

MARKETBEAT



WINNIPEG OFFICE REPORT

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION

4Q10

ECONOMY

Manitoba's diverse economy insulated the province from the worst of the economic downturn and is expected to keep Manitoba on track for steady, predictable growth. The provincial economy forecasts modest growth of 2.2% in 2010. 2011 is predicted to be a stronger year with BMO forecasting GDP at 2.7%, which is attributed in large part to strong population growth. In 2010 Manitoba had one of the hottest housing markets in Canada, topped all provinces in retail growth and recorded the second lowest unemployment rate in Canada.

While the manufacturing sector continues to improve, final numbers are expected to show a decline of 2% for 2010. Looking forward to 2011, RBC forecasts manufacturing to post positive growth of 6%. Grain producers will be challenged again by poor growing conditions including excessive ground moisture and probable flood conditions. Construction spending will be down from the heady levels of 2009. 2010 was fairly flat; however, 2011 is expected to strengthen.

OVERVIEW

The overall office vacancy rate rose steadily in 2010, eventually ending at 9.6%. Caused by weak demand, this was an increase of almost one percentage point over the fourth quarter of 2009. A number of notable tenants relocated in 2010.

The class A CBD vacancy rate increased from 5.6% at the end of last year to 6.7% in the fourth quarter of 2010. This difference is due in part to CanWest Global placing its corporate office onto the market at 201 Portage Avenue. At One Lombard, D'Arcy & Deacon LLP leased 28,000 square feet (sf), migrating from a class B building to a class A building.

The class B office market has struggled over the past two years, first, as Manitoba Hydro vacated a number of buildings—both downtown and in the suburbs—to occupy its new office tower at 360 Portage Avenue, and, second as tenants seized market opportunity to move up a building class. However, positive absorption of over 28,000 sf in the non-CBD during the fourth quarter resulted in a drop in vacancy from 13.6% to 11.3%. The most notable transaction occurred at 161 Portage Avenue, where Wardrop Engineering leased 32,000 sf in a lateral move between class B buildings. City-wide, class B direct vacancy remained relatively flat over 2010, with an increase in the CBD (from 7.7% to 9.3%) offset by a decrease in the non-CBD (from 16.1% to 11.0%).

While the class C market saw little change in direct space available over 2010, sublet space increased across both the CBD and non-CBD markets, and now represents more than 25% of all class C space available, compared with only 6.2% in the fourth quarter of 2009. This segment will continue to see owners investing to upgrade and redevelop their properties.

OUTLOOK

The office leasing market is expected to remain stable going into 2011. The overall vacancy rate is expected to inch upward as more sublet space is introduced. 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 and 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.

BEAT ON THE STREET

"The lack of new deal flow is placing downward pressure on net effective rents. Landlords are aggressively pursuing superior covenant tenants. Landlords are providing larger Tenant Improvement Allowance to offset higher costs of construction."


– Wayne Sato, Vice President, Office


ECONOMIC INDICATORS


	2009	2010f	2011f
GDP Growth	0.0%	2.2%	2.7%
CPI Growth	0.6%	1.2%	1.7%
Unemployment	5.2%	5.4%	5.0%
Employment Growth	0.0%	2.0%	1.2%

BMO Economic Outlook December 23, 2010

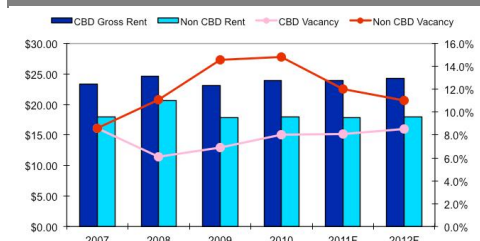
MARKET FORECAST

VACANCY RATES will continue to rise, albeit slowly. The introduction of new office product will continue to prop up vacancy rates. 

OVERALL ABSORPTION will be neutral. We do not expect to see positive absorption until 2012. 

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 remains below 5%. 

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 Weighted Average Net Rental Rate*
Central Business District								
Class A	2,838,471	8	6.7%	4.3%		0	-31,526	\$16.85
Class B	3,587,840	27	10.0%	9.3%	100,000	0	-36,924	\$12.96
Class C	3,647,150	63	7.0%	5.8%		0	-33,668	\$9.37
CBD Total	10,073,461	98	8.0%	6.6%	100,000	0	-102,118	\$12.54
Suburban Area								
Class A					641,385			
Class B	1,256,338	32	11.3%	11.0%		0	41,403	\$13.55
Class C	1,801,087	36	17.3%	11.2%		0	-12,921	\$10.04
Suburban Total	3,057,425	68	14.8%	11.1%	641,385	0	28,482	\$11.47
WINNIPEG TOTAL	13,130,886	166	9.6%	7.7%	741,385	0	-73,636	\$12.18

* Rental rates reflect \$psf/year

MARKET HIGHLIGHTS

SIGNIFICANT 4Q10 NEW LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQ FT	BLDG CLASS
433 Main	Central	E-Care Contact Centre	9,600	B
201 Portage	Central	Commercial Credit Adjusters	15,700	A
5 Donald	Central	WRHA	9,600	B

SIGNIFICANT 4Q10 SALE TRANSACTIONS

BUILDING	SUBMARKET	BUYER	SQ FT	PURCHASE PRICE
266 Graham	Central	City of Winnipeg	1,579,526	29,250,000

SIGNIFICANT 4Q10 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQ FT	COMPLETION DATE
Sterling Lyon Parkway Phase 2	Suburban	Medical	44,362	Q4/11

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 Airport	500,000	Q2/11
1020 Lorimer Blvd	Suburban		71,385	Q2/11
Sterling Lyon Health Centre	Suburban	Medical	70,000	Q2/11



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