

Québec City

Population
507,000

Office vacancy
3.85%

Office inventory
20 million sq ft

CBD Class A vacancy
1%



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Market overview

Québec City is the province's second most important economic centre. The region is a focal point for service and distribution throughout eastern Québec, Canada and the northeastern United States. Healthy economic growth, particularly in terms of job creation, has encouraged many immigrants to settle in the city.

Overall, the economy grew by 2.6% for 2007. Despite the higher exchange rate the manufacturing sector has held its ground. However, the residential construction market has softened with declining housing market activity. The non-residential construction sector remained busy due to investments in infrastructure and preparations for the city's 400th anniversary. The economy is expected to grow by 2.3% in 2008 as the manufacturing sector posts more moderate growth.

Office market

Québec City is Canada's seventh largest office market, with the provincial government one of the city's largest tenants. At 3.6%, the office vacancy rate is the second lowest of all Canadian markets, behind Calgary. Vacancy has steadily decreased since the end of the 1990s, and has been hovering between 3% and 4% over the past three years. The vacancy rate should remain low over the near term.

Vacancy in the National Assembly sub-sector is extremely tight, at only 1%. With vacancy in short supply, there is a lack of available large contiguous block options for tenants looking to expand.

Space demand from the public sector remains strong. Public Works and Government Services Canada (PWGSC) made public its need for 200,000 square feet of office space by 2010. Currently they are analyzing different proposals submitted by developers to meet these requirements. The call for tenders could result in the construction of a new Class A building downtown. However, the initial perimeter set by PWGSC is likely to be expanded to include the d'Estimauville district in the east end of the city.

Economic diversification has also fostered growing space demand from technology companies. Given the market's current lack of available office space, many high-tech companies naturally moved to build to suit projects or expanded their existing facilities in the Québec Metro High Tech Park.

Despite the scarcity of available space, increases in asking rents are sluggish. The average asking rent in the downtown sector increased marginally between 2006 and 2007, from \$20.88 to \$21.65 per square foot. Gross asking rents for Class A buildings downtown do not reflect the lack of space in this market.

Over the last five years, new space additions remained in sync with the average annual absorption rate, with very few speculative projects carried out. The fact that current market rents are still lagging behind economic rent levels is putting a strain on potential developments. Several office



projects were announced in 2006, with planned delivery in 2007 and 2008. Most of these projects are still at the pre-leasing stage. However, construction is underway for the third phase of the Delta Complex, a new 150,000 square foot Class A office building with a prime location on Laurier Boulevard, and for Place d'Affaires Lebourgneuf Phase Two.

Investment market

Québec City is beginning to be noticed by institutional investors. The level of investment activity in 2007 surpassed that of 2006, with the market receiving more attention from non-local buyers. Buyers in the market are now diverse, ranging from private local, private Montréal based, pension funds and foreign buyers.

Private local owners are taking advantage of the market, and there have been several sales of larger assets and portfolios. Complexe Le Samuel Holland, a mixed-use commercial and residential complex, was purchased by GE Capital for \$88 million. The vendor purchased the property in 2003 for \$65 million. CAPREIT purchased a portfolio of 17 apartment buildings from private local vendors for \$60 million. Whiterock sold a 50% interest in their 726,000 square foot office portfolio to a Québec based pension fund for \$51.75 million. More deals are pending as SIQ, the real estate arm of the provincial government, has decided to off load some non-core office buildings, namely Place Québec and Edifice J.-A.-Tardif.

Yields in Québec City trail those of Montréal slightly, but have continued to follow the declining trend. The investment market will offer more opportunities than challenges in 2008, as the market gains momentum in the national and international playing field.