

MONTREAL CITY CENTRE

Report

3rd EDITION

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Post-pandemic life slowly re-emerges

ABIDING CHANGES BROUGHT BY TELEWORKING AND A RESURGENCE OF ACTIVITY IN THE HOUSING SECTOR

This third edition of *City Centre Report* provides previously unpublished information that will allow readers to appreciate the effect the health crisis has had on socioeconomic activity in downtown Montreal. Currently the pace of vaccinations against COVID-19 is increasing, as is the hope that things will soon return to normal. Obviously, remote work will become a permanent part of life for companies and workers post-pandemic. The resulting hybrid way of working will influence needs in terms of office space and consumption expenses in businesses and restaurants, in addition to attendance at cultural activities. In this edition, a number of data points and other information will help you understand the context of the coming relaunch so you can anticipate particular changes. *City Centre Report*

will also present its first interview-style report conducted with several office space agents operating in downtown Montreal. Their privileged view of how the commercial real estate market has evolved sheds light on certain notable trends.

This edition also presents an update on data from the first quarter of 2021 with regard to activity levels in six indicator categories: office occupancy, retail business, housing, higher education, tourism and culture, and transportation and mobility. The data were gathered through a web survey conducted between April 8 and 20, 2021, amongst 1,000 residents of the Montreal metropolitan area. As in previous editions, the survey also includes a segment on people's perceptions of the situation, allowing us to combine factual data with informational elements relating to residents' states of mind.

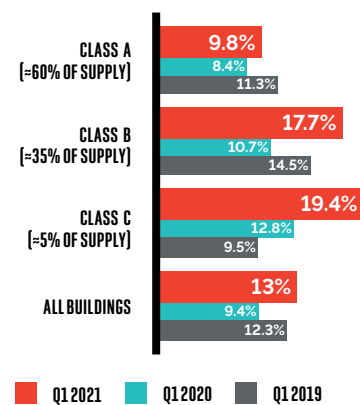


01 Offices

AVAILABILITY OF CLASS A BUILDINGS IS LOWER THAN IN 2019

The number of unoccupied offices, whether rentals or sublets, remains relatively high in downtown Montreal, but the situation is not as gloomy as is sometimes imagined. The following chart presents the availability rate by building category in the first three quarters of 2019, 2020, and 2021. There is notably a relative stability amongst Class A buildings, with even more favourable circumstances at the start of 2021 compared with two years ago. These properties, which represent most of the office space available, are higher category buildings that are generally home to very large firms. There is much more variability in Class B and C buildings, where renters are more often smaller or younger companies. These data contribute to clarifying certain support initiatives for the relaunch, particularly amongst the smaller companies.

Availability as a % of supply based on class of office building



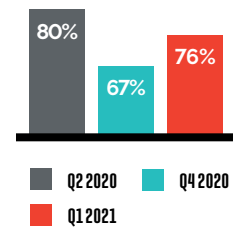
Source: Altus InSite, quarterly data

THE UNCHANGING POPULARITY OF REMOTE WORK

What is the perfect balance between working from home and the office? The answer will vary based on the organization, person, responsibilities, etc. This unknown is what's driving the desire for flexibility from office space renters. But one thing that is already known is that workers will want to continue teleworking, as the following data show. Thus, even once the health measures have been lifted and most people are vaccinated, 76% of the people queried in the first quarter of 2021 stated they wanted to continue working from home more than half the week. While variations have been observed from one quarter to another, the popularity of remote work remains very high.

After the pandemic measures are lifted and most people are vaccinated, would you be interested in working from home... ?

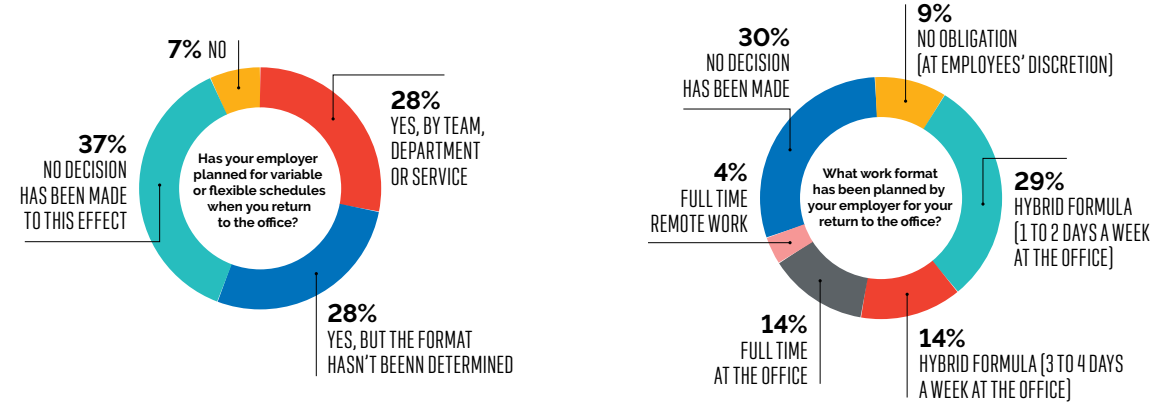
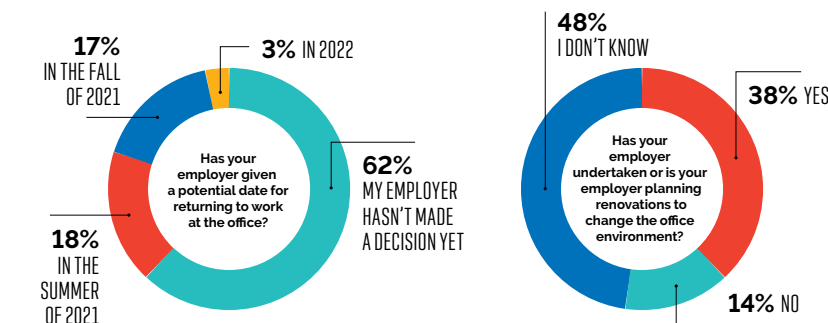
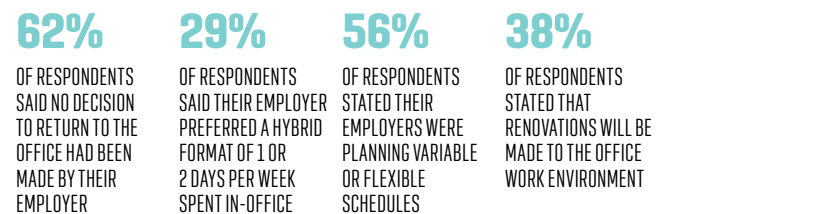
Proportion of respondents who answered "half a week or more."



Source: Web survey of 1,000 respondents in Montreal's census metropolitan area (CMA)

BACK TO THE OFFICE: THE WHEN AND HOW OF FUTURE DECISIONS

Several questions were added to the survey in order to better understand the context of the eventual return to the office. Overall we noted that in the first quarter of 2021, few organizations had made any plans. In the charts that follow, it can be seen in particular that:



Source: Web survey of 1,000 respondents in Montreal's census metropolitan area (CMA)

RENTERS OF OFFICE SPACE WANT FLEXIBILITY

City Centre Report interviewed six major office space agents operating in downtown Montreal to hear their perspective on the situation. Over the years, these experts have negotiated hundreds of leases representing millions of square feet of space in various building categories. These private interviews were conducted in full respect of the confidentiality of commercial agreements and with the goal of highlighting the main trends that are likely to come to the fore during the relaunch of the commercial real estate market. Five trends drew our attention. These trends represent renters' caution and a desire for flexibility so they can adapt to a situation that carries a number of unknowns.

- **Reduction in total area rented:** In our agents' estimation, a significant proportion of renters of office space are looking to reduce the size of their rented space when their leases are renewed in order to reduce expenses.
- **Increase in spaces for sublet:** A growing number of renters whose leases are not yet due for renewal are trying to sublet their unused space to other companies.
- **Renewal for a shorter period:** The uncertainty related to the health measures in place and the greater importance of remote work in the coming months have led many renters to extend their leases with short-term agreements.

- **Relocation to higher quality spaces:** By reducing the total area to be leased, and therefore their financial expenses, renters are seizing on the opportunity to improve the quality of their offices or migrate to a higher category building that offers better services and is located in a more attractive area. The intention is to stimulate employees' allegiance and their desire to return to the downtown area.
- **Creation of secondary spaces in the suburbs:** While there are few relocations outside of the downtown area, many renters are planning satellite offices in suburban areas, particularly close to future REM light-rail stations.

Phenomenon	Trend
Reduction in total space rented	↑
Subletting	↑
Renewing for shorter period	↑
Relocating to higher quality spaces	↑
Creation of secondary spaces in suburban areas	↗

Source: Interviews conducted by Altus

02 Retail

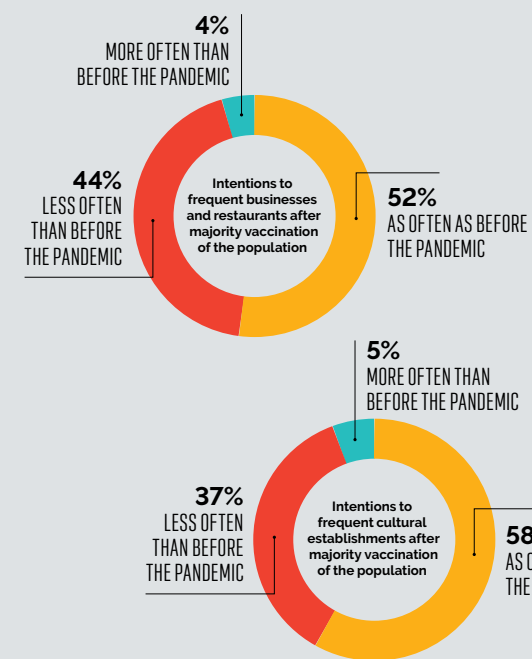
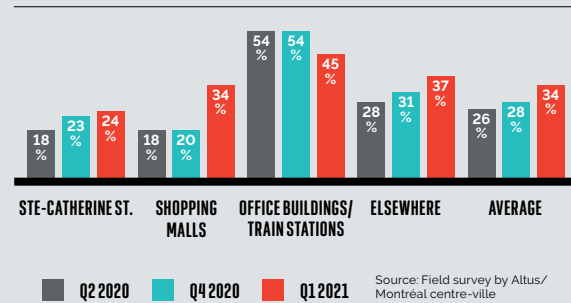
RETAIL BUSINESS: THE HIBERNATION CONTINUES

The situation for business remains troublesome. Stores located in shopping malls saw a 14-percentage-point increase in their rate of inactivity in the fourth quarter of 2020 and first quarter of 2021, as shown in the following table. The fact that several food courts were temporarily closed and some well-known brands (Aldo, Reitmans, Tristan) were placed under the protection of the Companies' Creditors Arrangement Act partly explains things. Circumstances remained the same on Sainte-Catherine between the end of 2020 and the start of 2021. One encouraging sign is that businesses located in office buildings and train stations, which were hard hit from the start of the health crisis, have seen their inactivity rate reduced by 9 percentage points.

¹cushmanwakefield.com/en/united-states/insights/us-marketbeats/new-york-city-area-marketbeats

In this respect, it might be interesting to compare the situation in Montreal with that of other major North American cities. For example, a recent study by Cushman & Wakefield shows higher vacancy rates on the infamous streets of New York than on Sainte-Catherine (24%) in the first quarter of 2021. In Manhattan, the business vacancy rate is 28% on Fifth Avenue, 40% on Madison Avenue, and 31% in Times Square.

Rate of commercial inactivity by sector



HOW WILL THE POPULARITY OF REMOTE WORK AFFECT TURNOUT AT RESTAURANTS, RETAIL BUSINESSES, AND CULTURAL SPACES?

The popularity of teleworking should have an effect on consumption habits, but it's hard to see exactly how at the moment. The following charts show that while close to 40% of respondents expect to frequent retail businesses, restaurants, and cultural spaces less than before, the majority of the population expects to renew their customary behaviour, planning to frequent such spaces at the same rate as they did prior to the pandemic. These data suggest that it will be important to deploy strategies to recreate downtown's former ambience and its attractive experiences.

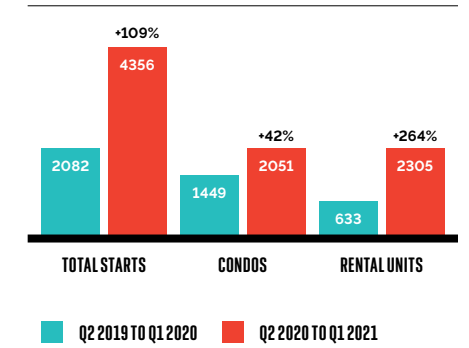
Source: Web survey of 1,000 respondents in Montreal's census metropolitan area (CMA)

03 Housing

RESIDENTIAL REAL ESTATE: SHARP INCREASE IN CONSTRUCTION STARTS IN THE RENTAL MARKET

There are a few notable developments in the housing sector in downtown Montreal. By comparing the same two periods of four consecutive quarters (Q2 2019 to Q1 2020 in blue and Q2 2020 to Q1 2021 in red), we can first note a strong progression of 109% in housing starts. These data can be broken down into a very strong momentum of 264% in rental unit starts and a more moderate increase of 42% in condo units. The CMHC attributes these figures to the authorization of a higher number of projects that were awaiting approval. Nevertheless, this initiation of construction indicates that developers still have confidence in Montreal and its downtown core.

Housing starts

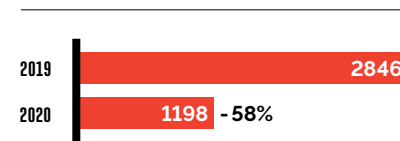


Sources: CMHC - Housing Starts - Borough of Ville-Marie

DOWNTOWN IN NEW CONDO SALES

In terms of new condo sales, the data tend to confirm the decline observed in the previous issue of *City Centre Report*. By comparing the total transactions made in 2019 with total transactions in 2020, the result shows a significant decline of 58%, as shown in the graph below. However, the recent announcement of major downtown projects may indicate that the new condo market is about to recover.

New condo sales

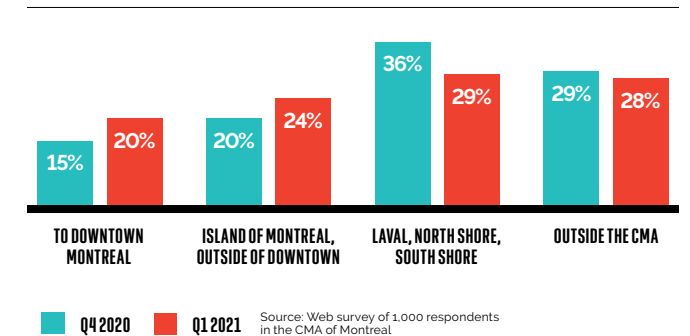


Source: Altus Group - Condo Tool - Borough of Ville-Marie

DOWNTOWN REMAINS ATTRACTIVE

Other data noted by *City Centre Report* relating to the housing sector concern residents' intentions to move. A difference in favour of downtown Montreal and the Island of Montreal was recorded for the fourth quarter of 2020 and the first quarter of 2021 when compared to the suburbs or other regions. As shown in the table below, among the respondents with an intention to move, the proportion who wanted to move downtown increased (by 5 percentage points) as did those wanting to move elsewhere on the island (an increase of 4 points), while the attractions of the suburbs diminished (by 7 points) and the "Outside CMA" area remained stable.

Destination of intention to move based on place of residence



Source: Web survey of 1,000 respondents in the CMA of Montreal

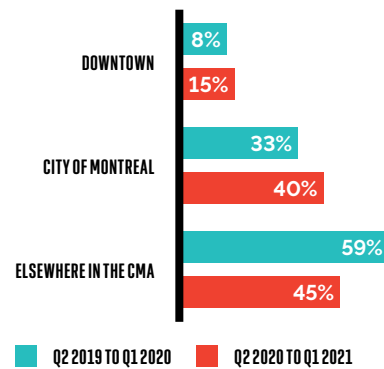
03

Housing (continued)

MONTREAL AND THE DOWNTOWN CORE ATTRACT AN INCREASING SHARE OF HOUSING PROJECTS

When looking at housing starts throughout the entire census metropolitan area (CMA) of Montreal, we note an increase in the relative share situated in Montreal and the downtown core, which are receptive areas for new housing projects. The following chart shows a positive difference of seven percentage points in terms of the share of such projects for Montreal (the entire city) and downtown Montreal.

Distribution of housing starts in the CMA of Montreal

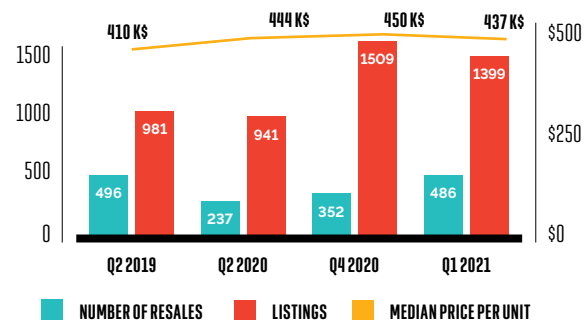


Source: CMHC - Housing Starts in Ville-Marie, City of Montreal, CMA

FOR CONDO RESALES AND LISTINGS, THE WORST IS OVER

Finally, when it comes to condo resales and listings, we see a positive trend. By looking at snapshots one year before the pandemic (Q2 2019), in the middle of the pandemic's first wave (Q2 2020), during the second wave (Q4 2020), and at the start of 2021, a portrait emerges. The number of resales (in blue) decreased at the start of the pandemic, suggesting unsure buyers and a sluggish market. The number of listings then took off when large numbers of worried condo owners were hoping to be able to get out of Montreal. Next, in the first quarter of 2021, calm seemed to return. The number of sales bounced back and the number of listings declined. Another notable element that should be highlighted relates to prices. During the period of abundant availability, prices evolved in the opposite direction of the trend seen elsewhere in the CMA, being slightly lower since the start of the pandemic. Thus the downtown Montreal condo resale market had become more favourable to buyers.

Condo resale market: Resales (N), listings (N) and median price per unit (in thousands of \$)



Source: OPAREB with Centris® - Borough of Ville-Marie

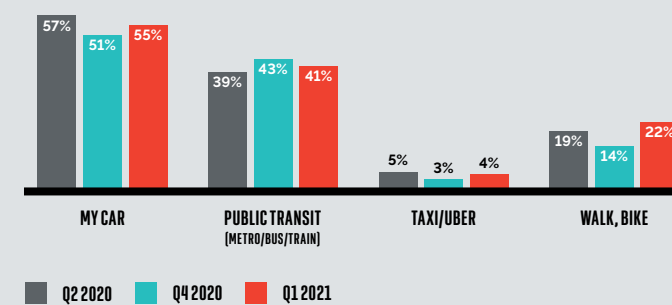
04

Transportation and mobility

MORE BIKING AND WALKING

There were few noticeable changes in people's transportation habits into the downtown area. In the first quarter of 2021, 55% of people who continued to work downtown stated they used their personal vehicle to get there. In comparison with the second quarter of 2020, there is a slight reduction of 3 percentage points. For comparison, during the same period, the use of public transportation also experienced little change, increasing by two points. As seen in the chart below, the most significant change is in terms of the use of active transportation. Between the fourth quarter of 2020 and the first quarter of 2021, travel by bike or on foot increased by eight percentage points, the main reason for this likely being better weather conditions.

What method of transportation do you use to get to work?



Source: Web survey of 1,000 respondents in the CMA of Montreal

05

Higher education

SEE YOU IN SEPTEMBER 2021

Attendance at higher education establishments remained at its lowest point in the first quarter of 2021. As in the fourth quarter of 2020, almost all teaching activities took place remotely. These data should evolve during the back-to-school period of September 2021, since some universities have already announced their intention to offer as many of their courses in-person as possible.

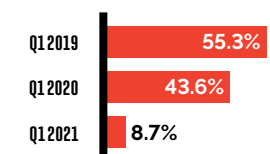
06

Tourism

ANOTHER HARD SUMMER TO ENDURE BEFORE THE RECOVERY

The tourism sector continues to suffer. Occupancy rates of downtown hotels reached only 8.7% in the first quarter of 2021, a significant drop compared with the corresponding periods in 2020 and 2019. The cancellation of several big, iconic Montreal events (including the Canadian Grand Prix, the Jazz Festival, Francofolies, and Osheaga) heralds yet another difficult summer ahead. However, progress in terms of the vaccination rate leaves some hope for an improvement of the situation. Already the relaunch of some activity at venues is bringing some optimism to the cultural sector.

Hotel room occupancy rate in downtown Montreal



Source: Association des hôtels du Grand Montréal

City Centre Report

Summary chart

In each issue of *City Centre Report*, we present the following summary table showing the series of key indicators we will be tracking for each quarter.

Many of these data points are also available on Montreal's open data website: donnees.montreal.ca

Offices Availability as a % of supply (vacant + sublet)	Results			Variation Q1 2019 Q1 2021	Indicator
	Q1 2019	Q1 2020	Q1 2021		
Class A buildings (+60% of supply)	11.3%	8.4%	9.8 pp	-1.5 pp	↘
Class B buildings (+35% of supply)	14.5%	10.7%	17.7 pp	3.2 pp	↗
Class C buildings (+5% of supply)	9.5%	12.8%	19.4 pp	9.9 pp	↑
All buildings	12.3%	9.4%	13.0%	0.7 pp	↔

Source: Altus InSite, quarterly data

Commercial Rate of inactivity by sector (temporary or vacant)	Results			Variation Q2 2019 Q1 2021	Indicator
	Q2 2020	Q4 2020	Q1 2021		
Ste-Catherine St.	18.0%	22.9%	24.0%	6 pp	↑
Shopping malls	18.0%	19.8%	34.0%	16 pp	↑
Office buildings/train stations	54.0%	54.3%	45.0%	- 9 pp	↓
Elsewhere	28.0%	31.2%	37.0%	9 pp	↑
Average	26.0%	28.0%	34.0%	8 pp	↑

Source: Field survey by Altus/Montréal centre-ville. August and December 2020, March 2021

Housing	Results			Variation Q2 to Q1 2020 Q2 to Q1 2021	Indicator
	Q2 2019 to Q1 2020	Q2 2020 to Q1 2021	Q1 2021		
Total starts	2082	4356		109%	↑
Condos	1449	2051		42%	↑
Rental units	633	2305		264%	↑

Source: CMHC - Housing Starts - Borough of Ville-Marie

New condo sales	2019	2020	2019-2020	Indicator
	2846	1198	- 58%	↓

* Full year (Q1 to Q4)
Source: Altus Group - Condo Tool - Downtown

	Results				Variation Q2 2019 Q1 2021	Indicator
	Q2 2019	Q2 2020	Q4 2020	Q1 2021		
Condo resales						
Number of resales	496	237	352	486	-2%	↘
Median price per unit	\$410,000	\$444,000	\$450,000	\$437,000	7%	↑
Listings	981	941	1509	1399	43%	↑

Source: OPAREB with Centris® - Borough of Ville-Marie

Tourism	Results				Variation Q2 2019 Q1 2021	Indicator
	Q1 2020	Q2 2020	Q4 2020	Q1 2021		
Occupancy rate*	43.6%	7.5%	8.3%	8.7%	- 34.9 pp	↓
Occupied rooms*	494 048	85 109	98 021	101 183	- 80%	↓
Average daily rates*	\$166	\$92	\$125	\$124	- 25%	↓
Revenue per available room*	\$73	\$7	\$10	\$11	- 85%	↓
Museum attendance**	332 478	15 337	923	0	- 100%	↓

Source: Association des hôtels du Grand Montréal (downtown hotels) and Tourism Montreal (museum attendance)

Public transportation	Results			Variation Q2 2020 Q1 2021	Indicator
	Q2 2020	Q4 2020	Q1 2021		
Entrants into downtown metro stations	- 91.0%	- 78.0%	- 81.0%	10 pp	↑

Source: STM (Berri-UOAM, Champs-de-Mars, Place-D'Armes, Square-Victoria, Bonaventure, Lucien L'Allier, Saint-Laurent, Place-des-Arts, McGill, Peel, Guy-Concordia, Atwater)

Data collection area



City Centre Report primarily collects data about the heart of the business district, within an area demarcated by Saint-Urbain Street to the east and Atwater Avenue to the west, and extending to Sherbrooke Street to the north and Square Victoria to the south. The remainder of the data is collected from the entire Borough of Ville-Marie.

% of the agglomeration

Population	5%
Number of companies with employees 2018	5%
Number of jobs	27%
Hotels	6340%
Offices (sq. ft)	41.7%
Housing* (Ville-Marie)	7.2%
Property value (Ville-Marie)	14.6%
Non-residential property value (Ville-Marie)	30.6%

FINANCIAL CONTRIBUTORS

An initiative of Montréal centre-ville and the Urban Development Institute (UDI)



With the financial contribution of the City of Montreal



le gouvernement du Québec



DATA SOURCES

- ▶ Hotel Association of Greater Montreal
- ▶ BIXI
- ▶ Traffic counters for Sainte-Catherine Street
- ▶ Établissements d'enseignement supérieur
- ▶ Indigo, property owners, QPAREB and CMHC
- ▶ Inventory of vacancies (downtown Montreal)
- ▶ Société de transport de Montréal
- ▶ Tourisme Montréal
- ▶ City of Montreal
- ▶ Web survey of 1,000 Montrealers
- ▶ Altus Group
- ▶ Montréal centre-ville

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