

An aerial night photograph of Montreal, Quebec, Canada. The foreground shows the illuminated Parliament Hill complex, including the Peace Tower, surrounded by green lawns and trees. In the background, the dense urban skyline of downtown Montreal is visible, with numerous skyscrapers and office buildings lit up against a dark, cloudy sky. The text 'AVISON YOUNG' is overlaid in the top left corner, and the title 'Market Report Office, Greater Montréal Summer 2019' is overlaid on the left side.

AVISON YOUNG

Market Report Office, Greater Montréal

Summer 2019



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Market Report Office, Greater Montréal

Summer 2019

Contact

Denis Perreault, MBA
Principal, Managing Director, Chartered Real Estate Broker
514.905.0604
denis.perreault@avisonyoung.com



Follow us on Twitter
[avisonyoung_mtl](https://twitter.com/avisonyoung_mtl)

Avison Young Québec Inc.
Commercial Real Estate Agency

Downtown Office
1200 McGill College Avenue
Suite 2000
Montréal, Québec
H3B 4G7

Ville Saint-Laurent Office
9900 Cavendish Boulevard
Suite 105
Ville Saint-Laurent, Québec
H4M 2V2

Montréal

Focus on Mixed-Use Projects

Commercial real estate development is constantly evolving in the Montréal market. As the demand for multifunctional development projects where individuals can live, work, shop and play grows, Québec promoters and developers are compelled to present increasingly comprehensive mixed-use projects, especially in the outskirts of the city centre.

One of the first projects of its kind in the province of Québec – and undoubtedly the most successful to date – is Quartier DIX30™ in Brossard, which is home to hundreds of boutiques, shops and restaurants, dozens of condominium units near all amenities, as well as hundreds of thousands of square feet of office space.

Public transit infrastructures are an increasingly crucial element for mixed-use developments. As such, the delivery of the Réseau express métropolitain (REM) in the Greater Montreal will be particularly beneficial for Quartier DIX30™ and adjacent mixed-use project Solar Uniquartier, which is developing at an impressive pace. Both centres will be directly connected to the Du Quartier REM station via a covered pedestrian pathway, which will facilitate the access between the South Shore and Downtown Montréal, as well as the rest of the Société de transport de Montréal network.

In addition, Quartier DIX30™ will benefit from the immediate adjacency of the REM terminus, which will be located just across Highway 30, further facilitating transportation for workers, visitors and residents of the area.

In the western portion of the South Shore alone, the popularity of these projects has completely transformed the office market over the last 10 years. The office inventory increased from just over 1.7 million square feet (msf) in 37 properties in 2009 to approximately 2.9 msf in 51 buildings in the summer of 2019. In total, nearly 1.2 msf were built in the last decade, which represents a 68% increase. However, the availability rate has risen significantly with the delivery of new buildings over the past five years, peaking at 18.9% in the summer of 2018. Nonetheless, availability was down at the end of the second quarter of 2019, showing 17.6%. The availability rates may further fluctuate in the area over the next few years as existing spaces are absorbed and new projects are announced.

As Quartier DIX30™ and Solar Uniquartier are already boasting an impressive success – both from a residential and a commercial point of view – the delivery of the REM will likely further increase the demand for residential units and commercial spaces in the area, which could result in a densification of the sector in terms of housing, retail and office space. We can therefore anticipate the launch of new office and mixed-use projects in the western portion of the South Shore in the coming years. The same phenomenon could also occur in the vicinity of Terminus Panama in Brossard, which could see new mixed-use T.O.D. (Transit-Oriented Development) projects in the near future with the delivery of the Panama Station of the REM.





What does the future hold for **Royalmount**?

All in all, it is clear that the Greater Montréal market is showing unprecedented enthusiasm for new large-scale, mixed-use projects.

On the island of Montréal, the Royalmount project, introduced by Carbonleo and L Catterton Real Estate, involves the construction of a massive complex combining commercial and office space, hotels, restaurants, residential units and entertainment venues on a 4 msf site located at the intersection of Highways 15 and 40. Royalmount will include a direct connection to the De La Savane metro station via a pedestrian bridge built over Highway 15 to facilitate access via public transit.

Attracting controversy from the get go, the initial concept had to be redesigned, following criticism and municipal interventions regarding the lack of housing and the impact of the project on traffic congestion, which is already problematic in the Namur-De La Savane sector. To this end, Carbonleo announced the launch of several public consultation initiatives last May in order to solicit the contribution of experts, leading organizations and the general public to advise and enhance the many components of Royalmount. The project originally included five hotels, two theatres, a shopping mall with 200 stores and over 100 restaurants, as well as four office towers totaling 1.5 msf.

As the developers are preparing a new proposal following this series of consultations, the excavation of the first phase of the project – the commercial segment, which represents just under 20% of the entire complex – was initiated earlier in 2019. In the meantime, we can expect the presentation of the revised version of the Royalmount project sometime in the fall of 2019.

Launch of Phase II for Technopôle Angus

Further east, Société de développement Angus recently launched the second phase of Technopôle Angus, another large-scale, mixed-use project located at the crossroads of Rosemont and Plateau Mont-Royal, in the Midtown East sector.

The first phase of the project, built between 2001 and 2014, included the construction of several office buildings at the intersection of Molson and Rachel Streets and along André-Laurendeau Street, as well as the redevelopment of the former Canadian Pacific shops to accommodate commercial spaces, offices as well as several services and restaurants. Through this first phase, 50% of the Canadian Pacific's contaminated lands were converted into quality business locations, in a comprehensive neighbourhood generating significant economic and social benefits. Today, the first phase of Technopôle Angus is home to the head office of the Ordre des infirmières et infirmiers du Québec as well as several companies including Desjardins Entreprises Est de Montréal, Effigis, MELS and Ubisoft.

The second phase of the Technopôle Angus project mainly consists in developing the block bordered by Molson, William-Tremblay, Augustin-Frigon Streets and Mount Royal Avenue East, as well as vacant lands along Molson Street. The second phase will include 400,000 square feet (sf) of office space, accommodating up to 1,500 workers, as well as approximately 300 housing units, 20 neighborhood businesses and four public parks.

Aiming for LEED Platinum certification, the Technopôle Angus project presents an integrated and exemplary design in terms of sustainable development, while focusing on diversity and density to finance the implementation of ecological infrastructures. The second phase of the Technopôle Angus project includes state-of-the-art ecological practices, such as energy transfer between the buildings of the complex, the ecological management of snow and water and onsite waste recycling.

The construction of the first office building of Phase II is expected to begin at the end of August 2019. Situated just south of the main development site, the new Class-A building will be located at 4051 Molson Street and total approximately 60,000 sf of office space. Nearly 45,000 sf of the total office area have already been leased with the conclusion of an agreement with a new tenant for the majority of the building, while the delivery is expected for July 2020.

At the main site, Société de développement Angus will also begin the construction of 2601 William-Tremblay Street in the coming months. Upon completion, the new office building will total approximately 100,000 sf and will primarily be home to medical businesses.

Montréal

Office Market Snapshot

3,561,927 sf are currently under

construction in the Greater Montréal Area

2,045,756 sf of which are located

Downtown



Occupancy Costs

Gross rental rates increased in most of the Greater Montréal Area between the 2018 and 2019 summer seasons. However, most Class-A rental rates have decreased across the market.



Absorption

The Greater Montréal office market recorded a significant positive absorption over the past year, all asset classes included, as it reached 2,4 msf at the end of the second quarter of 2019.



Under Construction

3.6 msf of office space are currently under construction across Greater Montréal, a little over 2 msf of which are located Downtown.



Availability

Overall availability decreased in Greater Montréal between the summer of 2018 and the summer of 2019.

However, Class A office availability remained relatively unchanged.

Coworking more popular than ever

Coworking spaces are definitely gaining in popularity in Greater Montreal. Now present in most neighbourhoods of the city, many of them are full and demand is not running out of steam, as the number of Montreal entrepreneurs is constantly rising. Coworking spaces, the most popular of which include WeWork, Breather and Spaces, allow entrepreneurs to connect in a dynamic work environment that facilitates networking, collaboration and business. Testifying to the tremendous success of shared workspaces in Montreal, WeWork announced last spring that it would double its presence in the Montréal market by adding 1,000 additional workstations in the office segment of the Humaniti complex – which will be located at 385 Viger Avenue West – in the second quarter of 2020.

The company also announced the opening of its largest coworking space in Montréal at 1010 Sainte-Catherine Street West, which is scheduled to open in two phases at the end of 2019 and the beginning of 2020, totaling 120,000 sf of space on four floors.

In response to this sustained demand, the construction of the Fabrik8 project was launched earlier this year. Located at 7240 Waverly Street at the corner of Jean-Talon, the Fabrik8 Waverly complex will offer a new work environment concept for businesses from one to 500 employees. The concept is based on efficiency and sharing, as well as the well-being of workers, with a focus on improving the recruitment, retention and productivity of the companies within the complex.

The \$45-million commercial building will feature traditional office and coworking space, as well as commercial lofts. Developed in two phases – the first of which is expected in the spring of 2020 – Fabrik8 Waverly aims to push the boundaries of the work environment for dynamic companies of all sizes, both in terms of design, ergonomics and functionality. The first phase of the project will total approximately 120,000 sf, 75% of which has already been leased, while the second phase will total 80,000 sf.

Fabrik8 Waverly also aims to become one of the first buildings to obtain WELL certification in Montréal, just like the Humaniti project Downtown.



Fabrik8 Waverly will offer

a new work environment concept

for businesses from one to 500 employees

based on efficiency, sharing, as well as

the well-being of workers



Image courtesy of Fabrik8

Market conditions

Greater Montréal

Office market conditions continue to improve in the city. In Greater Montréal, all asset classes combined, the availability rate dropped from 14.8% to 13.3% between the summer of 2018 and the summer of 2019. Same story Downtown Montréal, where availability dropped from 12.8% to 11.5%. In terms of Class A offices, however, Greater Montréal saw a slight increase in availability over the past 12 months, as the availability rate increased by 50 basis points to reach 13.8% at the end of the second quarter of 2019. Nonetheless, Class A availability remained relatively stable in the Downtown market, reaching 11.6% from 11.3%.

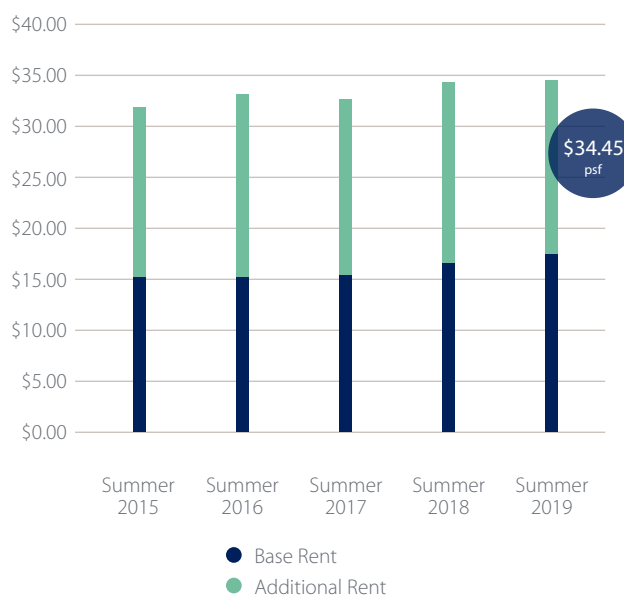
In terms of occupancy costs, the average gross rental rates for office space in the Greater Montreal rose to \$28.28 per square foot (psf) at the end of June 2019, which represents a \$0.67 psf increase from the rates recorded at the end of the second quarter of 2018. This increase in rental rates was less notable in Downtown Montréal, as gross rents increased from \$34.17 psf to \$ 34.45 psf during the year.

Gross rental rates for Class A office space remained relatively stable in the Downtown Core, reaching \$42.42 psf at the end of the second quarter of 2019, but generally declined across Greater Montréal, decreasing from an average of \$33.59 psf to \$32.92 psf during the year.

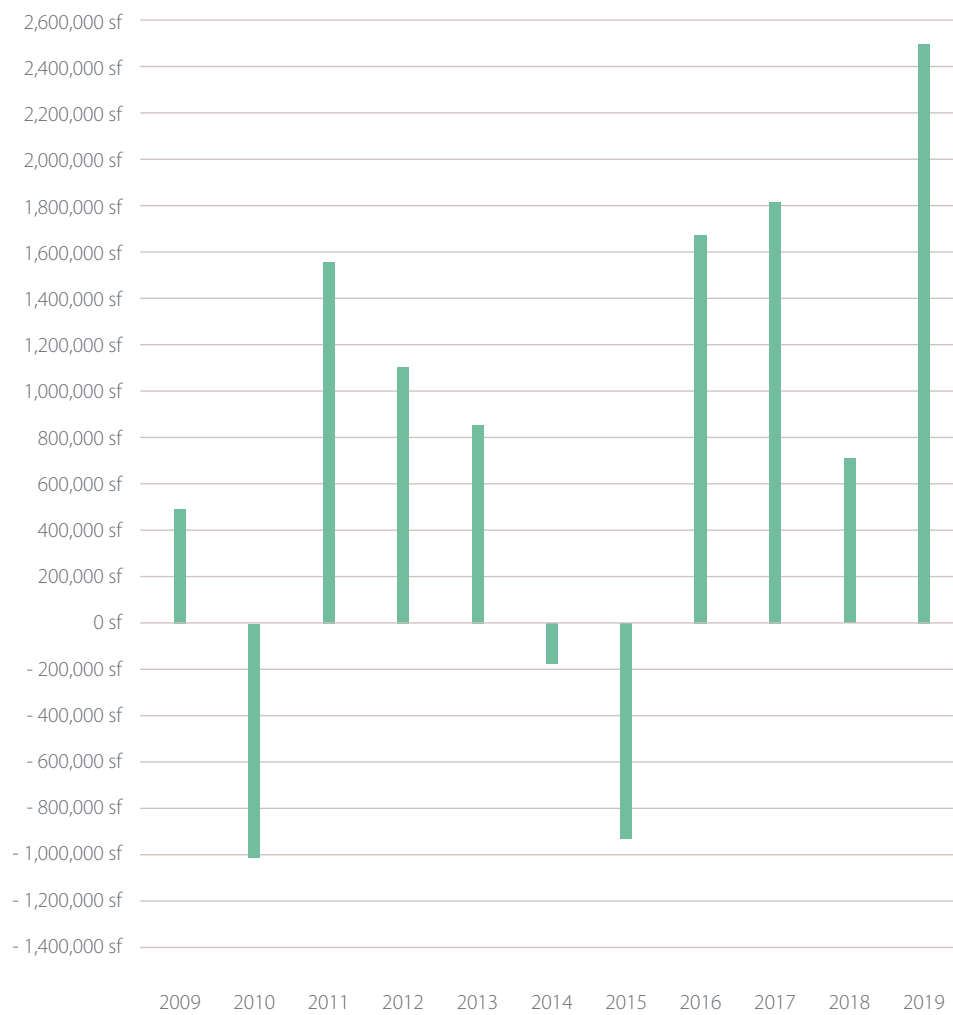
The absorption recorded between the summer of 2018 and the summer of 2019 almost reached the 2.5-msf mark, nearly 800,000 sf of which are located in Downtown Montréal.

The largest transactions recorded since the beginning of the year include the conclusion of a lease agreement between Cominar REIT and Commission scolaire de Montréal at 5100 Sherbrooke Street East, totaling more than 180,000 sf of office space. Other significant transactions include the renewal of the National Bank lease at 1010 de la Gauchetière Street West for 93,820 sf, and of course the lease agreements signed by WeWork in the Humaniti complex (64,000 sf) and at the Dominion Square Building (120,000 sf).

Occupancy Costs | Downtown
All Asset Classes



Annual Absorption | Greater Montréal | Summer 2019



Source : Groupe Altus Limited

Resurgence in investment activity

Several major office buildings were put on the market in Downtown Montréal between the 2018 and 2019 summer seasons. Among these is the current National Bank headquarters (600 De La Gauchetière Street West), which was purchased by Corporation immobilière Kevric together with a Canadian institutional partner at the end of last July for \$187 million (which represents approximately \$263 psf). The final purchase agreement was concluded for the 28-story office tower pursuant to the announcement of the headquarters' move to the new National Bank Tower at 800 Saint-Jacques Street, which is currently under construction. In conjunction with the transaction, Kevric also announced significant investments in order to upgrade the building and ensure it meets the highest standards in terms of office properties.

The adjacent building, 700 De La Gauchetière Street West, which had been on the market since the fall of 2018, was also acquired during the summer. Purchased by Allied Properties REIT, the tower sold for \$322.5 million. Allied Properties also plans to transform and modernize the building's workspaces in order to make them more attractive to today's workforce.

At the same time, Allied Properties announced the acquisition of the RCA Building, located at 1001 Lenoir Street in Saint-Henri, for \$80 million. The five-storey building currently totals 343,579 sf. Allied's real estate portfolio in Montréal now comprises 20 properties totaling approximately 5.6 msf of gross leasable area, including 5445 and 5455 De Gaspé Avenue (969,588 sf), Cité du Multimédia (958,849 sf) and Le Nordelec (877,376 sf).





Further west, Oxford Properties Group Inc. and the Public Sector Pension Investment Board announced the sale of Montréal landmark 1250 René-Lévesque Boulevard West, formerly known as the IBM-Marathon Tower. The sale of the 1,036,193-sf, Class-AAA building was completed at the end of the spring of 2019, as the 47-storey skyscraper was purchased by Sun Life Financial's real estate division, Bentall Kennedy, for \$605 million.

Downtown Montréal, Class-A office properties trade at an overall capitalization rate of 5.0%, at approximately \$446.56 psf, while in midtown markets, Class-A assets sell at an overall capitalization rate of 5.9% (\$265.00 psf).

5.0%

Overall Capitalization Rate

Class A Office Buildings
Downtown Montréal
\$446.56 psf

5.9%

Overall Capitalization Rate

Class A Office Buildings
Midtown Montréal
\$265.00 psf

Under Construction

Victoria sur le Parc

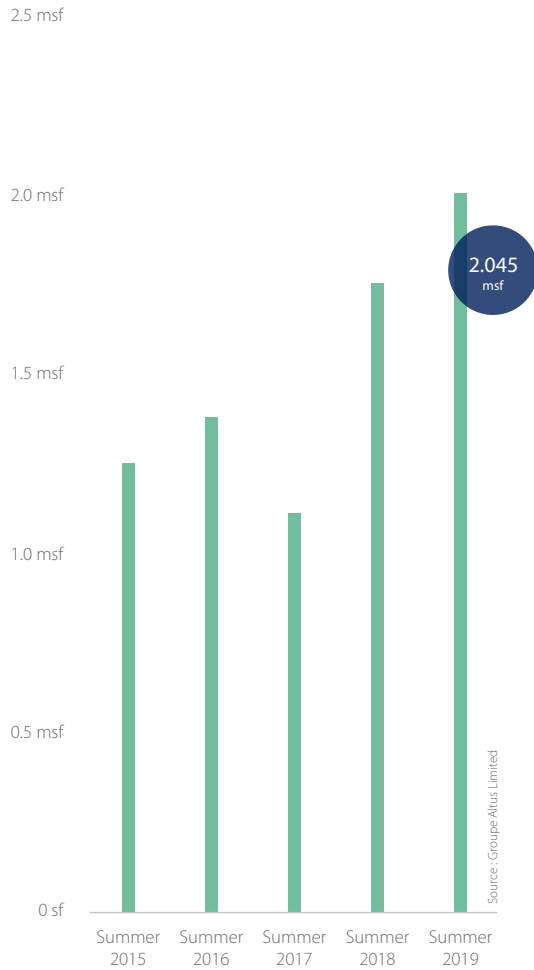
Located at 700 Saint-Jacques Street, across from what will become the new National Bank headquarters at 800 Saint-Jacques Street, megaproject Victoria sur le Parc was launched earlier this year, as the groundbreaking ceremony of the 58-storey, mixed-use tower took place on April 30th.

The project will include a ten-storey podium including 330,000 sf of Class-A office space, as well as a commercial component on the ground floor. Completion of the construction is expected for 2023.

Victoria sur le Parc, along with neighbouring project 628 Saint-Jacques Street – developed by Broccolini – and the new National Bank headquarters – for which Broccolini acts as general contractor – total nearly \$1.3 billion in investments in the Montréal International District alone.



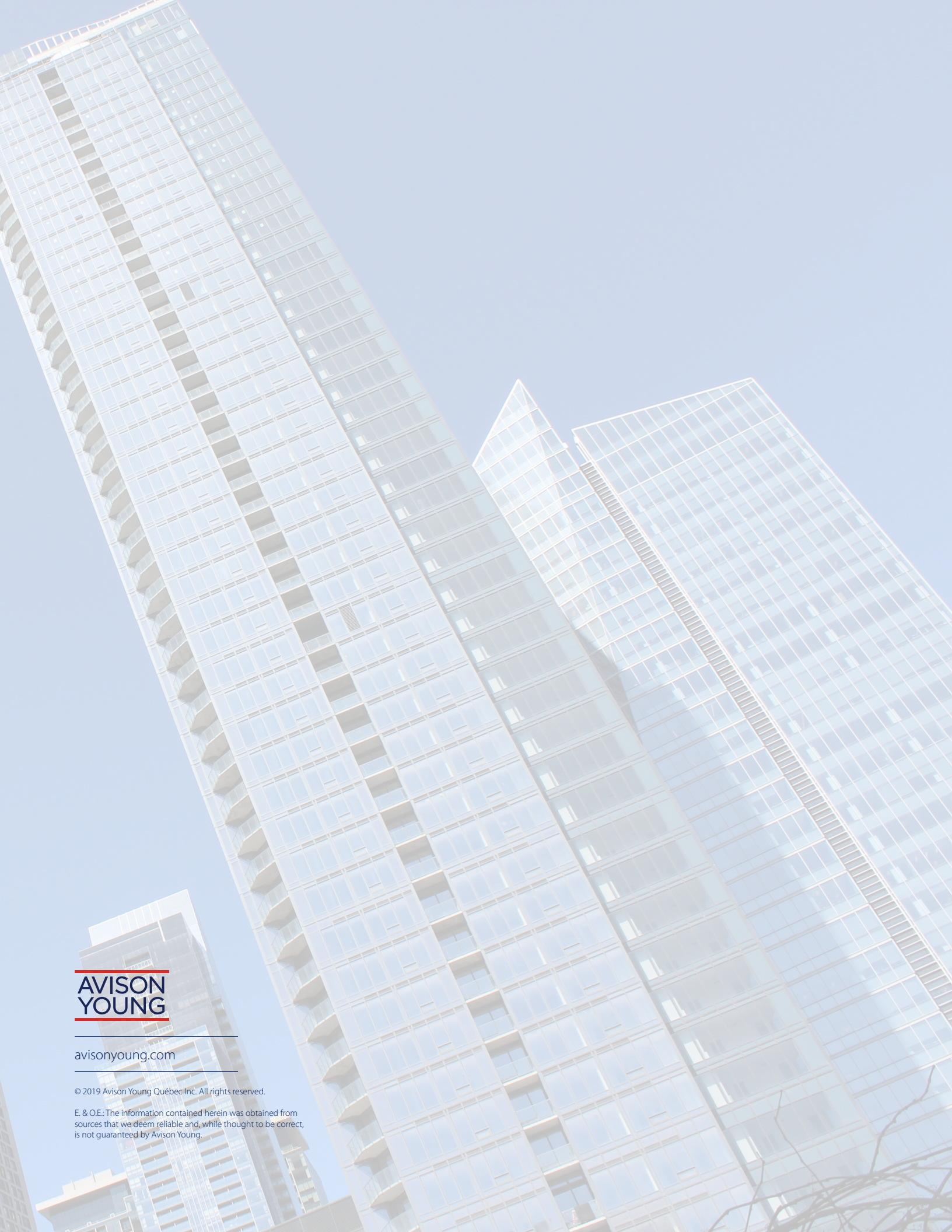
Total Area Under Construction Downtown Montréal



Humaniti

Humaniti will include a Marriott Autograph Collection hotel, 151 condominium units, 314 rental apartments, two restaurants and 64,500 square feet of office space upon delivery in the summer of 2020





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