MARKETBEAT

WINNIPEG OFFICE REPORT

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2Q09

ECONOMY

Manitoba appears to have found the solution to the economic crisis that has stricken North America—a highly diversified economy, underpinned by agriculture, transportation and distribution, aerospace, insurance and finance, and a broadly based manufacturing industry are just a few of the key ingredients behind one of the best performing provincial economies in Canada. As a result, Manitoba consistently posts one of the lowest unemployment rates among all provinces and, more recently, one of the highest percentage increases in net immigration. Manitoba is expected to fare well over the next 24 months, bolstered by a number of large capital projects and approximately $1.6 Billion in infrastructure spending.

Although the outlook for Manitoba is optimistic, the relatively stable office market is beginning to experience the negative impacts of corporate downsizing by national tenants, some of which have left Winnipeg, reduced workforces or put expansion plans on hold.

OVERVIEW

The Winnipeg office market posted better than expected numbers in the second quarter. The total overall vacancy rate for all classes dropped from 7.2% at the end of 2008 to 6.8% at the end of this quarter.

The class A Central Business District (CBD) market recorded the largest decrease in overall vacancy, with a reduction of almost one percentage point from 7.7% in the first quarter to 6.8% at the end of the second quarter. Most of the activity this quarter occurred at 360 Main Street as the expansion of an existing government tenant resulted in absorption of 15,000 square feet (sf).

The class B CBD market experienced the greatest increase in overall vacancy with an increase from 5.5% at the end of 2008 to 7.1% at the end of the second quarter—a difference of approximately 55,000 sf. Although leasing of approximately 27,000 sf of sublet space took place in the second quarter, this was offset by the introduction of new sublet space of approximately 28,000 sf at 433 Main Street, as Bank of America closed its Winnipeg customer contact centre.

The class C CBD market continues to post lower vacancy rates as over 34,000 sf have been absorbed in this market year-to-date. The majority of lease deals in this market segment have been smaller transactions of less than 10,000 sf. The largest transaction this quarter was at 332 Bannatyne Avenue, where the Province of Manitoba leased over 11,000 sf.

OUTLOOK

The Winnipeg office market appears to have sidestepped any significant fall-out from the recessionary climate that has gripped North America. With vacancy rates at reasonable levels and office inventory levels (other than owner occupied) forecasted to be static for the foreseeable future, little change to lease rates is expected for the remainder of the year. On a cautionary note, the potential for a growing sublet market and increased shadow vacancy looms on the horizon. This concern is expected to influence Net Effective Rates (NERs) on deals as landlords aggressively seek to fill vacancies.

BEAT ON THE STREET

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–Wayne Sato, Office Leasing and Sales

ECONOMIC INDICATORS

	2008	2009	2010F
GDP Growth	2.6%	1.1%	3.0%
CPI Growth	2.3%	1.1%	2.3%
Unemployment	4.3%	4.6%	5.1%
Employment Growth	1.2%	0.3%	0.5%

Source: Conference Board of Canada

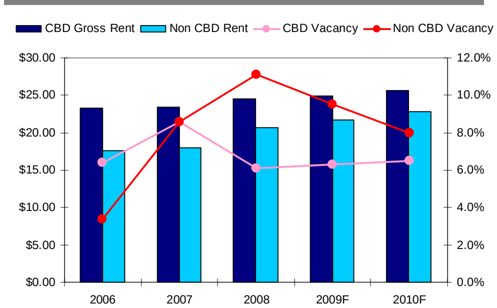
MARKET FORECAST

The direct vacancy rate in the CBD is forecasted to remain static for the rest of the year, although an increase in the sublet market and shadow vacancy is anticipated.

The addition of the Manitoba Hydro building to building inventory is expected to increase absorption in the CBD by over 600,000 sf in the third quarter.

Average gross rents for available space among all building classes in the CBD have gone down $1.47 per square foot. Although landlords have not increased rents over this period, this reduction reflects the reduction in available class A space relative to the increase in available class B space.

OVERALL RENT VS VACANCY



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MARKET/SUBMARKET STATISTICS

Central Business District	Inventory	No. of Bldgs.	Overall Vacancy Rate	Direct Vacancy Rate	YTD Construction Completions	YTD Overall Absorption	Direct Wtd. Avg. Net Rental Rate*
Class A	2,143,231	7	6.8%	4.6%	0	15,767	$16.83
Class B	3,502,840	26	7.1%	6.1%	0	(55,528)	$12.54
Class C	3,647,150	63	5.0%	4.2%	0	34,150	$8.41
CBD Total	9,293,221	96	6.2%	5.0%	0	(5,611)	$12.00
Suburban							
Class B	804,191	22	16.7%	16.2%	0	5,147	$14.22
Class C	1,731,107	37	5.6%	4.4%	0	45,295	$10.79
Suburban Total	2,535,298	59	9.1%	8.1%	0	50,442	$12.82
WINNIPEG TOTAL	**11,828,519**	**155**	**6.8%**	**5.7%**	**0**	**44,831**	**$12.26**

* Rental rates reflect $psf/year

MARKET HIGHLIGHTS

SIGNIFICANT 2Q09 NEW LEASE TRANSACTIONS

BUILDING	SUBMARKET	LESSEE	SQ FT	BLDG CLASS
275 Portage Ave	Central	University of Winnipeg	5,500	B
275 Portage Ave	Central	First Nations	5,500	B
332 Bannatyne	Central	MB Government	12,000	C
332 Bannatyne	Central	International Centre	16,000	C

SIGNIFICANT PROJECTS UNDER CONSTRUCTION

BUILDING	SUBMARKET	MAJOR TENANT	SQ FT	COMPLETION DATE
Main Street and Disraeli Freeway	Central	United Way new Head Office	24,000	Q3/10
504 Main Street	Central	Red River College $27m redevelopment	120,000	Q1/10
Manitoba Hydro Place	Central	Manitoba Hydro	695,000	Q3/09
Sterling Lyon Business Park	Suburban	A&S Homes	46,500	Q3/09
Waters Business Park	Suburban	Polaris Industries	12,000	Q3/09
Main St & Higgins Ave	Central	Winnipeg Regional Health Authority	85,000	Q3/09
Tuxedo Business Park	Suburban	UMA Engineers	38,000	Q3/09

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