

OFFICE OVERVIEW RICHMOND, VIRGINIA

Second Quarter 2006

The Richmond market is continuing to move in the right direction with a dramatic improvement in the overall vacancy and absorption rates compared to the first quarter of this year. All but four of Richmond's nineteen submarkets experienced a drop in overall vacancy rate. Absorption spiked as well, particularly in the suburban submarkets. Direct absorption in the CBD rose by 99,765 square feet (sf) this quarter while absorption jumped over 380,000 sf in the non-CBD markets. This brought year-to-date absorption in the CBD and non-CBD markets to 191,015 sf and 104,355 sf respectively. Overall vacancy in the Central Business District dropped to 11.6 % from 12.2 % the previous quarter. And vacancy declined in the non-CBD submarkets to 9.0 % from 9.4 % in the first quarter.

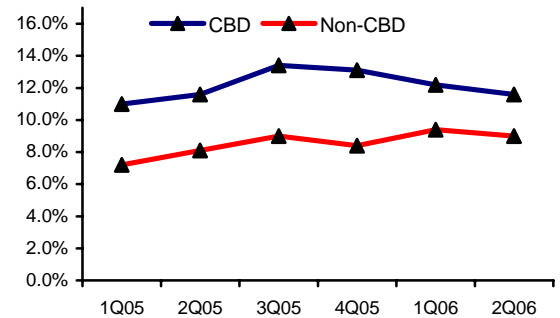
Two large downtown lease transactions include 12,418 sf lease for Deloitte & Touche at Riverfront Plaza and Cisco Systems lease for 9,784 sf at the James Center.

The biggest gains were made in the Midlothian Corridor, which includes 3.8 million square feet (msf) of inventory. Overall vacancy for the corridor decreased by 5.9 percentage points from first quarter 2006 to 10.0% at mid-year. The vacancy was helped significantly by various leases in the Richmond Healthcare Group Building at 1000 Boulders Pkwy, which absorbed 22,238 sf with the signing of Pulmonary Associates of Richmond. Boulders IV, also in the Midlothian submarket, completed a 12,458-sf lease in the second quarter.

The Midlothian submarket's overall vacancy rate dropped more than any other submarket in the second quarter. However, the Staples Mill/Parham submarket saw a boost with the lease by Mirabillis Ventures Inc. for 121,851 sf at Westmoreland Plaza, a building vacated by Capital One. Innsbrook got several of the market's top lease transactions in the second quarter including a lease renewal by Business Centers International at Highwoods II for 15,740 sf. Despite the 48,000 sf of leasing activity during the second quarter, the Innsbrook market still saw an increase in vacancy. The Innsbrook vacancy rate increased to 15.3 % from 13.2 % in the first quarter, making it the second highest in the market behind Mechanicsville, which has an 18.4 % vacancy rate. Nearly 165,000 sf was put back on the market in the North Park building and Owens & Minor Building, both on Cox Road. The 65,000-sf Owens & Minor building was the largest chunk of space returned to the market this quarter. Conversely, Owens & Minor delivered a 160,000-sf corporate office facility in the Atlee Station Office Park – the largest delivery in the second quarter.

Other deliveries this quarter include the 20,000 sf Woodlake Office Condos in the southwest quadrant which are 100% occupied. The Reynolds Crossings development near the Philip Morris USA headquarters started in the second quarter, a joint venture development including the Reynolds family. The site is being prepared now for a 70,000 sf speculative office building and a hotel operator has expressed interest in a 200-room hotel on the site. Brandywine Realty Trust, a Pennsylvania-based real estate investment trust, purchased 6800 Paragon Place in Richmond from Colonial Properties Trust for \$24 million, or about \$165.50 per square foot (psf) as an investment. Cogdell Spencer bought the Hanover Medical Office Building I from LaSalle Investment. The 56,610-sf office is part of a two-building portfolio purchase totaling \$12 million. ■

Overall Vacancy Rates CBD vs. Non-CBD



Absorption in the CBD rose by 99,765 sf, while absorption jumped by nearly 385,000 sf in the non-CBD markets

THALHIMER MARKET HIGHLIGHTS

Significant 2006 New Lease Transactions

BUILDING	SUBMARKET	TENANT	SQUARE FEET	CLASS
1000 Boulders Parkway	Midlothian Corridor	Pulmonary Associates of Richmond	22,238	B
Highwoods II	Innsbrook	Business Centers International	15,740 – renewal	A
Westmoreland Plaza	Staples Mill/Parham	Mirabilis Ventures, Inc	121,851	B

Significant 2006 Sale Transactions

BUILDING	SUBMARKET	BUYER	SQUARE FEET	PURCHASE PRICE
6800 Paragon Place	Glenside/Broad	Brandywine Realty Trust	145,127	\$24,000,000

Significant 2006 Construction Completions

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
Owens & Minor	I-95 North / Chamberlayne	Owens & Minor	160,000	May 2006

Significant Projects Under Construction

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
Philip Morris R & D Center	North Broad	Philip Morris	450,000	November 2006
Stony Point IV	Stony Point / Huguenot	Colony Insurance	103,816	December 2006
North Shore Commons B	Innsbrook	N/A	99,400	November 2007

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 Direct Absorption	Direct Wtd. Avg. Class A Rental Rate*
CBD	12,512,023	339	11.6%	11.3%	120,273	450,000	0	191,015	\$19.89
Non-CBD	34,135,499	1,976	9.0%	8.3%	539,097	555,288	336,708	104,355	\$17.52
East End	759,391	91	4.9%	4.9%	0	0	0	3,640	\$0.00
Far West End	452,895	40	11.7%	2.5%	939	148,837	0	(3,405)	\$0.00
Glenside/Broad Street	3,910,155	118	9.0%	8.9%	99,424	0	75,000	68,908	\$18.94
Hull Street Corridor	1,786,640	120	5.8%	5.4%	974	0	0	4,574	\$0.00
I-95 North/Ashland	521,146	64	1.1%	1.1%	2,500	0	0	2,500	\$0.00
I-95 North/Chamberlayne	476,867	45	0.6%	0.6%	2,845	0	160,000	160,720	\$0.00
Innsbrook	7,290,988	139	15.3%	14.6%	162,105	159,075	77,708	(180,049)	\$17.39
Iron Bridge Corridor	1,201,395	111	7.2%	4.5%	3,000	27,400	0	13,091	\$16.00
Lakeside	427,172	61	9.7%	9.7%	0	23,000	0	(8,680)	\$0.00
Mechanicsville	615,899	83	18.4%	18.4%	300	0	4,000	(43,232)	\$0.00
Midlothian Corridor	3,819,303	199	10.0%	8.2%	148,876	0	0	61,431	\$17.45
Near West End	2,256,981	278	9.3%	8.5%	15,757	0	0	(41,378)	\$0.00
Northside	256,191	62	1.8%	0.6%	0	0	0	3,695	\$0.00
Parham East	2,299,279	74	4.2%	4.2%	15,834	14,160	0	1,595	\$0.00
Parham South	950,732	63	10.2%	10.2%	30,459	0	0	29,674	\$0.00
Rt 288 Corridor	955,690	76	7.5%	6.9%	17,383	79,000	20,000	(10,560)	\$17.84
Stony Point/Huguenot	1,341,488	121	2.3%	1.8%	15,063	103,816	0	5,794	\$18.65
West Creek	1,201,713	8	0.0%	0.0%	0	0	0	0	\$0.00
West End	3,611,574	223	7.3%	7.2%	23,638	0	0	36,037	\$17.00
Total	46,647,522	2,315	9.7%	9.1%	659,370	1,005,288	336,708	295,370	\$18.00

* Rental rates reflect \$psf/year