

Friday's close

TSE 1882.28, down 0.44
 Dow 1051.78, up 1.56
 Montreal 318.81, down 1.19
 Dollar 81.88, up 0.01
 Gold \$417.75, down \$8.75

(New York gold close in U.S. funds)

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Office developers are getting twitchy: All that new space and no tenants yet

By JULIA MASKOULIS
of The Gazette

About 8,000 Montrealers, ranging from secretaries and accountants to international banking executives, have moved into the newly-built steel and glass canyon along de Maisonneuve Blvd. in downtown Montreal.

But developers of two luxury office towers nearing completion in the Beaver Hall Hill area will be hard-pressed to find 4,000 more people needed to populate their projects.

Leasing agents, survivors of the past year's battle to lease the new highrises on de Maisonneuve, are gearing up for another offensive — this one centred on Beaver Hall, the new "combat zone" of office leasing.

By next summer, two buildings containing a combined million square feet of leasable office space — the equivalent of 25 football fields — will be completed on that stretch of Beaver Hall between Dorchester Blvd. and de la Gauchetière St.

So far, however, none of the available space in the new buildings, estimated to be worth about \$200 million, including construction and financing costs, is rented. And the developers of the projects are, understandably, getting a little twitchy.

Bidding wars are in the making to lure particular big-name tenants — including Air Canada, which has been making noises about moving from Place Ville Marie.

The Beaver Hall Hill area is the second downtown district to be transformed by a boom in office construction over the past year or so. Last year, about 2 million feet of leasable space was added in the de Maisonneuve-Sherbrooke St. area, between McGill College Ave. and Peel St. (Several office condominiums being built east of this area aren't part of the same market and face other problems, industry people say.)

Once a shortage

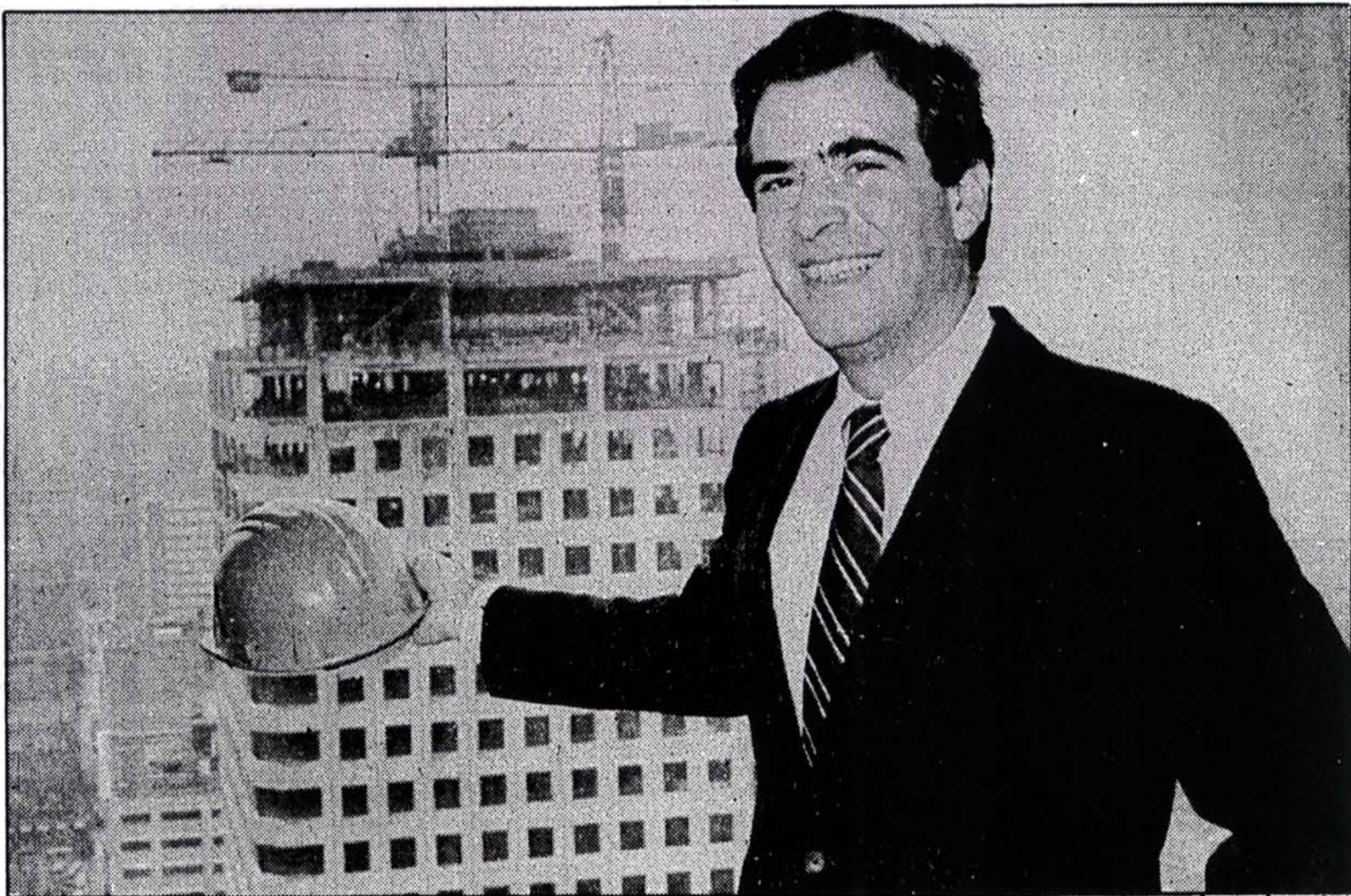
Real-estate experts say Montreal had an acute shortage of high-class office space when the projects on de Maisonneuve were nearing completion. About 80 to 90 per cent of that space has already been rented, most of it by companies expanding or upgrading existing Montreal operations.

But, say the brokers, the boom on de Maisonneuve was sufficient to meet the city's needs. The shiny new constructions in the Beaver Hall area are coming on the market too late, and it will take a couple of years before they fill up.

"There's an over-supply of space in the Beaver Hall corridor," confirmed broker Stephen Leopold, of Leopold Properties Ltd.

"The owners of that space are now starting to realize just how overbuilt it will be when the space is delivered in mid-1983. Consequently, the market is becoming extremely competitive."

That's good news for compa-



Gazette, George Bird

Atop new National Bank building, leasing agent Stephen Leopold points to empty Place Beaver Hall.

nies that are looking for space, Leopold added. "No developer is throwing you out when you bring him a prospective tenant who wants half a year's free rent."

Montreal isn't alone among major North American cities facing a glut of office space, said Gordon Peters, head of the commercial division of A.E. LePage Real Estate Services Ltd.

"The market across Canada and the United States is soft generally because of the economic situation, but it's also overbuilt," Peters said.

"In Montreal, very few firms are coming in from the outside," he added. So a lot of what brokers refer to as "Class A" space, modern buildings in prime locations, is going at good rates because of the competition for tenants.

The two leading adversaries in the Beaver Hall office-leasing war are Trizec Corp., the Calgary-based company controlled by Peter and Edward Bronfman, which boasts Place Ville Marie among its holdings, and Montreal-based National Bank of Canada.

The National Bank, currently a tenant in another Trizec building, at 500 Place d'Armes, plans to move its head-office operations next year into its own National Bank Tower, part of the \$170-million, twin-tower complex taking shape on the south flank of Beaver Hall. The bank is a 40-per-cent owner of the project, a joint venture with Bell Canada.

Meanwhile, a few doors away, Trizec is completing Place Beaver Hall, a 27-storey tower that will cost about \$50 million to build and another \$50 to finance

and complete, on the corner of Beaver Hall and Dorchester.

Place Beaver Hall still doesn't have an anchor tenant, and the National Bank plans to occupy only "10 to 12" of the 28 floors in its new showplace. So the stage has been set for a tug-of-war over prospective tenants.

Bell's head-office move also will add considerably to the city's office vacancy rate. Bell will occupy all of its new building as well as its existing head-office structure nearby. But the telephone company will be vacating more than half a million square feet of other space throughout the downtown area, as leases expire and its operations are consolidated in the new premises.

A National Bank official told *The Gazette* that "things are looking better than they were a few months ago," in terms of finding tenants for the bank tower. "People are very interested by the good quality of the building," he said. "But no leases have been signed yet."

Wants Air Canada

In the meantime, Trizec is attempting to land Air Canada as the anchor tenant in Place Beaver Hall.

The Crown-owned airline already is a Trizec tenant. It occupies 150,000 feet of space — about five times the size of Ogilvy's main floor — in Place Ville Marie. But Air Canada let it be known earlier this year that it is considering moving when its lease expires in June, 1985.

The airline immediately was besieged with offers from would-be landlords.

Air Canada official Ralph Drabinsky said the airline received 12 "good offers" from developers and landlords — one of them from Trizec.

Instead of losing a good tenant, Trizec hopes to lure Air Canada down the street to Place Beaver Hall by offering the airline up to \$1 million in incentives, industry sources say.

Trizec president Harold Milavsky confirmed in an interview that his company is hoping to get the airline as its anchor tenant in Place Beaver Hall.

"It's always nice to have activity around," said Milavsky. "A presentation was made to them on the project, and we know we're one of the finalists. We hope a decision will be made in a week."

Another company chasing the Air Canada plum is Montreal-based First Québec Corp., which has actively been trying to redevelop the west side of McGill College Ave., north from Ste. Catherine St. to Sherbrooke St. and the gates of McGill University.

First Québec has proposed construction of a \$50-million building, to be named Air Canada Place, on McGill College between de Maisonneuve Blvd. and President Kennedy Ave. on the west side.

"There's been no news from Air Canada," said First Québec president Eugene Riesman, who updated his offer to the airline two weeks ago. "As far as we know, the proposals have been made and it's in the laps of the gods."

Although the companies that have submitted offers say a deci-

sion is imminent, Air Canada's Drabinsky insists the company has to consider all its options and won't be pressured to make a choice.

"Conditions aren't good in the airline business, and that's something we have to look at when we're signing a 20-year lease," Drabinsky said.

As for the Montreal market generally, office-leasing agents are wary of quoting rents for prime space.

All rates negotiable

"Rates are extremely competitive," said LePage's Peters. "It's such a negotiable thing."

According to LePage, rents for Class A office space — usually modern buildings in prime locations that offer elevators, air conditioning and underground parking — average between \$17 and \$19 a square foot, plus operating costs and taxes.

Class B space, usually older buildings situated downtown but without all the facilities of A space, is renting in the \$10-to-\$12-a-square-foot range, plus costs.

But not only the rents are negotiable. So are the terms and conditions for tenants moving into a new building, brokers say.

Some landlords have been offering new tenants anywhere from two to six months' free rent. Others have offered to cover part of a tenant's actual moving costs, or to give "upgrading" allowances, absorbing the cost of installing wood paneling, wall-to-wall carpets and other extras normally paid for by a tenant.

Even a prestige building can lose tenants

Place Ville Marie, the first contemporary downtown office development of its size in Canada, has been the object of "a lot of unfair publicity" recently, according to Harold Milavsky, president of Calgary-based Trizec Corp., the building's owner.

In the past year, several tenants of the 3-million-square-foot prestige building, which opened in September, 1962, and cost an estimated \$80 million, have decided to move elsewhere. And this year several more will be leaving. Among them:

Imperial Oil Ltd., one of the original PVM tenants, which occupies 60,000 square feet of space, will move Nov. 15 to the new Esso Tower in Place Confederation Vie, on President Kennedy Ave. at McGill College.

Shell Canada Ltd., another 20-year tenant, recently moved its 35,000-square-foot office from the Royal Bank Tower at PVM to Place Mercantile on Sherbrooke St. West.

Alcan Aluminium Ltd., which occupies six floors totalling about 60,000 square feet in PVM, will be moving part of its opera-

tions next July to Maison Alcan, its new world headquarters at Stanley and Sherbrooke Sts.

(Alcan will keep four floors at PVM for about another 10 years. Staying behind will be the Aluminum Co. of Canada Ltd. subsidiary and Aluminum Smelters of Canada Ltd., as well as the North American and Caribbean divisions of Alcan.)

Air Canada, which occupies 150,000 feet of space, might be leaving when its lease expires in 1985.

Why the departures? Shell Canada official Jacques Viau said it "would have been easier for Shell not to move," but it was "a bottom-line decision."

Viau said his company saved money by moving its eastern region headquarters because it was able to negotiate a cheaper basic rent in Place Mercantile than it would have paid at PVM.

He said PVM didn't make any concerted attempt to keep Shell as a tenant. "They didn't offer us any financial incentive, either in the terms or in the dollars of the lease."

Imperial Oil official Michel

Turgeon said that, after conducting a study, Esso found that it would save \$1 million, in 1982 dollars, over a 15-year period by moving to Place Confederation Vie. The oil company has signed a 40-year lease on its new premises, with a rent hike scheduled after 15 years.

Turgeon said cost was the motivating factor behind Imperial's move, as well as the prospect of moving into a newer building that could be designed with Esso's current needs in mind.

"We wanted to install computer terminals, and we would have had to redo the walls and the carpets if we stayed at PVM. It was cheaper to move."

Other tenants have called PVM old-fashioned because it does not have a sprinkler system (it plans to put one in) and isn't as energy-efficient as buildings of more recent construction. Because commercial tenants usually pay heating and operating costs, having a tight control on energy cost is considered an important factor.

"Energy prices have gone up

ten-fold," said Air Canada's Ralph Drabinsky.

"We used to pay 10 cents a gallon for fuel and now it's \$1 a gallon. A building that's not energy-efficient is going to be costly. When PVM was built, there wasn't an emphasis on energy."

Other former PVM tenants said Trizec's attitude was "arrogant" and didn't encourage them to stay.

"Their attitude was 'we're the best there is, and you'll have to pay our price,'" said one disgruntled ex-tenant. "The way you deal with people comes back to haunt you, and that's what's happening to them."

But Trizec president Milavsky said he isn't worried about the vacancies in PVM. Of the building's 3 million square feet, just over 200,000 will be vacated when these companies have departed, he said.

And the criticism by former tenants?

"I don't think we're arrogant," Milavsky responded. "Sometimes you make a mistake and you think you're entitled to a

higher rent, and when the deal doesn't work out, you realize you were wrong."

"I think we're good business people. Sometimes business deals don't work out and sometimes they do. We have signed many leases where it did work out."

Milavsky said Place Ville Marie, understandably, is facing tough competition from the newer stock of office space. "But it (PVM) is still the centre of business activity in downtown Montreal," he said.

Although some tenants will be moving, their departure, doesn't constitute "an exodus," he said.

"Esso moved because they were wooed away at a very cheap rent. Alcan's moving because of their corporate image. All the rest are remaining. IBM didn't move out. The Royal Bank didn't move. And Petro-Canada is still there."

As for Air Canada — "its lease isn't up yet," Milavsky said. "We don't consider that they've moved."

— Julia Maskoulis