

MARKETBEAT

WINNIPEG OFFICE REPORT

A CUSHMAN & WAKEFIELD LEPAGE RESEARCH PUBLICATION



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3Q08

ECONOMY

Once again the diverse nature of Manitoba's economy has allowed it to have a successful quarter with increased growth in a number of sectors. More specifically, according to Destination Winnipeg, the city ranks as the third best city in Canada for GDP growth at 3.3%. Buoyant construction activity and strong wholesale and retail trade growth are driving Winnipeg's 2008 growth.

Despite fewer overall building permits, Winnipeg's outlook remains positive for the remainder of 2008. This, coupled with a weakening Canadian Dollar should serve to help the manufacturing industry and increase trade, which has slowed to some degree with the strength the Dollar has shown in past quarters.

The impending economic crisis, however, has made many investors very hesitant. While the true outcome is yet to be seen, it appears the economy has certainly slowed. The positive forecast for the remainder of 2008 may lead into a large degree of uncertainty heading into the new year.

OVERVIEW

The office market in Winnipeg continued to perform well in the third quarter, with vacancy rates continuing to decline across all building classes. Construction continues on the Manitoba Hydro building at 360 Portage Avenue and they have announced a phased move-in to the tower beginning at the end of the year. This move will consolidate a number of their existing locations downtown, and will result in some shuffling in the downtown market, however, vacancy rates are not expected to be significantly affected.

The class A CBD market has seen its third consecutive quarter of decline in the overall vacancy rate from 9% in the fourth quarter of 2007, down to 6.1% this quarter. Direct vacancy has decreased in turn, down 1% from a year ago with a current rate of 3.8%. The majority of the sublet vacancy left by Viterra at the end of 2007 of 73,000 square feet (sf) has been leased with a remaining space of only 22,937 sf. Year-to-date absorption has also been strong at 62,635 sf. Net rental rates have remained stable with only a small increase over the past year, climbing from \$16.44 in the third quarter of 2007 to \$16.62 today.

The class B CBD market has seen a decline in vacancy for the fourth consecutive quarter, down from 10.1% in the third quarter of 2007 to 4.8% in the third quarter of 2008. Direct vacancy is now down to 3.9%, and the amount of sublet space available is 31,819 sf, down from 60,580 sf one year ago. Year-to-date absorption is 113,184 sf.

The class C CBD market has seen a similar decline in vacancy from 9.5% in the third quarter of 2007 to 6.4% today. Direct vacancy is down to 5.5% and the amount of sublet space available is 34,174 sf, down from 47,089 sf one year ago. Year-to-date absorption is 98,630 sf.

OUTLOOK

Leasing activity in all building classes has been strong overall. Over the past year vacancy has declined **3.2 percentage points** across all classes in the CBD. The forecast, given an uncertain economy would suggest that vacancy rates will remain relatively stable in the next few quarters due to Winnipeg's diverse economy. It remains to be seen how far reaching the economic impact will be, but in the past Winnipeg has been relatively insulated from severe economic change whether it be growth or downturn.

BEAT ON THE STREET

"Despite an uncertain economy we expect the office market to remain strong in the near term. Infrastructure projects planned by the government, and major universities will continue to fuel activity in the downtown area "

—Carey Chapko,
Office Leasing and Sales

ECONOMIC INDICATORS

	2006	2007	2008F
GDP Growth	2.6%	3.9%	2.5%
CPI Growth	1.9%	2.3%	2.0%
Unemployment	4.6%	4.6%	4.0%
Employment Growth	2.0%	2.0%	2.5%

Source: Conference Board of Canada

MARKET FORECAST

VACANCY RATE: Overall vacancy has dropped by **3.2 percentage points** in the past year in the CBD down to **5.7%**



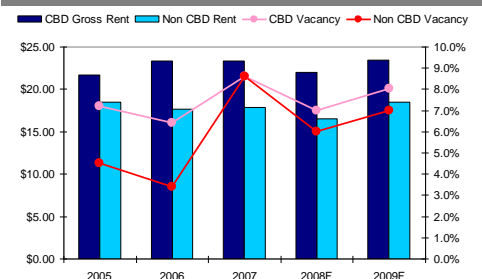
DIRECT ABSORPTION is positive year-to-date among all office markets at **217,426 sf**.



CONSTRUCTION of the Manitoba Hydro office tower is slated for completion within the coming months bringing an additional 670,000 sf of Class A office space to the CBD.



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. Net Rental Rate*
Central Business District								
Class A	2,143,231	7	6.1%	3.8%	670,000	0	62,635	\$16.62
Class B	3,502,840	26	4.8%	3.9%	0	0	113,184	\$12.19
Class C	3,647,150	63	6.4%	5.5%	0	0	98,630	\$10.36
CBD Total	9,293,221	96	5.7%	4.5%	670,000	0	274,449	\$12.54
Suburban								
Class B	804,191	22	17.3%	14.5%	0	0	(73,823)	\$15.61
Class C	1,731,107	37	8.4%	5.8%	0	0	16,823	\$9.48
Suburban Total	2,535,298	59	11.2%	8.5%	0	0	(57,023)	\$12.78
WINNIPEG TOTAL	11,828,519	155	6.9%	5.4%	670,000	0	217,426	12.63

* Rental rates reflect \$psf/year

MARKET HIGHLIGHTS

SIGNIFICANT 3Q08 NEW LEASE TRANSACTIONS				
BUILDING	SUBMARKET	BUYER	SQ FT	BLDG CLASS
346 Portage Avenue	Central	Province of Manitoba	13,000	C
332 Bannatyne Avenue	Central	Province of Manitoba	5,000	C
332 Bannatyne Avenue	Central	Vantage Medic	6,000	C
393 Portage Avenue	Central	Canadian Food Grains Bank	7,000	B
Tuxedo Business Park	Suburban	Manitoba Hydro	24,000	B

SIGNIFICANT 3Q08 CONSTRUCTION COMPLETIONS				
BUILDING	SUBMARKET	MAJOR TENANT	SQ FT	COMPLETION DATE
1455 Mountain Avenue	Suburban	EDS	100,000	Q308
870 Pembina Highway	Suburban	Association of Professional Engineers	15,000	Q408

SIGNIFICANT PROJECTS UNDER CONSTRUCTION				
BUILDING	SUBMARKET	MAJOR TENANT	SQ FT	COMPLETION DATE
Main Street and Higgins Avenue	Central	Winnipeg Regional Health Authority	85,000	Q209
775 and 763 Portage Avenue	Central	Winnipeg Regional Health Authority	40,000	Q408
Manitoba Hydro Building	Central	Manitoba Hydro	670,000	Q408
Sterling Lyon Business Park	Suburban	A&S Homes	46,500	Q408



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Cushman & Wakefield LePage Inc.
276A Colony St.
Winnipeg, MB R3C 1W3
(204) 956-1901

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