

MARKETBEAT



WINNIPEG OFFICE REPORT

A CUSHMAN & WAKEFIELD LEPAGE RESEARCH PUBLICATION

2Q08

ECONOMY

Manitoba has one of the top performing and most diversified provincial economies in Canada. This strong performance has been underpinned by strength in a number of key industries such as transportation and distribution, aerospace, finance and insurance, agriculture, life sciences biotechnology, hydro electric power and manufacturing.

Capital investment in Manitoba is at the highest level in decades. In 2007 Manitoba recorded the highest percentage increase in capital investment amongst all provinces. There are currently several large capital projects under construction or in the planning stages for 2008/2009. The largest of these projects are the \$1.6 B Wuskwatim Generation Project, \$665 M Floodway expansion, \$572 M James Armstrong Richardson International Airport, \$278 M Manitoba Hydro Building, and the \$311 M Manitoba Human Rights Museum.

OVERVIEW

Winnipeg's office market is benefiting from the positive effects of an economy firing on all cylinders. Overall vacancy rates continue to inch downwards across all building classes. Demand for office space has prompted the construction of a number of new office buildings in Winnipeg over the past six months. The newest development to break ground is an 80,000 sf office/retail/parking project at the corner of Main Street and Logan Avenue on the CBD periphery. This building will be the new head office for the Winnipeg Regional Health Authority and will house approximately 200 staff. This news follows on the heels of the EDS announcement that it will be locating a 100,000 sf high-technology service centre that will be in operation later in the year in the northwest quadrant of the city.

The Class A CBD market overall vacancy rate (headline and sublet) is 6.3% at the end of Q2, down 1.4% from the previous quarter. The large inventory of sublet space in the Class A market has proven irresistible to tenants as a significant portion has been leased up. The total available sublet space in the Class A market is now 41,948 sf, down from 90,931 sf at the end of Q1. Year to date a total of 57,980 sf has been leased up in this market segment.

The Class B CBD overall market vacancy has gone from 7.3% at the end of Q1 to 5.5% at the end of Q2. Total absorption is 88,793 sf year to date. The activity in this building class has been led primarily by tenants in the financial services/insurance industry.

The Class C CBD market has been the most active building class in Q2 as the overall vacancy rate has been reduced by almost 3% to now stand at 6.6% overall.

OUTLOOK

Most activity in the Winnipeg office market is expected to take place in the suburbs over the next several quarters. Near term demand will come from industries benefiting most from the surge in large capital projects and infrastructure upgrades. These tenants include engineering, architectural and construction management, and consulting professions.

Total overall vacancy levels are forecast to trend downwards into the 6-7% range with lease rates trending higher due to higher costs of construction.

BEAT ON THE STREET

"We expect the Winnipeg office market to be most active in the suburbs over the next several quarters. Near term demand will come from industries benefiting most from the surge in large capital projects and infrastructure upgrades"


-Wayne Sato,
Vice President, Office


ECONOMIC INDICATORS


	2006	2007	2008F
GDP Growth	2.6%	3.9%	3.4%
CPI Growth	1.9%	2.3%	1.1%
Unemployment	4.6%	4.6%	4.3%
Employment Growth	2.0%	2.0%	1.4%

Source: Conference Board of Canada

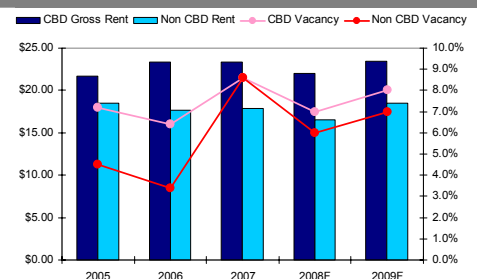
MARKET FORECAST

OFFICE RENTS: Average Gross Rents among all building classes in the CBD increased by 82 cents from \$23.21 to \$24.03. 

DIRECT ABSORPTION is positive year-to-date among all office markets at 182,493 sf. 

CONSTRUCTION began for EDS's new \$18M high-tech 100,000 sf service centre which will create 1,000 new jobs in the next five years. 

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 A Gross Rental Rate*
Central Business District								
Class A	2,143,231	7	6.3%	4.4%	670,000		57,980	\$16.61
Class B	3,502,840	26	5.5%	4.6%	125,000		88,793	\$12.29
Class C	3,647,150	63	6.6%	5.4%			92,492	\$9.72
CBD Total	9,293,221	96	6.1%	4.8%	795,000		239,265	\$12.46
Suburban								
Class B	846,387	22	16.3%	13.6%	161,500	39,000	-72,535	\$15.58
Class C	1,731,107	37	8.3%	5.7%			15,763	\$9.29
Suburban Total	214,116	59	11.0%	8.3%	161,500	39,000	-56,772	\$12.67
WINNIPEG TOTAL	11,870,715	155	7.2%	5.6%	956,500	39,000	182,493	\$12.54

* Rental rates reflect \$psf/year

MARKET HIGHLIGHTS

SIGNIFICANT 2Q08 NEW LEASE TRANSACTIONS				
BUILDING	SUBMARKET	BUYER	SQ FT	BLDG CLASS
323 Portage Avenue	Central	Winnipeg Regional Health Authority	8,700	C
136 Market Avenue	Central	Scatliff & Miller & Murray Inc.	10,000	C
287 Broadway	Central	The North West Company	7,500	C
SIGNIFICANT 2Q08 NEW SALE TRANSACTIONS				
BUILDING	SUBMARKET	BUYER	SQ FT	BLDG CLASS
1700 Ellice Avenue	Suburban	Avenue 4	7,500	C
1525 Buffalo Place	Suburban	National Leasing	55,000	C
SIGNIFICANT 2Q08 CONSTRUCTION COMPLETIONS				
BUILDING	SUBMARKET	MAJOR TENANT	SQ FT	COMPLETION DATE
Tuxedo Business Park	Suburban	Earthtech	39,000	Q208
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
1455 Mountain Avenue	Suburban	EDS	100,000	Q308
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	Q308
870 Pembina Highway	Suburban	Association of Professional Engineers	15,000	Q408



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