

# Winnipeg Free Press

## Bearish, bullish on building

Mon May 31 2010  
Page: B6  
Section: Columns  
Byline: Murray McNeill / Commercial Real Estate

For the first time since 2002, one of the city's most active industrial developers is not putting up any new buildings this year because of the soft demand for new space.

Terracon Development Ltd. had hoped to build two 45,000-square-foot warehouse/office complexes in the city this year -- one in its Tuxedo Business Park in southwest Winnipeg and the other in its Waters Business Park in east St. Boniface.

But development manager Michael Falk said Terracon needs at least 30 per cent off the space pre-leased before it will proceed with a project, and the demand just isn't there. And because it likes to break ground by June, both projects have been put on hold until next year.

"This year is a cleanup, mop-up year," he said.

But at least one other developer -- A & S Homes -- is betting the demand for new space will pick up as the year progresses and the economic recovery strengthens. So it's forging ahead with construction of a 45,000-square-foot warehouse/office complex in southwest Winnipeg, even though it has no tenants signed up.

DTZ Barnicke Winnipeg is handling the leasing for that project, and president Martin McGarry said they recently broke ground on Phase 2 of A & S Homes' Sterling Lyon Business Park on Lorimer Boulevard. McGarry said he's confident they'll have some tenants signed by the time the complex is ready for occupancy in the fall.

"I agree there was a lack of demand in 2009, but it's coming back. The third and fourth quarters of this year, I think, are going to be very good. And that will carry over into 2011."

He said industrial vacancy rates are also at some of the lowest levels he's seen in two decades. One local agent who publishes a twice-yearly report on commercial vacancy and rental rates -- Wayne Johnson of Royal LePage Dynamic Real Estate -- pegs the vacancy rate in investment properties (ones leased out to other parties) at about 6.4 per cent.

That's another reason McGarry is confident they'll also find tenants this year for a 35,829-square-foot office/warehouse facility Crystal Developers completed earlier this year at 71-77 Bannister Rd. While no one has signed yet, a number of local firms have expressed interest in the space, he said.

"It usually takes 12 to 18 months to fill a building (in Winnipeg). So nobody is concerned about it yet --

myself or the developer."

Another local developer that isn't ready to give up on 2010 is Bentall Real Estate Services.

"We don't have anything planned as yet, but we are looking at doing a new development (this year)," said Darcy Payne, general manager of Bentall's Winnipeg office. "We're actively running the numbers... and if the numbers work and we have the right building for the right site, we'll proceed."

Payne said Bentall is willing to wait as late as fall to begin construction. So it's still got some time before it has to decide.

Falk said demand for new industrial space in Winnipeg hasn't been this soft since 2002, when the terrorist attacks of Sept. 11, 2001, were still casting a pall over the North American economy.

This time around it's last year's global economic recession, he said, that caused many national and international firms to put the brakes on new spending. While some may be ready to start spending again, he predicted they'll address the needs of their branch offices in Ontario and Alberta first before worrying about secondary markets like Winnipeg.

But he's hopeful by later this year the demand for new space will have picked up here as well and Terracon can proceed with its two projects in 2011.

Industry officials said even though demand for new space is softer this year, there's still a brisk demand for space in existing buildings, particularly ones that are less than 10 years old and offer many of the same amenities as a new building -- things like high ceilings, ample parking and modern loading docks.

Johnson said net rents in those buildings can be roughly \$2 to \$4 cheaper than in a brand-new building (\$7 to \$8 per square foot vs. \$9 to \$11), which appeals to some prospective tenants.

He said industrial rental rates and vacancy rates held pretty firm during the recession.

He said his mid-year report will be out in about two weeks and will provide a more detailed look at what's happened in the market since the start of the year.

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 697-7254.

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### Tracking the numbers over a decade

Here is a look at the overall vacancy rate and average net rental rate for industrial investment properties -- buildings owned by investors and leased to others -- over the last decade:

Year Vacancy rate (%) Average net rent (per square foot)

2007.3 \$5.06

2007.5 \$4.97

2007.5 \$5.00

20039.5 \$4.23

20049.6 \$4.25

20059.1 \$4.46

200610.2 \$4.79

20076.9 \$4.68

20087.2 \$5.19

20095.9 \$5.42

-- Source: The Johnson Report

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# Canada News-wire

## Pure Industrial Real Estate Trust Closes \$9.6 Million Previously-Announced Sale-Leaseback Transaction

Mon May 31 2010, 9:49am ET  
Dateline: VANCOUVER, May 31

VANCOUVER, May 31 /CNW/ - Pure Industrial Real Estate Trust ("PIRET" or the "REIT") (TSXV: AAR.UN) today announced the successful closing of a single tenant, income producing industrial property that was previously announced on April 29th, 2010 for a total purchase price of \$9,582,125.

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The tenant, Candym Enterprises ("Candym"), has entered into a 10 year net care-free lease with PIRET. Candym is a privately held importer and distributor of giftware to Canadian retailers and has been in operation since 1974.

The property is a modern 110,017 square foot facility located in Markham, Ontario. The facility has 24 foot ceilings, precast exterior and is situated on 5.18 acres.

PIRET funded the acquisitions with equity from the bought deal financing which closed on May 18, 2010 and a new first mortgage in the amount of \$6,200,000 bearing interest at a rate of 5.51%, and maturing in 2020. The asset is being acquired at a favorable going-in cap rate of 7.75%.

After completing this acquisition, PIRET will have completed \$79 million in acquisitions since January 2010.

PIRET's units are listed on the TSX Venture Exchange under the symbol AAR.UN. For more information on PIRET, visit our website at [www.piret.ca](http://www.piret.ca).

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About Pure Industrial Real Estate Trust (PIRET)

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PIRET is an unincorporated, open-ended investment trust established for the purposes of acquiring, owning and operating a diversified portfolio of income-producing industrial properties in primary markets across Canada. PIRET focuses exclusively on investing in industrial properties and is the only publicly traded vehicle in Canada that offers investors exclusive exposure to Canada's Industrial asset class.

Additional information about PIRET is available at [www.piret.ca](http://www.piret.ca) or [www.sedar.com](http://www.sedar.com).

THE TSX VENTURE EXCHANGE HAS NOT REVIEWED AND DOES NOT ACCEPT RESPONSIBILITY FOR THE ADEQUACY OR THE ACCURACY OF THIS RELEASE.

# The Globe And Mail

## U.S. JOB GROWTH FAILS TO MAKE DENT IN UNEMPLOYMENT RATE; Expected upswing in May hirings no cause to celebrate as bulk of jobs awarded to temporary census workers

Mon May 31 2010  
Page: B2  
Section: Report On Business: International  
Byline: Barrie Mckenna

During the darkest days of the recession, the U.S. economy was losing more than 700,000 jobs a month. When the dust settled, 8.2 million jobs were gone.

Gains so far this year have barely made a dent in this massive pool of jobless workers.

But if forecasters are right, May will mark the first major step toward putting the jobless back to work. The consensus among economists surveyed by Bloomberg News is that the economy created a half-million jobs in the month. Some say the total may reach as high as 700,000 when the U.S. Labour Department releases its monthly employment survey Friday.

That compares with gains of 290,000 in April and 230,000 in March.

But don't celebrate just yet. As many as 500,000 of the potential 700,000 new hires are temporary federal workers, who have fanned out across the country interviewing Americans for the 2010 census.

By mid-summer, they'll all be unemployed again. So while the census will add jobs in May, it will subtract them in June and July.

The larger problem for the United States is that while the economy is recovering, it's not growing fast enough to bring employment significantly down.

Unemployment stands at 9.9 per cent. And it could stay near that level for a while.

Gross domestic product - the broadest measure of economic activity - grew at an annual rate of 3 per cent in the first quarter. That's roughly what's needed just to keep up with population growth, but not enough to bring unemployment down.

It would take annual growth of 5 per cent to knock a percentage-point off the unemployment rate.

Unfortunately, few economists expect the economy to grow that fast. The U.S. Federal Reserve Board, for example, is forecasting growth of 2.8 to 3.5 per cent this year, 3.4 to 4.5 per cent in 2011 and no better than 4.5 per cent in 2012.

The bottom line is that until the pool of jobless workers shrinks significantly it's tough to envision a scenario where the United States booms again.

It could be a while before Americans return to their old ways of shopping, car buying and house hunting.

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# The Globe And Mail

## Carney to take centre stage with interest rate decision

Mon May 31 2010  
Page: B1  
Section: Report On Business: Canadian  
Byline: Kevin Carmichael  
Dateline: OTTAWA

OTTAWA -- Mark Carney forged a name for himself in the midst of a global crisis. Now, he faces another difficult series of challenges in charting a new course for Canada and fending off inflation without derailing the economy.

For market watchers, the question is how he plans to do it.

In 27 months on the job, this Governor of the Bank of Canada has never raised rates. On Tuesday, he may have to.

For most of his tenure, it is no exaggeration to say that Mr. Carney has been in crisis mode. In May of 2009, he dropped the Bank of Canada's benchmark interest rate to 0.25 per cent - the lowest it can go without upsetting short-term money markets - and made a conditional pledge to leave the overnight target there for at least a year.

So how he will approach the more mundane job of managing inflation remains an open question. With indicators showing that Canada's economy is moving beyond recovery and into a period of expansion, that's about to change, perhaps this week when the central bank announces the results of its latest interest rate decision.

"What we are going to find out in this meeting is how Mark Carney plans to conduct monetary policy," said George Vasic, a strategist at UBS Securities Canada Inc. in Toronto.

Now that Canada's central bank is "coming out the other side" of its long battle with recession, investors are keen to know "what are the actual actions [Mr. Carney] is going to take and how he plans to communicate those actions, if he plans to communicate them at all," Mr. Vasic said.

According to a survey of 27 economists by Bloomberg News, 25 predict a quarter-point increase and two forecast no change. The people with actual money at stake are less certain.

Last Friday, the rates investors were paying on one-month interest rate swaps suggested a 75-per-cent chance that the Bank of Canada will increase the overnight target to 0.5 per cent.

Those predictions aren't as solid as they seem. About a week ago, markets had priced in only a 50 per cent chance of an interest rate increase. Surveys of economists have been all over the map, from near universal certainty that rates were going up in June after the central bank ended its conditional commitment on April 20 to more equivocal stances

as Europe's debt crisis caused global stock markets to plunge and the euro to sink some 7 per cent in May alone.

"Markets are expressing uncertainty about the Bank of Canada's decision Tuesday," Andrew Tilton, an economist at Goldman Sachs in New York, wrote in a note to clients Friday. "What had looked to be a clear case for a rate hike ... has been thrown into doubt given the volatility in markets and uncertainties about the impact of the debt crisis in the European periphery on growth."

There's reason to think Mr. Carney wants to keep economists and investors on their toes. In an August, 2009, speech at a conference hosted by the Kansas City Fed in Jackson Hole, Wyo., Mr. Carney argued that group-think contributed to the financial crisis as too many people believed they knew where interest rates were headed. This led to mass complacency that kept investors from properly interpreting data suggesting trouble was brewing.

"They have to leave the door open for different options," said Stéfane Marion, chief economist at National Bank Financial in Montreal. "Once you start on the path of normalization, how will the Bank of Canada give guidance? That's more important than the actual rate hike."

Both Mr. Marion and Mr. Tilton predict the Bank of Canada will raise borrowing costs Tuesday, citing an economy that is growing at an annual pace of about 6 per cent and inflation that is hotter than the central bank had factored into its latest assumptions.

The argument for standing pat is on display on the other side of the Atlantic Ocean. After Tuesday, the bank's next interest rate announcement is scheduled for July 20. Waiting until then would allow Mr. Carney to gauge whether European policy makers have contained their debt crisis.

It would also allow the Bank of Canada to show solidarity with the European Central Bank and the continent's finance ministers, who are trying to maintain confidence in the \$1-trillion (U.S.) financial backstop they erected last month to ease pressure on European interest rates. A decision by a fellow G20 member to go its own way could send an unintended signal to skittish investors, said Mr. Vasic, who predicts the central bank will leave the rate unchanged.

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