

## OFFICE OVERVIEW HAMPTON ROADS, VIRGINIA

First Quarter 2007

**Activity in the Hampton Roads office market** heated up in the first quarter of 2007 as a healthy local economy attracted companies from outside the region and motivated larger existing tenants to expand or upgrade their space. Class A overall vacancy rates declined by 60 basis points or more compared to the fourth quarter of 2006 in both the Peninsula suburban (to 6.0%) and Norfolk Central Business District (CBD) (to 7.2%) submarket clusters, increasing only in the Southside (from 7.5% to 7.8%). Rents for class A space remained steady in both the Southside and CBD but increased on the Peninsula by a healthy \$0.72 per square foot (psf). Some tenants coming off longer-term leases experienced “sticker shock” when confronted with a more landlord-friendly market, but national companies and local professional firms exhibited little resistance to current rents.

The market’s direction becomes more obvious when considering class B suburban space. On the Southside, class B rents jumped from \$15.24 psf in the fourth quarter of 2006 to \$15.68 psf in the first quarter of 2007, while Peninsula rents increased from \$14.54 psf to \$15.01 psf. This occurred despite increases in the overall class B vacancy rate from 7.6% to 9.2% on the Southside and from 4.9% to 6.5% on the Peninsula. With the premium for class A space declining, tenants currently in class B space are more willing to consider upgrading when their leases expire.

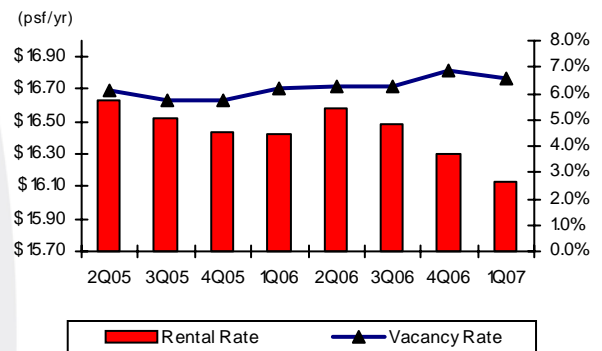
Rising construction costs have forced landlords of newer projects to push the envelope with expected lease rates of \$25.00 psf to \$28.00 psf, which may meet with some hesitation. However, developers of the new \$150.0 million Wachovia Center, a mixed-use building in the Upper Granby area of the CBD that is scheduled to open in 2010, have announced an asking rent of \$30.00 psf and have already secured four tenants to pre-lease 53% of the 250,000 sf of class A office space planned. With naming rights and a presence of 41,500 sf, Wachovia Bank is expected to be the largest tenant, and Goodman and Company, a large accounting firm, has agreed to lease 25,000 sf. Low vacancy rates allow few options for expansion in the traditional office core along Main Street. Businesses that wish to expand in the downtown area are looking north to the Wachovia Center’s location in an area of the CBD where a development boom over the past decade has consisted of retail and residential construction and adaptive reuse.

Another property in the CBD, the BB&T Building at 500 East Main Street in the traditional office core, was the area’s largest office sale during the first quarter, closing at a price of \$29.8 million. Lynnhaven Corporate Center I in the Lynnhaven submarket of Virginia Beach changed hands for just over \$3.8 million, and 3704 Pacific Avenue in Virginia Beach’s Oceanfront submarket sold for \$3.25 million.

Dominion Enterprises moved out of 200,000 sf of suburban class A space at Convergence Center in the Virginia Beach CBD/Pembroke submarket to occupy its 220,000-sf build-to-suit property in the CBD that was completed last quarter. This space was partially backfilled by Tidewater Skanska, which realized its fourth-quarter lease by moving from class B space along Military Highway into 35,000 sf.

The Harbor View Medical Arts building broke ground on Phase 1 of 50,000 sf and hopes to begin breaking ground on the second phase sometime this year. Phase 1 is expected to be delivered in the middle of the third quarter. ■

**Direct Rental vs. Vacancy Rates**



With the premium for class A space declining, tenants currently in class B space are more willing to consider upgrading when their leases expire.

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

BUILDING	SUBMARKET	TENANT	SQUARE FEET	CLASS
700 Independence Parkway	Battlefield	N/A	19,292	B
4445 Corporation Lane	Virginia Beach CBD / Pembroke	N/A	13,750	A

**Significant 1Q07 Sale Transactions**

BUILDING	SUBMARKET	BUYER	SQUARE FEET	PURCHASE PRICE
500 East Main Street	Downtown Norfolk	NPV/Direct	228,717	\$29,820,000
Lynnhaven Corporate Center I	Lynnhaven	Guardian Realty Management, Inc.	31,096	\$3,829,000
3704 Pacific Avenue	Oceanfront	York Street Suites, Inc.	30,000	\$3,250,000

**Significant 1Q07 Construction Completions**

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
Research Quad III	Hampton Roads Center	N/A	100,000	January 2007
901 Enterprise Pkwy.	Oyster Point	N/A	45,000	March 2007
638 Independence Pkwy.	Battlefield	Hampton Roads Realtors Association	40,000	March 2007
The Gallery II	Newtown/Witchduck	N/A	30,000	February 2007

**Significant Projects Under Construction**

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
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 Overall Absorption	Direct Wtd. Avg. Rental Rate
<b>CBD</b>	5,026,891	100	7.5%	6.2%	19,183	0	0	221,167	\$17.57
Class A	2,472,386	11	7.2%	5.9%	8,214	0	0	231,400	\$19.89
Class B	2,105,973	54	5.9%	4.4%	10,969	0	0	(10,233)	\$16.52
Class C	448,532	35	18.3%	18.3%	0	0	0	0	\$10.21
<b>Non-CBD/Southside</b>	21,868,169	1,326	7.7%	7.3%	177,588	721,448	70,000	(144,468)	\$16.32
Class A	5,758,833	87	7.8%	7.3%	37,235	711,058	40,000	(9,898)	\$19.55
Class B	10,510,932	494	9.2%	8.7%	102,528	10,390	30,000	(96,334)	\$15.68
Class C	5,598,404	745	4.9%	4.6%	37,825	0	0	(38,236)	\$13.32
<b>Non-CBD/Peninsula</b>	10,494,101	768	6.8%	6.4%	42,414	249,648	33,937	73,454	\$15.12
Class A	2,657,880	38	6.0%	5.7%	5,698	214,044	0	6,674	\$19.54
Class B	6,315,416	506	6.5%	6.0%	31,721	35,604	33,937	47,542	\$15.01
Class C	1,520,805	224	9.4%	9.4%	4,995	0	0	19,238	\$10.46
<b>Total</b>	37,389,161	2,194	7.1%	6.6%	239,185	971,096	103,937	150,153	\$19.62*

\*Class A rental rate psf/yr