

Montreal

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Rental rates have stabilized, while vacancy hits new highs due to new construction deliveries

In Q4 2023, Montreal's industrial sector demonstrated stability after a period of remarkable growth in the market. Average asking rental rates have shown very little change, decreasing by only 0.5% from the previous quarter. By the end of 2023, vacancy rates rose 190 basis points year over year, hitting a 5-year high of 3.9%. While prior years' rental rates have increased, this noticeable shift in pricing has caused tenants to rethink their industrial needs, pausing any urgency to lease new space.

Moreover, elevated interest rates paired with higher operating costs and slower economic activity have forced many tenants to list their space for sublease. Even giant retailer Walmart chose not to occupy their newly constructed pre-leased 458,000-square-foot distribution center in Vaudreuil-Dorion, opting to list the space for sublease instead. This move emphasizes a shift in tenant behavior, transitioning from an overzealous 2022 with tenants leasing space at an aggressive rate, to 2023 where leasing activity aligns closer to historic norms. With an increase in availability and a stabilized average rental rate, the market is moving closer to an equilibrium.

New development completions drive vacancy up

Although construction costs remain high, new construction completions set a 5-year record this quarter with over 3.7 million square feet (sf) delivered in the Greater Montreal Area (GMA). This increase in newly built properties is another reason why the availability is higher today than in the past few years. Montoni's Écoparc St-Bruno added a big chunk of the total new construction, with a 1,064,000-sf building delivered this quarter. This project had 332,000 sf of space pre-leased by Colabor and 300,000 sf pre-leased to Master Group, leaving 432,000 sf vacant.

On Island, Rosefellow completed the biggest phase of their 585,000 sf three-building project; a building of 260,000 sf which was pre-leased by Polar Pak. While a few new buildings are being pre-leased, many new builds remain vacant, a sign of the industrial market softening in the GMA.

Still, there remains hope, as interest rates, although still high, have remained unchanged for the third quarter in a row. Developers are aiming to build over 300,000 sf with clear heights over 40 feet, using LEED Silver and Gold standards to be greener and financially viable, both for themselves in their building costs, and for tenants looking for efficiencies in their operational costs.

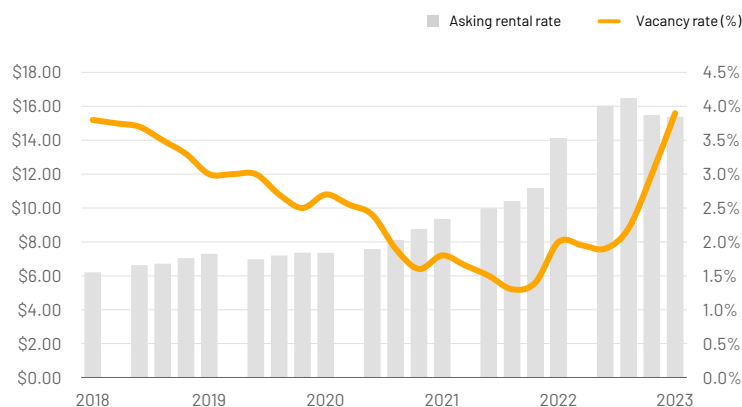
Key Statistics

	Q4 2022	Q4 2023	Y-O-Y
Inventory	321.8 msf	332.1 msf	+10.3 msf
Vacancy Rate	2.0%	3.9%	+190 bps
Asking Rental Rate	\$14.15	\$15.38	+8.7%
Net Absorption	-1.4 msf	-0.3 msf	+1.1 msf
Under Construction	6.7 msf	5.3 msf	-1.4 msf
Deliveries	2.1 msf	3.7 msf	+1.6 msf

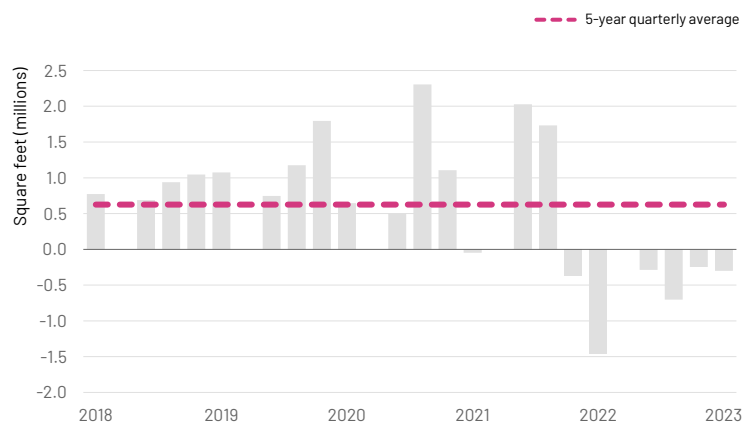
Outlook

- 01** Rental rates remain stable as tenants continue to exercise caution
- 02** Landlords beginning to adjust their rental prices downward to make them more enticing to potential tenants and ensure full occupancy

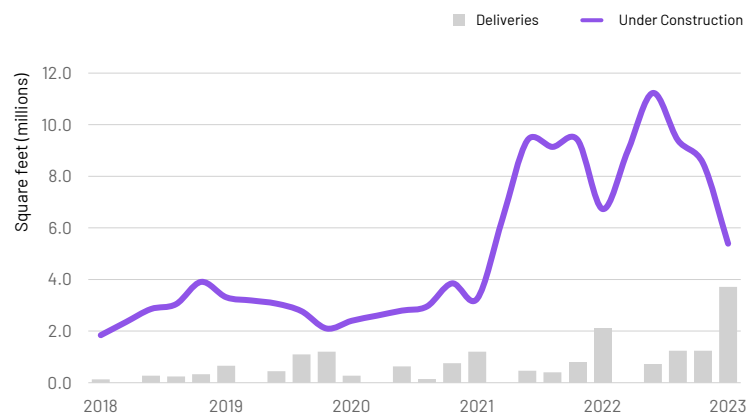
Asking Rent and Vacancy



Net Absorption



Deliveries and Under Construction



Top Leases

Source: Savills Research

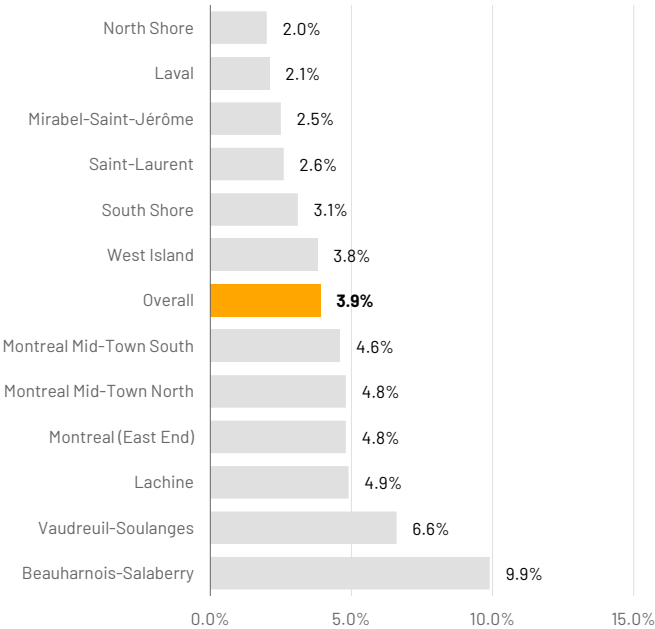
Tenant	Size (sf)	Submarket	Address	Transaction Type	Industry
Confidential	400,000	East End	40NetZero	Prelease	Undisclosed
Groupe BMR Inc.	380,415	South Shore	1660 Eiffel Street	Renewal	Retailer (Brick & Mortar)
Polar Pak (Novolex)	260,000	West Island	17711 TransCanada Highway	Prelease	Paper & Packaging
K-BRO Linen	52,225	East End	4740 De Rouen Street	Renewal	Professional & Business Services
Contessa Cabinets Inc.	47,500	Vaudreuil-Soulanges	370 Joseph-Carrier	Renewal	Construction Materials & Building Fixtures

Top Sales

Owner/Buyer	Size (sf)	Submarket	Address	Price / \$/sf	Seller
Northvolt	18,500,000	South-Shore	McMasterville / Saint-Basile-le-Grand (Land)	\$240M / \$13	Poirier
Cosa-Nova Fashions	234,093	Mont-Royal	8550 Chemin Montview	\$53.2M / \$227	Brasswater
Panoptic Properties	177,974	West Island	650 Lee Avenue	\$28M / \$157	REHAU
Shelborne Capital	149,195	Saint-Laurent	555 Locke Street	\$23.77M / \$159	Olympia Tiles
Kaeser Compresseurs	94,547	North Shore	3720 La Vérendrye Street	\$15.8M / \$167	Quest Rare Minerals

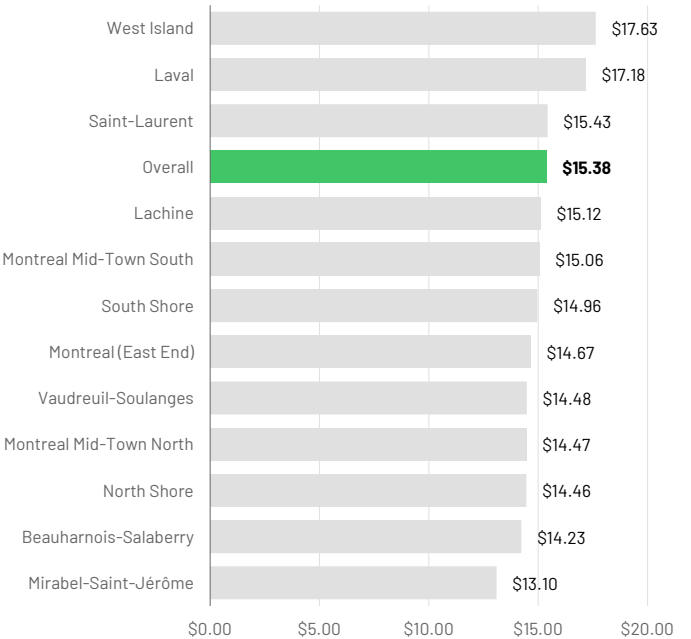
Vacancy Rate Comparison (%)

MONTREAL SUBMARKETS



Rental Rate Comparison (\$/sf)*

MONTREAL SUBMARKETS



*based on all classes of available inventory

Montreal Q4 2023 - Industrial

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Unless otherwise noted, all rents quoted throughout this report are average asking net (NNN) rents per square foot. Statistics are calculated using both direct and sublease information. Current and historical availability and rent data are subject to change due to changes in inventory.

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