



**AVISON
YOUNG**

FALL 2017

OFFICE MARKET REPORT / GREATER MONTREAL

 CANADA'S
**BEST
MANAGED
COMPANIES**

FALL 2017

OFFICE MARKET REPORT / GREATER MONTREAL

The Greater Montreal Area (GMA) remains a stable market, with vacancy decreasing by 50 basis points from the first quarter of the year, reaching 12.3% at the beginning of the third quarter. Close to 1.4 msf (million square feet) have been leased in the GMA over the past 12 months, bringing the availability rate down to 14.3%, its lowest value since the end of 2015. Currently 901,200 square feet (sf) of office space are under construction with 4.9 msf in the pre-leasing stage.

The Montreal office market is still a tenants' market. However, with general vacancy steadily decreasing, landlords can expect improving conditions by year-end. The average gross rental rates Downtown Montreal remained relatively unchanged over the past year, hovering around \$33.00 per square foot (psf), while the Class A rental rates slightly increased from \$41.16 to \$42.02 psf. Midtown areas such as Mile End and Mile-Ex remain extremely competitive, with average gross rents of approximately \$22.30 psf.

Despite growing rental rates, tenants of Class A buildings Downtown Montreal have shown more stability, as the total sublease availability is rapidly decreasing. From 2013 to 2016, the percentage of the total office inventory available for sublease consistently hovered between 1.5% and 2.5%. At the third quarter of 2017, only 121,098 sf (0.5%) were available for sublease Downtown Montreal, an indication that the city's economy is getting stronger as fewer businesses are looking to reduce their footprint.

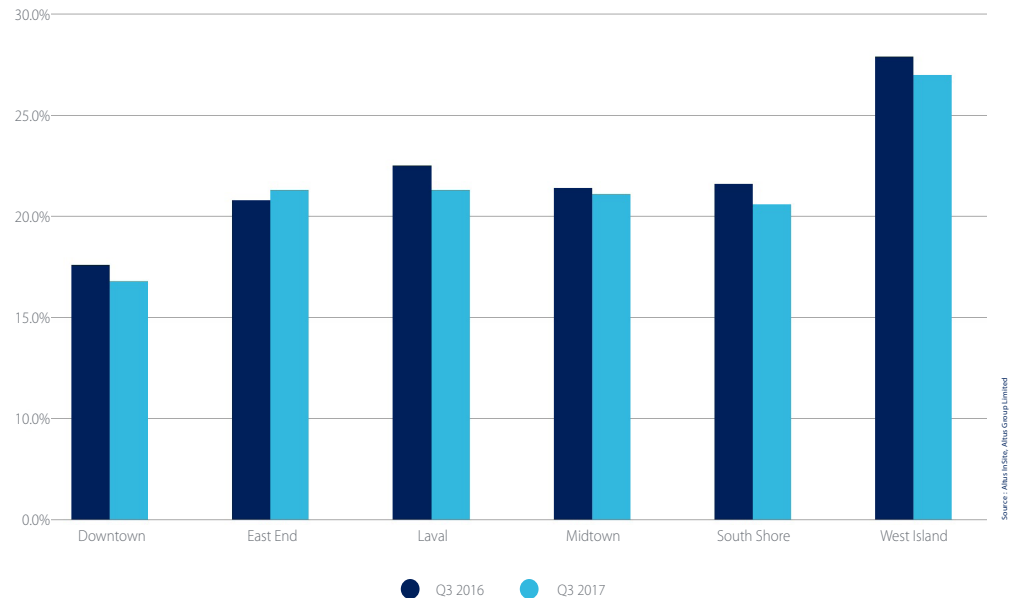
As in other metropolitan areas, there is a significant shift from traditional office to more efficient, unique work environments in Montreal. While baby boomers are slowly retiring, the demand for more tech-friendly, open office space is growing. Younger generations require more interactive and collaborative office space that brings people together and creates a sense of community.



Image Credit: Wilson Young Quebec Inc.

AVAILABILITY, ALL OFFICE CLASSES

OFFICE SPACE BY SUBMARKET
GREATER MONTREAL AREA



MAKE WAY FOR ARTIFICIAL INTELLIGENCE

Social media giant Facebook recently opened an artificial intelligence (AI) laboratory in Montreal. The Facebook AI Research program (FAIR) currently employs ten specialists, with expectations to triple that number by next year. Samsung also established an AI research team in Montreal last summer in partnership with Université de Montréal. The team focuses on developing core algorithms for robotics, self-driving vehicles, translation tools as well as voice and visual recognition.

In early October, international AI specialists Thales and DeepMind also announced they will be opening research laboratories in Montreal in the beginning of 2018. Thales will partner with Université de Montréal's Montreal Institute for Learning Algorithms (MILA) to develop AI applications for the aerospace, defence, security and transportation sectors. Google's DeepMind will open their second Canadian office in Montreal, after opening in Edmonton earlier in 2017. The company will join forces with McGill University to provide funding for artificial intelligence research.

With Montreal's growing popularity as a hub for artificial intelligence, we can expect the industry to show an increasing appetite for office space in the GMA, particularly in the Midtown sectors, which remain very attractive to IT and technology firms. Montreal-based Element AI recently leased the 4th and 5th floors of 6650 Saint-Urbain Street in Midtown-North. The artificial intelligence research company was represented by Avison Young in the lease negotiation of 65,526 sf of office space in the recently converted industrial building that now forms part of the O Mile Ex project.

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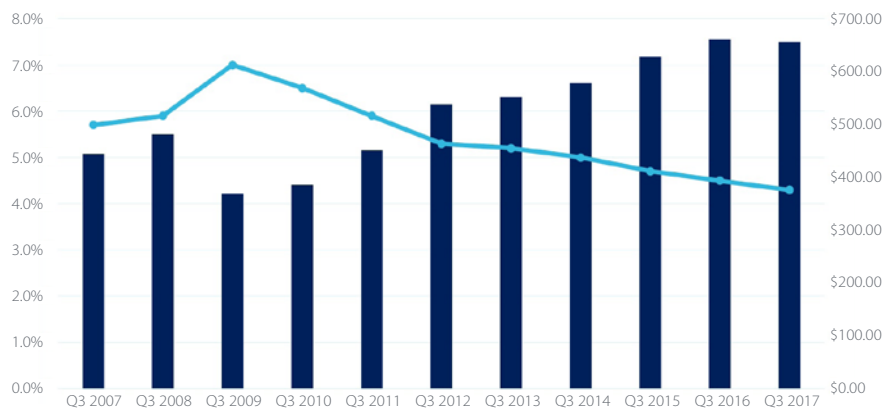
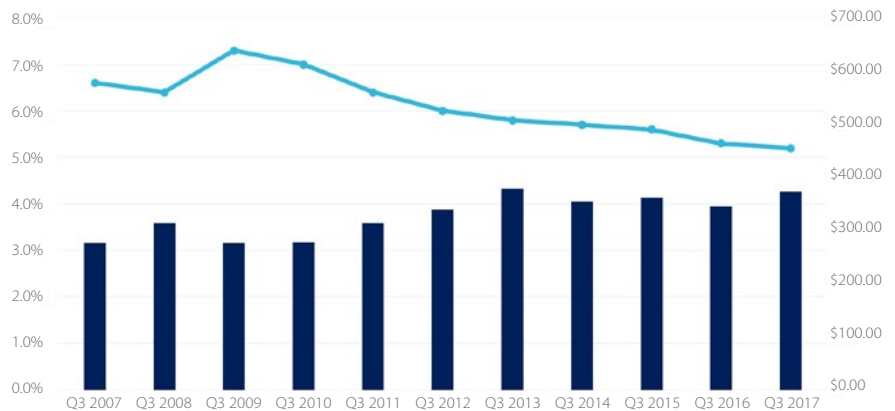
CAPITALIZATION RATES & PRICE PER SQUARE FOOT

CLASS AA OFFICE SPACE
DOWNTOWN MONTREAL

● Price per square foot ● Capitalization Rate

CAPITALIZATION RATES & PRICE PER SQUARE FOOT

CLASS AA OFFICE SPACE
DOWNTOWN TORONTO



From an investment perspective, Montreal has been a very busy market in 2017. Several major office assets were sold in the past year, including Cité du Multimédia (1350 & 1360 René-Lévesque Boulevard West) and the SNC-Lavalin headquarters (455 René-Lévesque Boulevard West), both acquired by **GWL Realty Advisors**.

Ivanhoé Cambridge has recently put 1000 De La Gauchetière Street West up for sale. This potential transaction could be the most significant sale of 2017, as the municipal evaluation for the skyscraper reaches \$366 million.

Several local and foreign investment groups expressed their interest in this rare investment opportunity.

Class AA office buildings Downtown Montreal currently sell at capitalization rates ranging from 4.5% to 5.5% and an average price of \$373 psf, which are record values for the Montreal market. However, these numbers remain affordable in comparison to Downtown Toronto, where similar assets trade for \$665.65 psf at a 4.2% capitalization rate.

In other investment news, **McGill University** is now the sole owner of 680 Sherbrooke Street West Downtown Montreal, having purchased 50% of the building from Industrial Alliance for \$262.50 psf for a total price of \$32.5 million.

Earlier this summer, **Wafra Investment Advisory Group** purchased 1155 Robert-Bourassa Boulevard for \$57.9 million (\$296.44 psf) at a 6.58% capitalization rate. The Class B office building currently has a leasable area of 19,231 sf and a 69% occupancy rate.

Developers claim that 2017 has been one of the busiest years of the past decade, which is observable through the number of construction sites and development projects across the GMA. Most office buildings that were recently delivered in the Downtown Core have been well absorbed by the market. There is a growing demand for work and play developments in proximity of public transportation, such as Solar Uniquartier in Brossard and Espace Montmorency in Laval.

New projects have been announced in the area surrounding the Atwater metro station just west of Downtown Montreal, such as mixed-use development project Square Children's, for which the excavation work is expected to start on November 1. Located on the site of the former Children's Hospital, the six-tower complex has been approved by the city's executive committee and will be redeveloped by a partnership formed by Devimco Immobilier, Fonds immobilier de solidarité FTQ and Fiera Private Lending.

Just across the street, 1100 Atwater Street, the 7-storey building located at the intersection of Atwater and Tupper Streets in Westmount, will be completely redeveloped into an office building. The property was purchased by Kevric Real Estate Corporation for \$10 million from Oxford Properties earlier this year.

Located across from Cabot Square and Atwater metro station, the Square Children's mixed-use project will include six towers on the former Children's Hospital site.

Image courtesy of Devimco Immobilier - Square Children's

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Further east, major mixed-used project Humaniti is now under construction and will include 60,000 sf of office space, 100% of which is still available for lease. The promoters (Cogir and Fonds immobilier de solidarité FTQ) recently announced that the project will incorporate a Marriott Autograph Collection Hotel in addition to the 150 condominium units, the 335 rental apartments and the 15,000 sf of retail space. Humaniti is currently the only vertical development project to include five different types of usage in Montréal (rental apartments, condominium units, office space, a retail component and a hotel).

Expected to be completed in 2020, the project aims for LEED and WELL certifications. The WELL certification was launched in 2014 and encourages employers to invest in the health and wellness of their employees by improving their workspace.

In Laval, the construction of Espace Montmorency is expected to begin later this year. The mixed-use project is valued at \$420 million and should be delivered by 2020. The development will consist of 10 buildings surrounding the Montmorency metro station, some of which will reach up to 20 storeys.



Image courtesy of Lemay and Cogir

SIGNIFICANT SALES, OFFICE GREATER MONTREAL AREA



Address	455 René-Lévesque Boulevard West, Montréal
Buyer	The Great-West Life Assurance Company
Seller	SNC-Lavalin
Price	\$173,225,000 (\$397.02 per square foot)
Total Area	436,318 square feet



Address	1265-1285 Avenue-des-Canadiens-de-Montréal, Montréal
Buyer	Sun Life Assurance Company of Canada
Seller	L'Avenue Condominiums sur l'Avenue-des-Canadiens-de-Montréal
Price	\$85,936,000 (\$708.00 per square foot)
Total Area	121,379 square feet



Address	1155-1185 Robert-Bourrassa Boulevard, Montréal
Buyer	Wafra Investment Advisory Group Inc.
Seller	4003195 Canada Inc. & als. (Isanco)
Price	\$57,875,000 (\$296.44 per square foot)
Total Area	195,231 square feet



Address	4126-4160 Sainte-Catherine Street West, Westmount
Buyer	Redbourne
Seller	4150236 Canada Inc.
Price	\$37,600,000 (\$273.15 per square foot)
Total Area	137,653 square feet



Address	50% of 680 Sherbrooke Street West, Montréal
Buyer	McGill University
Seller	Industrial Alliance
Price	\$32,500,000 (\$262.55 per square foot)
Total Area	123,785 square feet (50% of the property)

SIGNIFICANT LEASING TRANSACTIONS, OFFICE GREATER MONTREAL AREA



Address	455 René-Lévesque Boulevard West, Montréal
Tenant	SNC-Lavalin
Total Area	375,975 square feet
Type	New lease (sale-leaseback)



Address	1350 René-Lévesque Boulevard West, Montréal
Tenant	The Great-West Life Assurance Company
Total Area	115,584 square feet
Type	New lease



Address	620 René-Lévesque Boulevard West, Montréal
Tenant	Canadian National Railway Company
Total Area	81,067 square feet
Type	Expansion



Address	333 Chabanel Street, Montréal
Tenant	Canada Post
Total Area	70,000 square feet
Type	New lease



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Address	6650 Saint-Urbain Street, Montréal
Tenant	Element AI
Total Area	65,526 square feet
Type	New lease

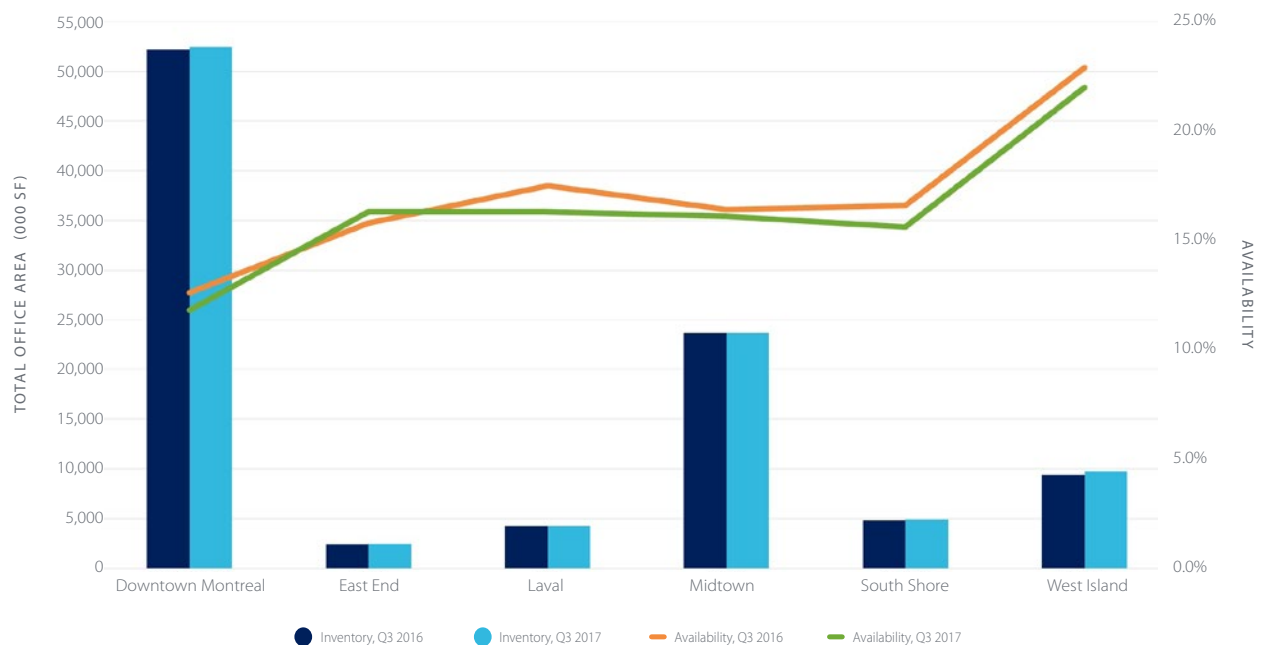
GREATER MONTREAL AREA ABSORPTION

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GREATER MONTREAL AREA INVENTORY AND AVAILABILITY



Source : Altus InSite, Altus Group Limited

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The building located at 355 Sainte-Catherine Street West is currently undergoing major renovation work, which includes the installation of a new curtain wall. The building is home to MusiquePlus, Groupe V Média and GSM Project.

Image Credit: Avison Young Québec Inc.



At **Place des Festivals, Îlot Balmoral** is slowly taking shape as the installation of the curtain wall is well underway. The new, 13-storey building will be home to the **National Film Board of Canada** at its completion in 2018.

Image Credit: Avison Young Québec Inc.



The excavation work at **Carré Saint-Laurent** is complete and the building is slowly rising from the ground. The new 260,000-sf development, slated to open in 2019, will house the **Centre d'Histoire de Montréal** on the second floor, and **900 Quebec government employees** on the 8 floors of the South tower.

Image Credit: Avison Young Québec Inc.



At the intersection of De Bleury and Viger Streets in the Central Business District, the construction of the **Humaniti** project has started. Located at 1040 De Bleury Street, the major, mixed-use project will include 60,000 square feet of office space, a 15,000-square-foot retail component as well as a 193-room hotel, 150 condominium units and 335 apartment units.

Image Credit: Avison Young Québec Inc.

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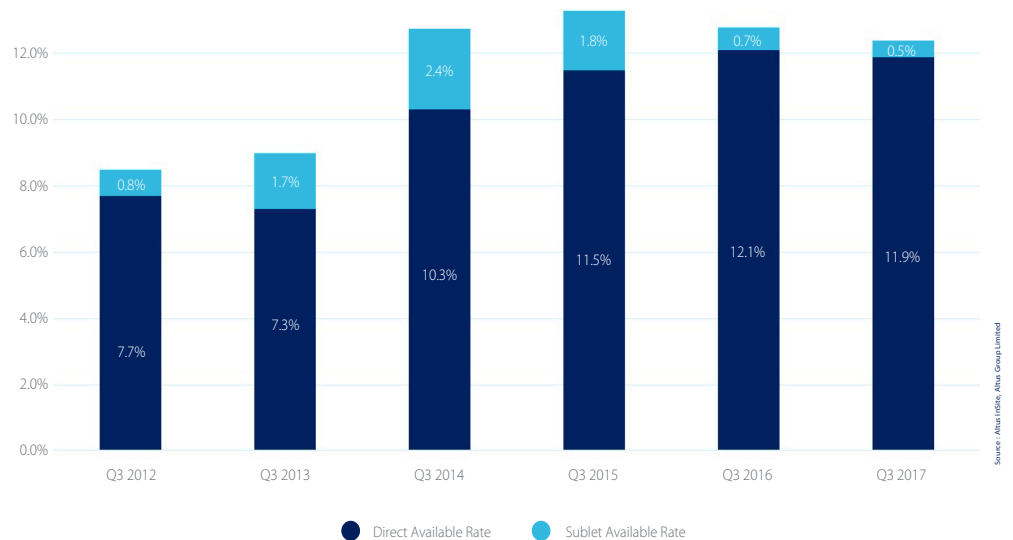
OCCUPANCY COSTS

OFFICE SPACE
DOWNTOWN MONTREAL



TOTAL AVAILABILITY

OFFICE SPACE
DOWNTOWN MONTREAL



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YOU HAVE QUESTIONS OR COMMENTS?
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