

FIGURES | MONTREAL OFFICE | Q2 2023

# Upward trajectory of vacancy persists throughout first half of 2023

▲ 17.4%

Vacancy Rate

▼ -426K

SF Net Absorption

▶ 1.9M

SF Under Construction

▶ \$19.58

PSF Net Asking Lease Rate

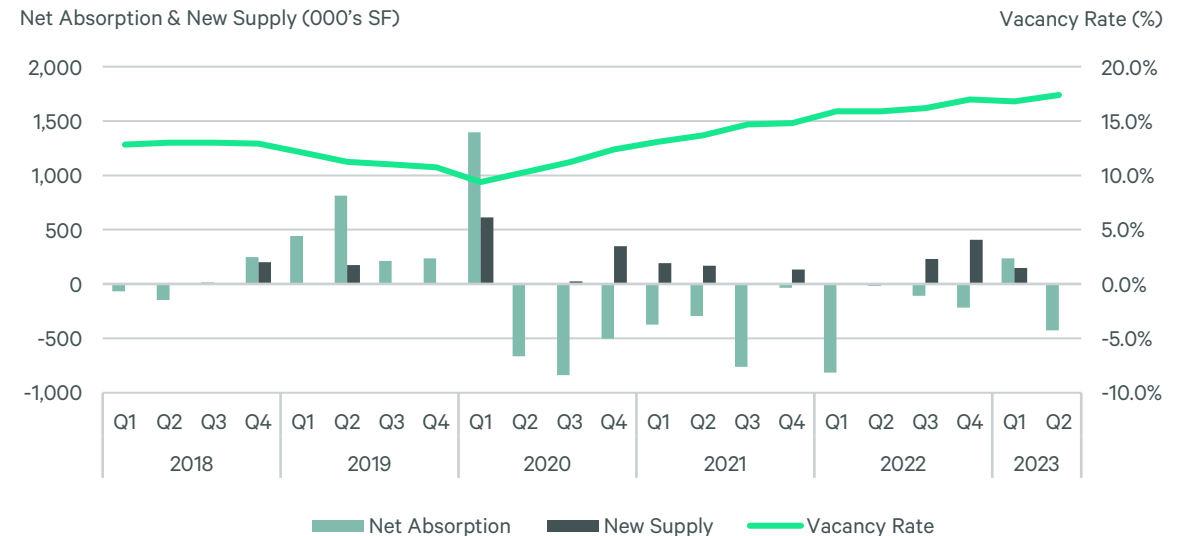
Note: Arrows indicate change from previous quarter.

## Overview

- The vacancy rate in the Greater Montreal Area (GMA) increased by 60 basis points (bps) to 17.4%. The vacancy has continued to climb since the beginning of the pandemic and has now reached a new peak in the downtown area.
- The GMA recorded an increase in sublet vacancy, as tenants give back space in the 15,000 sq. ft. to 30,000 sq. ft. range. Sublet availability increased to represent 16.1% of all vacant space. Landlords are offering turnkey premises, commissioned to compete with available sublets.
- The average transaction size in the downtown market has decreased from roughly 13,000 sq. ft. in 2019 to approximately 9,000 sq. ft. in Q2 2023. Transactions continue to take longer to close, as negotiations with landlords and delays are observed.
- Technology, finance, education and life sciences are the industries driving demand in the GMA. All these businesses are searching for the most unique space in the downtown area, in order to bring back their workforce in the office.

FIGURE 1: GMA Supply & Demand

Net Absorption & New Supply (000's SF)



Source: CBRE Research, Q2 2023.

## Vacancy records & increasing transaction lead time

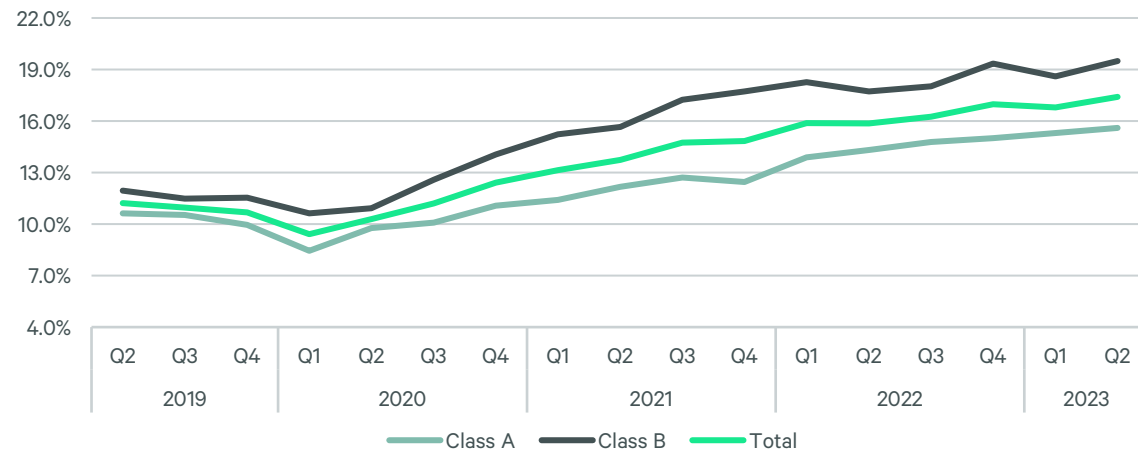
Once again, the vacancy rate increased, by 60 bps this quarter. It reached 17.4% and resulted in a negative net absorption of 426,000 sq. ft. The vacancy increase is noted through all quality classes, although more prominent in Class B buildings, as more than 300,000 sq. ft. of direct space was added to the market during the past quarter. Lease expiries affected the market vacancy as some tenants either decided not to renew their leases or to downsize their office spaces, with some occupiers opting to go completely remote.

The overall vacancy rate in the Central Business District (CBD) increased for the fourth consecutive quarter, by 50 bps this time to 17.0%. Class A vacancy now stands 14.5% vacant, a 50-bps increase from last quarter, while Class B recorded a 60-bps increase to 20.6%. A flight-to-quality is still noticeable in the market, but turnkey space below 5,000 sq. ft. has become scarcer, leaving tenants no choice than to turn towards short-term deals or temporary space while they find the space to fit their needs. Landlords who invested capital in their buildings spaces and amenities are benefiting from new lease transactions.

Deal volume is down from last year, as tenants' space needs are a moving target as they seek the optimal intersection of understanding their occupancy needs from a square footage perspective while concurrently trying to attract employees back to the office through incentives including top-rated amenities. Some of the transactions that are now closing started the search process before the beginning of the pandemic, showing the tenants caution around their real estate decisions. The average deal size has decreased from roughly 13,000 sq. ft. in 2019 to approximately 9,000 sq. ft. in Q2 2023, as companies seek smaller offices and space consolidation.

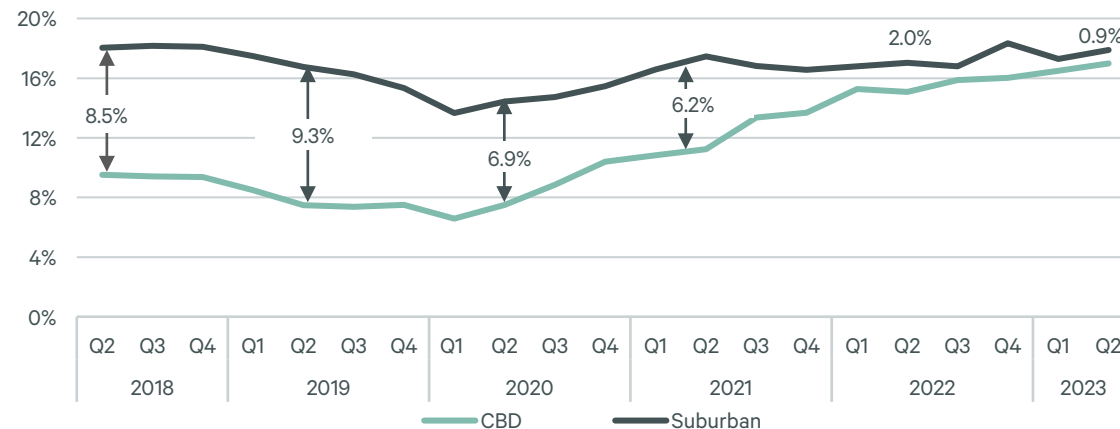
A sign of tenant caution was noted last quarter for on-island suburban offices, as the suburban market now stands 17.9% vacant, a 60-bps increase. Class A assets performed better as vacancy decreased by 10 bps, while Class B & RC saw vacancy increase by 120 bps and 30 bps, respectively. The Laval and South Shore submarkets performed best, as demand for top quality satellite offices remains significant off island. Recently delivered projects such as Espace Montmorency and Solar Uniquartier continue to prove that high-quality, well-amenitized buildings located next to public transit are the match for current tenant requirements.

FIGURE 2: GMA Vacancy Rates by Class (%)



Source: CBRE Research, Q2 2023.

FIGURE 3: Vacancy Variation Between CBD & Suburbs



Source: CBRE Research, Q2 2023.

## Continued scarcity of quality assets & increasing sublet vacancy

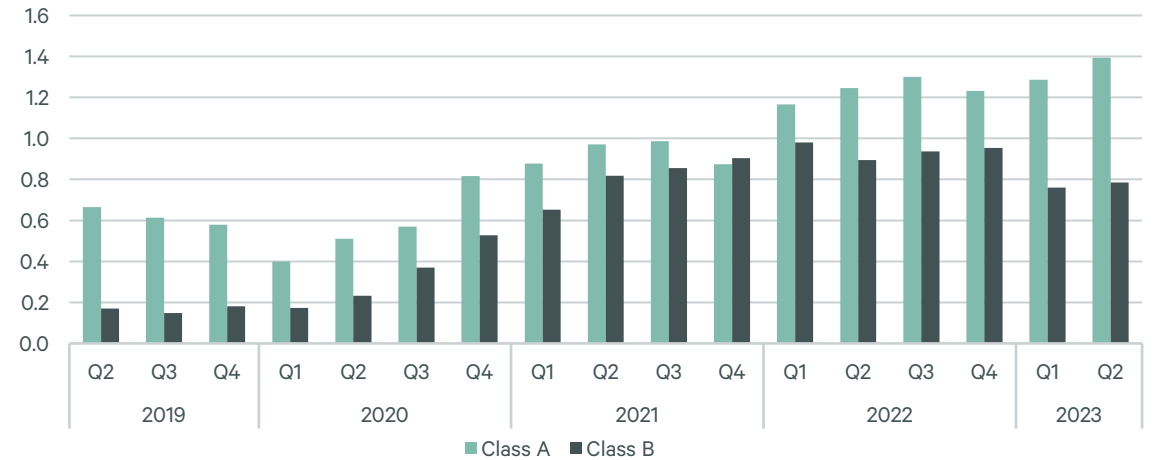
A shift by tenants towards high-quality buildings has led to an increased activity in class AAA and AA, to the detriment of class B buildings. The vacancy rate in class AAA buildings has remained constant for three consecutive quarters, while vacancy has increased for all other asset classes. Leasing opportunities in the top-rated buildings are scarce, as they tend to lease quickly, therefore pushing tenants towards the other classes or subleases.

The CBD market recorded an increase in available sublets, with more than 1.4 million sq. ft. of sublease space available on the market. Landlords have no choice other than to offer attractive incentive packages and aggressive commissions to compete with sublets. The immediate availability and reduced rents are attractive to tenants, but the sublet market also faces challenges as the available space continues to increase every quarter, giving tenants multiple options. In addition to the new measures taken by landlords to promote direct space, many sublets are not in a state to accommodate tenants. As office needs vary from tenant to tenant, some level of renovation is required in order to ensure optimal office utilization. As a result, tenants choosing to lease and build out direct space is a newly observed trend, leaving more subleases to reach their expiry date.

The top 10 office landlords, who represent more than 64.0% of the downtown market, are exhibiting a vacancy of 24.2%. The average vacancy is brought up by a few landlords with high vacancy portfolios, as they are currently dealing with the looming relocation of the National Bank as well as held vacancy for building renovations. There is a lot of variation in built-out and turnkey space offered on the market. Capital invested in suites located in top-rated buildings are allowing landlords to recoup their investment, as these suites can be leased at higher rates than the other turnkey spaces offered on the market in lower-quality buildings.

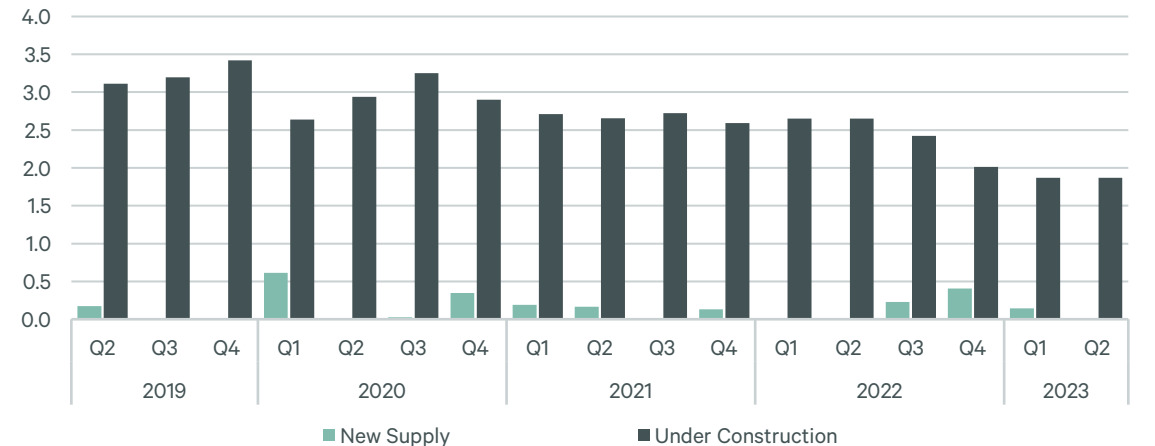
Open space, building security, workplace amenities and outdoor space continue to be the top amenities sought by tenants. With little to no new office projects breaking ground, building renovations are providing tenants with a better in-person experience, and could be the winning strategy for landlords.

FIGURE 4: GMA Historical Sublet Vacancy by Class (MSF)



Source: CBRE Research, Q2 2023

FIGURE 5: Historical Construction Activity & New Supply (MSF)



Source: CBRE Research, Q2 2023.

## Top industries driving demand in the GMA

Companies in the technology, telecoms and creative industries have seen the most change in return-to-office policies, and therefore subleased the most space. Although technology companies have added the most space in the last three years, they are also currently driving demand followed by finance, education and life sciences.

Tech tenants are very active in the downtown area and are looking for built-out space between 5,000 sq. ft. and 25,000 sq. ft. Finance tenants are starting to look for unique space, similar to that of tech tenants, as they are looking for innovative ways to attract their workforce. The life-science sector continues to be very active in the West Island and Laval. An increasing number of life science tenants would prefer to be located downtown, but due to the lack of laboratory availabilities in the area, they are left with no choice other than to locate in the suburbs, where most of the labs are being converted from office.

## Office construction still experiencing headwinds

The market continues to be affected by inflated construction costs and delays. As a result, landlords are holding back on white box expansions and looking towards temporary solutions to hold off on major costs while still finding rental income in these provisional alternatives designed for hybrid work weeks. The cost of materials is slowly coming down but remains higher than pre-pandemic. With material delays and manpower shortages, project schedules are at risk and longer completion terms are becoming increasingly common.

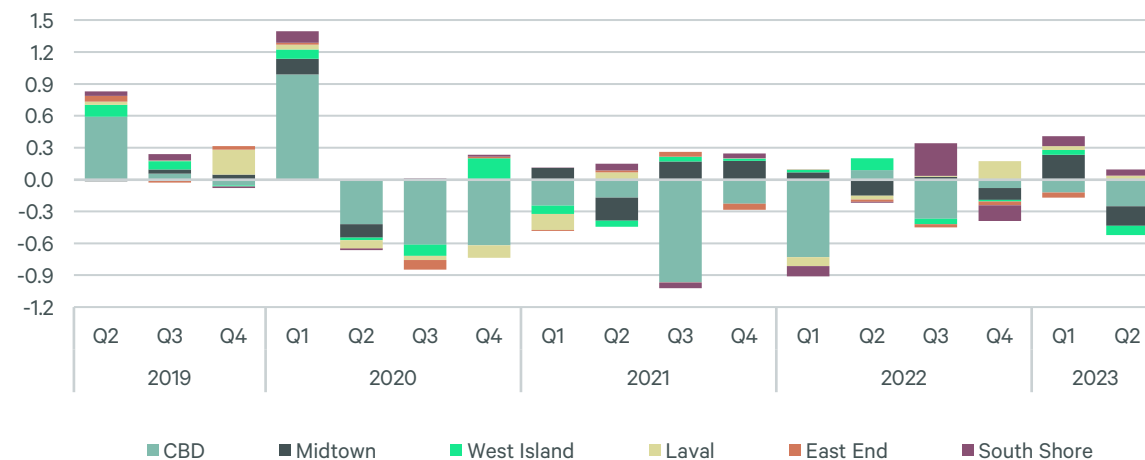
The decrease in space occupied by tenants has led to the emergence of several notable trends. With smaller spaces, environmentally-conscious tenants are considering used furniture and equipment. Tenants are also optimizing the use of smaller spaces by adopting more efficient space organization strategies, for example, more individual spaces are being utilized as hoteling or collaborative areas. When moving into a space, tenants are actively seeking innovative space planning solutions that will attract employees. More and more companies are recognizing the importance of finding special factors, such as dynamic office layouts, lighting or community spaces, that will make their office space unique and that will engage and motivate their workforce.

FIGURE 6: Notable Lease Transactions

Tenant	Address	Tenant Industry	Submarket	Size (SF)	Type
CISSS de Laval	800 Chomedey Boulevard	Health Care	Laval	84,323	Renewal
Confidential	700 Saint-Hubert Street	Technology	Old Montreal	55,000	New Lease
Intrado Life & Safety Canada	7150 Alexander-Fleming Street	Business Services	West Island	53,767	Renewal
Ipex Management Inc.	100 de la Pointe-Nord Road	Manufacturing Transportation	Midtown	30,716	New Lease
Institut Teccart	2000 de L'Eclipse Street	Education	South Shore	28,585	New Lease

Source : CBRE Research, Q2 2023

FIGURE 7: Net Absorption by Submarket (MSF)



Source: CBRE Research, Q2 2023.

FIGURE 8: Statistical Summary, Q2 2023

SUBMARKET	INVENTORY (SF)	VACANCY RATE (%)	SUBLET SPACE (% OF VACANT SPACE)	NET ABSORPTION (SF)	YTD NET ABSORPTION (SF)	UNDER CONSTRUCTION (SF)	AVG. NET ASKING RENT (PSF)
Central Core	25,267,857	16.7%	16.4%	(145,579)	(200,118)	-	\$21.68
Downtown South	5,862,461	21.6%	15.8%	(23,771)	(127,587)	1,320,000	\$26.84
Downtown West	3,703,861	15.9%	9.0%	(51,009)	(44,458)	77,392	\$16.84
Downtown East	5,825,767	16.5%	34.2%	(27,988)	(48,924)	-	\$20.43
Old Montreal	3,185,736	15.4%	13.4%	(13,597)	34,983	0	\$21.72
Atwater/Westmount	1,738,066	12.9%	33.6%	10,290	13,369	-	\$22.03
<b>CBD TOTAL</b>	<b>45,583,748</b>	<b>17.0%</b>	<b>18.3%</b>	<b>(251,654)</b>	<b>(372,735)</b>	<b>1,397,392</b>	<b>\$22.02</b>
Midtown	13,626,412	17.2%	8.8%	(182,674)	50,396	470,000	\$16.80
West Island	8,406,863	20.7%	22.7%	(87,331)	(40,338)	-	\$16.19
Laval	4,102,738	20.2%	10.4%	35,111	68,323	-	\$16.06
East End	1,774,749	18.5%	0.8%	4,006	(46,219)	-	\$14.14
South Shore	4,536,926	12.4%	12.8%	55,643	150,188	-	\$18.52
<b>SUBURBAN TOTAL</b>	<b>32,447,688</b>	<b>17.9%</b>	<b>13.1%</b>	<b>(175,245)</b>	<b>182,350</b>	<b>470,000</b>	<b>\$16.52</b>
<b>GMA TOTAL</b>	<b>78,031,436</b>	<b>17.4%</b>	<b>16.1%</b>	<b>(426,899)</b>	<b>(190,385)</b>	<b>1,867,392</b>	<b>\$19.58</b>
<b>LOFT OFFICE</b>	<b>8,307,115</b>	<b>13.5%</b>	<b>24.9%</b>	<b>(22,226)</b>	<b>63,844</b>	<b>0</b>	<b>\$17.87</b>

Source: CBRE Research, Q2 2023.

## Market Area Overview



### Definitions

- Available sq. ft.:** Space in a building, ready for occupancy within six months; can be occupied or vacant.
- Average Asking Lease Rate:** A calculated average that includes net and gross lease rate, weighted by their corresponding available square footage.
- Gross Lease Rate:** Rent typically includes real property taxes, building insurance, and major maintenance.
- Net Absorption:** The change in Occupied sq. ft. from one period to the next.
- Net Lease Rate:** Rent excludes one or more of the "net" costs (real property taxes, building insurance, and major maintenance) typically included in a Gross Lease Rate.
- Occupied sq. ft.:** Building Area not considered vacant.
- Vacancy Rate:** Total vacant sq. ft. divided by the total building area.
- Vacant sq. ft.:** Space that can be occupied within 30 days.

### Survey Criteria

CBRE's market report analyses fully modern office buildings of 20,000+ sq. ft. across the GMA. CBRE assembles all information through telephone conversations and listings received from owners and members of the commercial real estate brokerage community.

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