

MARKETBEAT

WINNIPEG OFFICE REPORT

A CUSHMAN & WAKEFIELD LEPAGE RESEARCH PUBLICATION



1Q10

ECONOMY

The Manitoba economy sidestepped the worst of the economic turmoil of 2009 and is expected to perform relatively well in 2010. Given that Manitoba's real GDP contracted by only 0.3% in 2009—compared to 2.6% for Canada—the road to recovery for Manitoba should be relatively smooth. Population growth above the national average and a strong job market fuelled by several large capital projects will contribute to keeping the economy humming along over the next twelve months. In addition to the James Richardson Airport and the Canadian Museum for Human Rights, the province will invest \$1.8 billion in infrastructure and capital renewal in fiscal year 2010/11.

Manufacturing and trade numbers have strengthened in this quarter despite a high Canadian dollar. BMO Capital Markets forecasts Manitoba's GDP to advance 3% in 2010.

The outlook in Manitoba is positive. The expansion of the University of Winnipeg Campus and Red River Campus downtown in addition to a number of new office projects in the Central Business District have created excitement and anticipation that Manitoba's capital city is in the midst of a mini-boom.

OVERVIEW

Office market activity started to pick up in the first quarter of 2010. Several office requirements have been introduced to the market by tenants looking to expand or upgrade outdated premises. A number of firms emerging from the recession and entering 2010 with a strong balance sheet are poised for growth and taking a long-term view with respect to their real estate needs. These tenants are finding opportunities created by the convergence of low interest rates, increasing vacancy in the Central Business District and the hangover of a fragile 2009 leasing market. The cost differential between renovating and replacing infrastructure in existing premises versus relocating to new premises is not as cost prohibitive as in past years.

The class A market saw moderate activity in the first quarter of 2010 as the overall vacancy rate increased by 0.6 percentage points, from 5.6% to 6.2%. This increase was primarily due to CanWest Global returning approximately 30,000 square feet (sf) to 201 Portage Avenue. At 360 Main Street, Microsoft Canada leased approximately 10,000 sf, reducing the direct vacancy rate at that building to approximately 1%.

The class B market registered an increase in vacancy of 65,040 sf, resulting in an increase in the overall vacancy rate of almost 2 percentage points to 10.8%. The customer contact industry's continuing contraction resulted in Inspyre Solutions vacating approximately 30,000 sf at 363 Broadway. Statistics Canada leased approximately 12,000 sf at 330 Portage Avenue.

The class C market was relatively quiet with little activity recorded this quarter. Social Planning Council of Winnipeg leased approximately 5,000 sf at 207 Donald Street.

OUTLOOK

Over the next several quarters, overall vacancy rates are expected to increase as shadow vacancy continues to grow and more sublet space is brought onto the market. Increased tenant movement between buildings and building classes is expected over the next year as opportunistic tenants seize attractive lease deals and sublet offerings.

Although lease rates will remain unchanged, NER's are expected to shrink as landlords aggressively pursue tenants to fill vacancy.

BEAT ON THE STREET

"Downtown Winnipeg is once again the place to be for office tenants. The migration of office tenants to the suburbs has slowed considerably. The excitement created by a number of new projects and expansion of the skywalk system has created a vibrancy downtown that is palpable."


– Wayne Sato, Vice President, Office


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

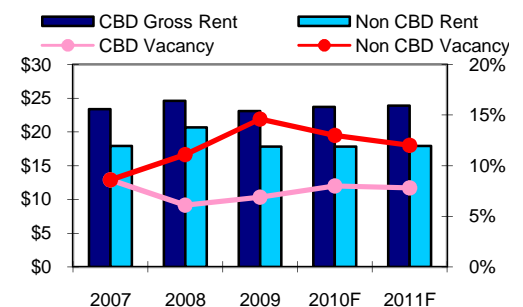
MARKET FORECAST

VACANCY RATES are expected to inch upwards in the near term as more sublet space is placed on the market. 

ABSORPTION will move sideways for most of 2010. Near term absorption will be slightly negative until Q4 2010 when some tenant expansion and new requirements are expected to enter the marketplace. 

LEASE RATES are expected to remain unchanged over the next several quarters. Inducements offered to secure new tenants and retain existing tenants will increase, leading to lower NER's 

OVERALL RENT VS VACANCY



MARKET/SUBMARKET STATISTICS

	Inventory	No. of Bldgs.	Overall Vacancy Rate	Direct Vacancy Rate	Under Construction	YTD Construction Completions	YTD Overall Absorption	Direct Wtd. Avg. Class Net Rental Rate*
Central Business District								
Class A	2,838,471	8	6.2%	3.8%	0	0	(17,126)	\$16.91
Class B	3,587,840	27	10.8%	9.5%	0	0	(65,040)	\$13.09
Class C	3,647,150	63	6.0%	5.8%	0	0	0	\$8.81
CBD Total	10,073,461	98	7.8%	6.6%	0	0	(82,166)	\$12.34
Suburban Area								
Class B	1,218,458	33	16.4%	16.1%	0	0	0	\$13.46
Class C	1,704,390	36	13.4%	12.2%	0	0	0	\$9.41
Suburban Total	2,922,848	68	14.6%	13.8%	0	0	0	\$11.37
WINNIPEG TOTAL	12,996,309	166	9.3%	8.2%	0	0	(82,166)	\$11.97

* Rental rates reflect \$psf/year

MARKET HIGHLIGHTS

SIGNIFICANT 1Q10 NEW LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQ FT	BLDG CLASS
111 George Avenue	Central	PCL Construction Canada	4,102	C
207 Donald Street	Central	Social Planning Council Winnipeg	4,950	C
360 Main Street	Central	Microsoft	10,000	A
220 Portage Avenue	Central	Sustainable Solutions	4,500	B
330 Portage Avenue	Central	Stats Canada	12,000	B

SIGNIFICANT 1Q10 SALE TRANSACTIONS

BUILDING	SUBMARKET	BUYER	SQ FT	PURCHASE PRICE
1111 Chevier	Suburban		57,205	

SIGNIFICANT 1Q10 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQ FT	COMPLETION DATE
N/A				

SIGNIFICANT PROJECTS UNDER CONSTRUCTION

BUILDING	SUBMARKET	MAJOR TENANT	SQ FT	COMPLETION DATE
United Way Building	Central	United Way	24,000	Q3/10
504 Main Street	Central	Red River Community College	120,000	Q3/10
Lagimodiere Blvd	Suburban	Steinbach Credit Union	42,000	Q2/10
Wilkes & Brookville Street	Suburban	Canada Post	500,000	Q4/10
St. Mary	Suburban	WRHA, Birthing Centre	12,000	Q4/10



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