Montréal

*Statistics refer to Greater Montréal Area

Population*	Office vacancy	Industrial inventory
3.65 million	9.3%	329 million sq ft
Office inventory	**CBD Class A vacancy**	**Industrial vacancy**
76 million sq ft	8%	6.5%

Robert Mercier

Market overview
Between 2000 and 2006 economic expansion in Montréal averaged 1.8% per year. Benefiting from higher growth in the services sector and a solid non-residential construction sector, the economy grew by 2.1% in 2007 and is forecast to expand by 2.7% for 2008.

Employment growth exceeded expectations. Demographics continue to support housing market activity with an estimated 25,000 new starts in 2007 and strong resale activity. The manufacturing sector continues to be challenged by the strong Canadian dollar and this challenge will persist in 2008.

Office market
After a period of weak activity over the last several years, the office market showed signs of life in 2007 with increased leasing activity and positive absorption. Overall vacancy has been declining and at the end of Q3 2007 was 8.4%, marking a 1.3% decrease over the previous 12 months. This trend is expected to continue through 2008. Roughly 1.2 million square feet were absorbed during this time, with a large part of this growth occurring in the downtown district. Market demand is predominately being driven by large corporations such as CAE, Bombardier and KPMG, and technologically based companies.

Two spec buildings were added to the inventory in the west island node. In 2008, the downtown office inventory will increase by 100,000 square feet, as the refurbishing of the old Gazette building on St-Antoine comes on stream. The completion of phase one and two of Bell Canada's campus on Nun's Island will not affect inventory in 2008 as it is fully occupied. However, it may potentially increase availability in the sublet market in 2009 and future.

Interest in LEED is slowly gaining strength in the office market. Landlords, such as Oxford, are leading the charge by getting LEED accreditation for some of their buildings in the downtown core.

Assuming the economy remains strong in 2008, rents should increase progressively. Landlords have quietly become less negotiable on tenant incentives.

Industrial market
Industrial properties available for sale remain in short supply and high demand as both end-users and investors look for purchase opportunities. Due to this high demand for ownership, good leasing opportunities are readily available in most markets and size ranges. Vacancy rates have risen and larger opportunities (100,000 square feet plus) are more plentiful and taking longer to lease. A shift in user attitude may be on its way for next year and beyond as the lack of available facilities to purchase will have users examining once again the rental market for their real estate needs.

Approximately 3.4 million square feet of new leased and owner occupied properties were added to the market in 2007. The most notable is the 1.6 million sq ft facility built for Canadian Tire in Coteau-du-Lac. In 2008, anticipate a hold on new spec building construction.

Industrial users are becoming more aware of cubic efficiency for their operations and new construction is reflecting this trend. The new benchmark for industrial buildings is 28' clear, with several new buildings topping the 32' mark. Shipping pad distance has also become an important consideration along with adequate depth to accommodate 53' trailers. Older industrial properties are becoming functionally obsolete. As a result, developers are purchasing older buildings with lower clear heights (14'-18') and redeveloping them by increasing their size and ceiling heights to better suit the needs of today's industrial user.

Investment market
The overall investment climate is hot with more buyers than sellers. The most active players are a combination of domestic pension funds, foreign buyers, especially from Germany, and local private buyers. All product types are highly sought after, with institutional buyers looking for trophy type assets and private buyers seeking value add deals.

With a lack of available product, the level of activity in 2007 was equal to that of 2006. Each deal sets new records and yields have continued to decline over the last 12 months. This trend will most likely continue in 2008. Looking forward, challenges include the limited supply of products coupled with growing demand. Montréal is now undoubtedly on the radar screen for many foreign funds adding this market to the global investment playing field. This added interest has contributed to cap rate compression as the city now competes with other international markets.