

MEMORANDUM — APRIL 2011

THE MONTRÉAL OFFICE MARKET

If the past is any indication of the future, it is highly unlikely that there will be a sharp spike in rents

The vacancy rates for office buildings improved over the past year, a sign of a recovery with respect to job creation in the Montréal region. The general demand indicates a robust performance on the part of the Montréal office market, which has amply met the addition of some new buildings. More than 1,200,000 square feet has been leased in the entire market. As a result of the strong demand, all of the sectors saw their vacancy rates decrease, or stabilize or their variation in square feet changed only slightly. Even the vacancy rate in the Brossard sector, which had the majority of new building additions, remained more or less stable.

After two years of negative demand, the market finally strengthened with a positive demand of over one million square feet. This turnaround in the situation is most likely due to an improved performance in the job market compared with the previous years and to expansion decisions that had been delayed by companies during 2009 and 2010.

The 2011 Montréal Office Market Analysis and Survey indicates that there was a slight increase in asking rents for most sectors. The Brossard sector posted the sharpest increase, buoyed by the addition of new buildings that are striving to be LEED-certified. A less-significant-than-expected attraction seems to have caused the rents in certain parts of the Laval sector to decrease.

The strengthening of lease incentives observed over the past few surveys appears to have stabilized. Hence, the increase in rents combined with lower interest rates favours an increase in net effective rents.

According to the economic scenario, a return to moderate economic growth is likely to occur accompanied by a pullback of the assistance provided by the government over the past few years and by public authority concern of balancing the budget. While the comeback is well underway, it would seem that an interest rate hike is inevitable which should impact the office market situation for both owners and tenants. Nevertheless, the anticipated variations should not result in any change to the trend observed over the past year. Our forecast model indicates an improvement in occupancy and rental rates, followed in turn by a stability over the medium term.

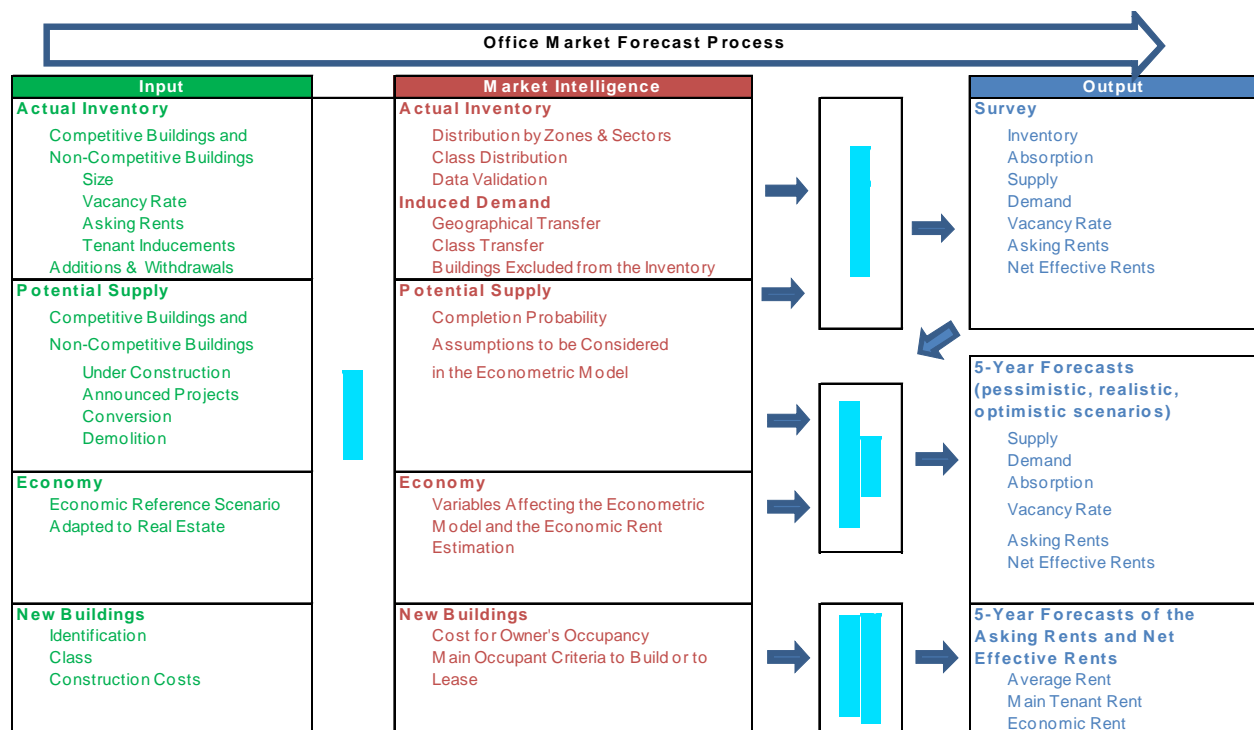
Our actual studies illustrate that the market is still mature and that we will see a slight increase in rents for existing buildings. This observation results from the cautionary attitude of real estate owners, who still favour a strategic approach based on keeping their tenants.

A slew of new construction projects have been announced. It is highly unlikely that all of these projects will be completed. Nevertheless, we submit the assumption of the addition of a major new supply over the short term, particularly in the Central Business District and, to a lesser extent, in the outskirts and suburbs. Some of these projects will result in a shift from competitive buildings towards non-competitive buildings. Some projects will be incorporated into mixed-use complexes.

The decrease in the number of contiguous large blocks could favour a decrease in the variance between the economic rents and net effective rents.

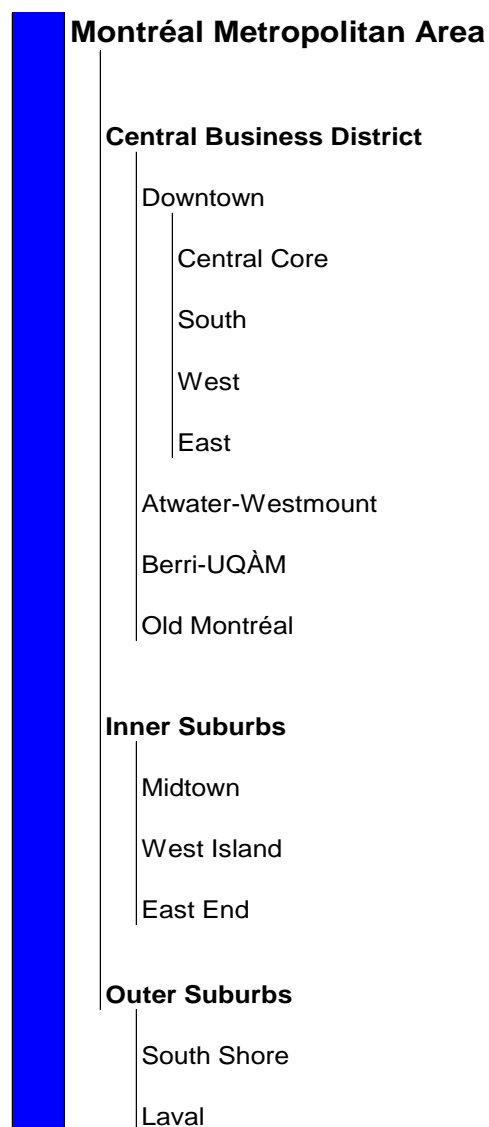
Employment is a variable having an enormous impact on our forecast model. Barring any significant change in job growth, real estate owners must be patient if they are to, once again, see rents increase sharply, an increase that had been mitigated over the past ten years. This was the forecast presented by our econometric model, year after year, since its introduction.

It would appear that the Montréal office market is less affected by the fluctuations and changes in direction, whether positive or negative, in economic activity over the past few years. This observation is advantageous in a period of economic slowdown. The recovery expected by economists should be moderate and gradually pick up steam. If the past is any indication of the future, it is highly unlikely that there will be a sharp spike in rents.



The flowchart on the previous page illustrates the data compilation and analyses process presented in the *Montréal Office Market Analysis and Forecast*.

Presented below are the market subdivisions (zones and sectors) that characterize the presentation of our results of analysis and forecasts.



Survey methodology

The study is exhaustive: we contact over 350 managers and compile information on slightly more than 650 buildings. This type of study is staggered over a period of about one month, twice annually.

We calculate the physical vacancy of offices at a specific date, regardless of whether the office spaces are leased or available. The available asking rents, rental rates and lease inducements are also surveyed and completed.

For the purposes of this study, the Montréal Metropolitan Area has been divided into three zones in relation to the main road axes, the public-transportation network, population and commercial and industrial activities. However, tenants occupying these buildings serve a much wider market. Therefore, demand calculations encompass the demographic and economic growth of a much larger area.

Office buildings are divided into classes. Prestige (central core only), new buildings (less than 18 months old in the Central Business District and less than 12 months old in the Inner and Outer Suburbs), Class A and B buildings, Class C buildings, medical and high-tech buildings and schools are excluded from our surveys and analyses; the same is true for office space that is not in office buildings.

Montréal Office Market Analysis and Forecasts

The *Montréal Office Market Analysis and Forecast* is published annually. Accordingly, our subscribers are given access to market analyses (Central Business District, Inner and Outer Suburbs), by zone (Western Suburb, Eastern Suburb, South Shore, etc.) and by sector (Downtown, Berri-UQÀM, Old-Montréal, Dorval, etc.), as well as Building Class (Prestige, Class A and Class B).

In fact, these analyses provide an accurate picture of the real estate market at a given date. However, our study is renowned thanks to the forecasts

based in part on the econometric model and in part on our knowledge of the Montréal office market. Enriched by its 52 rigorous surveys conducted since 1985, the Desjarlais Prévost Inc. database is without doubt the largest of its kind in Montréal.

Would you like to know our demand, supply and rental forecasts per market segments? Why not equip your organization with a tool that will help guide your decision-making processes. We encourage you to register for a subscription by contacting us or clicking the following link:

<http://www.dpi.rcgt.com/index.cfm/1,0,1226,685,3,1114,0,html>

Upon request, we can also perform market analyses, evaluations, due diligence reviews and other consulting assignments tailored to your real estate needs. Our areas of expertise include, among others, office and industrial buildings, as well as seniors' residences and land for development.

DESJARLAIS PRÉVOST INC.

Desjarlais Prévost inc. publishes annually in limited edition format (with a semi-annual update) the *Montréal and Québec City Office Market Analysis and Forecast* and, a quarterly *Analysis of Real Estate Investment Yields* in Quebec.

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