Some commercial real estate firms can help you with a particular problem. **CB Richard Ellis** helps you solve all your real estate issues. We have the optimal blend of broad service offerings, and a high quality delivery platform that touches every part of the globe. From valuation to debt or equity financing, facilities management to corporate services, asset management to investment sales as well as office, industrial and retail leasing.

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**EXPOSITIONAL THINKING**
Data for Old Dominion University Center for Real Estate and Economic Development Market Survey was collected in the fourth quarter - 2003.
Welcome to the 2004 issue of the Old Dominion University Center for Real Estate and Economic Development Real Estate Market Review and Forecast.

Since 1995, the Old Dominion University Center for Real Estate and Economic Development has published annual statistical summaries of prevailing conditions and trends in the retail, office, industrial, single family and multi-family segments of the Hampton Roads real estate industry. Essentially, the Hampton Roads real estate market encompasses the cities of Chesapeake, Hampton, Newport News, Norfolk, Poquoson, Portsmouth, Suffolk, Virginia Beach, and Williamsburg plus the counties of Gloucester, Isle of Wight, James City, and York.

Hampton Roads, or the Norfolk — Virginia Beach — Newport News VA-NC MSA as officially designated by the Office of Management and Budget, encompasses 2,349 square miles with a population of more than 1.6 million. It is the fourth largest MSA in the southeast US, has a workforce of nearly 800,000, and is the largest consumer market between Washington DC and Atlanta. The region is comprised of 15 cities and counties in Southeastern Virginia and Northeastern North Carolina.

Our regional economy is poised to continue its expansion. The consensus forecast for the nation to grow as a whole is 4.6% and the same factors that are driving the US economy to a great extent drive our regional economy. While results from the Old Dominion University Economic Forecast team were not available at the time of publication, our region's economy is healthy and should continue to add more jobs.

The College of Business and Public Administration has its new Dean, Dr. Nancy Bagranoff. She is a staunch supporter of our Center and has been instrumental in securing funding for the Center. We welcome Billy King as the new Chair of the Advisory Board. He is replacing Jonathon Guion, who has served as Chair for the last two years. New members to the Advisory Board this year include Sandi Prestridge, Maureen Rooks and April Kolezar.

Please visit our website at www.odu.edu/creed for the latest information on our region as well as to keep abreast of Center activities and research.

Lastly, many thanks to key Executive Committee members including Joyce Hartman and Brian Dundon for their tireless efforts in orchestrating this event and coordinating the massive data collection efforts. Also sincere thanks go to the many volunteers who provide data for our reports. As always, special thanks are due to all the members of the real estate and economic development community. Your continued support is appreciated. If you have suggestions on how to improve upon these reports, or would like to comment in general, please email me at jlombard@odu.edu.

John R. Lombard, Ph.D.
Assistant Professor, Department of Urban Studies and Public Administration
Director, Center for Real Estate and Economic Development
Old Dominion University
College of Business and Public Administration
Norfolk, VA 23529-0218
(757) 683-4809

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Peter M. McCrary, David L. Stankus

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Our new award-winning 50,000-square-foot industrial shell building is not only ready for immediate ownership and buildout, it’s also expandable to 130,000 square feet. Strategically situated within an Enterprise Zone and Foreign Trade Zone in the heart of Hampton Roads, it’s convenient both to transit along the Route 58/460/13 corridor and to shipping through one of our nation’s busiest ports. And by moving to Suffolk, you join such corporate giants as Target Distribution, Sara Lee Coffee & Tea, Unilever/Lipton Tea, CIBA Specialty Chemicals and Kraft/Planters Peanuts. For more on our building’s features, visit our website at www.Suffolk.va.us/econdev/indbldgs/shell.html. Then make the smart move and give us a call. Discover for yourself why it’s a good time to be in Suffolk.

Suffolk Industrial Park Shell Building for sale.

Smart building. Smart location. Smart move.

Department of Economic Development 757-923-3620 econdev@city.Suffolk.va.us www.Suffolk.va.us
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                     Thalhimer

Financial Support: Old Dominion University Center for Real Estate and Economic Development (CREED) functions and reports are funded by donations from individuals, organizations and the CREED Advisory Board.

Special Thanks To:

Robert R. Beasley, Jr.
NAI Harvey Lindsay

Kenneth Benassi
Advantis GVA

Ron Biesecker
Thalhimer

Charles Dickinson
NAI Harvey Lindsay

Brian Dundon
Brian J. Dundon and Associates

Abe Ellis, SIOR
Thalhimer

Trip Ferguson
Advantis GVA

Jonathan Guion, SIOR
Sperry Van Ness

Joyce Hartman
Sperry Van Ness

Virginia Henderson
Commercial First Appraisers

Christine Kaempf
Thalhimer

William E. King, SIOR
NAI Harvey Lindsay

Patrick Mumey, SIOR
Thalhimer

Robert Phillips
Thalhimer

Real Estate Assessor’s Office
City of Chesapeake

Worth Remick
CB Richard Ellis

Michael Shapiro
Advantis GVA

Eugene L. Worley, Jr.
NAI Harvey Lindsay

Statistical data provided by Society of Office and Industrial Realtors (SIOR) Comparative Statistics Market Survey.
Research data provided by Real Capital Analytics through Sperry Van Ness.
General Overview

This report analyzes the 2003 industrial real estate conditions within the Norfolk-Virginia Beach-Newport News, Virginia Metropolitan Statistical Area (the "MSA") which is also known as Hampton Roads. It provides inventory, vacancy, rent, sale and other data for the MSA. The survey includes properties in the cities of Chesapeake, Hampton, Newport News, Norfolk, Poquoson, Portsmouth, Suffolk, Virginia Beach, and Williamsburg, plus the counties of Gloucester, James City and York.

METHODOLOGY

This survey includes the following types of properties:

- Office-warehouse, industrial and shop facilities of 5,000 square feet or greater, although some facilities of less than 5,000 square feet may be included.
- Properties must have less than 80% office space to be included in the SIOR/ODU survey.
- Both owner-occupied and leased properties are included. Owner-occupied is defined as a property that is 100% occupied by a business that is the same as or is related to the owner of the building.
- This survey includes all properties that are available and are listed for sale or lease regardless of whether they are occupied, unless they are strictly available for sale as an investment property. For example, a property that is available for sale and is currently occupied on a short-term lease is included.

The survey excludes the following types of properties:

- Land
- Warehouse or shop facilities on shipyard properties
- Warehouse or other industrial facilities on federal government property (i.e., U.S. Naval Bases)
- Industrial facilities on government property (i.e., Norfolk International Terminal or Newport News Marine Terminal)

Submarket delineations were determined by functional market areas with minimal regard to city boundaries. The entire market is divided into 15 submarkets defined by industrial building concentrations, the transportation network, and pertinent physical features. The area map provides a location key for reference.
The Old Dominion University Center for Real Estate and Economic Development has been tracking the inventory of the Hampton Roads industrial market since 1995. The results of the 2003 survey indicate that the Hampton Roads industrial market currently encompasses 92,195,051 square feet of space located in 2,656 buildings throughout the region. This is an increase of 937,961 square feet, or one percent, from the 2002 survey. The majority of the space was added through expansions and new construction, while some is due to more accurate data collection.

Based on absorption, actual growth in the market was two and one half percent, which outpaces the two percent absorption the market achieved in 2002, but falls short of the four percent achieved in 2001. Growth of the Hampton Roads industrial market for 2003 outpaced the growth of the national market, which was less than one percent.

**OVERVIEW**

**NATIONAL TRENDS**

During 2003, the industrial market across the nation was mixed with some markets reporting very strong absorption, while others were struggling with negative results. Net absorption across the nation was low by historical benchmarks, but remained positive with about seventy percent of the markets posting positive absorption. Los Angeles, the Inland Empire in California, Chicago, Milwaukee, and Northern and Central New Jersey were by far the strongest markets and by themselves marked about forty percent of the total national absorption. According to the SIOR survey, the vacancy rate for the nation as a whole at the end of the year was 8.5%. Other national surveys have shown the overall vacancy for major markets as high as 11.5%. The SIOR survey tends to cover a substantially larger number of markets and therefore provides a better representation of the nation as a whole.

Although many major markets are showing a softening of rents for industrial properties, the market overall maintains very healthy rents in line with past years. The resilience of the industrial market can be attributed to the great diversity of its users. Transportation users account for about 15 percent of the industrial market, wholesalers account for about 20 percent, manufacturers about 24 percent and a diverse group of other businesses for the remaining 41 percent. The industrial market will remain solid through the 2004 year, and any increases in overall economic activity will add strength to the market base. Because of the diversity of the individual markets across the nation, some areas will continue to out perform others by substantial margins.

Investor interest in the industrial market remains very strong and the total volume of industrial investment sales in 2003 exceeded 2002. Capitalization rates for investment properties continue to drop due to low interest rates and a large amount of investment money still searching for product. This drop in capitalization rates brings a corresponding increase in property values for sellers. Warehouse properties with their stable tenant base have been the most popular, and the average capitalization rate for the nation is at 8.5%. Research and development, or flex properties were not quite as popular because of the heavier office component inherent in flex space and the concurrent soft office market. The average national capitalization rate for flex properties is at 9.2%, down slightly from the prior year. Portfolio transactions remain a major component of the industrial investment market, representing about 30 percent of the total volume. In 2003, sales of over 55 industrial portfolios totaling over $3 billion were announced or under contract. Eight of these portfolio transactions were valued at over $100 million.
In following with the SIOR national industrial survey, the Hampton Roads industrial market is within the South-Atlantic Region of the United States which includes twenty seven markets from Maryland through Florida. The region as a whole saw an increase in its industrial vacancy rate rise to 12 percent, but there was a wide range among individual markets. Atlanta, Columbia, Greensboro/Winston Salem, Raleigh and Richmond posted the highest vacancy rates from 14 up to 24 percent, while Gainesville, Ocala, West Palm Beach and Hampton Roads posted the lowest vacancy rates ranging from 3 to 6 percent. Hampton Roads represented one of the bright spots on the map with above average absorption and tight vacancy rates.

Until 2001 and 2002, the vacancy rate for industrial property in Hampton Roads steadily declined for several years. The long-term drop in the vacancy rate had been a result of declining industrial construction with a steady continued demand for space. The vacancy rate at the end of 2002 rose to 7.5%. The vacancy rate posted at the end of 2003 was 5.99%, which again continues the long-term downward trend. This continued drop is a result of minimal new construction combined with steady absorption. Hampton Roads remains a very stable, healthy industrial market when compared with many other regional markets and the regional averages.

Annual industrial absorption in Hampton Roads has also shown a downward trend from over 3 million square feet in 2000, 2.8 million square feet in 2001, and almost 2 million square feet in 2002. This past year the annual absorption increased slightly to 2.27 million square feet. Hampton Roads outpaced 90% of the other regional markets in the South-Atlantic region, following only Atlanta, Baltimore and Orlando. Economic activity, especially strength in retail sales, helped to reverse the long-term downward trend in absorption. Also, the continued spending for defense and homeland security should have a positive impact on the Hampton Roads market during the coming year.

### HAMPTON ROADS INDUSTRIAL MARKET VACANCY RATE
(as of 1st month of the year)

<table>
<thead>
<tr>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Rate</td>
<td>10.2</td>
<td>10.9</td>
<td>13.5</td>
<td>12.3</td>
<td>10.8</td>
<td>9.2</td>
<td>8.7</td>
<td>8.6</td>
<td>7.3</td>
<td>7.6</td>
<td>6.4</td>
<td>7.4</td>
<td>5.99</td>
<td>7.5</td>
</tr>
<tr>
<td>Rate</td>
<td>10.2</td>
<td>10.9</td>
<td>13.5</td>
<td>12.3</td>
<td>10.8</td>
<td>9.2</td>
<td>8.7</td>
<td>8.6</td>
<td>7.3</td>
<td>7.6</td>
<td>6.4</td>
<td>7.4</td>
<td>5.99</td>
<td>7.5</td>
</tr>
</tbody>
</table>
Norfolk Industrial Park, the City of Suffolk and the Copeland/Lower Peninsula submarkets are the three largest concentrations of industrial space in the Hampton Roads market, offering between 9.9 and 9.2 million square feet in each submarket. The Copeland/Lower Peninsula submarket posted the highest vacancy in the overall market with 15.5 percent, while Norfolk Industrial and the City of Suffolk are at 4.7 % and 6.1%, respectively. The greatest change in vacancy occurred in Portsmouth, which went from an 18% vacancy in 2002 to the market’s current second lowest vacancy of 2.2%. The Greenbrier submarket, which is also the fourth largest concentration of space at 8.15 million square feet, currently boasts the tightest vacancy with only 1.5% of its sub-market available.

Land for growth is a major consideration for the location of new buildings in the market. Suffolk continues to outpace the other submarkets mostly because of available land and access to area transportation systems. The older industrial parks will remain strong because of their established locations and proximity to the population base, but new growth will continue to occur in the surrounding suburban submarkets.

The breakdown of available space by unit size continues to change slightly from year to year, but is still evenly distributed through the building size ranges. The most recognizable change in the past year has been a shift back to a more abundant supply of the smallest units. From a standpoint of the number of buildings that are available in each size range, the percentages are as follows:

<table>
<thead>
<tr>
<th>Building Size (SF)</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; 5,000</td>
<td>30%</td>
<td>15%</td>
<td>32%</td>
</tr>
<tr>
<td>5,000 – 20,000</td>
<td>40%</td>
<td>52%</td>
<td>44%</td>
</tr>
<tr>
<td>20,000 – 40,000</td>
<td>15%</td>
<td>18%</td>
<td>12%</td>
</tr>
<tr>
<td>40,000 – 60,000</td>
<td>9%</td>
<td>8%</td>
<td>7%</td>
</tr>
<tr>
<td>&gt; 60,000</td>
<td>6%</td>
<td>7%</td>
<td>5%</td>
</tr>
</tbody>
</table>

The number of units versus the percentage of overall available square footage in each category shows an expected trend as a fewer number of larger buildings clearly represent the majority of available square footage. The percentage of overall available space in each size range is as follows:

<table>
<thead>
<tr>
<th>Building Size (SF)</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; 5,000</td>
<td>5%</td>
</tr>
<tr>
<td>5,000 – 20,000</td>
<td>21%</td>
</tr>
<tr>
<td>20,000 – 40,000</td>
<td>16%</td>
</tr>
<tr>
<td>40,000 – 60,000</td>
<td>15%</td>
</tr>
<tr>
<td>&gt; 60,000</td>
<td>43%</td>
</tr>
</tbody>
</table>
Average market asking rents for smaller units has gone down slightly during the last year. The increase in the number of smaller units available has lead to a slight decrease in asking rents. The increases in asking rents for the mid-range units is reflective of the decrease in the overall availability of those units, while the slight decrease in asking rents for the largest units is reflective of the older age of those units and a larger average unit size available. The difference between asking rents and negotiated rents (depending on the age and location of the building) is usually around five percent.

### AVERAGE MARKET ASKING RENTS ($/SF)

<table>
<thead>
<tr>
<th>Building Size (SF)</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; 5,000</td>
<td>$6.34</td>
<td>$7.16</td>
<td>$6.95</td>
</tr>
<tr>
<td>5,000 – 20,000</td>
<td>$4.46</td>
<td>$5.80</td>
<td>$5.89</td>
</tr>
<tr>
<td>20,000 – 40,000</td>
<td>$4.35</td>
<td>$4.99</td>
<td>$5.21</td>
</tr>
<tr>
<td>40,000 – 60,000</td>
<td>$4.15</td>
<td>$4.13</td>
<td>$4.44</td>
</tr>
<tr>
<td>&gt; 60,000</td>
<td>$3.24</td>
<td>$3.43</td>
<td>$3.15</td>
</tr>
</tbody>
</table>

### SALES OVERVIEW

The 2003 year showed a drop in the number of industrial buildings that were sold as compared to the last several years. Available industrial buildings have been hard to find for a combination of reasons. The slow economy has put many expansion plans on hold and more owners are making do with their existing buildings. Low interest rates have also allowed a large number of owners, especially investors, to refinance, which for users often leads to making improvements as opposed to moving. These factors, combined with the lack of new construction, have created historically low vacancy rates and industrial users that want to grow are having a difficult time finding a property that they can purchase.

Free standing buildings sales ranged in size from less than 5,000 square feet up to 827,000 square feet. Several sales of buildings over 100,000 square feet took place. Overall sale prices for typical industrial properties ranged from a low of $12.22 per square foot up to a high of around $69.00 per square foot (excluding excess land), with the obvious distinctions being building size, location and age. The average sales price for an industrial building in the Hampton Roads market increased from an adjusted $37.79 per square foot in 2002 to $42.05 per square foot in 2003.

Research and development and newer buildings with substantial office components continued to sell in the sixty to seventy dollars per square foot range, while the typical industrial buildings sold between the mid-twenties to the high forties per square foot. The price variances are due to location, age and physical condition of the property.

Investors continue to seek out industrial properties because of their inherent stability. Both institutional and small local investors had a busy year finding transactions to add to their portfolios. Across the mid-Atlantic, region capitalization rates for institutional quality industrial investments ranged from 8% to 11.5%. Investors in local properties were targeting capitalization rates in the 10% to 10.5 % range, while the national average remained closer to 8.5%.
## REPRESENTATIVE BUILDING SALES TRANSACTIONS

<table>
<thead>
<tr>
<th>Date</th>
<th>Location</th>
<th>Sq. Ft.</th>
<th>Price</th>
<th>$/SF</th>
<th>Acres</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aug. 03</td>
<td>Bayside Rd. Virginia Beach</td>
<td>71,638</td>
<td>$4,320,000</td>
<td>$60.30</td>
<td>n/a</td>
</tr>
<tr>
<td>Aug. 03</td>
<td>Ponderosa St. Portsmouth</td>
<td>21,117</td>
<td>$630,000</td>
<td>$29.83</td>
<td>3.5</td>
</tr>
<tr>
<td>Aug. 03</td>
<td>Middle Ground Blvd. Newport News</td>
<td>42,943</td>
<td>$1,950,000</td>
<td>$45.41</td>
<td>5.79</td>
</tr>
<tr>
<td>Jun 03</td>
<td>Woodlake Dr. Chesapeake</td>
<td>41,404</td>
<td>$1,650,000</td>
<td>$39.85</td>
<td>n/a</td>
</tr>
<tr>
<td>May 03</td>
<td>Crusader Cir. Virginia Beach</td>
<td>153,920</td>
<td>$4,500,000</td>
<td>$29.24</td>
<td>10</td>
</tr>
<tr>
<td>May 03</td>
<td>Ingleside Rd. Norfolk</td>
<td>20,000</td>
<td>$455,000</td>
<td>$22.75</td>
<td>1.4</td>
</tr>
<tr>
<td>Mar 03</td>
<td>Diamond Hill Rd. Chesapeake</td>
<td>11,720</td>
<td>$535,000</td>
<td>$45.65</td>
<td>n/a</td>
</tr>
<tr>
<td>Jan 03</td>
<td>Rochambeau Dr. James City County</td>
<td>3,843</td>
<td>$183,500</td>
<td>$47.75</td>
<td>n/a</td>
</tr>
<tr>
<td>Jan 03</td>
<td>East St. Hampton</td>
<td>12,000</td>
<td>$527,500</td>
<td>$43.96</td>
<td>n/a</td>
</tr>
</tbody>
</table>

## 2003 SIOR/ODU HAMPTON ROADS INDUSTRIAL SURVEY

### Submarket Totals

<table>
<thead>
<tr>
<th>Submarket</th>
<th>City</th>
<th>Bldgs Surveyed</th>
<th>Total Sq Ft</th>
<th>Vacancy Sq Ft</th>
<th>Vacancy %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Greenbrier Area</td>
<td>Chesapeake</td>
<td>257</td>
<td>8,150,448</td>
<td>121,821</td>
<td>1.49%</td>
</tr>
<tr>
<td>Bainbridge/S. Elizabeth River Area</td>
<td>Chesapeake</td>
<td>139</td>
<td>5,409,110</td>
<td>170,236</td>
<td>3.15%</td>
</tr>
<tr>
<td>Cavalier Industrial Park Area</td>
<td>Chesapeake</td>
<td>176</td>
<td>5,030,617</td>
<td>276,859</td>
<td>5.50%</td>
</tr>
<tr>
<td>Norfolk Commerce Park/ Central Norfolk Area</td>
<td>Norfolk</td>
<td>144</td>
<td>6,984,006</td>
<td>375,939</td>
<td>5.38%</td>
</tr>
<tr>
<td>Norfolk Industrial Park Area</td>
<td>Norfolk</td>
<td>341</td>
<td>9,907,945</td>
<td>465,490</td>
<td>4.70%</td>
</tr>
<tr>
<td>West Side/Midtown Norfolk Area</td>
<td>Norfolk</td>
<td>253</td>
<td>5,970,754</td>
<td>181,545</td>
<td>3.04%</td>
</tr>
<tr>
<td>Lynnhaven Area</td>
<td>Virginia Beach</td>
<td>169</td>
<td>5,703,254</td>
<td>296,488</td>
<td>5.20%</td>
</tr>
<tr>
<td>Greenwich/Cleveland Streets Area</td>
<td>Virginia Beach</td>
<td>128</td>
<td>3,038,487</td>
<td>74,431</td>
<td>2.45%</td>
</tr>
<tr>
<td>Airport Industrial Park Area</td>
<td>Virginia Beach</td>
<td>78</td>
<td>3,850,048</td>
<td>261,652</td>
<td>6.80%</td>
</tr>
<tr>
<td>City of Portsmouth</td>
<td>Portsmouth</td>
<td>159</td>
<td>3,805,148</td>
<td>82,522</td>
<td>2.17%</td>
</tr>
<tr>
<td>City of Suffolk</td>
<td>Suffolk</td>
<td>143</td>
<td>9,269,030</td>
<td>568,506</td>
<td>6.13%</td>
</tr>
<tr>
<td><strong>Southside Totals</strong></td>
<td></td>
<td><strong>1,987</strong></td>
<td><strong>67,118,847</strong></td>
<td><strong>2,875,489</strong></td>
<td><strong>4.28%</strong></td>
</tr>
<tr>
<td>Copeland/Lower Peninsula Area</td>
<td>Peninsula</td>
<td>361</td>
<td>9,262,250</td>
<td>1,438,690</td>
<td>15.53%</td>
</tr>
<tr>
<td>Oyster Point/Middle Peninsula Area</td>
<td>Peninsula</td>
<td>149</td>
<td>3,804,304</td>
<td>185,609</td>
<td>4.88%</td>
</tr>
<tr>
<td>Oakland/Upper Peninsula Area</td>
<td>Peninsula</td>
<td>117</td>
<td>4,656,166</td>
<td>305,250</td>
<td>6.56%</td>
</tr>
<tr>
<td>Williamsburg Extended Area</td>
<td>Peninsula</td>
<td>42</td>
<td>7,353,484</td>
<td>716,198</td>
<td>9.74%</td>
</tr>
<tr>
<td><strong>Peninsula Totals</strong></td>
<td></td>
<td><strong>669</strong></td>
<td><strong>25,076,204</strong></td>
<td><strong>2,645,747</strong></td>
<td><strong>10.55%</strong></td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td></td>
<td><strong>2,656</strong></td>
<td><strong>92,195,051</strong></td>
<td><strong>5,521,236</strong></td>
<td><strong>5.99%</strong></td>
</tr>
</tbody>
</table>
INDUSTRIAL SUBMARKETS

Southside
Suffolk
Portsmouth
West Norfolk
Central Norfolk
Cavalier
Bainbridge
Norfolk Industrial Park
Airport Industrial Park
Greenbrier
Cleveland
Lynnhaven

Peninsula
Copeland
Oakland
Oyster Point
Williamsburg Extended
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<thead>
<tr>
<th>RETAIL</th>
<th>OFFICE</th>
<th>INDUSTRIAL/OTHER</th>
<th>MULTIFAMILY</th>
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<tr>
<td>Red Mill Commons</td>
<td>150 West Main</td>
<td>All Safe Self-Storage</td>
<td>Hampton Creek Apartments</td>
</tr>
<tr>
<td>Virginia Beach, VA</td>
<td>Richmond, VA</td>
<td>Virginia Beach, VA</td>
<td>Norfolk, VA</td>
</tr>
<tr>
<td>Las Gaviotas Shopping Center</td>
<td>Amerigroup Headquarters Building</td>
<td>Concrete Precast Systems</td>
<td>Monticello Apartments</td>
</tr>
<tr>
<td>Chesapeake, VA</td>
<td>Chesapeake, VA</td>
<td>Chesapeake, VA</td>
<td>Williamsburg, VA</td>
</tr>
<tr>
<td>Strawbridge Marketplace</td>
<td>Fountain Plaza II</td>
<td>Comfort Suites Hotel</td>
<td>Signature Place</td>
</tr>
<tr>
<td>Chesapeake, VA</td>
<td>Newport News, VA</td>
<td>Norfolk, VA/Airport</td>
<td>Hampton, VA</td>
</tr>
<tr>
<td>Hilltop Marketplace</td>
<td>Marsh Landing</td>
<td>JFCOM/GSA</td>
<td>Hillside &amp; Fenner Street Apartments</td>
</tr>
<tr>
<td>Virginia Beach, VA</td>
<td>Virginia Beach, VA</td>
<td>Suffolk, VA</td>
<td>Norfolk, VA</td>
</tr>
</tbody>
</table>

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