2007 Forecast

Regional Report for Winnipeg

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2007 Forecast – Regional Report for Winnipeg
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The complete 2007 Forecast includes:

- Office Inventory: Map, individual leasing data and photos;
- 2006 Developments: Map, project information and photos; and
- 2006 Headlines

Fax: (204) 943-2680
Attention: Catherine Stoyko

* Contact Name: ______________________________

* Company Name: ______________________________

Industry: ______________________________

* Address 1: ______________________________

Address 2: ______________________________

* City: ________________ Province/State: ____________

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Avison Young Commercial Real Estate (Manitoba) Inc.
www.avisonyoung.com

NewWest Enterprise Property Group Inc.
www.nwe.ca

Suite 1000, 330 Portage Avenue
Winnipeg, Manitoba
Canada R3C 0C4

Phone: (204) 947-2242

Avison Young is a partner-owned Canadian commercial real estate company comprised of over 300 real estate professionals including licensed brokers, financial analysts, research professionals and marketing specialists across Canada. Our full-range of services include: office, industrial and retail leasing as well as tenant representation services; property acquisitions and dispositions; corporate advisory services; mortgage financing; property management; and consulting and research.

Avison Young has nine offices across Canada in Vancouver, Calgary, Edmonton, Regina, Winnipeg, Toronto, Mississauga, Montreal, Quebec City and Halifax. From these offices our specialists serve most other communities in Canada from Whitehorse and Victoria to St. Johns and Halifax and everywhere in between.

Through our alliance with **Grubb & Ellis,** one of America's largest commercial real estate firms, Avison Young is able to provide its clients a full range of office, retail, multi-housing and industrial property solutions throughout the United States. Avison Young also has access to the expertise of Grubb & Ellis' global alliance partners in the United Kingdom, Continental Europe, and Asia Pacific. Together, Avison Young and Grubb & Ellis form one of the world's largest commercial real estate organizations.

NewWest Enterprise Property Group is a privately owned Western Canadian Real Estate Services Company, providing a full range of real estate management services for office, retail, industrial, residential, mixed-use, and specialty properties across Western Canada. Our full range of services include Property Management, Facility Management, Financial Management and Reporting, Construction Management and Lease Administration and Advisory Services.

Headquartered in Winnipeg, NewWest Enterprise operates full service offices located in Winnipeg, Regina, Edmonton, Calgary and Vancouver.

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Index

Executive Summary

Economy / Investment

Economic Indicators - Canada

% Change	2003	2004	2005	2006*	2007*	2008-2010*
Real GDP	1.8	3.3	2.9	2.8	2.7	3.0
Employment	2.4	1.8	1.4	1.8	1.1	0.8
Unemployment Rate (%)	7.6	7.2	6.8	6.4	6.5	6.5
Housing Starts (000s)	218	233	225	228	204	176
Retail Sales	3.6	4.7	6.3	6.8	6.2	5.5
Consumer Price Index	2.9	1.8	2.2	2.1	1.8	2.0

** estimate*
Source: BMO Financial Group (www.bmo.com/economic)

Economic Indicators - Manitoba

% Change	2003	2004	2005	2006*	2007*	2008-2010*
Real GDP	1.8	2.3	2.7	3.5	3.0	2.5
Employment	0.6	1.1	0.6	1.2	0.4	0.0
Unemployment Rate (%)	5.0	5.3	4.7	4.3	4.3	4.3
Housing Starts (000s)	4.2	4.4	4.7	5.0	4.3	3.5
Retail Sales	3.6	6.7	6.6	5.9	5.5	5.0
Consumer Price Index	1.8	2.0	2.7	1.8	1.8	1.9

** estimate*
Source: BMO Financial Group (www.bmo.com/economic)

Economic Indicators - Winnipeg

% Change	2003	2004	2005	2006	2007*	2008*
Real GDP	1.2	2.6	3.4	2.8	2.9	2.7
Employment	-0.1	1.6	-0.4	2.2	1.2	0.8
Unemployment Rate (%)	5.2	5.5	4.8	4.4	4.8	4.9
Housing Starts (000s)	2.4	2.5	2.6	2.7	2.3	2.4
Retail Sales	4.5	9.0	8.2	6.3	6.3	4.9
Consumer Price Index	1.8	1.9	2.6	2.1	1.7	1.9

** estimate* *Source: Conference Board of Canada, Metropolitan Outlook, Winter 2006 & 2007*

Major Developments, Winnipeg CMA

$ Millions	2003	2004	2005	2006
Commercial	54.4	77.7	108.9	266.7
Industrial	18.9	33.3	64.4	36.3
Institutional	177.7	129.9	129.5	234.8
Residential	87.3	121.1	171.1	136.2
Total	**338.3**	**362.0**	**473.9**	**674.0**

Source: Destination Winnipeg (www.destinationwinnipeg.ca)

National Downtown Office Vacancy

City	2006 Vacancy (%)	Est. 2007 Vacancy (%)
Halifax	9.0	9.0
Montreal	9.2	8.8
Quebec City	3.7	3.0
Greater Toronto	8.0	7.5
Winnipeg	7.4	7.2
Regina	3.6	3.6
Calgary	0.3	0.3
Edmonton	5.0	4.6
Vancouver	3.6	3.0

Executive Summary

Winnipeg Leasing

2006 Winnipeg Office Inventory and Vacancy

	Inventory	2006 Vacancy (s.f.)	2006 Vacancy (%)	Est. 2007 Vacancy (%)	Average Net Rent ($)
Downtown Class A	2,221,091	189,758	7.9	8.9	14.95
Downtown Class B	2,513,086	187,344	6.9	9.4	11.60
Downtown Class C	2,070,692	296,569	14.3	14.0	10.00
Suburban A-C	726,596	64,759	8.9	10.0	10.20
***Miscellaneous**	3,907,045	47,952	1.2	1.2	9.20
***Government**	2,600,745	0	0.0	0.0	n/a
***Medical**	963,788	43,143	4.5	4.5	8.95
	15,380,145	**829,545**	**5.5**	**5.9**	**11.13**

** Winnipeg overall: Downtown and suburban combined*
Source: Avison Young Database / The Johnson Report, 2006 Year End Market Report

2006 Industrial Vacancy by Area

	Inventory	2006 Vacancy (s.f.)	2006 Vacancy (%)	Average Net Rent ($)
Central	12,005,136	265,272	2.2	3.20
North	12,731,143	789,801	6.2	4.30
South	8,985,119	323,464	3.6	5.60
West	27,170,649	1,329,569	4.9	4.50
East	14,933,653	181,870	1.2	4.25
	75,825,700	**2,889,976**	**3.8**	**4.37**

Source: The Johnson Report, 2006 Year End Market Report

2006 Retail Vacancy by Type

Type	Inventory	2006 Vacancy (%)	Average Net Rent ($)
Strips	6,433,368	4.7	13.45
Malls	4,583,758	2.2	19.20
Power Centres	3,466,927	1.9	16.40
Stores	2,914,029	7.6	11.35
Restaurants	389,486	6.9	12.15
Miscellaneous	426,656	3.5	7.40
	18,214,224	**4.0**	**13.33**

Source: The Johnson Report, 2006 Year End Market Report

2005/2006 Winnipeg Building Sales (Over $7.0 Million)

Property	Type	$ Millions
Cityplace Shopping Centre	Retail/Office	$ 78.5
MTS Place (333 Main, 191 Pioneer)	Office	51.1
CanWest Global Place (50%)	Office	40.0
330 St. Mary and 175 Hargrave	Office	25.3
Grant Park Shopping Centre (50%)	Retail	24.0
Greenwood Inn	Hotel	17.0
Medical Arts Building	Office	14.0
NewPortCenter	Office	13.0
Kenwood Court	Multi-Family	12.0
280 Broadway and 70 Smith Street	Office	11.0
Royal Bank Building (50%)	Office	9.0
Purolator Courier Building	Office	8.1
Hilton Hotel	Hotel	7.0
		$310.0

Economy

Canada

Economic Indicators - Canada

% Change	2003	2004	2005	2006*	2007*	2008-2010*
Real GDP	1.8	3.3	2.9	2.8	2.7	3.0
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** estimate*
Source: BMO Financial Group (www.bmo.com/economic)

According to the Bank of Canada, the Canadian economy bounced back in late 2006, which has led to the projection of solid growth of 2.3% in 2007 and 2.8% in 2008. However, the Bank's 2007 prediction is still below the 2.5% initially forecast in their October report, indicating that an economic slowdown in the United States is influencing the Canadian markets, and will likely remain the biggest risk to the economy going forward.

"…the Canadian economy is judged to have been operating at, or just above, its production capacity at the end of 2006…" – Bank of Canada

The practice of averaging indicators across the Country doesn't provide an accurate picture of Canada's economy, as momentum varies greatly from East to West. Western Canada continues to top growth charts, with consistent increases in corporate profits, employment, business investment, consumer spending and housing activity. However, in the heavily manufacturing-based markets to the East, the economy has been under-performing due in part to appreciation of the Dollar over the past four years, combined with rising energy costs. As a result, the Bank of Canada must weigh the inflationary pressures from activity in the West against the East's below-potential growth. Canada's inflation levels remain low and are anticipated to be around 1% in 2007, and closer to 2% going into 2008. TD Bank Financial Group predicts that the Bank will ease rates by 50 basis points in 2007, with the first two cuts occurring in April.

Top economic performers in 2006 and into 2007 include oil and gas services, transportation equipment, wholesale trade, electronic products, and machinery manufacturing. The oil and gas services industry is being driven by substantial investment in resource and infrastructure development, and continues to be a key economic driver in the West.

Some manufacturing industries will still continue to face challenges in 2007 and 2008, particularly pulp and paper, forestry, textiles and clothing, and tobacco. However, overall manufacturing output growth is anticipated to increase over 3% in 2007, with wholesale and retail trade, communications services, transportation and warehousing all expected to perform well. Continued strong performance by the services industry, which employs three out of four Canadians, will also help boost the economy in 2007.

After several years of strong expansion the American economy is beginning to cool, particularly in the housing sector, which will undoubtedly have an impact on Canada. The Canadian housing market is considered to be much less inflated, and therefore shouldn't experience as major a correction over the next few years. However, slowing U.S. demand combined with a high Canadian Dollar and resource costs will continue to create challenges for Canadian export markets. As a result, export growth in 2007 should remain below 1%, however import growth should continue to remain strong due to ongoing domestic demand. Both American and Canadian economies are expected to pick up speed towards the end of 2007, as key drivers of North American economic growth are expected to begin to shift from consumer spending and residential construction to business investment.

Economy

Manitoba

Economic Indicators - Manitoba

% Change	2003	2004	2005	2006*	2007*	2008-2010*
Real GDP	1.8	2.3	2.7	3.5	3.0	2.5
Employment	0.6	1.1	0.6	1.2	0.4	0.0
Unemployment Rate (%)	5.0	5.3	4.7	4.3	4.3	4.3
Housing Starts (000s)	4.2	4.4	4.7	5.0	4.3	3.5
Retail Sales	3.6	6.7	6.6	5.9	5.5	5.0
Consumer Price Index	1.8	2.0	2.7	1.8	1.8	1.9

** estimate*
Source: BMO Financial Group (www.bmo.com/economic)

Manitoba continued to have the second lowest unemployment levels in the country in 2006, averaging 4.3%. Service industries account for 74% of Manitoba's GDP, lending stability to the economy, which is predicted to grow between 2.4% to 3.1% in 2007.

Despite the strain felt by the manufacturing sector to the East, manufacturing in Manitoba remains robust with an increase of 3,100 jobs in 2006. According to Statistics Canada there was a total of $14.2 billion of manufactured goods exported from Manitoba in 2006, a 5.2% increase from 2005, and second only to Alberta. Vehicle sales declined 1.2% from 2005 to 2006, but 2007 is looking promising as 2006 sales rose 6.8% in the second half of 2006 compared with the first. The Manitoba agribusiness manufacturing and technology industry employs around 5,800 people in 250 firms, with annual shipments over $1 billion. And the food processing sector is the Province's largest manufacturing sector, with 200 companies employing around 8,500 people.

"Our economy is strong and despite the high Canadian Dollar, impressive gains have been made in the manufacturing sector. Construction work, total exports and capital investment are also leading the country."

- Greg Selinger, Finance Minister

An economic sector that has recently become more significant in the Province is oil production. Manitoba's oil industry invested a record $400 million in exploration and production in 2006. A total 478 wells were drilled in 2006, which was a 74% increase over the previous record of 354 set in 1955. This increase is due in part to Manitoba recently implementing initiatives to attract the oil industry. This resulted in production of over 20,000 barrels a day in early 2007, which is expected to climb throughout the year.

Manitoba's Provincial Nominee program helped boost immigration to a 50-year high in 2006 with 9,989 new immigrants – a 23% increase from 2005. This immigration has helped counteract out-migration, leading to a slight gain of 782 people between October, 2005 and October, 2006.

The Province led the Country in capital investment growth in 2006, which was up 14.6% compared with 6.1% nationally. According to Statistics Canada, building permits reached a record $1.38 billion in 2006, which was the third largest increase in the Country. The non-residential sector posted the biggest gain, with a 26.8% increase in permit values. Currently there are $4 billion worth of construction projects underway in the Province, as well as an additional $6 billion committed by the government to upgrade roads and bridges over the next decade. One of the larger projects in the planning stages is the Wuskwatime Hydro Generating Station, to be constructed by Manitoba Hydro at a cost of $1.2 billion. The Province enjoys the lowest electricity costs in North America due to the availability of highly reliable and renewable hydro electricity.

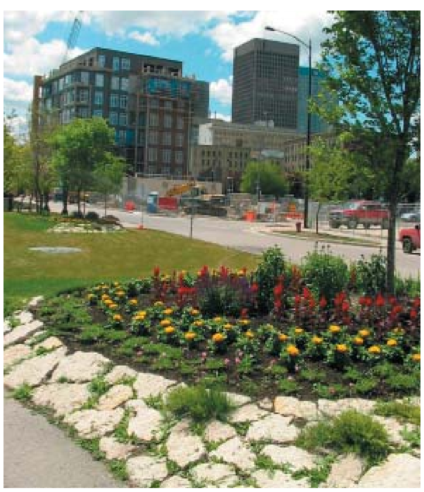
Overall, the 2007/08 outlook remains very positive with the economy supported by continued gains in the wholesale and retail trade, as well as a continued strength in the agriculture industry. With several commercial development projects underway, the construction industry will also stimulate economic growth over the next few years.

Economy

Winnipeg

According to KPMG's Competitive Alternatives 2006 report, Winnipeg continues to be one of the most competitive cities in terms of business costs. The City was ranked third best among 21 cities in Midwest North America, and in all 17 industries studied Winnipeg was more cost-competitive than the average. Also, for the second year in a row Winnipeg ranked among the most affordable cities in Canada, despite a strong economy and some resulting inflation. Low hydro electricity rates contribute to the City's affordibility, however high business and payroll taxation is still creating a challenge for attracting new businesses.

Winnipeg continues to have the most diverse manufacturing sector in Western Canada, helping cushion the impact resulting from the rising Dollar and cooling U.S. economy. Winnipeg's financial services sector is also very strong, and contributes nearly $4 billion to its GDP. Approximately 25,000 people are employed by insurance, finance, and real estate firms, including large companies like Great West Life Assurance Co. and Investors Group which are headquartered in the City.



Condo construction along Waterfront Drive

Winnipeg **housing starts** reached a 17-year high in 2006, with 2,777 new starts in the Census Metropolitan Area (CMA). Average house prices have increased 189% in the past 25 years, from $52,656 in 1981 to $151,983 in 2006, which is 75% less than the total average across the country. However, inflation has been high, and the Province posted the third-highest annual inflation in Canada at the end of 2006, at 1.6%. This increase was due in part to rising cost of owning a home.

The next large-scale residential development to take place in the City will be Waverley West - a 11,000 home development on approximately 3,000 acres of land in the southwest. This project is intended to be a "green, walkable community accessible to a range of incomes and families, from those with young children to seniors." Waverley West will be a significant expansion for the City as available lots for new home construction are becoming increasingly scarce. In recent years this lot shortage has some developers focusing on multi-tenant and mixed-use properties in established areas, helping to curb the urban sprawl that has been a challenge for the City in the past. The increase in population density should also help encourage the development of a much needed rapid transit system, which has been under review by City Hall for many years.

Major Developments, Winnipeg CMA

$ Millions	2003	2004	2005	2006
Commercial	54.4	77.7	108.9	266.7
Industrial	18.9	33.3	64.4	36.3
Institutional	177.7	129.9	129.5	234.8
Residential	87.3	121.1	171.1	136.2
Total	**338.3**	**362.0**	**473.9**	**674.0**

Source: Destination Winnipeg (www.destinationwinnipeg.ca)

Commercial developers have also been showing increasing interest in **in-fill development**, in part as a reaction to the scarcity and rising cost of land in booming suburban areas. There has also been renewed interest in main thoroughfares with commercial zoning, surrounded by established residential areas, as they provide an excellent economic base and visibility for office and retail users. This trend is also expected to encourage more commercial condos, which is a new concept to the Winnipeg market. However, growth of this type of investment will be limited, as it provides little flexibility and is most suitable for companies that have fixed size requirements over the long term.

Winnipeg has seen unprecedented investment in **biotechnology research** in recent years. Some of the larger biotechnology projects include the

Economy

Winnipeg, *Continued*

Economic Indicators - Winnipeg

% Change	2003	2004	2005	2006	2007*	2008*
Real GDP	1.2	2.6	3.4	2.8	2.9	2.7
Employment	-0.1	1.6	-0.4	2.2	1.2	0.8
Unemployment Rate (%)	5.2	5.5	4.8	4.4	4.8	4.9
Housing Starts (000s)	2.4	2.5	2.6	2.7	2.3	2.4
Retail Sales	4.5	9.0	8.2	6.3	6.3	4.9
Consumer Price Index	1.8	1.9	2.6	2.1	1.7	1.9

** estimate* *Source: Conference Board of Canada, Metropolitan Outlook, Winter 2006 & 2007*

development of SmartPark at the University of Manitoba, including the $25 million Richardson Centre; an $11 million Centre for Commercialization of Biomedical Technology; a $30 million expansion of a Cangene Corporation facility; and, the development of a $3 million CancerCare breast cancer research facility. **Hospitals** also continue to see unprecedented funding and development. Most recently, the Health Sciences Centre (HSC) unveiled a $135 million state-of-the art critical services facility, and is currently seeking tenders for a 1,200 stall parkade. Another hospital to see significant investment is the St. Boniface General Hospital, receiving $30 from the Province in March 2006 for the creation of a consolidated cardiac care centre, which is in addition to the new $9.5 million Bergen Cardiac Care Centre Unit already under construction.

There remains an ongoing focus on **downtown revitalization** in Winnipeg. The historical Exchange District continues to see impressive activity, and there are still redevelopment opportunities in the area. Many recent projects have included condominium conversions, which has helped to bring the area's population to more than a thousand residents. However, a low downtown population of approximately 13,000 continues to be one of the largest challenges faced by the City, which is working towards finding long term solutions to the issue including more flexible zoning. The most recent new multi-family development is four new condominium buildings along Waterfront Drive constructed for a total cost of $48 million.

The recent boom in new **hotel construction** and redevelopment continued in 2006, with The Lakeview Group of Companies confirming it will be moving forward with a 94-room downtown hotel. The

Rendering of Proposed Hotel (right) at the Health Sciences Centre (www.canadinns.com)

complex will also contain 20 condominium units on the top floors, and will be connected to the Convention Centre and Class A building at 400 St. Mary Avenue by two skywalk links. Lakeview also owns the Four Points Sheraton at the airport, which will soon be undergoing a $10 million, 72 room expansion to meet demand. The Winnipeg-based Canad Inns also plans to build a $25 million, 160-200 room hotel at the Health Sciences Centre hospital, and also spend $5 million renovating and expanding its Garden City hotel in the North End. And the Vancouver-based Sandman Hotels, Inn and Suites, will be opening a 210-room hotel in St. James near the airport in May, 2007. As a reaction to the large number of new hotels planned and recently constructed in the City, some older hotels may be potentially converting to residential properties in the coming years. This includes the possible takeover of the Holiday Inn at Portage and Colony by the University of Manitoba for student housing, as part of their plan to substantially expand their downtown campus. Winnipeg's hotel occupancy rates hover around 65%, with the average price of a full service room at $100.

Economy

Winnipeg


220 Portage Avenue

The "greening" of new and existing properties in Winnipeg picked up speed in 2006. The Class B 220 Portage Avenue is the first building in the Province to be awarded the BOMA Go Green certification. The Government of Manitoba has also implemented a **green buildings** policy requiring all new provincially-funded buildings to meet the internationally-recognized Leadership in Energy and Environmental Design (LEED) silver certification, and is working toward the implementation of new commercial building codes to make construction more energy efficient. These initiatives, combined with Manitoba Hydro's ongoing efforts to promote energy efficient practices, are going to significantly influence new construction in the City over the short and long term. There are currently eleven LEED buildings in the Province, including the historic Birks Building on Portage Avenue downtown, which is now LEED Silver and home to the Land Title Office as of February 12, 2007.

Building permits in the City jumped by 31.2% to $903.7 million, which was an increase of $215.1 million from 2005. According to the Conference Board of Canada, strong non-residential construction will help Winnipeg's economy grow by 2.9% in 2007. Strong domestic demand and manufacturing output, as well as a population increase and an estimated job growth of approximately 5,000 are all factors that should bring the City's **GDP** to $23.1 billion in goods and services in 2007. Winnipeg's population, which accounts for 60% of the Province's residents, is expected to reach 730,000 (CMA) by the year 2010.

Leasing Market

Winnipeg Office Leasing

National Downtown Office Vacancy

City	2006 Vacancy (%)	Est. 2007 Vacancy (%)
Halifax	9.0	9.0
Montreal	9.2	8.8
Quebec City	3.7	3.0
Greater Toronto	8.0	7.5
Winnipeg	7.4	7.2
Regina	3.6	3.6
Calgary	0.3	0.3
Edmonton	5.0	4.6
Vancouver	3.6	3.0

Vacancy rates vary nearly a full percentage from West to East, averaging 6.6% in the major Western Canadian cities, and 7.5% in major Eastern Canadian cities, excluding the Ottawa market. While the West is expected to continue to see extremely low vacancy levels throughout 2007, Eastern cities should see vacancy remain relatively flat overall.

Portage Avenue District

The Portage Avenue District is dominated by Portage Place Shopping Centre, the new MTS Centre sports and entertainment complex, and the Manitoba Hydro Office Tower, with most office properties in this area having direct or nearby access to the Downtown Skywalk System. Portage Avenue vacancy levels have fallen an impressive 6.1% in the 24 months from Q4 2004 to Q4 2006 to sit at 8.7% overall. The two properties that contributed the most to this decline are The Kensington Building and The Birks Building.

The 91,000 s.f. Kensington Building at 275 Portage Avenue recently saw the lease up of six floors, or approximately 36,000 s.f., by administrative staff from the National Microbiology Lab. The Class B building will become the temporary headquarters of the Public Health Agency of Canada, while the organization waits for government approval on a $100 million expansion project at their current facility.

The 33,000 s.f. Birks Building, located across the street at 276 Portage Avenue, is fully occupied by the Winnipeg Land Titles Office which relocated from a Broadway location. The 105-year-old Birks Building, which stood vacant since 2001, has undergone extensive renovations in the range of $5-$6 million, and achieved LEEDS (Leadership in Energy and Environmental Design) Silver status.

Winnipeg Office Leasing, *Continued*

CentreVenture, the downtown's development agency, will be focusing its upcoming efforts on the core's two main arteries: Portage Avenue and Main Street. Over the next three years the agency is planning to redevelop as many as nine parks and public spaces, and plans to build more parking structures.

Main Street District

The Main Street District consists of the City's largest Class A properties at Portage & Main, as well as a number of heritage properties along Main Street and in the surrounding area. Properties at the Portage & Main intersection have direct access to the underground concourse system, which is connected to the Winnipeg Square Shopping Centre and Downtown Skywalk.

This district saw vacancy levels decrease 3.6% from Q4 2005 to Q4 2006, and is currently at 7.5% overall. The 535,000 s.f. Commodity Exchange Tower at 360 Main Street was the largest contributor to this drop, with its vacancy falling from 78,899 s.f. at the end of 2004, to 69,168 in 2005, to 30,759 or 5.7% at the end of 2006. This positive absorption is due in part to the lease up of 45,000 s.f. of additional space in early 2005 by an existing tenant - Canada Revenue Agency. Other properties in this district also saw positive absorption in 2006, albeit minor.

The Portage & Main intersection was closed to pedestrian traffic in 1976, forcing people to walk through an underground concourse to cross the street. The seven property owners located at and around Portage & Main have an agreement with the City prohibiting the reopening of the intersection to pedestrian traffic for another decade. However six of the seven owners have agreed to the idea of re-opening the intersection to pedestrian traffic during non-business hours, as part of a $10.5 million face-lift. Oxford Properties is the owner of Winnipeg Square, which is part of the underground concourse system, and is the sole owner to disagree with the plan, making its future uncertain.

Even the section of Main Street just north of Portage & Main and City Hall, which is one of the downtown's most economically challenged areas, is seeing renewed interest. A handful of tenants recently announced plans to relocate to the area, including a neon factory and architectural firm which has purchased a 100 year old bank building for $170,000.

Graham/St. Mary Avenue District

The Graham Avenue Transit Corridor is at the heart of the Graham/St. Mary Avenue District, which is made up of smaller Class A and high-end Class B properties. Government and agricultural tenants dominate this area, and most properties are connected to the Downtown Skywalk system. The Skywalk is scheduled to expand in 2007/2008 creating a direct connection from Cityplace Shopping Centre to two Class B properties (330 St. Mary and 175 Hargrave), two hotels, and the Winnipeg Convention Centre.

Vacancy levels in this area increased 4.1% from 2004 to 2005, primarily due to Credit Union Central vacating approximately 44,000 s.f. at 215 Garry Street and moving to 317 Donald - a new Class A building just north of Portage. However, this area rebounded in 2006 with most of the properties in this area experiencing some positive absorption, resulting in vacancy levels recovering 2.9% to sit at 8.3% overall.

The Broadway District

The Broadway District was the only area to see an increase in vacancy in 2006, however the overall vacancy level remains low at 7.5%. This area is heavily dominated by government tenants, law firms and related organizations, due to its proximity to the Law Courts and Manitoba Legislature. Many of the buildings in the Broadway District are Class C, having been constructed in the 1950s and 1960s, and there is no Skywalk access and limited parking. However, Broadway is also known as one of the more scenic downtown streets with a generous boulevard and century-old elm trees, and many tenants remain loyal to the area.

Winnipeg Office Leasing, *Continued*

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	15,380,145	**829,545**	**5.5**	**5.9**	**11.13**

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Source: Avison Young Database / The Johnson Report, 2006 Year End Market Report

Class A

The Downtown Class A market has an inventory of just over 2.2 million s.f., with Net rents averaging nearly $15 per square foot. The most recent addition to this class is the 90,000 s.f., $15 million Credit Union Central building, which current has a vacancy of 23,184 s.f. or 26%.

Overall Class A vacancy sits at 7.9%, and an overall sublet of 2.0%, with levels trending significantly downwards from 10.5% at the end of 2005. This illustrates that although in recent years many businesses have been seeking more economical Class B and C space, prestige and/or the appeal of newer construction still outweighs rental economies for some tenants.

Of the "big three" at Portage & Main only CanWest Global Place at 201 Portage continues to struggle with a large amount of available space, currently sitting at a total of over 75,000 s.f. or 15%. MTS Allstream will likely be vacating approximately 38,000 s.f. of space at 360 Main Street in the first quarter of 2007, potentially increasing vacancy at the building by 7.0% and overall levels by 1.5%. MTS, the Province's largest telecommunications company, began relocating customer service staff to a new 70,000 s.f. suburban property in November, 2006, which they have leased for 20 years with an option to renew. However, MTS will continue to have a strong downtown presence, occupying 270,000 s.f. of space at its headquarters at 333 Main Street and the adjacent 191 Pioneer Avenue located at Portage and Main.

Of the nearly 50,000 s.f. of Class A sublet space, 80% is expiring between 2008 and 2010, which could potentially push vacancy levels upward an additional 1.5% in this period. Manitoba Hydro will likely offer 30,000 to 40,000 s.f. of space for lease in its new office tower in late 2007, which may impact on this class. Overall, we expect Class A vacancy to increase in 2007 and early 2008 to around 9%.

Class B

Class B rental rates average $11 to $12 Net, with vacancy levels dropping a full percentage to 6.9% since the end of 2005.

Few large blocks of space are available in this class, providing limited options for tenants and could threaten vacancy levels over the longer term. Only four properties have contiguous space available over 10,000 s.f., and there is currently only one option in the 20,000 s.f. range – a sublet at the Royal Bank Building at 220 Portage Avenue, expiring in late 2014.

The renovated and expanded 60,000 s.f. Powerhouse Building is the most recent addition to this class, with 30,000 s.f. occupied by CTV, which moved from the Polo Park area in the summer of 2006.

The 2.5 million square foot Class B market will

Winnipeg Office Leasing, *Continued*

experience some negative absorption in the first quarter of 2007, as MTS Allstream vacates a little over 19,000 s.f. from 433 Main Street. Additional space will come available late in 2007 when Manitoba Hydro vacates its remaining space at 444 St. Mary Avenue and relocates to its new building on Portage Avenue. These two events combined could push Class B vacancy levels toward the 10% mark in late 2007.

Class C / Heritage

Although vacancy remains high for Class C properties, averaging just over 14%, it is slowly but steadily decreasing as these properties draw tenants with their attractive rental rates, currently averaging $10.00 Net per square foot. A large amount of Class C vacancy is attributable to a handful of large blocks of available space in properties that are good redevelopment candidates, but have yet to attract significant interest, including the 84,000 s.f. Canada Building at 352 Donald Street.

Redeveloped heritage buildings have the lowest combined vacancy in this Class - 6% lower than non-heritage properties. This is due in part to the fact that many of them provide appealing "brick-and-beam" architectural features combined with modern amenities and efficiencies. A good illustration of this is the Birks Building at 276 Portage Avenue, which is over a century old but will be fully modernized and LEED silver when renovations are complete in the summer of 2007. This property has been fully leased by Winnipeg Land Titles office.

Class C vacancy levels will likely continue to remain stable but high in 2007 and 2008. The longer term outlook for these properties is positive, providing landlords continue to invest in the modernization and redevelopment of these buildings.

Suburban

Winnipeg's suburban office market is relatively small and underdeveloped. There are few large multi-tenant properties, and only two over 100,000 s.f. : 1661 Portage and 1313 Border. The latest addition to the suburban market is a new, fully-leased 26,000 square foot office building located in the trendy Corydon neighbourhood at 1001 Corydon Avenue.

Rendering of 1001 Corydon Avenue
Source: Stechesen Katz Architects

Options are limited for tenants looking for suburban space, and as a result some choose to build owner/user properties or adapt industrial flex space to meet their needs. This often results in a "hidden absorption" that makes it difficult to accurately reflect suburban trends. Of the handful of larger multi-tenant suburban properties, vacancy levels have remained relatively flat, and currently sit at 8.9%. Net rental rates average $10.20 per square foot, which is slightly more than downtown Class C.

Similarly to the Class B market, suburban vacancy may increase to as high as 10% in 2007 due in part to MTS's space consolidation, and Manitoba Hydro's new downtown office tower. However, Manitoba Hydro's current suburban space includes some converted industrial properties that may not remain as office use, potentially softening the hit to the office market. In addition, ongoing parking availability and cost issues in the downtown continue to work in favour of the suburban office market.

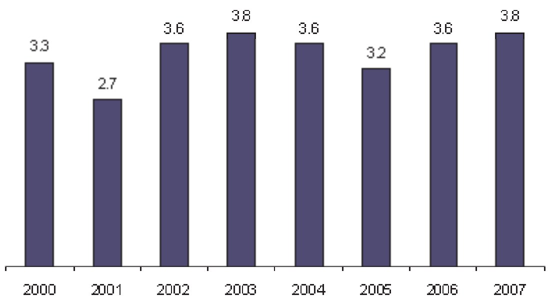
Summary

Overall downtown vacancy saw positive absorption of nearly 2% in 2006, however this is a short-lived gain and the movement of a number of tenants will bring the vacancy closer to 2005 levels. However, this negative absorption will not be the result of a cooling economy, but largely the impact of MTS Allstream and Manitoba Hydro's space consolidations at new owner/user properties. The long term outlook continues to remain very positive, due to a combination of limited new product and a strong local economy with continuing growth in jobs and income.

Leasing Market

Winnipeg Industrial Leasing

Overall Winnipeg Industrial Vacancy Levels (%)



2006 Industrial Vacancy by Area

	Inventory	2006 Vacancy (s.f.)	2006 Vacancy (%)	Average Net Rent ($)
Central	12,005,136	265,272	2.2	3.20
North	12,731,143	789,801	6.2	4.30
South	8,985,119	323,464	3.6	5.60
West	27,170,649	1,329,569	4.9	4.50
East	14,933,653	181,870	1.2	4.25
	75,825,700	**2,889,976**	**3.8**	**4.37**

Source: The Johnson Report, 2006 Year End Market Report

Overall industrial vacancy has averaged 3.4% since 1999, and is presently at 3.8%. Net rates for older industrial space average $4.00 to $4.50 p.s.f., with newer high-cube space commanding rates at nearly double this amount. Demand for space continues to remain healthy, and has been minimally impacted by the rising Dollar compared with some other major centres, particularly in Eastern Canada, thanks in part to Winnipeg's relatively low rental rates, central location, and extensive transportation links.

A large number of Winnipeg's industrial buildings were constructed in the 1950s and 1960s, and without significant improvements are becoming obsolete. Many tenants of older buildings are now searching for more energy efficient, modern structures with higher ceiling heights. However, limited new construction is stopping many of these companies in their tracks as new multi-tenant properties are few and far between. In particular, there is a limited amount of available space, and particularly development land, in the Northwestern part of the City, which is traditionally one of the most popular industrial areas due to its proximity to main traffic arteries and the International Airport. However, over the long term there will be some new opportunities in this area, as the Winnipeg Airport Authority has announced a planned industrial campus to be developed on 323 hectares of land around the airport, after the completion of the new $572 million terminal in 2009.

The $30 million Kenaston Boulevard underpass was completed in 2006 and has made the Southwest area of the City more accessible, and therefore an increasingly attractive option for industrial tenants. CN's main line runs parallel to Wilkes Avenue, and the busy railway line caused significant traffic congestion. The new underpass has now opened up the area providing quick access from the Southwest to the Airport via Route 90 (Kenaston), the City's main north/south corridor. Nearby Fort Garry Industrial Park, located on 880 acres just to the East, is nearly fully developed with a 3.6% vacancy, also resulting in increased interest in the nearby Southwest quadrant.

St. Boniface Industrial Park in the East is also seeing renewed interest. The park had approximately 55 acres of vacant land five years ago, which has since decreased to about 33 acres, and will likely be fully developed in the next decade. The largest project slated for development in the area was the controversal $200 million Olywest hog processing plant, which is now on hold due a temporary Provincial moritorium on hog plants and increasing public opposition to the project. There are some current efforts underway to rezone the area from a heavy industrial use to a lighter use so that similar future project have to go through more extensive public consultation. However with this comes the risk that similar future projects may choose to locate outside the City limits or in smaller nearby cities, such as Portage La Prairie and Brandon.

Overall vacancy levels will continue to remain low in the 3.5 to 4.0% range throughout 2007 and into 2008. The majority of industrial leasing activity in 2007 is expected to take place in the Eastern and Southwest areas of the City. There is expected to be little new construction overall, due to a combination of limited number of development lots within the city limits, high construction costs, and ongoing challenges faced by the manufacturing sector.

Leasing Market

Winnipeg Retail Leasing

2006 Retail Vacancy by Type

Type	Inventory	2006 Vacancy (%)	Average Net Rent ($)
Strips	6,433,368	4.7	13.45
Malls	4,583,758	2.2	19.20
Power Centres	3,466,927	1.9	16.40
Stores	2,914,029	7.6	11.35
Restaurants	389,486	6.9	12.15
Miscellaneous	426,656	3.5	7.40
	18,214,224	**4.0**	**13.33**

Source: The Johnson Report, 2006 Year End Market Report

Suburban retail continues to thrive in Winnipeg, with overall vacancy levels averaging 3.6%. Power centre development remains dominant in the suburban retail landscape, with ongoing construction. The three suburban retail "hubs" in the city include St. James / Polo Park in the West, Regent Avenue / Transcona in the East, and St. Vital and Kenaston / McGillivray in the South - all of which have experienced extensive development over the past five years. Hopewell's $50 million power centre project in the City's booming Southern retail hub along Kenaston Boulevard is the largest retail project currently underway in Winnipeg. Just to the Northwest on the Western boundary of the City is another significant power centre project - the $23 million conversion of Park West Mall. Park West is a small grocery-anchored enclosed mall, which has struggled with high vacancy for many years and is now being converted into a big box development. Shoppers Drug Mart opened at the Centre in the summer of 2006, with the remainder of the construction, including a 65-unit high-rise condominium complex, to be completed by late summer 2007.

Large enclosed shopping centres are also still going strong in the City. Winnipeg's largest mall, Polo Park Shopping Centre is currently undergoing a face-lift and 20,000 square foot addition. This $30 million project will bring the mall's total size to over 1.2 million s.f. Also, on the former Winnipeg Arena site adjacent to Polo Park, significant power centre development is expected to occur beginning in 2008, with up to seven new stores.

Street retail is also doing well in many areas of the City, including a resurgence in the French Quarter, where developers are now building to meet demand in an area where 60% of retail space was for sale or lease just a decade ago. An increase of mixed-use properties in densely populated areas has occurred over the past few years and is providing new street retail opportunities in many older, established parts of Winnipeg.

Although Winnipeg's Downtown has experienced promising retail leasing and development in the past decade, there are still significant pockets of vacant space in the core. The overall downtown retail vacancy of 12% is still high, especially when compared with the suburban market. However, the core's signature roadway, Portage Avenue, continues to undergo a resurgence: LA Collection opened a 7,900 square foot store on Portage Avenue across from MTS Centre, expanding their product offering by 40 per cent compared with their previous downtown location on nearby Graham Avenue; the 13,400 s.f. former Cliffords Building at 412 Portage, which was vacant for five years, was recently purchased and will be fully occupied by the Toronto-based Hakim Optical in early 2007; and the new 695,742 square foot Manitoba Hydro Office Tower will include a street-level retail component when completed in late 2007, which has already been partially pre-leased by a Royal Bank branch. The retail space at the Hydro Tower, combined with Portage Place Shopping Centre to the North and The Bay to the West, should help to further redefine this area of downtown as a shopping destination. Portage Place, downtown's largest enclosed mall, has seen very low vacancy levels in the past two years, and will soon be home to a new Shoppers Drug Mart location.

Retail sales in Manitoba grew about $3.1 billion from 2001 to 2006, which is a 33% increase in retail spending and one the highest growth rates in the Country. Winnipeg's retail sales are expected to remain among the highest in Canada throughout 2007, which is a strong indication that retail leasing and new development should continue at its brisk pace. And as suburban retail markets become saturated over the next few years, established areas closer to the core are expected to become an increasingly attractive option for many retailers, particularly as the residential population in the downtown continues to climb.

Investment Market

Winnipeg

2005/2006 Winnipeg Building Sales (Over $7.0 Million)

Property	Type	$ Millions
Cityplace Shopping Centre	Retail/Office	$ 78.5
MTS Place (333 Main, 191 Pioneer)	Office	51.1
CanWest Global Place (50%)	Office	40.0
330 St. Mary and 175 Hargrave	Office	25.3
Grant Park Shopping Centre (50%)	Retail	24.0
Greenwood Inn	Hotel	17.0
Medical Arts Building	Office	14.0
NewPortCenter	Office	13.0
Kenwood Court	Multi-Family	12.0
280 Broadway and 70 Smith Street	Office	11.0
Royal Bank Building (50%)	Office	9.0
Purolator Courier Building	Office	8.1
Hilton Hotel	Hotel	7.0
		$310.0

Despite its limited availability, demand for quality **office investment product** remains strong, with large commercial transactions in the past 24 months totalling $310 million. Cap rates have remained consistent at around 8% to 9%, for quality properties with high occupancy, making the City an excellent investment alternative for out-of-province buyers. Winnipeg has historically offered lower volatility and a more stable local economy when compared with many other major centres, providing excellent investment opportunities. Recent demand has resulted in numerous offers being brought to market on a bid basis with no listed asking price, a trend which is becoming more common in the Winnipeg marketplace.

Manitoba continues to be a hotbed for Real Estate Investment Trusts (REITs). The first major office transaction of 2006 was the January, 2006 sale of the 150,000 square foot Medical Arts Building in Downtown Winnipeg to Huntingdon REIT (TSX: HNT.UN) for $14 million. A month later Huntingdon announced its second Downtown purchase of the year - the $11 million acquisition of 280 Broadway, a 105,000 square foot Class C building in the downtown fully leased by government tenants. Downtown's historical Exchange District also saw significant REIT investment activity in 2006 when Allied Properties REIT (TSX: AP.UN) announced in November, 2006 that they plan to acquire seven properties for $17.3 million. The acquisition includes six older office buildings in the Exchange totaling approximately 785,000 s.f., with a combined occupancy of 70%.

Not all large office transactions in 2006 were from REITs. In June, Brookfield Properties sold two Class B properties at 330 St. Mary Avenue and the adjacent 175 Hargrave Street to LaSalle Investment Management for over $25 million. Brookfield originally acquired the assets as part of its $2 billion purchase of the O&Y REIT portfolio in 2005. And on the last business day of 2006 it was announced that MTS Allstream had agreed to sell its head office buildings for $51.1 million to Crown Realty Investments Ltd., signing a 15-year leaseback agreement with the company for the space it currently occupies. The properties are located at Portage & Main at 333 Main and 191 Pioneer, and total 270,000 square feet in size. Management was recently awarded to NewWest Enterprise Property Group.

Retail and industrial product appears to be attracting increased interest in recent years, due in part to rising rental rates and less capital-intensive product in comparison with office properties. However most retail transactions involved small properties, with under sixty retail properties changing hands in

2006 at an average of $64.75 per square foot. Retail investment also continues to be focused on new power centre development in the suburbs, and larger mixed-use properties with street-level retail components in the core.

The two most significant transactions of 2006 were by REITs, the first of which was by the Winnipeg-based Westfield REIT (TSX:WFD.UN), which acquired Reenders Square in February. The mall is located in the City's Eastern retail hub and anchored by Sobeys and RONA. The acquisition was part of an agreement to acquire four commercial properties across Western Canada for $69.4 million.

Huntingdon REIT made the largest retail investment of 2006, with the $78.5 million purchase of Cityplace Shopping Centre in the Downtown, adjacent to the MTS Centre sports and entertainment complex. Effective June 30th, the acquisition included a two-storey enclosed 115,000 square foot shopping centre, a nine-storey 337,000 square foot office tower, an attached 327 stall indoor parkade, and two adjacent surface parking lots totaling 323 stalls. Huntingdon REIT announced a little over three months later that they will expand the second-level food court and redesign adjacent retail space at Cityplace, in anticipation of an additional Skywalk link at the South end of the property.

There was minimal **Industrial** transactional activity in 2006, due to a limited amount of new product coming to market. The vast majority of the industrial properties up for sale in 2006 were older Central and West End buildings with Net lease rates averaging below $4.50. One of the largest industrial tranasactions of the year was a $60.6 million purchase of six Western Canadian properties by Artis REIT, including a 201,000 square foot industrial property on Keewatin in the City's Northwest quadrant. The industrial market picked up significantly in early 2007 when Winnipeg's largest landlord, Sun-X Properties Ltd., sold its entire portfolio. In what is believed to be the largest commercial real estate transaction in Manitoba's history, Sun-X sold its 50-building, 2.5 million square foot portfolio to British Columbia Investment Management Corp. (bcIMC).

Serviced industrial land within the city limits is expected to continue to be in very short supply, with new development slowing in 2007 due to skyrocketing construction costs, land value increases and a shortage of trades people. As a result, traditionally less popular and less expensive industrial parks are beginning to see activity. St. Boniface Industrial Park in Winnipeg's East end had approximately 55 acres of vacant land five years ago, which has since decreased to about 33 acres, and could be fully developed in eight to ten years if this trend continues. The most recent project to be announced at the Park is FedEx's planned construction of a new $5-million, 30,687 square foot facility on land purchased in 2005 for $72,000 an acre.

Land on Waverley Street at Lee sold for residential development. (Brokered by Avison Young)

Land sales have been of increasing interest over the past few years due to record development activity, particularly in the residential and retail sectors. Land prices have skyrocketed in some areas, with asking pricing averaging approximately $700,000 an acre for commercial land, $160,000 an acre for industrial land, and $200,000 for multi-family and residential land. The asking price per acre ranges from a high of $1.1 million per acre in the Southwest to a low of $10,000 an acre in less developed areas within the City limits. In 2006 a total of 41.9 acres of land changed hands for a total dollar value of over $8.7 million.

Residential demand was extremely strong in 2006, and MLS® statistics broke a number of records. However few large **multi-family** transactions took place as the focus continued to remain on new development. The majority of the dollar volume was attributed to the largest single transaction, which occurred in August, 2006 when Kenwood Court, a 103-unit property in the Southeast, was sold to a group of current and former NHL players for $12 million.

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Wayne K. Johnson, C.A.
(204) 256-0444

Avison Young Intelligent Real Estate Solutions

NewWest Enterprise Property Group

Avison Young Commercial Real Estate (Manitoba) Inc.

NewWest Enterprise Property Group Inc.

330 Portage Avenue, Suite 1000
Winnipeg, Manitoba
Canada
R3C 0C4

Phone: (204) 947-2242
Fax: (204) 943-2680

www.avisonyoung.com

www.nwe.ca

Prepared by:

Catherine Stoyko, Realtor®
Marketing and Research Coordinator
cstoyko@ay-mb.com / cstoyko@nwe.ca