

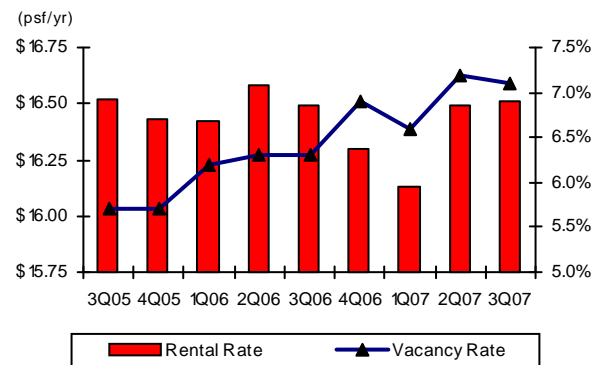
OFFICE OVERVIEW HAMPTON ROADS, VIRGINIA

Third Quarter 2007

Momentum in the Hampton Roads office market remains positive as business activity resumes following the end of summer. Basic economic indicators are favorable, with the U.S. Bureau of Labor Statistics reporting unemployment for the Virginia Beach-Norfolk-Newport News MSA at 3.3% for August, down one-tenth of one percent from August 2006, comparable to the statewide rate of 3.1% for the same period and well below the national rate of 4.6%. The number of persons employed in civilian occupations in the region increased by nearly 10,000 over the year to an August total of 827,776.

Market indicators remain in line with expectations. Compared to the third quarter of 2006, the overall vacancy rate for all space classes has increased from 6.4% to 7.1%, with the increase contained in the suburban Southside (at 7.1%, up from 6.0%) and Peninsula (7.5%, up from 6.4%). The Downtown Norfolk Central Business District (CBD) saw its vacancy rate decline from 8.0% to 6.5%. Class A vacancy rates are below those for all classes in all three areas (substantially so in the Southside, at 6.2%, and the Peninsula, at 6.1%), and demand for class A space has kept absorption numbers positive, despite some negative absorption of class B and class C space in the Southside. This may be due to a trend reported in the first quarter of tenants upgrading to class A product as rental rates for other classes rise, decreasing the rent premium for more desirable space.

Direct Rental vs. Vacancy Rates



While the credit crunch in residential real estate has been well publicized, similar difficulties in obtaining funds have not occurred in the Hampton Roads commercial market. Businesses with sound balance sheets are still finding banks willing to lend for expansion and acquisition. For smaller companies that wish to own their premises, the limiting factor is not the availability of funds, but the availability of suitable existing buildings or land for new construction. And as reported last quarter, large tenants are also finding challenges in the market, as there are relatively few large contiguous blocks of space available for lease and most land that is ready for construction is controlled by developers.

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The quarter's most visible transaction was the sale of the 225,235-square foot (sf) 150 West Main Street in the CBD, which was part of a 17-building portfolio purchased from St. Joe by Eola Capital. The sale price was \$56.0 million, a healthy increase over the \$50.5 million St. Joe paid for the property at the end of 2005. Otherwise, owners seem to be holding onto their properties, as the only other sale of note was the \$1.0 million purchase of 613 Lynnhaven Parkway in the Lynnhaven submarket of Virginia Beach by Moody Development, who will occupy the second floor and lease the first floor to several tenants, including the previous owner.

Among the quarter's significant leases were two at Convergence Center III, a class A building in the Virginia Beach CBD/Pembroke submarket under construction for delivery November 1. Michael Baker Corp. signed a lease for 19,157 sf comprising the entire fourth floor, and Atlantic Container Lines leased 19,090 sf comprising the entire third floor. Both will take occupancy in December. At other properties, the Jordan-Young Institute for Joint Reconstruction and Sports Medicine leased 20,003 sf at Gallery II in the Newtown/Witchduck submarket, and Monarch Bank leased 10,701 sf at Lynnhaven's Reflections I.

Hampton University broke ground on a 98,000-sf proton beam cancer-treatment facility in the Hampton Roads Center submarket. The project, expected to deliver in 2010, is situated on 5.5 acres donated by the city of Hampton and is expected to be a catalyst for an emerging medical technology cluster in the area. ■

THALHIMER MARKET HIGHLIGHTS

Significant 3Q07 New Lease Transactions

BUILDING	SUBMARKET	TENANT	SQUARE FEET	CLASS
Gallery II	Newtown/Witchduck	Jordan-Young Institute	20,003	B
Convergence Center III	Virginia Beach CBD/Pembroke	Michael Baker Corp.	19,157	A
Convergence Center III	Virginia Beach CBD/Pembroke	Atlantic Container Lines	19,090	A
Reflections I	Lynnhaven	Monarch Bank	10,701	A

Significant 3Q07 Sale Transactions

BUILDING	SUBMARKET	BUYER	SQUARE FEET	PURCHASE PRICE
150 West Main Street	Downtown Norfolk CBD	Eola Capital	225,235	\$56,000,000
613 Lynnhaven Parkway	Lynnhaven	Moody Development	6,250	\$1,000,000

Significant 3Q07 Construction Completions

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
Harbour View Medical Arts I	Harbourview/N Suffolk	OSC	47,000	August 2007

Significant Projects Under Construction

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
Convergence Center III	Virginia Beach CBD/Pembroke	Goodman & Co.	99,000	November 2007
Hampton University Proton Therapy Institute	Hampton Roads Center	N/A	98,000	June 2010
Two City Center	Oyster Point	N/A	90,000	October 2007
Riverside Heath Care Center	Hampton Roads Center	N/A	84,000	November 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	5,042,710	101	6.5%	6.0%	68,825	0	0	263,760	\$18.27
Class A	2,472,386	11	6.4%	5.3%	52,139	0	0	239,992	\$20.80
Class B	2,122,173	55	5.1%	5.1%	16,686	0	0	6,514	\$16.37
Class C	448,151	35	14.4%	14.4%	0	0	0	17,254	\$10.01
Non-CBD/Southside	22,632,827	1,373	7.1%	6.8%	647,285	834,946	279,500	(35,971)	\$16.72
Class A	5,891,947	92	6.2%	5.8%	204,494	724,396	227,000	162,502	\$20.32
Class B	10,854,358	521	8.5%	8.2%	342,576	110,550	52,500	(100,675)	\$15.78
Class C	5,886,522	760	5.4%	5.3%	100,215	0	0	(97,798)	\$13.51
Non-CBD/Peninsula	10,860,285	855	7.5%	6.8%	116,708	250,444	96,745	116,348	\$15.39
Class A	2,493,872	36	6.1%	5.3%	35,307	144,044	0	20,680	\$19.94
Class B	6,625,635	540	7.9%	7.0%	68,504	106,400	96,745	55,511	\$15.41
Class C	1,740,778	279	8.0%	8.0%	12,897	0	0	40,157	\$10.90
Total	38,535,822	2,329	7.1%	6.7%	832,818	1,085,390	376,245	344,137	\$20.33*

*Class A rental rate psf/yr