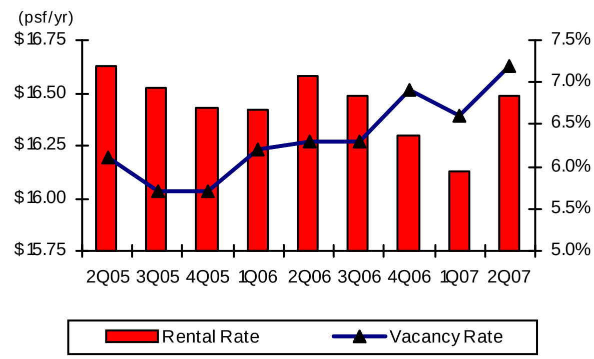
OFFICE OVERVIEW
HAMPTON ROADS, VIRGINIA

Second Quarter 2007

The Hampton Roads office market benefited from an improved local economy in the second quarter of this year as the unemployment rate fell from 3.8% to 3.0% and the Virginia region added 6,300 jobs during April including 900 in construction and 3,800 in leisure and hospitality, according to the U.S. Bureau of Labor and Statistics. The national unemployment rate held steady at 4.5%. "We've been able to bring to the area new technology jobs with high growth potential with companies such as Dominion Enterprises which brought 1,600 new jobs," said Chuck Rigney, assistant director of the department of development for the city of Norfolk.

"We certainly look forward to bigger and better things for the entire region in Norfolk," he said. New construction is the trend in the area with office condos starting to move again after a slow start to the year. Low vacancy rates are helping to create more pre-leasing in the market. Gallery II in the Newtown/Witchduck submarket has already leased all 30,000 square feet (sf) and USI Insurance Services has leased 24,300 sf of class A space at Main Street Tower in the Downtown Norfolk submarket.

Direct Rental vs. Vacancy Rates



Larger tenants are having difficulty finding space to accommodate their needs. The shipping company Zim American is looking for 120,000 sf to replace its current Norfolk headquarters. EDMC, a Phoenix-based business and arts school, is looking for 35,000 sf for their first entry into Hampton Roads. Northern Virginia-based Navy Federal Credit Union is looking for three to seven acres to construct a regional headquarters, while Sentara is looking for 40,000 sf to use for back-office operations.

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Sentara is also one of three regional health care providers that is exploring new ways to serve a shifting population base. It has announced plans to downsize Virginia Beach's Sentara Bayside Hospital and move beds to a proposed hospital in the Princess Anne area of the city and has requested permission to add beds to Sentara Obici Hospital in Suffolk. Bon Secours Hampton Roads Health Systems plans to redevelop DePaul Medical Center in Norfolk, building a new hospital with 30 to 60 beds and moving the remainder to a new 50 to 80-bed hospital in Suffolk's Harbour View area and an 80 to 100-bed hospital at its Princess Anne center in Virginia Beach. Riverside Health System, whose focus has been on the Peninsula and Middle Peninsula, has acquired a site in Harbour View. These announcements, added to Sentara's and Bon Secours' current investment in Suffolk and Princess Anne, have attracted significant new investment in medical office buildings to support the new medical hubs.

The highly anticipated mixed-use project, the Wachovia Center in Downtown Norfolk's Upper Granby area, is leading the way in new construction. "It's just a terrific new addition to the downtown skyline," said Rigney, adding that 55% of office space at the property is pre-leased. Three of the bigger tenants are scheduled to be Wachovia, S.L. Nusbaum and Wilcox and Savage. The CBD vacancy rate improved from 8.1% in the second quarter of 2006 to a current rate of 7.1%.

The Capital Group has leased two thirds of Liberty Property Trust's Liberty III, a new 75,000-sf office building in the Battlefield submarket that is the area's first pre-certified LEED "Silver" building. Sustainable materials and recycled products are among a long list of environmentally friendly processes that were used in the design of the building. ■

THALHIMER MARKET HIGHLIGHTS

Significant 2Q07 New Lease Transactions

BUILDING	SUBMARKET	TENANT	SQUARE FEET	CLASS
Liberty III	Battlefield	Capital Group	50,000	A
Main Street Tower	Downtown Norfolk	USI Insurance Services	24,312	A

Significant 2Q07 Sale Transactions

BUILDING	SUBMARKET	BUYER	SQUARE FEET	PURCHASE PRICE
Corporate Woods Business Center	Newtown/Witchduck	Samsons II LLC	36,884	$4,400,000

Significant 2Q07 Construction Completions

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
4111 Monarch Way	Norfolk ODU/Ghent	N/A	100,000	April 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
Riverside Health Care Center	Hampton Roads Center	N/A	84,000	August 2007
GSA Building	Central Norfolk	GSA	60,000	August 2007
Harbour View Medical Arts I	Harbourview/Northern Suffolk	OSC	50,000	July 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
CBD	5,026,510	100	7.0%	6.4%	44,905	0	0	254,568	$18.18
Class A	2,472,386	11	7.5%	6.2%	33,403	0	0	226,061	$20.80
Class B	2,105,973	54	4.2%	4.2%	11,502	0	0	25,507	$16.31
Class C	448,151	35	17.5%	17.5%	0	0	0	3,000	$10.01
Non-CBD/Southside	22,450,118	1,340	8.1%	7.6%	359,979	689,946	232,500	(95,547)	$16.66
Class A	5,824,616	88	7.6%	7.2%	138,914	624,396	180,000	136,108	$20.22
Class B	10,796,276	507	9.8%	9.3%	163,008	65,550	52,500	(161,825)	$15.96
Class C	5,829,226	745	5.3%	5.0%	58,057	0	0	(69,830)	$13.39
Non-CBD/Peninsula	10,617,396	795	7.1%	6.7%	82,442	313,776	62,013	119,355	$15.40
Class A	2,495,114	36	5.4%	5.4%	32,191	215,044	0	30,803	$20.18
Class B	6,535,946	517	7.3%	6.6%	42,890	98,732	62,013	67,140	$15.22
Class C	1,586,336	242	9.4%	9.4%	7,361	0	0	21,412	$10.62
Total	38,094,024	2,235	7.4%	6.9%	487,326	1,003,722	294,513	278,376	$20.33*

*Class A rental rate psf/yr

For more information, please contact one of our Brokerage Professionals
Thalhimer/Cushman & Wakefield
5700 Cleveland Street, Suite 400
Virginia Beach, VA 23462
(757) 499-2900

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