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Southwest office rental prices soar

Strong demand, tight supply raise rates in quadrant

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Jason Fuchs poses with some products Beam Canada Inc. sells. The company recently renewed its lease in the southwest part of Winnipeg. Photo Store

One of hottest areas in the city for retail and residential development in recent years is also becoming one of the priciest for renting office space.

A combination of strong demand and tight supply, coupled with high moving and renovation costs, is

driving up office rental rates in the southwest quadrant of the city, says commercial real-estate company Avison Young.

Vacancy rate numbers

AVISON Young's latest office-market report pegged the overall office vacancy rate in Winnipeg at 7.9 per cent -- down from 9.2 per cent in mid-2012. It put the downtown vacancy rate at just over six per cent, up from just over five per cent a year earlier, and the suburban rate at just under eight per cent, down from just over nine per cent.

And here is what Wayne Johnson, author of the Johnson Report, shows for mid-year office vacancy rates in the city. The rates differ because Johnson's market survey includes buildings not included in the Avison Young survey:

Area	June 2012 (%)	June 2013 (%)
Overall	6.37	7.1
Downtown	5.26	6.8
Suburban	9.27	9.9

"In some cases, existing tenants are experiencing (lease) renewal shock as their current five-year leases are being bumped up by 15 to 30 per cent," the firm said in its latest North American office-market report.

"The difference in lease rates for 10,000 square feet of finished office space between other parts of Winnipeg and the south end can be as high as \$6 to \$10 per square foot," the company added.

But even if they have to pay a premium, there is still no shortage of tenants willing to renew their leases or to move to the area, said Wes Schollenberg, managing partner of Avison Young's Winnipeg office.

"That (the southwest quadrant) is where a lot of people want to migrate to," Schollenberg said. "That doesn't mean the downtown has lost its buzz, but if they're looking for suburban space, that is often their first choice."

Wayne Johnson, an agent with Royal LePage Dynamic Real Estate Services and author of the twice-yearly Johnson Report on commercial sales and leasing activity in Winnipeg, agreed.

"When there's movement away from the downtown to the suburbs, that's the direction it's gone," Johnson said. "It hasn't gone to St. Boniface... or the Maples."

Johnson also agreed that while downtown office space used to cost more than comparable space in the suburbs, that's no longer the case.

"I would say it's now at least as expensive in the suburbs as in the downtown," he said, with the southwest quadrant at or near the top of the list.

One of the reasons that area has become so popular with office tenants is the sheer number of people now living in neighbourhoods such as Waverley West, Linden Woods and White Ridge.

"The population has grown greatly... so that makes your office more accessible to more people," Johnson said. "And if most of your staff is living in the south end, that's where you want your office to be."

The area's population growth was one of the main reasons Peace Hills Trust relocated last year from downtown Portage Avenue to the Grant Park Festival on Taylor Avenue.

The financial institution wanted to attract more residential-mortgage customers, "and that (the southwest) is an area we thought would help us grow in that area," said Tony Shirt, Peace Hills' senior vice-president of marketing and business development. And that's exactly what has happened, Shirt added.

"We've maintained our level of business on the commercial side, and increased our volume of business

on the residential-mortgages side."

He said Peace Hills officials did look at other areas of the city, "but this is the one we liked the best." He couldn't recall if the rental rate there was the highest, but he noted the deal would have been negotiated about two years ago when rates were lower than they are today.

Spirits distributor Beam Canada Inc. is an example of an office tenant that was already leasing space in the southwest area and opted to stay in spite of escalating rental rates.

The company's regional office recently renewed its three-year lease at Unit 1, 59 Scurfield Blvd., at a new rate 15 to 20 per cent higher than its old rate, said regional sales manager Jason Fuchs.

But when they factored in the cost of moving and renovating the new space, and the disruption to their operations, the savings weren't enough to justify moving, he added.

"And we wanted to stay," Fuchs said, noting they like the area, like the building, there's ample room for parking, and offer quick and easy access to the downtown.

Schollenberg and Johnson said they don't see the demand for space and the upward pressure on rental rates waning soon. The area's population continues to grow, and soaring land prices and high construction costs discourage developers from building a lot of new office or office/industrial buildings.

"There's very little (land) for sale and it's extremely expensive... compared to other areas," he said, adding an acre can cost anywhere from \$600,000 to \$1 million.

"So there won't be a building boom."

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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