

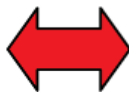



# Greater Montreal Office Market Report

Q4 2008



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## Trends in the Greater Montreal Office Market Q4 2008

-  Direct Vacancy
-  Sublet Vacancy
-  Rental Rates
-  Absorption

# Vacancy rates flatten and new construction remains on hold

## Downtown Office Market

Direct vacancy rates have continued their descent throughout the year, with Q4 2008 direct vacancies at 4.9% compared to 5.3% in the previous year. Sublet vacancies experienced a slight increase from 0.5% to 0.6% since Q4 2007. While the volume of sublets hasn't changed significantly, the proportional weight of Downtown class A sublets has increased relative to the previous year. Downtown absorption during the last quarter of 2008 was negative. However, net absorption over the past year was positive, with 237,708 square feet (sf) absorbed. Despite new vacancies coming to the market, there is still a shortage of large contiguous blocks of space. It is more common to see smaller spaces in the 4-8,000 sf range become available.

In November, *Les Affaires* announced Kevric's plans to add an office tower to Montreal's Downtown Core, which would bring the list of proposed developments to six for the sector. The question remains as to if and when these proposed developments will start. The uncertainty and the instability felt throughout the marketplace have led to increased pre-leasing requirements. Furthermore, tenant decision-makers are still trying to assess market conditions before committing as anchor tenants for proposed development projects. As a consequence, many projects have been put on hold.

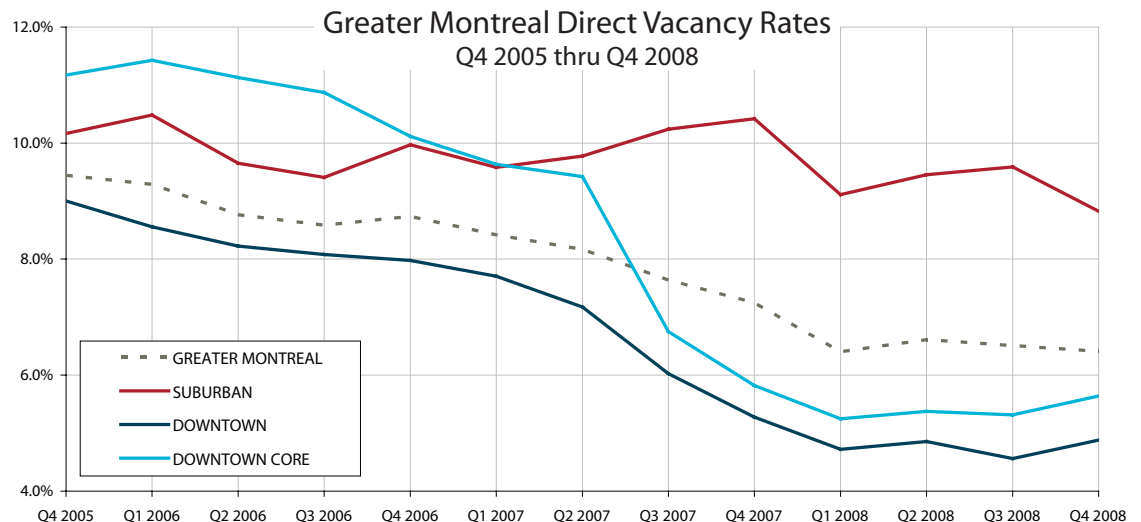
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## Downtown Core Market

In recent years, there has been a gradual and fairly stable downward trend in vacancy rates in the Downtown Core. However, there was a slight increase in direct vacancy rates from 5.3% to 5.6% in the fourth quarter of 2008. Although sublet vacancies increased slightly from 0.3% in Q4 2007 to 0.5% in Q4 2008, they have remained stable since mid-year. The Downtown Core was most significantly impacted in the last quarter; of the 75,633 sf of negative absorption in Downtown, 70,564 sf or 93% was in its Core. From one quarter to the next, absorption in the Core has been very erratic; nonetheless, there was positive net absorption of 87,578 sf over the course of the year. Availability of sublet space is still much lower than it was two years ago, with 100,058 sf in Q4 2008, compared to 249,054 sf in the same quarter of 2006. The proportional weight of class A sublet space versus that in class B fluctuates significantly from one year to the next. Further increases in sublet space for all classes in the Downtown Core are expected for 2009.

### Q: HOW WILL THE LAGGING ECONOMY AFFECT MONTREAL'S OFFICE MARKET?

The Montreal office market is expected to fare quite well in the face of the current world economic crisis. The vacancy rate in the Greater Montreal market remains stable as positive absorption continues. As such, the estimated gross rents in downtown Montreal have sustained a positive trend.

Montreal is in a favourable position right now, relative to other Canadian cities, as it is one of few cities in Canada in which no major office development projects are underway. Positive market indicators, with no new supply of office space, will help the office market weather the current economic slowdown. Many other cities in Canada will be inundated with new supply. Toronto was expecting 3 million sf of space to be delivered to the market by year end, Calgary is expecting 4.8 million sf scheduled for completion in 2009 and early 2010, and Quebec City is anticipating 1 million sf of new space for 2009 - 2010. Given current economic conditions this additional supply of office space will drive the vacancy rate up thus putting downward pressure on rental rates.

The weak economy will likely increase the amount of sublet space on the market. Decisions will continue to be delayed by tenants as a result of uncertainties in the marketplace. Despite this however, Montreal will fare well in the midst of this weakening economy and will likely perform better than most other Canadian cities.

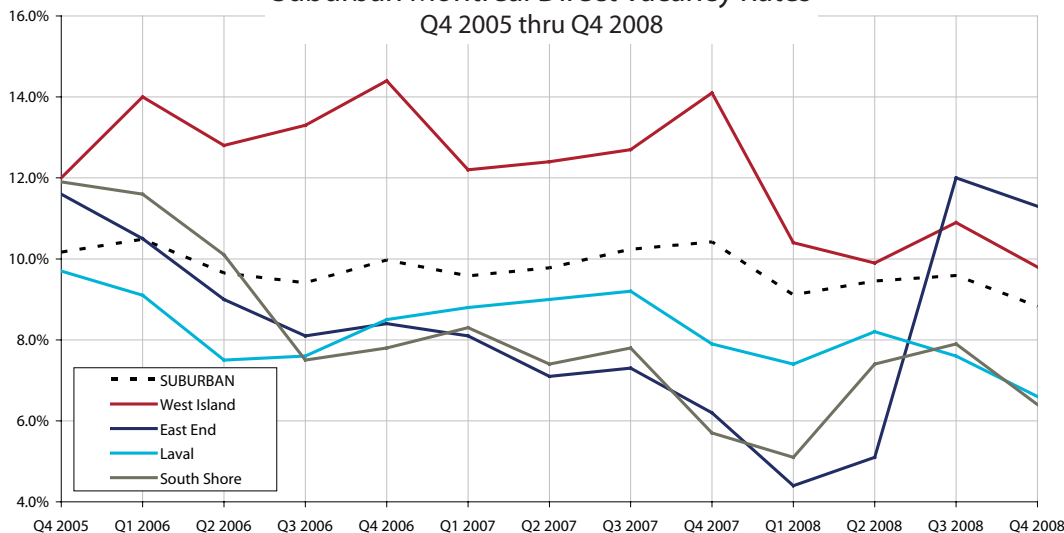
## Suburban Market

Despite the small increase in Suburban vacancy rates mid-year, direct vacancy rates have dropped to 8.8% in Q4 2008 from 10.4% in Q4 2007. Sublet vacancies remained stable at 1.3% for the fourth quarter of 2008. Sectors reporting the highest rates of direct vacancy were the West Island, which has had the highest direct vacancies of all suburban markets for more than three years, and the East End which experienced a significant spike in direct vacancy levels mid-year. West Island fourth quarter direct vacancy rates declined from 10.2% to 9.8%. In the East End, rates declined to 11.3% from 12% in the previous quarter. The West Island has maintained sublet vacancies of more than 3% over the past year, more than those in any other suburban sector. On the South Shore and in Laval, vacancy rates have declined since the third quarter from 7.9% to 6.4% and from 7.6% to 6.6%, respectively. Laval had sublet vacancies of 0.5% for Q4 2008, up negligibly from 0.4% in Q4 2007. Overall fourth quarter absorption of suburban office space was over 485,000 sf. Since Q4 2007, net suburban absorption was also positive with 507,209 sf absorbed.

The best performing suburban office zones over the past year were Laval and the West Island, with net absorption of 63,071 sf and 211,477 sf respectively. The worst performing zone over the past year was the East End, where 165,295 sf of vacant space was brought back to market in Q3 2008. Consequently, it finished with a negative net absorption of 123,341 sf for the year. Despite a negative absorption of 95,601 sf in the South Shore in Q2 2008, the sector was able to maintain an increasingly positive absorption of 30,329 sf and 41,968 sf in the last two quarters

Suburban Montreal Direct Vacancy Rates

Q4 2005 thru Q4 2008



of the year, respectively. The proportion of vacant suburban space due to sublets has been steadily creeping up over the past few years. In the fourth quarter of 2005, sublets accounted for 265,225 sf or 0.9% of the total suburban office inventory, and in the fourth quarter of 2008 there were 409,234 sf of sublets or approximately 1.3% of total suburban office inventory. Increasingly common in the suburban office towers are shadow spaces or ghost spaces, in which some tenants are still paying their rent but the number of employees working in those offices has dropped. Such tenants are waiting for their lease term to expire to reduce their total occupancy.

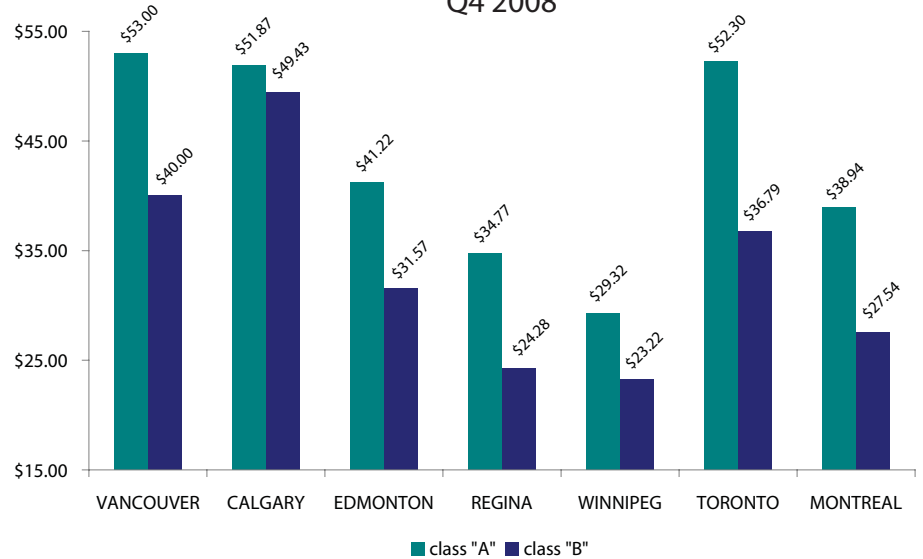


## MONTREAL'S ECONOMIC STATE

Montreal posted economic growth of 1.7% in 2008. A weak manufacturing industry will continue to hamper Montreal's economy as growth is anticipated to be only 1.1% for 2009. Employment grew by 1.3% in 2008 and is anticipated to increase by another 1.5% in 2009.



Downtown Gross Rental Rate Comparison  
Q4 2008



## Q4 2008 AVERAGE RENTAL RATES

All but one of Greater Montreal's sub-markets experienced a rise in average gross rental rates relative to the same quarter one year ago. Current average gross rental rates across Downtown range from \$23.77 per square foot (psf) in Old Montreal to \$36.67 psf in the Core. Suburban average gross rental rates range from \$22.44 psf in Midtown to \$24.90 psf in the West Island. Laval's rates decreased only marginally since this time last year, to \$22.78 psf.

Despite the net increases over the last year, the second half of the year was when the majority of the increases in rental rates across Greater Montreal took place. Sectors that experienced most significant increases in the first half of the year were Downtown South, East, and West. All other sectors experienced their most significant increases in the second half of 2008.

Market	Asking Net Rent	Additional Rent	Gross Rent	Change from Previous Year
<b>Greater Montreal</b>	\$15.67	\$14.53	<b>\$30.20</b>	up \$1.12
<b>Downtown</b>	\$17.31	\$16.18	<b>\$33.49</b>	up \$1.23
Downtown Core	\$18.78	\$17.89	<b>\$36.67</b>	up \$1.77
Downtown South	\$17.87	\$16.20	<b>\$34.07</b>	up \$0.47
Downtown East	\$13.22	\$12.43	<b>\$25.65</b>	up \$0.64
Downtown West	\$16.21	\$14.90	<b>\$31.11</b>	up \$1.01
Old Montreal	\$11.66	\$12.11	<b>\$23.77</b>	up \$1.27
<b>Suburban Market</b>	\$12.15	\$11.13	<b>\$23.38</b>	up \$0.35
East End	\$12.18	\$11.44	<b>\$23.62</b>	up \$0.32
Laval	\$11.64	\$11.14	<b>\$22.78</b>	down \$0.14
Midtown	\$12.01	\$10.43	<b>\$22.44</b>	up \$0.21
South Shore	\$13.28	\$9.80	<b>\$23.08</b>	up \$1.29
West Island	\$12.20	\$12.70	<b>\$24.90</b>	up \$1.55

## Significant Leasing Transactions

Address	Location	Area (sf)	Tenant	Type
747 Square Victoria	Downtown South	173,698	SIQ	Renewal
1 Place Alexis Nihon	Downtown West	51,131	KSH Solutions Inc	Renewal
9175 des Sciences	East End	42,327	Maison de Distribution Colac	Renewal
1200 McGill College	Downtown Core	37,644	Dynamic Mutual Funds	Renewal & Expansion
3090 Le Carrefour	Laval	11,987	BDC	Renewal
3 Place Laval	Laval	11,267	Vancouver Career College (Burnaby) Inc.	Renewal
1080 Beaver Hall	Downtown Core	9,802	CRAC	Renewal
1 Place Alexis Nihon	Downtown West	9,256	La Fondation de l'Hôpital de Montréal pour enfants	Renewal
1801 McGill College	Downtown Core	9,111	Arcelor Mittal	Renewal
550 Sherbrooke West	Downtown Core	8,553	CDMS Inc	Renewal
6700 Côte de Liesse	West Island	7,261	Fisher Capespan	Renewal
550 Sherbrooke West	Downtown Core	7,006	L'Ordre de Saint-Jean, Conseil du Québec	Renewal
747 Square Victoria	Downtown South	6,938	Recherche 2000 Inc.	Renewal

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