

MONTREAL CITY CENTRE

Report

4th EDITION

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A silver lining despite difficult times

Downtown Montreal has seen renewed activity since the summer of 2021. But while the dark skies are starting to clear, there are still many hurdles ahead. Despite a high vaccination rate and the advent of vaccine passports, a fourth wave linked to the Delta variant has crept up and prolonged the uncertainty. That said, pre-pandemic activity levels are still completely out of view. The fourth issue of the *Montreal City Centre Report* unveils a complex and dynamic situation where hope and anxiety intertwine. During the past few months, the office vacancy rate has soared and retail businesses have only slightly improved. On the other hand, the return of the student population and tourists have provided a healthy dose of vitality. A strong growth in condo sales and resales indicates that the downtown core has retained its appeal.

This issue presents an update of the data gathered during the third quarter of 2021 on activity levels in six indicator categories: office occupancy, retail businesses, housing, higher education, tourism and transportation (ridership/mobility). The update is based on a web survey conducted at the beginning of September 2021 among 1,000 residents of the Montreal metropolitan area. The issue also contains new data about the growing adoption of hybrid work models as well as interviews with specialized office space loan brokers on the latest trends in commercial real estate. As in each issue, the survey includes a section that deals with public perception of the situation, there complementing quantitative data with information relating to the mood of the population at large.



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

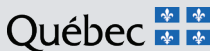
An initiative of Montréal centre-ville and the Urban Development Institute (UDI)



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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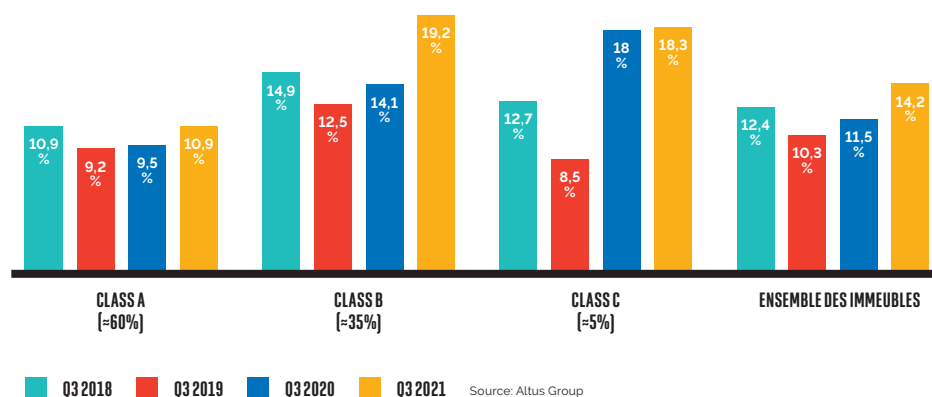
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01 Office occupancy

MORE AVAILABLE SPACE IN OFFICE BUILDINGS OF ALL CLASSES

Downtown Montreal had more vacant offices in the third quarter of 2021 than during the same period in 2020 and 2019. As shown in the graph below, between the third quarters of 2020 and 2021, the vacancy rate of Class B office buildings rose by 5.1 percent and that of Class C by 0.3 percent. It's important to note here that Class C vacancies had increased by almost 10 points, between 2019 and 2020. The situation with Class A buildings appears more stable. Be that as it may, in this particular category, which represents the prime rank of downtown Montreal office space in terms both of area and quality, the availability rate has steadily risen for the past two years. And the trend worsens: the +0.3-point gap between 2019 and 2020 grew to 1.4 points in 2021. The current vacancy rate of 10.9 percent in Class A buildings is identical to that of the third quarter of 2018.

Space availability (%) by building categories



01 Office occupancy (continued)

INTERVIEWS WITH RENTAL BROKERS

Downtown Montreal retains its appeal, but the current trend is toward shorter leases and smaller offices.

Interviews with rental brokers concentrating on downtown Montreal office space gave us a front-row view of trends in the office real-estate sector. Their observations couldn't be clearer: there's no reason to fear a mass exodus from the downtown core as companies are keen to stay there. Here's a breakdown of the 47 lease agreements concluded between April and August 2021:

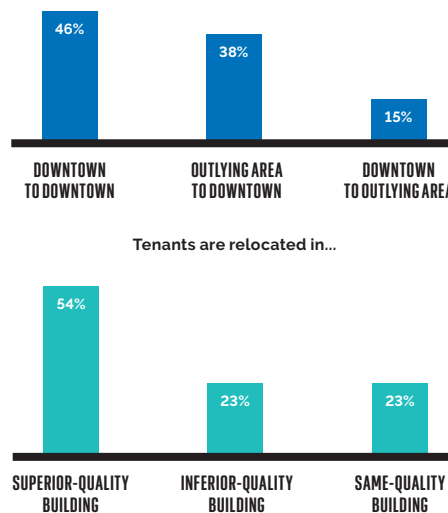
- ▶ Lease renewals: 53 percent;
- ▶ New leases: 28 percent;
- ▶ Lease transfers: 19 percent.

The following three illustrations provide a more detailed description of the situation. But given that the data involves a limited number of brokers and a low volume of transactions, they should be taken as indicative only.

A) THE DOWNTOWN AREA REMAINS ATTRACTIVE FOR COMPANIES

Roughly half of the lease agreements signed in this period involved companies moving from one downtown location to another; more than a third (38 percent) concern companies relocating downtown from outlying areas; and 15 percent have to do with companies leaving downtown altogether. It's also worth noting that 54 percent of relocations involve a move to a better building. We can thus assume that many organizations have made the following choice: less square footage, but more comfort and services.

Relocations – locations and building categories

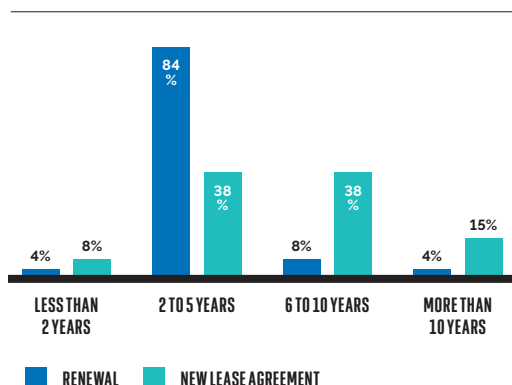


Source: Altus Group – Survey of rental brokers (N relocations - 13)

B) THE TREND IS TOWARD SHORT-TERM RENTALS

Companies customarily opt for long-term leases in order to ensure predictability for fixed costs, but the brokers we interviewed pointed out that 84 percent of the agreements signed were for terms between two and five years, indicating a degree of prudence by the companies involved.

Lease durations

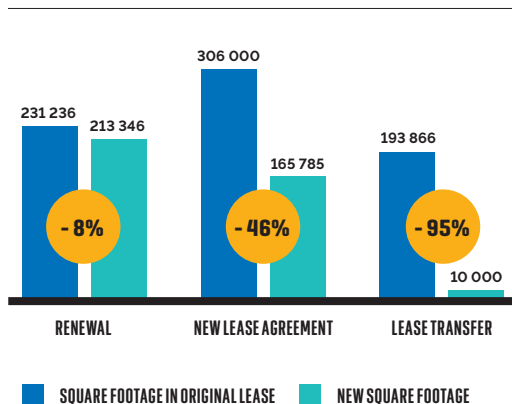


Source: Altus Group – Survey of rental brokers

C) OFFICE SPACE IS DECLINING

New lease negotiations typically call for reduced square footage, by as much as half on average (-46 percent). Lease renewals also see diminished spaces, though only slightly (-8 percent). Predictably, it's when a lease transfer or assignment occurs that space is reduced to the strictest minimum (-95 percent).

Square footage variations in leases under study



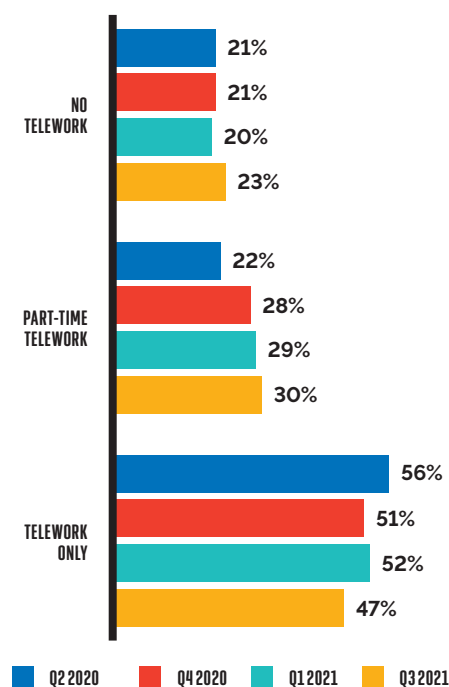
Source: Altus Group – Survey of rental brokers (N lease agreements = 47)

The latest on remote and in-office work

A) FULL-TIME REMOTE WORK ON THE WANE

As shown in the following graph, at least 77 percent of survey respondents worked remotely on a full or part-time basis during the third quarter of 2021. Note that the number of part-time teleworkers is trending upward slightly while that of full-timers has appreciably decreased, slipping below 50 percent for the first time since the spring of 2020. The number of employees working exclusively from their offices, which had been stable since the start of the pandemic, saw a slight increase (+0.3 point) in the third quarter of 2021. Upcoming surveys will tell whether more employers are leaning towards in-office work only. Generally speaking, the return to the office has been hesitant. Furthermore, several major companies and crown corporations have even delayed the process until the start of 2022.

Status of employees



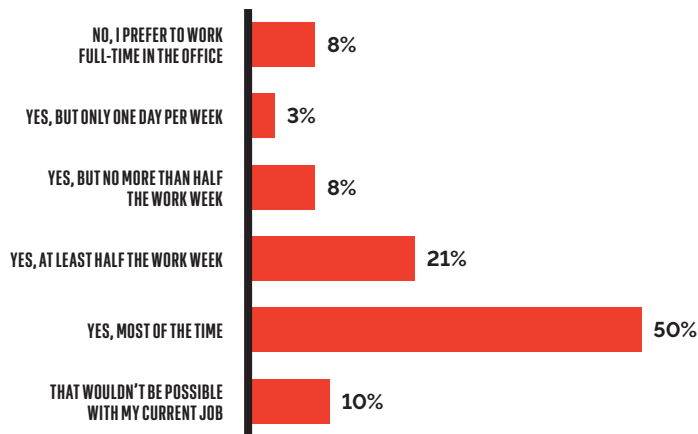
Source: Altus Group – Web survey of 1,000 respondents

01 Office occupancy (continued)

B) THE CURRENT SITUATION GENERALLY REFLECTS THE CHOICES OF WORKERS

In the third quarter of 2021, when asked about their post-pandemic preferences, 71 percent of respondents said they would like to work from home “most or at least half of the time.” As the following data show, this ratio has hardly changed since the end of 2020.

Would you like to continue working from home?

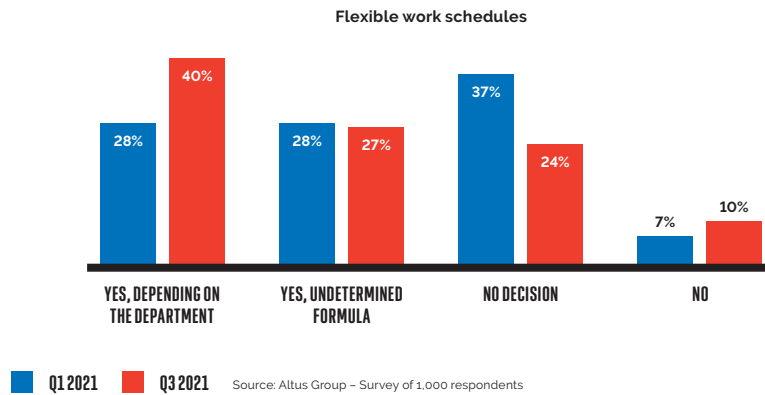
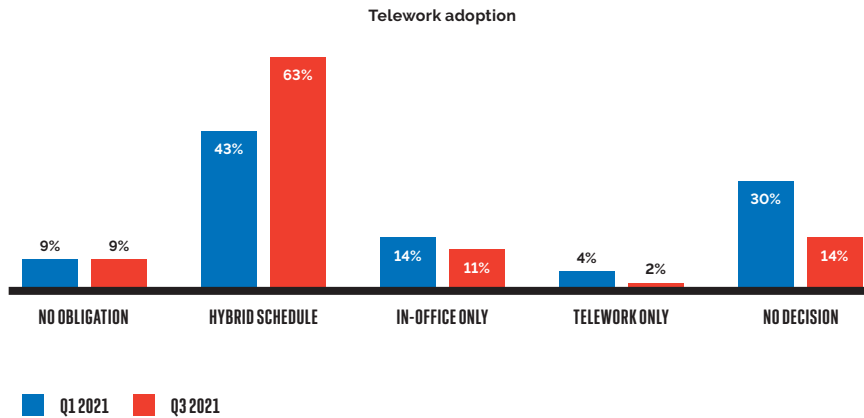


Q3 2021 Source: Altus Group – Web survey of 1,000 respondents

C) EMPLOYERS ARE PLANNING A RETURN TO WORK IN HYBRID MODE

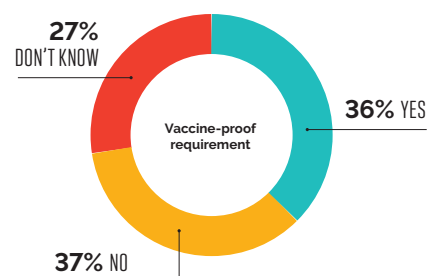
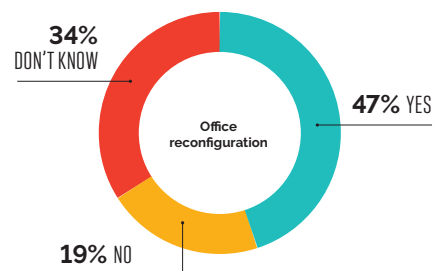
As the health crisis persists, employers need careful plans to keep their business operations going. Based on our survey results, the following graphs indicate that some employers were indeed making plans and taking decisions. The graphs show that between the first and third quarters of 2021, a company aiming for a hybrid work model (in other words, mixing remote and in-office work) saw its employee roster increase by 20 percent. Conversely, a company that hadn't announced similar plans saw its workforce decrease by half, from 30 percent at the start of 2021 to 14 percent in the third quarter. Many organizations were also considering flexible work schedules as a way to facilitate the back-to-the-office process, but details have yet to be worked out in many cases. In the third quarter of 2021, 27 percent of respondents said a flexible work model will be accepted, but the blueprint for the plan has yet to be determined.

Back-to-office plans – Work organization



D) OFFICE RECONFIGURATION AND PROOF OF VACCINATION

Employers are making every effort to ensure safe and pleasant office reopenings by implementing rules that will protect employees and clients alike. The following graphs show that almost half of the respondents (47 percent) work in reconfigured office spaces. Furthermore, in order to ensure employee safety, more than a third of respondents (36 percent) said that proof of vaccination should be required to access their offices. (Note that the survey was conducted before both the Canadian and Quebec governments announced mandatory vaccination for federal employees and provincial health workers respectively).



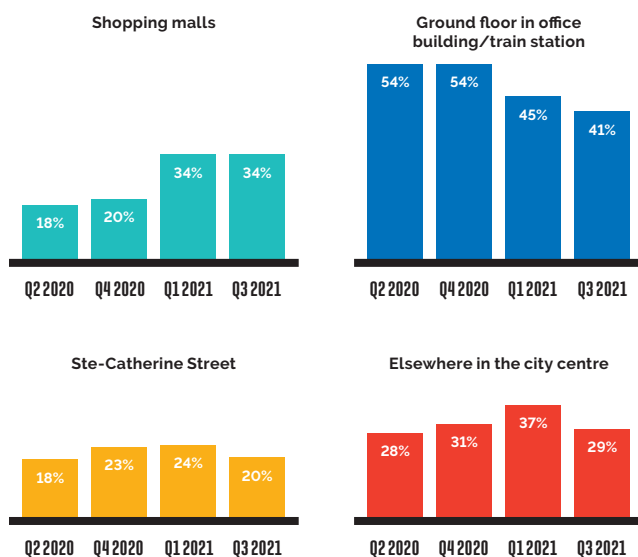
02 Retail sector

SLUGGISH RESUMPTION OF ACTIVITY

The downtown retail sector has begun its recovery. The number of store closures (either permanent or temporary) is either the same or has slightly decreased. Still, the situation in 2021's third quarter was generally more difficult than last year's second quarter.

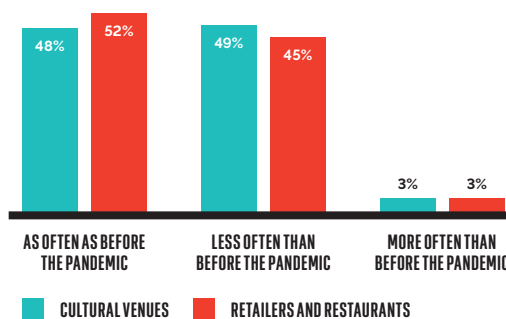
The situation remains problematic in shopping malls whose businesses depend upon an office worker clientele; 34 percent of stores there remain closed. Ground-floor retailers in office buildings and Métro stations have improved since the end of 2020, but more than 4 out of 10 stores are still shuttered. Elsewhere in the downtown core, the improvement is notable compared to the first quarter of 2021, but still lagging behind compared to the second quarter of 2020. On Sainte-Catherine Street, 3 percent of the shops are temporarily closed and 17 percent of retail spaces are vacant. By comparison, in 2019, 13 percent of retail spaces on the street were vacant.

Evolution of retail-space vacancy rates



Source: Survey conducted by Altus Group in September 2021

Given the current vaccine-proof requirement, would you consider visiting shops and restaurants in downtown Montreal?



Source: Altus Group - Survey of 1,000 respondents

RETAIL SHOPPING: VACCINATION HAS NO BEARING ON CONSUMER ATTITUDES

In the third quarter of 2021, the number of survey respondents who said they expected to visit retailers and cultural venues in downtown Montreal once the pandemic has vanished was roughly the same as the number shown in the prior survey, conducted before the vaccination campaign began. So it seems clear that neither the vaccination campaign's success nor the vaccine-passport implementation were specific factors influencing retail-consumer intentions in downtown Montreal. After all, vaccination protocols are now prevalent and proof of same is required throughout Quebec. The key element supporting vibrancy and growth here is customer-traffic volume, which can be stimulated by activities designed to make a downtown visit a happy experience. It will also depend on the return of in-office workers and the long-term future of remote work.

03 Housing

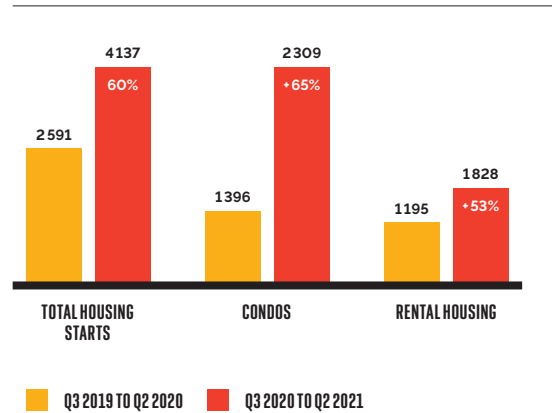
Downtown Montreal sees more housing projects breaking ground

STRONG REBOUND IN CONDO SALES AND RESALES

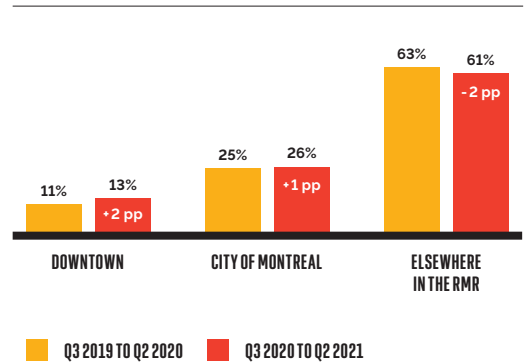
The residential sector has encouraging news for downtown Montreal. Sales of new and existing condos have bounced back since the dramatic drop during the second quarter of 2020. Montreal is as seductive as ever. Median prices are rising and the combined inventory (new and for resale) keeps up with sales and process transactions. The following graph shows the various trends of a dynamic market.

The city centre is almost exploding with residential construction sites. The period from the third quarter of 2020 through to the second quarter of 2021 saw an increase of more than 60 percent from the same time the previous year. New condo constructions were up 65 percent and rental housing, 53 percent. As shown in the graph below, the city centre had the largest share of construction starts (+2 points) in the Montreal Metropolitan Region.

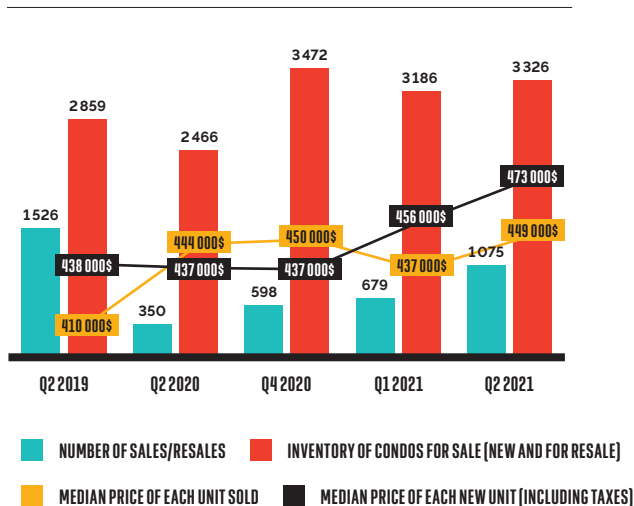
Housing starts in Ville-Marie Arrondissement



Housing starts per sector of the Montreal Metropolitan Region (RMR)



Sales (new and for resale) and inventory



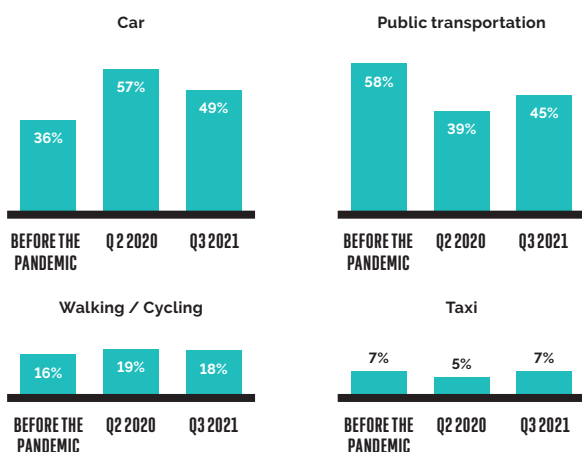
Sources: APCIQ via Centris® - Arrondissement Ville-Marie and Altus Group

04 Transportation

GRADUAL RETURN TO PUBLIC TRANSPORT

Before the pandemic struck, most people commuted to, and got around in, the city centre by metro, bus and train. The third quarter of 2021 marked the beginning of a shift back to these pre-pandemic habits. Car use declined to 49 percent - from 57 percent in the second quarter last year - but was still higher than the pre-pandemic level (36 percent). Public transportation, which accounted for 58 percent of all pre-pandemic commuting, is now the choice of 45 percent of survey respondents. We believe it's gaining ground thanks to factors like declining car use and returning students. Remote work has also affected transportation choices. In January 2020, just before the pandemic, the temporary closure of the Montreal-Deux-Montagnes train line for the installation of the REM (light rail transit network) had its own impact on users who often took public transport for travel to the city centre. Unsurprisingly, taxis and more active transport modes (walking and cycling, for example) were least affected by the pandemic.

Transport et déplacements



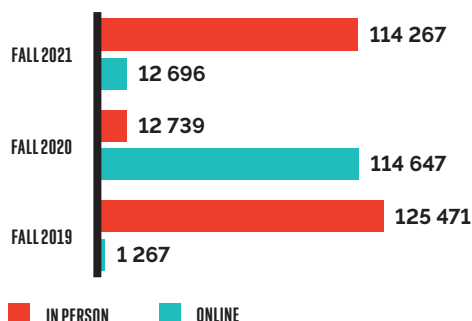
Source: Altus Group - Web survey of 1,000 respondents

05 Higher education

LONG LIVE THE STUDENT BODY!

The return of CEGEP and university students to downtown Montreal has been one of the most encouraging events in the past few months. The impact of in-person classes on the city is felt everywhere - in restaurants, public places, buses and the Métro. Montreal's academic hub has finally reconnected with one of its most enduring qualities. As the graph shows, the situation has entirely turned around since Fall 2020.

Online students vs in-person students in downtown Montreal



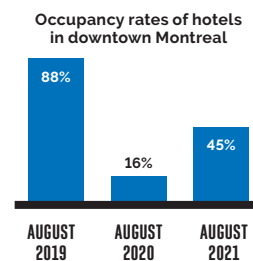
Sources: Concordia University, McGill University, UQAM and Dawson College

06 Tourism

HOPE REBORN

The tourism sector has been utterly devastated by the pandemic. A trickle of tourists returned during the summer of 2021. The sector is still far from full recovery, but it has regained at least half of the losses sustained by hotels, as shown in the following graph. The trend is positive, but current progress could be hampered by staff recruitment difficulties.

Hotel activity in downtown Montreal



Source: Hotel Association of Greater Montreal (downtown hotels)

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

Office space Space availability (%) (vacant + sublet)	Results				Variation Q3 2019 Q3 2021	Indicator
	Q3 2018	Q3 2019	Q3 2020	Q3 2021		
Class A buildings (+60%)	10,9%	9,2%	9,5%	10,9%	1,7 pp	↔
Class B buildings (-35%)	14,9%	12,5%	14,1%	19,2%	6,7 pp	↗
Class C building (+5%)	12,7%	8,5%	18%	18,3%	9,8 pp	↑
All buildings	12,4%	10,3%	11,5%	14,2%	3,9 pp	↔

Source: Altus InSite, quarterly data

Commercial Vacancy rate per sector (temporary or permanent)	Results				Variation Q2 2019 Q1 2021	Indicator
	Q2 2020	Q4 2020	Q1 2021	Q3 2021		
Sainte-Catherine Street	18,0%	23%	24%	20%	2 pp	↔
Shopping malls	18,0%	20%	34%	34%	16 pp	↑
Office buildings / train stations	54,0%	54%	45%	41%	- 13 pp	↓
Elsewhere	28,0%	31%	37%	29%	1 pp	↔
Average	26,0%	28,0%	34,0%	30,0%	8 pp	↗

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

Residential	Results				Variation Q3 to Q2 2020 Q3 to Q2 2021	Indicator
	Q3 2019 to Q2 2020	Q3 2020 to Q2 2021	Q3 2020	Q3 2021		
Total housing starts	2591	4137			60%	↑
Condos	1396	2309			65%	↑
Rental housing units	1195	1828			53%	↑
Share of housing starts in the RMR	11%	13%				

Sources: SCHL

Condo resales	Q2 2019	Q2 2020	Q4 2020	Q1 2021	Q2 2021	Variation Q2 2019 Q2 2021	Indicator
	Number of resales	496	237	352	486		
Median price per unit	410 000\$	444 000\$	450 000\$	437 000\$	449 000\$	10%	↑
Inscriptions	981	941	1509	1399	1367	39%	↑

APCQ via Centris® - Arrondissement Ville-Marie

Sales of new condos	Q2 2019	Q2 2020	Q4 2020	Q1 2021	Q2 2021	Variation Q2 2019 Q2 2021	Indicator
	Number of sales	1030	113	246	193		
Median price per new unit (including taxes)	438 000\$	437 000\$	450 000\$	456 000\$	473 000\$	8%	↑
Inventory of available units	1878	1525	1509	1787	1959	4%	↔

Source: Altus Group - Outil Condo - Centre-ville

Tourism	Results			Variation Aug 2019 Aug 2021	Indicator
	Aug 2019	Aug 2020	Aug 2021		
Occupancy rates*	88%	16%	45%	- 43 pp	↓
Occupied rooms*	1 023 459	186 083	523 359	- 49%	↓
Average daily rates*	230\$	151\$	n.d.	n.d.	n.d.
Revenue per available room*	202 \$	23 \$	n.d.	n.d.	n.d.
Museum attendance**	241 515	39 290	n.d.	n.d.	n.d.

Source: Hotel Association of Greater Montreal (downtown hotels)

Tourisme Montréal (Centre histoire Mtl, Château Ramzay Billeterie, Musée et chapelle Marguerite-Bourgeoys, MAC, Musée des beaux arts)

Public transportation	Results				Variation Q2 2020 Q1 2021	Indicator
	Q2 2020	Q4 2020	Q1 2021	Q3 2021*		
Entrants in downtown métro stations ¹	- 91,0%	- 78,0%	- 81,0%	-65%	10 pp	↑

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

*Variation with the same period the previous year

**Incomplete at publication time, the quarter includes July and August (but not September)