AVISON YOUNG

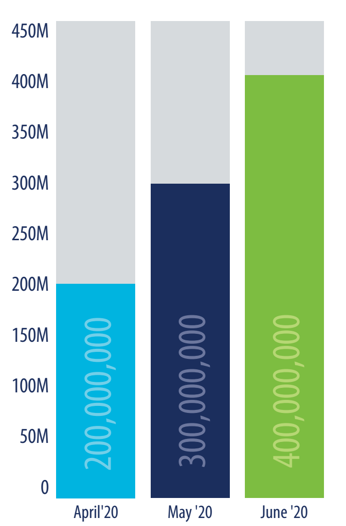
Q2 2020 / Office Market Report

Winnipeg, Manitoba

Video Conferencing Explosion

As more and more employees are working remotely due to the impact of COVID-19, video technology has experienced a surge in usage over the past several months. Zoom, a popular video conferencing platform, has noted a massive increase of daily participants in the past quarter.

Daily Zoom Meeting Participants



Working From Home – A New Normal

Like the rest of the world, Winnipeg is continuing to navigate the troubled waters that is the result of COVID-19. Overall downtown office vacancy for the city is approximately 15% in Q2 2020 versus 10% in Q2 2019. The unemployment rate in Manitoba is 8.2%, first among provinces and below the national average of 9.7%. Still, the lock-down has muted leasing levels, leading to an increase in sublease space and has forced occupiers to rethink how they use their premises. Meanwhile, landlords have worked to collect rent and facilitate government relief programs – notably Canada Emergency Commercial Rent Assistance (CECRA).

It is too early to tell how much workspace will be required as occupiers assess the pros and cons of working from home (WFH). However, two main views have emerged: companies will require the same or less space due to WFH or that they will need the same or more space to meet physical distancing protocols. From an employer's perspective, the former appeals as it reduces real estate costs, and workers may have the potential for a better work-life balance with WFH. While no solution is "one-size-fits-all", some large employers have already voiced intentions that may have longterm implications for occupancy levels.

It is unlikely we will see much impact from COVID-19 on the office market until the fourth quarter of 2020. Full-time employment in Winnipeg decreased to 4.0% or 21,000 jobs and part-time employment decreased to 7.1% or 9,200 jobs. As we can only speculate what the economic outlook will be entering into 2021 the reporting shown to date is just the beginning.

The good news is landlords and building owners are in the process of making changes to their buildings to provide safe environments for their tenants. Cleaning and sanitation schedules will be increased, HVAC systems will be modified or improved, and population densities in common areas such as lobbies and elevators will be regulated. Changes to office layouts will be made to accommodate social distancing. In a very short period of time, the experience of going to an office will be much different for the foreseeable future.

"While Manitoba has seen some of the lowest COVID-19 case counts in the world, the economy took a hit like most places. As our office market is historically quite resilient, Winnipeg will continue to slowly open in stages while a vaccine is being developed . In the end there is nothing like the collaboration and camaraderie of a great office culture and the buzz of a vibrant downtown will be even more important."

Wes Schollenberg
Managing Director, Broker

Vacancy & Availability

Downtown and suburban Winnipeg, has some of the largest office inventory among Canada's medium-sized cities, with approximately 19 msf as of Q2 2020. The mid-year vacancy rates are 7.4% for Class A, 14.0 % for Class B, 13.8% for Class C downtown buildings and 12.2% suburban Class A, B and C. As predicted in Q1 2020, the increase of new space availabilites to the office market was minimal in Q2 and will remain low as we move into Q3. This could be a result of companies in the midst of downsizing, fewer businesses closing and the use of the government assistant programs (CERB, CECRA). Many companies are choosing to continue to delay decisions because of continued business shutdowns, staff health and safety concerns regarding returning to the workplace and the traditionally slow summer months. Current deals are executed out of necessity, either due to an imminent lease expiration or a relocation required for operational requirements.

Absorption & Demand

During the first quarter of 2020, Winnipeg's office market had a relatively strong showing. Over that period, nearly 130,000 sf of net office space was absorbed, making it the highest quarterly absorption rate in five years and more than the total amount from all of 2019. However, as Q2 has come to a close, the current and future state of the office market will be vastly different. There has been a minimal demand for office space as companies are starting to downsize with the need for smaller spaces – which as a bi-product, leaves substantial empty floor plates.

Construction

Wawanesa Insurance will run its North American operations out of a fifth True North Square building that will be between 17 and 19 storeys and have more than 300,000 sf of space when it opens in 2023. It will consolidate 1,100 employees from six locations and connect to the RBC Convention Centre, Bell MTS Place and the under-construction Sutton Place Hotel and Residences. Plans are on-track to break ground early in 2021 for a 124-suite apartment building at the Grant Park Festival retail centre. It will add a 60,000 sf office building on the same property if it can attract a major tenant.

Investment

KingSett Capital and Corphin Capital are nearing the completion of a $10MM repositioning of 330 Portage Avenue. Starlight Investments made a $69.9MM conditional offer to acquire Portage Place Shopping Center (429,600 sf mixed use space). This will be a $400MM redevelopment that will include two 20-storey residential towers, retail (147,000 sf) and office (342,000 sf) and a 24-hour community space.

Total Downtown Buildings For Sale	Total Market Inventory*	Downtown Absorption*	Downtown Average Asking Net Rate*	Downtown Average CAM/Tax*
8	18,962,255 SF	+38,560 SF	$14.85 PSF	$13.96 PSF

* From Q1 2020 End to Q2 2020 End

Disclaimer: The spread of COVID-19 and the containment policies being introduced are changing rapidly, and some of the views expressed herein may not reflect the latest opinion of Avison Young.

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