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Commercial market continues to flourish in Chittenden County, Vermont

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When we last reported on the Chittenden County commercial market in the September issue, we reported slow, steady growth, particularly in the greater Burlington area, with occupancy and rental rates having experienced modest gains in 2013 amidst a decrease in unemployment across Vermont. Since then, unemployment has continued to drop from 4.8% in June 2013 to 4.2% against a national rate of 6.7% in December 2013 and with this growth the commercial real estate market has only continued to strengthen.

Industrial

The industrial market has been consistently strong in 2013 and by December the vacancy rate was down to 5%, its lowest points in 13 years. Allen & Brooks estimate that the market is currently undersupplied by about 320,000 s/f, which means the industrial market is competing well against the historic vacancy average of 7.5%. New development in this area has been slow, consisting of one major notable project: The expansion of Green Mountain Coffee Roasters. In 2013 Bob Miller of Miller Realty Group developed a 42,000 s/f flex space building in Williston, the first spec building in recent history. Miller Realty Group plans to bring on line two additional spec buildings, both high flex bay warehouses in Essex, containing 180,000 s/f and 160,000 s/f. Autumn Harp has expanded their facility with a 54,000 s/f addition to their location in Essex.

Office

Overall vacancy rates in Chittenden County started to improve in 2013 with June showing a 9.4% vacancy rate, a vast improvement from the 12.5% we saw in 2010, but the year ended with at a disappointing 11.3%. This is well above the national historic average of 7.6% and is indicative of a significantly oversupplied market. This has limited the introduction of new office development with two exceptions. Frank Motter is finalizing a spec 72,000 s/f spec office building at Water Tower Hill in Colchester with occupancy planned in 2014. Motter is experiencing positive market results with final negotiations for possibly 90% of the building. Pizzagalli Development has completed the redevelopment of a 56,000 s/f Essex building into class A office space for GSA.

Retail

Despite a slight increase in suburban retail vacancy in 2013 to 4.3% in June, the year ended with a 4.4% vacancy rate in December 2013. This is notably lower than the historic average rate of 6.8%. This represents an undersupply of around 121,000 s/f. The greater Burlington area has seen a slight decrease in vacancy to 5.6% from 5.7% in June, the lowest it has seen since December 2007. A limited amount of further development in Burlington coupled with increased consumer spending and business growth will have a positive effect on rental rates and will further decrease vacancy rates for 2014, particularly in high traffic areas such as Church Street in downtown Burlington and around the waterfront, with the former having a mere 2.8% vacancy rate as of December 2013. A trickle of new

retail development projects are currently in the works including the new Trader Joe's and Pier One Imports, which has broken ground on Dorset Street in South Burlington, developed by Malone Properties.

Residential

Chittenden County has a remarkably low vacancy rate of 1.6%, up only slightly from the 1.2% we saw in June 2013, in part due to the flourishing downtown in Burlington and Winooski, and a high concentration of colleges and universities increasing the labor pool. It has consistently maintained a low vacancy rate. A very tight rental market has allowed for quick absorption of new rental development in Chittenden County. In 2013, 385 new units were introduced and absorbed into the market and an additional 369 new units are expected in 2014. We believe this will not affect the historically low vacancy rate for a few reasons. Chittenden County has experienced healthy growth of employment opportunities with local business flourishing and larger companies, like Dealer.com, pursuing expansion. A slowly improving housing market indicates that people are choosing to rent over buying and we are witnessing increasing demand for high quality and new construction rentals. This may be aided by more stringent mortgage requirements. Recent developments in the residential market include the construction of the Riverhouse Apartments in Winooski, a LEED designated building consisting of 72 one-bedroom, lofts, one bedroom with den and 2 bedroom apartments situated on the Winooski River and next to the 100-acre nature preserve. Riverhouse was 45% leased before its occupancy date of September 2013 and was fully leased by January 2014.

Farrell Real Estate has also developed 39 new lofts and apartments on North Ave. in Burlington that was virtually full upon completion. Stuart Chase is under construction on the Stratos project in Burlington. Originally meant to be rentals, these 34 units have now being offered as to condominiums, 80% of which are under contract with occupancy in Summer of 2014. Other recent projects include the immediately absorbed 25 apartments of the Packard Lofts, 64 units developed on Susie Wilson Road by the Wilson Inn and 36 affordable apartments at Cathedral Square in Shelburne's Harrington Village. Miller Realty Group is permitting a new off campus housing project for Champlain College in downtown Burlington consisting of 325 beds and projected to come online in 2015.

*Data provided by Census Bureau, Homefacts and December 2013 Allen & Brooks Report
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