

Quick Stats

2.24

million square feet

Absorption
Mid-Year 2020

2.32

million square feet

Under Construction
Mid-Year 2020

\$11.07

per square foot

Estimated Gross Rent
Mid-Year 2020

3.1%

Total
Availability Rate
Mid-Year 2020

Industrial Market Snapshot

Greater Montreal Area

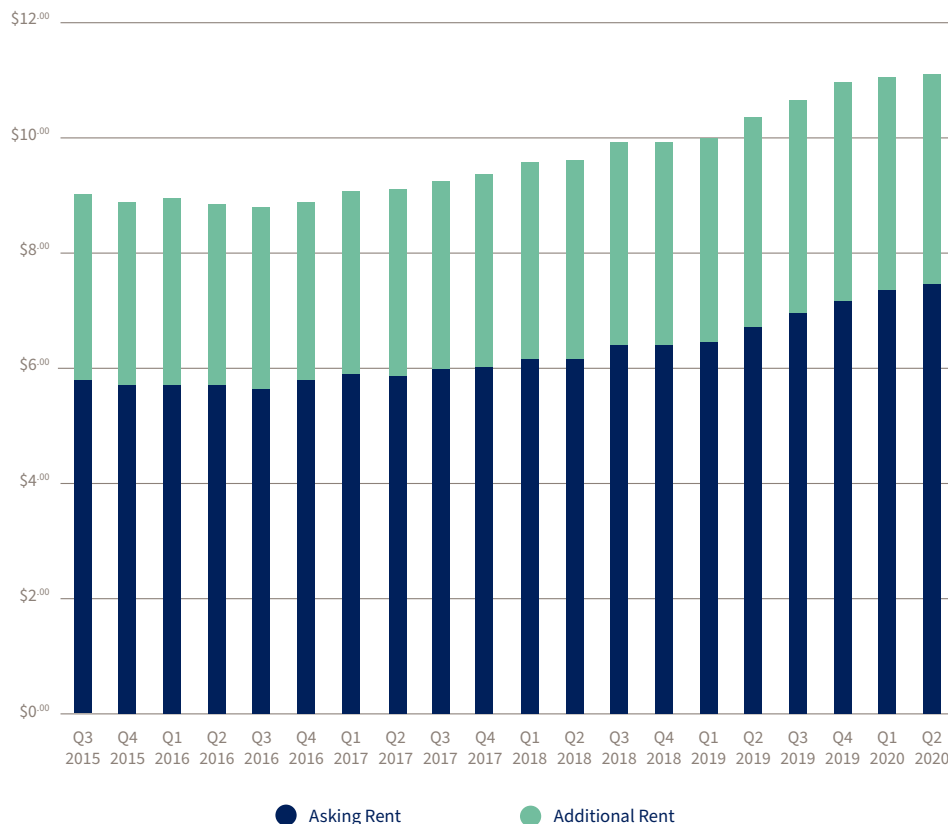
Mid-Year 2020

With the drastic increase in online sales during the COVID-19 pandemic, demand for distribution centres exploded across Canada as the coronavirus impacted retail supply chains all over the country, exacerbating the lack of quality industrial product available in the Greater Montreal Area (GMA). Montreal's industrial real estate market has been historically impacted by 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.

As the new consumer behaviour may persist long after the reopening of the provinces and businesses, there will be an increasing need for warehouse space and distribution facilities, including last-mile delivery. The pandemic and the supply chain breakdown that occurred worldwide also pushed industrial and retail operators to adopt new technologies to face the demand and the "new normal", which will further impact the Montreal industrial market. In parallel, more and more companies are becoming less dependent on Chinese production, while bringing back transformation and production to North America, further emphasizing the de-globalization trends we have been witnessing over the past few years.

Long before the pandemic, the lack of quality product available in the GMA pushed most industrial users to typically choose build-to-suit options located off-island, which has little to no impact on the vacancy rate. For example, 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 at the beginning of the year.

Occupancy Costs



Quarter	Estimated Asking Rate	Estimated Additional Rent	Estimated Gross Rent
Q2 2020	\$7.37 psf	\$3.70 psf	\$11.07 psf
Q1 2020	\$7.20 psf	\$3.79 psf	\$10.99 psf
Q4 2019	\$6.98 psf	\$3.69 psf	\$10.67 psf
Q3 2019	\$6.75 psf	\$3.64 psf	\$10.39 psf
Q2 2019	\$6.46 psf	\$3.55 psf	\$10.01 psf
Q1 2019	\$6.44 psf	\$3.51 psf	\$9.95 psf
Q4 2018	\$6.40 psf	\$3.58 psf	\$9.98 psf
Q3 2018	\$6.19 psf	\$3.44 psf	\$9.63 psf
Q2 2018	\$6.17 psf	\$3.42 psf	\$9.59 psf
Q1 2018	\$6.04 psf	\$3.34 psf	\$9.38 psf
Q4 2017	\$6.00 psf	\$3.28 psf	\$9.28 psf
Q3 2017	\$5.86 psf	\$3.25 psf	\$9.11 psf
Q2 2017	\$5.89 psf	\$3.21 psf	\$9.10 psf
Q1 2017	\$5.82 psf	\$3.11 psf	\$8.93 psf
Q4 2016	\$5.67 psf	\$3.13 psf	\$8.80 psf
Q3 2016	\$5.73 psf	\$3.13 psf	\$8.86 psf
Q2 2016	\$5.74 psf	\$3.23 psf	\$8.97 psf
Q1 2016	\$5.71 psf	\$3.22 psf	\$8.93 psf
Q4 2015	\$5.80 psf	\$3.25 psf	\$9.05 psf
Q3 2015	\$5.79 psf	\$3.23 psf	\$9.02 psf

Source: Altus Group Limited

At the end of the second quarter of 2020, a little over 2,3 million square feet (msf) of industrial space (2,318,855 sf) were under construction in the GMA, only 29,374 sf of which were available for lease at the end of June, which represents an availability rate of only 1.3% for the new supply.

The Montreal industrial market recorded a positive absorption of 490, 859 sf over the second quarter of 2020, which brings the total industrial absorption to 2,240,057 sf since the beginning of the year. The most significant activity occurred in the submarket of Laval during the second quarter, where the total availability rate dropped to 1.6% as 301,399 sf were leased, nearly 80% of which are attributable to Amazon.

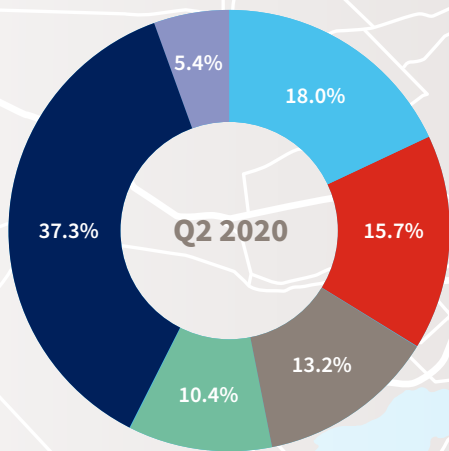
In May of 2020, Amazon signed a 7-year lease for 240,000 sf of warehouse space at 5555 Ernest-Cormier Street in *Parc Industriel Autoroute 25* in Laval. The property will become Amazon's second distribution centre in Quebec, and will see significant investments in order to increase expedition capacity.

Amazon has been very active in the Montreal market over the past few years, after launching the construction of a 155,000-sf data centre for Amazon Web Services in Varennes, on the South Shore of Montreal.

Additionally, in November of 2019, the company announced a \$38 million investment for the transformation of a 180,000-sf industrial facility located at 3000 Louis-A.-Amos Street in Lachine, which will become its first distribution centre in Quebec. Work is currently underway, and the facility should be functional by the Holiday season, generating some 300 jobs. Attracted to Quebec for its clean resources, Amazon plans on investing up to \$1 billion in Quebec over the next 10 years, mainly for its cloud platform Amazon Web Services.

Occupancy costs for industrial real estate properties in and around Montreal significantly increased over the past few years, mostly fueled by the lack of product available. Average net asking rents for industrial properties in the GMA reached \$7.37 per square foot (psf) at mid-year 2020 from \$6.46 only 12 months prior. Additional rents averaged \$3.70 psf at the end of June 2020, up from \$3.55 psf one year before, which brought the average gross rental rate to \$11.07 psf from \$10.01 psf at mid-2019.

Sales



Laval	\$70,427,646	18.0%
South Shore	\$61,888,144	15.7%
West Island	\$51,603,916	13.2%
East End	\$40,705,000	10.4%
Midtown	\$146,125,719	37.3%
Downtown	\$21,200,000	5.4%
Total	\$391,950,425	100.0%

Laval
\$70,427,646

East End
\$40,705,000

Midtown
\$146,125,719

South Shore
\$61,888,144

Downtown
\$21,200,000

West Island
\$51,603,916

Overall the industrial sector showed more resilience to the pandemic than expected, as total industrial investment volumes reached \$163,401,678 for the second quarter, (an average price of \$155.71 psf), bringing the mid-year total to \$392 million at the end of the month of June.

COVID-19 seriously impacted all investment markets in Quebec, but it seems like industrial sales remained somewhat active during the first half of 2020, as 36 transactions above \$1 million were recorded in the first quarter and 26 were recorded in the second quarter, when the pandemic and the confinement hit the economy the hardest.

We are expecting investment volumes to pick up in the third quarter, backed by the increasing demand for quality industrial properties and the strong appetite for quality assets from Canadian investors.

The growing industrial demand from investors is partly fueled by the continued increase in the average rental rates across most markets in Canada, which is due to the historically scarce availability of industrial space and the sustained demand.

This indirectly applies downward pressure on capitalization rates as investors anticipate growth rate of average rental rates to be appreciably higher than that of inflation in the months and years to come.

As such, overall capitalization rates for multi-tenant industrial properties reached 5.2% at the end of the second quarter of 2020 (which represents \$123.98 psf), down from 5.7% one year prior, and capitalization rates for single-tenant properties dropped from 5.4% to 5.0% (\$135.62 psf) year-over-year.

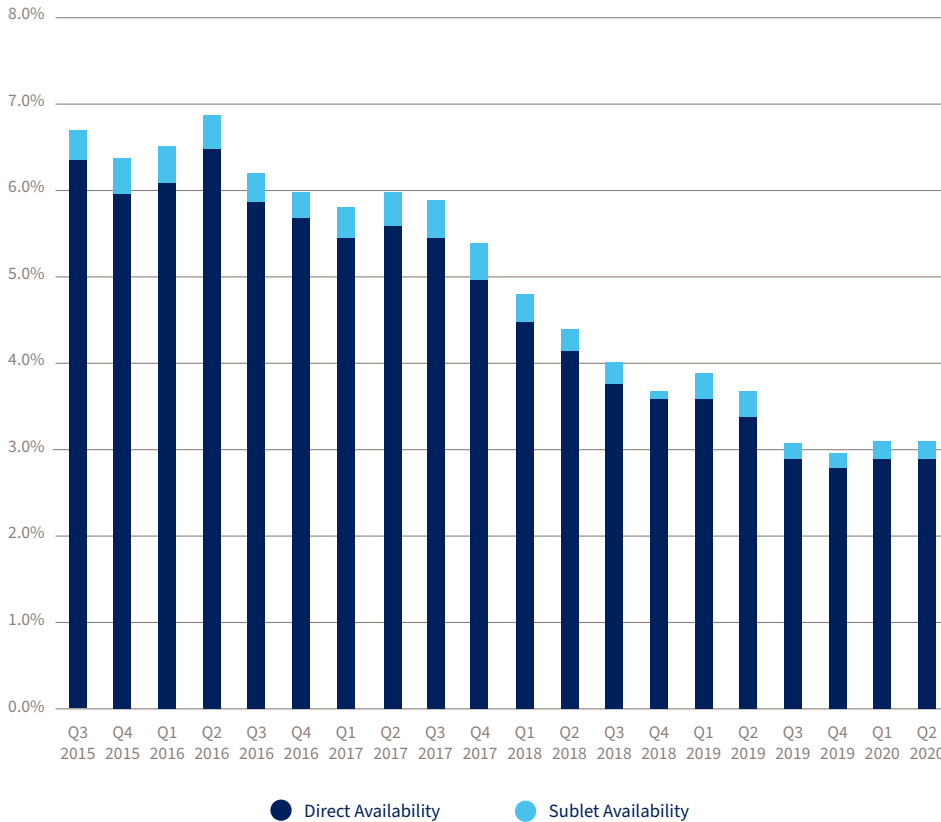


Capitalization Rate
Multi-Tenant Industrial
Mid-Year 2020



Capitalization Rate
Single-Tenant Industrial
Mid-Year 2020

Availability



Quarter	Direct Availability Rate	Sublet Availability Rate	Total Availability Rate
Q2 2020	2.9%	0.2%	3.1%
Q1 2020	2.9%	0.2%	3.1%
Q4 2019	2.8%	0.2%	3.0%
Q3 2019	2.9%	0.2%	3.1%
Q2 2019	3.4%	0.3%	3.7%
Q1 2019	3.6%	0.3%	3.9%
Q4 2018	3.6%	0.1%	3.7%
Q3 2018	3.8%	0.2%	4.0%
Q2 2018	4.2%	0.2%	4.4%
Q1 2018	4.5%	0.3%	4.8%
Q4 2017	5.0%	0.4%	5.4%
Q3 2017	5.5%	0.4%	5.9%
Q2 2017	5.6%	0.4%	6.0%
Q1 2017	5.5%	0.3%	5.8%
Q4 2016	5.7%	0.3%	6.0%
Q3 2016	5.9%	0.3%	6.2%
Q2 2016	6.5%	0.4%	6.9%
Q1 2016	6.1%	0.4%	6.5%
Q4 2015	6.0%	0.4%	6.4%
Q3 2015	6.4%	0.3%	6.7%

Source: Altus Group Limited

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