Keeping up the good fight

Real estate specialists predict city's commercial market in 2011

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Martin McGarry, president of DTZ Barnicke, with sales and leasing associate Gail Auriti, stands outside a property on Lorimer Boulevard. McGarry says the city's overall industrial vacancy rate was hovering at a mere 2.4 per cent in mid-2010 and has improved only marginally since then.

Winnipeg's industrial market is grappling with a severe shortage of buildings for sale or lease and the problem will get worse before it gets better, one veteran agent predicts.

Martin McGarry, president of DTZ Barnicke Winnipeg and a former chairman of the WinnipegREALTORS commercial division, said the city's overall industrial vacancy rate was hovering at a mere 2.4 per cent in mid-2010 and has improved only marginally since then.

"It's still at near 10-year lows."

And with demand for space heating up and limited new construction expected in 2011, "I think it (the vacancy rate) is going to go rocketing down," he said.

McGarry was one of several commercial real estate specialists who were asked recently by the Free Press to predict how the different commercial real estate subsectors will fare in 2011. Here's what they had to say:

Industrial

McGarry, who specializes in industrial sales and leasing, said he expects demand for industrial space to heat up this year as the North American economy continues to rebound from the 2008/09 global recession.

He said a lot of industrial tenants stayed put over the last couple of years, opting to renew their leases while waiting to see how the economic recovery unfolds.

"But that can only hold for so long. Eventually, people will need to expand," he said. "And anyone looking for high-ceiling, modern space is going to have a hard time finding it."

While an influx of new space onto the market would help, McGarry said there were only a couple of new industrial buildings completed in 2010. A & S Homes' new 37,000-square-foot warehouse/office building in Sterling Lyon Business Park on Lorimer Boulevard was probably the largest one.

And McGarry doesn't see many new rental properties being built this year, either.

However, if the vacancy rate drops, that should spur on more new development next year, he said.

Office

After going through a "Goldilocks" phase in 2010 -- not too hot, not too cold -- office leasing should heat up in 2011, according to Wayne Sato, an office leasing specialist with the Winnipeg office of Cushman & Wakefield.

"There are some very good things coming into the market now," Sato said. "There are five or six large tenants in the hunt for space and we're hoping to have some announcements in Q1 (first quarter) or Q2 (of 2011)."

He said Western Financial Group is also expected to announce shortly where it will be leasing space for its new 75,000- to 80,000-square-foot Winnipeg office. Federated Insurance is also looking for 30,000 square feet of space and recently asked landlords to submit their proposals.

Sato said he also hopes to know by the end of January whether a public-sector tenant will be moving into the main floor of the long-vacant Avenue Building and the bottom three floors of the adjoining Hample Building on Portage Avenue.

"That would be a great turnaround story," he said of the Avenue Building, which was considered one of downtown's biggest eyesores but is now undergoing a multimillion-dollar conversion into an apartment/office complex.

Although some big leasing deals will be signed this year, Sato said many of those tenants may not move until 2012. So he doesn't foresee a drop in the overall downtown vacancy rate this year. In fact, he expects it to increase marginally because of some new sublet space that will hit the market this year.

Wayne Johnson, a commercial leasing agent with Royal LePage Dynamic Real Estate and author of the twice-yearly Johnson Report on commercial sales and leasing in Winnipeg, pegged the downtown office vacancy rate at 4.9 per cent as of June 30. His year-end report will be released in mid-January.

Retail

This segment of the market will also see an increase in leasing and more new construction in 2011, according to John Pearson, a retail broker/developer with Shindico Realty Inc./IC & I Properties Inc.

Although 2010 was a pretty good year for the local retail sector, Pearson said construction and leasing has not yet returned to pre-recession levels. "But what we're seeing going into 2011 is an increased interest in moving forward with commitments," he added, which should lead to more new stores being built.

Johnson agreed, saying some of the national and international chains that put store expansion plans on hold over the last couple of years could be looking to revive them in 2011.

"There were still nationals doing their thing (in 2010), but maybe not in a big way," he said.

As was the case last year, most of the new construction will be infill, rather than greenfield development, Pearson said. He said Shindico expects to construct some new buildings in a number of its existing retail centres, including Polo Festival centre on Empress Street, and Grant Park Festival on Taylor Avenue.

The second phase of the new Polo North development on the former Winnipeg Arena site will also get underway this spring. But it will be 2012 before Winnipeggers see any buildings going up on the most talked-about new retail development -- the IKEA/Seasons of Tuxedo development near Kenaston Boulevard and Sterling Lyon Parkway.

Investment

Last year was a banner year for sales of investment properties in Winnipeg, with $544.7 million worth changing hands during the first 10 months of the year -- the latest period for which figures were available. And Don White, an investment broker with Colliers Pratt McGarry and chairman of the WinnipegREALTORS Commercial Division, says it could be even busier in 2011.

"People heading into the year are quite bullish and optimistic that 2011 will be better than 2010," he said.
Despite all of the sales last year -- it was the second highest yearly sales total on record -- White said there are still lots of local and out-of-province investors interested in acquiring properties in Winnipeg.

One potential fly in the ointment could be there are still more buyers than sellers in Winnipeg right now.

"There's far more capital in the market than opportunities to invest," he said.

"It's because of the continued confidence in the real estate market. People are going, 'Why sell? The market is doing well and the economy is doing well...' "

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