

MARKETBEAT

MONTREAL OFFICE REPORT

A CUSHMAN & WAKEFIELD LEPAGE RESEARCH PUBLICATION

2Q09

ECONOMY

Economic indicators point to a worsening economy in 2009, with relief coming in the first two quarters of 2010. Major sectors such as Pulp and Paper, Furniture, Aerospace, Wood Producers and Aluminum Producers have all suffered from the slowdowns in their respective markets. As a result, the unemployment rate in the province of Quebec is expected to increase from 8.8% in 2009 to 9.4% in 2010.

The current downturn in the economy will perpetuate the soft real estate market over the next two quarters. The Quebec Government has implemented infrastructure programs worth \$42 Billion which are expected to continue through 2013. Once in full swing, the Montreal economy will benefit greatly from this initiative.

OVERVIEW

The economic slowdown continued to affect demand for office space throughout the second quarter, as evidenced by the 568,000 square feet (sf) of negative absorption recorded. Consequently, the overall vacancy rate jumped to 8.9%, from 8.1% last quarter.

The total available space for sublease also increased over the quarter, to stand at 748,000 sf, an increase of approximately 42% from the end of 2008. Sublet space currently represents 10.2% of total vacant space.

Negative absorption in the Central Area was 495,000 sf over the quarter, and the vacancy rate reached 7.6%, an increase from last quarter's 6.3%. The overall vacancy rate in class A space is now at 6.9%, which is 2.9 percentage points higher than at the end of last year. The space formally occupied by Bell Canada was an important component of this quarter's negative absorption.

The Suburbs also experienced a decline in market activity over the quarter, although not as steep as that in the Central Area, with a negative absorption of 73,000 sf. The current vacancy rate sits at 10.8%, a slight increase over last quarter's 10.6%, while vacancy for class A suburban space is 10.1%.

OUTLOOK

With the economy worsening in the second quarter, it is expected that Montreal will see sublet space grow during the next two quarters. As well, tenants will be reducing and downsizing their space requirements as companies restructure their operations.

The market will be soft for the balance of 2009; however, this will be the first recession in the last 30 years where the Montreal market will not be adding new inventory in the middle of a slowdown, thus containing the vacancy problem to downsizing and sublet space.

BEAT ON THE STREET

"As expected, sublet space is on the increase and tenants with short to medium-term space needs have interesting options open to them".

– Jason Pearson,

Affiliated Real Estate Agent
Office Leasing

ECONOMIC INDICATORS

	2007	2008	2009F
GDP Growth	2.2%	1.0%	-0.5%
CPI Growth	1.6%	2.1%	0.5%
Unemployment	7.0%	7.4%	8.9%
Employment Growth	2.5%	-0.2%	-1.0%

Source: Conference Board of Canada

MARKET FORECAST

LEASING ACTIVITY – As companies continue downsizing, leasing opportunities will be created.



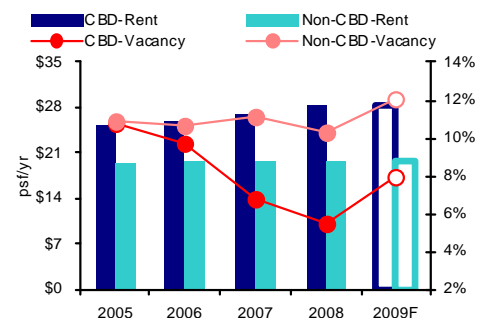
OVERALL ABSORPTION – Absorption rates to trend downward.



CONSTRUCTION – Significant projects will be delayed for the time being.



OVERALL RENT VS. VACANCY



MARKET/SUBMARKET STATISTICS

Market/Submarket	Inventory	No. of Bldgs.	Overall Vacancy Rate	Direct Vacancy Rate	Under Construction	YTD Construction Completions	Q2 Overall Absorption	Direct Class A Gross Rental Rate*
Financial Core	24,914,809	76	8.5%	7.0%	0	0	(318,441)	\$33.80
Downtown West	7,553,718	73	8.0%	7.5%	0	0	(14,493)	\$31.34
Downtown East	7,508,093	35	2.8%	2.6%	0	0	27,793	\$29.50
Old Montreal	7,810,099	102	8.9%	7.7%	0	108,000	(189,880)	\$30.64
TOTAL CENTRAL AREA	47,786,719	286	7.6%	6.5%	0	108,000	(495,021)	\$32.95
West End	8,026,958	121	12.2%	11.4%	0	0	22,417	\$22.50
Saint-Laurent	4,510,832	70	15.0%	12.9%	0	107,000	14,766	\$22.61
Laval	3,615,202	52	6.2%	5.6%	0	0	11,320	\$23.58
East End (East)	4,689,954	74	9.7%	9.7%	0	0	(37,698)	\$24.10
East End (West)	7,679,266	76	11.4%	11.2%	0	0	(40,938)	\$22.38
Verdun-LaSalle	1,669,600	16	3.9%	3.9%	0	235,000	(23,738)	\$24.38
West Island	1,459,292	28	16.7%	16.4%	0	0	5,264	\$23.61
South Shore	3,008,573	55	7.4%	6.9%	0	0	(24,373)	\$24.60
TOTAL SUBURBAN AREA	34,659,677	492	10.8%	10.2%	0	342,000	(72,980)	\$23.22
TOTAL SURVEY AREA	82,446,396	778	8.9%	8.0%	0	450,000	(568,001)	\$28.41

* Rental rates reflect \$psf/year

MARKET HIGHLIGHTS

SIGNIFICANT 2Q09 NEW LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQ FT	BLDG CLASS
Alfred-Nobel Blvd	St. Laurent	Bristol Myers Squibb	110,000	A
555 Chabanel	East End (West)	Ville de Montréal	42,867	B
5410-5460 Décarie	West End	Star Choice Television Network Inc.	35,000	B

SIGNIFICANT 2Q09 SALE TRANSACTIONS

BUILDING	SUBMARKET	BUYER	SQ FT	PURCHASE PRICE
Bell Canada – Phase II	Vedun-Lasalle	Les Immeubles Kanam	235,000	\$71, 870,337
3333 Graham Blvd	West End	3333 Graham Inc.	104,236	\$17, 000,000

SIGNIFICANT 2Q09 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQ FT	COMPLETION DATE
250 Saint-Antoine West	Old Montreal	None	108,000	April, 2009

SIGNIFICANT PROJECTS UNDER CONSTRUCTION

BUILDING	SUBMARKET	MAJOR TENANT	SQ FT	COMPLETION DATE
N/A				



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Cushman & Wakefield LePage Inc.
Chartered Real Estate Broker
2001 University Street, suite 1950
Montreal, QC, H3A 2A6
(514) 841-5011

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