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Vermont's Chittenden County market flourishes despite weakening office market

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Slow, steady growth has characterized the commercial real estate market in Chittenden County and particularly the greater Burlington area, the economic engine of Vermont. Occupancy and rental rates have experienced modest gains in 2014 amidst a decrease in unemployment across Vermont. Unemployment rates have continued to decline since 2013. As of April 2014, the Vermont unemployment rate was 3.3% compared to 4.8% in June of 2013 and an even higher 5.2% in January of 2013. This is a very healthy rate compared to the national rate of 6.2% as of July 2014. While the unemployment outlook in Vermont is positive at this point, no analysis is complete without mentioning the possible closing of the IBM facility in Essex Junction, which produces computer hardware, a division that has become the less profitable side of their business which has grown to include computer services and software. So far discussions with Globalfoundries, a chip manufacturing company with interest in purchasing some pieces of IBM's hardware division, have been unfruitful, but they have made it clear that they do not have much interest in maintaining the Essex Junction facility if the deal should go through. The closing of this facility could potentially send 4,000 employees into unemployment who have collectively been earning a wage of around \$78,000, one of the highest wages in the state.

Industrial

Despite these warnings, the industrial market has reflected the improved economy in Chittenden County and has been consistently strong over the last 2 years, a trend that continues into 2014. With a current vacancy rate of 5.5%, up only slightly from the 5% we saw in December 2014, we are competing well with the historic vacancy average of 7.4%. The health of this market has encouraged a surge of growth with an expected growth rate of 3%, or 382,000 s/f of planned new industrial space, with the majority of it occurring in Essex, South Burlington and Colchester. New development in this area has consisted of a few notable projects. Bob Miller of Miller Realty Group has recently 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 and Nedde/Essex, LLC has planned to add an additional 100,000 s/f building to the Blodgett Oven building in Essex.

Retail

With a current vacancy rate of 4.1% (that's 40% lower than the historic average of 6.7%), we have observed a consistent undersupply of retail space in Chittenden County. Some of the notable new vacant space is that associated with the change of ownership of the Burlington Town Center located on Church St. in downtown Burlington, one of the most sought after retail locations in Chittenden County attracting an abundance of student, resident and tourist foot traffic. In the suburban market,

vacancy has continued to decline since 6 months ago, dropping to a record low 3.3%, which is extremely competitive against the historic average of 6.4%. This can largely be attributed to Chittenden County's resilient and yet still improving economy. A trickle of new retail development projects have recently been completed including the new Trader Joe's and Pier One Imports on Dorset Street in South Burlington, developed by Malone Properties.

Residential

The rental market has been consistently strong in Chittenden County, resulting in significant new apartment construction over the past 2-3 years. In 2013 there were 385 new apartments constructed with 388 new units hitting the market in 2014. The market continues to absorb new construction maintaining incredibly low vacancy rates. Current apartment vacancy is 0.9%, among the lowest levels we've seen in the past 20 years. This is down from the 1.5% vacancy rate in 2013. This is largely a result of the healthy growth of employment opportunities that Chittenden County has experienced, 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. One notable new project that came online in late 2013 was the Riverhouse Luxury Apartments, a product of the partnership between Nedde Real Estate, Youkel Development and Redstone Commercial Group. This was the construction of 72 high-end apartments located on the Winooski River in downtown Winooski.

Construction has now begun on phase 2 of the Riverhouse project, called Riverrun Luxury Apartments, which will contain 56 high end apartments with the addition of balconies and other luxury amenities. Farrell Real Estate has also developed 39 new lofts and apartments on North Avenue in Burlington that was virtually full upon completion. Stuart Chase is nearing completion on the Stratos project in Burlington. Originally meant to be rentals, these 34 units are now being offered as condominiums, of which only 2 remain. Additionally, Miller Realty Group is continuing to work through the permit process to develop a new off campus housing project for Champlain College in downtown Burlington consisting of 325 beds and coming online in 2016.

Office

In contrast, the office market in Chittenden County has been and remains over supplied. With a vacancy rate of 10.5% (only a slight improvement over the 11.3% figure from December 2013), office vacancy is nearly 3% higher than the historic average of 7.7%. Office vacancy is lowest, however, in Burlington's Central Business District where you will find mostly class A and class B spaces. We expect that the office market in Chittenden County will continue to be over supplied for the foreseeable future. One notable new project is a 31,280 s/f, 3-story general office building currently under construction by Pizzagalli Properties, which will also include the construction of an off-site parking structure. Also, Frank Motter has completed construction on a 72,000 s/f class A office building at Water Tower Hill in Colchester, which is now 90% leased up.

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