

MARKETBEAT

HAMPTON ROADS, VA OFFICE REPORT

A CUSHMAN & WAKEFIELD ALLIANCE RESEARCH PUBLICATION

Thalhimer
commercial real estate

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ECONOMY

While its effects remain moderated by a local economy that includes large military and government sectors, the deteriorating economy has hit Hampton Roads. As elsewhere, credit restrictions continued to hinder investment sales and business expansion as local banks that had been a prime source of funds earlier in the year began to retreat and maximum loan-to-value ratios plummeted. The industry press found it notable that the 196,000-square foot (sf) Fort Norfolk Plaza medical office building was able to obtain financing and break ground, and although four significant office buildings traded during the quarter, all were part of portfolio sales rather than individual transactions.

But while November saw the area's unemployment rate climb to 4.8% to tie with August's for the highest since June 1997, bright spots remain. Rising unemployment is driven by an expanding labor force, as total nonfarm employment rose by 1.5% over the previous November, the fourth-highest growth rate among areas with a labor force of 750,000 or more and equal to the rate at which the nation lost jobs during the same period. Office-using sectors showed even higher gains, with employment in education and health services up by 3.3%, professional and business services by 2.1%, and financial activities by 1.5%.

OVERVIEW

With an overall vacancy rate at 8.6%, Hampton Roads remains in good shape and now is outperforming markets that experienced high demand during the boom. Immediate concerns about rising CBD vacancy during the third quarter were allayed as the overall vacancy rate there dropped to 6.8%. Overall absorption during the year was just shy of a tenth as much as in 2007, but it remained positive at just under 68,000 sf.

Asking rental rates grew during 2008 to \$21.21 per square foot (psf), 2.7% higher than at the end of 2007. But asking rents do not reflect the actual rents realized in a market where rental abatements and other incentives abound. Both landlords and tenants are aware of the value that a stable, solid tenant brings to a building, and those tenants are inviting proposals from other properties and aggressively negotiating renewals to reduce their costs as much as possible. Landlords are responding with incentives that provide a larger discount up front but that reduce the chance of being locked into a below-market lease rate when conditions improve.

FORECAST

The very end of the fourth quarter brought signs that frozen credit markets have begun a slow thaw, and businesses will use the first quarter to appraise the damage they have sustained and determine how best to repair it. If so, the medium term may bring better news once the market's bottom can be seen.

But the office market will remain a tenant's and buyer's market until that occurs. Locally, excess construction will be concentrated in a few submarkets and a diverse economy without concentrations in vulnerable sectors will minimize job losses and tenant losses, but landlords and sellers will continue to cede the bargaining power they enjoyed in better times.

BEAT ON THE STREET

"The environment has become even more challenging for investors in a very short period as lenders raise interest rates and further cut the amount they're willing to lend, which has brought about a sharp rise in cap rates."

—John Duffy, CCIM, Office Sales and Leasing

ECONOMIC INDICATORS

| National | 2007 | 2008 | 2009F |
|-------------------|------|------|-------|
| GDP Growth | 2.0% | 1.2% | -1.5% |
| CPI Growth | 2.9% | 4.2% | 0.9% |
| Regional | | | |
| Unemployment | 3.2% | 4.3% | 5.6% |
| Employment Growth | 1.6% | 1.5% | 0.2% |

Sources: Moody's | Economy.com, U.S. Bureau of Labor Statistics, Old Dominion University Economic Forecasting Project

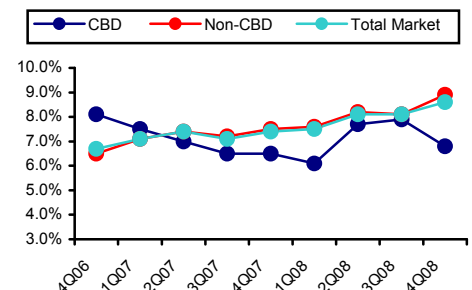
MARKET FORECAST

NEW CONSTRUCTION will continue to decline, preventing the kind of glut the market saw during the downturn of the early 1990s. ↓

NET ABSORPTION will decrease as demand lags behind space delivered by projects begun before the downturn. ↓

LEASE RENEWALS will comprise an increasing proportion of activity as landlords engage in proactive efforts to stabilize buildings and prevent tenant defection to competitors. ↑

OVERALL VACANCY RATES



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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 | 5,007,543 | 101 | 6.8% | 6.6% | 71,613 | 331,932 | 0 | (49,040) | \$21.45 |
| CBD | 5,007,543 | 101 | 6.8% | 6.6% | 71,613 | 331,932 | 0 | (49,040) | \$21.45 |
| Coliseum Central | 1,105,348 | 76 | 7.2% | 6.7% | 42,587 | 8,000 | 0 | 16,034 | \$18.32 |
| Downtown Hampton | 419,265 | 35 | 9.5% | 9.1% | 10,427 | 0 | 0 | (6,639) | \$19.00 |
| Downtown Newport News | 1,558,518 | 54 | 4.1% | 4.1% | 6,293 | 0 | 0 | (4,888) | \$0.00 |
| Fox Hill | 142,423 | 36 | 7.5% | 7.5% | 250 | 0 | 0 | (4,028) | \$0.00 |
| Gloucester | 60,647 | 12 | 10.1% | 10.1% | 1,000 | 0 | 0 | (500) | \$0.00 |
| Hampton Roads Center | 1,099,790 | 24 | 13.0% | 11.2% | 22,591 | 0 | 0 | (27,000) | \$20.42 |
| Oyster Point | 4,314,346 | 344 | 8.3% | 7.9% | 140,128 | 191,532 | 27,529 | (58,391) | \$21.48 |
| Poquoson | 70,705 | 16 | 2.3% | 2.3% | 11,233 | 0 | 0 | 2,350 | \$0.00 |
| Suburban Newport News | 903,972 | 95 | 5.7% | 5.7% | 23,569 | 0 | 0 | 17,879 | \$22.00 |
| Williamsburg/James City County | 1,499,557 | 193 | 12.3% | 11.8% | 102,118 | 50,000 | 49,200 | 23,000 | \$22.11 |
| York | 744,436 | 102 | 15.2% | 14.6% | 22,804 | 0 | 27,350 | (5,746) | \$19.13 |
| Peninsula | 11,919,007 | 987 | 8.8% | 8.4% | 383,000 | 249,532 | 104,079 | (47,928) | \$20.25 |
| Airport/Norhampton | 516,482 | 49 | 10.1% | 10.1% | 33,754 | 0 | 0 | 75,477 | \$0.00 |
| Battlefield | 1,180,307 | 43 | 21.7% | 21.7% | 43,285 | 0 | 73,345 | (27,594) | \$20.82 |
| Central Norfolk | 2,849,856 | 96 | 5.3% | 5.2% | 102,712 | 0 | 0 | 49,760 | \$19.05 |
| Churchland | 284,106 | 48 | 2.7% | 2.7% | 7,660 | 0 | 0 | (3,696) | \$0.00 |
| Downtown Portsmouth | 771,488 | 74 | 6.2% | 6.2% | 7,454 | 10,000 | 0 | (3,810) | \$14.00 |
| Franklin City | 209,877 | 13 | 1.6% | 1.6% | 0 | 0 | 0 | (394) | \$0.00 |
| Greenbrier | 2,471,941 | 106 | 7.3% | 7.2% | 147,255 | 0 | 59,784 | (43,726) | \$20.91 |
| Harbourview/Northern Suffolk | 1,746,717 | 31 | 8.0% | 8.0% | 47,724 | 23,200 | 122,170 | 138,891 | \$21.94 |
| Haygood/Bayside | 500,868 | 48 | 5.3% | 5.3% | 5,380 | 0 | 0 | (5,734) | \$0.00 |
| Hilltop/Great Neck | 1,038,402 | 103 | 12.5% | 12.1% | 7,841 | 0 | 9,800 | (66,885) | \$20.00 |
| Isle of Wight | 229,043 | 29 | 7.6% | 7.6% | 0 | 0 | 15,760 | (8,222) | \$16.00 |
| Kempsville | 448,272 | 46 | 6.2% | 6.2% | 8,334 | 0 | 0 | 1,728 | \$16.50 |
| Little Neck | 954,769 | 78 | 4.9% | 4.9% | 29,633 | 0 | 0 | (15,749) | \$0.00 |
| Lynnhaven | 1,843,686 | 62 | 16.2% | 13.7% | 106,926 | 0 | 0 | (45,456) | \$18.81 |
| Newtown/Witchduck | 2,929,206 | 151 | 8.5% | 7.9% | 127,771 | 0 | 0 | (2,649) | \$20.08 |
| Norfolk ODU/Ghent | 769,449 | 66 | 5.0% | 5.0% | 7,444 | 100,000 | 0 | 15,380 | \$22.50 |
| Oceanfront | 529,358 | 53 | 4.0% | 4.0% | 3,409 | 83,811 | 0 | (2,729) | \$25.95 |
| Portsmouth | 375,051 | 89 | 2.6% | 2.6% | 3,200 | 20,000 | 2,900 | 20,031 | \$0.00 |
| Princess Anne | 858,854 | 37 | 18.9% | 18.4% | 14,562 | 0 | 125,972 | 42,625 | \$21.87 |
| S. Independence/Holland Rd. | 844,822 | 56 | 3.8% | 3.7% | 24,158 | 0 | 0 | 16,373 | \$20.37 |
| South Norfolk | 411,000 | 54 | 10.7% | 10.2% | 5,504 | 0 | 0 | (12,628) | \$0.00 |
| South Suffolk | 845,669 | 114 | 4.3% | 4.3% | 2,739 | 0 | 0 | (5,051) | \$17.50 |
| Southern Chesapeake | 471,366 | 76 | 8.9% | 8.9% | 10,954 | 0 | 49,301 | 31,050 | \$0.00 |
| Virginia Beach CBD/Pembroke | 1,864,758 | 33 | 10.6% | 9.9% | 77,730 | 92,000 | 167,897 | 9,438 | \$24.46 |
| Western Branch | 226,158 | 30 | 7.1% | 7.1% | 19,963 | 0 | 5,016 | 8,330 | \$0.00 |
| Southside Non-CBD | 25,171,505 | 1,585 | 8.9% | 8.5% | 845,392 | 329,011 | 631,945 | 164,760 | \$21.50 |
| ALL NON-CBD | 37,090,512 | 2,572 | 8.9% | 8.5% | 1,228,392 | 578,543 | 736,024 | 116,832 | \$21.19 |
| HAMPTON ROADS TOTAL | 42,098,055 | 2,673 | 8.6% | 8.2% | 1,300,005 | 910,475 | 736,024 | 67,792 | \$21.21 |

* Rental rates reflect \$psf/year

MARKET HIGHLIGHTS

SIGNIFICANT 2008 NEW LEASE TRANSACTIONS

| BUILDING | SUBMARKET | TENANT | SQUARE FEET | BLDG CLASS |
|--|-------------------|---------------------------------|-------------|------------|
| Crossways I | Greenbrier | General Services Administration | 44,000 | B |
| Interstate Corporate Center - Maury Building | Newtown/Witchduck | Education Affiliates, Inc. | 26,111 | B |
| Central Center Office Building | Central Norfolk | InnovaSystems International | 18,790 | A |

SIGNIFICANT 2008 SALE TRANSACTIONS

| BUILDING | SUBMARKET | BUYER | SQUARE FEET | PURCHASE PRICE |
|--|--|----------------------------|------------------|----------------|
| 116 Lakeview Pkwy. / 150 Corporate Blvd. | Harbourview/N. Suffolk / Central Norfolk | Urban America | 351,075 / 53,830 | \$64,000,000 |
| World Trade Center | Downtown Norfolk CBD | Harbor Group International | 366,775 | \$54,000,000 |
| Executive Tower / Pinewood Plaza | Coliseum Central | Creaney & Smith Group | 134,179 / 71,066 | \$20,700,000 |
| Town Point Center | Downtown Norfolk CBD | Harbor Group International | 131,000 | \$12,750,000 |
| Compass Pointe (One Symantec Way) | Oyster Point | Municipal Partners, LLC | 98,506 | \$11,170,000 |

SIGNIFICANT 2008 CONSTRUCTION COMPLETIONS

| BUILDING | SUBMARKET | MAJOR TENANT | SQUARE FEET | COMPLETION DATE |
|---|------------------------|--------------------|-------------|-----------------|
| Two Columbus Center | Va. Beach CBD/Pembroke | Kimley Horn | 109,000 | 12/08 |
| Sentara BelleHarbour Medical Campus, Building 1 | Harbourview/N. Suffolk | Sentara Healthcare | 76,170 | 7/08 |
| Independence Place | Battlefield | N/A | 73,345 | 6/08 |

SIGNIFICANT PROJECTS UNDER CONSTRUCTION/RENOVATION

| BUILDING | SUBMARKET | MAJOR TENANT | SQUARE FEET | COMPLETION DATE |
|-------------------------------|------------------------|-----------------------|-------------|-----------------|
| Wells Fargo (Wachovia) Center | Downtown Norfolk CBD | Wells Fargo | 250,000 | 6/10 |
| Fort Norfolk Plaza | Downtown Norfolk CBD | Sentara Medical Group | 109,000 | 4/10 |
| Convergence Center IV | Va. Beach CBD/Pembroke | N/A | 89,000 | 4/09 |
| Towne Pavilion Center II | Oceanfront | TowneBank | 83,811 | 1/09 |



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