Greater Montréal investment review

H1 2024

AVISON YOUNG

Montréal investment market poised for rebound

After one of the most sluggish real estate investment markets in 2023, 2024 can already be categorized as a bounce-back year. Investor appetite is on the rise, sales volumes are improving, and the market is showing signs of revitalization.

The three consecutive policy rate cuts in June, July and September further bolster this positive trend, fostering greater confidence among investors and driving increased activity. With these encouraging developments, the real estate market is poised for continued improvement for the remainder of 2024, marking a significant turnaround from last year's challenges. Investors are seizing opportunities, and the momentum is expected to build as market conditions become increasingly favorable.

One long-term investment theme continues: the ongoing under-supply, coupled with surplus demand. This dynamic is underpinned by a continuously growing population, which directly translates to a heightened need for both residential and commercial spaces. With interest rates finally beginning to come down, borrowing costs for businesses are decreasing. This spur business investments and expansions, further increasing the demand for industrial and commercial spaces. Lower borrowing costs also make real estate investments more attractive, encouraging activity across all sectors of the market.

Private real estate investment in Québec is approaching new heights, a sign of continuing interest in the local market. Today’s real estate investment landscape presents both opportunities and challenges, including the transformation of the industrial sector, the housing shortage exacerbated by the limited supply of apartment construction and persistently high office vacancies.

To sum up, while the Greater Montréal Area should benefit from a more stable financial market environment and positive fundamentals, investors must remain vigilant in the face of uncertainties. The need for careful monitoring and strategic decision-making is emphasised to meet potential challenges and capitalise on emerging opportunities in this rapidly changing landscape.

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Investment market trends

01

Return of institutional players on the investment scene

Against a backdrop of financial uncertainty markets in 2022 and 2023, institutional players were much less active, which made more room for well-established private investors to play in the big leagues. In the segment of transactions worth $10 million or more, traditionally dominated by institutional capital, the share of investment volume accounted for by private buyers rose from 51% in 2022 to 80% in 2024.

The return of institutional capital for major transactions should increase competition in this segment and exert downward pressure on capitalization rates. Well-capitalized buyers will continue to have an advantage over leveraged buyers, despite falling interest rates.

02

Focus on rates shifts from *when* to *how many times*

Following interest rate cuts of 75 bps since June, lowering the Bank of Canada's policy rate to 4.25%, financial conditions continue to ease and are cementing the Bank of Canada's downward trajectory. This is giving some leeway to buyers and improving deal-making sentiment.

Major stakeholders are already adapting their strategies as further cuts gets priced-in and we get further into a new easing cycle. Economists are forecasting more rate cuts in the coming months , as the benchmark overnight rate could reach 4% by December and 3.5% by mid-2025.

In that context, the focus has shifted from *when* to *how many times*. Investors are gearing toward capital deployment to seize the best opportunities before competition intensifies.

03

Montréal's spot in a Canadian portfolio

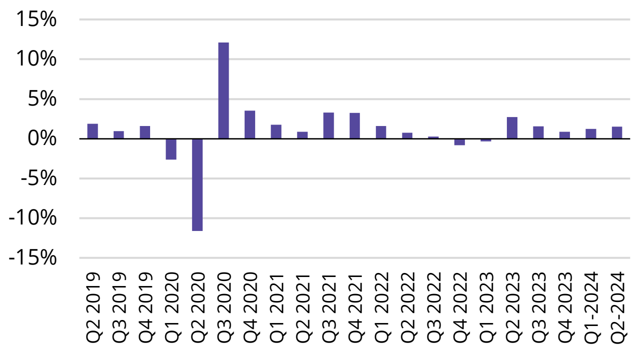
While the Greater Toronto market leads the Canadian investment market with close to half of the country's sales volume, Montréal has maintained a steady second place, with a 22% share of all activity in H1 2024, comparable to 2023 and previous years' averages.

Considering recent investment activity was largely dominated by local investors, this share of national sales volume in a period of volatility and uncertainty is a testament that Montréal-based players have the means and the will to deploy capital in a market they know best.

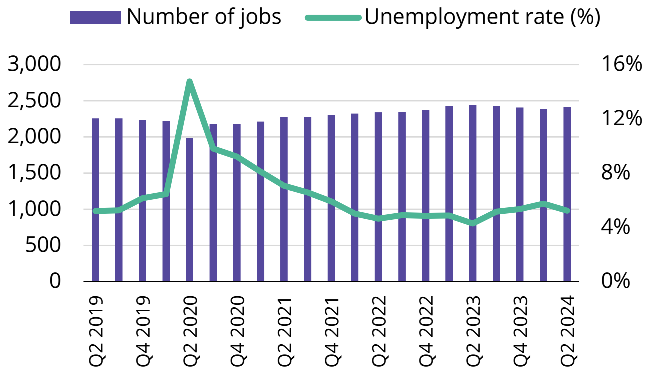
As predictability boosts investor confidence, national players will however come back, raising velocity and narrowing bid-ask spreads. The Greater Montréal area (GMA) will, once again, play an integral role in investor's capital allocation strategy.

Greater Montréal economic snapshot

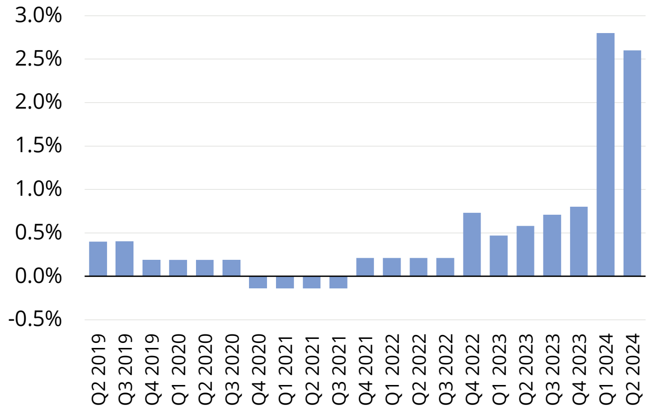
GDP growth (%)



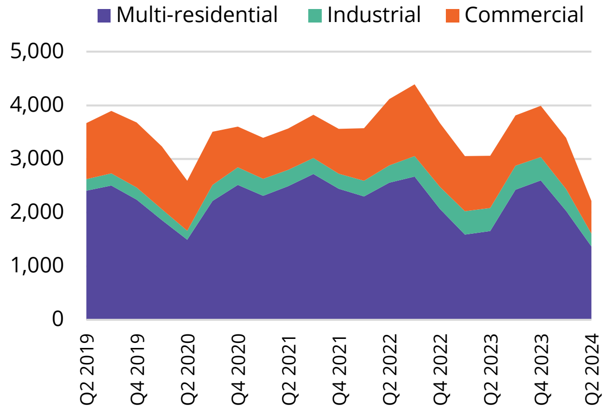
Employment growth (000 and %)



Population growth (%)



Investment in construction (millions $)



Strong population growth is fueling a cumulative 2.77% GDP growth for the GMA. However, this contrasts with a decline in GDP per capita of -1.34% since the beginning of the year.

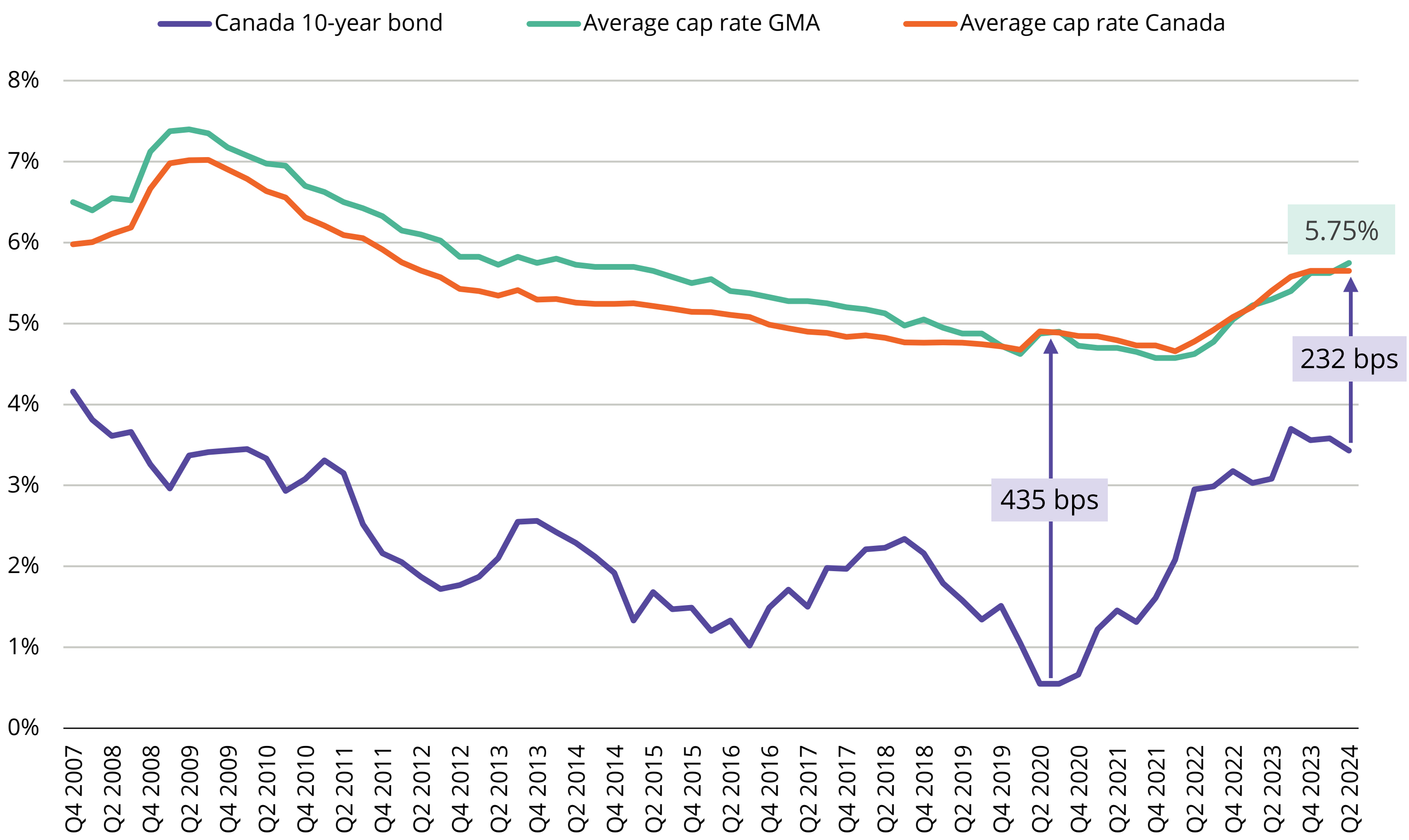
Unemployment has not moved from pre-pandemic levels of 5.22%.
This highlights a significant mismatch between current workforce skills and employers' needs. This gap impacts decision making and is especially visible in the construction sector as companies remain cautious about embarking on capital-intensive projects.

A shift towards renewed economic expansion is anticipated as rate cuts progressively impact the economy.

Source: Oxford Economics and Statistics Canada

Greater Montréal investment market indicators

National cap rate trends



Source: Altus ITS and Bank of Canada

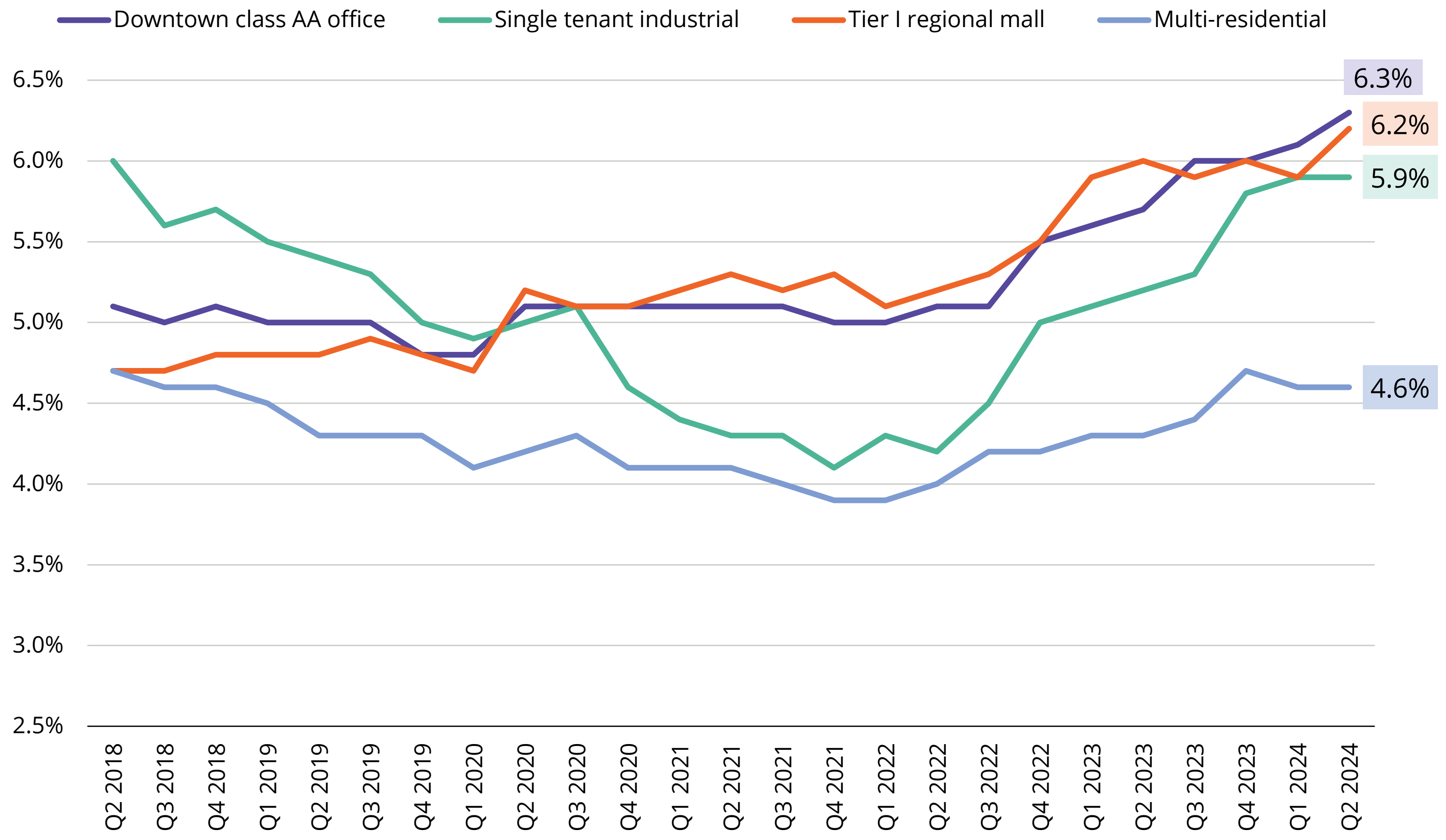
National and local average capitalization rates have stabilized after a period of upward momentum. With the impact of recent rate cuts just materializing, further downward movement should take place in the back half of 2024 or early 2025 for the best products.

As 10-year bonds fall and lenders loosen their lending standards, transactional and construction activity should pick up, having a positive effect on supply and demand.

Securing opportunities at attractive yields across various sub-markets and asset classes will hinge on first-mover advantage to maximize the benefits of more favorable market conditions.

Greater Montréal investment market indicators

GMA capitalization rate trends



Source: Altus investment trend survey Q2 2024

Property valuations, previously obscured due to a lack of volatility, are becoming more transparent as the market settles and activity picks up again.

Capital remains strongly allocated toward industrial and multi-residential sectors, suggesting that capitalization rates for these assets may further diverge from those of office and retail.

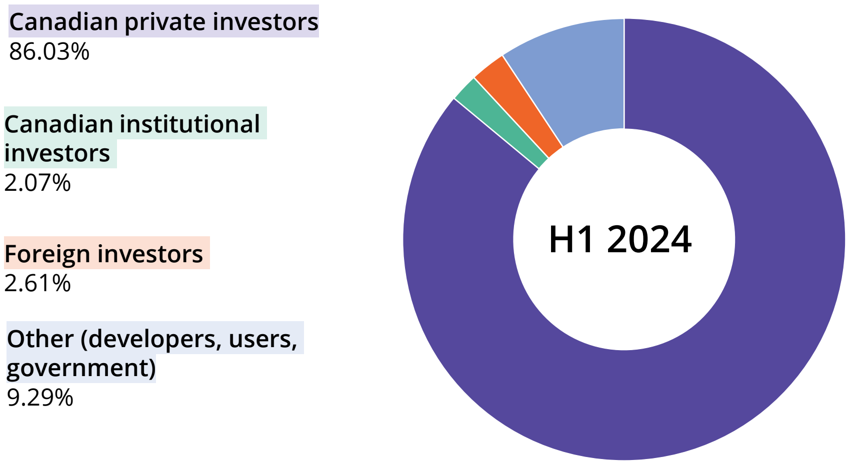
Greater Montréal investment activity

11%

year-over-year increase in GMA investment volumes

Investment volumes in the GMA grew 11% year-over-year. Industrial and multi-residential assets saw a 29% and 41% increase in investment, respectively. This surge was prompted by the increase of capital gains inclusion rate and led to investors rushing to finalize transactions before the June 25th deadline. In contrast, office investment volumes decreased by 64%, as average transaction price decreased from $7.9M to $3.7M between H1 2023 and H1 2024. ICI land transactions, which comprised about 15% of 2023's sales volume, have declined by -17% which can be attributed to high construction costs, stringent zoning laws, and a shortage of suitable land to match the demand. This could delay new developments and further constrain supply.

Transaction by investor profile – GMA



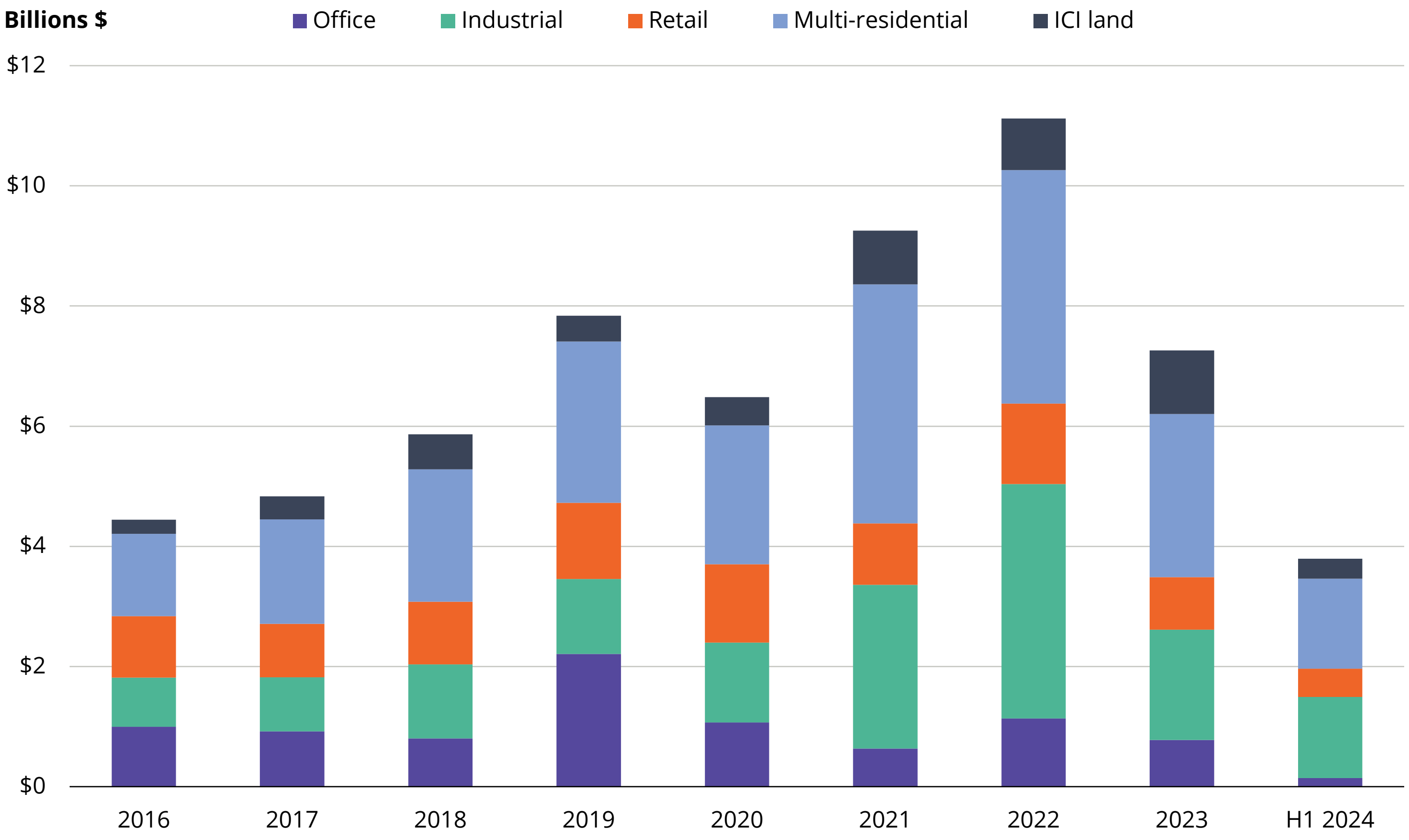
Sales volumes year-over-year

Property types	H1 2024	H1 2023	Change YoY
Industrial	$1.35B	$959M	**41%**
ICI Land	$333M	$403M	**-17%**
Multi-residential	$1.49B	$1.16B	**29%**
Retail	$473M	$503M	**-6%**
Office	$140M	$388M	**-64%**
Total	**$3.79B**	**$3.42B**	**11%**

Source: Altus Data Studio

Greater Montréal investment activity

Transaction by asset class



Source: Altus Data Studio

Industrial and multi-residential assets continue to be the top choices for investors. The leasing fundamentals of industrial properties remain strong and relatively inelastic, as leases typically span 3, 5, or even 10 years, reinforcing their stability.

The multi-residential segment is underpinned by chronic undersupply and high demand, creating constant upward pressure on rents mitigating the rise in financing cost.

Conversely, office and retail assets are increasingly valued through redevelopment perspectives. There is a growing expectation that these assets will be repurposed into mixed-use or residential projects to enhance profitability and align with evolving market demands.

Industrial

Appetite remains

With the pandemic-induced surge in logistics and distribution subsiding, 3PL companies are left with an excess supply of space. As leases signed three years ago at historically high rates begin to expire, a notable increase in vacancy and subleasing of large-bay industrial spaces is emerging. Concurrently, demand is shifting towards smaller industrial spaces.

Developers will need to adjust their offerings to cater to smaller tenants' healthy demand, potentially through subdividing larger spaces or developing industrial condominiums. Overall, the GMA industrial market remains however underpinned by strong fundamentals.

Investor interest in industrial properties endures, as evidenced by nearly $1 billion in transaction volume since the beginning of 2024, a 41% increase compared to H1 2023. Investment volumes in H1 2024 surpass levels seen before 2020.

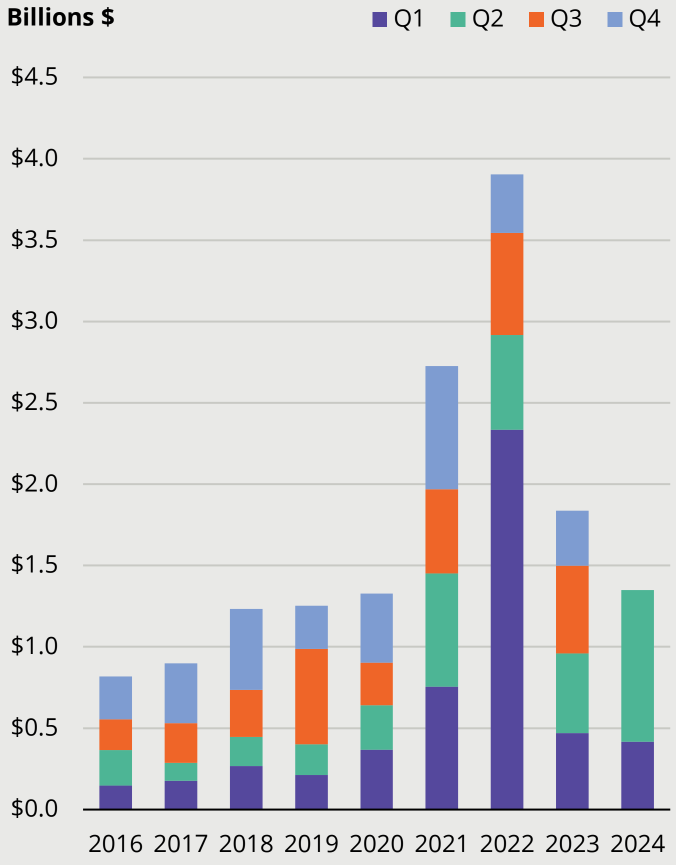
According to Avison Young's proprietary cap rate survey, cap rate for industrial assets across the Montréal region range from 6.25% for new properties to 6.75% for mature ones. Multiple significant transactions were also concluded with a price per square foot over the $200.

Industrial assets should continue to find their place in investor's portfolio as AI and automation trends continue to accelerate.

Significant sale transactions

Address	District	Sale price / $ psf	Buyer	Seller
2055 des Entreprises Boulevard	Terrebonne	$96,000,000 / $247	Groupe BMTC Inc.	RONA
Jacad portfolio	Anjou	$74,705,000 / $200	Vista Properties	Gestion Jacad
1000 Paul-Kane Place	Laval	$67,500,000 / $240	Groupe Mach	Zorg Inc.
Cansett portfolio	Saint-Laurent	$66,500,000 / $212	Woodbourne Capital Management	Immeubles Cansett Inc.
1595-1815 55th Avenue	Dorval	$44,358,995 / $279	Ari PQ Holdings	1595-1815 55th Avenue Holdings

Industrial investment volume



Source: Altus Data Studio

ICI land

High rates dampen transaction volume

The 12 to 18 months lag effect of interest rate hikes is particularly evident in the transactional volume of ICI land. Total activity fell by 17%, from $403M to $333M, for the same period last year.

At the end of 2022, with a policy rate at 4.25%, the Bank of Canada's hiking cycle was still in full swing. These increased costs affected the financial viability of both planned and projected projects.

A large portion of the sale volume over the past few years has also been attributable to industrial use.

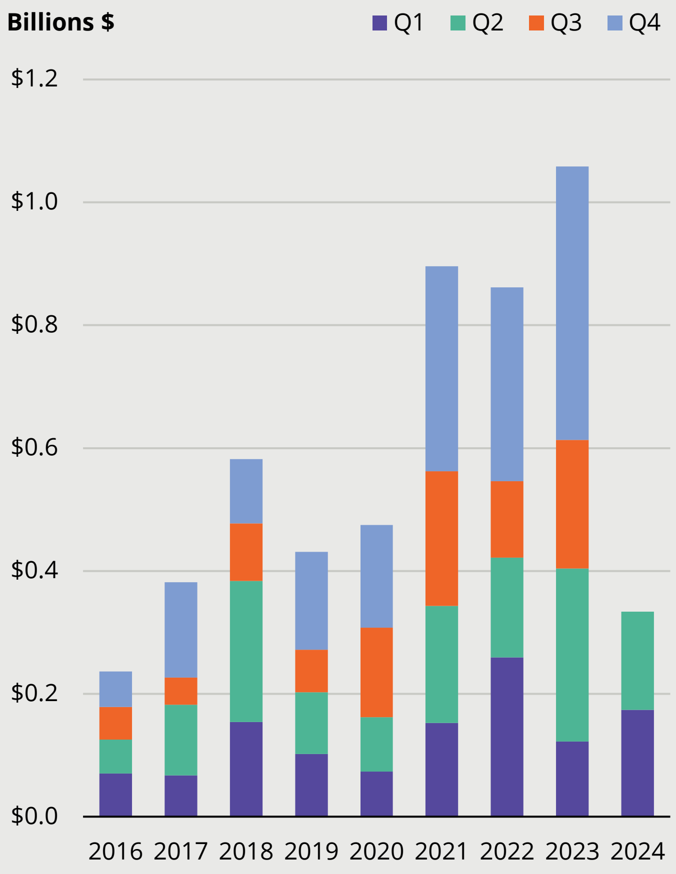
Nevertheless, significant land transactions have continued, driven by well-established investors and companies capable of absorbing higher financing costs.

The recent rate cuts are expected to reverse these trends, providing more flexibility to real estate developers. As financing costs ease, investor activity in the ICI land market is anticipated to increase especially given a sustained demand for industrial and multi-residential assets.

Significant sale transactions

Address	District	Sale price / $ psf	Buyer	Seller
De la Pinière Boulevard West (Commercial)	Terrebonne	113,330,689 $ / 47 $	Sobeys Capital	Rosefellow
De l'Acier Highway (Industrial)	Saint-Philippe	$75,597,620 / $18	Rosefellow	Le Groupe Maison Candiac
René-Lévesque Boulevard East (Commercial)	Ville-Marie	$73,731,304 / nd	Devimco	Groupe Mach
Avro Avenue (Industrial)	Pointe-Claire	$22,364,605 / $85	Manitoulin Transport Inc.	Olymbec
Jean-Noël-Lavoie Highway (Commercial)	Laval	$10,681,100 / $42	Albi le Géant	Groupe Mach

ICI land investment volume



Source: Altus Data Studio

Retail

Driven by demographics

Retail assets are experiencing a resurgence in investor interest. Capital is increasingly flowing back into metropolitan areas, particularly the GMA, where notable transactions are occurring.

According to Avison Young's proprietary cap rate survey, capitalization rates for various retail asset classes range from 6.00% to 7.00%, depending on the property type.

Despite demographic growth across the GMA, softer consumer spending per capita in the first half of the year has an adverse impact on retailers.

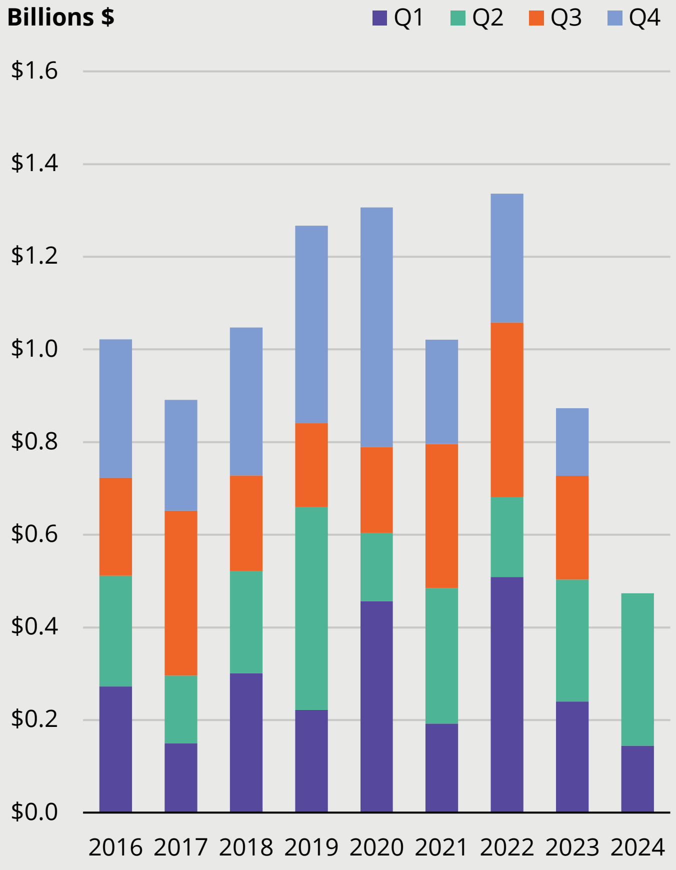
Rate cuts should give consumers a break by alleviating their debt burden. The opening of Royalmount, on September 5, is expected to enhance the quality of the region's retail ecosystem. This will potentially increase demand for real estate assets located near the site and in the surrounding area.

If investor interest persists, competition for quality retail assets could lower the required yields for strategically located properties, especially considering that current demand outstrips supply.

Significant sale transactions

Address	District	Sale price / $ psf	Buyer	Seller
5155 de la Rampe Road	C.-D.-N./N.-D.-G.	$49,516,599 / $270	Corporation de l'Ecole Polytechnique de Montréal	Université de Montréal
9 de la Seigneurie Boulevard East	Blainville	$20,700,000 / $261	Hydro-Quebec PF	Private
2000 Transcanadienne Route South	Dorval	$17,505,400 / $492	GPA Motor Trade	Sainte-Thérèse Autos
4550-4560 Métropolitain Boulevard East	Saint-Léonard	$14,000,000 / $316	Private	Private
1680 Marie-Victorin Boulevard	Longueuil	$11,300,000 / $296	Private	Private

Retail investment volume



Source: Altus Data Studio

Office

A greater emphasis on conversion

Property owners are contending with the dual challenges of high interest rates and the hybrid work model. Since 2022, institutional capital has largely exited the office market, leading many investors to divest their office assets and redirect funds toward other asset classes.

This shift has driven cap rates higher, with funds becoming scarcer. According to Avison Young's latest cap rate survey, office cap rates now range from 7.00 to 8.00% for Downtown buildings to 7.00 to 9.00% for suburban assets. Local investors are stepping in and leveraging their in-depth market knowledge to capitalize on these elevated yields.

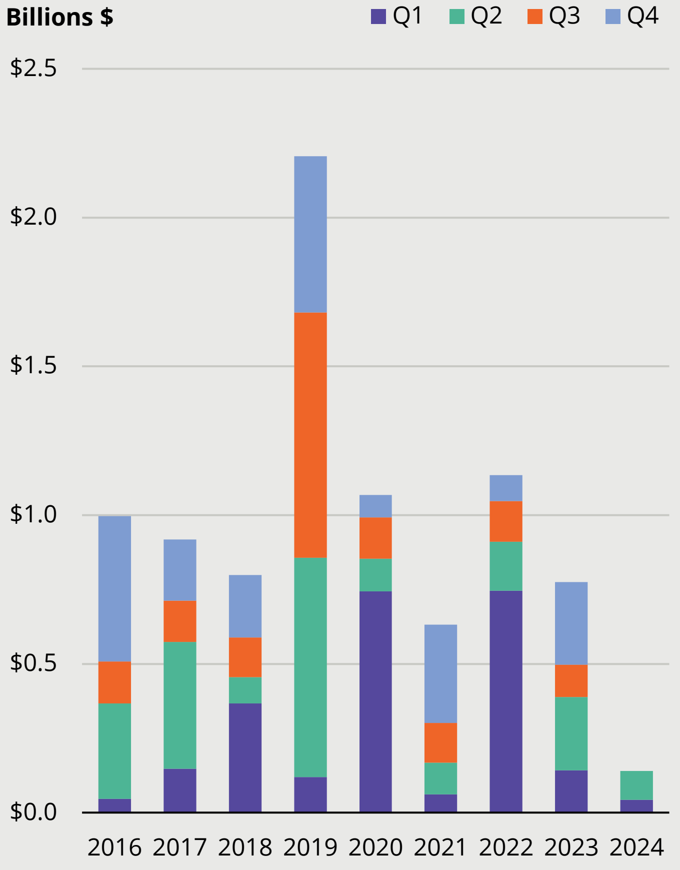
A new trend is reshaping the office property market. Investors increasingly view conversion projects as an alternative strategy. Given declining valuations and challenges in attracting or retaining tenants in a competitive leasing environment, converting office buildings into multi-residential units is becoming financially appealing.

Some office properties are ideally located near transit hubs and amenities, making them prime candidates for conversion. The significant gap between high rental demand and limited supply further enhances the viability of such investments and potentially boost returns.

Significant sale transactions

Address	District	Sale price / $ psf	Buyer	Seller
1299-1303 Greene Avenue	Westmount	$16,000,000 / $322	Fondation 1303 Greene	Private
10-12 Notre-Dame Street East	Ville-Marie	$11,250,000 / $477	Groupe Immobilier VP	Private
1430-1434 Sainte-Catherine Street West	Ville-Marie	$11,150,000 / $256	5am Capital	SIDEV
3100 de la Côte-Vertu Boulevard	Saint-Laurent	$10,000,000 / $104	Corp. immobilière Valsef	Cominar
6010-6050 Jean-Talon Street East	Saint-Léonard	$8,100,000 / $79	Marimac	Complexe Le Baron 2000

Office investment volume



Source: Altus Data Studio

Multi-residential

Expanded investment opportunities

Multi-residential assets are capturing most of the institutional investor capital, while investment volumes have increased by close to 30% compared to H1 2023. This market segment also trades at the most aggressive cap rates, as indicated by Avison Young's latest investment trends report, showing cap rates for urban assets ranging from 4.00% to 4.75% and suburban between 4.50% and 5.00%.

Persistent supply shortage and rising demand are expected to continue. The June 2024 revision to the MLI Select program, with a clear focus on affordability, will take some time to ease in, but projects whose feasibility was based on the previous criteria may be delayed.

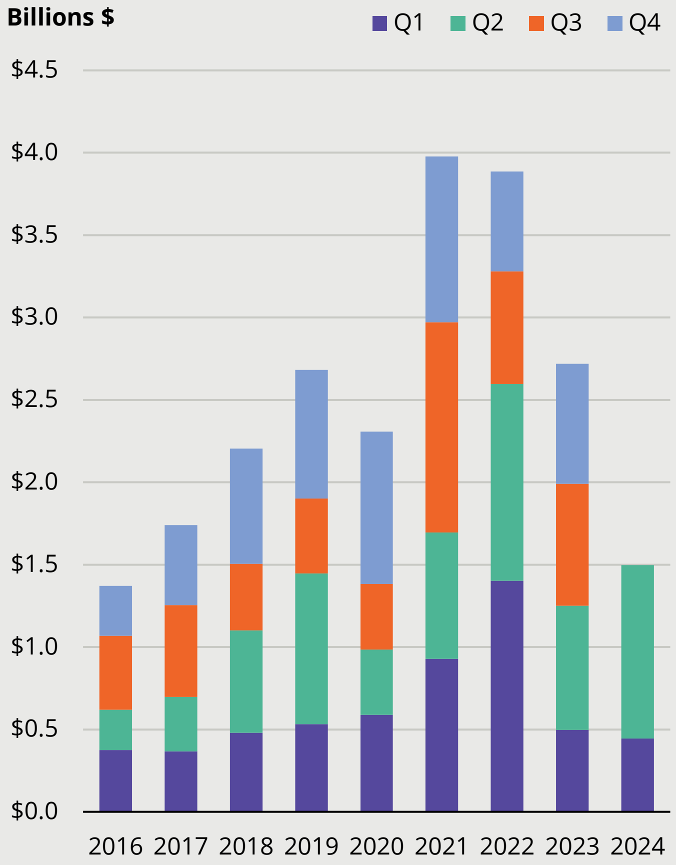
The CMHC Housing Market Outlook anticipates that 2024 will represent the low point in housing starts, which declined from 2021-2023, with a recovery expected in 2025-2026. Given this forecast, multi-residential projects currently accounting for about 50% of construction activity are poised to increase further.

With incentives in place and demand constantly on the rise, suburban markets are gaining ground and experiencing increased interest from private investors. Given the lack of available sites in urban centres, the required rates of return between suburban and urban properties are converging, redirecting new projects and opportunities further away from city centres.

Significant sale transactions

Address	District	Sale price / $ per unit	Buyer	Seller
2700 Rufus-Rockhead Street	Sud-Ouest	$93,561,762 / $484,776	Akelius Montréal	Groupe Canvar
1335 Emile-Bouchard Street	Vaudreuil-Dorion	$80,200,000 / $291,213	Chartwell	EMD-Batimo
InterRent portfolio	Côte-Saint-Luc	$46,000,000 / $206,278	Kildare Properties	InterRent
Parthenais / Messier portfolio	Plateau-Mont-Royal	$32,000,000 / $141,593	Private	Private
6311 Somerled Avenue	C.-D.-N./N.-D.-G.	$32,000,000 / $209,150	Groupe Immo Oikos	Édifice 1535 Summerhill

Multi-residential investment volume



Source: Altus Data Studio

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