








KNIGHT DORIN & ROUNTREY

2007 Real Estate Market Participant Survey



of Central Virginia

CENTRAL VIRGINIA MARKET INSIGHT – 2007

-  In spite of all the concerns we hear in the press, market optimism actually increased from our 2006 survey with 87% of survey respondents expecting that real estate market conditions will remain the same or better for 2007.
-  Vacancy expectations for apartments and industrial decreased, while office and retail market vacancy increased.
-  Going-in cap rates are expected to be 10-20 basis points lower than in 2006. The aggregate overall cap rate expectations from all property types in this survey now averages about 8.0%.
-  Retail properties, registered the most optimistic results of all property types in our survey. Unleveraged IRR (discount rate) expectations trended up for the past two years while going-in cap rates have trended downward. This counterintuitive divergence suggests that future income projection models have become more optimistic – betting on future income and value increases to boost yields. Decreasing terminal cap rates, increasing tenant retention rates and increasing income growth rates projected by our survey participants are components of the optimistic perspective on retail.
-  Central Virginia's Office, Apartment and Industrial markets appear to be stable and healthy for 2007 based on survey results.
-  Mortgage financing is expected to remain adequate in 2007 for all property types. It is noteworthy that there has been substantial decline in the mortgage abundance scores over the past two years - suggesting growing caution from the lending community.
-  Marketing times are projected to be stable or slightly increasing – across the board.

EXPECTATIONS

Outlook for 2007– Our local experts were correctly optimistic in last year's survey for 2006. As of early 2007 they remain mostly optimistic as noted above and in the detailed charts that follow. There seems to be more moderation in the numbers and the comments for 2007. The much publicized national housing market slowdown does not appear to be hurting the economy in Central Virginia. Population, jobs and our local economy all continue to grow at a healthy pace – providing a solid foundation for real estate. Commercial Real estate in Central Virginia is looking quite strong relative to other market areas noted in national surveys.

The Real Estate Market Survey is an annual publication of Knight, Dorin & Rountrey. This is our 15th year publishing the survey. At the beginning of each year we send our survey questionnaire to over 200 of the most active and respected commercial real estate professionals in Central Virginia. The survey participants include real estate brokers, developers, investors, consultants and lenders.

We hope this survey proves useful and welcome your comments and suggestions.

INVESTMENT CRITERIA

Office Market				
CATEGORY	2006 Range	2006 Average	2007 Range	2007 Average
Holding Period (Years)	3.0 – 15.0	7.7	5.0 - 10.0	7.2
Income (Growth Rate)	1.5% – 3.0%	2.6%	2.0% - 4.0%	2.9%
Operating Expenses (Growth Rate)	2.0% – 3.0%	2.9%	1.0% - 3.0%	2.6%
Vacancy Loss	5.0% – 8.0%	6.3%	5.0% - 10.0%	7.5%
Going-In Capitalization Rate	7.5% – 9.5%	8.4%	8.0% - 9.0%	8.3%
Terminal Capitalization Rate	8.5% – 10.0%	9.1%	8.0% - 10.0%	8.9%
Discount Rates (Unleveraged IRR)	10.0% – 15.0%	10.9%	8.0% - 13.0%	11.0%
Equity Yield (Leveraged IRR)	13.0% – 22.0%	17.3%	11.0% - 16.0%	14.6%
Tenant Retention Rates:				
Class A	70.0% – 85.0%	77.9%	60% – 80%	73%
Class B	65.0% – 75.0%	69.3%	60% - 75%	69%
Months vacant between tenants:				
Class A	2.0 – 8.0	5.0	3.0 – 9.0	5.0
Class B	3.0 – 12.0	7.86	4.0 – 12.0	7.0
Retail Market				
CATEGORY	2006 Range	2006 Average	2007 Range	2007 Average
Holding Period (Years)	5.0 – 20.0	7.7	5.0-10.0	6.9
Income (Growth Rate)	2.0% – 4.0%	3.1%	1.0% - 5.0%	3.3%
Operating Expenses (Growth Rate)	1.0% – 3.0%	2.5%	2.0% - 4.0%	2.9%
Vacancy Loss	3.0% – 7.0%	4.8%	5.0% - 7.0%	5.6%
Going-In Capitalization Rate	7.0% – 9.0%	8.2%	7.0% - 9.0%	8.0%
Terminal Capitalization Rate	8.0% – 10.0%	8.9%	8.0% - 10.0%	8.7%
Discount Rates (Unleveraged IRR)	9.0% – 12.0%	10.5%	9.0% - 14.0%	10.9%
Equity Yield (Leveraged IRR)	10.0% – 15.0%	13.0%	16.0% - 16.0%	16.0%
Tenant Retention Rates:				
Neighborhood	60.0% – 95.0%	80.0%	60% - 95%	81%
Community	65.0% – 95.0%	80.7%	60% - 93%	84%
Months vacant between tenants:				
Neighborhood	2.0 – 6.0	4.33	1.0 – 8.0	4.5
Community	3.0 – 6.0	4.14	3.0 – 9.0	4.67
Apartment Market				
CATEGORY	2006 Range	2006 Average	2007 Range	2007 Average
Holding Period (Years)	7.0 – 10.0	8.5	5.0-10.0	8.8
Income (Growth Rate)	2.5% – 4.0%	3.4%	2.0%-5.0%	3.5%
Operating Expenses (Growth Rate)	3.0% – 3.0%	3.0%	2.0% - 3.0%	2.8%
Vacancy Loss	4.0% – 8.0%	6.3%	3.0% - 5.0%	4.6%
Going-In Capitalization Rate	7.0% – 8.8%	7.7%	6.0% - 9.0%	7.6%
Terminal Capitalization Rate	7.5% – 9.0%	8.2%	7.0% - 10.0%	8.0%
Discount Rates (Unleveraged IRR)	10.0% – 11.5%	10.6%	9.0% - 12.0%	10.5%
Equity Yield (Leveraged IRR)	12.0% – 12.0%	12.0%	14.0% - 16.0%	15.0%

Industrial Market				
CATEGORY	2006 Range	2006 Average	2007 Range	2007 Average
Holding Period (Years)	7.0 –15.0	9.3	5.0-10.0	8.3
Income (Growth Rate)	0.0% – 4%	2.4%	2.0% - 4.0%	3.0%
Operating Expenses (Growth Rate)	1.0% – 3.0%	2.7%	.05% - 3.0%	2.5%
Vacancy Loss	3.0% – 10.0%	5.9%	3.0% - 10.0%	5.8%
Going-In Capitalization Rate	7.5% – 10.0%	8.7%	8.0% - 10.0%	8.7%
Terminal Capitalization Rate	8.0% – 10.3%	9.2%	8.0% - 15.0%	9.8%
Discount Rates (Unleveraged IRR)	10.0% – 13%	10.9%	9.0% - 13.0%	10.8%
Equity Yield (Leveraged IRR)	12.0% – 18.0%	14.8%	12.0% - 16.0%	14.3%
Tenant Retention Rates:				
Office/Whse.	70.0% – 95.0%	78.3%	60% - 90%	73%
Distribution	65.0% – 85.0%	75.0%	50% - 90%	68%
Months vacant between tenants:				
Office/Whse.	2.0 – 12.0	6.63	3.0 – 6.0	5.0
Distribution	3.0 – 12.0	7.83	3.0 – 8.0	6.33

LAND LEASE RATES

	Range	Average
Cap Rate (with flat rent)	7.0% - 10.0%	8.16%
Cap Rate (average 2% ann. escalation)	6.0% - 9.5%	7.39%
Subordination Impact?	50 – 250 basis points	
Credit Impact?	50 - 200 basis points	

RESERVES, LEASING COSTS, AND TI'S

Include in Cap Rate Analysis	Yes	No
Reserves for Replacement	72.2%	27.8%
Leasing Commissions	55.6%	44.4%
Tenant Improvement Costs	50.0%	50.0%

COST OF SALE

Price Range	Low	High	Average
<\$500K	3.0%	8.0%	5.5%
\$500K to \$1M	3.0%	10.0%	5.9%
\$1M to \$3M	2.0%	10.0%	4.5%
\$3M to \$5M	2.0%	10.0%	3.8%
>\$5M	1.0%	10.0%	2.8%

ENTREPRENEURIAL PROFIT

Basis	Year	Low	High	Median
Improvements Only	2007	10%	18%+	15%
	2006	10%	25%	15%
	2005	10%	30%	15%
	2004	10%	20%	13%
	2003	5%	15%	10%
	2002	10%	30%	20%
	2001	12%	20%	15%
Land and Improvements	2007	9%	25%	16%
	2006	8%	35%	15%
	2005	8%	30%	15%
	2004	10%	25%	14%
	2003	10%	20%	13%
	2002	10%	30%	16%
Gross Sales	2007	10%	25%	25%
	2006	12%	50%	24%
	2005	15%	30%	25%
	2004	15%	33%	22%
	2003	10%	25%	18%
	2002	25%	35%	30%
	2001	20%	33%	25%

LOT PRICE RATIOS

Improved Property Price	Lot Value Ratio Range as % of Total Price					Median				
	2003	2004	2005	2006	2007	2003	2004	2005	2006	2007
\$150-\$200K	20-25%	20-30%	18-32%	15-30%	13-34%	25%	24%	25%	26%	25%
\$200-\$300K	20-30%	20-30%	20-35%	18-35%	13-33%	25%	24%	24.5%	25%	25%
Over \$300K	20-35%	18-30%	19-37%	20-35%	13-30%	22%	22%	22%	25%	25%

AVAILABILITY OF MORTGAGE FINANCING

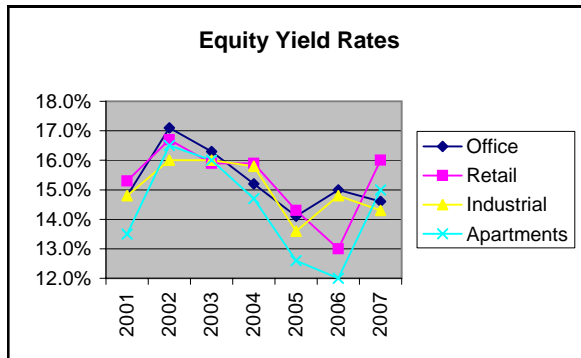
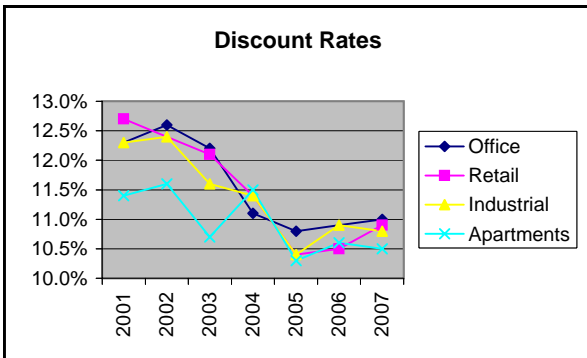
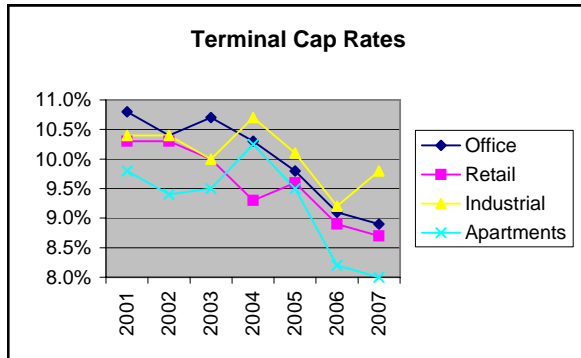
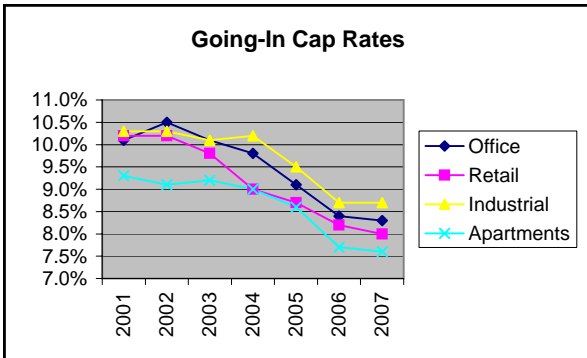
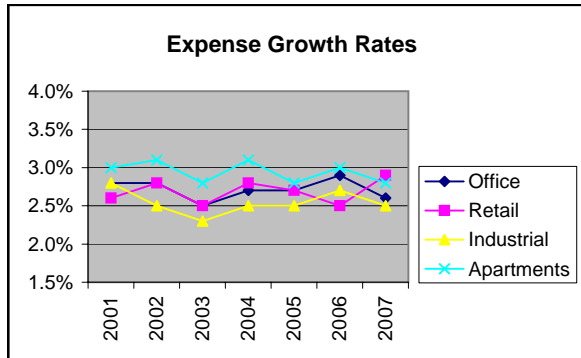
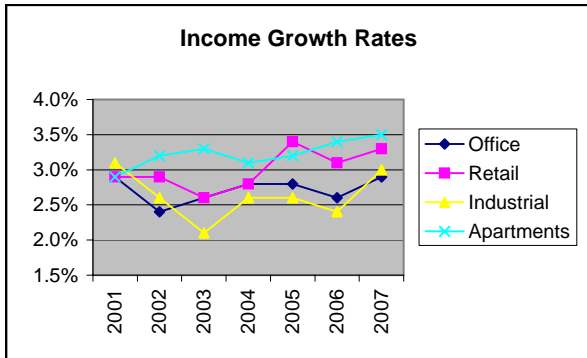
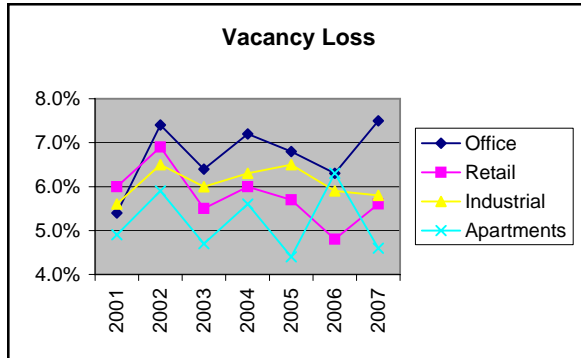
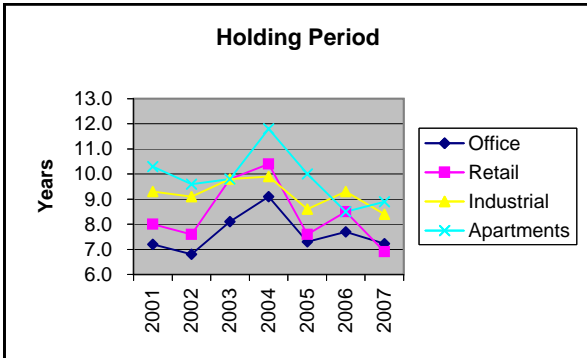
Property Type	Past 12 months	Next 12 months	
Apartments	2.9	2.8	
Hotels	2.6	2.3	
Industrial	2.7	2.6	
Office	2.6	2.4	
Retail	2.7	2.5	
Residential (A & D)	2.4	2.1	
Rating Scale:	1 = Inadequate	2 = Adequate	3 = Abundant

REAL ESTATE LIQUIDITY – MARKETING PERIOD

Property Type	% of Responses		
	< 6 Months	6-12 Months	> 12 Months
Retail			
Free-standing single user retail	85.7%	14.3%	0.0%
Small unanchored retail center	35.7%	57.1%	7.1%
Neighborhood retail center	76.9%	23.1%	0.0%
Community retail center	69.2%	23.1%	7.7%
Regional retail center	50.0%	30.0%	20.0%
Multi-family			
Apartment (> 120 units)	81.8%	9.1%	9.1%
Apartment (< 120 units)	72.7%	27.3%	0.0%
Office			
Large - well leased	66.7%	26.7%	6.7%
Large – poorly leased	0.0%	80.0%	20.0%
Small – well leased < 20,000 sf	86.7%	13.3%	0.0%
Small – poorly leased < 20,000 sf	13.3%	66.7%	20.0%
Industrial			
Small single user	82.4%	11.8%	5.9%
Multi-tenant flex/bulk distribution	52.9%	47.1%	0.0%
Manufacturing Buildings	6.7%	13.3%	80.0%
Special use properties			
Banks, historic, churches, etc.	7.1%	57.1%	35.7%
Land			
Single family development	40.0%	33.3%	26.7%
Multi-family development	50.0%	21.4%	28.6%
Retail	7.1%	71.4%	21.4%
Office	12.5%	62.5%	25.0%
Industrial	14.3%	50.0%	35.7%

	No Change	Increase	Decrease
Marketing period change from 2006	45%	55.0%	0.0%

**CENTRAL VIRGINIA
MARKET SURVEY HISTORICAL SUMMARY 2007**
(Response Averages)



CORPORATE PROFILE KNIGHT, DORIN & ROUNTREY REAL ESTATE ANALYSTS

REAL ESTATE MARKET KNOWLEDGE

- Leading real estate appraisal and consulting company founded in 1986
- Strong network with other real estate professionals
- Comprehensive commercial real estate transaction database covering most of the developed areas of Virginia (outside of Northern Virginia)
- Over 1,000 commercial lease and sale transactions analyzed annually
- Clients – include financial institutions, government agencies, law firms, investors, developers, and major corporations

COMMERCIAL APPRAISAL SERVICES FOR

- Office, retail, industrial, apartment, subdivision, and special purpose properties
- Mortgage, securitization, investments, and exchanges
- Buyer, seller, tenant – decision support analysis
- Estates, trusts, partitions, partial interests, valuation subject to environmental impairment
- Portfolio evaluation
- Appraisal reviews
- Litigation support
- Bankruptcy
- Estate planning

MARKET COVERAGE – VIRGINIA

- Richmond-Petersburg MSA
- Norfolk-Newport News-Virginia Beach MSA
- Williamsburg Area
- Charlottesville MSA
- Roanoke MSA – Shenandoah Valley Area
- Outer Banks – Northeastern North Carolina Area

OWNER

Edward G. Knight, MAI, SRA

PROFESSIONAL STAFF

J. Parks Rountrey, MAI, SRA
William A. Hopkins, Jr., MAI, SRA
Michael S. Larson
Michael A. Knight

ADVISORY & CONSULTING SERVICES

- Market studies
- Feasibility analysis
- Project development analysis
- Litigation support
- Highest and best use analysis
- Lease analysis
- Asset evaluation
- Strategic planning
- Due diligence research and advice
- Site selection
- Land use analysis

Contact Us

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