

# MARKETBEAT

## WINNIPEG OFFICE REPORT

A CUSHMAN & WAKEFIELD LEPAGE RESEARCH PUBLICATION



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### ECONOMY

Manitoba's economy is well positioned to turn in another strong performance in 2008 according to industry experts. Thanks to a well diversified manufacturing sector, a number of large capital projects and a hot housing market that shows no end in sight, Manitoba's economic prospects for 2008 look bright. In the latest RBC forecast, Manitoba is projected to post GDP growth of 2.8% in 2008 which would make it the third best performing provincial economy – behind only Saskatchewan's forecasted 3.6% GDP growth and Alberta's estimate at 3.3%.

### OVERVIEW

The downtown office market is off to a good start in 2008 as leasing activity among all market classes has been steady. Overall vacancy rates have inched downwards over the past quarter as rental rates continue to slowly creep up. Average Net Asking Rents are increasing in the class A and class B Central Business District office market. The large sublet market that existed early in the year has been significantly reduced as tenants seized the opportunity to derive attractive rental economics from head tenants eager to shed space. The growth of Public sector office requirements has also played a large role in reducing the vacancy levels downtown absorbing over 81,000 square feet (sf) year to date.

The class A market overall vacancy rate is now 7.7% down from 9.0 % at the end of 2007. The direct vacancy rate now stands at 4.8% which is the lowest in five years. The accounting firm Myers Norris Penny announced that they will be relocating to 201 Portage Avenue from their suburban west location. Myers Norris Penny will be leasing 38,862 sf of space recently put up for sublease by Viterra. This addition to the building along with the expansion of existing tenants at 201 Portage has back filled approximately 49,000 sf of sublet space.

The class B market overall vacancy rate has fallen from 8.0% in the fourth quarter of 2007 to 7.3% at the end of the first quarter of 2008. The big story in this market segment is the lease up of almost all of the soon-to-be-vacated Centra Gas offices at 444 St Mary Avenue. It is expected that Great West Life Assurance Company will relocate its offices at 330 Portage to this location leasing the majority of the 65,000-sf Centra Gas offices.

### OUTLOOK

The downtown office market has shown higher than expected activity in the first quarter of 2008. We remain cautiously optimistic that the market will continue to keep vacancy rates at or near present levels for the balance of the year. Going forward, demand will depend largely upon growth in public sector office requirements and the financial services sector.

The rapid rise in construction costs are expected to fuel further rental rate creep. Tenants contemplating a move in this market will find the costs of leasehold improvements significantly higher.

Demand for office product in the suburban market will continue to be strong in 2008. Office projects both small scale and large will break ground this year breaking the \$20 net rental rate barrier.

### BEAT ON THE STREET

"Increased demand in the hot south suburban market will spur more office development in 2008. Rates are expected to be in the \$22 to \$26 net rent for new construction."

–Mike Passingham, Office Leasing & Sales

### BEAT ON THE STREET

	2006	2007	2008F
GDP Growth	2.6%	3.9%	3.4%
CPI Growth	1.9%	2.3%	2.1%
Unemployment	4.6%	4.6%	4.3%
Employment Growth	2.0%	2.0%	1.6%

Source: Conference Board of Canada, Metropolitan Outlook, Winter 2008

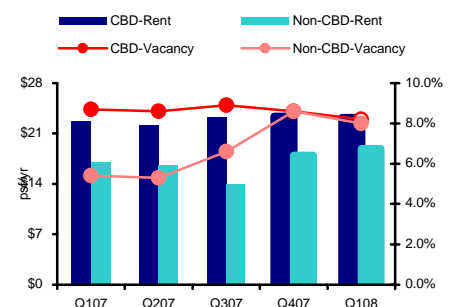
### MARKET FORECAST

OVERALL GROSS RENTAL RATES in the CBD will increase over the next three quarters as the inventory of sublet and vacant space over 15,000 sf continues to dwindle. ↑

In 2008, capital investment is projected to increase 18.8%, highest among provinces. Private investment is projected to increase 22.4% while public investment is projected to increase 10.6%. (Manitoba Economic Highlights, Province of Manitoba, March 11, 2008) ↑

CONSTRUCTION of the Manitoba Hydro Office Tower on Portage Avenue, will bring an additional 670,000 sf of class A office space to the Central Business District. ↑

### OVERALL RENT VS. VACANCY



# MARKETBEAT

## MARKET/SUBMARKET STATISTICS

	Inventory	No. of Bldgs.	Overall Vacancy Rate	Direct Vacancy Rate	Under Construction	YTD Construction Completions	YTD Overall Absorption	Direct Wtd. Avg Gross Rental Rate*
Central								
Class A	2,143,231	7	7.7%	4.8%	670,000	0	28,526	\$31.40
Class B	3,502,840	26	7.3%	6.4%	0	0	24,645	\$24.91
Class C	3,647,150	63	9.4%	8.1%	0	0	(10,288)	\$17.80
<b>Central Total</b>	<b>9,293,221</b>	<b>96</b>	<b>8.2%</b>	<b>6.4%</b>	<b>0</b>	<b>0</b>	<b>42,883</b>	<b>\$23.21</b>
Suburban								
Class B	846,387	22	7.8%	7.8%	106,500	0	0	\$23.89
Class C	1,731,107	37	8.1%	5.4%	0	0	20,691	\$15.52
<b>Suburban Total</b>	<b>2,577,494</b>	<b>59</b>	<b>8.0%</b>	<b>6.2%</b>	<b>0</b>	<b>0</b>	<b>20,691</b>	<b>\$18.88</b>
<b>WINNIPEG TOTAL</b>	<b>11,870,715</b>	<b>155</b>	<b>8.2%</b>	<b>6.3%</b>	<b>0</b>	<b>0</b>	<b>63,574</b>	<b>\$22.25</b>

\* Rental rates reflect \$psf/year

## MARKET HIGHLIGHTS

SIGNIFICANT 1Q08 NEW LEASE TRANSACTIONS				
BUILDING	SUBMARKET	TENANT	SQ FT	BLDG CLASS
360 Main	Central	Maxim	4,000	A
201 Portage	Central	Myers Norris Penny	38,862	A
201 Portage	Central	Entegra Credit Union	3,500	A
201 Portage	Central	Global TV	15,000	A
317 Donald	Central	City Pension Fund	16,493	B
136 Market	Central	In Touch	15,606	C
167 Lombard	Central	Government of Canada	25,636	C
City Place	Central	Justice / Veteran Affairs Association of Professional Engineers	56,000	C
870 Pembina	Suburban	Engineers	14,530	C
555 Madison	Suburban	Adapsys	18,000	C

SIGNIFICANT 2007 SALE TRANSACTIONS				
BUILDING	SUBMARKET	BUYER	SQ FT	PURCHASE PRICE
N/A				

SIGNIFICANT 2007 CONSTRUCTION COMPLETIONS				
BUILDING	SUBMARKET	MAJOR TENANT	SQ FT	COMPLETION DATE
N/A				

SIGNIFICANT PROJECTS UNDER CONSTRUCTION				
BUILDING	SUBMARKET	MAJOR TENANT	SQ FT	COMPLETION DATE
Manitoba Hydro Building	Central	Manitoba Hydro	670,000	Q2 2008
Tuxedo	Suburban	Earth Tech	39,000	End of Q2 2008
Sterling Lyon Business Park	Suburban	A&S Homes	46,500	Q3 08
870 Pembina Hwy	Suburban	Association of Professional Engineers	15,000	Q4 08



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