

RETAIL OVERVIEW HAMPTON ROADS, VIRGINIA

Third Quarter 2007

Hampton Roads remains a desirable market for retail, with positive economic signs and good prospects for growth. Both national and local indicators are favorable. August figures from the U.S. Bureau of Labor Statistics showed that local unemployment remains low, at 3.3%, and nearly 10,000 jobs were added in the region in the previous 12 months. The U.S. Census Bureau reported that advance estimates of nationwide retail and food services sales for September had increased by 5.0% from September 2006. And in the Virginia portion of the Virginia Beach-Norfolk-Newport News, VA-NC Metropolitan Statistical Area, local option sales taxes increased from just over \$16.8 million in July 2006 to nearly \$17.8 million in July 2007, according to the Virginia Department of Taxation, indicating noticeable growth in the value of retail sales.

Demand remains healthy, although perhaps not at the level of the past few years. Smaller businesses are experiencing some fallout from the credit crunch, finding it more difficult to obtain funding for expansion, but larger retailers remain interested in the market. Wal-Mart's success as a grocery retailer in Hampton Roads (it enjoys the largest share of the local grocery market) has led it to bring its Neighborhood Market concept to the area. Virginia's first Wal-Mart Neighborhood Market, sized and positioned to compete with traditional supermarkets at about 40,000 square feet (sf), is projected to open in a former Winn-Dixie on Norfolk's East Little Creek Road in the fall of 2008.

Despite some negative absorption this year on the Southside, retail vacancy rates are enviable. The overall vacancy rate on the Peninsula dropped from 5.6% at the end of the second quarter to 5.4% at the end of the third quarter, and from 4.5% to 4.0% for the same periods on the Southside. Only two submarkets (Gloucester and Suffolk) report vacancy rates above 10.0%, and the rates for the General Booth Corridor, Greenbrier/Battlefield, Hilltop/Great Neck and Holland Road submarkets are below 2.0%.

One category that is active in the market is the fast casual restaurant. While sales at casual service restaurants are down

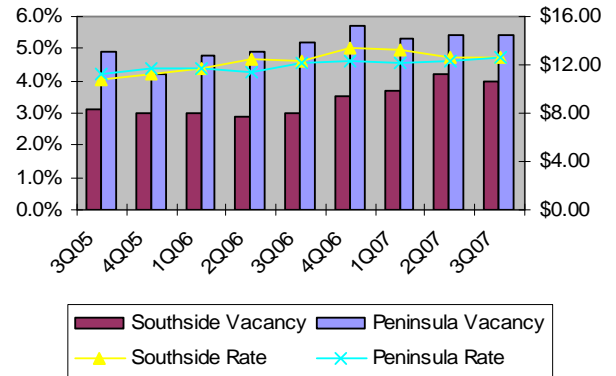
nationwide, fast casual restaurants are very interested in establishing or expanding their presence in the area. Moe's Southwest Grill, Chipotle and Qdoba Mexican Grill have recently opened or are searching for locations in the area, and Zero's is poised to debut a new store prototype in the Hilltop/Great Neck submarket of Virginia Beach.

There were several significant store openings during the quarter. One that attracted much attention was the long-awaited opening of The Market at Harbour Heights, a 35,000-sf grocery store on the first floor of a new condominium tower in Downtown Norfolk. The first full-service supermarket to serve downtown in 37 years, the store is the debut of a new, upscale store concept for Farm Fresh. Other openings of note include the August opening of the new, 103,000-sf JC Penney at

Peninsula Town Center, the open-air, mixed-use center under development on the former site of Coliseum Mall in Hampton's Mercury Central submarket, and the July opening of an 80,000-sf Burlington Coat Factory at Mercury Plaza, which also replaces a former Coliseum Mall store. August saw the opening of several retailers at the first phase of Chesapeake's Towne Place at Greenbrier mixed-use center, including Chico's, Jos. A. Bank's, Moe's Southwest Grill and Jason's Deli, and Cracker Barrel opened its first Southside location on Greenbrier Parkway in September.

There were no significant sales of retail properties during the quarter, but Jefferson Commons, a 400,000-sf power center in the Patrick Henry submarket of Newport News, went under contract with closing expected early next year. ■

Direct Rental Rates vs. Vacancy Rates



Despite some negative absorption, retail vacancy rates are enviable.

THALHIMER MARKET HIGHLIGHTS**Significant 3Q07 New Openings**

BUILDING	CITY	TENANT	SQUARE FEET
Towne Place at Greenbrier	Chesapeake	Chico's, Jos. A. Banks	166,000
Peninsula Town Center	Hampton	JC Penney	103,000
Mercury Plaza	Hampton	Burlington Coat Factory	80,000

Significant 3Q07 Sale Transactions

BUILDING	CITY	BUYER	SQUARE FEET	PURCHASE PRICE
N/A				

Significant 3Q07 Construction Activity

BUILDING	CITY	MAJOR TENANT	SQUARE FEET
The Marquis	Williamsburg	Best Buy, JC Penney	1,000,000
Peninsula Town Center	Hampton	Barnes & Noble	900,000
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
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	1,981,446	167	8.3%	8.3%	13,182	7,328	\$10.34
Downtown Hampton	874,481	86	2.9%	2.9%	2,000	(9,923)	\$11.51
Downtown Newport News	485,667	56	0.0%	0.0%	0	17,955	\$0.00
Fox Hill	1,423,193	179	7.1%	7.1%	33,240	(12,178)	\$13.31
Gloucester	1,389,777	43	12.1%	12.1%	51,518	10,500	\$8.50
Hampton North	3,915,256	255	3.2%	3.1%	22,660	(29,350)	\$17.44
James River	1,662,589	197	3.1%	3.1%	10,500	2,428	\$16.43
Lightfoot	3,325,271	79	8.5%	8.5%	11,065	(42,549)	\$14.39
Mercury Central	8,413,684	356	5.4%	5.2%	40,940	192,795	\$10.05
Patrick Henry	4,751,144	126	2.1%	2.0%	9,173	9,382	\$15.26
Poquoson	1,665,159	177	6.9%	6.9%	12,320	(42,210)	\$15.07
Williamsburg	3,310,712	223	5.8%	5.5%	14,493	(8,463)	\$20.22
Yorktown	269,442	26	6.6%	6.6%	3,878	(9,400)	\$17.36
Peninsula Totals	33,467,821	1,970	5.4%	5.3%	224,969	86,315	\$12.55
Campostella/S Norfolk	1,426,751	140	5.8%	5.7%	15,000	(17,659)	\$9.47
Chesapeake Square	2,739,832	81	2.1%	2.1%	13,620	9,392	\$8.17
Churchland	1,374,721	116	4.7%	3.8%	4,960	2,242	\$15.39
College Park	1,889,748	168	6.3%	4.7%	5,400	(25,993)	\$11.65
Deep Creek	965,145	80	7.1%	7.1%	0	5,070	\$9.87
Downtown Norfolk	4,615,577	323	2.4%	2.4%	11,702	(28,021)	\$13.52
Downtown Suffolk	1,458,011	106	2.1%	2.1%	0	3,289	\$10.76
General Booth Corridor	1,602,497	88	1.8%	1.8%	9,360	40,324	\$20.59
Great Bridge	1,915,372	107	8.9%	8.9%	13,879	107,569	\$17.55
Greenbrier/Battlefield	4,510,086	153	1.8%	1.8%	85,503	(146,858)	\$20.21
Hilltop/Great Neck	2,659,611	195	1.5%	1.5%	27,700	11,794	\$13.41
Holland Road	1,568,578	95	1.8%	1.6%	6,430	13,430	\$14.75
Isle of Wight	635,829	35	8.3%	8.3%	3,150	(3,320)	\$4.38
Kempsville	1,861,938	118	5.2%	5.0%	32,843	(124,136)	\$13.55
Little Creek	3,708,579	251	7.2%	7.2%	97,972	(68,360)	\$14.30
Little Neck	3,195,274	123	4.3%	4.3%	3,665	325	\$10.33
Lynnhaven	2,243,913	68	8.0%	8.0%	13,088	(153,125)	\$20.10
Mid-City	2,131,685	271	0.9%	0.9%	32,052	24,826	\$9.26
Military	5,588,262	279	3.3%	3.3%	17,918	46,675	\$14.41
Newtown	2,605,563	189	3.0%	2.6%	9,639	(5,115)	\$14.95
Northern Suffolk	259,233	18	5.3%	4.7%	3,690	106,343	\$17.30
Oceanfront	1,746,916	250	0.4%	0.4%	2,036	39,434	\$18.44
Pembroke	3,191,436	176	2.4%	2.4%	5,960	2,859	\$20.59
Princess Anne	1,440,660	64	4.4%	4.1%	26,284	(47,013)	\$14.14
Shore Drive	919,192	94	3.0%	3.0%	26,554	(44,627)	\$12.23
Smithfield	730,568	77	2.8%	2.8%	1,120	7,072	\$17.22
Suffolk	1,179,043	81	11.9%	11.9%	2,600	(2,399)	\$7.00
Va Beach Courthouse	166,236	10	2.3%	2.3%	5,666	55,256	\$24.00
Victory	2,032,713	180	6.0%	6.0%	56,489	(46,807)	\$7.35
Wards Corner	872,735	48	7.4%	7.4%	9,905	(16,860)	\$10.16
Southside Totals	61,235,704	3,984	4.0%	3.9%	544,185	(254,393)	\$12.62
Total	94,703,525	5,954	4.5%	4.4%	769,154	(168,078)	\$12.59

* Rental rates are \$psf/year triple net