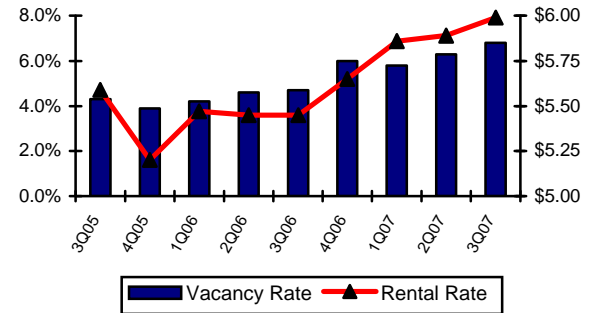


The Hampton Roads industrial market remains fundamentally strong despite some uncertainty in the overall national economy. Port facilities are busy as the American consumer's appetite for foreign goods continues and a historically low U.S. dollar increases exports. Container traffic through the port of Hampton Roads during July and August increased by 9.3% over the same period in 2006, with total traffic reaching 366,382 twenty-foot (container) equivalent units (TEUs.) September's opening of the \$450 million APM Terminals Virginia in Portsmouth, which is capable of handling one million TEUs per year and can be expanded to handle more than two million, has driven and will continue to drive investment in the distribution segment. Construction of this terminal, the nation's third-largest, will bring even more attention to the market in 2008. Confidence in the port's future is bolstered by the Virginia Port Authority's plans for a huge, \$2.2 billion terminal on Portsmouth's Craney Island, the first phase of which is projected to open in 2017. Money for the federal government's share of this project, \$356.1 million, was included in legislation approved by both the U.S. House of Representatives and the Senate by veto-proof majorities during the quarter, although that amount is subject to appropriations in future federal budgets.

Overall Vacancy vs. Rental Rates



The vacancy rate for all types of industrial properties has increased over the past year to 6.4% overall from 4.3% for the third quarter of 2006. Although the market is not immune to cutbacks in the larger economy – last quarter's closure of Ford Motor Company's assembly plant in Norfolk has caused the addition of an estimated 450,000 square feet (sf) to the sublease market as suppliers reduce or eliminate operations in the area – much of the increase in available space is due not to decreased demand, but to new construction of warehouse/distribution facilities by national and regional developers in anticipation of increased traffic at the port. This space is expected to be absorbed over the coming year as cargo traffic increases at APM Terminals Virginia and the Virginia Port Authority begins operations at APM's former space. In the interim, however, opportunities will be available across the region in the 50,000-sf and larger range.

Much of the increase in available space is due not to decreased demand, but to new construction of warehouse/distribution facilities.

Investors have not been discouraged. Boston's High Street Equity Advisors, LLC, purchased the newly constructed, 180,000-sf warehouse at 301 West Park Lane in Hampton's Copeland submarket to complement the 515,486 sf in two other warehouses it owns on West Park Lane. J3H3 LLC, a division of Hobbs & Associates, a commercial HVAC supplier, purchased 4850 Brookside Court, a 48,300-sf building in the Norfolk Industrial Park, for \$3.25 million; and Murray Farms, LLC, acquired an 18,520-sf, fully-leased property in the Rosemont Commerce Park in Virginia Beach's Lynnhaven submarket for a price of \$1.5 million.

Leasing demand continues as a healthy local economy drives expansion by companies established in the market as well as the addition of newcomers. Perhaps the most prominent was Lockheed Martin's lease of 40,000 sf of office space at the former Gateway facility in the Hampton Roads Center park in

Hampton's Copeland submarket, which absorbed nearly one-third of the available office space at the warehouse/flex property. Chep, USA, a leading supplier of wooden pallets, containers and other shipping materials, leased 21,000 sf at Bridgeway Commerce Center III in North Suffolk's Bridgeway Commerce Park and Noland Properties leased 17,816 sf of warehouse space at 818 Bluecrab in the Peninsula's Oyster Point submarket. ■

THALHIMER MARKET HIGHLIGHTS

Significant 3Q07 New Lease Transactions

BUILDING	SUBMARKET	TENANT	SQUARE FEET	PROPERTY TYPE
1000 Enterprise Parkway	Copeland	Lockheed Martin	40,000	Office/flex
Bridgeway Commerce Center III	North Suffolk	Chep USA	21,000	Warehouse
818 Bluecrab	Oyster Point	Noland Properties	17,816	Warehouse

Significant 3Q07 Sale Transactions

BUILDING	SUBMARKET	BUYER	SQUARE FEET	PURCHASE PRICE
301 West Park Lane	Copeland	High Street Equity Advisors LLC	180,000	\$10,500,000
4850 Brookside Court	Norfolk Industrial Park	J3H3 LLC	48,300	\$3,250,000
3440 Chandler Creek Road	Lynnhaven	Murray Farms LLC	18,520	\$1,500,000

Significant 3Q07 Construction Completions

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
301 West Park Lane	Copeland	N/A	180,000	July 2007
Northgate Logistics Center	North Suffolk	Schneider Trucking	150,000	July 2007

Significant Projects Under Construction

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
Enterchange at Hampton B	Copeland	Northrop Grumman	470,200	November 2007
Virginia Regional Commerce Park	South Suffolk	N/A	400,000	November 2007
Virginia Commerce Center	South Suffolk	N/A	385,320	May 2008

THALHIMER MARKET/SUBMARKET STATISTICS

Market/Submarket	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*
Peninsula	31,419,328	813	5.9%	5.2%	134,854	622,450	180,000	35,607	\$5.86
Flex	2,155,059	111	4.0%	4.0%	39,248	82,250	0	21,654	\$8.34
Distribution	7,109,976	107	10.2%	7.2%	8,990	0	0	(343,200)	\$4.75
Manufacturing	11,236,490	286	2.4%	2.4%	22,800	0	0	149,641	\$4.96
General Industrial	10,917,803	309	6.8%	6.8%	63,816	540,200	180,000	207,512	\$6.65
Southside	69,263,209	1,998	7.3%	6.9%	1,177,548	1,760,540	806,911	(544,165)	\$6.03
Flex	10,959,964	544	8.7%	8.6%	327,843	226,750	52,700	(95,304)	\$9.56
Distribution	13,729,131	131	9.8%	8.8%	0	400,000	541,800	25,550	\$4.43
Manufacturing	12,066,086	262	3.5%	3.5%	10,000	0	0	(47,992)	\$5.76
General Industrial	32,508,028	1,061	5.7%	5.5%	839,705	1,133,790	212,411	(426,419)	\$5.69
Total Market	100,682,537	2,811	6.4%	6.0%	1,312,402	2,382,990	986,911	(508,558)	\$5.99
Flex	13,115,023	655	7.9%	7.9%	367,091	309,000	52,700	(73,650)	\$9.15
Distribution	20,839,107	238	9.8%	8.2%	8,990	400,000	541,800	(317,650)	\$4.46
Manufacturing	23,302,576	548	3.0%	2.9%	32,800	0	0	101,649	\$5.38
General Industrial	43,425,831	1,370	6.0%	5.8%	903,521	1,673,990	392,411	(218,907)	\$5.92

* Rental rates reflect \$psf/year triple net