



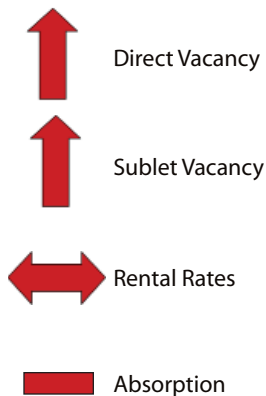
Greater Montreal Office Market Report

First Quarter 2009

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Trends in the Greater Montreal Office Market Q1 2009



Tenants still reluctant to commit, in anticipation of a drop in rental rates

Current economic conditions are beginning to impact Montreal's office leasing market. Leasing activity has been limited and the pace at which transactions are closing has slowed significantly. This is quite a different picture from what was seen last quarter, when space was limited and tenants were motivated to move quickly to close deals whenever suitable space would become available. Although vacancy rates for Greater Montreal have crept up only slightly, tenants are now under the impression that this is a market in which deals can be had and are consequently moving slowly in hopes of finding a good deal. Many tenants are reluctant to lock into new leases due to uncertainty with regards to their long term space requirements. There is also hesitation to dispose of large contiguous blocks of space for fear that once the economy turns around and their space requirements increase, such spaces will no longer be available.

Face rental rates have remained fairly stable; however, the uncertainty present in the market has contributed to an increase in tenant inducements such as early occupancy, free rent, and tenant improvement allowances. This is putting downward pressure on net effective rents, but maintaining these inducements tends to be the preference of landlords as it allows the property to maintain its value in times such as these.

Promising Montreal tenancies continue to include the pharmaceutical, multimedia, engineering and IT sectors, where a large portion of the city's employment is concentrated. With the increase in spending on Montreal's infrastructure over the upcoming years, a significant amount of office space will be absorbed by engineering-related tenancies.

Downtown Core Market

Effects of the recession on the Downtown Core are becoming more apparent. Vacant sublet space more than doubled in first quarter, up to 212,206 square feet (sf) from 100,058 sf since the previous quarter. This increase brought the sublet vacancy rate up to just over 1.0%, the highest it's been in over two years. Contributing to the rise in direct vacancy rates are the lease rollovers. In the first quarter, direct vacancy rates rose to 6.1% from 5.5% in the last quarter. Overall absorption in the Downtown Core was negative with a further 227,438 sf of vacant space made available. Nonetheless, Montreal's Downtown Core is still faring relatively well compared to other large Canadian city centres. Despite having maintained very low overall vacancy rates over the past few years, Montreal's Downtown Core rental rates were not subsequently inflated as had been the case in other cities. As a result, the recent increases in vacancy levels have not triggered significant corrections in rental rates.

The **Greater Montreal Office Market Report** is published by Avison Young.

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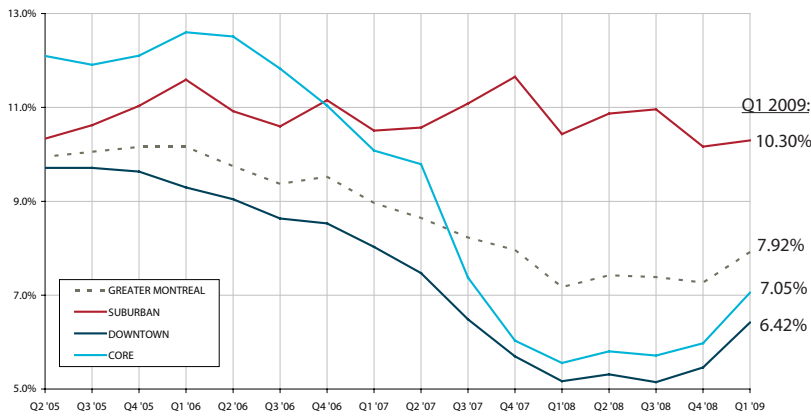
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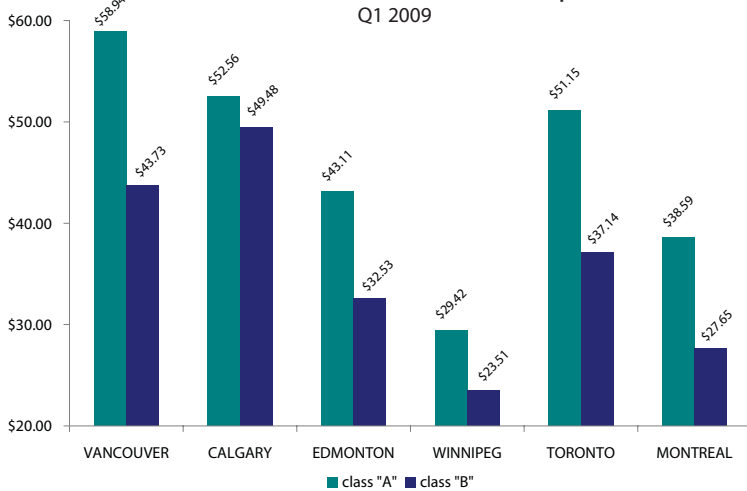
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Greater Montreal Overall Vacancy Rates Q2 2005 thru Q1 2009



Downtown Gross Rental Rate Comparison Q1 2009



Downtown Market

Overall, the downtown office market performed reasonably well during this year's first quarter. Sublet vacancy rates increased only slightly, from 0.6% to 0.8%; a fairly minimal increase relative to those of other large Canadian cities. Direct vacancy rates experienced a slightly larger spike this quarter, from 4.9% to 5.6%. In addition to the 108,000 sf of office space brought to the market by The Gazette building at 250 St-Antoine West, increases in both direct and sublet vacancies contributed to a negative overall absorption of 359,165 sf. Class A spaces have been impacted the greatest by increases in sublet spaces, as first quarter sublets accounted for 15.9% of total class A vacancies, compared to 5.8% for the same period last year. In contrast, class B has seen a negligible change in proportion of sublet space. First quarter sublet vacancies accounted for 12.8% of total class B vacancies, compared to 11.9% for the same period in 2009. Increases in vacancies of any kind will contribute further to the delayed onset of any of the proposed office developments. In order for construction to begin, a significant anchor tenant will need to commit to at least 60% of the new building.



Q: WHAT'S HAPPENING IN THE SUBLET MARKET?

The global financial meltdown and subsequent economic slowdown in Canada is prompting companies to cut costs and minimize losses. Since office rental rates are generally the second highest expense for a company after payroll, many tenants are re-evaluating their space requirements. During times such as these, tenants are compelled to reduce their office space. In order to rid themselves of excess space and reduce their original commitment to the landlord, often their only option is to offer the space for sublease. The trouble with sublet space is that when little time remains until lease expiry, prospective tenants will expect discounted rents for assuming the risks. Typically, these spaces are marketed at substantially reduced rates from what the landlord would ask. Landlords are finding themselves competing with their own tenants to market the same product. They must now cooperate with the brokers and tenants to find solutions – these solutions may keep tenants from having to relocate and keep landlords from worrying about further reductions in occupancy levels.

During the first quarter of 2009, we saw slight increases in the number of sublet spaces on the market in Greater Montreal. Of the three main building classes, the only exception was a decrease in both vacancy and availability of class C sublets, which each dropped to 0.1%, from 2.6% in the fourth quarter. The sublet availability rate includes spaces that are being marketed, but are not necessarily physically vacant; whereas the sublet vacancy rate includes only spaces that are currently vacant. Of Greater Montreal's various suburban districts, Midtown class A office space reported the second-highest rates of sublet vacancy and availability. The spaces with the highest sublet vacancies and availabilities overall were class A spaces in the West Island. The Saint-Laurent node of the West Island was where the highest concentration of class A sublet space came from. As a whole, Montreal is still relatively better off than most other cities in Canada. Toronto and Calgary have had a great deal of sublease space come to the market. In Greater Montreal, the sublet availability rate is 0.9%; in Toronto, it is slightly higher at 1.5%; and in Calgary, it is 1.9%.

A considerable amount of sublet space is expected to come to the market in Montreal over the next few quarters. This will create additional downward pressure on overall rental rates. To date there hasn't been much of a reduction in face rates, rather more flexibility in terms of tenant inducements, thus reducing net effective rents.

As increased supply of office space due to new developments will be minimal, the proportion of vacancies due to sublets will also continue to rise. Examples of some larger sublet options that have recently become available include 31,299 sf at 999 de Maisonneuve West; approximately 30,000 sf at 1080 Beaver Hall Hill; 61,872 sf at 7777 Décarie; 35,863 sf at 1801 McGill College; 10,595 sf at 1000 de la Gauchetière West; 12,000 sf at 16720 TransCanada Highway; and 26,340 sf at 3100 Côte-Vertu Boulevard.

Suburban Market

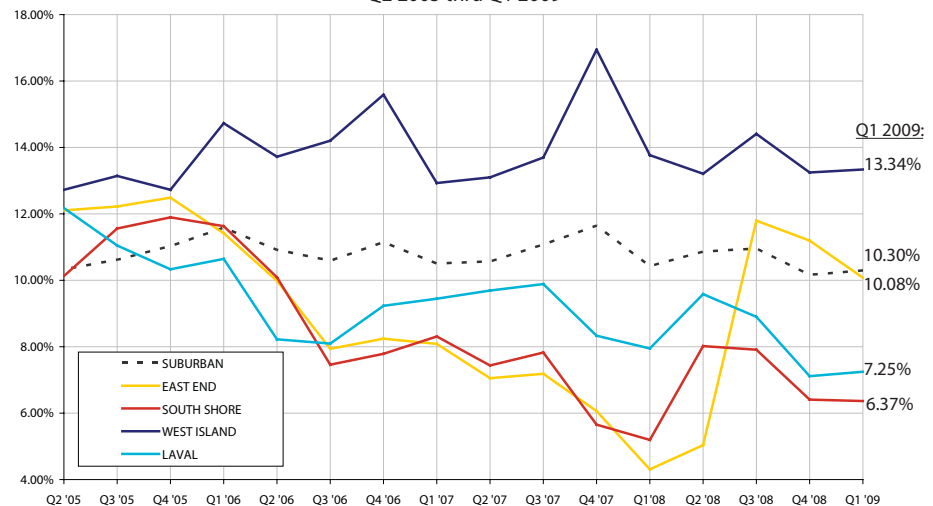
Sublet vacancy rates for the general suburban market have remained quite low over the past 18 months, at under 1.5%. In the last quarter, they dropped to just below 1.0%. Despite a slight increase in direct vacancy rates, from 8.8% to 9.5% in the first quarter, overall absorption for the suburban market was a positive 224,398 sf due to a decrease in the amount of sublet space on the market.

Four class A office properties were added to the suburban office market inventory this past quarter, in the Midtown and West Island districts. As towers A and B of the Bell Campus were fully leased and part of a sale leaseback transaction, their addition to Midtown's office inventory did not contribute to an increase in vacancy levels. However, as 2344 Alfred-Nobel and 4855-4885 Marc-Blain were not fully pre-leased, the addition of these two properties to the West Island inventory contributed to a spike in class A direct vacancy rates from 6.6% in the fourth quarter to 9.2% in the first quarter of 2009.

Construction has again been put on hold for two new office buildings in the West Island: the Westcliff property at the intersection of Brunswick Boulevard and St-Jean Boulevard, and the Triad Gestco property on the south side of the TransCanada Highway. In order to proceed with the development of either of these, the commitment of an anchor tenant is essential. In terms of filling spaces in the suburban market, a number of new landlords are struggling to attract tenants and sign new leases. What aggravates this task even further is the fact that some tenants are in the process of reorganizing, resizing or relocating their operations to minimize costs.

In regards to upcoming lease rollovers, there remains optimism among suburban market landlords. The sentiment is that tenants who choose to establish themselves in suburban office spaces do so because they desire to be in those areas. As such, suburban landlords generally feel as though there is little risk of losing their tenants to urban office buildings even if downtown rental rates were to reduce drastically. Furthermore, as lease renewals cost landlords less than would securing new tenancies, they are more flexible in accommodating the needs of existing tenants (who likely don't want to deal with the high costs of relocation in the first place).

Suburban Montreal Overall Vacancy Rates
Q2 2005 thru Q1 2009



MONTREAL'S ECONOMIC STATE

The International Monetary Fund recently reported that Canada was in the best position among industrialized countries to weather the global recession. Canada was among the last to fall into recession, and, in the face of rising unemployment rates and slowing economic growth, it should be among the first to come out of it.

Canadians saw a loss of 82,600 jobs in February and a further 61,000 in March, pushing the unemployment rate to 8.0%. Quebec experienced a loss of 18,400 jobs in February, and despite little change in employment levels in March, there was an influx of workers to the Quebec labour market. This pushed the provincial unemployment rate to 8.1%. The Conference Board of Canada (CBOC) expects to see a total job loss of approximately 33,000 for Quebec in 2009, which would push the unemployment rate to 8.7%.

Montreal's unemployment rate is projected at 8.9% for 2009, up from 7.4% for 2008. Continued weakness in the manufacturing sector will further dampen Montreal's economic growth this year. The CBOC anticipates Montreal's real GDP growth to decline by 0.5% for 2009.

Q1 2009 ASKING RENTAL RATES

| Market | Asking Net Rent | Additional Rent | Gross Rent | Change from Previous Quarter |
|-------------------------|-----------------|-----------------|----------------|------------------------------|
| GREATER MONTREAL | \$15.68 | \$14.59 | \$30.27 | up \$0.07 |
| Downtown | \$17.32 | \$16.26 | \$33.58 | up \$0.09 |
| Downtown Core | \$18.94 | \$17.99 | \$36.93 | up \$0.26 |
| Downtown South | \$18.45 | \$16.29 | \$34.74 | up \$0.67 |
| Downtown East | \$13.20 | \$12.61 | \$25.81 | up \$0.16 |
| Downtown West | \$14.54 | \$14.70 | \$29.24 | down \$1.87 |
| Old Montreal | \$11.49 | \$12.15 | \$23.64 | down \$0.13 |
| SUBURBAN MARKET | \$12.30 | \$11.12 | \$23.42 | up \$0.14 |
| East End | \$12.29 | \$11.29 | \$23.58 | down \$0.04 |
| Laval | \$11.83 | \$11.34 | \$23.17 | up \$0.39 |
| Midtown | \$12.20 | \$10.56 | \$22.76 | up \$0.32 |
| South Shore | \$13.35 | \$9.95 | \$23.30 | up \$0.22 |
| West Island | \$12.31 | \$12.33 | \$24.64 | down \$0.26 |

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Significant Leasing Transactions

| Address | Location | Area (sf) | Tenant | Type |
|----------------------------|----------------|-----------|--|-----------|
| Trans-Canada Business Park | West Island | 54,202 | Anrad Corporation | Renewal |
| 600 de Maisonneuve W | Downtown Core | 44,693 | Oracle | Renewal |
| 1257 Guy | Downtown West | 42,000 | Thomas Cook Canada Inc. | New Lease |
| 75 Queen | Downtown South | 35,104 | Sid Lee Inc. | Renewal |
| 800 de Maisonneuve E | Downtown East | 33,540 | Société immobilière du Québec | New Lease |
| 888 de Maisonneuve E | Downtown East | 32,956 | Ville de Montréal (Arrondissement Ville-Marie) | Renewal |
| Trans-Canada Business Park | West Island | 25,530 | Bell Canada | Renewal |
| 606 Cathcart | Downtown Core | 25,488 | Aedifica | New Lease |
| 105 Marcel-Laurin | West Island | 25,000 | Medi Solutions | New Lease |
| 415 Saint-Antoine W | Downtown South | 23,934 | Office municipale d'habitation de Montréal | Renewal |
| Trans-Canada Business Park | West Island | 23,700 | Alstom Canada Inc. | Renewal |

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