



CELEBRATING
55 YEARS

nerej

Vermont's commercial real estate market feels like the rebound is in full effect

July 26, 2012 - Spotlights

Since the downturn in 2008 the commercial real estate market in Vermont has plodded through fewer deals annually while vacancy rates have slowly crept up. Many new projects were put on hold as developers focused on stabilizing existing assets. During the last 12 months, and especially the last six, these trends have begun to change. Developers are planning to put shovels into the ground, vacant space has been absorbed by more normal deal flow levels and we in the marketplace are feeling like the rebound is in full effect.

Retail

The slowdown in retail spending experienced from 2009-2011 resulted in a slowdown in development of retail space. Historically, developers have added an average of 110,000 s/f annually to the Chittenden County market. During the last few years that average has been closer to 42,000 s/f. This lack of new product helped keep some stabilizing pressure on rents. During the last few years we did see rents soften a bit, but not like most markets nationwide experienced. Recently, with increased retail activity, rents have stabilized and are strengthening. Vacancy during the first few years of the downturn hovered around 7% (suburban and CBD). During the last 12 months vacancy has dropped to 4.4%, well below the historical average of 6.9% and the lowest since data was kept in 1993. We expect, with the addition of 225,000 s/f of space during 2012 and 2013 that we'll see a slight uptick in vacancy, but nothing that should affect rental rates.

Office

Unlike the retail market that didn't experience significantly high vacancy rates over the last few years, the office market did see the highest vacancy rates in its history during 2009-2010. The suburban market reached a high of 14.7% in June 2009 while the CBD reached 11% shortly thereafter. The past two years, however, the vacancy rates in the suburbs have dropped to 8% and in the CBD to 9.8%. This blended rate of 8.4% is slightly higher than the historical average of 7.4% but the trend is positive due in large part to the State of Vermont leasing space in Chittenden County after its Waterbury campus was destroyed during Tropical Storm Irene and the resulting floods. However, the state is currently assessing long-term plans for those displaced workers and permanent solutions will be two to three years out. Development of new space is projected in 2013 to be only 33,000 s/f, or a very modest 0.4%. This lack of new inventory should help stabilize rents which have been weakening over the past few years, though should the economy continue to strengthen we could see some planned construction accelerated.

Industrial

The industrial market is experiencing some significant growth this year. In a typical year the Chittenden County market adds 240,000 s/f of space to the inventory. In 2012, 430,000 s/f of space is being added to the market, of which 87% is investor owned. This equates to a 3.8% growth rate

which is the highest in 13 years. This large increase is related primarily to two deals, one with Green Mountain Coffee Roasters and one with Gardener's Supply Company. GMCR's is adding 235,000 s/f to their warehouse building in Essex. This addition is combining two adjoining buildings, one which was occupied by GMCR and the other by Gardener's Supply. GMCR will be occupying the entire building while Gardener's Supply will be moving to a new 140,000 s/f building being developed for them in Milton. The pace of growth is expected to slow in 2013 to 152,000 SF with 69% of that being owner occupied. The vacancy rate is currently 6.5% down from a high of 10.6% in June 2010 and below the historical average of 7.7%. This decline in vacancy is a result of increased rental activity during the past few years that saw virtually no new product (on an annual basis) brought to the market. Rental rates weakened since 2008 but have slowly started to stabilize with some improvement expected during the next 12 months.

All in all, the commercial market in Chittenden County is showing good signs of a recovery. The years 2008-2010 were very difficult in the market but we persevered. And like our strong and resilient communities recovering from the deadly and damaging effects of Tropical Storm Irene, it will take more than a recession to keep us down.

Market data was provided by Allen & Brooks Report, June 2012. Allen and Brooks is a leading real estate advisory firm located in South Burlington, VT.

Duncan Harris is a broker with Redstone in Burlington, VT.

New England Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540