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Vermont's commercial real estate market remains strong as we enter into a new presidential term - by Ross Montgomery

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Vermont's commercial real estate market in particular, and economic vitality in general, remain strong as we enter into a new presidential term and future.

With the Burlington Town Center redevelopment project still taking center stage, class A office markets, retail, and most industrial markets show strength early and have even stronger projections moving forward.

Retail

The conversation from a year ago continues to be the same in the retail sector, with the redevelopment of the Burlington Town Center project going through final DRB approvals before breaking ground. The plan has evolved with significant input from the public to arrive at a mixed-use center for the city that will undoubtedly create growth and economic vitality moving forward.

Overall, retail rents are stabile across all sectors, with vacancy holding below 5%, skewed by a nearly 11% vacancy in the CBD. However, this primarily due to the Burlington Town Center while the redevelopment project matriculates.

Office

Suburban class B continues to be the story in the office market, dropping to 10.1%, down 0.7% from six months ago as we move toward absorption of an overly supplied market. Class A office remains strong though negative pressure on rents due to increased office development on the horizon.

Industrial

We are looking at relatively small industrial growth over the next couple years as vacancy remains steady between 5%-7%. A small number of large vacancies are responsible for a majority of it, therefore planned development is primarily owner occupied or tenant demand driven. Higher vacancies in South Burlington (6.3%) and Essex (12.5%) have contributed to temperate spec development over the past few years and looking forward.

Multifamily

Multifamily owners and investors enjoyed over 14 years of sub-3% vacancy, reaching above 2% in only 2003 and 2009. The past three years however have seen steady increase, with year-end rates from 2014-2016 at 1.3%, 3%, and 4.4% respectively. While these are still very strong objective numbers, it's not hard to understand these trends considering the significant amount of inventory being introduced to the market, with the combined 1,223 units that came to market in 2015-16 being nearly the same as were introduced for the combined three years prior. Sale prices have flattened out as well, and planned new construction has dropped down closer to historical numbers.

Rates of Return

Rates of return on multifamily investments have remained steady at around 6.8% for the trailing five years with a slight uptick this past one. Industrial cap rates top out at an average of 8.7% with retail and office at 7.6% and 7.7% respectively. This shows a nominal decrease over the last year, but steady over the last 10.

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