

MARKETBEAT



WINNIPEG OFFICE REPORT

A CUSHMAN & WAKEFIELD LEPAGE RESEARCH PUBLICATION

4Q08

ECONOMY

Manitoba's diverse economy should help it weather the uncertain economic times ahead in 2009. Manitoba is not expected to see the same level of job cuts that are increasingly affecting our neighbors in Ontario and Alberta whose economies are largely manufacturing and commodity-based. While the Canadian unemployment rate rose to 6.3% after 70,600 jobs were lost in November, the bulk of which occurred in Ontario (66,000), the unemployment rate in Manitoba actually declined during this period from 4.3% to 4.2%.

Manitoba has ended 2008 relatively strong, with an estimated Real GDP growth of 2.5% according to the Conference Board of Canada. The Manitoba economy is expected to grow by 1.6% which is higher than the projected Canadian growth of 0.6%, despite the bleak forecast for 2009.

OVERVIEW

The office market in Winnipeg has begun to see signs of the changing economic times. The overall vacancy rate in the CBD has increased for the first time in many quarters from 5.7% in the third quarter to 6.1% at year end. This change in vacancy is mainly the result of corporate downsizing and restructuring. It is believed that the extent of downsizing in the Winnipeg marketplace will not be significant relative to other Canadian cities. Companies are, however, being much more tentative and cost-conscious entering 2009.

The class A CBD market saw an increase in vacancy this quarter which has put an end to the trend of declining vacancy rates in this market. Overall vacancy increased from 6.1% to 7.5% over the fourth quarter, while direct vacancy in turn increased from 3.8% to 5.1%. Two of the more prominent spaces on the market that contributed to this increase in vacancy are CN Rail bringing to market approximately 10,000 square feet (sf) at 360 Main Street, and MTS bringing to market 9,355 sf at 200 Graham Avenue. The result of this is a negative effect on absorption, decreasing it to an end-of-year total of 31,967 sf, from 62,635 sf in the third quarter.

The class B CBD market has also seen overall vacancy increased from 4.8% to 5.5% this quarter, while direct vacancy increased from 3.9% to 4.6%. The class C CBD market, contrary to the class A and class B, actually saw another decline in vacancy rates when compared to the third quarter. Overall vacancy decreased from 6.4% to 5.9%, while direct vacancy decreased from 5.5% to 5.4%. Absorption increased by 19,500 sf, totaling 118,130 at year-end.

OUTLOOK

The Winnipeg office market will remain stable in the near term although a cautious view is warranted heading into 2009. Continued corporate downsizing/restructuring is expected to erase any potential positive effect on vacancy rates gained through modest new leasing requirements. In this scenario, lease rates are expected to remain static in the near term.

BEAT ON THE STREET

"Continued corporate downsizing and restructuring is expected to erase any potential positive effect on vacancy rates gained through modest demand."

Carey Chapko,
Office Leasing and Sales

ECONOMIC INDICATORS

| | 2007 | 2008 | 2009F |
|-------------------|------|------|-------|
| GDP Growth | 3.6% | 2.7% | 2.5% |
| CPI Growth | 2.1% | 2.8% | 2.7% |
| Unemployment | 4.7% | 4.2% | 4.4% |
| Employment Growth | 2.2% | 1.2% | 1.4% |

Source: Conference Board of Canada

MARKET FORECAST

Class A Office vacancy rates will continue to inch downward throughout 2009.



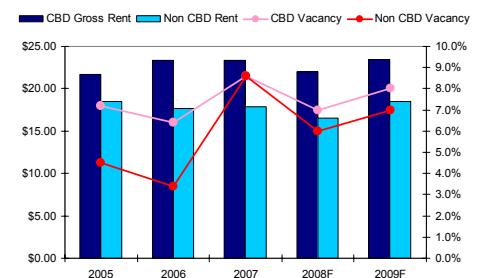
Absorption in the CBD is expected to increase as Manitoba Hydro employees migrate from the suburbs to their new downtown head office. The 670,000 sf building is expected to be completed in Q309.



Overall net rental rates are expected to remain static over the next four quarters.



OVERALL RENT VS. VACANCY



MARKET/SUBMARKET STATISTICS

| Central Business District | Inventory | No. of Bldgs. | Overall Vacancy Rate | Direct Vacancy Rate | Under Construction | YTD Construction Completions | YTD Overall Absorption | Direct Weighted Average Net Rental Rate* |
|---------------------------|-------------------|---------------|----------------------|---------------------|--------------------|------------------------------|------------------------|--|
| Class A | 2,143,231 | 7 | 7.5% | 5.1% | 670,000 | 0 | 31,967 | \$16.85 |
| Class B | 3,502,840 | 26 | 5.5% | 4.6% | 0 | 0 | 86,689 | \$12.35 |
| Class C | 3,647,150 | 63 | 5.9% | 5.4% | 0 | 0 | 118,130 | \$10.32 |
| CBD Total | 9,293,221 | 96 | 6.1% | 5.0% | 670,000 | 0 | 236,786 | \$12.85 |
| Suburban | | | | | | | | |
| Class B | 804,191 | 22 | 17.3% | 14.4% | 186,500 | 0 | (73,413) | \$15.68 |
| Class C | 1,731,107 | 37 | 8.2% | 5.6% | 0 | 0 | 20,614 | \$10.37 |
| Suburban Total | 2,535,298 | 59 | 11.1% | 8.4% | 186,500 | 0 | (52,799) | \$13.26 |
| WINNIPEG TOTAL | 11,828,519 | 155 | 7.2% | 5.7% | 856,500 | 0 | 183,987 | \$12.99 |

* Rental rates reflect \$psf/year

MARKET HIGHLIGHTS

| SIGNIFICANT 4Q08 NEW LEASE TRANSACTIONS | | | | |
|---|-----------|---------------------------|-------|------------|
| BUILDING | SUBMARKET | BUYER | SQ FT | BLDG CLASS |
| 200 Graham Avenue | Central | MB Gov Services | 9,355 | A |
| 393 Portage Avenue | Central | Canadian Food Grains Bank | 7,000 | B |

| SIGNIFICANT 4Q08 NEW SALE TRANSACTIONS | | | | |
|--|-----------|-------|-------|------------|
| BUILDING | SUBMARKET | BUYER | SQ FT | BLDG CLASS |
| N/A | | | | |

| SIGNIFICANT 4Q08 CONSTRUCTION COMPLETIONS | | | | |
|---|-----------|--------------|-------|-----------------|
| BUILDING | SUBMARKET | MAJOR TENANT | SQ FT | COMPLETION DATE |
| N/A | | | | |

| SIGNIFICANT PROJECTS UNDER CONSTRUCTION | | | | |
|---|-----------|---------------------------------------|---------|-----------------|
| BUILDING | SUBMARKET | MAJOR TENANT | SQ FT | COMPLETION DATE |
| Main Street and Higgins Avenue | Suburban | Winnipeg Regional Health Authority | 85,000 | Q2/09 |
| 775 and 763 Portage Avenue | Suburban | Winnipeg Regional Health Authority | 40,000 | Q2/09 |
| Manitoba Hydro Building | Central | Manitoba Hydro | 670,000 | Q3/09 |
| Sterling Lyon Business Park | Suburban | A&S Homes | 46,500 | Q4/09 |
| 870 Pembina Highway | Suburban | Association of Professional Engineers | 15,000 | Q1/09 |



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Cushman & Wakefield LePage
 Licensed to CWL Realty Inc.
 2nd Floor, 250 Portage Avenue
 Winnipeg, MB R3C 0B1
 (204) 956-1901

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