MONTREAL BUSINESS MAGAZINE

December 1990 Vol.3, No. 1

FROM THE DESK OF

NATIONALISM IN THE OFFICE MARKET

■ *by Stephen Leopold*

History has shown, and will continue to show, that Montreal is to Canadian cities what George Chuvalo was to boxing. Montreal can take a beating, but never falls to the canvas. Whatever political or economic storms may buffet it, the city always seems to stand its ground.

In the aftermath of Meech Lake, and in an economic climate that portends recession in North America, the prevailing attitude concerning commercial real estate in Montreal remains cautiously optimistic. We need only look at what happened to the city following the October Crisis of 1970, the election of a separatist government in 1976, and the recession of the early eighties, to understand the flexibility and staying power of the Montreal office market.

The exodus of population and head offices to Toronto in the 1970s dealt a tremendous wallop to real estate development. Still, a recovery took place even as the North American recession of 1981 approached. Many new buildings appeared on the skyline, and construction has literally not stopped since that date.

What accounts for the fact that the Montreal office market, though undoubtedly injured, has been able to shrug off the severe political and economic buffetings of the 15 year period between 1970 and 1985? The first answer is that the Montreal economy differs radically from other cities whose markets have, at one time or another, been knocked flat. Montreal is not a one- industry town.

Consider Houston, Dallas, Denver and Calgary, cities that experienced periods of unbridled optimism because the paramount engine of their economies, namely the price of oil, was supposed to go on revving upward forever. Instead, until very recently, that price fell and stabilized for years. Consider Boston and the Wall Street district of New York, where high-tech and financial services respectively drove those markets into hyper-gear and then collapsed.

All of the above cities experienced huge space gluts (and "see-through" office buildings) because they had become inflated by real estate speculation. They were all overheated markets with industries that were supposed to keep them going forever. Montreal has not suffered their fate because its economy is fundamentally mixed and service-oriented. With no glamour industry creating excessive optimism and speculation, Montreal's office market has not experienced a burst of rampant overbuilding, and thus will not suffer the crash that will likely befall its Toronto rival.

The recession of the early 1980s created empty warehouses and idle manufacturing plants throughout North America, but it did not create empty office buildings in Montreal. That is the second answer to the question of why the city has been able to roll with all the punches: the upward growth in office space was not affected because employment in the service sector never ceased growing. It is the service sector of the economy that occupies the vast majority of the office space.

At present, the most interesting question being asked, especially by perennial doomsayers, concerns what will happen to the Montreal office market as a result of the failure of Meech Lake. Some commentators have predicted major problems for the city's economy in response to a renewed tide of nationalism and possible sovereignty for Quebec. A theory now permeating some of Montreal's leading business circles takes precisely the opposite tack. The theory posits that Montreal may well be on the verge of tremendous space demand as a result of Quebec's new pinstriped nationalism.

In the same way that government leaders in Quebec City have been saying they will no longer bow to Ottawa on a political basis, business leaders in Montreal are beginning to say that they no longer need bow to Toronto on an economic basis. In line with this kind of thinking, there is a growing sentiment that Quebec should be handled differently in the future by companies that do business in the province.

Heretofore, Quebec has been treated like a branch plant by scores of world companies with Canadian head offices in Toronto. These corporations have favoured the province only with warehouses and sales operations. With a heightened "national" identity (an evolution that seems inevitable even if sovereignty does not come about), that situation will change to Quebec's benefit because a host of new "national" offices would be established in the province.

As Quebecers demand that their government speak to them in French, they will insist that real business decision-makers deal with them from within their own borders. In the same way that businessmen in France would object to decisions being made in Germany concerning their American toothpaste, so too will Quebec business object to decisions made in Toronto.

Whether one agrees or disagrees with the growing autonomy of the province, forces have been set inevitably in motion to create such a state of business affairs. The decisions regarding products in Quebec will be made by a Quebec headoffice in conjunction with world headquarters, as opposed to being made by a sales office in conjunction with Canadian headquarters. The staffing impact of this development is obvious. As companies of a certain size establish headoffices in Quebec, they will make decisions, do audits, and employ law firms here. The impact on the Montreal office market during the mid term will therefore be substantial. MBM

Stephen Leopold is the founder and chairman of Leopold Property Consultants Inc.