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May 30, 2012

Ilona Blanchard, AICP
Project Director
City of South Burlington
575 Dorset Street
South Burlington, VT 05403

Re: Market Study
File ID: 12040

Dear Ms. Blanchard:

At your request, I hereby submit a study of South Burlington's commercial and multi-family residential markets. The study is part of an application to the State of Vermont seeking approval for the establishment of a tax increment financing (TIF) district. As proposed, the TIF district will encompass the planned City Center, which will flank Market Street south of Williston Road and east of Dorset Street. The TIF district will also extend along the east side of Dorset Street from just north of Market Street to the educational campus and include all properties fronting on San Remo Drive. Properties currently located within the TIF district include a variety of retail, office, hotel, residential, light industrial and educational properties. Potential development within the TIF district will likely focus on commercial (retail, restaurants, office, etc.) and multi-family residential (condominiums, apartments). This market study considers trends in the office, retail, apartment and residential condominium markets in Chittenden County and South Burlington. Also included is a review of demand and rental pricing for structured parking. The parking study is included as some of the development which will likely occur in the TIF district will require structured parking to be economically viable.

Respectfully,



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South Burlington Office Market

- Just over 25% of Chittenden County's office space is located in South Burlington. Over the past 18 years, about 28% of Chittenden County's new office development has occurred in South Burlington.
- South Burlington's office vacancy rate is 5.0% (December 2011). That is well below Chittenden County's office vacancy rate of 9.3%.
- South Burlington faces competition from other suburban communities with available land in greater proximity to Interstate 89 access (i.e. Williston, Colchester). It also competes with downtown Burlington which provides superior amenities such as a wide variety of shopping, restaurants, and services as well as the Lake Champlain waterfront and cultural offerings, all in a walkable neighborhood.
- Over the past two years, about 186,000 SF of new office space was constructed in Chittenden County. During this time period, there was no significant development of new office space in South Burlington.
- Over the past 18 years about 45,000 SF of new office space was built in South Burlington each year. About 34,000 SF, or 76%, of the newly built office space was absorbed by the market each year. In Chittenden County, about 69% of newly built office space is absorbed each year.

The South Burlington office market is recovering from the negative affects of the recent recession. Office vacancy dropped from 9.4% in December 2010 to 5.0% in December 2011. This represents about 90,000± SF of increased occupancy. While significant, almost all of the space is associated with the relocation of Green Mountain Coffee Roaster's corporate headquarters from Waterbury to Technology Park where they fully leased a 55,000± SF building and also leased 23,000± SF in a second building. Without GMCR, the vacancy rate would have remained fairly stable in 2011.

At 5.0%, South Burlington's office vacancy rate is well below the Chittenden County average vacancy of 9.3%. As a result of the current low vacancy there is a limited amount of space available for businesses which may seek to relocate to or expand in South Burlington. The lack of new office development in South Burlington in recent years has prevented an oversupplied situation to develop, but it has also resulted in the current limited availability of space.

Typical office rents in downtown Burlington and the suburbs are summarized in the tables below. South Burlington is part of the suburban market.

Office Rental Rate Summary - Downtown Burlington		
Property Class	Rates ¹	Trend
Class A	\$12 - \$19/SF + parking	Stable
Class B	\$8 - \$12/SF + parking	Weak / Stabilizing

¹ Indicated rents reflect rentable area with tenants paying for all operating expenses and parking.

Office Rental Rate Summary - Suburban		
Property Class	Rates ¹	Trend
Suburban - Class A	\$12 - \$16	Stable
Suburban - Class B	\$7 - \$12	Weak / Stabilizing

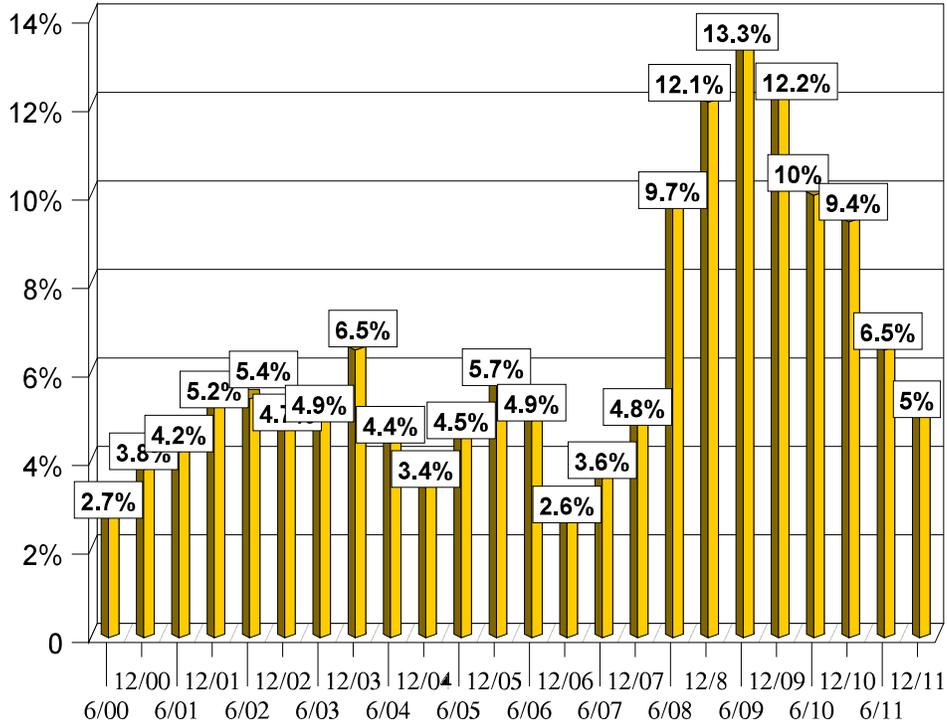
¹ Indicated rents reflect rentable area with tenants paying for all operating expenses.

Demand is strongest for Class A office space. Thanks to the strength of demand, rental rates for this office type have remained stable, in spite of the economic downturn and slow recovery. With greater availability of Class B space, rental rates have weakened, although they are now beginning to stabilize as overall vacancy falls. As the rental data indicates, a premium is paid for downtown Burlington office space thanks to its desirable amenities (walking distance to a wide variety of shopping, restaurants, cultural offerings, services, etc.).

Through 2007, vacancy remained close to or below 5.0%. The local economy expanded during most of this period, although there was a mild recession in the early 2000's. Office vacancy rose dramatically in 2008 with the onset of the recent recession and resulting contraction in the office market, peaking at 13.3% in 2009. The rise in vacancy was exacerbated by the continued construction of new office space, even as demand faltered. Between 2008 and 2009, approximately 185,000 SF of new office space was constructed in South Burlington. Over this same period, the amount of vacant office space more than doubled. The most significant development during this period was a 55,000 ± SF Class A office building facing Kimball Avenue in Technology Park. This building was vacant and available for lease for several years. It was leased to Green Mountain Coffee Roasters in 2011 for use as their corporate offices. The decline in vacancy over the past two to three years is a result of a slowly recovering economy and a lack of new office development. In 2010 and 2011, no new office space was constructed in South Burlington. The lack of new development has helped the market absorb the existing office space. At 5.0%, office vacancy is at the lowest since 2007 and is generally in line with the levels we saw before the recession took hold. The South Burlington office market is now considered to be in balance between supply and demand.

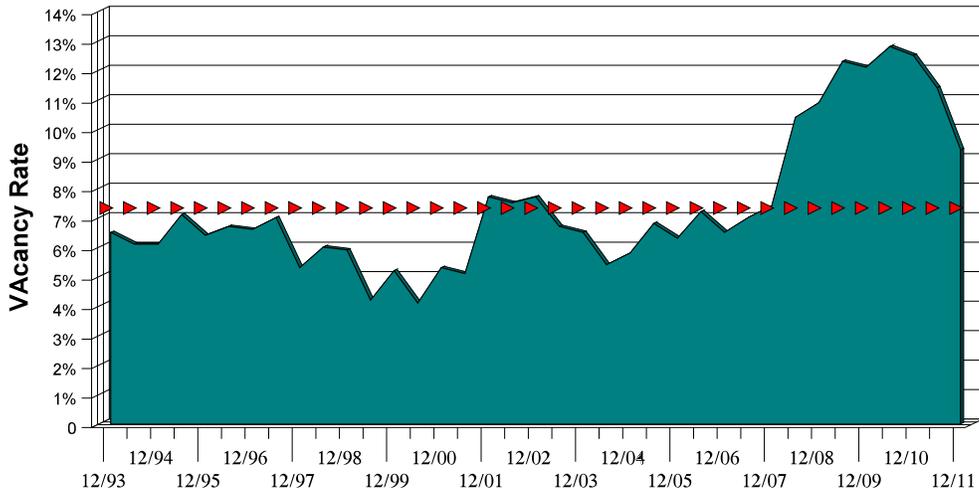
The following graph indicates vacancy trends in South Burlington since 2000.

South Burlington Office Vacancy



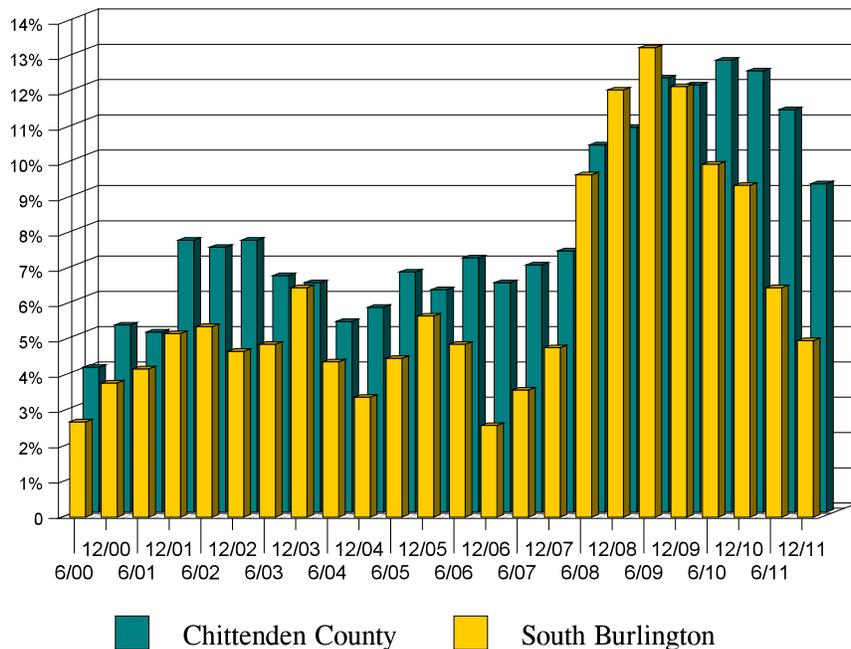
The current 5.0% South Burlington office vacancy rate is favorable compared to the overall Chittenden County office vacancy rate of 9.3%. The following graph depicts office vacancy rates in the county since the early 1990's. The long term average vacancy rate is 7.4%. Throughout the 1990's and in the 2000's through 2007 the vacancy rate was generally below the long term average rate. With the onset of the recession in 2008 and the resulting contraction in the office market, vacancy rose significantly, peaking at 12.8% in June 2010. As the economy emerged from the recession and economic activity increased, vacancy began to fall, reaching 9.3% in December 2011. Over the six month period between June and December 2011, vacancy dropped from 11.4% to 9.3%, an 18% reduction in vacancy. About half of this reduction is attributable to short term leases to the State of Vermont as a result of damage to state offices by Tropical Storm Irene. Without the affect of Irene, Chittenden County office vacancy would have been 10.2% in December 2011. While this is still well above the long term average level of vacancy, it does represent a significant drop from the June 2011 amount and illustrates increasing demand for office space.

Chittenden County Office Vacancy



South Burlington has historically had lower office vacancy than the county as a whole. Since 2000, South Burlington’s office vacancy has averaged almost 2 percentage points lower than the county’s vacancy. Both South Burlington and Chittenden County experienced roughly similar peaks in vacancy in 2009 and 2010. South Burlington’s reductions in vacancy has been much more dramatic than the county-wide figure. While Chittenden County’s vacancy rate has dropped by 3.5 percentage points since its peak in 2010 (a 27% reduction assisted by short term state leases), South Burlington’s vacancy has dropped by 8.3 percentage points since its peak in 2009 (a 62% reduction without a significant number of short term state leases). The following graph depicts office vacancy in South Burlington and Chittenden County over the past 12 years.

Office Vacancy



Vacancy in downtown Burlington increased over the past year, reaching the highest level in 14 years in June 2011. Between December 2010 and June 2011, downtown office vacancy increased from 8.6% to 11.0%. Much of the vacancy resulted from tenants relocating to less expensive suburban markets. The most significant relocation from downtown Burlington to South Burlington was Gallagher Flynn, an accounting firm, which vacated 18,000± SF on College Street and moved to Technology Park. Between June and December 2011, downtown vacancy fell from 11.0% to 9.6%. The historic average vacancy for the downtown sub-market is 6.5%, which is below the average long term vacancy for the county overall. In the last two years, downtown vacancy has remained above average, principally as the result of tenants moving to suburban locations.

The greatest demand for office space in Chittenden County is for Class A space. Class A office vacancy in the county is 5.2%, much lower than the county-wide office vacancy rate of 9.3%. Class A office vacancy in the downtown Burlington market is 4.0% and in the suburban market, which includes all areas outside of downtown Burlington, Class A office vacancy is 5.5%. Vacancy of Class B office space in Chittenden County is currently 13.5%. In downtown Burlington, Class B vacancy is 13.9%, and in the suburban market, Class B vacancy is 12.2%. The lower demand for office space in recent years has prompted some landlords of Class A space to reduce their rents or offer rent concessions. This trend likely enabled many Class B tenants to move into better space at rental rates which would not have been possible a few years ago, resulting in a tightening of the Class A office market. The migration of tenants to Class A office space has had a negative impact on the Class B office market.

Over the past 18 years, an average of 160,000 SF of new office space was constructed in Chittenden County each year. Over this same time period, approximately 110,000 SF, or 69%, of newly built office space was absorbed each year. In South Burlington, an average of 45,000 SF of new office space was constructed each year over the past 18 years. Of this amount, approximately 34,000 SF, or 76%, was absorbed annually. The higher percentage of newly built office space absorbed each year in South Burlington relative to Chittenden County as a whole is indicative of the favorable location characteristics of the South Burlington office market (convenient Interstate 89 access, located in the population and commercial core of the county).

Planned new office construction in 2012 and 2013 is estimated at approximately 287,000 SF. The planned office development is distributed among Burlington (65,000 SF with 45,000 SF downtown and 20,000 SF outside of downtown); Colchester (75,000 SF); South Burlington (90,000 SF) and Williston (42,000 SF) with minor additions in Essex, Hinesburg and Shelburne.

Significant planned projects in South Burlington include a 40,000 SF medical office building on Hinesburg Road and a 45,000 Class A office building on Tilley Drive.

Summary

Any newly built office space within the TIF district will likely fall within the Class A property type. Demand for Class A space in Chittenden County remains fairly strong, as is evidenced by the comparatively low vacancy rate (5.2%) for Class A space. This is well below the average office vacancy of 9.3%. The office market is supported by a less than typical amount of new office construction over the past two years, none of which occurred in South Burlington. While the Chittenden County office market is tightening, with vacancy trending downward, the overall market remains oversupplied. In the Class A sub-market, however, the market is considered to be in balance. Over the past 18 years, an average of 76% of newly built office space is absorbed by the market each year. This is above the county-wide average annual new office absorption rate of 69%. The higher rate of absorption is likely a reflection of South Burlington's convenient location to principal transportation arteries and its position within the population and commercial core of Chittenden County.

The formulation of a tax increment financing (TIF) district and subsequent infrastructure development will facilitate the development of a new “city center” for South Burlington. The city center will offer similar amenities to those found in downtown Burlington, such as a walkable neighborhood with convenient access to shopping, restaurants, hotels, services and recreation. Because of these amenities, office space in downtown Burlington commands some of the highest rents in Chittenden County, even before calculating additional parking expenses. The city center will not only offer similar amenities as downtown Burlington but also offer much more convenient access to Interstate 89 and surrounding businesses, industries, and neighborhoods.

Factors which will enhance demand for office space within the TIF district include the following:

- favorable access character from surrounding communities as it is located adjacent to the intersection of Interstate 89, Williston Road and Dorset Street;
- close proximity to the University of Vermont and Fletcher Allen Health care;
- located within the commercial and population core of Chittenden County;
- complementary commercial uses including retail, hotels, restaurants, etc.

The primary factor which may detract from the appeal of the TIF district for office use is a possible, or perceived, lack of ready available and convenient parking. Where tenants must pay for garage or surface lot parking, the additional cost of parking can increase office occupancy costs by around 20%. This diminishes the appeal of office space in urban settings when competing with suburban space with parking readily available in adjacent lots at no additional charge. As we have seen in downtown Burlington, which typically has had lower office vacancy than the county as a whole over the past 10+ years, the added costs associated with parking can be off-set by amenities the location affords.

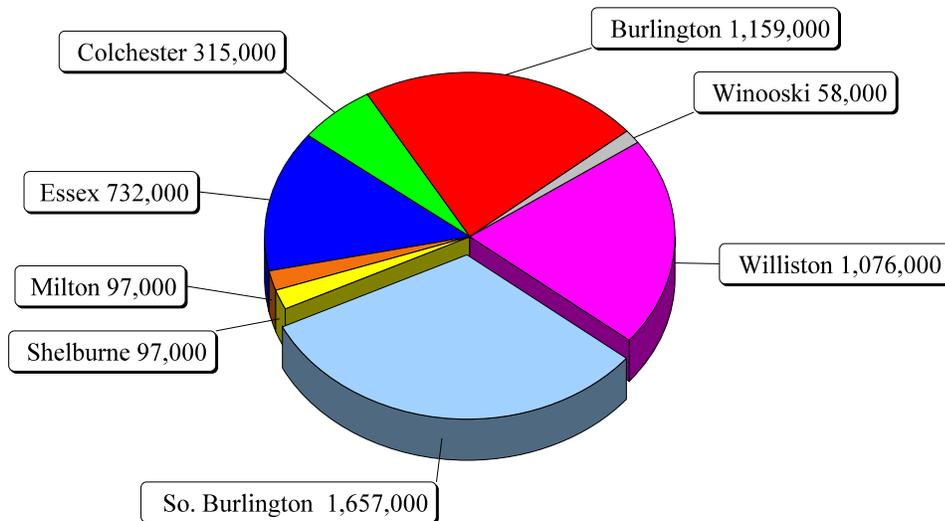
Taking these factors into consideration, it is likely that newly built office space in the TIF district will be absorbed as a rate commensurate with the typical absorption rate in South Burlington.

South Burlington Retail Market

- South Burlington's retail vacancy is 4.3% (December 2011), a drop from 5.1% in December 2010.
- With approximately 1,567,000 SF of retail space, South Burlington has about one third of Chittenden County's retail space, and more retail space than any other community in Chittenden County.
- Over the past 10 years the share of Chittenden County retail sales dropped in Burlington, held steady in South Burlington (23%), and increased in Colchester and Williston.
- Over the past 18 years an average of 28,000 SF of new retail space was built in South Burlington each year. About 27,000 SF, or 96%, of the newly built retail space was absorbed by the market each year. During this time period, about 26% of new retail development in Chittenden County occurred in South Burlington.

About 5,202,000 SF of retail space has been identified in Chittenden County. The highest concentration of space is in South Burlington with 1,657,000 SF, followed by Williston with 1,076,000 SF, Burlington with 1,159,000 SF, and Essex with 732,000 SF. These towns account for 89% of the retail inventory in Chittenden County. The chart to the right illustrates the geographic distribution of retail space by town. This does not represent the universe of retail space in Chittenden County, however, it does include all of the primary shopping centers, strip centers, big box stores, and the downtown Burlington retail sectors. This sample is reflective of the market and as such I believe meaningful trends can be derived from this data.

Chittenden County Retail Inventory



The highest concentrations of retail space in South Burlington are in the Dorset Street / Williston Road area and along Shelburne Road south of Burlington. These two locations encompass the largest retail centers in South Burlington, which are summarized on the following table.

South Burlington Principle Retail Centers

Dorset Street / Williston Road Area

Center	Size	Vacancy	Comments
University Mall Dorset Street	628,000 SF	34,000 SF	Largest enclosed mall in Vermont. Most of the vacancy (26,000 SF) is associated with the former Homegoods space.
Blue Mall 150 Dorset Street	51,276 SF	3,800 SF	Outback Steakhouse, Sport Shoe Center principle tenants. Two retail spaces available.
Commerce Square Williston Road and Hinesburg Road	94,650 SF	None	Grand Union, Rite Aid principle tenants.
100 Dorset Street	74,000 SF	7,100 SF	Barnes & Noble, EMS principle tenants. Three vacant units in rear building next to DMV.
Staples Plaza Williston Road	109,000 SF	3,000 SF	Staples, Petco, Michael's, Verizon principle tenants

Shelburne Road Area

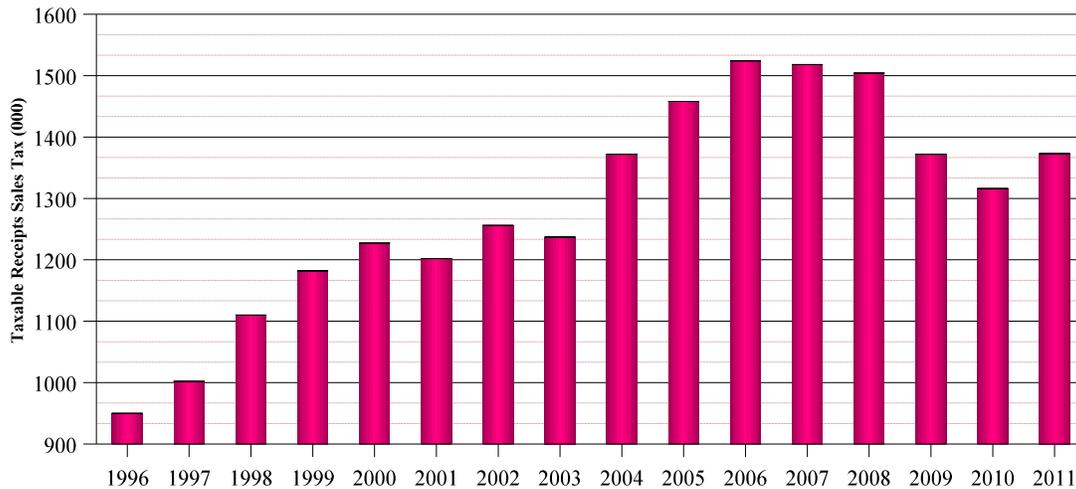
The Gateway Shelburne Road	102,000 SF	None	Shaws, Dollar General principle tenants.
Lowe's Shelburne Road	145,000 SF	None	Single structure
Hannaford Shelburne Road	42,000 SF	None	Single structure

Together these retail centers have a combined area of approximately 1,245,000 SF. This is close to 80% of our inventory of South Burlington's retail space. The above table illustrates that the Williston Road / Dorset Street area contains the largest concentration of retail space in South Burlington. This area benefits from its close proximity to Interstate 89 access at Exit 14, convenient access to downtown Burlington and the University of Vermont, and favorable access to other communities in Chittenden County.

For the first time in five years, retail spending in Chittenden County has recorded an increase over the prior year. Starting in 2007, consumer spending eroded each year with total annual spending declining by approximately 14% between 2006 and 2010. In 2011, retail spending in the county increased by 4.3% over the prior year. This indicates that the economy is recovering from the recession and consumers are feeling more confident. The pattern of consumer spending, as provided by the Vermont Department of Taxes, is

illustrated below.

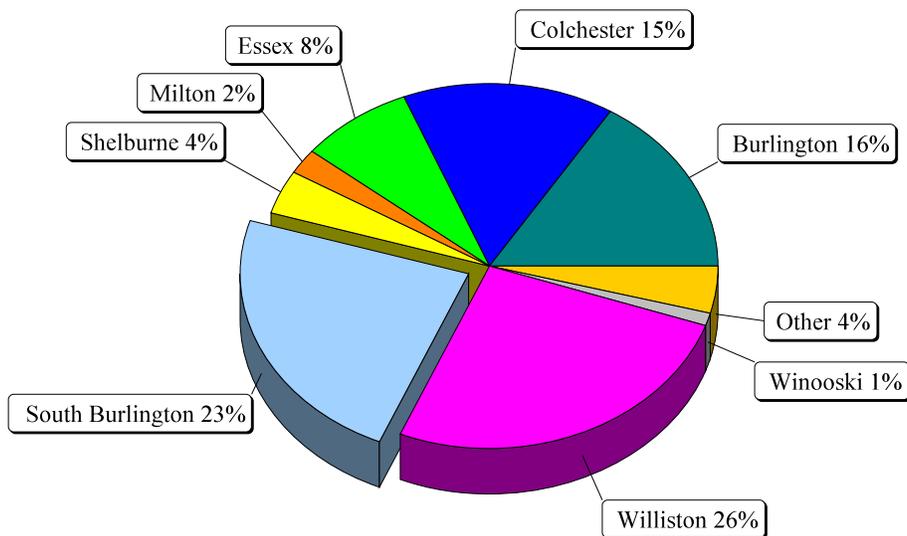
Retail Sales - Chittenden County



The recent improvement in retail sales corresponds with the stronger occupancy trends in the retail real estate markets.

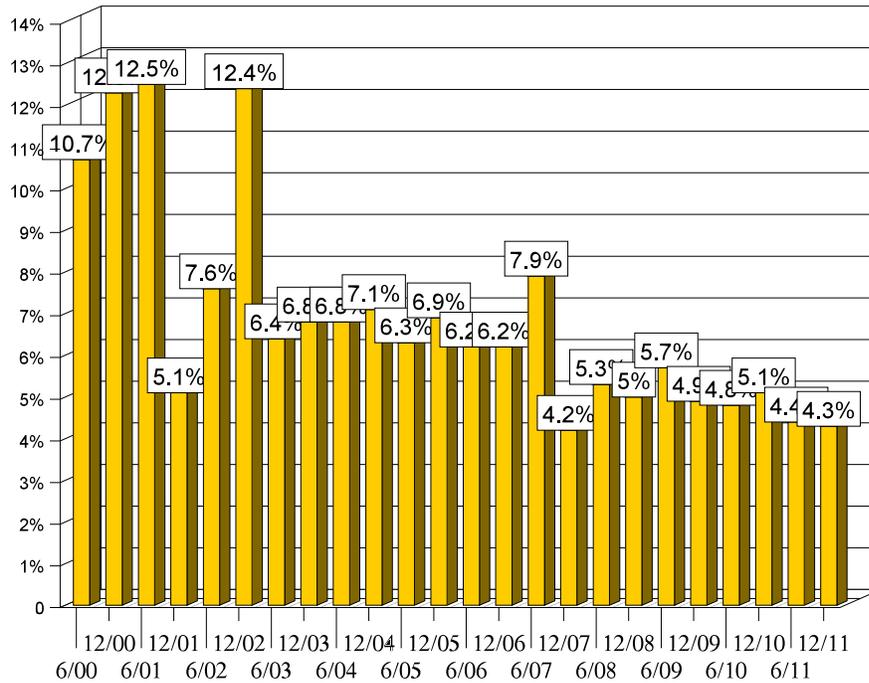
The City of Burlington has been gradually losing retail market share over the past several decades as more population and retailers migrate to the suburbs, including South Burlington. Burlington’s retail market share today is considerably smaller than 10 years ago. Notable suburban expansion in the last 10 years includes the Taft Corners area of Williston and Costco in Colchester. Retail development has concentrated in those communities as they have the greatest availability of land. Burlington’s market share has declined from 21 % of total county sales in 2003, to a low of 14 % in 2009. At the same time the market share in the towns of Colchester and Williston has increased while South Burlington’s share has held steady. South Burlington represents about 23 % of retail sales in Chittenden County.

Retail Sales 2011 - Distribution by Town



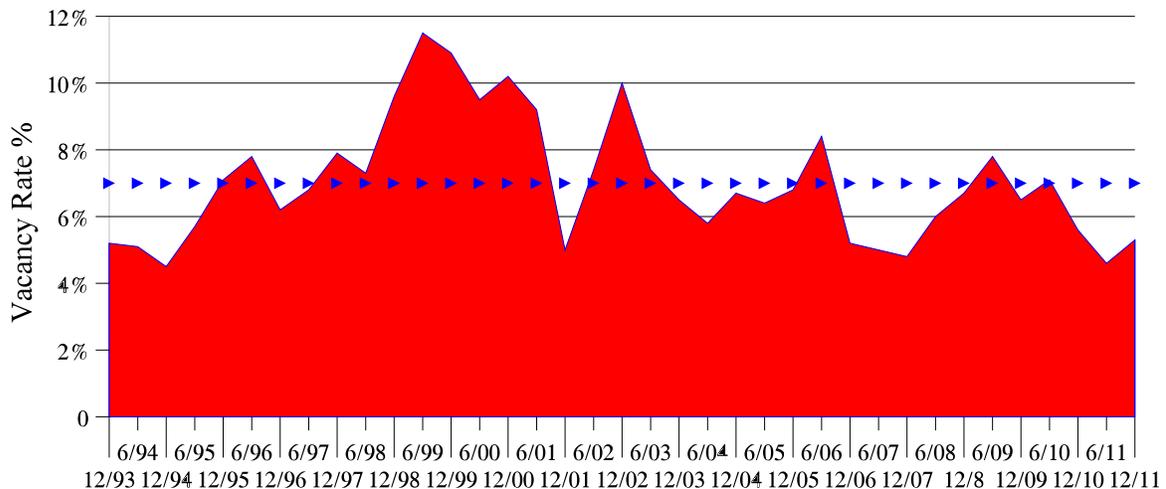
As of December 2011, retail vacancy in South Burlington was 4.3%. This is a drop of 16% from the 5.1% vacancy recorded a year earlier. This represents an absorption of 13,000 SF of retail space over the 12 month period. The graph below depicts retail vacancy trends in South Burlington since 2000. Retail vacancy in the city was higher during the early years of the 2000's and has been gradually falling during the time period studied. This is in spite of the severe recession. At 4.3%, the current vacancy is the second lowest we have seen over the 12 year period.

South Burlington Retail Vacancy



The following graph depicts retail vacancy rates in Chittenden County since the early 1990's. The long term average vacancy rate is 6.8%. Vacancy peaked in the late 1990's and early 2000's with the construction of big-box stores in Williston and Colchester and Maple Tree Place in Williston. Vacancy has generally been trending downward over the past ten years as the pace of new construction slowed and vacant space resulting from the increased competition from the big-box stores was absorbed.

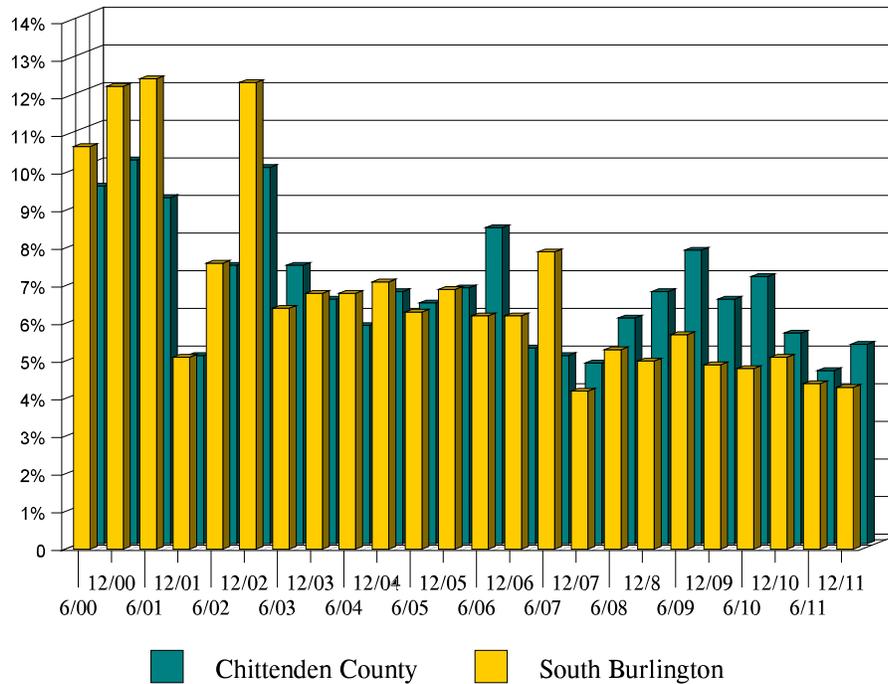
Chittenden County Retail Vacancy



▶ Average

In the early 2000's, South Burlington was feeling the negative effects of the rapid retail growth in Williston and Colchester. Vacancy between 2000 and 2002 was substantially higher than the county average as shoppers migrated to the new retail centers, at the expense of existing centers in South Burlington. The retail market gradually absorbed the newly built retail space as well as the newly vacated space and from 2003 through 2007, vacancy in South Burlington and the county tracked fairly evenly at a lower level. Since 2008, retail vacancy in South Burlington has been below the county overall. The following graph depicts retail vacancy in South Burlington and Chittenden County over the past 12 years.

Retail Vacancy



The gradually declining retail vacancy is largely attributable to a lack of significant retail development in South Burlington in recent years. Retail development over the past several years has primarily been for specific retail occupants such as Lowes Home Center, Hannaford supermarket, Goodwill and Walgreens. There has been very little, if any, speculative retail development. There has also been nominal retail development in surrounding communities over the past three years. This lack of growth has helped to maintain balance in the South Burlington retail market, in spite of the severe recession.

Over the past 18 years, the amount of retail space in the county increased annually by an average of 2.8%. Last year (2011), retail supply county-wide expanded by only 0.8% or 37,000 square feet. In 2010, retail growth only amounted to 1.0%, or 51,000 SF. This is much below the 18 year average annual amount of new retail construction of 109,000 SF. As is the case with the new retail development in South Burlington in recent years, the new construction in Chittenden County was associated with space built for specific retailers (drug stores, a hardware store), and not speculative. The low rates of growth, which are well below the historic average, are the inevitable result of the recent weak economic conditions.

Over the past 18 years, approximately 101,000 SF, or 93%, of newly built retail space was absorbed each year in Chittenden County. In South Burlington, an average of 28,000 SF of new retail space was constructed each year over the past 18 years. Of this amount, approximately 27,000 SF, or 96%, was absorbed annually.

Because of the availability of land, almost all new retail construction over the past several years has been in the suburbs, as opposed to Burlington’s Central Business District. This includes portions of South Burlington along Shelburne Road, where the Hannaford supermarket and a Lowes Home Center were built. Land for additional retail development is available in this area. Looking at the county as a whole, large parcels of land available for retail development are becoming increasingly scarce. Most land which has the proper zoning and physical character allowing retail development is located in the Taft Corners area of Williston. Retail growth in more densely developed communities such as South Burlington often requires the redevelopment of older retail centers which are no longer economically viable. Examples include the Lowes Home Center in Essex, The Gateway (Shaws) on Shelburne Road, and Goodwill, also on Shelburne Road. All required the demolition of older retail structures. Future development will likely occur at the current site of the Kmart store on Shelburne Road, which is located in an older, largely vacant retail center. Kmart’s continued occupancy has been enabled by a below market lease. The site, which is in a prime location for retail use, will likely be redeveloped at the end of Kmart’s lease. While the Kmart site will accommodate retail growth in the future, retail growth in South Burlington will be stymied by the lack of substantial land which can accommodate development. This will be in spite of South Burlington’s favorable location along Interstate 89 and in the county’s population and commercial core which supports a strong retail market. The health of South Burlington’s retail market is exemplified by the city’s vacancy rate which is a full percentage point below the Chittenden County average rate, and is 2.5 percentage points below the county’s 18 year average vacancy rate.

Over the last few years, retail rental rates have been negatively pressured by the weak economy, which was manifested by limited consumer spending and, by extension, the lack of demand for retail space. With the recent increase in retail spending coupled with the lower level of vacancy, rental rates are stabilizing. We are seeing less evidence of rent reductions and tenant concessions to achieve or maintain occupancy. Rental rates for various property classes in Chittenden County are presented in the following table. These rents are equivalent to net terms whereby the tenants pay for all operating expenses with the exception of structural repairs and in some cases management.

Rental Rate Summary		
Property Class	Rental Rates ¹	Trend
Church Street Marketplace	\$20- \$30/SF	Stabilizing
Premium Suburban	\$16- \$30/SF	Stabilizing
Above Average Suburban	\$10- \$16/SF	Weak, Expect Stabilization
Average Suburban	\$8- \$10/SF	Weak, Expect Stabilization
Below Average Suburban	\$4- \$8/SF	Stable

¹ Tenant pays additionally for all operating expenses except structural repairs.

These retail rent ranges represent the prevalent pattern of rents, however, within any class, there are likely to be exceptions. Much of the retail space in South Burlington’s Williston Road / Dorset Street and Shelburne Road districts are part of the Premium Suburban and Above Average Suburban property classes.

Summary

Most retail is dependent on convenient access, good visibility from traffic arteries, and complementary land uses which draw customers to the area. The South Burlington retail market benefits from convenient access from Interstate 89 as well as from surrounding communities. Its customer base therefore includes most of Chittenden County. South Burlington has more retail space than any other community in Chittenden County, and a lower retail vacancy rate than the county as a whole.

The immediate area of the TIF district includes the largest enclosed mall in Vermont and the highest concentration of retail space in South Burlington. The convenient access and synergies created by the existing retail space, hotels and other commercial activities draw customers to the South Burlington retail market - and to the TIF district. The presence of the University of Vermont, about one mile to the west of the TIF district, further enhances the location for retail use. Properties located within the planned TIF district, especially those with frontage on the principal traffic arteries such as Dorset Street and Williston Road, will be well suited for retail development and benefit from the district's favorable location. South Burlington has typically enjoyed a high rate of absorption of newly built retail space. It is likely that the newly built retail space in the TIF district will be well received by the market and be absorbed at a rate similar to what South Burlington has experienced over the past 18 years.

Parking Demand

The City Center parcel between Dorset Street and Hinesburg Road is envisioned to function as South Burlington’s downtown. Planned are high density, multi-story mixed use structures which will include retail, office, residential and service uses and be situated on a network of streets radiating from Market Street. The new neighborhood is to be “walkable”, with access to shops, employment and residences possible without the need for a car. This type of development will require structured parking which will likely be available for rent. A survey of parking garage availability was conducted. The survey included parking rentals in downtown Burlington and in the Spinner Place garage in Winooski.

In downtown Burlington and Winooski, parking is a common additional expense for office users. Parking costs have been increasing over the last few years and are now in the range of \$75 to \$110 per space, per month. The lower end of the range is usually associated with tenants who occupy office space in the same complex as the parking garage such as Gateway and Park Plaza, or for parking in peripheral locations. The more common range is \$75-\$100 per month. Parking can add \$2.00 to \$4.00 per square foot to office occupancy costs for downtown office tenants. Current garage parking rates for downtown Burlington and Winooski are summarized on the following table.

Parking Garage Survey 2012			
Name / Location	# Spaces	Monthly Rent	Comments on Occupancy
Merchants Bank College Street	66	\$100	20 spaces available.
Park Plaza St. Paul Street	130	\$83	No spaces available.
Marketplace Garage South Winooski	401	\$75 (Monday-Friday) \$90 (Monday-Saturday)	Lower level is monthly leases for downtown merchants, otherwise short term / transient parking.
College Street and Lakeview Garage Cherry & College (municipal)	1,195 (added two decks on Lakeview)	\$75 (Monday-Friday) \$90 (Monday-Saturday)	Lower level spaces are 60% occupied. Some upper level spaces available on month to month basis only.
Burlington Town Center Cherry & Bank Streets	567	\$90	Plenty of spaces available. No waiting list.
Gateway Square Main & College Streets	330	\$75 tenants \$83 non tenants	Spaces available in upper level peripheral locations.
Corporate Plaza St. Paul Street	297	\$95 tenants \$100 non tenants	Full with waiting list, 90% leased to tenants.

Parking Garage Survey 2012

Name / Location	# Spaces	Monthly Rent	Comments on Occupancy
Courthouse Plaza Main Street	287	\$110	75% ± of monthly parking spaces have been leased. 87 spaces are reserved for public parking.
Spinner Place Winooski (municipal)	940	\$110 \$77 - 12 hours/day	100 spaces for daily public parking.

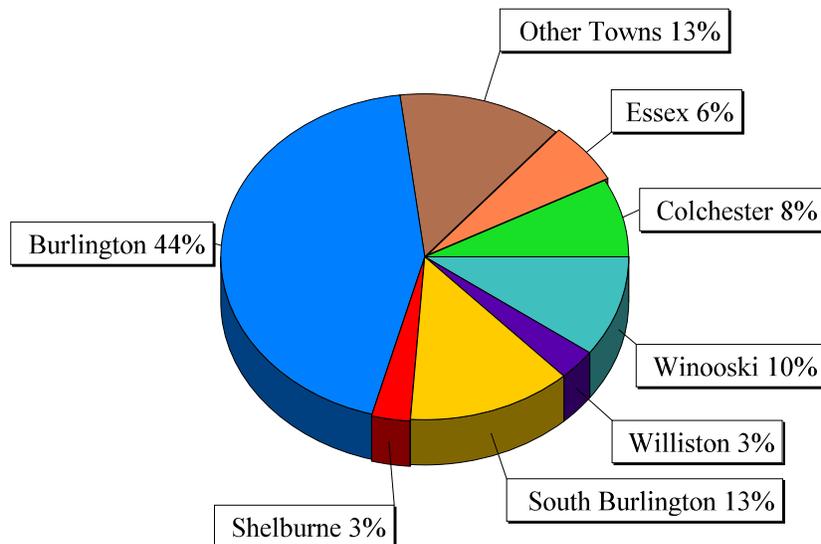
Over the past five years, parking garage rental rates have increased annually by as much as 8%, with most increasing by 2% to 5% per year. Although parking rates in municipal and private garages downtown have been increasing, there are more spaces available for lease currently than we have seen in the recent past, when most garages were fully occupied and maintained wait lists. The greater availability of lease spaces is a function of the slower economic conditions and increased vacancies in the office and retail markets. As commercial vacancy declines with improved economic conditions, vacancy in downtown parking garages will also decline.

South Burlington Apartment Market

- South Burlington has 13% of Chittenden County’s rental housing stock.
- Rental housing represents 35% of South Burlington’s housing stock.
- Chittenden County apartment vacancy is 1.2% (2011).
- Apartment rents in the county increased by over 3% in 2011.
- Over the next four years, the number of rental households are expected to increase by 217 annually.
- Over the past 12 years, an average of 164 new apartment units were built each year in Chittenden County.
- The residential projects expected to be built in the TIF district are in locations which are convenient to employment, shopping, services and public transportation..

There are approximately 21,500 residential rental units in Chittenden County. This figure includes apartments, condominiums, and single family homes which are rented. As indicated in the following chart, Burlington has by far the greatest share of Chittenden County’s housing stock at 44%. South Burlington has the second largest share of the county’s rental housing stock at 13%. That equates to approximately 2,800 rental units in the city.

Percent of Chittenden County Rental Units



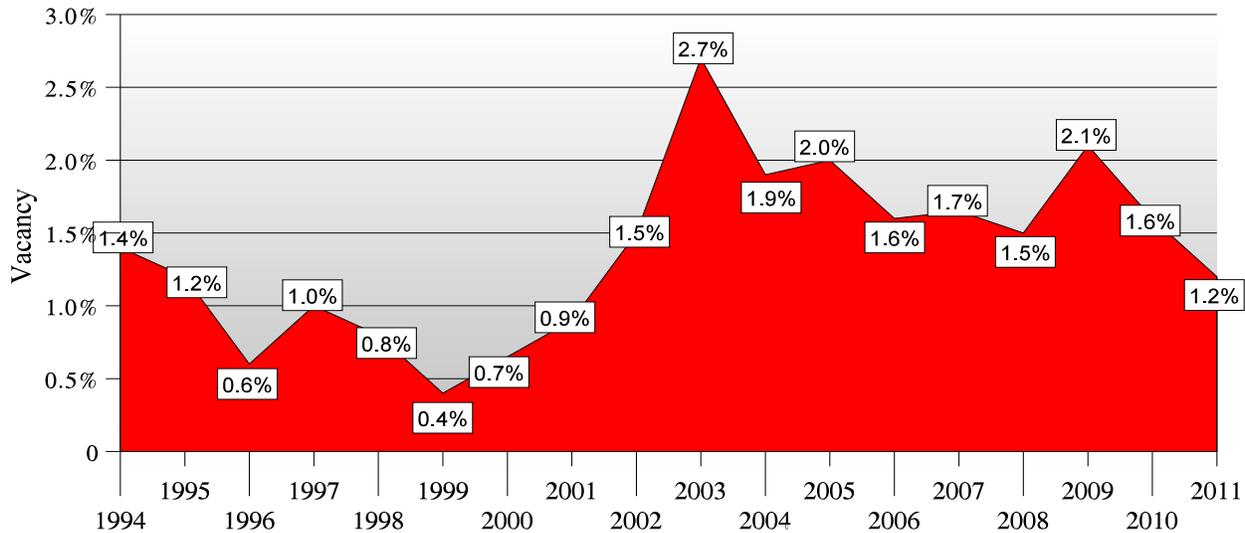
Rental units represent 55% to 60% of the total housing stock in Burlington and Winooski. By comparison, rental units as a percentage of total housing stock in suburban communities range from 14% in Williston to 35% in South Burlington.

The local rental market is characterized by strong rental demand, minimal apartment availability, and rising rents. Several demographic and economic trends have converged in support of the apartment rental market.

- ▶ Over the next five years, the population in Chittenden County in the 24 to 34 age group is expected to grow by over 9%. This age group is largely comprised of renters who are beginning their careers and saving for their first home purchase, which is often in their early 30's. Over this same period, those in the 55 to 64 age group will increase by almost 10%. This age group includes many “empty nesters” who are downsizing their living arrangements and gravitating toward the lifestyle flexibility afforded by upper end apartments.
- ▶ Job growth in the Burlington-South Burlington Labor Market over the past year was over 1%, or about 1,300 jobs. Employers such as Dealer.com, Green Mountain Coffee Roasters, and others are hiring locally and bringing new employees into the county. Many of these new hires are entering the apartment market.
- ▶ As the economy improves, many young adults who had lived with their parents or in shared living arrangements to save money are electing to strike out on their own and move into their own apartments. This has fueled demand for efficiency and one bedroom units.
- ▶ Although mortgage rates remain very low, fewer renters are purchasing their first home and are remaining in the apartment market. Growing equity through home ownership is no longer viewed as a certainty and home ownership has lost much of its investment appeal. In addition, tighter lending requirements have prevented some renters from entering the owner occupied market. With fewer renters leaving the apartment market, fewer rentals are turning over, directly contributing to the very low vacancy rate.

Because of the strong rental demand, apartment vacancy in Chittenden County is only 1.2% (June & December 2011 vacancy surveys combined). Although vacancy spiked in 2009, it has generally been trending downward since 2003. Vacancy has dropped rapidly over the past two years, falling from 2.1% in 2009 to 1.6% in 2010 and 1.2% in 2011. The 2009 spike in vacancy was attributable to effects of the recession coupled with the federal first time home buyers tax credit program which enabled many renters to leave the apartment market and purchase their first home. The expiration of the tax credit program led to a tightening of the rental market and vacancy fell. Apartment vacancy in Chittenden County is indicated on the following graph.

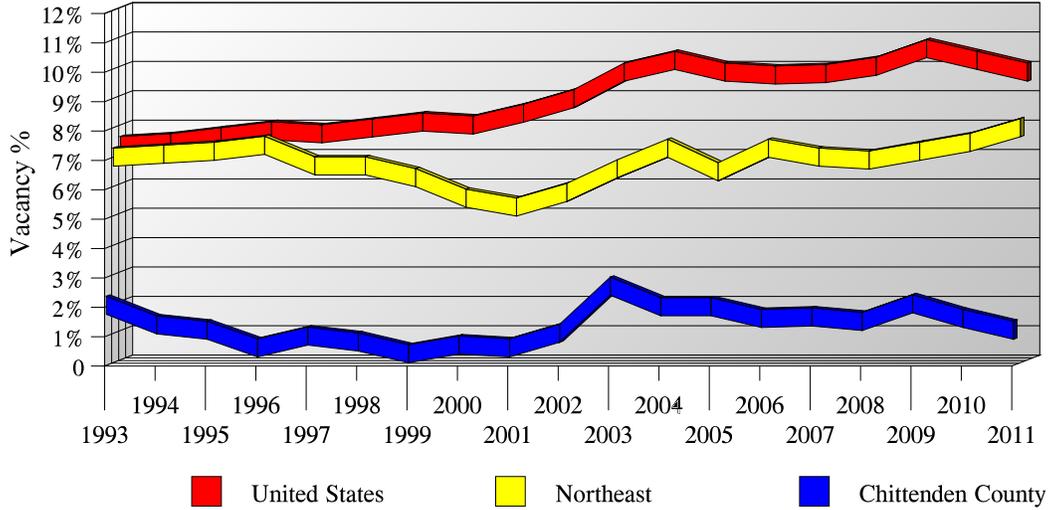
Chittenden County Apartment Vacancy



The very tight rental market in Chittenden County has put upward pressure on rental rates. Average rents have increased over the past 10 years at an annual rate of approximately 3.6%. When apartment rents increase at a greater pace than income growth, tenants are required to pay a greater share of their income toward housing, causing significant financial stress among renter households with lower incomes. According to 2010 U.S. Census data, approximately 59% of renters in Chittenden County pay over 30% of their household income toward rent. This is by far the highest percentage in any Vermont county. According to 2005 Census data, 56% of Chittenden County renters paid over 30% of their income toward housing. The higher percentage associated with the most recent Census data indicates that the financial stress on many renter households is increasing as a result of the economic downturn and very tight rental market.

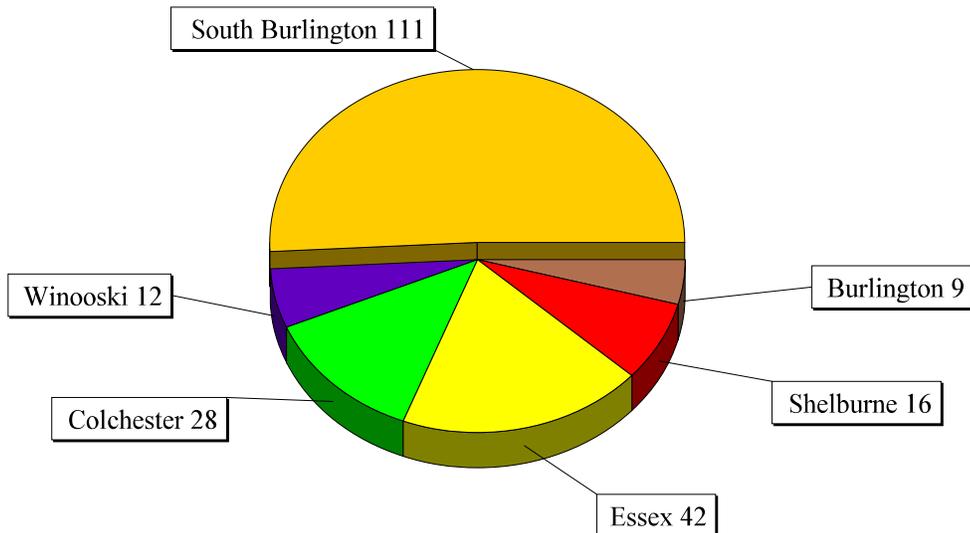
Chittenden County's apartment vacancy rates are quite low relative to national and regional averages. The following graph provides a comparison of apartment vacancy trends in Chittenden County, the northeastern states, and the United States. The Northeast and U.S. figures are provided by quarterly U.S. Census surveys. The most recent figures reflect vacancy during the third quarter of 2011. Vacancy for the U.S. and Northeast markets is 9.8% and 8.0% respectively, compared to a Chittenden County vacancy of 1.2%

Apartment Vacancy Comparison



Strong demand for rental units was met with an above average number of new apartment units constructed in recent years. Over the past 12 years, an average of 164 apartment units were built each year in Chittenden County. This is below the annual growth in renter households in the county, which is estimated by the U.S. Census to be 217 over the next four years. The inability of new construction to keep pace with household growth has contributed to the very low vacancy rate. In recognition of the strength of the local rental market, an increasing number of apartment units are being built. Over the past three years, new apartment construction exceeded the 12 year annual average. In 2011 there were 218 new apartment units built. The new 2011 construction, by town, is illustrated on the following chart. The largest number of new apartment units was by far in South Burlington, where 111 units were built.

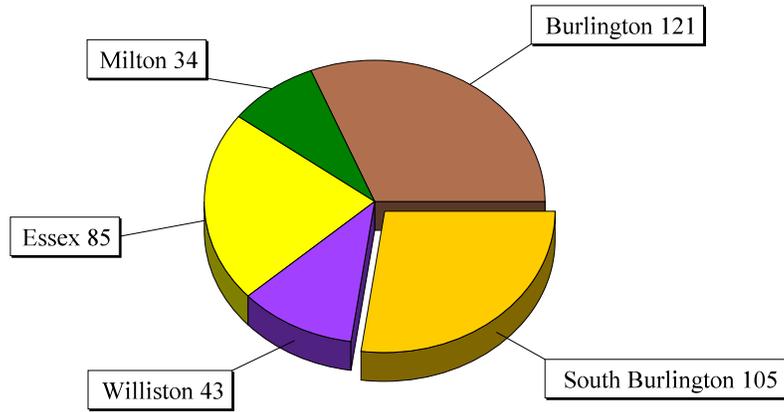
New Apartment Units in 2011 218 Units



In 2012 I have identified 388 units which will likely come to the market in 2012. All of these units are currently under construction. In South Burlington, 105 apartment units are expected to be built in 2012.

New Apartment Units in 2012

388 Units



While the pace of new apartment construction has increased in recent years, the new units are being rapidly absorbed by the market. The following table summarizes unit absorption at new apartment complexes which became available for occupancy in 2010 and 2011.

Rental Unit Absorption Summary

Project	Rent-up Period	# of Units	Units Rented per Month	Comments
1 Quarry Hill Road South Burlington	1.5 months	32	21	Opened November 2011. Leased by mid December. Studios, 1 and 2 bedroom units. Underground parking. No other amenities. Lease-up during slower rent season.
2 Bacon Street Lofts South Burlington	1 month	42	42	42 unit, four story apartment building which opened in July 2011. All units leased when the building opened. This building is very similar to the subject relative to quality of construction and amenities, including a fitness center, air conditioning, large lobby, and basement level storage units.
3 Shelburne Inn Shelburne	1 month	16	16	All units leased when the building opened on May 1, 2011. Former two story motel recently renovated and converted to 1 and 2 bedroom apartments. The motel rooms were combined to create 1 and 2 bedroom units. Located in Shelburne Village.

Rental Unit Absorption Summary

Project	Rent-up Period	# of Units	Units Rented per Month	Comments
4 Quarry Hill Road South Burlington	1.5 months	32	21	Opened August 2010. Fully rented by mid September. Studios, 1 and 2 bedroom units. Underground parking. No other amenities.
5 Pinecrest Senior Housing Essex Junction	1 month	50	50	Market rate senior rental building. Opened summer 2010. Fully leased when opened.

All of the new apartment complexes introduced to the local market in 2010 and 2011 were fully absorbed within 1½ months of opening. Three of the above summarized projects were fully absorbed as the units became available for occupancy. The rapid pace of absorption is a testament to the strength of the apartment market.

Summary

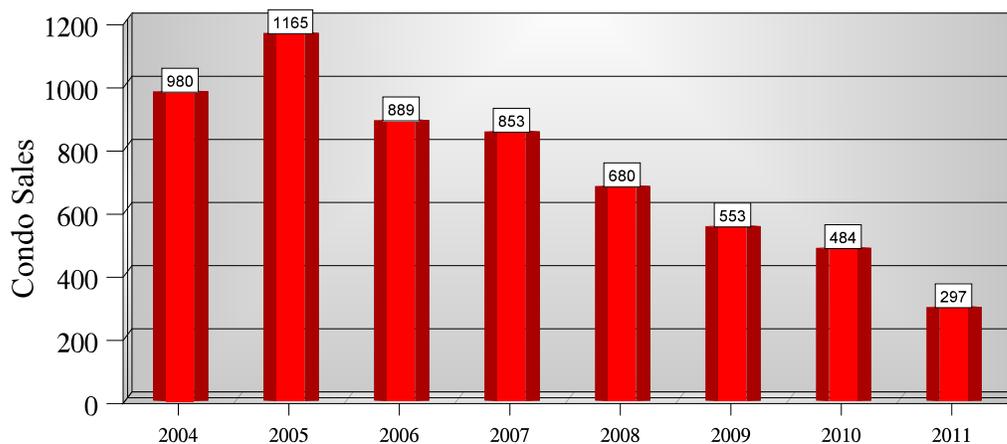
With demand historically outpacing new apartment construction in Chittenden County, new apartments built with the benefit of infrastructure improvements brought about by the TIF district (structured parking, new streets, streetscape, walking/bike trails, improved bus service) will likely be well received by the market. The pace of absorption of apartments built within the TIF district will be supported by the planned infrastructure improvements as well as by the following: complementary land uses in the immediate area; walking distance to shopping and services; availability of public transportation; convenient to Interstate 89 access; convenient to downtown Burlington; and the newly built character of the units (tenants are attracted to newly built apartments). With the very low level of vacancy, demographic trends which favor apartment occupancy, and historic new construction which has not kept pace with growth in renter households, it is probable that future apartment development in South Burlington will be rapidly absorbed by the market.

South Burlington Residential Condominium Market

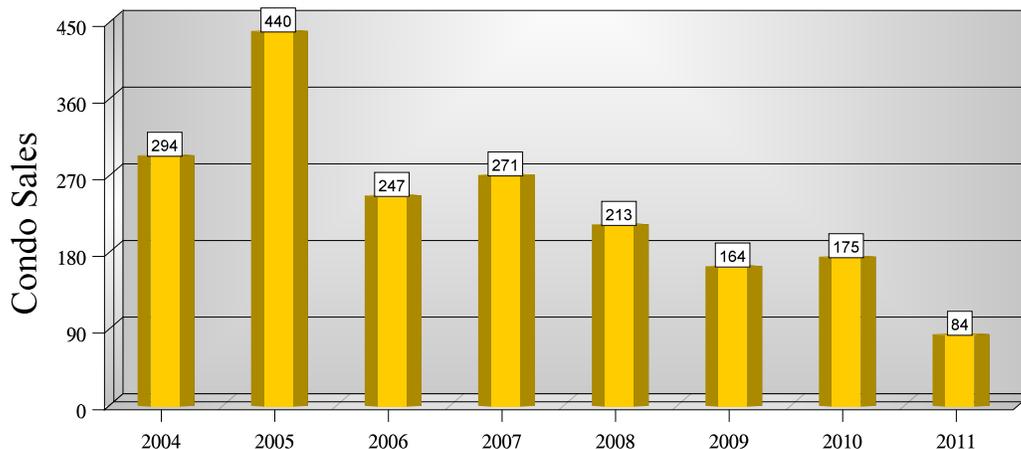
- The number of annual condominium sales has been declining rapidly in Chittenden County and South Burlington since the market peaked in 2005.
- Median condominium sale prices in South Burlington peaked in 2008 and dropped by 10% in 2009. Median prices have remained fairly stable since 2009.
- The number of new condominium building permits in Chittenden County in 2011 is about 10% to 15% of the 2004 level, the year with the most new condominium construction.
- The average amount of time to sell a condominium in South Burlington is approximately five months.

The number condominium sales in South Burlington and Chittenden County declined for the sixth consecutive year in 2011. Since the market peak in 2005, unit sales in Chittenden County declined by 75%, from 1,165 sales in 2005 to 297 sales in 2011. The number of sales transacted in 2011 are less than any year since 1990. Historic low interest rates and gradual job growth have not been enough to buoy the condominium market. Annual sales of condominiums in Chittenden County and South Burlington since 2004 are illustrated on the following charts.

Chittenden County Condominium Sales

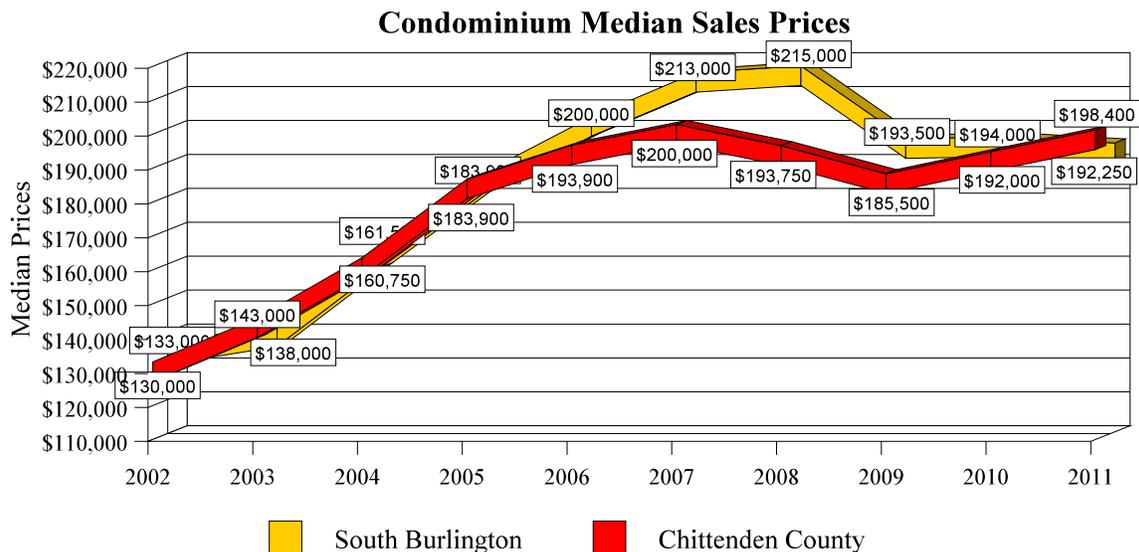


South Burlington Condominium Sales



Originally, condominiums were an entry level housing alternative since much of the housing stock priced less than \$200,000 is associated with the condo market. Today, condominiums are available in virtually every price range, although they remain most popular in price ranges below \$500,000. As baby boomers downsize they are expected to drive more demand to this sub market.

As is indicated on the following graph, median condominium sale prices in South Burlington rose rapidly from 2002 to 2008, peaking at \$215,000 in 2008. Prices fell sharply in 2009 with the onset of the recession. Since then, prices in South Burlington have been fairly stable, while they have been gradually increasing county-wide. In 2011, the median sale price of South Burlington condominiums was \$198,400. In Chittenden County, median prices increased in 2011 by approximately 3% over the prior year to \$192,250.

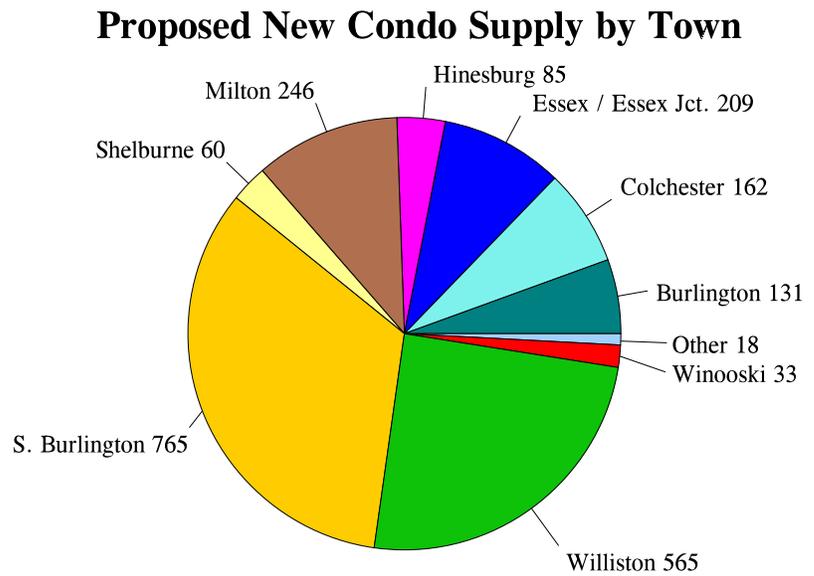


Given the significant decline in sales numbers over the past several years, market demand is clearly not putting upward pressure on pricing. Instead, the stable prices in South Burlington and gradual increase county-wide likely has more to do with fewer sales at the lower end of the real estate market due to tighter lending requirements and a greater reluctance among potential buyers to purchase a home. Many buyers worry that prices will fall and that they will have a difficult time selling their home. Over the past year, sales below \$300,000 were notably lower in both the condominium and single family submarkets by 13% and 24% respectively compared to the prior year. With fewer sales in the lower price range, the median price was pushed higher county-wide.

Because of the lower demand for condominiums, the pace of new construction has fallen dramatically. In Chittenden County, the number of building permits issued for new condominium units in 2004 was close to 500. In 2011, it was approximately 50, a little over one tenth of the 2004 level. Because of the past strong demand for condos, there are a significant number of potential housing units in proposed new developments. There are 2,527 units of supply that have either received approval, are under construction, are pending approval, or are planned. Needless to say, there is far more supply than demand warrants for the foreseeable future. Depending on the pace that the new supply is introduced, it could deepen the market correction relative to price, or at a minimum limit appreciation for many years to come. Some of these projects will be redirected to the rental market, where demand remains strong, others will be delayed until the market improves, and others will be abandoned. The following table and graph summarize the

proposed new condo units by town. South Burlington has the largest potential number of new condo units.

Proposed New Condo Supply by Town	
Town	# Units
Burlington	131
Colchester	432
Essex / Essex Jct.	192
Hinesburg	85
Jericho	14
Milton	246
Richmond	4
Shelburne	60
South Burlington	765
Williston	565
Winooski	<u>33</u>
Total	2,527



With the much lower level of demand from buyers, developers have had to make adjustments, particularly those with existing inventory. Price reductions have occurred at nearly every new construction project currently on the market. In some cases developers are changing the size of units and finishes to move units into lower price ranges where there is more demand. Price reductions are the most powerful tool a developer has to counter the lack of activity in the market and the increased competition from higher inventory levels. It is interesting to note the change in absorption patterns in the context of economic conditions. In late 2004, near the height of the market, all of the 89 units associated with the first phase of Eastwood Commons went under contract within two months. This represented absorption of 44.5 units per month. By comparison, in 2009, in the midst of the housing correction and recession, the majority of new project absorption ranged from two to three units per year or 0.2 to 0.3 units per month.

In its five year history, Heatherfield, an 83 unit townhouse condominium complex located between Spear and Dorset streets, has had the best overall absorption of any other project in the county. The pace of sales was the highest in 2006, when the project opened, with 2.6 sales per month. The lowest number of sales was in 2009, when 0.8 sales per month sold. In 2010, the final full year that new units were available, 1.0 sale occurred each month. Over the five year sell-out period at Heatherfield, an average of 1.6 units sold each month.

The Cascades, a 70 unit condominium building overlooking the Winooski River in downtown Winooski, provides an example of absorption of a condominium complex in an urban setting. The building is positioned at the upper end of the market and opened in 2007. Over the five year period, there have been 60 sales, or about 1.0 sale per month. It is interesting to note that this project came on the market just as the housing market was stalling, and the economy went into recession shortly thereafter. The Cascades project was to include three phases and a total of 204 units. Because of the slow demand and economic pressures, the subsequent phases have been abandoned. An upper end apartment complex is now proposed

on the site of the future phases by another developer.

Looking at absorption associated with Chittenden County condominium complexes which are in the process of selling their newly built units, the typical pace of absorption over the past few years has typically been less than 0.5 sales per month. This is less than one sale every two months.

Summary

In spite of the very low mortgage rates, the local condominium market has slowed significantly over the past few years. With the economic uncertainty caused by the recession and slow recovery, many potential buyers are choosing to remain in the rental market and postpone buying their first home, which in the past was often a condominium. There are greater lending restrictions and concern among many buyers that prices will fall, or that their home will be difficult to sell should they desire to move. The first time buyers support the housing market by enabling the sellers to move up to more expensive housing, thereby prompting additional sales. Sales of condominiums in South Burlington have fallen sharply since the market peaked in 2005. The number of condo sales in 2011 was only 20% of the number in 2005. Median condominium prices in South Burlington peaked in 2008 at \$215,000. Prices fell by 10% in 2009. Since then, prices have remained fairly stable. The median sale price in 2011 was \$192,250.

While the condominium market remains weak, it is likely that it will strengthen in the future as the economy recovers and the housing market improves. In a more favorable housing market, condominiums are favored by many developers as they can fit into higher density urban in-fill locations. There is greater preference among buyers to live in locations which are convenient to work, shopping and amenities found in more urban settings. As gas prices rise, the desire to live in more convenient locations increases further. The TIF district is well suited to high density condominium construction. Its The first time buyers support the housing market by enabling the sellers to move up to more expensive housing, thereby prompting additional sales. Its close proximity to transportation arteries, major retail centers and employment will support demand for condominium ownership. The “walkable” character of the planned city center will enhance the appeal of the condos built in the TIF district. With improvement in the local housing market, it is likely that condominiums built in the TIF district will receive strong demand from the market.