

INDUSTRIAL OVERVIEW HAMPTON ROADS, VIRGINIA

First Quarter 2007

The Hampton Roads industrial market remained steady throughout the first quarter as the local economy remained healthy. The Federal Reserve helped fuel the engine, going against predictions and holding interest rates steady in April, benefiting buyers still in the market. However, economists are expecting the Federal Reserve to announce slight increases, possibly as early as May, in reaction to growing concerns about inflation and high fuel prices. But the Gross Domestic Product (GDP) grew at a fast-paced 5.6% for the first quarter, showing an increasing optimism for manufacturing in the U.S. This was a much healthier rate than the previous year's, particularly the sluggish fourth quarter performance of only 1.7%.

The new Maersk port in Portsmouth, which is expected to open in the third quarter of this year, has also encouraged developers and business owners to look for opportunities. A seven-acre stabilized storage yard in Chesapeake's Cavalier Industrial Park was recently purchased for \$3.2 million by a user/buyer in the disposal business who is relocating to the area to take advantage of the forthcoming opportunities the new port will provide. Port-related requirements should continue into the second quarter with the surge expected mostly toward the end of 2007.

Another significant transaction in Chesapeake was the purchase of two flex buildings in the Greenbrier submarket by First Potomac Realty Trust. The Washington, D.C.-based real estate investment and management firm paid \$25.4 million for Greenbrier Circle Corporate Center and \$10.6 million for Greenbrier Tech Center I.

On the Peninsula, local companies are aggressively taking up inventory in order to expand and fulfill new contracts. Richmond developer Devon USA has leased 360,000 square feet (sf) of warehouse space to Northrop Grumman at Enterchange at Hampton B, a 470,000-sf industrial building slated for completion in the second half of the year. Northrop Grumman plans to consolidate operations from three existing warehouse properties. Ferguson Enterprises has leased an initial 32,000 sf at Enterchange at Hampton A and is expected to eventually double their expansion.

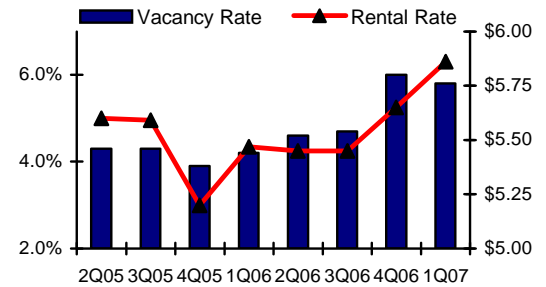
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The Peninsula industrial market continued to outperform the Southside area in general even though overall distribution vacancy rates on the Peninsula rose during the first quarter from 2.1% in the fourth quarter of last year to 5.4%. The Southside distribution vacancy rate remained steady, improving slightly to 9.7%, down from 9.8% at the end of last year.

The Ford Motor Co. has finally announced a closing date for the week of June 25th for the Norfolk manufacturing plant as Ford-related businesses continue to work out plans to find new business, close or relocate. Suppliers TDS and Visteon are located in new plants they first occupied in 2003 with combined initial investments of \$20.0 million. TDS is looking to possibly stay in the area, according to Scott Howell, senior business

development manager for the Chesapeake Economic Development, and replace the income from Ford with new port business, but Johnson Controls, which manufactured seat covers for the nearby automaker, is expected to close. The downside for the industrial market due to the plant closure is expected to be limited, though. "I don't think it's going to have much impact at all. They're in markets that should be absorbed immediately. We've already had confidential inquiries for requests for these spaces asking if they're moving out and when," said Howell. "We're still confident in the Chesapeake market." ■

Overall Vacancy vs. Rental Rates



THALHIMER MARKET HIGHLIGHTS**Significant 1Q07 New Lease Transactions**

BUILDING	SUBMARKET	TENANT	SQUARE FEET	PROPERTY TYPE
Enterchange at Hampton – B	Copeland	Northrop Grumman Newport News	360,700	Warehouse

Significant 1Q07 Sale Transactions

BUILDING	SUBMARKET	BUYER	SQUARE FEET	PURCHASE PRICE
Greenbrier Circle Corporate Center	Greenbrier	First Potomac Realty Trust	229,163	\$25,400,000
Greenbrier Tech Center I	Greenbrier	First Potomac Realty Trust	95,843	\$10,600,000

Significant 1Q07 Construction Completions

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
Northgate Logistics Center	South Suffolk	N/A	300,000	March 2007

Significant Projects Under Construction

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
NLA Norfolk Logistics Center	Cavalier	NYK Logistics (Target)	130,800	May 2007
Enterchange at Hampton – B	Copeland	N/A	458,744	November 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	31,332,350	804	4.4%	3.6%	52,216	8,500	0	324,381	\$5.39
Flex	2,179,275	115	3.3%	3.3%	21,226	8,500	0	15,383	\$7.76
Distribution	7,028,604	108	5.4%	1.9%	8,190	0	0	13,000	\$4.81
Manufacturing	11,484,373	295	2.6%	2.6%	22,800	0	0	131,418	\$5.43
General Industrial	10,640,098	286	6.1%	5.9%	0	0	0	164,580	\$5.62
Southside	65,877,202	1,909	6.8%	6.4%	377,373	284,825	428,800	(404,082)	\$5.98
Flex	11,303,726	550	8.7%	8.5%	179,644	136,805	37,000	(83,803)	\$9.81
Distribution	12,245,087	130	9.7%	8.5%	0	0	391,800	(168,000)	\$4.19
Manufacturing	11,398,562	254	1.8%	1.7%	4,000	0	0	82,570	\$5.56
General Industrial	30,929,827	975	6.8%	6.5%	193,729	148,020	0	(234,849)	\$5.48
Total Market	97,209,552	2,713	5.8%	5.6%	429,589	293,325	428,800	(79,701)	\$5.83
Flex	13,483,001	665	7.0%	6.8%	200,870	145,305	37,000	(68,420)	\$9.58
Distribution	19,273,691	238	8.1%	6.1%	8,190	0	391,800	(155,000)	\$4.37
Manufacturing	22,882,935	549	2.1%	2.0%	26,800	0	0	213,988	\$5.50
General Industrial	41,569,925	1,261	6.6%	6.4%	193,729	148,020	0	(70,269)	\$5.50

* Rental rates reflect \$psf/year triple net