Montreal - Q4 2018

Occupier's Guide

cresa

Vacancy	Average Rent	Net Absorption
11.8%	$29.59/SF	75,354 SF

It is an exciting time for the Montreal office and industrial markets. Foreign companies are gravitating to Montreal more than ever from all industries to benefit from low occupancy costs, labor costs and an abundant talent pool. Overall, operating a business in the Greater Montreal Area on average costs less than any other major metropolitan area in Canada and the US. As Canada's university capital, Montreal is the home to 11 university institutions with 320,000 post-secondary students and is currently considered the best city in the world for international students.

There are also many incentive programs to entice foreign companies to open their operations in the GMA for major projects and innovations with grants, interest free loans and other support available such as low electricity rates as low as US2.48c/kWh for large power. Labour development grants are also offered such as 25% of costs to implement training programs and 50% of costs to create an HR Department.

The unemployment rate in Montreal at the end of Q4 2018 remains a low and healthy 6.0%, down 10 basis points from the previous quarter. The number of employed workers has gone up by 23,600 since Q3 2018, mostly due to increased demand in Manufacturing and Distribution and conditions are only expected to improve. In addition, several infrastructure projects are currently underway that will improve Montreal's road and public transportation system. Almost $15.0 billion is being invested for the new Turcot interchange, the Champlain Bridge, and the Light Rail Train (REM). There are also plans to add a new pink metro line that will extend from Lachine to Montreal North and the new extension of the Blue line further east to Anjou.

GMA Office

As Montreal's economy continues to improve, so does demand for office space. Options for large tenants are slowly beginning to decrease in Downtown Montreal as vacancies begin to decline. However, vacancy continues to be high outside the core in the Midtown, Laval and the West Island submarkets.

At the end of Q4 2018, the GMA has an inventory of 100,271,102 SF of office space at an average vacancy rate of 12.1%, down 80 basis points year over year. Downtown Montreal, which accounts for 52.2% of total office inventory in the GMA, is also decreased from last quarter to an average vacancy rate of 9.3%, with Downtown Class A at 8.4% and Downtown Class B at 10.2% vacancy.

Overall average total asking rent in the GMA has risen by 2.3% since Q1 2018 to $28.27 per square foot, compared to $35.51 per square foot Downtown across all office classes. Average asking net rents Downtown have increased 9.9% year over year to $18.27 per square foot versus $14.89 in the GMA.

Significant new Class A office supply will be delivered to market Downtown in upcoming years with the addition of the National Bank office tower in 2022 that will add 1.0M SF of Class A office space to the Downtown South submarket, and 425 Viger, which will add 242,701 SF of modern loft office space ideal for tech companies in early 2020. Located within close proximity to Westmount is the new 1100 Atwater avenue development which now offers 173,699 SF of Class A office space, the only other building in its class in the area other than 1 and 2 Place Alexis Nihon.

Market Trends

Office: Class B buildings have been upgrading their common areas to attract tenants from the Class A- category who would like to generate savings and keep their central location with close proximity to amenities and metro lines.

Office: Coworking continues to be a growing trend in Montreal. WeWork has taken on an additional 20,000 SF at L'Avenue and Fabrik8 will be delivering up to 200 000 SF in the Plateau of mixed co-working and office space in 2019.

The industrial market in the Greater Montreal Area's vacancy rate is at a new record low of 3.7%

Occupier's Perspective

Office

As new construction slows, leasing momentum increases and vacancy declines, the office market downtown is beginning to tighten and is becoming less tenant favorable. Rents are already beginning to increase and landlords are offering less free rent and lower tenant improvement allowances.

Office

Contrarily outside the Downtown market, office conditions continue to be tenant favorable due to a higher vacancy rate.

Industrial

Strong leasing momentum combined with a lack of new supply coming to market and decreasing vacancy rates are prompting new development projects, specifically built-to-suit to meet specific tenant's criteria.

Montreal - Q4 2018

Occupier's Guide

Net absorption in the GMA this quarter is at 969,864 SF the highest it has been for over a decade other than in Q1 2017 when it was 1,310,495 SF. With leasing momentum increasing faster than availability of new supply, tenant inducements are expected to decline over the next two years. In recent leasing activity. there have been two notable leasing transactions over 100,000 SF in the GMA this quarter, one of which is Morgan Stanley Financial Services Canada who renewed at 75 Queen for 188,852 SF and GSoft who relocated to the Nordelec to lease 119,540 SF.

GMA Industrial

The industrial market in the Greater Montreal Area's vacancy rate is at a new record low of 3.7% (down from 7.2% in Q3 2015) and landlords have been using this limited supply as leverage and have increased their net asking rates to an average of $6.66 per square foot accordingly. These are the highest rates the GMA industrial market has seen with net asking rates exceeding $6.00 for the first time since mid-2017. However, the market is not as tight as in Toronto and Vancouver, where the percentage of unoccupied industrial buildings is at around 2%.

Across the GMA there are limited available industrial spaces to lease or purchase in the 100,000 SF - 250,000 SF and up range. This scarcity of supply and rising demand from both local and foreign investors, has driven prices up accordingly. Strong consumer demand from all industries, particularly manufacturing and distribution are causing the upshift in leasing activity. Overall, the GMA has displayed a net absorption at the end of Q4 2018 of 772,144 SF from last quarter and 5,428,158 SF of positive net absorption year over year.

This strong leasing momentum combined with a lack of new supply coming to market and decreasing vacancy rates are prompting new development projects specifically built-to-suit to meet specific tenant's criteria. One notable recent industrial transaction is Anixter Canada Inc.'s leasing 281,000 SF of Montoni's redevelopment of the former Sears distribution center in Ville Saint-Laurent, now called the VSL Logistics Hub, which is a mix-used project offering industrial and office space.

Rental and Vacancy Rates

Direct Asking Rent ($/SF)	Total Vacancy Rate	
$43.97	CBD | Class A	8.4%
$32.53	CBD | Class B	10.2%
$30.11	Suburban | Class A	14.88%
$23.02	Suburban | Class B	16.78%
$10.33	Industrial |	3.7%

Recent Transactions

	Tenant	Size	Submarket	Type	Sector
1	Anixter Inc.	281,000	Ville Saint-Laurent	New Lease	Industrial
2	Morgan Stanley Services Canada Corp.	188,852	Old Montreal	Renewal	Office
3	Gsoft	119,540	Midtown South-West	New Lease	Office
4	Reel FX	55,793	Midtown South-West	Sublet	Office
5	Covéo Solutions	50,569	Downtown South	Renewal	Office
6	Technicolor	35,647	Old Montreal	New Lease	Office
7	Idéal Centre Logistique Montreal Inc.	174,295	Boucherville	New Lease	Industrial
8	Paris Glove of Canada	110,751	Saint-Laurent	New Lease	Industrial
9	Cirque du Soleil	102,380	Lasalle	Renewal	Industrial