CELEBRATING 55 YEARS nerej

Vermont has maintained a relative level of stability and is looking at continued market growth in 2014

January 30, 2014 - Spotlights

As the economy strengthens after a somewhat tumultuous and uncertain close to 2013, Vermont has maintained a relative level of stability in the face of government shutdowns and looming fiscal cliffs, and is looking at continued market growth heading into 2014. With small exceptions, Vermont's commercial markets have been mirroring the cautious optimism generally felt in our region, manifesting itself in low vacancy, increasing rental rates, and strong investor interest throughout the state.

To that end, Chittenden County is projecting strong growth in many commercial sectors, maybe not to pre-recession levels, but stable and even strengthening for the first time since. An example of and a good barometer for this economic strength is the industrial market. While the actual 1.1% growth in 2013 was a far cry from the projected 4.3%, vacancy is the lowest it has been since 2000, increased demand have pushed rents and stimulated new development. While there is still some weakness in the Class B office markets with a high vacancy that will take some years to absorb, rents have generally stabilized and are strengthening in both the Class A office and retail markets.

RETAIL: Rents have stabilized and even increased in certain areas, specifically within Burlington's Central Business District which is seeing the lowest vacancy it has in several years. A 4.4% overall vacancy is still well below the 10-year average of 6.8%, and has resulted in stabilized and increase rents from the CBD all the way to below-average suburban markets. While the overall 1.4% projected growth is a full point below the historical average, it is the second consecutive year we have seen positive growth after a dismal four years prior, and the highest since 2008.

OFFICE: We continue to see a clear dichotomy in the office market trends between localized Class A and Class B inventory. While CBD rents have stabilized, we have seen continued negative pressure on the suburban market rents as the result of a massive 12.4% suburban vacancy, this compared to 7.5% in the CBD. In the second half of 2013 alone, we saw suburban Class B vacancy jump more then 2.5 points to 11.7%. While some of this can be attributed to a small handful of large spaces becoming available, vacancy has increased across nearly all suburban markets over the course of this time period. This oversupply and anemic demand points to this trend continuing into 2014.

INDUSTRIAL: Additional planned supply in the industrial market show an inflated vacancy of 6.2% projected for 2014, though this, along with the current 5.0% rate is still well below the 7.5% historical average. This projected vacancy is not indicative of the strength of the industrial market however, as a shortage of supply and high demand has manifested itself into strong projected growth and continued strengthening rental rates, a trend we see persisting through 2014.

MULTI-FAMILY: This market has predictably seen sustained growth in 2013 and projected to be similar in this coming year, though vacancy numbers have increased a bit due in large part to an abundance of new supply. Regardless of investor urgency to capitalize on low interest rates and sustained demand, rents continued to inflate almost 7% between 2012 and 2013 with cap rates holding under 7% at years end. There is predictably a continued increase in an already high demand from investors in a market low on supply, though sales volume in 2013 was still 30% higher than the year before.

RATES OF RETURN: Industrial, retail, and office are all currently stable, with industrial cap rates averaging 8.9% and retail and office at 8.6% and 8.4% respectively. Multi family properties on the other hand averaged 6.9% which reflects only a small increase from 6.8% over the past 2 years.

Credit: Data provided by December 2013 Allen & Brooks Report

Ross Montgomery is a broker with Redstone, Burlington, VT