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Chittenden County, Vermont: Local companies grow and the housing struggle - by Doug Nedde, Jaeger Nedde, and Fernando Cresta

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Doug Nedde

Chittenden County, Vermont, like much of the United States and the world, has experienced a volatile commercial real estate market since the pandemic. Industrial space and apartments are experiencing upward pressure in demand and rents, while retail and the office market continue to struggle compared to pre-pandemic numbers.

Retail vacancy sharply increased in 2020 to 10.6% and has since stabilized at 7.4%. A large contributor to the decrease is the removal of 48,000 s/f at City Place, which is currently being redeveloped by three local developers (Ireland, Farrington, Senecal). This project, called City Place, finally broke ground on phase-1 after the demolition of the former Burlington Town Center Mall in 2017. Once finished, plans call for roughly 427 apartments, ground-level retail, a parking garage and roof top restaurant/observation deck. Other retail locations within the central business districts are doing well, with vacancy hovering around 1.1%. Suburban locations, large box stores in particular are struggling with vacancy at 8.2%. Despite the pandemic, retail sales have grown, especially during the 2022 fiscal year, where spending on rooms and meals increased 46% over the prior fiscal year.

Jaeger Nedde

A historically low vacancy rate has led to an expansion of apartment development in the past few years. The current vacancy rate in Chittenden County is 0.6%, well below a healthy historical average of 5%. The average cap rate is 6% in Chittenden County, with the price per bedroom increasing 30% in the past two years. This shows investors see housing as a safe real estate investment in an extremely tight market. In 2023, there are expected to be 501 new apartments built in Chittenden County, up from 293 apartments the previous year. In the Burlington downtown, Nedde Real Estate has been successful in completing 98 apartments over the past two years, with 49 apartments coming online Q1 of 2023 at 79 Pine St. While construction delays have affected the completion date, the 9-story luxury apartment building will be a unique staple to Burlington's skyline for years to come. Burlington (1,028 apartments), South Burlington (928 apartments), Colchester (778 apartments,) and Essex (431 apartments) alone accounts for 78% of the projected growth beyond 2023.

Fernando Cresta

The office market in Chittenden County is historically weak with a current vacancy rate of 10.1%. A large part of this is due to COVID-19, as more companies work remotely or in a hybrid format. With an already saturated office market, we expect vacancy to climb in the coming years as companies downsize their office square footage. While standard office buildings are struggling, investors and landlords are finding ways to creatively reuse office and turn them into apartments. 77 Pine St. Residences in downtown Burlington is the most recent example of this, as Nedde Real Estate divided 95,000 s/f of office into a brand-new M&T branch and 49 apartments. Hula, a local

co-working space, is a great example of adaptive reuse of older buildings, as they redeveloped a 150,000 s/f manufacturing facility and now have a waitlist with over 100 different tenant companies.

The industrial market has enjoyed stability with boom of 541,000 s/f of new construction expected in 2023, the largest new build increase in the past 20 years. The current vacancy rate is 2.4%, below the historical average of around 5.6%. Vermont has seen an increased real estate investment from technology-based manufacturing companies, most notably Beta technologies who are in the process of constructing a 344,000 s/f assembly facility for their electric aircrafts. On Logic is another example as they are in the process of building a 140,000 s/f global headquarters.

*Data provided by the December 2022 Allen, Brooks & Minor Report and Census data.

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