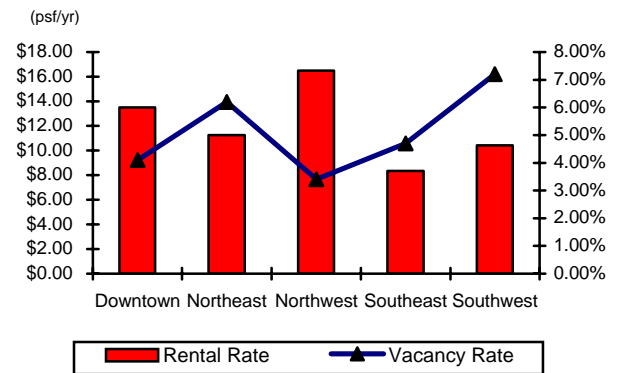


The Richmond retail market is holding its own in the third quarter of 2006. Developers are touting new projects throughout the market and attempting to get their deals with the national retailers solidified. These developments are attracting new retailers to the market and enticing existing retailers to look at new trade areas within the market that they may not be servicing.

The overall vacancy rate, which includes sublease space, has decreased slightly to 5.7% yet the overall rental rates continue to soften slightly to an overall \$12.11 per square foot (psf) NNN with less expensive anchor deals off-setting the higher rents charged to smaller tenants. The Jeff Davis retail corridor is affecting the overall rates with its average being \$2.80 psf while Short Pump remains the dominant leader at \$29.97psf. Another 70,000 square feet (sf) of retail space has been delivered in the third quarter alone yet vacancy rates dropped slightly, further indication of a strong market. Although the southwestern quadrant (SWQ) has year-to-date negative direct absorption, it has seen the strongest amount of activity in 2006 with over 300,000 square feet leased.

In the northwest quadrant (NWQ) the Short Pump submarket continues to be the leader for new retailer entries. West Broad Village is working diligently to procure retailers to join the Whole Foods line-up with rumors circulating that REI will make this site their entry into Richmond. North American Properties is new to the fold of Short Pump developers, joining Archon (proposed "The Corner" lifestyle project) and Breeden which will have Ethan Allen anchoring its Town Center West project. Panera Bread Bakery Café opened at Willow Lawn and Chipotle has demolished a large portion of the former Fuqua & Sheffield building making way for a new store. Disco Sports has opened in the former Darryl's space at Regency Square while Wal-Mart remains under construction at Parham Place. Staples Mill Road is not to be left out with several new developments in the mix including Marchetti Properties Staples Mill Square project which is expected to be anchored by Target.

Direct Rental Rates vs. Vacancy Rates



The overall vacancy rate, which includes sublease space, has decreased slightly to 5.7%.

The southwestern quadrant (SWQ) is continuing to see brisk activity in several of its submarkets including Hull Street's Swift Creek submarket where The Village at Swift Creek has signed leases with Ross Dress for Less, Babies R Us and Petco to anchor phase II, Hancock Village at Winterpock Road continues to solve its development issues and is getting closer to delivering retailers such as Wal-Mart while the 250,000 square foot Millennium Town Center at Route 288 has been introduced to the market. In Midlothian Village West Kroger is under construction in the former Kmart at Ivymont Square and the retail portion of Watkins Centre is due to close the end of the year with marketing going full force on both The Shoppes at Westchester and the Westchester Power/Town projects.

Macerich isn't willing to sit back and let Chesterfield Town Center be left out and is working diligently on their plans for the re-development and re-tenanting of the mall while the former H&R Block out parcel is undergoing redevelopment which will further enhance the centers traffic and appeal. Crosland continues to work through their plans for the mixed use redevelopment of the Cloverleaf Mall Tract.

The northeast quadrant (NEQ) is seeing new developments as well. Hanover Square North anchored by Marshall's and Old Navy has broken ground and will be opening mid 2007. In addition to Cloverleaf Mall, Crosland is also developing the more traditional Rutland Commons site on Route 301 anchored by Kroger. In the southeastern quadrant (SEQ) White Oak Village is finalizing deals with Target, Lowe's and multiple junior anchor boxes while nearby properties are seeing overflow interest.

Investment dollars continue to enter the market with the Einstein Bagel/Hollywood Video building on West Broad selling for over \$335 SF and Stoltz Management continued their interest in the Richmond market by purchasing Pocono Crossing for \$20,525,105 (\$113/sf) from Laureate Capital.

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

BUILDING	SUBMARKET	TENANT	SQUARE FEET	ANCHORS
Village at Swift Creek	Swift Creek	Ross Dress for Less	30,187	Kroger
Village at Swift Creek	Swift Creek	Babies R Us	30,000	Kroger
Commonwealth Centre-Phase I	Swift Creek	Best Buy	40,000	Target, Kohl's, TJ Maxx

Significant 3Q06 Sale Transactions

BUILDING	SUBMARKET	BUYER	SQUARE FEET	PURCHASE PRICE
Einstein Bagel/Hollywood Video Bldg	West End	K. Kang	8,120 SF/ 1.23 Acres	\$2,728,000
Pocono Crossing	Midlothian	Stoltz Management	181,638	\$20,525,105

Significant 3Q06 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	3,526,066	432	4.2%	4.2%	27,051	0	0	36,864	\$13.50
I-95 / Chamberlayne / NE	592,262	64	2.5%	2.5%	2,125	0	0	(450)	\$15.75
Laburnum / Route 360	3,202,875	423	13.3%	10.0%	21,243	0	0	(38,116)	\$8.91
Mechanicsville	2,574,366	186	2.6%	2.4%	54,924	75,000	9,702	45,326	\$16.30
Broad St Corridor	2,250,066	119	3.6%	3.4%	31,659	30,000	55,000	15,956	\$14.02
Far West End North	477,131	27	3.5%	3.5%	0	0	0	0	N/A
Far West End South	1,350,041	58	7.0%	7.0%	22,628	0	12,995	5,790	\$15.55
I-95 Ashland / NW	1,438,452	147	3.5%	3.1%	728	0	0	(10,324)	\$9.28
Near West End	3,536,185	614	3.1%	3.1%	23,800	0	0	(39,109)	\$15.50
Regency	2,164,098	86	2.0%	2.0%	21,896	0	0	(7,727)	\$17.37
Short Pump	2,975,871	61	1.8%	1.7%	4,526	0	0	34,276	\$29.97
Staples Mill / Parham	6,937,723	436	3.2%	2.8%	42,873	18,200	46,210	(24,553)	\$16.79
Willow Lawn	3,000,583	246	6.8%	6.8%	16,471	0	0	(1,393)	\$12.19
East End	3,499,881	432	4.7%	4.7%	28,750	0	0	26,712	\$8.33
Jeff Davis Corridor	3,285,159	496	15.7%	15.7%	74,802	0	0	(260,031)	\$2.80
Midlothian E / Hull St	8,136,111	533	7.9%	7.2%	36,571	30,770	0	(110,031)	\$8.70
Midlothian Village	699,371	50	17.8%	17.8%	104,247	0	31,170	44,691	\$15.06
Midlothian West	6,007,016	241	4.8%	4.6%	51,428	25,000	0	(96,602)	\$14.94
South Chesterfield	2,677,219	220	1.9%	1.9%	16,620	7,200	0	20,960	\$13.92
Swift Creek	3,281,422	118	6.8%	5.6%	19,300	0	36,400	41,184	\$15.35
Downtown Retail	3,526,066	432	4.2%	4.2%	27,051	0	0	36,864	\$13.50
Northeast Retail	6,369,503	673	7.9%	6.2%	78,292	75,000	9,702	6,760	\$11.24
Northwest Retail	24,130,150	1,794	3.6%	3.4%	164,581	48,200	114,205	(27,084)	\$16.49
Southeast Retail	3,499,881	432	4.7%	4.7%	28,750	0	0	26,712	\$8.33
Southwest Retail	24,086,298	1,658	7.7%	7.2%	302,968	62,970	67,570	(359,829)	\$10.41
Total	61,611,898	4,989	5.7%	5.3%	601,642 #	186,170	191,477	(316,577)	\$12.11

* Rental rates reflect \$psf/year NNN

For more information, please contact one of our Brokerage Professionals
Thalhimer, a member of the Cushman & Wakefield Alliance
1313 East Main Street, Suite 400
Richmond, VA 23219
(804) 648-5881

This report contains information available to the public and has been relied upon by Thalhimer on the basis that it is accurate and complete. Thalhimer accepts no responsibility if this should prove not to be the case. No warranty or representation, express or implied, is made to the accuracy or completeness of the information contained herein, and same is submitted subject to errors, omissions, change of price, rental or other conditions, withdrawal without notice, and to any special listing conditions imposed by our principals.

