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Data for Old Dominion University Center for Real Estate and Economic Development Market Survey was collected in the fourth quarter - 2004
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.
Assistant Professor, Department of Urban Studies and Public Administration
Director, Center for Real Estate and Economic Development
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<td>$32,000,000</td>
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<td></td>
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<tr>
<td>$13,000,000</td>
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<tr>
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<td>Great Neck Square Shopping Center Virginia Beach, Virginia</td>
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<td></td>
<td>5770 Thurston Avenue Airport Industrial Park Virginia Beach, Virginia</td>
</tr>
<tr>
<td></td>
<td>700 Thimble Shaals Boulevard Oyster Point Industrial Park Newport News, Virginia</td>
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**Arthur T. Gormley III, VP/Branch Manager**

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Acknowledgements

Author:
Jonathan Guion, SIOR
Senior Advisor
Sperry Van Ness
Commercial Real Estate Advisors
The purpose of this Commercial Investment Property review is to collect commercial real estate investment sales data, report on current national and local trends and as future data is collected be able to establish longer-term trends within the Hampton Roads commercial real estate investment market.

This 2004 survey is the first in the series and data has been collected for the time period of January 1st through December 31st, 2004. As this report went to publication at the end of December, it may not include some transactions that took place at the very end of the year. This data should be used for trends analysis only as the data collected is from multiple sources and the author was not always able to verify the specifics of individual transactions.

The focus of this survey is on the four primary types of commercial investment real estate including Apartments, Office, Retail and Industrial.

The objective of this report is to include as many building sales as possible. The building criterion includes the four primary property types but an effort has been made to limit the survey to buildings that are owned as investments. Single tenant buildings are included if the primary function of the ownership is as an investment. Owner occupied buildings are included if a significant part of the property is leased to third party tenants. Land is excluded from this report.

National and regional data has been provided by Real Capital Analytics through Sperry Van Ness Commercial Real Estate Advisors. Local data has been gathered through Sperry Van Ness Commercial Real Estate Advisors with assistance from, and many thanks to, the following companies:

Axial Advisory Group, Real Estate Appraisers
Aubrey Graham Associates, Real Estate Appraisers
Brian Dundon and Associates, Real Estate Appraisers
Divaris Real Estate Investment Group
Great Atlantic Management Company
Perrine & Wheeler Real Estate Investments

*Figures in this report may vary slightly from other market reports due to different sources.
NATIONAL OVERVIEW

The commercial real estate investment market across the United States has been at fever pitch throughout the year. An overview of the national investment market needs to include a discussion of capital availability, the make-up of investors, the general economy and the growing impact of Tenant-in-Common ownerships, or TICs.

The availability of capital seeking commercial investments remained very high throughout the year and continued to create a very competitive environment for property sales. Buyers seeking quality properties are continuing to be forced to compete with multiple bidders in most deals. It is no longer rare for properties to be sold at or above asking price. Although short term interest rates are rising, the short term rate increases have not slowed the appetite for properties. Long term rates are forecast to remain low and are still below historical norms, making the spreads still attractive for even more aggressive investors.

The make-up of investors, for property acquisitions valued over $1 million, has changed slightly from the prior year. Private investors still dominate in the overall market representing more than 50% of all purchase volume, but REITs and institutional buyers increased their acquisitions by about 40% during the year. REIT and institutional buyers allocated a lot more capital for purchases in 2004 and are continuing to increase their buying efforts as they move into 2005. Nationally, private apartment buyers still remain the dominant force with over 66% of total apartment acquisition volume, but, as mentioned, REITs and foreign buyers have increased their acquisition levels dramatically. This year, REITs and institutional buyers account for over half of the suburban office deals pushing aside private investors. Institutional buyers will almost double their office acquisition volume for the year. REITs and institutional buyers have also edged out private buyers in flex and warehouse properties and now account for one half of all warehouse acquisitions in 2004. Retail properties, particularly malls, have been dominated by the REITs with 51% of all mall acquisitions and 30% of strip centers being purchased by REITs. Private investors still account for one half of all strip center acquisitions, but the numbers are shifting.

The national economy continues to gain strength and this is a good sign for the improving economics of investment properties. Continued employment growth will be good for the office sector and will also bring additional spending to retailers. Vacancies in all property types across the nation are improving, albeit painfully slow. The biggest negative economic impact on the commercial investment market has been the dramatic rise in the cost of construction materials. Drywall has increased an average of 10% and the cost of steel has sky rocketed by as much as 20% during the year.

Tenant-in-Common ownerships (TICs) have taken off as a strong submarket of national commercial investment sales during the last year. This ownership structure recently qualified as an option for 1031 exchanges, which when coupled with the competitive and expensive market for net leased properties that are typically the target for 1031 buyers, has spawned its own mini industry. TIC purchases will most likely exceed $4 billion for 2004 and continue a fast growth curve as more private investors come to understand exactly how TICs work. TICs offer the private investor access to institutional grade properties that would normally be out of their reach. TICs offer each investor an undivided fractional interest in a property, their share of the revenues and tax benefits and a separate deed. Ownership interest is proportionate to the amount of equity put into the deal. TIC ownership is an alternative to owning REIT shares, can provide an easy entry level for beginning private investors and provides a very workable alternative for active investors ready to retire. Active TIC companies are fast becoming competitive buyers of investment properties and are also creating TIC sale and resale alternatives.
This past year the national commercial investment sales market has remained strong, aggressive and flexible, adjusting to continuing global influences. The year ahead should hold very much the same as rates stay relatively low, the economy gains strength and investors continue to hunt for opportunities. More investors will be looking at upside potential deals as margins get slimmer and available quality properties get harder to find. Continued strengthening of the economy will increase the flow of money back into the stock market. This will relieve some of the excess capital pressure looking for properties. 2004 was a great year for investment sales and the year ahead looks like another good year as well.

HAMPTON ROADS OVERVIEW

The local Hampton Roads commercial investment market has mirrored the national market with a few exceptions. The availability of capital has been strong with many more buyers looking than sellers selling. The local economy has remained ahead of the nation as a whole and local investments appear to be fairing better than those in other markets, with lower vacancies and stronger returns. This has led to strong demand in apartment sales and an active office sales market. Buyers in the market include a good diversity of local investors, REITs and large private investors. Tenant-in-Common investments (TICs) are still relatively unknown to the local investors and this is due to the limited number of qualified companies that are creating TIC investments for general consumption and no local group currently offering the product.

Apartments

Although the national apartment market is slowly continuing to work itself out of a slump, the optimism of buyers across the nation is robust. Apartment transactions are setting records for total volume and prices per unit. The national average price per unit made significant increases during the year from close to $70,000 per unit in the first quarter to above $87,000 per unit in the fourth quarter. Condo converters are playing a significant role in apartment purchases and can afford to drive up the price per unit because their return is in the unit sale. Capitalization rates continued to drop during the year to a national average of below 7%. Primary and secondary apartment markets are showing capitalization rates closer to 6.5%, while tertiary markets are closer to 7.5%. Larger properties, those trading over $25 million, are also showing very aggressive capitalization rates, often below 6.5%. Some markets have recorded apartment sales with capitalization rates below 5%.

The Hampton Roads apartment market had a robust year as well with over 4,000 units trading hands. With a total market size of approximately 80,000 units this represents a turnover of 5%. Apartments remained the most sought after property type for investors and competition for properties has been aggressive. The average price per unit rose from approximately $66,000 per unit in 2003 to $76,500 per unit for 2004. Prices per unit had a wide disparity and ranged from a low of $28,400 per unit to a high of just under $136,000 per unit. Capitalization rates for local property transactions are seldom reported, but are estimated at just above 7%.
Major transactions for the year included the portfolio sale of four properties in Hampton and Newport News that total 729 units and the sale of Emerald Point in Virginia Beach which totals 863 units. Alta at Towne Square in Virginia Beach, which was completed in May of 2003, had the highest recorded sales price per unit of $135,938. The majority of transactions took place in Virginia Beach with Newport News having the second largest number of properties sold.

Significant transactions over $5 million for 2004 included:

<table>
<thead>
<tr>
<th>Property</th>
<th>Location</th>
<th>Units</th>
<th>Price</th>
</tr>
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<tbody>
<tr>
<td>Emerald Point</td>
<td>Virginia Beach</td>
<td>863</td>
<td>$63,000,000</td>
</tr>
<tr>
<td>Alta at Towne Square</td>
<td>Virginia Beach</td>
<td>288</td>
<td>$39,150,000</td>
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<tr>
<td>Alta Bay</td>
<td>Chesapeake</td>
<td>240</td>
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<td>Hampton</td>
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<tr>
<td>Ramblewood</td>
<td>Norfolk</td>
<td>300</td>
<td>$16,300,000</td>
</tr>
<tr>
<td>Ridgewood Club</td>
<td>Virginia Beach</td>
<td>192</td>
<td>$12,150,000</td>
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<tr>
<td>Oyster Point Place</td>
<td>Newport News</td>
<td>278</td>
<td>$11,093.828</td>
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<td>Arboretum Place</td>
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<td>184</td>
<td>$10,600,000</td>
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<tr>
<td>Trellis at Lee’s Mill</td>
<td>Newport News</td>
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<tr>
<td>Heritage Trace</td>
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Office

The national office market began to show signs of recovery during 2004 with declines in availability of sub-lease space and increases in employment growth. Employment growth in financial and technology firms has been helping to slowly burn off the excess office space around the country. The national vacancy rate for office space dropped to below 20% at the end of the year and fundamentals are slowly improving in many downtown and suburban markets. Even with high vacancies, office properties have been popular with investors and the end of the year should post record sales volumes. During the second half of the year in 2003 the national average price per square foot dropped, however 2004 has reversed that trend with significant increases in central business district (CBD) prices per square foot and slight increases in suburban market prices per square foot. The national average price per square foot is just above $168 per square foot. Capitalization rates for office properties continue to reflect their popularity with investors and have dropped from over 8% in the first quarter to below 7.5% in the fourth quarter. CBD office properties, which have become the target of major buyers, are showing the most aggressive capitalization rates at or below 7.5% while suburban properties are closer to 8%.

The Hampton Roads office market had a busy year with over 1.5 million square feet of office properties trading hands. With a total market size of 22 million square feet this represents a turnover of over six percent. The average price per square foot rose during the year from approximately $98 per square foot in the first quarter to above $109 per square foot by year-end. Capitalization rates for local transactions are seldom reported but are calculated to be approximately 8.5% for the premier properties.
Major transactions for the year included Dominion Tower in Downtown Norfolk which is over 400,000 square feet; two buildings on Independence Parkway in Chesapeake which total 147,260 square feet; Patrick Henry Corporate Center in Newport News which is 100,000 square feet; and Reflections IV which is 80,000 square feet. Chesapeake Medical Center, which houses over 51,000 square feet of medical space, had the highest per square foot price at $193 per square foot. Of non-medical space, Dominion Tower had the highest per square foot sales price of $132 per square foot. The balance of the local office investment market was made up of properties less than 55,000 square feet and valued between $400,000 and $4 million. These properties averaged just over 13,000 square feet and sold for an average of $91 per square foot.

Significant transactions, over $5 million, for 2004 included:

<table>
<thead>
<tr>
<th>Property</th>
<th>Location</th>
<th>SF</th>
<th>Sales Price</th>
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<td>Norfolk</td>
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<td>Chesapeake</td>
<td>147,260</td>
<td>$17,062,000</td>
<td>$116/SF</td>
</tr>
<tr>
<td>Patrick Henry Corp. Ctr.</td>
<td>Newport News</td>
<td>102,000</td>
<td>$10,750,000</td>
<td>$109/SF</td>
</tr>
<tr>
<td>Reflections IV</td>
<td>Virginia Beach</td>
<td>80,000</td>
<td>$10,300,000</td>
<td>$129/SF</td>
</tr>
<tr>
<td>Chesapeake Medical Ctr.</td>
<td>Chesapeake</td>
<td>51,167</td>
<td>$9,900,000</td>
<td>$193/SF</td>
</tr>
<tr>
<td>Hampton Professional Ctr.</td>
<td>Hampton</td>
<td>63,024</td>
<td>$8,690,000</td>
<td>$138/SF</td>
</tr>
<tr>
<td>535 Independence Pkwy.</td>
<td>Chesapeake</td>
<td>96,960</td>
<td>$8,000,000</td>
<td>$83/SF</td>
</tr>
<tr>
<td>448 Viking Dr.</td>
<td>Virginia Beach</td>
<td>75,369</td>
<td>$6,750,000</td>
<td>$90/SF</td>
</tr>
<tr>
<td>1435 Crossways Blvd.</td>
<td>Chesapeake</td>
<td>51,850</td>
<td>$5,455,000</td>
<td>$108/SF</td>
</tr>
<tr>
<td>2600 Washington Ave.</td>
<td>Newport News</td>
<td>110,000</td>
<td>$5,300,000</td>
<td>$48/SF</td>
</tr>
</tbody>
</table>

**Retail**

The national retail investment market consists of four major property types, including malls, big box centers, strip centers and free standing retail. The investment market for malls is slowing while the remaining property types continue to display high investor demand. Consumer spending has kept discount retailers and thus big box retail centers in strong demand with investors. The dominant buyers in the retail investment market have moved from being private investors to REITs and TIC companies. Prices per square foot continued to rise during the year but are showing signs of leveling off. Malls are at $100 per square foot while power and strip centers are selling closer to $145 per square foot. The national average capitalization rate for big box centers has been on a downward trend and will end the year close to 8%. Strip shopping centers continue to see pressure from consolidation and intense competition in the grocery business; however, investors are still targeting these properties. The national average capitalization rate for strip centers will close the year below 8%, but this hides a wide disparity created by the age, size and location of the properties. Net leased properties continue to trade at a brisk rate and remain very popular with 1031 exchange buyers. The end of 2004 has seen a rush of riskier properties come to the market as sellers are trying to capitalize on the record prices accomplished earlier during the year. National average capitalization rates for net leased properties remained under 8% at the end of the year.

The Hampton Roads investment retail market was brisk, but below the pace set in 2003. Over 1.7 million square feet traded hands, which represents less than 4% of the total 46 million square feet of retail space in the market. Every property type, from Greenbrier Mall to a freestanding net leased Walgreens, was represented in the sales column. The majority of the sales were strip centers with prices ranging from $48 to $115 per square foot and averaging $89 per square foot. Coincidently, even when separated from the other sales, all the small retail spaces that sold still averaged $89 per square foot.
Major transactions for the year included the sale of Greenbrier Mall in Chesapeake at $141 per square foot; the sale of the 239,763 square foot Fairfield Shopping Center in Virginia Beach for $94 per square foot; the sale of a Walgreens in Norfolk for $309 per square foot; and the sale of Mid City Shopping Center in Portsmouth for $12 per square foot. Mid City was owned by the city of Portsmouth and will be torn down and rebuilt.

Significant transactions, over $2.5 million, for 2004 included:

<table>
<thead>
<tr>
<th>Property Name</th>
<th>City</th>
<th>Sq. Ft.</th>
<th>Price</th>
<th>Price/ Sq. Ft.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Greenbrier Mall</td>
<td>Chesapeake</td>
<td>723,753</td>
<td>$102,500,000</td>
<td>$142/SF</td>
</tr>
<tr>
<td>Fairfield Shopping Ctr.</td>
<td>Virginia Beach</td>
<td>239,763</td>
<td>$22,548,000</td>
<td>$94/SF</td>
</tr>
<tr>
<td>Dean Plaza (HQ)</td>
<td>Virginia Beach</td>
<td>126,850</td>
<td>$13,500,000</td>
<td>$106/SF</td>
</tr>
<tr>
<td>Elmhurst Square</td>
<td>Portsmouth</td>
<td>66,250</td>
<td>$ 5,150,000</td>
<td>$78/SF</td>
</tr>
<tr>
<td>Sports Authority</td>
<td>Hampton</td>
<td>42,005</td>
<td>$ 4,850,000</td>
<td>$115/SF</td>
</tr>
<tr>
<td>Walgreens</td>
<td>Norfolk</td>
<td>14,560</td>
<td>$ 4,500,000</td>
<td>$309/SF</td>
</tr>
<tr>
<td>Cypress Plaza</td>
<td>Virginia Beach</td>
<td>59,012</td>
<td>$ 2,815,000</td>
<td>$48/SF</td>
</tr>
<tr>
<td>Mid City Shopping Ctr.</td>
<td>Portsmouth</td>
<td>209,445</td>
<td>$2,600,000</td>
<td>$12/SF</td>
</tr>
</tbody>
</table>

**Industrial**

The national industrial investment market is separated into two property types that include warehouses and flex buildings. Warehouses are typically 400,000 square foot and larger distribution buildings while the flex properties are smaller in size and have a greater percentage of office space. Flex properties are typically designed for high tech, research and back office operations. Increases in wholesale trade and logistics operations have bolstered the national warehouse market while the flex market continues to struggle with high vacancies. The national average price per square foot for both warehouse space and flex space rose during the year. Warehouse prices have steadily risen about 21% from an average of $41 per square foot up to an average of $50 per square foot by the end of the year. Flex prices have gone up and down during the year but finished higher at just under $100 per square foot. Because warehouse properties are considered by investors to be more stable than flex properties, the national average capitalization rates are reflective of the spread. The national average capitalization rate for warehouse properties was 8.4% while the national average capitalization rate for flex space was at 8.9%.

The Hampton Roads industrial investment market was the quietest of all the property types with just over one million square feet of space trading hands. This represents 1% of the total industrial market, which encompasses over 92 million square feet of space. Flex investment properties sold in the range of $80 to $87 per square foot while warehouse investment properties sold for between $25 and $56 per square foot. The average for all the properties reported was $47 per square foot. Capitalization rates for these properties were not reported.

Significant transactions for 2004 included:

<table>
<thead>
<tr>
<th>Property Name</th>
<th>City</th>
<th>Sq. Ft.</th>
<th>Price</th>
<th>Price/ Sq. Ft.</th>
</tr>
</thead>
<tbody>
<tr>
<td>5301 Robin Hood Rd.</td>
<td>Norfolk</td>
<td>128,000</td>
<td>$111,171,158</td>
<td>$87/SF</td>
</tr>
<tr>
<td>1400 Crossways Blvd.</td>
<td>Chesapeake</td>
<td>85,004</td>
<td>$ 7,382,842</td>
<td>$87/SF</td>
</tr>
<tr>
<td>281 Pickets Line</td>
<td>Newport News</td>
<td>170,000</td>
<td>$ 5,800,000</td>
<td>$34/SF</td>
</tr>
<tr>
<td>101 Dexter St.</td>
<td>Norfolk</td>
<td>151,000</td>
<td>$ 3,817,000</td>
<td>$25/SF</td>
</tr>
<tr>
<td>113 S. Witchduck Rd.</td>
<td>Virginia Beach</td>
<td>81,650</td>
<td>$ 3,750,000</td>
<td>$46/SF</td>
</tr>
</tbody>
</table>
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$2.7 Million

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MIDLOTHIAN, VIRGINIA
50,000 S.F. CLASS A
OFFICE PROPERTY
$5.1 Million

281 PICKETT’S LINE
OAKLAND INDUSTRIAL PARK, NEWPORT NEWS, VIRGINIA
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2004 Property Acquisitions
$51,000,000
2004 Property Refinancings
$78,000,000
2004 Property Dispositions

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