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Industrial Market Overview

Winnipeg
2007/08

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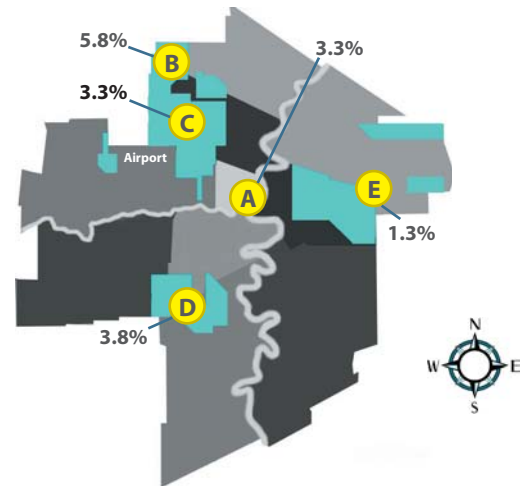
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Winnipeg's industrial market currently has an overall vacancy of **3.5%**. There are approximately 30 industrial areas and parks in Winnipeg, encompassing 19,500 acres, of which 4,543 acres of serviced and non-serviced land is available. Of the City's 75 million square feet of industrial space, approximately 70% is owner-occupied. Most of the City's older industrial space, primarily constructed between 1960 and 1980, has Net asking rates of around \$4.00 to \$4.50. Newer "high-cube" space is commanding Net rates upwards of \$7.00 to \$10.00 in many cases.

Winnipeg is ideally located at the geographic centre of North America in close proximity to the U.S. border, with excellent transportation links. This, combined with its relatively low rental rates, and reliable and affordable hydro power, make it an ideal location for many industrial users. A strong and healthy local economy has also helped cushion the impact of the high Canadian dollar. In 2006, Manitoba manufacturers had one of the biggest increases in shipments in the country, with a 5.2% improvement over the previous year for a total of just under \$14.2 billion worth of goods. The two largest gains were seen in the manufacturing of electrical equipment, appliances and components, and non-metallic mineral products (such as cement, granite and marble).

New construction is showing increasing popularity, despite higher rental rates, as many of the properties in the older industrial parks and areas are becoming obsolete. An increasing number of companies are searching for more energy efficient, modern structures with higher ceiling heights. But, despite this healthy demand for modern space, there is still a relatively small amount of new product available or under construction in Winnipeg, due in part to high construction costs and a limited amount of serviced industrial development land. This is spurring the development of a number of industrial parks in rural municipalities just outside of the Winnipeg, attracting many businesses looking to expand that have been unable to within one of the City's industrial parks. These rural industrial areas often have the advantage of having more variety in available lot sizes, cheaper per-acre selling prices on average, and lower property taxes. As a result, many of these newer, rural parks are developing faster than expected, with the 109-acre Brookside Industrial park on the Northwestern City boundary now more than two-thirds sold, mostly to trucking-related businesses. This success has spurred plans for the creation two more parks on the Northwest boundary totalling 280 acres. The RM of MacDonald, on the Southwestern City limit, was also recently granted rezoning of 53 acres of land from agricultural to industrial. And in Headingly, an adjacent municipality on the Western fringe, construction

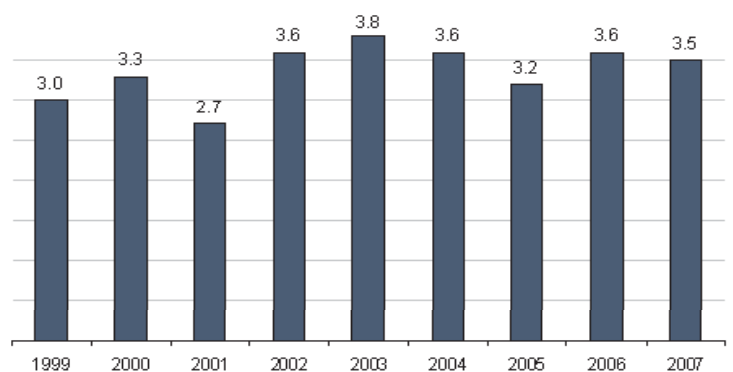
Industrial Vacancy by Area - Q2 2007



Map No.	Location	Area (acres)	Inventory (s.f.)	Vacancy (s.f.)	Total	Change from Q1
A.	Central	34.0	11,676,100	381,432	3.3%	+1.1%
B.	North	2,829.6	12,749,812	742,439	5.8%	-0.4%
C.	West	6,012.9	9,048,457	298,599	3.3%	-0.3%
D.	South	4,401.6	27,122,419	1,041,319	3.8%	-1.1%
E.	East	6,258.7	15,008,600	188,439	1.3%	+0.1%
		19,536.8	75,605,388	2,652,228	3.5%	-0.3%

Source: City of Winnipeg/The Johnson Report - June 2007

Industrial Vacancy by Year (%)



Source: The Johnson Report

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Winnipeg's Major Industrial Parks

	Park	Total Area (Acres)	Available Acres *	Zoned
1.	Murray	180	0	MP2
2.	Inkster	690	8	MP2
3.	Omands	119	2	M2
4.	Inksbrook / Keewatin	86	80	M2
6.	Mission/St. Boniface	700	329	MP2
7.	CN Transcona Yard	130	60	M2/M3
8.	Terracon (East)	200	150	M1/M2
9.	Fort Garry	200	13	M1/M2
10.	Kenaston	120	5	M3
12.	Tuxedo Business	307	197	M2/M3

Source: City of Winnipeg, 2005

on a new 150-acre park began in June, 2007, with lot prices ranging from \$100,000 to \$200,000 per acre. The first major development slated for the park is a \$40 million, 380,000 square foot Sobeys Distribution centre. Sobeys is relocating from a 260,000 s.f. facility and 90,000 s.f. warehouse in Inkster Industrial Park in Winnipeg's Northwest. Sobeys noted that the new site was chosen in part "due to its proximity to the Trans-Canada Highway, as well as the Perimeter [Highway], which will add to the ease of delivering food to Sobeys stores across the City."

However, rural industrial parks still have to contend with the advantages offered by many parks located within Winnipeg. Access to City services, including transit, as well as better proximity to customers, suppliers and amenities, are just some of the advantages offered by Winnipeg industrial areas. In addition, Inkster Industrial Park, the City's second largest park, will soon become a stronger competitor due to the fact it is slated to be the recipient of a \$66.5 million upgrade. As the main Manitoba component of the Asia-Pacific Gateway and Corridor Initiative, Inkster Boulevard is being redeveloped into a primary import-export transportation route for large exporters. The money will be used to make 6.6 kilometers of the roadway into a four-lane divided highway, including the construction of an overpass at the CPR mainline. Inkster runs West/East and is directly connected to Route 90, the City's major North/South corridor, making the area extremely appealing, particularly for distribution and heavy trucking users.

The nearby James Richardson International Airport also plans to expand its industrial campus by 798 acres in 2009, after the completion of its new \$572 million terminal and parkade. The campus will be specifically targeting light industrial users, such as technology-related businesses. There are also more recent

plans for additional development inside the City limits. At least six industrial buildings totalling just over 200,000 square feet are planned for Winnipeg's Southwest/Fort Garry area and 45,000 s.f. in the Northwest/Inkster area.

For the first time in a number of years industrial investment sales have been making headlines in Winnipeg. In March, 2007, the City saw not only its largest industrial transaction, but the largest commercial transaction in its history. Sun-X properties sold its 46 building, 35-acre portfolio to British Columbia Investment Corporation (bcIMC) for an estimated \$175 million (the actual sale price has been kept confidential). Sun-X Properties was Winnipeg's largest industrial landlord, with approximately 2.2 million square feet, and about 65% of the portfolio encompassing newer properties constructed since 1990. The estimated capitalization rate on the income properties, not including the development land, was 7.1%.

Huntingdon REIT (HREIT) also dominated the industrial investment market in first half of 2007. Their acquisitions included a 50% interest in the 655,005 s.f. Airport Place for \$7.4 million, a 25% interest in two Inkster Industrial Park properties totalling 435,148 s.f. for \$3.9 million, and the 37,000 s.f. property at 1950 Sargent Avenue in St. James for \$2.85 million. In July, HREIT also purchased a 40,893 s.f. property at 1271 Sargent Avenue for \$2.6 million and a 74,000 s.f. industrial office property, home to Paramount Pallet and Premiere Van Lines, as part of a \$56.3 million transaction encompassing 16 Winnipeg properties. The REIT now has interest in 39 properties totalling 3.7 million square feet.

The City provides a stable investment option and is expected to continue to remain the focus of many investors throughout 2007 and 2008. An economic slowdown in the United States is also helping to increase investor interest in this popular market, which boasts one of the most stable economies in the Country. Some negative absorption is expected in the Winnipeg leasing market into 2008, primarily due to an increase in new construction and the ongoing development of rural industrial parks located just outside the City limits. However, demand for new space is expected to continue to remain healthy, which should help keep industrial vacancy levels relatively low during this time.

Primary Sources:

Avison Young Inventory Database
Government of Manitoba
Destination Winnipeg

The City of Winnipeg
The Johnson Report, June 2007
Wayne K. Johnson, C.A. (204) 256-0444

For more information on the Winnipeg Market, please visit our website at www.avisonyoung.com/Winnipeg.



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