MARKET REPORT

Office

Montreal Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

A DIVISION OF MARCUS & MILLICHAP, BROKERAGE

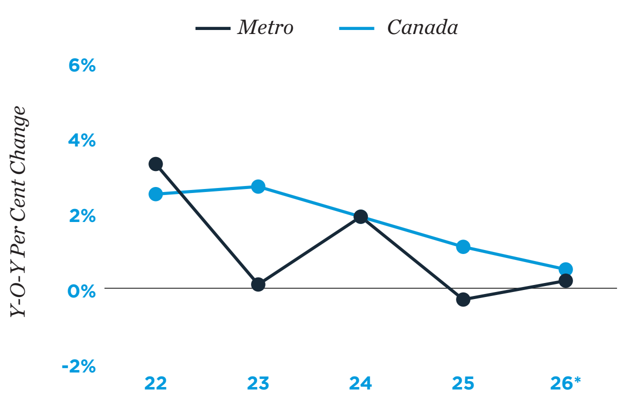
2Q/26

Broad-Based Recovery Taking Shape as Demand Focuses on Quality Space

Strengthening demand and limited supply tighten vacancy. Montreal's office sector recovery is broadening. The rebound in space demand — measured by trailing 12-month net absorption — first emerged in the second quarter of 2025, led by renewed leasing activity in Class A properties, before extending to Class B buildings shortly thereafter. By the first quarter of 2026, Class C properties had also returned to positive absorption. Rising tenant demand, combined with the absence of new supply, has driven a 90-basis-point year-over-year decline in the vacancy rate — marking the first meaningful compression since the second quarter of 2020. Looking ahead, demand is expected to remain concentrated in higher-quality, amenity-rich buildings with strong transit connectivity, as occupiers continue to prioritize space efficiency and employee experience. Combined with limited new supply, spillover effects to lower-quality buildings are also likely to continue normalizing overall market conditions.

Downtown to benefit from higher office utilization. The Montreal Civil Service Commission's lease renewal at 1555 Rue Peel has eased earlier concerns that the local government's planned downsizing over the next four years would return a significant amount of space to the market. In addition, the city's implementation of a three-day in-office policy earlier this year is expected to support space utilization. With downtown vacancy hovering around 15 to 16 per cent, higher office attendance should boost foot traffic, supporting retail and service activity and contributing to broader downtown vibrancy.

Employment Trends



* Forecast

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

Office 2026 Outlook

5,000 JOBS *will be created*

EMPLOYMENT

Montreal's labour market is expected to stabilize in 2026. While overall employment may post modest gains, hiring conditions will likely remain subdued, reflecting ongoing trade-related uncertainty and slower population growth.

94,000 SQ. FT. *will be completed*

CONSTRUCTION

Deliveries have been scarce since the completion of the new 1 million-square-foot National Bank headquarters. This year, 3650 Rue Saint-Urbain – Phase II is expected to be the only major addition, bringing limited new Class A space to the downtown area.

50 BASIS POINT *decrease in vacancy*

VACANCY

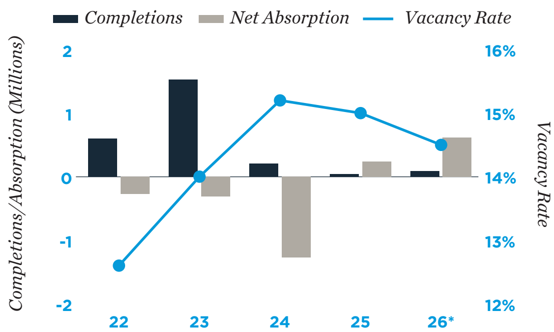
As demand strengthens, the vacancy rate is expected to continue its downward trend, ending the year at 14.5 per cent. Along with a limited new supply, this pickup in demand is likely to drive vacancy down across all asset classes amid spillover effects.

1.2% INCREASE *in asking rent*

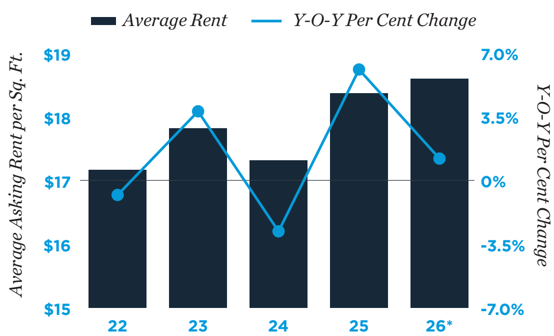
RENT

After a 6.1 per cent increase last year, rent growth is expected to moderate in 2026. As higher-quality space is absorbed, the remaining availability — largely concentrated in older assets — is likely to temper further gains in the average asking rate.

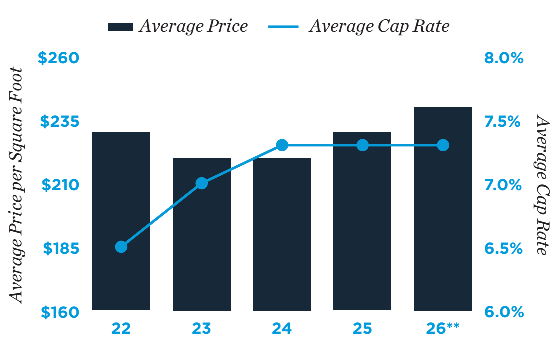
Supply and Demand



Rent Trends



Sales Trends



** Forecast ** Through 1Q*

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

1Q 2026: Trailing 12-Month Period

CONSTRUCTION

39,000 sq. ft. completed

- Construction has slowed markedly since 2023 amid elevated vacancy rates, with the pipeline shrinking from six buildings in early 2023 to just one by the first quarter of this year.
- The only major completion last year was a 39,000-square-foot Class A building in the Ville-Marie submarket.

VACANCY

90 basis point decrease in vacancy Y-O-Y

- Midtown and the West Island recorded the largest declines in vacancy, falling by 110 and 100 basis points, respectively.
- While rising demand is applying downward pressure, the share of unoccupied space remains 600 basis points above the pre-pandemic level.

RENT

1.1% increase in the average asking rent Y-O-Y

- In the first quarter of 2026, the average asking rent edged up, reaching last year's quarterly average of $18.51 per square foot. Preliminary data shows that rent growth is picking up in the second quarter, driven by Class A space.
- Midtown saw an 11 per cent year-over-year decline, reflecting a greater concentration of lower-quality inventory.

Investment Highlights

- Sales activity surged between the final quarter of 2025 and the first quarter of 2026, lifting the trailing 12-month dollar volume through March by 105 per cent. This increase was driven by several large transactions exceeding $20 million, most notably Deka Immobilien Investment GmbH's $279 million acquisition of Deloitte Tower from Cadillac Fairview, which alone accounted for 27 per cent of the total dollar volume.
- The total number of office transactions between April 2025 and March 2026 rose by 18 per cent, led by a 170 per cent surge in large deals. Small transactions valued under $10 million also increased, albeit at a more modest pace of 14 per cent. This broad-based growth suggests improving investor confidence, with capital reentering the market across the size spectrum as asset pricing has reset and select opportunities emerge.
- The average sale price continued to trend upward, reaching approximately $240 per square foot — on par with levels last seen in 2020. Cap rates have stabilized at around 7.3 per cent, remaining among the lowest in Canada, with only Toronto and Vancouver recording tighter yields.

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Price: $250