214,044	169,880	68,308	$18.82
Class B	5,733,499	481	4.9%	4.7%	186,375	126,436	241,383	189,967	$14.54
Class C	1,500,410	222	10.4%	10.4%	18,314	0	0	51,043	$10.38
Total	36,799,652	2,149	6.7%	6.2%	1,428,242	1,131,928	1,228,264	935,140	$19.43*

*Class A rental rate psf

For more information, please contact one of our Brokerage Professionals
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