

MARKETBEAT

WINNIPEG OFFICE REPORT

A CUSHMAN & WAKEFIELD LEPAGE RESEARCH PUBLICATION



1Q09

ECONOMY

The Manitoba economy continues to display its resiliency as the winds of the global recession batter North America. Manitoba's broad-based market is supported by industries such as agriculture and food processing which are expected to fare well over the next several quarters. Additionally, several large capital projects are under construction or about to break ground in 2009, and transportation and equipment manufacturing orders fuelled by the aerospace and bus manufacturing industries will help Manitoba maintain its distinction as having the lowest unemployment rate in Canada.

According to the latest provincial forecast release by RBC, Manitoba's forecasted GDP growth of 0.5% for 2009 is expected to trail only Saskatchewan at 0.9%.

RBC's Q1 forecast predicts the pace of Manitoba's economy will slow down for the remainder of the year but still finish with positive growth. This is in contrast to the rest of Canada where all other provincial economies except Saskatchewan and Nova Scotia are expected to contract.

OVERVIEW

The office market in Winnipeg has been relatively quiet for the first three months of the year. The overall vacancy rate in the CBD went up slightly from 6.1% in the last quarter to 6.3% at the end of this quarter. This is still almost 2% lower than a year ago and makes this one of the tightest Winnipeg office markets on record. These fundamentals may spur activity of Investment sales in office properties as REITs, once the most active players in this segment, look to reduce debt. In February, Huntingdon REIT sold City Place, an approximately 339,000 square foot office/retail complex located downtown for \$80.5 million.

The Class A CBD market saw little net change this quarter as the vacancy rate inched up from 7.5% to 7.7%. The most notable transaction in this market was the leasing of 15,000 square feet to GoodLife Fitness at 201 Portage Avenue.

The Class B CBD market saw the largest increase in vacancy as 36,118 square feet of office space was returned to the market. The vacancy rate is expected to rise in this building class as Great West Life will be relocating approximately 40,000 square feet from 330 Portage Avenue into the former Centra Gas premises at 444 St Mary Avenue. Centra Gas will be moving into the new Hydro Building on Portage Avenue later this year.

The Class C CBD market registered its 5th straight quarter of declining vacancy as approximately 27,000 square feet was leased up thus reducing the vacancy rate from 5.9% to 5.2%. A number of heritage redevelopment projects announced in the CBD are expected to break ground this year potentially adding over 100,000 square feet of inventory to the Class C market.

OUTLOOK

Growing demand for office space in the government and healthcare sectors will backfill vacancy resulting from corporate downsizing. With the overall vacancy rate at historically low levels we expect to see rental rates remain stable over the next few quarters. We are optimistic that given Winnipeg's strong fundamentals and diversified economy we will not experience the dramatic market swings that are taking place in larger markets.

BEAT ON THE STREET

"The Winnipeg office market is well positioned to weather the economic downturn. Low vacancy rates coupled with modest new office inventory growth will support present market rental rates"

-Mike Passingham,
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 expected to remain flat for 2009 although we anticipate a higher than normal amount of sublet space will be introduced to the market over the next several quarters.



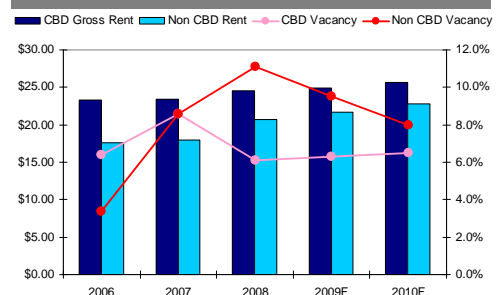
Absorption in the CBD is expected to increase later this year and into 2010 as a number of office projects currently under construction or about to break ground come online.



Average total Gross rents among all building classes in the CBD are presently \$24.91. We expect to see little change over the next three quarters.



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	2,143,231	7	7.7%	5.2%	695,000	0	(3,518)	16.81
Class B	3,502,840	26	6.6%	5.6%	222,000	0	(36,118)	12.59
Class C	3,647,150	63	5.2%	4.6%	0	0	27,499	10.06
CBD Total	9,293,221	96	6.3%	5.1%	917,000	0	12,137	12.92
Suburban								
Class B	804,191	22	15.2%	12.3%	111,500	0	16,881	14.60
Class C	1,731,107	37	6.8%	4.2%	0	0	24,188	10.69
Suburban Total	2,535,298	59	9.5%	6.8%	111,500	0	41,069	12.64
WINNIPEG TOTAL	11,828,519	155	7.0%	5.5%	1,028,500	0	28,932	12.84

* Rental rates reflect \$psf/year

MARKET HIGHLIGHTS

SIGNIFICANT 1Q09 NEW LEASE TRANSACTIONS

BUILDING	SUBMARKET	LESSEE	SQ FT	BLDG CLASS
201 Portage Avenue	Central	GoodLife Fitness	15,000	A
1479 Buffalo Place	Suburban	Claims Pro Inc.	12,000	C
1661 Portage Avenue	Suburban	Horizon Insurance	11,500	B
1661 Portage Avenue	Suburban	Canola Growers Association	7,600	B

SIGNIFICANT 1Q09 NEW SALE TRANSACTIONS

BUILDING	SUBMARKET	BUYER	SQ FT	BLDG CLASS
City Place 234 Donald Street	Central	Manitoba Public Insurance Corp.	338,951	B
260-280 St.Mary Ave	Central	Longboat Properties Ltd. Partnership	36,000	C
111 Lombard Avenue	Central	MPN Holdings	111,500	C
146 Alexander Avenue	Central	Sport Manitoba	97,000	C

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	Q209
Manitoba Hydro Place	Central	Manitoba Hydro	695,000	Q209
Sterling Lyon Business Park	Suburban	A&S Homes	46,500	Q209
870 Pembina Highway	Suburban	Association of Professional Engineers	15,000	Q209
Waters Business Park	Suburban	Polaris Industries	12,000	Q209
Tuxedo Business Park	Suburban	UMA Engineers	38,000	Q209
146 Alexander Avenue	Central	Sport Manitoba	97,000	Q210



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