

# Property Report

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## OFFICE SPACE



Winnipeg's downtown office market has quietly rebounded from the dire predictions of just three months ago. RUTH BONNEVILLE FOR THE GLOBE AND MAIL

## Winnipeg emerges from winter dormancy

Office vacancy rate rebounds smartly from dire predictions at year-end as various firms play musical chairs

BY G.A. TAYLOR, WINNIPEG

When Meyers Norris Penny LLP set out to accommodate an expected spurt in staffing levels, it did what a few local companies have opted to do this spring in Winnipeg – play musical chairs in the city's downtown office market.

The chartered accounting firm has agreed to sublet nearly 40,000 square feet in the 33-storey CanWest Global Place tower, taking up some of the space that had been vacated by Agricore United last year when it merged with Saskatchewan Wheat Pool to become Viterra Inc., a global agri-business.

"We need the additional space because of the rapid expansion of people in our firm," said Meyers Norris partner Dan Trotter, adding that the company expects to increase to about 200 people from about 160 over the next year and a half. The new office will also bring the company closer to many of its clients, he added.

The move, planned for this October, is one of several by local companies that have helped create a remarkable turnaround in the fortunes of

Winnipeg's downtown office market this spring.

Just five months ago, industry observers had a bleak outlook: A surplus of sublease space had threatened to slow the city's traditionally stable market. By the first quarter, however, the picture had changed considerably. Now, analysts are predicting a more balanced market for the remainder of the year.

CB Richard Ellis had pegged the vacancy rate for class A property at 9 per cent at the end of 2007 but that had recovered to 6.4 per cent in March; class B space improved to 5.6 per cent from 8.9 per cent at the end of the year.

Cushman & Wakefield LePage, meanwhile, reported the class A market vacancy rate was 7.7 per cent at the end of the first quarter, down from 9 per cent at the end of 2007. The change was more muted for the class B market, falling to 7.3 per cent from 8 per cent at the end of the year.

Avison Young Commercial Real Estate (Manitoba) Inc. reported a much more modest change, but an improvement nonetheless: It had recorded a year-end vacancy rate of 7.6 per cent for class A and B properties, and that fell to 6.9

per cent at the end of the first quarter.

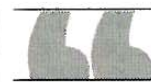
(Real estate companies track the numbers in their own ways, resulting in discrepancies in how they report the vacancy rates.)

Paul Kuzina, an office leasing specialist with CB Richard Ellis, said its figures represent the lowest downtown vacancy rate for Winnipeg in the past five years, helped by the absorption of about 225,000 square feet in the first quarter, thanks to "above-average leasing activity."

He attributed the more bullish demand to a strong Manitoba economy. "What we've seen over the years is that the public sector is playing a large part in the Winnipeg economy, and provincial and federal government departments have been expanding. There's an increased need for more space," Mr. Kuzina said.

As well, he said, companies headquartered in Winnipeg, such as Great-West Life Assurance Co., have experienced growth and, as a result, have leased larger blocks of space downtown.

Some of the transactions in early 2008 have included 4,000 square feet of space in the Commodity Exchange



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Catherine Stoyko, marketing co-ordinator for Avison Young

Tower going to a Calgary firm, and 68,000 square feet of space in cityplace, an office and retail development, being filled by the federal government, Manitoba Public Insurance and the City of Winnipeg. And, in a separate deal, the federal government leased 25,000 square feet of space in the downtown Grain Exchange Building.

Mr. Kuzina predicted the above-average absorption in the first quarter would ease in the following months and vacancy rates would remain around the March levels for a good portion of the year.

Last December, Avison Young had predicted a tenant's market would occur in 2008 with large chunks of lease and

sublet space coming on to the market, including 77,000 square feet to be vacated by Manitoba Hydro when it moves into its new downtown tower and 73,000 square feet formerly occupied by Agricore United in CanWest Global Place. But much of this space has since been absorbed.

"There has been an upswing, particularly in the class A numbers," said Catherine Stoyko, marketing and research co-ordinator for Avison Young and author of its market summary. She expressed surprise by the turnaround of the downtown office market, but couldn't say if this was a long-term trend.

Cushman & Wakefield reported that the "big story" in the class B market was the leasing by Great-West Life of almost all of the soon-to-be vacated space of Centra Gas, a subsidiary of Manitoba Hydro.

"We remain cautiously optimistic that the market will continue to keep vacancy rates at or near present levels for the balance of the year," a Cushman report states. "Going forward, demand will depend largely upon growth in public sector office requirements and the financial services sector."

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