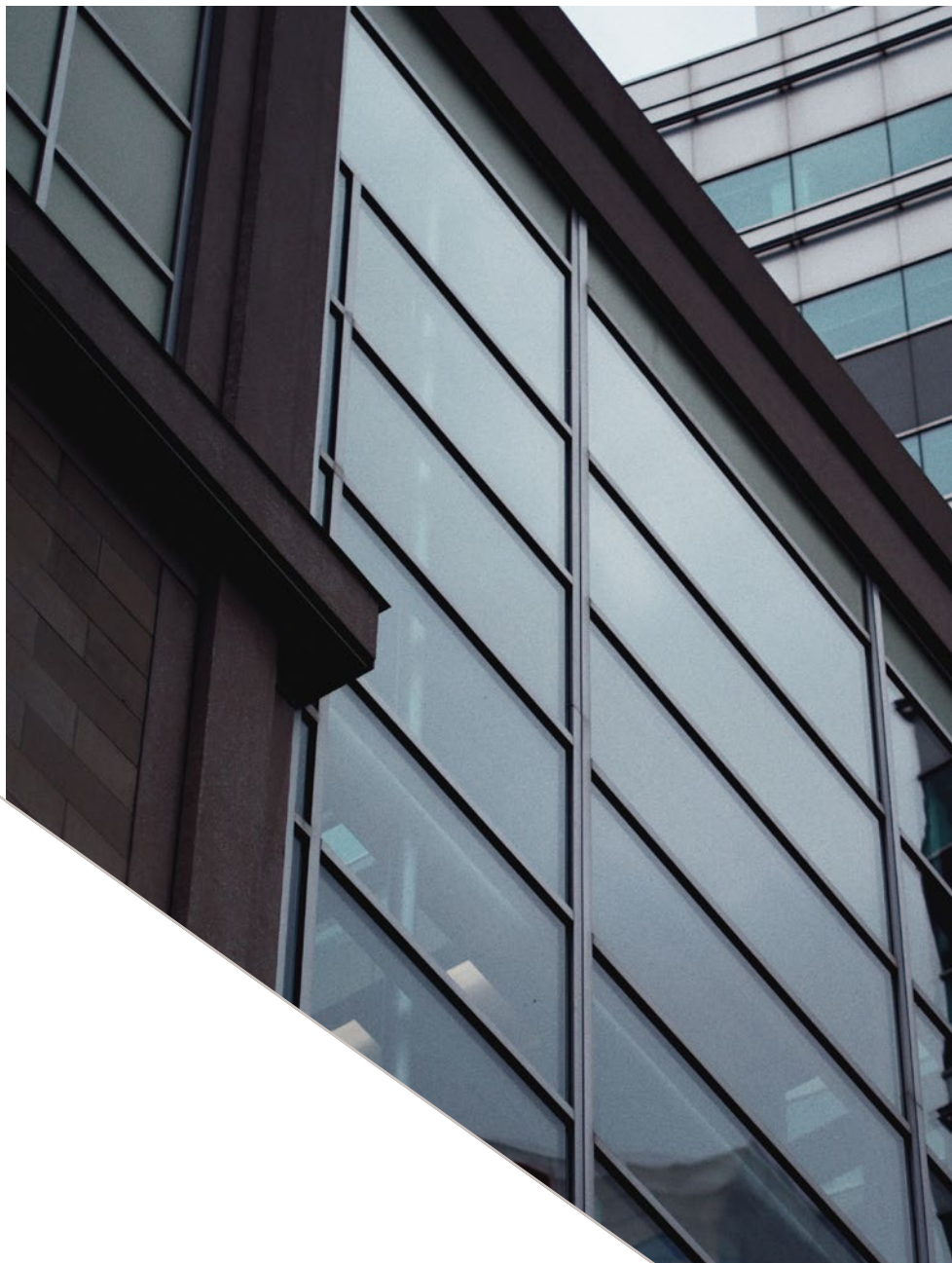


A low-angle, upward-looking photograph of a city street. On the left, a modern glass skyscraper rises vertically. On the right, a classical building with a portico of columns is visible. A large, textured, brownish-gold architectural element, possibly a canopy or part of a bridge, arches over the street from the top left towards the right. The sky is dark and overcast.

AVISON YOUNG

Greater Montréal Office Market Report

Fall 2019



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Photo: Khalid Alshehri, Unsplash

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Montréal REM bringing changes

The construction of the *Réseau express métropolitain* (REM) is progressing rapidly: construction sites on the South Shore of Montréal are advancing at an impressive rate, mainly at the REM terminal site in Brossard and the Du Quartier station.

As expected, construction activity – mostly residential, commercial and hospitality – is in full swing in the sector at the moment, especially at Solar Uniquartier, where the construction momentum does not seem close to slowing down. At the time of writing, the Du Quartier viaduct was just about to open to vehicular traffic, the Du Quartier REM station was fully erect, awaiting finishes and commissioning, and the pedestrian bridges connecting the Du Quartier station to Solar Uniquartier and Quartier DIX30™ were installed on both sides of Highway 10.

In response to the growing activity of the sector, Groupe Mach recently presented a new version of its Chevrier Complex project, which will be located at the corner of Lapinière and Chevrier boulevards along Highway 10. Benefiting from its proximity to the Chevrier Terminus and the future Du Quartier REM Station, Groupe Mach's project includes the construction of two 10-storey towers totaling 475,000 square feet (sf) of office space with commercial spaces on the ground floor and a large landscaped esplanade.

A little further south, at the intersection of Highway 30, Solar Uniquartier's second office tower will soon start rising, and will include a direct pedestrian connection to the REM station. Totalling more than 230,000 sf of space over 13 floors, the tower located at 2000 de l'Eclipse Street will be the largest office tower of the project and will include a commercial podium as well. The delivery of the building is planned for the Fall of 2020, and several spaces, including the entire top floor of the building, have already been leased.

With all the construction projects announced and launched in recent years, availability rates have exploded in Montréal's South Shore West market.

In the inventory of existing buildings only, while the availability rate of the sector stood at 12.7% at the end of the third quarter of 2014, it reached 16.9% five years later. However, including development projects currently under construction or in the pre-leasing phase, the total availability rate of Montréal's South Shore West market nearly reached one-third of the total office market at the end of the third quarter of 2019.





Image: Montréal-Trudeau International Airport

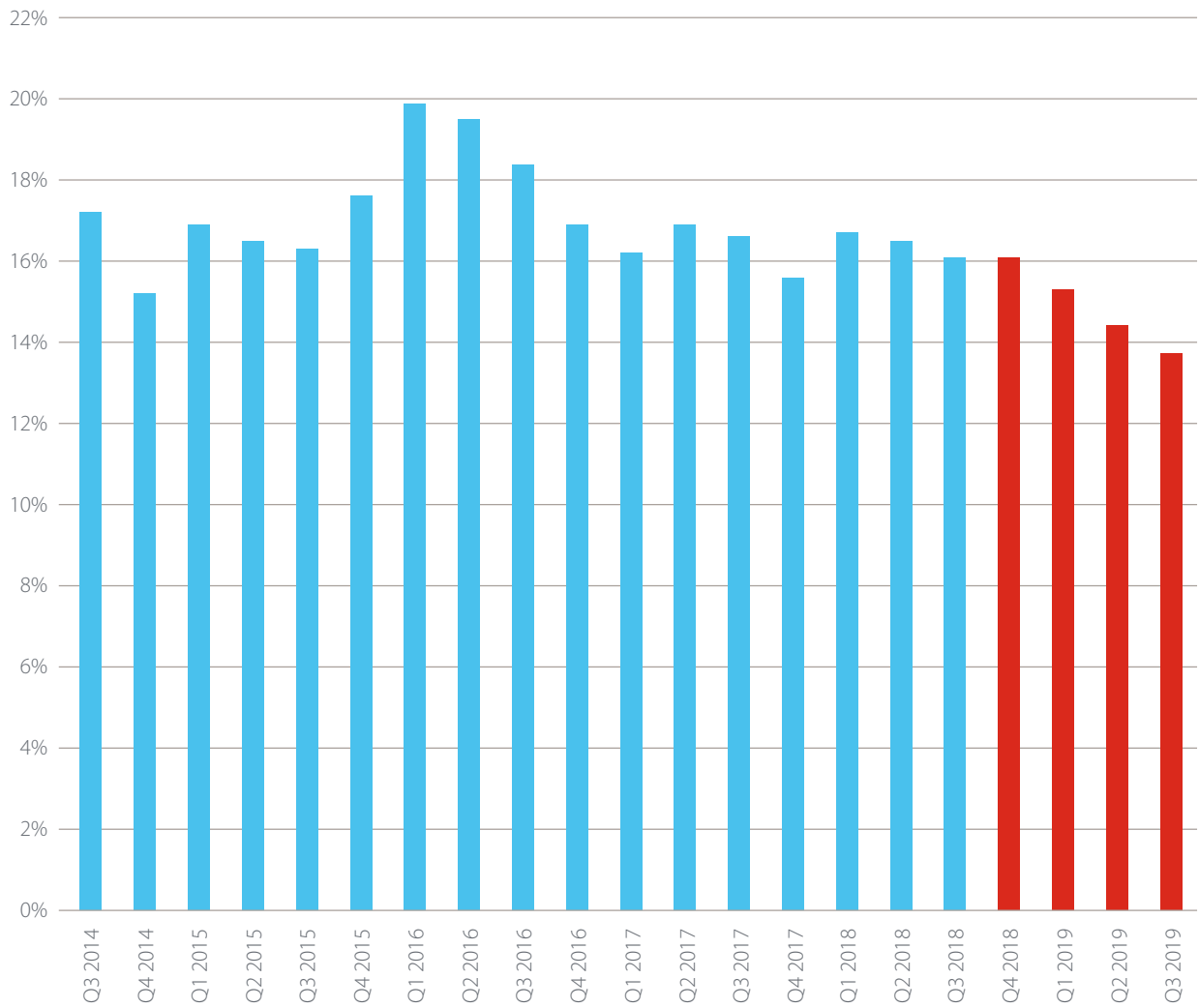
Blockage at the Mount Royal Tunnel

While generating significant opportunities for owners and developers in Greater Montréal, the construction of the *Réseau express métropolitain* is also a source of significant uncertainty and concern for employers and workers in Downtown Montréal.

Indeed, the Mount Royal Tunnel will be completely closed at the beginning of 2020 in order to carry out major transformation work and upgrades. This century-old tunnel stretches from the Montréal Central Station to the town of Mount Royal, spreading under Mount Royal for a distance of more than five kilometres, and serves the Deux-Montagnes and Mascouche commuter train lines, which carry more than 18,000 users every day. The tunnel is expected to become one of most important components of the REM network upon reopening in 2022, at which time commuter trains will no longer circulate in the tunnel, leaving it solely used by the new transportation system.

For the duration of the construction, Montréal's public transportation authorities have deployed temporary bus, shuttle and reserved lane services in order to reduce the impact of the tunnel closure for the workers traveling Downtown via the affected train lines. These users will also benefit from preferential rates for the duration of the construction.

Availability Rate | Laval | Past 5 years



Source : Altus Group Limited



In response to this announcement, more and more Downtown businesses are implementing telecommuting and flexible scheduling programs to make life easier for workers. Moreover, firms in the central areas of Greater Montréal have actively sought out satellite office space in the north of the city in recent months in order to provide an accessible workplace for their employees, particularly in Laval, where available spaces abound. For example, the Québec government recently announced plans to put its vacant premises on the North Shore of Montréal at the disposal of its employees currently using the Deux-Montagnes and Mascouche lines to get Downtown. This is also the case of the National Bank, which opened new offices in Laval and Ville Saint-Laurent during the year, totaling 165 workstations, in order to accommodate the employees of the North Shore who require workspaces closer to home.

The announcement of the closure of the tunnel is therefore beneficial for the city of Laval's office market, which has been stuck with higher-than-average availability rates for several years, oscillating between 15% and 20% since 2014. In the last three quarters only, the availability rate has been steadily declining: Laval's total availability rate reached 13.7% at the end of the third quarter of 2019 (which represents its lowest point since the 2nd quarter of 2013), while it stood at 16.1% in the same period of 2018, suggesting that the announcement of the REM's construction has had a positive impact on the Laval office market.

Espace Montmorency

Also in Laval, the construction of Espace Montmorency, a massive project by Group Montoni, Groupe Sélection and the Fonds immobilier de solidarité FTQ, is currently in the excavation phase. The delivery of the complex is expected in the fall of 2021, with projected opening in the spring of 2022. The gigantic mixed-use project will provide its tenants with a stimulating work environment, integrating public spaces focused on social experiences.

The complex will offer a wide range of sports and cultural activities as well as a variety of gourmet addresses and lounging areas, providing businesses with a complete and dynamic workplace. Espace Montmorency will also benefit from a direct underground connection to the Montmorency metro station. Lease agreements have already been concluded in the 350,000-square-foot, 16-storey office building and several other leases are under negotiation.

Espace Montmorency offers a stimulating work environment in the heart of Laval with a wide range of activities of all kinds and a variety of gourmet addresses and entertainment areas





Image courtesy of Groupe Montoni

Montréal

Office market snapshot



Occupancy Costs

Average gross rents have not fluctuated much in the Greater Montréal area over the past quarter reaching \$28.47 psf in the fall of 2019. However, rental rates in Class-B buildings in Midtown areas show a more significant increase.



Absorption

The Greater Montréal office market once again recorded a significant positive absorption over the past year, all asset classes included, as it reached 2,9 msf at the end of the second quarter of 2019.



Under Construction

3,2 msf of office space are currently under construction across Greater Montréal, a little over 1.5 msf of which are located Downtown.



Availability

The overall availability rate of Greater Montréal's office space has continued to decline since the beginning of 2019.

In Downtown Montréal, the availability rate is the lowest it has been in recent years.

3,197,399 sf are currently under construction in the Greater Montréal Area
1,576,915 sf of which are located Downtown

Market conditions

Greater Montréal

Generally speaking, Greater Montréal's overall availability rate decreased across all asset classes, both in the last quarter and in the last 12 months. The overall availability rate stood at 12.4% at the end of the third quarter of 2019, from 13.3% at mid-2019 and 14.5% a year earlier. For Class-A properties, the 13.5% availability rate recorded in the fall of 2018 dropped to 12.4% at the end of the third quarter of 2019, but the decrease was more significant in Class-B buildings dropping to 13.4% from 16.4% over the last 12 months.

In Downtown Montréal, the overall availability rate reached 10.1% at the end of the third quarter, which is its lowest point in five years. The same trend occurred for Class-A buildings in the city centre, where availability dropped to 9.6% at the end of September.

Of all the Greater Montréal Area markets, Montréal-East recorded the most significant decline in availability over the last year, dropping from 15.8% to 12.2% in 12 months.

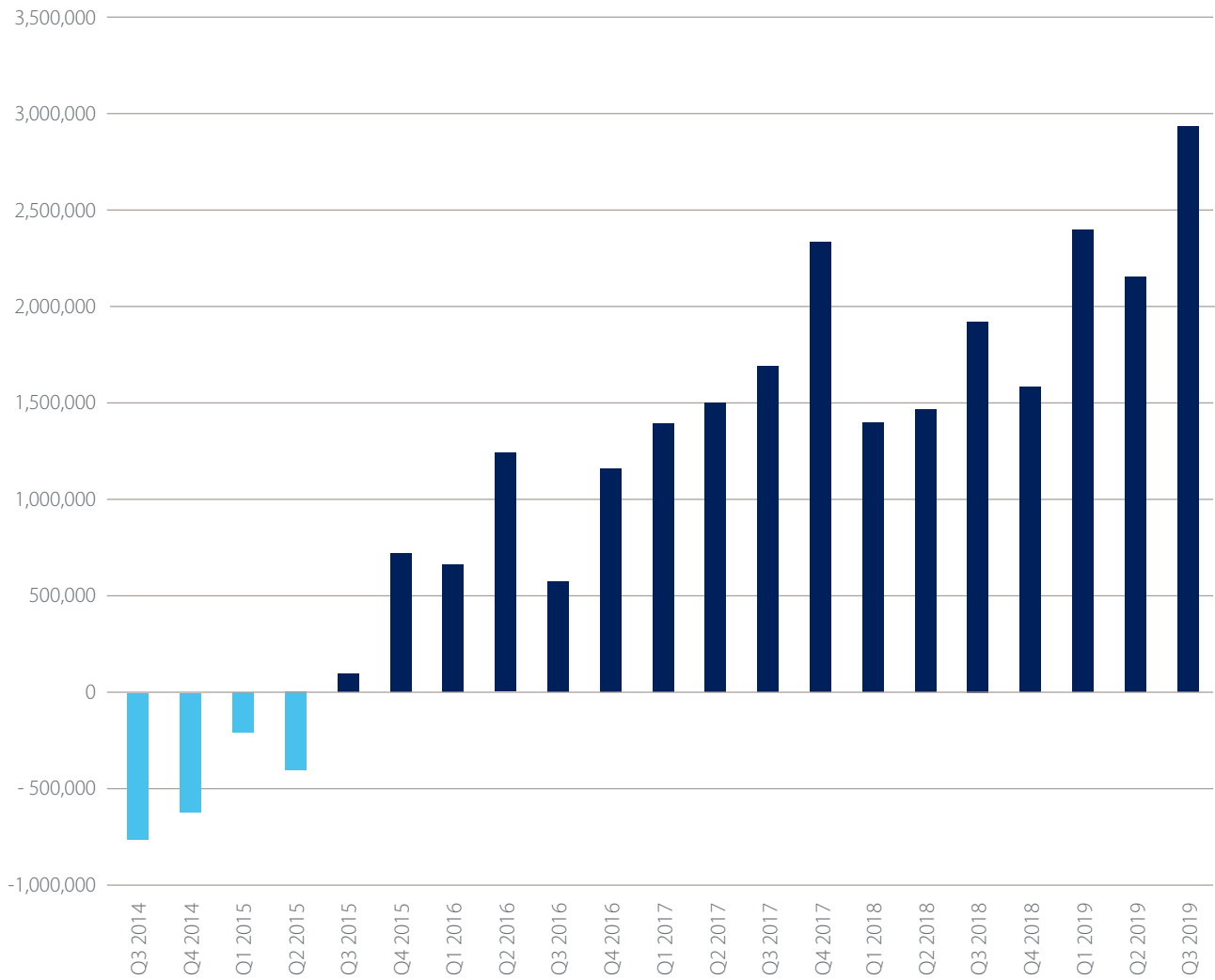
With the general decline in the availability rate, the rental rates have fluctuated very little, over both the last quarter and the last year. Across the Greater Montréal Area, average gross rental rates increased from \$27.86 per square foot (psf) to \$28.47 psf over the past 12 months. Gross rents for Class-A buildings generally declined over the same period, from \$34.30 psf to \$33.61 psf, which still represents an increase from mid-2019 where they stood at \$32.92 psf. In the Downtown area, gross rental rates remained virtually unchanged (across all asset classes), both in the last quarter and last year, reaching \$34.57 from \$34.95 psf. During the same period, gross rental rates for Class A properties dropped from \$43.96 psf to \$43.33 psf.

Midtown sectors remain much more affordable than those in Downtown Montréal, but their growing popularity in recent years has pushed rents upwards, especially with the construction of new buildings such as 7240 Waverly (Fabrik8) as well as 6795 and 7180 Marconi Street, all of which are currently under construction. Gross rents in Midtown areas increased from \$22.13 psf to \$24.41 psf over the past 12 months across all asset classes. However, Class B buildings showed the highest increase over the past year, as average rental rates went from \$23.23 psf to \$27.17 psf.

Ivanhoé Cambridge, the real estate subsidiary of the Caisse de dépôt et placement du Québec, concluded several of the largest leasing transactions of the third quarter of 2019, as Place Ville Marie saw two major renewals: Consulting engineering and project implementation firm Hatch renewed its 94,568-sf lease at 5 Place Ville Marie, while Cogeco Communications renewed its 60,000-sf lease at 1 Place Ville Marie.

Continuing its impressive momentum in the Montréal market, collaborative space operator WeWork has signed a new lease in the premises previously occupied by law firm Robic (now at 630 René-Lévesque Boulevard West) at 455 Saint-Antoine Street West, which is also owned by Ivanhoé Cambridge. The coworking company will occupy the seventh and eighth floors (totaling approximately 40,000 sf) of the building that forms part of the Caisse de dépôt's business centre, also known as the Montréal Herald Building. Occupancy of the new WeWork spaces is scheduled for 2020.

Absorption | Greater Montréal | Past 5 years

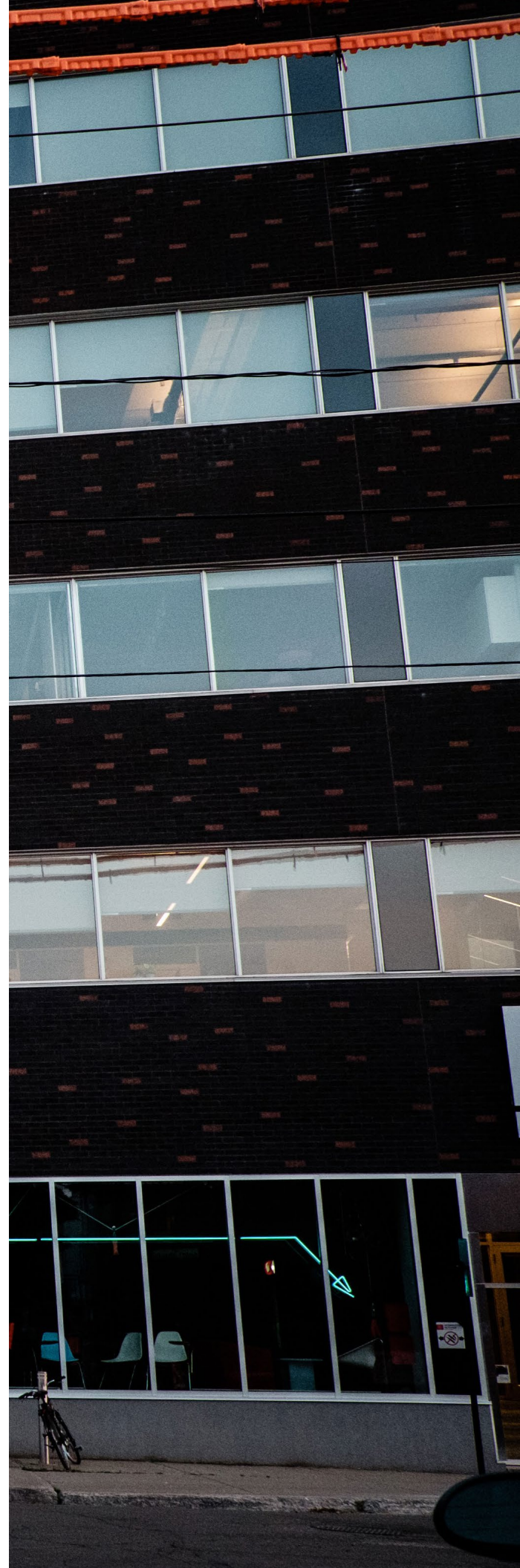


Source: Altus Group Limited

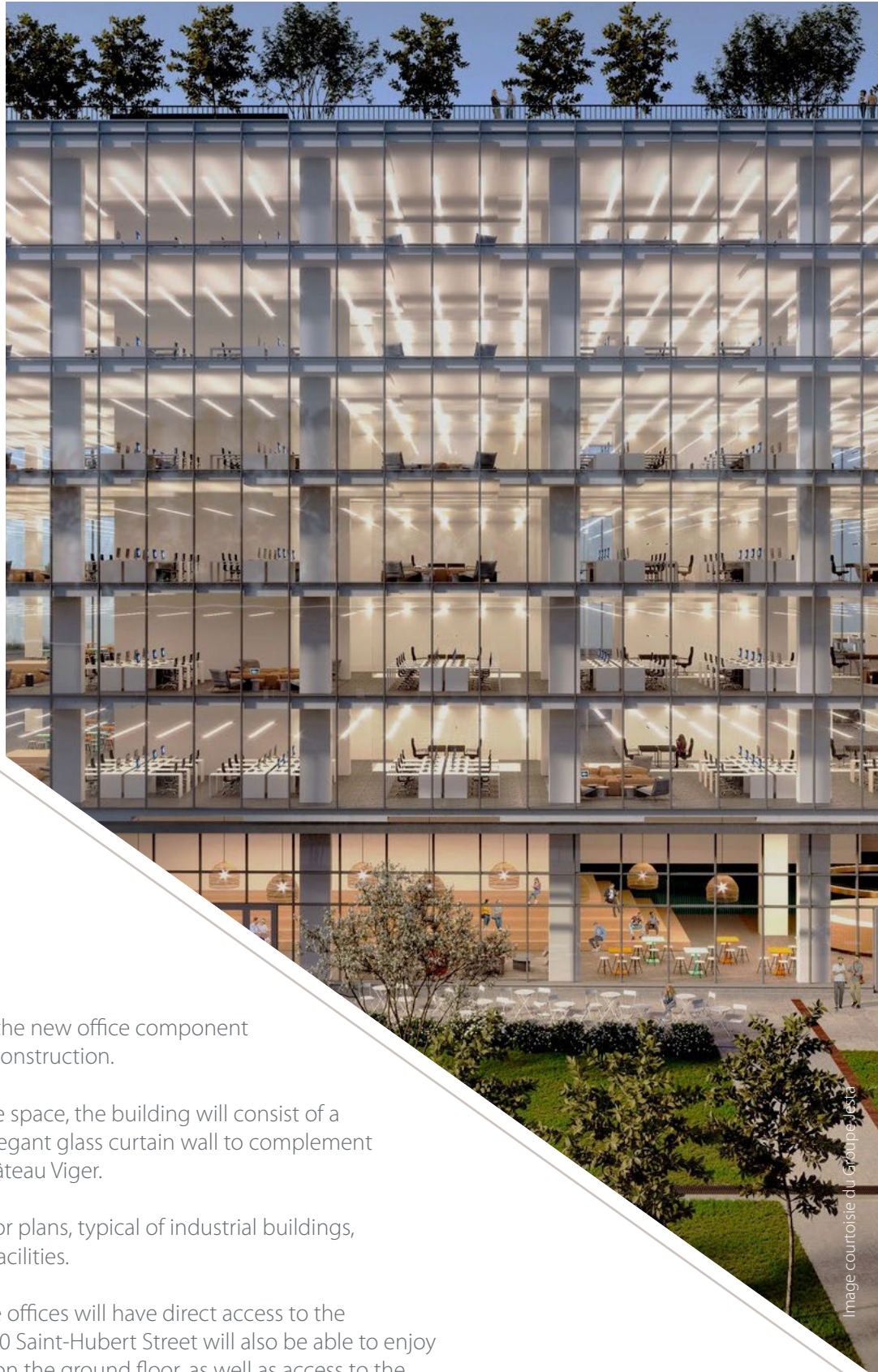
Sale of the O Mile Ex Complex

From an investment perspective, the most impressive transaction of the last quarter was certainly the sale of the O Mile Ex building by a group of investors led by TGTA. Located at 6650-6666 Saint-Urbain Street in the Mile-Ex neighborhood, the building that was once the former Main Knitting textile factory has been completely renovated and redeveloped in recent years (a project managed by Avison Young's project management team). The building subsequently became a hub for artificial intelligence, including tenants such as Mila (the Québec Artificial Intelligence Institute), Element AI, Ivado (the Institute for Data Valorisation) as well as artificial intelligence departments of Thales and the Royal Bank of Canada. The building is also home to BeHaviour Interactive and Rogue Research.

The spectacular repositioning of the building in recent years has allowed the owners to sell the building for \$153 million, which represents approximately \$413.50 psf. 6650-6666 Saint-Urbain Street was purchased by Spear Street Capital, a San Francisco-based investment firm. This is the group's second acquisition in the Montréal market, as Spear Street Capital purchased 6750 L'Esplanade Street, a loft-style office building, in 2018.



Under construction



Gare Viger

Located at 530 Saint-Hubert Street, the new office component of the Gare Viger complex is under construction.

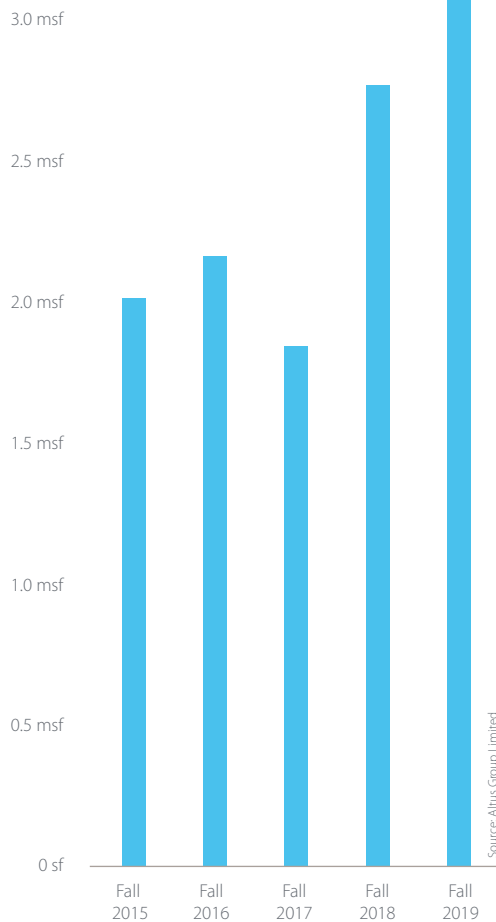
Totalling 147,000 square feet of office space, the building will consist of a concrete structure wrapped in an elegant glass curtain wall to complement the monumental architecture of Château Viger.

Each storey will offer large, open floor plans, typical of industrial buildings, complemented by state-of-the-art facilities.

Equipped with a rooftop terrace, the offices will have direct access to the underground parking. Workers at 530 Saint-Hubert Street will also be able to enjoy a selection of restaurants and cafes on the ground floor, as well as access to the green spaces and lively courtyard.

425 Viger Avenue

Under construction
Greater Montréal



The refurbishment of 425 Viger Avenue is well underway.

The building built in 1910 will be home to

Google upon delivery in 2020.

The multinational technology company signed a lease for premises totaling 100,000 sf in the building.





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