



The “Parquet” in the Centre CDP Capital building owned by Ivanhoé Cambridge, real estate subsidiary of the Caisse de dépôt et placement du Québec.

Millennial impact

Sustainability and flexible workspaces in Montreal

by Vincent Felteau

In September 2014, Montreal hosts the annual UNPRI In-Person Conference, a dialogue between decision makers in the international investment community on environmental, social and governance issues. In recent years, green buildings have been a hot topic given that the built environment is responsible for 40 percent of global energy use and 33 percent of greenhouse gas emissions.

This year, the key focus will be on impact investing — investing with regard to social and environmental issues as well as financial return.

This shift of focus reflects the change currently influencing today’s businesses as they try to adapt to the needs and preferences of the millennial generation (ages 18 to 33), the fastest-growing segment of today’s workforce.

Millennials and the workspace

A 2014 survey by Deloitte of nearly 7,800 millennials from 28 countries found that 70 percent of these future leaders question the traditional workplace, preferring to work off-campus and online. They believe business has done an inadequate

job of addressing resource scarcity, climate change and income inequality. Most importantly, they believe the success of a business should be measured in more than just financial terms — with a focus on improving society as a whole.



Place Ville-Marie (now fully owned by Ivanhoé Cambridge) is considered a Montreal landmark, bearing the city's original name. It has evolved over the years and is located at the heart of the city.

PwC, in collaboration with the University of Southern California and the London Business School, released a massive two-year generational study in 2013 trying to understand the attitudes and goals of the millennials (also known as Generation Y), who will represent 80 percent of their workforce by 2016. The study found that, to foster a greater sense of commitment among millennials, it would be necessary to transform the core dynamics of the workplace. Millennials want greater flexibility at work, starting with flexible hours, and they think productivity should be measured in output rather than number of hours worked. They want to work for organizations that foster creativity and

innovation, that emphasize teamwork and a sense of community.

Workspace design has evolved significantly during the past few years because open-plan offices encourage more dialogue among employees, thus providing a better sense of community. But this does not paint the full picture. For most businesses, the cost of the physical environment is the second most important expense item after salaries and benefits. Thus, the real reason the open-plan concept became more prevalent in many businesses around the year 2000 was to reduce fixed overhead costs and increase the number of employees housed in the same square footage.

Recently, the changing nature of demographics and work has shifted the debate slightly and placed workspace design under even more scrutiny. A 2011 research paper by Davis, Leach & Clegg found that organizations are now re-evaluating their facilities to ensure their workspace meets the needs of an increasingly diverse and demanding workforce, investing in innovative offices, upgrading the open-plan to support more “nomadic,” “group-based,” “flexible” and “remote” working styles.

A 2010 study by McElroy and Morrow reported that office refurbishment (involving the combined use of brighter décor, new furniture, openness and higher workspace density) is yielding positive employee perceptions of organization culture as being more innovative, less formal and fostering greater collaboration. In addition, occupants in refurbished offices were found to report greater co-worker satisfaction and “organizational commitment.”

Back to the future of Montreal

Being an island, Montreal has the third-highest density of population in North America (behind Boston and New York City). It is a city with a rich natural, artistic and architectural heritage, all playing a key role in shaping the city as it is today. As the only French-speaking major city on an English-speaking continent, 60 percent of its population is bilingual and 20 percent trilingual. It is home to more than 120 ethnic communities and 100 spoken languages. With its five renowned universities, seven affiliated schools and a research institute, Montreal is ranked second in North America for the number of university students per capita and forms the largest pool of graduates in Canada.

The city is ranked seventh in North America for its concentration of high-tech jobs. Not surprisingly, the information and communications technologies cluster represents an essential pillar of Montreal's vitality. And millennials are essential to this workforce. The city has three digital festi-



Ubisoft's decision to locate itself in an abandoned textile factory in the Mile End district has brought change to the city's landscape, helping transform this particular neighborhood into a cultural hub for young professionals and artists. The Ubisoft building is owned by Allied Property REIT.

vals and a higher penetration of smartphones and social media than anywhere else in Canada.

The city is internationally recognized for its many festivals (Jazz, FrancoFolies, Just for Laughs); it has more than 60 different museums, 455 parks and the highest number of restaurants per resident of any city in North America. The *New York Times* named Montreal one of the most “hip” cities in the world in 2011.

But like other large cities, Montreal has its challenges. It constantly needs to compete with Calgary, Toronto and Vancouver to keep a strong financial footing in the Canadian marketplace. From early 2000, Montreal has suffered from criticism of its economic performance, which has underperformed compared with other cities in Canada; advances have been made, but not enough to meet expectations.

Many of Montreal's infrastructure projects and real estate assets are aging. At the same time, the city is grappling with a series of corruption scandals that have tainted the reputation of its leaders and its construction industry, thus limiting its funding for development projects. Consequently, the public sector has to rely increasingly on its institutional investor base, private/public partnerships and foreign capital.

To its benefit, Montreal is home to several forward-thinking real estate development projects. Several visionary organizations — including Allied Properties; Fonds de solidarité FTQ; Responsible Residential Investments; and Ivanhoé Cambridge, the real estate investment arm of the Caisse de dépôt et placement du Québec — have recognized millennials' preference for inner-city living and flexible professional environments, and are tailoring their projects accordingly.

The alchemy of commercial space

Allied Properties, a REIT that is transforming industrial buildings into office space, has focused

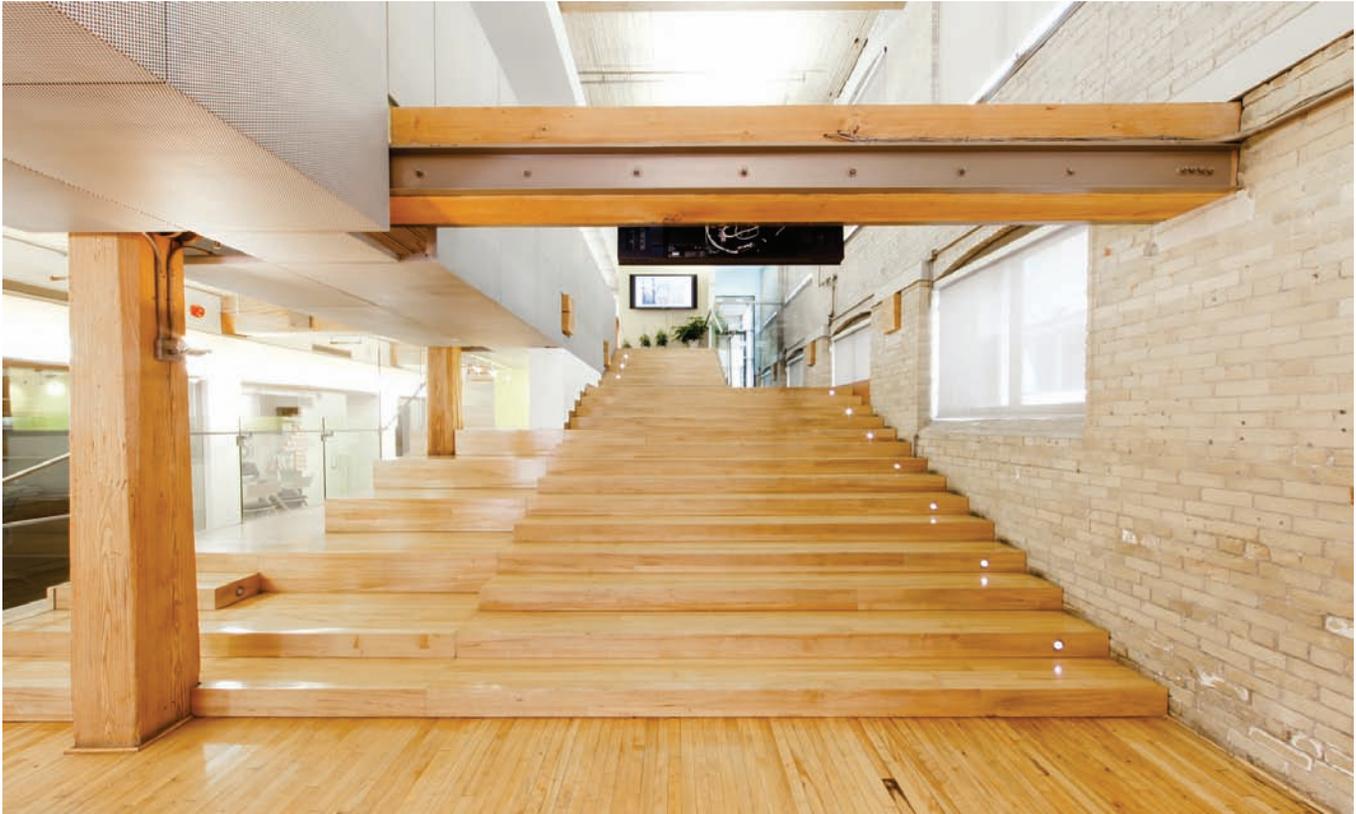
its new developments on urban intensification as it tries to capture the reverse migration toward the inner city and capitalize on concentrating talent pools. Michael Emory, CEO of Allied Properties, puts it this way: “This new live, work, play and learn demographic is changing the face of Canadian cities.”

The company is transforming light industrial buildings from the 1800s and 1900s into modern corporate-cultural hybrids. Over the years, the company has mastered the art of making distinctive interior designs that attract the millennials. They usually feature exposed beams, interior brick and hardwood floors, as well as detailed architecture.

One of the key properties that Allied has bought and redeveloped in Montreal is the Ubisoft building. The success story of Ubisoft, one of the world's best-known gaming companies, has served as an important catalyst for Allied and the city; other gaming and media companies are now establishing their presence in the city, often in close proximity to their like-minded peers and competitors.

Key to Allied's success has been its keeping abreast of important legislative changes. Cité du Multimédia, for example, was the result of a vast real estate project launched by the Quebec government in the late 1990s to redevelop abandoned industrial buildings into a business cluster for information and communication technology companies, or ICT. This initiative, combined with fiscal incentives, created the foundation for the emergence of a new engine of growth for the economy of Montreal. During the past decade, the ICT sector has undergone GDP growth double that of the economy as a whole, and Montreal is now ranked third in North America in growth of ICT employment.

Lastly, Allied makes it a practice of allocating a portion of its rentable areas to artistic uses. For example, its 5455 de Gaspé building houses more



A typical redesigned interior office space with brick-and-beam hardwood floor and natural lighting is considered a great tool to attract today's talented millennials.

than 200 artists and cultural workers among its commercial lease tenants, making more than 30 percent of the building's area dedicated to art or cultural endeavors. "Allied has long been sensitive to the fact that its investment and development activities can have a displacing impact on members of the artistic community," Emory says.

History in the remaking

Ivanhoé Cambridge acquired the remainder of the iconic Place Ville-Marie building in August 2013. Similar to the renovation of the aging Empire State Building, Ivanhoé Cambridge will completely revamp Place Ville-Marie to make it more attractive to high-profile tenants. The new Place Ville-Marie will incorporate the very latest trends in terms of energy efficiency and comfort. Social considerations will play a key part in the redevelopment of the new building, making it similar to Caisse de dépôt's headquarters, also owned by Ivanhoé Cambridge.

The Caisse de dépôt building has one of the most spectacular atriums of any building. This atrium, called the "Parquet," is capable of handling more than 800 guests and is a distinctive gathering place for the local community. With about 50 events held per year, the Parquet gives a special character to the building. In the case of Place Ville-Marie, "connectivity" of the building

will be one of the main features being redeveloped, including a complete facelift of its lobby entrance. For millennials wanting to reduce their commute time, Place Ville-Marie will continue to stand as an intermodal hub of excellence, directly linked to three metro stations, the downtown bus terminal and one of the world's longest underground pedestrian networks.

Long-term housing

Institutional investors seeking residential real estate exposure typically focus on large, high-end rental properties. But these buildings account for less than 10 percent of the total rental stock in Quebec. What of the 43 percent of rental units found in structures of six to eight units? Because they attract less professional and less well-capitalized owners, some suffer from deferred maintenance and poor leasing policies. This is where Responsible Residential Investments, a REIT still in the planning stage, seeks to play a role by proving the benefits of investing in nontraditional areas and encouraging others to do likewise.

Responsible Residential Investments will acquire and maintain properties for the long term, thus consolidating their function as affordable rental housing. The REIT says it will pay particular attention to energy efficiency, air quality and building-waste

reduction. Because housing is a useful platform for delivering a variety of services, Responsible Residential Investments will involve local service providers and community organizations able to improve the health, education and economic outcomes of its tenants, adding value to the investment without additional cost to the investors.

Fonds de solidarité FTQ also sees an opportunity to benefit from residential investments that satisfy one of the millennials' goals: bringing people back to the city and reducing commute traffic. FTQ has invested in many different projects throughout the city, including two major projects in Griffintown, namely District Griffin and Lowney. These two sites, in close proximity to the downtown area, consist of old industrial properties now being turned into mixed-use residential and retail assets.

With its residential investments, FTQ gives preference to projects suited to first-time homeowners and buyers of secondary residences, while meeting the needs of low- and middle-income families.

Crowning achievement

Lufa Farms, which grows food on rooftops, was founded by Mohamed Hage, an "urban farmer" who grew up in Lebanon. In 2011, Lufa Farms built the world's first commercial rooftop greenhouse in Montreal. Through innovation and technology, Lufa is now helping Montrealers produce their food in a more sustainable way.

According to Hage, city rooftops represent a blank canvas, a resource with huge unexplored potential. Growing high-quality produce year-round on an urban rooftop is a huge challenge, but for Hage, sustainability in urban planning is crucial to the medium- and long-term success of the modern city and its residents.

Impact statement

The real estate sector can positively affect local economies by providing jobs and assisting new businesses. The sector provides homes, education and recreational facilities. Unfortunately, few studies have attempted to account for the indirect or social benefits that can accrue to real estate investors. With that in mind, Presima performed a cross-sectional survey among investors and experts actively engaged in the Montreal real estate market.

The research concluded that a socially sustainable workspace helps to attract tenants and clients, represents a sense of pride, fosters innovation and creativity, serves to connect employees with the larger community, and boosts productivity.

The survey concluded that successful real

estate companies are looking for more than just a space. They support the needs of their tenants and employees with attractive architecture, clean parks, public art and access to public transit. Understanding the lifestyle, needs and values of millennials is key to urban development.

Cap and gown

Global consulting firm McKinsey & Co. predicts that, by 2020, the United States will need 1.5 million more college- or graduate-degree holders than are currently available. The Canadian government predicts a shortage of high-skilled jobs and a surplus of low-skilled occupations, especially in manufacturing, trade and transportation. Technological sophistication, crowdsourcing and globalized markets have increased the offshor-



5455 de Gaspé in Montreal's Plateau neighborhood is a mega-structure built initially for the garment industry. It has exceptional ceiling height, favorable column spacing and large floor plates.

ing of jobs in information processing and routine transactions. These "middle-skilled jobs," which are highly transferable to other countries, are creating a strong workforce polarization.

Millennials are restless and difficult to retain. Businesses (and cities) that are nimble in adapting to the millennials have a greater chance of outperforming their peers and lowering their operational risks.

This transition — where the social component plays a larger role in the future value of a business — represents a challenge for the real estate industry. Integrating social considerations in a typical DCF or NAV model is much closer to art than science. But it can be done. Successful investors are those who take into account the social and environmental interests of the millennial generation. ♦

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