

Hall Associates Commercial Market Report

*A Review of Local and Regional Office, Retail,
and Industrial Real Estate Markets and Trends*

2006

Commercial REALTORS since 1975

Commercial REALTORS since 1975

Company Services

Brokerage Services

Sales and Leasing of Office,
Industrial, and Retail Properties
Investment and Exchanges
Tenant & Buyer Representation
Site Selection
Land Assemblage

Asset Services

Commercial Property Management
and Maintenance
Residential Property Management
and Maintenance
Facilities Management
Condo/Homeowners Association Management
Real Estate Financial Services
Janitorial Services

Marketing & Research

Market Trends
Demographic Reporting

Market Coverage

Licenses in VA, WV, NC, and TN

The Hall Team

Edwin C. Hall, 982-0011
CCIM, SIOR, CPM, CRE
Chairman / President

Stuart L. Meredith, 982-0011
CCIM, SIOR
Executive Vice President
Roger D. Elkin, 857-5865
Executive Vice President of Operations

Miriam Boyd, 586-2005
Joey Carter, 389-5632
John R. Dickinson, 562-0178
CCIM

Chrissy Greene, 982-0011
Commercial Property Manager
Lynn Hall, 857-5847

Tommy Hendrix, 857-5876
James F. Hodges, 857-5868
Read A. Lunsford, 344-0255
CCIM

Ralph D. Mabes, 857-5869
CRB, GRI

Angela Malaha
Vice President of Finance
Don Moore, 540-381-9000
Christopher M. Nelson, 857-5861
Robert H. Richardson, 857-5859
CCIM

Henry Scholz, IV, 857-5863
Barry Smith, 857-5864
Angela T. Stanfill, 982-0011
Vice President of Business Development
Fred W. Thomas, 857-5860
Thomas S. Turner, 857-5858
CCIM, SIOR

Judy B. Wagner, 586-2005
GRI
Dana A. Walker, 982-5703
Vice President Residential Property Management

Contents

Corporate Profile	2
Office Market (CBD)	3
Office Market (South Suburban)	4
Office Market (North Suburban) & Office Market Trends	5
Office Market (Growth & Absorption) Industrial Market Trends	6
Retail Market & Trends	7

The 2006 Commercial Market Report is a review of Roanoke and Southwestern Virginia's commercial real estate market trends. It is published by Hall Associates, Inc. We invite your comments and welcome your opinions, suggestions and corrections. Contact Angela Stanfill of Hall Associates, Inc., 213 S. Jefferson St., Suite 1007 Roanoke, VA 24011 Phone: (540) 982-0011

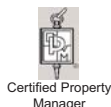
Publication Design by Lynn Hall

*The Information in this report is deemed reliable
Hall Associates, Inc. makes no representation or warranty as to its accuracy*

(540) 982-0011

www.hall-realtor.com

INDIVIDUAL MEMBERSHIPS



ROANOKE VALLEY OFFICE FACTS
10,000 SQUARE FEET +
Survey Does Not Include Owner-Occupied Buildings
 Prepared by Hall Associates, Inc.
 January 2005



Central Business District

BUILDING NAME	NET LEASABLE SQUARE FOOTAGE	OWNER OCCUPIED	SQUARE FEET AVAILABLE	SUB-LEASE SQUARE FEET AVAILABLE	FLOORS/ YEAR BUILT
15 East Salem Avenue	16,700	0	7,665		3/1998
129 Campbell (Legg Mason Build.)	15,000	0	1,200		4/1922
Bank of America	26,000	0	8,000		
BB&T Building	120,000	0	2,280		13/1973
Boxley Building	30,660	0	14,810		8/1922
Carilion Administrative Services Build.	205,096	0	13,523		15/1973
Colonial Arms	18,185	0	4,000		10/1927
Commonwealth Park	37,153	0	37,153		3/1986
Coulter Building	45,000	16,000	5,058		4/1987
Crystal Tower	49,007	26,000	2,500		8/1931
First Campbell Square	88,000	900	3,203		5/1988
First Citizens Building	61,000	43,000	11,500		5/1980
Fountain Square	24,664	1,052	4,000		1973
Franklin Plaza	138,651	0	900	24,510	5/1984
InSystems Building	20,000	0	0		2000
Jefferson Plaza	36,000	22,290	0		3/1975
Liberty Trust Building	27,190	0	1,800		7/1913
Professional Arts Building	32,825	0	10,386		9/1925
Shenandoah Building	55,000	0	0		7/1911
Southwest Virginia Savings & Loan	22,000	0	0		4/1961
Suntrust Plaza	129,954	69,000	0		9/1978
Tom Mason Building	36,000	0	20,000		2/1961
Valley Bank Building	39,212	0	9,032		7/1958
Wachovia Tower	218,503	0	14,952		2/1991
Warehouse Row	25,461	0	0		3/2004
TOTAL ALL SPACE	1,517,261	178,242	171,962	24,510	VACANCY
CLASS A SPACE	1,068,365	128,900	59,081	24,510	11%
CLASS B SPACE	314,229	23,342	95,571	0	6%
CLASS C SPACE	134,667	26,000	17,310	0	32%
					13%



South Suburban District

BUILDING NAME	NET LEASABLE SQUARE FOOTAGE	OWNER OCCUPIED	SQUARE FEET AVAILABLE	SUB-LEASE SQUARE FEET AVAILABLE	FLOORS/ YEAR BUILT
419 Office Center	12,000	0	0		1/1990
Atlantic Companies	150,000	0	0		2/1984
Brambleton Corporate Center	24,000	0	0		2/1987
Brandon Office Park	35,598	0	7,737		1/1958
Cave Spring Professional Center	34,265	4,272	6,247		3/1988
Colonial Green Office Village	32,914	3,673	6,421		3/1980
Colonnade Corporate Center I	58,000	0	2,742		2/1988
Colonnade Corporate Center II	52,000	0	9,180		3/1989
Crystal Spring Medical Building	78,000	58,592	0		4/2000
Executive Center	14,700	0	278		3/1988
Glen Heather Station	10,926	0	1,050		
Fralin & Waldron Buildings A - D	70,467	7,499	2,289		2/1972
Fralin & Waldron Buildings E - F	88,424	30,122	9,992		1993
Hunting Hills Office Suites	11,500	3,000	0		1/2000
Krisch Hotels	38,664	0	1,500		1/1970
LaPremier	24,000	1,500	4,500		2/1989
Lee Hi Business Center	115,700	0	24,000		1/1960s
McClanahan Building	26,757	15,286	2,340		4/1972
Moore's Building	50,000	0	0		
NBC Bank Building	17,872	0	7,300		3/1976
Oak Grove Offices	26,519	0	3,000		2/1973
One Beacon Insurance *	33,000	0	0		1/2005
Penn Forest Corporate Center	35,545	0	5,954		3/1984
Pheasant Ridge	117,000	1,000	26,000		3/1998
Professional Park I	37,749	1,915	1,247		3/1974
Radford Family Building	11,000	7,000	0		2/2000
Ridgewood Hill Corporate Center *	35,000	10,000	4,300		3/2002
South Park	29,600	0	1,922		2/1974
Stratford Park	40,000	2,500	8,300		2/1970
Sugar Loaf Crossing	30,200	19,600	4,500		1990-2000
Tanglewood Executive Park	27,000	0	2,486		2/1988
Tanglewood West	54,000	0	4,500		4/1974
TOTAL ALL SPACE	1,422,400	165,959	147,785	0	VACANCY
CLASS A SPACE	777,369	130,814	69,932	0	10%
CLASS B SPACE	451,971	32,645	51,966	0	9%
CLASS C SPACE	193,060	2,500	25,887	0	11%
					13%

* Located in the Salem District

North Suburban District

BUILDING NAME	NET LEASABLE SQUARE FOOTAGE	OWNER OCCUPIED	SQUARE FEET AVAILABLE	SUB-LEASE SQUARE FEET AVAILABLE	FLOORS/ YEAR BUILT
Bowers Buildings	15,986	3,500	0		1/1967
Brammer Village	93,500	2,400	25,760		1/1988
Century Business Center	52,077	0	10,527		1/1987
Executive Park	54,000	0	5,874		1/1978
Northpark	34,603	0	6,476		1/1989
Peters Creek Plaza	36,476	14,266	16,000		2/1968
Salem Bank & Trust	32,000	24,000	0		5/1974
Valley Court	157,000	0	27,821		1/1990
Valleypointe					
Jefferson Nat. Forest Building	25,000	0	0		1/1993
The Park at Valleypointe	65,640	0	34,105	17,200	1/1989
Valley Park Center Building A	17,779	0	0		1/1998
Valley Park Center Building B	38,790	0	6,622		1/1998
Valley Center Business Park Build. A	17,425	0	1,193		2/1998
Valley Center Business Park Build. B	13,850	0	7,500		1/2000
Valley View Professional Center	58,000	0	13,000		4/1987
Woodhaven Office Park	11,665	0	3,615		2/2000
					VACANCY
TOTAL ALL SPACE	723,791	44,166	158,493	17,200	22%
CLASS A SPACE	334,829	0	83,038	17,200	30%
CLASS B SPACE	336,500	26,400	59,455	0	18%
CLASS C SPACE	52,462	17,766	16,000	0	30%

2005 Office Market Review and 2006 Forecast

The overall Roanoke Valley office market was active in 2005 with all three submarkets showing a gain in absorption for the first time since 1999. The South Suburban market absorption was the largest with a gain of over 37,000 square feet, its largest gain since 2000. The activity has been increasing since mid year 2005. We are optimistic that the activity will continue during 2006. The office market vacancy rate was stable in 2005 for the North Suburban and Central Business District (CBD) Markets and appears stable for the South Suburban Market, although the South Suburban Market grew by 55,000 square feet in 2005. This is why its absorption didn't impact overall vacancy rate in that sub market. Rental rates are currently stable but seem to be trending upward. At the current time, the demand is good for all types of office space in the suburbs and downtown.

In 2005, the CBD absorbed approximately 25,500 square feet, down from 30,400 square feet of absorption in 2004. The South Suburban market was strong in 2005 with over 37,000 of net absorption for the year. The North Suburban market gained momentum from 2004, going from a negative absorption of over 14,500 square feet in 2004 to a positive gain of over 9,000 square feet for 2005.

In 2006, occupancy rates are expected to increase in the South and the market will be tight for certain types and sizes of space. The North Suburban Market should strengthen even

more in 2006. The current space available in the North Suburban market contains a good mix of space sizes and types. We feel that the office market in the CBD will continue to absorb a moderate amount of space throughout 2006. The CBD vacancy rate at the end of 2005 was 11%, down one percent from the previous year. A good selection of space types and sizes are also available in the CBD.

The newsmakers to watch in 2006 are:

- Atlantic Companies leaving its home of over 20 years for its new building in Salem in late 2006. They join OneBeacon who left the same building in late 2005 for their new Salem building included in this year's survey.
- Completion of the first building in the Carilion's Riverside Center.

Other important factors that remain important to the growth and health of the Office market are the success of the Carilion Riverside Center (a joint venture of Carilion Health Systems, Virginia Tech and The University of Virginia), as well as other new ventures in the high tech community in Roanoke and neighboring Blacksburg markets.

Hall Associates continues to feel that the long term direction for the Roanoke market is in the high tech and medical related industries.

Growth and Absorption

		TOTAL GROSS AREA	VACANCY SQUARE FEET	VACANCY%	NET ABSORPTION
2005	Central Business District	1,517,261	171,962	11 %	25,552
	South Suburban District	1,422,400	147,785	10 %	37,306
	North Suburban District	723,791	158,493	22 %	9,325
2004	Central Business District	1,497,320	172,682	11 %	30,352
	South Suburban District	1,368,600	131,291	10 %	15,926
	North Suburban District	723,791	167,818	23 %	(14,574)
2003	Central Business District	1,525,967	206,220	14 %	(2,068)
	South Suburban District	1,222,700	123,217	10 %	33,396
	North Suburban District	725,014	154,467	21 %	21,007
2002	Central Business District	1,524,114	202,299	13 %	9,390
	South Suburban District	1,219,255	153,168	13 %	16,830
	North Suburban District	689,299	139,759	20 %	(9,708)
2001	Central Business District	1,503,856	191,431	13 %	39,424
	South Suburban District	1,135,522	86,265	08 %	10,624
	North Suburban District	685,666	126,418	18 %	(29,627)

Industrial Market Survey



Industrial Market Trends

The industrial market started off 2005 at a slow pace but built momentum in the second half of the year. Traditionally, demand for space that is less than 10,000 square feet is the most active segment of the market. However, in 2005 there was a noticeable surge in demand for industrial space larger than 25,000 square feet.

This time last year, it was reported that 540,000 square feet of space would be available for lease as a result of a sale of the Home Shopping Network building in Salem to investors. After a brief marketing time, the industrial portion of the facility was fully leased to two major tenants. There are other examples of companies expanding their operations and moving into larger facilities. Southern Refrigeration moved into a 75,000 square foot facility built for their intended use on Shenandoah Avenue. Oak Hall Cap and Gown expanded beyond their Salem facility and leased 125,000 square feet on Blue Ridge Drive in Roanoke. The last remaining industrial space of approximately 127,000 square feet was leased at the former Ingersoll-Rand property in Roanoke County.

There has been some upward pressure on lease rates for industrial

space. Finding a property for bulk distribution that is less than \$2.00 per square foot happens less frequently than it did several years ago. Bulk distribution space generally leases for \$2.00 to \$3.50 per square foot. Higher quality industrial space with amenities such as three-phase power, a sprinkler system, and climate controlled spaces lease in the range of \$3.50 to \$6.00 per square foot. Flex space, technology and R & D spaces lease from \$5.00 to \$8.00 per square foot.

In summary, the industrial market in Southwestern Virginia will continue to gain strength as the economy improves. Prospects may have fewer lease or purchase options as industrial product is absorbed. There is limited new construction in the region which also impacts the supply side.

Prepared by Tom Turner, CCIM, SIOR



Retail Market Survey

In 2005, the retail market in the Roanoke Valley continued to be dynamic and respond to local demands for more national and regional stores. Pricing for retail lease space in the suburban markets has continued to grow as demand increases. The completion of the Fresh Market store at Towers and the sale of adjacent land to CVS for a new store, as well as the continued development of the Ivy Market project to be anchored by Ukrops and Walgreen's demonstrate the considerable strength of the South Roanoke market. Each of the projects has substantial development or redevelopment costs which could not be justified in a less robust market.

Due to the unique nature of the retail market, it is beneficial to review the market by type of development: regional shopping center, big box, grocery anchored community shopping center, freestanding retailer and downtown retail.

Regional Shopping Centers

Regional shopping centers, including enclosed malls and large strip centers, have had a strong year. Valley View Mall continues to maintain a very high occupancy rate with demand for new space exceeding the space available. Tanglewood has plans to occupy the former Brendle's space with a new TJ Maxx store and is near completion of an A. C. Moore arts and crafts retail store. This is the first time since 1996 that the mall has had true anchor stores on each end, thereby creating the traffic necessary to fill the smaller shop space. Demand for smaller spaces in regional centers has allowed Towne Square to successfully fill space vacated by Heronimus and Wicker World.

Big Box Discounters

The region continues to have an unmet demand for big box retailers. Home Depot is now building their first Southwest Roanoke City store along Route 220 South on a site which is small and, due to topography, difficult to build on. The market strength in that area is likely to justify the considerable effort and expense that they will go through in getting the store completed. In the past year, the move to Valley View by Circuit City has allowed that retailer to expand their space and product lines. There continue to be efforts by other big box retailers to find sites in the Valley but topography and lack of large parcels in retail corridors makes any new project difficult and expensive.

Community Shopping Centers

The development of grocery anchored centers continues in the Valley, as evidenced by the Ivy Market Center. Kahn Development has announced that they are moving ahead with their project on Keagy Road in Southwest Roanoke

County. The vacant Kroger space at Cave Spring Corner (created by the construction of a new Kroger store on the site) is currently being remodeled for a Hamrick's Family Clothing Store. The demand for community based shopping centers has continued to grow and has permitted center owners and developers to reinvest in existing centers, as well as build new ones. This trend is likely to continue as long as the community employment base continues to stay strong.

Freestanding Retail

The freestanding retail market has typically been dominated by convenience stores, banks, restaurants and, more recently, drug stores. That model has not changed but there are now additional users in the Roanoke Valley market competing for these highly valued sites. In particular, Starbucks, Flat Rock Grill, Bonefish, Smokey Bones and other restaurant operators have come into the market. There are additional regional restaurant operators who are seeking sites in the market but who either can not find a site that fits their model or cannot afford the land prices in the Valley, prices that often exceed those in Richmond or other more urban markets.

Central Business District

The Downtown Roanoke market continues its steady growth due to the continued development of downtown residential units. Although there are often turnover and vacancies in the downtown retail spaces, there continues to be investors and developers who believe in the market. Over the past year, downtown residential living has expanded to include the new Campbell Garage Lofts condominium project and the completion of apartments on Jefferson Street and the State and City Building on Campbell Avenue are both being remodeled as mixed use projects with street level retail or office lease space and upper level residential units. The continued investment in downtown living space will provide the basis for a stronger downtown retail market.

In addition, the completion of the Art Museum will provide additional support for more tourist based retail development, as well as attracting more suburban residents back to Downtown. The revitalization of any downtown is an incremental process which, in order to have a realistic perspective, should be reviewed over a timeframe of more than just one year. Continued reinvestment by property owners, the attraction of new investors in the downtown, the growth of the number of downtown residents and the continued investment by the City of Roanoke will all lead to a healthy downtown retail market.

Prepared by Roger Elkin & Lynn Hall

Credibility is in the Numbers !

- * Sales Transactions Completed in Over **130** Cities and Communities in **7** States
- * Over **5.1 Million** Square Feet of Commercial Property Under Lease
- * Over **750** Active Commercial Leases
- * Over **1.5 Million** Square Feet Under Commercial Property Management
- * Over **1200** Units Under Residential Leases
- * Over **750,000** Square Feet Under Janitorial Services



For more information:
Hall Associates, Inc.
213 S. Jefferson St., Suite 1007
Roanoke, Va. 24011-1714
(540) 982-0011
(540) 344-1730 Fax
www.hall-realtor.com