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Office Market Summary

Downtown Winnipeg

Winter 2007/08



Intelligent
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Office Leasing Overview

Downtown Winnipeg's office leasing market continues to reflect the City's stable and diversified economy, experiencing a negative absorption of only about 50,000 s.f. or 1% since early 2001. This is despite the exodus of a handful of large tenants from the downtown in this time period, including Convergys (57,000 s.f.) Manitoba Telecom Services (38,000 s.f.), and Grant Thronton (12,000 s.f.). Successful and ongoing revitalization efforts continue to help core properties compete with suburban space, as well as the access to businesses, shops, services, and entertainment that the downtown provides. New office building construction has added 174,000 s.f. of space in the past five years at a cost of \$27.5 million, not including the \$278 million, 696,742 s.f. Manitoba Hydro Office Tower set for completion in May, 2008. Manitoba Hydro will be occupying all but 39,000 s.f. of office and retail space in their new building, therefore adding little new inventory to the Class A market.

Units under 2,000 s.f. are the most abundant, making up just over half of the available units in the Central Business District (CBD), but comprising only 12% of the total available square feet. The downtown continues to be a tenant's market, with many landlords focused on property amenities, green building initiatives, and improved marketing practices in order to attract businesses. The largest blocks of available space consist mostly of sublets, which range from 7,300 to 73,000 s.f. (left by Agricore, after recently being purchased by Regina-based Saskatchewan Wheat Pool). There are also a number of excellent redevelopment opportunities still available in the downtown, including 300,000 s.f. of upper floor space at The Bay, and 46,963 s.f. of space at the long vacant Avenue Building on Portage Avenue.

Office rents range between \$12 and \$17 per s.f. per annum (psf/a) Net for Class A space, and \$10 to \$15 psf/a Net for Class B space. Despite access to comparatively inexpensive hydro electricity, common area costs for Class A office towers have increased by 23% to 24% since 2002, which is more than double the annual inflation rate. In the same 5 year time period Class B properties saw their costs rise at about half that amount. As a result, green programs and green buildings are becoming popular, and the City has gone from having one certified BOMA Go Green building at the end of 2006, to thirteen certified buildings a year later.

Winnipeg Office Market

Inventory and Vacancy Summary

	Inventory (s.f.)	Vacancy (s.f.)	Total (%)	Change (12 mths)
Downtown A	2,408,722	181,969	7.6%	-0.5%
Downtown B	2,700,430	268,353	9.6%	+1.8%
Downtown C	2,174,376	274,280	13.1%	-0.1%
Downtown Overall	7,283,528	724,602	9.8%	+0.1%
Suburban A-C	860,011	93,705	10.9%	-1.3%
Class D / Misc.	3,907,045	74,053	1.9%	+0.1%
Government	2,600,745	0	0.0%	-
Medical	961,035	62,117	6.5%	+1.5%
Winnipeg Overall	15,612,364	954,477	6.1%	+0.6%

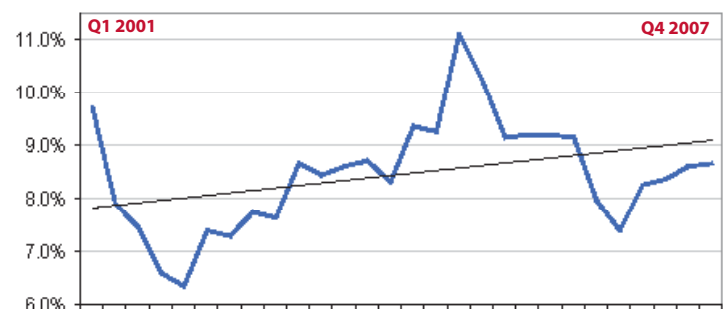
Largest Available Blocks of Office Space

Contiguous Square Feet

Opportunity	Property	Sq. Ft.
Building for Sale/Redevelop.*	Canada Post Tower	400,000
Space Redevelopment	The Bay Downtown	300,000
Space for Lease - Class B*	444 St. Mary Avenue	77,000
Space for Sublease - Class A	CanWest Global Place	70,000
Space for Lease - Class B	Cityplace	68,168
Space for Lease - Class C	Canada Building	50,000
Building Redevelopment	Avenue Building	46,963
Building for Sale/Redevelop.	49 Adelaide Street	44,000
Space for Sublease - Class B	Rice Financial Building	35,000

* Future opportunity

Historical Class A&B Vacancy



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Looking Ahead

The downtown office market will likely see negative absorption overall in 2008, resulting in an ongoing tenant's market and the suppression of rental rates. This will be due in part to strong competition from sublet space as well as pressure from the suburban office market. New inventory in the next few years will primarily be limited to redevelopment projects, including the 400,000 s.f. Canada Post Building on Graham which will likely come available for redevelopment in late 2009.

Newly redeveloped heritage properties continue to be the most competitive in the CBD, as many offer modern amenities combined with attractive architectural features, often at lower rental rates than Class A and B properties. Additional heritage redevelopment projects are expected to come available into 2008 and 2009, putting further pressure on the Class B market, which competes most directly with these buildings. Manitoba Hydro's move to their new tower will also negatively affect Class B and suburban office vacancy levels in the second and third quarter of 2008, as the company vacates its existing locations. However, the building will also bring about 2,000 employees into the Downtown, which will provide a boost for the large amount of retail in the immediate area. Hydro's office tower will occupy a city block, will only incorporate 150 parking spots and therefore is expected to put pressure on surrounding lots. This demand is expected to further increase rates for the downtown's 35,000 parking spots, which rose slightly more than the Canadian average in 2007 at 8%. Despite this, among Canada's major cities Winnipeg's downtown continues to have some of the most abundant and affordable parking.

Historically, Downtown Winnipeg's leasing market is one of the most stable in the country. And although there are some short-term challenges ahead for the office market in the CBD, the longer-term outlook remains positive. The expansion of existing Downtown tenants, such as Wellington West Capital Corp. which has recently grown from 10,000 s.f. to 25-30,000 s.f., is expected to account for a great deal of the space absorption in the next few years. And, thanks to a strong and diversified local economy, geographically central location, and business-friendly environment, new companies and business ventures will continue to migrate to core from outside the City and Province. The core will also benefit from ongoing core revitalization efforts that have proven successful in attracting people and businesses, with the Downtown Winnipeg Business Improvement Zone (BIZ) planning to expand their programs even further in the next few years.

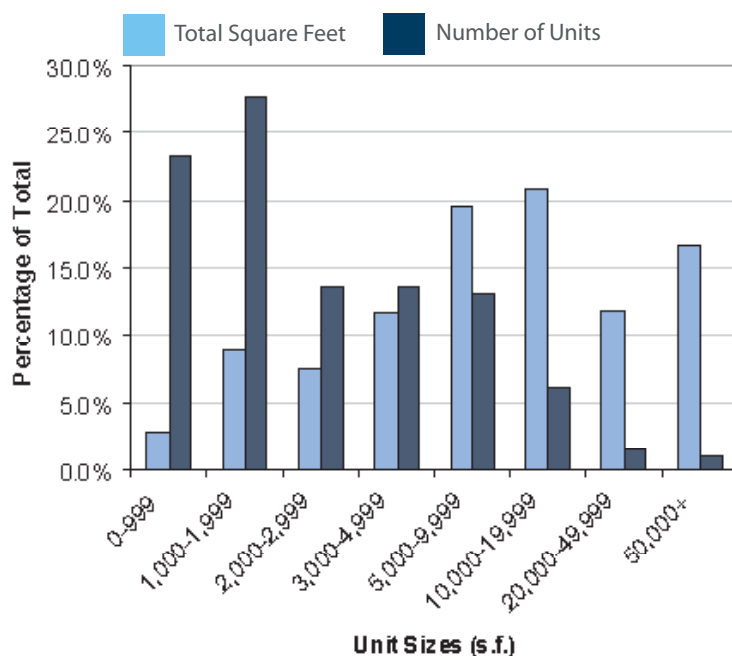
Recent Downtown Office Lease Transactions

10,000 s.f. +

Leasee	Sq. Ft.
CN Rail	38,000
National Microbiology Lab	36,000
Winnipeg Land Titles Office	33,000
CUETS	28,900
MTS Allstream	19,100
Great West Life	18,500
Investors Group	17,700
Richardson Financial Partners	16,000
HR People First	13,700
Government of Manitoba	10,600
Can Talk	10,000

Winnipeg Downtown Vacancy

Distribution of Available Space by Unit Size (Class A-C)



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Primary Sources:

Avison Young Inventory Database
Winnipeg Free Press
Destination Winnipeg

The Johnson Report, June 2007
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