

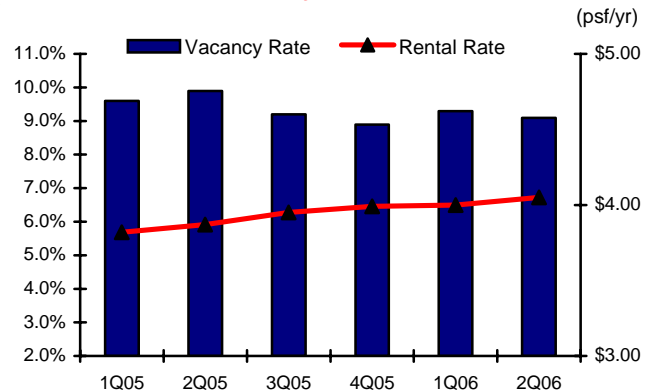
**208,000 square feet (sf) of positive overall absorption for the second quarter** led to a drop in the vacancy rate for the overall industrial market from 9.4% at the end of the first quarter to 9.1%. Year-to-date overall absorption remains a negative 106,438 sf; however, the strong leasing activity of the second quarter indicates that the overall market is slowly improving. Leasing activity was good at the Enterchange at Walthall with Anthony Door and HCA leasing 24,500 sf each. To the north of the city, at the Enterchange at Northlake, Wholesale Millwork leased 45,800 sf. And at the Fairgrounds Distribution Center, J. Seargent Reynolds leased 60,000 sf.

Investment activity was slow for the quarter with only one significant sale, the sale-leaseback of Alfa Laval's facility in the Airport Industrial submarket. The 79,000 sf facility that was constructed in 1990 sold for \$13.3 million to a tenants-in-common investor.

New construction is underway at the Enterchange at Northlake in Hanover County. This project, which already features two class A distribution buildings totaling over 500,000 sf, has two buildings under construction. There is a build to suit for Creative Office Environments which will be 79,500 sf and a true showplace of a high-end building for our market. The second building, called Building B, is a speculative building that will be 132,500 sf. The building has distinctive entrances and can be subdivided for companies looking for as little as 26,500 sf. Another new speculative building is under construction at the Crescent Business Center. This park is located along Interstate 95 at the Atlee Elmout exit. This will be the second distribution building in the park.. The Crescent IV building will be 57,800 sf of which Curbell Plastics has committed to 16,150 sf. The building is designed to accommodate tenants as small as 8,500 sf, which is unique for a building with 24' clear ceilings. Construction completion is anticipated for year-end.

Despite the recent pick-up in leasing activity, there are still many options for tenants looking for space to consider. This should keep rental rates relatively flat except in the new speculative project where increased construction cost should drive prices higher. This is evident in the I95 N/Ashland industrial submarket where there is over 270,000 sf of new construction. Rental rates in this submarket are among some of the highest in the area at an average of \$5.27 psf. ■

**Overall Vacancy vs. Rental Rates**




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Year-to-date overall absorption remains negative 106,438 sf; however, the strong leasing activity during second quarter indicates that the overall market is slowly improving.

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**THALHIMER MARKET HIGHLIGHTS****Significant 2Q06 New Lease Transactions**

BUILDING	SUBMARKET	TENANT	SQUARE FEET	PROPERTY TYPE
Fairgrounds Distribution Center	Laburnum/Rte 360	J. Sargeant Reynolds	60,000	Distribution
Enterchange @ Northlake - C	I-95 North/Ashland Industrial	Wholesale Millwork	45,800	Distribution
Enterchange @ Walthall - A	I-95 South/I-295/Rt 10	HCA	24,500	Distribution
Enterchange @ Walthall - B	I-95 South/I-295/Rt 10	Anthony Door	24,500	Distribution
Crescent Business Center IV	I-95 North/Ashland Industrial	Curbell Plastics	16,150	Distribution

**Significant 2Q06 Sale Transactions**

BUILDING	SUBMARKET	BUYER	SQUARE FEET	PURCHASE PRICE
5400 International Trade Drive	Airport Industrial	Direct Invest	Alfa Laval, Inc.	\$13,277,500

**Significant 2Q06 Construction Completions**

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
N/A				

**Significant Projects Under Construction**

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
Crescent Business Center IV	I-95 North/Ashland Industrial	Curbell Plastics	57,800	October 2006
Oak Lake Boulevard	288 Corridor	N/A	24,000	August 2006
Enterchange @ Northlake - B	I-95 North/Ashland Industrial	N/A	134,000	December 2006
Enterchange @ Northlake	I-95 North/Ashland Industrial	Creative Office Environments	79,500	December 2006

**THALHIMER MARKET/SUBMARKET STATISTICS**

Market/Submarket	Inventory	No. of Bldgs.	Overall Vacancy Rate	Direct Vacancy Rate	YTD Leasing Activity	Under Construction	YTD Construction Completions	YTD Overall Absorption	Direct Wtd. Avg. Rental Rate*
Downtown Industrial	1,124,845	60	0.9%	0.9%	0	0	0	(7,000)	\$9.90
I-95 N/Mechanicsville Ind	5,781,228	226	6.6%	6.6%	13,500	0	0	(78,380)	\$3.84
Laburnum/Rte 360	4,810,446	141	12.2%	12.2%	163,196	0	0	(126,706)	\$4.20
I-95 North/Ashland	4,143,198	92	12.7%	12.5%	137,700	271,300	0	274,853	\$5.27
Scott's Addition/West End	10,284,213	386	3.3%	2.8%	93,084	0	0	(1,592)	\$4.10
Staples Mill/Parham	4,051,194	153	9.5%	9.1%	165,783	0	0	(92,366)	\$4.84
Airport Industrial	16,849,947	216	10.5%	10.3%	167,215	0	0	(256,380)	\$3.18
I-95S/I-295S/Rt. 10	7,878,034	103	16.6%	16.6%	140,498	0	0	143,621	\$4.40
Jeff Davis Corridor	26,512,230	462	9.6%	9.6%	73,520	0	0	(21,706)	\$3.65
Midlothian Corridor	3,821,767	207	2.4%	2.4%	28,840	0	42,980	40,738	\$8.87
288 Corridor	2,032,522	78	0.5%	0.5%	26,560	24,000	0	18,480	\$6.14
<b>Total</b>	<b>87,289,624</b>	<b>2,124</b>	<b>9.1%</b>	<b>9.0%</b>	<b>1,009,896</b>	<b>295,300</b>	<b>42,980</b>	<b>(106,438)</b>	<b>\$4.05</b>
Downtown Industrial	1,124,845	60	0.9%	0.9%	0	0	0	(7,000)	\$9.90
Northeast Industrial	10,591,674	367	9.1%	9.1%	176,696	0	0	(205,086)	\$4.11
Northwest Industrial	18,478,605	631	6.7%	6.3%	396,567	271,300	0	180,895	\$4.85
Southeast Industrial	16,849,947	216	10.5%	10.3%	167,215	0	0	(256,380)	\$3.18
Southwest Industrial	40,244,553	850	9.8%	9.8%	269,418	24,000	42,980	181,133	\$4.33
<b>Total</b>	<b>87,289,624</b>	<b>2,124</b>	<b>9.1%</b>	<b>9.0%</b>	<b>1,009,896</b>	<b>295,300</b>	<b>42,980</b>	<b>(106,438)</b>	<b>\$4.05</b>

\* Rental rates reflect \$psf/year