

Excerpts from.....

THE JOHNSON REPORT
2012 YEAR END MARKET REPORT
COMMERCIAL REAL ESTATE
WINNIPEG, MANITOBA

USED BY THE AUTHORITY OF WAYNE JOHNSON, JANUARY, 2013

APARTMENT, INDUSTRIAL, OFFICE & OTHER COMMERCIAL SALES

Commercial sales have been remarkably high most of this decade. While 2007 was an extraordinary year 2011 has remained strong in general and unaffected by the global economic pressures.

While most of the commercial dollar volumes decreased in 2011 the apartment segment had an unprecedented growth in price.

ANNUAL DOLLAR VOLUME OF APARTMENT, INDUSTRIAL, OFFICE & OTHER COMMERCIAL SALES					
YEAR	APARTMENT	INDUSTRIAL	OFFICE	OTHER COMMERCIAL	TOTAL
2003	36,332,486	63,613,763	104,967,269	52,907,907	257,821,395
2004	14,263,201	52,762,980	28,368,273	115,908,179	211,302,633
2005	29,907,802	59,948,277	77,884,181	103,319,633	271,059,893
2006	19,490,823	55,206,869	135,365,400	74,840,526	284,903,618
2007	20,682,729	117,737,501	168,737,796	110,440,387	417,598,413
2008	67,233,009	111,743,313	17,507,604	80,193,485	276,677,411
2009	24,730,400	65,393,982	87,288,930	105,207,340	282,620,652
2010	67,218,000	83,257,626	36,523,175	99,944,060	286,942,861
2011	113,165,700	73,061,448	27,416,000	68,494,773	282,137,921
2012*	23,060,000	58,422,900	53,591,836	61,268,245	135,074,736

INVESTMENT PROPERTY SALES SUMMARY

Low interest rates and a healthy local economy have continued fuelling the Investment market. The investment market reflected the stability that Winnipeg is famous for. Nothing spectacular happening just more of the same, steady and dependable.

The apartment market sprang to life in 2011 representing 2/3 of all investment sales. While the dollar volume of industrial buildings remained respectable 2011 saw limited trading of office & retail investments.

ANNUAL DOLLAR VOLUME OF INVESTMENT SALES					
YEAR	INDUSTRIAL	OFFICE	RETAIL	APARTMENT	TOTAL
2003	28,636,225	96,769,000	16,113,955	36,332,486	177,851,666
2004	23,751,480	21,294,373	63,209,350	14,263,201	122,518,404
2005	25,344,500	68,171,680	35,387,569	29,907,802	158,811,551
2006	14,673,220	120,875,000	20,990,000	19,490,823	176,029,043
2007	33,096,433	143,555,000	43,312,900	20,682,729	240,647,062
2008	50,118,510	4,360,000	30,896,333	67,233,009	152,607,852
2009	30,426,500	76,276,430	16,167,200	24,730,400	147,600,530
2010	40,354,280	19,175,000	64,556,450	67,218,000	191,303,730
2011	35,214,580	14,816,000	8,010,500	113,165,700	171,206,780
2012*	25,020,000	46,648.503	13,541,650	23,060,000	108,270,153

INDUSTRIAL BUILDING SALES

The industrial market continues to be affected by the lack of available product. The Investor segment has remained strong on price but has weakened in volume. The same can be said of the User market. Due to a continued lack of product available on the market the total square footage of sales was only 2/3 the average of the past decade.

INDUSTRIAL BUILDING SALES SUMMARY			
YEAR	DOLLAR VOLUME	SQUARE FEET	PRICE PER SQ FT
2003	\$63,613,763	2,261,260	\$28.13
2004	\$52,762,980	2,151,138	\$24.53
2005	\$59,948,277	2,069,396	\$28.97
2006	\$55,206,869	1,653,882	\$33.38
2007	\$117,737,501	2,844,826	\$41.39
2008	\$111,743,313	2,533,137	\$44.11
2009	\$65,393,982	1,465,338	\$44.63
2010	\$83,257,626	1,748,056	\$47.63
2011	\$73,061,448	1,449,603	\$50.40
2012*	\$58,422,900	1,022,109	\$57.16

INDUSTRIAL, OFFICE & RETAIL VACANCY SUMMARY

Commercial vacancy hit a decade high of 6.7 million square feet in 1994 and an all-time low of 2.4 million square feet in 1998. The past 5 years have seen below average vacancies in the city. The retail and Industrial markets have both continued with low vacancies. The industrial vacancy rate has remained at below normal for the past decade. The rate has been below 3% for the past 4 years and below 4% the previous 6 years. The current mark of 2.3% indicates a very healthy market that would lend itself to additional construction.

The Winnipeg Downtown Office market is not as robust as the industrial and retail markets but has maintained respectable vacancy rates, slipping only slightly in the past few years. Head lease space is indicative of a market that has seen only small changes in its vacancies and currently has modest vacancy with modest rental rates. The retail sector performed strongly for the past decade (and more) with consistent declines in its vacancy rates. While the vacancy rate increased slightly in 2012 this sector continues to remain in a favourable position reporting a vacancy of 3.6%.

JUNE - YEAR END VACANCY RATE COMPARISON						
YEAR	INDUSTRIAL		DOWNTOWN A - C OFFICE		RETAIL	
	JUNE	YEAR END	JUNE	YEAR END	JUNE	YEAR END
2003	4.4%	3.8%	5.1%	4.4%	5.0%	4.8%
2004	3.3%	3.6%	4.8%	6.1%	4.7%	4.2%
2005	3.5%	3.2%	6.2%	6.6%	4.2%	4.3%
2006	3.6%	3.8%	5.9%	6.0%	4.0%	4.0%
2007	3.5%	3.1%	5.9%	5.8%	4.1%	3.8%
2008	2.3%	2.5%	3.9%	3.7%	3.6%	3.3%
2009	2.6%	2.0%	4.6%	5.4%	3.4%	3.5%
2010	2.4%	2.7%	5.1%	6.0%	3.2%	3.5%
2011	2.3%	2.1%	6.9%	6.7%	3.5%	3.2%
2012	2.0%	2.3%	5.2%	7.2%	3.2%	3.6%

INDUSTRIAL LEASING & VACANCY

The Winnipeg industrial building inventory is approximately 79 million square feet, of which 66% or 52 million square feet is owner occupied, with 29 million square feet used primarily for manufacturing purposes, 20 million square feet for warehouse space and 3 million square feet of service type buildings. Investment properties represent 34% of the inventory, or approximately 27 million square feet, used primarily for warehousing and distribution.

Industrial vacancy is a good indicator of the health of the industrial market and the overall health of the city's commerce. The market has been stable in the 1.5 million to 3 million sq ft vacancy range for the past decade while the past 5 years have all been at the low end of this range. Investment vacancies continue to be in the lower range of their historical performance. Industrial buildings for sale at the end of 2012 and for the previous 4 years represent about 60% of the normal for sale inventory. As a result, owner occupied buildings that are vacant and for sale have dropped dramatically. The past decade has had a series of low vacancy rates for Industrial buildings in Winnipeg but none lower than for 2009. Following a half dozen years of vacancy rates in the mid 3 % the past 5 years have all been less than 3%.

INDUSTRIAL VACANCY RATE SUMMARY – TOTAL INVENTORY										
DISTRICT	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
CENTRAL	1.9	3.3	2.6	2.6	1.8	1.5	.1.0	1.5	1.4	1.1
EAST KILD	0	0	0	0.8	0.1	2.3	2.2	1.2	0.2	0.0
ELMWOOD	2.0	2.2	2.2	2.0	0.8	0.2	1.7	2.0	0	0
EXCHANGE	0.9	0	0	0.5	2.7	0	0	0	0	0
FT GARRY	2.3	2.4	1.5	3.6	0.8	1.9	.8	3.5	2.8	2.2
INKSTER	6.6	5.4	7.4	8.6	5.8	5.2	2.4	3.6	3.1	4.5
MURRAY PK	1.5	0.8	0.8	0.9	0.9	0.3	0	0.2	0	0.4
ST BONIFACE	0.8	1.4	1.2	1.2	0.6	2.3	1.5	0.6	0.4	1.0
ST JAMES	7.4	6.7	5.7	4.9	4.8	3.2	2.9	4.4	2.9	2.9
TRANSCONA	2.7	2.4	0.9	1.0	8.3	5.0	7.1	5.6	5.3	5.3
WEST END	4.7	3.8	2.8	6.3	2.8	0.8	1.0	0.8	1.3	2.6
OVERALL	3.8	3.6	3.2	3.8	3.1	2.5	2.0	2.7	2.1	2.3

The past 3 years have seen new construction command a \$4 to \$5 premium rate from tenants. Vacancy rates have narrowed and tenant retention has strengthened, resulting in a broad spectrum of product being leased at increased rates. 2003 started a trend in improvement in rates in most product types and in most Districts.

This trend, including the 2012 improvement, indicates the continuing strength of the Industrial investment market and continues to make new construction viable in our marketplace.

AVERAGE NET INDUSTRIAL LEASE RATES										
DISTRICT	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
CENTRAL	3.42	3.75	2.65	0	2.93	3.55	3.52	3.68	3.84	3.92
EAST KILD	0	0	0	0	0	0	5.97	4.17	2.69	5.81
ELMWOOD	8.00	0	4.40	4.28	0	0	8.50	6.32	5.69	0
FT GARRY	4.67	3.87	5.03	5.60	4.91	7.70	6.98	6.14	7.97	8.77
INKSTER	3.56	3.97	4.71	4.34	4.28	5.05	5.23	5.45	4.96	5.28
MURRAY PK	6.86	4.57	0	4.51	4.75	5.25	5.15	5.25	5.81	0
ST BONIFACE	4.72	4.67	4.59	4.38	4.97	5.81	5.20	6.02	6.85	6.99
ST JAMES	4.29	4.43	4.36	4.75	4.94	4.95	5.38	5.27	5.56	6.00
TRANSCONA	4.14	4.58	4.74	4.04	4.25	4.26	4.35	4.04	3.75	5.00
WEST END	5.28	4.97	4.22	4.21	4.76	5.59	5.42	6.61	5.65	6.67
OVERALL	4.23	4.25	4.46	4.79	4.68	5.19	5.42	5.09	5.53	6.31

The rental rates shown on the above table are face rates and do not reflect free rent or other tenant inducements. Most of the lease transactions included 10% to 20% improved office space.

300,000 square feet of single tenant buildings were leased this year at an average of \$5.35. Just over 560,000 square feet of multi-tenant space was leased at an average of \$6.79 per square foot. On average this past decade, multi tenanted buildings have averaged 14% higher rates than single tenant buildings.

OFFICE LEASING & VACANCY

This section of the report involves the analysis of approximately 17.7 million square feet of rentable office space. The inventory consists of downtown and suburban office buildings, government, medical and other types of buildings with above grade office space, but does not include office space available on a sublet basis.

YEAR END 2012 - OFFICE SPACE INVENTORY & VACANCY(HEADLEASE)			
BLDG TYPE	INVENTORY	VACANCY	%
DOWNTOWN			
CLASS A	2,652,869	114,579	4.3
CLASS B	3,874,572	344,899	8.9
CLASS C	1,779,755	135,050	7.6
TOTAL A,B,C	8,307,196	594,528	7.2
CLASS D	1,001,001	59,291	5.9
GOVERNMENT	1,774,160	0	0
MEDICAL	464,802	29,063	6.3
MISCELLANEOUS	1,532,914	122,768	8.4
DOWNTOWN TOTAL	13,080,073	805,650	6.2
SUBURBAN			
CLASS A	241,154	19,546	8.1
CLASS B	189,124	35,466	18.8
CLASS C	385,717	124,027	32.2
TOTAL A,B,C	815,995	179,039	21.9
GOVERNMENT	795,216	0	0
MEDICAL	557,957	34,342	6.2
MISCELLANEOUS	2,492,845	227,801	9.1
TOTAL SUBURBAN	4,662,013	441,182	9.3
TOTAL INVENTORY	17,742,086	1,246,832	7.0

RETAIL LEASING & VACANCY

Winnipeg's current retail investment inventory is 19 million square feet and consists of enclosed malls, shopping centres, strip centres, storefronts and restaurants. Over 2 million square feet, mostly power centre and strip mall development, has been added to the inventory since the end of 2000. The major retail news for Winnipeg was the grand opening of the IKEA store in November.

Strip shopping centres comprise approximately 35% of the inventory, but account for 40% of the overall inventory of vacant space. Power centres represent 22% of the retail inventory, or 4.2 million square feet, but account for only 3 % of the retail vacancy.

YEAR END 2012 RETAIL INVENTORY & VACANCY			
TYPE	BUILDING AREA	VACANCY	RATE
STRIPS	6,827,844	284,857	4.2%
MALLS	4,723,990	144,608	3.1%
POWER CENTRES	4,217,339	20,082	0.5%
STORES & RETAIL IN OFFICE & APARTMENTS	2,956,449	225,176	7.6%
RESTAURANTS (STAND ALONE)	397,711	10,742	2.7%
MISCELLANEOUS	371,281	17,350	4.7%
TOTAL	19,494,614	702,815	3.6%

The red hot Retail Sector took a “time out” this year. Performance, while good, fell short of the past 5 years results. Moderate variations in retail vacancy have occurred over the past 9 years but this sector has consistently remained a top performer.