



**AVISON
YOUNG**

**YEAR-END
REVIEW
2017**

**OFFICE
MARKET REPORT
GREATER MONTREAL AREA**

**CANADA'S
BEST
MANAGED
COMPANIES**

YEAR-END REVIEW 2017

OFFICE MARKET REPORT GREATER MONTREAL AREA

2017 proved to be a very successful year for the Greater Montreal Area, as the Province's unemployment rates dropped to unprecedented lows and the city's economy thrived in numerous activity sectors. Artificial intelligence (AI) stole the spotlight last year, as Montreal is becoming a growing hub for AI. The city is now home to AI research laboratories from Microsoft, Facebook, Google, Samsung and Thales, and local-based AI players such as Element AI keep on expanding at a drastic pace. The metropolitan area maintained the sustained economic growth witnessed over the past years in 2017, leaning towards an optimistic outlook for the years to come.

From an office market perspective, there has been a healthy decrease in available space, slightly shifting the market in favour of landlords. Vacancy dropped to 12.8 % at the end of 2017, as nearly 1.7 million square feet (msf) of office space were absorbed over the past 12 months. During the same period, the Laval submarket has seen the most significant vacancy drop, as the rate decreased from 16.8% to 14.8%. The Midtown submarkets recorded the second strongest activity in the Greater Montreal Area (GMA), with a vacancy decrease of 80 basis points, from

15.5% to 14.7%. The GMA's vacancy rate is expected to tick back up over the next months, as many mixed-use and office projects are currently under construction on and off-island.

Overall, the average net rental rates in the GMA remained relatively unchanged over the past year, hovering around \$14.00 per square foot (psf) for all office classes, while the additional rates remained in the vicinity of \$13.00 psf. However, the gap between rental rates in the Downtown core and the other submarkets remains significant, as net rental rates in the central areas are closer to \$17.00 psf and the additional rents are approaching \$18.00 psf.

The demand for quality office space in the Downtown Core is improving. This trend is observable at Maison Manuvie, which was inaugurated last November by Ivanhoé Cambridge and Manulife. The prestigious \$220 million property already shows an 83% occupancy rate, with only the top three floors left available. The insurance company occupies 260,000 square feet (sf) on eleven floors. Manulife will soon be joined by Ernst & Young and Boralex, who will be relocating to the building over the course of 2018.

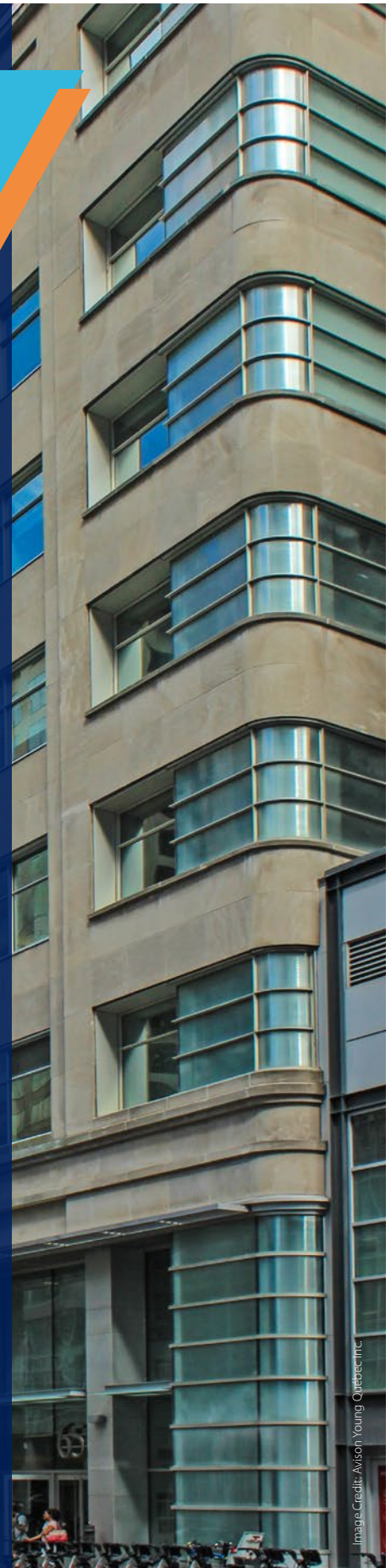
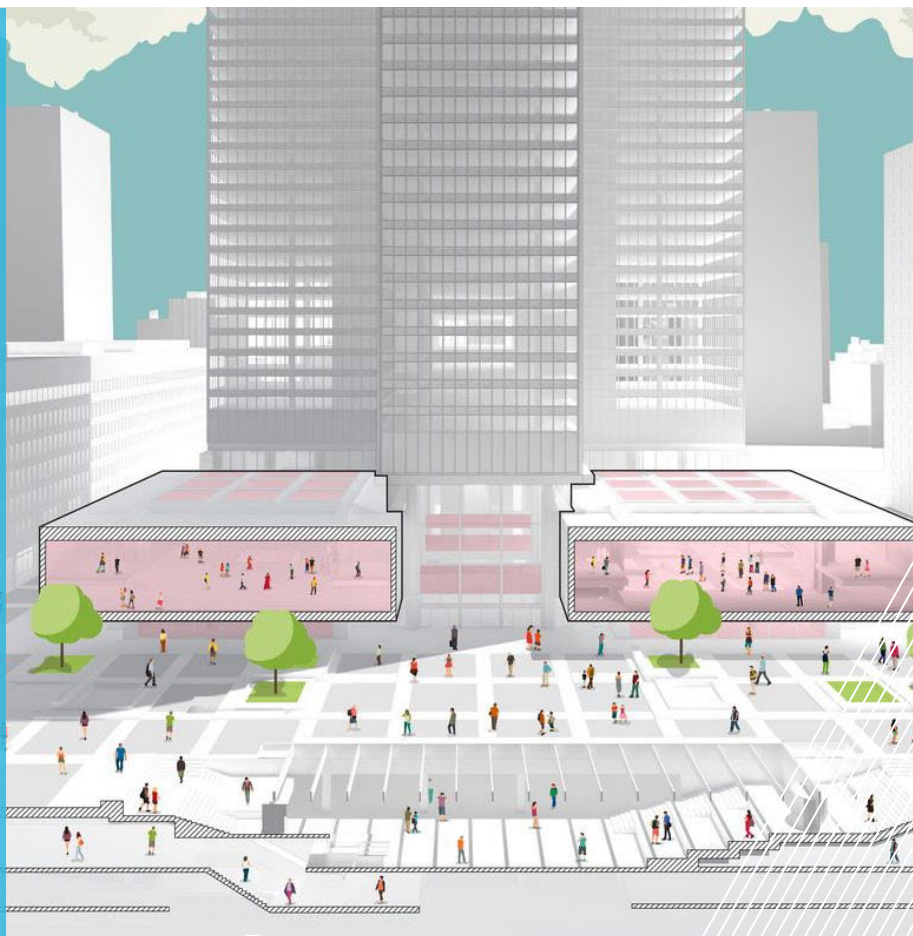


Image Credit: Wilson Young Quebec Inc.

SID LEE AT PLACE VILLE MARIE

Located in the banking halls of the lobby and on the mezzanine levels, the new Sid Lee campus at Place Ville Marie will consist of office spaces specifically designed to meet the needs of the agency's multidisciplinary creative teams.

Image Credit: Ivanhoé Cambridge



ALL EYES ON PLACE VILLE MARIE

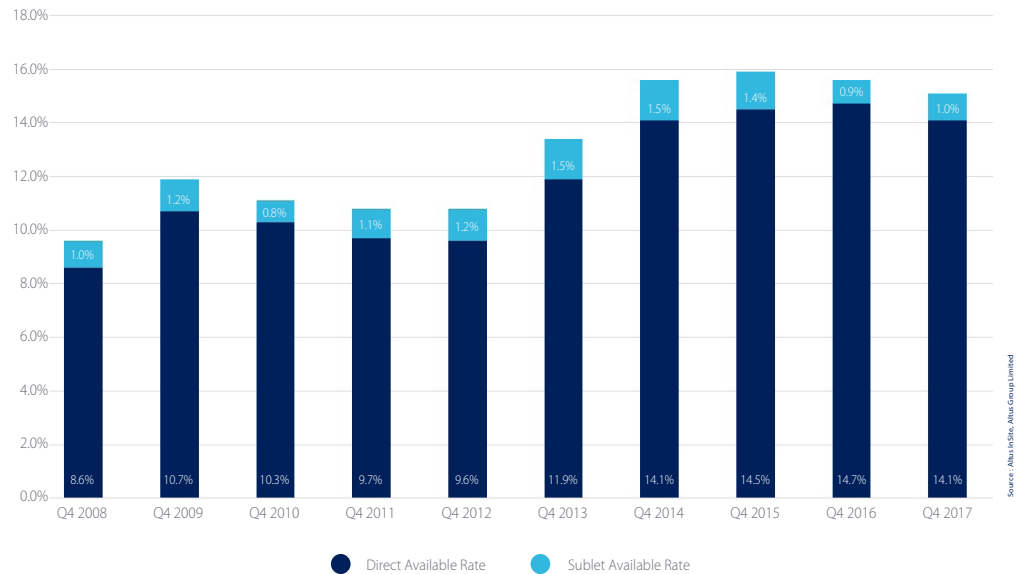
2017 announced a major wind of change for Place Ville Marie. The **Royal Bank of Canada (RBC)** announced that they have signed a long-term lease agreement with **Ivanhoé Cambridge** for their premises at 1 Place Ville Marie, under which RBC will invest in renovations to its premises. RBC's plans include the renovation of selected areas, and the relocation of some operations to purpose-built office space on the concourse level, providing RBC with excellent visibility at street level as well as in the underground pedestrian network. RBC was the first tenant of the tower built in 1962, and remains the largest in the building.

Ivanhoé Cambridge also announced the complete revitalization of the **Place Ville Marie Esplanade** as part of its vision for downtown Montreal, known as "Projet Nouveau Centre." The construction should be completed by 2019. Ivanhoé Cambridge will invest nearly \$200 million in the project, which will feature an elegant glass pavilion in the centre of the plaza and a vast staircase connecting the Place Ville Marie Esplanade to McGill College Avenue, opening the artery all the way down to the newly redeveloped Fairmont Queen Elizabeth Hotel.

Moreover, 1 Place Ville Marie will also be home to creative agency **Sid Lee** as of 2019. Sid Lee signed a long-term lease for 61,000 sf previously occupied by the RBC to accommodate 350 employees. Ivanhoé Cambridge partnered with Sid Lee Architecture for the conception and the design of the new premises. Located in the banking halls of the lobby and on the mezzanine levels, the new Sid Lee campus at Place Ville Marie will consist of office spaces specifically designed to meet the needs of the agency's multidisciplinary creative teams.

AVAILABILITY,
ALL OFFICE CLASSES

OFFICE SPACE
GREATER MONTREAL AREA



There has been a strong demand for high-quality office space in the South Shore market. Newly-built **SSQ Tower**, located at 1225 Saint-Charles Street West in Longueuil, serves as an excellent example of the popularity of the sector, as **Avison Young** managed to lease 99% of the building within a year of its delivery. New occupiers include high-profile tenants such as Ville de Longueuil, Public Works and Government Services Canada, Innergex, Jacques Cartier and Champlain Bridges Incorporated and EBOX.

With this vibrant success, the Avison Young agency leasing team was awarded a new landlord representation mandate for the leasing of 154,000 sf of office space in **Quartier DIX30™**, the prestigious lifestyle centre

owned by **Oxford Properties** and **Carbonleo** in Brossard. The available area spreads over eight high-quality properties, including newly-built 9150 Leduc Boulevard, an elegant 16-storey tower with over 64,500 sf of contiguous space available. The property is home to new Industrial Alliance (IA) Financial Group offices as well as an Alt+ Hotel, the very first of its kind.

Across Highway 10 from Quartier DIX30™, the construction of **Solar Uniquartier** is progressing. Developed around the future Réseau express métropolitain (REM), the transit-oriented development (TOD)'s first condominium phase, Magellan Condos, already sold 95% of the units, and the second phase of the project is expected to be

launched in the spring of 2018. IA Financial Group announced that they will also occupy one floor of the Place de la Gare Tower, the first office building of the TOD, in late summer 2018, adding to the insurance company's presence in the area. Upon completion, Solar Uniquartier will include nearly 500,000 sf of office space.

On the North Shore, **Espace Montmorency** will break ground in Laval early 2018. The mixed-use project estimated at \$500 million is expected to be delivered by 2020. The development will consist of ten buildings reaching up to 20 storeys, surrounding the Montmorency subway station and bus terminus. The project includes a 400,000-sf office component and aims for a LEED-Gold certification.

In terms of investments, the GMA office market is getting more aggressive. As prices are gradually increasing and capitalization rates are dropping, several owners are looking to trade their assets to benefit from the good market conditions. In comparison with other Canadian metropolitan areas, Montreal remains an affordable option for local and foreign investors. Even if the recent hikes in interest rates made financing slightly more expensive, the investment forecast for 2018 looks promising. The office market saw a drastic year-over-year increase in investment volumes, peaking at \$446 million at mid-year 2017 from \$297 million 12 months before. Class-AA office buildings Downtown Montreal currently trade at capitalization rates ranging from 4.5% to 5.5%, as Class-B assets sell at 6% to 6.5%. In suburban markets, the overall capitalization rates for Class-A buildings range from 6.5% and 7%, as Class-B buildings range from 7.25% to 7.5%.

The most significant sale of 2017 was part of the sale-leaseback transaction for the SNC-Lavalin headquarters located at 455 René-Lévesque Boulevard West. The property was purchased for \$173 million by GWL Realty Advisors at a 5% capitalization rate. Another important transaction was the sale of 1155 Robert-Bourassa Boulevard, valued at \$58 million.

In the first half of 2017, Montreal landmark, Le 1000 de la Gauchetière was put up on the market for sale and several investment groups expressed their interest for the tallest building in the city.

2018 started with exciting and unexpected news, as Broccolini Construction and Banque Nationale purchased one of the last prime sites Downtown Montreal from Magil Laurentian Realty Investments Inc., Laurentian Weloga LP and Desjardins. The 136,500-sf site located on Robert-Bourassa Boulevard between Saint-Jacques and Notre-Dame Streets was purchased for a whopping \$100 million, which represents approximately \$740 psf. Several projects had been designed for the site over the past decade, such as Place University-Saint-Jacques and Univers Condos, but it seems none of them could get past the incubation phase.

The site will be home to Banque Nationale's new headquarters, as part of Broccolini's new, mixed-used development. The construction cost for the new head office is estimated at \$500 million. The 36-storey tower will break ground this spring, and is expected to be the largest office development in Montreal over the past 25 years. The new complex will aim for LEED and WELL certifications upon delivery in 2022.

With this announcement, the National Bank plans on selling their head office located at 600 de la Gauchetière West, two blocks away. To maximise the sale price, the financial institution could consider a sale-leaseback transaction until the new construction is delivered. Built in 1983, the 28-storey, 730,000-sf tower currently owned by the bank is assessed at \$181.5 million by the city of Montreal.



SIGNIFICANT SALES, OFFICE GREATER MONTREAL AREA



Address	455 René-Lévesque Boulevard West, Montréal
Buyer	The Great-West Life Assurance Company
Seller	SNC-Lavalin
Price	\$173,225,000 (\$397.02 per square foot)
Total Area	436,318 square feet



Address	1265-1285 avenue-des-Canadiens-de-Montréal, Montréal
Buyer	Sun Life Assurance Company of Canada
Seller	L'Avenue Condominiums sur l'Avenue-des-Canadiens-de-Montréal
Price	\$85,936,000 (\$708.00 per square foot)
Total Area	121,379 square feet



Address	99, 323-355, 433 Chabanel Street West, Montréal
Buyer	Howard Salavetz Properties
Seller	PSP Investments
Price	\$84,000,000 (\$34.00 per square foot)
Total Area	2,495,912 square feet (3 buildings)



Address	1155-1185 Robert-Bourassa Boulevard, Montréal
Buyer	Wafra Investment Advisory Group Inc.
Seller	4003195 Canada Inc. & als. (Isanco)
Price	\$57,875,000 (\$296.44 per square foot)
Total Area	195,231 square feet



Address	4126-4160 Sainte-Catherine Street West, Westmount
Buyer	Redbourne
Seller	4150236 Canada Inc.
Price	\$37,600,000 (\$273.15 per square foot)
Total Area	137,653 square feet

SIGNIFICANT LEASING TRANSACTIONS, OFFICE GREATER MONTREAL AREA



Address	455 René-Lévesque Boulevard West, Montréal
Tenant	SNC-Lavalin
Total Area	331,400 square feet
Type	New lease (sale-leaseback)



Address	2001 Robert-Bourassa Boulevard, Montréal
Tenant	The Great-West Life Assurance Company
Total Area	135,042 square feet
Type	Renewal



Address	1350 René-Lévesque Boulevard West, Montréal
Tenant	The Great-West Life Assurance Company
Total Area	115,584 square feet
Type	New lease



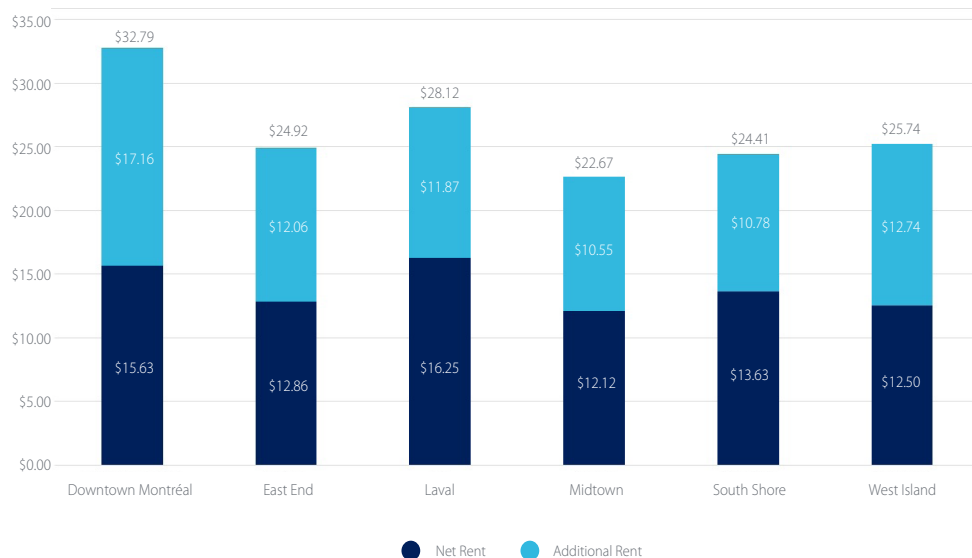
Address	1 Place Ville Marie, Montréal
Tenant	Royal Bank of Canada
Total Area	100,000 square feet
Type	Renewal



Address	1 Place Ville Marie, Montréal
Tenant	Sid Lee
Total Area	61,000 square feet
Type	New lease

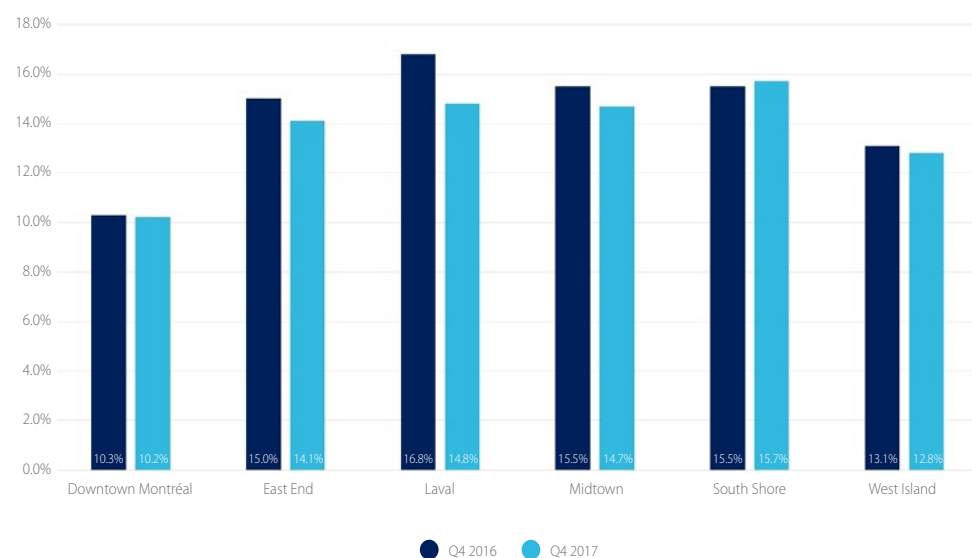
OCCUPANCY COSTS

OFFICE SPACE PER SECTOR
GREATER MONTREAL



YEAR-OVER-YEAR VACANCY RATE

OFFICE SPACE PER SECTOR
GREATER MONTREAL



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YOU HAVE QUESTIONS OR COMMENTS?
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