



Top 10 Real **INSIGHTS**

2018 Montréal Real Estate Strategy & Leasing Conference

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AltusGroup

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INDUSTRY LEADERS
DURING THE CONTENT
FORMATION OF
MONTRÉAL REAL
ESTATE STRATEGY
& LEASING
CONFERENCE**

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For further details on these top trends please visit the Real Estate Forums Portal at realestateforums.com

1. TECH & LIFE SCIENCES LEADING GROWTH INDUSTRIES

Montréal is attracting millions of dollars of investment capital into the tech and health sciences sectors.

Montréal is becoming internationally renowned as a research hub for artificial intelligence. Google recently established a new AI research group in its Montréal office. It pledged to invest \$4.5 million over three years to the Montréal Institute for Learning Algorithms, an AI research lab at the University of Montréal. Microsoft also doubled the size of its local AI research group. Microsoft pledged \$6 million to the University of Montréal and \$1 million to McGill University over the next five years.

As well, Thales SA and Facebook both have established AI research labs in Montréal in the last year.

The Creative Destruction Lab – the program that launched in 2012 at the Rotman School of Management at the University of Toronto has expanded to the HEC Montréal. The CDL is a seed-stage program for science-based companies that has been very successful in creating equity for its participants having raised \$1.5 BB in equity in its first five years. CDL-Montréal's AI/Data Science stream will focus on projects and/or startups that make significant use of Artificial Intelligence and Data Analysis technologies.

The top three public cloud providers, Amazon Web Services, Microsoft Azure and Google Cloud Platform have all opened data centres in the Montréal area. Root Data Centre, the Canadian company founded in 2014 in Montréal, has two data centres. Low electricity prices and a cooler climate make Montréal a competitive choice.

Montréal is a major North American center for the life sciences industry. More than 400 companies employing over 29,000 skilled workers are engaged in basic research, manufacturing, biotechnology, contract research and medical technology. Each year, 10,000 students graduate from health related programs.

According to a report by JLL, investments across 22 organizations throughout Montréal reached \$305.5 MM, representing almost 30% of the Canadian total.

There is 1.5MM SF of rentable lab stock, 300,000 SF of owner occupied lab stock. The current vacancy is at around 18% but there is over 120,000 SF in requirements. The Average net asking rent is \$13.97 psf. Abbott Canada leased 50,154 square feet at 8625 Transcanadienne and Actelion, a Swiss company that specializes in orphan diseases, has leased 8,000 square feet at 3111 Saint-Martin West, JLL reported.

The University of Montréal will open a new campus, the MIL, in Fall 2019. It will house research in new molecules, nanomaterials, living materials and scientific instruments.

This summer, the Feds announced the funding of \$1,425,000 to the Quebec Center for Biotechnology Innovation (CQIB) to support the creation and start-up of innovative companies in the life sciences sector. This incubator is located in the Laval Science and High Technology Park. It is the only business incubator specialized in biotechnology in Quebec and the first incubator in life sciences in Canada.

The Quebec Life Sciences Strategy implemented by the province has committed \$205 MM in the first 5 years to help attract \$4 BB in private investments in Québec by 2020 and to ensure that the province ranks among the top 5 North American hubs in this sector by 2027.

2. MASSIVE PUBLIC TRANSIT UPGRADE

Montréal's new LRT the biggest transit project in 50 years.

Construction has started on the \$6.3 BB LRT in Montréal. The REM (Réseau express métropolitain) will integrate ground, underground and overhead double tracks.

The first of the 26 stations are slated to open Summer 2021, and the full network will be up and running by 2023. When completed, the 67-kilometre network will be the fourth largest automated light-rail transit line in the world after Singapore, Dubai and Vancouver.

The REM will link downtown Montréal, South Shore, West Island (Sainte-Anne-de-Bellevue), North Shore (Deux-Montagnes), and the Montréal-Pierre Elliott Trudeau International Airport.

It will be comprised of two sections: the South Shore Branch incorporating the A10/Downtown Montréal corridor, and the Western Branch stretching from Downtown Montréal to the Pierre-Elliott-Trudeau Airport, with connections to Sainte-Anne-de-Bellevue and Deux-Montagnes.

- The South Shore Branch will cover a total length of 15km and incorporate five stations, two bus terminals and two parking facilities, and involve the construction of 1.3km of new cut-and-cover tunnel and 1.6km of tunnel through rock.
- The Western Branch will cover a total length of 52km, and incorporate seven new stations and 12 existing stations, which will be refurbished, seven bus terminals and 11 parking facilities. It will also involve the construction of new tunnel measuring between 2.5km and 6km in length.

The project design provides an option to add five additional stations, including two stations to serve the McGill University and University of Montréal areas, based on demands in the future.

The network will interconnect with the Montréal Metro's blue line (Édouard-Montpetit station), green line (McGill station) and orange line (Bonaventure station).

The project is a P3 with Caisse subsidiary CDPQ Infra putting \$2.95 BB into the project. CDPQ will operate the REM and retain an ownership stake of just over 50%. The Province and the Feds will fund the remaining amount of the project along with the City which has committed \$100 MM, \$295 MM from Hydro-Québec and \$512 MM from ARTM, the regional transportation authority.

The project is expected to create approximately 7,500 jobs during construction phase and 1,000 permanent jobs when operational.

3. TOD IN WAKE OF REM

New transit lines spark a flurry of transit oriented development despite levy.

Montréal's plan métropolitain d'aménagement et de développement (PMAD), which sets a course for how Montréal will grow and evolve as a city in the near future, has identified 155 TOD zones in the Greater Montréal area.

These TOD areas are supposed to accommodate 40% of all new residential homes to be built between 2011 and 2031.

A possible impediment to new TODs is the fee that the regional transit authority ARTM is levying to help fund the REM. Any renovations or developments exceeding \$756,150 on buildings over 2,002 SF and within one kilometer of an LRT station will be required to pay a fee.

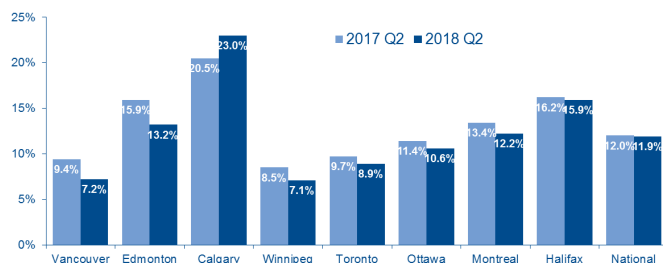
However, in cities like Vancouver, Chicago, and Portland, property values for homes and commercial real estate within a 15-minute walk of a commuter rail station rose starting around two years before completion. This boost in real estate values isn't just due to the building of the station itself, but also how the neighbourhood develops around it.

Devimco Immobilier has plans for two TOD real estate projects:

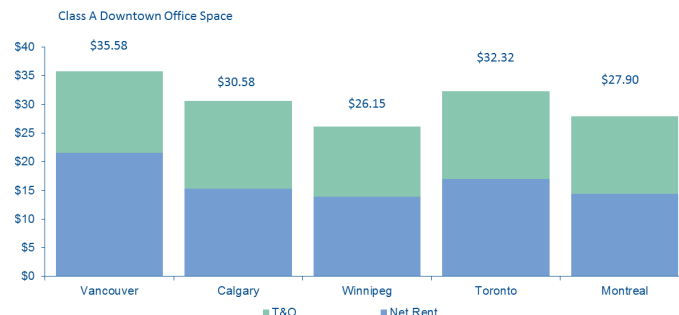
- Construction has started on the 1.2 MM SF, \$1.3 BB mixed-use Solar Uniquartier, which will include a hotel, office and retail space, condos and rental units, along with a public square. Devimco modified its plans to include a direct pedestrian link to the REM station.
- In the planning phase is the \$3 BB project in the Griffintown area of Montréal. It will be serviced by a Bassin Peel station.

Montréal's transit agency, the Société de transport de Montréal, is developing a parking lot it owns across from the Frontenac Métro station. The four building complex will include 298 residential units - 60 subsidized apartments for low-income residents, 109 affordable condo units and 129 market-priced condos – as well as office space that the STM will either occupy itself or lease out. Building heights range from 2 to 12 storeys. An underground parking space will have room for 213 cars and 175 bicycle stalls. Construction is set to start next year.

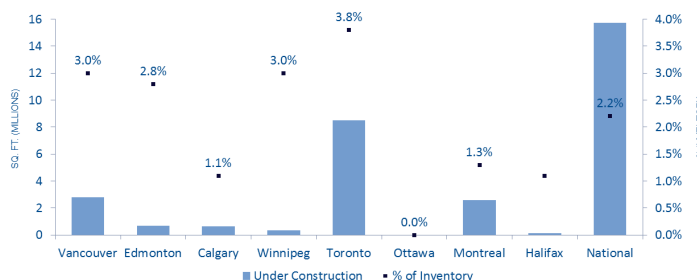
4. OFFICE RENTS ARE UP AND VACANCY IS DOWN

Office Vacancy Rate in Balance Across
Canada for the most part

Source: Altus Group

Rental Rates Continue to be Pressured
Downtown

Source: Altus Group

New Office Construction, as % of
Inventory

Source: Altus Group

Employment growth and healthy GDP numbers buoying demand for office space.

Altus Group reported Montreal office absorption at over 263,000 SF of positive absorption this quarter and the overall vacancy dropped slightly to 12.6%. Net rent in the downtown core was at \$17.10 PSF.

The tech industry, which remains the most active industry sector in Montréal, continues to prefer loft office space outside the downtown financial core, resulting in historic low vacancy rates in Midtown Central and Midtown West, according to JLL.

The largest downtown vacant lot measuring 135,000 SF was acquired at a historically high price of \$100 million by Broccolini, 85,000 SF of which was acquired by National Bank for the construction of their new head office. The new HQ will be approximately 600,000 SF.

Dream REIT is selling 700 de la Gauchetière, a 28-floor Class A office building with a gross leasable area of 935,209 SF and the sale is expected to exceed \$300 million dollars.

Several projects are currently under construction. Le Carré Saint-Laurent is a 260,000 SF mixed use development with 150,000 SF of office space on Sainte-Catherine Street West. The Société québécoise des infrastructures

(SQI) has entered into an agreement to occupy office space. Îlot Balmoral is a 280,000 SF development at 2566 Bleury Street, which will be the new headquarters of the National Film Board.

Kevric's 1100 Atwater, a former data centre is being converted to 154,000 SF of Class-A office space.

Some of the major transactions that occurred earlier this year:

- 666 Saint-Urbain Street – 63,583 SF was leased to new tenant MILA
- 1161 Cremazie Boulevard East - 44,000 SF was leased to new tenant Industrial Alliance
- 1190 Avenue des Canadiens-de-Montréal – 43,616 SF was leased to Analysis Group Ltd.
- 2155 Guy – 200,000 SF of additional space was leased to Concordia University
- 1500 Robert-Bourassa – 100,000 SF of additional space was leased to Hydro Québec

5. TECHNOLOGY CHANGING THE WAY WE USE SPACE

The coworking craze and the eventual transition to autonomous vehicles will change the way buildings are designed.

While technology has made it possible to work from just about anywhere, the benefits of a collaborative work environment have given rise to the coworking sector.

The flexible space/coworking sector has emerged as the primary growth driver within the office market reports JLL. Flexible office inventory in the US currently stands at over 51 M SF. Flexible workspace and shared amenity spaces are projected to encompass approximately 30% of the office market by 2030.

In the last couple of years, tech companies such as Verizon, IBM and Microsoft have been partnering with coworking spaces so that they can keep up with the newest innovations, be connected with top talent and stay ahead of any developments that could disrupt their industry.

One of the biggest drivers of this trend is the emergence of millennials in the professional world. 3invest reports that of the nearly half a million people working remotely in coworking spaces around the world, 65% of those people are millennials.

Forbes cites the following reasons why millennials prefer co-working over traditional office configurations:

- Memberships cheaper than leasing
- Fewer responsibilities related to maintenance
- Networking opportunities
- No need to commit to lengthy lease term
- Ideal for startups
- Urban-centric locations
- Resistance to traditional office format

Such initiatives have the potential to hurt office landlords because co-working facilities typically require less space - about 75 SF per worker compared with roughly 175 SF in traditional offices. Also, co-working leases for big tenants tend to be six months to five years, much shorter than the typical lease term of 5 to 15 years.

At the end of 2017 Colliers report that there were 46 coworking locations in Montréal.

In order to capitalize on the coworking trend, landlords are designing buildings with a flex/coworking component. "Coworking is now becoming the new amenity," said Kay Sargent, senior principal and director of WorkPlace practice at HOK, who focuses on workplace design and strategy.

With on-demand transportation like Uber, Lyft and the eventual transition to autonomous vehicles, the way buildings are being designed is changing.

Developers are building master-planned projects in cities like Toronto, Los Angeles, Oslo, San Francisco and Boston with features like curbside drop-off areas for passengers and e-commerce deliveries. These will replace traditional parking lanes.

New parking garages are being built that convert easily into office spaces. For a recent project in Cincinnati, the architecture and design firm Gensler designed a corporate headquarters with three floors of above ground parking that can later be converted into office.

Rick Caruso, the owner of the Grove and other upscale shopping centers, is working with Google's Intersection to prepare for the arrival of self-driving cars. Intersection is developing technology that integrates beams, sensors, license-plate recognition and phone apps that can potentially improve the shopping experience by making arriving and departing from the shopping centre as frictionless as possible.

Reebok and Gensler have been studying how to repurpose gasoline stations in the future when driverless vehicles will visit remote charging stations instead. One idea they have come up with is fitness centers that include playgrounds, workout areas and fresh food stores.

6. RETAIL STRONG AMID CHALLENGES

While high taxes and construction pose challenges to retailers, innovative new spaces and strategies spelling success for some brands.

Retail sales in Quebec rose by 6% in 2017, reaching \$125.5 BB, according to the Conseil québécois du commerce de détail. Retail sales are expected to grow by 4% in 2018, according to the analysis prepared by the Conseil and consulting firm Altus Group.

That said, high tax rates, construction costs and increasing online sales has led to the formation of a city committee to come up with a plan to support merchants as part of Montréal's economic development strategy. The recommendations of the committee were released in June and suggest the following:

- Improve the co-ordination of the city's numerous construction sites and compensate retailers who suffer serious losses.
- Decrease the tax burden on merchants by reducing the gap between residential and non-residential property tax rates
- Reduce rates on property taxes on the first \$500,000 of evaluation
- Allow merchants to pay their taxes in six installments
- Have the city take greater stock in the importance of major shopping arteries and optimize mobility options to access them, be it by public transit, car or bike.

Vancouver-based RYU (Respect Your Universe) performance athletic store is expanding into the US and has plans to grow throughout North America over the next few years.

RYU, like a lot of retailers, has espoused a brick and click approach. The company operates both an online store and an offline store and integrates the two into a single retail strategy.

Bricks and Clicks strategies benefits include:

- Customers can see goods in person to assess quality and fit (with clothing),
- Get advice from knowledgeable staff and enjoy the shopping experience.
- Orders can be picked up at the store or delivered to customers' homes according to their preference and on their schedule.
- Customers will sometimes bring returns back in-person, reducing the business' shipping costs.
- Major brick-and-mortar stores can utilize their existing logistics networks for their ecommerce site.

Best Buy has reduced the size of its stores from 45,000 SF to 36,000 SF. It is also changing their format. Last December it launched its new concept "Experience Store" at 460 Saint Catherine West. Cutting edge tech from leading brands is displayed using live demos and high-impact vendor displays. This location is one of 30 stores the company has renovated recently. Shares in Best Buy are up 40% this year where many thought this chain was headed for bankruptcy.

La Vie en Rose has 230 stores in Canada (with its Bikini Village banner) and about 100 stores outside the country, including Saudi Arabia, Lebanon, Algeria, Jordan, the United Arab Emirates, Morocco and in Egypt. Over the next five years, La Vie en Rose is determined to double its number of stores abroad.

La Maison Simons, is in the middle of a 5-year \$200 million expansion, which includes new stores in Vancouver, Edmonton, Calgary and Toronto. The expansion also includes its first net zero energy store and a new location in the Fairview Pointe Claire shopping Mall.

Québec City-based customer menswear retailer Surmesur has been in expansion mode, and it plans to continue. Surmesur currently operates 14 stores in Québec, Ontario, Chicago, Pittsburgh & Vancouver.

French sporting goods company Decathlon opened its first store in Canada to better than expected sales. The Brossard store is about 60,000 SF. Decathlon will open its second Canadian location in Québec City in 2019.

SSense opened its 13,000 SF flagship store this spring. Located on rue Saint-Sulpice in old Montréal, it has been called 'the future of retail'. The five floors store includes four floors of change rooms, art installations and a bookstore but no clothes. Customers select the clothes they would like to try on from their website which contains 20,000 items and within the hour the clothes are delivered from their warehouse in Montréal's old garment district to the flagship store with the aid of an industrial vertical lift module.

Developer Carbonleo is proceeding with the construction of a mega-mall in Royalmount, located near the centre of Montréal. The \$1.7BB project would span 2.5 MM SF and would be located at the junction of Highways 15 and 40, earning it the nickname Quinze40.

7. SEARS SPACE GETTING ABSORBED

Across the country landlords are finding innovative ways to fill space vacated by big retailers.

In concert with the Live-Work-Play formula, Cadillac Fairview is converting vacant Sears space into innovative office space.

A TD Corporate Office will occupy the former Sears space in the CF Champlain shopping centre in Dieppe, New Brunswick. Cadillac Fairview will invest \$25 MM to retrofit the space. The new office took up the entire 109,000 SF Sears left vacant and will open January 2019.

BMO's Urban Campus will open in CF Toronto Eaton Centre's former Sears space.

CF Pacific Centre in Vancouver converted the former Sears building into office space for Sony Image Works, Microsoft and Miller Thomson.

In Calgary, according to a Barclay Real Estate report three former Sears locations are in the process of being leased. "Sears' former space in Brentwood Village (42,000 SF) was leased to Ashley Furniture and Buybuy Baby. The full main floor at Oxford's Southcentre mall (78,000 SF) has been leased and will be occupied in late 2019. The former Sears space at North Hill Shopping Centre (208,000 SF) will be converted into multi-family product".

La Maison Simons which is in the middle of a 5 year \$200 MM expansion that will see new locations open in Western Canada, opened its first net-zero store in the former Target space in the Galeries de la Capitale in Quebec City.

Cineplex has opened a Rec Room in London, Ontario's Masonville Place which is owned by Cadillac Fairview. The 35,000 SF entertainment venue opened in the top floor of the former Target space last spring. The lower floor is occupied by fashion retailer Marshalls and HomeSense.

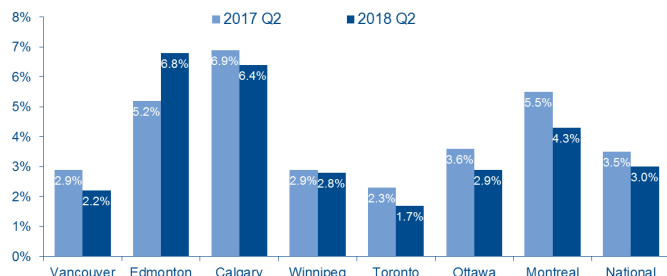
Devonshire Mall in Windsor, Ontario, owned by HOOPP and managed by Cushman & Wakefield reconfigured the space formerly occupied by Target into an updated food court space that opened Summer 2018. New restaurants and more seating were added to the modernized space.

A co-working space opened in the Erin Mills Mall in Mississauga, Ontario at the end of last year. The 4,000 SF space equipped with state-of-the-art technology, modern dedicated desks, private offices and meeting room and a podcasting/video studio.

8. VORACIOUS DEMAND FOR INDUSTRIAL SPACE

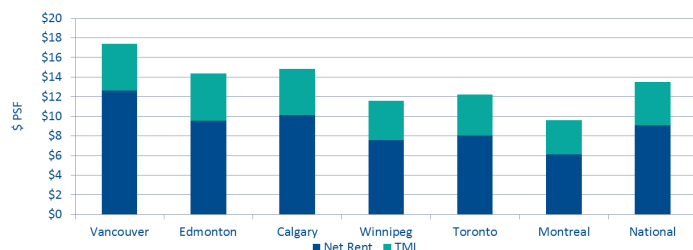


Industrial Vacancy Rates Remain Tight



Source: Altus Group

Industrial Rental Rates Continue to Creep Up



Source: Altus Group

Availability of industrial space the lowest in 15 years - CBRE

The industrial availability rate in Montréal was 4.3% during the period, according to Altus Group, down from 4.5%. During the quarter, 712,230 SF of newly constructed or previously vacant space was occupied or absorbed.

The average gross asking rent for industrial space in Montréal rose \$0.13 PSF from the previous quarter, to \$6.05. It's the first time those rents have been above \$9.

The new Ikea distribution centre in Beauharnois is under construction. The 1.2 MM SF facility is set to be complete at the end of 2019. The warehouse has clear heights ranging from 43 feet to 118 feet.

Construction began on the new 550,000 SF Costco distribution centre in Varennes. The \$100 MM project is expected to be complete this fall.

XTL Transport also started the construction of their new 335,000 SF distribution centre in the East end of Montréal. Construction should be complete by this year.

The need for distribution space is helping to fuel the demand for industrial space. "The sector's encroachment on urban centres – to shorten last-mile delivery – and associated high costs may prompt landlords in Canada to follow the trend seen elsewhere and build multi-storey facilities that better fit into tighter infill markets," according to Bill Argeropoulos of Avison Young.

Goldman Sachs Group, in partnership with developer Dov Hertz, expects to begin building a three-story facility in Red Hook, Brooklyn in 2019. The warehouse will have truck ramps to the second floor and elevators that can hold a forklift going to the third floor.

In Seattle, Prologis' first multi storey facility will be complete this year. The 580,000 SF building will sit on a 13.5 acre site and be 85 feet in height.

The investment market remains active; Blackstone acquired the entire PURE Industrial REIT portfolio comprised of 188 properties totaling close to 27,183,017 SF throughout the Greater Montréal Area, while Fonds immo de Solidarité FTQ purchased a 2-property portfolio for close to \$20 MM, with the properties located on the North Shore and South Shore of Montréal.

Fiera Properties acquired nine Montréal area industrial buildings from Investors Group in the largest industrial transaction in the city in five years. The portfolio consists of a total of 925,807 SF and is mostly Class A, single and multi tenant buildings.

Ericsson sold its 216,000 SF data centre in Vaudreuil-Dorian, which it opened in December 2016 to GI Partners for \$121.9 MM. GI Partners is a private investment firm that owns and operates a network of data centres.

9. GMA THE PROMISED LAND FOR NEW INDUSTRIES

Cannabis, Cryptomining and Data Centre companies absorbing space at a fast pace.

Montréal leads North America in terms of growth in technology jobs – 18% over the past year, according to CBRE. Tech companies are transforming high-ceilinged, exposed-brick industrial space into offices.

The growing marijuana industry is taking over vacant warehouses and factories for grow-ops, pot shops and distribution facilities.

Cannabis will require retail space also. The Société Québécoise de Cannabis (SQDC) plans to open 20 stores by December and between 150 to 160 stores across the province in the next 2 to 3 years.

Montréal has established itself as a hub for data centers and cryptomining companies thanks in large part to cheap electricity and the crackdown on cryptocurrency mining in China. In 2016 Hydro Québec offered an average power rate of just 5.2 cents per kW, according to JLL. That's compared to the 10.3 cents per kW in Toronto and 7.5 cents per kW in Western Canada.

Home to the top three public cloud providers, Amazon Web Services, Microsoft Azure and Google Cloud Platform, cloud providers account for about 50% of the new data centre demand in Montréal.

A KPMG study commissioned by the Hydro Québec in July 2017 found data centres using 1,000 megawatts of energy could provide 14,000 jobs in Québec and pay salaries that were 38% higher than the provincial average.

No similar studies were done on the nascent cryptocurrency mining industry. However, operating on four sites in Québec, Bitfarms Ltd. employs 80 people, paying entry-level wages of \$17.50 an hour, its operators say. It hopes to employ 300 more workers in 2018.

Over the course of 2017, Hydro Québec received over a hundred requests for new crypto mining projects, amounting to an additional demand of 10,000MW, which represents about 27% of their utility's total generating capacity in the province of Québec, according to a report by JLL. As a result Hydro Québec issued a moratorium on all new applications from cryptominers, as well as additional requests for power.

New regulations will give Hydro Québec the authority to do 'forced load shedding'. This means it can cut off power during the 100 to 300 hours a year when the Québec power grid is stretched to capacity. It will likely raise the price per kilowatt hour to mining companies.

Alain Bourdages, a VP at Montréal-based Resolute Forest Products Inc, said that the company has been contacted by cryptocurrency companies about possibly sharing their existing production sites, or ones that are no longer in use.

10. MONTRÉAL IN THE MIDST OF A DEVELOPMENT BOOM

New development projects being fueled by hot residential market.

The Greater Montréal Real Estate Board reported home sales increased in July for their 41st consecutive month, hitting an eight year high. A strong economy, low inventory and an influx of foreign buyers are pushing home prices higher. Foreign buyers taxes in Vancouver and Toronto has led to an 84% increase in interest in the Montréal market by Chinese buyers according to report by Juwai.com.

Broccolini announced that it would build a 56 storey mixed use tower next to the new National Bank building. The building will contain 400 condominium units about 8 storeys of office and retail space. Marketing of the building will start Fall 2018 and construction will be complete in 2023.

Condos went on sale this spring for Humaniti, the Cogir Real Estate, DevMcGill and the Fonds immobilier de solidarité FTQ joint venture. The Humaniti development is Comprised of a 193-room hotel, 314 apartment rental units, 158 condominiums, 60,000 sf of office space and 15,000 SF of commercial space.

There will be a four-star 193 room Marriott Autograph Collection hotel between the 10th and 18th floors. The hotel will also feature a 100-seat restaurant, a 60-80-seat lounge-bar, spa, gym and pool.

Condos range in size from 400 to 3,000 SF and will be located on the upper floors of Humaniti's vertical tower. The condos are on Floors 26 to 39, sitting above apartments which range from the third through the 25th storeys. The price of the condos is around \$925 psf.

Toronto-based Four Seasons has partnered with Quebec real estate developer and property manager Carbonleo Real Estate Inc. on the \$250-million hotel-condo building on de la Montagne and Ste. Catherine streets; it is integrated with luxury shopping and dining facilities as well as the Ogilvy high-end department store being revamped and rebranded as Holt Renfrew Ogilvy. The 18-storey tower will include 147 rooms, 19 suites and 18 residences. Prices range from \$3.5-million to more than \$15-million,

Ground broke earlier than expected on the third phase of the Tour des Canadiens condo project. A JV between Cadillac Fairview, Canderel and Club de hockey Canadien, TDC3 will be the tallest of the three buildings at 55 storeys. Phases 1 and 2 were each 50 storeys. The 565-unit tower will be one of the tallest buildings in Montréal. Prices range from \$360,000 to \$2MM.

The Tours des Canadiens are part of the Quad Windsor development plan. The mixed use development, led by Cadillac Fairview is a \$2 BB, 15 year plan to revitalize downtown centred around Bell Centre and Windsor Station.

There is also an opportunity present to redevelop the Molson brewery site once it relocates to Longueuil. Molson Coors plans to maintain a microbrewery and retail location at the historic site along the St. Lawrence River near Old Montréal. The rest will be sold for redevelopment.



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