nerej CELEBRATING 55 YEARS

Above average new development in the industrial sector; developers/owners trying to catch up

October 30, 2014 - Spotlights

As we evaluate our current market conditions and look ahead to 2015, Vermont continues to see positive growth in almost all market subsectors. Steady increases in consumer confidence has resulted in low vacancy in the retail market, while the industrial markets, knocked off balance in the 2008 collapse, continues to right itself to historic levels of supply, demand, and growth. While suburban office space is still saturated with inventory, Central Business District (CBD) vacancy has been creeping downward, which will likely help stabilize plunging rental rates across the board.

In terms of an overall growth in the commercial market subsets, we are seeing above average new development in the industrial sector alone, with retail and office still well below the historic norm. With industrial demand steadily increasing, developer and owners are still clamoring to catch back up after a near-halt in industrial growth post-recession. Encouraging economic markers have bolstered the retail market however, where we are short on supply in a demand-heavy cycle. While downward pressure continues to be applied to suburban class-B office rental-rates, the shortage of office growth has help prop up CBD rates and absorption.

Retail: Retail vacancy is closing in on record low rates of 4.1%, resulting in an undersupply of at least 140,000 s/f in the Chittenden County market alone. While downtown and CBD numbers continue to strengthen, the suburban market is even lower, with the vacancy dropping well below the 6.4% historic average to a record of 3.3%. Even with these historic numbers, the projected 1.1% growth of new supply is still less than half the historic average. With consumer spending trending higher, look for investor-driven growth to increase as we move into 2015.

Office: While we have seen improvements in the overall office market, the oversupply and lack of demand, particularly in the suburban class-B market, continues to dominate the headlines. While the 10.5% overall office vacancy is down from the 11.3% in December of 2013, there continues to be an oversupply that has been slow to absorb. The one shining light in the office market is the CBD, though this can be attributed more to lack of new product than to a modest increase in demand. But with the suburban market representing 78% of the gross inventory, we still have a ways to go before we are stabilized.

Industrial: While growth has been working to keep up with the high demand and low supply in the Chittenden County markets, things are is still evening out as shown by a small increase in vacancy to 5.5% from 5% last December. We anticipate new development to level out toward the end of 2014 and with modest growth in 2015, allowing for the market to balance itself and regain a more solid footing moving forward.

Multi-family: Despite continued growth in supply, the multi-family market remains one of the strongest in the area. With a 0.9% vacancy rate throughout Chittenden County, these record low levels will continue as the economy continues to strengthen and stricter lending practices for would be homebuyers continue to push people into the rental pool. Even with the prospect of interest rates creeping up, this remains a relatively low-risk option for investors.

Credit: Data provided by June 2014 Allen & Brooks Report.

Ross Montgomery is a broker with Redstone, Burlington, VT.