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A Northern VT commercial real estate market update - by Kendra Kenney

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As 2020 came to a close, the commercial real estate market in Northern Vermont is aligning itself to have a strong rebound with some major changes coming to the market:

- A revitalized plan for the City Place Burlington development project;
- The 14-acre Hula campus along the shores of Lake Champlain; and
- Repurposing of dated and vacant properties with new and innovative ideas.

Vermont is continuing to push for growth and expansion in our commercial market.

After years of uncertainty, a three-acre vacant lot that was previously the Burlington Town Center Mall, has recently acquired new owners and a new direction. Local Vermont investors David Farrington, Al Senecal, and Scott Ireland, have purchased 50% of the project, formerly owned by Brookfield Asset Management. Developer Don Sinex is the other 50% stakeholder. The new design is a downsized version that still offers the city substantial new housing units, 45,000 s/f of street level retail, and the reconnection of Pine and Saint Paul St. to Bank and Cherry St. (which had been previously closed due to 1970's development patterns). Not only will the project rejuvenate the downtown, but developers and the local community alike feel that it will bring retailers, shoppers, and travelers back to the city.

While the economic downturn that has accompanied the COVID-19 pandemic has hit retailers and office users alike, the Hula Campus, sitting along the shores of Lake Champlain is almost fully occupied. Hula, which was created to grow technology focused companies in the Burlington area, opened its doors in early 2020 and quickly filled the first of three buildings planned for the 14-acre, 150,000 s/f campus. Owner Russ Scully wants to see Vermont become one of the leading destinations to start and grow your business. His Hula concept

is aimed to do just that – bring companies and jobs to Vermont.

Office space has seen a 1% increase in vacancy rates over the last six months, and 2% increase over the last year. A major contributing factor has been the COVID-19 pandemic. Vacancy rates generally average about 8.2%, so this increase is substantial for the market. That being said, the commercial real estate community has seen an uptick in local companies beginning to plan for the near and long-term future. While space needs are significantly changing, demand is starting to return.

The growing number of bankruptcies across the country, including Lord & Taylor, JC Penney, and Neiman Marcus was not missed in Vermont. Many big box retailers have contributed to Vermont's inflated vacancy rates. Retail vacancy jumped nearly 3% in the last six months. June 2020, we saw vacancy at 8.1%, and just six months later, vacancy is now up to 10.9%, equating to 142,000 s/f. Coupled with softening retail rents, the pressure is now on landlords to creatively repurpose spaces to meet changing consumer demands.

One innovative use of space Vermont has seen are dated hotels and motels being purchased, redeveloped, and repurposed to better complement the communities they are in. Most recently, after sitting vacant for nearly 6 years, the Yankee Doodle Motel in Shelburne has undergone a substantial transformation. Developers proposed plans for a two-building, 48-unit redevelopment of the property. The project will not only rejuvenate a vacant lot but provide much needed senior housing for the area.

One industry that has not been as affected by the current climate, both locally and nationally, is the industrial/manufacturing market. 2019 saw an all-time low vacancy rate of 2.5% for the industrial sector. Taking new development and the pandemic into account, the current 3.7% vacancy rate is still well below the long-term average of 6.8%. Additionally, in October of 2020 Vermont's Governor Phil Scott passed a bill legalizing the sale of marijuana in the state. Legislation will go into full effect during the 2021 session. Vermont has already seen a substantial influx of CBD companies acquiring both warehouse and retail properties. This would suggest that demand will only continue to increase as marijuana manufacturers and distributors launch in the state.

As many reports, articles and statistics have shown, almost no sector in the commercial real estate market went unaffected by the COVID-19 pandemic. Bankruptcies, inability to pay rent, record high vacancy rates and an unknown timeline for a market rebound has made investors, landlords and tenants alike cautious to reenter the market.

As we enter 2021, I have a renewed sense of hope and optimism for the Vermont commercial real estate market. While our market rebound traditionally lags the national average, there are already positive signs demonstrating a market rebound both nationally and here in Vermont. Grocery and hardware stores, home goods and home improvement retailers are expanding. Office users are beginning to emerge from their home offices and reimagining what their return to the office will look like. There is a light at the end of this tunnel with the FDA approval of vaccines, and Vermonter's have demonstrated not only their resilience, but their determination to re-open and move forward to

a “new-normal”.

Data Source: Allen, Brooks & Minor Report December 2020

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