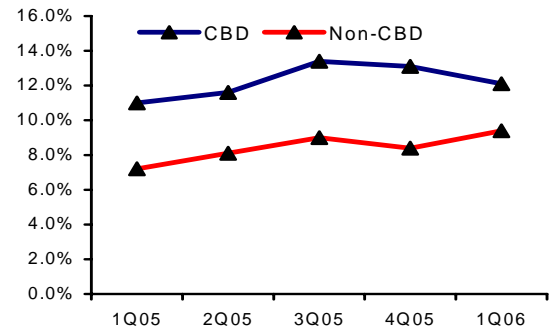


**Leasing activity has been brisk through the start of 2006.** While the downtown market fared better than its suburban counterpart in overall absorption, the suburban market far outpaced downtown in leasing activity. In the first quarter, downtown's direct absorption was positive 100,619 square feet (sf) while the suburban market's direct absorption totaled negative 277,075 sf. Leasing activity downtown was stagnant with just 73,663 sf leased. In the meantime, the suburban markets realized almost 300,000 sf of leasing activity.

Richmond's biggest corporate players drove the suburban market's leasing activity this quarter. LandAmerica Financial Group completed its sublease of nearly 300,000 sf of space in Highwoods III on Cox Road in Innsbrook. The 10-year deal includes LandAmerica subleasing space for three years from Capital One. Capital One has already moved out of the buildings into its corporate headquarters in West Creek. The impact of LandAmerica moving from about 190,000 sf in the Midlothian corridor won't be reflected in the market's vacancy until LandAmerica moves in October. MeadWestvaco signed its letter of intent for 210,000 sf at 11013 West Broad Street. The lease for what it considers its "temporary" headquarters space is expected to be executed in the second quarter. Other significant deals include Home Care Delivered Inc.'s lease of 19,335 sf at Park III in Innsbrook; Venture Investment Properties leased nearly 10,000 sf at Commerce Plaza I on Emerywood; and IndigeTech, Inc. leased 5,000 sf at the Bank of America building.

**Overall Vacancy Rates CBD vs. Non-CBD**



Groundbreakings have slowed from the torrid pace in 2005, but the suburban market did experience a new delivery in the first quarter.

Looking forward, market absorption appears to be steadily improving after several quarters of negative absorption.

Significant deals to watch include MeadWestvaco.

Westerre III, a speculative office building totaling 77,708 sf in the Innsbrook submarket, was delivered. The class A building is 19% leased with tenants such as Modis and PrimeAmerica. The delivery in Innsbrook further propelled its vacancy rate up to 12.7 % from 11.3 % the previous quarter, and 10.8 % in the third quarter last year.

Unlike the slow and steady leasing market, a flurry of activity continues in Richmond's sales market, including out of town and local investors and owner-occupied purchases. Brandywine Realty Trust has under contract One Paragon, a class A, 145,127-sf office at I-64 and Glenside Drive. Apex purchased and plans to fully occupy 5020 Sadler Place in Innsbrook. The class B, 29,840-sf office sold for \$137 per square foot (psf). Owens & Minor has put its now vacant 4800 Cox Road headquarters building on the market and it will be a significant transaction to track in the coming months. Owens & Minor is moving into a 160,000-sf building under construction in the Northside submarket at Atlee Station and it is set to deliver in the second quarter of 2006.

Looking forward, market activity appears to be steadily improving after several quarters of negative absorption. Significant deals to watch include MeadWestvaco which is expected this year to determine where it's permanent headquarters will be located. Additionally, the delivery of 75,000-sf Three Paragon Place at Glenside and Broad Street is anticipated by the end of the year. And downtown the Central National Bank building at 219 E. Broad St. is under renovation. The 202,000 sf historic building is now considered an office building but could potentially include ground-floor retail and residential units or a hotel. Goodstein Development is also planning a mixed-use development ground breaking this year on an 18- to 22-story building in Richmond's CBD. Many speculate that both the Main Street development and the CNB building will rely on a lead tenant to kick off construction ■

**THALHIMER / CUSHMAN & WAKEFIELD MARKET HIGHLIGHTS****Significant 1Q06 New Lease Transactions**

BUILDING	SUBMARKET	TENANT	SQUARE FEET	CLASS
Highwoods III	Innsbrook	LandAmerica Financial Group	297,000	A
4144 Innslake Drive	Innsbrook	Home Care Delivered	19,335	B

**Significant 1Q06 Sale Transactions**

BUILDING	SUBMARKET	BUYER	SQUARE FEET	PURCHASE PRICE
5020 Sadler Place	Innsbrook	Apex	29,840	\$4,100,000

**Significant 1Q06 Construction Completions**

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
Westerre III	Innsbrook	N/A	77,708	First Quarter 2006

**Significant Projects Under Construction**

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
Owens & Minor	Northside	Owens & Minor	160,000	Second Quarter 2006

**THALHIMER / CUSHMAN & WAKEFIELD MARKET/SUBMARKET STATISTICS**

Market/Submarket	Inventory	No. of Bldgs.	Overall Vacancy Rate	Direct Vacancy Rate	YTD Leasing Activity	Under Construction	YTD Construction Completions	YTD Direct Absorption	Direct Wtd. Avg. Class A Rental Rate*
CBD	12,787,779	340	12.2%	11.8%	73,663	0	0	100,619	\$18.17
Non-CBD	33,778,238	1,965	9.4%	8.9%	296,147	0	252,300	(277,075)	\$17.45
East End	759,391	91	5.4%	5.4%	0	0	0	0	\$0.00
Far West End	452,895	40	11.9%	2.7%	0	0	100,000	(4,274)	\$0.00
Glenside/Broad Street	3,836,279	117	7.8%	7.5%	42,456	0	0	53,873	\$18.94
Hull Street Corridor	1,786,640	120	6.9%	6.9%	974	0	17,700	(22,200)	\$0.00
I-95 North/Ashland	521,559	64	1.8%	1.8%	2,500	0	0	2,500	\$13.25
I-95 North/Chamberlayne	316,867	44	1.1%	1.1%	0	0	0	0	\$0.00
Innsbrook	7,262,196	139	13.2%	12.7%	87,108	0	77,708	(37,367)	\$17.21
Iron Bridge Corridor	1,192,871	111	8.2%	5.4%	0	0	0	2,216	\$16.00
Lakeside	424,022	60	9.6%	9.6%	0	0	0	(8,030)	\$0.00
Mechanicsville	609,999	82	13.2%	13.2%	300	0	4,000	(10,500)	\$0.00
Midlothian Corridor	3,812,838	196	15.9%	14.9%	115,188	0	0	(193,569)	\$17.48
Near West End	2,240,169	277	10.1%	9.5%	4,374	0	0	(62,274)	\$0.00
Northside	256,191	62	2.8%	1.7%	0	0	0	1,008	\$0.00
Parham East	2,375,443	75	5.1%	4.9%	1,591	0	0	(19,134)	\$0.00
Parham South	950,732	63	13.4%	13.4%	15,468	0	0	(614)	\$0.00
Rt 288 Corridor	881,990	73	8.3%	8.3%	9,383	0	0	2,083	\$17.32
Stoney Point/Huguenot	1,288,170	120	3.0%	2.4%	5,138	0	52,892	(1,583)	\$18.65
West Creek	1,201,713	8	0.0%	0.0%	0	0	0	0	\$0.00
West End	3,608,273	223	7.8%	7.6%	11,667	0	0	20,970	\$17.00
<b>Total</b>	<b>46,566,017</b>	<b>2,305</b>	<b>10.2%</b>	<b>9.7%</b>	<b>369,810</b>	<b>0</b>	<b>252,300</b>	<b>(176,456)</b>	<b>\$17.66</b>

\* Rental rates reflect \$psf/year