

INDUSTRIAL OVERVIEW RICHMOND, VIRGINIA

Third Quarter 2006

A robust third quarter of leasing activity brought the year-to-date overall absorption of industrial space to a positive 407,604 square feet (sf). The vacancy rate for the overall industrial market dropped from 8.1% at the end of the second quarter to 7.3%. Leasing activity was healthy throughout the market place with the most significant lease transactions occurring at the Enterchange at Walthall with Hill Phoenix and Recall Total Information Management leasing 71,929 sf and 58,401 sf respectively. To the north of the city, at the Enterchange at Northlake, International Paper and Appalachian Insulation Supply leased 64,657 sf and 34,792 sf. And at the Fairgrounds Distribution Center, the American Red Cross leased the former IRS facility at 4300 Carolina Avenue, which totals 221,489 sf.

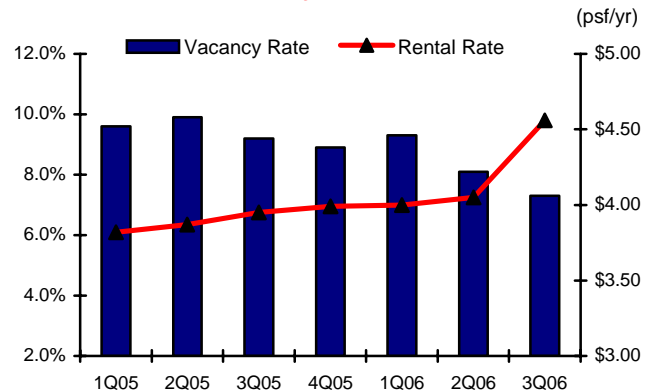
While the vacancy rate dropped considerably, there are still several large blocks of space available throughout the marketplace. Notable class A availabilities include 116,096 sf and 261,992 sf in buildings D and E at the Enterchange at Walthall, 124,861 sf available in the Riversbend II building, and 170,000 sf available in the Interport Distribution Center. The Enterchange at Walthall features 32' clear ceiling heights and the quoted rent is \$4.50 per square foot (psf), the Riversbend II building offers 24' clear ceilings heights and the asking rent is \$4.75 psf and the Interport Distribution Center features 24' clear ceilings heights and the quoted rental rate is \$3.95 psf. All rental rates are triple net, which means the tenant pays for all operating expenses associated with the property.

The vacancy rate for the overall industrial market dropped from 8.1% at the end of the second quarter to 6.7%.

Store. The AMF warehouse also sold this quarter for just under \$4.2 million. The 200,000-sf building is located in the I-95 N/Mechanicsville submarket.

There are only three significant new buildings under construction in the marketplace, all located in Hanover County. A new speculative building is under construction at the Crescent Business Center. This park is located along Interstate 95 at the Atlee Elmont exit. This will be the second distribution building in the park. The Crescent IV building will be 57,800 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. The other two buildings being constructed are at the Enterchange at Northlake. 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. 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. ■

Overall Vacancy vs. Rental Rates



Investment activity was highlighted by Mill Managements purchase of Airport Center I & II and the Airport Distribution Center. These three class A distribution properties total 450,000 sf and are located in the Airport Industrial submarket. The properties are 100% leased. Other activity included the sale of the Bermuda Warehouse to Fullerton Properties. The 108,000-sf facility that was constructed in 1980 sold for \$3.1 million. The facility is partially leased. The new owner plans to use a portion of the facility for their business, Joe Ragan's Business Department

THALHIMER MARKET HIGHLIGHTS**Significant 3Q06 New Lease Transactions**

BUILDING	SUBMARKET	TENANT	SQUARE FEET	PROPERTY TYPE
4300 Carolina Ave	Laburnum/Rte 360 Industrial	American Red Cross	221,489	Distribution
3021 Vernon Road	Staples Mill/Parham Ind	PODS	110,000	Warehouse
Enterchange @ Walthall - C	I-95S/I-295S/Rt. 10	Hill Phoenix	71,929	Distribution
Enterchange @ Northlake - C	I-95N/Ashland	International Paper	64,657	Distribution
Enterchange @ Walthall - D	I-95S/I-295S/Rt. 10	Recall Total Information Management, Inc.	58,401	Distribution
Enterchange @ Northlake - B	I-95N/Ashland	Appalachian Insulation Supply	34,792	Distribution

Significant 3Q06 Sale Transactions

BUILDING	SUBMARKET	BUYER	SQUARE FEET	PURCHASE PRICE
AMF Warehouse	I-95 N/Mechanicsville	Atlantic Leasing Associates	200,000	\$4,175,000
Bermuda Warehouse	I-95S/I-295S/Rt.10	Fullerton Corporation	108,000	\$3,100,000

Significant 3Q06 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	January 2007
Enterchange @ Northlake - B	I-95 North/Ashland Industrial	N/A	136,144	January 2007
Creative Office Environments	I-95 North/Ashland Industrial	Creative Office Environments	81,003	January 2007
Windsor Business Park V	I-95 North/Mechanicsville	N/A	58,747	January 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 Overall Absorption	Direct Wtd. Avg. Rental Rate*
Downtown Industrial	1,097,842	61	2.3%	2.3%	2,900	0	0	2,900	\$4.97
Northeast Industrial	12,074,089	411	7.5%	7.5%	633,468	58,747	0	(12,273)	\$4.64
Northwest Industrial	22,933,569	768	5.9%	5.6%	740,336	193,944	0	73,548	\$5.86
Southeast Industrial	17,612,018	244	6.2%	5.9%	293,657	0	0	368,610	\$3.43
Southwest Industrial	42,801,362	967	8.5%	8.3%	584,920	11,800	42,980	(25,181)	\$4.81
Total	96,518,880	2,451	7.3%	7.0%	2,255,281	264,491	42,980	407,604	\$4.56
Distribution	19,804,981	208	10.9%	10.5%	1,028,746	193,944	0	77,929	\$4.29
Manufacturing	26,979,056	393	4.9%	4.9%	161,040	0	0	817,939	\$3.06
Flex	9,073,205	322	10.2%	10.0%	371,546	70,547	42,980	(31,929)	\$9.06
General Industrial	40,661,638	1,528	6.4%	6.4%	693,949	0	0	(456,335)	\$4.89
Total	96,518,880	2,451	7.3%	7.0%	2,255,281	264,491	42,980	407,604	\$4.56

* Rental rates reflect \$psf/year. Third Quarter 2006 numbers reflect the addition of approximately 9 million sf of flex inventory.