Top 10 Real INSIGHTS

Montréal Real Estate Strategy & Leasing Conference 2021

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TOP 10 | REAL INSIGHTS | Montréal Real Estate Strategy & Leasing Conference 2021 | ISSUE 64

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1. PEOPLE RETURNING TO THE DOWNTOWN CORE

Many different initiatives implemented to entice people back downtown.

During the pandemic the downtown cores of cities around the world emptied out. Office workers set up shop remotely. Tourism was almost non-existent. University students studied from home. Many stores and restaurants did not survive COVID-19, despite financial support that was offered by different governments.

Municipal governments and officials came up with different creative initiatives to lure people – in a safe manner - back to the downtown areas in order to support businesses and re-energize the public spaces.

“City-makers are always trying to capture the energy that has long drawn people to urban centres,” says Jeremy Kelly, lead director of JLL’s global cities research. “The has allowed us to test out some great ideas. And, I’d argue, some not so good ones.”

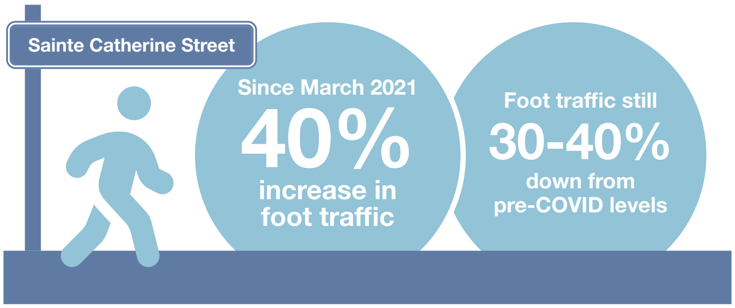
One of the good ideas that JLL cites is the accommodation of restaurants to create patios out of parking lots. These so-called ‘parklets’ have been implemented in cities around the world. Milan, for instance, has 1,000 of these parklets. They have become so popular that they may continue to be part of the urban fabric post-pandemic.

Recognizing the hardship of its cities, the Quebec government announced $25 million in funding for 19 regional downtowns across the province, this past July. The money is intended to be used to boost businesses, improve downtowns, create special events or invest in infrastructure.

Montréal and Quebec City will receive a much-needed separate $50 million package that was announced in November 2020.

A recent report by JLL showed that 28% of downtown Montréal stores were vacant or temporarily closed in Q4. The same study also revealed that the retail vacancy/temporary closure rate on Sainte Catherine Street increased from 18% in Q2 to 23% in Q4, and in shopping malls from 18% to 20%.

Glenn Castanheira, Executive Director of Montréal centre-ville, a merchant’s association, said that their data reported a 40% increase in foot traffic along Sainte Catherine Street since March but is still down by 30% to 40% from pre-COVID levels.



In the meantime, the redesign of Sainte Catherine Street continues to progress. The refresh includes widened sidewalk, the planting of many more trees and the installation of urban furniture to make the area more pedestrian friendly.

Tourism is returning slowly but is expected to ramp up in the wake of September 7th when the ban on international travellers to Canada was lifted. This past summer there was a 200% to 300% increase in visitors from the previous summers, according to Tourisme Montréal, but not even close to the 11 million people who visited the city in 2019. Prior to COVID-19, $2 billion was generated by American tourists every year.

Experts say that Montréal is one of the safer options to travel to in North America, having one of the highest vaccination rates in the continent. While vaccine passports might make the city more attractive to some international visitors than Manhattan, Francis Bouchard, Manager of Corporate Communications and Public Relations of Tourisme Montréal said.

A new four season outdoor square has been announced for the Quartier des Spectacles. The new Esplanade Tranquille will have an ice skating rink, restaurants and “creative spaces”, according to Mayor Valérie Plante, and will “will allow Montréal and its downtown area to shine throughout the year.”

Located west of rue Clark between rues Sainte-Catherine and de Montigny, the 53,800 sq. ft. public square will be “transformed according to the seasons.”

2. FLEXIBILITY KEY TO ATTRACTING TALENT

At the beginning of 2021, 5 million Canadians were working from home, according to StatsCan.

The hybrid office will be in high demand as Canadians return to their pre-pandemic activities. Having spent more than 18 months either fully or partially working from home, people have gotten accustomed to working in an environment that they were thrust into without warning.

In August, a survey was done in Canada by Angus Reid. It found that 25% of employees would go back to the office “begrudgingly” and would likely start looking for another job. One-in-five say they would lean toward quitting immediately.

Young people (ages 18 to 34) and men, in particular, say they are likely to reconsider their employment if made to return to the office. Fully half (50%) of 18 to 34 year olds say this would be the case.

These results were similar to a US survey that was conducted a few months prior. A May 2021 survey of 1,000 US adults showed that 39% would consider quitting if their employers weren’t flexible about remote work. Among millennials and Gen Zs, that figure was 49%, according to the poll by Morning Consult on behalf of Bloomberg News.

With 60% to 70% of commercial real estate firms facing a talent shortage, flexibility is something that employees need to embrace or risk not attracting top talent.

Commercial real estate advisory company CEL & Associates has put out a CRE compensation study in the US every year since 1989. CEO Christopher Lee told BISNOW that the "sudden acceleration of deals this year after the pandemic slowdown of 2020, and a booming market" is contributing to the talent shortage. Everyone is hiring all at once.

Many employers realize that they are going to need to reposition their spaces to attract their workers back to the offices and make it a place they would prefer to be. Consulting firm McKinsey talks about creating a place of "magic" while Dream Office REIT Chairman & CEO Michael Cooper talks about making the office an "exciting" place to be.

So, what are the needs of the post-COVID office space?

Research from Steelcase found when people experience space as stimulating or inspiring, they tend to have a greater sense of community which contributes to greater engagement, productivity, innovation and retention.

More employers are designing spaces that foster collaboration by having less workstations for focused work and more boardrooms and other spaces for connecting with team members.

Offices also need to be geared towards health and well-being.

There has been growing evidence that good air quality and ventilation in buildings promote well-being and improve cognitive performance. Now, experts say there's a direct connection between the healthy built environment and the fight against COVID-19 and tenants are demanding that their health be made a priority before they return to work.

Offices are being designed with greater access to outdoor spaces. In addition, employers are providing access to daylight and views, biophilic or natural elements or wellness rooms for obtaining emotional support or time away.

Sociologist Tracy Brower and author of The Secrets to Happiness at Work states that it is important to support the development, mentoring and growth of younger generations and new hires. She writes that this can be done by drawing "people in by creating opportunities for people to connect in informal and unplanned ways like in work cafes, atriums and casual seating.

"You'll need to work harder now to differentiate your organization—to attract, retain and engage people. And unless you're one of the minority of businesses going fully remote, your office is a key part of the value equation you offer employees," according to Brower.

3. PANDEMIC UPS THE ANTE ON TENX

Superior tenant experience will assist in the transition back to work.

Many of the top office owners and operators provide premium tenant experience to assist its tenants attract the best talent.

During the pandemic, there has been a need for digital integration of tenant experience.

Samuel Warren, HqO's Managing Director for the UK and Ireland explains it this way: "The growth of flexible work models means that the workplace and its community have evolved past the four walls of the office building. Landlords need to find ways to create valuable experiences, for both those who are returning to the office and those taking a more hybrid approach."

Tenants who are coming back into the office are understandably more concerned about their health and well-being. Not catching COVID is a big part of tenant experience.

Nick Romito, Co-founder and CEO of View The Space (VTS), believes that tenant experience apps can play an important role in COVID-era health and safety. The return to office will necessitate "best-in-class technology to better manage tenants' changing requirements," he says. This type of technology will offer functions such as "touchless building entry and insights into building sanitation and when common areas were last cleaned."

Slate Asset Management has recently partnered with the tenant experience operating platform HqO. The HqO app will give users access to tailored building amenities like on-site fitness classes, tenant giveaways, and discounted pricing for goods and services at retail locations within the Slate portfolio.

Slate will roll out the HqOS platform at Stephen Avenue Place, a 620,000 sq. ft. complex located in Calgary, and its Yonge and St. Clair portfolio located in midtown Toronto. The Toronto property consists of 1.25 million sq. ft. of office and retail space across eight buildings in the neighborhood.

"Integrating the HqOS platform into our office properties enables us to further elevate the workplace experience and add value for our tenants," said Katie Fong, Vice President at Slate Asset Management.

Slate joins Ivanhoé Cambridge, Cadillac Fairview, Hudson Pacific Properties and Spear Street Capital in using this digital tenant experience platform.

HqO has added almost 90 million sq. ft. to its portfolio since the onset of COVID-19, including 40 million so far in 2021, according to their Chief Revenue Officer, Mark Rosenthal.

Two new office buildings in Toronto are taking tenant experience to the next level by offering superior amenities. CIBC Square which will contain 3 million sq. ft. once both towers are complete have been designed with extensive array of amenities and unique features. The complex includes a one acre elevated park linking the two buildings. Phase One at 81 Bay Street is almost complete and will be ready occupancy this year. Phase Two, which broke ground last spring, is a 50 storey tower at 141 Bay Street. The project is a joint venture between Ivanhoé Cambridge and Hines.

The second tower, located at 141 Bay Street focuses particularly on health and wellness, "enhanced air quality and thoughtfully appointed amenities reflect a commitment to one's health, safety and security," said Avi Tesciuba, Head of Hines Canada in a press release.

CIBC Square will be home to a food hall which is set to open this year. The buildings are aiming for LEED Platinum core and shell certification, WELL Certification and WiredScore Platinum accreditation.

Other landlords are spending millions of dollars to reposition their buildings and add new amenities that will enhance the tenant experience.

Aspen Properties, for instance, has spent $25 million in the 1.1. million sq. ft. Sun Life Place complex in Calgary. The complex, which contains three 28 storey towers, was redeveloped to include 57,000 sq. ft. of amenities, with 41,000 sq. ft. that is exclusively for tenant use.

4. COLLECTING TENANT DATA IMPROVES FACILITY MANAGEMENT

You can't manage what you don't measure.

Tenant data gives building owners and operators valuable incite as to how their building are being used and by whom.

This kind of data analytics based on tenant's usage of space can provide building operators with intelligence about tenant occupancy, engagement, and utilization, allowing for more effective asset management.

As companies partner with more and more PropTech firms, landlords are able to collect vast amounts of data. Building owners and operators can activate entryways, lighting, building amenities, resources and schedule more frequent cleaning depending how the building is being used. They are also more able to understand how tenants interact with their buildings.

However, data collection can't be taken lightly. It needs to be executed in a way that prioritizes the safety of the individuals the data is being derived from.

With the growing threat of cybersecurity breaches, it has become imperative that the technology companies that are being enlisted are securing data properly.

And facial recognition, artificial intelligence and biometrics bring about new challenges in terms of protecting end-user rights. Fore example, with biometrics, if a hacker steals a person's information, it cannot be altered. Hackers will have this information forever and that person remains vulnerable. A fingerprint or eye scan cannot be changed like a password can.

In 2019, there was a data breach containing the fingerprint data of 1 million individuals along with the facial recognition information, and unencrypted usernames and passwords of 27.8 million individuals. The exposed database belonged to BioStar 2, a biometric security platform used by organizations worldwide.

According to identity protection company IdentityForce, it is vital that any technology that requests biometrics is encrypted when it's being captured.

Industry standards and certifications have been created in order to give property owners assurance that their tenant's data is being protected. Here are some examples of these certifications:

ISO — **An ISO certification is a third-party approval for a company that runs to one of the international standards developed and published by the International Organization for Standardization (ISO).**

SOC 2 — **Stands for System and Organization Controls 2 and is an audit report that attests to the trustworthiness of services provided by a service organization. Most commonly, it can be used to assess the risks associated with software solutions that store customer data online.**

GDPR — **This certification means that the entity is legally compliant with the European Union's General Data Protection Regulation.**

CCPA — **Short for California Consumer Privacy Act, is among a growing number of US and global data privacy and information security laws focused on consumer privacy rights.**

5. RESHAPING RETAIL TO REMAIN RELEVANT

Experiential retail is key in attracting consumers to bricks and mortal stores.

Even though e-commerce has grown exponentially during the pandemic, bricks-and-mortar stores remain important. Innovative retailers are finding new ways to engage their customers within the traditional store. They are using the space to educate consumers of their products, reinforce their brands' positioning and support online sales, according to consulting firm McKinsey.

Pre-pandemic research by ICSC found that opening a new location increases traffic to a retailer's website by 37% in the following quarter.

"The complementarity is why it is vital for consumer-product companies to invest in – and master – omnichannel supply chains that can deliver a great consumer experience across multiple channels," McKinsey reports.

Experiential retail is a key trend that is linked to the omnichannel strategy. With stores open again, consumers don't just want to shop, they want an engaging, personalized experience. When consumers can go online and buy pretty much any thing, retailers need to provide a solid value proposition as to why they should make the effort to come into their bricks and mortar store.

To that end, retailers are using technology such as AR and VR to support personalized shopping experiences, both in-store and online. Customers can use "smart mirrors" to try on clothes virtually, for example, and smartphone cameras make it possible for shoppers to see how furniture will look in their own space.

As customers travel through a store, omnichannel lets them use their smartphones to access product information, sign up for exclusive events and order customized products for delivery.

Retailers are also using technology to support the experiences that drive loyalty such as, personalized assistance, events or classes that help consumers get the most out of their purchases, and access to exclusive offerings. These are just a few of the ways that retailers can inspire customers and keep them coming back.

According to Mardi Najafi, Director of Retail Design at Figure3, understanding what a target demographic expects creates a real competitive advantage. The "new shopper" is digitally savvy, demands convenience, has a shorter attention span, favours authentic connections, and expects brands to deliver on their promises. The new shopper wants to connect with a brand from a mission standpoint, Mardi states.

To reach this new generation of customers, retailers are also creating communities of like-minded people by carving out social spaces that don't just sell products but demonstrate how to use them. In select Apple store locations, for instance, there are interactive auditoriums for meet-ups and informal lessons.

> Retailers are creating visually attractive spaces that trigger emotional connections and memories. "By creating Instagrammable moments, they excite retailers' target groups who become their brand ambassadors," writes Rebecca Melnyk in REMI Network.

Engaging consumers in products in the store is key to rising purchases. LiftLab offers build-your-own lipstick. Urban Runners features spaces designed with textures found in urban settings, where people can try out shoes, run around and experience the space, said Najafi. Fitting rooms, which historically represented engagement, have become much integrated with technology. An example is Canada Goose's cold fitting rooms that replicate harsh winters.

The biggest disadvantage of online shopping is customers' inability to test products before purchasing. That's why consumers often want to visit a store location to inspect the item first.

Experiential retail enables consumers to test out products in ways that expand the customer experience and build confidence in a product.

Retailers are test-driving their concepts with their target markets with pop-up stores. It is considered a cost-effective way to get customer feedback about whether the location is a good fit with their brand.

Retail-Insider reports that Michael Kehoe, a retail specialist with Fairfield Commercial Real Estate in Calgary, said these are the "golden days" of pop-up retail stores and restaurants in Canada. Retailers are looking especially at outdoor and storefront locations.

"Rising consumer real estate vacancy levels in the age of COVID-19 are providing opportunities for retailers and foodservice professionals to test-drive new product and menu offerings on a short-term basis in a low-risk commercial environment. Proactive and creative landlords and building owners are seeking out pop-up tenants to keep their storefronts activated and incubate new long-term tenants. 'Necessity is the mother of invention' once said Thomas Edison," said Kehoe.

6. MASSIVE DEVELOPMENT PROJECTS ARE UNDERWAY

Millions of sq. ft. are under construction in GMA with a focus on building Live, Work, Play communities.

According to Altus Group, in Q3 2021, there were 2.7 million sq. ft. of office space and 4.3 million sq. ft. of industrial space under construction in Greater Montréal. Millions more sq. ft. of mixed used developments are also in progress.

A new 1 million sq. ft. mixed-use development is coming to Old Montréal from Jesta Group. The project will feature modern rental housing, vibrant retail, a Hyatt Centric hotel, and state-of-the-art office space with Novartis Pharmaceuticals Canada already on board with a ten-year lease. At the heart of the new development will be a 36,000 sq. ft. pedestrian courtyard anchored by the iconic Château Viger.

The hotel will include 177 guest rooms, 4,500 sq. ft. of banquet space, a rooftop pool and bar with unobstructed 360° views and a destination restaurant that will be run by the Burgundy Lion Group.

On the industrial front, Rosefellow has approximately 600,000 sq. ft. of speculative development under construction on the island of Montréal. Groupe Quint has also recently begun construction on 163,000 sq. ft. on a speculative building in Longueuil which is fully preleased and is expected to be delivered by Q1 2022.

In Pointe-Claire, Cadillac Fairview has partnered with Ivanhoé Cambridge in the development of the 50 acres of vacant land Cadillac Fairview purchased in 2013. The site is next to CF Fairview Pointe Claire. The mixed use development that is planned for the property will include over 5,000 residential units, 1 million sq. ft. of retail, 500,000 sq. ft. of office, a hotel, and seniors housing. The development will be adjacent to a REM LRT station located along Fairview Avenue.

Rachel Julien has proposed a residential project near Montréal's Olympic Stadium on the 5.5 acre site that the company acquired in 2016 for $16 million. The proposal includes just over 1,000 new residences composed of 650 condos, 200 rental units and 158 social housing units, as well as a retail component.

In Laval, construction has commenced on the $450 million Espace Montmorency – the largest ever mixed-use development in Laval. The project, which is a JV between Group Montoni, Groupe Sélection and the Fonds immobilier de solidarité FTQ, will contain a total of 1.36 million sq. ft. and will be directly connected to the Montmorency metro station.

Espace Montmorency will include a 16 storey 350,000 sq. ft. office building, a 180-room hotel and conference centre, 700 residential units in two towers, 150,000 sq. ft. of commercial space, 1,400 underground parking spaces and 50,000 sq. ft. of public green space.

Montoni Group had ventured into multi-residential development with a $40 million complex in the Park Extension area of Montréal. The 117 unit "Le 495 Beaumont" is in close proximity to the Acadie and Parc metro stations and is going after a LEED v4 certification. Rental rates will range from $1,000 to $3,000 and 40% of the units will be two or three bedrooms. The building is slated for completion this summer.

RioCan REIT and HBC are redeveloping the downtown Hudson's Bay Centre. The plan is to start construction in 2023 on a 25 storey office tower above the store. The building features existing connections to Montréal's Metro and the forthcoming REM McGill station.

In another joint-venture, RioCan and Broccolini are planning a 2.8 million sq. ft. redevelopment of Centre Kirkland near the site of the future Kirkland REM station. The multi phased, mixed use development will contain approximately 240,000 sq. ft. of office space and 135,000 sq. ft. of commercial space, including a residential component.

Devimco Immobilier in partnership with the Fonds de solidarité FTQ and Fondaction is making progress on one of the largest mixed use developments in Quebec. Valued at well over $1 billion, the Solar Uniquartier located in Brossard will eventually include 2,6000 residential units, 1.2 million sq. ft. of commercial and office space, two hotels and a public square adjacent to Du Quartier light rail station.

Université de Montréal has announced that it will be opening a campus at the Solar Uniquartier in time for the 2022 school year. The 35,000 sq. ft. campus will replace the one that is currently located in Longueuil and will be connected to the future REM station.

Devimco Immobilier has also begun construction on the first of two towers which will make up the Sir Charles Condominiums at its downtown Longueuil transit oriented development. In a subsequent phase, two 22 storey rental housing towers will be built.

When completed, the entire project will include the construction of 1,612 housing units – an increase from the 1,200 units that were originally planned – and consist of a total area of 1.6 million sq. ft.

7. INVESTMENT ACTIVITY DOWN IN Q2

Strong numbers at the start of the year puts Montréal on track to reach $7.5 Billion according to CBRE.

In the second quarter of 2021, Altus Group reported Montréal investment activity volumes totalling just over $2.0 billion. Added to the $2.4 billion that Altus recorded in Q1 has resulted in a strong first half of the year. According to CBRE, the city is on track to reach $7.5 in investment activity for the year which will almost match 2019's record-setting numbers.

The second quarter was characterized by smaller deals under $20 million. Private Canadian Investors as well as REITs & REOCs were the most active purchaser groups in the second quarter. While the multi-family and industrial sectors attracted the most amount of capital at $756.3 million and $712.8 million, respectively, CBRE reports.

Nevertheless, there have been a few high profile office transactions so far this year.

LaSalle acquired 50% interest in three of Ivanhoé Cambridge properties including Maison Manuvie office tower located at 900 Boulevard de Maisonneuve O in Montréal, a 485,000 sq. ft. office asset that is LEED Gold certified. Manulife, whose Quebec headquarters are in the office tower, will be LaSalle's 50% partner in the property. The building is 97% leased with a 13.7 year average weighted lease term. It provides tenants direct access to amenities and underground connections to both the McGill and Peel subway stations.

Groupe Petra and MACH have finally acquired 1000 de la Gauchetière for just over $482 million; the transaction closing at the beginning of Q3. The building was constructed between 1988 and 1992 and contains more than 900,000 sq. ft. of space. It has an indoor bus terminal and direct access to the metro, commuter trains and the RÉSO underground pedestrian network. It is LEED Silver certified.

Allied REIT acquired the office component of the Place Gare Viger redevelopment in Montréal from Jesta Group. The REIT will pay $128.2 million for the Gare Viger and the land, and $121.4 million for the new office tower.

Jesta Group's new seven-storey office building at 700 Rue Saint-Hubert, just behind Gare Viger, is scheduled for completion in late 2022. It will feature 145,743 sq. ft. of GLA and 145 underground parking spaces and is approximately 24% pre-leased to Novartis Pharmaceuticals who signed a 10-year lease.

Montréal-based commerce platform Lightspeed will anchor the Gare Viger Château. In 2015, the technology company established its global headquarters at Place Gare Viger and it will occupy six floors of the Château.

BentallGreenOak acquired 275 Viger East Avenue for $74 million at the end of August. The building was fully occupied by the vendor, IBM Canada.

In Saint-Laurent a 41,562 sq. ft. office building was acquired by NorthWest Value Partners from a private investor for $14,975,000.

Core Realties acquired the La Presse building located at 44-54 Saint-Antoine E. The 35,100 sq. ft. building was bought for $5.7 million from a private investor.

NYX Capital Corp. and Bluebird Self Storage have acquired a commercial building on 2.15 acres of industrial land in Montréal for their first development outside of Ontario.

The plan is to demolish the existing building which is located at 5715-5785 Metropolitan Blvd. and build a 120,000 sq. ft., Class A storage facility.

Dream Industrial REIT acquired 3100 des Bâtisseurs Street in Terrebonne for $36 million. The 178,542 sq. ft. manufacturing facility was fully occupied by a single tenant.

8. OFFICE VACANCY CONTINUES TO RISE

Rents are rising but landlords are offering an array of inducements to attract tenants.

Altus Group reports, office vacancy rates in Greater Montreal increased from 2.1% in Q2 to 12.4% in Q3. Subleases continue to enter the market and currently represent about 14% of vacant space.

Despite high vacancy levels, the average Class A net rental rate continues to rise and has increased 7.7% since Q1 2020 to $20.81 per sq. ft. CBRE reports that some landlords being more flexible with incentive packages and are offering months of free rent to attract tenants and offset higher asking rates.

According to JLL, at the end of the second quarter, downtown Class A NERs are down 10.5% year to date.

These market conditions represent a remarkable opportunity for tenants who are searching for "MORE" from their office space (Modernization, Optimization, Rationalization & Engagement), JLL reports.

As vacancy rates continue to climb, about 1.6 million sq. ft. of office space is currently under construction in downtown Montréal while over a million sq. ft. is being built in the suburbs. Projects include National Bank of Canada's new tower, the Gare Viger redevelopment, and the new Maison de Radio-Canada. While over 50% of the office space currently under construction has been preleased, the market will need to absorb the remainder.

As remote work becomes more entrenched and companies shift to flexible schedules on a permanent basis, downtown cores may lose part of their drawing power on businesses. Some companies are considering whether to open satellite offices in locations such as Laval, Longueuil or Brossard's Quartier Dix30 — while retaining a downtown head office, Jean Laurin, CEO of Devencore Montréal, said in an interview with the Montréal Gazette.

Vacancy rates look set to keep climbing in 2021, with a further increase of up to three percentage points possible by the end of the year, Laurin said. That will force building owners to continue to offer incentives.

"Most observers agree that downtown will eventually recover, but it won't be in 2021 and it may not happen in 2022. By 2023, there should be a certain sense of normalcy in the market."

"Most observers agree that downtown will eventually recover, but it won't be in 2021 and it may not happen in 2022. By 2023, there should be a certain sense of normalcy in the market."

9. INDUSTRIAL DEMAND NOT EXPECTED TO EASE UNTIL WELL INTO 2022

Firms consider adaptive reuse of vacant retail to increase the stock of industrial space.

Altus Group reports that in the third quarter of 2021, industrial availability rate in Greater Montreal declined dropped to 2.5% to 2.2% in Q3. Industries such as e-commerce, food and beverage and logistics continue to drive demand in the Montréal market and in most major cities in North America.

Average net asking lease rates for industrial space climbed to an average of $8.24 per sq. ft. in the Q2. Over the last three years, rents have climbed 44%, CBRE reports.

4.3 million sq. ft. is under construction across the GMA, Altus Group states. However, over 60% is pre-leased and will do little to assuage demand. The result is that companies may have to start looking at facilities - or land – farther and farther from the city centre.

"The concern is that this can stifle activity. What's that going to do from an economic perspective if you can't get space at all?" Ruth Fischer, CBRE's Managing Director for Quebec comments to the Montreal Gazette.

Shifts to online spending may also have an outsized impact on the industrial real-estate market because e-commerce companies tend to need more warehousing space than brick-and-mortar retailers, according to data from Prologis, which is the largest owner of industrial space in the US.

Prologis estimates that ecommerce retailers need about three times the warehouse space to generate comparable revenues relative to brick-and-mortar sales, Victor Calanog, Chief CRE Economist at Moody's Analytics REIS, wrote in a research note.

"To generate $1 billion of revenue, a brick and mortar retailer needs about 350,000 to 400,000 sq. ft. of warehouse/distribution space while an e-commerce retailer needs about 1.2 million sq. ft.," Calanog wrote.

A trend that has been accelerated by the pandemic has been the conversion of traditional retail space to industrial uses, with newly vacant stores proving to be tempting locations for users who want to be closer to urban customer bases but who don't need giant warehouses.

"We're actually starting to see the first wave of retail repurposed into industrial now," said CBRE's Kyle Hanna, Vice-President of Industrial and Logistics at CBRE.

However, retail conversions are not easily done. Cushman & Wakefield enumerates several challenges. Retail buildings don't have adequate space for trucks turning or have enough shipping doors to facilitate movement of goods. Zoning might not accommodate industrial uses. As well, most retail leases have co-tenancy terms, which include rules on what other tenants and business types are allowed within a mall or retail center, the company explains.

These challenges will hinder widespread retail conversions to industrial space. "Creative adaptive reuse of vacant retail space is pushing the prospect of converting assets to warehouse further down the list of options," according to the real estate services firm.

10. RENTAL HOUSING IN SHORT SUPPLY

Demographics and affordability challenges will keep fueling demand.

Montréal apartment vacancy rate is hovering at 2.7%. Downtown's vacancy was higher than the city's average at 3.2% while the vacancy in the suburbs was at a meager 1.2%.

These numbers, which are based on CMHC's most recent Rental Market Report, have undoubtably experienced some downward pressure as immigration has resumed and post-secondary school campuses have reopened.

The average rent in Greater Montréal increased by 4.2% in 2020, the largest jump in almost 20 years, according to CMHC. The price of available apartments, meanwhile, was 46% higher than rented ones.

Population growth and changing demographics are two significant factors putting pressure on the rental market. Immigration into Canada's major centres is driving rental demand in those cities, while the ripple effects of urban growth are pulling residents into suburban rental homes, Karl Innanen, Colliers Managing Director in Kitchener writes in RENX.

Canada aims to open the door to 1,233,000 new permanent residents over the next three years: 401,000 this year, followed by 411,000 in 2022 and 421,000 in 2023. Many of those newcomers will be living in one of Canada's largest cities - Vancouver, Toronto, and Montréal - and many will be renting.

1,233,000
new permanent residents

Vancouver • Toronto • Montréal

401,000 in 2021	**411,000 in 2022**	**421,000 in 2023**

In addition to demographics, the pandemic, which has worsened affordability and the surge in remote working, has caused many Canadians to re-evaluate their housing needs. Many are choosing to move outside major centres for more affordable housing with increased sq. ft. According to Innanen, this has simultaneously fuelled the suburban, secondary, and small city rental markets.

Due to this demand, there has been an increase in the number of rental developments in the past few years. There were 10,600 new rental units added to the rental stock in 2020, a record number in this generation.

Brivia Group has recently launched the Link Apartments – furnished micro units in a 19 storey building close to Concordia University.

LSR GesDev has launched NOVIA, a $105 million mixed use project in Longueuil. Partnering with the Fonds immobilier de solidarité FTQ and private investors the developer plans to build a 20-storey building that will contain 273 rental units and 28,000 sq. ft. of commercial and office space.

Catering to wealthy, downsizing baby boomers, there are a number of luxury rental developments on the go.

One such high-end rental project is the Equinoxe Marc Chagall project in Côte-S-Luc with phase two expanding on the amenities that were initially offered. The project is equipped with a gym and pool, a children's play area, a banquet hall, business centre, 24-hour concierge. Cleaning services and dog grooming are also available.