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With continued growth and stability, investor and developer confidence is gaining strength

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Vermont's overall economic position continues to strengthen with the commercial real estate market responding in kind. While suburban office remains a soft spot in 2015, retail and industrial growth continue to support increased demand in undersupplied markets, while the multi-family apartment market projects a record breaking year for new inventory. With continued growth and stability, the investor and developer confidence is gaining strength in a market that has been somewhat leisurely in taking shape since the crash.

RETAIL:

The biggest news in retail is the recent acquisition and future redevelopment of Burlington Town Center. This floundering mall off the Church St. walking mall was recently procured by Devonwood Investments with aggressive plans for a complete overhaul, something this mall has needed for some time. While this has driven the overall vacancy up, it is on pace to change the complexion of the entire downtown marketplace. It is still in the permitting process, but with the opening of L.L. Bean's new flagship store onsite, the central business district (CBD) is already seeing the effects, both in foot traffic and tourism, and strengthening market rates for CBD. If the plans for the redevelopment are realized, which calls for a new hotel and conference center, multi-family apartments, and over 200,000 s/f of new retail space, it will have an incredible and sustained impact on the greater Burlington area in terms of the local economy, tourism, and viability.

OFFICE:

The office market is still getting its footing, most specifically in the suburban sector, but has shown signs of improvement at the end of 2014. A 10.3% vacancy rate is a full point lower than the year prior and with growth slowly ticking up, a 1.6% increase in inventory expected this year, the suburban market projects to balance out by the end of 2016. That all said, the lead up to that projected tipping point, when factoring in demand and existing inventory with planned new product coming to the market in 2015, suburban vacancy will most likely increase slightly to 11.5%, well above the 7.9% historical average. While grim, CBD vacancy continues to decrease with rents stable to increasing and projections strong.

INDUSTRIAL:

Industrial vacancy has jumped a full point between June and December of 2014. While this may sound alarming, it is due primarily to a single large redevelopment, and at 6.8% vacancy, maintains a full percentage point below historical average. As this marker stabilizes, industrial growth continues to be more reactive than proactive. Confidence in the industrial market throughout Chittenden County and beyond has increased the permitting for speculative development, though many projects remain on hold until either a tenant is procured, or the market shows more consistent growth and stability.

MULTI-FAMILY:

Multi-family apartments continue to thrive, particularly in the college saturated Chittenden County area. Vacancy continues to trend lower, closing out 2014 at 1.3%, and projected new inventory for 2015 double the historic average. Therefore it comes at no surprise that at an average of $135,000 per unit, investment properties of this nature are selling at nearly a 20-year high. Despite these strong numbers, annual rent inflation is still moderately low at 2.3%, down from 3.5% in 2011. This can be attributed to the average wage increase in Chittenden County at only 1.3%, resulting in a higher portion of renter's wages going toward rent than before, more than 30% on average. At that rate, Chittenden County is one of only 3 counties in New England to breach that 30% threshold. Despite these statistics, many renters are opting for smaller apartments in newer apartment buildings at a similar or higher cost than they were paying prior. This makes the projected 487 new units coming to market in 2015 less of a surprise, and is more than double the historic average of 204 units and considerably higher than our most recent 15 year high of 390 in 2012.

RATES OF RETURN:

Rates of return on multi-family investments have remained steady at around 6.8% for the trailing four years. Industrial cap rates top out at an average of 9.0% with retail and office at 8.3% and 8.5% respectively. This shows a slight increase over the last 10 years for industrial, while retail and office have remained steady over that same period of time.

The Allen and Brooks December 2014 Report provided information for this article. Allen and Brooks is a South Burlington, VT. appraisal services firm.

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