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Virginia Market Review

JANUARY 2002

Hampton Roads

Richmond

Northern Virginia

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Virginia Market Review

Advantis Real Estate Services Company is a commercial real estate firm that offers representation, management, construction, investment, development and corporate real estate services throughout Southeastern United States. The company is headquartered in Atlanta and has offices in Washington, D.C.; Tysons Corner, Newport News, Norfolk and Richmond, Va; Raleigh-Durham, N.C.; and Tampa, Tallahassee, Orlando, Panama City and Jacksonville, Fla.

The firm is a member of GVA Worldwide, an international partnership of real estate industry leaders. GVA comprises 1,300 real estate brokers with more than 85 offices in 70 markets.

Advantis is a business unit of The St. Joe Co. (NYSE: JOE), a publicly held company based in Jacksonville, and one of the Southeast's largest real estate operating companies. St. Joe is engaged in community, commercial, industrial and hotel and resort development, along with residential and commercial real estate services. The company also has significant interests in timber.

The *2002 Virginia Market Review* spotlights Hampton Roads — nine cities and five counties that stretch from Williamsburg to Virginia Beach; the greater Richmond area — the city of Richmond and the counties of Henrico, Hanover and Chesterfield; and Northern Virginia — the cities of Alexandria, Falls Church, Fairfax and Manassas and the counties of Fairfax, Loudoun, Prince William, Arlington and Stafford.

Hampton Roads' office market is slow and steady

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Developer discipline, a conservative lending community and a good balance of supply and demand put the Hampton Roads office market in a pretty good position to ride the recession, says Don Crigger. "The outlook is good. We haven't seen the high highs that other markets have seen in the past so we won't see the low lows those markets see now."

The Hampton Roads market traditionally is slow and steady. "This is a conservative area. We didn't see the influx of high tech, and for that reason we'll be fine. Some markets now have tremendous supply-and-demand imbalances because of technology companies," Crigger says. "We can put our arms around our supply side. The big variable is new demand. Will companies that put projects on hold during the fourth quarter go forward in 2002?"

Hampton Roads

	Downtown Norfolk		Non-CBD	
	Class A	Class B	Class A	Class B
Total Inventory (sq.ft.)	1,763,946	1,350,571	5,002,746	11,254,756
Vacancy*	6.0%	18.0%	9.4%	13.2%
Completed Construction (sq.ft.)	0	0	420,000	429,678
Currently Under Construction (sq.ft.)	121,000	0	718,800	137,385
Average Rental Rates (full service per sq.ft.)	$18.85	$14.50	$17.50	$14.00

3rd quarter 2001, Non-owner occupied buildings greater than 10,000 SF

Current projects are spread evenly throughout the region. "The good news is that no one region will be saturated with lots of square footage," Crigger says. "Vacancy rates will increase, but they won't move to an unhealthy rate — maybe two to three percentage points. They currently are about 10 percent, but we'll see them gradually work down."

Another issue is the quantity of sublease space available. "Hampton Roads doesn't have much, but we have more than we've had before — enough to track. On a percentage basis, it's about one-half of 1 percent, which is a lot but still not a cause for alarm."

He says Hampton Roads has an appropriate development level in response to the market. "We see a lot of cautious companies. The pace of decision making is deliberate. This is a very patient market. Most of the players in the development community have been through this before. They were here in the early '90s when the recession hit in a big way so they're comfortable with the dynamics of the market. They are an educated group of developers who can deal with the reality of the period."

And the lending community has capped what can be developed. "They won't fund a project without significant preleasing," Crigger says. "The development community and the lending community are working in tandem."

150 W. Main Street, a new 212,000 square foot building in Downtown Norfolk, is currently under construction.

The health of the Richmond office market depends upon the hat you're wearing

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Although 2001 began with great momentum, a lackluster economy meant Richmond's commercial real estate market didn't generate a lot of good news in the second half of the year. "Increasing unemployment contributed to vacancy rates that are the highest they have been in years. Even 'juggernaut-leasing' markets, such as Innsbrook, which have had 2 percent to 3 percent vacancy rates, are now above 10 percent," says Charlie Polk. "Vacancy is as high as 15 percent in some areas due to the sublease vacancy that is inherent and symptomatic of a weak economy and high unemployment."

Adding to the vacancy woes is the number of large corporate facilities that have been placed on the market, including the corporate headquarters of Reynolds Metals, Heilig-Meyers and Dominion Resources. "Those three properties alone added more than 1 million square feet of inventory," Polk says.

And the first few buildings of Capital One's new corporate headquarters will be delivered in the first quarter of 2002. "That may precipitate more surplus space," Polk says. "My prediction is that it will be fairly modest because of Capital One's tremendous growth.

"The landscape of the Richmond office market has shifted from a landlord's market to a tenant's market. But it's not the unhealthy landscape that we saw in the early 1990s," Polk adds. "During that period, it was failing real estate that caused instability in the market. Today, it's the downturn in the economy. We believe this correction will occur much more quickly."

In an attempt to address the weak demand for office space, landlords are offering creditworthy tenants concessions, such as free rent, reduced rental rates, extraordinary tenant improvement allowances and other perks. Tenants who are in the market are leveraging their positions to negotiate favorable lease terms, and they have more options today than they have had for the last couple of years.

Those options include plenty of A and B office locations and sublease space, as well as purchase opportunities. In some locations, Class A space is leasing today for a Class B price of a year ago.

But the outlook is not entirely bleak for landlords. "Quality, Class A properties still maintain historically strong occupancy levels," Polk says.

"A declining commercial real estate market means construction prices have softened, and contractors are giving landlords and tenants more 'bang for their buck,'" he adds. " In addition, lower interest rates have caused some companies that historically leased properties to now seriously evaluate purchasing them. In any case, we are ready to make those opportunities available to our clients."

Like many Class A office properties, Paragon II is fully leased, although sublease opportunities are available.

Richmond

	Downtown Richmond		Non-CBD	
	Class A	Class B	Class A	Class B
Total Inventory (sq.ft.)	3,339,097	2,636,114	11,682,053	4,034,208
Vacancy*	10.0%	24.1%	9.8%	13.5%
Completed Construction (sq.ft.)	92,000	0	868,000	0
Currently Under Construction (sq.ft.)	0	0	436,750	0
Average Rental Rates (full service per sq.ft.)	$21.50	$13.90	$17.50	$14.50

December 2001, Non-owner occupied building greater than 10,000 SF

Northern Virginia's office rental rates have returned to equilibrium

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The office market in Northern Virginia is fairly strong, says Jake McInerney. "Inside-the-beltway markets — Alexandria, Crystal City and Rosslyn/Ballston — remain fairly strong due to a diverse tenant base. Lots of associations, government contractors, law firms and major corporations lease space because of the access to the metro as well as the proximity to Washington, D.C."

Typically, markets inside the beltway don't experience big swings in vacancy rates and rental rates. "These vacancy rates most likely never will get into the high teens; we don't expect them to exceed 8 percent to 9 percent," McInerney says. "With several exceptions, they never have gone below 4 percent to 7 percent. Although Alexandria is one of the smaller markets, it also is one of the stronger markets."

Crystal City is softening somewhat, but in relative terms, it still is strong. "It had carried a 1 percent to 2 percent vacancy factor for a number of years," McInerney says. "A small increase in Crystal City's vacancy factor should be considered healthy. It gives landlords an opportunity to update the buildings and their surrounding infrastructure, which landlords are doing now. Additionally, users who require large blocks of space with proximity to Washington, D.C., now have the opportunity."

And large users who need to be on the metro or near the Pentagon also have great opportunities in the Rosslyn/Ballston market. "In addition to the 10 or so buildings that delivered in the Rosslyn/Ballston area, the relocation of several large users from this market have created great large-block opportunities at competitive rates," McInerney says.

The picture outside the beltway differs. "Vacancy rates are rising in the Tysons Corner, Dulles toll road corridor, Fairfax and Route 28 north and south markets," says Laura Harris. "The toll road corridor especially has been hit hard due to the saturation of these markets with technology and telecommunication firms. And the area has seen substantial new construction during the previous three years. However, the recent failure of many of these new-economy tenants has provided great opportunities for creditworthy tenants now looking for space in these markets."

Ironically, though, both tenants and landlords now are in fairly strong positions in these outside-the-beltway markets. "Tenants benefit because rental rates had been overinflated," Harris says. "Because of intense competition for space, deals were getting done way above the asking price, way above what was on a landlord's pro forma as the profit point. A tenant couldn't negotiate proper terms of a lease in that position. Now tenants are in a much better position to get good deals. In many instances they are able to lease space directly from the landlord that includes a former tenant's brand new build-out complete with furniture and data-cabling in place."

Landlords still are making money. "Last year their profits were enormous. Now rental rates have returned to equilibrium. In most cases they still are above the landlord's profit point," Harris says.

The Sept. 11 terrorist attacks caused some market tightening in inside-the-beltway markets, particularly Crystal City. "Those markets are seeing short-term results," McInerney says. "Displaced Pentagon operations needed immediate, short-term space. Longer-term, larger requirements now are scouring the toll road corridor for facilities to fulfill anti-terrorism-related contracts. When they land, the market will tighten and reverse the recent trend of escalating vacancies in that market."

Northern Virginia

	Class A	Class B
Total Inventory (sq.ft.)	80,871,458	34,115,139
Vacancy*	6.9%	5.7%
Completed Construction (sq.ft.)	6.3 million	0
Currently Under Construction (sq.ft.)	6.6 million	0
Average Rental Rates (full service per sq.ft.)	$27.25	$23.25

3rd quarter 2001, Non-owner occupied buildings greater than 20,000 SF

NOVA analyst says 2002 promises to be a good year for industrial tenants

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The Northern Virginia flex/industrial market has cooled significantly this past year, says Jon Lawrence. "The cooling-off period started prior to the Sept. 11 terrorist activities. The area was due for an economic slowdown. We had seen tremendous growth for the previous three years and the market couldn't sustain that pace forever."

Lawrence attributes a lot of the slowdown to the burst of the technology bubble. "The local economy has suffered from a fair number of bankruptcies and downsizing." Yet, landlords have not dropped rental rates significantly and that upsets tenants.

> *"The next 12 months will be difficult from the landlord's perspective, but their long-range outlook is very strong."*

"Tenants think the market is worse than it is, and they expect bigger concessions from landlords who aren't willing to give in," Lawrence says. "While leasing activity by technology and other non-government-related companies has cooled significantly, there has been a noticeable increase in activity from the government and defense contractors. But the pendulum definitely is swinging toward the tenant."

Lawrence expects to see flex-space leasing rates in the Route 28 corridor, which is experiencing a high vacancy rate, to drop to between $10 and $13 a square foot, triple net, depending upon the location, the quality and the amount of build out. "Warehouse space will go for $5.75 to $7.50 per square foot, triple net, depending on the quality and quantity of existing improvements."

The Interstate 95 submarket also will be positive from a tenant's perspective. "We most likely will see flex-space rates drop to between $11 and $13 per square foot, triple net. Warehouse space will range from $5.75 to $7 per square foot, triple net."

Although 2002 looks good for tenants, Lawrence cautions that he is not as optimistic for the long term. "The next 12 months will be difficult from the landlord's perspective, but their long-range outlook is very strong."

Northern Virginia

	Industrial	Flex
Total Inventory (sq.ft.)	29,772,164	228,655,135
Vacancy*	4.5%	11.4%
Completed Construction (sq.ft.)	865,852	1,150,150
Currently Under Construction (sq.ft.)	243,120	1,103,364
Average Rental Rates (per sq.ft.)	$8.50	$12.50

3rd quarter 2001, Non-owner occupied buildings greater than 20,000 SF

The pendulum swings closer to center in the Hampton Roads industrial market

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Landlords and sellers once controlled the Hampton Roads industrial market, but with today's economy the power center has shifted. "Overall there's a softening, but the market is still strong; vacancies are less than 10 percent," says Clay Culbreth. "Vacancies are starting to increase and that places downward pressure on pricing from sales and leasing standpoints. We see the pendulum swinging closer to center."

The Peninsula market is seeing more vacancy and less absorption in a timely manner, he adds. "Southside is slowly tightening. Certain pockets, such as the Norfolk Industrial Park, see a leveling off in vacancies and that's a good sign."

With interest rates at a record low, Culbreth says 2002 offers good deals for buyers. "Sales prices are below replacement costs. Local companies see the benefit of buying as opposed to continued leasing."

But, he cautions, if companies vacate too much leased space to acquire properties, Hampton Roads will see increased vacancy rates in leased spaces.

"The market also has increased sublet opportunities. Many companies are consolidating or simply going out of business," Culbreth says. He cites Montgomery Ward and Gateway as examples. "Montgomery Ward alone put 150,000 square feet on the market."

Hampton Roads

Total Inventory (sq.ft.)	81,655,063
Vacancy	8.1%
Completed Construction (sq.ft.)	2,002,050
Under Construction (sq.ft.)	650,000
Average Rental Rates (per sq.ft.)	$3.00 - $7.00

December 2001

Richmond's industrial market — short-term pains, long-term rewards

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A struggling economy—coupled with the events of Sept. 11—has curtailed the demand for industrial space in the Richmond area. "Fortunately," says Jeff Ahearn, "Richmond is not a market with an overwhelming oversupply of industrial space. Although leasing activity in 2002 will be at a slower pace than in the previous few years, we'll see a steady stream of industrial sales due to current financing conditions."

Ahearn says 2001 vacancy levels were pushed to new highs and he expects that trend to continue well into 2002. "Based upon historical absorption figures, we estimate the supply of industrial space is approximately 18 months. From a tenant's perspective, the outlook for the next 12 months should be favorable."

Further skewing the market favorably toward the tenant is that relatively little speculative development is on the horizon. "Although we see lots of options, supply will not be at such epic proportions that landlords will meet all tenant demands. But tenants can expect to see landlords offer considerable concessions."

Ahearn predicts the gap between new, well-located, well-planned industrial facilities and older, less-functional facilities will widen. "Even in a relatively soft market, buildings with the higher ceiling heights, larger truck courts, better column spacing and better road access will capture the deals in the market from both sales and leasing perspectives."

The bright spot for most landlords is that Richmond is becoming a destination for companies in the mid-Atlantic region that have large distribution requirements. "Due to Richmond's geographic location, its proximity to several interstate road systems, a business-friendly atmosphere and an enhanced quality of life, we should see our share of the larger distribution requirements," he says. "And Richmond is located within 500 miles of 50 percent of all the United States population and manufacturers."

As evidence of this growing trend, in late 2000 Ace Hardware completed its 850,000-square-foot distribution facility just south of Richmond and DuPont recently completed its 800,000-plus-square-foot distribution facility.

"And there are a couple of other deals floating around that could translate into significant transactions," Ahearn says. "Large users outside the central Virginia market will continue to see Richmond as a viable location for their operations."

Richmond

Total Inventory (sq.ft.)	55,143,000
Vacancy	13.2%
Completed Construction (sq.ft.)	N/A
Currently Under Construction (sq.ft.)	1.1 million
Avg. Rental Rates (per sq.ft.)	Industrial - $4.50 Flex - $8.50

November 2001

After three years of aggressive expansion, Hampton Roads grocery wars have cooled

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Hampton Roads retail development experienced a dramatic slowdown this past year. Ed Kimple says two main factors contributed to the dramatic slowdown: Only three new big-box tenants entered the Hampton Roads market — DSW, Garden Ridge and Borders — and the grocery wars that had fueled retail growth for the last three years have cooled off.

"For the first time in recent memory, no grocery stores are under construction," Kimple says. "And after three years of aggressive expansion, Food Lion has established itself as the market leader."

However, the market continues to watch for Kroger's next move. "We could see some additional shake-up in the grocery business once Kroger acts on its strategy," Kimple advises.

Driving the Hampton Roads retail market are the "marts" — Wal-Mart and Kmart — even though Kmart lost its battle to open a new superstore on Battlefield Boulevard. "And Kmart needs to see a good holiday season to please Wall Street," Kimple cautions.

Eventually, he adds, "We should see Kohl's Corp. drive some new developments."

Kimple says the good news is that the pure Internet play for retail no longer appears to be a threat to bricks-and-mortar retail. "But retailers that use a 'bricks-and-clicks' strategy appear to be making some headway."

Kimple says area malls experienced a relatively quiet 2001. "The region's newest mall — MacArthur Center — located in downtown Norfolk reports strong sales even as it searches for a third anchor. Across town, Urban Properties recently put its property, the 950,000-square-foot Military Circle Mall, on the sale block."

The long forgotten Tower Mall in Portsmouth has been demolished to make way for Lowe's Home Improvement, Super Kmart, a grocery store and themed restaurants. In Virginia Beach, work continues at the Virginia Beach Town Center, although the retailers who will occupy the 750,000 square feet of retail space remain unnamed.

Activity is picking up on the Peninsula. "Super Kmart confirmed it will be joining Lowe's Home Improvement at the 107-acre Power Plant in Hampton," Kimple says. "And Port Warwick, a mixed-use project, and the Oyster Point Town Center have broken ground with 100,000 square feet of proposed retail space, respectively, although neither project has made any retailer announcement to date."

Kimple says the Patrick Henry/Jefferson Avenue area of Newport News is the Peninsula's most desirable submarket. "And the most desirable submarkets in Virginia Beach continue to be Hilltop and the General Booth corridor. In Chesapeake they are Western Branch and Greenbrier, and in Suffolk it's the Harbour View section."

Although downtown Norfolk is a restaurant hot bed, "downtown still is waiting for street retail to join the plethora of successful, local restaurants and entertainment venues."

Hampton Roads

Total Inventory (sq.ft.)	48,064,931
Vacancy	13.4%
Completed Construction (sq.ft.)	673,197
Currently Under Construction (sq.ft.)	1,201,000
Rental Rates (triple net per sq.ft.)	$10.00 - $20.00

December 2001

Richmond's retail market is poised to fill vacancies with quality tenants

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Following a year of low consumer confidence, the Richmond retail market is entering 2002 with a wait-and-see attitude. "Vacancies are increasing as some businesses are consolidating or are forced into bankruptcy," says Kimberly Severino. "Owners may have to give more incentives to attract new tenants or provide flexible terms to existing tenants to maintain occupancy."

Results from the 2001 holiday season will drive development during the first half of 2002. "Development will slow, especially for big-box retailers," she says. "As residential growth continues, neighborhood centers anchored by grocery stores will be the primary focus."

Richmond

Total Inventory (sq.ft.)	25,151,880
Vacancy	10.8%
Completed Construction (sq.ft.)	483,000
Currently Under Construction (sq.ft.)	1.5 million
Rental Rates (triple net per sq.ft.)	$15.50

November 2001

The bright spot in the Richmond retail market is the competition that's heating up between Stony Point and Short Pump Towne Center—both scheduled for 2003 openings. "The developers of Stony Point announced Saks as an anchor in addition to Dillard's, which catapults them in a race with Short Pump Towne Center, which is anchored by Nordstrom, Lord and Taylor, Hecht's and Dillard's. These developments are paving the way for more upscale retailers, which will improve the quality of shopping in Richmond," Severino says.

The Richmond retail market always has been strong, and Severino remains optimistic. "Richmond is considered a tertiary market; it is somewhat insulated by major swings in the economy. Overall, there is a hesitancy to pursue new projects. As the economy strengthens, the retail market will be in position to fill vacancies with quality tenants and higher rental rates."

Grocery-anchored strip centers: The hands-down darling of popularity in the Richmond investment market

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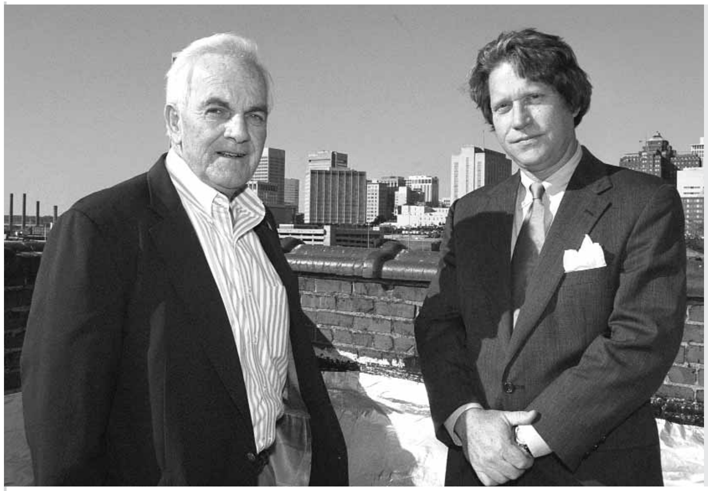
Investors are shifting from office and bulk-industrial assets and looking toward safe havens such as apartment complexes and credit net-lease properties, says Bill Elliott. "We'll see that trend continue throughout 2002. Apartment complexes are safer investments in an uncertain economy as many families will continue to lease apartments instead of buying homes."

And Section 1031 of the Internal Revenue Code of 1986, as amended, is fueling the popularity of freestanding, net-leased properties with creditworthy tenants.

"Private investors are selling grandma's land in exchange for property with a long-term income stream. The tax benefits are great, and if the tenant has good financials the return is highly competitive with most other investment vehicles," Elliott says.

"But the hands-down darling of popularity among real estate investors are grocery-anchored strip centers, and they are commanding a premium. Even in a recession, people need groceries."

Elliott says these properties represent a fairly stable and lower-risk option to real estate investors. "And lenders seem to prefer them over the higher-risk big-box retail product right now. Investors realize that the recession has created an environment of corporate downsizing, which has led to a steady stream of layoffs. Consequently, we have a softened office market as the supply of vacant and sublease office space on market has increased."



Bill Elliott and Frank E. "Pepper" Laughon strategize on investment sales opportunities for Richmond Cold Storage.

Elliott adds that the fundamentals of office investment have weakened; therefore, the profile of the office building investor has changed. "Institutional investors are shying away from the increased risk of the office market. We're seeing more private sector and entrepreneurial buyers than in the past."

And there's a dichotomy of interest in the Richmond market. "Investors seem to be more interested in the central business district properties than in suburban properties. In Richmond, the CBD is the engine of change. The multimodal Amtrak station, the convention center, the planned performing arts center complex and the development around the canal slowly are intended to transition the CBD into a 24-hour city."

The good news is that money is available for the right kinds of investments. But the interest rates for commercial mortgages are not decreasing proportionately with the federal rates cuts — possibly to protect lenders' concerns about the softening economy.

"People are cautious," Elliott adds. "In our business you must roll with the punches, make the best of market forces — whatever they are — and do your best to understand them."

The Northern Virginia debt market is favorable for investors

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The Northern Virginia investment market is seeing a "disconnect" between selling prices and what investors are willing to pay, says Brian O'Hear. "The debt market is strong, and owners of fully occupied buildings with long-term leases are not rushing to put properties on the market at the bargain prices investors want."

With interest rates so low, many owners have refinanced their properties and will wait for the market to rise. "When the leasing market was strong, owners dictated long-term leases for larger tenants. With each passing day, owners become more confident that tenants will stay through those leases. Owners would rather collect rent and asset management fees than sell their buildings in a down market."

O'Hear says when compared to Washington, D.C., and suburban Maryland, Northern Virginia has taken a few lumps. "Much of the economy in Northern Virginia — especially outside the beltway — is high-tech and dot-com businesses. They had grandiose plans. Unfortunately, the plans just didn't happen and those are the firms that are retrenching. We're back to the old economy where Wall Street looks at financial statements to see who's making money."

From an investment point of view, leases create the value of the property underwritten. "The credit worthiness of a tenant determines the value of a building," O'Hear says. "In a nutshell, the better the credit — the more aggressive the underwriting procedure — the lower the cap rates. A GE, Microsoft, IBM, Boeing, Lockheed Martin, Computer Science Corp. or Oracle wins hands-down when compared with a struggling dot com."

On the more positive side, the job growth outlook in Northern Virginia remains strong. And because there has been relatively no new construction, excess space will absorb sooner. "This recession won't be compared to the early 1990s when many owners lost their properties. Now owners can hold onto properties longer because their joint-venture partners are very well funded."

O'Hear adds, "There's a lot of money out there. Investors have funds readily available to acquire real estate." And as with the Hampton Roads and Richmond markets, grocery-anchored centers are at the forefront of every investor's wish list.

"In this market the No. 1 and No. 2 grocery store operators are Giant and Safeway. If one of those centers comes up for sale, they are exposed nationally from a marketing view and bidding is very competitive."

Hampton Roads investment property is in high demand

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Any investment property that comes on the market sells quickly, says Jay Joseph. "There's plenty of demand from purchasers. In fact, multiple buyers line up for hot-selling products such as apartment complexes and neighborhood and community shopping centers."

Unlike the volatile stock market, Hampton Roads investment property is predictable and safe. "Your returns in real estate may not be as exciting as in the stock market, but you can sleep better at night."

Joseph says most of the buying and selling in the Hampton Roads market is by individuals, partnerships and limited liability companies. "The dynamics are different from other markets, such as Northern Virginia, which attracts the institutional investor. Properties in this market tend to be smaller. For example, we've seen a lot of activity in 1031 exchanges under $2 million."

"Your returns in real estate may not be as exciting as in the stock market, but you can sleep better at night."

Competition is high because product is scarce and interest rates are low. "Lower interest rates have pulled capitalization rates down and driven prices up," Joseph says. "One potential threat to this high demand is the erosion of real estate fundamentals. If we see increasing vacancy rates, investors will become more cautious. However, if economists are right, and the economy begins to recover by the middle of 2002, we should experience little interruption in the buying and selling of investment properties."

Compared to most of the 1990s, more cash is chasing fewer properties. "Potential buyers are flush and lenders are ready to lend, but owners of stable products are content. They are reluctant to sell, pay capital gains and look for other ways to put their money to work," Joseph says.

"One client had an office building on the market and received offers near his asking price; he pulled it off the market because he didn't have a good investment alternative."

For now, Joseph says, the demand for good products in Hampton Roads remains strong. "We see the demand for unanchored or grocery-anchored shopping centers because these products don't have the perceived tenant and vacancy risks associated with office buildings and big-box, power centers."

AnySite: When location is central to your business and critical to its success

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In today's competitive business world, finding the right location for a business is vital to a company's success, says Ken Benassi. When one of his clients was searching for land to develop a self-storage facility, Benassi turned to technology to give his client that extra competitive edge.

"We used a new software application called AnySite. We entered data about existing mini-storage facilities. From both mapping and aerial points of view, we could see where the competition was located," Benassi says. "We looked at existing land sites and superimposed that data into the software to illustrate the population centers as well as the road systems. With all that information, we gave the client a competitive and visual-view analysis of site opportunities in his designated area." He now has property under contract.

"AnySite is powerful software," Benassi says. "It's analytical and can quantify issues that haven't been easy to quantify. We can present a tremendous amount of data to our clients quickly and effectively."

He adds that the firm's investment in this technology offers a tremendous value to its clients. "It allows us to combine aerial photography, mapping software and demographic data into one presentation. We can create aerial views on demand and hand clients photos of potential sites before we start our meetings. That brings value to commercial real estate transactions before they even get started."

Advantis broker Jeff Ahearn (right) uses AnySite technology to help Wray Austin of SimplexGrinnell identify potential locations.

Scott Harrison says, "AnySite is cutting-edge technology that saves our clients time, money and effort. The program helps clients understand growth and population trends, which are important decision drivers." He cites the help AnySite recently offered one of his clients, namely nTelos.

"nTelos is locating additional retail stores throughout Richmond. When they tell me an area that interests them, I produce an aerial of the market that includes mileage rings and demographic data. With this information, nTelos quickly can determine if various locations meet its criteria and whether or not it wants to pursue a particular site."

Harrison says clients find the aerial photos most helpful. "They appreciate the ability to see their current and potential retail stores and how those locations may be positioned throughout the market. The information is up-to-date, and the software presents properties in a very effective way."

Jeff Laughton says the aerial views can contain as much detail as the client wants. "We can show mileage rings, employment data, traffic volume and dollar demand for a variety of products and services. Clients narrow their choices as they sit at their desks — even if those desks are in Houston."

Advantis recently helped the newly formed, Houston-based SimplexGrinnell consolidate its Virginia offices following the merger of Simplex, a leader in fire detection and alarms, and Grinnell Fire Protection, a fire suppression provider.

Jake McInerney in Advantis' Northern Virginia office worked with Kevin Monteleone, SimplexGrinnell's regional manager in Virginia, while Advantis broker Jeff Ahearn worked with Wray Austin, SimplexGrinnell's district general manager in Richmond.

"The brokers had only a few months to identify locations," Laughton says.

The advantage was that Monteleone and Austin were able to look at potential sites while sitting in the Advantis offices and short-list their alternatives to the most desirable sites.

"Then they simply e-mailed the information to the corporate office in Houston, which gave the go-ahead to begin due diligence, without ever traveling to Richmond. Thanks, in large part, to AnySite technology, SimplexGrinnell met its Sept. 1 deadline.

"This software has tremendous value for many applications," Benassi says. "If a company wants to relocate, it can analyze current and projected drive times and look for locations that minimize employees' aggregate drive times. The same concept works for distribution firms. We can look for their 'centers of gravity' by analyzing delivery addresses and the frequency of deliveries. Using that information, we can scout for locations that minimize their mileage."

Benassi says AnySite has become an invaluable tool. "With a few keystrokes we can analyze potential sites based on each client's criteria. It's one more way Advantis demonstrates that it is a client-focused, results-oriented company intent upon building and strengthening client relationships."

Think technology. Think Virginia. Advantis responds to the needs of the Digital Dominion

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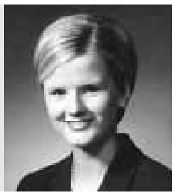

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Aerospace, biotech, computers, data processing, electronics, marine biology, telecommunications and transportation — when you think technology, think Virginia.

"The commonwealth is the birthplace of the Internet, one of the principal software development centers in the United States and one of only three states currently licensed and capable of launching communications satellites and other commercial payloads into space," says Petch Gibbons. "But recent financial difficulties means the luster of the tech world has worn off; although technology is no longer a hot service center, those companies need us to help them solve a lot of problems."

Now that the dust on the technology revolution has settled, Gibbons says, "There is a mature approach to the real influence and benefits technology will provide us. It is this phase that Advantis will contribute to the evolution and needs of technology companies."

To help the technology industry, Advantis assembled a group of savvy, young professionals from among its staff who had the technology knowledge, skills, ability and interest to focus on the real estate and other needs of the high-tech community.

"We're a young company with smart, young professionals. Many came with technology backgrounds; some ran their own companies. They really understand what these entrepreneurs are going through. They know what it's like. They know what 'a day in the life of a technology company' is like when it's rocking and rolling, and what it's like when it's going through tough times," Gibbons says. "Since forming TGA, we've worked with six or so tech companies and they appreciate our providing consulting and strategic planning advice."

One of TGA's team members, Jimmy Appich, says, "Our assessments are formed by understanding our client's philosophy and proven objectives, ultimately working to integrate real estate, infrastructure and human resources to create a streamlined approach in achieving our client's core values."

In addition to helping a company find office space, sublease office space or acquire or dispose of its office buildings, TGA analyzes the firm's human resource issues and helps it plan long-term and short-term strategic growth. "We're a sounding board. We help people understand how their business plans impact their growth and how that growth relates to facilities," Appich adds.

When the companies need the help of other service organizations, TGA has the resources to bring in those services, says Kimberlee Williams, another TGA team member. "Few companies — local or national — have the depth of resources and the market focus of our company," she says. "We have full-service offices throughout the Southeast."

That gives TGA a unique advantage, Gibbons says. "In identifying and solving the needs of technology companies, we're not consultants coming in from somewhere else. We're part of their communities already." And that helps TGA team members better understand their clients.

"The initial questioning is in depth," Williams says. "We ask about several key factors — a company's mission; its goals, strategies and tactics; its financial resources; who is accountable for decisions. We also cover timing issues as well as the criteria and measurement of success."

Appich says the team also gathers an understanding of the outside influences. "What influences created the current circumstance? Are they political, economic, financial, technical or human resource influences or all of the above? Once we understand those influences we can tailor a strategy specific to that company."

Advantis Construction Services team offers its clients cost-effective solutions

As the economy changes, so do the construction needs of Advantis' clients. "In a strong economy, our clients focus on expanding their facilities, constructing new facilities and decorating the interiors with high-end finishes," says Chip Rudolf. "In a slower economy our clients have different priorities. Instead of moving into new facilities, they focus on downsizing, consolidating and making their current spaces more efficient."

That new focus is another opportunity for the Advantis Construction Services team to demonstrate that Advantis is a full-service company.

"Construction Services does more than read plans and build spaces," says Will Travis. "By having an in-house architect, we can help a client use its space efficiently. By determining a client's efficiencies — e.g., its square footage per employee as compared to industry trends — we can help the client stay competitive within its industry."

In most instances, Travis explains, after payroll, real estate is a client's second largest expense. "If you're paying for square footage you don't need, you've lost your competitive advantage."

Travis says after the construction team meets with a client to determine its needs, it evaluates the space and identifies opportunities for a more efficient design. "We look at the space in two ways: What square footage could that client go into if it was starting in a perfect world? What can we do if the client is locked into a lease?"

If the client has a lease, Travis says a redesign of the leased space might yield as much as 15 percent of sublease space. "The client could recapture the out-of-pocket design and construction costs within a few months by reducing rent."

Rudolf says a second construction trend in a slow economy — where companies are not looking for big capital expenditures — is to spruce up current facilities. "But the trend is toward more basic levels of finishes, such as standard loop carpet and vinyl tile instead of hardwood floors, laminate countertops instead of solid surfaces like Corian or granite, and paint instead of wall coverings."

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To keep within its budget, one client spruced up just its public areas. "The reception area and conference rooms are beautiful, complete with high-end finishes of mahogany and granite. But the offices, which are not in public view, have a scaled-down finish. That kept the client within its budget," Rudolf says.

Matt Rae says one perk of a scaled-back economy is a very competitive subcontractor market. "The slowdown has placed a downward pressure on prices and an increase in the availability of skilled tradesmen."

Consequently, many clients are renovating their existing buildings. "We just completed one renovation with a slightly tighter budget. Not only did we help the client use the space more effectively, we reduced the construction costs and saved the client money."

You wouldn't have seen that a few years ago, Rudolf says. "The amount of work isn't what it was two years ago but the number of contractors are the same. A slow economy—combined with new and innovative building products and building systems—means we offer our clients leading-edge technology and even more cost-effective construction."

Maximizing property value is the key to effective property management

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"Property management is filled with unique challenges," says Jamie Thomas. "Just how well a management firm is prepared to deal with those challenging periods is one of the first things a prospective client should determine when selecting a management firm."

The secret to managing a property successfully — maintaining and increasing a property's value — is responding to an ever-changing economy, he says. "A strong management team delivers both added value and stability during turbulent times as well as during steady times."

Education, training and participating in professional organizations are other important keys to effective property management, adds Susan Fulton. "One of the first things a prospective client should ask is, 'Does the firm value education?' If it does, then there will be evidence of staff involvement with organizations such as the Building Owners and Managers Association and the Institute of Real Estate Management."

Both organizations offer industry designations — Real Property Administrator and Certified Property Manager — that demonstrate a high level of professionalism and show that a management firm adheres to a code of ethics. IREM also accredits companies and awards the Accredited Management Organization to those firms that meet objective standards of professionalism.

"Changing times drive new policies and procedures," Fulton says. "Companies must acknowledge those changing circumstances, develop appropriate policies and train staff accordingly."

Complementing Advantis' professional development program is its best practices program, which is known as the Advantis Align System, says Amy Cherry. "It's a wonderful tool. The program ensures our goals align with the owners' goals and it measures our performance. We benchmark our performance in all areas of our business."

The three agree that prospective clients also should look for other indicators of professionalism. "They should look for a management company that is diverse and provides a variety of services, such as lease administration, property accounting, in-house maintenance services and construction management," Cherry says.

Fulton adds that a management company must tailor its services to the client's wants, needs and desires. "One client might see the property as a long-term hold and may do things to maintain the property that are more expensive than a landlord whose primary goal is cash flow. Some owners look to us to be more of an asset manager."

The Chubb Building, as are other Beston and Herndon properties, is fully leased but has sublease opportunities available.

The Drug Enforcement Agency recently built a 90,000 square foot building in Lorton, VA

She notes that some clients want regular contact with the agent and manager and some want to be called only when a major issue arises. "I ask enough questions at the beginning of the relationship to get a good understanding of my client's objectives and needs."

Thomas says clients need to understand the management company's infrastructure. "They should ask about the company's computer system, how it collects rent and pays bills and the types of financial reports it generates. Does the firm have diversified reporting capabilities? Is the company properly insured? Does it have a fidelity bond? Are the employees bonded? It's important to think about those things."

He adds that a good banking relationship is another strong point for a management firm. "We have great banking relationships and that means savings to our clients. The banks don't charge us for certain services and we pass along those savings to our clients."

The same holds true for vendor relations. "Our relationships with janitorial, landscaping and other suppliers generate prenegotiated contracts. We leverage our purchasing power for our clients and pass those savings through."

Thomas says a well-run management firm is one that demonstrates its ability to manage challenges and provides real, measurable value to a property. "And it has a track record of being able to adjust quickly to changing market conditions."

Integrity, knowledge and vision: Key characteristics of trusted real estate brokers

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Integrity, knowledge and vision — the essential characteristics leading commercial real estate professionals possess and clients demand. "Integrity is No. 1," says Deborah Stearns. "When you have that, everything else flows from it."

Integrity — acting in the client's best interest

Stearns says integrity means putting the client's needs ahead of potential commissions. "This company has a 100-year heritage of acting in its clients' best interests. If a broker allows a landlord to 'buy' a transaction by accelerating commission payments or increasing commissions over a competitor's proposal, then that broker is not representing the client's best interests. Our goal is to build relationships; our brokers know their clients, whether those clients are landlords, buyers, sellers or tenants, and they try to maximize the benefits in favor of their clients."

Knowledge — understanding the significance of market forces

The second characteristic — knowledge of local market conditions and the commercial real estate best practices — is crucial if a broker is to become a trusted adviser, says Brian Ball. "Brokers must understand the nuances of local market issues as well as national trends. What is motivating a seller? What's in the early planning stages for the adjacent property and how does that impact the project? Only those who live and breathe the local market can unearth that data and understand their significance."

Vision — aligning real estate decisions with long-term business strategies

Jane Ferrara says the third characteristic — vision — means understanding your clients' objectives and working toward real estate solutions that achieve them. "Successful corporate real estate transactions are all about vision," she says. "They're about taking stock of where you are and realizing where you need to be. This results-oriented approach is more cost-effective."

For instance, by assuming a strategic approach, she says, "a broker can help clients realize the hidden values or liabilities that could make a big difference for the long-term impact of a transaction. They will be better prepared to identify and address situations such as excess space, operational inefficiencies and lease vs. own decisions where assets may be underutilized."

Ferrara adds that thinking strategically — with the goal of utilizing all assets — involves remaining flexible and entrepreneurial enough so that the client capitalizes on all unexpected opportunities that come along and fit into the overall, strategic plan.

"Beware of 'good' deals. A good deal isn't always in a client's best interest if it doesn't address long-term strategic needs. Great deals might hurt in the long run," Ferrara says. "A good broker is one who truly understands business, its drivers and how external market trends impact real estate strategies. And brokers with those skills help clients align their real estate decisions with their long-term strategies. Real estate is not just a place to locate your business. Real estate is a vehicle for achieving your business objectives. Those are solution-based decisions."

Technology — the goal is speed to market

Ball says that a good real estate broker also stays abreast of technology and communicates effectively. "Investing in technology and learning to use that technology help clients save time, money and effort. The goal is speed to market. Brokers who stay current with emerging technologies help streamline the real estate transaction process."

Streamlining business requires good communications skills. "Good communication skills include good listening skills," Ball adds. "Brokers with good listening skills communicate more effectively. That puts them in a position to offer sound advice based on their clients' unique objectives, strategies and interests."

And, Stearns adds, good listeners offer their clients the same ideals their clients expect from them — integrity, experience, innovation and service. "Developing long-term relationships with trusted real estate professionals offers many benefits. Their expertise in local market dynamics is invaluable for clients who intend to achieve their long-range, strategic goals."

To maintain a competitive edge Advantis tracks market statistics and trends throughout the major Southeast markets.

OFFICE

	Atlanta	Raleigh-Durham	Tampa Bay	Washington DC Metro area
Total Inventory (sq.ft.)	146.9 million	29.2 million	39.8 million	278.9 million
Vacancy	16.1%	11.3%	14.9%	6.1%
Completed Construction (sq.ft.)	5.3 million	2.3 million	768,204	10.4 million
Under Construction (sq.ft.)	5.3 million	1.2 million	838,275	21.8 million
Average Rental Rates (per sq.ft.)	Class A - $23.50 Class B - $18.00	Class A - $19.70 Class B - $15.25	Class A - $20.50 Class B - $16.75	Class A - $29.00 Class B - $25.25

Includes Class A, B and C non-owner -occupied buildings

INDUSTRIAL/FLEX

	Atlanta	Raleigh-Durham	Tampa Bay	Washington DC Metro area
Total Inventory (sq.ft.)	457.7 million	26.9 million**	115.7 million	116.4 million**
Vacancy	11.4%	Warehouse – 16.7% Flex – 13.7%	7.1%	9.7%
Completed Construction (sq.ft.)	5.3 million	2.3 million	1.3 million	4.3 million
Under Construction (sq.ft.)	9.0 million	494,100	770,522	2.2 million
Average Rental Rates (per sq.ft.)	Distribution - $3.80 Flex - $7.85	Warehouse - $4.50 Flex - $9.60	Distribution - $5.25 Flex - $8.00	Distribution - $7.75 Flex - $11.75

**Does not include owner occupied buildings

RETAIL

	Atlanta	Raleigh-Durham**	Tampa Bay	Washington DC Metro area
Total Inventory (sq.ft.)	143.2 million	26.9 million	40.5 million	108 million
Vacancy	6.06%	6.05%	7.7%	1.8%
Completed Construction (sq.ft.)	5.3 million	467,000	1.3 million	1.2 million
Under Construction (sq.ft.)	3.4 million	4.4 million	55,000	2.1 million
Average Rental Rates (per sq.ft.)	$14.50	$16.00	$12.50	$22.50

** Mid year 2001 statistics

Statistics as of 3rd quarter 2001unless otherwise noted