Top 10 Real INSIGHTS

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

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1. WHAT IS THE ECONOMIC OUTLOOK FOR MONTRÉAL OVER THE NEXT 12 MONTHS?

The economic fundamentals underlying Montréal are solid and the city is attracting stronger Canadian and foreign attention.

The unemployment rate in Quebec in July 2022 was only 4.3%. This is a drop of 1.7 points compared to July 2021 (6.0%) and a difference of 5 points compared to July 2020 when the unemployment rate was 9.3%. With an unemployment rate currently at only 4.3%, this is the lowest unemployment rate for the month of July in at least twenty years and consequently this low unemployment rate combined with an inflation rate of more than 8% induces significant pressure on employees' demands for salary increases.

While pandemic recovery has been slower in the central and eastern parts of Canada than it has been out west, TD economists believe Quebec's economy "likely expanded at a faster pace than Canada's 3.1% turnout in the January-March period." ("Provincial Economic Forecast," June 22, 2022). However, they expect that despite the easing of pandemic lockdown restrictions, which were particularly stringent in Quebec (including curfews), they "expect Quebec to endure a significant slowdown beginning in the second half, as rising interest rates and elevated inflation weigh on household and business spending."

Household spending will probably be affected less, due to lower personal debt levels in Quebec, savings rates almost double those of the rest of the country, and lower home ownership rates, which mean that renters are not suffering the effects of housing price inflation to the same degree as those in other provinces where there is a far greater percentage of home ownership. The Quebec government has also provided a one-time $500 payment in its latest budget to help adults with incomes of less than $100,000 cope with the cost of living.

While Quebec's unemployment rate is at historic lows, its job vacancies are among the country's highest, which is leading to significant wage growth. Worker shortages due to slow population growth and an aging society play a part in this equation as well, although the Quebec government hopes to welcome more than 71,000 immigrants. "Manufacturers will likely face some tougher times ahead as global growth slows and input cost inflation remains elevated. The industry relies on imports from China to a notable degree, so the end of Chinese lockdowns bodes well." (TD)

A recent examination of the labour market by CBC is also good news for the province and the City of Montréal, however. They analyzed Statistics Canada data to determine which sectors were experiencing employment gains and losses. Among those experiencing gains were:

• professional, scientific, and technical services (+19.5 percent)

• finance, insurance, real estate, rental, and leasing (+14.4 percent)

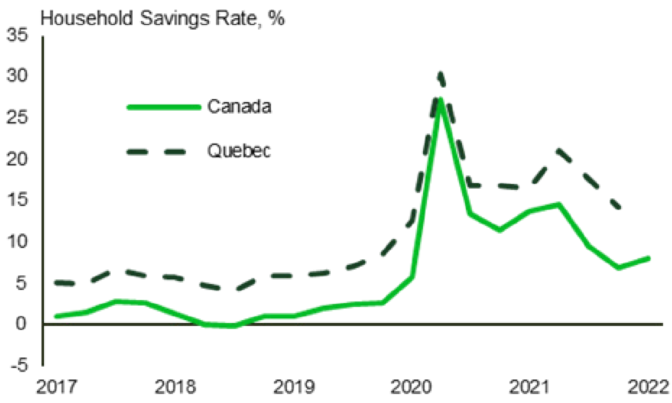
•information, culture, and recreation (+10.3 percent)

•construction (+6.5 percent)

•wholesale and retail trade (+4.0 percent); and

•manufacturing (+0.7 percent).

Chart 2: Households in Quebec Have a Considerable Amount of Savings to Draw From



Source: Institut de la statistique du Québec, Statistics Canada, TD Economics.

While the inflation rate edged down slightly in July with the consumer price index at +7.6 percent versus June's 8.1 percent, the decrease was due primarily to a reduction in gasoline prices, which "rose 35.6% year over year in July after a 54.6% increase in June." Food prices continued to increase, and the rate of this increase was actually 0.5 percent higher in July than June, while "bakery products (+13.6%) continued to rise at a faster pace as wheat prices remained elevated. Higher input costs and global supply uncertainty related to the Russian invasion of Ukraine continued to put upward pressure on global wheat prices amid an already constrained supply."

Travel, including airfares and hotel accommodations also increased sharply in July, with airfares up 25.5 percent and hotel prices up a whopping 47.7% in July 2022 over July 2021.

While the inflationary spiral may be slowing, further increases in interest rates by the Bank of Canada are anticipated in the fall and winter of 2022 before the inflation rate gets back to what the central bank considers acceptable (just over two percent). (Statistics Canada)

2. HOW DO WE REPOPULATE THE DOWNTOWN CORE?

The Montréal Central Business District is the epicentre of the Quebec economy and like many other major metropolitan areas, it has been difficult to drive workers back into its office towers. What programs have been implemented or proposed to revitalize the downtown core?

Despite its "I like working downtown" initiative, a 2022 study by the Chamber of Commerce of Metropolitan Montréal indicates there will still be 19 to 25 percent fewer workers present in Montréal's city centre in the fall of 2022 than there were pre-pandemic. President and CEO Michel Leblanc told Retail Insider in late March, "The fall in the level of expenditure will also be very significant – around 15 per cent. It's a major shock."

The COC study, "Reviving downtown Montréal in a profoundly changing environment – Strategies for taking advantage of new ways of organizing the work and consumption in the city center," recommends four main strategies to encourage the repopulation of the downtown core:

- facilitate the transition to hybrid work models;
- promote a mix of uses that will enhance the attractiveness of downtown;
- help inform private-investment decision-making; and
- position downtown as a strategic part of the international influence that makes Montréal unique.

Phase 2 of the "I Love Working Downtown" initiative, with funding of $2.4 million from the government of Quebec, includes six new art installations over the course of 2022 and 2023 for downtown workers, ranging from outdoor work environments to immersive sound and light projections and sculptures to be placed in private and semi-private spaces. Plateau Borough Mayor Luc Rabouin, who has responsibility for economic development on Montréal's Executive Committee, told Global News, "The festivals are back, we can see people are coming. Restaurants are busy. We are all working together to have a very attractive place to be."

But the return to downtown is being hampered by what seems like never-ending construction in the core. Aurora Realty Consultations President Jeff Berkowitz told Retail Insider downtown "needs protection of the ongoing street work that they're doing in the downtown core. ... we're in the midst of a long-delayed complete dig up of St. Catherine Street ... as well as McGill College (Avenue) and Peel Street, which are two of the main cross streets on St. Catherine, getting their entire infrastructure redone. ... that is actually now the more concerning issue ... how long that's going to continue to go and how disruptive will it be for the downtown core retail."

He estimated work on Ste Catherine Street will last another three to four years. Despite his pessimism, he notes that retailers who have established stores in Toronto and Vancouver are now ready to expand to Montréal, which will help. But "[i]f you want to keep it vibrant, it's got to be a multi-use destination. It's got to be live, work, play. ... the more you have residents in the downtown core, the more you get that neighbourhood feel and constant traffic, the more you're drawing your tourists, or people who are there multiple times a week, the more alive your downtown core feels."

Potential newcomers to the Montréal downtown core include Nike and e-car company Lucid. Lucid announced the opening of its third Canadian store on Rue Saint-Jacques at the end of March 2022.

Think Retail President Tony Flanz noted that the lifting of stay-at-home orders and the return of students to in-person classes was the first boost downtown Montréal had had since the pandemic began. "It was very welcomed and it was very noticeable."

Peel Street's redevelopment is a $108-million project that will include sidewalk widening, new trees and street furniture, and underground infrastructure as well as a protected bike path that will be part of the 184-kilometre Réseau express vélo (REV), completing the axis from the Lachine Canal to DeMaisonneuve Blvd. When construction is finished in 2025 (it will begin this fall), Peel Street will run one-way north between Rene-Levesque and Sherbrooke. The plan allows for businesses to construct summer patios.

Just east of the downtown core, boutique developer MTRPL has decided to develop the historic bank property it bought from Laurentian Bank in the heart of Montréal's Gay Village at the corners of Ste Catherine E and Saint-Timotée, officially known as the Quartier des Faubourgs. Its two upper floors are already leased to the Quebec government, but MTRPL is looking to develop the ground floor space which boasts 15-foot coffered, gold-leaf trimmed ceilings, marble flooring, and intricate woodwork. Other area development includes Esplanade Cartier (two office towers and 2,000 residential units); a mixed-used, multi-phase project at Quartier des lumieres; and redevelopment of the old Molson Brewery site. With three or four Metro stations servicing the area and the Jacques Cartier bridge bringing in people from the South Shore, there are "a bunch of huge, huge master planned projects going on in the area," said Bryan Spatzner, MTRPL's co-founder. (Retail Insider)

3. CREATING THE RIGHT WORKPLACE ENVIRONMENT AND CORPORTATE CULTURE FOR A HYBRID WORKFORCE

Building a great workplace culture doesn't happen overnight. It's something that evolves and changes with every interaction with working life. You need to ensure the working environment should be a place where everyone feels safe, engaged, inspired and productive. Your workplace's physical setting is important because it affects how people do their jobs on a daily basis. Lighting, noise levels, temperature and desk layout can all affect mood. Additionally, the way employees interact with each other and with management can impact an individual's comfort level and ultimately their productivity.

The pandemic had a profound effect on the way we not only live but work, and has led to a re-examination of our working environments that was long overdue. First introduced in 1968, cube farms "Like all things human-made ... [have] a history born of appropriation, adaptation, and, in some cases, retrospective dismay." Designed to give employees more privacy rather than less (think typing pools and insurance company workrooms, endless lines of desks in rows with aisles between them, the supervisor positioned at the back, sometimes on a dais to make "supervision" visually easier), cube farms were a perversion of designer Robert Propst's vision of the "Action Office," which included standing desks and 120-degree-angle corners that were "intended to optimize communication exchange between colleagues while also allowing them the time and space for more focused individual thinking."

"Throughout the 1980s and '90s, as PC-based digital technology evolved, existing offices' square footage needed to be optimized to accommodate the growing influx of knowledge workers. Sprawling corporate office parks emerged on the landscape. And the relative spaciousness of Propst's Action Office — with its 120-degree-angled wall configurations designed to invite collaboration and interaction — simply took up too much space. Angles of 90 degrees proved to be a far more efficient layout to get more out of less. The geometry of the office cubicle was born: rows and rows of cubes, like cells in a massive spreadsheet — a form of human data entry, anonymous and alienating."

"While able to personalize our work areas (constrained by the practicalities of domestic life), we lack the serendipitous exchanges and related network effects associated with the workplace as a hub of creativity. The new forms that will emerge from this period — and how these forms will shape employee and employer identities, organizational infrastructures, and policies — remain murky. As our work and workspaces evolve, we'd do well to reflect on Propst's form of humanistic office design, where space promotes autonomy, creativity, exchange, and the productivity of the individuals sharing in it." (ADP Business Anthropologist Martha Bird, "Enter the Cube Farm")

Creating new and effective hybrid models of work has become a thought leadership hot topic, with various models being adopted during the transition back to the office. More than half of employees want a hybrid work model that leverages "lessons learned during the pandemic ... [to implement] elements of in-person and remote work that best support their unique goals and foster stronger employee engagement and productivity."

Some of the models adopted by companies attempting to transition from work-from-home to hybrid workforces are choice-based, schedule-based, and purpose-based.

Choice-based: employees determine when and where they are most productive. While they might work in the office two or three days per week, they can choose when, why, and where they work in the office, based on minimal policy control.

Schedule-based: consists of choreographed days of the week, month, or quarter, with leadership and employees scheduled to coordinate meaningful time together, as well as foster connections, including with new team members. It is also designed to build and rebuild social work networks and social capital amongst employees.

Purpose-based: looks at job function, role, and work-based processes and activities and involves "rethinking workspace planning solutions to focus on creating synergy with simultaneous different personas and purposes." It determines on an individual basis what jobs and people are best suited "to work fully or mostly remote, two to three days in the office, or most days in the office." (Gensler Research and Insight, "10 Considerations for Transitioning Back to Work in a Post-COVID-19 World," Cindy Coleman and Don Ricker)

During the course of the pandemic, staffing numbers have varied greatly, with significant numbers of resignations requiring new hires, some of whom have never been to the office. "Assessing key metrics like headcount, seat count, and ratios is the basis for informing the type of workplace strategy to implement — ideally one that will accommodate the space needs of workers."

This presents employers with an opportunity to rethink their physical workspaces so they can support the positives of on-site work, including "more social networking, more training, learning and mentoring, new recruit immersion and customer engagement experiences, and more team collaboration," all of which are "redefining workplace occupancy, purpose, and how much space companies need as they return to the reimagined office.

"As the physical-digital hybrid places have created a greater need for both dedicated purpose and flexible multi-purpose types of spaces, the 2019 norms of 1:1 workstation-to-collaborative seats is shifting to the 1:4 to 1:5 range, and this is driving new purpose-driven experiences and informing the amount of space for the workplace."

Gensler's data indicates people who work at top-performing companies are more likely to want to return to working in person. "Top-performing companies are three times more likely to increase their real estate footprint in the future because of the need to accommodate more people and more kinds of spaces for a range of work activities." (Gensler)

4. WHAT IS THE OUTLOOK FOR THE OFFICE MARKET?

The A&B office availability rate for downtown Montréal increased from 8.6% in the 1st quarter of 2020 to 17.2% in April 2022. With the return to work in hybrid mode, this rate should continue to climb and could reach 25% within five years. The availability rate for all of Greater Montréal is also 17.2%.With the current level of office availability, there is a downward trend in effective net rents. Landlords need to provide more rental incentives to support the same nominal rent.

Despite the fact the Montréal (CMA) saw a steady increase in leasing activity during Q2 2022, the vacancy rate increased to 16.3% YoY.

Fears of a seventh COVID wave and the gradual return to work as well as increased supply and inflationary fears that are causing companies to put expansion plans on hold are all factors affecting the increase. While there steady growth in leasing activity for the second quarter of the year, much of this resulted from the finalization of deals made in 2021.

Class A spaces were absorbed at a greater rate than Class B and C, and according to Cushman & Wakefield, "The flight-to-quality is especially noticeable among availabilities in the Financial Core." Net rents increased 5.2 percent year-over-year. In downtown and midtown Montréal, rates increased 5.5 and 3.1 percent respectively. Overall, however, the overall gross asking price in Q2 2022 declined to $34.55 psf, and "Landlords continue to offer flexibility to tenants via tenant inducements and free rent. … If vacancy continues to climb the market will see a decline in the asking net rents." Delays in development means new supply won't be available until later this year or even spring of 2023.

Vacancy rates were highest in Downtown West, Midtown Central, North, and West, St. Laurent (24.1 percent), Midtown, and in the West Island (20.5 percent).

Key Q2 2022 lease transactions included IntelliSyn Pharma Inc. leasing 34,242 sf at 4800-4858 Levy, while Zao Canadian renewed its lease of 27, 785 sf at 740 Notre-Dame West and Thales Canada Inc. did the same with its 22,992 sf at 4800-4858 Levy. Meanwhile Fard Investment Limited sold 351 Robert-Bourrassa Boulevard in the financial core to 13721949 Canada Inc. (27.,165 sf) for $28 million ($1,031 psf); Hospital of Ontario Pension sold 4868 Levy Street in Saint-Laurent to Alexandria Real Estate Equities (64,664 sf) for $10.5 million ($162 psf), and Les Immeubles du Boisé sold 24,182 sf at 300 Armand-Frappier Boulevard in Laval for $6 million ($248 psf). (Cushman & Wakefield, "Marketbeat Montréal, QC Office Q2 2022") 14065662 Canada Inc. also purchased 750 St-Laurent Boulevard for $40.5 million ($349 psf) from Square Victoria Real Estate Inc. (Avison and Young)

Avison and Young's "Greater Montreal office market report/Q2 2022" states, "In recent weeks, concerns about rising interest rates have dominated discussions between landlords and tenants. The rising costs of completing and financing tenant improvements or relocation projects, coupled with the specter of an economic slowdown or even another recession, are causing many players to revise their plans or take a step back." While there has been a steady increase in workplace traffic since mandatory WFH ended March 1, 2022, this occurs mostly between Tuesday and Thursday, which accounts for 70 percent of weekly visitor volume (Mondays are 16 percent and Fridays 14 percent).

While the pace of availability rate increases has begun to slow since 2022 began and availability rates have remained stable or declined for suburban Class B office space, Q2 2022's 17.2 percent availability rate is greater than 2016's Q4 all-time high of 15 percent.

Year-to-date, absorption is negative 400,000 sf, down dramatically from H1 2021's negative 1 million sf.

5. WHAT IS THE OUTLOOK FOR THE RETAIL MARKET?

No other real estate property class has attracted as much chatter in recent years as retail. Once a favourite of investors, it is now facing many challenges and questions. Montréal has witnessed Canadian, U.S., and European retailers opening stores, closing them or looking for fresh approaches to their formats.

In Quebec, for the first five months of the year 2022 (January to May) retail trade sales increased by 8.8% compared to the same period of the year 2021. Certain commercial typologies increased significantly faster. We should mention, among others, clothing, footwear and accessories stores as well as health and personal care products stores whose sales grew by 33.4% and 26.7% respectively. In addition, total retail sales also increased by 23% for the period from January to May 2022 compared to the same pre-COVID period (January to May 2019).

Retail Redevelopment: The trend towards the development of dilapidated mixed-use shopping centres continues. Those located near the transport hub are popular.

The major disruption of retail channels resulting from pandemic lockdowns led Canadians to embrace online shopping with a vengeance. By 2022, "there were over 27 million eCommerce users in Canada, accounting for 75% of the Canadian population. This number is expected to grow to 77.6% in 2025. Increased online shoppers means that retail eCommerce sales in Canada continues to climb. According to Statistics Canada, eCommerce retail trade sales in Canada amounted to an all-time high of US$3.82 billion in December 2020, surpassing the boost recorded in May 2020 (US$3.2 billion) due to the coronavirus pandemic lockdown measures. In March 2022, e-commerce sales amounted to approximately US$2.34 billion. It is estimated that retail eCommerce sales will total US$40.3 billion by 2025. Retailers are investing in digital platforms to reach consumers dispersed over a vast land mass, while responding to competition from websites, such as Amazon Canada."

The leading product categories for online shopping are electronics, fashion, and furniture, according to the U.S. Trade Administration's "Canada – Commercial Country Guide."

Ongoing construction on Ste Catherine Street and major retailers choosing to close many (if not all) their bricks and mortar retail outlets have undoubtedly been a factor in increased online shopping. GAP, Godiva, Kiehl's (skincare), and Quebec-based jewelry retailers Bizou have all chosen to close many of their retail stores. The difficulty of making returns of online purchases and the environmentally unfriendly fate of many of these returns indicate, however, that there will continue to be a place for bricks and mortar retail, although it may be in very different forms than we are accustomed to

Stores that supply a metaverse experience can bridge the gap between bricks and mortar and online retailers, since "[t]he metaverse provides the infrastructure for retailers to create engaging platforms that will form a single, multifunctional environment that can handle every action and activity performed throughout their customers' day. How? Through extensive gaming, AR and VR experiences."

One example of a metaverse experience is the ability to select furniture online and "test" how it will fit in your own home. AR and Lidar technology mean "[y]ou pick up your phone, open the app and quickly scan your living room. A virtual replica of your desired sofa instantly appears in your living room on your screen, making it possible to try before you buy."

Brands can also host virtual parties, fashion shows and release events that are not mere live streams but can involve building a virtual universe that matches the physical. "Guests attend in the shape of an avatar, virtually walk around to listen to different keynotes, buy exclusive products – both virtual and real – and interact with the other attendees – just like in real life." It can also provide test marketing opportunities for products that can be trialed virtually and adapted prior to production based on potential customer feedback. (Impact, "This is How Retailers Should Prepare to Win the Metaverse")

A note of caution though: "The Metaverse and the opportunities connected are not fully developed and scoped yet. Right now, it's big companies like NIKE, Samsung, Bestseller, Ganni and Gucci that excel in and develop metaverse experiences," (Impact) as well as luxury brands like Lucid, whose new Montréal showroom will, like its Vancouver predecessor, let visitors see the new Lucid Air in person, including its technology, exterior finishes and interior materials. "Because Lucid showrooms often only have one vehicle on display, a virtual reality experience will be offered where visitors can see different models, colours and interiors. Visitors will be able to put two cars side-by-side to compare different colour and trim options, for example. Technology from online gaming will be used as part of the virtual reality experience which will boast high-quality graphics." (Retail Insider)

Three development and redevelopment projects that are the direct result of the REM expansion to Montréal East are indicative of the potential for transit-oriented development.

In Ville Marie, three megaprojects "together represent more than 3.5 million square feet of office and retail space in the area." These include the Quartier des Lumières on the site of the former CBC building (Groupe Mach/Devimco, 4 million sf of residential, retail and office space), redevelopment of the Molson brewery site (site (Groupe Sélection/Montoni/Fonds de solidarité FTQ, 6.5 million sf of residential, retail, and office space), and Esplanade Cartier (Prével, 600,000 sf of mixed residential and office space). (Avison Young, "Espace Montreal: Montreal East: the new darling of commercial real estate in Greater Montreal")

6. WHAT IS THE OUTLOOK FOR THE INDUSTRIAL MARKET?

Demand for industrial space remains very strong. The average rent was $11.75 per SF in 2021 and reached a level of $15 per SF in Q2-2022. This strong growth is expected to continue in the second half of 2022, but is it sustainable in 2023? The availability rate for the industrial sector was maintained between the 2nd quarter of 2021 and the 2nd quarter of 2022 at 3.3%.

After 24 consecutive quarters of positive absorption, the Montréal CMA absorption rate fell to 1.5 percent in Q2 2022. According to Cushman & Wakefield, "leasing volume is a better measure of market activity as space is trading so quickly that it is not on market long enough to record absorption." Despite 474,000 sf of new supply in Q2 2022, both new buildings were fully pre-leased by completion, although there are several projects in the works that should be completed within the next one to three years. Quintcap's 300,000 sf South Shore property at 1000 Clairevue Boulevard West and Foliot Immo/Syscomax's 174,000 sf on the North Shore at 12275 Helen Bristol Street were both completed in Q2 2022.

RoseFellow is investing $93 million to construct a 425,000 sf industrial space on the South Shore of Montréal in Candiac, as well as an additional 800,000 sf on two new properties in Beauharnois. The Candiac building should be delivered by fall 2023 and will have 40-foot clearances, as will the two Beauharnois constructions. RoseFellow Principal Mike Jager told renx.ca "every request is for over 300,000 square feet," while his co-principal, Sam Toumas, foresees demand for industrial will exceed supply by the end of 2022: "We also see the rental rates increasing another 10 to 15 per cent by the end of the year."

This is consistent with CBRE's research ("Canada Industrial Figures Q2 2022"), which indicates more than 75 percent of industrial development projects are for large bay facilities, with customers requiring 200,000 sf or more.

Third-party logistics firms leased an additional 4.4 million sf nationally between January and June 2022 following the 5.2 million sf recorded in H2 2021. However, demand from e-commerce distribution, warehousing, and storage facilities slowed in the first half of 2022. "Montreal recorded the annual strongest gains in Q2 2022 with rents growing 62.6% year-over-year, far outpacing the following top markets of the Waterloo Region (+39.5%) and Toronto (+35.5%)."

Montréal industrial's net rent psf was third-highest in the country at $13.40 psf, while Vancouver's was $18.93 psf and Toronto's $15.09 psf. (CBRE) However, CBRE warns that "[w]ith the rise of interest rates and the approval of Bill 96, many international users and investors are starting to reconsider setting up operations in the [Greater Montréal Area] for fear that these restrictive factors could result in a softening of demand." Its figures indicate there is 2,652,746 sf currently under construction in the area.

In their "Industrial/2021 Review/2022 Outlook," Avison Young noted that "...new deliveries will certainly improve the industrial supply in the greater Montréal area, but they will not be enough to meet current demand. ... projects totalling over 4.3 million sf should be added to the inventory by the end of 2022. More than 80% of this new supply is already pre-leased." They also stated that developer demand for industrial land has led to increased prices particularly in central areas of the Montréal CMA, "where sites are increasingly scarce and expensive, pushing developers and industrial space users to turn to sites further on the periphery, where available land is more affordable. Development activity for logistics and development facilities, data centres and other specialised buildings now extends as far as Beauharnois, Mirabel and Contrecoeur."

7. INTENSIFICATION PROJECTS: .

There is an unprecedented amount of intensification activity and urban revitalization on a scale that has not been seen for decades occurring both across the country and in Montréal.

Montréal is certainly no exception with a wide range of diversified developments occurring across the island and offshore.

Urban densification projects lead to more sustainable urban environments, according to those responsible; solving the shortage of housing units and using the urban infrastructure and other resources in a more efficient way. What unique characteristics do these types of projects have in Montréal, and what are some of the challenges that projects need to overcome within a very dense, highly regulated urban environment?

In its 2021 election platform, Mayor Valerie Plante's Projet Montréal platform led to the adoption of a new municipal plan, whose goals include "increasing the intensity and diversity of urban activities, particularly in the vicinity of metro and commuter train stations and major public transportation corridors that offer potential for consolidation due to the presence of vacant or underused land .... Vacant lots, shopping centre parking lots, park-and-ride centres and other underused lots within reasonable walking distance - approximately 500 metres - from train and metro stations are specifically targeted. However, guidelines must be developed for increasing the intensity and diversity of activities in order to maximize positive impacts, both on the surrounding urban environment and on the use of the public transportation network."

The plan includes transit-oriented developments (TODs) for almost every existing and planned Metro station, 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 means 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 is scheduled for completion by the end of 2022. The rest of the network will be completed by the end of 2024, although construction delays due to challenges in the Mount Royal Tunnel. In late 2020, century-old explosives were found in the tunnel, and the new issues could have delayed completion of the western portion of the REM from Deux-Montagnes to l'Anse-à-l'Orme until the spring of 2026. (A workaround has been found to ensure construction can continue.) (CBC) Eighteen of the 26 REM stations that were supposed to gradually open in three phrases between the fall of 2023 and the fall of 2024 will now open simultaneously at the end of 2024.

In response to the announcement of the delay, the mayors of Saint-Laurent and Pierrefond-Roxboro borough have requested the REM construct a 20-kilometre bike route along the path of the light rail network as an option for people living west and north of the city.

While Quebec has not been affected by strikes in the construction sector as Ontario has during the spring and summer of 2022, it seems inevitable there will continue to be REM construction delays that will either require or at least generate demands for modifications of the official plan to ensure the movement of people and goods throughout the construction period. Even when the REM expansion was first announced, "Enthusiasm for the project was tempered by the realization service will be halted on much of the Deux-Montagnes commuter line for two years, and that 550 trains a day will be running through the garden community of Town of Mount Royal once it is up and running." ("How traffic chaos became a way of life in Montreal in 2018," Montreal Gazette)

At the end of May 2022, the Canadian, Quebec, and City of Montréal governments announced ground had been broken on the Coopérative d'habitation laurentienne. The project, which will create 169 social and affordable housing units for low-income tenants, is located near the future Bois-Franc station of the REM in Saint-Laurent. It will provide 169 social and affordable housing units for low-income families and individuals after a total investment of nearly $65 million. Almost a third (50) of the units will be three-, four-, and five-bedroom apartments designed for families with several children.

Société d'habitation du Québec (SHQ), through its AccèsLogis Québec program, will contribute more than $11.1 million and will guarantee the co-operative's mortgage loan, while the Government of Canada will contribute over $6.7 million through its National Housing Co-investment Fund (NHCF). The City of Montréal will provide a base grant of more than $3.3 million, and other ontributions worth $25 million. (CMHC)

8. WHAT IS THE STATUS OF LAND AND DEVELOPMENT IN THE GMA?

There is still a very strong appetite for the land, especially land that is ready to develop without constraints, the problem is supply. Industrial/distribution and residential development land are most in demand. Prices continue their strong growth in 2021 and seem to stabilize in 2022.

There have been more transactions for TOD sites in the suburbs than for land in downtown Montréal (land is still an attraction, but there are fewer players)

When it comes to density in the suburbs (Laval, North Shore and South Shore), 10-12 floors are more frequent, but many are rentals, few are condominiums. Single family dwellings, especially Laval and North Shore are still relatively affordable.

With the sharp increase in construction costs, land prices and interest rates, some developers have chosen to put their projects on hold. The imminent arrival of the REM from the South Shore accelerated the trend of large-scale real estate development and transactions creating new mixed neighborhoods.

According to realla.ca, the average price of land lots for sale in Montréal is $4.139 million, with lots ranging from just under half a million dollars to $16 million. The largest land lot for sale in the city is the 808,128 sf at Henri-Bourassa Boulevard E and Avenue Marien.

"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 for development. … The scarcity of available space options is impacting the overall market. In the last quarter of 2021, most markets had a vacancy rate of less than 1.5%."

While there are five industrial projects currently under construction (in Beauharnois, Pointe-Claire, and Vaudreuil-Dorion) for delivery in 2022, these projects "will not be enough to meet current demand. … Developers' appetite for industrial land literally driven up prices in the central areas of the island, where sites are increasingly scarce and expensive, pushing developers and industrial space users to turn to sites further on the periphery, where available land is more affordable." (Avison Young, "Industrial Market Report/2021 Review & 2022 Outlook")

In June 2022, Ivanhoé Cambridge, the City of Montréal, Cogir Real Estate and Pomerleau announced a mixed-used development project called Haleco, a redevelopment project in the area between Old Montréal and Griffintown, which is scheduled to start delivery of its 367 residential units in summer 2024.

The project is the winner of C40's International Reinventing Cities competition, and will be partially funded by a federal government low cost loan of $135 million. The project includes two floors of office space (approximately 4,000 m²) and almost 2500 m² of retail space on the ground floor and mezzanine levels. A 500 m² urban farm is planned for the basement.

Designed to be LEED Platinum certified, its 100 percent electric system will have heat pumps on each floor. The area will include publicly accessible green space, with 57 per cent of the land to be revegetated, and will include a community garden, fruit trees, and a pollinator garden. (Ivanhoé Cambridge, "Haleco: Rethinking urban life – An investment of nearly $200 million in a Montreal redevelopment project")

Les Ateliers Cabot is another winner of the Reinventing Cities competition for its project to transform the former industrial site of the Canadian Power Boat Corporation at 4000 Saint-Patrick Street on the Lachine Canal in the South-West borough on a 28,000 m² lot.

Les Ateliers Cabot is another winner of the Reinventing Cities competition for its project to transform the former industrial site of the Canadian Power Boat Corporation at 4000 Saint-Patrick Street on the Lachine Canal in the South-West borough on a 28,000 m² lot. The project is being designed to be carbon neutral, and will include energy loops between buildings, wooden structures, and photovoltaic membranes. It will also reuse existing buildings, repurpose materials when possible, and eliminate basements on new structures. Between 50 and 60 percent of the site will be green space, and will include an urban forest.

The redevelopment will become an artistic, entrepreneurial, and technological hub, with artist studios and exhibition spaces, a large greenhouse, artist accommodations and a hotel. (Arch Daily, "Sid Lee Architecture's Les Ateliers Cabot Wins the C40 Reinventing Montreal Competition"

Cadillac Fairview announced in February 2022 it will redevelop the Fairview shopping centre in Pointe-Claire to eliminate a major heat island by replacing 900 asphalt parking spaces with three residential buildings, one a 435-unit seniors' housing project, and two residential buildings with more than 400 rental units. "A public square, or plaza, would be open to all and form the heart of the development. Wide sidewalks for pedestrians and bike paths are also planned," with both underground and garage parking available. Brian Salpeter, Cadillac Fairview's senior vice-president, development, referred to the project as a "human-centric mixed-use residential development, focused on active transportation, walking and cycling … directly connected to our shopping centre and located close to the future Fairview Pointe-Claire REM station and new bus terminal." However, Pointe-Claire Mayor Tim Thomas told the Montreal Gazette the city has not received a formal application from Cadillac Fairview, and while the city has no restrictions on commercial expansion, "Where we have concerns is multi-level residential, which is currently under scrutiny by the population of Pointe-Claire to decide how much and what levels we want (to allow)." (Montreal Gazette, "Cadillac Fairview unveils shopping centre project near future REM")

9. AN UPDATE ON INVESTMENT ACTIVITY IN THE GMA

• The 225 point increase in the Bank of Canada's key interest rate since the start of the year is putting upward pressure on real estate yields for all products. Another increase of 100 points in the key rate is expected by the end of 2022.

• Greater Montréal's investment activity has improved during the pandemic, going from $7.2B in 2020 to $10.5B in 2021, then $7.3B in 2022 until now (transactions of 1 M $ and above). Multi-Residential and Industrial grabbed just over 60% of 2021 sales volume, then the trend continues in 2022. So far 71% of 2022 sales volume, for a total of 5.2 G$ are multi-residential and industrial properties. Q1-2022 sales volume is $5.4B compared to $2.4B for Q1-2021. We note that several major assets are moving from institutional to private. Q2 sales volume will be available in 1.5 weeks.

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

Colliers described the 2022 Montréal demand for land as "insatiable" and noted investment of $412 million, of which $163 million, or 40 percent, of total volume went to ICI land, a departure from the usual skew towards residential land acquisition. "The industrial boom explains this shift as 64% of ICI volume pertained to industrial development, most notably in the South Shore with a 35% market share YTD. The majority of residential land investment has been in Montréal's South Shore (50 percent of market share), with Devimco buying an eight-acre, 355,000 sf lot in Brossard for $55 million. "43% of transactions focused on areas with medium density zoning. The large concern for residential developers is the hard cost of construction as materials, labour, and fuel continue to increase." (Colliers "Montreal Investment Insights Report Spring-Summer 2022")

With construction costs rising due not only to wage increases but also because of supply chain disruptions and raw materials volatility, "All asset classes saw a rise in cost year-over-year, most notably in the industrial development pipeline. Warehousing construction is up as much as 52%, or $55 a square foot. The average price per square foot is $150 for industrial properties at 150,000 square feet. Industrial builds of 250,000 square feet and above ranged from $125-$140." The largest increases are affecting medium- to high-rise multi-family builds (13 to 39 storeys), whose costs have increased year over year by 10 percent or $25 per square foot. "The continued appreciation of land valuations, in tandem with the constant rise of construction cost has made developers change how they purchase product with many having to place down deposits on steel and making larger orders in anticipation of future cost escalation." (Colliers)

Private buyers are now dominating the Montréal investment landscape, with Canderel acquiring Cominar REIT's commercial portfolio in March of 2022 in a $5.7-billion transaction. The purchase included the transfer of several office and retail assets to Groupe Mach. Pure Industrial (Blackstone), acquired 190 industrial properties in Montréal, Quebec City, and Ottawa.

In the office sector, NetEase bought Microsoft's AI Research Hub for $51 million, and Blackstone bought 1100 Atwater and the Air Canada tower for a total of $230 million.

The volume of multi-family investments increased 20% year over year, with Centurion Apartment REIT acquiring the rest of Habitations Trigon's 30-property apartment portfolio. This makes Centurion the second largest residential landlord in Quebec, with more than 3,500 newly acquired residential units.

Despite lower cap rates (as low as 3.25%), the continued rise in rental prices for industrial space has not adversely affected investment, and the Bank of Canada's interest rate hikes that are inhibiting residential home buyers is "leaving investors bullish on multi-family rental growth prospects," even though high rise multi-family is dipping to a 3% cap rate. (Colliers)

10. LAW 14, OR BILL 96: YOU THINK IT WON'T AFFECT YOU? PARDON

A new law in Quebec, Bill 96, is about to create the effects of a tsunami in the business world and hardly anyone is noticing. What are the repercussions of this bill and how will your day to day be affected?

Charter applies may be held." ("Québec Adopts Bill 96: How the Legislation Directly Impacts Your Business Operations and Other Key Considerations," Melissa Tehrani, Gowling WLG)

While passage of Bill 96 has not affected the appetite for Montréal industrial space, it is not helping the office space sector, where 16.1 percent of office space remained vacant during both the first and second quarters of 2022. CBRE figures quoted in the Montreal Gazette indicated that while downtown Montréal vacancies dipped slightly in the second quarter from 15.5 to 15.3 percent, suburban office vacancies rose to 17.2 percent from 16.9 percent, and average rents for Class A office remain static at $21.55 psf. "While political developments have yet to affect office or industrial vacancies, many business owners are still assessing the impact of Bill 96 on their operations. Some employers have even halted their search for new office space as they await details," according to a recent Gazette article ("Industrial rents skyrocket 63% in Montreal as demand outstrips supply") Alexandre Lagarde, vice-president of foreign investments at Montréal International, who has been holding information sessions for investors with the OQLF, said, '"There are some preoccupations that the heads of some foreign subsidiaries active here have communicated to us" with respect to Bill 96 …. "We recognize that there are some challenges. Our goal is to dissipate the concerns and clarify the situation. Any business wants predicability and clarity."

Of particular concern is the language provisions that apply to recent immigrants or visa workers, since the law, which went into effect in June 2022, mandates that immigrants will have to access most government services in French after they have been in the country for only six months. Companies with 25 employees will have to ensure "the use of French is generalized in the workplace", a provision that previously only applied to larger businesses with 50 or more employees.

The leaders of dozens of Quebec-based technology companies claim Bill 96 will make it hard to recruit talent and threatens to do "enormous damage to the province's economy." In a letter posted June 14, 2022, leaders of 30 of Montréal's tech and biotech firms wrote an open letter to Premier Legault protesting the implementation of Bill 96 without sufficient support to enable employees to learn French, and stated, "[T]he overwhelming majority of Quebec technology companies participate in international markets, and work with global, multidisciplinary teams. Legal requirements that force companies to operate primarily in French impose an extra burden when working with customers and partners all around the world." ("Quebec tech companies warn new language law could hurt recruitment, damage economy," CBC).

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