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**NATIONAL DOWNTOWN OFFICE MARKETS GRIND TO HALT  
DUE TO CRITICAL SHORTAGE OF AVAILABLE SPACE**

**Vacancy rate drops to low 4.7%; remains virtually unchanged  
From first quarter level; demand high but no new product**

Canada's declining national downtown office market ground to a halt in the second quarter of 2008 as would-be tenants almost stopped leasing downtown office space because they were unable to find enough available space to lease in most markets, CB Richard Ellis Limited says in its second quarter report on the Canadian office market.

As a result, the overall national downtown office vacancy rate in the second quarter of 2008 stood at a low 4.7%, virtually the same as at the end of the first quarter when it was 4.8%.

Stefan Ciotlos, interim president of CB Richard Ellis Limited, said "these are the tightest continuing downtown markets we have seen in over ten years. The major

reason why the downtown markets vacancy rates did not drop further is that there simply is not enough available Class A office or other space in most markets. And no significant amount of new office was added during the quarter.

“Many of Canada’s office markets are now at historic lows and we do not anticipate the national vacancy rate declining much further; in fact, when new supply begins to come on the market in 2009 the national vacancy rate is expected to increase.”

The national downtown Class A vacancy rate in the second quarter was even lower than the national downtown vacancy rate, a miniscule 3.9%, about the same as it was at the end of the first quarter of the year when it stood at 3.8%.

The report shows clearly that in eight of the ten markets surveyed it was the continuing critical shortage of downtown office space that kept the overall office market vacancy rate from dropping even further. Only two locations, London and Montreal, saw tiny fractional increases in vacancy rates for downtown office space during the second quarter. Ottawa’s overall downtown vacancy rate at 2.8% was the lowest in Canada. Vancouver’s downtown office vacancy rate remained relatively unchanged from 3.0% to 2.9%, while Calgary dropped to 3.9% from 4.0% in the first quarter of the year. Fast-growing Edmonton dropped to 5.0% from 5.1%. The huge Toronto market, larger in size than either all the Eastern markets combined or the four Western markets in total, had a downtown vacancy rate of a very low 4.4%.

The CB report noted that at the end of the first quarter of 2008 the amount of downtown office direct vacant space in the ten major markets surveyed amounted to 9,148,704 square feet in total. At the end of the second quarter – as a small amount of space was taken off the market -- this declined slightly to 8,949,111 sf while demand continued to be exceptionally strong. An 8.0%- 10%

vacancy rate is a reasonably balanced market, one where owners and renters are in about the same negotiating positions.

Ciotlos said that “tenants looking for quality space in the downtown markets today are hard pressed to find options as 8 of the 10 markets in Canada have Class A vacancy rates under 5%. Many tenants who have the luxury of expiry dates of 18-30 months still have taken a wait and see attitude knowing the leasing environment will swing in their favour once new supply is delivered over the next few years.

“The last two years have clearly been in favour of the landlord but that will all change in 2009 as significant new supply begins to come on-stream as the pendulum swings to what will be a tenant’s market.”

Ciotlos added that Toronto and Calgary both have a number of new buildings going up. Calgary has 5.6 million sf of new office construction underway and Toronto 3.7 million sf. When these are completed ... in 2009 and 2010 the downtown vacancy rates in both locations will increase ... Calgary to an estimated 6% -8% and Toronto to 10%- 12% or more. All the new Toronto supply will come on stream in 2009 with the vacancy rate increasing in a fairly short time. The Calgary vacancy rate will likely increase slowly as the new supply will come in waves with 741,000 sf coming in 2009, 2 million sf in 2010 and 2.7 million sf in 2011.

In total, 11,999,000 sf of new downtown office space is under construction in the 10 Canadian markets.

For many of the same reasons impacting the downtown Class A markets, the combined national market vacancy rate for downtown and suburban office space remained the same at the end of both quarters, 6.3%

Of the ten overall combined markets surveyed by CBRE - four went down and five went up modestly. Ottawa at 4.0% had Canada's lowest combined downtown and suburban vacancy rate followed closely by Calgary at 4.6%, Winnipeg at 5.0%, Edmonton at 5.5% and Vancouver at 5.9%. The other markets were the Waterloo Region, 6.4%; Toronto, 6.7%; Montreal, 8.5% and Halifax 8.8%.

Ciotlos said other factors are expected to impact the Canadian market. "The U.S. economy is stumbling in some areas and this likely will have an effect on the Canadian market at some point because our two economies are entwined in many areas. As of now, our commercial real estate office market has not been affected substantially by the downturn in the United States economy but this can and will change. Also it should be kept in mind that what we are seeing now in the Canadian market are the results of decisions made months and sometimes years ago. Companies were then considering their future office space requirements and making leasing arrangements that we are seeing taking place now. If our economy slows ... and there are some indications it is slowing in various markets, especially in Ontario ... with the addition of the new space coming on the market in Toronto and Calgary we will see the vacancy rates in these markets jump substantially.

"However, it is not a foregone conclusion that the Canadian economy will be affected to the same degree that the U.S. economy is because they have different problems in the U.S. than we have. To some extent theirs are likely more difficult to overcome."