2009 Forecast

Regional Report for Winnipeg

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2009 Forecast – Regional Report for Winnipeg
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The complete 2009 Forecast includes:

- 2008/09 Office Inventory: Map, individual leasing data and photos
- 2008/09 Developments: Map, project information and photos

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Market Overview

Economic Outlook

	Manitoba			Canada		
	2008e	2009f	2010f	2008e	2009f	2010f
Real GDP	2.0	-0.5	1.9	0.7	-1.4	2.4
Total Consumer Price Index	2.2	0.7	1.7	2.5	0.5	1.6
Retail Trade	8.1	3.8	3.0	4.3	2.5	3.5
Employment	1.6	0.3	0.0	1.6	-1.0	0.3
Unemployment Rate (%)	4.2	4.6	5.4	6.1	7.7	8.2
Housing Starts (000's of units)	5.5	5.0	5.3	211.3	151.8	154.5
Housing Starts	-4.9	-10.0	7.1	-7.2	-28.2	1.8
Average Existing Home Price ($000's)	190.4	179.0	191.9	300.8	268.6	270.0
Average Existing Home Price	12.5	-6.0	7.2	-2.1	-10.7	0.5

Above numbers indicate percent change, unless indicated otherwise / Source: TD Economics Provincial Economic Outlook
e: estimate, f: forecast

"Manitoba has been largely unaffected by the economic turbulence, and the provinces is in good shape; a strong domestic economy and large construction projects will allow for sound economic growth in the near term."
– Conference Board of Canada

Manitoba continues to be an 'it' province, with a hot housing market, significant capital spending projects, bumper wheat and barley crops, and tight labour conditions. Real GDP, employment growth, personal disposable income and retail sales are all anticipated to perform significantly better than the projected Canadian average. According to government indicators, Manitoba is expected to experience GDP growth of 0.8% in 2009, compared with the anticipated national decline of 0.7%. Planned provincial government infrastructure investment over the next four years totals $4.7 billion, which should also help temper the economic slowdown.

Winnipeg metropolitan area forecasts have been lowered, but the city is still expected to be among the best performers in North America in 2009. According to the Conference Board of Canada, the city's real GDP growth was 2.7% in 2008, and is expected to be 2.5% in 2009, which is second only to Regina at 3.2%. Winnipeg's employment, personal disposable income, and retail sales are all poised to perform 1-1.5% better than the projected Canadian indicators.

Manitoba's manufacturing sector, which accounts for 46,000 jobs and 13% of economic activity, is the most diversified in Western Canada and is forecast to see output growth of 4.2% in 2009. A lower Canadian dollar and demand for transportation equipment and parts, specifically transit buses and aerospace components, is expected to keep manufacturing output indicators relatively strong through 2009. In general, Manitoba's manufacturing sector is also less reliant on U.S. exports than many other provinces and therefore is better positioned to weather the economic slowdown south of the border.

"Manitoba's economy is still on a solid footing. It's diverse, it's stable and resilient in a lot of ways. We haven't been taking the big hit like other provinces have. "
– Peter Squire, Market Analyst, Winnipeg Realtors® Assoc.

Investment in residential and non-residential construction in the city was over a billion dollars in 2008. Construction will be bolstered through 2009 and 2010 with large non-residential projects underway in Winnipeg and surrounding areas, including hundreds of millions of dollars in wastewater improvement projects, a $665 million floodway expansion program, $585 airport terminal and parkade, and $327 million rapid transit corridor. Development of several significant Manitoba Hydro projects, and the $265 million Canadian Museum for Human Rights, is also anticipated to provide considerable employment over the next 2-3 years.

Market Overview

Economic Outlook, Winnipeg

	2008	2009f	2010f	2011f
Real GDP	2.7	2.5	2.9	2.8
Consumer Price Index	2.8	2.7	1.9	2.0
Personal Income	4.0	4.9	4.2	4.2
Personal Disposable Income	2.9	3.8	3.2	3.2
Total Population	1.1	1.1	1.0	1.0
Labour Force	0.8	1.6	1.4	1.3
Employment	1.2	1.4	1.2	1.5
Unemployment Rate (%)	4.2	4.4	4.6	4.5
Retail Sales ($Million)	9,483	9,962	10,441	10,939
Retail Sales	7.3	5.1	4.8	4.8
Housing Starts (000's of units)	3.0	2.9	3.3	3.5

Above numbers indicate percent change, unless indicated otherwise / f: forecast
Source:Conference Board of Canada, Metropolitan Outlook, Winter, 2009

In a recent report by KPMG Winnipeg was flagged as one of the most "attractive emerging locations in the world for the next wave of business process outsourcing." Factors in favour of the city include its education system, sizable bilingual workforce, availability of quality office space, government support and overall business competitiveness. These attributes are helping Winnipeg to attract new business and more than 20,000 jobs were created in the past three years, including 6,500 in 2008. EDS Canada recently announced that it will be locating its technology service centre in the city, which is expected to create an additional 1,000 jobs over the next five years and contribute $440 million to the provincial economy. Other Winnipeg-based companies are also going strong with Buhler Industries reporting its most profitable quarter in a decade and a half, Winpak reporting its most profitable quarter in five years and Great West Life, Investors Group, Boeing, and New Flyer Industries all performing well going into 2009. However, as is being experienced in other areas of the country, advertising-dependant companies have been downsizing, including the CanWest Global Communications, The Winnipeg Free Press, The Winnipeg Sun and CTV.

According to Canada Mortgage and Housing Corp. (CMHC) housing starts in Manitoba are expected to decline 14.2% to 4,750 units in 2009, which is still much stronger than the predicted national decline of 24.1%, and should pick up again to 5,000 units in 2010. Existing home sales are expected to drop 12.7% to 11,800 units, with the average selling price down 3.5% to $184,000, which also is fairing better than the anticipated national decline of 14.6% in new sales and 5.2% decline in average selling price. Winnipeg MLS® sales totaled a record $2.4 billion in 2008, however housing continues to be some of the most affordable in the country with 54% of homes selling for less than $200,000 in 2008.

Apartment vacancy in Winnipeg is still extremely low, reaching a record 1% by the end of 2008, with some areas of the city well below that. Only 2,933 units have been constructed in the city in the past five years, including 319 in 2008, which is not enough to keep up with the influx of immigration which has increased by 137% in the province in the past five years. A lack of new inventory is being blamed on high construction costs, as well as the province's rent control restrictions which can limit the long-term profitability of apartment projects. And one of the more significant apartment projects to be built in the city in a number of years, a $50 million 331-unit complex in the Northeast, was recently cancelled by the developer due to zoning restrictions.

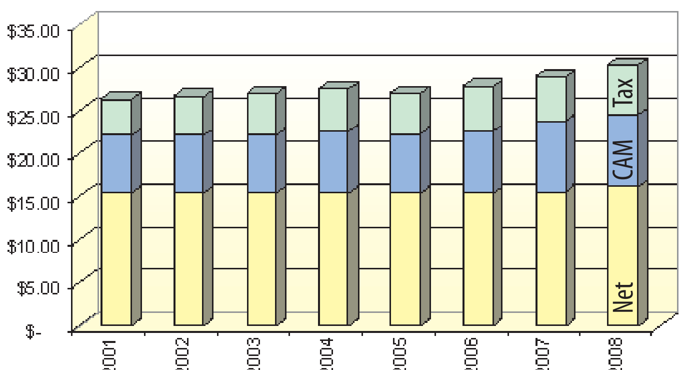
Office Leasing Market

Winnipeg Office Market
Inventory and Vacancy Summary

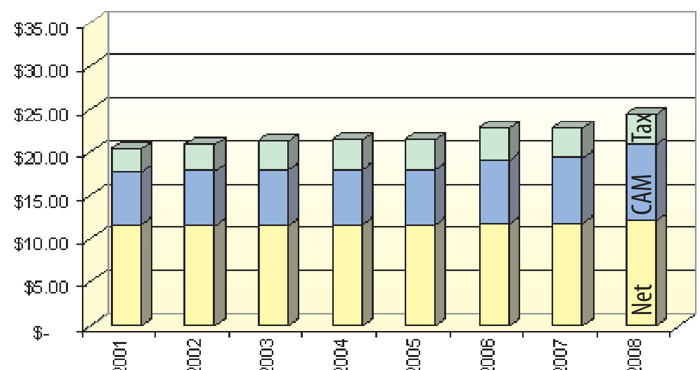
	Inventory (s.f.)	Vacancy (s.f.)	Total (%)	Change (12-months)
Downtown Class A	2,408,722	124,019	5.1%	-0.8%
Downtown Class B	2,719,776	157,052	5.8%	-3.4%
Downtown Class C	791,152	87,583	11.1%	n/c
Downtown Class C/Heritage	1,572,895	96,705	6.1%	-2.8%
Downtown Class A-C	**7,492,545**	**465,359**	**6.2%**	**-4.7%**
Suburban Class A-C	860,011	69,437	8.1%	-2.8%
Winnipeg Class A-C	**8,352,556**	**534,796**	**6.4%**	**-3.4%**
Class D / Misc.	5,353,116	337,304	6.3%	+4.0%
Government	2,767,292	0	0%	n/c
Medical	963,566	68,065	5.4%	-0.3%
Winnipeg Overall	**17,436,530**	**940,165**	**5.4%**	**-0.3%**

Source: Avison Young Database / Johnson Report, 2008 Year End

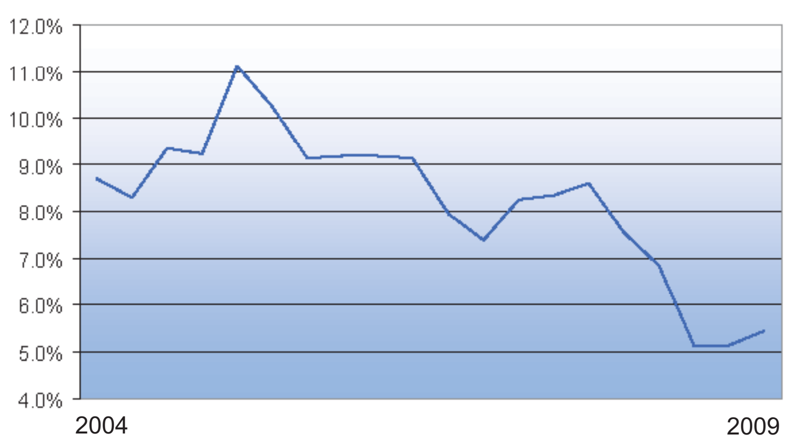
Class A Rental Rates



Class B Rental Rates



5 Year Vacancy Trend
(Class A & B Averaged)



Office Leasing Market

Office Market by Class

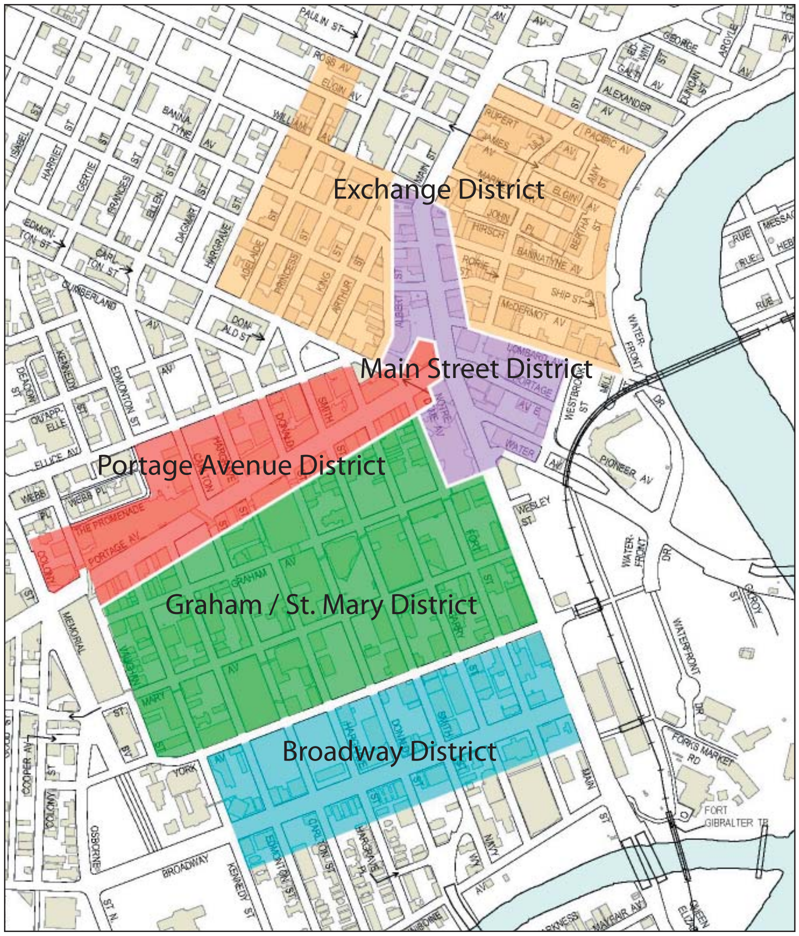
Class A vacancy is low at 5.5% or 124,019 s.f., with a combined 49,190 s.f. of sublet space available in CanWest Global Place at 201 Portage Avenue and the Commodity Exchange Tower at 360 Main Street. Inventory remains flat at just over 2.4 million s.f., with some competing space expected to come available at Manitoba Hydro's new office tower this summer. Headlease and sublease space absorption in 2008 totaled 27,940 s.f. or 1.2%, and was primarily due to existing tenant expansion and/or migration from suburban locations. CanWest Global Place saw the most activity in 2008, including Myers Norris Penny's move to its new 40,000 sq. ft. premises from the Polo Park area (brokered by Avison Young Manitoba); Global Television's move to the 30th floor from the city's south end; and Goodlife Fitness' lease-up of a full floor, or approximately 16,000 s.f., in early 2009. Another significant Class A lease took place at 317 Donald Street, which had a full floor vacant since the building was constructed in 2005. The 16,500 s.f. top floor was leased to government tenant in early 2008, dropping the vacancy in the building to only 2,562 s.f or 3.1%. Most Class A Net rental rates are between $15-$17 psf, increasing an average $0.50 psf in the last 12 months.

In 2008, the Class B market saw an absorption of 3.4% or 92,844 s.f. of headlease space, and 1.1% or 30,422 s.f. of sublease space. Vacancy currently sits at 5.8% or 157,052 s.f., with 14,722 s.f. of sublet space on the market. The only new inventory competing with the Class B is 16,000 s.f. of office space now available at the former "York the Hotel," which has undergone an $18 million conversion to a mixed-use apartment building. In July, Great West Life will be vacating approximately 40,000 s.f. of space it occupies in NewPortCenter at 330 Portage Avenue, and relocating these offices to former Manitoba Hydro space at 444 St. Mary Avenue. Although this is a significant relocation, the move is from one Class B property to another and therefore will have a limited effect on the absorption numbers for this class. Class B rental rates have remained relatively flat in the past year at around $11-$13 psf; however, CAM fees have risen an average of $1.28 in this time period.

Vacancy in suburban multi-tenant properties is currently at 8.1%, with few large blocks of contiguous space available. New suburban office construction in 2008 was limited, but includes a $10 million, 40,000 s.f. building located on Portage Avenue just west of the downtown, which will be home to Winnipeg Regional Health Authority (WRHA) offices. By far the most significant impact to the suburban office market in 2009 is the vacating of 175,000 s.f. of office space by Manitoba Hydro as they move staff to their new downtown office tower. However the majority of the space is located in two Waverley properties which could also serve light industrial users, and therefore may not have as significant an impact on the suburban office market. The utility will continue to occupy the majority of space at their former headquarters on Taylor, with the exception of 14,000 s.f. which they will be offering for lease.

A strong and diversified economy should mean less business failures and corporate downsizing than is being experienced by other large cities in the country, resulting in a comparatively healthy office market throughout 2009. However, quality sublet space and modernized heritage properties with relatively low rental rates will continue to provide strong competition for Class A and B properties as tenants look for cost saving alternatives. By the summer, it's expected there will be approximately 5,000 more people working downtown than five years ago, with almost no new parking added to the existing 32,000 stalls. This will continue to increase monthly parking rates, which jumped 20% to 60% in 2008, and could push some tenants to suburban locations. Winnipeg has an overall office inventory of nearly 17 million square feet, with only approximately 174,000 sq. ft. having been added to the downtown in the past five years. The Winnipeg Regional Health Authority and Manitoba Hydro will add 776,000 sq. ft. of space to the downtown in 2009 when both tenants vacate more than 100,000 sq. ft. of Class B space to move into newly constructed premises.

Office Leasing Market



Office Leasing by District

Portage Avenue District

Overall vacancy in this district sits at 6.3%, or 127,998 s.f., which is down 0.3% in the past year. The largest block of contiguous available space is 31,409 s.f. at CanWest Global Place, followed by 20,000 s.f. in the Kensington Building at 275 Portage. The most notable addition to the Portage Avenue District is the newly completed Manitoba Hydro Office Tower. At nearly 700,000 s.f. the property is by far the most dominant building west of Portage & Main, and with only 152 stalls added in the construction it has a significant impact on the parking in the surrounding area. Some of the parking congestion in the area will be relieved if the new owners of the Boyd Building proceed with their parkade development plans. The Boyd building is located next to the Manitoba Hydro Tower at Edmonton Street and the owners purchased adjacent properties to the west with the intention to construct a 12-storey, 420-stall parkade and commercial building on the property at a cost of $30 million.

Two large blocks of space in this area are coming to market in 2009. More than 40,000 s.f. of space will be available in NewPortCenter at 330 Portage Avenue when Great West Life relocates to former Manitoba Hydro space at 444 St. Mary's Avenue in the summer.

Office Leasing Market

Looking North down Main Street from Portage & Main.

Skywalk connection at Graham and Fort Intersection

The Greyhound bus depot will also be vacating their 37,000 s.f. premises and relocating to the Winnipeg Airport when its lease expires at its current location in August, 2009. Both the University of Winnipeg and the Plug In Institute of Contemporary Art has shown interest in the bus depot space, but nothing has been finalized. Other large blocks of available space in this area are similarly retail or special-use oriented, resulting in limited options for large office users.

Main Street District
Vacancy in the Portage & Main area dropped 1.6% in 2008 to sit at 6.3% overall, or 112,254 s.f. The largest available block of contiguous space is 19,164 s.f. at 433 Main Street, followed by 16,502 s.f. in the Richardson Building and 15,086 s.f. in the Commodity Exchange Tower. Educational institutions have absorbed significant space in the area, including the Asper School of Business which leased up more than 7,000 sq. ft. at 177 Lombard (at Portage & Main), and Red River College which plans a redevelopment of the long-vacant, 69,000 sq. ft. Union Bank Tower on Main Street at a cost of $25 million.

Main Street (north of Portage & Main) is experiencing significant development for the first time in many years. Bridgman Collaborative Architecture was one of the pioneers of the North Main area, redeveloping and moving to a former bank building at Main Street and Higgins Avenue in 2007. Since the move the firm has seen its business grow considerably, and also quickly leased the 3,100 s.f. second floor to the national Indigenous Literacy Association. In Spring, 2008, CentreVenture, downtown's development agency, announced the largest commercial development project to take place on North Main in nearly a century. Boarded up buildings and vacant lots have since been replaced by a $30 million, 80,000 s.f. office/retail/parking complex which will serve as the Winnipeg Regional Health Authority's (WRHA's) head office bringing more than 200 staff to the area. CentreVenture is also working on a deal that would involve the United Way relocating from a suburban location to a proposed development on Main Street two blocks south of the WHRA.

Graham / St. Mary Avenue District
This district, comprised mostly A and B Class properties, saw vacancy fall 2.2% in 2008 to sit at 4.6% overall, or 67,194 s.f. Of the nearly 1.5 million square feet in this area, no space for lease over 7,200 s.f. is available.

Popularity of this area is due, in part, to its access to the Graham Avenue Transit Corridor and enclosed walkway system. Construction on the much anticipated skywalk extension is expected to commence in mid-2009 with completion in 2010. The two links will connect Cityplace Shopping Centre through the Class B office tower at 330 St. Mary Avenue through to the Winnipeg Convention Centre. Delay of the nearly $9 million project has been due in part to rising construction costs and the "slow pace" of Lakeview Management's development of a hotel/condo project (adjacent to the Convention

Office Leasing Market

Tree-lined Boulevard on Broadway

View of the East Exchange District looking West

Centre to the west) which was intended to be included in the expansion. It has not been confirmed whether Lakeview will be continuing with construction of the $18 million, 11-storey complex; however, it is believed that the project has been abandoned.

Canada Post will be vacating their 400,000 s.f. premises on Graham in late 2009 when the corporation relocates to a new building at the Winnipeg Airport and distribution facility on Portage Avenue. No plans have been announced for the half-century old building, which could be on the market for a considerable period of time as it requires significant redevelopment and modernization.

Broadway District

Broadway is one of the city's signature roadways, due to its wide boulevard lined with century-old elm trees. Vacancy levels in this area have remained flat at 6.6%, and at the time of this report there were only three buildings with available space, including 19,421 s.f. at 363 Broadway, 15,969 at 287 Broadway, and 722 s.f. at 386 Broadway. Of the 1.3 million square feet in this area, more than half is comprised of government or owner/user properties, and the remaining multi-tenant space makes up just over 7% of the downtown's leasable area. The buildings are comprised mostly of Class C properties, and the area's proximity to the law courts and Manitoba Legislature make it popular for law firms, government offices and related organizations.

Exchange District *(National Historic Site)*

The Exchange District is a thirty block area encompassing more than three-quarters of the city's heritage structures. The District is one of the most diverse in the downtown, with a varied mix of office, industrial, retail and residential uses, and is becoming increasingly popular with technology and design industries. At the centre of this area is Old Market Square, which will receive a $3.3 million upgrade over the next few years, and serves as the hub for concerts and festivals throughout the summer.

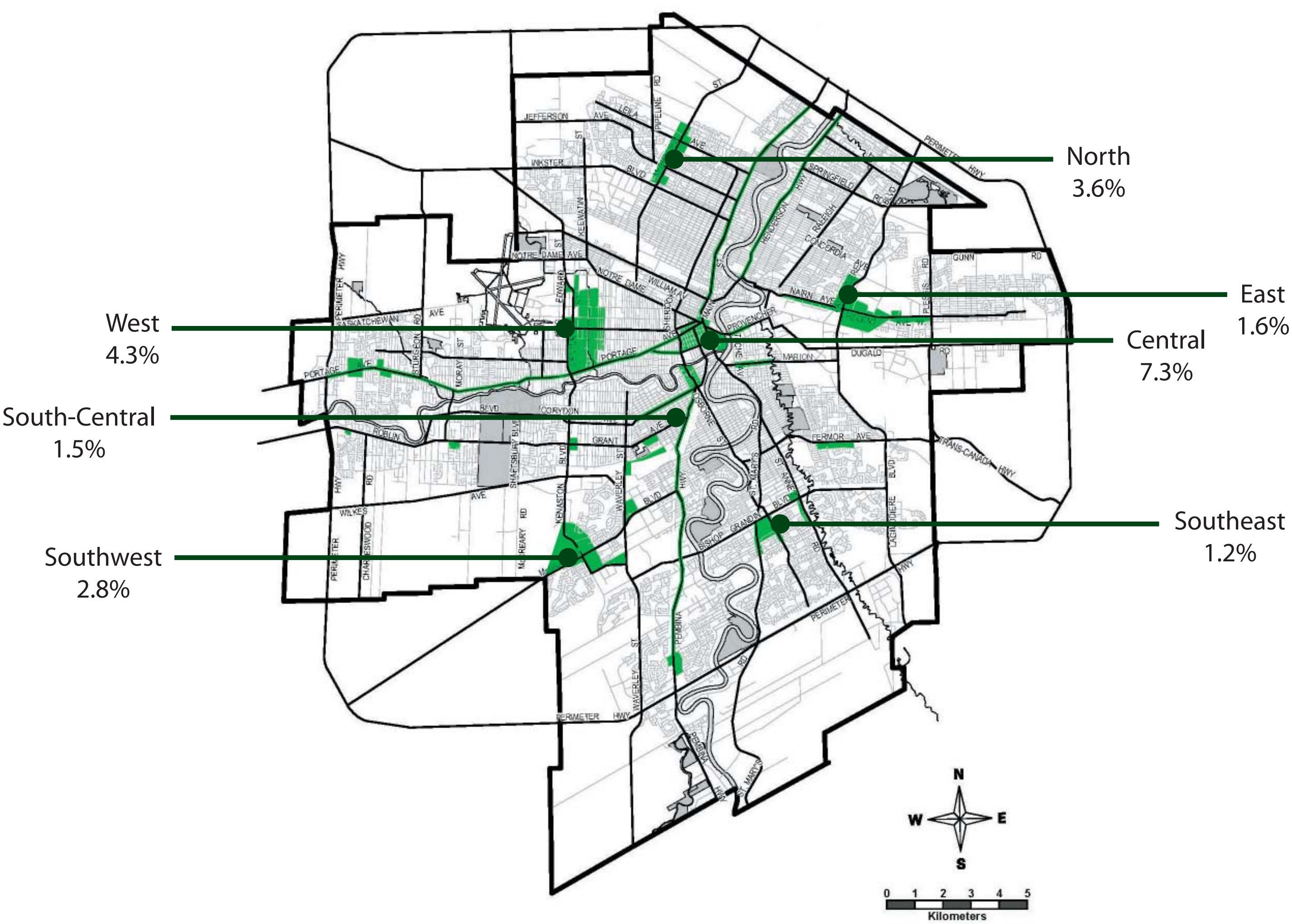
Office vacancy hovers around 8% in the Exchange District, and most of the multi-tenant office properties have not been modernized and offer small units at comparatively low rental rates. Parking availability of all types is an issue for the area as growing residential, office and retail density increase demand, while heritage status restrictions make it difficult for significant new parking to be added. The addition of Red River's Princess Street Campus and the soon to be converted Union Bank Tower is bringing the total staff and students in the area to more than 3,200, which is encouraging retail development but also compounding the parking situation for office users. However, parking congestion will be partially relieved when a new parkade is constructed using the facades of The King Building, adjacent to Old Market Square.

Retail Leasing Market

Retail Market
Inventory and Vacancy Summary

	Inventory (s.f.)	Vacancy (s.f.)	Total (%)	Change (12 mths)	Avg. Asking Rent (psf/a)	Change (12 mths)
Strip Centres	6,659,453	259,125	3.9%	-1.2%	$13.78	-$0.41
Enclosed Malls	4,627,990	141,834	3.1%	+1.1%	$30.02	+$8.74
Power Centres	3,751,927	66,651	1.8%	n/c	$23.26	+$11.05
Stores / Street Retail	2,890,472	96,381	3.3%	-1.9%	$13.71	+$0.59
Restaurants	385,505	26,117	6.8%	+0.2%	$14.73	-$0.76
	18,315,347	**590,108**	**3.2%**	**-0.5%**	**$19.10**	**+$3.84**

Source: Johnson Report, 2008 Year End



Retail Leasing Market

Retail Sales
Winnipeg

	2008	2009f	2010f	2011f
Retail Sales ($Mil)	9,483	9,962	10,441	10,939
Retail Sales (%)	7.3	5.1	4.8	4.8

Source:Conference Board of Canada, Metropolitan Outlook, Winter 2009
f: forecast

Winnipeg's retail vacancy reached an 18-year low at the end of 2008, dipping to 3.2%. But although the city continues to have a robust retail market, it is not immune to the economic downturn which has resulted in a handful of closures. However, a number of recently vacated retail locations, including Linens N Things' former premises, were also leased up fairly quickly, demonstrating that some retailers continue to have faith in the Winnipeg market.

Many retailers are hanging their hopes on the completion of the Manitoba Hydro Office Tower, and the 2,200 employees it will bring into the core. The building will include about 41,000 s.f. of retail space, and the only confirmed tenant is a 8,500 s.f. Royal Bank branch. The planned Canadian Museum for Human Rights, which is expected to draw about 250,000 visitors annually, is also expected to drive significant retail leasing in the areas surrounding the Forks. New mixed-use condominium projects along Waterfront Drive and Provencher Boulevard have yet to see significant interest in their relatively expensive main floor commercial space, and there are hopes that the adjacent museum will kick-start leasing in these properties, which represent a combined investment of $81 million.

The Kenaston / McGillivray retail shopping node is situated in the fastest growing area of the city. And in late 2008, Ikea announced its intentions to open a 350,000 sq. ft. store as part of a new 1.5-million s.f. retail development, doubling the amount of retail space in the area. The Southwest benefits from being surrounded by many of the city's new residential developments, which will add a combined 17,000 new homes over the next decade. To the east, and adjacent to the Sage Creek residential development, Qualico has set aside 15-20 acres for retail development. And Calgary-based Hopewell Development Ltd. also plans to develop the $200 million Bishop Grandin Crossing in Fort Garry.

The Polo Park area just west of downtown also continues to be a retail hotspot, and in early 2008 Polo Park Shopping Centre underwent a $30 million redevelopment and 20,000 sq. ft. expansion. Cadillac Fairview, which manages Polo Park, is also working on design plans for the adjacent former CKY headquarters and surrounding land. Canada Safeway, which had been located at Polo Park for 22 years, closed its 39,900 s.f. location at the shopping centre (H&M is now rumored to be interested in the space). Safeway moved to a newly constructed 49,000 s.f. premises in the nearby Madison Square Shopping Centre in December, 2008, as part of a $20 million redevelopment project. A 6,000 s.f. Tommy Hilfiger store also closed at Polo Park just after the Christmas season, and the space was soon leased by Sephora Cosmetics – the company's first Winnipeg location. Adjacent to Polo Park Shopping Centre, the former Winnipeg Arena site is still being targeted for a $30-$35 million development; north of this area at St. James and Ellice, Hopewell plans to construct a 45,000 s.f. retail complex joining Sears Home Store on the site.

The Regent / Lagimodiere shopping node in the city's east (which already encompasses more than 3.7 million s.f. of space) will also see new development with an additional 250,000 – 300,000 s.f. and up to 30 new retailers when Reenders Festival is completed. However, anchor retailers have yet to be found for the project, which has delayed construction commencement. Also in the east at Southdale Market, a 58,000 s.f. retail development was recently completed, including a 24,000 s.f. Giant Tiger (the retailer's eighth location in the city).

Economic uncertainty will slow retail expansion in Winnipeg in 2009, which has demonstrated steady growth for nearly a decade. Overall vacancy levels are anticipated to remain flat throughout the year, particularly in enclosed malls and power centre developments which tend to be more heavily occupied by American-based restaurant and retail chains. Commercial leasing rates for prime storefront space in Winnipeg continued to be among the most affordable in Canada, and neighbourhood street front retail is still very strong. Trendy retail areas along Osborne, Corydon, and Sherbrook continue to attract new retailers and are demonstrating very low vacancy levels.

Industrial Leasing Market

Industrial Market

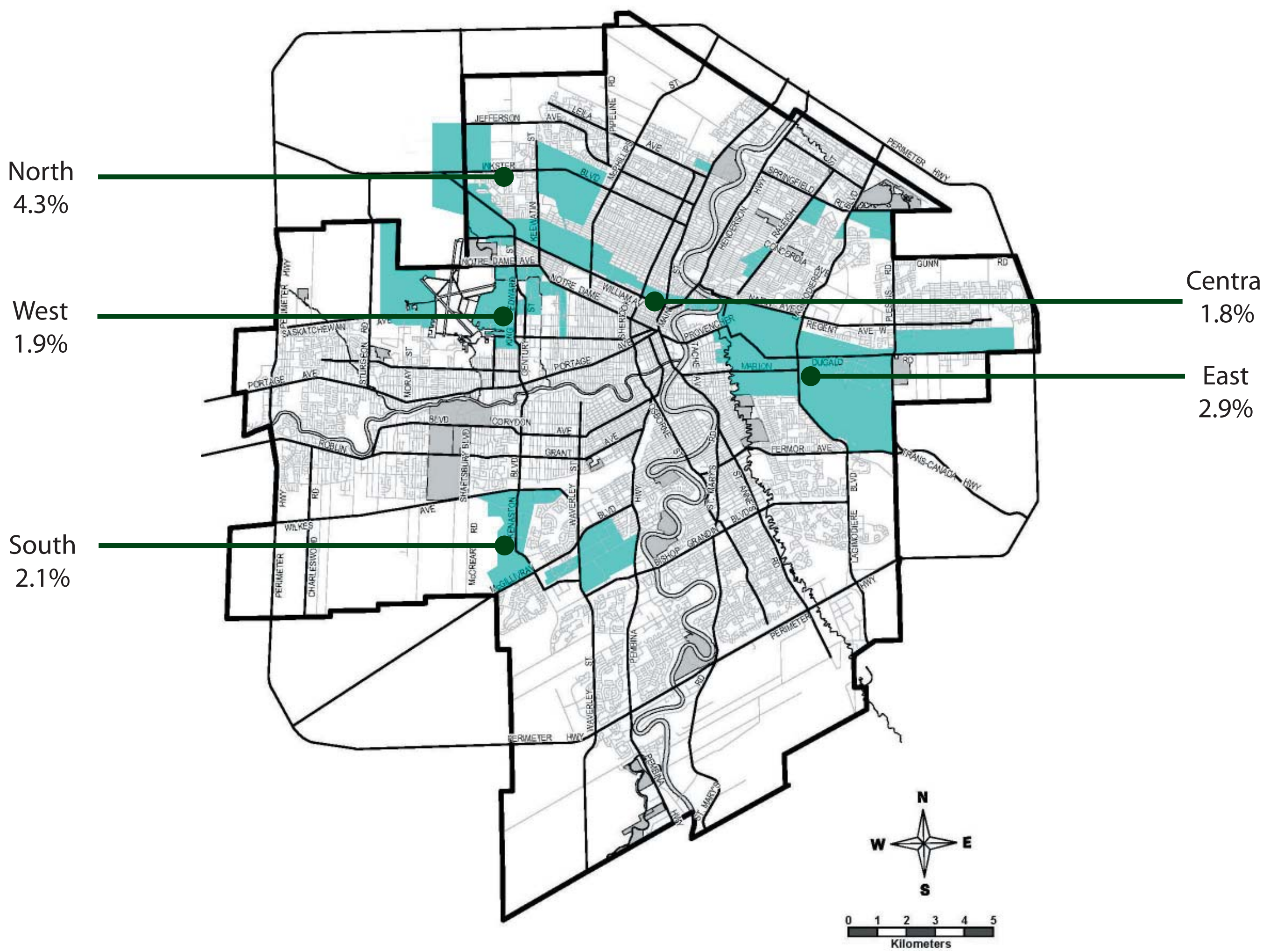
Inventory and Vacancy Summary

	Location	Area (acres)	Inventory (s.f.)	Vacancy (s.f.)	Total	Change (12 mth)
A.	Central	34.0	12,007,022	213,278	1.8%	-0.1%
B.	North	2,829.6	13,141,976	564,813	4.3%	+0.2%
C.	West	6,012.9	9,480,759	180,134	1.9%	+1.1%
D.	South	4,401.6	28,102,932	588,314	2.1%	-1.8%
E.	East	6,258.7	16,058,040	458,838	2.9%	n/c
		19,536.8	**78,790,729**	**2,005,378**	**2.5%**	**-0.6%**

Source: City of Winnipeg/The Johnson Report - 2008 Year End

Average Rental Rates

Age	Rate (Net/psf/a)
Pre 1970	$4.08
1970-79	$4.74
1980-89	$5.43
1990-99	$6.74
2000+	$8.38



Industrial Leasing Market

After a number of years in the 3% to 4% range, industrial vacancy decreased to 2.3% in 2008, reflecting net absorption of 1.2% or just over 900,000 s.f. Skyrocketing construction costs combined with a resilient manufacturing sector has resulted in healthy demand but limited leasing opportunities. Significant industrial transactions in 2008 included the lease up of 193,000 s.f. in the former SAAN warehouse and distribution centre at 1370 Sony Place by Brewers Distributor Ltd. at a value of $10 million; and the lease up of 112,340 s.f. at the GM Canada office/warehouse building at 1345 Redwood Avenue by Boeing Canada. In February, 2008, Boeing also opened a new, 112,000 s.f. production plant in Inkster Industrial Park on a two-year lease, in order to keep pace with the 700 planes that were on order at the time. In Winnipeg, Boeing now occupies more than 870,000 s.f., and employs approximately 1,500 people.

New industrial inventory totaled approximately 330,000 s.f. in 2008. The majority of new projects were multi-tenant, light industrial or flex-use buildings and concentrated in the city's well-developed industrial areas, including: a 155,000 s.f., $25 million bakery facility being constructed at 1501 Chevrier by Weston Foods; a 74,200 s.f., multi-tenant office/warehouse complex in St. Boniface Industrial Park being constructed by a Calgary developer; a 64,513 s.f. multi-tenant complex near the Airport developed by ING Real Estate at a cost of more than $5 million; and a 45,000 s.f. office/warehouse property in the newer Sterling Lyon Business Park by A&S Homes.

A handful of larger users have recently chosen to build, including Marmon / Keystone, which is building a 60,000 sq. ft., $8 million distribution facility just outside the city's western boundary. Other single-tenant construction in the city included a 30,000 s.f. property in Inksbrook Industrial Park built by an Edmonton developer and leased to Waterous Power Systems; and a 20,000 s.f. processing plant on Eagle Drive which will be occupied by Manitoba Harvest Hemp Food & Oils. However, many companies are also choosing to refurbish existing inventory, like Natural Prairie Beef, which purchased Maple Leaf's 75-year-old pork processing plant in St. Boniface for $1.2 million and is redeveloping it at a cost of $25 million; as well as EDS, which is spending $18 million to refurbish the 100,000 s.f. former Nortel facility in Inkster Industrial Park.

Many owner / user projects with larger land requirements focused on surrounding rural municipalities in new industrial parks, due to a limited amount of serviced industrial land within city limits. However, rising construction costs have also effected rural industrial parks, including Headingley Business Park (located just west of the city) which had at least four projects put on hold in 2008 including a $40 million, 380,000 s.f. Sobeys distribution facility. The largest planned industrial development to be located within city limits in many years was announced this past February, and will provide competition for the rural parks. The Terracon project, named Water Business Park, will encompass 14 industrial buildings on a 232 acre plot of industrial land on the former OlyWest land in St. Boniface in the east.

A lower dollar will help Winnipeg's resilient manufacturing sector weather the economic slowdown, and vacancy is expected to remain below 5%. However, a number of projects that were in the planning stages are being put on hold while many businesses and developers take a wait-and-see approach regarding the global economic situation. Manufacturing activity will likely slow, but demand for distribution facilities is expected to remain strong due in part to Winnipeg's affordability and strategic, central location. New leasing and development within the city is expected to become more focused in the Northwest, as the planned twinning of Inkster Boulevard and close proximity to the Airport make this one of the Winnipeg's most desirable industrial locations.

Investment Market

Investment Market

Samples of Recent Transactions
Last 24 months / Over $4 Million

Property	Type	Size (s.f.)	$ Mil
Cityplace Shopping Centre	Class B Office / Retail / Parking	452,000	80.5
Colony Square	Office / Retail / Apartments	8,900 s.f. + 428 units	38.0
Radisson Hotel Downtown	Hotel	263 rooms	22.0
Credit Union Central Building	Class A Office	82,500	14.3
Cumberland House	Multi-Family / Apartment	256 units	12.8
Winnipeg Cenral Smart Centre	Retail Investment / Power Centre	56,900	12.0
SAAN/Gendis Building	Industrial	193,000	10.0
130 Omands Creek Boulevard	Industrial Investment	112,000	10.0
Southwood Golf Course	Land	119 acres	10.0
959-989 Keewatin	Industrial	200,000	9.6
Dublin Square	Industrial	79,000	8.2
Beliveau Gardens	Multi-Family / Apartment	79 units	6.1
422 Jarvis Avenue	Industrial	254,087	5.5
140 Otter Street	Industrial	144,700	5.2
1700 Waverley	Retail / Service Use	32,300	4.9
280 Main Street	Class C Office	24,000	4.6
Federal Express Ground Building	Industrial	30,700	4.5
Coldstream Products Building	Industrial	197,000	4.5
2140 McPhillips Street	Retail Investment	33,500	4.1
Charleswood Hotel	Hotel / Development Land	16,400	4.0
Brewers Distributors Building	Industrial	100,000	4.0

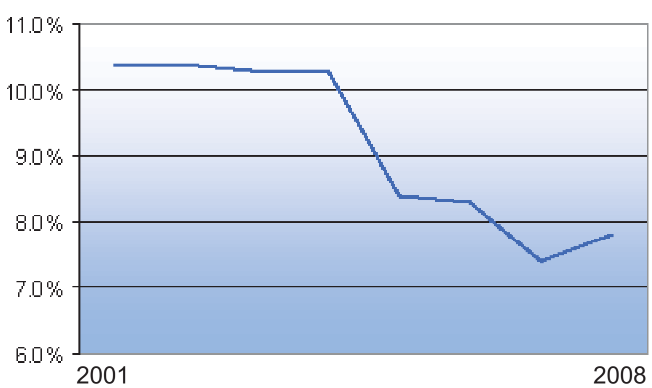
Commercial Sales

Last 24 months

Type	Sales Volume	Area (s.f.)	$ / PSF
Office	$257,560,996	1,723,967	$149.40
Retail	$65,261,233	639,266	$102.90
Industrial	$200,485,914	4,900,689	$39.76
Apartment	$69,167,739	1,539,879	$44.92
Land	$39,472,542	15,681,600	$2.52
	per acre:	*30 acres*	*$109,646*

Cap Rates

Commercial Properites (Averaged)



Investment Market

Winnipeg is viewed by many private equity and institutional investors as a safe investment option, due to its diversified economy and sustainable growth trends. The city continues to have extremely low office, industrial, retail and multi-family rental vacancy, and most commercial properties tend not to be over-leveraged.

Although investor activity was strong in 2008, with a continued focus on a variety of asset types, it was about half volume of the record $700 million in commercial sales that took place in 2007. Despite this, the volume of small to medium sized transactions has actually been very consistent in the past 24-36 months, and a recent lack of large / portfolio sales can be largely attributed to a simple shortage of available product. The limited number of "Class A" quality properties being brought to market has also been compounded by the fact that many have recently sold to large institutional buyers or REITs, which typically acquire these assets as long-term holders. However, it is anticipated that some REITs may be interested in selling over the next year or two in order to raise cash, such as Huntingdon REITs recent sale of Cityplace to Manitoba Public Insurance for $80.5 million. In addition, as many pension and endowment funds prefer to have a balance between real estate and equity, they may begin to sell off some of their real estate holdings due to the stock market plunge and resulting investment imbalance. This should provide some excellent opportunities for local investors with significant cash, who may have previously been pushed out of the market by the large institutional investors.

Multi-family investment continues to receive significant investor focus, due to its income diversification and Winnipeg's extremely low rental vacancy, which has been in a steady decline since 1996 and recently reached an all-time low of 1%. Strong immigration combined with few multi-family rental construction projects on the horizon is expected to keep vacancy extremely low for years to come, and this sector will continue to be the focus of investors through 2009.

Most commercial mortgage lenders began tightening credit policies and lending criteria when the American subprime mortgage crisis began in 2007. With the more recent economic crisis being felt both in the U.S. and globally, lenders are expected to be increasingly cautious which will certainly have an impact on transactions in Winnipeg throughout 2009 and beyond. As with nearly all markets, tightening credit conditions are sure to effect some investment and development activity, and interest rates must remain low in order to avoid further slowdowns. The economic environment will keep smaller and local investors less active in the market, affecting the overall dollar volume of sales in 2009. However, as the tightening lending criteria continues, more product may also come available as companies with significant mortgages coming up for renewal will consider "sale & leasebacks," allowing them to unlock the capital in their buildings. Quality owner/user office and industrial properties with long-term tenancy will be the primary focus of these sale and leaseback transactions in 2009.

Overall, Winnipeg's strong market fundamentals combined with some new investment opportunities coming to market should result in a relatively healthy, albeit flat, transaction volume in 2009. Sales will be driven by higher quality Class A and B properties with strong fundamentals that are easier to finance. Multi-family investment should also accelerate, and will likely dominate transaction volume overall.

Large construction projects recently completed or underway in Winnipeg and surrounding areas at the end of 2008 totaled nearly $5.5 billion, with approximately half consisting of privately funded development. New office construction represented an investment of approximately $414 million, followed by multi-family at $345 million, retail at $170 million, industrial at $157 million and hotels at $139 million.

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