

Overview

The overall vacancy rate of surveyed office sectors of Greater Montreal is down from 10.7 to 10.1%, with 213,000 SF absorbed this quarter. Total 2006 absorption was approximately 550,000 SF. Rental rates have been static since the beginning of the year, other than the slight slip in the class A central business district last quarter.

Market Trends

Central Business District (CBD):

- Class A CBD office vacancies are low, at 8.3%, with a stable average net rental price of \$20 per SF (gross rent ranges between \$35-\$40 per SF). Vacancy dropped this quarter, with over 200,000 SF of office space absorbed.
- Class B CBD vacancies are at 16.7%, down slightly from last quarter. Large contiguous spaces over 10,000 SF are becoming increasingly difficult to find.

Downtown South & Old Montreal (DS & OM):

- Class A vacancies are up, but remain low (4.6%). Only 250,000 SF of office space sits vacant in this 5.6 million SF sector.
- The class B sector continues to tighten, with vacancy rates dropping from 9.8 to 9.4%.

Suburbs:

- Our analysis of certain suburban sectors showed slight negative absorption, with the vacancy rate rising from 13.4 to 13.5%.

Tenant's Perspective

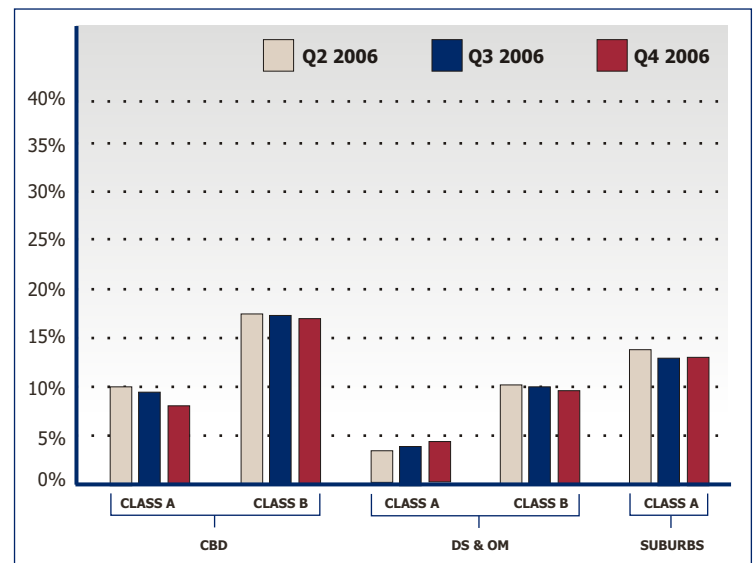
On the whole, the CBD district remains a tenant's market. The market has been stable the past two years, but we foresee significant impact from several recent events. Within the next three years, three large corporations will be leaving approximately 1.3 million square feet of downtown office space. Bell Canada and Rogers will each be vacating 500,000 SF of downtown office space for built-to-suit facilities on Nun's Island and the South Shore, respectively. Vidéotron plans to vacate 300,000 SF of downtown office space to move into their own building, just outside the CBD. These large vacancies, coupled with proposed downtown developments that may or may not come to fruition, could push the market into a new cycle.

Current activity is driven essentially by renewal and relocation, rather than overall growth, a trend that does not promise to change. No influx of large corporations into the office market, coupled with the aforementioned vacancy of 1.3 million square feet, will aggravate competition amongst class A landlords. It's difficult to project how this will play out and we will not see the true market impact for some time, but our prediction is that it will be necessary for these landlords to turn their attention to existing class B tenants to fill class A space. If this occurs, the class B market stands to offset or even bear the brunt of the vacancy hit.

Major Transactions Fourth Quarter 2006

Tenant	Size	Type	Lease Type
Ogilvy Renault LLP	159,844	Office	New Deal
Via Rail Canada Inc.	67,413	Office	Renewal
Hydro Québec	46,936	Office	New Deal
Fujitsu Transaction Sol.	46,463	Office	New Deal
Fred David	43,000	Office	New Deal
Canix Colo Inc.	32,133	Office	New Deal
Telus Comm. Inc.	31,528	Office	Expansion
Masimo	22,500	Office	New Deal
Osler, Hoskin & Hartcourt	20,647	Office	Expansion

Vacancy Rate



Average Net Rental Rates

	Q2 2006	Q3 2006	Q4 2006
CBD			
Class A Office	\$20.50	\$20.00	\$20.00
Class B Office	\$12.50	\$12.50	\$12.50
DS & OM			
Class A Office	\$20.50	\$20.50	\$20.50
Class B Office	\$14.00	\$14.00	\$14.00
Suburbs			
Class A	\$13.00	\$13.00	\$13.00

Prepared by

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