



MARKET OVERVIEW & FORECAST

Real GDP in Montreal grew by approximately 2% in 2005 with overall performance dampened primarily by a decline in the residential construction sector. Fortunately, most other sectors are performing well which should bode well for improved economic activity in 2006. Major construction projects in universities and hospitals pushed the non-residential sector higher creating approximately 10,000 jobs. Manufacturing output grew by 3.0% in 2005, an excellent result given the strength of the Canadian dollar. Retail spending increased by 4.2% as a result of the low interest rate environment and job creation.

Montreal's economy is anticipated to gain traction in 2006 with GDP growing by 3.5%. Manufacturing output is expected to increase, especially with the improving aerospace industry. The services sector will also gain momentum during 2006. Overall employment growth of some 50,000 total jobs is expected and retail spending should continue to drive the economy provided interest rates do not spike dramatically.

OFFICE MARKET HIGHLIGHTS

Montreal's office market, with business consolidation, downsizing and limited office job growth, had a less than spectacular performance in 2005. Absorption of 300,000 square feet occurred Downtown, while the Midtown and Suburban markets experienced negative growth. Downtown Montreal Class A vacancy remained flat at 9.5% with most leasing activity taking the form of early renewals or relocations with little or no expansion of space. Rental rates decreased marginally as landlords stepped up competition in order to attract or retain tenants. Major transactions in 2005 included Aon Corporation, Desjardins Group, Laurentian Bank of Canada, and McCarthy Tétrault.

No fundamental change to the Montreal office market is expected for 2006. Demand for office space will remain weak and supply more than ample. Resulting net effective rents will continue to decline and favour tenants in all market sectors. New construction activity will be dormant until prices begin to escalate toward economic rent.

INDUSTRIAL MARKET HIGHLIGHTS

Greater Montreal represents Canada's second largest industrial marketplace. Activity remained flat through 2005 with vacancy at 6.6% and 1.5 million square feet of new construction completions. Purchases are the transaction of choice as interest rates continue to influence decisions. Net rents for Class A space remain at approximately \$5.00 per square foot with newer, higher cube properties and self contained properties generating rate premiums. User sales for better grade properties trade around \$50.00 to \$55.00 per square foot. Land sites off the island have become more attractive with pricing at less than \$5.00 per square foot, compared to top on-island sites trading at \$10.00 to \$15.00 per square foot.

Notable transactions through 2005 included the 535,000 square foot Kraft Canada Inc. distribution facility being built in Vaudreuil and the Univar Canada Ltd. lease of 190,000 square feet in Dorval.

It is expected that activity levels in 2006 will mirror those of 2005. Limited increases in demand will only slightly decrease available supply and pricing will remain flat. Leasing activity will likely increase as rising interest rates and limited supply shift user activity back to leasing rather than purchasing. Land will continue to attract interest from transportation, distribution and 3PL companies, particularly in strategic off-island corridors.

INVESTMENT MARKET HIGHLIGHTS

Investment activity in Montreal continued unabated through 2005. Positive fundamentals, marginal supply, historically low interest rates, and debt availability all combined to push yields down further and generate new benchmark pricing in all sectors. Investors of all categories were active, including REITs, pension funds, and private investors from both Canadian and foreign sources.

Regardless of significant yield compression, extensive competition, the threat of rising interest rates, and marginal leasing market disconnects, nothing slowed investor appetite for quality real estate. Some notable transactions during 2005 were the sale of Marché Central to Bentall et al and the sale of Dominion Square and Place Bonaventure by Goldman Sachs to Canpro Investments and PSP Investments respectively.

Given the strength of Montreal's economy, general equilibrium in the market sectors, demand for solid cash flow, and the current interest rate environment, it is expected that investor demand will remain high throughout 2006. Scarcity of alternative investment opportunities will limit the supply of product coming to market. Pricing will remain very aggressive as capital continues to compete for quality investment opportunities.

MONTREAL MARKET AT A GLANCE

POPULATION

3.6 million

OFFICE INVENTORY

74.2 million sf

OFFICE VACANCY

11.2%

CBD CLASS A VACANCY

9.5%

TOTAL INDUSTRIAL
MARKET SIZE

329 million sf

INDUSTRIAL VACANCY

6.6%

