

# MARKETBEAT

## WINNIPEG INDUSTRIAL REPORT



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### ECONOMY

The Conference Board of Canada has just issued its latest provincial outlook describing Manitoba's economic growth as being muted for the next two years. It predicts the provincial economy will grow by only 2.2 percent this year and only 2.1 percent next year. The primary growth sectors are thought to be in the areas of agriculture and manufacturing coupled with what some have described as a boom in the mining industry.

These growth potentials are very likely going to be offset by a measurable decline in construction output given that major public works projects such as the Manitoba Hydro headquarters, the Red River Floodway expansion and the new airport terminal are either completed or nearing completion.

The residential housing market, however, continues to reflect high consumer confidence by recording year over year gains of 11% with April 2010 representing the first time the average monthly home sale price eclipsed \$250,000. Overall the housing market enjoyed record dollar volumes in 2009 of \$2.5 Billion.

### OVERVIEW

There are many interpretations of statistics for overall vacancy rates for the industrial leasing market in Winnipeg—it's been reported to be anywhere from two per cent to five per cent—but one thing is certain, vacancy continues to reflect decade-low levels. The Winnipeg market has never been over-built with speculative development and as a result tenants do not have an abundance of choices when it comes to alternatives. The market velocity hasn't quite reached levels to drive rates quickly enough on the older inventory to spur new development. There is a gap between net lease rates on the predominantly older inventory and the near double-digit rates required to make new construction work for developers. That gap is starting to close as tenants facing renewals are beginning to find out. The market is in a period of flux and will likely see both an increase in net rates on both renewals and vacancies coupled with some new developments. Still, when compared to other real estate markets the Winnipeg industrial landscape offers terrific value for its participants, especially when you factor in the geographical and economic benefits of the city's location.

### OUTLOOK

Winnipeg's economy did not suffer the same magnitude of declines as other jurisdictions; therefore its growth during the post-recession upswing will not appear to be as dramatic. TD Bank Financial Group describes it as "not having lost much ground in terms of output and employment translates into less pent-up activity waiting to be unleashed."

The industrial market is expected to continue to reflect elevated activity levels in an already tight market which may spur some much needed new development by the end of the year. Companies that have successfully weathered the recent storm are poised to take advantage of the rebounding economy and in many cases are going to need additional space which may not be available. Some of the gap in rental rates will start to close as landlords realize they can charge more on renewals without the risk of losing their tenants to competing space. If anything, vacancy rates are likely to decline even further unless new inventory is brought on stream.

### BEAT ON THE STREET

"The Canadian real estate market in general, and the Manitoba market in particular, has been one of the strongest and most stable performers among all regions internationally. Morguard has about \$400 million in assets under management in Manitoba, and it has been our best performing region over the past 20 years - generating returns that have been more than 170 to 200 bps higher than the comparable returns in Ontario, Quebec, Alberta and British Columbia. Manitoba's resilience has been particularly evident over the past two years, as asset values have held up extremely well in the face of the global economic downturn and falling property values around the world."

– Stephen Taylor

President & CEO

Morguard Investments Limited

### ECONOMIC INDICATORS

|                   | 2008 | 2009  | 2010F |
|-------------------|------|-------|-------|
| GDP Growth        | 2.6% | -0.3% | 3.0%  |
| CPI Growth        | 2.3% | 0.6%  | 1.7%  |
| Unemployment      | 4.3% | 5.2%  | 5.2%  |
| Employment Growth | 1.2% | 0.0%  | 1.2%  |

*BMO Economic Outlook April 16th*

### MARKET FORECAST

ABSORPTION



VACANCY RATES



LEASE RATES



### CENTREPORT CANADA UPDATE

CentrePort Canada is working to enhance its presence along the Asia-Pacific Gateway by teaming up with Cuntan Bonded Port Zone in Chongqing, China on a cooperation agreement that will see the two inland ports work together on common priorities and new business opportunities.

The agreement between Manitoba's CentrePort Canada and Chongqing's Cuntan Port was signed May 18, 2010 in China at a ceremony that included officials from both inland ports as well as federal Treasury Board President Stockwell Day, who is also the minister responsible for the Asia-Pacific Gateway.

Diane Gray, President and CEO of CentrePort Canada, said the two ports share many similarities, making them natural partners. Both are centrally-located within their respective countries at the hub of north-south and east-west trading corridors, offer investors Foreign Trade Zone (FTZ) programming, and provide access to multi-modal transportation options including air, rail, road and sea.

The agreement explores cooperation between CentrePort Canada and Cuntan Port in the following priority areas:

- Information exchange – Information may be exchanged on best practices, market trends, industry developments, and legislative and regulatory changes to allow the two ports to formulate effective and timely plans for increasing trade growth.
- Joint promotions/ strategic partnerships – The participants may engage in cross promotions in order to increase awareness of each other's operations in their respective countries, as well as facilitate and generate future economic activity and increase two-way trade. In addition, the partners will explore how to better use FTZ programming for the benefit of exports/imports in Canada and China.
- Technology exchange – The participants may share information on the latest technological programs and applications in order to enhance security and traceability of supply chain activities, as well as increase the efficiency of the movement of goods to market and support environmentally-sustainable operations.

"China is an incredibly important trading partner and working with Cuntan Port provides us with another way to increase our reach and our presence in the global marketplace," Gray said. "New investment opportunities often begin with raising awareness and letting people know that we are open for business. This agreement with Cuntan Port will help us increase our profile in China, expand our base of contacts and open the door to future business."



"Winnipeg's central geographic location within North America has enabled our transportation and distribution capabilities to grow over the last century. CentrePort Canada is moving those capabilities forward to meet 21<sup>st</sup> century global supply chain needs. Our location as the northern gateway along the Mid-Continent Trade Corridor has enabled CentrePort Canada to forge strategic alliances with other North American inland port operations which will maximize CentrePort Canada's value to exporters, distributors and manufacturers."

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