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Vermont's Chittenden County commercial market exhibits strength and growth

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Chittenden County has long been the economic engine of Vermont, with flourishing industrial, retail and residential sectors. The office market remains oversupplied, especially compared to national average figures, with newer office projects showing healthier vacancy rates than their older competition. Overall, Chittenden County has experienced a growing, changing commercial landscape. In the September 11th, 2014 New England Real Estate Journal issue we expressed trepidation over the possible sale (or failure) of IBM's chip making facility in Essex Junction to GlobalFoundries, which had the potential to cost Vermont 4,000 jobs earning some of the higher wages in the state. In October 2014, GlobalFoundries announced that it would be taking over IBM's chip-making operation and is currently expected to receive \$2.5 million in state incentives in addition to the \$1.5 billion that IBM is already paying them to take over the plant. GlobalFoundries intends to keep most of the current workforce saving thousands of jobs. This is good news for our healthy state-wide unemployment rate, which was reported at 4.2% in December 2014, a slight decrease from 4.4% in November 2014 and relatively healthy compared to the 5.6% national rate reported in December 2014.

Industrial

The industrial market in Chittenden County can best be described as balanced. With the current vacancy rate at 6.8%, up from 5.7% in June 2014, we are still competing well with the historic vacancy average of 7.4%. The recent increase in vacancy can largely be attributed to the redevelopment of the old State of Vermont property on Allen Martin Drive in Essex by REM Development Company, LLC and The Miller Realty Group, LLP. This includes a 53 acre site and the removal of an existing 180,000 s/f building. The plan includes construction of three new buildings totaling 420,000 s/f designed to house large space users. The first of the three buildings hit the market in 2014 and contains 180,000 s/f. Additionally, Reinhart Foodservice recently completed the development of a 137,000 s/f warehouse and distribution complex. In moving to this new facility they vacated locations in Colchester and Burlington each with around 60,000 s/f. Despite this increase in vacant space, overall rental rates remain stable and the market is only slightly undersupplied.

Retail

With a current vacancy rate of 4.3% (that's 35% lower than the historic average of 6.6%), 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 Street in downtown Burlington, one of the most sought after retail locations in Chittenden County attracting an abundance of student, resident and tourist foot traffic. The initiation of tenant changes coupled with some new supply has nearly doubled the vacancy rate in Burlington's Central Business District from 5.6% in December 2013 to the 10.1% rate we are seeing now in December

2014. In the suburban market, vacancy has continued to decline since 6 months ago, dropping to a record low 3.1%, which is extremely competitive against the historic average of 6.3%. This can largely be attributed to Chittenden County's resilient and yet still improving economy. A trickle of new retail development projects came online in 2014, including the new Trader Joe's and Pier One Imports on Dorset St. in South Burlington, developed by Malone Properties, and across the street the University Mall developed a 6,000 s/f building with two tenant spaces. As previously discussed in the Industrial market section, Reinhart Foodservice recently vacated industrial space at Pine Street in Burlington. This 64,265 s/f building is currently in the process of a major redevelopment that will upgrade the space to a mix of retail, fitness, self-storage and office space, developed by Cresta Cooper Nedde, LLC and Nedde Real Estate.

Residential

The rental market has been consistently strong in Chittenden County, resulting in significant new apartment construction over the past 2-3 years. In 2014 there were 310 new apartments constructed with 387 new units projected to hit the market in 2015. The market continues to absorb new construction maintaining incredibly low vacancy rates. Apartment vacancy was 1.7% in December 2014, this is up slightly from the overall 1.3% vacancy rate in 2014 and almost double the June vacancy rate of 0.9%. It is typical to see a seasonal shift in vacancy rate with higher vacancy during the winter months as people are less likely to relocate in the harsher weather conditions.

The healthy rental market is largely a result of the 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. Additional apartment projects currently underway are 59 units at Finney Crossing in Williston, Redstone's 22-unit Silversmith complex in Burlington and the South Village project off Spear Street in South Burlington. The South Village project is a "new urbanist" residential development to include single family, townhouse, multi-story condo and apartments. Finally, the sale of 27 acres of relatively undeveloped land from the financially struggling Burlington College to Eric Farrell, a local developer, has marked the start of what will be a hotly debated development project. Though permits have not yet been filed, it is projected to be a large scale housing development to include hundreds of units.

Office

In contrast, the office market in Chittenden County has been and remains over supplied. With a vacancy rate of 10.3% (a full percentage point lower than one year ago), 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 30,000 s/f, 3-story general office building that has recently come on the market, constructed by Pizzagalli Properties, which will also include the construction of an off-site parking structure. A 39,000 s/f owner occupied class A office building is also expected to come

online in the Meadowland Business Park in South Burlington in 2015, developed by Hergenrother Development.

*Data provided by Census Bureau, Homefacts and December 2014 Allen & Brooks Report
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