

A photograph of the Winnipeg city skyline is visible in the background, showing various high-rise buildings and greenery. A large, semi-transparent blue circle is overlaid on the image, containing the main title text.

Top 10 Real **INSIGHTS**

2018 Winnipeg Real Estate Forum

ISSUE 10

Powered by


AltusGroup

INSIGHTS FROM INDUSTRY LEADERS DURING THE CONTENT FORMATION OF WINNIPEG REAL ESTATE FORUM

1

WINNIPEG: DIVERSIFIED, CENTRAL & GROWING

A stable growth rate and a low cost of doing business give Winnipeg an advantage over other Canadian CMAs.

2

DOWNTOWN'S RENAISSANCE

Almost \$1B has been invested in the core in the past decade.

3

PHASE 1 OF TRUE NORTH SQUARE ALMOST COMPLETE

True North Square is a \$400M, four tower, mixed use development that includes a five-star hotel, office, retail and residential spaces.

7

RETAIL SECTOR BUOYED BY HEALTHY ECONOMY

Notwithstanding several national retailer closures, optimism is high with the opening of the Outlet Collection Winnipeg mall and several other smaller developments on the horizon.

6

MULTI FAMILY VACANCY RATES REMAIN LOW

For the last two years vacancy of multi family units remain unchanged at 2.8% - below the national average of 3.0%.

5

INDUSTRIAL SPACE IN SHORT SUPPLY

Demand for quality product has pushed industrial vacancy down to one of the lowest levels in the country.

4

THE EXCHANGE DISTRICT - AN ARTS DESTINATION

The ongoing renewal and resurgence of the Exchange District on the north side of the downtown has become a magnet for the arts and for creative service companies.

8

SERVICED INDUSTRIAL LAND IN SHORT SUPPLY

A shortage of industrial land is keeping industrial vacancies low as new construction is constrained.

9

WINNIPEG A HUB FOR RESEARCH AND TRANSPORTATION INITIATIVES

Investment in the research and transportation will help ensure continued economic growth.

10

INVESTMENT ACTIVITY FLAT AS OWNERS HANG ON TO KEY ASSETS

The largest transaction of the year was the sale of Allied Properties REIT's Winnipeg portfolio to an out-of-province investor.

For further details on these top trends please visit the Real Estate Forums Portal at realestateforums.com

1. WINNIPEG: DIVERSIFIED, CENTRAL & GROWING

A stable growth rate and a low cost of doing business give Winnipeg an advantage over other Canadian CMAs.

Winnipeg has a diversified manufacturing base that includes agri-business, financial services, aerospace. It is centrally located with excellent multi-modal transportation system for distribution of goods to market. With the lowest utility costs in the country, Winnipeg offers one of the lowest overall business costs of any major Canadian centre.

Winnipeg's office sector has been giving a solid performance. According to Altus Group, the office market had the its highest level of positive absorption since 2013. Vacancy decreased to 7.2% significantly below its five-year average of 8.2%. Rates are expected to decrease even further until new product comes online.

The Conference Board of Canada forecasts Winnipeg's economy to expand for the third year in a row. The city's economy is being buoyed a strong manufacturing sector, low Canadian dollar and a strong US economy and is set to grow by 2.2% in 2018.

Advanced manufacturing comprises 10.0% of Winnipeg's GDP and includes companies such as: New Flyer / Motor Coach Industries, MacDon Industries, Winpak, Boeing and Magellan Aerospace

Winnipeg's labour market remains strong and the CBoFC predicts an addition of 7,200 net new jobs in 2018.

The CBoFC also expects that Winnipeg's population will grow by 50,000 people over the next 5 years.

Some of the recent larger investments in Winnipeg include:

- Ubisoft, one of the largest video game developers in the world is making a \$35M investment in a Winnipeg studio
- Hinduja Global Solutions is expanding into Winnipeg with their Work@Home initiative and will be hiring 150 positions in Winnipeg.
- GE Aviation's upgraded its Winnipeg Testing Research and Development Centre at James Richardson International Airport. The \$26M upgraded facility allows testing on the GE9X engine, which will power Boeing's 777X aircraft.

2. DOWNTOWN'S RENAISSANCE

Almost \$1B has been invested in the core in the past decade.

Downtown Winnipeg has been undergoing a transformation for the past 15 years.

CentreVenture Development Corporation, an arms-length agency of the City of Winnipeg was established in 1999 to give leadership in the development of the downtown area. It established the Sports and Entertainment District centred around the MTS.

The Portage Avenue Development Strategy was prepared by CentreVenture in collaboration with the Downtown Council and was endorsed by City Council in 2010. One of the main elements of the strategy includes increasing density in the downtown by dividing the area around Portage into four districts:

- The University of Winnipeg District
- The Retail District
- The Sports and Entertainment District (the SHED)
- The Commercial Office District

The opening of the MTS Centre and the return of the NHL has led to the creation of the Sports, Hospitality and Entertainment District (SHED) and numerous other projects.

Opening one of Canada's most famous intersections (Portage and Main) to above ground pedestrian traffic is another example of their renewal strategy.

CentreVenture, announced plans to redevelop the Public Safety Building and the adjacent parkade. A mixed used development is planned for the site that will include the construction of 400 residential units, office and retail space, park and an enclosed public market. Construction is scheduled to start in 2020.

Downtown BIZ's Placemaking Pop-Up initiative just received \$38,000 in funding to install two pop-up parks - one at Hargrave Street and Portage Avenue, the other at Kennedy Street and Graham Avenue. The parks will include table tennis, chess, checkers, pianos and outdoor furniture. It is expected that the initiative will drive more foot traffic for local businesses.

The back alley behind Mountain Equipment Co-op (303 Portage Ave.) will also be transformed and strung with lights designed by Stantec Consulting. The lights changing colour based on time of day and the space taking on different uses.

3. PHASE 1 OF TRUE NORTH SQUARE ALMOST COMPLETE

True North Square is a \$400M, four tower, mixed use development that includes a five-star hotel, office, retail and residential spaces.

Adjacent to RBC Convention Centre and the MTS in downtown Winnipeg, True North Square is a key element of downtown Winnipeg's 11-block Sports, Hospitality and Entertainment District (SHED).

Phase One includes the Carlton Street and Hargrave Street towers and the public plaza - a two acre space between towers.

242 Hargrave is the 17 storey, 365,000 SF, Class A, LEED® GOLD office development that slated for occupancy this summer.

Confirmed anchor tenants include Scotiabank and law firm Thompson Dorfman Sweatman LLP. MNP LLP is the third confirmed tenant that will be relocating to True North Square. The company is vacating its current office at 201 Portage Ave to occupy 53,500 SF.

225 Carlton is a 25 storey mixed use building with two levels of retail space, four levels of office space and 19 levels of residential rental space. The residential component will contain 194 junior one-bedroom, one-bedroom, two-bedroom, and two-bedroom-plus-den units. It will be ready for tenants in Spring 2019.

Phase Two of the project is The Sutton Place Hotel and its residential tower at the northwest corner of Carlton Street and St. Mary Avenue. Construction on Phase two will begin in summer 2018 and should be completed in 2021.

The Sutton property, owned by Northland Properties Corporation of Vancouver, will consist of 430,000 SF of hospitality, residential, and retail space. It will consist of the 27 storey, 288 room Sutton Place Hotel and its accompanying 17 storey, 130 unit residential building.

4. THE EXCHANGE DISTRICT - AN ARTS DESTINATION

The ongoing renewal and resurgence of the Exchange District on the north side of the downtown has become a magnet for the arts and for creative service companies.

The Exchange District, a National Historic Site, expands over 20 blocks and features North America's largest and best preserved collection of heritage buildings.

In the heart of the Exchange is Old Market Square, an urban green space that hosts summer festivals including the TD Jazz Festival and the Fringe Theatre Festival.

The Exchange District contains concert halls, theatres, The Manitoba Museum and the Artspace building and Cinematheque.

Since the creation of Waterfront Drive in 2004, significant investment has been made into the East Exchange / Waterfront Drive neighbourhood including:

- 12 vacant heritage buildings redeveloped
- 18 residential/mixed-use developments
- 438 new residential units on Waterfront Drive
- 371 new units in the surrounding neighbourhood
- 12 new restaurants
- a boutique hotel
- 80,000 SF sports facility
- over \$170M has been invested residential/mixed use development
- over \$82M invested into commercial development
- \$14M invested into enhanced neighbourhood lighting, streetscape, and infrastructure

Once all of the current residential projects are complete, there were will a total of 947 units and population increase to 1,600.

The Exchange District is currently comprised of approximately 640 businesses, 205 not-for-profit organizations.

CentreVenture Development Corporations unveiled plans this spring that will further invigorate the area. The plan includes a new public market building, better connections to other areas of the city and a new pedestrian access way. The corporation was tasked in January 2017 of coming up with a development plan for the former Public Safety Building and Civic Parkade.

CentreVenture issued an RFP for the purchase and development of a 32,550 SF Waterfront Drive property in the east Exchange District of downtown Winnipeg at the end of March 2018.

Red River College's plans to expand its Exchange Design campus with a 100,000 SF, \$95.4M Innovation Centre, has been put on hold as they work out a deadline disagreement with the Feds. The federal contribution of \$40.6M was contingent on completing the project by November 30.

104 and 108 Princess Street have recently sold for approximately \$1.9M. The sale included the two brick and beam buildings heritage properties and a parking lot behind the buildings. 104 Princess is a 15,000 SF, 6 storey building originally constructed for Manulife in 1885. 108 Princess Street is three storeys and 9,000 SF built in the 1950s.

5. INDUSTRIAL SPACE IN SHORT SUPPLY

Demand for quality product has pushed industrial vacancy down to one of the lowest levels in the country.

The industrial market has been performing very well with substantial sales and leasing transactions in the past twelve months. Inventory remains limited with the vacancy rate of 3.3% dropping to its lowest point in the past five years.

Artis REIT and Quadreal, two of Winnipeg's largest landlords have less than 2.0% vacancy in their industrial portfolios.

A tight market has spurred the development of a trio of multi-tenant Quadreal buildings in the Inkster Industrial Park. The development, which includes two 50,000 SF buildings and one 100,000 SF building, is anticipated to be complete this fall.

Prices for industrial space has been steadily increasing. According in Q1 2018, the average sale price for industrial space is \$103 PSF and the average net rental rate is \$7.84 PSF.

One of the largest transactions was the recent lease of 128,000 SF by Canada Goose 1450 Mountain Avenue.

Rapid growth of e-commerce has sparked huge expansion in the logistics and distribution sector creating strong demand for industrial space in Winnipeg.

With the cheapest electricity rate in North America (5 cents per kWh compared with 14.55 cents in Toronto) Winnipeg is attracting bitcoin mining companies. Bitcoin mining requires industrial space where computers run 24/7. Miners use computers to solve complex computer algorithms in order to verify transactions and they get paid in cryptocurrencies for doing this. This forms the basis of blockchain technology.

According to industry experts there are approximately 20 mining companies in the city already.

CentrePort Canada, which manages 20,000 acres of industrial land in Winnipeg, indicates that there has been interest from Chinese and South America to set up mining operations.

The continued growth of e-commerce and bitcoin mining will ensure a continued demand for industry space in Winnipeg.

6. MULTI FAMILY VACANCY RATES REMAIN LOW

For the last two years vacancy of multi family units remain unchanged at 2.8% - below the national average of 3.0%.

According to the CMHC, the 1,846 new units that were added to the rental stock in 2017 were absorbed. Absorption was aided by favourable employment conditions and immigration. The neighbourhood that experienced the largest growth of rental supply was Fort Garry at 8.8%.

Average monthly rent for a two bedroom unit grew from \$1,068 in October 2016 to \$1,107 in October 2017. Rents grew more in the downtown area at 4.9% compared to the suburban areas at 3.7%, CMHC reports.

Approximately 21.7% of all condominiums in Winnipeg are rentals. This is compared with 60.0% in Vancouver. The average price of a two bedroom condo unit rented for \$1,379 per month - \$272 more than a purpose built two bedroom unit, according to CMHC.

A spate of new apartment development will likely ease the tight rental market:

- 300 Main is scheduled for tenancy in 2019. At 40 storeys, it will be the tallest building in the city and will include approximately 380 units.
- One Eight Roslyn is scheduled to be finished this summer. The apartment, located in the Osborne Village will contain 77 one and two bedroom units.
- The construction of the Residences at the Sutton in the True North Square will add 130 new rental units when the project is complete in 2021.
- A proposed development of 410 units on South Pembina Highway, if approved would ease the shortage of student housing. The development would include two towers, 13 and 15 storeys and 15,000 SF of retail space.

7. RETAIL SECTOR BUOYED BY HEALTHY ECONOMY

Notwithstanding several national retailer closures, optimism is high with the opening of the Outlet Collection Winnipeg mall and several other smaller developments on the horizon.

Last year's addition to the retail landscape in Winnipeg included the Outlet Collection. A collection of 100 stores, Ivanhoé Cambridge's development has attracted shoppers from Thunder Bay and Saskatchewan. The development resulted in the creation of 1,300 full-time and part-time retail jobs, plus 400 construction-related jobs.

The mall is part of a larger development known as "Seasons". Once complete, the 117-acre site will have numerous restaurants, two auto dealerships, a hotel, grocery store, drug store, gas station, bank, rental apartments, a senior living facility and condominiums.

In April Lowe's Canada recently opened its first Manitoba location. The 95,000 SF store is located on the southeast corner of Kenaston and McGillivray boulevards. An adjacent 20,000 SF garden centre opens this spring.

The Norman Hugh Croup and KAI Asset Management acquired an Osborne Village strip mall for \$4.25M and are investing approximately \$1M to upgrade it. The plaza has 16,000 SF of GLA and 50 surface parking spots.

Cineplex is opening its sixth location of "The Rec Room" at the Seasons of Tuxedo retail complex. The Rec Room will be a 40,000 SF space that will contain arcade games, restaurants and live entertainment.

Hopewell is leasing up their 400,000 SF Bishop Grandin Crossing and their 118,000 SF Bridgwater Town Centre is approximately 90.0% leased.

The former Target location has been subdivided for three tenants and has been rebranded the "Plaza at Polo Park". TJX has leased part of the space for Winners and HomeSense. A Manitoba call services provider 24-7 has leased another part of it.

Retail vacancy rate is approximately 6.0% with cap rates in the same range of 6.0% to 6.5%.

It is expected that retail vacancy will be nudged higher with the closing of Sear Canada's 11 stores. This will effect its locations at Polo Park, St. Vital Centre and Kildonan Place. The Sears outlet in the Garden City mall closed on October 1.

While recent stats show that online shopping only accounts for 5.0% of all shopping that is done in Canada, this number is increasing. According to the PWC's 2018 Emerging Trends in Canada, retail owners and investors agree that traditional retail needs to be rethought. "Retail centres must be transformed into destinations people want to visit for more than shopping, and that means incorporating public spaces, a wider range of services, cultural programming, events and more".

It is anticipated that with the legalizing of marijuana, a new demand for retail space will be created. As an example, the old TD Bank branch on Osborne Street will see a cannabis dispensary going into the space this summer.

8. SERVICED INDUSTRIAL LAND IN SHORT SUPPLY

A shortage of industrial land is keeping industrial vacancies low as new construction is constrained.

An ongoing issue, industry experts say that this shortage is preventing companies from expanding or locating in Winnipeg and are going to one of the 10+ Rural Municipalities that surround the city instead.

Industrial parks have sprung up just outside city limits in the RMs of Headingley, Rosser and Springfield including a new 100 acre industrial park in the RM of Macdonald in SW Winnipeg.

In the RM of Rosser, CentrePort has released Phase III of Brookside Industrial Park. Serviced industrial lots are available for sale priced from \$350,000 to \$375,000 per acre.

The Bishop Grandin Crossing project will add 44 acres of industrial space to the market, which will help ease the industrial supply crunch.

The city is looking for a private partner to purchase or develop 168 acres of unserviced industrial land near the Winnipeg Aqueduct, south of the St. Boniface Industrial Park and Water Business Park.

9. WINNIPEG A HUB FOR RESEARCH AND TRANSPORTATION INITIATIVES

Investment in the research and transportation will help ensure continued economic growth.

Winnipeg's airport has flourished with an annual economic impact of \$3.37B. When the new terminal opened in 2011, it was forecast that passenger traffic would hit 4M by 2019. That metric was actually met in 2016. The overall impact of the airport is rising faster than GDP growth.

The extension of Chief Peguis Trail is finally moving ahead, creating an important east-west link with access to key industrial parks and completing the Strategic Inner Ring Road.

The Southwest Transitway is a high-speed roadway for buses, physically separated from the regular street system. Stage 1 of the Southwest Transitway currently runs from Queen Elizabeth Way & Stradbrook to Pembina & Jubilee. Once Stage 2 is completed and opened for service in 2020, the Southwest Transitway will operate from Downtown to the neighbourhoods of Southwest Winnipeg, including the University of Manitoba. It is estimated that the second stage will cost \$467M. Once complete, it will have major implications for economic development and downtown revitalization.

Winnipeg is home to CentrePort Canada. The only inland port in the country to provide foreign trade zone advantages-and North America's largest this 20,000 acre initiative expedites the movement of goods economically and efficiently to North American, Asian and European markets.

The University of Manitoba's Smartpark Innovation Hub and Stanley Pauley Engineering Building will add to the university's current \$1B economic impact and continue to attract talent in the engineering and new tech areas.

Canadian Mennonite University has unveiled the completion of a \$1.7M Centre for Resilience in April. Funded by the Feds and the Province, the Centre will support the university's research and provide incubator facilities to bridge research with community-based industry partners and social enterprises committed to moving to a green economy.

World-renown in their field, Winnipeg-Based innovation centres are attracting attention:

- The Composites Innovation Centre is a P3. Its mandate is to support and stimulate economic growth through innovative research, development and application of composite materials and technologies for manufacturing industries.
- The Richardson Centre for Functional Foods and Nutraceuticals is a leading research institute whose mission is to develop alternative and practical uses for crops grown on the Canadian Prairies.
- The Cisco Innovation Centre (CIC) is housed at the University of Winnipeg. The CIC's mandate is to explore the collaborative potential of high-speed fibre optic networks.

10. INVESTMENT ACTIVITY FLAT AS OWNERS HANG ON TO KEY ASSETS

Private owners are very prominent in the city along with institutional investors and REITs. There is no strong appetite on the part of any of these to dispose of their assets. Winnipeg represents a very stable and therefore desirable market to many investors.

According to a report by Re/Max Commercial, there has been an increase in unsolicited offers as investors try to penetrate this market.

Commercial real estate investment was down in 2017 by 12.0% from 2016. Investment activity is anticipated to pick up as the number of listings has increased.

"the saturation of high quality stock coming onto the market in 2018 is likely to affect the value of lower quality buildings requiring renovations".

The largest transaction of the year was the sale of Allied Properties REIT's Winnipeg portfolio to an out-of-province investor. The portfolio consisted of five properties with a total rentable area of 343,083 SF, which included four Exchange District heritage office buildings, and a multi-tenant industrial property located at 1500 Notre Dame Avenue.

It has also been reported that QuadReal intends to sell seven of their industrial assets, which they have considered "non-core".



Altus Group

Bringing transparency and insight
into every aspect of the real estate
lifecycle so you can make better,
informed decisions.

Altus Group is a leading provider of commercial real estate advisory services, software and data solutions.

altusgroup.com