

Montréal, QC



Highlights

\$12.36

average gross rent
per square foot
Greater Montréal

2.5%

total
availability rate
Greater Montréal

1.4%

total
vacancy rate
Greater Montréal

2.83

million square feet
under construction
Greater Montréal

Prior to the pandemic, the Greater Montréal industrial market had always lagged behind other major markets in Canada. However, with the health crisis, the industrial sector experienced an unprecedented acceleration and the high level of activity in Montréal had the effect of exacerbating the imbalance between the increased demand for industrial space and the limited supply of quality space in the market.

The availability rate in Greater Montréal has thus maintained its downward trend over the past 12 months, dropping from 3.1% in the second quarter of 2020 to 2.5% in the second quarter of 2021, for a total available area of 8,872,380 square feet (sf).

Total vacancy in Greater Montréal also fell, reaching 1.4% at the end of the second quarter of 2021 from 1.8% a year earlier.

In the second quarter of 2021, the markets north of the Island of Montréal posted the lowest availability rates in Greater Montréal, as the availability rate for Lanaudière reached 1.1%, that of

the Laurentians was at 0.6% and that of Laval was also at 0.6%. In fact, Laval has achieved a record availability rate for the past five years, with a total availability of only 151,440 sf.

On the South Shore of Montréal, availability remains low at 1.9%, which represents nearly 552,078 sf. In the western part of the island, the Vaudreuil-Dorion market recorded a remarkable drop in availability to 3.5%, down from 25.2% a year earlier.

The Midtown North sector currently has the highest availability rate compared to the rest of Greater Montréal, reaching 4.1% at the end of the second quarter of 2021.

Most of the sub-markets of Greater Montréal saw a decrease in availability while Midtown North, Midtown South and the North Shore saw minimal increases. With increased demand and a lack of quality products, the next 12 to 18 months could be challenging for industrial space occupants, especially with limited delivery in sight.



With the recent changes in consumers' buying habits, companies like Amazon are the big winners from the pandemic.



Powered by e-commerce

The pandemic has had the effect of accelerating the e-commerce industry by several years. With the recent changes in consumers' buying habits, companies like Amazon are the big winners from the pandemic and this has made the industrial sector one of the most active sectors of real estate at the moment.

The e-commerce giant announced earlier this year that it would open five new locations in Québec that would include two sorting centers and three delivery stations. A 48,300 square meter sorting center should open this year in Côteau-du-Lac while another center should be created in Longueuil.

In addition to e-commerce, other sectors that have contributed to the increased industrial demand are third-party logistics, food processing, home improvement and refrigerated foods companies. These industries will certainly

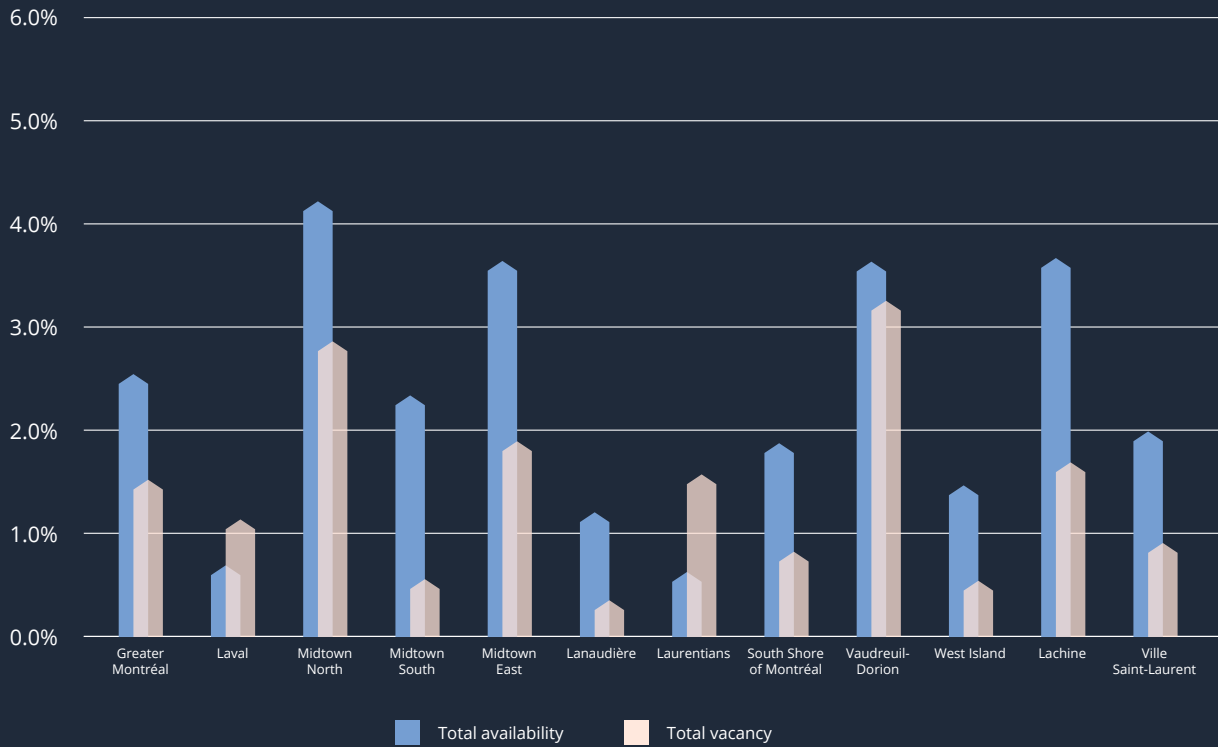
put enormous pressure on the industrial market as companies wrestle with the limited space and land available to accommodate their operations.

Construction

In the second quarter of 2021, the industrial inventory under construction in Greater Montréal totaled 2,833,154 sf. Of this total area, 1,395,269 sf was available for lease at the end of the second quarter, for a total availability rate of 49.2%.

Five of the nine projects underway in the second quarter are located on the Island of Montréal while one is in Laval, and the other three are located in Montérégie, namely in Beauharnois (new IKEA distribution center of 1.2 million sf) and in Vaudreuil-Dorion (3501 F.-X. Tessier for 390,000 sf, and 401 Marie-Curie Street for 132,000 sf).

AVAILABILITY & VACANCY, GREATER MONTRÉAL, MID-YEAR 2021



INDUSTRIAL CONSTRUCTION OVERVIEW, GREATER MONTRÉAL, MID-YEAR 2021

2.83

million square feet currently under construction Greater Montréal

49.2%

availability rate for buildings currently under construction Greater Montréal

9

industrial buildings currently under construction Greater Montréal

28

industrial construction projects currently pre-leasing Greater Montréal

GENERAL TRENDS, INDUSTRIAL MARKET, GREATER MONTRÉAL, MID-YEAR 2021

Availability Greater Montréal



8,872,380 sf

Vacancy Greater Montréal



4,784,510 sf

Occupancy costs Greater Montréal



\$12.36 psf

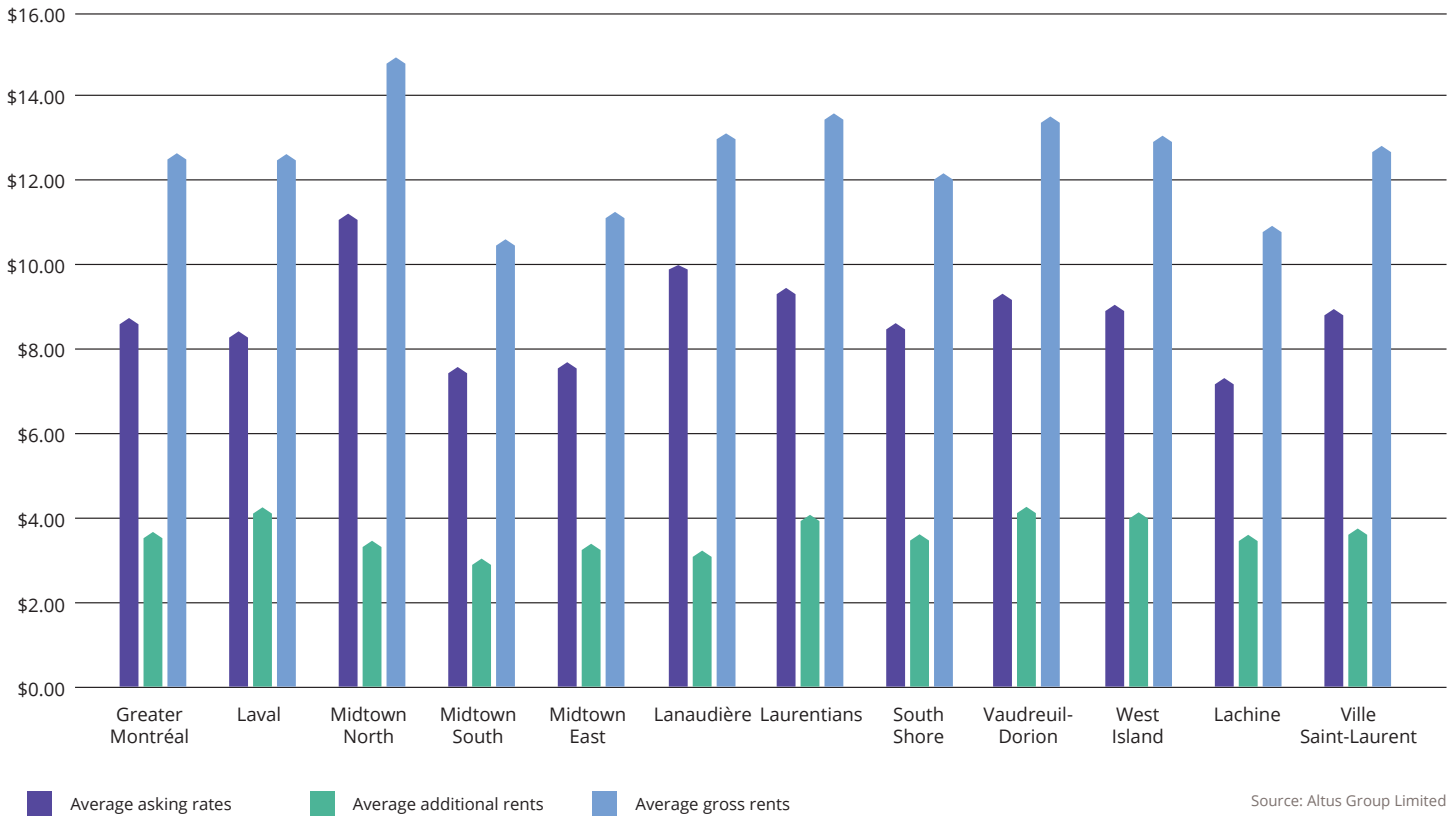
Total industrial sales



\$1,429,122,393

Source: Altus Group Limited

OCCUPANCY COSTS, GREATER MONTRÉAL, MID-YEAR 2021



With the current lack of industrial supply, everything would point to a construction rush to meet the growing need, but several factors seem to slow the launch of new development projects. Lack of land, restrictive zoning and environmental concerns are still relevant, but this year in particular, it's the much higher construction costs that pose the biggest obstacle for developers. They are also facing a certain reluctance on the part of certain municipalities to welcome distribution companies.

Occupancy costs

Average net asking rents rose from \$7.37 per square foot (\$/sf) in the second quarter of 2020 to \$8.72/sf in the second quarter of 2021, for an annual increase of over 18% for asking rents. Over the same period, additional rents fell slightly from \$3.70/sf to \$3.63/sf, bringing gross rents to an average of \$12.36/sf at the end of June 2021, which represents the highest average ever recorded in the region.

Midtown North currently boasts the highest average gross rent in Greater Montréal with \$14.38/sf, for an average asking rent of \$11.03/sf coupled with an average additional rent of \$3.35/sf.

The Lachine submarket records the most affordable rents in Greater Montréal with an average of \$7.13/sf, although this is largely the result of outdated inventory.

Judging by the high level of activity and increased demand in the industrial sector in Montréal, there is a good chance that the upward trend in rental rates will continue in the coming months. High construction costs and the scarcity of land are also likely to impact rents.





Investments

A total of 196 industrial transactions of more than \$1 million were concluded between January and June 2021, representing a total industrial investment volume of \$1,429,122,393.

This result is higher than the transaction volume recorded a year earlier, in the first half of 2020, when the transaction volume reached \$678,890,423 for a total of 133 transactions over \$1 million. In addition, the volume of industrial sales in the first half of 2021 is practically equivalent to the volume recorded over all four quarters of 2020, which is a clear indication of the high level of activity in the sector.

Thus, the total industrial sales transactions for the first half of 2021, represents 24.8% of commercial sales year to date, placing the industrial sector in second position, behind multi-residential assets. The overall capitalization rates (OCR) for multi-tenant industrial buildings fell to 4.6% at

the end of the second quarter of 2021. This is a significant drop compared to the 5.2% rate recorded a year earlier, while average unitary prices went from \$123.38/sf to \$174.69/sf during the year, which represents an increase of 41.6%.

The OCR for single-tenant industrial properties fell from 5.0% to 4.3% between the second quarter of 2020 and the second quarter of 2021, while the average price per square foot increased significantly from \$135.62 to \$188.88 at the end of June 2021, an increase of 39.3%.

The volume of industrial sales in the first half of 2021 is practically equivalent to the volume recorded over all four quarters of 2020.

Outlook

The future of the Greater Montréal industrial sector looks promising despite some major challenges. The lack of quality supply is a big problem right now, but there should be some relief as scheduled development projects are delivered in 2022. The region is also well positioned within the Canadian market as investors foresee that the sector is set for growth in the coming years.

As land prices continue to rise, there is an opportunity for the industrial sector to embark on the development of multi-level buildings to maximize land area. This could also be a solution to the scarcity of available land on the market.

The e-commerce boom during the pandemic was a major shift for the industrial market in Montréal and the heightened interest from big players such as Amazon is a clear indicator of the attractiveness of the region. While Montréal has always lagged behind other major industrial markets in Canada, it seems the region is ripe for growth and the next few years could see Montréal finally take its place at the forefront of industrial markets in the country.

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