

RETAIL OVERVIEW HAMPTON ROADS, VIRGINIA

First Quarter 2007

Good news continues for the Hampton Roads retail market in the first quarter as the area inventory continues to tighten while both national big box stores and smaller retailers look for ways to make a footprint in the local area. Big box stores, which began to expand into the market almost ten years ago, have seen their investments pay off, bringing the smaller retailers with them and encouraging home offices to look at multiple stores in each location.

The Williamsburg submarket continues to lead the robust pack in expansion as the effects of construction of higher-end rooftops spills over into a growing retail market. More than 1,200 new homes are constructed in the area per year, outpacing the Newport News and Hampton areas combined.

New retail centers to watch in the Williamsburg area include The Marquis regional center, which has announced anchor tenants J.C. Penney, Target, Best Buy and Kohl's, and Settler's Market, which will be under construction this summer with Home Goods as an anchor tenant. The Quarterpath Crossing has been proposed with a grocery store anchor and will be located across from Kingsmill.

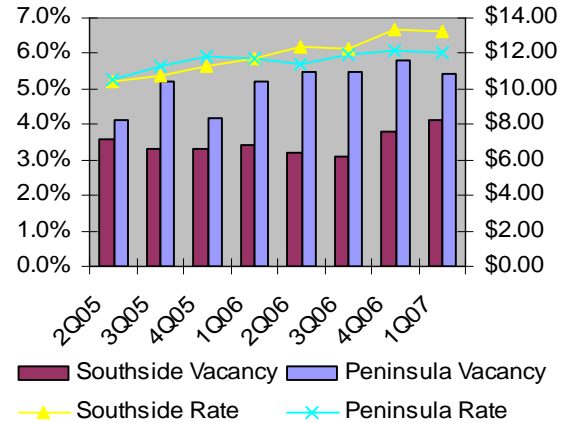
The overall vacancy rate reflects the Williamsburg submarket's draw with a healthy drop from 7.2% at the end of 2006 to 5.3% by the end of the first quarter in 2007. The average rental rate is near the top of the market at \$18.82 per square foot (psf), surpassed among Peninsula submarkets only by the Lightfoot area, which has an average rental rate of \$19.97 psf and a slight decline in vacancy from 7.4% to 7.2%. Williamsburg is still viewed as a bedroom community for Newport News and has the luxury of land left to develop. It also continues to attract upper-income retirees, which translates into more accessible retail dollars.

In Northern Suffolk, the mixed-use Harbor View Station Town Center has been announced with over 3 million square feet (sf) proposed for completion in 2013, including 600,000 sf of retail space. The Wachovia Center mixed-use project to be built near MacArthur Center in the CBD will have a total of 50,000 sf of retail space and 2,000 parking spaces in two buildings. January saw Wal-Mart open Supercenters in Portsmouth with 203,000 sf and in Norfolk with 210,000 sf. Burlington Coat Factory has a location under construction in Hampton's Mercury Plaza that replaces its Coliseum Mall store, which has been demolished to make way for the Peninsula Town Center project. Walls are going up for the anchor tenant Kohl's at Landstown Commons, which is expected to open in the first quarter of 2008 in Virginia Beach's Princess Anne submarket. In Chesapeake, the vacated Phar-Mor in the Chesapeake Square submarket has been filled by Value City Furniture, while Towne Place in Greenbrier approaches completion and has announced several tenants, including Sterlings, Jason's Deli, Jos. A. Banks, Chico's, Buffalo Wild Wings and Moe's. Another addition to Greenbrier is the first Southside Cracker Barrel, which is under construction on the site of the former Vivo's restaurant.

Food Lion is following through with plans to renovate all of their stores in the next 12 months and in the process convert about 10% of stores to the higher-end Bloom concept and 10% to the economy Bottom Dollar concept. Farm Fresh has announced its intention to invest over \$20 million in its stores in Norfolk. It has reaffirmed its commitment to a new store near Old Dominion University, plans to remodel its store in West Ocean View, and will convert its G W Marketplace store in Ghent to the upscale urban market format that will debut with The Market at Harbor Heights in the Downtown Norfolk. Central Business District (CBD). The retailer also opened a new Farm Fresh store with 47,000 sf in the first quarter at Northern Suffolk's Bennetts Creek Crossing.

While economists watched for signs of a mild recession in 2006, the news has turned around to anticipation of possible inflation and rate hikes by the Federal Reserve to slow growth. However, the Virginia economy continues to outpace the nation with a lower unemployment rate of 3.2% in comparison to the national rate of 4.9% and the Hampton Roads economy is expected to continue to expand well into the year. ■

Direct Rental Rates vs. Vacancy Rates



THALHIMER MARKET HIGHLIGHTS**Significant 1Q07 New Openings**

| BUILDING | CITY | TENANT | SQUARE FEET |
|-------------------------|------------|----------------------|-------------|
| 7530 Tidewater Drive | Norfolk | Wal-Mart Supercenter | 207,000 |
| 1098 Frederick Blvd. | Portsmouth | Wal-Mart Supercenter | 203,000 |
| Bennetts Creek Crossing | Suffolk | Farm Fresh | 47,000 |

Significant 1Q07 Sale Transactions

| BUILDING | CITY | BUYER | SQUARE FEET | PURCHASE PRICE |
|------------------------|----------------|------------------------|-------------|----------------|
| Kempsville Marketplace | Virginia Beach | Princess Anne 4876 LLC | 71,460 | \$10,750,000 |
| 1900 Cunningham Drive | Hampton | Wal-Mart | 193,316 | \$7,318,188 |

Significant 1Q07 Construction Activity

| BUILDING | CITY | MAJOR TENANT | SQUARE FEET |
|------------------------------|----------------|-------------------------|-------------|
| The Marquis | Williamsburg | Best Buy, J.C. Penney | 1,000,000 |
| Cahoon Commons | Chesapeake | N/A | 300,000 |
| Landstown Commons | Virginia Beach | Kohl's | 500,000 |
| Hanbury Village | Chesapeake | Harris Teeter | 100,500 |
| 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, J.C. Penney | 800,000 |
| Towne Place at Greenbrier | Chesapeake | Jos. A. Banks, Chicos | 166,000 |

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 | 7.9% | 7.9% | 6,000 | 14,668 | \$10.89 |
| Downtown Hampton | 874,481 | 86 | 2.8% | 2.8% | 0 | (7,233) | \$11.52 |
| Downtown Newport News | 484,589 | 56 | 2.6% | 2.6% | 0 | 5,423 | \$0.00 |
| Fox Hill | 1,444,547 | 178 | 9.8% | 9.8% | 21,500 | (41,045) | \$11.64 |
| Gloucester | 1,387,068 | 42 | 15.1% | 15.1% | 0 | 1,850 | \$8.60 |
| Hampton North | 3,806,007 | 241 | 2.9% | 2.9% | 3,700 | (17,629) | \$14.60 |
| James River | 1,646,452 | 195 | 5.5% | 5.3% | 9,100 | (4,125) | \$15.60 |
| Lightfoot | 3,305,227 | 75 | 7.2% | 7.2% | 0 | 8,942 | \$19.97 |
| Mercury Central | 8,225,348 | 355 | 5.4% | 5.3% | 4,500 | 215,257 | \$10.73 |
| Patrick Henry | 4,732,744 | 122 | 1.9% | 1.9% | 3,198 | 3,658 | \$13.66 |
| Poquoson | 1,568,776 | 175 | 7.4% | 7.4% | 2,600 | (67,661) | \$8.93 |
| Williamsburg | 3,086,619 | 187 | 5.3% | 5.1% | 5,393 | 30,456 | \$18.82 |
| Yorktown | 269,442 | 26 | 3.1% | 3.1% | 2,149 | 0 | \$15.01 |
| Peninsula Totals | 32,813,204 | 1,905 | 5.5% | 5.4% | 58,140 | 142,561 | \$12.04 |
| Campostella/S Norfolk | 1,443,755 | 142 | 6.5% | 6.4% | 0 | 12,393 | \$9.50 |
| Chesapeake Square | 2,725,670 | 80 | 2.8% | 2.8% | 0 | (3,090) | \$7.97 |
| Churchland | 1,278,452 | 108 | 3.2% | 2.3% | 0 | (5,687) | \$14.05 |
| College Park | 1,852,734 | 164 | 3.7% | 3.7% | 4,200 | (3,355) | \$10.72 |
| Deep Creek | 883,584 | 78 | 8.3% | 8.3% | 0 | 0 | \$16.00 |
| Downtown Norfolk | 4,558,869 | 318 | 3.0% | 2.9% | 3,878 | (55,016) | \$11.61 |
| Downtown Suffolk | 1,444,854 | 103 | 3.2% | 3.2% | 0 | (5,372) | \$10.76 |
| General Booth Corridor | 1,583,924 | 87 | 3.0% | 3.0% | 1,260 | (10,050) | \$18.28 |
| Great Bridge | 1,827,632 | 102 | 13.6% | 13.6% | 5,600 | 9,920 | \$22.06 |
| Greenbrier/Battlefield | 4,510,838 | 147 | 2.5% | 2.5% | 8,543 | (47,922) | \$20.23 |
| Hilltop/Great Neck | 2,642,870 | 193 | 1.9% | 1.9% | 23,700 | 10,956 | \$16.22 |
| Holland Road | 1,627,555 | 96 | 2.1% | 1.8% | 920 | 9,420 | \$14.71 |
| Isle of Wight | 678,529 | 34 | 7.0% | 7.0% | 1,750 | 1,750 | \$3.81 |
| Kempsville | 1,883,704 | 106 | 4.0% | 3.8% | 4,908 | (49,563) | \$18.75 |
| Little Creek | 3,471,900 | 251 | 8.1% | 8.1% | 44,900 | (46,404) | \$12.06 |
| Little Neck | 3,194,529 | 123 | 4.5% | 4.5% | 0 | (6,120) | \$10.47 |
| Lynnhaven | 2,349,377 | 66 | 1.3% | 1.3% | 2,153 | (1,567) | \$17.15 |
| Mid-City | 2,148,106 | 272 | 3.2% | 3.2% | 25,824 | (24,251) | \$8.92 |
| Military | 5,478,018 | 277 | 3.4% | 3.3% | 4,476 | 51,798 | \$14.75 |
| Newtown | 2,344,494 | 142 | 4.7% | 4.2% | 2,389 | (31,508) | \$13.79 |
| Northern Suffolk | 328,133 | 20 | 13.2% | 12.7% | 3,690 | 108,510 | \$16.07 |
| Oceanfront | 1,796,526 | 250 | 1.1% | 0.5% | 0 | 24,955 | \$17.20 |
| Pembroke | 3,227,701 | 161 | 2.0% | 2.0% | 0 | 11,190 | \$21.14 |
| Princess Anne | 1,431,559 | 64 | 1.1% | 0.9% | 0 | 0 | \$15.05 |
| Shore Drive | 920,685 | 93 | 0.5% | 0.5% | 0 | 263 | \$12.84 |
| Smithfield | 720,456 | 75 | 2.4% | 2.4% | 1,120 | 9,950 | \$17.25 |
| Suffolk | 1,155,933 | 79 | 11.6% # | 11.6% | 1,850 | (1,463) | \$7.93 |
| Va Beach Courthouse | 156,240 | 9 | 13.3% | 13.3% | 1,666 | 39,552 | \$24.00 |
| Victory | 1,955,399 | 181 | 9.8% | 9.8% | 0 | (21,154) | \$8.96 |
| Wards Corner | 841,899 | 49 | 6.3% | 6.3% | 1,040 | (3,435) | \$9.93 |
| Southside Totals | 60,463,925 | 3,870 | 4.2% | 4.1% | 143,867 | (25,300) | \$13.20 |
| Total | 93,277,129 # | 5,775 | 4.7% | 4.6% | 202,007 # | 117,261 | \$12.73 |

* Rental rates are \$psf/year triple net