Properties

Montreal offices — clearly a buyer's market

So far, older buildings are suffering most

By Alan D. Gray
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MONTREAL — Owners of office buildings in Canada's second-largest city are pulling out all the stops in their attempts to attract or retain tenants in a sagging market.

Aside from lower rents, trade sources say, extra inducements are being offered on a generous scale. They include taking over a tenant's lease at his present location, free rent for up to several months, and build-outs, whereby the landlord pays for such facilities as carpeting and partitioning.

The sources, reluctant to paint too bleak a picture, point out that the imbalance between supply and demand is not peculiar to Montreal. "It's a tenants' market across the country," says Gordon Peters, the Quebec vice-president of commercial leasing at A.E. LePage Ltd. "...It's not unique to Montreal by any means."

Indeed, vacancy rates currently are 9% or 10% in Toronto or Vancouver, for instance, and 18% in Calgary. The figure for Montreal is 14%—a record "certainly for recent years," Peters says. He speaks for many in the industry when he says a rate of 3% would be "a healthy scene...without anybody being gouged one way or the other." For the moment, however, that level is mostly a landlord's dream.

From the owners' perspective the situation in most cities is indeed unhealthy. It is even less sanguine in Montreal, however, because of an added factor. "I guess most cities in North America have had overbuild and economic recession," Peters says, "but they haven't had the third (element) — the exodus."

Although departures by businesses are no longer taking place at the same rate as in the period following the Parti Quebecois election in November, 1976, they have not stopped. Now, with changes to the labor code that business considers blatantly pro-union the pace is quickening (*Times*, July 4).

Times photo: Harold Rosenberg

Leopold: "The ore body has been mined and re-mined."

Stephen S. Leopold, president of Leopold Properties Ltd., estimates about six million square feet of office space will have been built in the downtown area from 1981 to the end of 1983. Of that, about five million feet have been rented. And because there was virtually no construction from 1977 to 1981, he says, that means only the same five million feet have been absorbed in the past six years.

The remaining one million feet will be hard to fill. "During the next two years there will be much slower leasing velocity because the ore body has been mined and re-mined," Leopold predicts. "The last million feet will go very slowly."

That figure does not take into account older buildings. Peters reckons that by year-end five million or 5.5 million feet will be empty, of a combined total of about 35 million feet of old and new space.

But despite the downturn, Leopold sees a bright side. He mentions several national developers, such as Cadillac Fairview Corp. Ltd., Oxford Development Group Ltd., and Olympia & York Developments Ltd., all of Toronto, who "chose not to do anything in Montreal...because Montreal has not been considered the go-go city of North America by major institutions and investors." As a result the city has been spared the additional amounts "that could have taken place, had some of the other normal players been involved."

As well as the special deals that have become common under the strain of oversupply, rents have sagged. Leopold estimates that class A space is going for $20 a square foot. At the peak, early in 1981, rents were usually about $25, he says. The figures are gross, covering everything except such items as business and water taxes and hydro.

Both new and older buildings are affected. Place Air Canada, which is nearing completion, has only one tenant — the airline itself, which is also a co-owner. That leaves almost half of its 496,000 feet of leasable space unrented. (The situation may improve soon, according to John Meyer, a vice-president of Trizec Corp. Ltd., which owns Place Air Canada and Place Ville Marie. He says negotiations are under way with 10 prospective tenants of the airline building.)

Another building that is almost finished will house the headquarters of National Bank of Canada. Of the 445,234 feet available for

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Some rents cut by 25%

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outside companies, 253,528 feet remain unspoken for, a developer estimates.

He believes the two locations are "trying to get" $15 or $16 a foot, compared with the $19-to-$21 range that had been targeted initially. "There's a cost to acquiring a deal," he says, "and you can question some of the deals going on."

Among established buildings even the best-known are having leasing problems. An industry executive estimates that Place Ville Marie, universally considered the city's premier address with four buildings covering 3.1 million feet, at one time commanded $32 a foot — and space was in short supply. Now the rate is $24, and 200,000 feet are available, he says. Those figures represent a recovery from three months ago, though, when 320,000 feet were unrented and the price was down to $20. Meyer confirms the figures relating to space but will not discuss rents.

Musical chairs

The largest building in Montreal is Place Bonaventure, a concrete-encased giant whose 3.2 million feet include offices, a hotel, parking, stores, and exhibition hall. Its president, Leo Goldfarb, characterizes it as "A-minus or B-plus because of the lack of windows."

Until 1976, Place Bonaventure was 99.5% occupied. A year after the PQ election the rate dropped to about 88%. It is now at 85%, including the million feet of offices and showrooms. Rents have fallen to $16 a foot gross, from almost $20 in the late 1970s, because "you're competing in one helluva market," Goldfarb says.

He thinks that despite the drop in rents at class A buildings, many tenants are moving to older, class B locations where leases offer savings of one-third or more.

Some executives, however, believe the trend is in the opposite direction. "There is a lot of movement taking place right now...because people are taking advantage of the opportunity to upgrade their space," says rental broker Leopold.

LePage's Peters calls what is taking place a game of musical chairs. New buildings are "doing all right" in getting tenants, he says, although not at the rents they would like. But "the older (buildings) are suffering."

A man with his finger on the pulse of the class B market, Alex Kotler, acknowledges that some companies are moving to class A space from class B. When they do, though, they "are very sorry" to learn that it is costing them more than they had bargained for — at least double the price of B premises, he maintains.

Upturn ahead

Most people fail to realize that business taxes are added to their leases, says Kotler, president of Monit Management Ltd., which owns or operates 10 million feet of office and industrial B space. A $22 deal thus becomes $26 or $27 a foot, compared with $11 to $12 for B premises. He is nonetheless confident that conditions will improve through normal expansion, so "it's just a question of hanging on."

Given the cyclical nature of the real-estate business, an upturn is almost certain. Leopold, an avowed Montreal booster, points out that, notwithstanding the overbuilding of the late 1970s and the continuing business emigration, by 1981 "there was not an inch of A class space to be had" in Montreal. And this time, he says, there "is only a single whammy — there is no (PQ) shock."

No one expects the lights to go on for a while, however. Jonathan I. Wener, president of developer Canderel Ltd., predicts: "It will take approximately three years to put supply and demand back in proper perspective."