



# Top 10 Real **INSIGHTS**

Montréal Real Estate Forum 2022

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Montréal has embarked on the largest public transit project in 50 years, prompting investors to look to the outskirts of the city.

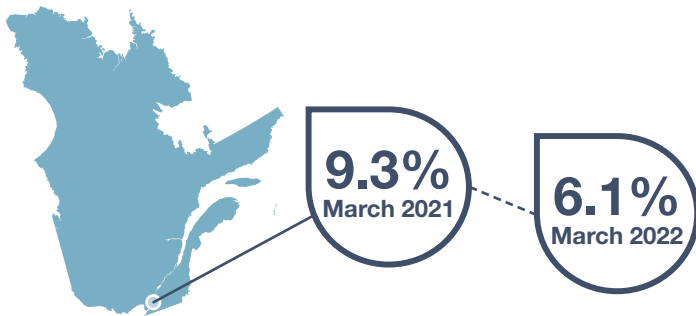
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## 1. UNEMPLOYMENT RATES ARE DOWN, AND LABOUR CONTINUES TO BE A CHALLENGE FOR MANY COMPANIES

**A speedy recovery in Quebec from economic effects of the Omicron variant, as well as inflation, changes the labour landscape.**

The Montréal Census Metropolitan Area (CMA) **unemployment rate, which reached a high of 9.3% in March 2021, decreased to 6.1% in March 2022, according to the Government of Canada's Labour Market Bulletin—Quebec: March 2022.** This may reflect the easing of restrictions after the peak of the Omicron variant was reached, and “a continued recovery in high-touch services industries.”

**Unemployment Rate**  
Montréal Census Metropolitan Area (CMA)



TD Economics' “Provincial Economic Forecast: Varying Regional Impacts From Russia/Ukraine Conflict,” released in mid-March, 2022, pointed out that “Québec has enjoyed a speedy recovery [from the COVID-19 pandemic] and as of October, its real GDP was 1% above its pre-pandemic level.” Residential and government spending, combined with the fact that Québec sources far less material from imports than most other Canadian provinces, has helped to cushion the effects of the pandemic. However, the rise in oil prices due to the Russian invasion of Ukraine will adversely affect spending in 2022, while exports will probably decrease due to lower European demand, although TD still expects to see above-trend growth throughout the province in 2022. “[C]apital investment by the provincial government, alongside robust program spending should add significantly to growth. Note that capital spending intentions data showed a plan to ramp up public sector construction investment by 15% in 2022.” However, what the bank describes as “muted population gains” could adversely affect the province’s economic growth prospects. Immediately prior to Omicron, in December 2021, Québec’s unemployment rate had reached almost pre-pandemic levels (4.7%), which was close to a record low.

Nathan Janzen of RBC Economics warns that “with the unemployment rate so low, virtually all industries are bumping up against labour shortages, including those hospitality sectors that have yet to fully recover.” (RBC Economics, “Canadian unemployment hit multi-decade low in March,” April 8, 2022).

In addition to labour shortages, wages are increasing as employees seek increases to cope with unexpectedly high levels of inflation. RBC Economics notes average hourly earnings are 3.4% higher year over year in March 2022, an increase of 0.3% over the month before. “Business surveys have widely flagged that higher wages are expected to be necessary to attract additional workers.”

RBC’s Naomi Powell and Ben Richardson warned in a September 2021 report “Powering Up: Preparing Canada’s skilled trades for a post-pandemic economy” that “Canada will face a shortage of at least 10,000 workers in nationally recognized Red Seal trades [within the next five years]—a deficit that swells tenfold when 250 provincially regulated trades are included.” With more than 700,000 skilled tradespeople retiring by 2028 and trade recruitment efforts far less successful than hoped, “The most severe shortages will be among trades critical to the coming infrastructure boom, including industrial mechanics, welders and boilermakers.”

## 2. INVESTMENT ACTIVITY IN GREATER MONTRÉAL GREATLY IMPROVED DURING THE PANDEMIC.

**Capital availability is robust and the multi-residential, industrial and land sectors are all capturing investor attention.**

Investment activity in the GMA went from \$7.2B in 2020 to \$11.3B in 2021 (transactions of \$1M or more) according to Altus Group data. Multi-residential and industrial captured just over 60% of 2021 sales volume, accounting for approximately \$4B and \$2.6B respectively. Q1-2022 sales volume was \$3.4B compared to \$2.4B for Q1-2021.

“Despite the pandemic, Montréal’s investment outlook remains strong and is led by robust demand for industrial, multifamily, and land assets. ... Montréal continues to be a top destination in Canada for both domestic and international capital,” CBRE stated in its “Canada Market Outlook 2021.” According to Altus Group’s data, the top 2 most preferred products in Canada in Q1 2022 were food anchored retail and industrial land in Montreal. A year later, CBRE remains optimistic that “[i]nflation, rising interest rates and geopolitical instability are unlikely to be enough to dissuade Canadian commercial real estate investors this year...” It forecasts volumes could reach as high as \$58.5 billion in 2022, up from the 2021 record of \$57.9 billion.

Capital availability is robust, according to CBRE, and there is pent-up demand from firms as the pandemic winds down, CBRE’s Market Outlook forecasts that demand will be greatest for assets in the multifamily, industrial, and land sectors, and that the recovery in the office and retail sectors should drive additional investment growth. As of Q1 2022, suburban multiple unit residential, industrial land, single tenant industrial and multi-tenant industrial are among the assets classes with the highest momentum ratios in Canada, as depicted by Altus Group data. “Despite some very real challenges looming on the horizon, it is hard to argue that Canada’s current capital market environment is anything but solid. The Canadian commercial real estate industry is emerging from this crisis in remarkably good shape, although we recognize that the events unfolding in Ukraine represent a significant caveat.”

The 2022 Canada Real Estate Market Outlook published by CBRE in March 2022 predicted neither commercial real estate investment volumes nor cap rates would be negatively affected by Bank of Canada interest rate increases and considers investment fundamentals are strong and the sector “remains well insulated. ... yield spreads remain healthy, liquidity remains elevated, property fundamentals are showing signs of improvement, and the economy is on its way to making a full recovery. This positive outlook is further supported by the previous period of rate hikes, in 2017 and 2018, when policy interest rates increased by 125 bps over a 15-month period. Over this time, the national average cap rate figure compressed by 18 bps while the country set consecutive annual records for national investment volumes.” (CBRE)

### 3. INVESTOR RATES OF RETURN STABLE DURING H2 2021 AND SHOULD REMAIN STABLE THROUGHOUT 2022

#### Forecasters project little to no change in rates on the horizon.

Colliers Canada “Cap Rate Report Q4 2021” identified several trends for the Montréal commercial real estate market. They were:

- continued growth of the industrial market, in terms of both rental rates and valuation. According to Altus Group, estimated asking rates have been steadily increasing since Q1 2020 and have jumped from \$8.07/sf in Q4 2021 to \$8.46/sf in Q1 2022.
- sales activity in the office market to pick up in 2022 as negative absorption, which was significant in 2021, decreases in 2022. The sale of Cominar’s office and retail portfolio, which concluded in March 2022 (see Section 4) means sales activity of commercial retail will increase in 2022
- retail sales activity increased in 2021, especially among smaller, better-positioned retail properties
- low-rise multi-family traded at “unprecedented” rates while high-rise multi-family transactions were limited by lack of supply. Redevelopment to meet the housing supply crunch is increasingly of interest.

**Interest rate:cap rate spreads for Q4 in Montréal were, on average, 356 basis points (bps), which was 91 bps below the 15-year average. This compares with Vancouver’s spread (251 bps, 43 bps below the 15-year average), Toronto, with a 297 bps spread, 57 bps below its 15-year average) and Calgary’s 420 bps-spread, 17 bps above the 15-year average.**

Collier’s listed downtown office cap rates for Class A in the 4.50%-5.50% range and 5.25%-6.00% for Class A. They predicted Q1 rates for Class A would remain stable, while Class B cap rates would rise.

For suburban Montréal office, Class A ranged from 6.00%-7.00% and Class B 6.75%-7.50%, with cap rates for both remaining stable at least in Q1 2022.

## Interest Rate:Cap Rate Spreads in Q4

**Montréal**  
**356** bps spread  
91 bps below  
15-year average

**Vancouver**  
**251** bps spread  
43 bps below  
15-year average

**Toronto**  
**297** bps spread  
57 bps below  
15-year average

**Calgary**  
**420** bps spread  
17 bps above  
15-year average

Downtown office cap rates for Class “AA” were 5.0% on average in Q1 2022, the same as the previous quarter according to Altus Group.

Industrial cap rates compressed slightly, ranging from 3.25%-4.50% (Class A) to 4.00%-4.75% for Class B, with rates to remain stable in Q1 2022. Average cap rates for single tenant industrial were 4.3% in Q1 2022 which was an increase from the 4.1% it was the previous quarter. This is a decrease from both the Class A range in Q4 2020 (4.0%-4.50%) and that of Class B industrial (4.50%-5.00%). However, the 30% jump in net asking rents (up \$2.00 psf) between Q4 2020 and Q4 2021 and the increase in valuation means Montréal industrial, especially new construction, very attractive to investors (see Section 5).

Retail cap rates ranged from 5.25%-7.50%, with regional/power at the low end and neighbourhood/strip mall retail at the high end. With average retail cap rates sitting at 5.10% as per Altus Group data. Again, rates were forecast to remain stable throughout Q1 2022.

In the multi-family market, high rise cap rates ranged from 3.00%-4.25%, while those for low rise buildings were 4.00%-5.00%, with little change anticipated for at least Q1 2022. Average cap rates for suburban multiple unit residential were 3.9% in Q1 2022, same as they were in the previous quarter.

### 4. THE PLAYERS ACTIVE IN THE MONTRÉAL MARKET ARE CHANGING CONSIDERABLY DUE TO MAJOR TRANSACTIONS AND EXPANSIONS.

#### The results of the sale of the assets of Cominar REIT has resulted in a significant shift.

The composition of players active in the market is undergoing a major shift with the Cominar transaction. We note the arrival of new players: Canderel and JLL as manager, Blackstone (Pure Industrial REIT). Groupe Mach continues its expansion with the acquisition of part of the Cominar portfolio (offices and shopping centres).

At the beginning of March 2022, Cominar Real Estate Investment Trust sold its assets to a consortium led by an affiliate of Canderel Management Inc. which included FrontFour Capital Group LLC, Artis Real Estate Investment Trust, partnerships managed by Sandpiper Group, and Koch Real Estate Investments. In one of 2021's biggest real estate transactions (worth a total of \$5.7 billion, according to RENX), Group Mach spent \$1.5 billion for Cominar retail and office properties, while Blackstone bought the Cominar industrial portfolio.

Blackstone was able to increase its industrial presence in Montréal by 14.2 million sf to more than 19.0 million, using Pure Industrial REIT as its manager.

The Cominar portfolio acquired by Canderel consists of 35.7 million sf and 310 office, retail, and industrial properties in Montréal, Québec City, and Ottawa, with occupancy rates of 94% across all sectors. There were 190 industrial properties and 15.2 million sf included the deal, as well as 41 retail properties representing 9.4 million sf and 79 office properties with 11.1 million leasable sf.

Groupe Mach's acquisitions in downtown Montréal included 311,000 sf, 21-storey 1080 Beaver Hall, with 311,000 square feet. The company plans to invest significantly in the Beaver Hall building to reduce its 30%+ vacancy rate, while also planning other capital expenditures to its Montréal office purchases, including front facelifts and repaving parking lots. The malls Groupe Mach acquired from Cominar, including Place Longueuil on Montréal's South Shore, are all anchored by grocery stores and populated by primarily "necessities" retailers: pharmacies, dollar stores, and hardware stores. (RENX)

"Everybody else is buying multi-res and buying industrial assets and they're getting rid of their retail and they're getting rid of their office. We're doing the exact opposite," Groupe Mach President Vincent Chiara told RENX when the Cominar deal closed. Chiara also predicted several other REITS would "fall apart" by 2024, who said the REIT structure makes it difficult to be nimble due to the sheer number of board, shareholder, and banking demands that need to be met, and takes the focus away from keeping tenants happy.

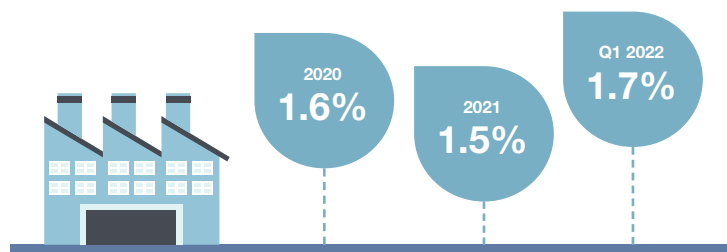
## 5. DEMAND FOR INDUSTRIAL PRODUCTS REMAINS VERY STRONG.

**Average rents are predicted to increase, and land values are growing along with them.**

The average rent on industrial products in the Montréal CMA reached a level of \$11.28/sf gross at the end of 2021. This increase has continued in 2022 with Q1 gross asking rates at \$11.77/sf. The availability rate increased slightly in the first quarter of 2022 to 3.2% due to the addition of new inventories. This strong growth in rents has contributed to the strong growth in land values.

**By the end of 2021, the Montréal CMA industrial vacancy rate was at an all-time low of 1.5%, down from 1.6% a year earlier. However, vacancy rates have slightly increased to 1.7% in Q1 2022.** According to Avison Young's "Industrial Market Report/2021 Review and 2021 Outlook," "For more than five years now, demand has clearly outstripped new supply. The increased need for warehouse space and distribution centres, exacerbated by the pandemic and waves of lockdown, has not only intensified the scarcity of space for rent, but also of buildings for sale and land development." Lachine and the South Shore in particular saw industrial vacancy rates sink to 0.5% and 0.8% respectively by Q1 2022. Midtown North's vacancy rate was 3.1% and has remained relatively stable since 2019. This higher vacancy rate can be attributed largely to the inventory of the former Chabanel textile factories, which comprises one third of the industrial space available in the centre island, specifically in Côte-des-Neiges and Ahuntsic. If this inventory were excluded, industrial vacancy rates in the area would be closer to that of other areas of the Montréal CMA, approximately 1.2%.

## Industrial Vacancy Rates



While there is considerable inventory for industrial tenants seeking to lease smaller spaces (10,000 sf or less), those looking for warehouse facilities between 50,000 sf and 100,000 sf have far fewer options, as do those looking for modern warehouse space for logistics and distribution companies. Much of the inventory available is old stock (pre-1975 builds). There is 800,000 sf available in Lachine at 225 Lafleur Avenue, but the building is now almost a century old (1931). But this has led to new industrial development, and Avison Young predicts, "The year 2022 will be a record year in terms of new deliveries." By Q4 2021 there were a total of 49 industrial buildings for sale, with an average size of 40,000 sf. Modern logistics and distribution centres require between 400,000-500,000 sf "built on land of at least 2 million sf. The need for such acreage has resulted in the recent shift to more remote areas," which may be neither serviced nor zoned for industrial use.

This has increased occupancy costs: "the average net asking rent, across all sectors and building types, has jumped by more than \$2.00 per square foot (psf) since the fourth quarter of 2020, from \$7.60 psf then to \$9.80 psf in the fourth quarter of 2021, an annual increase of nearly 30%." (Avison Young) Gross asking rents increased from \$10.22 psf in Q1 2021 to \$11.77 psf in Q1 2022, with new construction offering 30-foot clearance going for \$16.00 psf.

There were five industrial projects under construction in 2021 that should be completed before the end of the first half of 2022. These include 420,000 sf in Beauharnois, the Rosefellow project in Pointe Claire (325,000 sf already fully leased), and 245,000 sf in Vaudreuil-Dorion. A total of 4.3 million sf of new supply should be added by year end 2022, following the almost 4 million sf added in 2021. The bad news is that 80% of this new supply is pre-leased. “Developers’ appetite for industrial land has literally driven up prices in the central areas of the island, where sites are increasingly scarce and expensive ... Development activity for logistics and distribution facilities, data centres and other specialised buildings now extends as far as Beauharnois, Mirabel and Contrecoeur.”

By the end of Q1 2022, JLL reports in “Canada Industrial Insights - Q1 2022,” new supply led to a 0.2% increase in industrial vacancy rates over Q4 2021 to reach 1.6%, while rental rates rose 4.3% over the same period, to a high of \$10.41 psf. There was almost 1 million sf of industrial currently under construction, with plans for more 4.2 million of new supply in the planning stages, many of which will break ground in 2022. As of Q1 2022, there is nearly 3.3 million square feet of industrial space under construction. This includes Petax Investments’ 1.8 million sf in Vaudreuil and Brasswater’s almost 1.5+ million sf in Valleyfield and Beauharnois, as well as Rosefellow’s 600,000 sf speculative builds, also in Beauharnois. (JLL)

## 6. CARE-ORIENTED RESIDENCE PROJECTS ARE INCREASING IN THE GMA, DUE TO A LARGE OVER 85 POPULATION.

**The proportion of elderly citizens in Montréal is projected to increase dramatically.**

We are currently witnessing the construction of a few seniors’ residence projects, mostly on the outskirts of the island of Montréal, where there is greater availability of land. The category of care-oriented residences is particularly booming due to the aging of the population aged 85 and over. The vacancy rate in modern, well-located residences remained stable at approximately 6.0%, while that of less recently built residences rose from 8.5% to 12.6%.

According to the Government of Québec, there were 332,660 Montréal residents aged 65 or older in 2016. There will be nearly half a million seniors (465,800) by 2036, according to estimates, with the increase in the senior population focused in the westernmost and easternmost parts of the island. Furthermore, the proportion of very elderly persons (including centenarians) is projected to increase even more dramatically than it did between 2006 and 2016 (from 370 to 645). Montréal has the highest proportion of individuals aged 85 and over in the entire province. And according to the provincial government’s “Profile of Montréal Seniors,” “Montréal is the most socially disadvantaged region of Québec and more elderly Montréalers have no social support.” More Montréal seniors living in poverty below the low-income cutoff than in other urban areas of Canada. Just over one third (36%) of Montréal’s seniors live alone, and “[t]he proportion of seniors who perceive themselves as being in poor health is higher in Montréal than in the rest of the province, even in the more financially well-off groups. There are also a greater proportion of seniors living with a disability.”

There are currently several seniors’ housing developments under construction and development. These include the Cornelius retirement home, scheduled to open June 1, 2022, located at the corner of Van Horne and Darlington avenues inside the new Wilderton Centre. A 12-floor, ultra-modern complex, the 288 service apartments range in size from studios to 5-1/2s. The shopping complex, accessible from the Cornelius, will include a financial institution, restaurants, a pharmacy, a grocery store, and several other retail and service outlets. It is also easily accessible via public transit and is close to other grocery stores, restaurants, and hospitals.

On Montréal’s West Island, a 740-unit, \$300-million seniors’ housing project is slated to begin construction in the fall of 2022 in Ste-Anne-de-Bellevue on Montréal’s West Island. The developer, Dev Meta, acquired the land on Anciens-Combattants Blvd. for \$12.5 million from the municipality and should be ready for occupancy by 2027. According to CTV News, “The project for people 55 years old and older will include rentals, condominiums, affordable housing and a seniors’ residence that will accommodate those with reduced mobility.”

Enharmonie is also building its 11th seniors’ residence in the Montréal CMA, another transit-oriented development at the intersection of Saint-Denis and Rosemont Boulevard, above the Rosemont metro station on the former site of the City of Montréal’s municipal workshops. Known as “Résidence Des Ateliers,” construction began in 2019 and its first residents should take occupancy in the fall of 2022. It will supply 193 apartments for seniors 75+ , with half the units reserved for Rent Supplement Program recipients and the other half designed as affordable housing with below-market rents for low- and medium-income households. Additional services covered by rent will include one meal per day, recreational activities and 24/7 staff on site.

According to CMHC’s “2020 Seniors Housing Survey,” “demand for standard spaces in Québec’s seniors’ residences grew slightly faster than supply. Returning to its 2018 level, the vacancy rate decreased slightly to 6.9% in 2020 (it was 7.2% in 2019).” Montréal was one of the Québec CMAs where the vacancy rate declined slightly.

CMHC notes, “While we observed an increase in supply across most provinces, the number of residents has decreased or only moderately increased. This has led to higher vacancy rates. The weak demand could be the reluctance of households to move into seniors’ residences during the COVID-19 pandemic. Québec again posted the highest capture rate in the country, despite a decrease. 17% of seniors aged 75 and older lived in seniors’ residences in 2021. In other provinces across the country, this proportion varied between only 5.0% and 10%.” The regional average rent for standard spaces in Québec in 2021 was \$1,944 and the vacancy rate rose to 12.8% (provincial average), skewed by high vacancy rates in Gatineau (16%).



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## 7. CLASS A&B OFFICE AVAILABILITY RATE FOR DOWNTOWN MONTRÉAL HAS INCREASED DRAMATICALLY SINCE Q1 2021.

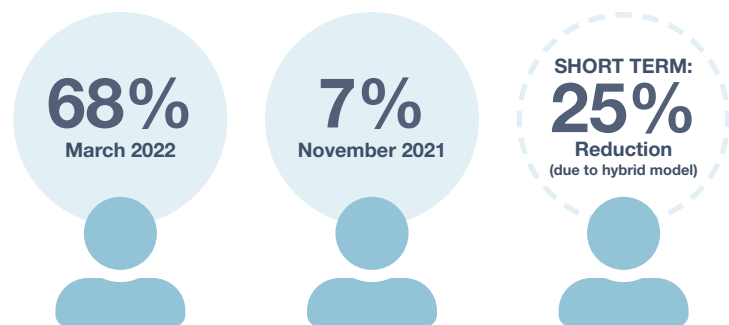
**Delays in returns and hybrid work models will most likely cause rates to continue to rise.**

The Class A&B office availability rate for downtown Montréal went from 8.6% in the 1st quarter of 2020 to 17.1% in May 2022. With the return to work in hybrid mode, this rate should continue to climb ultimately having a negative impact on rents.

Between Q4 2020 and Q4 2021, the Montréal office vacancy rate increased from 13.8% to 16.4% according to Altus Group's "Canada Office And Industrial Market Update Q4 2021." The Omicron variant, which delayed return to office plans in most areas of the country, has meant a far more gradual return to the office. The province lifted mandatory work-from-home at the end of February 2022, and local Montréal employers began to implement voluntary return to the office programs. The provincial government recommended adoption of a hybrid model that would allow employees to continue to work from home for a good portion of the work week.

By the end of March 2022, Michel Leblanc, president of the Chamber of Commerce of Metropolitan Montréal, told the *Montréal Gazette* that **68% of downtown workers were working on site at least one day a week. That figure is an increase of 7% from November 2021, according to Chamber of Commerce polls. But a PwC Canada study released in February 2022 indicated the hybrid model will mean a 25% reduction of commuters to downtown areas in the short term.**

### Downtown Office Workers On Site



The provincial government announced in late March 2022 that it would invest an additional \$16.5 million in the revitalization of downtown Montréal over the next year and a half. In November 2020 the province set aside \$50 million to revive Montréal and Québec City downtowns, which saw visitor volume plunge dramatically between the start of the pandemic in March 2020 and March 2022, with 64% fewer visitors to Montréal's downtown during this period. The additional funds will be distributed between the City of Montréal, the Chamber of Commerce of Metropolitan Montréal and the Montréal Centre-Ville merchants association.

In December 2021, Altus Group figures showed that Montréal had 12 office buildings with available lease space totalling 2.7 million square feet and an availability rate of 47%. PwC has answered its question, how can real estate players create value in a competitive Montréal market? By concluding that "[i]n the office market, tenants are generally looking to reconfigure their space rather than reduce it amid the ongoing shift to hybrid and more collaborative work environments. This is helping increase optimism. ..." This will include office reconfigurations "to create spaces, like huddle areas, to incorporate more room for collaboration and team meetings. While overall space requirements may stay the same, configurations will change to foster a more collaborative dynamic."

As the federal government continues to focus on developing the strength of the Canadian pharmaceutical industry to ensure supplies of vaccines and, the biotechnology and life sciences sector represent a growing opportunity for the real estate industry in Montréal "as companies specializing in biotechnology and life sciences seek more space for their businesses." (PwC)

## 8. 2021 WAS THE FIRST "YEAR OF THE SUBURB" IN MONTRÉAL'S MULTI-RESIDENTIAL MARKET.

**Record absorption rates, low vacancy rates and rental increases characterized the last year in the suburbs of the city.**

"While a potential increase in government regulation weighs on the minds of multi-res investors, it hasn't yet cooled the ardour of panelists for properties in Québec – and particularly Montréal," according to Martin Tovey, senior vice-president investments at Minto Properties and Minto Apartment REIT. (RENX) He predicts that with housing affordability top of mind for both federal and provincial governments and renters representing 50% of the electorate, rent controls will be tightened in every Canadian province, with the possible exception of Alberta.

Minto is a relatively new entrant to the Montréal multi-residential housing market, with its first deal the purchase of the Rockhill Apartments in 2019, followed by the acquisition of the 261-unit Le Hill-Park at 4530 Chemin de la Côte des Neiges, for slightly over \$80 million in late 2021.

InterRent REIT, which has 3,000 or so multi-residential units in core locations on Montréal Island, bought 200 more units in Montréal in 2021, but would have liked to acquire many more. "We bid on a lot of stuff, but unfortunately it didn't win the day," said Asad Hanif, vice-president acquisitions. In 2019 InterRent paid \$69 million for the 21-storey, 293-unit Le Nouveau Colisée at 235 Sherbrooke St. W. in downtown Montréal.

Canadian Apartment Properties REIT (CAPREIT), which now owns 1,000 units in Québec, primarily in Montréal and Québec City, is modernizing its portfolio through acquisitions. The company recently purchased six Cons family properties with a total of 516 units in Montréal, St. Hyacinthe and Laval. All were built between 2017 and 2021. Jamie Steinmetz, director of acquisitions for CAPREIT, said, “What we really loved about this portfolio was the diversification,” with some buildings more affordable, some more luxurious and all in very different locations. (RENX)

The multi-family vacancy rate in the Montréal CMA was 2.7% in 2020, rose to 3.0% in 2021, and should decline in 2022 to 2.1%, while average two-bedroom rents rose from an average rental price of \$903 in 2020, \$932 in 2021, and a forecasted increase to \$988 in 2021. (CBRE)

Wow.ca reported that the median price for multiplexes in March 2022 was \$773,500, up 16% year-over-year, and 1.1% month over month. Multiplex sales, however, were 12% over the same period (March 2021 to March 2022), with only 534 units sold.

James Palladino, managing director at RBC Capital Markets Real Estate Group in Montréal, declared 2021 “the year of the suburbs,” for Montréal apartment investment and expects 2022 and 2023 to continue that trend. “Many Montréal suburbs saw record

absorption rates, low vacancy rates and rental increases last year, he said. Institutional players now understand the suburban market complements the downtown market.” (RENX)

For Palladino, the key apartment transaction of 2021 was the Centurion Apartment REIT acquisition of a two-thirds interest in the Habitations Trigone portfolio, which include 30 new suburban apartment buildings in suburban Montréal. Trigone remains an investor, but Fonds de Solidarité FTQ and Montez Corp. relinquished their interests.

Palladino said potential institutional investors who would never have thought of investing in suburban Montréal started to notice the suburbs during the course of the deal. The fact that both occupancy and rental rates were increasing encouraged RioCan to partner with Pur Immobilia and acquire the 12-storey, 139-unit Market condo development in Laval. Palladino predicts that while supply of new downtown rental product will be scarce for the next three years, when rents will have risen to the point developers will find it worthwhile to build new rentals in the downtown core. (RENX)

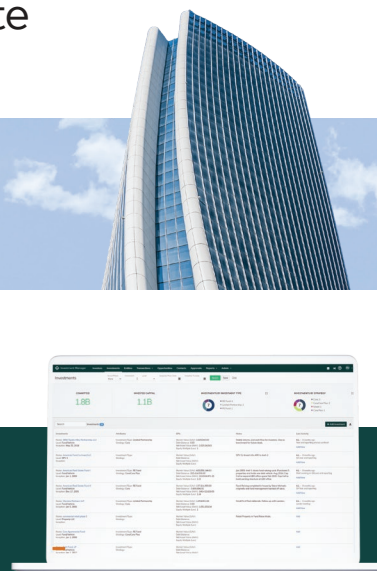
Montréal saw 15% of the 2021 Canadian apartment investment volume in 2021, according to Marc Hétu, senior vice-president at CBRE and leader of its national apartment group in Québec.

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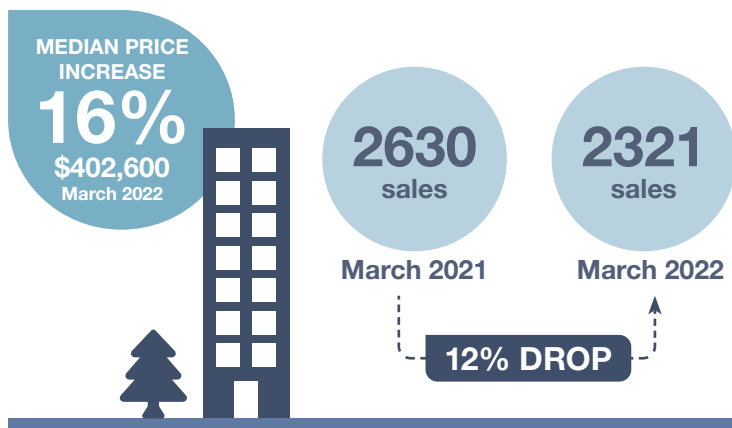
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## 9. CONDO RESIDENTIAL IS A TIGHT RESALE MARKET WITH LOW INVENTORY

**As the rest of the Canadian housing market has become extremely heated, more reasonably priced markets like the Montréal CMA are getting more attention. There is less than 3 months of condo inventory available in Montréal.**

According to wowa.ca, the **median price for condominiums increased 16% year-over-year to \$402,600 for March 2022. There were 2,321 condo sales, which represents a 12% drop compared with 2,630 condominiums sold during March 2021.** Average selling time for residential condos decreased from 44 days in March of 2021 to 37 days in March 22 and from 41 days in February 2022. “Shortening of sale times suggest the market being short of supply and mostly favoring sellers. This might be at least in part due to Montréal houses being affordable in comparison to houses in some other Canadian cities like Toronto, Vancouver, Hamilton and London.”



The median sold price for Montréal CMA condos was \$402,600, a 2% increase over the previous month, 6% over the previous quarter, and 16% higher than in March 2021. (wowa.ca)

As the rest of the Canadian housing market has become extremely heated, more reasonably priced markets like the Montréal CMA are getting more attention. There is less than 3 months of condo inventory available in Montréal. Home prices are also rising due to dramatically increased construction costs and the purchase price of land. There is sustained demand for new construction on the Island of Montréal (excluding downtown), a territory that has seen the greatest volume of new units launched on the market during the pandemic.

Lack of new supply in downtown Montréal has led to more moderate sales volumes, although new projects are performing very well.

The federal government’s two-year ban on foreign home purchases, announced in its April 2022 budget, won’t have a great deal of impact on the Montréal market. This type of buyer is considered marginal in the area (unlike other CMAs, including Toronto and, of course, Vancouver, where non-resident speculation taxes have already been introduced or expanded at both local and provincial levels). The ban does not apply to permanent residents, foreign workers or students, and new residents purchasing a primary residence in Canada will have six months to take up residence in their newly purchased homes.

## 10. LAND REMAINS IN STRONG DEMAND, PARTICULARLY FOR READY TO DEVELOP AND TRANSIT-ORIENTED-DEVELOPMENT (TOD) SITES THAT ARE GEARED TOWARDS HIGHER DENSITY IN THE SUBURBS.

**Montréal has embarked on the largest public transit project in 50 years, prompting investors to look to the outskirts of the city.**

With the country’s lowest unemployment rate and strongest gross domestic product growth, investment interest in Montréal is high, according to CBRE Executive Vice President Scott Speirs, who told RENX in January 2022 that private Canadian investors were “by far” the most active in the Montréal real estate market, followed by developers, REITs and REOCs, foreign investors, institutions, public investors, users, and governments. “All of the usual types of investors were very active. Some were increasing their allocations to Montréal. Some were first-time investors. Some had left the market at a certain point and now are starting to come back.”

Transaction volume in 2021 was \$11.3 billion, with 1,799 commercial real estate transactions valued at more than \$1 million in the Montréal CMA. In 2020 there were 1,673 transactions for a total value of \$7.2 billion, while there were 1,426 transactions in 2019 pre-pandemic, valued at \$8.9 billion.

Industrial property investment volume was \$2.7 billion in 2021, while there was also \$470 million in industrial land sales last year. Montréal also saw 32% industrial rental growth in 2021. Speirs pointed out, “One trend that became clear as the year progressed was institutional investors who in the past only looked at class-A new product really opened their horizons to acquiring class-B and even class-C industrial. They’re recognizing the performance of even lesser-quality or older assets.”

Residential land sales of \$1.15 billion indicated a “robust” suburban residential land market, “since sites cost less, buildable pricing is lower and there are no additional taxes to pay for social housing as there are downtown.” Speirs also noted there “are virtually no unencumbered sites left in downtown Montréal,” although activity has been steady in property assemblies, repurposing, and redeveloping existing properties.

Just as apartment vacancy rates were higher in downtown Montréal and on the Island of Montréal (6.3% and 3.7% respectively in 2021) than they were in the suburbs (1.1% overall in 2021 according to CMHC), demand for suburban properties is an ongoing trend (60% of new rental stock – 12,000 new apartments in the Montréal CMA—was added in the suburbs in 2021). Rental vacancy rates in the suburbs decreased by 0.6% in 2021 to 1.4%. Despite 5,300 new rental condominiums being added to the Montréal CMA, the number of units on the market only increased by 350 and supply declined in both smaller (6-19 units) and larger suburban buildings.

Transit-oriented developments (TODs) are currently hot as Montréal has embarked on the largest public transit project in 50 years, the extension of the 67-km rapid transit network Réseau express métropolitain by 71 km. It will reach from Brossard in the southeast to Deux-Montagnes in the northwest and Anse-à-L'Orme in the west. The South Shore to Bonaventure segment will be completed in 2022, while the rest of the network will be completed by the end of 2024.

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