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Vermont's commercial real estate market continues to show strength and growth

July 25, 2013 - Spotlights

As we reach the mid-point in 2013, positive economic indicators suggest slow growth for the remainder of the calendar year and we continue to see strength in the commercial real estate market. 2013 started with improvements in both occupancy and rental rates in the retail and industrial markets. Employment gains continue to outpace the U.S. average in Vermont with a statewide unemployment rate of just 4.6% compared to 7.6% nationally. In the Burlington-South Burlington labor market, the story is even stronger with unemployment dropping to 3.6% in March of 2013 from 4.1% a year earlier. In our brokerage business at Redstone, we have seen increasing demand from retail tenants on the leasing side and industrial occupants interested in acquiring the space they occupy along with strong investor appetite for cash flow properties across all property types. The hotel market in Burlington is an interesting component of the real estate picture at the moment. With no new hotel development in downtown Burlington between 1976-2007, Burlington has seen 3 new hotels in the last 6 years. The Courtyard by Marriott Burlington Harbor was first in 2007. The success of this hotel led the owners to create the new Hotel Vermont, which opened its doors in May of this year on Cherry St. We have recently started construction on the Hilton Garden Inn Burlington-Downtown at 101 Main St. with completion scheduled for fall 2014. With over 400 new hotel rooms available in downtown Burlington, more visitors to the Burlington area are choosing to stay downtown taking advantage of pedestrian access to the Church Street Marketplace, Waterfront Park, and a variety of other attractions in our award winning city.

RETAIL

In the first half of 2013 we saw a slight increase in suburban retail vacancy to 4.3% in June compared to 4% in December 2012, still far below the historical average of 6.6%. In Burlington's CBD vacancy has decreased to 5.7% from 6.3% six months earlier, the lowest vacancy downtown since December 2007. Growth in the supply of retail property has been below historical averages with a current undersupply of retail space in the greater Burlington area. Estimates of growth have been lowered suggesting new development of only 74,000 s/f (1.4%) for 2013 with slightly more potential growth in 2014, although growth in retail is expected to remain modest for the foreseeable future. With increasing consumer confidence exhibited by steady growth in retail spending, we expect continued absorption of available space in the market. Rental rates have been stabilizing, but the low retail vacancy and little new supply should put upward pressure on rents in the market, particularly in high demand locations like the Church St. Marketplace in Burlington.

OFFICE

The office market continues to struggle with increasing vacancy in Class A space as a result of new supply and recent vacancies. A surprising amount of new office development is planned for 2013 and 2014, this new supply is in line with historic average growth rates, but unusual at a time when vacancy is at 9.4%, nearly 2 percent higher than the historic average of 7.5%. Class B office is stabilizing with vacancy rate declines in the CBD and suburban markets, with the most significant gains in the suburban market where Class B vacancy decreased to 8.7% from 10.6% six months ago. Class A office in the CBD is also improving in Burlington, but only because no new supply is expected. With Class A tightening in the CBD, we may start to see some downtown tenants shift to Class A opportunities in the suburban market or better Class B space downtown. Suburban Class A is expected to struggle the most out of all office sub-markets with potential for negative rent pressure as supply increases. Office market conditions are certainly better than the bottom experienced in our area in 2010, but it may be a few years before the Burlington area office market truly stabilizes at normal occupancy levels.

Industrial

The industrial market is incredibly strong in 2013 with vacancy down to 5.1%, the lowest level in 5 years. This vacancy rate is well below the historic average of 7.6% and less than half the 20-year high of 10.6% experienced in 2010. Industrial rents have stabilized with rental rate growth potential with a limited amount of new supply coming on line in the recent past. An increase in speculative industrial development in expected in the near future. Growth projections in 2013 have been adjusted downward to 134,000 SF coming to market, the expectation is that much more new development will follow in 2014 and beyond. Brokers are reporting strong demand from owner occupants of industrial space as business owners attempt to take advantage of historically low interest rates.

*Data provided by Census Bureau and June 2013 Allen & Brooks Report

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