

# Winnipeg Free Press

## Office rental rates take dive Discounts offered to sublet spaces

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The recession is starting to wreak havoc with office rental rates in Winnipeg, according to one office-leasing specialist.

Joe Banfield of Banfield Office Properties Group said the recession is forcing some companies to downsize their operations and find someone else to rent their unwanted space.

To attract prospective subtenants, some of them are offering rent discounts of up to 60 per cent, Banfield said, which in turn is putting downward pressure on regular rental rates (referred to in the industry as head-lease rates).

While that's great for tenants, it's bad news for landlords.

Banfield cited the case of one corporate client who has been trying for eight months to sublet 7,651 square feet of space in the Canwest Global Place tower at Portage Avenue and Main Street.

The client had been renting space on two different floors in the building, and last year had a chance to consolidate everything on one floor when additional space became available there. So it took that space and has been trying to find someone to sublease the space on the other floor.

Banfield said the regular net rental rate for that space is \$16.50 per square foot. His client started out asking for \$13.50, and has since dropped that to

\$8.50. And that's not the only case like that. He said he knows of sublet space in other downtown office buildings that's being offered at anywhere from 42 to 61 per cent below the head-lease rate for those buildings.

He said these recession-fuelled bargains began to surface about three months ago, and he predicted they'll become more commonplace if the North American recession continues to worsen.

"I think we're still just at the beginning or middle of it... It'll get worse before it gets better."

The president of a Toronto-based commercial real estate consulting firm also said these bargains aren't unique to the Winnipeg market.

"It's a North America-wide phenomenon," Stan Krawitz, president of Real Facilities Inc., said in an interview.

Krawitz said under normal market conditions, sublet rates in most major Canadian cities are 15 to 25 per cent lower than head-lease rates. But because of the severity of the current recession, that gap has suddenly soared to 40 or 45 per cent in markets like Toronto, Calgary, New York City and Miami. While there may have been times during the recession of the early 1990s when the gap between rates was that wide, Krawitz said they were isolated cases.

"What we're talking about now is a market-wide phenomenon, not a few single, one-off cases," he said, adding reason these sub-landlords are offering such deep discounts is because they're not trying to make a profit.

"They're just trying to stop the bleeding and the losses, so whatever they can get, they'll take."

He said most landlords haven't had to cut their head-lease rates just yet because they're coming off five years of bull-market conditions, where the demand for space was strong and occupancy rates were high.

But as more and more discounted sublet space comes onto the market and as existing leases come up for renewal, these landlords are going to have to consider rate cuts if they want to hang onto their tenants, he said.

However, Banfield and another local office leasing specialist -- Bob Borys of Colliers Pratt McGarry -- said some landlords may opt to offer other types of tenant inducements, rather than reduce their rental rates.

Those inducements could include things like several months of free rent, or offering to pay for any renovations or upgrades a tenant may require.

"The one thing about office leasing is that no two deals are the same," Borys said. "They each have their own little twists and turns."

But while discounted rental rates and richer tenant inducements could become more commonplace in the months ahead, Borys said he's not seeing a lot of that just yet.

"We're not having fire sales on any of the product I'm working on right now. They (the landlords he represents) are not desperate. They still want quality tenants."

As to how soon that might change, Borys said that's anyone's guess. "It really is the fuzzy crystal ball," he said. "It's one of those things where everybody is waiting (to see what happens). Is there going to be another shoe drop? Nobody knows."