

The Richmond retail market continues to chug along in the second quarter of 2006. National retailers new to Richmond are signing leases and all quadrants seem to be benefiting from this trend with existing retailers filling in the remaining space. 2006 will likely be known as the biggest year for new retailers entering the market since the opening of Short Pump Town Center and Stony Point Fashion Park.

The overall vacancy rate continues to hover in the 5% range and rental rates have softened slightly to an overall \$12.54 per square foot (psf) which includes anchor as well as small shop tenants, all on a triple net basis. Over 120,000 square feet (sf) of retail space has been delivered in 2006 yet vacancy rates remain almost unchanged. Even with non-stop construction in the northwest quadrant (NWQ) it continues to lead the pack with an overall vacancy rate of 3.8% and an average rate of \$16.58 NNN.

In the NWQ the Short Pump submarket continues to lead the way with new retailer entries. Whole Foods has announced its entrée into the market with its lease signing at the mixed use lifestyle project known as West Broad Village and Short Pump Station has landed Petco and Longhorn Steakhouse. Restaurants-America's Club Louie is planning on opening in the former Season's restaurant at Short Pump Town Center and Archon and Breedon are moving forward with their plans for two new projects. Willow Lawn is nearing completion of its renovation and re-tenanting program with the opening of Gold's Gym and the construction of Ross Dress for Less (another newcomer to the Richmond market), Panera Bread Bakery Café and First Market Bank. Meanwhile, the Regency submarket is getting a shot in the arm with the opening of Fresh Market at Ridge Shopping Center and Wal-Mart under construction in the former Kmart box in Parham Plaza.

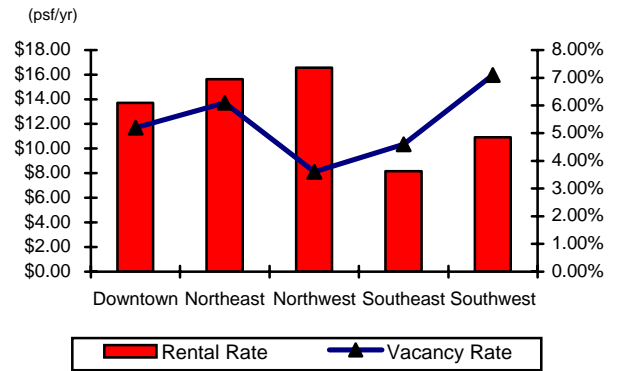
The southwestern quadrant (SWQ) is continuing to see activity in several of its submarkets including the South Chesterfield retail submarket where Sonic has announced a new store at Bermuda Crossings and Breckenridge is finalizing its expansion plans while Kroger is still under construction. In the Swift Creek submarket, Clover Hill Shops has delivered 20,000 square feet of space to the market. In Midlothian Village West the Watkins Centre neighborhood development project is under contract and appears to be attracting retailers not likely to land in the Westchester Power/Town project. The Midlothian East corridor isn't to be left out with the announcement that Crosland has been awarded the redevelopment of the Cloverleaf Mall Tract. Tractor Supply Company has opened in the northeastern quadrant (NEQ)

Mechanicsville submarket. Marshall's and Old Navy are anticipated to anchor Hanover Square North, while Rutland Commons is gearing up for development. In the southeastern quadrant (SEQ) White Oak Village is getting all the attention, although several new projects are in the planning stage.

Investment interest in the market remains steady although there are no real deals out there. The Ukrop's, Pleasant's Hardware and Harley Davidson anchored Oxbridge Square on Hull Street & Courthouse Roads sold for just over \$15 million to Stoltz Management out of Pennsylvania.

With the announcement of retailers such as Whole Foods entering the market, Richmond is being put on the map. ■

Direct Rental Rates vs. Vacancy Rates



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

| BUILDING | SUBMARKET | TENANT | SQUARE FEET | CLASS |
|--------------------|------------|-------------|-------------|-------|
| West Broad Village | Short Pump | Whole Foods | 60,000 SF | A |
| Short Pump Station | Short Pump | Petco | 15,000 SF | A |
| West Broad Village | Short Pump | Wachovia | 1.5 Acres | A |

Significant 2Q06 Sale Transactions

| BUILDING | SUBMARKET | BUYER | SQUARE FEET | PURCHASE PRICE |
|-----------------|----------------------|---------------------------------------|-------------|----------------|
| Oxbridge Square | Midlothian E/Hull St | Stoltz Management/Oxbridge Retail LLC | 125,000 | \$15,200,000 |

Significant 2Q06 Construction Completions

| BUILDING | SUBMARKET | MAJOR TENANT | SQUARE FEET | COMPLETION DATE |
|--------------------------|-------------|------------------------|-------------|-----------------|
| Clover Hill Shops | Swift Creek | Verizon, Salon del Sol | 20,000 | June 2006 |
| Willow Lawn – anchor box | Willow Lawn | Gold's Gym | 40,000 | March 2006 |

Significant Projects Under Construction

| BUILDING | SUBMARKET | MAJOR TENANT | SQUARE FEET | COMPLETION DATE |
|--------------------|--------------------|----------------------------|--------------------------|----------------------|
| Ivymont Square | Midlothian Village | Kroger | 80,000 (Kroger) | Fall 2006 |
| Short Pump Station | Short Pump | Petco, Longhorn Steakhouse | 80,000 | Late 2006/Early 2007 |
| Parham Plaza | Regency | Wal-Mart, Staples | 100,000 (Wal-Mart store) | Fall 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 Direct Absorption | Direct Wtd. Avg. Rental Rate* |
|--------------------------|-------------------|---------------|----------------------|---------------------|----------------------|--------------------|------------------------------|-----------------------|-------------------------------|
| Retail | | | | | | | | | |
| Downtown | 3,516,398 | 432 | 5.2% | 5.2% | 15,949 | 0 | 0 | 1,626 | \$13.72 |
| I-95 / Chamberlayne / NE | 592,262 | 64 | 2.2% | 2.2% | 1,000 | 0 | 0 | 1,000 | \$15.11 |
| Laburnum / Route 360 | 3,159,375 | 419 | 13.4% | 10.1% | 21,243 | 0 | 0 | (36,106) | \$12.59 |
| Mechanicsville | 2,558,820 | 185 | 2.1% | 2.1% | 11,979 | 60,000 | 9,702 | 53,750 | \$18.62 |
| Broad St Corridor | 2,278,051 | 122 | 3.8% | 3.8% | 29,923 | 30,000 | 55,000 | (12,201) | \$16.95 |
| Far West End North | 477,131 | 27 | 3.5% | 3.5% | 0 | 0 | 0 | 0 | N/A |
| Far West End South | 1,338,041 | 57 | 7.8% | 7.7% | 8,485 | 0 | 12,995 | (2,400) | \$15.88 |
| I-95 Ashland / NW | 1,433,967 | 146 | 4.3% | 3.8% | 728 | 0 | 0 | (20,514) | \$10.43 |
| Near West End | 3,531,587 | 614 | 2.9% | 2.9% | 15,500 | 0 | 0 | (35,224) | \$15.24 |
| Regency | 2,160,816 | 85 | 1.6% | 1.3% | 13,841 | 100,000 | 0 | 8,137 | \$18.49 |
| Short Pump | 3,060,859 | 59 | 1.9% | 1.7% | 1,326 | 80,000 | 0 | 31,522 | \$31.46 |
| Staples Mill / Parham | 6,921,333 | 432 | 3.6% | 3.0% | 18,080 | 18,200 | 6,250 | (41,842) | \$16.79 |
| Willow Lawn | 2,973,702 | 245 | 7.0% | 7.0% | 16,471 | 0 | 0 | (6,444) | \$12.14 |
| East End | 3,817,680 | 431 | 4.6% | 4.6% | 26,350 | 0 | 0 | 13,807 | \$8.15 |
| Jeff Davis Corridor | 3,277,986 | 496 | 14.0% | 14.0% | 1,500 | 0 | 0 | (201,566) | \$2.80 |
| Midlothian E / Hull St | 8,030,114 | 526 | 7.9% | 7.1% | 24,285 | 26,392 | 0 | (95,365) | \$8.91 |
| Midlothian Village | 699,371 | 50 | 18.9% | 18.9% | 14,306 | 80,000 | 0 | 37,107 | \$15.06 |
| Midlothian West | 5,940,814 | 240 | 5.3% | 4.9% | 30,875 | 29,378 | 0 | (113,503) | \$16.19 |
| South Chesterfield | 2,693,348 | 216 | 2.6% | 2.6% | 10,448 | 0 | 0 | 14,788 | \$14.13 |
| Swift Creek | 3,521,328 | 118 | 5.7% | 5.5% | 7,500 | 0 | 36,400 | 39,414 | \$15.53 |
| Downtown Retail | 3,516,398 | 432 | 5.2% | 5.2% | 15,949 | 0 | 0 | 1,626 | \$13.72 |
| Northeast Retail | 6,310,457 | 668 | 7.7% | 6.1% | 34,222 | 60,000 | 9,702 | 18,644 | \$15.63 |
| Northwest Retail | 24,175,487 | 1,787 | 3.8% | 3.6% | 104,354 | 228,200 | 74,245 | (78,966) | \$16.58 |
| Southeast Retail | 3,817,680 | 431 | 4.6% | 4.6% | 26,350 | 0 | 0 | 13,807 | \$8.15 |
| Southwest Retail | 24,162,961 | 1,646 | 7.5% | 7.1% | 88,914 | 135,770 | 36,400 | (319,125) | \$10.91 |
| Total | 61,982,983 | 4,964 | 5.8% | 5.4% | 269,789 # | 423,970 | 120,347 | (364,014) | \$12.54 |

* Rental rates reflect \$psf/year NNN

For more information, please contact one of our Brokerage Professionals
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