MARKETBEAT

HAMPTON ROADS OFFICE REPORT

Thalhimer commercial real estate

4Q07

A CUSHMAN & WAKEFIELD ALLIANCE RESEARCH PUBLICATION

ECONOMY

Economic indicators for Hampton Roads remain favorable. The December unemployment rate of 3.5% tied for third lowest among Metropolitan Statistical Areas (MSAs) with populations over 1.0 million. Employment growth during 2007 was 1.6% (with private employment rising by 2.0%), which exceeded both the statewide and national growth rates for the first time in several years. Additionally, the area's foreclosure rate during the first half of 2007 was lower than that of all but five of 100 areas surveyed.

National trends are being felt in Hampton Roads, but the area's large military and government presence has historically mitigated the effects of national downturns and moderate growth is projected for 2008. Lenders are less willing to lend money to smaller and newer businesses and are setting more stringent credit requirements when they do, but credit tenants and similar companies can borrow at rates that are often below market.

OVERVIEW

Although reported leasing activity declined and the amount of available space grew during 2007, the market remains healthy, with demand driven by white-collar job growth and class A rental rates that, while growing moderately, still offer value when compared to national levels. For the fourth quarter the overall vacancy rate for all classes of space in the entire market was 7.4%, up seven-tenths of a percentage point from 2006. Downtown Norfolk's increasing desirability lowered rates in the Central Business District (CBD) from 8.1% to 6.5% for all classes and from 8.1% to 6.0% for class A space, while rates for all non-CBD submarkets rose from 6.7% to 7.5% for all classes and from 7.2% to 7.6% for class A space. Interest from potential tenants is high, but mixed economic indicators have extended decision making time and companies are reducing requirements by cutting the amount of space per employee. One ironic (and speculative) cause for the drop in leasing activity may be the market's recent strength – smaller tenants can be accommodated, but the scarcity of large blocks of high-quality space has extended search times of larger users.

Stricter lending policies have driven potential owner-occupiers to consider leasing, but the value of investment-grade properties remains high. Among the quarter's more prominent sales were Patrick Henry Corporate Center, a 98,883-sf, class A building in the Suburban Newport News submarket that sold for $18.6 million, a 28.3% increase from its 2005 sale price, and the five buildings in Newport News and Chesapeake that made up the local component of the Starmount office portfolio acquired by CBL & Associates.

OUTLOOK

Economic growth and steady office demand are expected to continue in 2008. Class A product will remain the most popular, and there are some concerns about backfilling the less desirable class B spaces vacated by upgrading tenants.

Moderating construction costs may reduce the pressure on landlords to boost rents to achieve necessary returns, but with continuing demand and fewer construction starts projected for 2008, they may have the opportunity to increase those returns.

BEAT ON THE STREET

"One trend in the area is active municipal involvement in development. With attractive land increasingly rare and suitable existing space harder to find, cities are creating redevelopment and new development sites to attract and retain large companies."

–Teresa K. Gibbs, CCIM

ECONOMIC INDICATORS

	2006	2007	2008F
GDP Growth (National)	2.9%	2.2%	2.2%
CPI Growth (National)	3.2%	2.8%	2.5%
Unemployment (Regional)	3.3%	3.2%	3.7%
Employment Growth (Regional)	0.8%	1.6%	1.5%

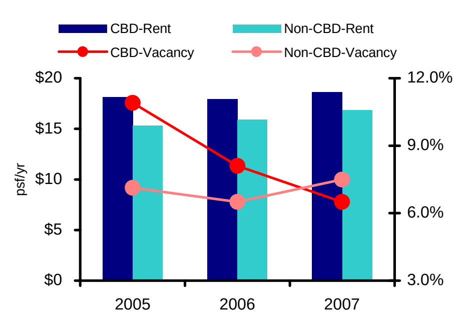
MARKET FORECAST

RENTAL RATES should continue to grow at a reasonable pace, especially for better locations and higher-grade space.

DIRECT ABSORPTION will remain around current positive levels due to the stable local economy and moderate inventory growth.

CONSTRUCTION completions will decline as developers react to stricter lending policies and national economic uncertainty.

OVERALL RENT VS. VACANCY



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. Class A Gross Rental Rate*
Downtown Norfolk	4,959,970	98	6.5%	6.0%	71,381	0	0	288,849	$20.80
CBD Total:	4,959,970	98	6.5%	6.0%	71,381	0	0	288,849	$20.80
Coliseum Central	1,177,867	65	7.3%	7.2%	37,338	0	0	47,837	$17.50
Downtown Hampton	419,098	34	8.7%	8.7%	2,989	0	0	(12,655)	$16.44
Downtown Newport News	1,520,713	45	3.8%	3.8%	0	0	0	(8,972)	N/A
Fox Hill	126,535	28	4.9%	4.9%	448	0	0	(2,649)	N/A
Gloucester	31,553	7	12.7%	12.7%	1,649	0	0	(350)	N/A
Hampton Roads Center	1,022,275	23	10.3%	9.1%	13,167	0	84,000	49,310	$20.42
Oyster Point	3,887,898	313	5.9%	5.3%	75,401	97,454	30,495	79,742	$20.35
Poquoson	66,513	15	6.0%	6.0%	0	0	3,022	11,215	N/A
Suburban Newport News	887,761	93	5.7%	5.7%	16,341	0	0	20,012	$20.75
Williamsburg/James City County	1,231,373	178	9.5%	9.5%	30,867	42,822	42,577	29,786	$21.59
York	671,602	99	10.2%	10.2%	7,221	0	40,651	51,763	$20.38
Peninsula Total	11,043,188	900	6.9%	6.6%	185,422	140,276	200,745	265,038	$20.07
Airport/Northampton	499,750	45	26.9%	26.9%	22,463	0	0	(109,673)	N/A
Battlefield	1,101,195	42	13.4%	12.3%	125,173	30,368	0	38,173	$21.20
Central Norfolk	2,594,534	86	6.3%	6.3%	69,942	0	135,873	58,483	$19.09
Churchland	269,382	42	1.1%	1.1%	1,464	0	0	(3,567)	N/A
Downtown Portsmouth	777,671	66	11.3%	11.3%	28,863	0	0	20,783	$14.00
Franklin City	209,483	13	1.4%	1.4%	938	0	45,000	818	N/A
Greenbrier	2,378,304	100	4.9%	4.7%	112,984	66,000	29,028	115,290	$20.51
Harbourview/N. Suffolk	1,162,095	24	11.2%	11.2%	42,495	84,234	97,499	53,169	$21.05
Haygood/Bayside	499,018	47	4.8%	4.8%	14,591	0	8,799	3,396	N/A
Hilltop/Great Neck	1,056,811	100	4.0%	3.7%	5,469	0	0	(4,079)	$20.00
Isle of Wight	231,353	25	9.3%	9.3%	0	0	0	(24,415)	$16.00
Kempsville	381,800	45	7.7%	7.7%	2,352	0	0	(24,014)	N/A
Little Neck	952,273	77	5.8%	5.5%	24,584	0	10,550	(381)	N/A
Lynnhaven	1,811,911	60	12.8%	10.9%	116,197	0	36,800	(57,113)	$19.61
Newtown/Witchduck	3,000,682	151	8.2%	8.0%	96,896	0	73,136	(25,601)	$19.69
Norfolk-ODU/Ghent	873,370	57	8.4%	8.4%	19,133	0	79,987	64,555	$22.50
Oceanfront	519,475	50	3.4%	3.4%	7,849	83,811	0	(4,015)	$25.95
Portsmouth	294,385	72	4.6%	4.6%	8,504	0	0	(2,040)	N/A
Princess Anne	714,530	31	10.6%	10.5%	11,562	92,118	31,995	5,773	$22.15
S. Independence/Holland Rd.	823,930	50	5.8%	5.8%	24,539	0	0	3,185	$17.25
South Norfolk	406,754	52	3.3%	3.3%	10,084	0	0	(35,542)	N/A
South Suffolk	814,386	70	3.1%	3.1%	1,234	0	9,000	(5,328)	$18.62
Southern Chesapeake	413,872	71	7.2%	6.5%	14,890	20,000	0	(5,832)	N/A
Virginia Beach CBD/Pembroke	1,694,944	31	3.5%	3.5%	100,664	58,897	99,000	75,450	$23.20
Western Branch	214,966	28	14.4%	14.4%	5,375	0	0	(5,908)	N/A
Southside Total	23,696,874	1,435	7.8%	7.5%	868,245	435,428	656,666	131,569	$20.75
HAMPTON ROADS TOTAL:	**39,700,032**	**2,433**	**7.4%**	**7.1%**	**1,125,048**	**575,704**	**857,411**	**685,456**	**$20.65**

* Rental rates reflect $psf/year

MARKET HIGHLIGHTS

SIGNIFICANT 4Q07 NEW LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQ FT	BLDG CLASS
Circle South	Central Norfolk	Sentara Medical Group	48,000	B
Two Columbus Center	Virginia Beach CBD/Pembroke	Kimley-Horn and Associates, Inc.	19,000	A

SIGNIFICANT 4Q07 SALE TRANSACTIONS

BUILDING	SUBMARKET	BUYER	SQ FT	PURCHASE PRICE
Patrick Henry Corporate Center	Suburban Newport News	KBS Real Estate Investment Trust	98,883	$18,550,000
850 Greenbrier Circle	Greenbrier	CBL & Associates Properties	81,318	N/A
One Oyster Point	Oyster Point	CBL & Associates Properties	63,610	$5,602,450
Peninsula Business Center I & II	Oyster Point	CBL & Associates Properties	62,353	$5,209,901
840 Greenbrier Circle	Greenbrier	CBL & Associates Properties	48,756	N/A
Two Oyster Point	Oyster Point	CBL & Associates Properties	39,049	$5,705,613
Gateway Executive Center	Lynnhaven	Gateway Executive Center LLC	32,428	$4,150,000

SIGNIFICANT 4Q07 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQ FT	COMPLETION DATE
Convergence Center III	Virginia Beach CBD/Pembroke	Goodman & Co.	99,000	11/07
Riverside Health Care Center - Hampton	Hampton Roads Center	Riverside Regional Medical Center	84,000	11/07
MAST One	Harbourview/N. Suffolk	N/A	60,000	10/07

SIGNIFICANT PROJECTS UNDER CONSTRUCTION

BUILDING	SUBMARKET	MAJOR TENANT	SQ FT	COMPLETION DATE
Hampton University Proton Therapy Institute	Hampton Roads Center	N/A	98,000	6/10
Two City Center	Oyster Point	N/A	90,000	3/08

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