

BUSINESS

EDITOR: STEVE PONA 697-7264 business@freepress.mb.ca | winnipegfreepress.com

COMMERCIAL REAL ESTATE

The bad news is... pretty good

Recession's hit on city real estate likely minimal

CATHERINE Stoyko is waiting for the other shoe to drop, but she may barely hear it when it does.
The marketing and research co-ordinator for the Winnipeg office of Avison Young Commercial Real Estate (Manitoba) Inc. said it's likely just a matter of time before the North American recession starts to curb sales and leasing in Winnipeg's office, retail and industrial sectors.

"It's probably inevitable. We're not an island," Stoyko said. But even if it does, she expects the impact to be pretty muted. In its latest commercial real estate market forecast, issued last week, Avison Young predicts that while the recession will likely slow sales and leasing and drive up vacancy rates at the national level, it should have little impact on the Winnipeg market in 2009.

That view is shared by Wayne Johnson, a commercial and leasing representative with Royal LePage Dynamic Real Estate who issues a twice-a-year report (*The Johnson Report*) on the city's commercial real estate sales and leasing and vacancy rates.

Johnson, whose 2008 year-end report came out last week, said in an interview vacancy rates are at their lowest in at least a decade — in some cases two decades — in all three major commercial real estate sectors.

Even if the recession bumps those rates up a bit, Johnson said they'll still be enviably low.

"Everybody would say the Winnipeg commercial real estate market is in great shape and will weather any slight slowdown that may occur," he said. "So it's nothing but good news ..."

Wes Schollenberg, managing director of Avison Young's Manitoba office, said the recession may slow commercial real estate development a little this year because local businesses whose corporate headquarters are based in the United States may be hesitant to expand.

And while pension funds and other large institutional investors may be less active in Winnipeg this year, Schollenberg said there are plenty of private investors waiting to fill the void.

"The biggest problem will be whether there are enough properties for them to buy."

So with all that in mind, here's what Avison Young and Johnson had to say about the state of the three key commercial real estate sectors and their prospects for this year.

(Keep in mind the vacancy-rate numbers won't be exactly the same because the databases on which they base their numbers aren't exactly the same. For example, Johnson includes seven downtown office towers in the Class A office category, while Avison Young includes eight.)

OFFICE

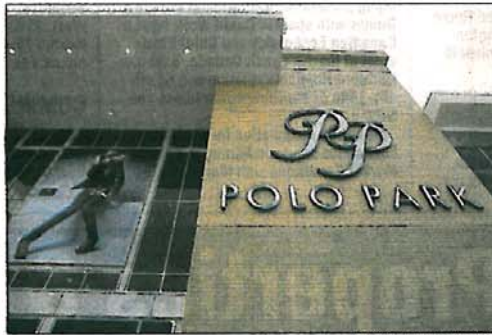
Avison Young said Winnipeg's downtown office sector saw the biggest improvement in vacancy rates, thanks to private- and public-sector tenants either expanding or relocating from the suburbs. It predicts the Class A vacancy rate will remain stable this year, while the Class B rate will increase as Manitoba Hydro and the Winnipeg Regional Health Authority move into their new downtown buildings.

"But even if vacancy rates do increase, we're probably not going to see a huge jump in 2009," Stoyko said.

Johnson said although office leasing has been "very ordinary to slow" the last five years, vacancy rates have been drifting down because of very high retention rates in all three categories of space. Some of their numbers:



MURRAY McNEILL



Major malls like Polo Park should see stable vacancy.

Subject	Avison Young	Johnson
Total inventory (square feet)	17.4 million	17.7 million
Overall downtown vacancy rate (A,B,C)	5.1%	4.2%
Overall suburban rate (A,B,C)	8.1%	5.3%
Class A (downtown)	5.1%	5.1%
Class B (downtown)	5.8%	3.0%
Class C (downtown)	11.1%	2.5%
Average net rent (per sq. ft.), Class A	\$16.14	\$15 to \$18
Average net rent (Class B)	\$12.20	\$11 to \$22
Average net rent (Class C)	N/A	\$9.50 to \$12

INDUSTRIAL

Avison Young said skyrocketing construction costs and a resilient manufacturing sector helped fuel the demand for existing industrial space in 2008.

Johnson described the leasing activity over the last few years as "average to better than average," and said the overall vacancy rate is now at its lowest level in a decade, and possibly even two decades.

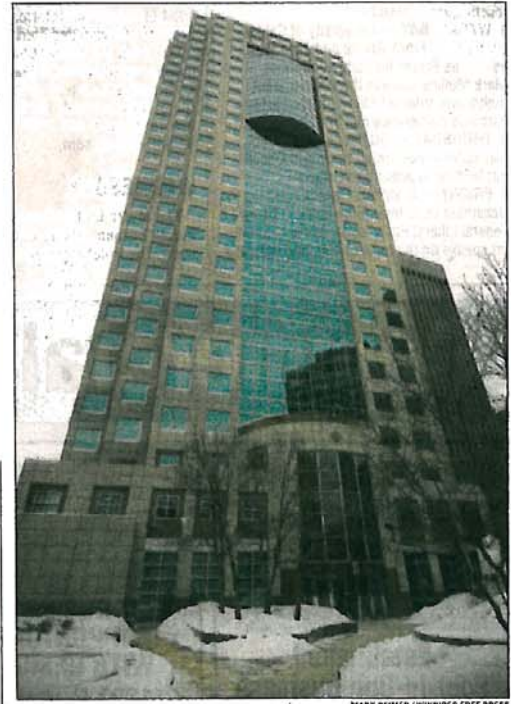
Avison Young said although approximately 330,000 square feet of industrial space were built last year, a number of new projects planned for this year have been put on hold while businesses and developers wait to see how bad the recession gets. And it predicts most of the new development and leasing that do occur this year will likely take place in the northwest area of the city.

Here are some of their numbers. (Note: Avison and Young bases its numbers in large part on data from Johnson's reports, although it also does some of its own calculations. So the numbers will be similar, but not exactly the same):

Subject	Avison Young	Johnson
Total inventory of space (sq. ft.)	78.8 million	78.7 million
Vacant space (sq. ft.)	2.0 million	2.0 million
Overall vacancy rate	2.5%	2.5%
Average net rent (per sq. ft.)	N/A	\$5.19

RETAIL

Johnson said this is the sector that's most vulnerable to being affected by the recession. But it's also the one that's in the best shape, with an overall vacancy rate hovering at a 20-year low of 3.3 per cent.



Canwest Global Place on Portage Avenue. Office vacancy rates in the city will likely remain enviably low.

"But if it's at 3.3 (per cent) now and at the end of the year it's at five (per cent), I'm still saying this is a great market," he said.

"Who else in Canada will have those kinds of vacancy rates?" Avison Young said uncertainty threatens to slow retail expansion this year, but there are still several big developments slated to start, including the \$35-million Reenders Festival in Transcona.

But it predicts overall vacancy rates will stay largely unchanged this year, particularly in enclosed malls and power centres. Here are some of their numbers. (Avison Young also uses Johnson's data in calculating retail-sector data, so their numbers are similar.)

Subject	Avison Young	Johnson
Total inventory of space (sq. ft.)	18.3 million	18.7 million
Vacant space (sq. ft.)	590,108	620,823
Overall vacancy rate	3.2%	3.3%
Vacancy rate, shopping malls	3.1%	3.1%
Vacancy rate, power centres	1.8%	1.8%
Vacancy rate, strip malls	3.9%	3.9%

Know of any newsworthy trends or developments in the local office, retail, or industrial real estate sectors? Let real estate reporter Murray McNeill know at the e-mail address below, or at 697-7254.

murray.mcneill@freepress.mb.ca