

# MARKETBEAT



## WINNIPEG INDUSTRIAL REPORT

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION

3Q10

### ECONOMY/OVERVIEW

Manitoba's mining sector fell victim to the global recession in 2009, with industry output declining by 0.6 per cent last year. The drop in base-metal prices and a weaker stock market hindered junior mining firms' efforts to raise working capital, but base metal and crude oil prices have rebounded strongly, encouraging companies to ramp up extraction. All in all, total mining output is forecast to rise by 7.6 per cent this year and 4.5 per cent in 2011. Meanwhile, the manufacturing sector is also expected to rebound this year from its sharp 10.2 per cent decline, supported by rising demand from the U.S. in particular and the rest of the world in general. An upswing in demand for aerospace parts and urban transit buses, both manufactured in Winnipeg, will underpin an expansion of 2.6 per cent for Manitoba's manufacturing industry in 2010 and another 3.3 per cent in 2011.

The agriculture sector also had a challenging year in 2009, because of bad weather and slumping commodity prices. This year, high agricultural inventory estimates by the U.S. Department of Agriculture triggered a series of crop price declines. Unsurprisingly, Manitoba farmers are expected to seed smaller crop areas. With the gradual recovery in the global economy, fuel and fertilizer costs are expected to rise; and since agricultural prices have yet to recover, that will translate into lower incomes for farmers. However, the livestock industry will be boosted by higher market prices, prompted by increasing global meat consumption. In general, the agriculture sector is expected to grow by a modest 1.1 per cent in 2010. The services side of the economy, meanwhile, will carry its strength forward through 2010, fuelled by a good performance by the finance, insurance, and real estate industry.

### OUTLOOK

This year's recovery will help create roughly 2,000 new jobs overall—a gain that will serve as a precursor to the 10,000 new jobs anticipated in 2011. Personal disposable income will increase by 2.4 per cent, while the Consumer Price Index is expected to rise only 1.9 per cent, thus allowing for real income gains. The favourable employment climate and income gains are forecast to boost retail sales 3.6 per cent in 2010. Additional fuel from low interest rates will propel Manitoba housing starts to 4,564 units this year and 5,030 in 2011. The overall construction sector, however, will be a drag on the economy in 2010 because of a decline associated with the completion of work on the Manitoba section of the Keystone pipeline

Marcus Lipnicki, Economic Development Winnipeg Inc.

Source: Conference Board of Canada, Spring 2010 Metropolitan Outlook

### BEAT ON THE STREET

"The current market for the sale of industrial buildings remains very active as the demand far exceeds the supply. This level of activity has created upward pressure on selling prices and multiple offers for listed properties are common. Price levels are closing the gap versus the costs of new construction. The most popular range of sizes is from 8,000 square feet to 20,000 square feet. Our experience suggests that product in the southwest and northwest quadrants are in highest demand."

– Winnipeg Industrial Team

### ECONOMIC INDICATORS

	2008	2009	2010F
GDP Growth	2.0%	-0.2%	3.0%
CPI Growth	2.2%	0.6%	1.5%
Unemployment	4.1%	5.2%	5.5%
Employment Growth	1.8%	0.0%	2.0%

BMO Economic Outlook August 20, 2010

### MARKET FORECAST

ABSORPTION



VACANCY RATES



LEASE RATES



### CENTREPORT CANADA UPDATE

Construction has begun on CentrePort Canada Way, a \$212-million, four-lane expressway in northwest Winnipeg funded by the federal and provincial governments. There will also be improvements to the TransCanada Highway, Highway 75 and Winnipeg's Perimeter Highway, all key connectors to national and international transportation corridors linking into CentrePort Canada.



"CentrePort Canada is well-connected to significant markets across Canada, North America, Asia and beyond," said Diane Gray, president and CEO of CentrePort Canada. "These new investments will boost Manitoba's infrastructure advantage and further enhance our position as a key hub in north-south and east-west trade, as well as within the global supply chain."

CentrePort Canada Way is a new corridor that will run through the 20,000 acres designated to CentrePort Canada and connecting Inkster Boulevard (PR 221), the James A. Richardson International Airport and the CP Weston rail intermodal facility to the province's main highway system. Construction has started along the northwest Perimeter Highway and over the next several years, two new overpasses and an interchange will be built.

The multi-year road construction project is being funded jointly by Manitoba and Canada with the federal share coming from the Provincial Territorial Base Funding Agreement (\$68.35 million) and the Asia-Pacific Gateway and Corridor Initiative (\$33.25 million). Manitoba has matched the federal funds, plus an additional \$9.2 million for land acquisition.

Source:

<http://www.globalnews.ca/work+begins+inland+port+project+more+highway+improvements+come/3171400/story.html>

### FEATURE LISTING

#### 1821 WELLINGTON AVENUE - AIRPORT PLACE

29,5439 sf, 46,215 sf, 58,615 sf – can be combined to over 100,00 sf – available immediately  
18' ceiling height, M2 zoning, dock loading, low gross rent of \$8.00 psf includes all utilities



### RECENT INDUSTRIAL DEALS

TYPE	ADDRESS	VENDOR/LANDLORD	PURCHASER/TENANT	BUILDING SIZE (SF)
Sale	1300 Church Ave	HREIT Holdings 12 Corporation	P.R.S. Properties Ltd.	40,600
Lease	500 Madison St	Group II Investments Ltd.	Versatech Industries Ltd.	53,000
Sale	100 Paquin Rd	Phillips & Temro Industries Ltd.	100 Paquin Road Ltd.	121,990
Sale	20 Park Lane Ave	5168245 Manitoba Inc.	6044736 Manitoba Ltd.	11,095
Lease	11 Fultz Blvd	2709369 Manitoba Ltd.	Fountain Tire Ltd.	100,000

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## End of Summer 2010 Market Update – Financing Industrial Properties

Ron Margolis, President of *Margolis Capital - Commercial Mortgage Professionals*  
September 3, 2010

Hard to believe it's already been over 4 months since we hosted representatives from more than two dozen lending institutions who were attending the inaugural (and sold out) Winnipeg Real Estate Forum. The overriding message that entire week was very positive, as highlighted during the financing panel I had the privilege to lead... lending spreads had come back down to near historical norms, credit terms were starting to revert, and there was ample capacity and liquidity in the system from the full spectrum of traditional and non-traditional lending sources. For our local perspective, lenders from across the country were eager to increase their exposure to Winnipeg properties and borrowers, attracted to our stable economic track record which stood out over the past 24 months relative to other major Canadian markets.

As such, I thought it would be timely to reflect on what's transpired since the Forum, and provide a brief update on financing market conditions and in this case specifically as they relate to the Industrial Sector.

Some of the positive changes we've seen following the Winnipeg Forum include:

- ✓ *A more favourable interest rate outlook (fears of rapidly rising rates have softened in the face of global uncertainty, and the BoC has tempered its own guidance following 2 short term increases and a third increase likely to be announced this month, after which they may hold steady).*
- ✓ *25 year amortization is again routinely available for newer (say 10 yrs old) industrial properties from majority of institutional lenders. We're starting to see even longer amortization periods and interest only components for new (or newly refurbished) product.*
- ✓ *While multi-tenant income properties with strong covenants and proven cashflow are in highest demand, we're seeing increasing interest from the lending community to participate in new construction and development opportunities, land financing, as well as owner-occupied and single tenant properties.*

A couple points of caution should be noted:

- ❖ *Even though we're just over half way through the calendar year, there are a number of institutional lenders who have been quite active and by July were already more than ¾ of the way into their loan program, and we've seen these players start to widen their loan spreads and become a bit more selective and conservative with their remaining liquidity (and as a result less competitive).*
- ❖ *Also - lenders are continuing to pay close attention to their geographic, sector and client name exposure limits, and some have introduced higher levels of sensitivity analysis to their underwriting programs - and as a result, many clients are finding their own relationship lender isn't always able to provide a competitive loan structure that fully meets the borrower's needs, because of other factors within the lender's own book unrelated to that borrower.*

Underwriting varies greatly between institutions, but on balance there are many more lenders looking for good business than there are quality deals to fund, so competition still works in the borrower's favour.



By way of recent examples this summer:

- ✓ *new loan commitment on a ~10 yr old <50,000 sq ft single tenant industrial project (credit tenant just renewed for 5 years) in north Winnipeg where we presented our client with four (4) lender quotes (including the incumbent) well below 200 bp, on 5 & 10 year terms, 25 year amortization (they chose a 10 year deal which funded late last month), where other lenders quoted +235 or more on the same transaction;*
- ✓ *in the past couple months we've been able to place several urban development land purchase and refinancing transactions on parcels from less than 1 acre to more than 100 acres with both private and institutional lenders, and in each case have been able to present multiple lending proposals for our clients to consider;*

In general terms - for well sponsored good quality properties with strong tenants in major markets (including Winnipeg) on loan amounts \$5m+, we are presently seeing credit spreads as follows\* (note there are exceptions – these are merely indicative ranges and reflect a slight increase from beginning of the summer, although the overall coupon rates remain extremely attractive due to declining bond yields):

<u>Sector</u>	<u>Term</u>	<u>(GoC @ Sep 2, 2010)</u>	<u>Spreads*</u>	<u>All-in Rate Rates</u>
Industrial	5 year	2.11%	185-250 bp	3.96% - 4.61%
Industrial	10 year	2.86%	195-265 bp	4.81% - 5.51%

\*Spreads applicable to owner-occupied and smaller income properties generally fall outside these ranges and will vary greatly depending on sponsorship, building condition and age, location, and income stream.

The strong demand for mortgage income means there are also a number of second tier lenders who can provide very quick first mortgage funding on an interest-only basis for acquisitions where a redevelopment or stabilization period is required, in order to maximize the eventual long term take-out for the purchaser. As well, we have seen an increasing segment of lenders prepared to provide competitive subordinated mortgages behind existing conduit loans or even to increase leverage behind newly arranged bank/lifeco/pension loans which can help finance expansions as well as tenant improvements or inducements and leasing commissions.

For industrial investment properties – lenders underwrite based on factors such as multi-tenant vs single tenant, lease roll-over schedule, relationship between actual and market rates, age and physical condition of the property, current and potential uses, tenant covenants, depth of sponsorship, management experience to name a few. For owner-occupied properties, further analysis of the industry sector and business track record/performance will also be required. Additional time is required for all types of due diligence, and we are seeing increasing attention being paid to potential environmental risks both for the subject and from neighbouring properties.

In order for borrowers to best take advantage of opportunities in this current financing market – having access to and relationships with the entire lending community is the only way to know month-in and month-out who has capacity for a particular transaction. A mortgage professional with no lender/agency obligations can focus solely on achieving loan terms that meet the borrower's requirements – thereby avoiding the risks of real or perceived potential conflicts associated with loan servicing responsibilities or lender's finder's fees. Consider the benefits of adding financing expertise and market credibility before you approach your own lender or any lender.

Now is a great time to be reviewing portfolios in preparation for upcoming fall and winter loan maturities, as well as developments and acquisitions in the planning stages, and we'd be happy to get



together with you to discuss any specific situations or opportunities where we may be able to offer assistance, or just expand on any of the above referenced lending market information.

In the meantime, I hope you enjoyed summer and are looking forward to a prosperous fall season.

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