Analysis of Montreal Office Real Estate Cap Rates (2025)

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Montreal Office Cap Rate – Comprehensive Market Analysis (2025)

Cap Rate Fundamentals in Commercial Office Real Estate

What is a Cap Rate? A *capitalization rate*, or **cap rate**, measures the annual return on a real estate investment relative to its value. It is calculated as a property's net operating income (NOI) divided by its market value, expressed as a percentage (Source: bigcityrealty.ca). For example, an office building generating $1 million in NOI and valued at $20 million has a 5% cap rate. Higher cap rates indicate higher potential returns *but also typically higher risk* – often reflecting lesser property quality, shorter leases, or market uncertainty. Lower cap rates conversely suggest a premium valuation for assets with stable income (e.g. long leases, strong tenants, prime location).

Cap Rates in Context – Office Properties: In commercial office real estate, cap rates are a crucial valuation tool for investors and appraisers. They help compare investment opportunities across different buildings and markets on an "apples to apples" yield basis (Source: bigcityrealty.ca)(Source: bigcityrealty.ca). Importantly, cap rates are *not static benchmarks* – they vary by **asset class (quality)**, **location**, and **market conditions**:

- **Asset Class (Quality)**: Office buildings are generally classified as Class A (prime, modern assets in premier locations), Class B (average quality, older or less central), or Class C (older, lower-quality buildings in secondary locations). Class A offices typically command *lower cap rates* (higher prices) due to stronger tenant covenants, better amenities, and higher occupancy, whereas Class B/C assets trade at *higher cap rates* reflecting greater leasing risk and capital expenditure needs (Source: renx.ca). In the current market, the spread between top-tier and lower-tier office cap rates has widened – higher-quality properties are far more sought-after, while aging Class B/C offices face weak demand and require a yield premium (Source: renx.ca)(Source: renx.ca).

- **Location: CBD vs. Suburban** – Offices in **downtown (CBD)** locations typically have different risk profiles than **suburban** offices. CBD buildings (especially "trophy" towers) generally have more liquidity and tenant demand, translating to lower cap rates than suburban offices. Conversely, suburban offices, often with higher vacancy and car-dependent access, tend to trade at higher cap rates. For example, across Canada in early 2023, downtown Class AA/A office yields averaged 6.48% nationally vs. over 7% for suburban offices (Source: renx.ca)(Source: renx.ca). This urban-suburban yield gap persists in Montreal as well (as detailed below).

- **Market Conditions:** Office cap rates move with broader economic and capital market trends. Key drivers include prevailing **interest rates**, credit availability, **bond yields**, and investor sentiment. Generally, rising interest rates and bond yields put *upward* pressure on cap rates (values fall) as real estate must offer a higher return relative to safer bonds (Source: renx.ca)(Source: renx.ca). Local factors like **vacancy rates**, **rental growth prospects**, and the **health of the local economy** (employment, GDP) also directly impact cap rates. High office vacancy or an economic downturn will typically force cap rates higher (to compensate for risk and weaker income growth), whereas tight occupancy and strong economic growth can compress cap rates as investors accept lower yields for reliable cash flows.

In summary, the cap rate is a fundamental metric for office investors – encapsulating risk, income stability, and growth expectations into a single percentage. The following sections delve into how these fundamentals have played out in Montreal's office market, past and present.

Historical Trends of Montreal Office Cap Rates (Last 5–10 Years)

A Decade of Compression, Then a Sharp Reversal: Over the past decade, Montreal's office cap rates experienced a long period of *compression* followed by an upward swing in recent years. In the mid-2010s, Montreal emerged as a "market to watch" as investor confidence improved and interest rates remained low. Cap rates steadily declined to multi-decade lows by the late 2010s, reflecting strong demand for quality assets. For instance, prime downtown office yields had fallen into the mid-5% range by 2018–2019, down from the 7–8% levels seen in the early 2000s (Source: multifamilybc.cbrevancouver.com) (Source: collierscanada.com). Montreal's cap rate spread to benchmark bonds narrowed significantly during this period – by Q3 2022 the spread was ~214 bps, more than 200 bps below its 15-year average (Source: collierscanada.com) – underscoring how aggressively office pricing had run up prior to the recent correction.

https://www.altusgroup.com/insights/montreal-cre-market-update-q4-2024/

Figure: Historical cap rate trends in Montreal across major asset classes (2007–2024). The dark blue line shows Downtown Class "AA" Office cap rates, which generally trended downward through the 2010s before ticking up after 2019. Lower lines (light blue, green) represent multifamily and industrial cap rates for comparison. By late 2019, Montreal's downtown office cap rates had compressed near historic lows, mirroring the low interest rate environment, before rising again in the 2020s (Source: multifamilybc.cbrevancouver.com). (Source: Altus Group Investment Trends Survey)

Impact of the Pandemic and Interest Rate Cycle: In 2020–2021, the pandemic injected uncertainty into the office market, but record-low interest rates largely offset the impact on valuations. Few office transactions occurred in 2020, keeping observed cap rates relatively flat. However, as the Bank of Canada began aggressively hiking rates in 2022, the long era of cap rate compression ended. **From 2022 to 2023, Montreal office cap rates rose significantly** in tandem with soaring borrowing costs and worsening office fundamentals. Nationally, downtown office yields increased by roughly 100–150 basis points during this period (Source: renx.ca). CBRE reported that by Q1 2023 the **average downtown Class A cap rate in Canada had climbed to ~6.5%**, up from the mid-5% range a year earlier (Source: renx.ca). This trend was evident in Montreal: suburban Class A office cap rates, for example, moved upward by ~0.5%–1% between 2019 and 2023 (Source: multifamilybc.cbrevancouver.com). Essentially, investors began pricing in higher risk premiums for offices due to higher financing costs, elevated vacancy, and an uncertain outlook for office demand.

Recent Plateau: Entering 2024–2025, there are signs that cap rate expansion is leveling off. The **pace of increase slowed in late 2023** and early 2024 as the market adjusted to the new interest rate norm (Source: renx.ca)(Source: renx.ca). According to Altus Group, Montreal's overall capitalization rate (across asset classes) *stabilized* in the first half of 2025 (Source: altusgroup.com). For the office sector specifically, Montreal cap rates were essentially **unchanged quarter</current_article_content>-over-**

quarter in Q2 2025 (Source: altusgroup.com), suggesting the market may have found its footing (albeit at substantially higher yield levels than a few years prior). We detail below the current cap rates by segment.

Current Montreal Office Cap Rates (2025): By Class and Location

As of mid-2025, **cap rates in Montreal's office market remain elevated** compared to the ultra-low levels of a few years ago. Cap rates vary widely by asset class and sub-market, reflecting the bifurcation between top-quality and inferior office assets. Table 1 summarizes prevailing cap rates in Montreal for Q2 2025:

Table 1: Montreal Office Cap Rates by Asset Segment (Q2 2025) *(Source: Avison Young Cap Rate Survey)*

MONTREAL OFFICE SEGMENT	CAP RATE (Q2 2025)	TREND
Downtown – Class A	**~7.50%**(Source: avisonyoung.ca)	Stable quarter-over-quarter
Downtown – Class B	~8.50% (Source: avisonyoung.ca)	Stable
Suburban – Class A	~8.50% (Source: avisonyoung.ca)	Stable
Suburban – Class B	~9.00% (Source: avisonyoung.ca)	Stable
Downtown – Class C*	*High-8% to 10%+ (est.)*	*N/A (few trades)*

(*) Note: *Class C cap rates* are not formally surveyed due to low trading volume, but industry experts indicate they would be **well into the high-single or low-double digits** in the current climate. Older downtown buildings with significant vacancy or obsolescence may attract offers implying cap rates above 9–10%, if they trade at all. As CBRE's chairman Paul Morassutti observed, many lower-quality (B and C) offices are "vulnerable to being left behind" in today's market (Source: renx.ca) – investors demand **substantially higher yields** for these assets given leasing challenges and potential conversion costs.

Several key observations about the current cap rate landscape in Montreal:

- **Class A vs. B:** There is roughly a 100-basis-point spread between Class A and Class B office yields. Prime *Class A downtown towers average ~7.5%* cap rates, whereas *older Class B offices downtown are closer to 8.5%*. A similar or slightly larger gap exists in suburban assets (Class B suburban ~9.0%

vs. ~8.5% for suburban A) (Source: avisonyoung.ca). This reflects a **flight to quality** – investors are far more willing to pay for best-in-class buildings with stable tenants, while secondary assets must be priced with a yield premium.

- **Downtown vs. Suburban:** Interestingly, **downtown Class A and suburban Class A cap rates are about on par in Montreal (both ~8%±)**(Source: avisonyoung.ca). This is a departure from pre-pandemic norms when downtown assets enjoyed a clear yield advantage. It indicates that **downtown demand remains soft** (with higher downtown vacancy offsetting the location premium), while certain suburban office nodes have held up comparatively well. In fact, Colliers noted recently that *Montreal suburban Class A cap rates are now trading at parity with downtown Class B* – approximately 7.75% in both cases in late 2022 (Source: collierscanada.com). Downtown Class A still commands a slight premium over suburban A in 2025, but the gap has narrowed. For Class B, downtown vs. suburban yields both hover in the high-8s to 9% range.

- **Absolute Levels:** At ~7.5–9%+, Montreal's office cap rates are **considerably higher now** than they were in the late 2010s (when Class A offices were in the 5–6% range). The repricing reflects higher interest rates and perceived risk in the office sector. However, the fact that cap rates are holding stable (not *increasing further* in 2025) suggests that buyers and sellers have adjusted to the new pricing equilibrium for now (Source: altusgroup.com). Market participants report that Q2 2025 cap rates were *"steady, consistent with the steadiness in bond yields and financing costs"*, and that most anticipate stability in the near term barring any major economic shift (Source: avisonyoung.ca) (Source: cbre.ca).

In summary, Montreal's current office cap rates imply **significant risk premia** – especially for non-core assets. Investors are underwriting pessimistic scenarios for older buildings, while even the best downtown towers in Montreal trade at yields that were unheard of a few years ago (mid-7% today vs. sub-6% pre-2020). Next, we compare Montreal's cap rates to other Canadian markets to put these figures in context.

Key Drivers Affecting Montreal Cap Rates in 2025

Several economic and market factors are behind the cap rate levels described above. The **rise in cap rates** over the past two years, and their **current elevated status**, can be attributed to a confluence of drivers:

- **Interest Rates & Financing Costs:** The Bank of Canada's rapid rate hikes from 2022 through 2023 have been the primary driver of cap rate expansion. The Canadian 10-year government bond now yields roughly **3.3% (mid-2025)**, up from nearly 1% in 2020 (Source: altusgroup.com). With the BoC overnight rate in the 5% range, borrowing costs for commercial real estate have more than doubled, forcing property yields higher. Investors require sufficient yield **spread** over debt costs and benchmark bonds. Indeed, the *all-property cap rate spread* to 10-year bonds widened to over 320 bps in 2023 (Source: renx.ca). Montreal has been no exception – its cap rates have adjusted upward to maintain a risk premium over interest rates. (Notably, Colliers reported Montreal's cap rate spread was 214 bps in late 2022, still below long-term averages, implying values had room to fall further (Source: collierscanada.com).) Today's higher cap rates are essentially compensating for the much higher cost of capital in 2025.

- **Office Vacancy & Leasing Fundamentals:** Montreal's office fundamentals have weakened, putting upward pressure on cap rates (downward pressure on values). The **office availability rate** in Montreal rose dramatically during the pandemic and remains high. As of Q2 2025, overall availability is around **18%** – roughly double pre-pandemic levels (Source: altusgroup.com). Downtown Class A availability, while improving, is still **17.6% in Q2 2025** (down from 19.6% a year prior) (Source: avisonyoung.ca). Elevated vacancy means **higher leasing risk and lower NOI**, especially for older buildings struggling to attract tenants. This directly translates into higher cap rates because investors demand greater returns for assets with uncertain cash flow. High vacancy also increases the likelihood of building obsolescence or conversion, again requiring a pricing discount. Until occupancy and demand recover meaningfully, vacancy will continue to be a key upward force on cap rates.

- **Tenant Demand & Work Patterns:** The slow pace of return-to-office and the popularity of hybrid work have curtailed new leasing, affecting future income expectations. Montreal's office market has seen **negative net absorption in recent quarters** (more space being vacated than leased) (Source: altusgroup.com). Many firms are downsizing or delaying expansion. This weak demand outlook particularly hurts Class B/C buildings, pushing their valuations down (higher cap rates). On the positive side, some large employers – notably Canada's banks – have been mandating increased office attendance, and sublease inventory has decreased (Source: altusgroup.com)(Source: altusgroup.com). These trends could stabilize demand in top-tier properties, but overall the tepid occupier market is a headwind that keeps cap rates from compressing.

- **Economic Climate – Employment and GDP:** Broader economic conditions in Montreal and Canada influence investor sentiment. After a strong post-COVID rebound, the economy has cooled in 2023–2024 under higher interest rates. Unemployment in Canada ticked up to **7.0% by mid-2025**, the highest since 2016 (Source: altusgroup.com). Montreal's job market has likewise seen slower growth, especially in office-using sectors. Real GDP growth has been modest. Higher unemployment and recession worries dampen office space demand (companies hire and expand less), which in turn weighs on rents and occupancy. Investors factor these macro risks into pricing – keeping cap rates elevated to buffer against potential income shortfalls. On the flip side, Montreal benefits from some economic strengths: it has a diversifying tech sector and major infrastructure projects (like the REM transit system) that bolster long-term prospects. But in the current environment, **economic uncertainty** – from inflation to a potential federal election – has generally made investors more risk-averse, contributing to a preference for higher cap rates as a cushion.

- **Investor Sentiment and Liquidity:** Finally, the *psychology and positioning of investors* drive cap rate movements. During 2022–2023, many institutional buyers moved to the sidelines amid market volatility (Source: renx.ca). Transaction volumes fell and liquidity for office assets dried up. In such an illiquid market, cap rates tend to rise (values fall) until a clearing price is found. Private buyers and opportunistic investors demanded discounts to transact. Montreal saw this dynamic, with fewer bidders for office deals, especially outside of prime assets. However, sentiment has been **gradually improving in 2024–2025** – there is a growing sense that pricing has adjusted and the worst may be over. Indeed, capital that was on the sidelines is starting to look for opportunities again (Source: renx.ca)(Source: renx.ca). This shift in sentiment – from fear to cautious optimism – is a key reason cap rates have *stabilized* recently. When investors believe *"real estate is an asset class looking increasingly attractive as interest rates come down"*(Source: renx.ca), cap rates can stop rising and even compress. The expectation of eventual interest rate relief (perhaps in late 2025) is helping put a floor under values.

In summary, **Montreal's office cap rates in 2025 are the product of high interest rates, high vacancy, and cautious investor sentiment**, partially offset by an anticipated stabilization of conditions. These factors are not unique to Montreal – as the next section shows, other Canadian cities are experiencing similar drivers in different magnitudes.

Montreal vs. Other Major Markets: Cap Rate Comparisons

How does Montreal stack up against Canada's other large office markets? In general, **Montreal's office cap rates are mid-pack** – higher than Toronto and Vancouver, but lower than more challenged markets like Calgary. Table 2 compares *downtown Class A office cap rates* across major cities as of mid-2025:

Table 2: Downtown Class A Office Cap Rates – Major Canadian Cities (Q2 2025)(Source: avisonyoung.ca)

CITY	DOWNTOWN CLASS A CAP RATE (Q2 2025)
Vancouver	~5.25% (lowest) (Source: avisonyoung.ca)
Toronto	~6.50% (Source: avisonyoung.ca)
Ottawa	~7.50% (Source: avisonyoung.ca)
Montreal	**~7.50%** (Source: avisonyoung.ca)
Calgary	~8.00% (highest) (Source: avisonyoung.ca)
(Edmonton's downtown A cap rate is even higher, ~8.5% (Source: avisonyoung.ca), reflecting its small and soft office market.)	

Several insights from this comparison:

- **Vancouver & Toronto:** Canada's two largest and most expensive office markets have the **lowest cap rates**. Vancouver's ~5.25% downtown yield is the floor nationally – a function of its tight office supply and historically strong demand. Toronto's Class A cap rates around 6.5% are higher than Vancouver's but still well below Montreal's. These differences reflect investor perceptions of risk and growth: Vancouver and Toronto are seen as core gateway markets with deep liquidity and better rent growth prospects, so investors accept lower initial yields. Even after recent increases, Toronto/Vancouver office yields remain 100–200 bps below Montreal's. For instance, downtown Montreal (7.5%) trades roughly 1 percentage point "cheaper" than downtown Toronto (6.5%) for comparable class A product (Source: avisonyoung.ca).

- **Calgary & Edmonton:** At the other end, Alberta's office markets have **significantly higher cap rates** than Montreal. Calgary downtown Class A is around 8.0%, and Edmonton closer to 8.5% (Source: avisonyoung.ca). These markets are under far greater stress – Calgary's downtown vacancy is a staggering **20%** as of Q2 2025 (Source: altusgroup.com) (despite improvement over the past year), and Edmonton's is similarly high. The energy sector downturn and persistent flight of tenants have crippled office demand there. Thus, investors require very high yields (and low prices) to compensate. Montreal's cap rates, while elevated, are **not as high as Calgary's** because Montreal's economic base is more diversified and its downtown vacancy (~17–18%) is slightly lower and trending down (Source: avisonyoung.ca)(Source: altusgroup.com). In short, Montreal is viewed as having better recovery prospects than Calgary, justifying a modestly lower cap rate.

- **Ottawa:** Interestingly, Ottawa's downtown A cap rate is about the same as Montreal's (~7.5% (Source: avisonyoung.ca)). Ottawa, being a government-driven market, has seen rising vacancy recently and less investor enthusiasm, putting it in a similar risk class to Montreal in investors' eyes for now. Both cities are secondary to Toronto/Vancouver for institutional investors, hence higher yields.

The *pattern* is that cap rates closely track perceived risk and local fundamentals: **Vancouver (low risk) < Toronto < Montreal/Ottawa < Calgary/Edmonton (high risk)**. Montreal falls in the middle, reflecting a balance of stable long-term fundamentals with short-term challenges. Notably, the **gap between cities' cap rates has widened** in the past two years. Pre-2020, the spread between Montreal and Toronto office yields was much tighter (often under 50 bps for Class A); now it is about 100 bps. This suggests Montreal's office sector is viewed as *relatively riskier than it once was* compared to Toronto – likely due to higher structural vacancy and smaller investor pool.

It's also instructive to compare **downtown vs. suburban spreads** across cities. In Toronto and Vancouver, downtown cap rates are markedly lower than suburban (e.g. Toronto suburban Class A ~8.5% vs. 6.5% downtown (Source: avisonyoung.ca)). In Montreal, as noted, downtown and suburban yields for similar quality are much closer. This implies Montreal's downtown hasn't retained the premium it used to, whereas in cities like Toronto the CBD still carries significant weight. Part of this is because Montreal's downtown recovery from the pandemic has been slower (e.g. office attendance and new leasing lag), eroding its relative advantage. By contrast, **Vancouver's downtown availability (12.4%) is very tight**(Source: altusgroup.com), helping downtown Vancouver cap rates stay extremely low.

In summary, Montreal's office cap rates are high in absolute terms but fairly *moderate relative to other Canadian cities facing similar challenges*. They underscore that Montreal is not alone in its office market repricing; the whole country has seen yields rise. However, Montreal offers a higher yield than the biggest markets, which some investors may find attractive given the city's solid fundamentals (large population, diversified economy). Indeed, we are beginning to see capital targeting Montreal for its yield spread – an issue we explore in recent transactions.

Recent Investment Transactions and Cap Rates

Deal Volume and Investor Profile: Investment activity in Montreal's office market has been **muted but not absent**. The high cap rate environment itself is a double-edged sword – it indicates lower pricing which can attract opportunistic buyers, but it also reflects stress that makes lenders and institutional investors cautious. In 2024, Montreal's office sector saw a number of *smaller trades*, often at distressed pricing or for alternative use. According to CBRE, many sales were either **user-driven or conversion plays** rather than pure stabilized investment acquisitions (Source: renx.ca)(Source: renx.ca). *"Typically, the trades are smaller and many are driven by users or for conversion,"* noted CBRE Montreal's investment lead (Source: renx.ca). In fact, of nine office building transactions CBRE handled in Montreal last year, **four were bought for office-to-residential conversion and three by owner-occupiers** (users) (Source: renx.ca). These types of deals often don't rely on cap rate underwriting at all – a user might value a property for its utility, and a conversion buyer values it for redevelopment potential. The prevalence of such trades shows how few investors were willing to buy conventional leased office buildings in 2024 unless at a steep discount.

Notable Transactions: *Large, arm's-length investment sales* of Montreal office towers have been rare, but 2025 has seen at least one headline deal: **1200 McGill College Avenue** (also known as *Place Dupuis* in some reports, adjacent to Place Ville Marie). In June 2025, KingSett Capital acquired this downtown 24-storey tower (approximately 240,000 sq. ft. office + 73,000 sq. ft. retail) from Busac/JEMB for **$100.65 million**(Source: connectcre.ca)(Source: connectcre.ca). This was the **largest Montreal office sale in recent memory**, and reportedly *the largest in 2025 so far*(Source: connectcre.ca). The purchase price equates to **$286 per sq. ft.**, a valuation significantly below replacement cost and indicative of today's repricing (Source: avisonyoung.ca). The cap rate was not officially disclosed, but given the building's occupancy (major tenant: Rogers Communications) it's estimated to be in the high-6% to low-7% range. Notably, this deal *"marks a return of institutional funds"* to Montreal offices (Source: avisonyoung.ca) – KingSett (a large Canadian PE fund) had sat out of the office market for a few years and is now bottom-fishing quality assets at higher yields. The willingness of a major player to invest in a downtown Montreal tower at ~7% yield signals confidence that values are compelling. It's a positive sign that the bid-ask spread may be starting to close.

Other office trades have been at much lower price points. For example, some older downtown buildings have reportedly changed hands for land value or for conversion schemes. (One example outside Montreal: in Calgary, a 50% vacant office tower sold for a mere $17 million for conversion – illustrating the extent of value erosion in some cases.) In Montreal, Groupe Mach and other local players have been actively evaluating acquisitions of distressed offices, often intending to eventually convert to apartments or mixed-use. Such transactions might technically exhibit very high cap rates (because the purchase price is so low relative to existing NOI), but those "cap rates" are not really meaningful since the buyer's business plan is to repurpose the building.

Cap Rates in Recent Deals: For stabilized Montreal office assets that did trade, *cap rates have generally ranged from the mid-7% into double digits* depending on asset quality:

- The **1200 McGill College** deal mentioned above is one bookend, likely around a **~7% cap** for a Class A-/B asset with a stable tenant roster (this building was ~90% leased at sale). That represents a relatively *strong price* in this climate and was achieved for a well-located asset with some retail component upside.

- On the other end, **Class B/C office buildings** with high vacancy have transacted at implied cap rates well into the teens (or indeterminate, if largely vacant). Many of these are essentially land or conversion plays. For instance, if a half-empty secondary office property sold for, say, $100/sf, an optimistic cap rate on in-place income could appear as 12–15% or higher. However, such sales are driven by turnaround plans rather than going-concern investment yields.

- **User purchases** (e.g., a company buying its own office building to occupy) don't yield a quoted cap rate at all, since the buyer is not valuing the in-place rent. But they do remove inventory from the investment market, tightening supply.

Overall, the limited data points suggest that **well-leased, good quality Montreal offices would trade around 7–8% cap rates today, whereas risky or vacant assets trade at yields well into the high single-digits or are valued on alternative metrics**. Real Capital Analytics (RCA) data (as referenced by brokers) indicates cap rates for *top-tier office transactions in Canada* have risen to ~6.5–7% recently, and Montreal's deals generally sit at or above that range. For example, a fully leased downtown Montreal office with solid covenants might attract bids in the high-6% range; if that same building were in Toronto, the cap rate might be low-6% or high-5%. This lines up with the city yield differentials noted earlier.

Despite the challenges, the **uptick in 2025 investment activity** (like the KingSett acquisition) has experts cautiously encouraged. CBRE's Montreal team noted that *"there's a sense the office sector has reached the bottom of a cycle… and is beginning its long climb back up"*(Source: renx.ca). The fact that multiple downtown buildings (totaling ~3.4 million sq. ft.) are now *up for sale or changing hands* is seen as a precursor to higher deal volume in 2H 2025 as buyers and sellers reconcile on pricing (Source: avisonyoung.ca)(Source: avisonyoung.ca). If so, more cap rate evidence will emerge. So far, the early transactions suggest that **buyers are achieving 20–30% discounts from pre-pandemic values**, and those discounts translate to cap rates that are 150–300 bps higher than in 2019.

Market Outlook and Forecast for Cap Rates

Stabilization Ahead: The consensus among market analysts and brokerage research is that **Montreal's office cap rates are near their peak** and likely to **stabilize through the rest of 2025**, with potential for *modest compression* in late 2025 or 2026. CBRE's 2024 outlook noted that *"cap rates for some asset classes are likely to start modestly compressing in 2025"* as the investment market finds its footing (Source: cbre.ca). This outlook is underpinned by the expectation that **interest rates will plateau or even decline** slightly going forward, which would reduce upward pressure on yields. Indeed, by mid-2025 the Bank of Canada has paused further rate hikes, and bond markets anticipate possible rate *cuts* in 2024–2025 if inflation subsides. A projected easing of the 10-year bond yield by ~15 bps in 2025 (per CBRE forecasts) is contributing to a more positive cap rate outlook (Source: cbre.ca). In short, the worst of the cap rate expansion appears over barring any new economic shocks.

Buyer-Seller Gap Narrowing: A key part of the forecast is improving investor sentiment and a closing bid-ask spread. *"The bid-ask gap is closing, prompting investors to be open to office opportunities,"* observes Avison Young's president Mark Fieder (Source: avisonyoung.ca). He cites factors like *new occupier demand, a strong return-to-office movement, and improving lease terms* as reasons some investors see upside in buying now (Source: avisonyoung.ca). If more buyers re-enter the market, competition for quality assets will increase, potentially driving **cap rates down marginally** for the best buildings (i.e. prices up slightly from current trough levels). Montreal, with its higher initial yields, could draw interest from yield-hungry investors especially if they believe leasing has bottomed out.

Ongoing Headwinds: That said, any cap rate compression will likely be **gradual and selective**. Higher interest rates are expected to persist in the near term, and lenders remain conservative on office assets. Cap rates for *lower-tier Montreal offices (Class B/C)* may *continue to inch up or simply remain illiquid* until vacancy is materially reduced (perhaps through conversions removing supply). Moreover, *macro risks* – a potential recession, global bond volatility, etc. – could delay the recovery. Avison Young's Q2 2025 cap rate report struck a tone of "cautious optimism," noting resilience in the face of volatility but acknowledging that *"professional valuations take on increased importance"* in an illiquid market and that price discovery is still ongoing (Source: avisonyoung.ca)(Source: avisonyoung.ca). In essence, while the outlook for cap rates is stable, it's not a rapid rebound; the market is *grinding through* a bottom.

Montreal-Specific Factors: For Montreal's office market in particular, **two trends** should help cap rates in the medium term:

1. **Office Conversions and Supply Reduction:** Montreal has several initiatives to convert older offices to residential or other uses, supported by government programs. As obsolete space is removed, the *effective* office inventory will shrink, which should improve occupancy for the remaining properties. A tighter leasing market by 2026–2027 would bolster NOIs and could lead to cap rate compression (values rising) for those surviving office assets. The city's planning around repurposing buildings (such as incentives for office-to-housing conversions) is closely watched by investors.

2. **Return-to-Office Momentum:** Montreal's return-to-office momentum has been slower than some cities, but it is picking up. The **hybrid work model** (1–3 days in office) is being re-evaluated by many firms (Source: avisonyoung.ca). If large employers mandate more in-person work (as some banks and tech firms have started doing), demand for quality office space could rise. Already, Montreal's *trophy downtown towers have an average availability of only ~11%*, much lower than the overall

market (Source: avisonyoung.ca), indicating top-end demand exists. As companies "flight to quality," Class A buildings could see vacancies fall and rents stabilize, which would, in time, put downward pressure on cap rates for those assets (i.e. values recovering).

Expert Forecasts: Local experts project a *gradual recovery*. CBRE's Scott Speirs expects **larger, higher-quality office assets to trade in 2025** as institutions cautiously come back, and he believes foreign investors will show interest given Canada's stability and the discounted Canadian dollar (Source: renx.ca) (Source: renx.ca). This could help firm up values. There is a sense that *2024 marked the bottom* and 2025–2026 will begin a slow climb. Any cap rate decreases will likely first materialize in the Class A segment downtown (perhaps compressing by a few tenths of a percent if interest rates indeed dip). Class B/C cap rates may not improve until there is evidence of absorption or successful conversions reducing competition.

In quantitative terms, one might expect **Montreal downtown Class A cap rates to hold around 7.5% for the remainder of 2025**, with a possibility of tightening to the low-7% range by late 2025 or 2026 if financing costs improve. Suburban and Class B caps are likely to remain around 8.5%–9% until leasing shows meaningful gains or those assets trade to new uses. It's worth noting that even a 50 bps compression (say from 7.5% to 7.0%) can significantly boost values (~7% increase in price), so any improvement in cap rates will be welcome news to owners.

Bottom Line: Montreal's office cap rates are **expected to stay elevated but stable in the short term**, with a cautiously optimistic outlook for improvement. The phrase used by one research report to characterize Q2 2025 was *"cautious optimism defines Q2"*, as investors focus on quality amid uncertainty (Source: avisonyoung.ca). Real estate spreads are roughly in line with long-term averages now and may normalize further. As one set of "Trends to Watch" highlights: *investment sentiment is improving*, price discovery is nearing completion, and cap rate spreads should normalize as stability returns (Source: cbre.ca). The market appears to be in the early stages of recovery, and Montreal's relatively high cap rates could gradually compress if the recovery gains traction.

References: The analysis above draws on data and insights from leading commercial real estate firms and data sources, including **CBRE** (Canadian Cap Rates & Investment Insights, 2023–2025), **Colliers International** (Canada Cap Rate Reports, 2022–2025), **Avison Young** (Quarterly Cap Rate & Investment Trends Reports, 2024–2025), **Altus Group** (Investment Trends Survey and Montreal market updates), as well as publications like Real Estate News Exchange (RENX). Key statistics and quotations have been cited in-line. Notably, CBRE's *Canada Market Outlook 2024* and Avison Young's *Q2 2025 Cap Rate Survey* were used for current data points, while Altus Group and Colliers provided historical context. Montreal-specific commentary was supported by market reports from CBRE, Colliers, and Avison Young's local offices. These sources collectively underpin a comprehensive view of Montreal's office cap rate landscape as of 2025 (Source: bigcityrealty.ca)(Source: renx.ca) (Source: avisonyoung.ca)(Source: cbre.ca), among others. The outlook is subject to change with market conditions, and it is recommended to stay updated with the latest quarterly reports from these firms for the most current information.

Tags: cap rate, commercial real estate, office real estate, real estate valuation, net operating income, montreal, market analysis, asset class

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About 2727 Coworking

2727 Coworking is a vibrant and thoughtfully designed workspace ideally situated along the picturesque Lachine Canal in Montreal's trendy Griffintown neighborhood. Just steps away from the renowned Atwater Market, members can enjoy scenic canal views and relaxing green-space walks during their breaks.

Accessibility is excellent, boasting an impressive 88 Walk Score, 83 Transit Score, and a perfect 96 Bike Score, making it a "Biker's Paradise". The location is further enhanced by being just 100 meters from the Charlevoix metro station, ensuring a quick, convenient, and weather-proof commute for members and their clients.

The workspace is designed with flexibility and productivity in mind, offering 24/7 secure access—perfect for global teams and night owls. Connectivity is top-tier, with gigabit fibre internet providing fast, low-latency connections ideal for developers, streamers, and virtual meetings. Members can choose from a versatile workspace menu tailored to various budgets, ranging from hot-desks at $300 to dedicated desks at $450 and private offices accommodating 1–10 people priced from $600 to $3,000+. Day passes are competitively priced at $40.

2727 Coworking goes beyond standard offerings by including access to a fully-equipped, 9-seat conference room at no additional charge. Privacy needs are met with dedicated phone booths, while ergonomically designed offices featuring floor-to-ceiling windows, natural wood accents, and abundant greenery foster wellness and productivity.

Amenities abound, including a fully-stocked kitchen with unlimited specialty coffee, tea, and filtered water. Cyclists, runners, and fitness enthusiasts benefit from on-site showers and bike racks, encouraging an eco-conscious commute and active lifestyle. The pet-friendly policy warmly welcomes furry companions, adding to the inclusive and vibrant community atmosphere.

Members enjoy additional perks like outdoor terraces and easy access to canal parks, ideal for mindfulness breaks or casual meetings. Dedicated lockers, mailbox services, comprehensive printing and scanning facilities, and a variety of office supplies and AV gear ensure convenience and efficiency. Safety and security are prioritized through barrier-free access, CCTV surveillance, alarm systems, regular disinfection protocols, and after-hours security.

The workspace boasts exceptional customer satisfaction, reflected in its stellar ratings—5.0/5 on Coworker, 4.9/5 on Google, and 4.7/5 on LiquidSpace—alongside glowing testimonials praising its calm environment, immaculate cleanliness, ergonomic furniture, and attentive staff. The bilingual environment further complements Montreal's cosmopolitan business landscape.

Networking is organically encouraged through an open-concept design, regular community events, and informal networking opportunities in shared spaces and a sun-drenched lounge area facing the canal. Additionally, the building hosts a retail café and provides convenient proximity to gourmet eats at Atwater Market and recreational activities such as kayaking along the stunning canal boardwalk.

Flexible month-to-month terms and transparent online booking streamline scalability for growing startups, with suites available for up to 12 desks to accommodate future expansion effortlessly. Recognized as one of Montreal's top coworking spaces, 2727 Coworking enjoys broad visibility across major platforms including Coworker, LiquidSpace, CoworkingCafe, and Office Hub, underscoring its credibility and popularity in the market.

Overall, 2727 Coworking combines convenience, luxury, productivity, community, and flexibility, creating an ideal workspace tailored to modern professionals and innovative teams.