

MARKETBEAT

MONTREAL OFFICE REPORT

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION

3Q09

ECONOMY

The Conference Board of Canada has revised its 2009 GDP growth forecast for Montreal from -0.5% to -1.0%, further confirming the economic slowdown. The manufacturing sector—which has been in a 7-year slump, losing some 70,000 jobs during this time—is expected to shrink 6.6% by year-end. The aerospace industry has been hit particularly hard as users/buyers postpone purchases and cancel or delay existing orders. The one positive constant is the government infrastructure programs, which will be a reliable source of economic activity in the Greater Montreal Area.

OVERVIEW

Demand for office space continued to decline over the third quarter. Tenants are still downsizing and restructuring and this is resulting in an increase of sublet space becoming available, as well as a generalized increase in direct vacant space, as tenants renew leases with less square footage than they started with in their original leases. As a result of the decrease in demand for space, the overall vacancy rate for the Greater Montreal Area rose to 9.1%, up from 8.9% at the end of the last quarter.

The Montreal office market has seen a dramatic increase in sublet space over the year and there is currently 55% more square footage available than at the end of 2008. Over the quarter, total available sublet space increased to 816,000 square feet (sf), up from 748,000 sf last quarter, and currently represents 10.9% of total vacant space.

Negative absorption in the Central Area over the quarter was registered at 269,000 sf overall, causing the vacancy rate to increase for all classes from 7.6% to 8.1%, and, more specifically, from 6.9% to 7.9% for Class A space. Although this market has created several large tracks of contiguous space, these would quickly be absorbed in a better market and should be viewed as a short-term opportunity.

The Suburbs experienced a minimal amount of positive absorption over the quarter—approximately 24,000 sf—with a resulting vacancy rate of 10.5% for all the suburban submarkets. Class A and C space experienced positive absorption, while all the negative demand was concentrated in Class B buildings.

OUTLOOK

The office market will take a big step backwards in 2009. The negative absorption will surpass 1,200,000 sf and the vacancy rate will continue to rise. The market has seen a softening of rental rates in 2009 and this should continue into the first quarter of 2010. However, given the lack of new construction in this downturn as opposed to during the two previous ones, expect a rebound at the end of 2010/2011, much like the “V” shape recovery in the stock market.

BEAT ON THE STREET

“Many tenants are using this down market to reassess their space needs and how their office space can work more efficiently—and more economically—for them.”

– Anthony R. Kay
Vice President
Affiliated Real Estate Agent
Office Leasing

ECONOMIC INDICATORS

	2007	2008	2009F
GDP Growth	2.3%	1.1%	-1.0%
CPI Growth	1.6%	2.1%	1.1%
Unemployment	7.0%	7.4%	9.5%
Employment Growth	2.5%	-0.2%	-1.1%

Source: Conference Board of Canada.

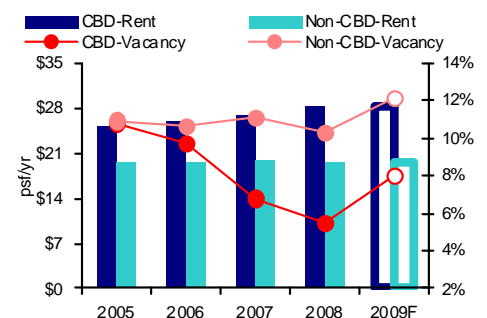
MARKET FORECAST

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	Q3 Overall Absorption	Direct Wtd. Avg Class A Net Rental Rate*
Financial Core	24,914,809	76	9.3%	7.5%	0	0	(209,825)	\$19.80
Downtown West	7,553,718	73	8.7%	8.2%	0	0	(50,431)	\$16.53
Downtown East	7,508,093	35	2.9%	2.7%	0	0	(5,647)	\$14.77
Old Montreal	7,810,099	102	8.9%	7.6%	0	108,000	(3,547)	\$16.09
TOTAL CENTRAL AREA	47,786,719	286	8.1%	6.8%	0	108,000	(269,450)	\$18.92
West End	8,026,958	121	11.9%	11.6%	0	0	27,561	\$12.50
Saint-Laurent	4,510,832	70	14.9%	13.2%	0	107,000	3,155	\$13.60
Laval	3,615,202	52	7.0%	5.7%	0	0	(28,600)	\$13.64
East End (East)	4,689,954	74	7.3%	7.3%	0	0	25,035	\$12.83
East End (West)	7,679,266	76	11.6%	11.5%	0	0	(14,784)	\$11.88
Verdun-LaSalle	1,669,600	16	4.9%	3.5%	0	235,000	(17,887)	\$12.61
West Island	1,459,292	28	17.2%	17.0%	0	0	(7,127)	\$13.60
South Shore	3,008,573	55	6.2%	5.6%	0	0	36,312	\$13.64
TOTAL SUBURBAN AREA	34,659,677	492	10.5%	9.9%	0	342,000	23,665	\$13.12
TOTAL SURVEY AREA	82,446,396	778	9.1%	8.1%	0	450,000	(245,785)	\$16.57

* Rental rates reflect \$psf/year

MARKET HIGHLIGHTS

SIGNIFICANT 3Q09 NEW LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQ FT	BLDG CLASS
410 St-Nicholas Street	Old Montreal	International Language School of Canada	25,107	C
5800 St-Denis	East End (West)	Cengage Learning Inc.	11,500	B
1000 De La Gauchetiere	Financial Core	Enercon Canada	10,425	AAA

SIGNIFICANT 3Q09 SALE TRANSACTIONS

BUILDING	SUBMARKET	BUYER	SQ FT	PURCHASE PRICE
900, 902, 910, 926, 932, 950, Peel; 1100, 1160, 1180 de la Gauchetière West	Downtown West	2917599 Canada Inc.	320,000	\$46,392,217

SIGNIFICANT 3Q09 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQ FT	COMPLETION DATE
N/A				

SIGNIFICANT PROJECTS UNDER CONSTRUCTION

BUILDING	SUBMARKET	MAJOR TENANT	SQ FT	COMPLETION DATE
N/A				



For industry-leading intelligence to support your real estate and business decisions, go to Cushman & Wakefield's Knowledge Center at www.cushmanwakefield.com/knowledge

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

This report contains information available to the public and has been relied upon by Cushman & Wakefield Ltd. on the basis that it is accurate and complete. Cushman & Wakefield Ltd. accepts no responsibility if this should prove not to be the case. No warranty or representation, express or implied, is made to the accuracy or completeness of the information contained herein, and same is submitted subject to errors, omissions, change of price, rental or other conditions, withdrawal without notice, and to any special listing conditions imposed by our principals.

©2009 Cushman & Wakefield Ltd. All rights reserved.