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**SUBLET SPACE INCREASES SHARPLY IN TWO KEY MARKETS; OTHER
MARKETS LIKELY TO FOLLOW AS ECONOMY CONTINUES TO SLOW**

Increase in sublet space is warning that the economy is under stress

Absorption rate falls for first time in 22 consecutive quarters

A marked increase in downtown sublet office space in two key Canadian office markets is a harbinger of what to expect in most other leading Canadian office markets in 2009 and beyond, CB Richard Ellis Limited, says in its 2008 year-end report. John O'Bryan, Vice Chairman of CB Richard Ellis, commented that, "we know that the fundamentals of the office market are going to decline, the real questions are where, when and how much?"

The two markets -- both in the West -- each showed sizable increases in the amount of available downtown sublet space on the market. Vancouver's sublet market rose to 43.7% at the end of 2008 from 15.2% in the third quarter of the year; Calgary's increased to 33.1% from 26.6%. On the East coast Halifax's sublet market remained at a high level -- 32.2% in the fourth quarter of 2008 versus 32.5% at the end of the third quarter.

O'Bryan observed that, "a larger than normal increase in the amount of sublet space on the market, particularly in a short time, is a warning that the economy is under stress. In times of sharp economic downturns or anticipated economic difficulties companies cut back on the amount of space they use in order to reduce costs. Often they may have leased more space than they required in anticipation of future growth but as the economy turns down they see their growth curtailed or shrink. As a result, they put their space or some part of it on the sublet market.

"It should also be kept in mind that when the economy is in a downturn there is a lag effect as employees aren't let go immediately. Even when companies downsize it doesn't immediately translate into sublet space. First it becomes shadow space and then turns into sublets if the downturn persists".

O'Bryan said that the deteriorating economy will impact each region of the country differently. "Each market is individual and each is driven by different economic factors. However, there are growing indications that it will be impossible for any area to escape the downturn. The two markets likely to see the largest increases in available space are Downtown Toronto and Calgary. Both markets are seeing substantial office building construction which will be delivered in the period of 2009 to 2012. The overhang of space will require a revitalized economy to bring the markets back into balance."

As a whole, CBRE says 2008 was an increasingly difficult year for the commercial real estate field. Since real estate statistics lag major economic shifts, the relatively modest decline in the leasing fundamentals can be seen as the calm before the storm. There are no indications that 2009 is going to see any improvement in the broader economy, with most expecting it to worsen, and no improvement before 2010.

The CB report notes that relative resilience of the Canadian economy, in contrast to the US or other OECD nations, is another reason that there has been no rapid decline in leasing fundamentals. As an example, the relative strength of the Canadian financial sector has insulated Canada from some of the massive layoffs experienced in the US and UK in particular.

Despite the exceptional performance of Canadian office markets for the last 4 or 5 years, real estate is merely a mirror of the broader economy. It is clear that the next several years are going to be extremely challenging and it is fortunate that most Canadian cities are entering this downdraft with some of the lowest vacancy rates in their history.

“It is noteworthy that the fourth quarter of 2008 marked the first time in 22 quarters that the absorption rate for downtown office space fell. In the third quarter of 2008 it was a positive 67,305 sf but in the fourth quarter it dropped to a negative 311,678 sf. Although in the last quarter of the year the national vacancy rate for Class A downtown office space rose modestly to 4.9%, if you are going to be dragged into a downturn that is a very healthy place to start from,” O’Bryan said.

On a market by market basis, six of the markets saw downtown office space vacancy rates rise very modestly ...Vancouver to 3.1% from 2.3%; Calgary to 5.2% from 4.1%; Edmonton to 5.5% from 5.3%;Winnipeg to 5.9% from 5.5% Toronto to 4.9% from 4.7% and London to 14.8% from 14.5%. Markets with

lower vacancy rates were the Waterloo Region to 6.4% from 7.3%; Ottawa to 2.2% from 3.0%; Montreal to 5.7% from 5.9% and Halifax to 4.3% from 4.5%.

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