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Good signs: Deals continue to get done, space continues to be absorbed and rents are stable

October 24, 2013 - Spotlights

Like the Seasons Commercial Markets Change

As we enter October things are changing all around and the signs of fall are amongst us. Sweaters have been donned, the cider is flowing and the leaves are singing. The commercial real estate market is also changing before our eyes. We've seen the industrial and retail markets strength not-insignificantly over the last 6 months while the office market has weakened slightly. We anticipate that this trend will continue for the balance of the year and into the first two quarters of 2014.

Retail

The retail market continues to show strength with a paltry 4.5% vacancy rate. This is due in large part to the strengthening economy and the lack of growth during the past few years. Historically, developers have added 107,000 s/f to the retail inventory each year. However, over the last four years that average has only been 44,000 s/f. As a result, vacancy rates have decreased and rental rates have strengthened. In the downtown market, landlords are commanding rents in the 20-$30 per s/f NNN range. In the suburban markets the rents are $17-30 per s/f for the premium spots and $12-17 per s/f for the average locations. These rents are very stabile and we anticipate strengthening over the next year or two since only 74,000 s/f of space is anticipated to be completed by the end of this year.

Industrial

The industrial market is under-supplied as a result of limited development and an improving economy. With only 134,000 s/f of new space brought online in 2013 (compared to an annual average of 241,000 s/f) landlords have been able to stabilize their rent rolls as tenants expand and absorb vacant space. Currently at 5.1%, the local industrial vacancy rate is the lowest it's been in 5 years and well below the historical average of 7.6%. This is of great relief after years of soft rents and all time high vacancy rates (10.6%) after the economic downturn of 2008. Deal flow has increased with more lease deals being consummated over the last few years than historical averages. Rents are improving with average to above average space leasing for $6-8 per s/f NNN. We expect this trend to continue over the next few years which will in turn spur additional development.

Office

The office market includes nearly 8,000,000 s/f of space in Chittenden County. This is comprised of Burlington's Central Business District (1,878,000 s/f) and the suburban market (6,122,000 s/f). The office asset class is the softest segment of our market. With a current vacancy rate of 9.4% we are well above the vacancy rate from a year ago (8.3%) and nearly 2% above the historical average of

7.5%. However, we are well below the historically high vacancy rates of 2008-2011 which reached as high as 12.8%. With a modest oversupply of space we are seeing rents weaken as landlords get more aggressive to attract tenants. We have also seen tenants leave the CBD for better deals in the suburban markets which experienced higher vacancy rates during the economic downturn. For example, in 2009 the CBD vacancy rate was 4% while the suburban rate was 14.1%. Today the two experience the same vacancy rate at 9.4%. Rents are $12-19 per s/f NNN in the Class A segment in the CBD and $11-17 per s/f NNN in the suburban market. In the Class B market rates are between $8-12 per s/f in the CBD and $6-11 per s/f in the suburbs.

All in all the commercial real estate market is in fine shape. Deals continue to get done, space continues to be absorbed and rents are stable. These are good signs for the future of the retail, office and industrial asset classes in northern Vermont.

The Allen and Brooks June 2013 Report provided information for this article. Allen and Brooks is a leading appraisal services firm located in South Burlington, VT.

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