

MARKET REPORT

Industrial
Montreal Metro Area

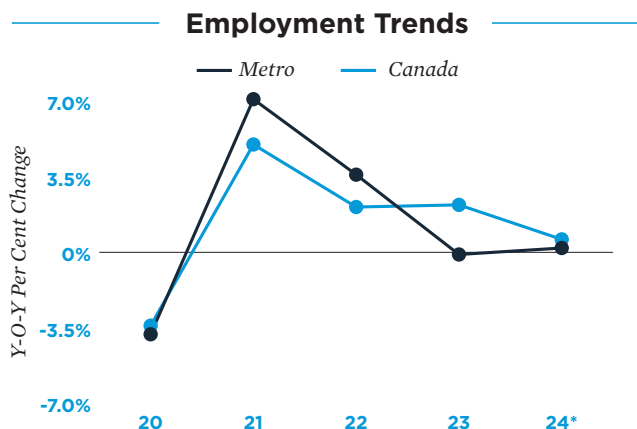
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2Q/24

Market Rebalancing Amid Increasing Availability; Positive Long-Term Prospects Remain Intact

Tenants seeing more openings in 2024. As Montreal's industrial sector continues to feel the effects of elevated interest rates, leasing demand has been following a softening trajectory since late 2022. Net absorption also declined into further negative territory in the first quarter of this year, pushing the vacancy rate above 3.5 per cent, a level not seen since 2018. This trend is expected to persist throughout at least the first half of 2024, due to slower growth in the manufacturing, warehousing, and transportation sectors. However, the increasing availability is bringing some balance to the market, offering tenants more options and facilitating growth potential among firms that would otherwise be constrained by space availability. Easier financial conditions anticipated in the latter half of the year should boost tenant optimism, aiding in the absorption of new projects completed within the past 12 months.

Structural tailwinds set to propel future growth. The post-pandemic trend of nearshoring global supply chains and the recent advancements in artificial intelligence signal promising long-term demand in Montreal's industrial sector. Despite cyclical headwinds, this trend was recently underscored by SRTX's announcement of its new global headquarters in Montreal, aimed at bolstering its manufacturing capabilities. Cologix's acquisition and expansion of data centre facilities in the metro further highlight this positive prospect. Moreover, Grifols securing provincial funding for its new Saint-Laurant plasma manufacturing facility reflects ongoing investor interest in Montreal's life science industry.



* Forecast

Sources: Altus Data Solutions; CoStar Group, Inc.; Statistics Canada

Industrial 2024 Outlook



**4,200
JOBS**

will be created

EMPLOYMENT:

Job growth is expected to slow notably in 2024 as elevated interest rates work their way through the economy. The impact is likely to be most visible in the first half of the year, with rate cuts anticipated in the second half to facilitate a recovery in employment.



**2.8 MILLION
SQ. FT.**

will be completed

CONSTRUCTION:

Construction activity is projected to slow mildly in 2024, but remain well above pre-pandemic levels. The majority of new projects will be large-bay spaces in the South Shore, Montreal East and Laval.



**120
BASIS POINT**

increase in vacancy

VACANCY:

Softening demand, due to elevated interest rates, will maintain an upward-trending vacancy rate. However, with borrowing costs likely to fall in the second half of the year, vacancy could show early signs of stabilizing just below 4.0 per cent.



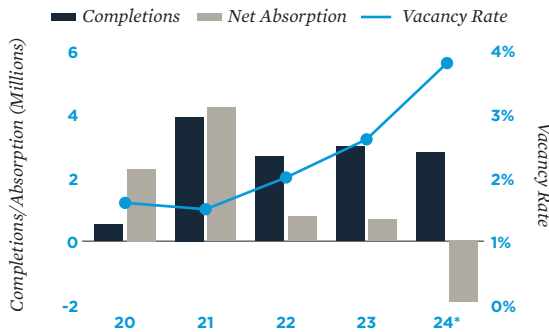
**2.1%
INCREASE**

in asking rent

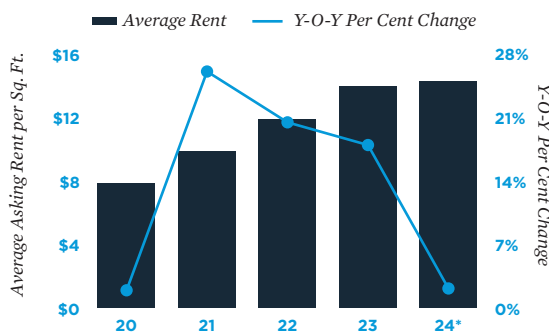
RENT:

Industrial rents will remain on an upward trajectory as the vacancy rate hovers below 4.0 per cent. With demand moderating, the rate of increase is expected to normalize after three years of over-20 per cent growth.

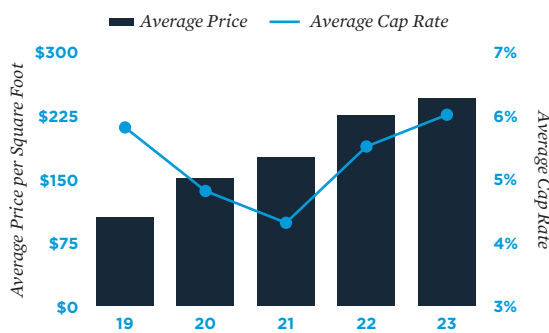
Supply and Demand



Rent Trends



Sales Trends



* Forecast

Sources: Altus Data Solutions; CoStar Group, Inc.; Statistics Canada

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1Q 2024: Trailing-12-Month Period



CONSTRUCTION

4,585,000 sq. ft. completed

- Driven by large projects completed in the second quarter of 2023 and the first quarter of 2024, new construction increased 230 per cent year-over-year within this period.
- A large share of these new projects were large-bay spaces, with the South Shore submarket seeing the highest number of additions.



VACANCY

160 basis point increase in vacancy Y-O-Y

- Since the end of 2022, new supply has mainly outpaced space demand, resulting in negative net absorption for three consecutive quarters. This pushed the vacancy rate to a level not seen since 2018.
- Vacancy increased the most in Vaudreuil-Dorion, followed by the Lachine and South Shore submarkets.



RENT

12.1% increase in the average asking rent Y-O-Y

- Still-low vacancy rates and an increase of new large-bay projects continued to put upward pressure on industrial rents. The average asking rent is currently approaching \$15 per square foot.
- Strong demand has led to a substantial jump in asking rents. Montreal's average asking rent has more than doubled since the first quarter of 2020.

Investment Highlights

- Total dollar volume transacted dropped by 50 per cent in 2023, primarily driven by an 80 per cent decrease in the first quarter. This decline can be attributed to a significant number of sales being front-loaded in the first three months of 2022, just before the BoC started raising interest rates. Despite the overall decrease, total dollar volume rose 25 per cent year-over-year in the final quarter last year. This increase may signal an early stage of recovery, as investors widely expect interest rates to fall in the near term.
- Given a slowdown in transaction activity, growth in the average sale price moderated from 29 per cent in 2022 to 9.0 per cent in 2023. Montreal retained its position as one of the less-costly industrial markets for investors, with the average sale price sitting approximately 18 per cent below the Canadian average. The mean cap rate continued its upward trajectory, reaching roughly 6.0 per cent in 2023.
- Preliminary data shows that the number of deals dropped in the first quarter of 2024, while total dollar volume remained above \$400 million. This resulted in a large increase in the average sale price in early 2024, indicating that buyers are actively pursuing the dwindling investment opportunities. As financial conditions are anticipated to improve by mid-year, Montreal's industrial sector may experience a renewed wave of investor enthusiasm.