

RETAIL OVERVIEW HAMPTON ROADS, VIRGINIA

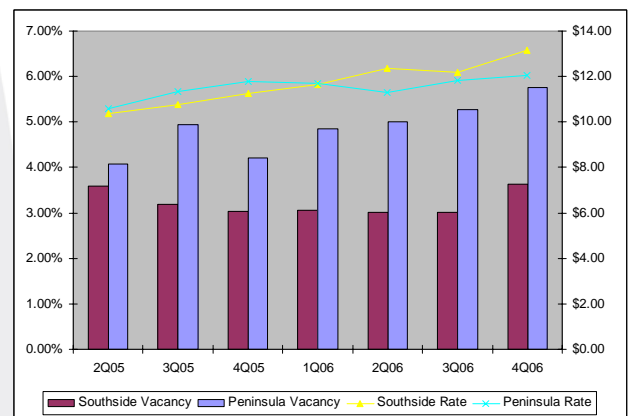
Fourth Quarter 2006

The retail market in the Hampton Roads area continued to expand into the fourth quarter, particularly in the Williamsburg submarket which had been under the radar for many national retailers. Over a million square feet is proposed in the greater market with projects such as the Marquis Development, Settlers Market and High Street. Previously, the perception was that the Williamsburg area could only draw 50,000 to 60,000 shoppers. But estimates have been revised in 2006 to over 100,000 people, drawing bigger box retailers and junior anchors, such as a second Target, Dick's and Circuit City that had passed over the market in past years. Rental rates in the Williamsburg market for the fourth quarter were a healthy \$19.44 with an overall vacancy rate of 7.2%, second only in the Peninsula area to the Lightfoot submarket with \$21.74 and an overall vacancy rate of 7.4% with 3,322,674 sf of inventory. The Pembroke market on the Southside led in the fourth quarter with a rental rate of \$30.53 and a low overall vacancy rate of 2.0%. The Virginia Beach Courthouse area had a retail rental rate of \$24 with the highest overall vacancy rate in the fourth quarter of 27.6%.

Demolition began in the fourth quarter on the Coliseum Mall in the Peninsula area with 25% being completed. Once the newly renamed Peninsula Town Center is opened it will have been transformed into a mix-use shopping area with 800,000 sf of retail space, 150,000 sf of residential on top of the retail, and 100,000 sf of office/residential with the larger anchors on the outside and areas for shoppers to stroll in the center which has become more typical of high-end mall designs.

Edinburgh Commons in Chesapeake, 850,000 sf of new retail space, completed two of the three phases. Home Depot was joined by Target in October and a Wal-Mart Super Center is proposed as a third anchor in 2008. Goodman Company has begun the site work for the delivery of Landstown Commons in Virginia Beach, 500,000 sf of retail space. The

Direct Rental Rates vs. Vacancy Rates



project is expected to be completed in the fourth quarter of 2007. Kohl's and Best Buy have already been announced as anchor tenants.

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Defense-related spending and available land for residential and commercial projects in the Northern Suffolk area along I-664 is attracting high-end rooftops. Look for this area, which includes Joint Forces Command and the ODU/MAST Project, to be an up and coming site for new retail development in the coming year.

On the Southside, both the Greenbrier/Battlefield and Military Highway submarkets performed well in the fourth quarter. Greenbrier/Battlefield has 4,437,923 sf of inventory with only a 1.5% overall vacancy rate and a rental rate of \$17.06. The Military Highway submarket had 5,388,000 sf of inventory with a vacancy rate of 3.1% and an average rental rate of \$13.96, slightly above the year end average for the Southside of \$13.25. The Peninsula area ended the year with an average rate of \$12.03 bringing the average to \$12.78.

The Hampton Roads retail market is expected to continue to perform well in 2007 with many national retailers looking to come to the area. Some of the retailers taking a look are: Wild Oats, REI, Blue Tulip, Bloom Grocery Store, and Wegmans Grocery Store out of New York. Farm Fresh came back to Orchard Square in the Chesapeake market reinstating its presence in the same location, and adding an additional location in Haygood in Virginia Beach. An Apple Store opened up in downtown Norfolk at the MacArthur Center and Barnes & Noble came to New Town in the Williamsburg market in the fourth quarter. Look for a lot of increased activity in the fast/casual restaurant market as well in 2007.

THALHIMER MARKET HIGHLIGHTS**Significant 4Q06 New Openings**

BUILDING	CITY	TENANT	SQUARE FEET
Edinburgh Commons	Chesapeake	Target	127,619
Hanbury Village	Chesapeake	Harris Teeter	52,011
Haygood	Virginia Beach	Farm Fresh	54,000
Orchard Square	Chesapeake	Farm Fresh	43,342
New Town	Williamsburg	Barnes & Noble	N/A
Power Plant	Hampton	BJ's Wholesale Club	119,000

Significant 4Q06 Sale Transactions

BUILDING	CITY	BUYER	SQUARE FEET	PURCHASE PRICE
N/A				

Significant 4Q06 Construction Activity

BUILDING	CITY	MAJOR TENANT	SQUARE FEET
Bennetts Creek	Suffolk	Farm Fresh	114,300
Hanbury Village	Chesapeake	Harris Teeter	100,500
New Town	Williamsburg	Barnes & Noble, Consolidated Theatres	500,000
High Street Lifestyle Center	Williamsburg	N/A	237,408
Stoney Run	Newport News	N/A	N/A
City Center	Newport News	Talbot's, Mediks Market	N/A
Peninsula Town Center	Hampton	Macy's	800,000
Landstown Commons	Virginia Beach	Kohl's	500,000
Edinburgh Commons	Chesapeake	Target, Home Depot	850,000

THALHIMER MARKET/SUBMARKET STATISTICS

Market/Submarket	Inventory	No. of Bldgs.	Overall Vacancy Rate	Direct Vacancy Rate	YTD Leasing Activity	YTD Direct Absorption	Direct Wtd. Avg. Rental Rate*
Retail							
Denbigh	1,981,904	167	9.4%	9.4%	46,270	(35,969)	\$10.84
Downtown Hampton	891,333	87	2.8%	2.8%	10,651	(5,909)	\$11.33
Downtown Newport News	469,439	55	4.3%	4.3%	0	20,000	N/A
Fox Hill	1,382,960	177	7.5%	7.5%	12,449	(30,070)	\$9.64
Gloucester	1,319,796	40	15.7%	15.6%	10,650	(98,409)	\$8.59
Hampton North	3,781,918	239	2.7%	2.7%	64,702	77,826	\$13.76
James River	1,642,940	195	5.4%	5.1%	47,417	(17,794)	\$14.86
Lightfoot	3,322,674	75	7.4%	7.4%	13,316	(19,913)	\$21.74
Mercury Central	8,124,671	355	8.1%	7.9%	221,607	134,041	\$10.47
Patrick Henry	4,727,981	122	2.6%	2.4%	30,374	(48,072)	\$13.75
Poquoson	1,541,761	173	4.0%	4.0%	11,088	14,339	\$18.08
Williamsburg	2,898,062	174	7.2%	6.9%	54,434	398,569	\$19.44
Yorktown	283,992	27	2.9%	2.9%	5,600	12,895	\$15.01
Peninsula Totals	32,369,431	1,886	6.3%	6.2%	528,558	401,534	\$12.03
Campostella/S Norfolk	1,426,455	141	7.1%	6.6%	25,816	74,769	\$9.03
Chesapeake Square	2,725,670	80	2.8%	2.8%	51,069	66,607	\$7.97
Churchland	1,271,125	107	2.8%	1.8%	5,828	(9,627)	\$13.16
College Park	1,799,224	161	3.6%	3.6%	1,500	(22,142)	\$9.79
Deep Creek	867,096	76	8.4%	8.4%	7,335	67,560	\$16.00
Downtown Norfolk	4,472,265	314	1.8%	1.8%	26,364	12,902	\$12.35
Downtown Suffolk	1,435,580	101	3.2%	3.2%	1,800	(35,200)	\$10.74
General Booth Corridor	1,526,570	86	3.2%	3.2%	30,775	24,788	\$16.62
Great Bridge	1,838,682	103	15.0%	14.8%	24,149	107,159	\$21.86
Greenbrier/Battlefield	4,437,923	147	1.5%	1.4%	47,935	51,642	\$17.06
Hilltop/Great Neck	2,642,870	193	2.6%	2.6%	83,312	45,764	\$15.98
Holland Road	1,597,384	95	1.6%	1.6%	20,986	14,872	\$12.65
Isle of Wight	653,529	33	7.6%	7.6%	7,536	(20,934)	\$3.82
Kempsville	1,838,261	105	2.4%	2.2%	78,903	51,828	\$17.59
Little Creek	3,460,799	250	6.9%	6.9%	61,276	(22,001)	\$11.33
Little Neck	3,214,129	123	4.9%	4.8%	45,263	14,083	\$10.41
Lynnhaven	2,380,506	67	1.3%	1.3%	37,555	4,787	\$15.52
Mid-City	1,944,063	270	2.7%	2.7%	19,169	51,555	\$9.29
Military	5,388,000	273	3.1%	3.1%	89,468	48,089	\$13.96
Newtown	2,327,187	139	3.8%	2.7%	46,391	19,600	\$13.59
Northern Suffolk	240,686	19	18.0%	17.3%	21,196	89,461	\$17.14
Oceanfront	1,796,526	250	3.6%	3.0%	17,959	2,152	\$13.09
Pembroke	3,251,954	162	2.0%	1.8%	51,314	9,601	\$30.53
Princess Anne	1,421,901	64	5.0%	1.0%	10,854	5,281	\$15.05
Shore Drive	920,685	93	3.5%	3.0%	8,626	689	\$11.77
Smithfield	703,012	72	3.8%	3.8%	20,314	10,712	\$17.66
Suffolk	1,127,929	73	11.7%	11.7%	11,219	(54,543)	\$7.69
Va Beach Courthouse	153,160	8	27.6%	27.6%	16,684	(57,250)	\$24.00
Victory	1,882,685	176	9.9%	7.6%	55,591	(29,870)	\$8.86
Wards Corner	841,899	49	5.9%	5.9%	7,345	(10,734)	\$9.80
Southside Totals	59,587,755	3,830	4.2%	3.9%	933,532	511,600	\$13.25
Total	91,957,186	5,716	4.9%	4.7%	1,462,090 #	913,134	\$12.78

* Rental rates reflect \$psf/year NNN