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**CANADA'S COMMERCIAL REAL ESTATE MARKET HEALTHY  
NOTWITHSTANDING PROBLEMS IN SUB-PRIME MARKETS, REITS**

**National office space vacancy rate drops;  
National average asking rent prices move up**

**10 million square feet of new space under construction  
to meet anticipated demand**

Canada's overall commercial real estate market continues to be healthy notwithstanding jolts to the sub-prime market, REITs and some corporate real estate areas, CB Richard Ellis Limited notes in its third quarter report on the industry.

Blake Hutcheson, president of CB Richard Ellis Limited, says "the Canadian industry's commercial real estate fundamentals continue to be strong and this is

supported among other reasons by the continuing high demand for office space in many markets across the country and the amount of new office space under construction.”

As evidence of the strength of the Canadian commercial real estate market the report says during the third quarter 2007, national vacancy rates for Class A office space continued to drop while national average asking rents for downtown Class A office rose.

The increase was mainly a result of a sharp rise in Toronto’s asking rent prices with many markets not recording any significant asking rent price changes due to a shortage of high-quality office space. Of the markets measured, over half did not show any rent cost changes of any magnitude. Of the major markets, only Toronto, where the asking rents rose by \$1.15 per square foot, showed a significant rise in downtown Class A rent prices.

The study shows that the national average asking rent for downtown Class A office space in the third quarter of 2007 rose to \$21.99 per square foot, up by \$1.15 psf from the \$20.84 psf recorded only three months ago. The national average rise of \$1.15 psf is the same amount as the average downtown asking Class A rent increase per square foot in Toronto.

At the same time the average national vacancy rate for downtown Class A office space declined to an extremely low 4.7% in the third quarter of 2007, down from a slightly higher but still very low 5.1% in the second quarter.

The CBRE report says that in Canada’s fast-growing western markets where vacancy rates are the lowest in the country, rents did not increase significantly or at all. Calgary’s average Class A rents at \$43.09 psf remained unchanged from the second quarter and are still the highest in Canada. Vancouver saw a very modest rise in average Class A rents to \$29.13 psf from \$28.86 psf. In both

markets the lack of significant asking price increases was a result of an absence of available space to lease and not a decline in demand. However, Edmonton, the smallest of the three Western markets, saw average Class A rents rise by \$1.29 psf to \$22.55 psf from \$21.26, the largest individual per square foot price increase during the period of any market in Canada.

Blake Hutcheson, president of CB Richard Ellis Limited, said “the sizable increase in downtown Toronto Class A rents skewed the national average price upward because Toronto represents 35% of the total Canadian market. At the end of the third quarter Montreal’s (16% of the market) average Class A rents dropped to \$18.09 psf from \$18.83 psf in the second quarter of 2007; Ottawa’s (12.9% of the market) was \$24.50 psf in both periods; Halifax’s (2.3% of the market) remained unchanged at \$17.43 psf in both the second and third quarters. Collectively, these cities make up 66.8% of the total Canadian office market.”

The CB Richard Ellis report said that as expected there is generally a direct correlation between vacancy rates and asking rents and this is seen in the three western cities where they have extremely low vacancy rates and rents that have steadily increased due to the continuing shortage of available space. Calgary continued to have full market conditions throughout the three quarters of 2007, reporting only a 2.4% vacancy rate at the end of the third quarter. Edmonton also had a miniscule vacancy rate in the second and third quarters, remaining virtually flat, declining to 3.8% from 3.9%. Vancouver’s vacancy rate also continued to reflect a full market, dropping to 2.3% from 2.4% in the second quarter of 2007.

Hutcheson said that “over 10 million square feet of new office space is currently under construction in Canada and this will impact slightly both the vacancy and rental rates once it is on stream. However, it is not expected to have a major effect on the industry in the next six to 12 months. It will not kill the golden goose.

”In Calgary, 5.2 million sf of new downtown Class A office space will be added to the market. When completed, the new office space will increase the vacancy rate to 7 – 8%, a market that is in equilibrium with both tenants and owners and able to meet their needs. However, even with the addition of a sizable amount of new Class A office space the Calgary market will still be a relatively tight market for some tenants because much of the new space coming to market has already been leased. As a result, tenants in Calgary should not expect to see rents decline as a result of the new space coming to market.”

Hutcheson said that in Montreal the average downtown Class A vacancy rate dropped to 7.2% from 8.1 “but in this case the vacancy decline did not translate into higher average asking Class A rents because much of the most desirable office space in Montreal has been leased and only lower priced downtown Class A space is available. As a result the change in asking rents in Montreal dropped to \$18.09 psf at the end of the third quarter of 2007 from \$18.83 in the second quarter of the year.

“In Ottawa the vacancy rate remained at 2.7% at the end of the third quarter of the year but, again, asking rents stayed at \$24.50 psf in both quarters because this is a tight market without a sizable amount of high quality space available. Like Montreal, this reflects a shortage of desirable Class A office space more than a drop in demand. There simply is not enough top quality office space available and this results in a lower average asking price for the space that is on the market.”

Hutcheson said “Toronto has had low downtown Class A vacancy rates during 2007 but until the third quarter of 2007 asking rents did not increase significantly with the lower levels of vacancies. However, over the next 24 months and until three new office buildings totaling 3.1 million sf of space come on stream, the Toronto market will be extremely tight. Accordingly, it is clear that at the present

time landlords can and are getting higher prices for existing Class A office space. This is taking place notwithstanding that the new space will increase the Toronto downtown Class A vacancy rate in 2010 - 2012 to about 12% once it is completed.”

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