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## **Highs are not as high, and lows are not as low, but we are not immune to dramatic changes**

January 26, 2012 - Spotlights

When discussing market trends, forecasts, or just general conditions of the state, you will at some point hear a variation of the following: While Vermont doesn't see the big booms other more populated (and volatile) markets do, it is also relatively insulated from the deep troughs they are inherently susceptible to. Simply put, while the highs aren't as high, the lows aren't as low, and while that is true in many regards, Vermont is not immune to dramatic levels of both, and recent market conditions have reflected just that.

So what have we seen? Like many areas, recent years have brought significant 'doom and gloom' forecasts, with developers and investors largely sidelined due to significant market uncertainty at best. With that said, Chittenden County is projecting growth in many markets in 2012. An example of this is an industrial market, one that showed negative growth in 2011 but is projecting 4.3% increase in inventory over the course 2012. Additionally, we are seeing rents stabilize in both the retail and office markets, with Class A office space and retail rates in and around Burlington's Central Business District stabilizing as vacancy drops. New national retailers and restaurants are again successfully entering the Vermont market, with astounding response from locals known to be conservative in their approach to choosing national chains over local retailers, and hesitant to approve new development without considerable thought and public forum (See: South Burlington Interim Zoning proposal measures). Overall, CAP rates have stabilized; markets are strong in each sector, a once saturated inventory of primarily office space is being absorbed, and as a state, displaying positive trends heading into 2012.

**RETAIL:** Rents stabilizing with growth just below the historical average, retail is making a comeback. Vacancy was below the 10-year average at the end of 2011, with a similar 5.6% vacancy forecast for 2012. Rates are stable as well, even increasing in certain sectors. Chittenden County suburban markets, which have been slightly weakening, are expected to stabilize as well.

**OFFICE:** Class A vacancy is way down with rates stabilizing in the Chittenden County market, although Class B vacancy still high (80% of the overall 9.3% vacancy in the Class B market). This trend is reflected in the rental rates, with Class A strengthening, and Class B beginning to stabilize after sustained vacancy drove rates down. Chittenden County is also projected to add nearly 300,000 s/f of new office inventory this year, the most since 2008 and the second highest it will have seen since 2000.

**INDUSTRIAL:** As mentioned, growth indicators are strong in this market in the Chittenden County sector. Overall vacancy at the end of 2011 topped out at just over 8%, a number influenced by a

small number of individual properties experiencing turnover that have had a significant impact on the overall figure. This uptick in the industrial market suggests a positive growth projection for 2012, with new inventory set for completion this year at a rate of almost double the historical average of 2.3% annually.

**MULTI-FAMILY:** This market has predictably seen sustained growth and miniscule vacancy numbers in Chittenden County due in large part to battered (yet comparably strong) housing market, as well as demographic trends such as the large student population. Another important trend we are seeing is an increase in an already high demand from investors in a market low on supply, with many owners holding onto these strong performing assets.

**RATES OF RETURN:** Industrial, retail, and office are all currently stable, with industrial CAP rates averaging 8.7% and retail and office at 8.2%. Multi family properties on the other hand averaged 6.7% in 2011 with rates stabilized. This is just above the 2006 low of 6.3% and down from 7.2% in 2007.

Credit: Data provided by December 2011 Allen & Brooks Report

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