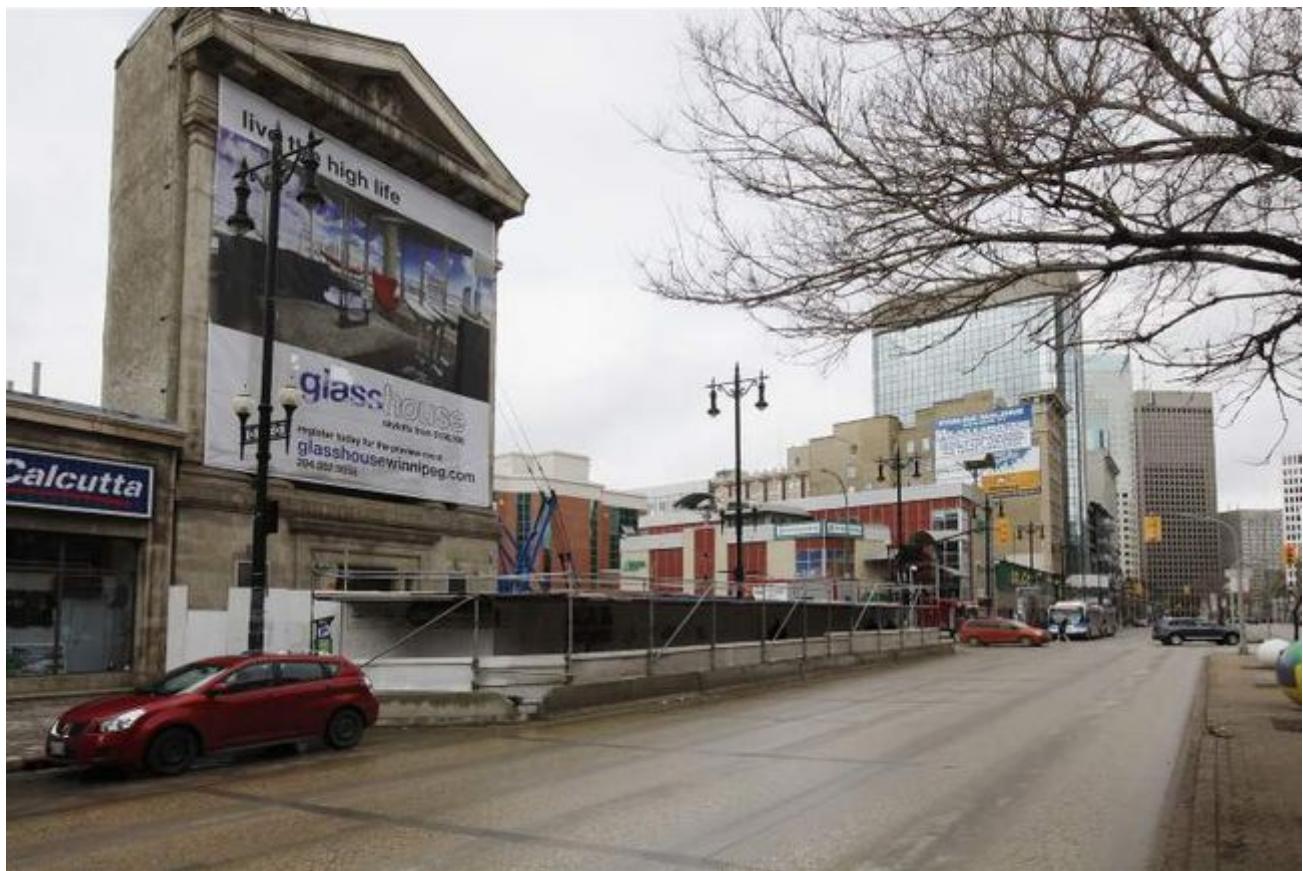


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Raising the rent is a good sign

After decade of stagnation, net rental rates hit new high

By: Murray McNeill
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JOHN WOODS / WINNIPEG FREE PRESS [Enlarge Image](#)

After 20 years, a multi-tenant office building is going up downtown -- Centrepoint's five-storey building at 311 Portage Ave. This will drive up net rental rates.

Net rental rates have hit a new high in one of the city's premier downtown office towers as landlords start to play catch up after nearly a decade of little or no increases.

The owners of 360 Main -- Winnipeg-based Artis Real Estate Investment Trust -- recently began asking

a net rate of \$20 per square foot for space in the highrise portion of its 32-storey building on the southwest corner of Portage Avenue and Main Street.



Enlarge Image

The future Landmark Office Tower on Osborne Street already has two tenants. (SUPPLIED RENDERING)

That's the first time in the city's history the asking net rate in an existing office building has reached the \$20 threshold, said Wayne Sato, Cushman & Wakefield's vice-president of office.

And Sato predicted it's just a matter of time before other downtown Class A landlords follow suit.

"That's still low compared with other major metropolitan centres," he said of the new rate, noting net rates have been climbing in most other centres during the past decade, but remained stagnant here until about two years ago.

He said a number of factors have given landlords the confidence to start raising rates.

One is that after nearly 20 years, a new multi-tenant office building is being built in downtown Winnipeg. That's the five-storey, 80,000-square-foot building under construction as part of the 311 Portage Avenue Centrepont development on Portage Avenue.

The asking net rental rate there is \$22 to \$24 per square foot, Sato said, and that's helping to put upward pressure on asking rates in existing Class A buildings.

But the two biggest factors, Sato and Wayne Johnson, of Royal LePage Dynamic Real Estate both say, are the high cost of office renovations and the limited supply of downtown Class A

space.

They said soaring construction costs are driving up the cost of office renovations.

Johnson, who is author of the twice-yearly Johnson Report on vacancy and rental rates in Winnipeg's commercial real estate market, said it's usually cheaper for tenants to stay put, even if the rent is going up, than to move and renovate a new space to suit their needs.

And the downtown Class A vacancy rate has also fallen to one of its lowest levels in more than a decade.

In its recently released 2013 first-quarter office market report, Cushman & Wakefield pegged the overall rate at a mere 3.1 per cent.

"Because the vacancy rate is low, market conditions are right to start raising rental rates," Sato said.

Kirsty Stevens, Artis's chief administrative officer, agreed.

"It is a function of supply and demand in the market right now," Stevens said. "The reality is there is just not a lot of supply of Class A space in the highrise portion of the (downtown office) towers."

Stevens noted 360 Main has a vacancy rate of only three per cent, with no available space in the highrise portion of the building.

She said 360 Main had been getting \$20 per square foot on some of its lease-renewal deals, but only recently began also getting that from some of its new tenants.

She and Johnson agreed other downtown Class A landlords will eventually raise their net asking rates to that level. But Johnson said that won't happen right away because some of the other buildings have higher vacancy rates than 360 Main.

"So they're far less likely to put a gun to your head," he added.

Sato said the asking net rate at one other downtown Class A tower recently rose to \$18.50 from \$17.50.

And rates have also been climbing in some premium downtown Class B buildings, he said, rising to \$14 per square foot from about \$13 two years ago.

"And Class C, I could see going up, as well."

He said better-quality Class C space can still be found for \$7 per square foot, "but I think within a couple of years it will be hard to find good-quality space for \$8 net," he added.

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Two major tenants have already been signed up for a new five-storey office tower that will soon begin rising from the ground near Confusion Corner.

A spokesman for the group of local investors behind the \$10-million Landmark Office Tower, which is being built on Osborne Street south of the intersection with Corydon Avenue and Pembina Highway, said a national restaurant chain has leased the first floor.

Adrian Schulz said there's about 6,000 square feet of space on each floor. A local business centre operator also has leased all of the top floor.

Schulz is president and CEO of Imperial Properties, which is the property manager and leasing agent for the development.

He said there's a lot of interest in the space and he expects to receive even more inquiries once construction gets underway in late May or early June.

Schulz said he's four to six weeks away from revealing the name of the two tenants who have signed leases.

He said the other three floors are ideally suited for medical or professional offices.

"But we've also had interest from government-funded organizations and non-profit organizations."

Demolition of the three existing buildings on the site began last Wednesday and is expected to take four to six weeks to complete.

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 204-697-7254.

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