

MARKETBEAT



WINNIPEG OFFICE REPORT

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION

3Q10

ECONOMY

Manitoba's diverse economy continues to post steady gains. According to Scotia Capital Markets, GDP growth of 3.1% is forecasted for 2010. While the agri-food sector struggles under a poor growing season and moderate prices, Manitoba's transportation, manufacturing and aerospace industries are expected to perform strongly in 2010.

OVERVIEW

The office market was quiet through the summer months. Demand for large block space is growing, however, as evidenced by several large space requirements that have been placed on the market. The scarcity of large block space over 20,000 square feet (sf) may spur new construction or heritage redevelopment. In the near term this will have little impact on market dynamics. Vacancy rates are expected to inch upwards and rental rates are expected to remain unchanged for the balance of the year. Citywide, more than 50,000 sf of negative absorption this quarter contributed to a half of a percentage point increase in the overall vacancy rate, ending the quarter at 9.5%.

The class A CBD direct vacancy rate increased by three tenths of a percentage point, from 3.5% to 3.8% this quarter. Most of the activity occurred at 1 Lombard where a number of smaller tenant deals took place. Demand for Class A sublet space spiked this quarter as sublandlords continue to drop asking rates. Sublet space represents 38.0% of all available CBD class A space, and brings the overall vacancy rate up to 6.2%.

The class B CBD market was quiet, with the direct vacancy rate remaining unchanged at 8.5%. The most noteworthy event in this market segment was the relocation of Wardrop Engineering from 386 Broadway, where they occupied 37,103 sf, to 161 Portage Avenue where they will occupy 32,000 sf on four floors. Class C CBD direct vacancy increased marginally from 6.8% to 6.9% this quarter, and on an overall basis from 7.0% to 7.2%.

The suburban markets experienced almost 35,000 sf of negative absorption this quarter. The class B vacancy rate increased by half of a percentage point on both a direct and an overall basis this quarter, while the class C overall vacancy rate increased by 1.5 percentage points this quarter, moving from 14.3% to 15.8%. The suburban office market has been impacted by a growing sublet market and the migration of Manitoba Hydro from the suburbs to the CBD.

New construction and projects in the preconstruction phase are prompting asking rents in the \$14 to \$22 range—pushing overall suburban market rents up. The average suburban class B asking rent has increased by almost 90 cents from \$12.92 to \$13.80 per square foot (psf) this quarter, and in class C has moved from \$9.04 to \$10.00 psf. The increase in average asking rents is primarily due to the increase in newer projects and not a reflection of rent increases in existing inventory

OUTLOOK

The office leasing market is expected to be stable for the remainder of 2010 and into 2011. The overall vacancy rate is expected to inch upward as more sublet space is introduced to the market. The lack of large block space in the CBD is expected to spur more activity in redevelopment projects and possibly new construction. The demand will come from the financial services sector, government, and professional consulting such as architectural/engineering. This will not impact lease rates in the near term, but will place upward pressure on lease rates in the long term to finance higher costs for construction.

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BEAT ON THE STREET

"The scarcity of large block space over 20,000 square feet may spur new construction or heritage redevelopment as a number of large area requirements have been introduced to the market since the first quarter of 2010."


– Wayne Sato, Vice President, Office


ECONOMIC INDICATORS


	2008	2009	2010F
GDP Growth	2.0%	-0.2%	3.1%
CPI Growth	2.2%	0.6%	0.8%
Unemployment	4.8%	5.2%	5.1%
Employment Growth	1.3%	0.0%	1.5%

Scotiabank Group Provincial Trends – June 16, 2010

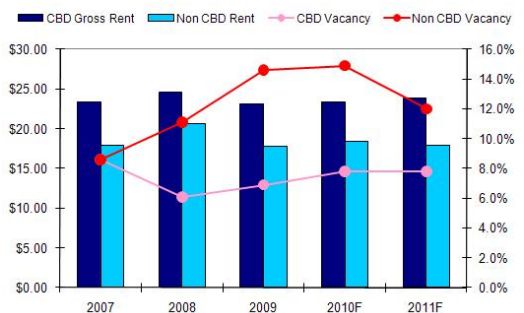
MARKET FORECAST

VACANCY RATES are expected to inch upward in the near term. Class C market vacancy will be impacted the most as tenants will take advantage of a soft market to move up to better accommodations. 

OVERALL ABSORPTION will be lower as tenants become more effective in optimizing their use of office space. 

LEASE RATES are expected to remain flat in the near term. The exception is Class A rents, which are expected to slowly rise as the direct vacancy rate hovers in the 3% range. 

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	-17,385	\$16.89
Class B	3,587,840	27	9.8%	8.5%		0	-28,851	\$12.90
Class C	3,647,150	63	7.2%	6.9%		0	-41,584	\$8.95
CBD Total	10,073,461	98	7.8%	6.6%		0	-87,820	\$12.06
Suburban Area								
Class B	1,256,338	32	13.6%	13.3%	115,747	0	12,552	\$13.80
Class C	1,801,087	36	15.8%	10.0%		0	13,556	\$10.10
Suburban Total	3,057,425	68	14.9%	11.4%	115,747	0	26,108	\$11.83
WINNIPEG TOTAL	13,130,886	166	9.5%	7.7%	115,747	0	-61,712	\$11.98

* Rental rates reflect \$psf/year

MARKET HIGHLIGHTS

SIGNIFICANT 3Q10 NEW LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQ FT	BLDG CLASS
1150 Waverley	Suburban	Scoutaround	5,000	C

SIGNIFICANT 3Q10 SALE TRANSACTIONS

BUILDING	SUBMARKET	BUYER	SQ FT	PURCHASE PRICE
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SIGNIFICANT 3Q10 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQ FT	COMPLETION DATE
United Way	Central	United Way	24,000	Q3/10

SIGNIFICANT PROJECTS UNDER CONSTRUCTION

BUILDING	SUBMARKET	MAJOR TENANT	SQ FT	COMPLETION DATE
504 Main Street	Central	Red River Community College	100,000	Q2/11
Airport	Suburban	James Armstrong Richardson International	500,000	Q2/11
Sterling Lyon Parkway Phase 2	Suburban		44,362	Q4/10
1020 Lorimer Blvd	Suburban		71,385	Q2/11



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