



Greater Montréal area office market report

Q1 2024

**AVISON
YOUNG**

Greater Montréal area (GMA) market fundamentals

18.5%

total availability rate
down from 19.4 % in Q4 2023

15.7%

sublet as a percentage
of all available space
stable from 15.7% in Q4 2023

\$40.65

average gross asking
rent per square foot (psf)
**includes \$18.71 psf
average additional rent**

20.7M

square feet (sf) available
**down from 21.8 million sf (msf)
in Q4 2023**

-588K

sf absorption
year-over-year

174K

sf under construction
across three projects

First positive signs in years on the office leasing market

The flight for quality favours the class A market

The availability rate for trophy (or class AAA) office buildings, all located downtown, is standing under 10% in Q1 2024, for a second consecutive quarter. There are currently only 600,000 square feet (sf) of direct available space in this segment, and 120,000 sf for sublease.

The scarcity of high-end space is beneficial for class A building owners, who have invested significant capital in modernizing assets over the past two years in an effort to attract companies that are ready to implement or accelerate their return-to-work programs.

It is still too early to predict whether the decrease in availability observed this quarter will continue, but certain factors, notably the absence of large office developments in the 2024 pipeline and the tightening of company policies on remote work, support this downward trend.

Accelerated modernization of office environments

Recent office projects aim to create an experience that rivals the comfort and convenience of working from home, encouraging employees to visit the company workplace on a more regular basis. This strategy seems to be paying off. In fact, while hybrid working has become the norm, many companies still need 100% of their space on specific days, usually Tuesday to Thursday.

Despite increased cautiousness and the higher complexity of the decision-making process amidst evolving work patterns, occupiers understand the importance of investing in their space. The investments required to create an impactful on-site work experience are at an all-time high, but the returns span beyond the space itself. Benefits include improved employee well-being, higher productivity and a better environment to foster the company's values and culture.

Major repositioning in sight

In a market where supply exceeds demand, landlords, notably in the downtown area, are modernizing and repositioning office properties, underscoring the obsolescence of some office inventory.

Obsolete office buildings whose location and size potentially lend themselves to residential conversion, referred to as adaptive reuse, continue to be a topic of discussion. By removing square footage from the inventory, such projects can alleviate pressure on availability rates, as seen in Calgary over the last two years. In Montréal, so far, only 16 Place du Commerce in Nun's Island was converted into an apartment building in 2022.

Conversions projects are currently being assessed, notably for 1245 Sherbrooke West, 625 René-Lévesque West and, more recently, 895-935 De La Gauchetière West. If carried, these conversions would subtract nearly 1 msf of office space from the market, which could reduce the vacancy rate in Downtown Montréal by 1.0% to 1.5%.

Greater Montréal area office market trends

01

First decrease in office availability since March 2020

The GMA's availability rate recorded its first drop in over four years at Q1 2024. While it is too early to tell if this 90 bps marks the beginning of a new trend, it still represents a positive sign.

Although further reductions in space are anticipated for future renewals, employers' clearer policies on returning to the office are certainly conducive to growth in demand.

The limited availability in trophy assets downtown is driving tenants to neighbouring modernized class A buildings that have been the target of significant investments to meet unfilled demand for quality space.

02

A new generation of class A space and amenities

The renovations carried out in office buildings expose the different leasing strategies of each landlord. Some favor exclusive space for tenants, while others invest in common areas, such as lobby.

Even if investment strategies differ, the objective is the same: to optimize asset values by creating attractive, modern and competitive office environments that justify premium rents.

Net asking rents for transactions observed in recently refurbished assets have exceeded \$27 psf in Downtown and \$22 psf in suburban areas. As interest rates decline, improving leasing activity could motivate investors to return to the office market.

03

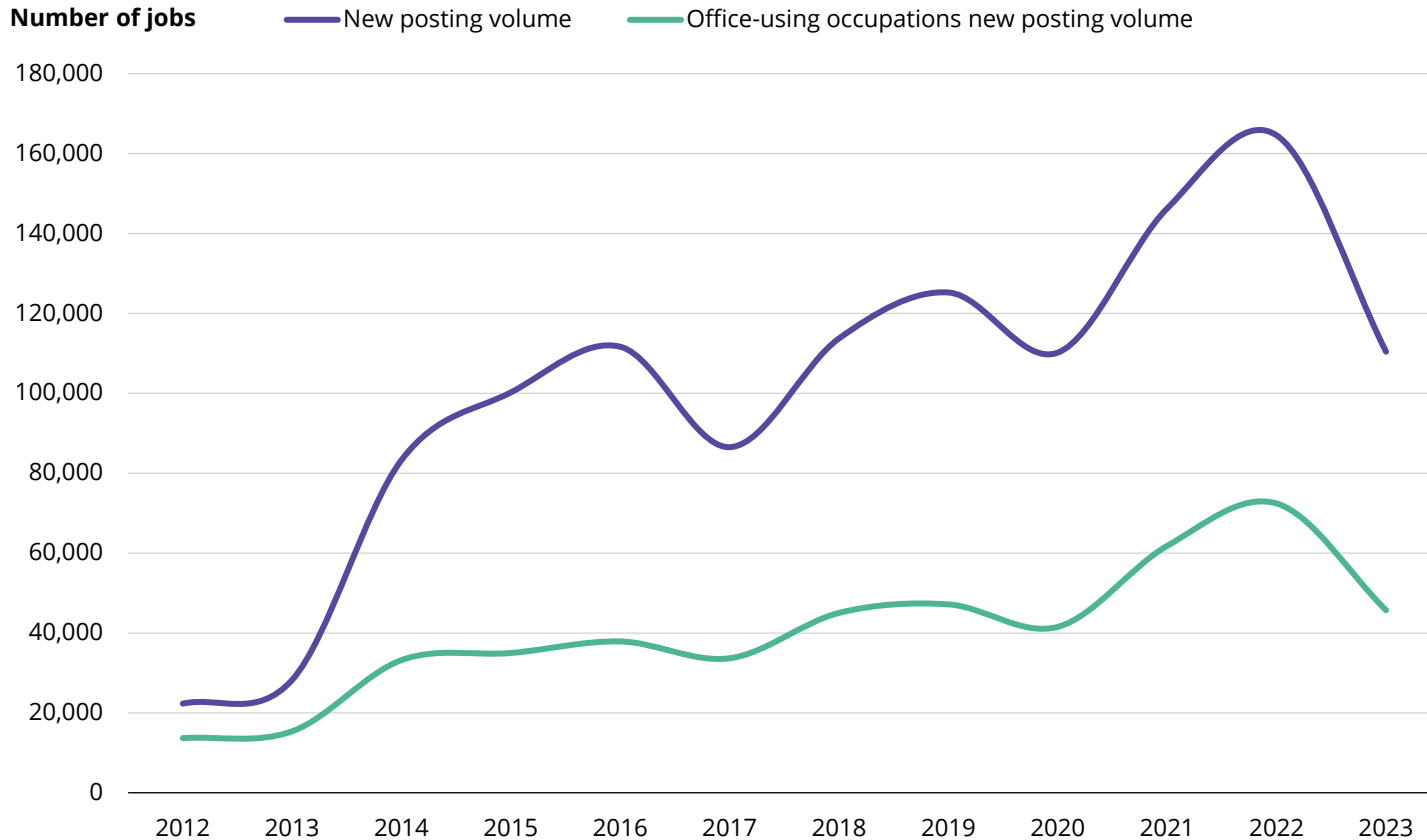
New challenges for transactional activity

The anticipated recession of 2023 has given way to an economic slowdown. As interest rates are set to stabilise, occupiers seem less reluctant to make decisions about their workspace than last year. However, the improved leasing activity seen since the start of the year is concentrated in the segment of premises totaling 10,000 sf or less.

Tenants are however facing new obstacles that hinder the transaction process. On one hand, strict financing requirements are making it more difficult to obtain even a simple letter of credit. On the other hand, tighter criteria from insurers are impacting the delays for issuance of policies. Elements that used to be pure formalities in the transaction process are now significantly longer steps.

Greater Montréal area office market indicators

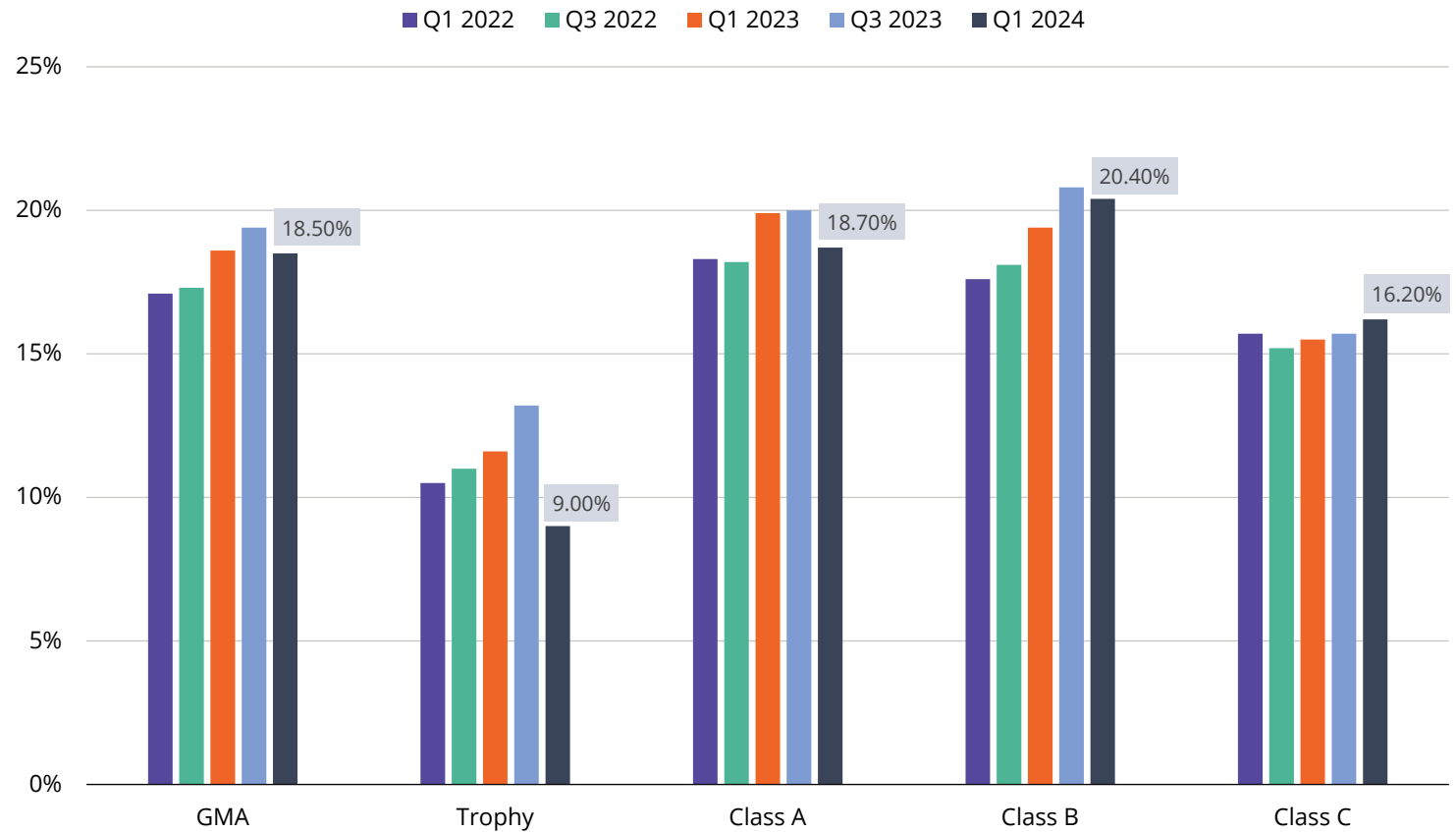
Cumulative annual new job postings in relation to office specific jobs



The number of office-using job postings in 2023 remained higher than historical average, despite a 37% drop from the peak observed in 2022.

Greater Montréal area office market indicators

Availability rate by class



The availability rate for class A properties has fallen by 130 bps since the peak (20%) observed in Q3 2023, while Trophy class availability is nearing 2019 levels.

Greater Montréal area office market indicators

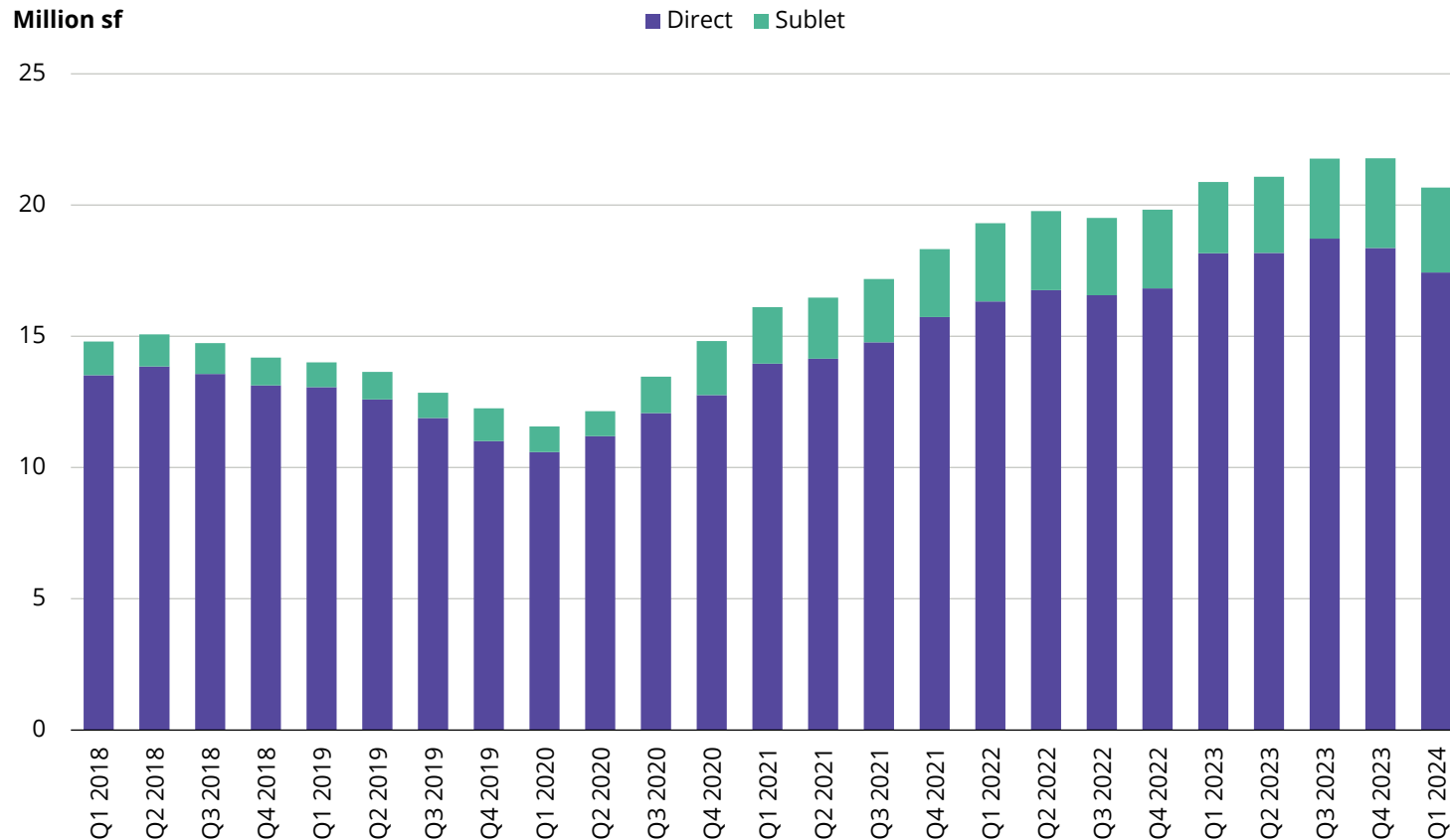
Availability rate by sector



Availability dropped in all submarkets over the past quarter, except for the South Shore. The most significant annual drop was seen in the West Island (-5.1%).

Greater Montréal area office market indicators

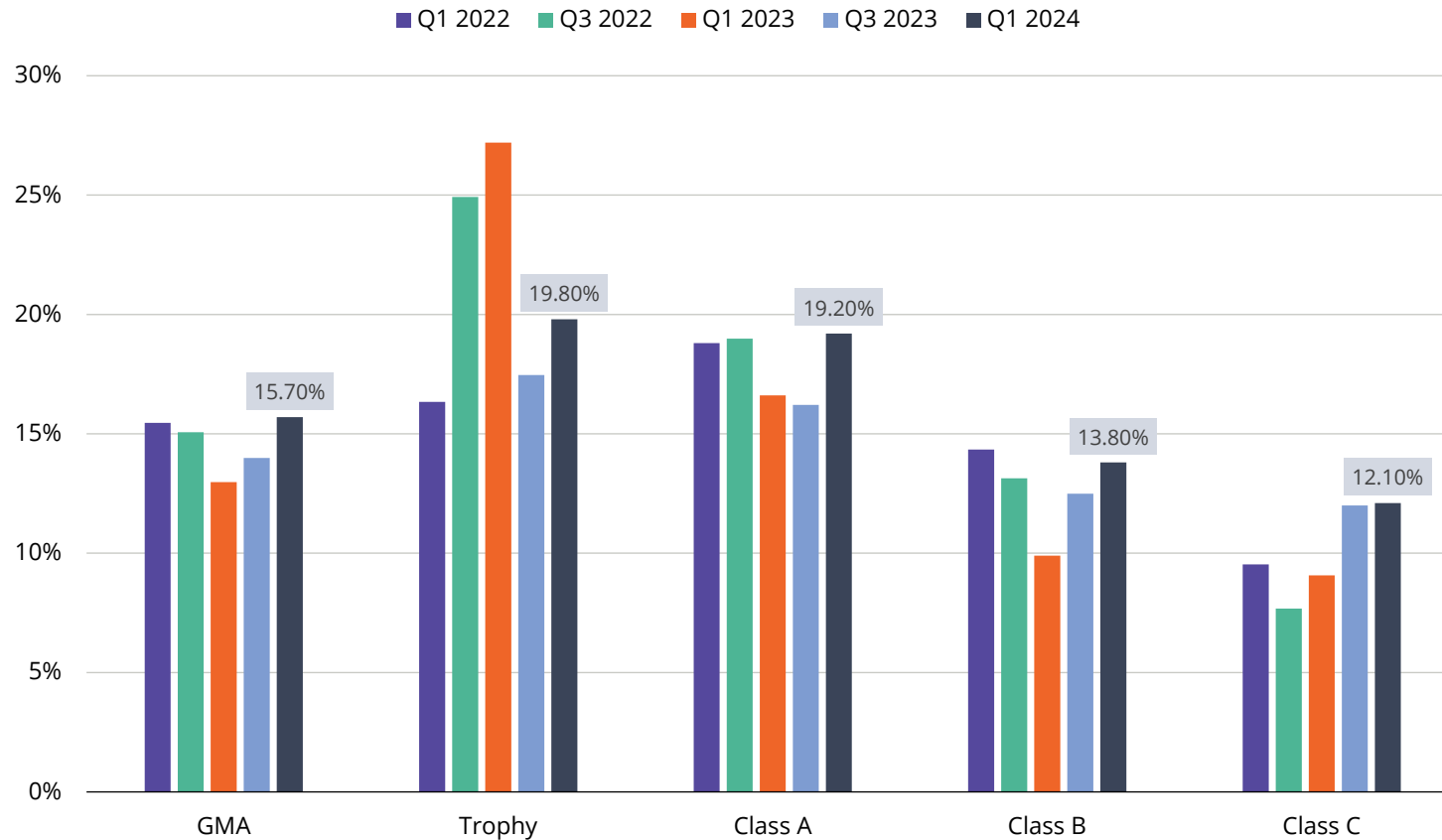
Direct and sublet availability (sf)



Direct availability fell from 18.4 msf last quarter to 17.4 msf in Q1 2024. Sublet availability recorded a more modest quarterly drop, from 3.4 msf to 3.2 msf.

Greater Montréal area office market indicators

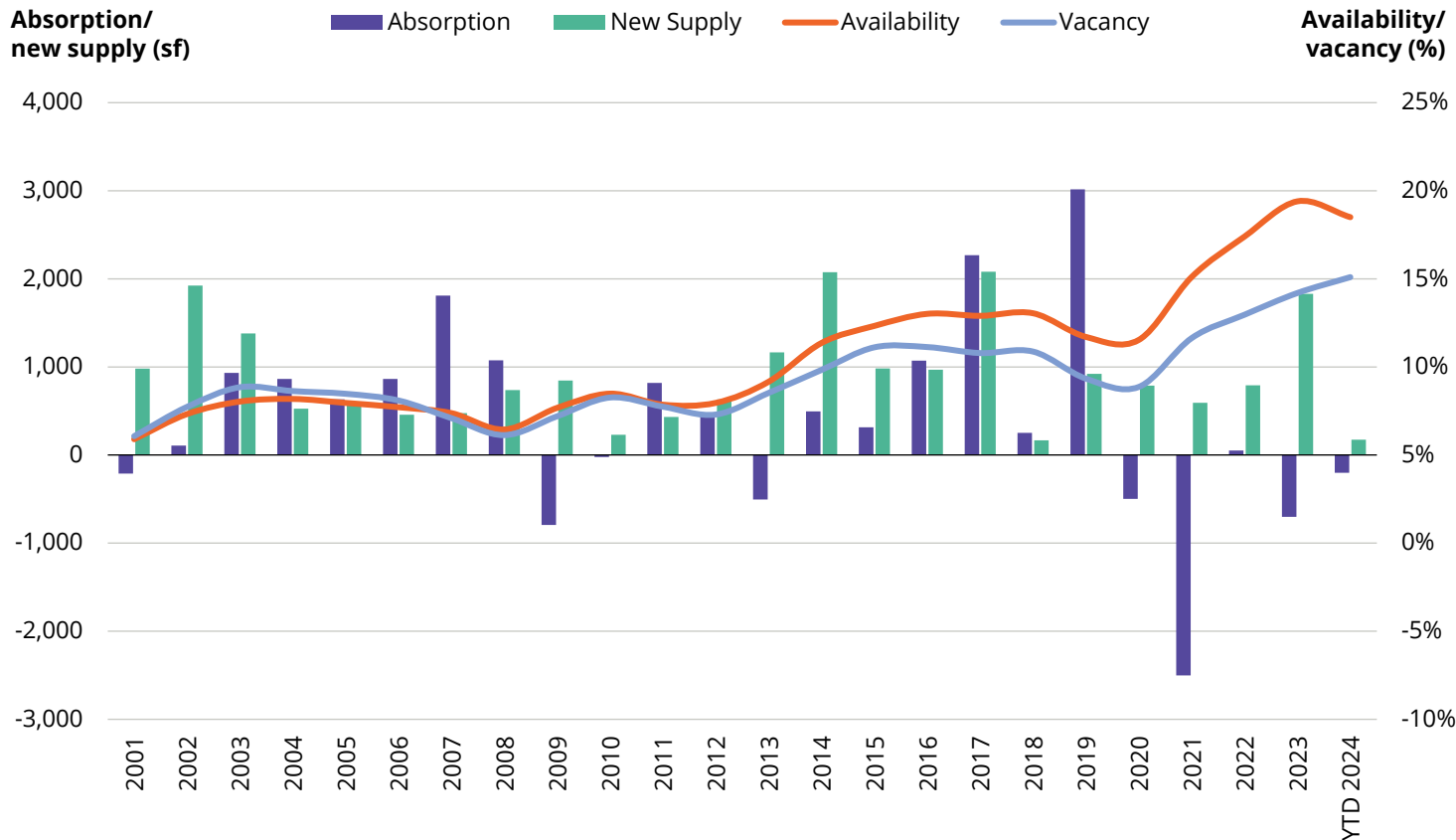
Sublet as a percentage of total availability by class



The increase in the proportion of total available space offered for sublet in Trophy and class A assets is mainly due to a drop in direct availability.

Greater Montréal area office market indicators

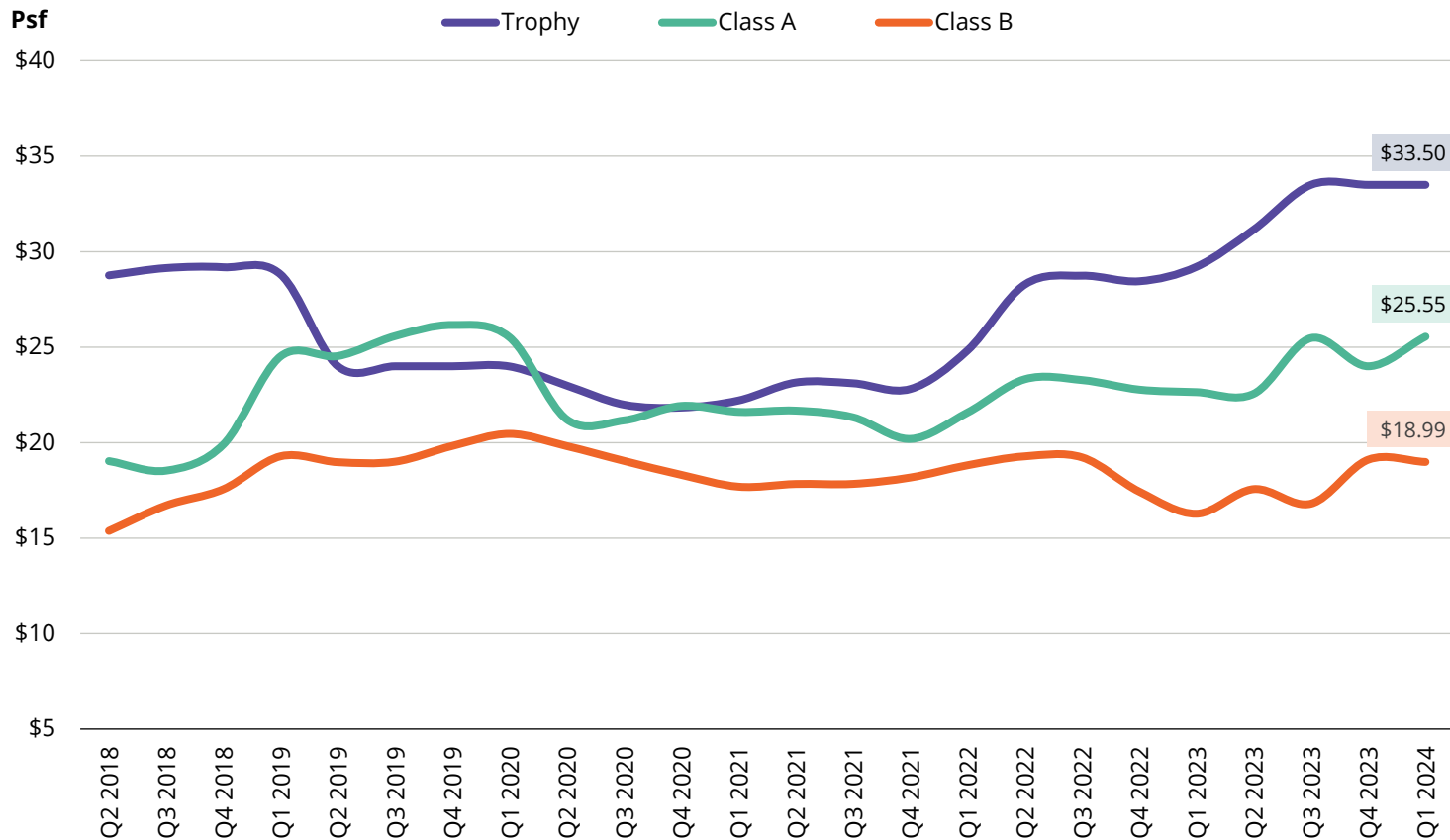
Historic office market trends



The fall in the availability rate is a very positive sign for the start of the year. However, absorption remained negative in the first quarter at -202,000 sf.

Greater Montréal area office market indicators

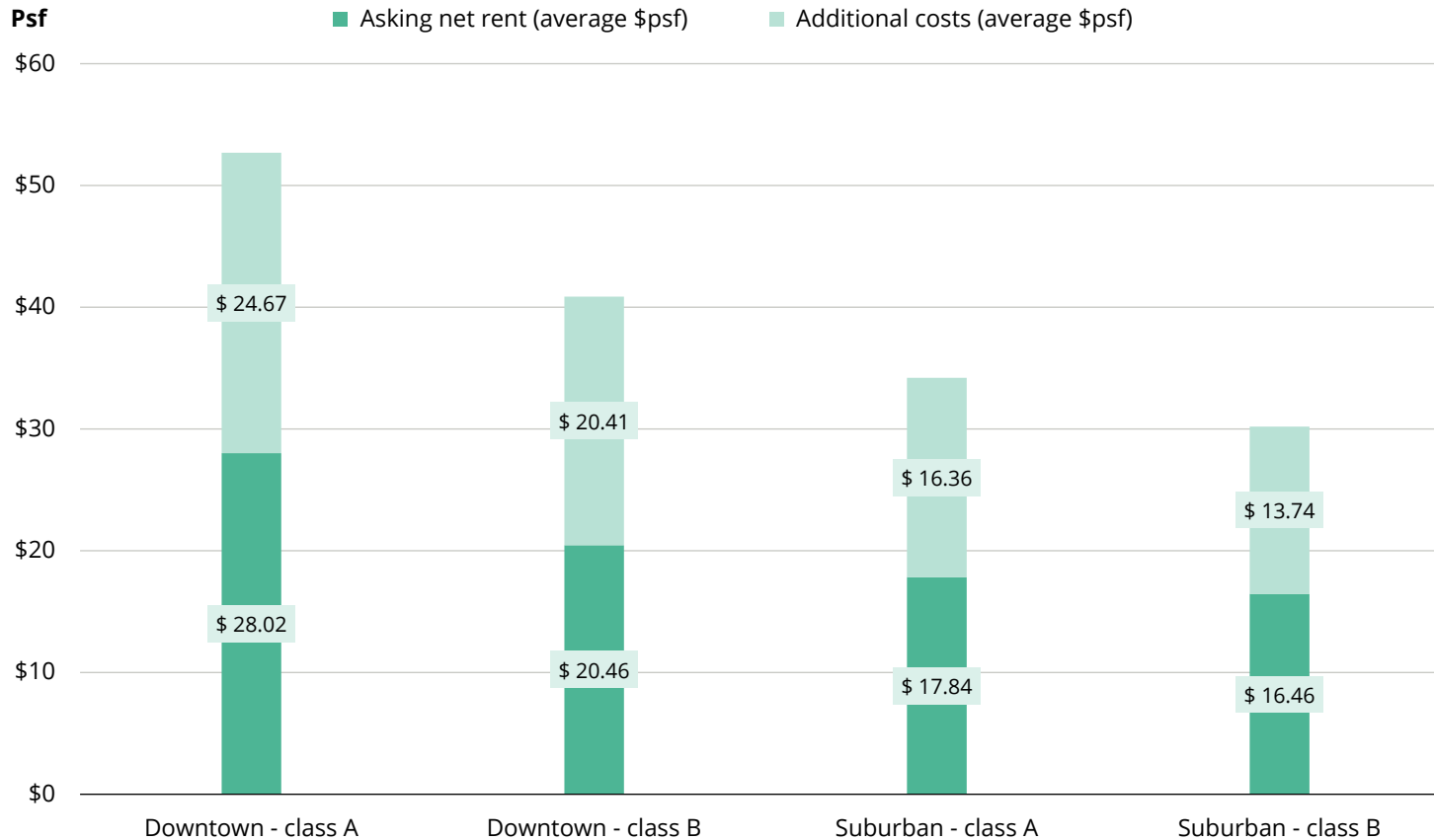
Net asking rents



Over the past year, the average net asking rent increased from \$22.65 psf to \$25.55 psf for class A office buildings and from \$29.20 psf to \$33.50 psf for the Trophy office class.

Greater Montréal area office market indicators

Occupancy costs



Additional rents for buildings located Downtown remain higher than in the suburban markets. This disparity is accentuated by property tax rates.

Greater Montréal area office market activity

Notable recent leasing activity

Address	Tenant	Size (sf)	Lease type	Transaction type	Broker
1 Place Ville-Marie, Montréal	Confidential	32,525	Direct	Expansion	Avison Young
2250 Alfred-Nobel Boulevard, Saint-Laurent	Otsuka pharmaceutical	26,670	Direct	Renewal	Avison Young
416 de Maisonneuve Boulevard, Montréal	Lyft	16,180	Direct	Renewal	Avison Young
2260 Aird Avenue, Montréal	Osmose utilities	11,460	Direct	New	Avison Young
2600 William-Tremblay Street, Montréal	Confidential	10,860	Direct	Renewal	Avison Young

New sublet space on the market

Address	Major sub-lessor	Listing date	Block size (sf)	Floor number
1050 Saint-Régis Boulevard, Dorval	Matrox	February 2024	84,840	Block A-C
16711 Transcanada Highway, Kirkland	Traffic Tech	March 2024	83,160	2-4
5800 Saint-Denis Street, Montréal	CGI	January 2024	49,490	7
2030 Pie-IX Boulevard, Montréal	INICI	February 2024	44,550	3
140 de L'Équinoxe Street, Brossard	Nortera	February 2024	16,300	3

Major office sale transactions

Address	Buyer	Sale date	Sale price	Sale price \$/psf	Seller
4555 Ambroise-Lafortune Street, Boisbriand	Investissements DASE Inc.	February 2024	\$11.5M	\$217	Manulife
6010-6050 Jean-Talon Street East, Montréal	Marimac Inc.	January 2024	\$8.1M	\$79	Complexe Le Baron 2000 Inc.
32-50 Saint-Charles Street West, Longueuil	MTRPL	February 2024	\$6.2M	\$179	BTB Reit
225 Roy Street East, Montréal	Gestion Macogep Inc.	February 2024	\$5.6M	\$137	Private
1551 Ontario Street East, Montréal	Moroccan Government	March 2024	\$2.65M	\$283	Montréal Institute of Rheumatology

Greater Montréal area office market statistics

Office market statistics by submarket

Submarket	Existing inventory (sf)	YTD deliveries (sf)	Under development (sf)	Direct availability (%)	Sublet availability (%)	Total availability (%)	Q1 2024 net absorption (sf)	YOY net absorption (sf)
Downtown	54,625,540	0	44,000	16.7%	2.1%	18.7%	(134,500)	223,310
Midtown	30,755,960	0	130,000	13.4%	4.0%	17.4%	(151,770)	37,740
East End	3,175,550	0	0	19.1%	0.1%	19.2%	5,240	(21,910)
West Island	11,598,900	0	0	13.4%	4.8%	18.2%	(119,910)	(1,175,460)
Laval	4,949,780	0	0	19.9%	2.0%	21.9%	43,210	37,800
South Shore	6,295,330	0	0	12.4%	1.1%	13.5	3,190	319,820
Overall	111,401,060	0	174,000	15.6%	2.9%	18.5%	(202,155)	(587,780)

Office market statistics by asset class

Class	Existing inventory (sf)	YTD deliveries (sf)	Under development (sf)	Direct availability (%)	Sublet availability (%)	Total availability (%)	Q1 2024 net absorption (sf)	YOY net absorption (sf)
Trophy	6,641,510	0	0	7.2%	1.8%	9.0%	(157,930)	(188,440)
Class A	38,612,880	0	104,000	15.1%	3.6%	18.7%	43,460	(1,441,140)
Class B	50,346,780	0	70,000	17.6%	2.8%	20.4%	(116,850)	(434,780)
Class C	15,799,880	0	0	14.6%	2.0%	16.2%	29,160	1,476,580
Market total	111,401,060	0	174,000	15.6%	2.9%	18.5%	(202,155)	(587,780)

For more market insights and
information visit **avisonyoung.ca**

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