MARKET SURVEY

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Center for Real Estate and Economic Development
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THANKS A MILLION
(MAKE THAT $445 MILLION)

Thalhimer/Cushman & Wakefield arranged over $445 million in sales & leases in 2004. Many thanks to our clients.
Welcome and thanks for joining us for the 2005 Old Dominion University Center for Real Estate and Economic Development (CREED) Real Estate Market Review and Forecast.

For the last ten years, CREED has annually published statistical summaries of prevailing real estate conditions and trends in Hampton Roads. Our report continues to evolve. This year, we have added an Investment Market Review of Commercial Properties authored by Jonathon Guion. If you have ideas for improving upon future reports of the market review please let us know.

Hampton Roads is officially designated the Virginia Beach – Norfolk – Newport News VA-NC MSA by the Office of Management and Budget. It encompasses 2,628 square miles, has a population of more than 1.6 million and a workforce of nearly 800,000. Hampton Roads is the fourth largest MSA in the southeast U.S., comprised of 16 cities and counties in Southeastern Virginia and Northeastern North Carolina, and is the largest consumer market between Washington DC and Atlanta.

According to John Whaley, Deputy Executive Director for Economics at the Hampton Roads Planning Commission, our region’s economy continued to grow in 2004 although evidence is building that a modest slowdown is in progress. This slower rate of local growth closely mirrors similar trends in both the state and national economies. For 2005, our economy is expected to continue to expand, although the pace of the expansion is likely to be slightly less than the rate experienced in 2004. The bottom line is that our economy continues to expand, which is good news for jobs and good news for the real estate industry.

CREED’S advisory board membership is expanding. We welcome the following appointments to our Executive Committee: Craig Cope as our new Membership Chair, Brad Sanford as our new Curriculum Co-Chair and Cliff Moore as our new Sponsorship Chair. We would also like to acknowledge and welcome our new Advisory Board members: Jim Bradshaw, Aubrey Layne, Dale Mueller, and Leo Sutton.

As a reminder, please visit our Center’s website at www.odu.edu/creed for the latest information on our region and CREED’s activities, members and research. We have a new student services section where you can find students who are interested in internships and job opportunities.

There are many people to thank for their contributions to this report and the annual market review. Our research chair, Brian Dundon and his capable committee, deserve many thanks for providing all quality control of our publication. Joyce Hartman and her committee orchestrate the presentation and reception. Of course, a special thank you to all the volunteers within the real estate and economic development community for providing their expertise and sharing their data. None of this is possible without your commitment.

In closing, please note that every effort is made to provide the most accurate information in these reports. If you find an error or have a suggestion on how to improve upon these reports, please contact me with comments.

Your continued support is truly appreciated.

John R. Lombard, Ph.D.
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Director, Center for Real Estate and Economic Development
Old Dominion University • College of Business and Public Administration
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Acknowledgements

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Thalhimer / Cushman & Wakefield

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Sperry Van Ness

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GENERAL OVERVIEW

This report analyzes the 2004 industrial real estate conditions within the Virginia Beach-Norfolk-Newport News, VA-NC Metropolitan Statistical Area (the "MSA") that 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, York and Isle of Wight.

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)

Functional market areas determined submarket delineations with minimal regard to city boundaries. The entire market is divided into 16 submarkets defined by industrial building concentrations, the transportation network, and pertinent physical features. The area map provides a location key for reference.
OVERVIEW

The Old Dominion University Center for Real Estate and Economic Development (CREED) has been tracking the inventory of the Hampton Roads industrial market since 1995. The results of the 2004 survey indicate that the Hampton Roads industrial market currently encompasses 95,999,871 total square feet of space located in 2,715 buildings throughout the Region. This is an increase of 3,804,820 square feet, or nearly 4.0%, from the 2003 survey. This increase is due to the addition of a new submarket known as Isle of Wight, in addition to the inclusion of building expansions and other new construction in the region. Continued improvement in data collection also contributed to this increase in inventory.

Based on absorption, actual growth in the market was 1.7%, which fell short of the 2.5% growth in 2003.

HAMPTON ROADS OVERVIEW

As part of the SIOR National Industrial Survey, the Hampton Roads industrial market is within the South-Atlantic Region of the United States, which includes twenty-seven major markets spanning from Maryland into Florida. The South-Atlantic Region as a whole saw some increase in its industrial vacancy rates rise; however, Hampton Roads posted one of the lowest vacancy rates with an overall vacancy rate of slightly more than 6.0%. Many of our local submarkets saw vacancies at year-end below 3.5%, another indication of the strength of the prime industrial pockets here locally. The availability of “for sale” industrial buildings, particularly on the Southside, continued to be a major deficit in the market.

Hampton Roads witnessed a continual decline in vacancy rates until 2002, primarily due to decreased new construction. But the end of 2002 saw a rise in vacancy to 7.5%, followed by a sharp reduction to just below 6.0% in 2003. The Hampton Roads market remained steady in 2004 and is once again hovering in the 6.0% range at year’s end. Hampton Roads remains a very stable, healthy industrial market when compared with many other regional markets.
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 in excess of 9 million square feet each. Once again, the Copeland/Lower Peninsula submarket posted the highest vacancy in the overall market with 17.43%, while Norfolk Industrial and the City of Suffolk are at 4.07% and 6.13%, respectively. The greatest upward change in vacancy occurred in Portsmouth, which grew from a 2.2% vacancy in 2003 to the market’s current second highest vacancy of 9.13% in 2004. The Greenbrier submarket, which is also the fourth largest concentration of space at 8.22 million square feet, currently boasts the lowest vacancy with only 2.12% of its sub-market available. This does not take into consideration the recently added Isle of Wight submarket (vacancy of 0.68%), where buildings have been constructed with occupancy determined prior to construction.

Land for growth is a major consideration for the location of new buildings in the region, and is very limited in areas in close proximity to the major population bases. 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.
Average market asking rents for smaller spaces (less than 20,000 square feet) have risen substantially during the past year. The decrease in the number of smaller units available has led to this increase in asking rents. Also, a similar increase in asking rents for the mid-range units (20,000 to 40,000 square feet) is reflective of the decrease in the overall availability of these 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 variance between asking lease rates and final negotiated rates, highly dependent on the age and location of a particular building, has been, between 6% and 9% in 2004.

### PERCENTAGE OF AVAILABLE BUILDING BY SIZE RANGE

<table>
<thead>
<tr>
<th>Begin Size (SF)</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; 5,000</td>
<td>30%</td>
<td>15%</td>
<td>32%</td>
<td>25%</td>
</tr>
<tr>
<td>5,000 - 20,000</td>
<td>40%</td>
<td>52%</td>
<td>44%</td>
<td>40%</td>
</tr>
<tr>
<td>20,000 - 40,000</td>
<td>15%</td>
<td>18%</td>
<td>12%</td>
<td>15%</td>
</tr>
<tr>
<td>40,000 - 60,000</td>
<td>9%</td>
<td>8%</td>
<td>7%</td>
<td>8%</td>
</tr>
<tr>
<td>&gt; 60,000</td>
<td>6%</td>
<td>7%</td>
<td>5%</td>
<td>12%</td>
</tr>
</tbody>
</table>

Available space continues to be most lacking in the smaller size range (below 5,000 square feet), and also lacking in “for sale” opportunities, in all size ranges. This trend is likely to continue into the foreseeable future. As mentioned above, land availability is extremely limited in the central portion of the Hampton Roads market.

### PERCENTAGE OF AVAILABLE SPACE BY SIZE RANGE

<table>
<thead>
<tr>
<th>Begin Size (SF)</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; 5,000</td>
<td>3%</td>
</tr>
<tr>
<td>5,000 - 20,000</td>
<td>18%</td>
</tr>
<tr>
<td>20,000 - 40,000</td>
<td>19%</td>
</tr>
<tr>
<td>40,000 - 60,000</td>
<td>15%</td>
</tr>
<tr>
<td>&gt; 60,000</td>
<td>45%</td>
</tr>
</tbody>
</table>

Average market asking rents for smaller spaces (less than 20,000 square feet) have risen substantially during the past year. The decrease in the number of smaller units available has led to this increase in asking rents. Also, a similar increase in asking rents for the mid-range units (20,000 to 40,000 square feet) is reflective of the decrease in the overall availability of these 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 variance between asking lease rates and final negotiated rates, highly dependent on the age and location of a particular building, has been, between 6% and 9% in 2004.

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

<table>
<thead>
<tr>
<th>Begin Size (SF)</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; 5,000</td>
<td>$6.34</td>
<td>$7.16</td>
<td>$6.95</td>
<td>$7.30</td>
</tr>
<tr>
<td>5,000 - 20,000</td>
<td>$4.46</td>
<td>$5.80</td>
<td>$5.89</td>
<td>$6.20</td>
</tr>
<tr>
<td>20,000 - 40,000</td>
<td>$4.35</td>
<td>$4.99</td>
<td>$5.21</td>
<td>$5.45</td>
</tr>
<tr>
<td>40,000 - 60,000</td>
<td>$4.15</td>
<td>$4.13</td>
<td>$4.44</td>
<td>$4.75</td>
</tr>
<tr>
<td>&gt; 60,000</td>
<td>$3.24</td>
<td>$3.43</td>
<td>$3.15</td>
<td>$4.00</td>
</tr>
</tbody>
</table>

### SALES OVERVIEW

The 2004 sales activity for industrial buildings witnessed significant improvement in limited areas. A somewhat rare and abundant supply of “for sale” opportunities on the Peninsula, flowing into 2004 from previous years, led to a number of closed sales in 2004. The Southside however, has been faced with a lack of purchase opportunities for several years, with minimal relief in sight. Available industrial buildings have been hard to find for a combination of reasons. Due to the election year in 2004, the slowed economy put some expansion plans on hold and the lack of available sites has factored into the decisions to not move.
<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>Dec</td>
<td>Norfolk</td>
<td>12,739</td>
<td>$725,000</td>
<td>$56.91</td>
<td>1.85</td>
</tr>
<tr>
<td></td>
<td>Norfolk Square</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Oct</td>
<td>Suffolk</td>
<td>52,541</td>
<td>$2,000,000</td>
<td>$38.07</td>
<td>17.18</td>
</tr>
<tr>
<td></td>
<td>Progress Road</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sep</td>
<td>Suffolk</td>
<td>100,000</td>
<td>$6,000,000</td>
<td>$60.00</td>
<td>7.3</td>
</tr>
<tr>
<td></td>
<td>Lakeview Pkwy.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Jul</td>
<td>Newport News</td>
<td>170,000</td>
<td>$5,800,000</td>
<td>$34.12</td>
<td>11.75</td>
</tr>
<tr>
<td></td>
<td>Pickett’s Line</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Jul</td>
<td>Portsmouth</td>
<td>110,481</td>
<td>$2,500,000</td>
<td>$22.63</td>
<td>21.42</td>
</tr>
<tr>
<td></td>
<td>Elm Avenue</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Jun</td>
<td>Hampton</td>
<td>100,378</td>
<td>$1,725,000</td>
<td>$17.19</td>
<td>13.00</td>
</tr>
<tr>
<td></td>
<td>58th Street</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Jun</td>
<td>Portsmouth</td>
<td>37,200</td>
<td>$1,150,000</td>
<td>$30.91</td>
<td>4.30</td>
</tr>
<tr>
<td></td>
<td>Victory Blvd.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>May</td>
<td>James City County</td>
<td>307,784</td>
<td>$8,000,000</td>
<td>$25.99</td>
<td>74.37</td>
</tr>
<tr>
<td></td>
<td>John Deere Drive</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Apr</td>
<td>Chesapeake</td>
<td>151,669</td>
<td>$3,817,000</td>
<td>$25.17</td>
<td>13.31</td>
</tr>
<tr>
<td></td>
<td>Dexter Street</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mar</td>
<td>Norfolk</td>
<td>16,542</td>
<td>$600,000</td>
<td>$36.27</td>
<td>1.06</td>
</tr>
<tr>
<td></td>
<td>Progress Road</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Feb</td>
<td>Chesapeake</td>
<td>0</td>
<td>$3,400,000</td>
<td>$64.430 / acre</td>
<td>52.77</td>
</tr>
<tr>
<td></td>
<td>Smith Douglas Road</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
## 2004 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>264</td>
<td>8,220,916</td>
<td>174,544</td>
<td>2.12%</td>
</tr>
<tr>
<td>Bainbridge/S. Elizabeth River Area</td>
<td>Chesapeake</td>
<td>140</td>
<td>5,419,620</td>
<td>182,300</td>
<td>3.36%</td>
</tr>
<tr>
<td>Cavalier Industrial Park Area</td>
<td>Chesapeake</td>
<td>183</td>
<td>5,548,410</td>
<td>451,380</td>
<td>8.14%</td>
</tr>
<tr>
<td>Norfolk Commerce Park/ Central Norfolk Area</td>
<td>Norfolk</td>
<td>139</td>
<td>7,022,625</td>
<td>204,354</td>
<td>2.91%</td>
</tr>
<tr>
<td>Norfolk Industrial Park Area</td>
<td>Norfolk</td>
<td>345</td>
<td>10,000,764</td>
<td>407,199</td>
<td>4.07%</td>
</tr>
<tr>
<td>West Side/Midtown Norfolk Area</td>
<td>Norfolk</td>
<td>258</td>
<td>6,096,910</td>
<td>392,273</td>
<td>6.43%</td>
</tr>
<tr>
<td>Lynnhaven Area</td>
<td>Virginia Beach</td>
<td>180</td>
<td>5,957,567</td>
<td>197,311</td>
<td>3.31%</td>
</tr>
<tr>
<td>Greenwich Rd./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>130,560</td>
<td>3.39%</td>
</tr>
<tr>
<td>City of Portsmouth</td>
<td>Portsmouth</td>
<td>161</td>
<td>3,755,675</td>
<td>342,877</td>
<td>9.13%</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>Isle of Wight County</td>
<td>Isle of Wight</td>
<td>14</td>
<td>2,060,950</td>
<td>14,000</td>
<td>0.68%</td>
</tr>
<tr>
<td><strong>Southside Totals</strong></td>
<td></td>
<td><strong>2,033</strong></td>
<td><strong>70,241,002</strong></td>
<td><strong>3,139,735</strong></td>
<td><strong>4.47%</strong></td>
</tr>
<tr>
<td>Copeland/Lower Peninsula Area</td>
<td>Peninsula</td>
<td>362</td>
<td>9,612,986</td>
<td>1,675,175</td>
<td>17.43%</td>
</tr>
<tr>
<td>Oyster Point/Middle Peninsula Area</td>
<td>Peninsula</td>
<td>157</td>
<td>3,958,154</td>
<td>202,865</td>
<td>5.13%</td>
</tr>
<tr>
<td>Oakland/Upper Peninsula Area</td>
<td>Peninsula</td>
<td>119</td>
<td>4,717,166</td>
<td>348,700</td>
<td>7.39%</td>
</tr>
<tr>
<td>Williamsburg Extended Area</td>
<td>Peninsula</td>
<td>44</td>
<td>7,470,563</td>
<td>514,149</td>
<td>6.88%</td>
</tr>
<tr>
<td><strong>Peninsula Totals</strong></td>
<td></td>
<td><strong>682</strong></td>
<td><strong>25,758,869</strong></td>
<td><strong>2,740,889</strong></td>
<td><strong>10.64%</strong></td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td></td>
<td><strong>2,715</strong></td>
<td><strong>95,999,871</strong></td>
<td><strong>5,880,624</strong></td>
<td><strong>6.13%</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
Do You Own Real Property?

A Cost Segregation Study can uncover tax savings!

Accept no substitute when it comes to your real estate holdings - access the tax resources and expertise of the largest regional CPA firm in the area.

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<thead>
<tr>
<th>Property Name</th>
<th>Price</th>
<th>Location</th>
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<tr>
<td>$32,000,000 Floating-Rate Debt and GMACCM Equity</td>
<td>Charlotte East Office Park</td>
<td>Charlotte, North Carolina</td>
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<td>Highwoods Business Park</td>
<td>Charlotte, North Carolina</td>
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<td>$58,500,000 Emerald Point Apartments Virginia Beach, Virginia</td>
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<td>$2,400,000 Wythe Creek Apartments Poquoson, Virginia</td>
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<td>$3,900,000 Chapel Lake Apartments Virginia Beach, Virginia</td>
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<td>$4,000,000 Hampton Woods Plaza Shopping Center Hampton, Virginia</td>
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<td>$6,000,000 Great Neck Square Shopping Center Virginia Beach, Virginia</td>
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<td>$8,000,000 Willow Oaks Shopping Center Hampton, Virginia</td>
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<td>$3,950,000 Oak Hall Marketplace Accomack, Virginia on the Eastern Shore</td>
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<td>$18,800,000 300 McLaws Circle Industrial Building Williamsburg, Virginia</td>
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<td>$18,800,000 5770 Thurston Avenue Airport Industrial Park Virginia Beach, Virginia</td>
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<td>$18,800,000 700 Thimble Shoals Boulevard Oyster Point Industrial Park Newport News, Virginia</td>
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<th>Company/Position</th>
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<td>Koleszar Properties, Inc.</td>
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<td>Barry Komblau</td>
<td>Summit Realty Group, Inc.</td>
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<td>Great Atlantic Management, LLC</td>
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<td>W. M. Jordan Company</td>
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<td>Conrad Moore Real Estate Inc.</td>
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<td>Dale Mueller, CCIM</td>
<td>American Commercial Funding</td>
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<td>Thomas O'Grady</td>
<td>City of Suffolk Economic Development</td>
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<td>Robert Phillips, Jr.</td>
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<td>Laureate Capital Mortgage Bankers</td>
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<td>City of Norfolk Department of Development</td>
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<td>CB Richard Ellis</td>
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<td>Drucker &amp; Falk, LLC</td>
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