

MARKETBEAT

MONTREAL OFFICE REPORT

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION

2Q10

ECONOMY

Economic indicators for Quebec continue to point to a sustained recovery going into 2011. GDP growth for Quebec is now forecasted at 3.5%, with employment rising positively by 1.5% in 2010 and 1.2% in 2011. Retail sales are forecasted to rise 4.9%, up from a negative 1.1% last year. As well, housing starts will be up 10% up from a negative 8% in 2009. The strong economic performance south of the border should translate into more orders for the manufacturing sector and there should be increased demand in the commodity market. It is expected that these positive economic trends will have a ripple effect which will translate into increased demand for office space going into the last two quarters of 2010.

OVERVIEW

Montreal's office leasing market registered an overall negative absorption of approximately 82,000 square feet (sf) in the second quarter of the year, causing the overall vacancy rate to increase minimally from 9.1% to 9.2%. Sublet space available for lease continued to decrease over the quarter and represents 7.5% of overall total vacant space, or about 566,000 sf. Vacant sublet space in the central area currently accounts for 10.6% of total vacant space, down from 15.0% at the beginning of the year.

The Central Area experienced positive absorption of 66,000 sf and, as a result, the vacancy rate for all classes declined to 7.9%, compared to 8.1% last quarter. With all of the positive absorption in class A space, the class A vacancy rate also declined, to 7.6% from last quarter's 8.3%.

The Suburban area registered 148,000 sf of negative absorption for the quarter, causing the overall vacancy rate for all submarkets to increase to 11.0%, up from 10.5% at the end of the last quarter. A good part of the negative absorption registered can be attributed to a decrease in occupied space in the East End (East) and East End (West) submarkets, where blocks of space in particular buildings became available this quarter.

OUTLOOK

This quarter again saw a decrease in sublet space and finally some positive demand for space in the Central Area. As previously noted, all indicators point to an improving business environment and, as such, forecasts of a stronger third and fourth quarter remain unchanged. Pricing is stable, in keeping with soft demand; however, expect rising rates in 2011 as market demand for space begins to increase.

BEAT ON THE STREET

"Investor confidence is returning as economic indicators continue to show positive trends. The gap between buyer and vendor expectations is closing - especially for good quality assets - and as such we expect to see a greater level of activity in 2010 than we saw in 2009."


-Michael Dermer
Real Estate Broker


ECONOMIC INDICATORS


	2009	2010F	2011F
GDP Growth	-1.2%	3.5%	2.5%
CPI Growth	0.6%	1.5%	1.6%
Unemployment	8.5%	7.9%	7.5%
Employment Growth	-0.9%	1.5%	1.2%

Source: TD Bank Financial Group – TD Economics, Provincial Economic Forecast.

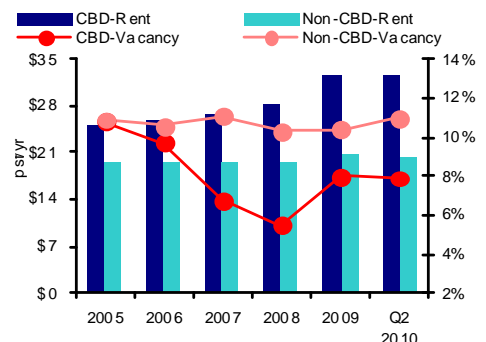
MARKET FORECAST

LEASING ACTIVITY – The stronger economy will increase demand for both sublet and direct space. 

OVERALL ABSORPTION will transition from negative to positive. 

CONSTRUCTION – Large tenants looking 3 or 4 years out will need to consider building, as contiguous space will be at a premium. 

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 Wtd. Avg Class A Net Rental Rate*
Financial Core	24,914,809	76	9.1%	8.1%	0	0	12,362	\$20.84
Downtown West	7,553,718	73	9.2%	8.1%	0	0	(15,976)	\$17.21
Downtown East	7,508,093	35	2.8%	2.7%	0	0	(9,123)	\$15.70
Old Montreal	7,760,099	100	7.7%	7.2%	0	0	78,663	\$15.19
TOTAL CENTRAL AREA	47,736,719	284	7.9%	7.1%	0	0	65,926	\$19.83
West End	7,931,958	120	11.2%	11.0%	0	0	(23,009)	\$11.91
Saint-Laurent	4,510,832	70	13.9%	12.9%	0	0	17,047	\$12.90
Laval	3,615,202	52	6.1%	5.4%	0	0	(22,723)	\$12.73
East End (East)	4,689,954	74	9.0%	8.4%	0	0	(66,287)	\$12.67
East End (West)	7,526,266	74	15.0%	14.7%	0	0	(41,743)	\$12.30
Verdun-LaSalle	1,669,600	16	4.4%	3.9%	0	0	(9,954)	\$13.04
West Island	1,459,292	28	15.5%	14.6%	0	0	12,001	\$14.18
South Shore	3,041,648	56	6.5%	6.1%	0	0	(13,668)	\$13.19
TOTAL SUBURBAN AREA	34,444,752	490	11.0%	10.5%	0	0	(148,336)	\$12.93
TOTAL SURVEY AREA	82,181,471	774	9.2%	8.5%	0	0	(82,410)	\$16.82

* Rental rates reflect \$psf/year

MARKET HIGHLIGHTS

SIGNIFICANT 2Q10 NEW LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQ FT	BLDG CLASS
5800 St-Denis	East End (West)	CGI	34,323	B
80 Queen	Old Montreal	Vision Globale A.R. Ltd	24,815	A

SIGNIFICANT 2Q10 SALE TRANSACTIONS

BUILDING	SUBMARKET	BUYER	SQ FT	PURCHASE PRICE
645 Wellington	Old Montreal	645 Wellington Street Inc.	150,721	\$10,500,000
447-9 Ste-Hélène	Old Montreal	9220-7497 Québec Inc.	23,336	\$4,200,000
1463 Bishop	Downtown West	N/A	24,720	\$3,250,000

SIGNIFICANT 2Q10 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQ FT	COMPLETION DATE
N/A				

SIGNIFICANT PROJECTS UNDER CONSTRUCTION

BUILDING	SUBMARKET	MAJOR TENANT	SQ FT	COMPLETION DATE
4905 Lapinière	South Shore	N/A	108,000	Fall 2010
7055 Taschereau	South Shore	N/A	71,500	Fall 2010



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