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Market Report
Office, Greater Montréal

Spring 2019





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Montréal

Tech and AI: where to next?

It is no secret: stakeholders from the private and public technology sectors form an important part of Montréal's economic and social vitality. Over the last few years, technological hubs have been increasingly popular in and around the city centre, as tech firms benefit from the business climate and build bridges by collaborating with other industry players within their own hubs. The phenomenon has been generating high demand for office space in Midtown areas such as Mile-End and Mile-Ex.

Technology companies are growing steadily and rapidly: information technology and artificial intelligence (AI) firms are aggressively recruiting best-in-class talents, both locally and worldwide, while deploying significant efforts to maintain their existing workforce by providing good employment conditions and innovative work environments.

Consequently, brick-and-beam and loft-style offices in the Mile-End and Mile-Ex areas are filling up: at the end of the first quarter, the availability rate in Midtown North decreased from 18.7% to 16.9%. With the arrival of dozens of new players in the sector over the past years – such as Toulouse-based Institut de Recherche Technologique (IRT) Saint-Exupéry, who recently announced the opening of a new lab in Mile-Ex – and the continued growth of existing AI and technology companies, we can expect the availability to decrease steadily over the next few years, should there be no new development project in the area.

Therefore, the city could see the burgeoning of new tech-oriented hubs in and around Downtown Montréal. One of the options is District Central, developed around Chabanel Street in Ahuntsic-Cartierville, which shows the fourth largest concentration of employment on the Island of Montréal. The sector benefits from the proximity of Marché Central and public transit infrastructures such as Sauvé metro station and Acadie, Chabanel and Sauvé train stations. However, the area is challenged by its dated product, relatively remote location and lack of atmosphere.

Tech and AI companies could also be drawn to Class-B office buildings in the Downtown sector. The city centre is a more favourable choice because of the proximity of services and public transit infrastructures as well as the dynamic work environment the city centre provides. This could benefit Class-B buildings alongside De Maisonneuve Boulevard West, McGill College Avenue and René-Lévesque Boulevard West, some of which have been struggling with high availability for quite some time and still offer quality office space at an affordable price and an outstanding location.





Downtown East Quartier des Lumières

Facing this high demand for technology-friendly and innovative office space as well as the city's popularity with AI and innovation companies, promoters and developers are also marketing new technology-oriented developments. In the eastern portion of Downtown Montréal, Groupe Mach recently introduced *Quartier des Lumières*, a multi-use megaproject to be developed on the former *Maison de Radio-Canada* site.

Quartier des Lumières will offer innovative office space and aim to create a new technology hub in the sector, with a focus on innovation and cutting edge infrastructures. *Quartier des Lumières* proposes an urban campus for larger and mid-sized firms. It will include a coworking space, a conference centre, an incubator and a *makerspace*, as well as a black box and an event venue, all of which will be connected to the complex's retail and multi-residential segment. Groupe Mach's project offers flexible office space for companies with growth requirements, and innovative workplaces in a rich urban context focusing on interaction and synergy.



Focus on Quartier des Faubourgs

Quartier des Lumières is one of the many projects in the *Quartier des Faubourgs* sector, together with the Molson Brewery site, the shore of the Saint-Lawrence River and the vacant land at the foot of the Jacques-Cartier Bridge. With all the changes to come and the significant development potential in this area totaling 35 hectares, the Urban Development Institute of Quebec (UDI) presented a special memorandum to the *Office de consultation publique de Montréal* on April 3, 2019.

This memorandum introduced seven recommendations regarding the urban planning and the development of *Quartier des Faubourgs*. One of the recommendations is to favour demographic growth in central areas and to build a comprehensive neighbourhood with a diversified commercial, service and employment offering in order to consolidate the south portion of *Quartier des Faubourgs* (between Sainte-Catherine Street and the Saint-Lawrence River) as a continuity of Downtown Montreal and to make the foot of Jacques-Cartier Bridge a new entrance to the city centre. The report also recommends that the City ensure the quality of the projects, namely in terms of architecture, sustainability and ecological responsibility. We can therefore expect new office and mixed-use projects to be introduced in the *Quartier des Faubourgs* in the near future, as the sector will diversify and densify over the years to come.



Montréal

Office Market Highlights



Absorption

2.4 million square feet (msf) of office space were absorbed over the past year, **most of which were located in the Midtown submarkets.**



Class-A Vacancy Downtown

Vacancy dropped significantly in Class-A buildings in the Downtown Core, reaching 9.1% at the end of March 2019. **This is the lowest vacancy rate the city centre has seen since the first quarter of 2014.**

Vacancy in Class-A office buildings in the Downtown core reached its lowest since 2014, where it stood at a mere 8.3%



Under Construction

3,085,015 square feet of office space are currently under construction in the Greater Montréal Area, **2,222,455 square feet of which are located Downtown Montréal.**



Decreasing Availability

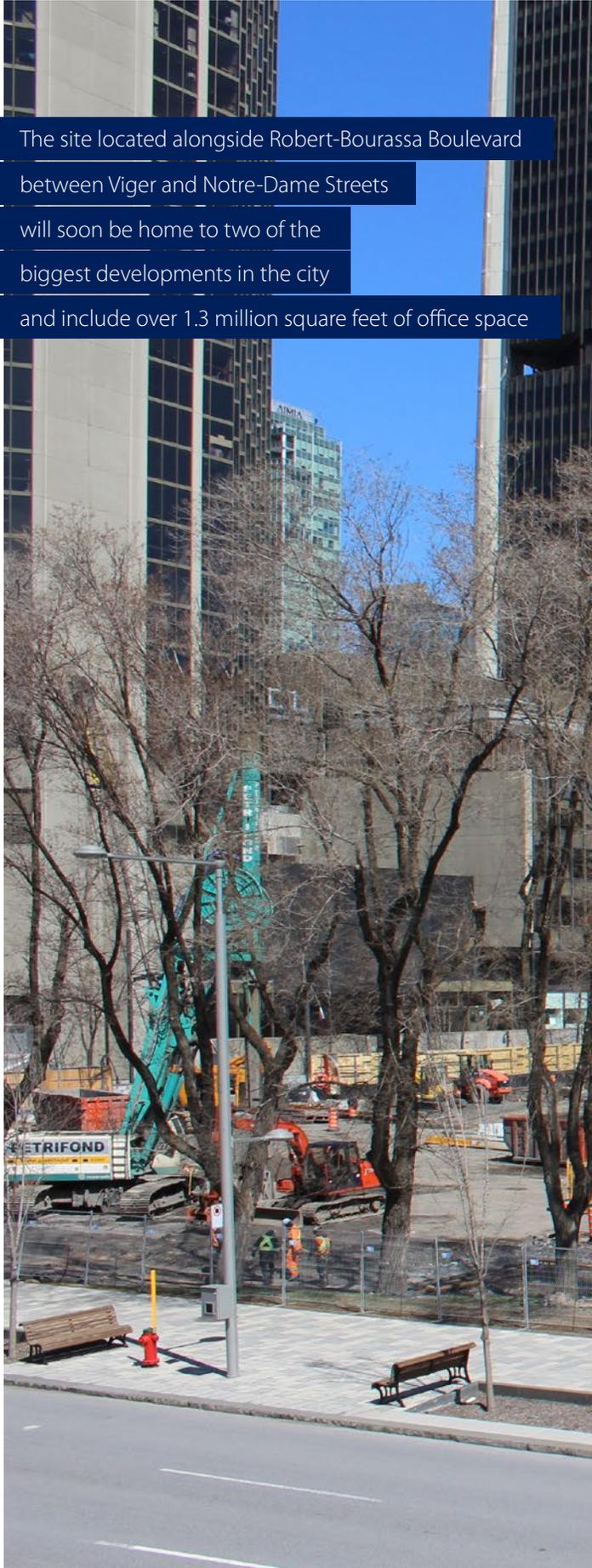
The overall availability rate in the Greater Montréal Area **decreased to 13.7%** at the end of the first quarter of 2019.

More cranes in Quartier des affaires

Downtown Montréal, office construction activity will intensify over the next years alongside the Bonaventure corridor with the construction of the new National Bank Headquarters, which was launched on November 7, 2018. The preparation of the site is well underway, and the tower is expected to be delivered in 2022. With 40 floors, the 200-metre building located at 800 Saint-Jacques Street West will be one of the tallest office buildings in Montréal, and will meet the world's strictest standards in terms of sustainable construction and integrative design while aiming for LEED v4 Gold and WELL certifications.

Right next door at 700 Saint-Jacques Street West, megaproject *Victoria sur le Parc* was launched in April of 2019 with a groundbreaking ceremony to mark the start of construction of the 58-storey tower, which will become the tallest residential tower in Montreal. The building will include a 330,000-square-foot base, which will house ten floors of office space and a commercial ground floor. Work is expected to be completed in 2023. According to Robert Beaudry, District Councillor for Saint-Jacques and Head of Economic and Commercial Development, Housing and Design on the Executive Committee of the City of Montreal, *Victoria sur le Parc* will contribute to consolidating and energizing this key area of the Business District, namely by optimizing land use in the Ville-Marie borough.

Quartier des affaires, the city's central business district, is definitely buzzing with new construction projects, as Allied Properties REIT is expanding and modernizing its property at 425 Viger Avenue West, a few blocks north east of the Victoria sur le Parc and National Bank Headquarters site. Scheduled for delivery in 2020, the refurbished building will be home to Google, who signed a lease for 100,000 square feet of office space. Like so many other technology firms in Montreal, Google is expanding its footprint in the local market to more than double the square footage of its existing premises at 1253 McGill College Avenue, where it has been since 2008. Google currently employs 150 professionals, but the significant expansion leads to believe that this number could drastically increase over the years to come.



The site located alongside Robert-Bourassa Boulevard
between Viger and Notre-Dame Streets
will soon be home to two of the
biggest developments in the city
and include over 1.3 million square feet of office space



WeWork

all over the city

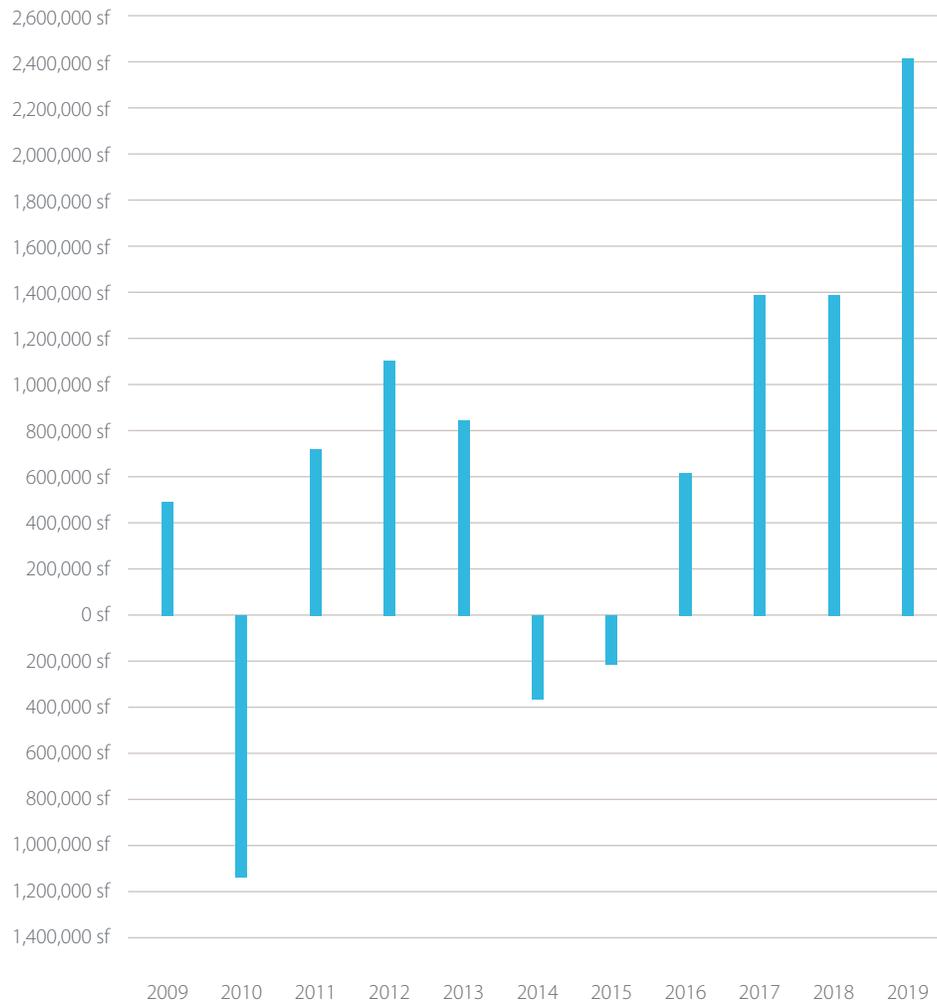
Next to 425 Viger Avenue West, the construction of mixed-use project *Humaniti* is also well underway. The complex will include a 5-storey, 64,000-square-foot office component bearing the address 385 Viger Avenue. The new tower built by Cogir and Fonds immobilier de solidarité FTQ will include condominium and rental residential units, a retail segment on the ground floor as well as a new Autograph Collection hotel, and aim for LEED and WELL certifications. Upon completion, the entire office portion will be occupied by coworking office operators WeWork, who recently announced that they would double their presence in the Montréal market. With the growing number of self-employed workers in the province of Québec, the popularity of coworking offices has drastically increased over the past years. As existing locations in Place Ville Marie and *L'Avenue* – which are home to 2,600 self-employed workers – are fully occupied, WeWork will install 1,000 additional offices in *Humaniti* at the second quarter of 2020.

The coworking company valued at \$20 billion also announced the opening of its largest location in Montréal at 1010 Sainte-Catherine Street West. Totalling 120,000 square feet, the new WeWork space will occupy four floors of the Dominion Square Building, also known as the Gazette Building, built in 1929. The new location will be delivered in two phases: the first phase will be delivered in November of 2019, and the second will be available in January of 2020. The arrival of WeWork in the sector will definitely have a positive impact on the building, the neighbourhood and its businesses because of the new professional clusters it will generate. With the density of the spaces, the new, younger workforce and the increasing activity in and around its locations, WeWork consistently brings significant change and dynamism in the vicinity of its offices, as it did at Place Ville Marie. We can therefore expect the Dominion Square Building, the Dominion Square Park and Sainte-Catherine Street to directly benefit from the arrival of the tenant.





Year-over-year Absorption | Greater Montreal Area | Q1-2019



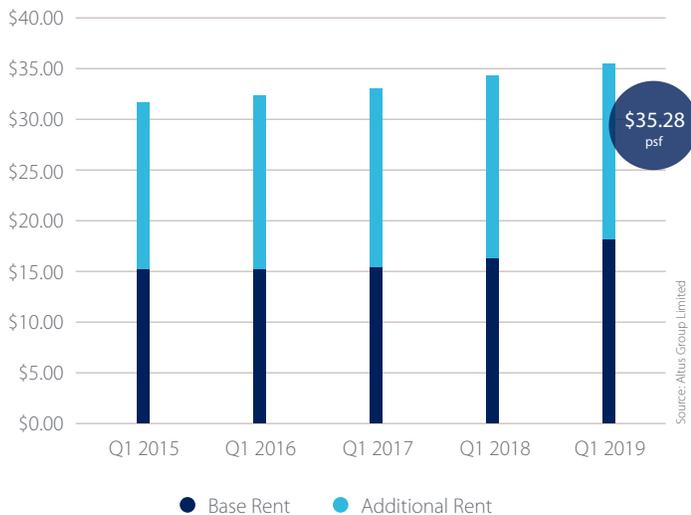
Source: Altus Group Limited

Improving Market conditions

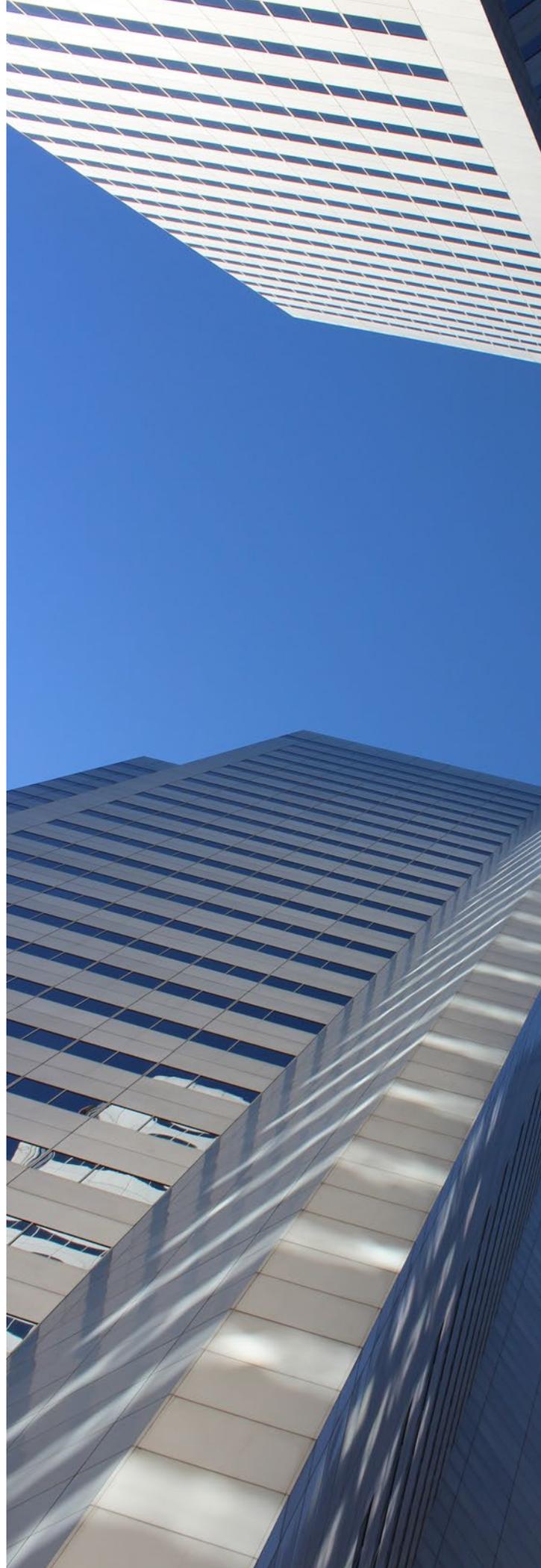
In the meantime, office availability is steadily declining across the Greater Montréal Area (GMA), which is a sign that the market conditions are greatly improving in most submarkets. The overall availability rate reached 13.7% at the end of the first quarter of 2019 from 14.8% twelve months before, as 2.4 million square feet (msf) of office space were absorbed, most of which were located in the Midtown submarkets. Although the availability rate remained relatively unchanged year-over-year Downtown Montréal, decreasing from 12.6% to 12.0%, there has been a marked drop in availability in the Downtown Core, where available space dropped from 15.3% to 13.1%. Furthermore, vacancy decreased significantly in Class-A buildings in the Downtown Core, reaching 9.1% at the end of March 2019 from 11.3% a year before. This is the lowest vacancy rate the city centre has seen since the first quarter of 2014, where it stood at 8.3%. However, even with the Class-A office inventory vacancy declining, the net rental rates remained relatively unchanged year-over-year around \$20.60 per square foot (psf), while the average additional rent remained around \$23.00 psf.

In the GMA however, the overall net rental rates increased to \$15.58 psf from \$14.14 psf at the beginning of 2018. The average additional rents remained fairly stable, slightly decreasing from \$13.41 psf in 2018 to \$13.31 psf in 2019.

Occupancy Costs | Downtown Montreal



Source: Allus Group Limited



Surprisingly low investment activity

Other than a few small office building sales in the West Island area, there have not been significant investment sales in the first quarter of 2019, which is somewhat surprising seeing as several investment opportunities are currently on the market. Such opportunities include National Bank's current headquarters (600 De La Gauchetière Street West) and the adjacent building, 700 De La Gauchetière Street West – owned by Dream REIT, both of which have been on the market since the fall of 2018.

Oxford Properties Group Inc. and the Public Sector Pension Investment Board also put the iconic 1250 René-Lévesque Boulevard West on the market in early 2019. The sale of the Class-AAA building totaling 1,036,193 square feet of space built in 1992 is expected to close momentarily, as Bloomberg revealed on March 29, 2019 that Bentall Kennedy, the real estate unit of insurer Sun Life Financial Inc., was close to a deal to purchase the 47-storey tower for approximately \$600 million.

Class-A office buildings in Downtown Montréal continue to trade at an average overall capitalization rate of 5.0% and an estimated average price of \$445.75 psf, while in the Midtown submarkets, same-class assets trade at an overall capitalization rate of 6.1% (\$268.10 psf).

While economic forecasts remain somewhat pessimistic for the rest of 2019, the construction of Montréal's Réseau express métropolitain, which started in 2018, is expected to benefit several peripheral submarkets in the GMA in the long-term. We can therefore expect an increase in real estate investment transactions of all types as well as a hike in development and redevelopment activity in the immediate proximity of the new rail stations, which are scheduled for completion in 2021.



5.0%

Overall Capitalization Rate

Class A Buildings
Downtown Montréal
\$445.75 psf

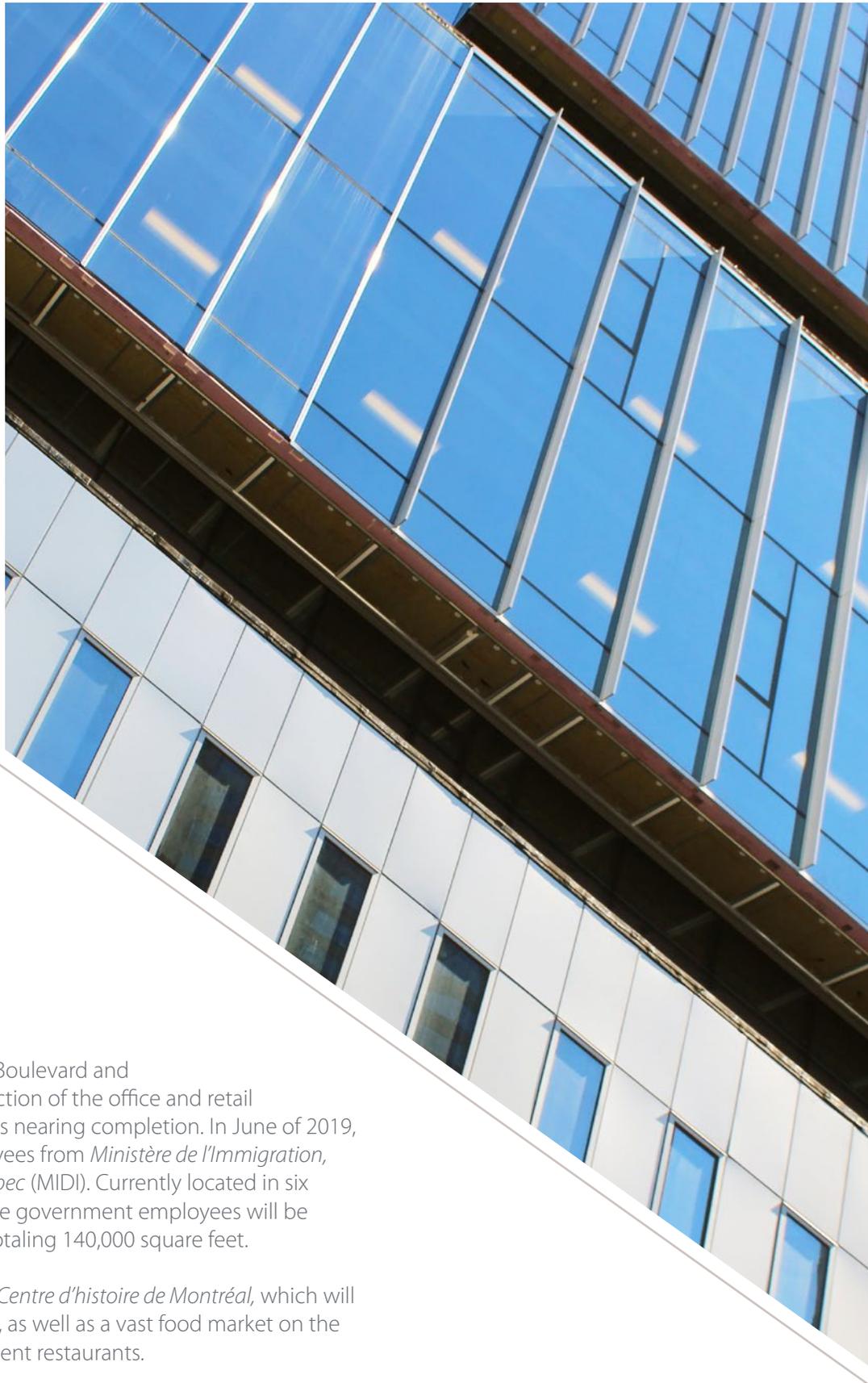


6.1%

Overall Capitalization Rate

Class A Buildings
Midtown Submarkets
\$268.10 psf

Construction Update



Carré Saint-Laurent

At the intersection of Saint-Laurent Boulevard and Sainte-Catherine Street, the construction of the office and retail components of Carré Saint-Laurent is nearing completion. In June of 2019, it will be home to 700 to 900 employees from *Ministère de l'Immigration, de la Diversité et de l'Inclusion du Québec* (MIDI). Currently located in six different buildings across the city, the government employees will be reunited under one roof, in offices totaling 140,000 square feet.

The first phase will also be home to *Centre d'histoire de Montréal*, which will occupy the first floor of the building, as well as a vast food market on the ground floor, with over 30 independent restaurants.

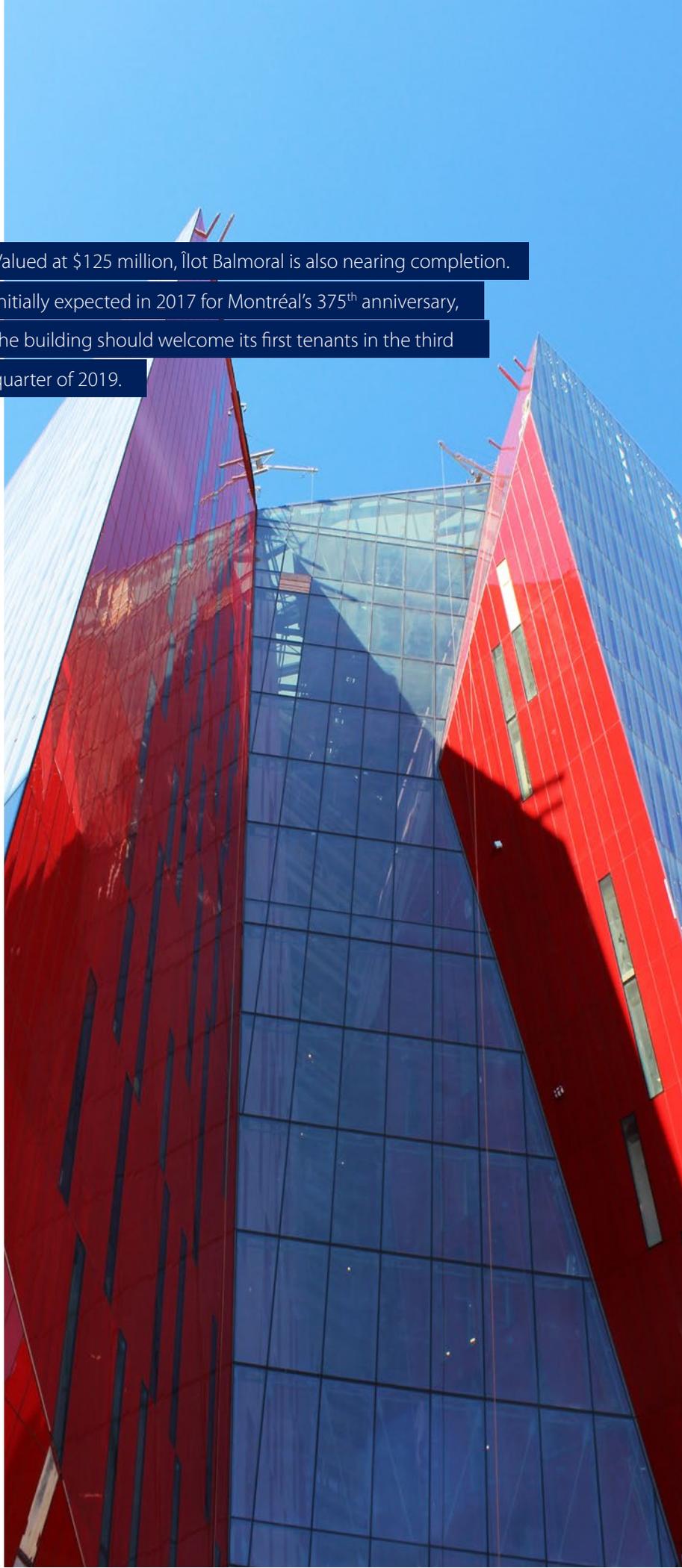
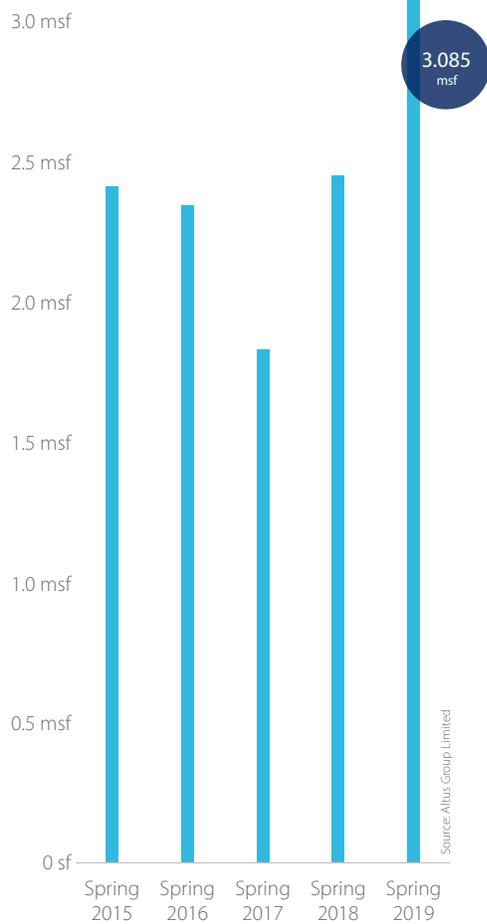
The second phase of the project consists of a 17-storey residential tower, to be built on the existing base. This tower could also include a hotel.

Îlot Balmoral

Valued at \$125 million, Îlot Balmoral is also nearing completion.

Initially expected in 2017 for Montréal's 375th anniversary, the building should welcome its first tenants in the third quarter of 2019.

Under construction
Downtown Montreal





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