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Downtown office market lags

Vacancy rate up despite retail, residential developments

By: **Murray McNeill / Commercial Real Estate**
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JOHN WOODS / WINNIPEG FREE PRESS 363 Broadway has three full floors of vacant space. (JOHN WOODS/WINNIPEG FREE PRESS)

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Exceptions to the rule

Some recent office leasing transactions in Winnipeg:

- Winnipeg Regional Health Authority -- 12,036 square feet at 5 Donald St.
- Employment Solutions for Immigrants Inc. -- 22,000 square feet in the redeveloped Avenue and Hample buildings at 265 and 271 Portage Ave.
- CP Rail -- 92,692 square feet of space in a former call centre building at 14 Fultz Blvd.

-- Colliers International

The office-rental market has been left out in the cold as the revitalization of downtown Winnipeg heats up.

Although new retail and residential developments are springing up around the downtown, bringing new tenants with them, the downtown office market has seen an increase in vacancy rates since the start of the year.

In his mid-year commercial-market report, real estate agent Wayne Johnson of Royal LePage Dynamic Real Estate pegs the overall downtown vacancy rate at 6.4 per cent, versus 5.7 per cent at the end of 2010. And he puts the combined downtown-suburban rate at 6.9 per cent, versus 6.5 per cent.

Colliers International also says Winnipeg's office-vacancy rate is on the rise.

In its recent second-quarter report, Colliers puts the city's overall rate at 8.4 per cent, up from eight per cent at the end of 2010. (It doesn't provide downtown and suburban rates). The main reason Colliers' number is higher than Johnson's is its survey includes sublet space, while Johnson's does not.

In his report, Johnson said three straight years of rising vacancy rates have left the downtown office rate at its highest level in 15 years. And he and Colliers both blame it on a slowdown in leasing.

"Although the overall office vacancy rate in Winnipeg is healthy compared to other markets, office leasing... remains relatively soft, with very few new office users entering the market," the Colliers report states.

"With very little demand, good supply, competitive lease rates, and high construction costs, there is currently no reason for developers to look at building new, speculative, multi-tenant office buildings."

The report notes several downtown Class B buildings have multi-floor vacancies, but have seen little or no leasing in the second quarter of this year.

Chris Cleverley of Colliers said soaring construction costs are also contributing to the slowdown in leasing because they drive up the cost of office renovations.

"Unless tenants have a compelling reason to move... people are just renewing (their leases). It's too expensive for people to pick up and move."

Another problem is a dearth of new office tenants moving to the city, particularly head-office operations, which often like to be downtown.

"We've seen more private industry leaving the downtown than arriving," Cleverley said, citing last year's bankruptcy of Canwest Global Communications as one recent example. Canwest's departure left gaping holes in the high-rise office tower at 201 Portage Ave., as well as in the redeveloped office building at 300 Carlton St.

Cleverley said the former Canwest executive offices in 201 Portage are arguably the nicest office space in the city. Yet the building's landlord -- Creswin Properties -- has struggled to find a replacement tenant.

"But that's beautiful space... and for that reason, I think it's going to go," he added. "I wouldn't be surprised if they have somebody before Christmas."

A spokesman for Shelter Canadian Properties Ltd., which owns and manages the former Free Press building at 300 Carlton St., said some prospective tenants have viewed the former Postmedia News call-centre space on the fifth floor since it became available in January.

Carol Vandal, property manager for Shelter's commercial division, said the space is available as a sublet because Postmedia's lease doesn't expire until November 2014.

Because the space was designed as a call centre, Vanier said she expects the replacement tenant will be another call-centre operation. That way, few renovations will be required.

floors (33,000 square feet) plus a few smaller pockets of space, and 400 St. Mary Ave., which has one full floor (14,000 square feet) and some smaller units.

Both buildings are managed by the regional office of Morguard Investments Ltd. General manager Karen Lund and leasing manager Chris Vodrey agreed the demand for downtown office space has been soft.

But they're seeing signs of it picking up, they said, and attributed that in part to the post-recession recovery.

"We're seeing some tenants looking to expand," Vodrey said. And some provincial government departments are also looking to consolidate some of their offices, Lund said, preferably in the downtown.

All of the industry officials who were interviewed said they think it's a matter of time before the office market starts to benefit from downtown revitalization efforts.

"Everybody is so excited about the NHL and the other things that are happening in the city," Vandal said. "I think as a result, we're getting national attention, and that might bring some new companies to Winnipeg to take advantage of that."

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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