

# MARKETBEAT



## MONTREAL OFFICE REPORT

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION

3Q10

### ECONOMY

The most recent economic forecast reflects a slower recovery than what had been predicted at the beginning of year, in part due to concerns over the high Canadian dollar combined with the potential impact of the government's stimulus package coming to an end. That said, unemployment is projected to fall by five basis points, with some employment growth being tied to housing starts which are forecasted to be up 15.5 % for this year. This growth will be tempered in 2011, however, when housing starts are forecasted to drop again and employment growth will slow.

### OVERVIEW

Montreal's office leasing market experienced an overall negative absorption of approximately 58,000 square feet (sf) in the third quarter of the year, causing the vacancy rate to rise by one-tenth of a percentage point (from 9.2% to 9.3%) for the third consecutive quarter. The amount of sublet space in the city remains relatively unchanged, representing 7.2% of all vacant space.

With absorption relatively flat in the third quarter, the vacancy rate in the central area also rose only a marginal one-tenth of a percentage point, from 7.9% to 8.0%. This is primarily attributable to negative absorption of nearly 20,000 sf in class A space, where the vacancy rate increased from 7.6% to 7.8%.

The Suburban area saw improved—although still negative—absorption this quarter of approximately 60,000 sf. However, the vacancy rate fell from 11.0% to 10.9%, which can be attributed to a decrease in vacant sublease space.

### OUTLOOK

The outlook for 2010 was for positive absorption of 500,000 sf, although it is now clear that this will not be achieved. Three consecutive quarters of negative absorption is reflective of a slow economic recovery, with a projected GDP growth of 1.8% in 2011. The expectation is that a rebound in 2011 will be moderate at best. Net rental rates were soft in 2010, in keeping with a market with low velocity, and this trend will carry over into 2011, which will continue to see soft rental rates into the mid-year.

The longer term outlook will favour landlords, as vacancy rates in class A space will decrease over the next several years with any level of positive absorption, barring, of course, any negative economic trend that would cause market activity to shrink.

### BEAT ON THE STREET

"Absorption rates that are slightly negative, low velocity and vacancy rates that are rising add up to a market where tenants should be reviewing their options."

- Jason Pearson  
Real Estate Broker

### ECONOMIC INDICATORS

	2009	2010F	2011F
GDP Growth	-0.8%	2.9%	1.8%
CPI Growth	0.6%	1.3%	1.4%
Unemployment	8.5%	8.0%	7.9%
Employment Growth	-0.9%	1.7%	0.9%

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

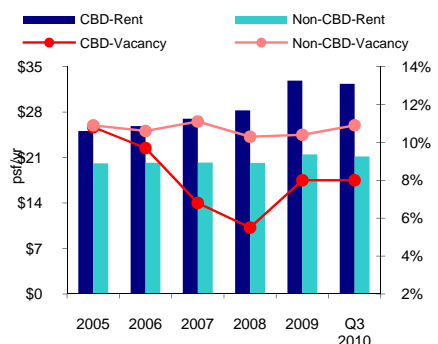
### MARKET FORECAST

LEASING ACTIVITY – The slow pace of recovery will keep demand flat. ⇄

OVERALL ABSORPTION will transition from negative to positive in 2011. ↑

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

### 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%	8.3%	0	0	(18,676)	\$20.63
Downtown West	7,553,718	73	10.0%	8.4%	0	0	(56,962)	\$16.87
Downtown East	7,508,093	35	2.9%	2.8%	0	0	25,658	\$16.02
Old Montreal	7,760,099	100	7.0%	6.6%	0	0	52,552	\$15.34
<b>TOTAL CENTRAL AREA</b>	<b>47,736,719</b>	<b>284</b>	<b>8.0%</b>	<b>7.2%</b>	<b>0</b>	<b>0</b>	<b>2,572</b>	<b>\$19.63</b>
West End	7,931,958	120	10.9%	10.8%	0	0	8,442	\$12.15
Saint-Laurent	4,510,832	70	13.5%	13.1%	0	0	13,670	\$13.03
Laval	3,615,202	52	5.9%	5.3%	0	0	2,457	\$12.86
East End (East)	4,689,954	74	8.6%	7.8%	0	0	5,685	\$12.54
East End (West)	7,526,266	74	14.7%	14.6%	0	0	(15,307)	\$12.18
Verdun-LaSalle	1,669,600	16	4.4%	3.8%	0	0	838	\$13.17
West Island	1,459,292	28	17.9%	15.8%	0	0	(39,319)	\$13.90
South Shore	3,041,648	56	7.7%	7.4%	0	0	(36,956)	\$12.93
<b>TOTAL SUBURBAN AREA</b>	<b>34,444,752</b>	<b>490</b>	<b>10.9%</b>	<b>10.5%</b>	<b>0</b>	<b>0</b>	<b>(60,490)</b>	<b>\$12.80</b>
<b>TOTAL SURVEY AREA</b>	<b>82,181,471</b>	<b>774</b>	<b>9.3%</b>	<b>8.6%</b>	<b>0</b>	<b>0</b>	<b>(57,918)</b>	<b>\$16.65</b>

\* Rental rates reflect \$psf/year

### MARKET HIGHLIGHTS

#### SIGNIFICANT 3Q10 NEW LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQ FT	BLDG CLASS
5800 St-Denis	East End (West)	Ville de Montreal	20,000	B
1250 Guy Street	Downtown West	Knowledgeone inc.	17,836	B
1080 Beaver Hall Hill	Financial Core	Broadsign Canada Inc.	14,567	B

#### SIGNIFICANT 3Q10 SALE TRANSACTIONS

BUILDING	SUBMARKET	BUYER	SQ FT	PURCHASE PRICE
Place Innovation (Technoparc St Laurent) 2351 Alfred-Nobel	Saint Laurent	Morguard Corporation and Morguard REIT	885,332	\$165,000,000

#### SIGNIFICANT 3Q10 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				



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