



**AVISON
YOUNG**

2018
year-end review

office market report
greater montreal area



Cover: 1981 McGill College Avenue
Image courtesy of IAA Financial Group



Platinum member

2018

year-end review

office market report greater montreal area

The Province of Québec underwent significant political changes in 2018, as the Coalition Avenir Québec won the majority government and Canada legalized the consumption of cannabis for recreational purposes. As government-operated marijuana retailers started opening across the country during the second half of 2018, the legalization is expected to have a positive impact on the Gross domestic product (GDP) in 2019. Moreover, the TD Provincial Economic Forecast predicts that the profits from cannabis sales could result in a GDP increase totaling as much as 0.2% over the next year. At a macroeconomic level, the North American Free Trade Agreement (NAFTA) negotiations generated significant uncertainty in 2018, but concluded with a fair agreement, even though protectionist measures in the United States remain a concern for the Canadian economy. Nevertheless, the outlook for 2019 is optimistic, boosted by the lowest unemployment rates in 40 years.

The Montréal office market remained stable over 2018, as the year was relatively uneventful in terms of industry activity and the market conditions did not show significant movement. The overall vacancy rate reached 12.2% at the end of 2018, down from 12.4% at

the end of 2017. The year-over-year absorption reached 1.4 million square feet (msf), which indicates that the Montréal office market is somewhat healthy.

Gross rental rates increased over 2018, reaching \$28.27 per square foot (psf) at the end of the year from \$27.60 the year before. The same goes for gross rental rates Downtown Montréal, which increased from \$33.69 to \$35.51 psf year-over-year. This significant rise in average rental rates is mostly due to the scarcity of quality space and the fact that landlords increasingly need to invest in their mature and dated assets in order to modernize them and make them more attractive to new and existing tenants.

Nonetheless, the decreasing vacancy rates indicate that the market is shifting in favor of landlords. Tenants are reluctantly getting accustomed to higher rental rates, as operating an office in Montréal is now significantly more expensive than it was a few years ago. This makes lease renewal negotiations more difficult in Downtown Montréal, as landlords are no longer as fearful of losing tenants knowing that their premises can be leased up at a higher rental rate within a short period of time.



new office complex for airbnb

Group Mach announced a partnership with Airbnb for the construction of a new regional office along Canal Lachine located at 1745 Saint-Patrick Street. The new complex is valued at \$30 million.

Image courtesy of Groupe Mach



successful year for pointe-saint-charles

Several significant leasing transactions occurred in the Greater Montréal Area (GMA) in 2018. In the Pointe-Saint-Charles sector, south-west of Downtown Montréal, technology leader **GSoft** signed a 10-year lease for 94,996 square feet (sf) of space in **Le Nordelec**, located at 1751 Richardson Street. **Logibec** also secured a 15-year lease for 39,662 sf of space in the complex. In the same sector, **Group Mach** announced a partnership with **Airbnb** for the construction of a new regional office along Canal Lachine located at 1745 Saint-Patrick Street. Airbnb had actively been looking for office space in the GMA, and concluded a lease

for 148,618 square feet of office space in the new complex valued at \$30 million. The building will be delivered in the fall of 2019.

Montréal continues to thrive as a major hub for artificial intelligence (AI) as tech companies maintain a strong appetite for office space in the Midtown-North sector, which includes Mile-End, Mile-Ex and Parc-Extension. Several AI companies announced the opening of new laboratories in Montréal in 2018, including British AI leaders **QuantumBlack**, **Winning Minds** and **BIOS**. In total, these three firms alone should generate 130 jobs for highly-skilled tech professionals.

Microsoft Research will also be relocating to a 32,000-sf space at 6795 Marconi Street in Mile-Ex, roughly tripling their existing footprint. Microsoft concluded a seven-year lease for the entire fourth floor and a large portion of the third floor of the freshly-renovated building starting mid-2019.

Further north in the Midtown-North submarket along Trans-Canada Highway, **TD Insurance Meloche-Monnex** renewed its lease at 50 Place Crémazie, for 182,545 sf of space.

major renovations at 1981 mcgill college

Once completed, the building will be equipped with a brand-new lobby at the intersection of McGill College Avenue and De Maisonneuve Boulevard, new common areas and elevator lobbies as well as modern washrooms and showers.

Image courtesy of iA Financial Group



significant activity at 1981 mcgill college

Downtown Montréal, **Hydro-Québec** expanded its premises at 1500 Robert-Bourassa Boulevard, adding 72,765 sf of space to its existing offices.

One block away, **Medavie Blue Cross** and **Québec Blue Cross** signed a 15-year lease for 148,000 sf of office space at **1981 McGill College Avenue** starting January 2020. **Fiera Capital** also concluded a 16.5-year lease in the building starting mid-2019. The investment management firm will be vacating its premises at 1501 and 1801 McGill College Avenue and relocating to 114,000 sf of space on nearly four floors of the building, giving its name to the north portion of the complex, which will

be called **Tour Fiera Capital**. With these announcements, 1981 McGill College is currently undergoing significant renovation work. Once completed, the building will be equipped with a brand-new lobby at the intersection of McGill College Avenue and De Maisonneuve Boulevard, new common areas and elevator lobbies as well as modern washrooms and showers.

In the southern portion of Downtown Montréal, consulting firm **Analysis Group** will be relocating to Deloitte Tower at 1190 Des Canadiens-de-Montréal Avenue. The company signed a new lease for 43,616 square feet of space, bringing the building's direct availability rate down to 10.8%.

2.7 msf

OFFICE AREA UNDER
CONSTRUCTION
GREATER MONTREAL

5 msf

OFFICE AREA IN
PRE-LEASING PHASE
GREATER MONTREAL

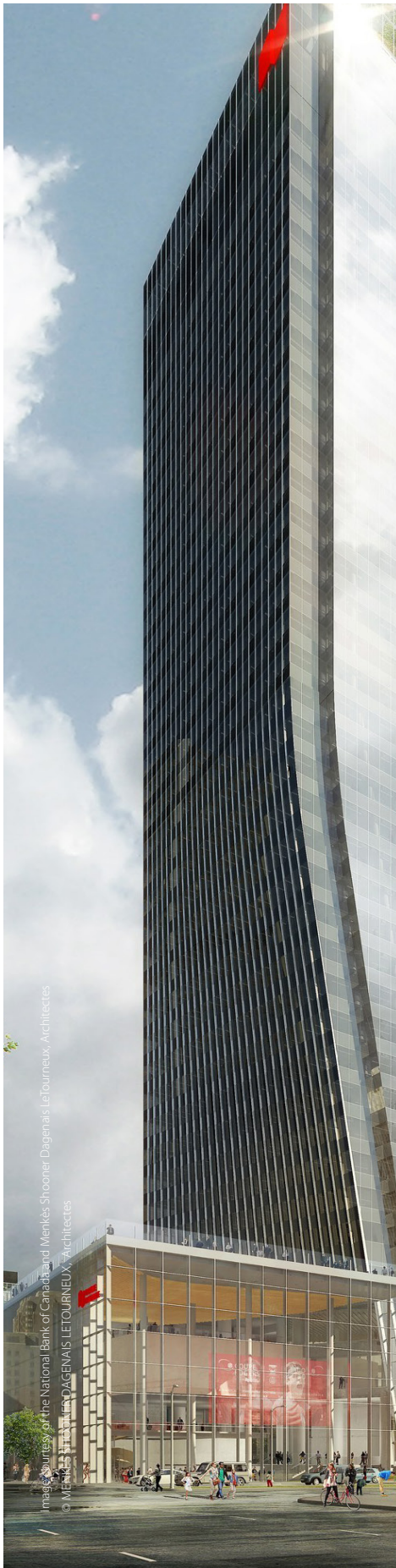


Image courtesy of the National Bank of Canada and Menkès Shoener Dagenais LeTourneau, Architectes
© MENKÈS SHOENER DAGENAIS LETOURNEUX, Architectes


Promoters and developers in the GMA are keeping very busy as several projects are under construction on and off-island. Nearly 2.7 msf of office space are currently under construction, 78% of which is already leased. The construction activity is not expected to slow down in the near future as additional projects totaling 5 msf are currently in the preleasing phase.

The most significant construction project announced in 2018 is certainly the new National Bank headquarters at 800 Saint-Jacques Street West. Located at the border of the Central Business District and Downtown-South along the Bonaventure Expressway, the new 40-storey tower will become one of the tallest office buildings in the city, sitting at 200 metres above ground and totaling nearly 1 msf of space. Upon completion in 2022, the building aims for LEED v4 Gold and WELL certifications. The tower was designed by local architects Menkès Shoener Dagenais LeTourneau, Architectes. It will be developed by Broccolini Construction, acting as general contractor, while all structural components of the building will be handled by Pomerleau.

Broccolini Construction is also developing the eastern portion of the National Bank headquarters site. Towering at 200 metres as well, Victoria sur le Parc is a major, 56-storey mixed-use development project including 320,000 sf of office space, a 32,000-sf retail component as well as 400 luxury condominium units. The delivery of the project is also expected in 2022.

Other major development projects include mixed-use, 39-storey project Humaniti Montréal, which includes an office component of 64,500 sf and Îlot Balmoral, which will welcome its first tenants in the spring of 2019. In addition to the National Film Board of Canada, the building will be home to École des arts numériques, de l'animation et du design (NAD) of UQAC, which will occupy floors five, six and seven in the fall of 2019.

In the Midtown-North sector, the Royalmount project could have a major impact on the GMA's commercial real estate market. The mixed-use project will be developed at the intersection of Highways 15 and 40, and include hotels, offices, commercial establishments, restaurants and several entertainment venues. The site preparation started in the second half of 2018. It includes the demolition of the buildings located at 8400 and 8600 Décarie Boulevard while those at 8300 and 8500 Décarie Boulevard will be preserved for future integration into the project. Developers Carbonleo and L Catterton Real Estate plan on building several office towers on the site, adding hundreds of thousands of square feet to the GMA office market inventory. However, the promoters may be forced to review their concept in 2019 as several concerns have been raised as to the impact of the Royalmount project in the Midtown-North sector and on vehicular traffic, which is already significant in the area. Local instances also wish for the project to integrate more efficient public transit infrastructures.



victoria sur le parc at 700 saint-jacques street west

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Image courtesy of Broccolini Construction

significant leasing transactions, office space greater montreal area



Address	75 Queen Street, Montréal
Tenant	Morgan Stanley Services Canada Corp.
Total Area	188,852 square feet
Type	Renewal



Address	1751 Richardson Street, Montréal (Le Nordelec)
Tenant	GSoft
Total Area	119,540 square feet
Type	Expansion



Address	800 de Maisonneuve Boulevard East, Montréal
Tenant	Intelerad Medical Systems Incorporated
Total Area	56,544 square feet
Type	New lease



Address	5100 Sherbrooke Street East
Tenant	Nordia Inc.
Total Area	55,225 square feet
Type	Renewal



Address	1100 des-Canadiens-de-Montréal Avenue, Montréal
Tenant	Onespan Canada Inc.
Total Area	54,208 square feet
Type	New lease

significant sales, office greater montreal area



Address	7250 and 7450 Du Mile End Street
Buyer	Sun Life Assurance Company of Canada
Seller	Mile-End Investments Inc.
Price	\$155,500,000 (\$394.00 per square foot)
Total Area	394,638 square feet



Address	800 Hymus Boulevard
Buyer	Crestpoint Real Estate
Seller	Broccolini Limited Partnership
Price	\$82,300,000 (\$273.59 per square foot)
Total Area	300,814 square feet



Address	1800 McGill College Avenue (30%)
Buyer	9371-8674 Québec Inc.
Seller	Immeubles Régime XII Inc.
Price	\$43,194,937 (\$281.44 per square foot)
Total Area	153,479 square feet



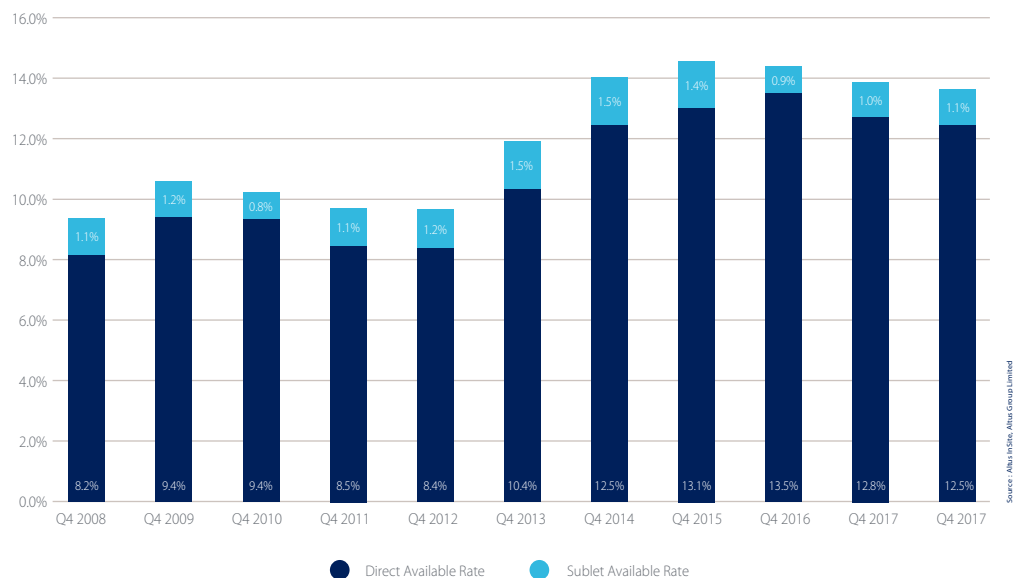
Address	2200-2222 Sainte-Catherine Street East, 800-1000 Fullum Street 655-675 Parthenais Street
Buyer	Société Québécoise des Infrastructures
Seller	Les Ensembles Urbains Limitée
Price	\$31,000,000 (\$112.94 per square foot)
Total Area	274,487 square feet



Address	3111 and 3131 Saint-Martin Boulevard West
Buyer	BTB Real Estate Investment Trust
Seller	Sun Life Assurance Company of Canada
Price	\$25,310,000 (\$166.51 per square foot)
Total Area	152,000 square feet

availability
all office classes

OFFICE SPACE
GREATER MONTREAL AREA



investment sales

The Montréal investment market is getting more and more aggressive, as attractive office investment opportunities remain extremely rare. The overall capitalization rates for office assets remained stable in 2018, as Class-A office assets in Downtown Montréal traded at a capitalization rate of approximately 5% at an average price of \$411.43 psf. In the same sector, Class-B assets traded at a capitalization rate of 5.9%, at an average price of \$277.58 psf.

Several of 2018's most significant investment transactions occurred in the Midtown areas. East of Downtown Montréal, Télé-Québec concluded the sale of the office building and television studios

located at 1000 Fullum Street in Midtown-East. The Class-B complex built between 1920 and 1960 was purchased by Société québécoise des infrastructures for \$31 million, which represents \$113 psf. With this acquisition, the Québec government strengthens its presence in the sector, as it currently owns and occupies the buildings located at 1701 Parthenais Street, 600 Fullum Street and the Au-Pied-du-Courant complex at 905 De Lorimier Avenue. The area bordered by René-Lévesque Boulevard East as well as Parthenais, Fullum and Sainte-Catherine Streets therefore became the most important government pole in Montréal.

5%

OVERALL CAPITALIZATION RATE
CLASS-A OFFICE ASSETS
DOWNTOWN MONTRÉAL

5.9%

OVERALL CAPITALIZATION RATE
CLASS-B OFFICE ASSETS
DOWNTOWN MONTRÉAL

In the West-Island, the Great-West Life Assurance Company sold its properties located at 6505 Trans-Canada Highway and 555 Dr. Frederik-Philips Boulevard in Ville Saint-Laurent to Olymbec and Pava Corporation for \$18.8 million. The two-building portfolio totals 186,130 sf of office space. 6505 Trans-Canada Highway showed a vacancy rate of 65% at the time of the sale, while 555 Dr. Frederik-Philips Boulevard was 44% vacant.

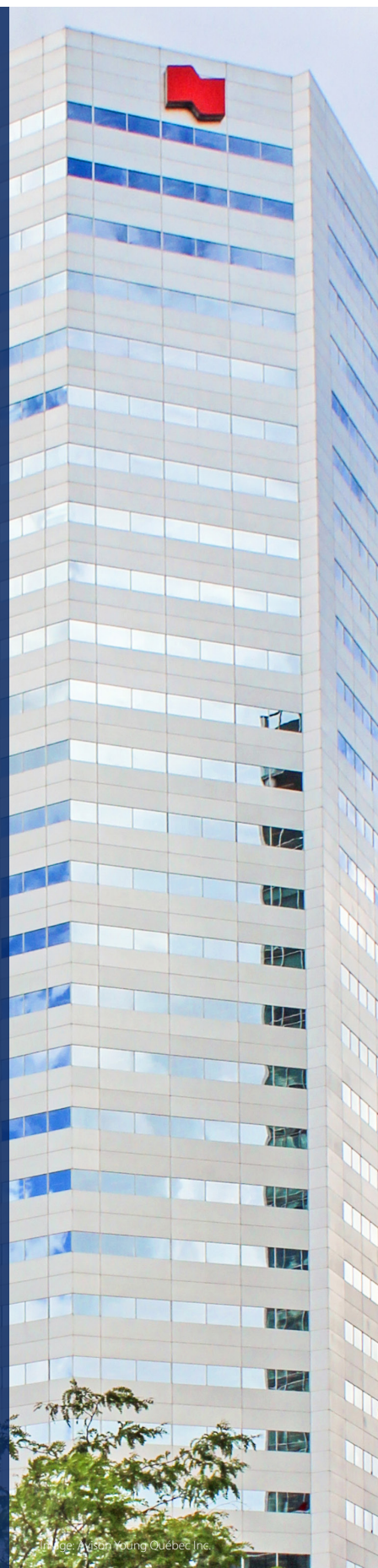
In Midtown-North, Petra Group acquired 140 Crémazie Boulevard East for \$28 million. The Class-B, 222,084-sf building was sold by Hydro-Québec, which will remain the main tenant of the building. With the conclusion of this transaction, Petra Group became the sole owner of the Place Crémazie complex, which includes 50, 110 and 140 Crémazie Boulevard and totals nearly 771,500 sf of office space.

Further north, 2018 ended with the sale of two buildings located at 3111 and 3131 Saint-Martin Boulevard in Laval. Totalling 152,000 sf of office space, the two-building portfolio was purchased by BTB REIT for \$25.3 million, which represents \$166.51 psf. The main tenants of 3111 and 3131 Saint-Martin Boulevard include Desjardins, Therrien Couture, the National Bank and Sun Life Financial.

Downtown Montréal, Crestpoint Real Estate Investments Ltd. acquired a 53% interest in 630 René-Lévesque Boulevard West at the beginning of the third quarter. The 32-storey building known as Place Telus is nearly 97%-leased,

and is home to high-quality tenants such as the City of Montréal, Robic and Telus Corporation. Totalling a leasable area of 627,167 sf, Place Telus benefits from its outstanding location Downtown Montréal. Even though the price of the transaction remains confidential, the 53% interest in the property traded at a 5.4% overall capitalization rate.

With the recent announcement that Oxford Properties Group Inc. and Public Sector Pension Investment Board are exploring the sale of 1250 René-Lévesque Boulevard West, and with large, high-quality assets such as 600 and 700 De La Gauchetière Street West currently on the market, we can expect significant investment sales in the GMA for 2019.





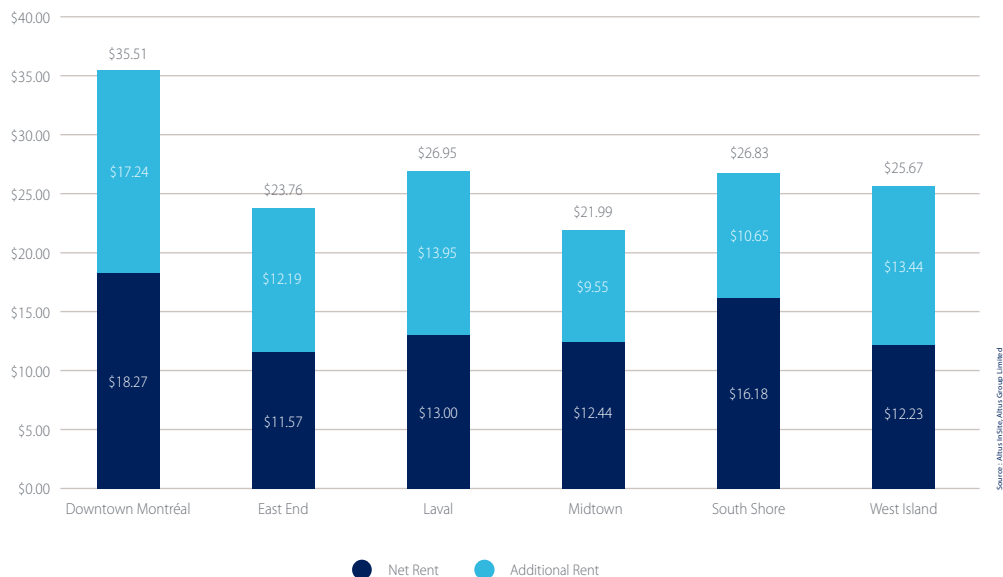
630 rené-lévesque boulevard west

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Image: Avison Young Québec Inc.

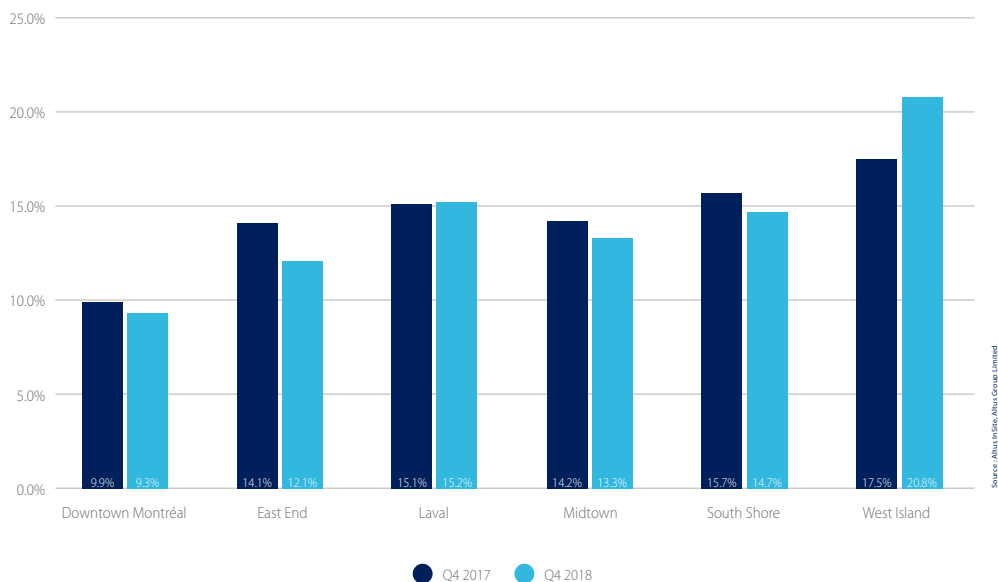
occupancy costs

OFFICE SPACE PER SECTOR
GREATER MONTREAL



year-over-year vacancy rates

OFFICE SPACE PER SECTOR
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Real Estate
Solutions

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YOU HAVE QUESTIONS OR COMMENTS?
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