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2012 closed with improvements in occupancy and rental rates in retail, industrial and class A office

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Heading into 2013, overall market strength in the past year in conjunction with positive economic indicators project continued growth into the next calendar year. 2012 closed with improvements in both occupancy and rental rates throughout the retail, industrial, and Class A office markets, with Vermont posting the only increase in median household income in the entire U.S., a 4% increase in 2010 and first increase in any state since 2009. This translated into increased consumer confidence, job growth of 1.4% in 2012, the retention and expansion of existing companies over a variety of industries, and the planned development of both owner occupied and speculative development heading into the new year and beyond. Chittenden County, which acts as the epicenter of economic activity in Vermont as well as a the indicator for the great activity and trends throughout the state, predicts a swell in population for the 24-34 age demographic of 9% in the next 5 years, a key factor in the contribution of Vermont's increased economic growth and productivity moving forward.

RETAIL

We saw and expect continued stability throughout most suburban retail markets, with Burlington's Central Business District expected to strengthen as we move into 2013. Since 2008, there has been very little new inventory introduced into the Chittenden County market, with only an average of 44,000 s/f per year of new construction in the years 2009-2012. Estimates put new development at 161,000 s/f (2.3%) for 2013. The historical average over the last 19 years is 107,000 s/f, so retail development is showing signs of strength and confidence with consumer spending up. There is currently a 18,600 s/f multi-tenant development in Williston currently underway with tenants such as Panera Bread and Verizon, along with a Trader Joe's store in South Burlington, both representing the larger public projects coming online. Target is also in the permitting process of purchasing a 26-acre parcel in Williston, though this is likely to take some time before anything comes to fruition. The retail market has and looks to continue to gain strength moving forward into 2013 after a slow period beginning 2008 with nominal growth and high vacancy during that time.

OFFICE

Weakness in Class B resulting from an oversupply and shortage of demand is projected to continue into the early parts of 2013. While this results in the weakening rental rates of Class B office space in Chittenden County, Class A will continue the show increasing demand, stable rental rates, and projected increase to inventory over the next 12 months. Vacancy rates at year end hovered around 8.3%, nearly a full point above the historical average. When you look at the two sub-markets however, you see 2012 ending with a 5.5% vacancy in the Class A, with Class B down to 10.8% (form 11.1%) in December. This is projected to hold, potentially increasing slightly, due in large part to an existing oversupply of primarily Class B space in conjunction with a planned new

developments, both owner occupied and speculative Class A projects coming online in the next 12 months, representing a projected growth of 2.1% in 2013 is scheduled, almost exactly the historical average over the last 15 years.

INDUSTRIAL

Industrial rates are stable with industrial supply categorized as Average and Above Average, with the expectation of improvement in 2013. Chittenden County vacancy rates were at 5.5% as 2012 came to a close, but expect to fall off as some of the large inventory responsible for the inflated vacancy gets absorbed. This market was stunted significantly by the economic downturn of 2008, where we saw negative growth in the industrial sector, whereas 2012 showing the first significant level of industrial development, with almost 400,000 s/f of new inventory coming into the market (3.3% growth, highest in 13 years). Green Mountain Coffee Roasters was responsible for much of this growth with their new facility in Essex, and occupation of over 100,000 s/f of additional space. Looking into 2013, moderate growth of new development is expected, with 212,000 s/f of new inventory coming to the market, although this is a conservative estimate, with the expectation of much more new development to supplement the current low supply and continued increase in demand.

In summation, Vermont's insular nature continues to allow and promote growth across many, if not all, sub-markets with trends of lower vacancy, higher rental rates, and new development taking us into 2013. Carrying the momentum created by our increase in median income at a time of national economic recovery has contributed to a swell in consumer and investor confidence, strengthening the industrial and retail markets along with formidable Class A office absorption. This combined with an array of planned new developments and increased growth of local economies give Vermont a position of strength heading into the New Year.

Data provided by Census Bureau and December 2012 Allen & Brooks Report

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