Richmond Commercial Real Estate Market

Retail Report
Year-End
2006

State of the Market Report

Richmond

GVA Advantis

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RETAIL Richmond, Virginia Market Review

City of Richmond, Henrico, Chesterfield, and Hanover Counties

Year-End 2006

Inventory keeps arriving, vacancies continue to hold steady, and asking rental rates ascend. Land in and around Short Pump and Midlothian becomes ever more scarce and precious.

MARKET STATISTICS

The market is up a mere 30 basis points over last year, but down by 220 points from YE 2004. The Northwest quadrant (NWQ) continues to be the best performing submarket with a phenomenal 4.5% vacancy rate. Conversely, the Southwest quadrant (SWQ) stumbled moderately as it fell off by 180 basis point in 2006. There is a likely correlation between the faltering SWQ office market and the retail segment. Well over a thousand employees have vacated their SWQ work environments to head to the NWQ including MeadWestvaco, LandAmerica Financial, and Philip Morris USA. Net absorption was negligent with offsetting figures between the NWQ and SWQ whose figures were 746,000 s.f. and (824,000) respectively. Deliveries were a modest 323,000 s.f., down from 951,000 in 2005, however, up from 260,000 in 2004. Space under construction is a comfortable 247,000 s.f., down significantly from the regional mall(s) days of two years ago. Don't be fooled however, this number will likely change dramatically in the near future as illustrated later in this report.

THE ECONOMY

As always, the economic landscape has played a crucial role in industry performance. Vacancies, absorption, development, rental rates and the like are all symptomatic of the economy. As you can see from the chart to the right, the local and to a lesser extent the national economy have enjoyed a healthy 2006. Additionally, Richmond boasts an unemployment rate 150 basis points lower than the national average. Some of our bordering states have rates of 4.9%, 4.0%, 3.7%, and 5.4% for North Carolina, Maryland, Delaware, and West Virginia respectively. The ability to attract companies like MeadWestvaco, Philip Morris USA, and Wachovia Securities is proving invaluable. The companies are migrating highly paid employees to Richmond with considerable discretionary income. Moreover, many should be new home buyers. Subsequently providing furnishings, decorations, landscaping and everything else that goes along with new home ownership; a real boost for the economy.

Economic Indicator	Value	1 Year Ago	1 Year Trend
National Retail Sales (month)	$369.9 b	$349.9 b	▲
National E-Commerce Volume (qtr)	$991.7 b	$784.4 b	▲
Richmond Unemployment Rate	3.0%	3.4%	▲
Richmond Employment	611,684	601,620	▲
National Unemployment Rate	4.5%	4.9%	▲
National Continuing Unemployment Claims	2.5 m	2.7 m	▲
National GDP (Annualized)	3.4%	3.6%	▼
National Productivity (Annualized)	1.9%	3.4%	▼
National Avg Monthly New Net Jobs (Annualized)	153,000	165,000	▼

Source: U.S. Dept of Labor & Economics and Statistics Admin.

Market Up Close

- Vacancy rises a mere 30 basis points over year-end 2005 to 7.3%. This marks eight consecutive quarters where the rate has been south of 8%.
- The sales market is falling in-line with the office market, where it dropped considerably from 2005. The impact of this trend is mitigated by the fact that the investment market in 2005 was phenomenal.
- There is approximately 7.3 million s.f. of new retail development space on the books. This would be a 19.2% increase over the current inventory.

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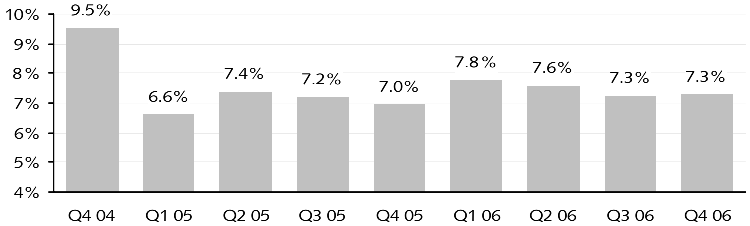
Vacancy continues to stay remarkably low despite on-going development.



DEVELOPMENT NEWS

- There is 7.3 million s.f. of space on the drawing board (see chart below).

There is currently some 7.3 million s.f. on the planning table, which, if and when delivered would add 19.2% to existing inventory.

Project	Size	Developer	Notes
Roseland Proposal	1,500,000	Casey Sowers	Near Woolridge Road and Route 288. This would feature a maximum of 5,140 residential units and over 1.5 million s.f. of commercial space. Next door is a 600-acre tract zoned for 740 living units.
Westchester Commons	1,000,000	Zaremba Group and Metropolitan Partnership	Will feature a one million square foot lifestyle retail center, 1,600 residential units and two million square feet of office space.
White Oak Village	914,000	Forest City and Pruitt Properties	Construction to start Fall 07, $100m project, former ViaSystems at 4500 S Laburnum
Hancock Village	540,000	EDCO LLC	Wal-Mart, JC Penny, Bed Bath & Beyond, La-z-boy, Dicks (negotiating), Circuit City (negotiating), DSW (negotiating), Books a Million, Starbucks, etc Opening spring 08
Azelea Square	450,000	Dewberry Capital	50-acre mixed use site, former Azelea Mall site. Was supposed to be delivered in 04 - delayed. Remediation efforts underway.
West Broad Village	425,000	Unicorp	884 residential units, 668,000 sf office, 430 room hotel, 115 acres. Former Leisfield farm. Whole Foods, REI, Borders, Old Navy, and Drexel Heritage are anchors.
Woodlands Costco	360,000	Continental Properties	Includes a 160,000-square-foot Costco with a tire store and 453 apartments. 70-acre parcel.
Midlothian Towne Center	320,000	James Doran Company	Midlothian Town Center offers 320,000 square feet of retail space for stores and restaurants, some along a four-acre natural lake, 10,000 square feet of office space, as well as 251 luxury condominiums on site. 35-acre site.
Shoppes at Westchester	275,000	Rebkee Company	Just west of Westchester Commons and not part of Watkins Centre, will be mostly banks and restaurants (smaller retailers). Maximum size allowed is 70,000 sf
Millennium Town Center	250,000	Millennium Retail Partners LLC	Just east of 288 & 360, coming spring 08
The Corner at Short Pump	200,000	Archon Group	Mini towne center - 40,000 sf office & 100 town homes, const to begin fall 07. W Broad and Lauderdale. Papers filed with Henrico County.
Staples Mill Square	200,000	Marchetti Properties	Target anchored, eastern side of Staples Mill just north of Parham, opening Oct 07
Cloverleaf Mall Redevelopment	195,000	Crosland Inc.	Plans call for 382 residential units, 120,000 sf of office space as well as retail component.. Formalized plan expected by Spring 07 and zoning approval by Fall 07.
Stonehenge Village	180,000	Marchetti Properties	Across from Sam's and Wal-Mart on 60 in Midlothian
Towne Center West	175,000	Breeden Company	$5 T & I, Hilton hotel and Ethan Allen. Out parcels selling for $1m/acre (or $130k/year ground lease on 1.3 acres).
Northcross Center	170,000	Blackwood Development	Home Depot already there, just signed Gander Sports (68,000 sf) to phase II which will open in Apr 07. Will have another 20,000 sf of smaller shops in addition.
Reynolds Crossing	167,000	Reynolds Development Company	At I-64 and Glenside Drive. Will have a Westin hotel plus 70,000 sf of office possible. The current proposed development plan for the 72 acres consist of a 260 room full service Westin hotel.
Total Square Feet Coming	**7,321,000**		

SIGNIFICANT LEASE TRANSACTIONS

4th Quarter 2006

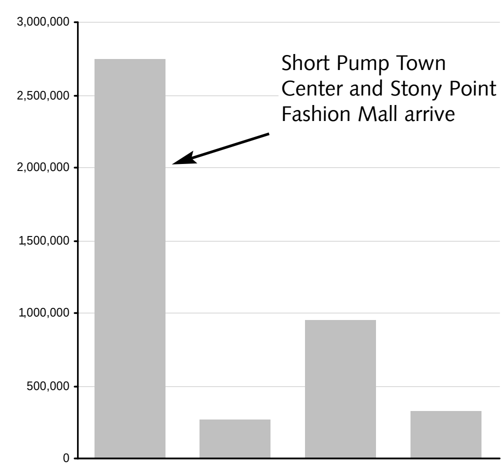
- Ferguson Enterprises inks a deal for almost 26,000 s.f. at Winterpock Crossing in Chesterfield County.
- In the same center, Dollar Tree pulls down 10,000 s.f.
- Also in Chesterfield County in the 10,000 block of Midlothian Turnpike, General Parts leases 9,300 s.f.

SIGNIFICANT SALE TRANSACTIONS

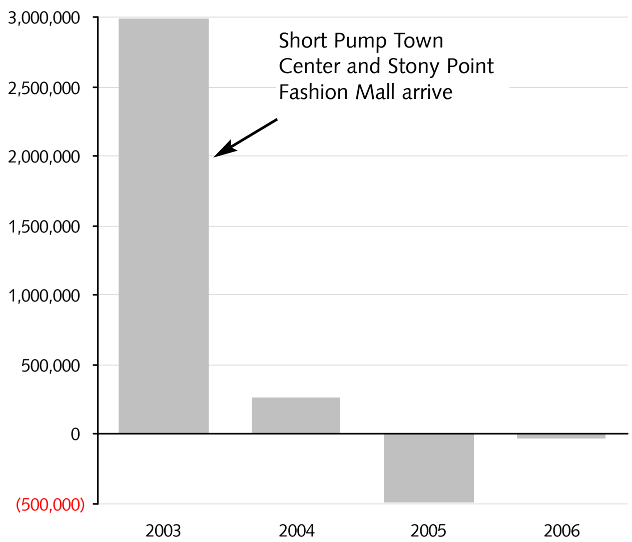
4th Quarter 2006

- Harbour Pointe Acquisition Company procures the 124,000 s.f. Harbour Pointe Village off Hull Street Road for $23.16 million or $187 per/s.f.
- On Nuckols Road in Twin Hickory, SFFGA VA LLC snaps up a 14,000 s.f. Walgreens for $4.9 million or $356 per/s.f.
- The 182,000 s.f. Chippenham Square is bought by Nicole Rossi for $4 million or $22 per/s.f.

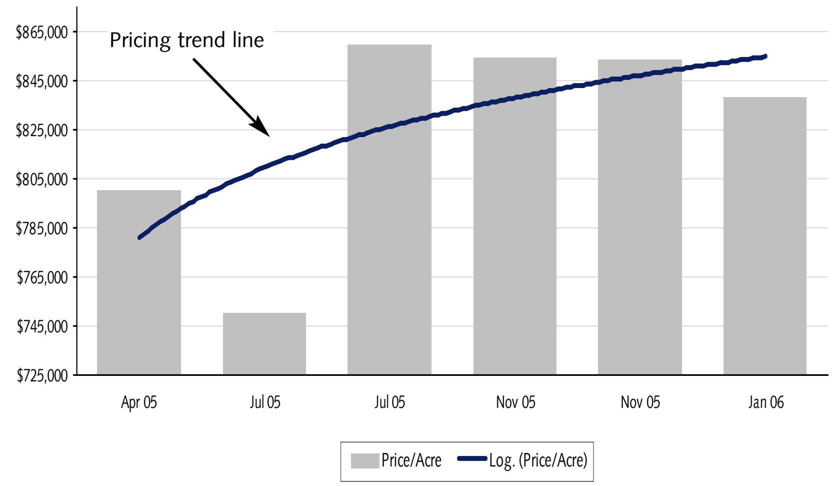
Construction has fallen since the phenomenal year of 2003, but will ramp up soon.

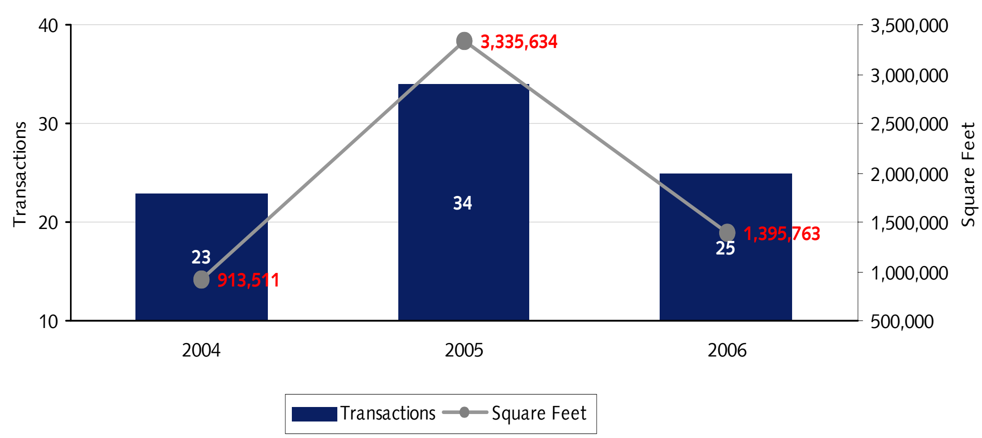


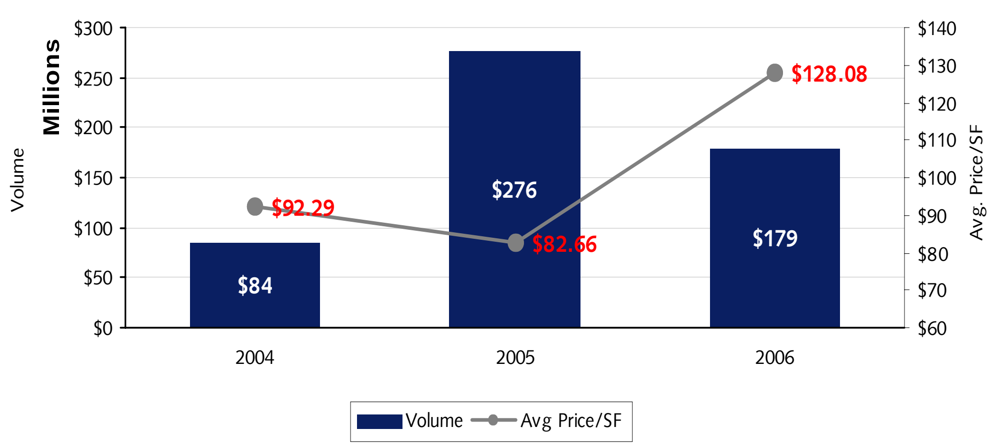
Except for very specific pockets of low occupancy (such as the Cloverleaf Mall area), net absorption has been virtually neutral since 2003.



Commercial retail land values continue to ascend as land becomes more scarce. The success of retail market fundamentals lures developers to pay increasingly higher prices. In the example below, a trend is shown for vacant land on West Broad Street in Henrico County between two and ten acres with an average of 5.8. In addition to strong market fundamentals, demographics play a crucial role in pricing. Western Henrico County is very attractive from a demographic standpoint, consequently pushing prices up close to $900,000 per acre.

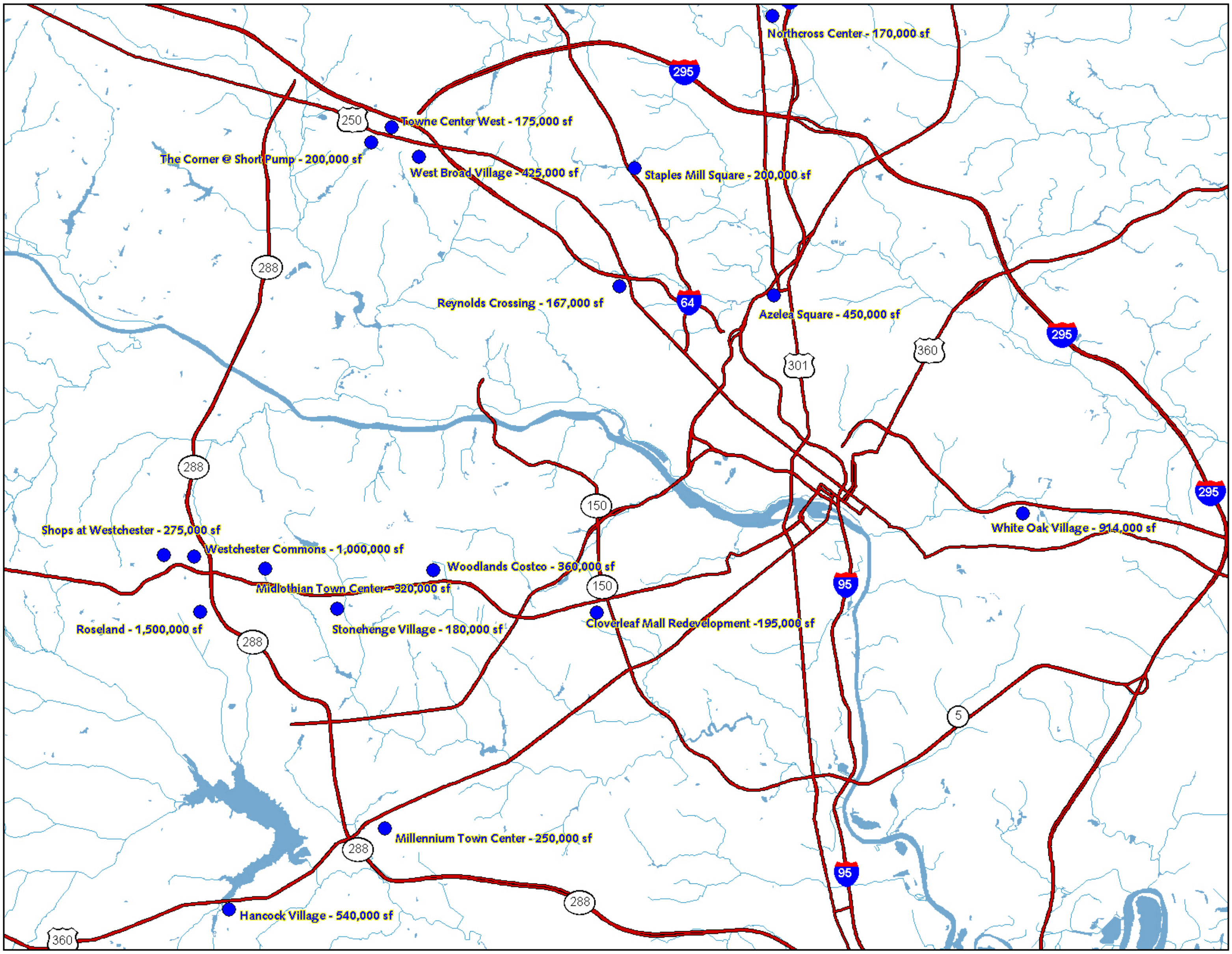






As if it were a mirror image of the office sales market, the retail market fell from its staggering heights of 2005. Last year was a near perfect confluence of investment drivers (low rates, ample capital, aggressive lenders, highly appreciated properties, ascending leasing, weak investment alternatives, an inverse yield curve, falling unemployment, etc). A notable improvement in 2006 was the average price per s.f. at $128 versus $83 in 2005. A primary driver of this was the sale of the Parc Place at Short Pump. This property sold for $316 per/s.f. While this is not abnormally higher than the top sales from 2005 and 2004, the size of the property did make a significant difference. Parc Place at Short Pump is approximately 83,000 s.f. In comparison, the largest transactions (on a per s.f. basis) from 2005 and 2004 were only 22,000 and 18,000 respectively.

As the chart showed on page 2, you can easily see the upcoming density of new retail developments. It is worth noting that many of these planned developments are going to be what's called "mixed-use". This simply means it will be a kind of self-contained town where people can work, shop, live, and play all within walking or a short driving distance. These "mixed-use" communities are extremely popular.



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- Strategic planning
- Market surveys & analysis
- New lease & renewal negotiations
- Site selection
- Lease analysis

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