

RETAIL OVERVIEW HAMPTON ROADS, VIRGINIA

Second Quarter 2007

The Hampton Roads retail market continues to benefit as big-box retailers look for opportunities to expand and serve high-growth areas such as Suffolk, where new residential development and the promise of substantial future growth has triggered a number of new developments, and the southern end of the Princess Anne submarket in Virginia Beach, where recent changes in zoning and improved infrastructures have led to the announcement of several new projects as retail catches up to the healthy residential growth of the past. Construction continues on Princess Anne's Landstown Commons, where Kohl's and Ross Dress for Less are scheduled to open in the first quarter of 2008. A Kohl's is also under construction in the Northern Suffolk submarket, and Bed, Bath & Beyond has made a commitment to an adjacent site. Nearby, the Marketcenter at Harbour View is adding 20,000 square feet (sf) of small shops. In the Suffolk submarket, the second phase of Centerbrooke Village has broken ground, which will add 12,600 sf of small-shop space to the mixed-use development.

Other areas with long-established rooftops are also seeing interest from developers. Brenneman Farms, a new center located in the more-developed northern end of the Princess Anne submarket, will add 200,000 sf to the area, including 50,000 sf leased to the grocery store chain Harris Teeter, which has another location under construction at the new Indian Lakes Shoppes in the nearby Kempsville submarket. Both Farm Fresh and Harris Teeter are looking for additional locations.

In general, optimism by developers is supported by economic news.

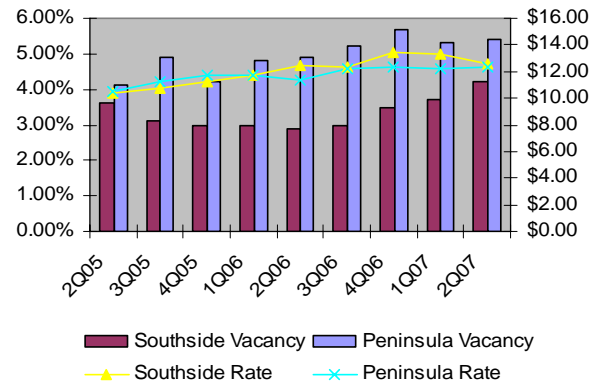
Target is under construction at Red Mill Commons in the General Booth Corridor, with an expected opening date in the first quarter of 2008. In the Military submarket, the Circuit City at Janaf Shopping Center has moved to a freestanding location, replacing the older in-line store. Further down Military Highway in Chesapeake's Campostella-South Norfolk submarket, the Office Max at Chesapeake Crossing has moved into 23,500 sf across the street from its previous site. Florida-based developer Sembler has announced a 200,000-sf project in Portsmouth's Mid-City submarket that will include three restaurant pads and 25,000 sf of small shop space, with the rest allotted to major anchors.

On the Peninsula, Hampton's Riverdale Plaza Shopping Center is on the sales block for a proposed redevelopment. Also marketed for sale is the Kohl's-anchored power center Jefferson Commons in the Patrick Henry submarket. Banana Republic is now under construction at the mixed-use development City Center at Oyster Point in Newport News. Several new Walgreens stores have opened in the Williamsburg market, but further drugstore development awaits the fallout of the merger between Rite-Aid and Eckerd's. Interest from casual restaurants has slowed because rising gas prices are claiming a bigger share of their diners' wallets, but higher-end eateries are still doing a brisk business.

In general, optimism by developers is supported by economic news as the national Consumer Price Index in urban areas reflects an expanding economy. The index rose at a rate of 5.5% this past quarter as compared to 2.5% in the same time period in 2006, according to the US Department of Labor, carrying on with a steady growth in the first quarter of this year. Virginia also added 47,500 new jobs in the same time period giving the state an improved unemployment rate of 3.0%, down from 3.8% and well below the national average of 4.5%, which was unchanged from June of 2006.

Overall vacancy rates in the area increased marginally over the first quarter with the Peninsula rising slightly from 5.5% at the end of March to 5.6% at the end of June. The Southside rose from a 4.2% overall vacancy rate to 4.5% rate in the same time period. The Campostella-South Norfolk submarket showed the most marked increase, with the vacancy rate rising from 6.5% to 8.3%. Average rental rates for the submarket have dropped over the year from a first quarter triple-net price of \$9.50 per square foot (psf) to a second quarter price of \$9.33 psf. ■

Direct Rental Rates vs. Vacancy Rates



THALHIMER MARKET HIGHLIGHTS**Significant 2Q07 New Openings**

BUILDING	CITY	TENANT	SQUARE FEET
Janaf Shopping Center	Norfolk	Circuit City	N/A
Chesapeake Crossing	Chesapeake	Office Max	23,500

Significant 2Q07 Sale Transactions

BUILDING	CITY	BUYER	SQUARE FEET	PURCHASE PRICE
Bainbridge Marketplace	Chesapeake	Wolfsnare Quay, LLC	46,444	\$4.45 million

Significant 2Q07 Construction Activity

BUILDING	CITY	MAJOR TENANT	SQUARE FEET
The Marquis	Williamsburg	Best Buy, J.C. Penney	1,000,000
Peninsula Town Center	Hampton	Macy's, J.C. Penney	800,000
Landstown Commons	Virginia Beach	Kohl's, Ross	500,000
Cahoon Commons	Chesapeake	N/A	300,000
High Street Lifestyle Center	Williamsburg	N/A	237,408
Towne Place at Greenbrier	Chesapeake	Jos. A. Banks, Chicos, Paradocks East Coast Grille	166,000
Stoney Run	Newport News	N/A	N/A
City Center	Newport News	Talbot's, Mediks Market, Banana Republic	N/A

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	1,982,072	167	7.8%	7.8%	9,432	17,058	\$10.65
Downtown Hampton	874,481	86	2.8%	2.8%	0	(7,033)	\$11.51
Downtown Newport News	485,667	56	0.0%	0.0%	0	17,955	\$0.00
Fox Hill	1,411,193	178	6.9%	6.9%	21,500	(8,578)	\$13.88
Gloucester	1,387,068	42	14.5%	14.5%	15,674	9,890	\$8.50
Hampton North	3,907,695	249	2.6%	2.5%	11,807	(4,886)	\$15.10
James River	1,657,369	196	5.0%	4.9%	10,500	1,854	\$16.43
Lightfoot	3,310,813	77	8.9%	8.9%	4,265	(45,627)	\$14.43
Mercury Central	8,280,551	356	5.9%	5.7%	25,520	175,716	\$10.39
Patrick Henry	4,733,700	122	2.0%	1.9%	5,748	2,231	\$15.03
Poquoson	1,602,817	176	7.1%	7.1%	10,920	(38,888)	\$15.93
Williamsburg	3,096,728	191	5.7%	5.5%	7,393	18,318	\$18.85
Yorktown	269,442	26	2.8%	2.8%	2,149	871	\$15.01
Peninsula Totals	32,999,596	1,922	5.6%	5.5%	124,908	138,881	\$12.38
Campostella/S Norfolk	1,714,430	141	8.3%	8.2%	15,000	(36,097)	\$9.33
Chesapeake Square	2,740,140	81	2.8%	2.8%	0	(4,190)	\$7.53
Churchland	1,384,368	113	4.9%	4.0%	1,600	2,190	\$15.76
College Park	1,870,741	166	5.0%	3.3%	4,200	2,257	\$10.64
Deep Creek	965,145	80	13.1%	13.1%	0	(52,930)	\$9.87
Downtown Norfolk	4,566,251	319	2.9%	2.8%	5,460	(50,309)	\$12.10
Downtown Suffolk	1,444,854	103	2.9%	2.9%	0	(6,972)	\$10.76
General Booth Corridor	1,586,356	86	1.7%	1.1%	1,260	33,597	\$21.08
Great Bridge	1,907,632	106	13.9%	13.9%	9,484	14,094	\$21.19
Greenbrier/Battlefield	5,131,011	149	3.3%	3.3%	8,543	(107,130)	\$18.96
Hilltop/Great Neck	2,642,870	193	0.9%	0.9%	26,700	27,786	\$17.58
Holland Road	1,568,578	95	2.3%	2.1%	920	6,220	\$14.75
Isle of Wight	631,329	34	8.0%	8.0%	1,750	(1,150)	\$4.19
Kempsville	1,885,453	106	4.2%	4.0%	4,908	(52,675)	\$18.77
Little Creek	3,507,928	254	8.7%	8.7%	48,437	(67,581)	\$11.63
Little Neck	3,195,274	123	4.7%	4.7%	0	(13,795)	\$10.30
Lynnhaven	2,205,789	66	1.2%	1.2%	6,853	2,050	\$16.81
Mid-City	2,158,811	274	1.8%	1.8%	29,367	4,891	\$9.20
Military	5,589,688	279	3.6%	3.6%	6,964	40,457	\$13.21
Newtown	2,366,794	144	3.3%	2.9%	3,389	(338)	\$14.37
Northern Suffolk	259,233	18	3.1%	2.4%	3,690	112,200	\$17.30
Oceanfront	1,796,526	250	1.5%	0.9%	0	20,648	\$17.20
Pembroke	3,228,043	161	1.8%	1.8%	0	16,561	\$21.36
Princess Anne	1,449,143	64	4.5%	4.2%	23,010	(49,141)	\$20.33
Shore Drive	919,192	94	1.8%	1.8%	0	(11,281)	\$12.63
Smithfield	720,456	75	2.3%	2.3%	1,120	11,070	\$17.25
Suffolk	1,153,443	80	11.7% #	11.7%	2,600	(2,399)	\$7.00
Va Beach Courthouse	166,236	10	4.7%	4.7%	1,666	51,256	\$24.00
Victory	2,048,939	181	10.7%	10.7%	7,639	(76,756)	\$8.66
Wards Corner	877,619	49	7.4%	7.4%	1,040	(7,935)	\$9.60
Southside Totals	61,682,272	3,894	4.5%	4.3%	215,600	(195,402)	\$12.63
Total	94,681,868	5,816	4.8%	4.7%	340,508	(56,521)	\$12.53

* Rental rates are \$psf/year triple net