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New office/warehouse complexes under construction or in the works this year

Experts disagree on constructing industrial space

By: **Murray McNeill**

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Phil Hossack / Winnipeg Free Press Terracon Development Ltd. ♦s 45,000-square-foot office/warehouse complex in Tuxedo Business Park. Terracon pre-leases before building.

The demand for new industrial rental space is heating up in Winnipeg, but there are conflicting views about whether that's going to lead to a surge in new speculative development in the city.

One local industrial leasing specialist -- Martin McGarry, president of DTZ Barnicke Winnipeg Ltd. -- thinks Winnipeg's industrial market is on the cusp of a mini building boom that could see between 200,000 and 350,000 square feet of new rental space built on spec each year for the next five years.

McGarry said the last time Winnipeg saw any significant amount of speculative industrial construction

was the late 1990s, when Sun-X Properties was pumping out more than 400,000 square feet per year and most of it wasn't pre-leased.

But the development manager for one of the city's leading industrial developers -- Terracon Development Ltd. -- doesn't share McGarry's optimism.

"I don't think that's going to happen," Michael Falk said. "Terracon is certainly not going to participate in that."

Falk said Winnipeg's industrial market isn't growing fast enough to justify a lot of speculative construction.

"It's not like we have eight or 10 new companies moving to Manitoba (each year) wanting new space," he said. "The demand is just not there."

But McGarry argues that with the Canadian and Manitoba economies on the rebound and Winnipeg's industrial vacancy rate now less than 2.4 per cent, companies looking to expand or upgrade their space will have no choice but to lease space in a new building. And that's going to lead to more speculative construction.

"The difference in price (between new and existing stock) has always been the stumbling block," he said, noting new office/warehouse space usually costs between \$10 and \$12 per square foot versus an average of \$5.50 to \$6 in an existing building. "But if you can't find it (suitable space in an existing building), what are your choices?"

To back up his argument, McGarry cited the case of a 55,000-square-foot, multi-tenant, office/warehouse complex A&S Homes built on spec last year in its Sterling Lyon Business Park on Lorimer Boulevard. DTZ Barnicke Winnipeg was the leasing agent, and McGarry said most of the space was leased by the time the building was completed last October, and the rest was gone within four months of completion.

"The last one went so well, they're going to keep on building (on spec)," he said, adding construction is scheduled to begin this spring on a new 38,000-square-foot office/warehouse building in the same park. And none of it has been pre-leased.

But Falk cited another case where Crystal Properties built a 35,000-square-foot, office/warehouse building on Bannister Road in 2009, and it sat empty for two years before a tenant was found late last year.

Terracon's usual practice is not to proceed with a new project unless at least 30 per cent of it has been pre-leased. That was the case with a 45,000-square-foot office/warehouse complex it built last year in its Tuxedo Business Park on Kenaston Boulevard.

And that's also the case with a 71,000-square-foot complex it plans to build this year in the same park. Falk said 30,000 square feet of it has been pre-leased to the Federated Insurance Co. of Canada, which will be relocating from its current rented space at 717 Portage Ave.

While that leaves 41,000 square feet left to lease, Falk is optimistic they'll fill it. He said there's only 9,000 square feet left to fill in the one built last year, and the demand for new space is heating up.

"I'm a little nervous, but there's not very much else that's already up and ready to go."

The office/warehouse complex is one of three new buildings Terracon is erecting this year, although the other two are both retail structures.

One is a 7,000-square-foot building in the retail development at the entrance to the Tuxedo Business

Park. It's been leased to the Canadian Western Bank. The other is a 2,700-square-foot building in Terracon's Tuxedo Business Centre at the corner of Kenaston and Lawson Crescent. It's been leased to A & W Restaurants.

As earlier reported, another business park in the southwest quadrant of the city -- the Fort Garry Business Park on Fultz Boulevard -- is also getting a new building this year. It's a 25,600-square-foot office/warehouse building for Stuart Olson Dominion Construction, and it's the park's first new building since 1998.

A spokesman for Bentall Kennedy (Canada) LP, which is developing and managing the business park on behalf of British Columbia Investment Management Corp., said BCIMC hopes to add three more buildings over the next four years.

"But it takes a year to plan, so the next one won't be until 2013," Shaun Rocan said.

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 e-mail address below, or at 697-7254.

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New office/warehouse complexes under construction or in the works this year

A 71,000-square-foot complex in Terracon Development Ltd.'s Tuxedo Business Park. It's scheduled to be completed this fall.

A 38,000-square-foot building in A&S Homes' Sterling Lyon Business Park on Lorimer Boulevard. It should be ready for occupancy in November this year.

A 25,600-square-foot building in British Columbia Investment Management Corp.'s Fort Garry Business Park on Fultz Boulevard. Construction is underway and is scheduled for completion this fall.

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