



MONTREAL

EXECUTIVE SUMMARY

- Workforce shortage driving significant changes, especially in office and retail sectors.
- First WELL-certified buildings to be delivered in Montreal in 2020.
- Forthcoming development projects to drastically emphasize wellness and productivity.
- Commercial real estate investment and development to increase outside of Montreal, led by multi-family activity.
- Greater Montreal Area investment volumes steadily increasing over the past five years.

Photo Credit: Samuel Charron on Unsplash

In Montreal, unemployment reached 5.7% in October 2019. With a workforce shortage, employers are facing major challenges in order to attract and retain qualified employees. The growing number of millennials in the labour force have demands that differ from previous generations, including a renewed focus on the physical work environment and a desire for a healthy and amenity-rich workplace.

As office vacancy has been slowly but steadily decreasing in the Greater Montreal Area (GMA) over the past few years, reaching 10.5% at the end of 2019, vacancy rates are expected to remain relatively stable through 2020. The same goes for occupancy costs, which increased slightly during 2019 as vacancy decreased – reaching \$28.53 per square foot (psf) gross at the end of 2019 – and should hover around \$29 psf in 2020. Investment in the office market totalled more than \$1.6 billion, fuelled mainly by the sale of 1250 René-Lévesque Boulevard West and that of 600 and 700 De La Gauchetière Street West in Downtown Montreal. Office investment volume is expected to decrease in 2020, but it could still include significant transactions such as the sale of the Montreal World Trade Centre by Ivanhoé Cambridge, which is expected to close in early 2020, as Allied Properties REIT entered into an agreement to acquire the property for \$276 million.

No significant new office building announcements are expected over the course of 2020; however, it is anticipated that forthcoming development projects will emphasize wellness and productivity within their proposals. While it has not yet been launched, Cadillac Fairview's 750 Peel project is designed to achieve WELL Building Standard certification, in addition to the LEED Gold certification under the Canadian

KEY MARKET METRICS – 2020 EXPECTATIONS

Annual growth rates, estimated for year-end 2020 vs year-end 2019

	OFFICE	RETAIL	INDUSTRIAL
Rental Growth	↑	↑	↑↑
Vacant Space	↑	↑	↑
Construction Levels	↓↓	→	↓↓↓
Leasing Volume	↓↓↓	↑↑	↓↓↓
Investment Volume	↓↓	↓	↑

Green Building Council's new, more rigorous Version 4 standards. Upon delivery, 750 Peel will aim to maximize productivity while emphasizing convenience and comfort for the people who work there.

As work environment has become a decisive element for employee health and productivity, new wellness standards such as WELL and Fitwel have become key components in the development of premises and buildings across the globe. Montreal is no exception, as the city's first buildings aiming for WELL Building Standard certification will be delivered in 2020. The 39-storey, mixed-use project, Humaniti, and the first phase of co-working hub, Fabrik8, will open their doors in the coming months, providing occupiers and tenants with a modern environment designed to promote well-being while improving employee recruitment, retention and productivity for occupiers.

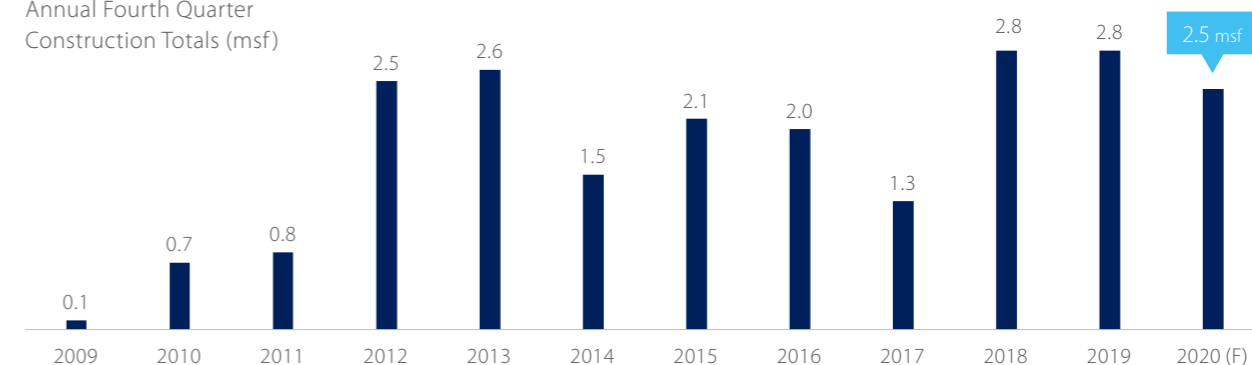
Montreal's industrial real estate market is still impacted by the same challenges it has faced in the past: a lack of modern facilities with sought-after features such as ceiling heights above 30 feet, better efficiency and

flexible configurations, as well as a scarcity of industrial land available for development on the island of Montreal. Industrial vacancy subsequently reached an all-time low of 2.5% at the end of 2019. Given the lack of quality product available in the GMA, most industrial users choose build-to-suit options located mostly off-island and have little to no impact on the vacancy rate. As such, five out of the seven industrial development projects delivered in 2019 were 100% preleased, while only slightly more than 133,000 square feet (sf) were left available in the two remaining projects.

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OFFICE AREA UNDER CONSTRUCTION

Greater Montreal Area
Annual Fourth Quarter
Construction Totals (msf)



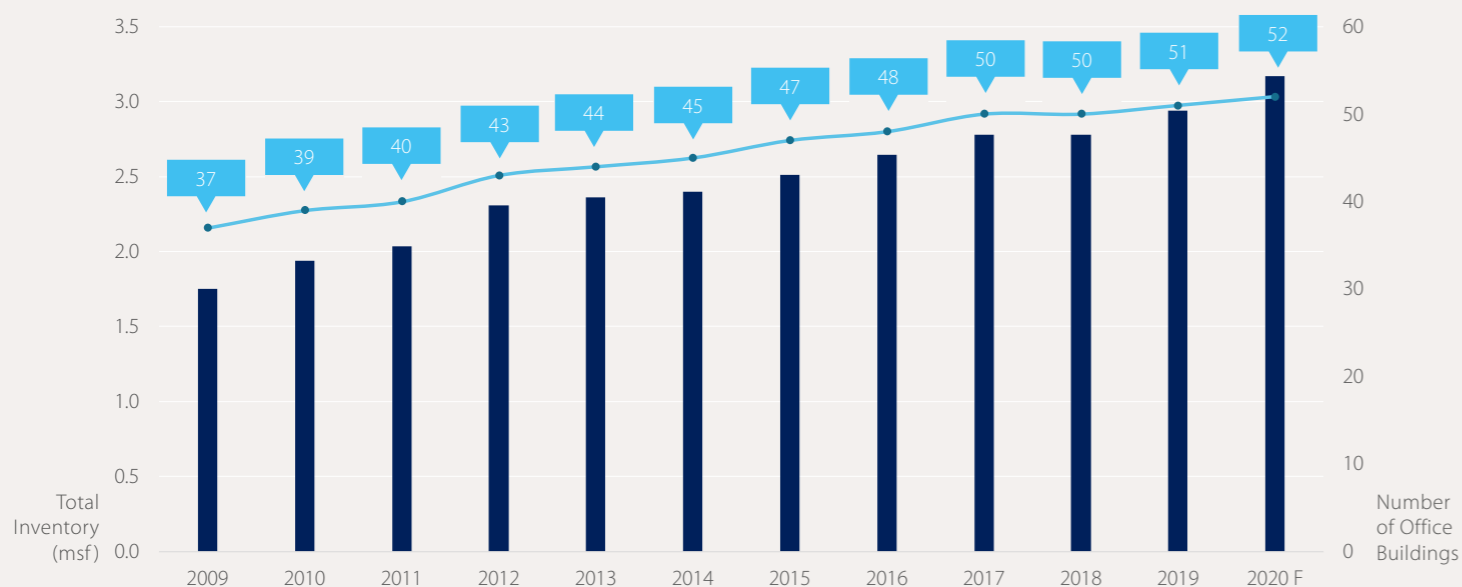
As such, on the North Shore of Montreal, furniture retailer Structube opened a new, 581,600-sf facility in Laval in 2019, the largest distribution centre in the city. Valued at more than \$80 million, the new complex is home to a gigantic warehouse and distribution centre, a showroom and the company's headquarters. Similarly, Molson-Coors will relocate its iconic brewery – located east of Downtown Montreal – to Saint-Hubert on the South Shore of Montreal, with the new location set to open in 2021. Totalling more than 837,000 sf, the new brewery will be located on a 140-acre site near the Montreal-Longueuil-Saint-Hubert airport, which is expected to generate significant activity in the airport sector, and could initiate an important increase in industrial development in the area, with proximity to Highways 10, 20 and 30.

The number of retail bankruptcies and closures in Montreal has been reaching alarming levels in recent years. The causes are many: the drastic increases in property taxes and asking rents, the rise of e-commerce, road construction activity all over the island of Montreal, as well as the lifestyle habits of millennials and the historically low unemployment rate. While Quebec retailers recognize the importance of e-commerce in their business plan, many have difficulty prioritizing the allocation of necessary resources, especially with the low-unemployment climate and the increasing expenses relating to their place of business. Facing the growing popularity of retail giants – who rely on technology, artificial intelligence, loyalty programs and supply-chain optimization – retailers must come up with new concepts

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SOUTH SHORE WEST OFFICE INVENTORY

Total Existing Office Area (msf); Total Number of Existing Buildings



to provide customers with a unique in-store experience in order to survive. As retail business models change in the coming years, the format of brick-and-mortar stores will keep evolving as premises decrease in square footage and emphasize on-site experience for clients.

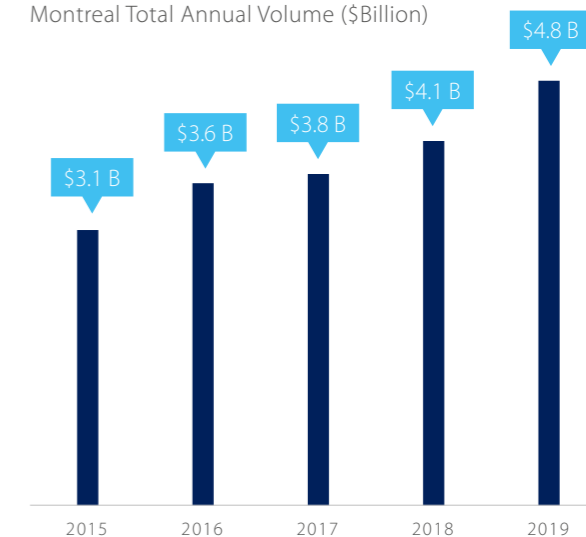
Shopping centres also have to modernize and diversify customer experience in order to meet new retailing standards. As such, major retail centres such as Ivanhoé Cambridge's Montreal Eaton Centre, Cadillac Fairview's Fairview Pointe-Claire and Cominar's Rockland Centre have launched extensive renovation programs over the past two years. At the Montreal Eaton Centre alone, Ivanhoé Cambridge invested \$200 million to help its retailers provide a better downtown shopping experience, while merging Complexe Les Ailes with the Eaton Centre. With the unification of the two brands, the new centre will offer a fully integrated and redefined retail environment, providing an enhanced commercial offering and modern shopping experience, with new retailers such as Décathlon (2019) and Uniqlo (2020) that will reflect the newest trends in retailing, including a 40,000-sf Time Out Market gourmet food hall.

Investment volumes in the GMA have increased steadily over the past five years as investors remain aggressive amid a scarcity of attractive product and strong appetite for quality assets. Investment volumes were led by the office sector in 2019 as three major office buildings traded in Downtown Montreal, followed by multi-family investments and land sales, both on- and off-island. With the record investment volumes in office sales, multi-family sales are expected to shift to first place in 2020 as fewer office investment opportunities are known to be coming to the market in 2020 after the significant number of transactions that occurred in 2019. Overall capitalization rates for class A office buildings Downtown Montreal should remain around 5%, which is consistent with the past few years. The average price per square foot should also remain relatively stable, hovering around \$420 psf.

A new Montreal bylaw, known as "20-20-20", promotes the construction of social, affordable and family housing as part of all multi-family real estate development projects.

INVESTMENT VOLUME

Montreal Total Annual Volume (\$Billion)



The investment market will most likely be impacted by important factors in 2020, including the construction of the Réseau express métropolitain (REM), which will link the South Shore of Montreal to the Montreal-Trudeau Airport, the West Island and the rest of Montreal's public transit infrastructure as well as Montreal Mayor Valérie Plante's new bylaw, known as "20-20-20." In short, the 20-20-20 bylaw promotes the construction of social, affordable and family housing as part of all multi-family real estate development projects. Condominium prices are forecasted to rise as developers will need to make up for the financial losses caused by the implementation of social housing and affordable units. Sectors outside of the Montreal boroughs and the off-island suburbs should see an increase in commercial real estate investment, particularly those that will be serviced by the new REM lines. As such, between 2018 and 2020, an impressive number of office buildings, hotels, rental apartments, condominium buildings and seniors' residences have been launched in the western portion of the South Shore market. Some have already been delivered while others will be delivered over the course of 2020 and 2021, particularly around Solar Uniquartier and Quartier DIX30 in Brossard, both of which will be serviced by the Du Quartier REM station. With the delivery of the Du Quartier station, along with the Panama station and the REM terminus, the city of Brossard could be the logical target for significant investment in years to come.