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Vacant office turned home sweet home: Reimagining downtown Montreal

Converting towers into residential space would help with housing needs but it's complicated and costly to get right.

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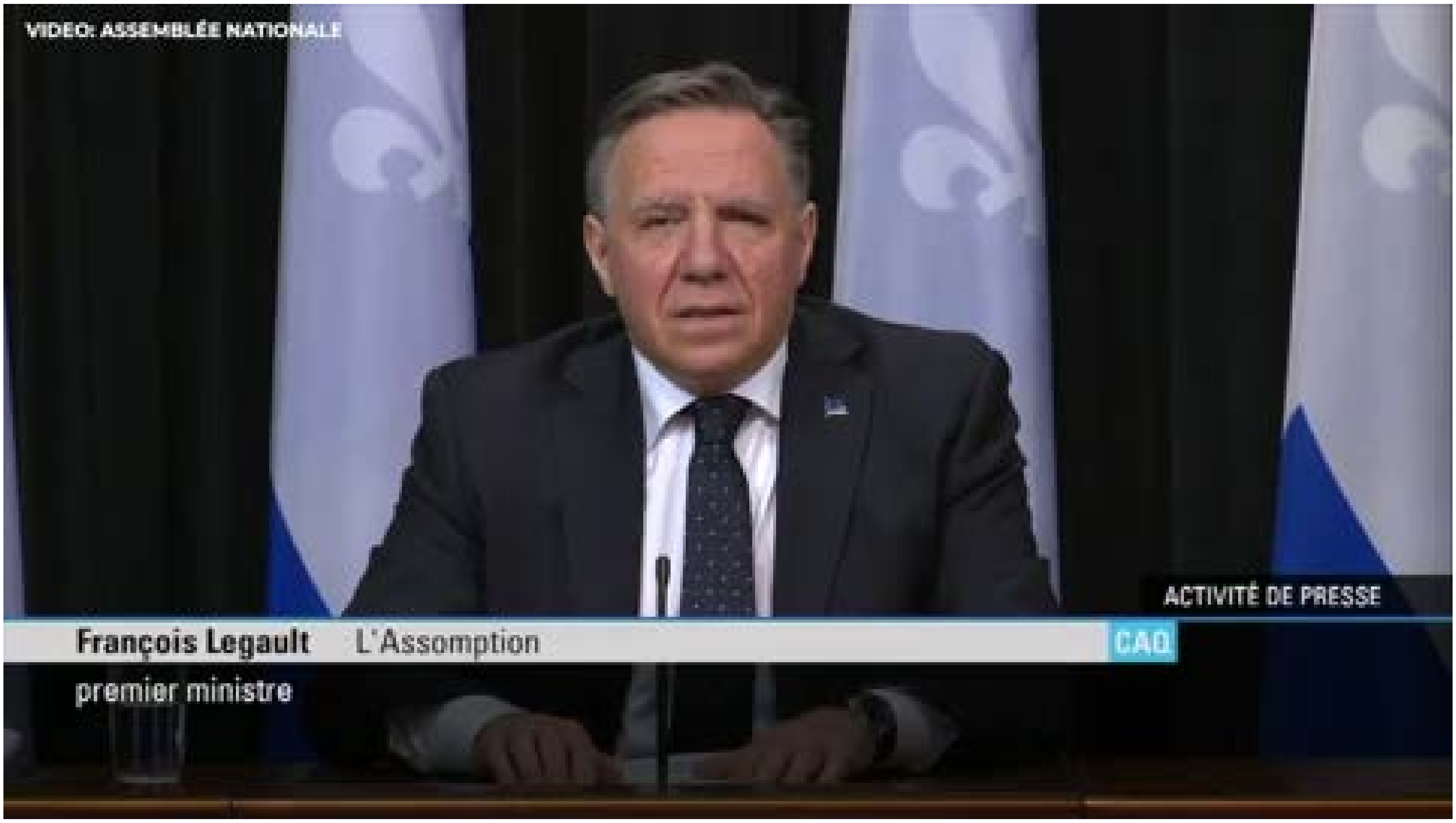
“Depending on the building, I would say it’s anywhere from two to four years” to complete an office conversion, said Jean Laurin, Avison Young’s president for Quebec. PHOTO BY DAVE SIDAWAY /Montreal Gazette

Could sparsely populated office towers in downtown Montreal be turned into apartment buildings to help solve the housing crisis?



It's a possibility, industry experts say, but don't bet on it happening en masse — unless city hall suddenly opens up the purse strings to entice builders and developers.
A recent analysis by global commercial real estate advisor Avison Young found that close to half of older office buildings in downtown Montreal could offer housing potential through what the firm calls "adaptive reuse." To be considered, the properties had to have been built before 1990 and to be relatively small — with floor sizes of less than 15,000 square feet — because bigger structures typically make it difficult for natural light to reach into the core of a building.

"With the reduced levels of occupancy in office buildings, what we are seeing in downtown cores and other locations is an opportunity to reimagine some of the properties," Sheila Botting, head of professional services for the Americas at Avison Young in Toronto, said in an interview.

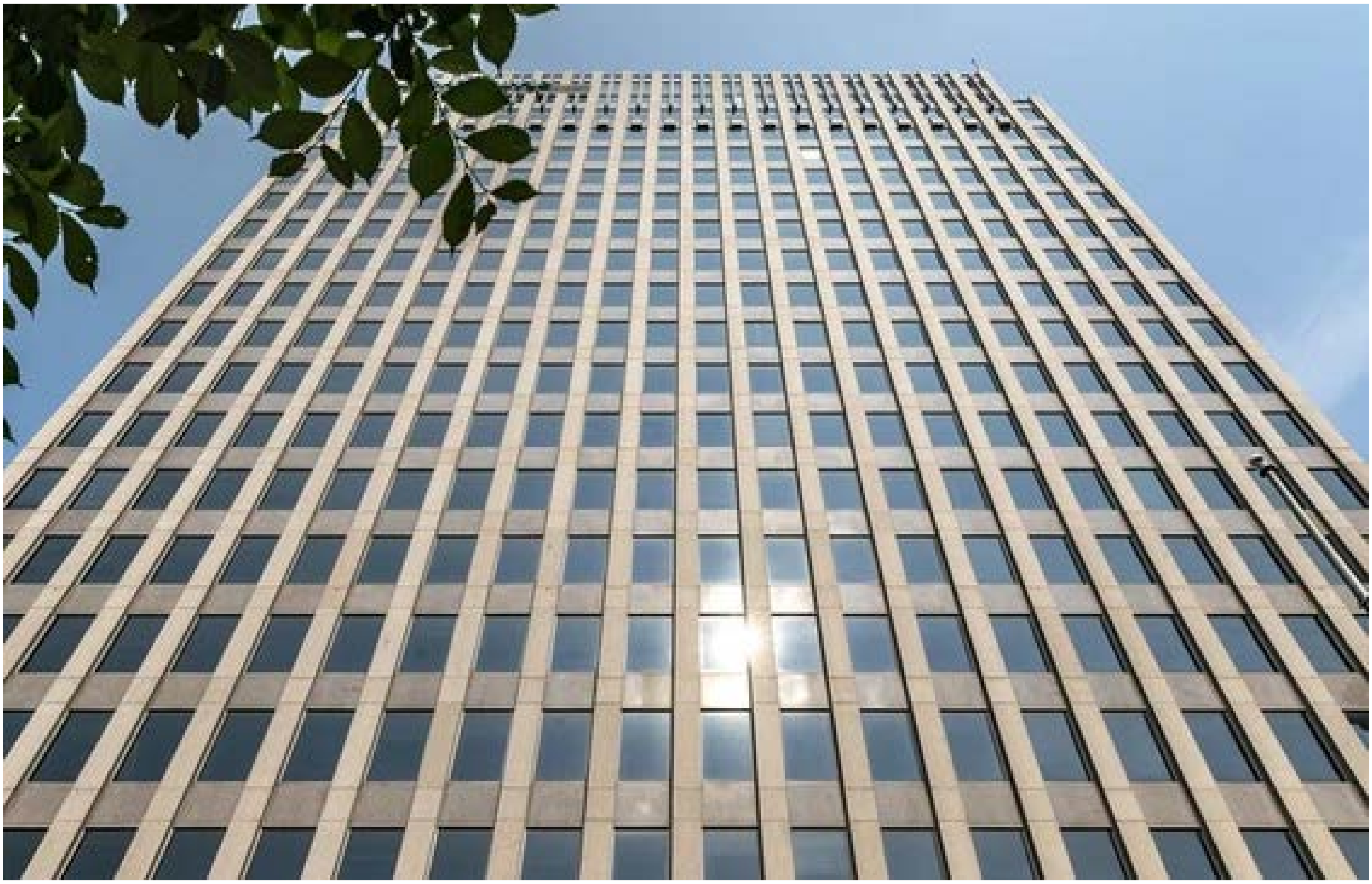
In Montreal alone, 611 downtown properties could be candidates for conversion, Avison Young found. The number represents 47 per cent of the 1,289 buildings that the firm analyzed.

The reason those buildings have emerged as candidates for reuse is that COVID-19 deprived downtown Montreal of much of its worker base. Although shoppers and students have returned, the area's daytime population is now a fraction of its pre-pandemic self as thousands of office employees spend most of the week working from home instead of the central business district.

As hybrid regimes become firmly entrenched in North American work culture, several employers have shied away from older, less prestigious buildings — so-called Class B and C buildings — and shifted to top-notch, Class A properties in a bid to lure staffers back to the office. In a city like Montreal, this has resulted in vacancy rates of close to 20 per cent for Class B and C real estate.

"I believe we could see a few office building conversions in the downtown area over the next few years," said Brent Robinson, head of Quebec operations for the Cushman & Wakefield real-estate firm. "There are several aging and under-utilized Class B and Class C office buildings in ideal locations where a conversion could make financial sense once the interest rate environment improves. There are also numerous midtown and suburban office assets in close proximity to public transportation that could also be good candidates."

Greater Montreal has seen a handful of such conversions recently, but they remain rare. On St-Antoine St. W., a 278-rental unit tower is currently being erected on the site of the former Canadian Fairbanks Morse Co. building, part of which will be incorporated into the new structure.



The former Standard Life building on Sherbrooke St. W. was recently purchased with the aim of transforming it into an apartment building. PHOTO BY DAVE SIDAWAY /Montreal Gazette

On Nuns' Island, Lachance Immobilier and the Fonds immobilier de solidarité FTQ recently completed the $55-million conversion of a 1992 building into an upscale 142-unit residential property. The 10-storey tower is located within walking distance of a Réseau Express Métropolitain light-rail station.

And just last month, Nova Scotia-based NexArm Investments — a real-estate arm of the wealthy Armoyan family — acquired the former Standard Life tower on Sherbrooke St. W., across from the Ritz-Carlton hotel, with a view to converting it into a rental apartment building.

NexArm plans to apply for demolition and transformation permits from the city as soon as possible, said George Armoyan Jr., who runs the family's real-estate operations in Quebec. Occupants could start moving in as soon as 18 months after the start of construction, he added.

"It's quite an asset to have," Armoyan Jr. said in a late June interview. "Sometimes, the concept of conversion scares people off. With an older building there are going to be surprises, but we think we will be able to learn a recipe from this that we can apply to other buildings. I've spoken with a bunch of developers who have done conversions before and no one has a perfect recipe down right now."

Costs are often the biggest hurdle. Estimates of $100 per square foot up to nearly $700 per square foot are common and vary based on the scope of work, according to a recent Cushman & Wakefield study.

"Assets that need entirely new facades, extensive plumbing and HVAC retrofits, asbestos remediation as well as other capital-intensive projects will face more challenges," Cushman & Wakefield analysts said in the document.

"In an office building there is one central location for bathrooms, whereas in a residential building all units need a bathroom," Roger Plamondon, who retired last month as head of builder Broccolini's real estate unit, said in a recent interview. "So when you do a conversion, you need to rethink the entire vertical part of the building. It's doable, but at some point you need money."

Hurdles can also be regulatory, as well as contractual. As office buildings are zoned for commercial purposes, anybody wanting to adapt a property for residential usage would need to ask city hall for permission and convince the authorities that a conversion is appropriate, said Jean Laurin, Avison Young's president for Quebec.

"When there's a need for housing like we have in Montreal, you would think that it would be a simple thing, but I can assure you that the process to get approval is very complicated and that it takes a long time," Laurin said. "There needs to be a better awareness from the city on the importance of responding quickly."

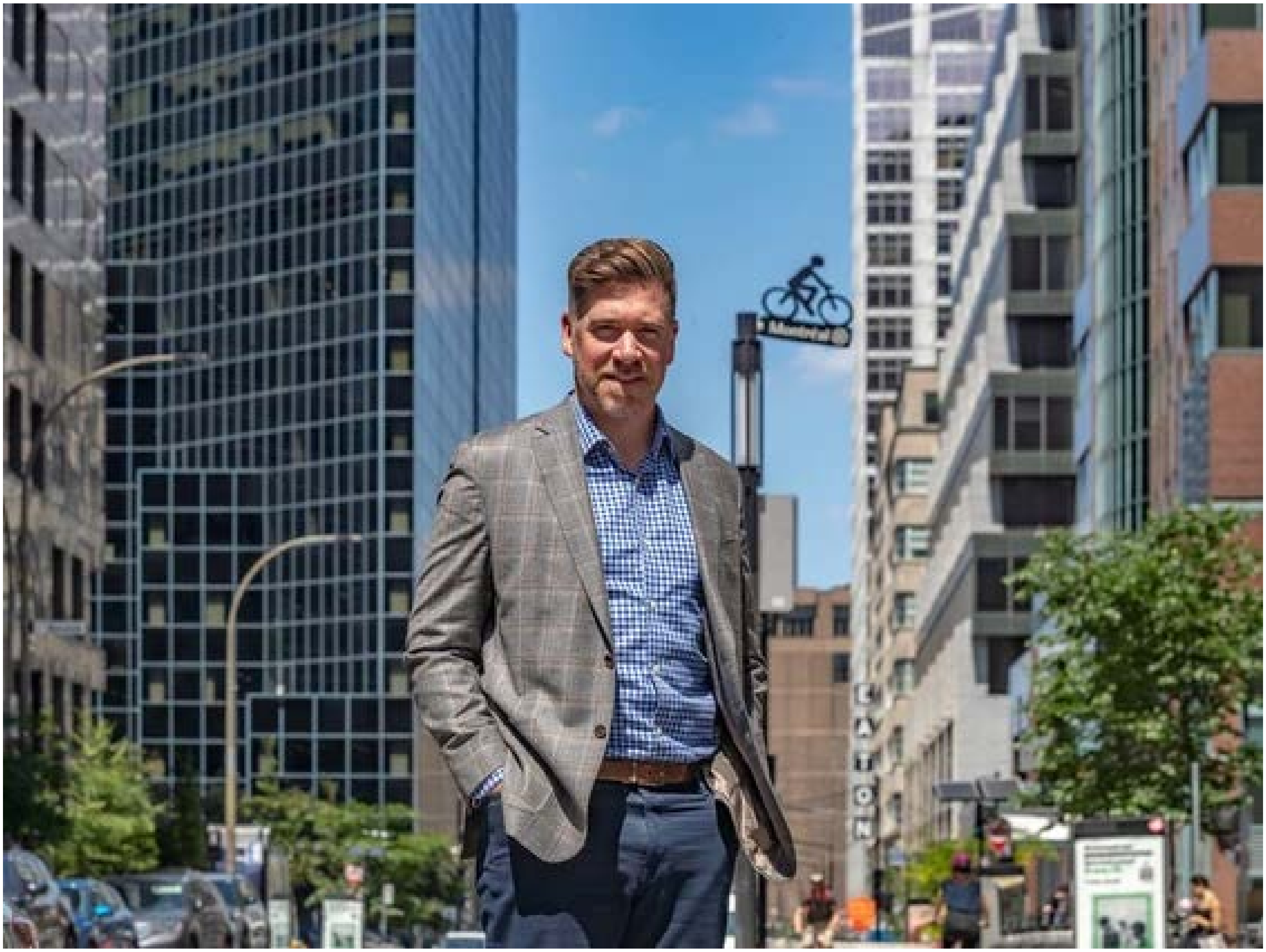
Armoyan Jr. issued a similar warning.

Montreal is "talking about the housing shortage, but the process of approvals has to improve," he said. A lot of developers have projects on hold right now because of the process. In the end, capital is the easiest thing to move. If the city wants affordable housing, then the easiest way to get that is to improve and expedite the approval process."

As things stand now, a building conversion "is not less than a two-year program," said Laurin. "Depending on the building, I would say it's anywhere from two to four years."

What's more, office buildings are not typically empty. A property with a vacancy rate of 25 per cent — a historically high rate in the industry — still is 75 per cent occupied by tenants with a valid lease.

"Often times, tenants have options to renew, so you can't simply throw these guys out and do a conversion," Laurin said. "The only way that you can make them leave is to buy them out, which can be costly."



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Those cumulative costs are a big reason why 12 of the largest 20 U.S. cities with active conversion programs have put in place fiscal incentives for developers, said François Létourneau, senior vice president and managing director of U.S. broker JLL’s Montreal office.

Calgary, where downtown vacancy rates have routinely topped 30 per cent in recent years, also chose the fiscal route. Its revitalization plan, which aims to remove about 6 million square feet of office space from the downtown core by 2031, offers incentives of up to $75 per square foot for each conversion. Permitting, too, has been accelerated — to just under two months.

If office building conversion in Montreal is to gain traction, most industry experts interviewed for this story insist city hall will have no choice but to provide financing.

“Without incentives, I don’t see conversions happening, or it will be very difficult to make them happen,” Plamondon said.

Added Létourneau: “There are going to have to be subsidies because the economics just don’t make sense.”

Such incentives, however, don’t appear to be a priority of the Plante administration.

“It’s obvious that in the midst of the housing crisis, the idea of converting some vacant downtown offices into housing is attractive, especially affordable housing where families could settle,” Luc Rabouin, the executive committee member responsible for economic and commercial development, said in a statement provided to the Montreal Gazette.

"That's why we're in touch with some office owners who have the potential for mixed use by combining commercial space with housing. But such conversions are not currently a major trend, and are complex and costly to achieve."

For his part, NexArm's Armoyan Jr. said he's not expecting any help from the city.

"It seems like they are trying to come up with a concept by the end of the year, but they told us there won't be direct incentives like that," he said.

Given the costs involved with a full retrofit, it might be wiser to aim for partial building conversions as a compromise solution, experts say.

"One can certainly imagine buildings where the top floors have been transformed into residential units, with 'light' industries such as software design or institutions such as libraries on the bottom floors," said Jean-Marc Fournier, who recently retired as head of the Urban Development Institute, a Montreal-based lobby group that represents property developers.

"There's a real opportunity to make some office buildings mixed-use by converting some floors to residential," added Broccolini's Plamondon. "But to say that we are going to systematically convert entire buildings to solve the housing crisis, I'm not sure. The more intelligent solution probably comes from opportunities such as the Bridge-Bonaventure area (of Montreal), where you are starting with a blank page. You can draw up entire neighbourhoods and plan them efficiently. Personally, I think that collective resources would be better spent building out an area like Bridge-Bonaventure than in recycling downtown office buildings."

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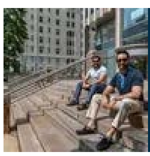

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