Greater Montréal office market report

Q2 2023

AVISON YOUNG

Greater Montréal area market fundamentals

18.2%

total availability rate
up from 18% in Q1 2023

14.7%

sublet as a percentage of all available space
up from 13.4% in Q1 2023

$39.30

average gross asking rent per square foot (psf)
includes $17.53 psf average additional rent

20.2M

square feet (sf) available
up from 20M million sf in Q1 2023

-514K

sf absorption
year-over-year

2M

sf under construction
9 projects

The transformation of the office market continues

A relentless search for the optimal hybrid model

The uncertainty surrounding the long-term effects of the pandemic on the workplace is starting to dissipate. Among all the hybrid models that have been proposed, a two to three-day in-person office presence seems to be establishing itself as the new norm. The four or five-day workweek is currently the exception. However, there are still many questions regarding the ideal amount of space that can adequately support this model.

This unprecedented upheaval of the workplace and the role of office space caused by the pandemic has led many companies to reduce their office areas by 10% to 20%, or even more. Not surprisingly, the availability rate is gradually approaching a peak of 20%, which has never been seen. The good news is for the occupants, who benefit from more options at very favorable conditions. That being said, the availability rate of superior quality buildings remains generally tight.

Longer and more complex negotiations

For both property owners and tenants, the uncertainty surrounding the hybrid model, combined with the increasing costs of financing tenant improvements, introduce elements of risk into negotiations, exacerbated by the current economic climate.

Indeed, despite some stabilization in the price of materials since the beginning of the year, interest rate hikes have contributed to maintaining high construction costs. Owners and tenants must be open to compromises in order to contain costs, which extends negotiation delays as tenants must go back to the drawing board multiple times to stay within their budget requirements.

To mitigate the risks associated with construction costs and provide flexible lease terms for tenants who are hesitating to commit to long-term agreements, large office property owners, especially downtown, are setting up fully furnished and standardized spaces tailored to the prevailing hybrid model.

The challenge of preserving the value of office towers

The tightening of credit conditions, which has hindered investment activity across all categories of real estate assets over the past year, is felt even more in the office segment.

Grappling with uncertain demand and record availability rates, property owners manage to stay competitive by offering generous leasing incentive programs while keeping their face rate at levels that preserve the long-term value of their assets. Investors advocating for a long-term holding strategy are ready to wait for the office market to regain strength before disposing of their assets, which partially explains low investment activity levels.

Greater Montréal area office market trends

01

Availability rate is stabilizing

The availability rate is relatively stable at 18.4%, representing an increase of only 20 percentage points from Q1 2023. This is low compared to the increases observed in 2021 and 2022. Furthermore, class A buildings show a slight decrease in availability this quarter.

Our take on this trend...

The space reductions associated with the renewal of leases signed before the pandemic are not yet over. However, we are seeing more activity from tenants willing to commit to long-term leases. For those who are still hesitant, new formulas that include tenant services and all-inclusive amenities offer innovative solutions to encourage the return to office. Nevertheless, an increase in availability is expected for the next two years.

02

More space for the healthcare and education sectors

While private sector companies are still optimizing their office space requirements, the healthcare and education sectors are expanding. The 100,000-sf project of the new Ax-C Space, led by the École de technologie supérieure in the Quartier de l'innovation, is a prime example of this.

Our take on this trend...

If the impact of the healthcare and education sectors on the office leasing market remains marginal compared to the private sector, these organizations will generate activity that strengthen and enhance the focal points of downtown, such as the Health District and the Quartier de l'Innovation. Universities and satellite campuses, such as downtown HEC, significantly contribute to the vitality of downtown and the influx of public transportation infrastructure.

03

Traffic congestion hinders the return to downtown

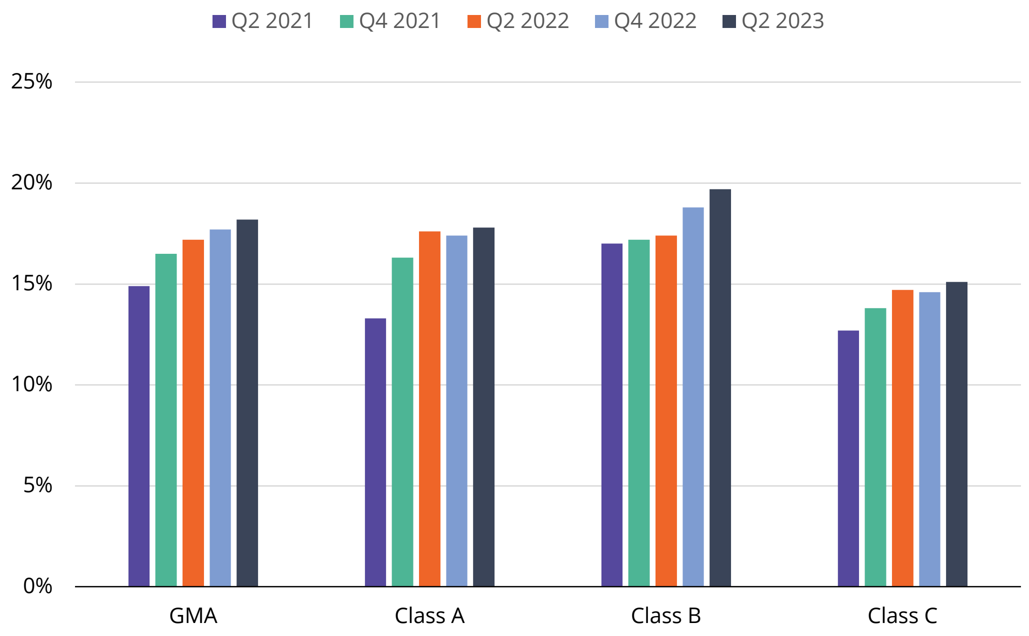
Traffic congestion and the inefficiency of public transportation are prompting many workers to stay remote. Fully remote positions on career search websites accounted for 10% of the posted job offers in Canada by the end of 2022, according to EMSI data, compared to only 3% to 4% pre-pandemic.

Our take on this trend...

The launch of the Brossard-Central Station section of the Réseau express métropolitain (REM) on July 31 is expected to improve the commute for workers traveling to and from the South Shore and downtown. This has generated significant development and leasing activity in the office hubs adjacent to the Brossard stations. The impact of this first section in Brossard will provide an excellent indicator of what can be anticipated by 2026 for the suburban markets in the West Island.

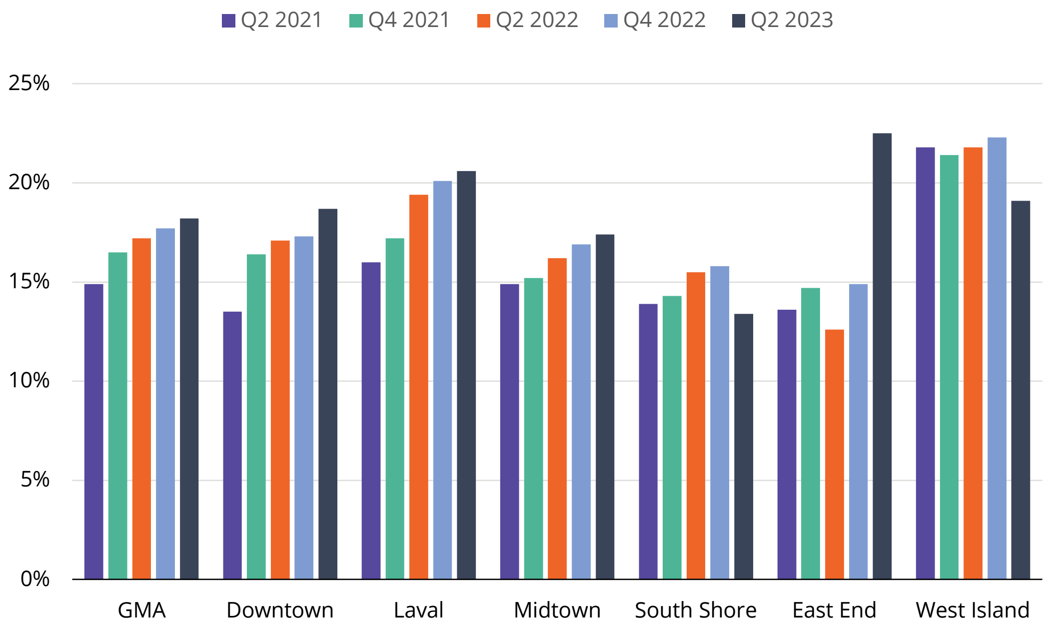
Greater Montréal area (GMA) office market indicators

Availability rate by class



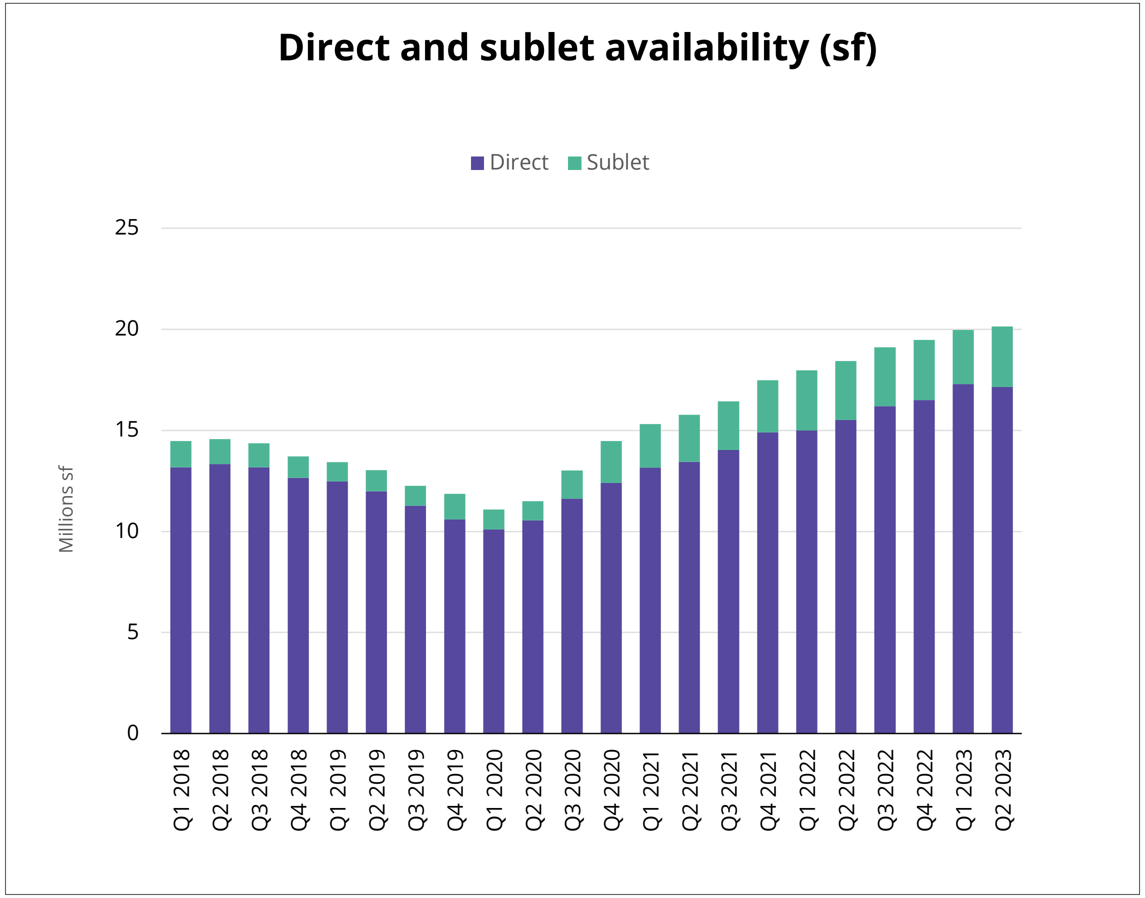
Source: Altus Data Studio

Availability rate by sector



Source: Altus Data Studio

Greater Montréal area office market indicators



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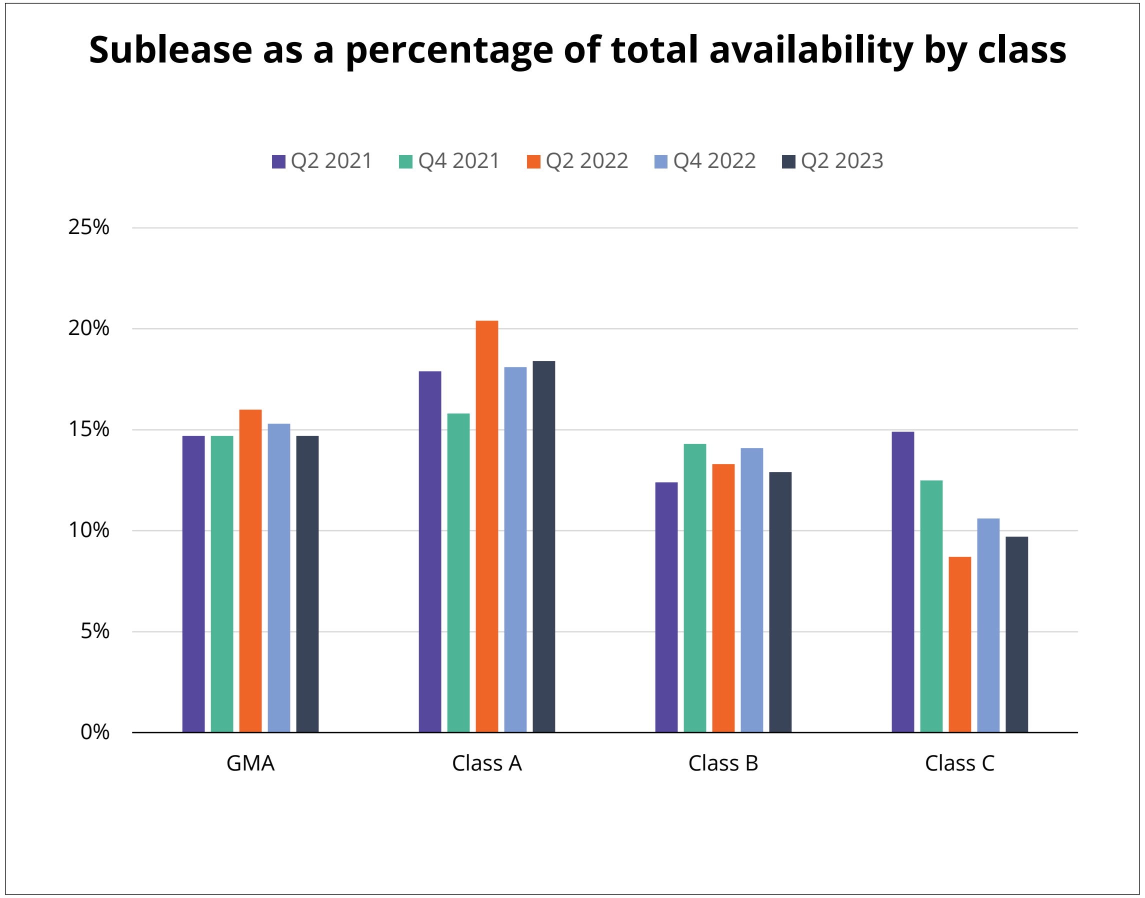
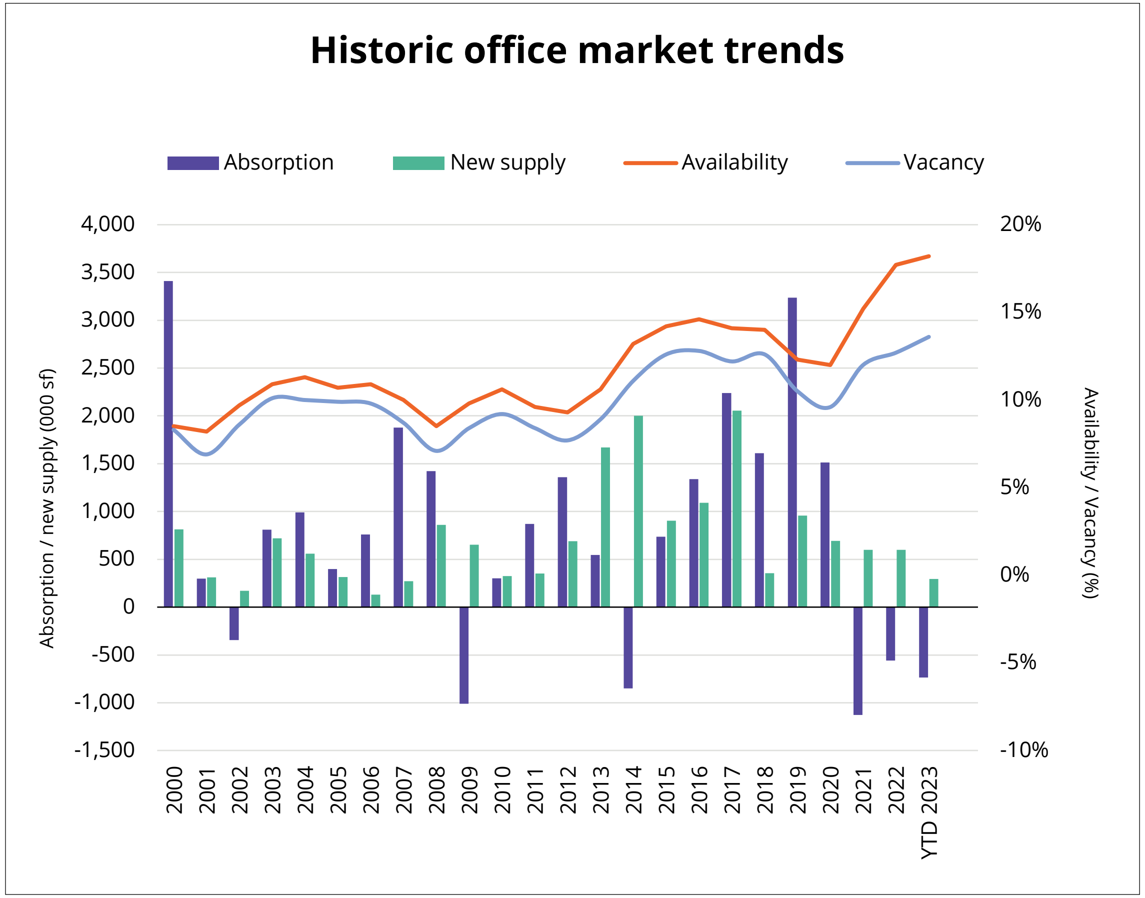


Source: Altus Data Studio

Greater Montréal area office market indicators



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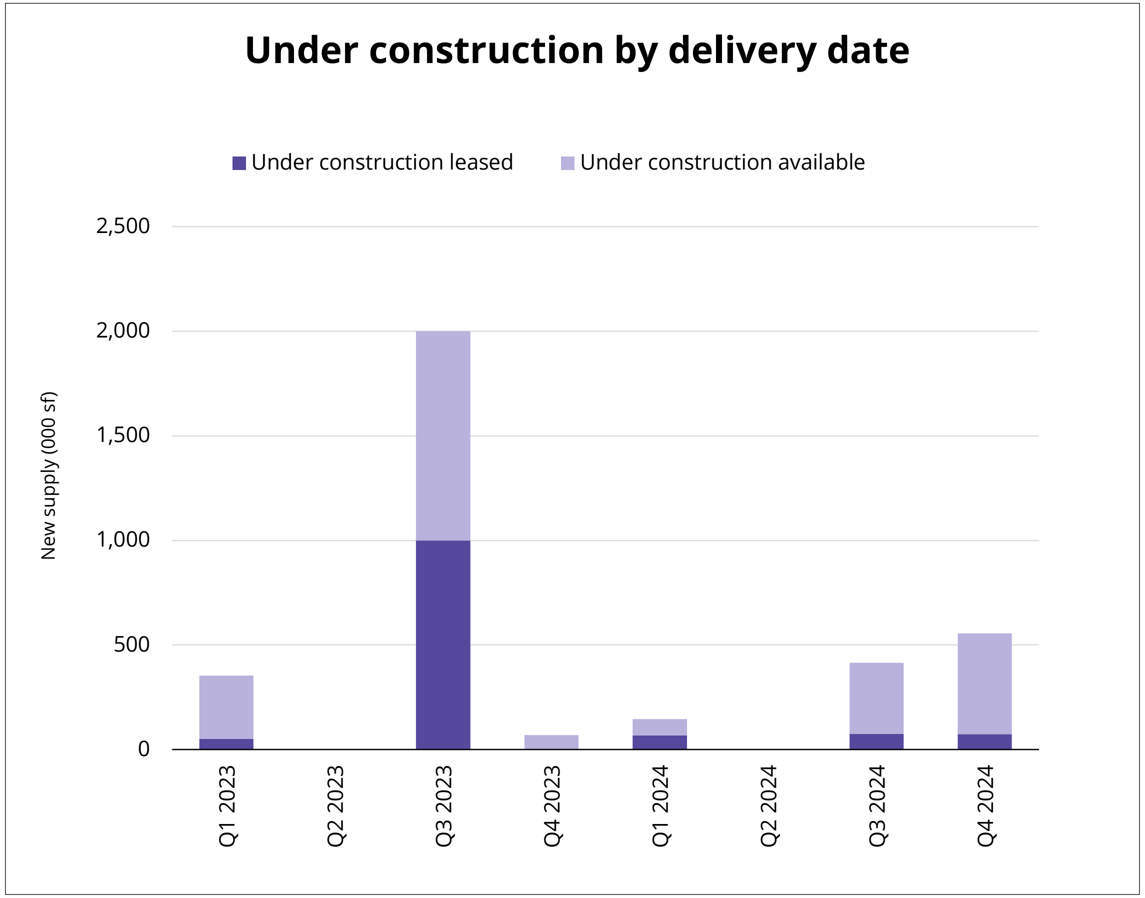
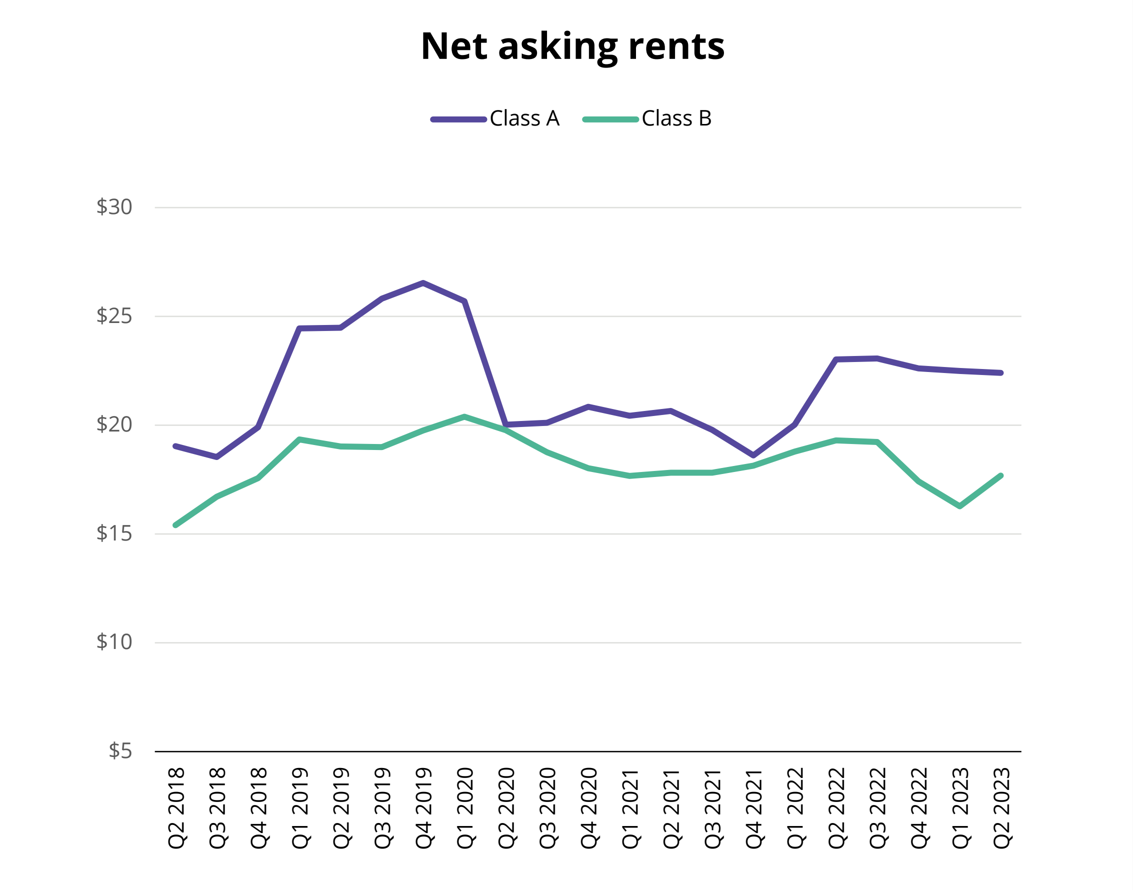
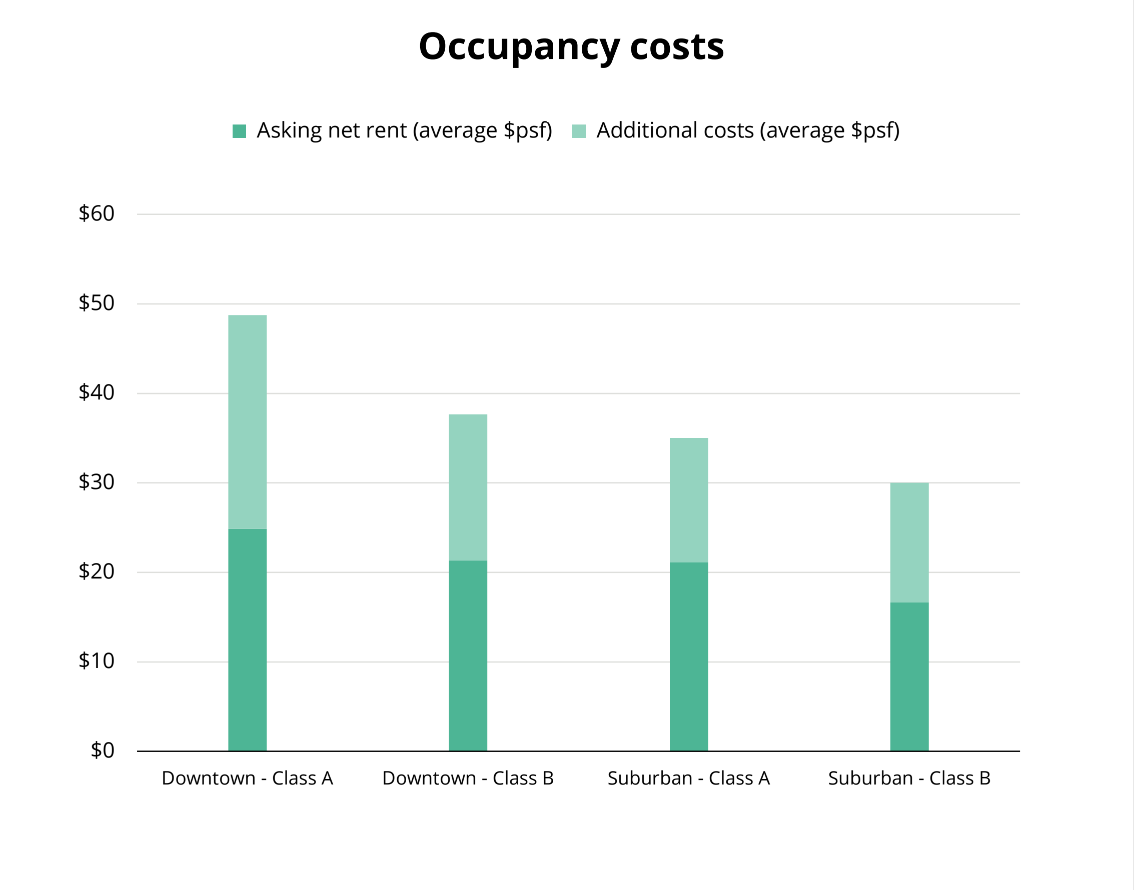


Source: Altus Data Studio

Greater Montréal area office market indicators

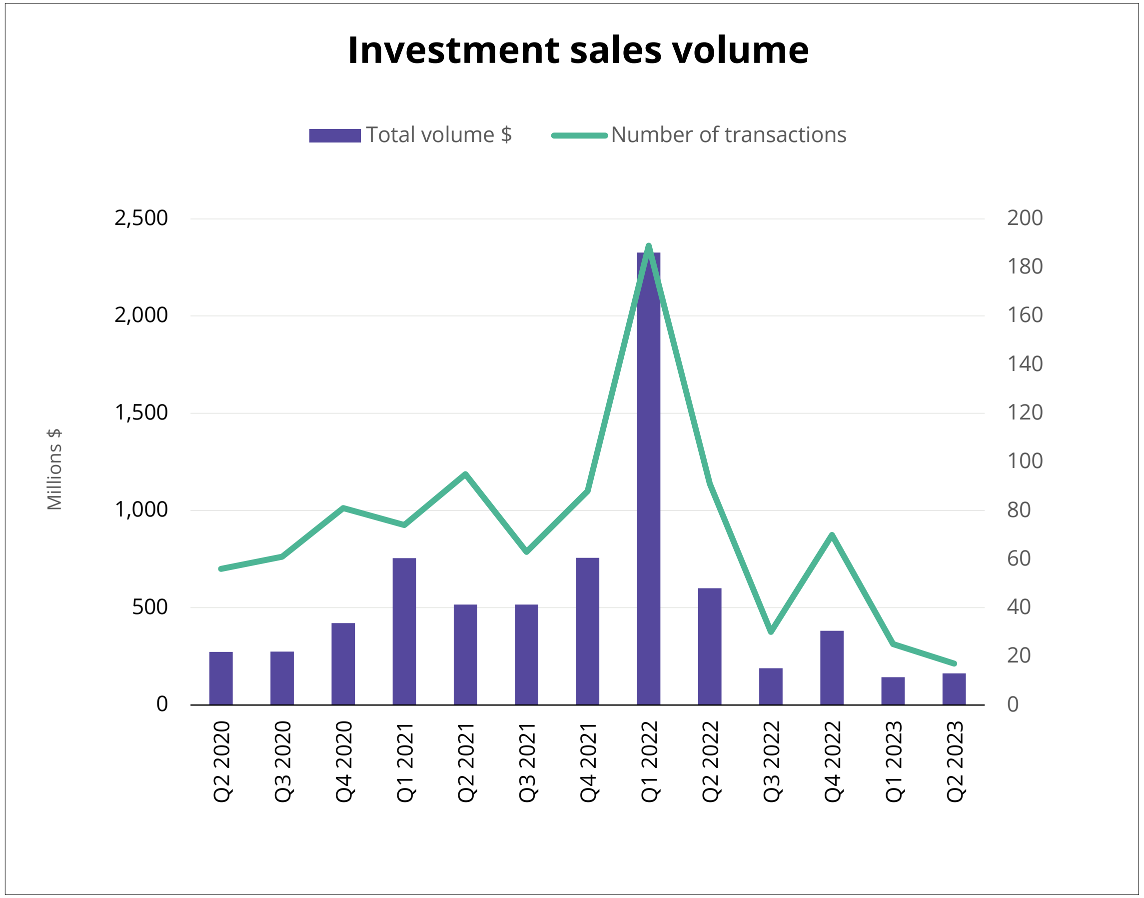


Source: AVANT

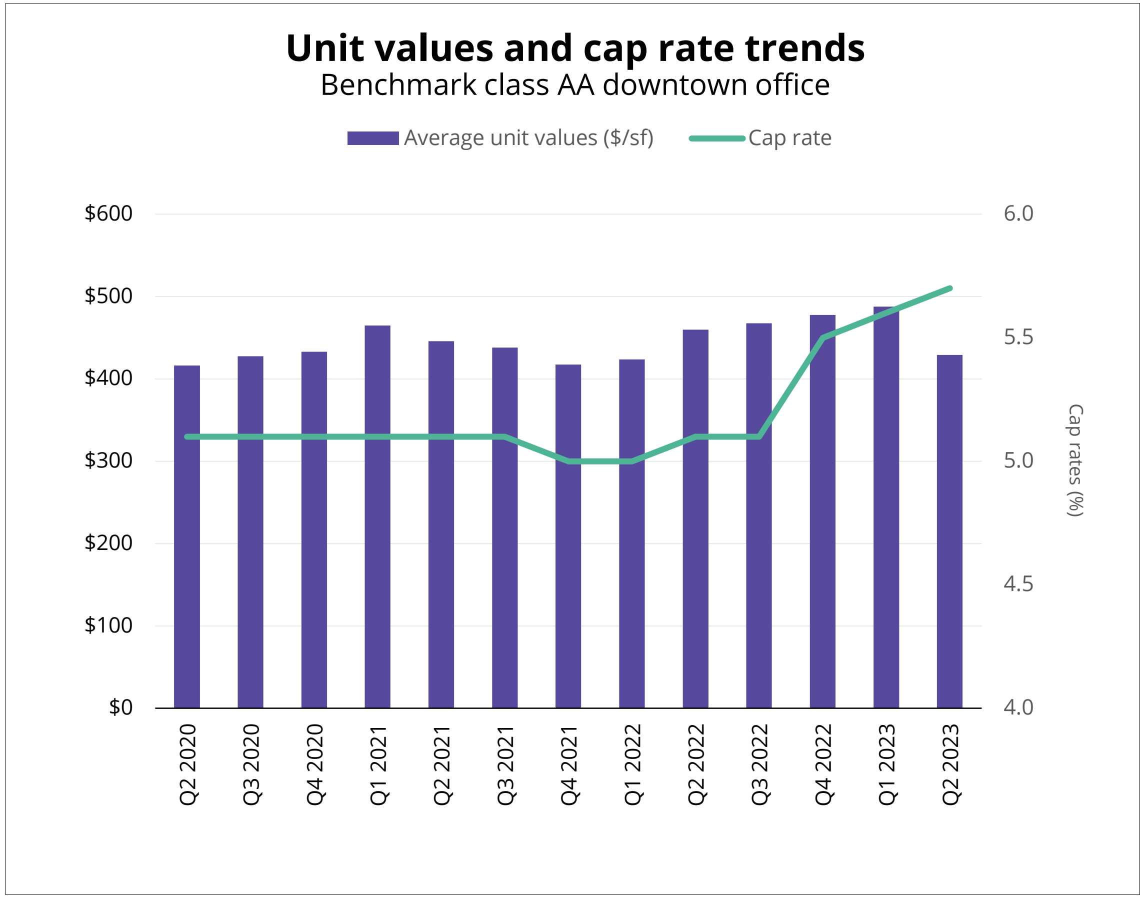


Source: Altus Data Studio and AVANT

Greater Montréal area office market indicators



Source: Altus Data Studio



Source: Altus Investment Trends Survey

Greater Montréal area office market activity

Notable recent leasing activity

Address	Tenant	Size (sf)	Lease type	Transaction type	Broker
800 Chomedey Boulevard, Laval	CIUSS de Laval	84,324	Direct	Renewal	Avison Young
5455 Chauveau Street, Montréal	CIUSSS de l'Est-de-l'Île-de-Montréal	23,732	Direct	Renewal	Avison Young
1100 Robert-Bourassa Boulevard, Montréal	FCCQ	10,441	Direct	New lease	Avison Young
755 Saint-Jean Boulevard, Pointe-Claire	K+S Windsor Salt	8,300	Direct	Renewal	Avison Young
4200 Saint-Laurent Boulevard, Montréal	Solution B.I. Canada	8,126	Direct	New lease	Avison Young

New sublet space on the market

Address	Major sub-lessor	Listing date	Block size (sf)	Floors
600 Jean-Talon Street East	Bell Canada	April 2023	218,800	3-11
1600 Saint-Martin Boulevard East	Metro Richelieu	June 2023	54,000	1
2351 Alfred Nobel Boulevard	Confidential	June 2023	52,400	3
800 De La Gauchetière Street West	Confidential	April 2023	31,890	6
250 Saint-Antoine Street West	Cinesite	May 2023	27,228	7

Major office transactions

Address	Buyer	Sale date	Sale price	Sale price $/psf	Seller
3080 Le Carrefour Boulevard, Laval	Investment Caracal Inc.	April 2023	$67.5M	$134	Cominar REIT
1245 Sherbrooke Street West, Ville-Marie	Nexarm Investments Inc.	June 2023	$49.85M	$229	Manulife
5410 Décarie Boulevard, CDN-NDG	Collège Tav	May 2023	$15.49M	$150	3683371 Canada Inc.
3400 du Marché Street, Dollard-des-Ormeaux	9074-2743 Québec Inc.	April 2023	$4.35M	$214.4	Private Seller
5520 Paré Street, Mont-Royal	9489-4243 Québec INC	June 2023	$4.05M	$156	Seymour Alper (Canada) Limitée

Source: Altus Data Studio

Greater Montréal area office market stats

	Existing inventory (sf)	YTD deliveries (sf)	Under development (sf)	Direct availability (%)	Sublet availability (%)	Total availability (%)	Q2 2023 net absorption (sf)	Year over Year net absorption (sf)
Downtown	54,543,380	147,000	1,498,870	16.1%	2.6%	18.7%	(259,810)	(656,600)
Midtown	30,862,510	148,620	470,000	14.3%	3.1%	17.4%	(187,150)	(215,400)
East End	2,930,770	0	0	22.4%	0.1%	22.5%	(3,540)	(82,390)
West Island	11,393,330	0	0	15.6%	3.5%	19.1%	308,530	207,770
Laval	4,698,490	0	51,400	17.7%	3%	20.6%	(61,030)	158,250
South Shore	6,382,520	0	0	12.3%	1.2%	13.4%	3,700	73,820
Overall	**110,811,000**	**295,620**	**2,020,270**	**15.6%**	**2.4%**	**18.2%**	**(195,760)**	**(514,550)**

GMA	Existing inventory (sf)	YTD deliveries (sf)	Under development (sf)	Direct availability (%)	Sublet availability (%)	Total availability (%)	Q2 2023 net absorption (sf)	Year over Year net absorption (sf)
Class A	45,477,880	0	1,814,360	14.5%	3.3%	17.8%	138,690	189,440
Class B	49,443,600	295,620	147,390	17.1%	2.5%	19.7%	(318,500)	(614,810)
Class C	15,889,520	0	58,520	13.6%	1.4%	15.1%	(15,950)	(89,180)
Market total	**110,811,000**	**295,620**	**2,020,270**	**15.6%**	**2.4%**	**18.2%**	**(195,760)**	**(514,550)**

Source: Altus Data Studio

*All numbers rounded to 10 sf

For more market insights and information visit **avisonyoung.com**

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