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## BUSINESS

Winnipeg Free Press - PRINT EDITION

# New highrise not in the cards

## Rents too low, demand weak, agent says

By: Murray McNeill  
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Without demand, there is no economical reason to build a new office tower downtown, says commercial leasing agent Wayne Johnson standing in front of the Canwest Global Building, the last private office tower built in Winnipeg.

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convenient," Colliers Pratt McGarry president Wayne Pratt said in an interview. But now companies don't exchange documents as much and do more teleconferencing, Pratt said. "So I'm of the opinion, and I don't think I'm alone, that we will not see a new downtown office tower built for a lengthy period of time."

He and Johnson wouldn't speculate on how many years it might be before another downtown tower gets built.

"You never want to say never," Johnson said. "But until the market demand can support it by way of higher rental rates, there is no economical reason to build one."

Pratt pegs the net face rate for Class A space at \$15 or \$16 per square foot, while Johnson puts it at \$16 to \$17. Pratt estimates the owner of a new building would have to charge at least \$25 to make the project feasible, while Johnson says he'd need at least \$23 or \$24

Don't hold your breath waiting for a new multi-tenant office tower to be built downtown, even though one industry analyst says the Class A vacancy rate is at its lowest level in a decade.

Wayne Johnson, a commercial leasing agent with Royal LePage Dynamic Real Estate and author of *The Johnson Report* on commercial real estate sales and leasing in Winnipeg, pegs the Class A vacancy rate at the end of 2009 at a meagre 3.8 per cent.

According to his data, the last time it was that low was 1999, when it was 2.8 per cent.

But despite the low rate, Johnson said Class A rents are too low and the demand for premium space too weak to justify building a new highrise, multi-tenant tower downtown.

In his 2009 year-end report, Johnson says leasing last year was the weakest in six years. And those weren't good years to begin with.

He also said in an interview that Class A rents are essentially the same today as 20 years ago when the last highrise, multi-tenant, Class A tower -- Canwest Global Place building at 201 Portage Ave. -- was built. Although Manitoba Hydro's new downtown headquarters is a Class A building, it's not considered a multi-tenant office property because it occupies all of the office space in the building.

Demand for downtown Class A space also isn't what it used to be because of changes in technology.

"(Before) we all gathered downtown in order to make exchanging documents and attending meetings more

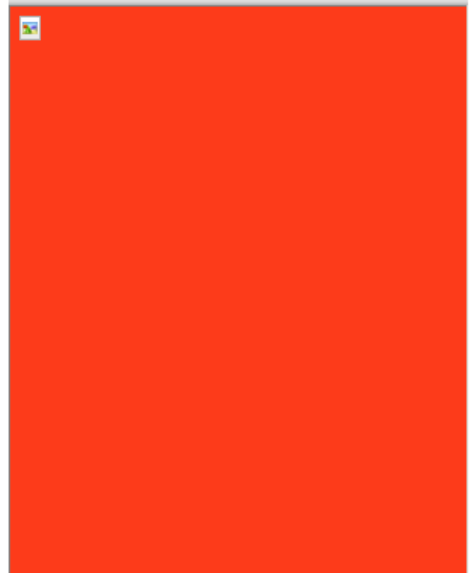
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project feasible, while Johnson says he'd need at least \$20 or \$24.

Pratt said about the only way he could see a new tower getting built is if a company needed it mainly for its own use, and only had to lease out a small portion of it to other tenants. But he's not aware of any firms looking to do that.

Johnson said Manitoba Hydro originally planned to lease out about 70,000 square feet of the space in its new 656,000-square-foot downtown tower.

It started off asking for \$22 a square foot and later lowered that to \$18. But it still got no takers, and eventually wound up using the space itself.

In his 2009 year-end report, Johnson said the overall vacancy rate for all types of office space in Winnipeg has hovered in the four to seven per cent range for the last decade.

"Stable or stagnant (you decide), but never boring. The Class A to C office market takes one step forward and then one step back," the report says.

Johnson said the Class A vacancy rate was 5.1 per cent at the end of 2008, and he attributed last year's decline mainly to two transactions -- Goodlife Fitness leasing 15,500 square feet in the Canwest Global tower, and D'Arcy Deacon LLP renting two floors (28,000 square feet) in the Richardson Building at 1 Lombard Pl.

Because it kept all of the office space for its own use, Johnson said the opening of the new Hydro building didn't affect the Class A vacancy rate. But it did affect the Class B rate because its Centra Gas operations moved from the Class B building at 444 St. Mary Ave. into the new headquarters. Although Great-West Life Assurance Co. relocated some of its operations to that space, that move left space open at another downtown B building at 330 Portage Ave. (Newport Centre).

He said that, combined with other moves and his decision to reclassify some Class C buildings he tracks as B properties, pushed up the B vacancy rate to 7.1 per cent at the end of 2009 from three per cent at the end of 2008.

The Class C rate, meanwhile, jumped to 4.2 per cent from 2.5 per cent.

Johnson admitted the increase in the C rate was puzzling in light of the global recession that was unfolding in 2009. "During a recession, people tend to go for the cheaper space."

Johnson and Colliers both predict little change in vacancy rates or rental rates in 2010.

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

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#### Office vacancy rates

Here are the office vacancy rates in Winnipeg according to Wayne Johnson of Royal LePage Dynamic Real Estate and the commercial real estate firm of Colliers Pratt McGarry. There are discrepancies in the numbers because Colliers' figures include vacant sublease space, while Johnson's do not. They also classify some buildings differently:

Wayne Johnson:

Classification Year-end 2009 Year-end 2008

- A 3.8% 5.1%
- B 7.1% 3.0%
- C 4.2% 2.5%
- Overall 5.4% 3.7%

Colliers:

Classification Year-end 2009 Year-end 2008

- A 7.6% N/A
- B 6.2% 3.6%
- C 7.7% 8.1%
- Overall 7.8% 5.4%

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**Thumbs up for this program. Policing is so much more than patrolling with guns drawn or responding to 911 calls. The only way Winnipeg will ever have a chance of dealing with the real social issues in the North End is through a collaborative approach between the Police, Social Services arms of the Government, and the community in the area (including residents, businesses, parents, etc.).**

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Recipient of the 2009 Excellence in Journalism Award from the Canadian Journalism Foundation.

POSTED BY: **Ray C**  
JANUARY 25, 2010 AT 11:19 AM

Wpg has always had a moderate economy. I guess the only way we will see another tower in the near future is to transform an old office tower into residential in order to build a newer office tower.

0 0

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