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Downtown office space in demand across Canada

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THEY don't just want to live downtown; those new condominium dwellers want to work in the core, too.

A new study from Cushman & Wakefield Canada says the national office vacancy rate in the country's central cores has dropped to five per cent for only the second time in the last 27 years as businesses scramble to find space for employees.

Winnipeg was among the Canadian cities experiencing strong demand for downtown office space.

Class A office space in downtown Winnipeg is at a premium, with the vacancy rate down to a low of 3.1 per cent in the second quarter from five per cent in the first quarter.

The report noted Winnipeg experienced a strong second quarter in both the suburbs and downtown.

There was a total of 118,182 square feet of positive absorption in the central business district, bringing total vacancy down to 6.3 per cent by the second quarter from 7.5 per cent in the first.

In the suburbs, the vacancy rate dipped more than a whole point from the first to second quarters to 10.3 per cent. Last year, suburban vacancy was at 14.3 per cent.

"The market has been active as government has leased a significant amount of competitive office space," said Wayne Sato, Cushman & Wakefield's Winnipeg vice-president. "Government demand, combined with modest private-sector demand, will significantly tighten the market. We've seen upward pressure on rental rates as a result, likely to continue into the latter half of 2012."

Scott Chandler, C&W Canada executive managing director, valuation and advisory services, said, "Downtown areas are picking up much of the new development. There is always new construction in the suburbs to some degree but very much so this is a downtown story."

Cushman & Wakefield said the national vacancy rate in central office districts dropped to five per cent in the second quarter of 2012, down from 5.4 per cent just a quarter earlier.

"With 24-hour downtowns and very strong central areas in Canada, people want to be close to where their employees are," Chandler said. "It costs a lot to build, but if you can keep your employee retention and attract new employees because of your location and access to transit, your cost per employee is mitigated despite the high cost per square foot."

The trend has pushed development to new levels, as shown by Brookfield Office Properties' decision last week build a 44-storey \$464-million office tower at Toronto's Bay Adelaide Centre.

"There is a significant new office development cycle currently taking place in some markets -- a level of building activity not seen since the early 1990s," said Pierre Bergevin, chief executive of C&W Canada.

While space in downtown cores is getting tighter, the evidence suggests the market in the suburbs has slowed. The national vacancy rate for the suburbs was 9.9 per cent in the second quarter, the same as a quarter earlier.

"Another factor affecting suburban markets, particularly in Toronto and Vancouver, is a reverse migration that has large organizations looking to move back into the downtown core. Factors such as highly sophisticated and 'green' buildings, more collaborative workspaces, fresh air and (heating, ventilation and air-conditioning) systems and floor-to-ceiling windows providing lots of natural light have businesses on the move," C&W said in its report.

Here's how C&W sees vacancy rates in other major city cores: Vancouver, up slightly to 3.7 per cent; Calgary, 3.1 per cent, down from 3.6 per cent; Toronto, 4.8 per cent, down from five per cent; Ottawa, 5.8 per cent, down from six per cent; and Montreal, 6.1 per cent, down from 6.4 per cent.

-- Postmedia News / staff

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