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Close of 2014 was strong for most sectors and we anticipate continued strength for first half of 2015

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As I write this article from the warmth of my downtown Burlington office I'm staring at the frigid waters of Lake Champlain. The last few weeks have been bitterly cold and the lake is on its annual path to freezing over. And as we embark on the new year with the mercury falling the commercial real estate market is anything but cold. The close to 2014 was strong for most industry sectors and we fully anticipate continued strength for the first half of 2015.

Office:

The most tepid asset class in the Chittenden County commercial real estate market is the office market, and more specifically the suburban office market. The overall vacancy rate for the office market is 10.3%, a full 1% lower than it was a year ago. But despite the improvement, the overall office market is still over supplied by about 200,000 s/f and has a vacancy rate of nearly 5% over the historical average of 7.7%. The Central Business District continues to show strength with a total vacancy rate of 6.7%, in line with the historical average. It's the suburban market that continues to struggle with a vacancy rate of 11.2%, well above the historical average of 7.9%. This weakness has led to downward pressure on rents as landlords make concessions to retain tenants and attract new ones.

Industrial:

The industrial market continues to show great strength and resiliency. After experiencing historically high vacancy rates (10.6%) during the economic downturn of 2008-2010 the industrial asset class has rebounded well. The current vacancy rate is 6.8% compared to the historical average of 7.4%. This is up a bit from six months ago as a result of a single project in Essex. Removing the Essex development from the inventory, vacancy rates would actually have declined slightly from June 2014. Rents over the last 12 months have remained stable in part because the market is undersupplied. Developers put plans on hold during the recession and aside from the speculative Essex project and a few owner-user and pre-leased projects, the industrial market hasn't seen much growth. In fact, since 2007 only once have we had a year (2012) with overall industrial growth above the historical average (2.3%). 2014 did bring above average growth with a few large projects, mostly in Essex.

Retail:

The retail market is robust to say the least. Though the vacancy rate ticked up slightly over the last 6 months the current level of 4.3% is well below the historical average of 6.6%. The Central Business District is experiencing the highest vacancy rates since early in 2001. Currently, 10.3% of the market's inventory is vacant, nearly double what it was a year ago. That being said, there is no need for alarm as much of this is related to the recently sold Burlington Town Center. The new owners are planning a redevelopment of the project and a re-tenanting of the mall and have let some tenants

leave as they develop the program. LL Bean recently opened its largest store (outside of Freeport, ME) in the Town Center, a good sign of things to come. Aside from one restaurant vacancy, the Church Street Marketplace is full. The suburban market is as strong as it has ever been with an all-time low vacancy rate of 3.1% (compared to the historical average of 6.3%). With very little supply projected to be added to the market in 2015, vacancy rates and rents should continue to hold their strong positions in Chittenden County.

Credit: Data provided by the Allen and Brooks December 2014 Report

Duncan Harris is a member of the brokerage team at Redstone in Burlington, VT.

New England Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540