

A CONNECTED ISLAND GREATER MONTREAL CRE

BY ROBERT CRESSATY, SIOR

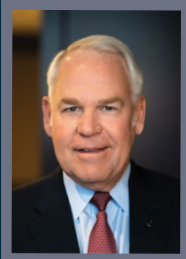


As Canada's largest French speaking city, Montreal is a unique melting pot of people and ideas. For many, the images that come to mind of Montreal are of European-style cobblestone streets, abundant festivals, and a population that embodies a "joie de vivre" lifestyle. While culture and history underpin Montreal's current reality, the city deserves a refreshed image abroad: one of cutting-edge, high-tech sectors, a world class Artificial Intelligence (AI) ecosystem, and a red hot strategic industrial position. The city has changed over the past decade and, from a commercial real estate perspective, has never been more exciting.

The Greater Montreal Area (GMA) comprises the island and city of Montreal as well as surrounding municipalities. The reality of being on an island has important impacts on the local real estate market, as the difference in transportation costs and appeal for potential employees can vary greatly depending on which side of the bridge you are on. Let this article serve as a guide to some of the unique characteristics of this city and to the major trends impacting Montreal's office and industrial real estate markets.

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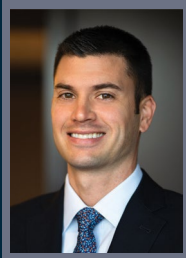


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MONTREAL'S OFFICE MARKET

In recent years, Montreal's office market has been dominated by two major trends: the delivery of new Class A towers to the downtown submarket, and the surge in popularity of midtown markets with loft style light industrial conversion space catering to high-tech, creative, and start-up sectors.

Starting in 2015, new skyscrapers were added to the Montreal skyline in significant numbers for the first time since the early 1990s. These towers (which, along with any building constructed in the downtown core, legally cannot be taller than the city's iconic Mont Royal) are representative of renewed business investments that started to take place in the province and the city in 2013.

With this new inventory, we are witnessing a "flight-to-quality" phenomenon in which companies are leaving behind older buildings to locate in higher quality space in more environmentally friendly properties (LEED, etc.). As a result, older Class A buildings are being forced to undergo significant renovations in order to remain competitive (many of Montreal's most iconic towers, such as Place Ville Marie, were built between the 1960's and 1980's).

Options outside of the downtown core have been growing in popularity with the conversion of old industrial buildings—such as garment factories—into trendy loft style office space. This has been particularly popular for creative/fashion industries, high-tech sectors, and associated start-up companies. A somewhat recent user of space, and a force pushing the midtown submarket known as Mile Ex, is the AI community. Montreal has emerged as a global AI hub with the world's largest concentration of

academic researchers in deep learning and Canada's designated AI research supercluster.

Montreal is known for having a highly skilled workforce in these technology and scientific sectors (supported by the presence of leading universities, such as McGill and the University of Montreal, a preeminent AI research school). The relatively modest cost of living and the pull of an exceptional cultural and food scene make it appealing to labor across the world, especially those coming from expensive cities in North America like Seattle, the Silicon Valley area, and Toronto.

The impacts of COVID-19 across the GMA office market is hard to determine at this point, and mirrors the questions being asked across North America: how long will shutdowns last? How many businesses will shift permanently to a work from home model? How will distancing measures be accommodated? There is a lot of uncertainty, though for the short term, occupancy rates have remained stable. The above mentioned high-tech and creative sectors are expected to be resilient in today's economy and may support recovery of the GMA office market going forward.

MONTREAL'S INDUSTRIAL MARKET

Montreal's strategic location along the Saint Lawrence seaway long ago established it as a critical transportation hub in North America. In fact, the presence of the Lachine Canal is what spurred much of Montreal's industrialization in the mid-to late 19th century as it allowed ships to bypass the dangerous rapids. Today, the Port of Montreal is the largest port in Eastern Canada, processes 2,000 vessels per year, and is connected to over 140 countries. Montreal is also a North

American aerospace capital. The city's status as a critical industrial hub and strategic transportation route have been cemented.

The story of Montreal's industrial market over the past three years is one of incredible growth, fueled by insufficient supply to meet increasing demand. This demand stems primarily from e-commerce, logistics, and fulfillment centers (like nearly every other North American market, Amazon has been very active in the market over the past year). This situation is further impacted by the quality of existing inventory in Montreal, much of which lacks modern appeal and desirable characteristics such as adequate ceiling heights and flexible space configurations. Finally, the reality of being an island has compounded the lack of centrally located available industrial development land.

With industrial net rental rates amongst the lowest in a major Canadian market, around \$5.00 per square foot between 1990-2018, and demand for space increasing, we saw vacancies decline below 3.0%. The reduced industrial supply and attractiveness of the local market pushed net rental rates for existing properties to new heights, which are now between \$6.50-\$8.50 per square foot with additional rent between \$3.00-\$4.00 per square foot.

Other factors contributing to Montreal's appeal to industrial users are: proximity to US and Ontario markets; relatively low occupancy costs, in comparison to the Greater Toronto and Vancouver areas; and inexpensive and clean electricity (the province runs on hydropower and has some of the cheapest electricity rates in North America).

The momentum in the market from the beginning of 2020, supported by continued interest from e-commerce and

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logistics groups, has set up the Montreal industrial market to be resilient in the face of COVID-19 and the associated impacts. If anything, the government mandated pause of the construction industry from mid-March to late May built up additional demand for space.

THE RÉSEAU EXPRESS MÉTROPOLITAIN PROJECT

Once again, transportation is one of the primary development factors impacting Montreal at the moment. Announced in 2016, the Réseau Express Métropolitain (REM) is a 67 kilometer (42 mile) autonomous rail system. Construction is currently underway, with the first trains expected to be running by the end of 2021. However no official statement has been made about the impact of the construction halt in the spring on this schedule.

With 26 stations, the REM will be one of the largest automated networks in the world after Singapore, Kuala Lumpur, Dubai, and Vancouver. It also represents the largest investment in public transit infrastructure in Montreal since the construction of the metro system in 1966. The estimated cost of the project is \$6.3 billion CAD.

Potential impacts on the real estate market are multiple: it will promote the development of previously difficult to access employment nodes, it will change the development of residential patterns on and off the island, and Transit

Oriented Development (TOD) patterns are expected to develop around the future stations. Access to public transit has been historically linked to property values and development patterns in Montreal.

Finally, the REM is planned to add a long-desired connection to Montreal International Airport from downtown in less than 30 minutes. However, COVID-19 has put this station in peril as much of the required financing was to come from airport authorities. With the dramatic drop in airport revenues faced in 2020, a revision to this financing must be explored.

In conclusion, while Montreal might be an island apart, it has never been more connected—be it to global knowledge industries, the web of e-commerce transportation routes, or in moving its own population.

Despite the uncertainty our world continues to face in the wake of the COVID-19, our hope is that in Spring 2021, you will be able to come witness the city's energy and vibrancy in person. ♥

MEET THE AUTHOR

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