

# LES IMMEUBLES MARK LAZAR

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## PUBLIC CONSULATION ON VACANT PREMISES ON COMMERCIAL CORRIDORS

I am a landlord. We invest in real estate as a business, and we invest heavily against the wind of increasing taxes, regulations, inspections and dealing with Tenants, vacancies and bad debts. Very few landlords are "lazy" or "avaricious" as is continuously mentioned in the news. The majority of landlords are trying to invest hard earned money for a long term investment and long term return. Very few are flippers or simply taking advantage of the current market opportunities.

Commercial storefront is its own business with its unique challenges. In residential, location is not as critical. A landlord can find tenants more readily by modestly adjusting the rents and/or adding improvements at a comparatively modest cost.

To fill a commercial storefront vacancy both the Landlord and Tenant have a variety of challenges and hurdles. The rent is simply one factor and not necessarily the critical one.

Let's examine the challenges in brief:

- 1) Location - the Tenant must feel that the location will draw the target client base, now and for the next 5-10 years. As well the effect of on-line sales to it's business.
- 2) Size of Space -- the space is large enough or small enough to build a business. Small enough to keep the overhead down, large enough to grow without moving.
- 3) Rent AND Taxes – Yes important in the final analysis of the financial success of the storefront.
- 4) Zoning - is the area zoned for the business. Coffee shops, Epiceries, restaurants and bars have distance limitations. Also high costs of installation.
- 5) Cost of Improvements – this can easily run into 6 figures and take months; Permits, Architect-Design Fees, inspections, added Electrical and Plumbing, ventilation and bathrooms – it is a long list. The installation cost is up front and far exceeds the rent concerns.
- 6) City activity on the street - this has become a serious factor in the decision process, as city work can take years and prevent the business from succeeding. It can stretch out the carry cost for years until the business can be positive cash flow. Storefronts require a mix of street traffic, parking and impulse shopping opportunities. Who would have opened a storefront on St. Denis, St. Laurent or Bishop or many others in the last 3-5 years? Let's all look in the mirror and not seem so shocked.

And when a street is almost closed for a year or 2 or more.... the public finds a new area to frequent. The businesses suffer and close or find new homes. It is hard to get either the public or the lost storefront to come back. St. Laurent lost upscale restaurants "Prima Donna" "Globe, Buonanotte" "Mediterraneo" and others. The new hot spots are on Notre Dame near Richmond (Grinder, Chez Sophie) Laurier ("Fiorillino – ex Buonanotte owners) and St Paul Street Vieux Montreal.

I know of a Notre Dame patisserie that opened just as the streets were being redone on Notre Dame West of Atwater. The work took over a year and the business had to close... no walk in trade. They signed their lease just before work was announced.

- 7) Costs to occupy: Rent, Business Taxes, set up costs, Tenant improvements, carry costs until the business is established (6 months?) and Employees. I have a Café Tenant - occupying 1,000 sq. ft. The taxes are the equivalent of 3 months' rent. Across the street, a larger space with lower taxes. There is no logic other than the café is in a larger multi residential building.

Many commercial leases are signed for 10 and 20 year in 5 year options. Taxes were a smaller factor long ago and many leases absorbed them. Today, Business and Commercial Taxes have grown aggressively over the last years. The growth is far greater than the normal CPI inflation increases which were standard in older leases. The Landlords can no longer absorb the taxes. We also have expenses and mortgages to pay.

7310 Mountain Sights Ave, Montreal, QC H4P 2A6  
514-383-4977 / fax 514-383-6078 / e-mail: [lazarequity@aol.com](mailto:lazarequity@aol.com)

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Yes, Rents are important. Let's not negate the factors of above inflation Municipal Taxes and Business Taxes. As well, the Tenant and Landlord must meet increased Insurance costs, Employee Benefits, health and safety regulations and continuous government paperwork and inspections. According to Stats Canada, Inflation for the city of Montreal 2019 is just under 2%. The city of Montreal Nov 2019 Budget projects tax increases of between 2.1% and 5.8%. Valuations of properties increased 14%. Increased Taxes increase effective rents.

A recent article in the Montreal Gazette (Jan 13, 2020) focused on a "successful" landlord. He carried a vacant spot for 2 years on St. Laurent (meaning the Landlord paid all the taxes and business taxes for 2 years) and possibly \$50,000 or more to prepare the space and to contribute to Tenant improvements in the form of money and/or free rent. That is a "successful" and hardworking landlord. This demonstrates how difficult it is for a hard working landlord to fill a space.

Few older Tenants are forced out. Many have had a good run and are tired of "all" the increased costs and regulations. Now the landlord has to clean the space and bring it "up to code" and make it presentable to a potential new Tenant. Whatever the old Tenant had as improvements are rarely acceptable to the new Tenant. As we joke "the old Tenant had Gold doorknobs and the new Tenant says "Gold is out – I need Silver""

Blaming "rich" landlords is going after an easy target as if landlords want empty spaces. Believe me 98% of us want the space occupied and not have to carry a vacancy, absorbing other costs, including new renovations and upgrades. There is a defacto Vacancy Tax now. Missing rent and paying the taxes that would have been paid by the Tenant. The City is currently forcing landlords to install water meters in all commercial spaces. This is costing every Landlord at least \$5,000 per building per Landlord. Add that up. Landlords also have a lot of costs to carry.

One factor that also affects the Landlord and Tenant is the change to the Business Tax Collection system from years ago. The City has no partnership with the commercial storefront Tenants. And unless the Tenant lives in that Borough, they have no vote. Regardless of the street work, the time it takes or the inconvenience to the street and storefronts, the City revenue is not diminished. The Landlord gets billed and is legally liable regardless of the health of the Tenant or even if Vacant. Maybe the City would become better planners if it affected their income?

What is the solution? Stop blaming the Landlords and follow some best practices. Learn from success. Each area of the city has its distinct flavors. Many have found a way to attract people and business and have few Storefront Vacancies. Business follows people and people follow a full street. Monkland, Laurier, Beaubien, Wellington, Villeray and Sherbrooke West NDG are some examples that have found a way to balance cars, bikes, public transport and pedestrian walks. Balancing Cars, Bikes, Public Transport and Pedestrians – it is worth repeating.

Let's stop blaming the landlords. Let's control taxes and have thoughtful planning for the necessary reconstruction of the infrastructure. Let's work on providing a total environment that draws people by all forms of transport and businesses will follow.

Independent Storefront Tenants invest their life savings in dreams and sweat. Yes, rent is an issue but far from the only one. We need to bring all the above factors together to make Storefront Tenants and our neighborhoods successful.

Thank you

Mark Lazar

President

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