Greater Montréal area office market report

Q2 2024

AVISON YOUNG

Greater Montréal area (GMA) market fundamentals

19.1% total availability rate **up from 18.5 % in Q1 2024**	**16.3%** sublet as a percentage of all available space **up from 15.7% in Q1 2024**	**$39.80** average gross asking rent per square foot (psf) **includes $18.67 psf average additional rent**
21.4M square feet (sf) available **up from 20.7 million sf (msf) in Q1 2024**	**-852K** sf absorption **year-over-year**	**442K** sf under construction **across three projects**

A bumpy recovery for the office market

Some encouraging signs in a difficult context

The GMA's availability rate increased by 60 bps in Q2 2024, after recording a 90-bps drop in the previous quarter, a first since 2020. This up-and-down trend is expected to persist as return-to-office policies firm up and the remainder of the leases signed before the pandemic are coming to an end. This could result in space rationalizations, as evidenced by important subleasing activity that remains.

Large options are also becoming progressively limited for major tenants, an encouraging sign for these quality products. Active tenants or those facing a real estate decision due to the end of their term are fueling demand for quality space in buildings that are well located and accessible, especially by public transit. These options remain limited, and there are no plans for new Trophy assets in the GMA in the the short to medium terms.

Moving or renewing, a time of choice

Against a backdrop of high availability and low demand, competition between landlords continues to intensify. Tenants still indecisive over their real estate strategy are now faced with a choice. Unless seduced by a new location, tenants choosing to renew their current space will be in a good position to negotiate leasing incentives.

The option of relocating offers numerous advantages, including a newly renovated space without the hassle of the construction period. Relocation can also mean moving to a higher-quality building or a more strategic location. Move-in ready-suites and new sublets still being added to the market also offer opportunities to minimize historically high improvement costs. Whatever the choice, the current propensity to make decisions is a good indicator of a gradual return to confidence.

The challenges of maintaining rent levels

Institutional landlords have succeeded in maintaining their base rents by offering generous tenant incentives and investing in tenant services and experience. This strategy cannot be maintained indefinitely, as risks associated with the cost and timing of tenant improvements are real. These risks should be mitigated somewhat by the lowering of the key policy rate, and in time to meet the demands of tenants implementing firmer return-to-office policies.

Even landlords willing to lower their net rents to attract or retain existing tenants, must still contend with ever-increasing additional rents, including taxes, energy costs and operating expenses related to all the services expected by today's tenants. All of which eat away an ever-greater proportion of the net effective rent. If we consider that all these costs apply to a building, this critical period of pre-pandemic lease expiry will force landlords to redouble their efforts and innovate to reduce vacancy.

Greater Montréal area office market trends

01

Companies are remaining cautious

According to the Bank of Canada's Business Outlook Survey for Q2 2024, confidence in the market is still low despite the most recent policy rate cut. Uncertainty and cost pressures remain the highest concerns of business owners, while increased construction and fit-out costs continue to make tenants cautious. Ready-suites are an alternative to reduce the risk of cost overturns, while also offering flexible terms. However, should financing conditions improve, a slight respite would be given to landlords and tenants needing to invest in their spaces. Tenants are still reluctant to sign long-term leases, and despite an increase in the average term in Q2 2024 (see page 12 of this report), lease durations are still below pre-pandemic levels.

02

Hybrid work still affects decision-making

Since the coming of the hybrid formula, it continues to evolve. In 2024, only 17% of Canadian companies offered a flexible formula, either entirely remote or at the employee's choice, compared with 16% mandating 5 days a week presence, according to the latest Flex Index data. More than two-thirds of companies opt for a structured hybrid formula, equivalent on average to 2.68 days in the office per week. This flexible model is most widespread, at 58%, among companies with fewer than 500 employees. These emerging concepts of hybrid working, such as anchor days, minimum days in the office per week or per month, complicate the assessment of space requirements, and can delay decision-making, particularly in terms of layouts and surface areas required.

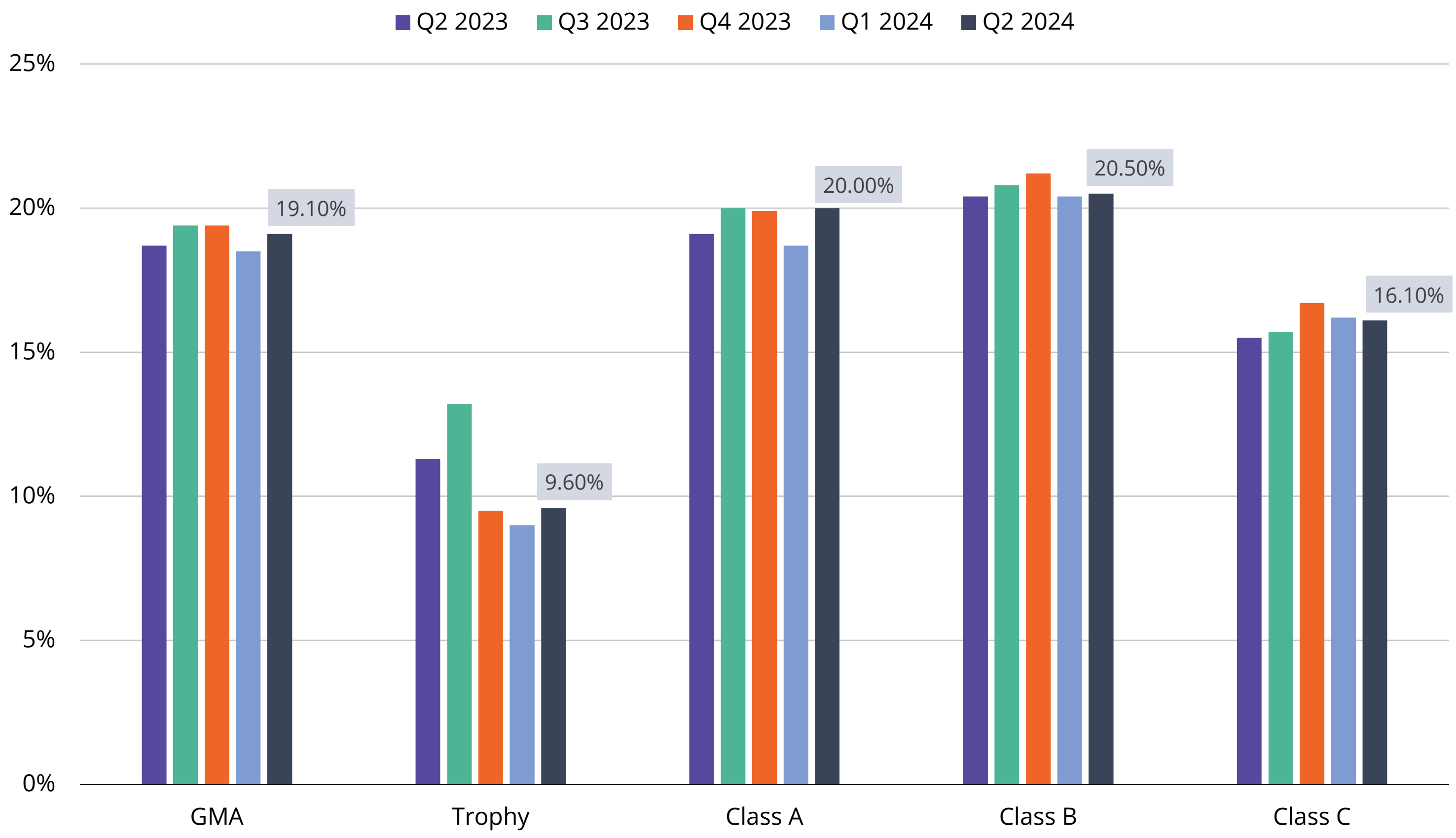
03

Fewer large blocks of contiguous space available

With so many options available on the market at the time of their decision, tenants have more opportunity than ever to compare several excellent sites. This increases the pressure on landlords when comes the time to renew leases. Illustrating this phenomenon, almost one in five square feet for lease in class A downtown towers is offered for sublease. Landlords of recent buildings (built after 2010) are in a better negotiating position, as they possess the most in-demand space on the market. In fact, the number of large blocks of contiguous space available in downtown class A buildings has begun to decline over the past year. Tenants should take immediate advantage of this period of surplus inventory to secure quality spaces.

Greater Montréal area office market indicators

Availability rate by class

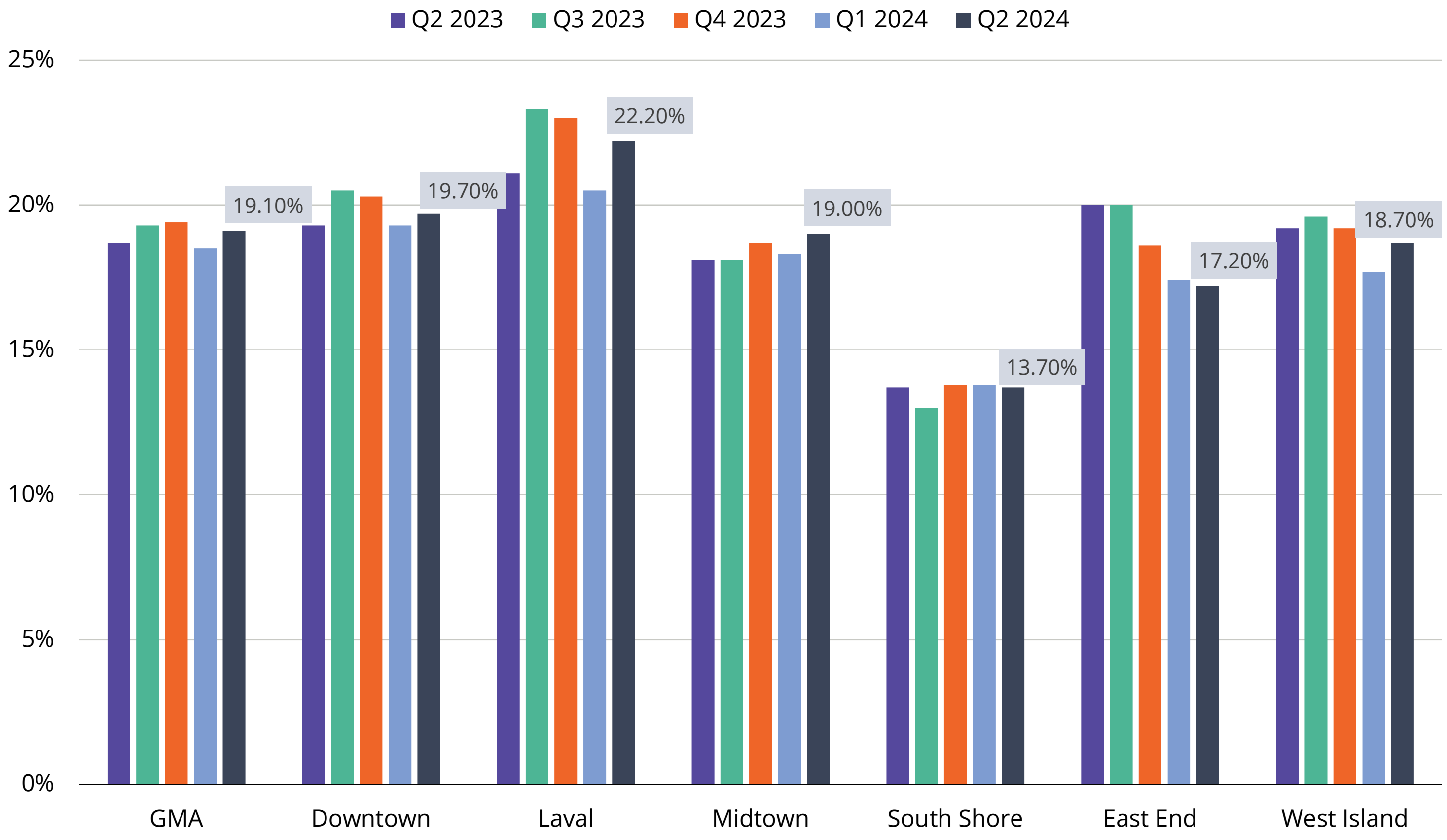


Source: AVANT by Avison Young

After declining in Q1 2024, the availability rate for class A properties has returned to Q4 2023 levels. Other property classes have remained stable.

Greater Montréal area office market indicators

Availability rate by sector

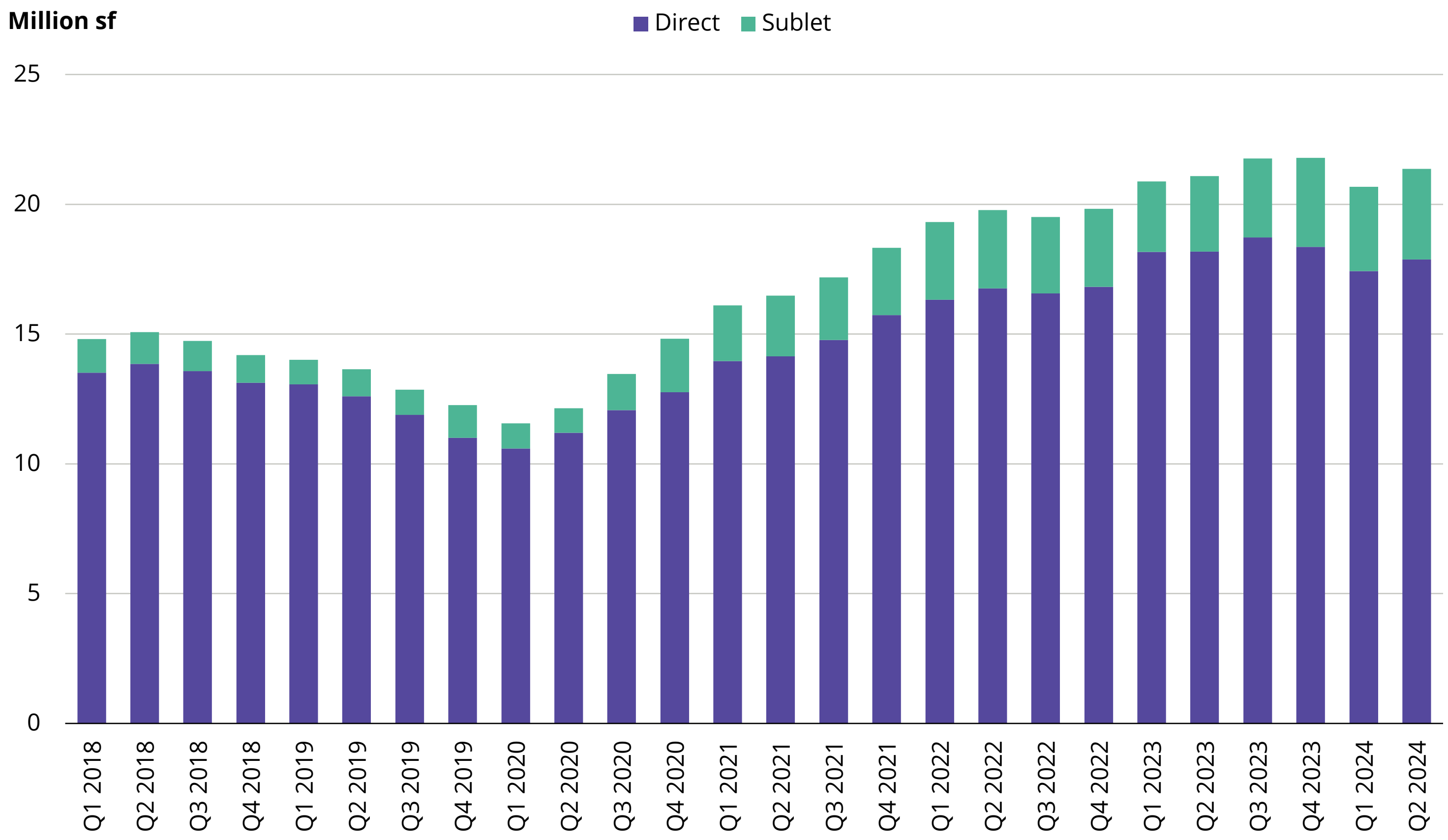


Laval saw the biggest increase in availability of all submarkets following the addition of 150,000 new square feet to the market this quarter.

Source: AVANT by Avison Young

Greater Montréal area office market indicators

Direct and sublet availability (sf)

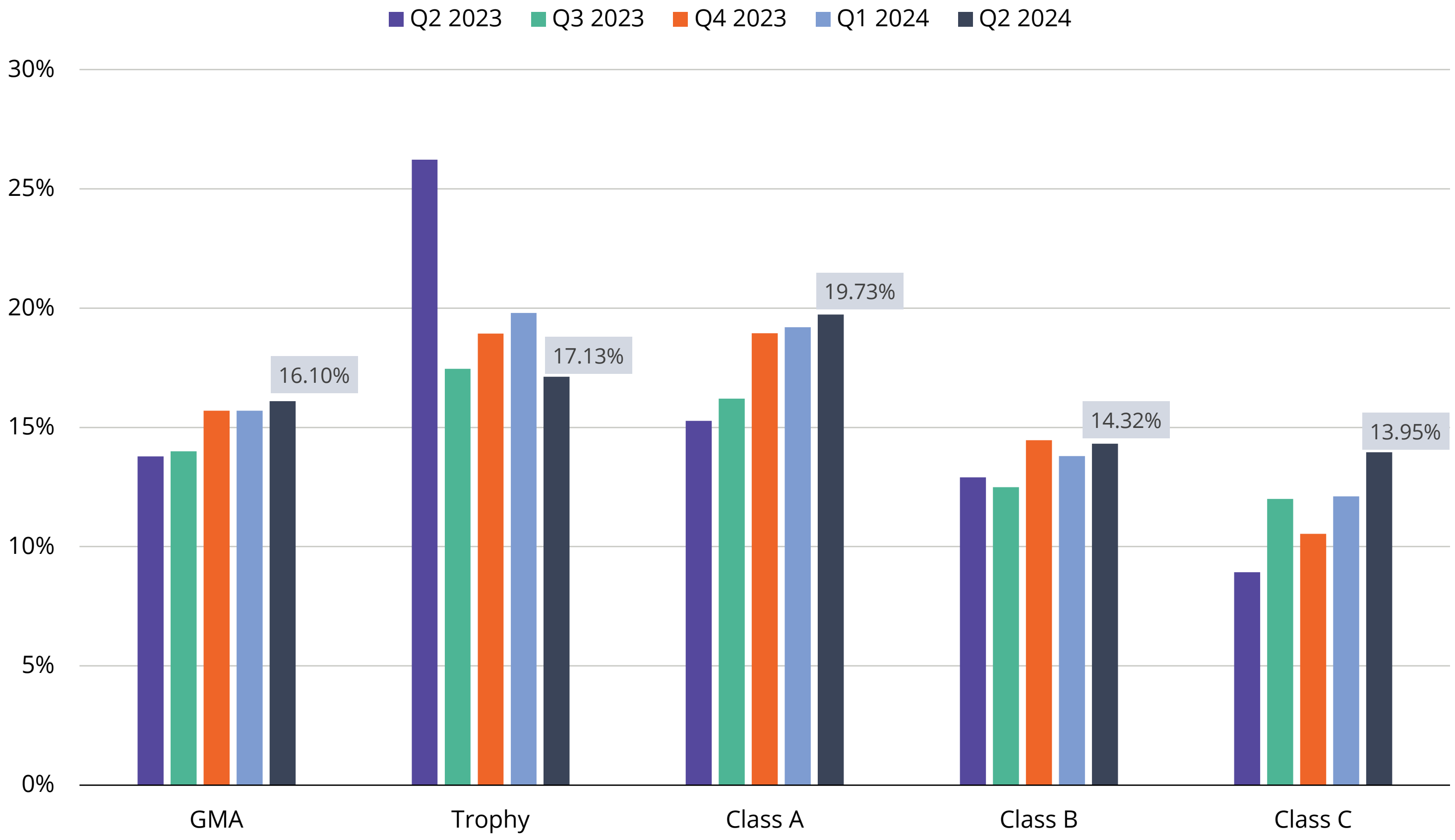


Source: AVANT by Avison Young

Direct and sublease availability is up slightly this quarter, but below the 2023 level.

Greater Montréal area office market indicators

Sublet as a percentage of total availability by class

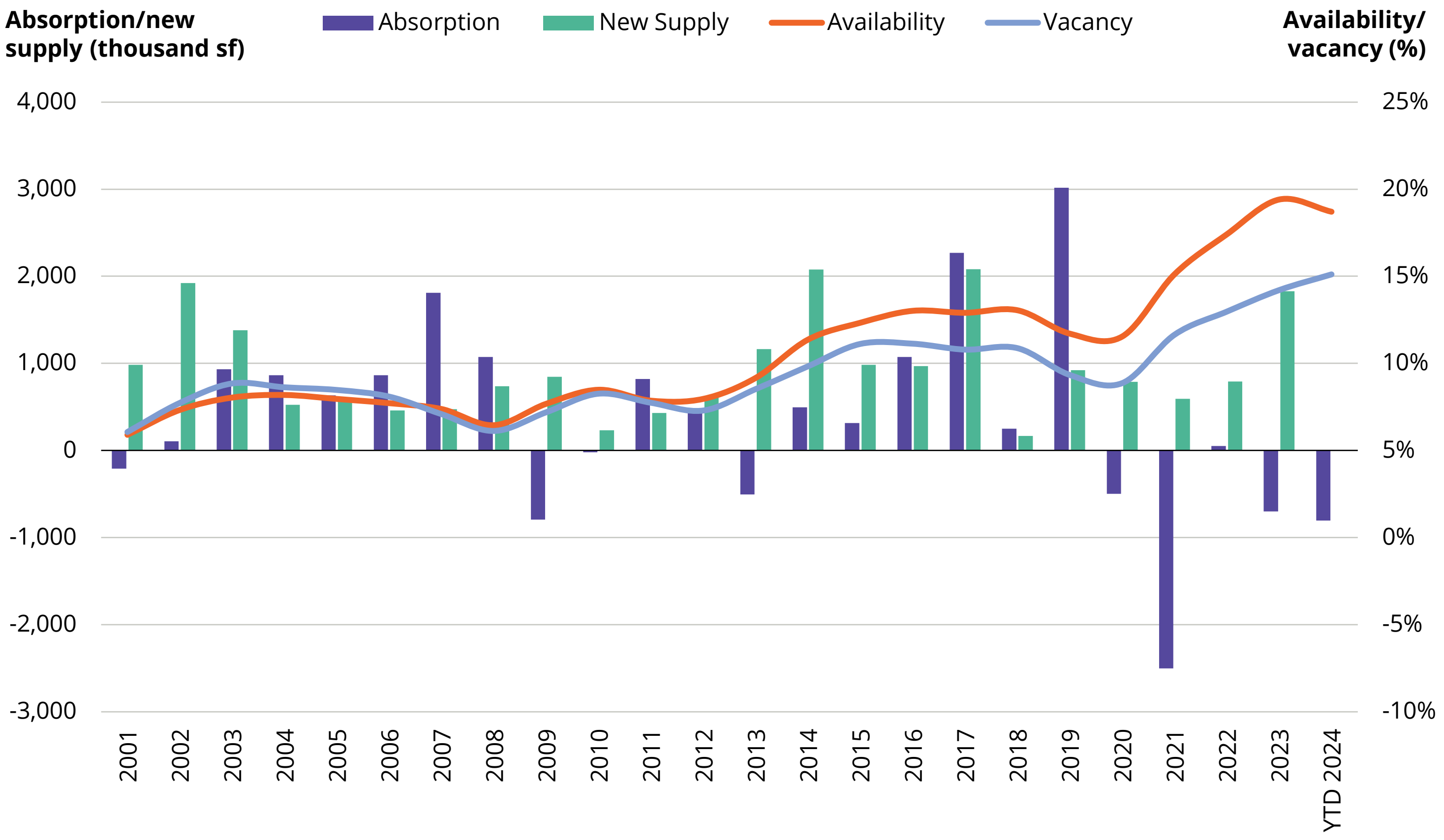


Source: Altus Data Studio and AVANT by Avison Young

Despite some stabilization, the proportion of total available space offered for sublease remains at historically high levels.

Greater Montréal area office market indicators

Historic office market trends

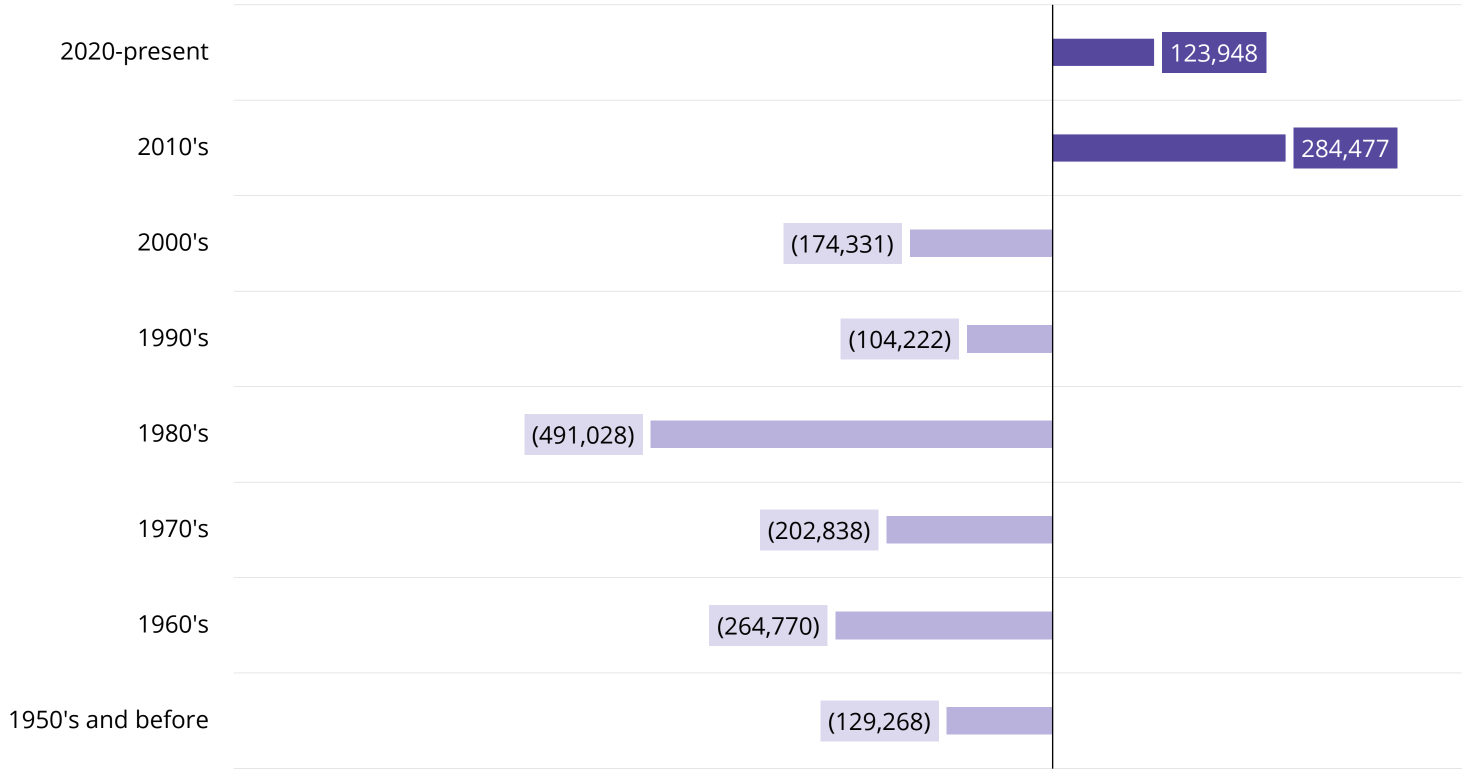


Source: Altus Data Studio and AVANT by Avison Young

Negative absorption since the start of the year (-805,000 sf) is pushing the vacancy rate upwards.

Greater Montréal area office market indicators

Year-to-date absorption (sf) by year of construction of buildings

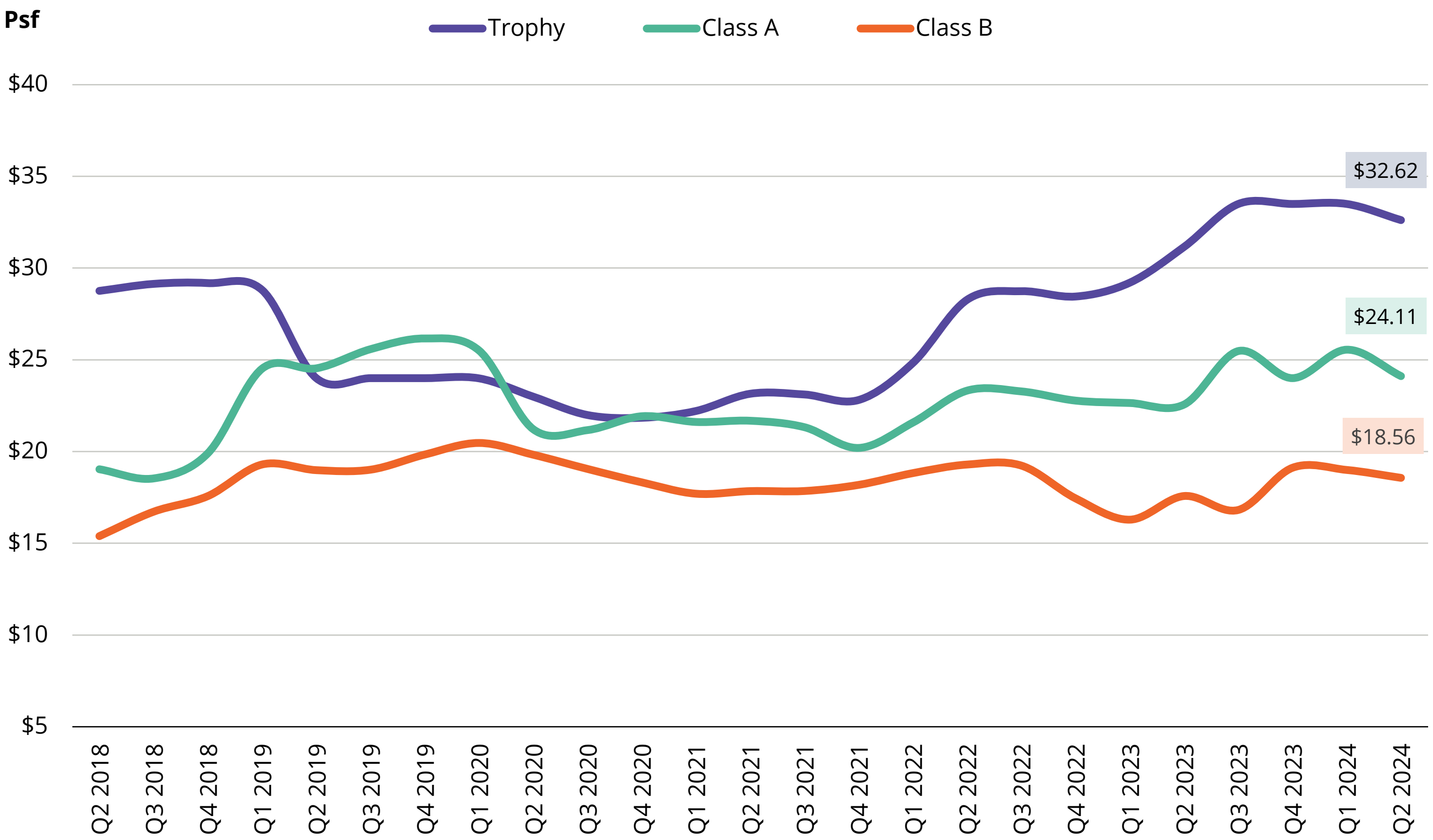


Source: AVANT by Avison Young

Buildings constructed since 2010 have seen positive absorption, while those built before that period have seen negative absorption, illustrating this year's quest for quality.

Greater Montréal area office market indicators

Net asking rents

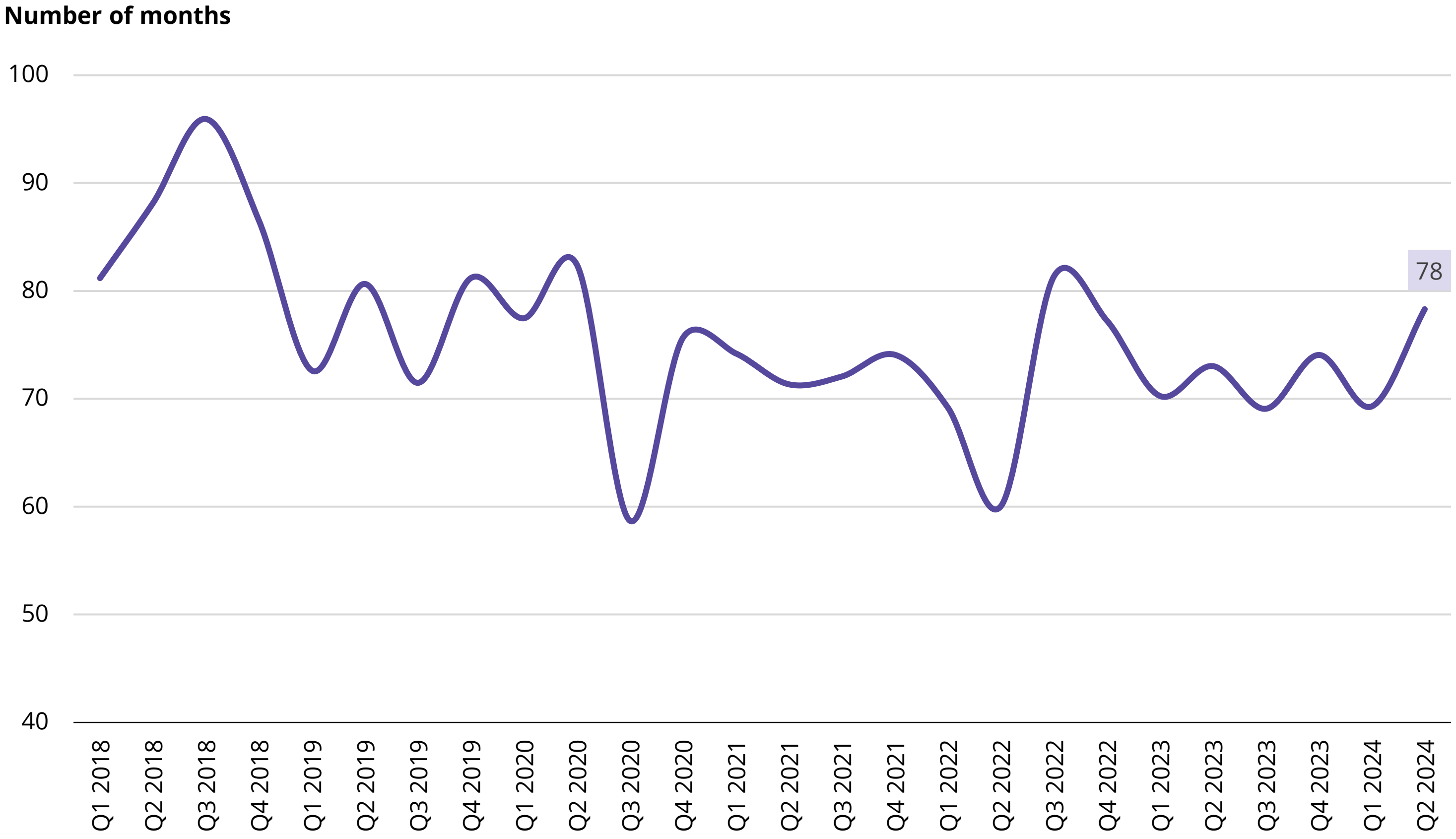


Source: AVANT by Avison Young

Since the most recent increase in Q2 2023, net asking rents for Trophy properties have plateaued at an average of $32.62 psf.

Greater Montréal area office market indicators

Average lease term

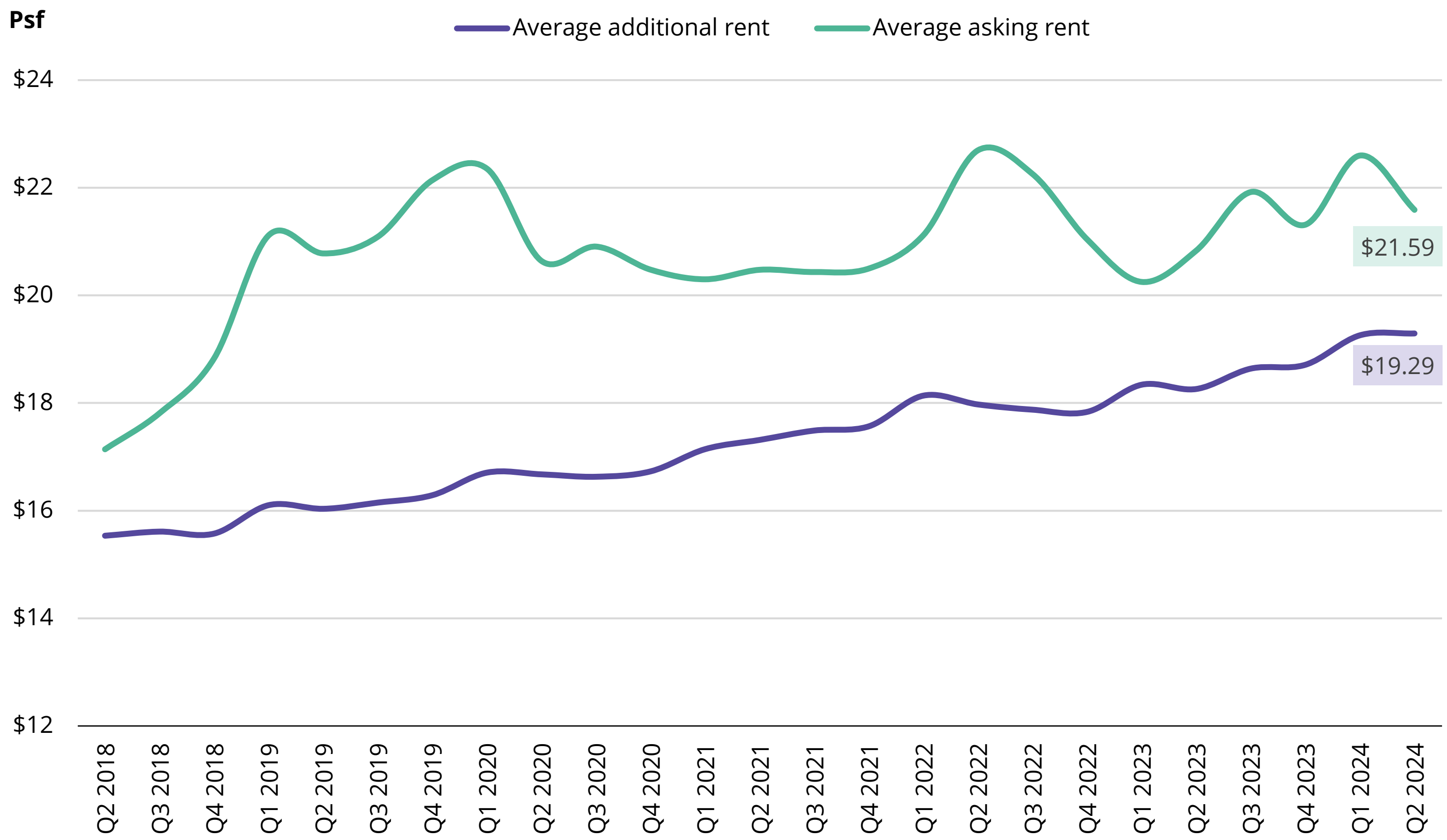


Source: AVANT by Avison Young

The most recent leases signed on the market show the first signs of renewed confidence, with a 78-month lease term average.

Greater Montréal area office market indicators

Occupancy costs



Source: AVANT by Avison Young

Since 2018, the average net asking rent and additional rent have increased by 26% and 24% respectively, from $17.14 to $21.59 psf and $15.53 to $19.29 psf.

Greater Montréal area office market activity

Notable recent leasing activity

Address	Tenant	Size (sf)	Lease type	Transaction type	Broker
1 Place Ville Marie, Montréal	Lavery de Billy	60,000	Direct	Renewal	Avison Young
385 Viger Avenue West, Montréal	Confidential	17,000	Direct	New	Avison Young
1200 Papineau Avenue, Montréal	Productions Deferlantes	12,400	Direct	Renewal	Avison Young
407 McGill Street, Montréal	ON Animation Studio Montreal	12,000	Sublease	New	Avison Young
1751 Richardson Street, Montréal	Solutions Condo	11,000	Expansion	Renewal	Avison Young

New sublet space on the market

Address	Major sub-lessor	Listing date	Block size (sf)	Floor number
455 René-Lévesque Boulevard West, Montréal	AtkinsRéalis	May 2024	173,570	4-14
1611 Crémazie Boulevard East, Montréal	Industrielle Alliance	April 2024	43,850	8-9
1751 Richardson Street, Montréal	Yellow Pages	April 2024	35,710	4-5
1981 McGill College Avenue, Montréal	CanAssistance	June 2024	32,210	4

Major office sale transactions

Address	Buyer	Sale date	Sale price	Sale price $/psf	Seller
1299 Greene Avenue, Westmount	Fondation 1303 Greene	May 2024	$16M	$322	9166-7907 Québec Inc.
10-12 Notre-Dame Street East, Montréal	Groupe Immobilier VP	April 2024	$11.25M	$477	9135-8846 Québec Inc.
1430 Sainte-Catherine Street West, Montréal	5am Capital	June 2024	$11.15M	$256	SIDEV
8777 TransCanada Highway, Montréal	9021-8116 Québec	May 2024	$6.5M	$197	9407-6940 Québec Inc.
4405 Lapinière Boulevard, Brossard	EBC Inc.	May 2024	$3.6M	$436	Les Immeubles Wilfrid Poulin

Source: Altus Data Studio and AVANT by Avison Young

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 (%)	Q2 2024 net absorption (sf)	YOY net absorption (sf)
Downtown	54,625,540	0	102,520	16.9%	2.8%	19.7%	(307,590)	156,690
Midtown	30,669,470	0	470,000	14.9%	4.1%	19.0%	(7,210)	(734,310)
East End	3,175,550	0	0	17.1%	0.1%	17.2%	(12,200)	47,000
West Island	11,598,900	0	0	14.4%	4.3%	18.7%	(203,450)	(306,300)
Laval	4,949,780	0	0	20.3%	1.9%	22.2%	(45,250)	2,220
South Shore	6,295,330	0	0	12.0%	1.7%	13.7%	(32,000)	(21,470)
Overall	**111,401,060**	**0**	**572,520**	**16.0%**	**3.1%**	**19.1%**	**(607,700)**	**(851,640)**

Office market statistics by asset class

Class	Existing inventory (sf)	YTD deliveries (sf)	Under development (sf)	Direct availability (%)	Sublet availability (%)	Total availability (%)	Q2 2024 net absorption (sf)	YOY net absorption (sf)
Trophy	6,641,510	0	0	8.0%	1.7%	9.6%	(60,530)	1,415,140
Class A	38,612,880	0	502,520	16.1%	4.0%	20.0%	(547,350)	(1,080,250)
Class B	50,346,780	0	70,000	17.6%	2.9%	20.5%	(12,760)	(852,070)
Class C	15,799,880	0	0	13.9%	2.2%	16.1%	17,530	(334,460)
Market total	**111,401,060**	**0**	**572,520**	**16.0%**	**3.1%**	**19.1%**	**(607,700)**	**(851,640)**

Note: All sf numbers rounded to 10 sf
Source: Altus Data Studio and AVANT by Avison Young

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

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