

## INDUSTRIAL OVERVIEW RICHMOND, VIRGINIA

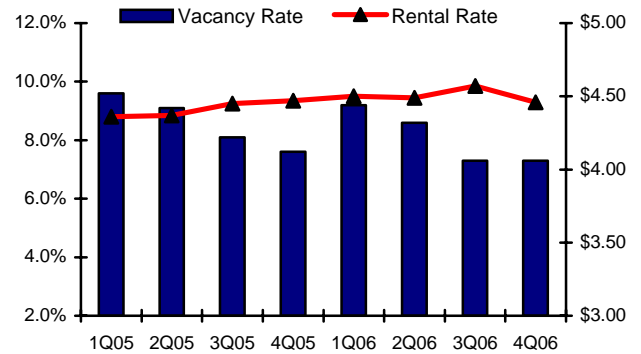
Fourth Quarter 2006

**The Richmond area industrial market** had no change in the vacancy rate from the third to fourth quarters of 2006 as the overall vacancy rate stayed at 7.3%. This may be due to natural end of year hesitation on the part of businesses to take on new leases or acquisitions than an actual indicator of any trends. The Richmond economy continues to grow with an unemployment rate lower than the Hampton Roads area and the surrounding rural areas. Consumer spending overall is still healthy which has a domino effect, requiring the need for retailers to look for more warehouse/distribution space. There is a good supply of class A distribution space currently available. While manufacturing space has not historically been in high demand, it was absorbed at a good pace over the past year. This drove the vacancy rate down from 7.5% at the beginning of 2006 to 5.1% at year-end.

Businesses continue to look for opportunities in the area. One of the most notable leases was the Biagi Brothers Inc. signing an 81,000-square foot (sf) lease at Building D of the Fairgrounds Distribution Center at 4301-4335 Carolina Ave. on the North Side of Richmond. The 162,000-sf building located in the Laburnum/Route 360 submarket still has another 81,000 sf available. An additional lease in the Fairgrounds Distribution Center was with Office Furniture Solutions who leased 44,182 sf in Building G.

Leasing rates continue to slowly rise, despite vacancies, except for the Southwest submarket which had a slight downturn from the third to fourth quarters from \$4.81 per square foot (psf) to \$4.42 psf respectively and a higher overall vacancy rate of 9.2% in the fourth quarter up from 8.5% in the third quarter. The rise in vacancy was attributed to Philip Morris, located in the southwest (SW) quadrant, vacating several older tobacco warehouses along Commerce Road during the fourth quarter. Higher construction costs, which have led to increased lease rates in class A industrial buildings, is expected to make class B and C industrial buildings more appealing.

**Overall Vacancy vs. Rental Rates**




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The most activity has been seen around the Lewistown exit in the Northwest quadrant and growth is steadily moving toward the Ashland exit along I-95 North. Plenty of land is also still available in the southeast (SE) and SW quadrants as well. The majority of buyers during fourth quarter were smaller owners looking for space while lending rates remain low, taking advantage of the good debt service. Construction has begun in the Southpoint Industrial Park located in the I-95/I-295/Rt. 10 submarket with an additional 130,000 sf expected to be delivered in July of 2007. The Windsor Business Park V building consisting of 58,747 sf and located in the I-95 North/Mechanicsville submarket has secured Simplex Grinnell as a major tenant.

Dynamex, Inc. has signed a lease for 10,000 sf at Gaskins Centre on Mayland Drive in the Northwest quadrant to use as flex space. An additional 10,000 sf of space is still available. Other notable spaces still available are the Enterchange at Walthall, Building E which has 262,000 sf, the Crescent Business Center - Building 4 with 41,000 sf available, and the Nippon Building in Dinwiddie County which has 112,000 sf of manufacturing space available to lease or

purchase. In the downtown industrial market the older Coca-Cola building is still available in the Scotts Addition area, which has several new residential projects that are a result of converting older warehouses into living spaces. Overall vacancy rates in the downtown area increased slightly from the third to fourth quarters going from 2.3% to 3.2%.

**THALHIMER MARKET HIGHLIGHTS****Significant 4Q06 New Lease Transactions**

BUILDING	SUBMARKET	TENANT	SQUARE FEET	PROPERTY TYPE
Fairgrounds, Building D	Laburnum/Rte 360	Biagi Brothers, Inc.	81,000	Distribution
Fairgrounds, Building G	Laburnum/Rte 360	Office Furniture Solutions	44,182	Distribution
Gaskins Centre	Far West End	Dynamex	10,000	Flex

**Significant 4Q06 Sale Transactions**

BUILDING	SUBMARKET	BUYER	SQUARE FEET	PURCHASE PRICE
N/A				

**Significant 4Q06 Construction Completions**

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
N/A				

**Significant Projects Under Construction**

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
South Point	I-95/I-295/Rt. 10	N/A	30,000	July 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	3.2%	3.2%	2,900	0	0	(7,100)	\$4.97
Northeast Industrial	12,094,689	412	9.8%	9.7%	658,369	58,747	8,000	(516,919)	\$4.55
Northwest Industrial	23,031,437	775	6.3%	5.7%	845,903	193,944	22,860	(154,297)	\$6.40
Southeast Industrial	17,546,241	244	8.1%	7.3%	329,918	150,000	95,849	14,673	\$3.51
Southwest Industrial	43,261,195	971	9.2%	9.1%	808,984	6,000	59,800	(742,044)	\$4.42
<b>Total</b>	<b>97,031,404</b>	<b>2,463</b>	<b>7.3%</b>	<b>7.2%</b>	<b>2,646,074</b>	<b>408,691</b>	<b>186,509</b>	<b>(1,405,687)</b>	<b>\$4.46</b>
Distribution	19,954,086	207	15.5%	14.7%	1,007,746	193,944	0	(1,351,678)	\$4.24
Manufacturing	26,979,249	393	5.1%	5.1%	265,370	0	0	713,154	\$3.17
Flex	9,256,483	327	10.2%	10.0%	573,233	64,747	167,969	(13,527)	\$9.13
General Industrial	40,841,586	1,536	6.7%	6.4%	799,725	150,000	18,540	(753,636)	\$4.25
<b>Total</b>	<b>97,031,404</b>	<b>2,463</b>	<b>7.3%</b>	<b>7.2%</b>	<b>2,646,074</b>	<b>408,691</b>	<b>186,509</b>	<b>(1,405,687)</b>	<b>\$4.46</b>

\* Rental rates reflect \$psf/year.