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Market Feasibility Assessment

Burlington Town Center

Burlington, Vermont

**Prepared for: City of Burlington Vermont City Council
By Devonwood Investors LLC**

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Project Feasibility

A review of the core, financial elements – of the project's major components, as well as a combined assessment, indicate that the **project is economically feasible and represents a viable investment for the developer**. The financial assessment took into account: Construction and Related Development Costs; Potential Project Revenues based on the market-tested Absorption and Rent projections summarized in the report; Potential Project Operating Costs; and Project Debt Payments based on project financing model made available by the developer.

Executive Summary

- Devonwood Investors LLC requested that Doug Kennedy Advisors complete a market feasibility analysis for the proposed Burlington Town Center project, in response to a requirement of the Predevelopment Agreement with the City of Burlington. Doug Kennedy Advisors is a consulting firm with over 38 years of experience in downtown, commercial and other real estate markets.
- Phases 1 and 2 of Burlington Town Center will be located on a 4.9+/- acre site in downtown Burlington bounded by: the Church Street Marketplace to the east; Cherry Street to the north; Pine Street to the west; and Bank Street to the south. In total, the project comprises 1.285 million square feet of space, including: Residential; Retail; Office; and Parking. Based on current planning, elements of Phases 1 and 2 will commence operations in March of 2018, with the final component coming on-line in October of 2019.
 - The Residential portion of the project includes 309,000 square feet of building area and housing targeted to three distinct market groups: Market Rate rental units; Affordable rental units; and Student housing;
 - The Office portion of the project comprises 362,000+/- square feet of building space, including 38,000+/- square feet of existing/leased space;
 - The Retail portion of the project includes 289,000+/- square feet of space, including 61,000+/- square feet of retail space in the existing Burlington Town Center project.
 - The Parking portion of the project entails a complete reconfiguration of all existing on-site parking to create a total of 975 parking spaces, representing a net increase of 400 parking spaces.

- The project's location places it in the core of downtown Burlington, with direct access to the Burlington's most heavily trafficked attraction, the Church Street Marketplace. Burlington and surrounding Chittenden County are one of the few northeastern markets that have experienced sustained growth in recent years. The City and region's accessibility, physical environment and diversified economy have combined to make it an attractive location for in-migrants. Moreover, the market's demographics (young households and baby boom) are attracted to downtown shopping and living.
- A comparison of Burlington and the Burlington-S. Burlington MSA with Vermont and the U.S. makes it clear that the project's market is faring well in the current economy. All critical indicators (Employment, Unemployment Rate, Housing Pricing & Development, Population/Households) make it clear that the area market is outpacing Vermont and the U.S. in terms of economic performance.

While the market region is in growth mode, Burlington and particularly the downtown core has experienced relatively little residential or commercial development in recent years. This has resulted in an excess of demand over supply and real increases in rental rates.

- The project's residential component includes a total of 274 rental apartments, targeted to Affordable Rentals; Student Rentals and Market Rate Rentals. This diversity allows the project to depend on three distinct markets to achieve full absorption. Further, downtown Burlington is attractive to in-migrants, allowing the project to draw from market well outside the Chittenden County market:
 - The demand for affordable rentals far exceeds supply in Burlington – vacancies only occur when unit turnovers occur. With an excellent location and access to services it is projected that the 55 affordable units will be fully leased before occupancy occurs;
 - The 80 Student Housing units will be under a master lease agreement with Champlain College; as such, the project will experience high occupancy throughout the lease term.
 - The 139 market rate units have an excellent location for those seeking an urban living environment and will offer a substantial new downtown housing option, which has not been available for a number of years. Our conservative assessment of the market indicates that an absorption rate of 9.0 to 10.0 units monthly is reasonable. The units will be available for occupancy in October of 2019, 34 months following the beginning of construction and active leasing activity. On this basis, the units will be fully leased at the time

of initial occupancy. For projection purposes it is reasonable to expect a two to three percent vacancy rate.

- The retail component of the project will entail the leasing of a net total of 228,000⁺/- new square feet of retail space, in addition to the existing Burlington Town Center. Downtown Burlington's retail and food & beverage industry has remained strong – and grown – even in the face of a general decline in traditional retailing. Moreover, the project will represent a new entry in an excellent location, and will integrate services that will diversify the tenant mix and make the space available to a larger number of tenants. We project that a combination of ongoing pre-leasing and demand for downtown space will result in 90 percent absorption at the time of opening, with complete absorption to follow within two to three month. Net leases will be at the high end of current downtown retail rents.
- The project will require absorption of 325,000⁺/- square feet of new office space. 110,000 square feet of this space has been pre-leased to the University of Vermont Medical Center and the developer is in negotiations for pre-leasing of an additional 105,000 square feet of office space. Based on our analysis, the remaining 110,000 square feet of office space will be fully leased before the space becomes available for occupancy in November of 2018.
- 555 of the project's on-site parking spaces will be leased on a monthly basis to site-based employers and rental apartment residents. Based on calculated site parking demands, these spaces will experience high occupancy. Occupancy of the 420 spaces available to the public will be commensurate with the experience of other downtown parking garage spaces.
- ***Project Feasibility*** – a review of the core, financial elements – of the project's major components, as well as a combined assessment, indicate that the project is economically feasible and represents a viable investment for the developer. The financial assessment took into account: Construction and Related Development Costs; Potential Project Revenues based on the market-tested Absorption and Rent projections summarized in the report; Potential Project Operating Costs; and Project Debt Payments based on project financing model made available by the developer.

Based on the review of estimated costs of construction and ongoing operations versus the estimated revenues – and debt - this project is economically feasible and represents a viable investment opportunity for a developer. Moreover, the project represents an opportunity to create a major mixed-use development in downtown Burlington that will greatly enhance the city's downtown environment.

Overall, the intention of this report is to provide analysis of the project's feasibility based upon realistic projections. The conclusions are based upon the reasonable assumptions utilized in the analysis. In several instances, additional sources of income that *will* accrue to the project have not been included in the analysis: 1) no value has been assigned to potential tax credits that may be assigned to affordable housing development; 2) no operating income from currently existing retail that will continue to operate during construction of Phase 1 has been included; and 3) several additional income streams – Storage rentals; Vending income; Percentage income from retail tenants – have not been included. Although these sources of income have not been included, the analysis indicates that the project achieves a Net Operating Income of \$[REDACTED] million in year 2020, resulting in a Yield on Cost of [REDACTED] percent. As such, the project can still be successful even if the absorption and rent estimates are somewhat lower than those projected in the analysis. This is a major, multi-faceted project that, like any major undertaking, presents risk to the developer. In addition, there are risks and challenges relating to scheduling, management, and operations. However, the mixed-use nature and scale of the project will allow the developer to rely on a number of streams of income and will provide a hedge against a 'down market' for any individual project component.

Introduction

The following report summarizes a market analysis designed to assess the market-based feasibility of the proposed 'Burlington Town Center,' to be located in downtown Burlington, Vermont. The analysis and report were completed by Doug Kennedy Advisors at the request of Devonwood Investors LLC (Devonwood) in response to a requirement of the Predevelopment Agreement with the City of Burlington.¹ Specifically, the Predevelopment Agreement notes that the report should:

"include data that analyze whether a market exists for the retail, commercial and residential components of a project, and whether the anticipated market demand for the retail, commercial and residential components of a project is sufficient to support the anticipated costs of developing, constructing and operating it."

Burlington Town Center is redevelopment project in a mixed-use format that will add new offices, new apartments, new retail/service space and a new parking garage to the existing Burlington Town Center retail and office development. Phases 1 and 2 of the project (addressed in this report) will total approximately 1,285,000 square feet. Based on current planning, Phases 1 and 2 will commence construction activity in February of 2017 and reach completion in October of 2019.

The analysis and report address the following major topics:

- **The Project** – a summary of the project and its individual elements, including an overview of the project timetable;
- **Project Context** – an assessment of the project site, downtown Burlington and the economic region into which the project will be introduced;
- **Demographic, Economic & Market Indicators** – an overview of local/regional growth trends, key economic indicators and trends, all of which have a bearing on the potential feasibility of the project;
- **Individual Market Assessments** – a review and analysis of the key market factors for the markets to be addressed by the project: Residential; Office; Retail; Parking.
- **Market Feasibility** – a synthesis of the preceding analyses, focused on assessing the overall market-based feasibility of the project. This section includes a review

¹ See: Predevelopment Agreement between the City of Burlington and BTC Mall Associates LLC, dated May 12, 2016.

of the key quantitative elements that form the underpinning of the project, including an assessment of the anticipated costs of constructing, operating and financing the project.

Significant market findings and relevant quantitative data are contained in tables, charts and figures contained in the text of the report. The analysis and this report are based on an extensive review of available data from Federal, state, regional and local sources. In addition, a number of individuals with knowledge of local markets have been interviewed to provide additional background material for the analysis. All project sources are cited in the footnotes to the report.

This report, including all background data, findings and recommendations, is based on market conditions as assessed by the analyst at the time of report preparation. In the event that there are any significant changes in a number of factors, including: macro-economic conditions, local/regional economic conditions, interest rates, local/regional competition, changes in the project program, or other factors affecting the residential, office or retail markets, it is likely that the findings contained in the report will change. No guarantees are offered that the estimates, projections and findings in this report will be met. However, the findings contained in the report do reflect the judgment of the analyst, following an extensive review of market conditions.

Doug Kennedy Advisors

Doug Kennedy Advisors brings a broad range of professional and project experience to its clients, with broad understanding of project work in real estate, community development, recreational market research, and growth impact assessments. With over 38 years of practice, our experience spans: real estate economics and markets; downtowns & community development; retail feasibility analyses; resort planning; fiscal and growth impact assessments. More significantly, our broad exposure to project work, in both up and down markets, allows us to provide realistic and strategic advice to clients both for the present and future. Our approach focuses on a practical approach to real estate market and development issues and is focused on providing analyses that allows clients to make informed decisions regarding development feasibility and marketability issues. Moreover, our clientele includes a broad array of public and private sector organizations.

- Real Estate Market Research - Our clients seek our services to assess and document their real estate development plans. Whether our assignment involves conceptual analysis of highest and best use, or final documentation for a financing, we provide thorough and objective findings and recommendation that

can shape development strategy. Our services include: feasibility analysis, product identification, buyer/absorption studies, amenity needs, competitive assessment, and development consultation.

- Community & Economic Development – our public sector work includes market analyses and economic development strategies for site redevelopment, rehabilitation projects, downtowns and commercial zones focused on improvement.
- Project & Strategic Planning - Savvy developers know that planning for any project requires a big-picture view – an understanding of how a specific project will fit into its surroundings or a long-term plan. We can provide strategic and tactical advice – both individually or part of a project team – that can help to keep a real estate plan on track and best exploit market opportunities. This work is critical as the broad economy moves through a period of significant turmoil. Our services include: project advising and management, diagnostic assessments, background market findings, action-based plans.

Working out of his Norwich, Vermont office, Doug Kennedy offers a broad range of professional and project experience to his clients. With over 38 years of practice in planning, economics and real estate, Doug's experience spans: real estate economics and markets; downtowns & community development; retail feasibility analyses; resort planning; fiscal and growth impact assessments. More significantly, his broad exposure to project work, in both up and down markets, allows him to provide realistic and strategic advice to his clients both for the present and future. Doug takes a practical approach to real estate market and development issues and is focused on providing analyses that allow his clients to make informed decisions regarding development feasibility and marketability issues. Doug is a graduate of Middlebury College (Middlebury, Vermont) and has a Masters in City Planning from the University of Pennsylvania (Philadelphia, Pennsylvania).

The Project

The Burlington Town Center project (Phases 1 and 2) is proposed as a major new mixed-use development in downtown Burlington, Vermont's major urban concentration, incorporating retail, office, residential and parking components. The project includes both redevelopment of existing commercial space and significant new development, primarily in vertical space. While the project will use the existing Burlington Town Center shopping mall entrance from Church Street as a focal point, the project site totals 215,000 square feet (4.9+/- Acres) and is bordered by: Cherry Street to the north; the Church Street Marketplace to the east; Bank Street to the south and Pine Street to the west. The project will ultimately result in the re-connection of St. Paul Street and Pine Street through to Cherry Street. While the current entrance to the Burlington Town Center is located off the Church Street Marketplace, the effect of the redevelopment project will be to 'open up' the project to all of the surrounding streets, thereby generating increased street level pedestrian activity.



Burlington Town Center Rendering

The project program is detailed in a number of filings and other documents and is not explicated in great detail in this report. However, we have summarized the components that are of relevance to the market analysis from a prospective use perspective.

The project program (Phase 1 and 2) is summarized in the table below. The table shows: Total involved building areas; Inclusions of existing building space; and net, new building area.²

Burlington Town Center: Project Summary

	Sq. Ft. Building Space		
	Total Building Space	Includes: Existing Building Space	Net New Building Space
Residential	309,000		309,000
Office	363,000	38,000	325,000
Retail	289,000	61,000	228,000
Parking Garage	324,000		324,000
Totals	1,285,000	99,000	1,186,000

A brief summary of the project, by major use category, follows:

Residential

The project will include a gross total of 309,000 square feet of building space dedicated to residential use. This will include:

- 55 affordable rental units. The analysis assumes that the Affordable units will be targeted to households that earn less than 60% of the area median income (AMI). It is expected that these units will primarily include a mix of one and two bedroom units.

Qualified households will earn less than 65 percent of the median income for the Burlington/S. Burlington MSA (income limits vary by household size) and will pay a set rental amount, which is lower – and more affordable – than the going market rate for private sector units.³

² Source: Devonwood Investors , LLC. Square footage figures rounded.

³ The affordable rental figures listed in this report are calculated based upon household income at 60% of the Burlington/So. Burlington MSA, rather than 65% as required by the Burlington Inclusionary Zoning Ordinance for two reasons: first, any use of federal tax credits for affordable units is expected to require the 60% income limit figure; second, the 60% income limit is more conservative, yielding lower rents and therefore less income to the project. While this report does not assume the use of such tax credits in the income or in capital support of the project, the report

- 139 market rate rental units. These units will be available to the open market and will include: Efficiencies (Zero BR); One Bedroom and Two Bedroom Units. As of the time of this writing, projected rents are:
 - Efficiencies - \$[REDACTED] per month;
 - One Bedroom - \$[REDACTED] per month;
 - Two Bedroom - \$[REDACTED] per month.
- 80 rental units that are expected to be rented through a master lease with Champlain College.

Office

The project will include a gross total of 362,512 square feet of office space. This total includes 38,000 square feet of existing/leased office space.⁴ As such, the net increase to downtown Burlington's office inventory will be 325,000⁺/- square feet.

The office component will consist of two types of offices- a new 12 stories of office in a new building located at St. Paul and Bank Street and two floors of offices located in the Cherry Street building on Floors 5 and 6.

110,000 square feet of the new office space is under a pre-leasing agreement with the University of Vermont Medical Center. An additional 105,000 square feet of office space is in negotiations for leasing.

Retail

The retail component of the project includes a gross total of 289,000 square feet of new space, including 61,000 square feet in the existing/operating Burlington Town Center mall. As such, the net increase to downtown Burlington's retail space will be 228,000 square feet.

The project's retail component will consist of new retail space designed for a variety of fashion, electronic, specialty/fashion and service type of retail tenants ranging from national and regional retailers to local Vermont merchants. The total retail space is 234,000 square feet located on the Concourse and Plaza levels of the BTC stretching

does utilize the 60% income limit for rents in order to take a conservative approach to the overall feasibility of the project.

⁴ As of this writing, the existing office space is 95 percent leased.

from Church Street on the east to Pine Street on the west. Significantly, the developer intends to include a number of service businesses into the retail mix (Child Care, Medical Care) as well as possibly a grocery operation. These services will enhance the project for workers and residents and provide a broader range of potential tenants.

A portion of the presently configured retail will continue to operate throughout the development period. This retail is located on Church Street, includes 61,000 square feet and comprises the eastern portion of the project site.

Parking Garage

The project will result in a total of 926 on-site parking spaces. The project includes 324,000 gross square feet of parking area in a vertical configuration. The net increase in on-site parking spaces will be approximately 350, as there are currently 575 spaces on site. The new parking spaces will include:

- Approximately 526 parking spaces rented on a monthly basis. As of this writing, monthly fees are projected at \$[REDACTED];
- Approximately 400 parking spaces available to the public on metered basis. Parking fees will be commensurate with market rates in other garage facilities in the downtown area.

The new parking garage will house automobile parking, bike parking and bike storage. The new garage entrances will be from Cherry and Pine Streets, which will accommodate most traffic in the City. Access from the garage to the various uses (office, retail and residential) will be provided for the convenience of the customer/visitor.

Project Schedule

As of this writing, the project schedule is proposed as follows:

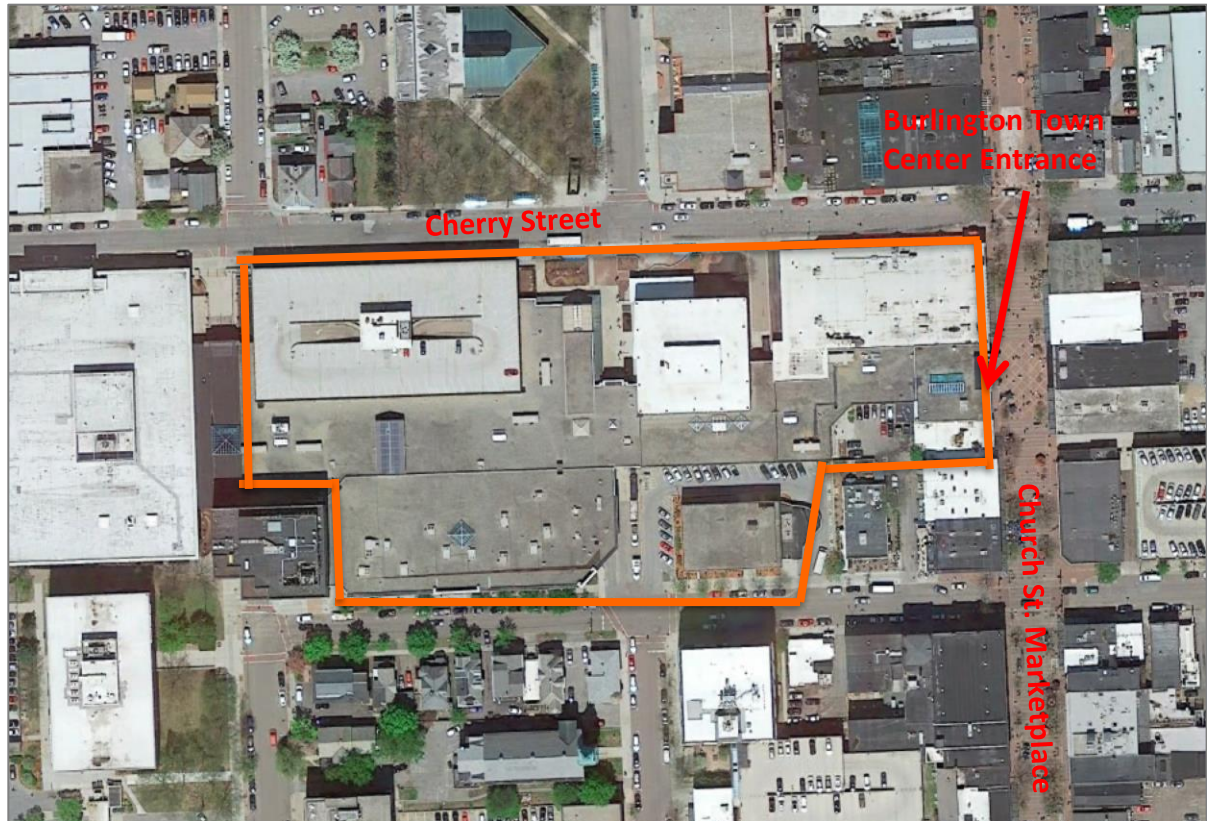
- The new garage will be completed and start operating by September 2018;
- The new St. Paul Street or City right of way will be completed and be in use by January 2019;
- The new retail space will be completed and start operating by September 2018;
- The new University of Vermont Medical offices will be completed in January of

2019, the Bank Street offices will be completed in July of 2019;

- The new residential space on Bank Street will be completed and start operating by July 2019;
- The new residential space on Cherry Street will be completed in three (3) stages;
- The Affordable Housing will be completed and start operating by January 2019;
- The Student Housing will be completed and start operating by July 2019;
- The Market housing on Bank Street will be completed by January 2019.

Project Context

The proposed Burlington Town Center is proposed on a five⁺/- acre site located in Burlington, Vermont's downtown core area. While the project's 'front door' will continue to be the existing retail mall entrance off the Church Street Marketplace, the project will be accessible from: the Church Street Marketplace; Cherry Street; Bank Street; Pine Street; and St. Paul Street. The project site in its immediate context is shown in the graphic below.



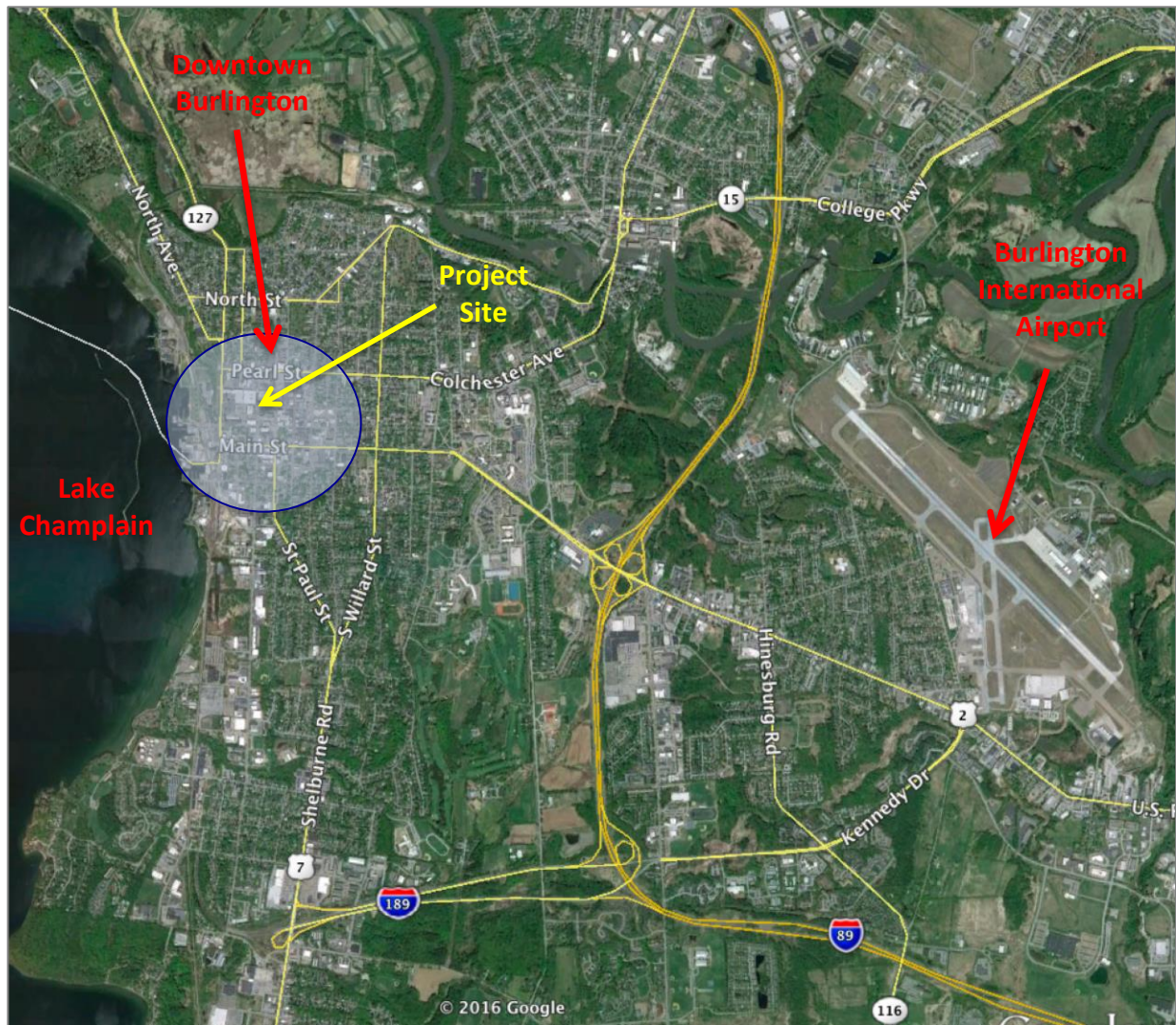
Regional Factors

The project is located in the City of Burlington, Vermont's largest urbanized community, with a population (2014) in excess of 42,000 persons. Moreover, Burlington serves as Chittenden County's principal commercial/service center. With a population (2014) exceeding 160,000 persons, Chittenden County accounts for almost 26 percent of Vermont's total residents and is the most visited community by Vermont travelers.

Burlington's unique combination of accessibility, physical environment and diversified economy have combined to make it one of the few metro areas in northern New England that has experienced sustained growth in recent years.

The project's area context is shown in the graphic below

Regional Context



Burlington has excellent vehicular access via multiple exits off Interstate-89 and, to the south, Interstate-189. The city has a system of arterial streets that make access to the downtown core area relatively easy. In addition, the city has nearby Amtrak access and, to the immediate west, Burlington International Airport with scheduled commercial flight served by several carriers.

According to data from ESRI Business Analyst and Infogroup, there are approximately 12,210 people working within a half-mile of the intersection of Church and Main Street, of which 10,500 are employed within the boundaries of the downtown area. This represents more than two-thirds (31%) of total employment in the City of Burlington

(estimated at 34,411 workers in 2015), and over 11 percent of total employment in the Burlington-South Burlington MSA (estimated at 120,761 workers as of 2015.) In terms of total number of employees, dominant industry sectors in the downtown area include: Professional, Scientific, and Technical Services (1,895 workers); Healthcare and Social Services (1,890 workers); Retail Trade (1,853 workers); Accommodations and Food Service (1,772 workers); Finance and Insurance (1,184 workers); and Government (947 workers.)

Support for commercial activity in downtown Burlington is generated by a large visitor market drawn to the area by Lake Champlain and a broad array of recreational and cultural amenities. According to an analysis conducted by the Vermont Department of Tourism & Marketing, Chittenden County attracts about 2.6 million visitors per year. Approximately 1.6 million visitors (62 percent of total visitation) are in Burlington just for the day, another 806,000 visitors stay overnight (31 percent), and the remaining 180,000 visitors are second homeowners who spend a portion of their year living in the Burlington region.

Local Factors

We note the following with respect to the project's location in the downtown core and the existing Burlington Town Center project:

- The project is located on Church Street Marketplace –a well known pedestrian-only shopping, restaurant and entertainment center that attracts more than 3.5 million visitors each year (both area residents and tourists/travelers).
- Burlington is also the home to three universities and colleges including the University of Vermont and Champlain College and is home to a major hospital complex - the University of Vermont Medical Center (12,500 employees).
- The Project is located in a prime downtown location along Church Street Marketplace, a four-block pedestrian mall in the heart of the city and the site of festivals throughout the year. The American Planning Association named the Marketplace one of America's "Great Public Spaces". The Marketplace benefits from a strategic downtown position, proximity to waterfront activities and celebrated arts-and-entertainment venues like the historic Flynn Theater. It is within easy walking distance for residents of most of the older neighborhoods of Burlington and within cycling distance of the whole city. Moreover, the project will have the effect of opening up Burlington Town Center to adjacent side streets, thereby increasing pedestrian activity in areas other than the Marketplace.

- Project neighbors including the Hilton Burlington, Hotel Vermont, Courtyard Burlington Harbor, over 1.5 million square feet of office space within half a mile from the Project, and close to one million square feet of supporting retail in the area;
- The downtown area's direct access to Lake Champlain provides immediate passive and active recreational opportunities for downtown residents and workers. We note that the project's Pine Street access point is only 0.3 mile from the lakefront park area.

Background Market Factors & Indicators

The feasibility of a major multi-use project like the Burlington Town Center must be assessed in the context of ongoing market, economic and other regional trends. While a project of this scope ‘creates’ a market in its own right, it is apparent that leasing and absorption will not occur in a vacuum and that the project’s success is dependent on the surrounding market.

New development and real estate activity are inevitably a local affair. However, there is little doubt that the macro-economy plays a significant role in local events. Ongoing national and regional trends in employment, income and residential permitting all exert a strong influence over the rate of development and the potential for new development.

The following report section reviews recent trends in forecasts for indicators that experience show are critical to development in residential, office and retail markets.

Core Economic Indicators

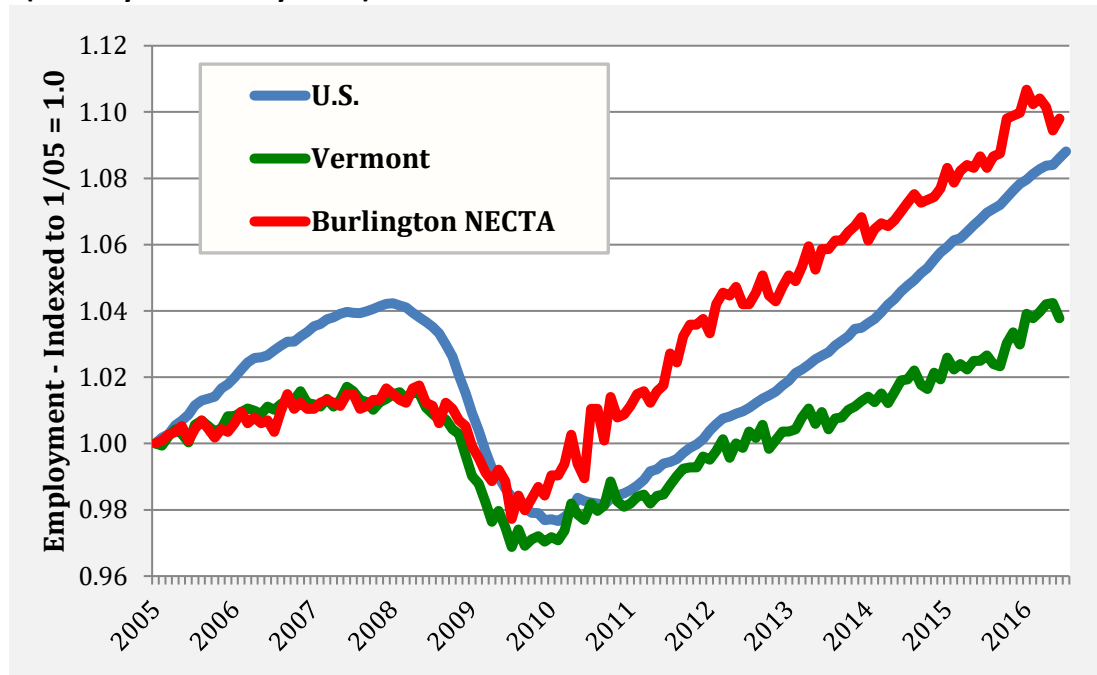
Dependent on data availability, the following graphics and tabular data compare national (U.S.) level trends with trends at the statewide, Burlington/South Burlington MSA/NECTA, Chittenden County and Burlington City levels, as backdrop to the assessment of the project. Where available, the discussion also includes projection-based data.

Employment and Unemployment

The graphic on the following page compares recent total employment trends at the U.S., Vermont and Burlington NECTA levels. The data is *indexed* to show January 2005 employment levels equal to 1.0, providing a basis for comparative assessment of trends at all geographic levels.⁵

⁵ Sources: U.S. Bureau of Labor Standards, Vermont Department of Employment.

Indexed Employment Trends: U.S.; Vermont; Burlington NECTA
(January 2005 – July 2016)

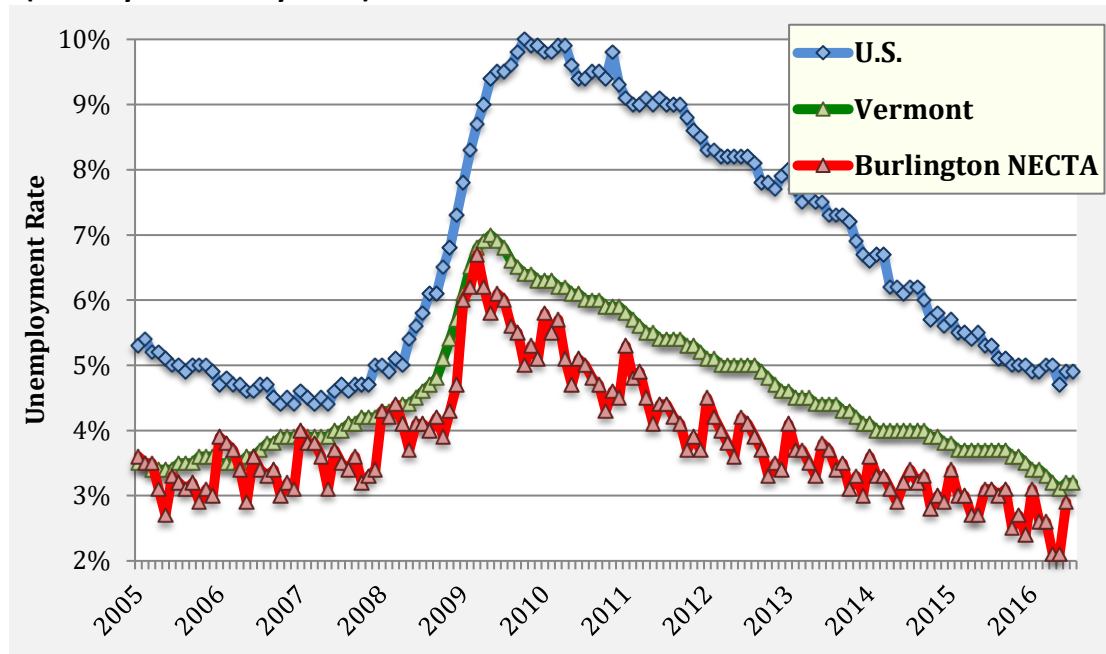


All areas show the negative employment impact of the recession of the late 2000s as well as the recovery since 2010. However, the rate of recovery for Vermont as a whole has lagged behind the U.S. rate. In contrast, Burlington NECTA employment grew at a rate that has consistently exceeded the rate for the U.S. since 2009.

The graphic on the following page compares recent total unemployment *rate* trends at the U.S., Vermont and Burlington NECTA levels.⁶

⁶ Sources: U.S. Bureau of Labor Standards, Vermont Department of Employment.

**Unemployment Rate Trends: U.S.; Vermont; Burlington NECTA
(January 2005 – July 2016)**



The U.S. unemployment rate soared to as high as 10 percent in year 2010. While Vermont's experience was not as extreme, the unemployment rate reached seven percent during the worst of the employment problems. Following the unemployment peak, unemployment in the Burlington NECTA remained consistently below the statewide rate and has recently maintained a level ranging from only two to three percent.

Changes in employment by industry can provide insight into demand for real estate. The tables on the following two pages show 2010 to 2015 changes in employment by industry, both for the Burlington NECTA and for Burlington City alone. Both absolute and percentage change are shown. Industries with strong employment growth that have relevance to downtown real estate are highlighted in **blue**.

2010 to 2015 Change in Employment by Industry:
Burlington/S. Burlington NECTA

	<i>Change in Employment</i> <i>2010-'15</i>	
	<i>Absolute Change</i>	<i>% Change</i>
Natural Resources & Mining	114	+21.1%
Construction	963	+16.6%
Manufacturing/Durable	(1,863)	(21.3%)
Manufacturing/Non-Durable	1,301	+27.9%
Trade/Transportation & Utilities	623	+2.8%
<i>Wholesale Trade</i>	103	+2.6%
<i>Retail Trade</i>	(17)	(0.1%)
<i>Transportation</i>	507	+17.4%
Information	(315)	(13.7%)
Financial Activities	(66)	(1.4%)
Professional & Business Services	2,849	+20.0%
Education & Health Services	1,892	+9.2%
<i>Education</i>	547	+20.1%
<i>HealthCare</i>	1,344	+7.5%
Leisure & Hospitality	1,704	+13.5%
Other Services	506	+14.3%
Government	1,672	+7.9%
Private Sector	7,708	+7.7%
Public Sector	1,672	+7.9%
Totals	9,380	+7.8%

**2010 to 2015 Change in Employment by Industry:
Burlington City**

	<i>Change in Employment 2010-'15</i>	
	<i>Absolute Change</i>	<i>% Change</i>
Natural Resources & Mining	1	+5.9%
Construction	(161)	(51.8%)
Manufacturing/Durable	(750)	(156.9%)
Manufacturing/Non-Durable	154	+24.9%
Trade/Transportation & Utilities	401	+10.2%
<i>Wholesale Trade</i>	107	+20.0%
<i>Retail Trade</i>	259	+8.3%
<i>Transportation</i>	36	+12.1%
Information	(160)	(47.2%)
Financial Activities	(276)	(20.3%)
Professional & Business Services	853	+18.8%
Education & Health Services	894	+9.0%
<i>Education</i>	281	+28.4%
<i>HealthCare</i>	612	+6.9%
Leisure & Hospitality	1,026	+27.1%
Other Services	211	+17.8%
Government	(124)	(1.6%)
Private Sector	2,193	+8.3%
Public Sector	(124)	(1.6%)
Totals	2,069	+6.0%

At the NECTA level, substantial increases in employment in: Professional & Business Services; Education & Health Services; Other Services are creating demand for commercial office space. Similarly, employment increases in Leisure & Hospitality (includes Eating & Drinking, Entertainment) are creating demand for retail/commercial space. We also note that Retail employment in Burlington City increased over the 2010 to 2015 period. This is quite unusual in a national environment in which traditional retailing is shrinking and the majority of markets are losing Retail employment.

A short-term projection of employment levels at the U.S. and Vermont levels is shown in the table below.⁷

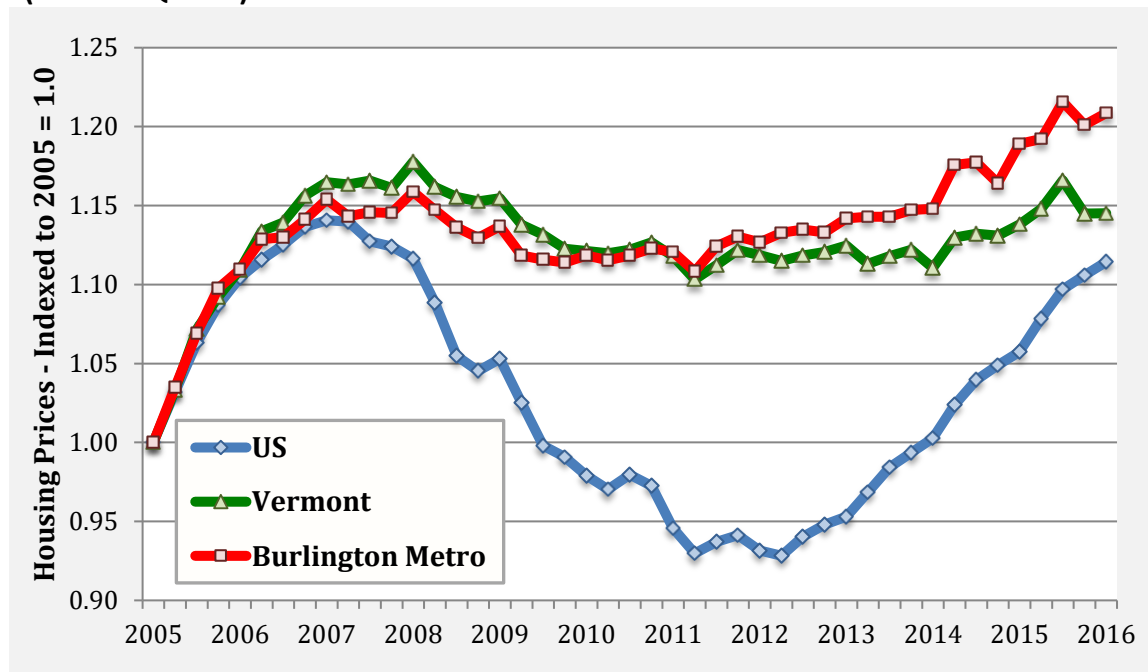
Employment Forecast: U.S. and Vermont (2015 – 2017)

	Employment (Annual Percent Change)			
		Forecast		
	2014	2015	2016	2017
U.S.	1.90%	2.10%	2.00%	2.00%
Vermont	1.00%	1.60%	1.70%	1.80%

Housing Pricing and Permits

Residential pricing is a key economic statistic, as it serves as a relatively direct indicator of household wealth. The graphic below compares the U.S., Vermont (Entire State) and the Burlington MSA in terms of change in housing pricing. The data is indexed to year 2005 = 1.0.⁸

Indexed Housing Pricing: U.S.; Vermont; Burlington MSA (2005 – 1Q 2016)



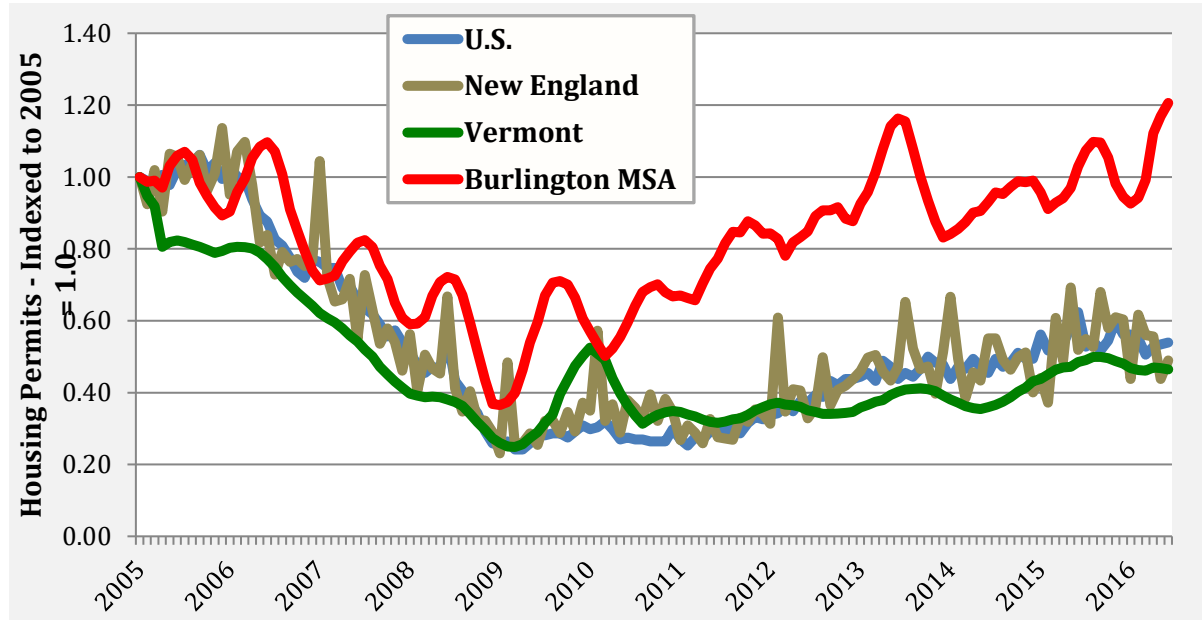
⁷ Source: Vermont EPR Forecast, January 2016.

⁸ Source: Federal Housing Finance Agency.

Vermont and Burlington MSA housing pricing suffered far less than U.S. housing pricing during the 2007 to 2012 period; followed by a strong upward trend to the current level. However, Vermont-wide pricing essentially stagnated during the 2011 to 2014 period, with evidence of real price increases only evident since 2014. Although increases in pricing in the Burlington MSA have not matched the U.S. rate of increase, the data makes it clear that the MSA has fared significantly better than the remainder of Vermont. Burlington MSA housing pricing is currently at 121 percent of its 2005 level; this compares to 111 percent for the U.S. and 115 percent for Vermont as a whole.

The graphic below compares trends in housing permits for the U.S., New England, Vermont and the Burlington MSA; for the period January 2005 to current. Again, the data is indexed to year 2005 = 1.0.⁹

**Indexed Housing Permits: U.S.; New England; Vermont; Burlington MSA
(2005 – June 2016)**



Generally, the U.S., Regional and Vermont housing markets have not fared well in recent years, with current permitting levels a only 40 to 60 percent of their 2005 levels. In contrast, Burlington MSA housing has rebounded well since 2009, and is currently at 120 percent of its 2005 level.

⁹ Source: Federal Reserve Bank, Boston. 2016 data through June.

Economic Forecasts

- A recent forecast by Zillow notes that Burlington home prices have increased by 5.5 percent over the last 12 months (August 2015 – August 2016) and that they are projected to increase by 3.7 percent over the coming 12 months.¹⁰

Additional forecasts for the Burlington MSA include the following:¹¹

- The ‘Gross MSA Product’ will grow at an average annual rate of 2.0 percent between 2016 and 2020;
- Personal income will grow at an average rate of 2.6 percent between 2016 and 2020;
- House Pricing will increase by a total of 10.2 percent between 2016 and 2020.

Demographics & Income

In recent years, few markets in the northeast have experienced any significant population growth. This is particularly true in Vermont, where population grew at a rate of only 0.2 percent between 2000 and 2014. While Chittenden County’s recent growth is not matching the level of the 1980s and 1990s, its growth rate significantly exceeds that for the remainder of Vermont and other northeastern markets.

Comparative population change rates for Burlington City, Chittenden County and Vermont are shown in the table on the following page.¹²

¹⁰ Source: Zillow Home Prices, 9/16.

¹¹ Source: Moody’s.

¹² Source: Vermont Population by Town 2000 – 2014. Vermont Department of Health.

**Population Change: Burlington City; Chittenden County; Vermont:
(2000 – 2014)**

	2000	2010	2014	% Change 2000-'14	Absolute Change 2000-'14
Burlington	39,815	42,417	42,211	+6.0%	2,396
% Change		+6.5%	(0.5%)		
Chittenden Cty.	146,571	156,545	160,531	+9.5%	13,960
% Change		+6.8%	+2.5%		
Vermont	608,827	625,741	626,562	+2.9%	17,735
% Change		+2.8%	+0.1%		

Note that while Chittenden County continued to grow during the 2010 to 2014 period, Burlington City's population stabilized. Our research into the residential market (See Below) makes it clear that a lack of new housing unit development has limited the City's potential for population growth.

While natural increase (Births/Deaths) accounts for a segment of the Burlington area's growth, in-migration is also a factor. Between 2009 and 2013, 2,630 Vermonters moved to Chittenden County, while 1,586 residents of the county moved to other locations in Vermont; a net increase of 1,044 persons among Vermonters alone.¹³ The data also makes it clear that a significant number of new Chittenden County residents originated in New Hampshire, Massachusetts, Rhode Island, New York and Connecticut. Burlington's mix of physical setting, active downtown, university town and multi-modal access all contribute to this population inflow.

Comparative household change rates for Burlington City, Chittenden County and Vermont are shown in the table on the following page.¹⁴

¹³ Source: U.S. Census Bureau Census Flow Mapper.

¹⁴ Source: U.S. Census Bureau, American Factfinder.

**Household Change: Burlington City; Chittenden County; Vermont:
(2000 – 2014)**

	2000	2010	2014	% Change 2000-'14	Absolute Change 2000-'14
Burlington	15,885	16,119	16,337	+2.8%	452
% Change		+1.5%	+1.4%		
Chittenden Cty.	56,452	61,827	63,086	+11.8%	6,634
% Change		+9.5%	+2.0%		
Vermont	240,634	256,442	257,252	+6.9%	16,618
% Change		+6.6%	+0.3%		

Household growth rates exceed population growth rates as a result of decreasing average household sizes, and reflect both growth in the upper age bracket population (older households are typically smaller) and the continued attractiveness of Burlington/Chittenden County to younger, smaller households.

Projections for Chittenden County indicate that the number of households will increase from the current (2016) total of 61,394 to a 2021 level of 64,740 households, an increase of 3,346 – or 670 new households on an annual basis.¹⁵

Comparative recent change in median household income for Burlington City, Chittenden County and Vermont are shown in the table below.¹⁶

**Median Household Income Change: Burlington City; Chittenden County; Vermont:
(2000 – 2014)**

	2000	2010	2014	% Change 2000-'14
Burlington	\$33,070	\$38,997	\$42,745	+29.3%
% Change		+17.9%	+9.6%	
Chittenden Cty.	\$47,673	\$60,369	\$64,243	+34.8%
% Change		+26.6%	+6.4%	
Vermont	\$40,856	\$51,605	\$54,447	+33.3%
% Change		+26.3%	+5.5%	

¹⁵ Source: ESRI – Household Income Profile.

¹⁶ Source: U.S. Census Bureau, American Factfinder.

Median household incomes in Chittenden County are substantially higher than those in the remainder of Vermont, and have grown at a faster rate in recent years. Burlington City's relatively low median income levels reflect: 1) a significant student population; 2) the presence of a significant number of young households at the front end of their earning capacity; and 3) the significant presence of lower income households typical of more urbanized communities.

Summary

Burlington and the Burlington MSA/NECTA compare quite favorably to the U.S. and Vermont with respect to virtually all indicators, ranging from employment to housing to growth in key industry segments that will create a market for the project. Sustained growth and economic improvement in the Burlington area make it unusual in the northeast, but point to a number of factors that make the region attractive to new residents – and developers. Overall, the indicators point to a strong market in which to undertake a mixed-use urban project.

Residential Market

The residential component of the project, which will encompass 309,000 gross square feet of project area, will be composed of three distinct rental housing types, each addressing a different target market. The components are:

- **Affordable Housing – 55 Units:** the units will be affordable to households whose income is less than 65 percent of the Adjusted Median Income (AMI) for the Burlington/S. Burlington MSA. Although not finalized at the time of writing, the unit mix is likely to primarily include one and two bedroom units.
- **Market Rate Units – 139 Units:** the units will be rented at market rates to households seeking rental housing in Burlington’s downtown area. The unit mix will include: Efficiencies; One Bedroom; and Two Bedroom units.
- **Student Housing – 80 Units:** Champlain College has signed a letter of intent to master lease 80 units for use by its students. The unit mix is not finalized at the time of this writing.

Background – Housing Inventory & Downtown Resident Demographics

The table below provides a summary overview of housing stock at the Vermont, Chittenden County and Burlington levels.¹⁷

Summary Housing Stock: Vermont; Chittenden County; Burlington (2014)

	Vermont	Chittenden Cty.	Burlington	Burlington as % of County
Total Housing Units	324,332	66,482	16,828	25%
Occupied Housing Units	257,252	63,086	16,337	26%
Multi-Family Units	73,624	23,213	10,204	44%
<i>As % of Total Units</i>	22.7%	34.9%	60.6%	
Renter Occupied Units	74,835	22,196	9,702	44%
<i>As % of Occupied Units</i>	29.1%	35.2%	59.4%	

Although Burlington accounts for 25 percent of the county’s total housing stock, it accounts for 44 percent of the county’s multi-family units and renter-occupied units, a

¹⁷ Source: U.S. Census Bureau, American Factfinder.

reflection of the city's high level of urbanization and the concentration of renter households within the city.

As noted in the preceding report section, Chittenden County's residential market is active, with new development (Permits) increasing and housing pricing on an upward trend. While Burlington's housing pricing levels (Ownership and Rental) are on the increase, the amount of *new* residential development has been minimal. The table below compares 2005 to 2015 Residential Building Permits for Vermont, Chittenden County and Burlington.¹⁸ The table shows, Single-Family, Multi-Family and Total Permits.

**Residential Building Permits: Vermont; Chittenden County; Burlington
(2005 – 2015)**

<i>Residential Building Permits</i>											
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Vermont											
<i>Single Family</i>	2,360	2,071	1,583	1,057	897	982	805	889	958	979	936
<i>Multi-Family</i>	557	555	473	387	470	339	494	412	544	568	1,062
Totals	2,917	2,626	2,056	1,444	1,367	1,321	1,299	1,301	1,502	1,547	1,998
Chittenden Cty.											
<i>Single Family</i>	349	346	262	171	165	203	181	238	235	241	na
<i>Multi-Family</i>	152	142	239	189	243	208	377	222	354	292	na
Totals	501	488	501	360	408	411	558	460	589	533	na
Burlington											
<i>Single Family</i>	10	10	8	5	4	4	2	6	6	4	na
<i>Multi-Family</i>	0	0	0	0	0	0	0	0	0	0	na
Totals	10	10	8	5	4	4	2	6	6	4	na

We note several points:

- At the statewide and county-wide level, housing permits are on the upswing: Vermont averaged 892 permits annually from 2010 to 2012 and 958 permits annually from 2013 to 2015. Chittenden County averaged 207 permits annually from 2010 to 2012 and 238 permits annually from 2013 to 2015.
- Chittenden County accounted for 27 percent of new housing permits in the state between 2013 and 2015.

¹⁸ Sources: HUD State of the Cities; Homefacts.

- Burlington's new housing production is at a low level. Between 2005 and 2014, Burlington accounted for only 1.2 percent of all of Chittenden County's permits.

Burlington's lack of multi-family/rental housing production in recent years is a reflection of many factors, including developable land availability and land pricing, regulatory hurdles and, until recent years, the economics of new rental housing production. However, given recent increases in market rents, housing production is now economically feasible. We note the following:

- A continuing issue for the multi-family market is a lack of available inventory, especially in Burlington, the most active market for investment properties. Realtors note that properties that are in good condition and in prime locations continue to sell quickly.¹⁹
- Demand for housing in Burlington is strong across all categories. The city is attractive for living, a reflection of low crime rates, low unemployment, high quality of life, access to outdoors, well-regarded schools and access to healthcare.
- As the economic center of Vermont, Burlington draws employers to its downtown area because of the skilled and educated labor pool with potential for growth. As more of the students graduating from the city's colleges choose to stay in Burlington to work for new start-up companies, housing has not been able to keep up. This is especially true in more popular neighborhoods like downtown where rental rates have grown since 2002 and are now \$2.50 per square foot per month for new projects in downtown locations.

We also note the following from an assessment of housing needs in Burlington's downtown area, regarding 'who' wants to live in the downtown area:²⁰

- New households in the downtown and waterfront areas have primarily been single-person households, renters, and headed by someone who is under the age of 65.
- The fastest growing population segment in the downtown and waterfront areas is the 45-65 age group, consistent with widespread trends as baby boomers age. However, like Burlington, roughly 60% of the study area's households are headed by someone who is younger than 35—substantially more than in

¹⁹ Source: Hickock and Boardman.

²⁰ See: *Housing Needs in Burlington's Downtown & Waterfront Areas*, City of Burlington Planning & Zoning Department.

Chittenden County as a whole, at least in part because of the off-campus college student population.

- Only 35% of Chittenden County's households are renters. This percentage is significantly higher in Burlington and in the downtown and waterfront study area. Fifty-nine percent of the households of Burlington and 88% of the households in the study area are renters.

There is a growing group of households that seeks to live in urban locations, particularly mixed-use neighborhoods that offer services, stores and 'lifestyle' that are consistent with the households' needs – within easy walking range. In many markets, this group includes both young and just-retired households. Burlington's preponderance of students and recent graduates weights the market toward younger households.²¹

Residential Market Factors

Market Demographics

Household age by income data is by far the most instructive indicator of household decision-making/behavior with respect to frequency of moves and housing preferences. Not surprisingly, a young, relatively low income household's housing need is substantially different from that for an upper age, upper income bracket household. The table on the following page shows the following current/projected data for: Chittenden County:²²

- Current (2016) number of households by age/income bracket;
- Projected (2021) number of households by age/income bracket;
- *Change* in number of households by age/income bracket over the 2016 to 2021 period.
 - Age x Income groups that are projected to experience the largest absolute increases are highlighted in the third component of the table.

Household Age by Income Change: Chittenden County (Change 2016 – 2021)

²¹ Sources: Various Articles; Urban Land Institute; American Planning Association.

²² Source: ESRI. For purposes of analysis, we regard Chittenden County as a reasonable approximation of downtown Burlington's residential 'market area.' Given recent migration rates, it is also reasonable to assume that a significant segment of potential tenants in the project will originate from more remote geographies.

2016		HH Age Group						
HH Income Group		25-34	35-44	45-54	55-64	65-74	75+	Totals
	\$0-\$34,999	3,208	2,025	1,976	2,466	2,238	2,838	14,751
	\$35-\$49,999	1,452	1,192	1,070	1,205	1,066	1,046	7,031
	\$50-\$74,999	2,077	1,768	2,101	2,304	1,760	1,055	11,065
	\$75-\$99,999	1,451	1,627	2,165	2,212	1,162	397	9,014
	\$100-\$149,999	1,541	2,301	2,891	2,740	1,266	481	11,220
	\$150-\$199,999	494	875	1,359	1,212	427	110	4,477
	\$200,000+	276	640	1,261	1,102	442	115	3,836
	Totals	10,499	10,428	12,823	13,241	8,361	6,042	61,394
2021		HH Age Group						
HH Income Group		25-34	35-44	45-54	55-64	65-74	75+	Totals
	\$0-\$34,999	3,300	1,971	1,596	2,215	2,587	3,201	14,870
	\$35-\$49,999	1,460	1,043	833	1,040	1,162	1,123	6,661
	\$50-\$74,999	1,679	1,423	1,395	1,781	1,738	1,055	9,071
	\$75-\$99,999	1,726	1,821	2,017	2,343	1,604	543	10,054
	\$100-\$149,999	1,988	2,776	2,923	3,254	1,938	779	13,658
	\$150-\$199,999	720	1,172	1,547	1,593	707	193	5,932
	\$200,000+	356	755	1,253	1,286	661	183	4,494
	Totals	11,229	10,961	11,564	13,512	10,397	7,077	64,740
Change 2016-'21		HH Age Group						
HH Income Group		25-34	35-44	45-54	55-64	65-74	75+	Totals
	\$0-\$34,999	+92	(54)	(380)	(251)	+349	+363	+119
	\$35-\$49,999	+8	(149)	(237)	(165)	+96	+77	(370)
	\$50-\$74,999	(398)	(345)	(706)	(523)	(22)	+0	(1,994)
	\$75-\$99,999	+275	+194	(148)	+131	+442	+146	+1,040
	\$100-\$149,999	+447	+475	+32	+514	+672	+298	+2,438
	\$150-\$199,999	+226	+297	+188	+381	+280	+83	+1,455
	\$200,000+	+80	+115	(8)	+184	+219	+68	+658
	Totals	730	533	-1,259	271	2,036	1,035	3,346

In absolute terms, the county's two most significant household income groups are the \$0 to \$34,999, \$50,000 to \$74,999 and \$100,000 to \$149,999 brackets. From an age perspective households aged 45 to 64 account for the largest share of the total. The 'change' portion of the table (3rd component) shows that households aged 65 to 74 years (Baby Boom/Empty Nesters) will experience the most significant absolute increase and that younger households, aged 25 to 44 years, will continue to increase. In addition,

note that lower income/upper age bracket households will increase in absolute terms, reflective of the growing demand for affordable senior housing in the Burlington market. Both of these demographics have shown an increased propensity to rent in urban areas in recent years.

The current (2016) household age/income data has also been assessed in terms of 'propensity to move.' Only a segment of qualified households will be seeking a change in housing at any given time. As such, it is helpful to assess the 'propensity to move' within age/income categories in order to develop a better estimate of the size of the potential market. Households in various age and income groupings display markedly varied propensities to move within the course of a year. Most significantly, the propensity to move declines with increased age and income. Thus, younger, lower income households are most likely to move (often more than one move during a 12 month period), while older, higher income households are least likely to move. In addition, households in rental housing have a higher propensity to move than do homeowners. It has also become evident in recent years that pre-retirement and recently retired households have a somewhat elevated propensity to move – often for the purpose of 'downsizing.'

As a measure of the volume of activity, the market pool estimates, as broken down by age and income, have been applied to propensity to move factors specific to each age/income group, based upon a variety of research studies.²³ The result of these calculations is an estimate of the number of market area households likely to be seeking to move within the course of one year. Note that these figures include moves to all types of housing. The figures in the table show *households now (2016) living in Chittenden County who can be expected to move within the course of one year.*

²³ Sources include:

- Ernst and Young Real Estate Journal
- American Demographics
- American Housing Survey - U.S. Census Bureau
- Current Population Reports - U.S. Census Bureau

Propensities to move values have been adjusted to account for lower than average propensities in the northeast region.

Propensity to Move by Age/Income Group: Chittenden County (2016)

	Households Expected to Move in 12 Months						Totals
	25-34	35-44	45-54	55-64	65-74	75+	
\$0-\$34,999	1,692	408	326	196	126	352	+3,100
\$35-\$49,999	578	181	133	72	45	98	+1,107
\$50-\$74,999	767	250	243	128	69	92	+1,549
\$75-\$99,999	365	157	170	84	31	24	+831
\$100-\$149,999	284	162	166	76	25	21	+733
\$150-\$199,999	97	66	83	36	9	5	+296
\$200,000+	34	30	49	21	6	3	+144
Totals	3,817	1,254	1,170	613	311	595	7,760

More than 7,700 Chittenden County households can be expected to make a move over a 12 month period. Given typical moving patterns, the most significant number of moves will be made by young, lower income households. However, note that approximately 2,650 moves will be made by households with incomes in the \$35,000 to \$74,999 range – a group that includes a substantial number of renters.

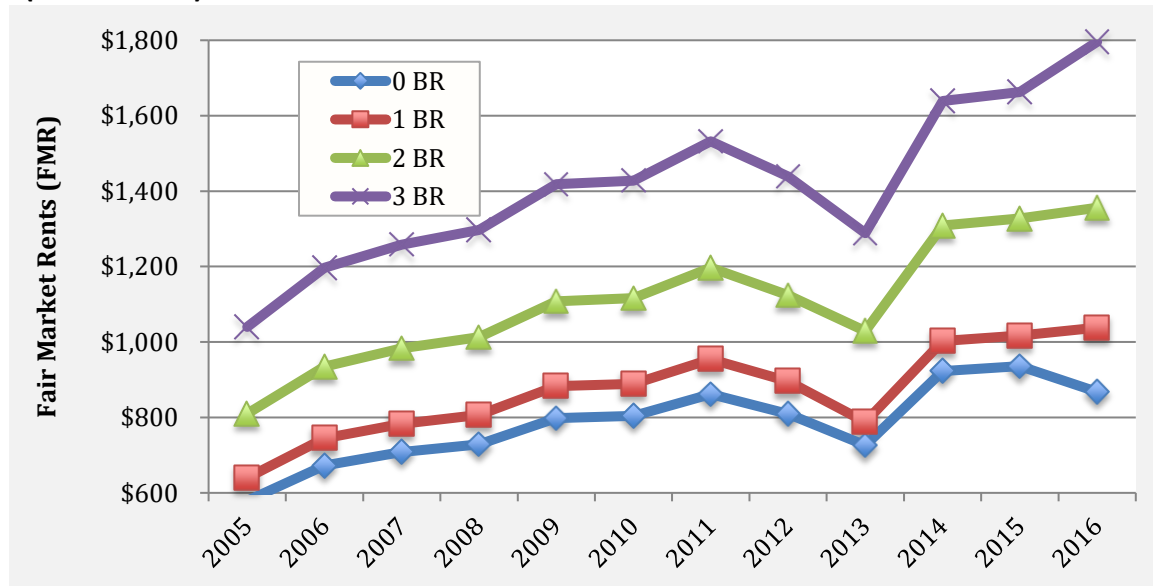
Rental Market Indicators

Market Rents

As a measure of changes in rents over time, trends in Fair Market Rents (FMRs) for 0, 1, 2, and 3 Bedroom units in Burlington - as reported by HUD for the period 2005 to 2016, are shown in the graphic on the following page.²⁴

²⁴ Source: HUD User, FY2016 FMR. *Fair Market Rent* in the US context is the amount of money that a given property would command, if it were open for leasing at the moment.

**FMR Trends: Burlington 0, 1, 2 and 3 Bedroom Units:
(2005 – 2016)**



Burlington FMRs for 0 to 3 Bedroom units increased at an annual rate of 4.5 percent between 2005 and 2016. By contrast, the Consumer Price Index (CPI) increased at an annual rate of only 1.9 percent between 2005 and 2015.²⁵ FMRs have increased sharply since a low point in 2013; the annual rate of increase since 2013 has been 9.3 percent.

We also checked several other sources as indicators of *current* market rates for rentals in Burlington.

- The 'Grid Guide: Rental' reports the following regarding rental rates as of September 3, 2016 – see table on following page.²⁶

²⁵ Source: Federal Reserve Bank, Boston.

²⁶ Source: Grid Guide: Rental website. The site is a free advertising site for apartment rentals with data available specifically for Burlington.

**Low/High/Average Current Rental Rates:
Burlington (9/16)**

	Monthly Rental Rates		
	Low Range	High Range	Average
0 BR	\$750	\$800	\$775
1 BR	\$900	\$1,300	\$1,107
2 BR	\$1,250	\$1,600	\$1,427
3 BR	\$1,500	\$1,800	\$1,612

- We completed a review of rental listings in available media sources to provide an alternative source of market rents.²⁷ The data is summarized in the table below. It was not possible to draw statistical conclusions for zero and three bedroom units because the number of listings is limited - likely a reflection of extremely low vacancy in the market and relatively few three bedroom units in the city's housing stock.

**Low/High & Median Current Rental Rates:
Burlington Rental Media Sources
(August/September 2016)**

	Monthly Rental Rates		
	Low Range	High Range	Estimated <i>Median</i> Market Rates
1 BR	\$995	\$1,400	\$1,230
2 BR	\$1,200	\$2,400	\$1,450

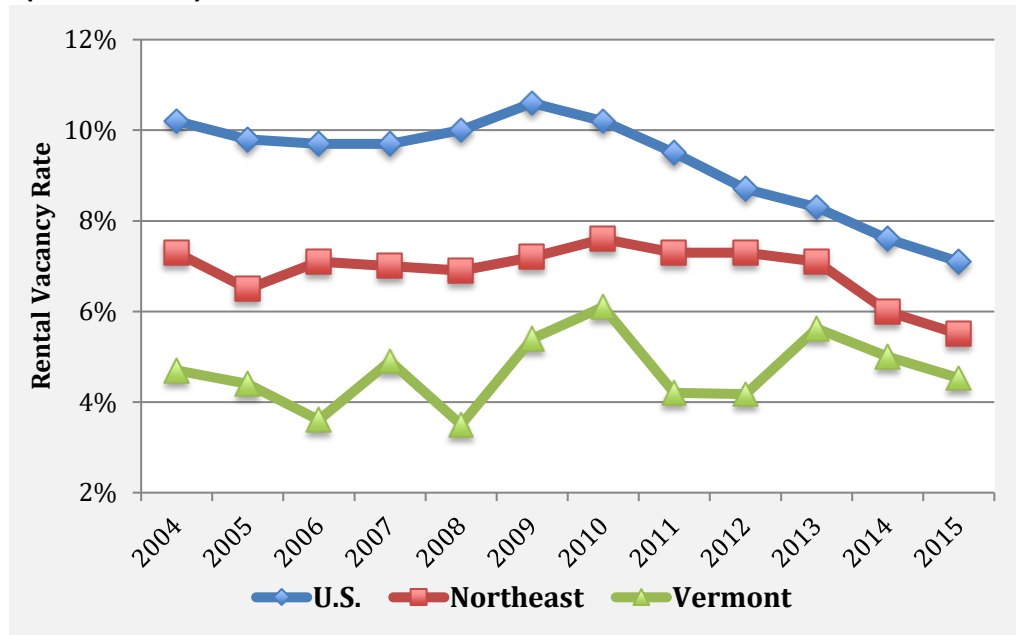
Rental Vacancy Rate

Vermont has consistently experienced lower rental vacancy rates than the northeast or U.S during the past decade. This is shown in the graphic below which compares 2004 to 2015 rental vacancy rates for Vermont, the Northeast Region and the U.S.²⁸

²⁷ Sources Include: Craigslist, Burlington Free Press, Zillow, Trulia, Hotpads.

²⁸ Source: U.S. Census Bureau – Housing.

**Rental Vacancy Rates: Vermont; The Northeast; U.S.:
(2004 – 2015)**

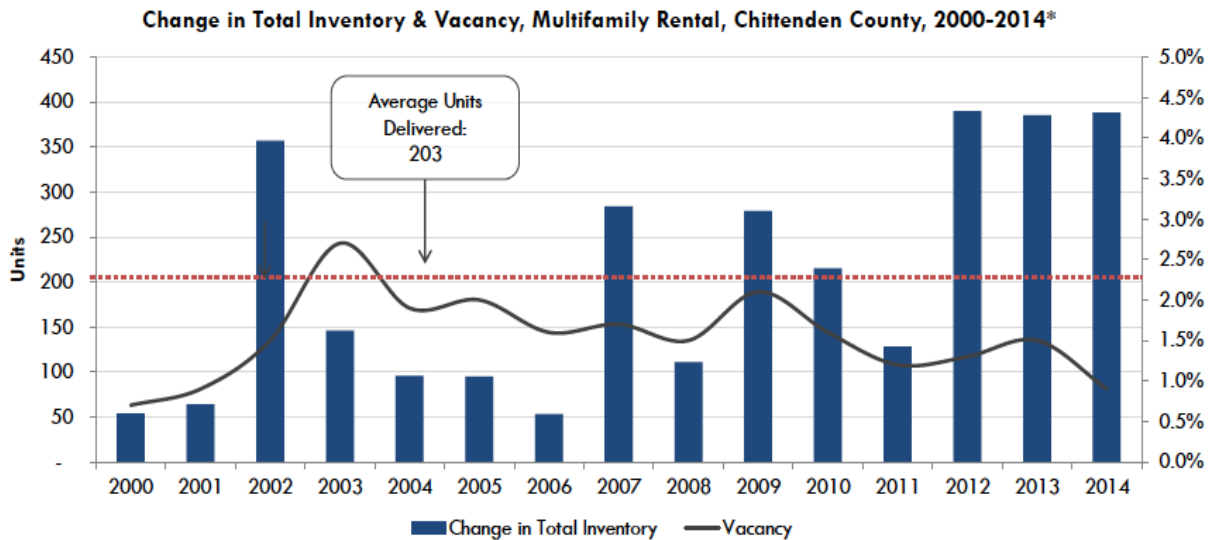


The 2015 Vermont-wide rental vacancy rate was 4.5 percent in 2015; this compares to 5.5 percent for the northeast and 7.1 percent for the U.S.

The graphic on the following page shows estimates of change in total rental inventory and rental vacancy rate for Chittenden County, for the period 2000 to 2014.²⁹

²⁹ Source: Burlington South End Market Study, based on HT & A Advisors, Inc. analysis of data provided by Allen & Brooks.

Change in Rental Inventory & Rental Vacancy Rate: Chittenden County: (2000 – 2014)



Note that county-wide ‘Inventory’ increased significantly between 2012 and 2014, even as the vacancy rate continued to decrease.

Vermont’s urbanized communities typically experience lower rental vacancy rates than its rural areas. This is particularly true for Burlington, where several observers have stated that the current vacancy rate particularly low. While these statements are often anecdotal, statistically-based estimates of the vacancy rate confirm a low rental vacancy rate:

- Current review of available Burlington rentals in media and listing sources indicates that the number of rental vacancies is in the 40 to 50 unit range; this corresponds to a rental vacancy rate of 0.46 percent;³⁰
- U.S. Census Bureau housing data for 2010 showed a Burlington rental vacancy rate of 1.6 percent; this had decreased to 1.1 percent by 2014;
- U.S. Census Bureau housing data for 2010 showed a Chittenden County rental vacancy rate of 3.1 percent; this had decreased to 2.5 percent by 2014. Recent estimates place the county vacancy rate at 2.1 percent.³¹

Based on the data, a reasonable current estimate of Burlington’s rental vacancy rate is in the 1.0+/- percent range. This is indicative of a market where demand is far outpacing supply. As noted above, the past decade has seen minimal development of rental or

³⁰ Sources include: Grid Guide, Craigslist, Burlington Free Press, Zillow, Trulia, Hotpads.

³¹ Source: Allen & Brooks.

condominium projects of any scale. New supply has been delivered piecemeal through occasional small-scale development projects. The limited development left the market under supplied and resulted in significant pent up demand.³²

Finally, we note that a recent HUD report include a forecast of housing demand for the Burlington HMA (Chittenden, Grand Isle, Franklin Counties Combined). The report indicated that, 'in order to achieve a balanced market at the end of the forecast period,' the Burlington HMA would need new production of 850 rental units between January of 2016 and January of 2019; an average of approximately 285 new units annually.³³

Affordable Rental Housing Market

The project program includes 55 affordable rental apartment units. As noted above, the affordable units may be targeted to households that earn less than 60% of the area median income (AMI). It is expected that these units will include a mix of one and two bedroom units. Maximum affordable rents for 60 percent units in Burlington are currently:³⁴

- One Bedroom Units - \$945;
- Two Bedroom Units - \$1,134.

In both instances, the allowable rents are less than the median market rents in the Burlington market, thus offering an affordable rental housing option for households with incomes less than 60 percent of the AMI.

Assuming the project's mix will be composed of one and two bedroom units, households of one to four persons could be eligible for tenancy. The current 65 percent of median income limits for households of this size range are:³⁵

- One Person HH - \$35,280;

³² Note that a major proposal for 675 housing units (Rental Apartments and Condominiums) is currently in the planning process for the former Burlington College. The property is adjacent to the lake and North Avenue.

³³ See: *Comprehensive Housing Market Analysis Burlington Vermont*, U.S. Department of Housing and Urban Development, January 1, 2016.

³⁴ Again, the 60 percent standard is more stringent CEDO – City of Burlington, Fair Market and Affordable Rents - website.

³⁵ HUD Published Income Limits for 2016 – 60 percent AMI. In practice, relatively few four person households occupy two bedroom units.

- Two Person HH - \$40,320;
- Three Person HH - \$45,360;
- Four Person HH - \$50,400.

Affordable Housing Background

Cathedral Square is a non-profit organization created in 1977 that focuses on the development and operation of communities for seniors and individuals with special needs. Cathedral Square manages 29 communities in Chittenden, Franklin, and Addison counties housing more than 1,127 Vermonters in independent, shared, and assisted living housing. Properties are well maintained with high REAC scores and positive resident survey results.

Current demand for Cathedral Square's housing projects is overwhelming, with a significant excess of demand over supply. There are over 800 people on the waiting list hoping to move in to Cathedral Square properties. All of CSC's properties (30) offer SASH, and the overall portfolio waitlist currently has 808 non-duplicated households, not including current residents on another properties' waitlists or those on the Cathedral Square Assisted Living property waitlist. For the quarter ending 9/30/15, the portfolio-wide occupancy rate was higher than 99 percent.

As noted above, the vacancy rate in the Burlington market is extremely low. Moreover, the vacancy rate for affordable and subsidized elderly units is even lower than the private sector rate. A recent survey of 'Government-Subsidized Rentals' in Chittenden County placed the effective vacancy rate at 0.0 percent for Studio, 1, 2, 3 and 4 bedroom units.³⁶ Our survey of comparable (Tax Credit) senior projects in South Burlington indicates that vacancy rates are effectively at 0.0 percent; vacancies only occur in the instance of unit turnover.³⁷

The graphic below shows statistics based on a recent survey of government-sponsored rental housing supply in Chittenden County.³⁸

³⁶ Source: Bowen National Research, *Chittenden County Housing Needs Assessment*.

³⁷ Sources: Cathedral Square Inc.; Green Mt. Development Group-Summit Property Management; Housing Vermont; Champlain Housing Trust.

³⁸ Source: *Chittenden County Housing Needs Assessment*, Bowen National Research.

**Survey of Government Sponsored Rental Housing Supply In:
Chittenden County**

Multifamily Rental Housing Supply				
Program Type	Projects Surveyed	Total Units	Vacant Units	Occupancy Rate
Market-Rate	22	1,289	21	98.4%
Market-Rate/Tax Credit	29	1,459	32	97.8%
Market-Rate/Government-Sub.	2	184	0	100.0%
Tax Credit/Market-Rate/Govt.-Sub.	6	264	0	100.0%
Tax Credit	14	335	1	99.7%
Tax Credit/Government-Subsidized	6	221	0	100.0%
Government-Subsidized	13	534	0	100.0%
Total	92	4,286	54	98.7%

The survey found an overall occupancy rate of 98.7 percent in all units types (1.3 percent vacancy rate).

Affordable Unit Summary

In sum, the demand for affordable and subsidized housing in Burlington and surrounding Chittenden County is indicative of qualified household demand that far exceeds supply. Virtually any affordable units that are brought to the market are leased in advance of actual occupancy and waitlists for existing housing typically represent one or more years of ‘wait-time.’

The units to be made available by the project will be particularly attractive to the market:

- A prime location in downtown Burlington’s core area with walking access to all major services as well as access to project services. The potential inclusion of a grocery store in the commercial portion of the project would enhance the project’s appeal as a residential location. Moreover, the project is located within walking distance of a number of large and small downtown employers;
- Potential views from units encompassing Lake Champlain and the city as well as areas to the north, south and west;
- A residential location that will not require households to own a personal vehicle to meet day-to day needs. In addition to walking access to all of downtown services, residents will have direct access to the area transit system.

Given these factors, we feel it is more than reasonable to project that the 55 units will be fully leased in advance of initial occupancy and that the project will immediately develop a tenant wait-list. We expect that the project will be primarily attractive to younger and older (Empty Nest) households, including singles and small households.

Market Rate Rental Housing Market

The project will include 139 market rate rental units. The units will be available to renters at any income level and will likely include a mix of Efficiencies; One Bedroom and Two Bedroom units. At the time of this writing, monthly rental rates were projected as following:

- Efficiencies - \$[REDACTED] per month;
- One Bedroom - \$[REDACTED] per month;
- Two Bedroom - \$[REDACTED] per month.

The average unit size – for *all* residential units – will be 1,040 square feet.

Under the assumption that prospective tenants are willing to devote 35+/- percent of their annual income to rental costs, the project's primary appeal (based on the rental values above) will be to households with annual incomes in the \$30,000+/- to \$80,000+/- range.

While we would expect the project to be primarily attractive to households with one or two persons, two bedroom units might also hold appeal for households with three persons.

Market Rate Rental Housing Background

The most common type of housing in downtown and waterfront neighborhoods is 7market-rate rental housing, including a segment that is rental housing (subsidized/affordable) through public programs for very low and lower income households. Only 12% of the area's housing stock is owner-occupied homes.³⁹

³⁹ Source: *Housing Needs in Burlington's Downtown & Waterfront Areas*, City of Burlington Planning & Zoning Department.

For those who follow the housing market, the news regarding the ‘urban/high density’ market has been positive. In short, for a segment of the market, the preference for higher density living in neighborhoods with significant amenities and services has become apparent in recent years. This trend has resulted in a revitalization of the downtown residential market in a number of large and small cities in the U.S. Although this is a clear trend that *has* had an impact in the market, two points are essential to note:

- The move back to urban living is only a preference for a segment of the market; households with children continue to prefer less urban options;
- The most popular urban neighborhoods are those that provide easy walking distance to day-to-day services, groceries and lifestyle businesses (Coffee/Internet shops).

With regard to demographics, there are two major U.S. age groups that hold continued promise for the urban living trend:

- Persons aged 25 to 34 years – while the younger portion of this group is generally seeking apartments and ‘entry-level’ condominiums, the upper end of the age bracket seeks higher quality rentals or condominiums with premium locations, views and related services. At the U.S. level, this age group will grow by approximately 4.2 million persons between 2010 and 2020.
- Persons aged 55 to 74 years – persons within this age bracket seek a downsized living unit with walking access to services and day-to-day needs as well as in-unit quality. A portion of this market prefers to rent. At the U.S. level, this age group will grow by approximately 8.5 million persons between 2010 and 2020.

Burlington’s residential rental and for-sale markets have been the beneficiary of a diverse regional economy combined with a growing population of students, professionals, and second home residents that move to the city for university, job prospects, and the breadth of cultural and recreational amenities offered in the urban area. In fact, the migration from out of state to the Burlington area has made up approximately 65% of total population growth.

As is the case in most tech-driven cities, Burlington has experienced a renewed interest in downtown, urban living. According to a city housing report, Burlington currently has approximately 4,750 households (5.6% of total city households) residing within a half-mile radius of Burlington’s downtown core with only Madison, WI having more among comparable sized “college towns.” Supply remains the only restricting factor for more downtown households. Residents are attracted to the downtown’s 24-hour character and the range of amenities made available by its diverse commercial and municipal

offerings, while spatial limitations, restrictive zoning, and prohibitive land and development costs have converged to constrain supply.

The city has identified the downtown area for improved public transportation and increased density to encourage a more walkable core area. Planning recognizes the need for development areas to meet the housing needs of the city and as a result designated the downtown area and Pine Street corridor for future multi-family development.

Opportunities to rent (or own) housing in the downtown have been severely limited by a lack of new housing production in recent years. Population growth and the attractiveness of urban living, combined with limited production are largely responsible for a low rental vacancy rate and well above CPI increases in rental rates.

Market Rate Rental Summary

We feel that the following are critical considerations regarding the potential for the market rate units:

- The units will be an attractive residential offering in the downtown Burlington market:
 - The project's location is central in the downtown core, offering walking access to all of the downtown's commercial and public services;
 - The project's location is within easy walking distance of the Lake Champlain lakefront as well as other active and passive recreational areas;
 - Many units will have views of Lake Champlain and the city as well as other local/regional views.
- Rental vacancy rates are extremely low and the lack of new downtown housing production in recent years has resulted in built-up demand for quality rental opportunities in the core area;
- The demographic analysis (See Table: *Propensity to Move by Age/Income Group: Chittenden County*, p. 33) indicates that, within a 12 month period, approximately 3,500 households within incomes ranging from \$35,000 to \$99,000 will move to a new housing situation. More specifically, approximately 2,100 households in the above income range – and aged either 25 to 34 years or 55 to 74 years will make a move during a 12 month period.

While Chittenden County presents a range of housing offerings that could be attractive to households in these age/income ranges, it is apparent that the project's market rate offering will be a consideration for a segment of this market, particularly in light of the project's competitive advantages, as summarized above. If the project's market range were to be limited solely to Chittenden County, a capture rate of six to seven percent (among targeted age/income households) would be required to achieve full absorption.⁴⁰ However, current rates of in-migration to Chittenden County make it clear that a significant portion of the units will be rented by households moving into the county. Under the assumption that 25 percent of the units (35+/- Units) will be rented by households who now live outside Chittenden County, the remaining units (104+/- Units) will only require a 5.0 percent capture rate among targeted age/income households.

- The developer's projected rents for the market rate units, will be at the higher end of the range for the Burlington market. However, the combination of central downtown location, access to employment, access to on-site and 'walkable' services, views available from units and high quality/new units make this a reasonable assumption given high demand and limited supply in the market. The higher range rents will reduce the capture rate among eligible households; however, the potential market is sufficiently large to allow for a reduced capture rate.

Student Housing Market

The project includes 80 units that may be rented under a master lease to Champlain College students. This segment will include a mix of unit sizes.

Student Housing Background

Limited on-campus housing at area colleges and universities generates student demand for private market housing. The Burlington region is home to several colleges and universities that serve a combined enrollment of 17,000+ students, of which only 53 percent are housed on-campus. While a portion of the students living off-campus are residents commuters or studying overseas, a significant number must find alternative accommodations in the local housing market. Students attending the University of Vermont and Champlain College, both located on the periphery of downtown Burlington, represent 90 percent of regional off-campus student housing demand. While

⁴⁰ 139 units/2,100 Households = 6.62 percent.

recent efforts have been made by both schools to increase the supply of student housing on and off-campus, many students find themselves competing for housing with other Burlington residents in the private market. Downtown apartments and single family rentals in surrounding neighborhoods, including the Old North End, appeal to a student population that values proximity to campus and units that offer potential for roommate configuration.⁴¹

A recent estimate of enrollments and on-off campus living is shown in the table below:⁴²

Student Housing Demand: Burlington (2011, 2014/15)

Institution	Enrollment, 2010-2011*	On-Campus Beds, 2010-2011	Students Living Off-Campus²	% Students Living Off-Campus
University of Vermont (including medical students)	12,122	5,707	6,415	52.9%
Champlain College	2,000	1,220	780	39.0%
St. Michael's College	2,500	2,000	500	20.0%
Burlington College	185	24	161	87.0%
Albany College of Pharmacy	150	116	34	22.7%
Vermont Technical College (full-time students)	300	22	278	92.7%
Total	17,257	9,089	8,168	47.3%

Student Housing Rental Summary

The project developer has executed a letter of intent with Champlain College to lease the 80 student housing units to Champlain College students under a master lease agreement. The Letter of Intent specifies a five-year lease period (with renewal options) following delivery/occupancy of the units. Rents will be based on 'current market conditions.'⁴³

As such, the 80 student units are projected to reach full occupancy upon delivery and will maintain full, effective occupancy/stability over the lease term.

⁴¹ Burlington Area Colleges and Universities, 2011.

⁴² See: Burlington Student Housing, Allen & Brooks Residential Report.

⁴³ See: Letter of Intent – Champlain College to BTC Mall Associates, LLC, April 4, 2016.

Retail Market

The retail component of the *completed* Burlington Town Center project comprises 289,000 gross square feet of retail space, including 61,000 square feet in the existing/operating Burlington Town Center retail center;⁴⁴ This space will continue to operate during the construction of Phases 1 and 2. Thus, the net new retail space to be developed totals 228,000 gross square feet.

As described by the developer, the project will include new retail space designed for a variety of fashion, electronic, specialty and service tenants ranging from national and regional retailers to local Vermont businesses. The total retail space is 228,000 square feet stretching from Church Street on the east to Pine Street on the west. A portion of the existing retail space will continue to operate throughout the development period and provide project income. However, this income has not been included in the financial feasibility analyses included in this report (See: *Absorptions Projections & Project Feasibility*). This space (61,000 sq. ft.) is located off Church Street and comprises the eastern portion of the project site.

It is also significant to note that the developer intends to lease a portion of the 'retail' space to service users, both to increase the attractiveness of the project as a place to live and/or work, and to broaden the potential scope of potential tenants in commercial space. Potential tenants may include: Child Care Center; and a Medical Walk-In Clinic. In addition, the developer aims to add a grocery business to the project mix. A grocery operation would enhance the marketability of the residential portion of project – providing a significant convenience to potential residents.

While the existing retail component of the site is configured as an interior mall, it is the developer's intent to configure the expanded retail center to be 'outward facing' to the surrounding streets, in order to drive foot traffic to the entirety of the project. This approach is typified by the existing LL Bean store on Cherry Street.

The Project is located in a prime downtown location with direct access to the Church Street Marketplace, The Marketplace benefits from a strategic downtown position, proximity to waterfront activities and nearby arts-and-entertainment venues like the Flynn Theater. The Marketplace is within easy walking distance for residents of most of the older neighborhoods of Burlington and is within cycling distance the majority of the city. The Marketplace is a primary attraction for visitors and tourists in Burlington.

⁴⁴ Burlington Town Center *in its current form* comprises approximately 91,000 square feet of space; 61,000 square feet of this space will be retained in the completed project.

Retail Market Factors - Background

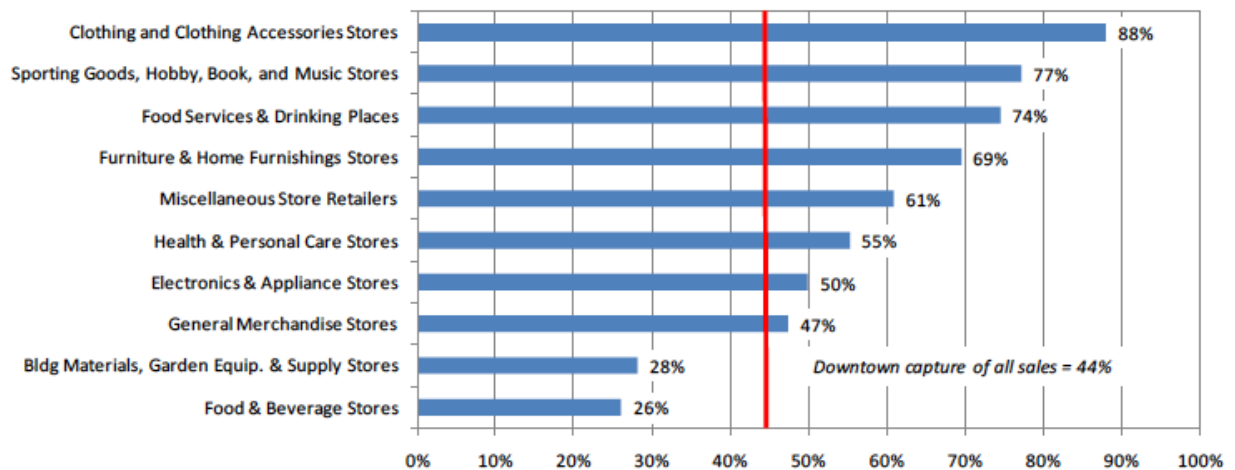
A 2011 retail analysis for downtown Burlington found the following:⁴⁵

- Of the 4.9 million square feet (SF) of retail space in Chittenden County, almost 90 percent of the space is concentrated in several communities: South Burlington (1.66 million sq. ft.), Williston (1.08 million sq. ft.), Burlington (938,000 sq. ft.), and Essex (730,000 sq. ft.);
- Current and historic vacancy rates have been relatively stable throughout the region due to limited new retail development – since 2005, Chittenden County has averaged only 78,300 sq. ft. of new retail on an annual basis, which paralleled annual average absorption of 78,000 sq. ft.;
- Retail vacancy rates throughout the region are relatively healthy, with downtown Burlington reporting a vacancy rate of 6.9 percent as of 2Q 2011; the vacancy rate in the surrounding suburbs was 4.3 percent (and as low as 3.3 percent in Williston). Various reports place the ‘historic average’ retail vacancy rate in Chittenden County at 6.6 percent.
- Aside from the redevelopment of the former Burlington Food Service building in Burlington and a new mixed use development at Five Corners in Essex Junction consisting of a four story building with 15,000⁺ sq. ft. of ground level retail/commercial space and 51 rental units on the upper floors, limited new supply is planned for 2016.⁴⁶
- Utilizing sales data from third party vendor, ESRI Business Analyst, study authors estimated that businesses contained within the downtown Burlington Study Area generated approximately \$155.2 million in annual sales, accounting for 44 percent of the City’s total retail and restaurant sales.
- The graphic on the following page – extracted from the 2011 study – shows the downtown’s share of total City of Burlington retail sales by category:

⁴⁵ See: Burlington Retail Study, the eisen group, 2011.

⁴⁶ Sources: Nedde Real Estate; New England Real Estate Journal, Allen & Brooks.

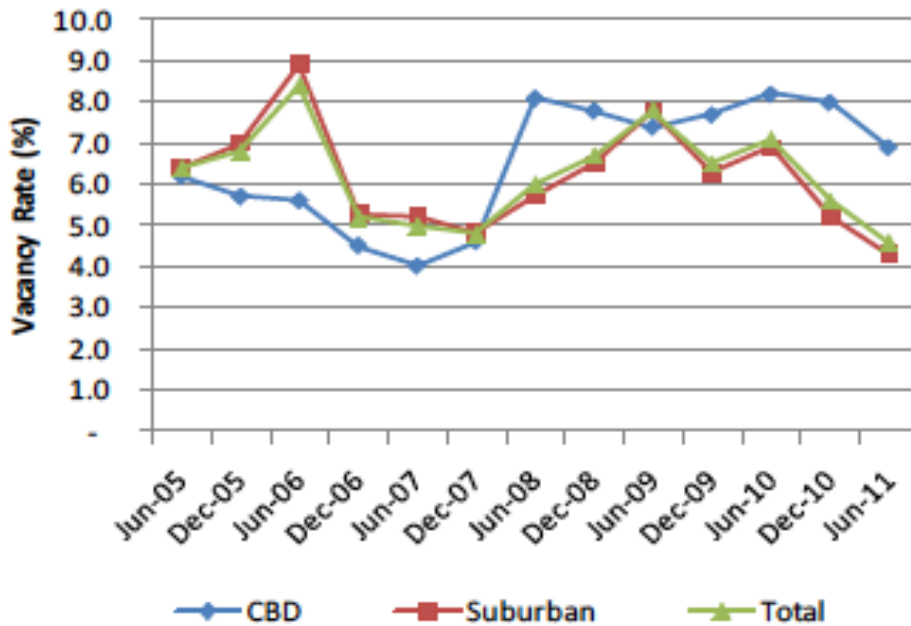
Downtown Share of City of Burlington Sales by Category



The graphic shows that downtown retailing is strong in: Clothing; Sporting Goods; Food & Drinking Places; and Furniture. In contrast, the downtown has a lesser concentration in Building Materials et. al. and Food/Beverage stores – typically larger format businesses that require significant on-site parking and direct vehicular access. Note that Food & Beverage stores are underrepresented in the downtown – reflecting the difficulty of locating traditional supermarkets – and their associated parking in a downtown area. This points to a market opportunity for a grocery business in the project.

- The 2011 study traced retail vacancy rates for the Burlington CBD, Suburban Chittenden County and the combined areas, as show in the graphic on the following page.

Retail Vacancy Trends: Burlington CBD; Suburban Chittenden County; Combined: (2005 – 2011)



Downtown retail vacancy was just under seven percent in 2011, just as the regional economy began a period of economic improvement.

- Finally, the 2011 study documented new retail supply and absorption over the 2005 to 2011 period – for Chittenden County. The survey indicated that the county averaged 78,333 square feet of new retail space annually during this period and 78,052 square feet of annual absorption during this period. As noted below, the rate of new retail development has slowed since 2011.

More recent reviews of the Burlington and surrounding area retail market note the following:⁴⁷

- **Regional Inventory** – as of 2015, there was 5.3 million square feet of retail space (in 339 buildings) within a five mile radius of downtown Burlington. This marked a 2.2% increase in supply from 2010 or less than 0.5% annual growth. The market has experienced net positive absorption of 40,134 square feet during that five year period. With no significant retail projects currently under construction in the downtown market, total retail supply will effectively remain

⁴⁷ Sources Include: Allen & Brooks; Devonwood Investors LLC, Redstone Commercial Group, Pomerleau Real Estate.

constant, and growing demand will continue to put downward pressure on vacancy in the future.

- **Rents** - The small size of the market and long-term nature of leases has kept the NNN rent relatively steady ranging between \$13.60-\$15.11/SF during the five year period examined. Rents downtown and especially along Church Street outperform the greater market by 100% with triple net (NNN) rents that exceed \$30/SF.
- **Competition** - The existing Burlington Town Center is the only shopping mall in Burlington, with a second enclosed mall, the University Mall, located in South Burlington.⁴⁸ With no major shopping malls built since the '70s, retail development is limited to smaller-shop retail and restaurant expansion. The indoor suburban model has been in decline in recent years, with the occupancy of the *existing* Burlington Town Center reflecting this national trend. Meanwhile, while discount and wholesale retail concepts continue to expand, this has occurred mostly outside of Burlington.
- **Downtown Retailing** - Burlington's most established retail submarket continues to be the Downtown District, due to the presence of mature office and retail inventory, as well as walking proximity to most major destinations. The CBD district comprises one million square feet of retail and accounts for approximately half of the city's total retail and restaurant sales at more than \$155 million in annual sales. Often cited as one of America's most successful shopping streets, the Church Street Marketplace is a four-block pedestrian mall anchored by the Burlington Town Center in the heart of downtown Burlington. The area dominates retail sales and is especially strong in growing segments of "Clothing and Clothing Accessories", "Sporting Goods, Hobby, Book and Music Stores", and "Food Services & Drinking" representing 88%, 77%, and 74% of total city sales respectively in these categories. The Church Street Marketplace's strengths in dining and entertainment, with 58% of occupied space in the Food & Beverage category, benefit from consumer behavior trends towards urban living.
- **Retail Vacancy & Rents** - The Burlington retail scene is marked by low vacancy and surprisingly high rental rates, especially in the downtown. Within a five mile radius of downtown Burlington exists 5.3 million square feet of retail space representing only a 2.2% increase in supply from 2010. The market has experienced net positive absorption of 40,000 square feet during that five year period. With no retail projects currently under construction in the downtown

⁴⁸ Recent media reports indicate that the University Mall is "in foreclosure, and will be repossessed probably by the end of the year." Reports appear to indicate that the foreclosure action is a result of the property's current valuation. Source: Burlington Free Press, July 2016.

markets, total retail supply will effectively remain constant, and growing demand will continue to put upward pressure on rents. Average NNN rent currently range between \$13.60-\$15.11/SF. Rents downtown and especially along Church Street outperform the greater market by 100% with triple net (NNN) rental rates between \$25- \$35/SF with virtually no vacancy, apart from spaces in the Burlington Town Center mall that have become vacant after national retailer disruption or have been left vacant in anticipation of the project.

- **Vacancy Rates** - The current retail vacancy rate in Chittenden County is down from its 'historic average,' at 5.0 percent.⁴⁹ Real estate professionals indicate that a 5.0 percent vacancy rate is indicative of an 'undersupply' of retail space in the county. As a result of downtown tenant changes and the preparation of the existing Burlington Town Center for redevelopment, the retail vacancy rate in the downtown is currently reported at 10.3 percent, a decrease from the 10.9 percent figure observed in June of 2015.⁵⁰

Retail Indicators

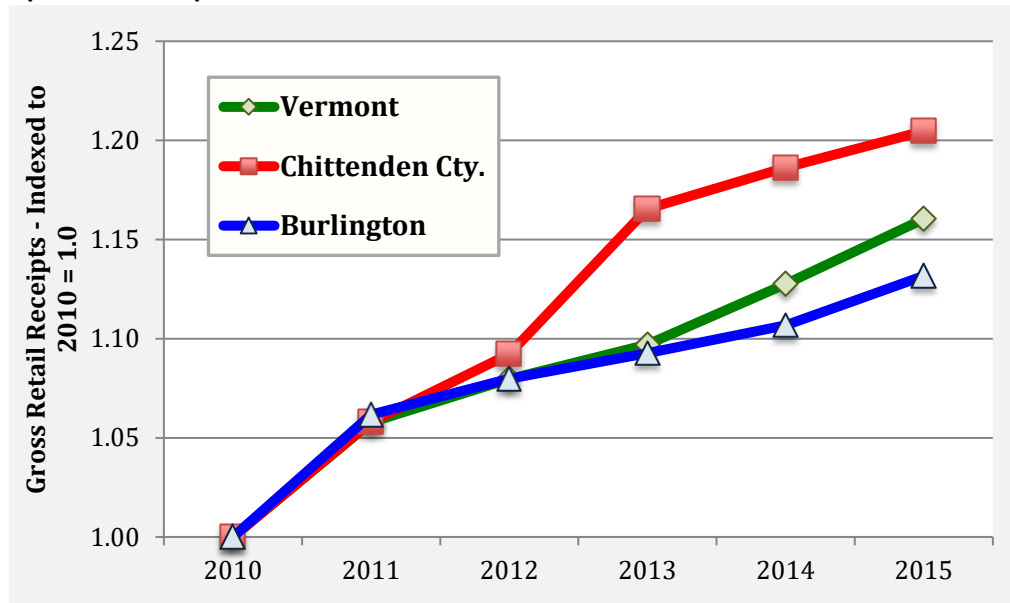
The graphic on the following page compares total retail receipts for Vermont, Chittenden County and the City of Burlington for the period 2010 to 2015. The data is indexed to 2010 = 1.0 in order to compare trends in retail between the three geographies.⁵¹

⁴⁹ Sources: Nedde Real Estate; New England Real Estate Journal, Allen & Brooks.

⁵⁰ It is common for redevelopment projects to experience increases in vacancy as developers 'free up' space for staging, redevelopment and other activities; this process is ongoing at Burlington Town Center. Moreover, as media reports have noted, some national retail tenants have experienced upheaval unrelated to the local market (e.g. FYE music store & Coldwater Creek fashion store).

⁵¹ Source: Vermont Department of Taxes.

**Retail Receipt Trends: Vermont; Chittenden County; Burlington:
(2010 – 2015)**



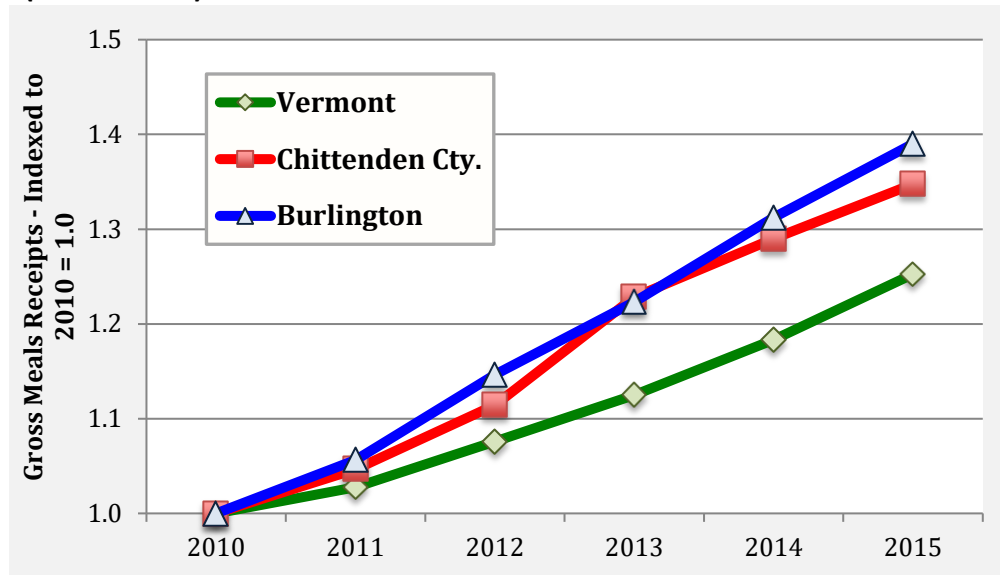
The three geographies have shown solid increases in retail receipts since 2010, with Burlington trailing both the county and state – a possible reflection of lack of recent retail development in the city. In 2015, Burlington accounted for 14.7 percent of the county’s total retail receipts.⁵²

A similar analysis was performed on meals (Restaurant) receipts for Vermont, Chittenden County and Burlington. The results are shown in the graphic on the following page, again indexed to 2010 = 1.0.⁵³

⁵² 2015 total receipts: Chittenden County - \$1.62 Billion; Burlington - \$0.24 Billion.

⁵³ Source: Vermont Department of Taxes.

**Meals Receipt Trends: Vermont; Chittenden County; Burlington:
(2010 – 2015)**



Meals receipts have increased at a substantially faster rate than retail receipts, reflecting both the increased popularity of ‘eating out’ and the significant, diverse collection of restaurant businesses in the county. The rate of increase for both Burlington (6.8 percent annual increase) and Chittenden County (6.1 percent annual increase) was well above that for Vermont (4.6 percent annual increase) during this period. Downtown Burlington in particular has established a reputation as a vibrant and diverse place to eat out.

The decline of traditional retailing is well documented in the media, with smaller businesses and several category lines feeling pressure from Internet shopping and other new forms of buying. However, apart from the existing/outdated Burlington Town Center mall, Burlington’s downtown has resisted this trend. The table on the following page traces changes in both Retail Trade and Food & Drinking Establishments for Vermont, Chittenden County and Burlington, showing both number of establishments (Businesses) and total employment for 2000, 2010 and 2015.⁵⁴

⁵⁴ Source: Vermont Department of Labor; Covered Employment & Wages.

**Number of Establishments and Employment: Retail Trade & Eating/Drinking:
Vermont; Chittenden County; Vermont (2000; 2010; 2015)**

	2000	2010	2015
Burlington			
<i>Retail Trade</i>			
No. of Establishments	239	214	210
% Change		(10%)	(2%)
Employment	2,995	2,843	3,102
% Change		(5%)	+9%
<i>Food & Drinking Places</i>			
No. of Establishments	111	130	143
% Change		+17%	+10%
Employment	na	2,314	2,986
% Change			+29%
Chittenden County			
<i>Retail Trade</i>			
No. of Establishments	884	791	772
% Change		(11%)	(2%)
Employment	12,139	12,556	12,477
% Change		+3%	(1%)
<i>Food & Drinking Places</i>			
No. of Establishments	308	359	395
% Change		+17%	+10%
Employment	5,461	6,337	7,267
% Change		+16%	+15%
Vermont			
<i>Retail Trade</i>			
No. of Establishments	3,822	3,364	3,128
% Change		(12%)	(7%)
Employment	39,676	37,939	37,896
% Change		(4%)	(0%)
<i>Food & Drinking Places</i>			
No. of Establishments	1,250	1,339	1,399
% Change		+7%	+4%
Employment	17,949	17,939	19,982
% Change		(0%)	+11%

Several points are notable:

- While the number of retail businesses in Burlington decreased over the 2000 to 2015 period, total retail employment *increased* by four percent, with a

particularly strong increase over the 2010 to 2015 period. This increase ran counter to the statewide pattern, where retail employment decreased by four percent between 2000 and 2010.

- Food & Drinking (Restaurant) business has shown strong growth both locally and regionally in recent years. In Burlington, the number of establishments increased by 29 percent between 2000 and 2015 and at an even stronger rate between 2010 and 2015. Again, this is reflective of both changes in households' eating habits and Burlington's reputation as downtown with diverse eating choices.

While traditional retailing has clearly suffered in many communities, downtown Burlington's concentration of diverse offerings and retailing environment (Church Street Marketplace) has allowed it to retain and expand its retail industry. Even more significantly, the city's restaurant industry is strong and growing. In both instances, these trends point to solid potential for lease-up of new retail space.

Retail Rents

All sources report that downtown Burlington commands the highest retail rents in the region. A 2011 survey of retail rents in the region reported the following regarding *net per square foot rents*:⁵⁵

- Average Suburban Retail Space - \$8 - \$11
- Above Average Suburban Retail Space - \$11 - \$16
- Premium Suburban Retail Space - \$16 - \$20
- CBD – Church Street Marketplace - \$17 - \$30

A review of listed retail spaces along Church Street and the immediate vicinity points to a current leasing range of \$30 to \$42 NNN per square foot.⁵⁶ Perhaps more importantly, our review indicates that there is currently minimal retail space available along Church Street, pointing to a high retail occupancy level in the core downtown area.

⁵⁵ Burlington Retail Study.

⁵⁶ Commercial Listing Sources: Loopnet; Kingsland Company; Donahue & Associates; J.L. Davis Realty; Pomerleau Real Estate; V/T Commercial, Redstone Commercial.

Retail Summary

Our assessment and review of the retail market indicates that the following factors will be significant to absorption of proposed retail space in the Burlington Town Center project:

- ***Location*** - As noted by one real estate professional, Burlington Town Center is located in, “one of the most sought after (retail) locations in Chittenden County.” The project is located centrally in Burlington’s most heavily trafficked retail district, where a combination of local/regional resident, downtown workers and area visitors shop, eat and seek services;
- ***Diversification*** – project developers plan to devote a significant component of the retail/commercial space to services, such as a child care center and a medical walk-in clinic; a grocery operation is also a strong potential. These types of uses will complement the broader project from the perspective of its live/work/shop environment *and* diversify the potential mix of tenants for the retail space, thereby ‘opening the doors’ to a broader range of tenants;
- ***Traditional Retail*** – even as traditional retailing struggles in many communities and existing retail centers, downtown Burlington’s retailing sector is strong. Burlington continues to host a concentration of retailers in: Clothing; Sporting Goods; Food & Drinking places; as well as other retailers. Retailing success in Burlington is a factor of the downtown’s walking environment, sense of constant activity, natural environment and frequent events and festivals. The project’s on-site employment will generate increased activity in the immediate area;
- ***Access to Market*** – the project is located within walking distance of: 17,500 students from the University of Vermont, Champlain College and other schools; 10,000 medical professionals in the University of Vermont Medical Center; and 18,000 daily employees in the downtown core. In addition, the Church Street Marketplace attracts 3.5 million visitors annually from travel markets.
- ***Multiple Market Levels*** - the project will be regarded as significant in scale and location, and will be attractive to retailers and service businesses at local, regional and national levels, enabling project managers to create a diversified mix of goods and services. Perhaps more importantly from an absorption perspective, multi-level interest will provide a broader range of prospective tenants.
- ***Internal Market*** – new apartment residents and on-site commercial/office workers within Burlington Town Center will generate significant retail/service spending in

their own right, partially supporting the on-site retail space. We estimate that residents and workers will generate approximately \$16.1 million in retail spending on an annual basis.⁵⁷ While on-site businesses will not capture all of this spending, this on-site commerce will be 'new' to the downtown and provide partial support to the commercial/retail space.

- **Pre-Leasing** - although no pre-leased tenants have been made public as of this writing, the project developer advised that Letters of Intent are in negotiation for approximately 143,000⁺/ - sq. ft. of the retail space. The potential tenants include both traditional retailers; Food related businesses and service providers. Triple Net leases under negotiation range from \$[REDACTED] to \$[REDACTED] per square foot.

Absorption

- The project requires net absorption of 228,000⁺/ - of new square feet of retail/commercial space. The retail space is projected for completion in July of 2018, 22 months from the time of writing.
- 143,000⁺/ - square feet of the new space are in active negotiation. Making a conservative assumption that 60 percent of this space (85,800 sq. ft.) will be executed, the project will need to absorb 142,200⁺/ - square feet over the next 22 months.
- The combination of project scale and location, combined with connections between the project's multiple uses will be sufficient to create a 'spike' in interest in the Burlington commercial market, with a resultant increase in net leasing in the market. Based on pre-leasing experience, recent trends in the area market and the scope of the project, we project that the project's going forward annual absorption rate will be in the range of 40,000 to 50,000 square feet annually. At this rate of absorption, the project would have achieved 175,800⁺/ - of the total 228,000⁺/ - square footage leased at the time of initial occupancy. Leasing of remaining space would occur during the 12⁺ months following initial occupancy. It is reasonable to project a five⁺/ - percent vacancy rate going forward, based on historic retail vacancy rates cited previously in this report.
- Based on current retail rents in the Church Street Marketplace and the developer's ongoing negotiations with potential commercial tenants in pre-lease negotiations, significant retailers and service providers are expected to lease in the \$[REDACTED] -

⁵⁷ 712 estimated project residents at blended per capita retail spending level of \$10,850. 1,670 on-site workers at per capita retail spending level of \$5,009. Sources: U.S. Census Bureau, Retail Study, ESRI.

\$(REDACTED) PSF NNN range, and the project overall is expected to achieve toward the high end of downtown core retail rates. For pro forma purposes (See: *Absorption Projections & Project Feasibility*), a blended retail lease rate of \$(REDACTED) PSF NNN has been assumed.

Office Market

The office component of the project will include a gross total of 362,512 square feet of office space. This total includes 38,000 square feet of existing/leased office space.⁵⁸ As such, the net increase to downtown Burlington's office inventory will be 325,000+/- square feet. The office component will consist of two types of offices- a new 12 story office tower located at St. Paul and Bank Street and two floors of offices located in the Cherry Street building on Floors 5 and 6.

Office Market Factors – Background & Market Activity

Regional Office Market

A recent inventory of office space in the Burlington area showed the following:⁵⁹

Office Space Inventory: Burlington Area (2014)

	Office Space (Sq. Ft.)
Burlington All	2,595,000
Downtown	1,800,000
Other Areas	80,000
South End	715,000
So. Burlington	2,100,000
Williston	1,650,000
Colchester	850,000
Winooski	420,000
Essex	390,000
Shelburne	210,000
Total	8,215,000

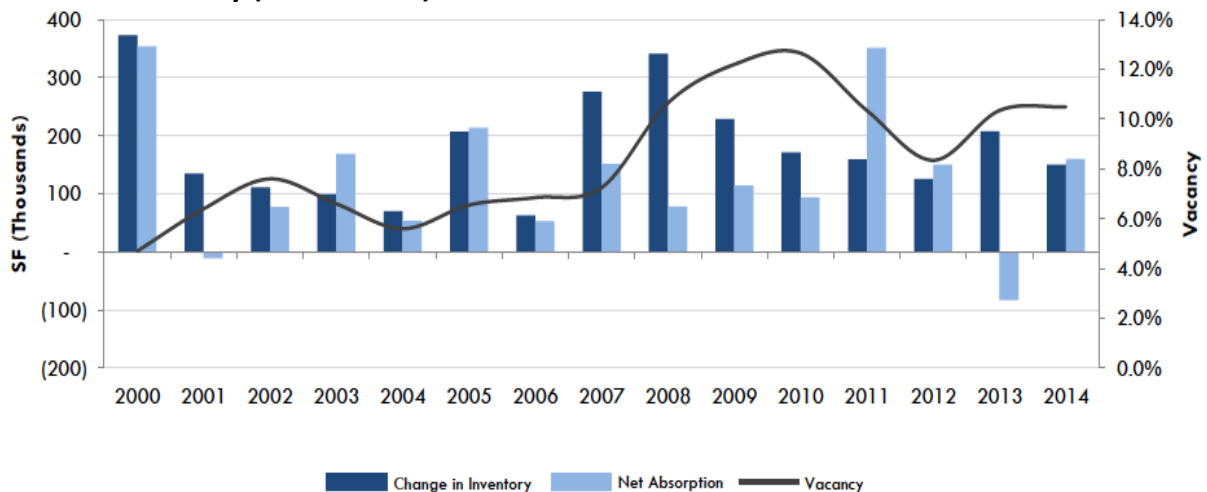
⁵⁸ The existing Class B office building (38,000 sq. ft.) is 95% leased to tenants at rents in the \$19/sq. ft. NNN range and the developer is confident that the space will remain nearly fully rented long-term. The adjacent 7 Burlington Square building is currently also over 95% leased with a variety of office tenants.

⁵⁹ See: *Burlington South End Market Study*, HR&A, November 2014.

Downtown Burlington is estimated to comprise 1.8 million square feet of office space, accounting for approximately 22 percent of the regional total. While South Burlington hosts a significant amount of office space (2.1 million square feet), this space is contained in a number of buildings and office parks distributed geographically throughout the town. As such, downtown Burlington's concentration of office space is the most significant in the region.

Change in Office Inventory, Net Absorption and Vacancy for *all of Chittenden County* for the period 2000 to 2014 are summarized in the graphic below.⁶⁰

**Office Inventory Change; Net Absorption; Vacancy:
Chittenden County (2000 – 2014)**



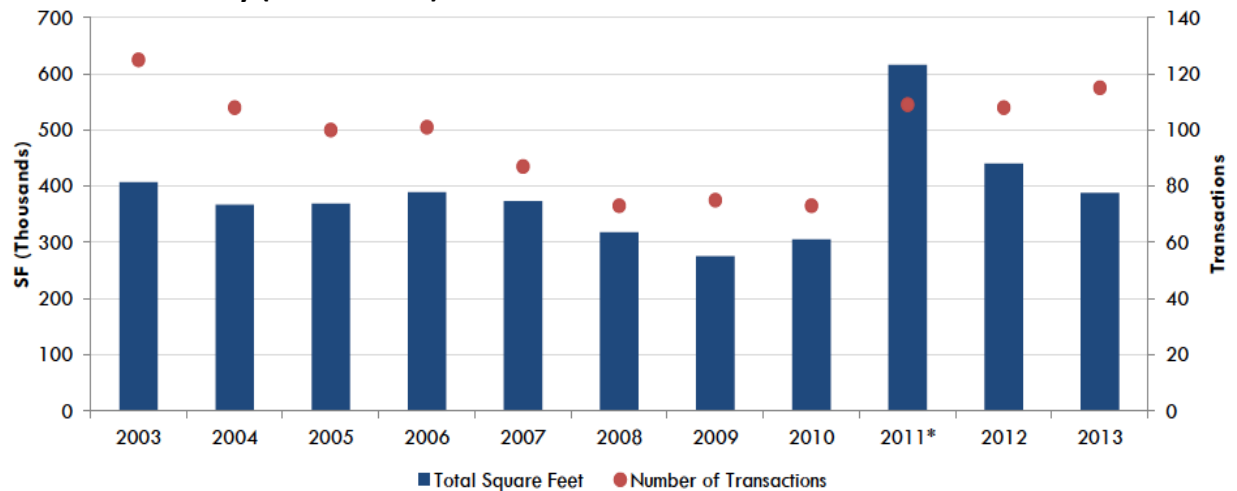
During the period from 2010 to 2014, Chittenden County is estimated to have added approximately 825,000 square feet of office space, at an annual rate of 165,000[±] square feet. During the same period, net absorption was estimated at 685,000 square feet. This figure was significantly affected by the loss of IBM in 2013 and an increase in leasing due to Hurricane Irene (2011), when a number of Vermont State offices were temporarily re-located to Chittenden County. A typical annual rate of office absorption appears to be in the 150,000 to 190,000 square feet range.

Leasing activity for office space in Chittenden County is summarized in the graphic on the following page, for the period 2003 to 2013; showing both: Number of Transactions; and 2) Total Square Feet Leased.⁶¹

⁶⁰ See: *Burlington South End Market Study*, Hr&A, November 2014.

⁶¹ See: *Burlington South End Market Study*, Hr&A, November 2014; HR&A analysis of data provided by Allen & Brooks.

**Office Leasing Activity/Square Feet and Number of Transactions:
Chittenden County (2003 – 2013)**



Between 2010 and 2013, office leasing activity in the county totaled approximately 1,742,000 square feet of space, an annual average of 435,000[±] square feet. After reaching a low point of 70 to 80 annual transactions annually between 2008 and 2010, leasing activity has rebounded, averaging over 100 transactions annually between 2010 and 2013.

Chittenden County office leasing activity includes both small and large transactions. In 2013 leasing activity broke down as follows:

- Office Spaces <3,000 sq. ft. – 42 percent of leased space;
- Office Spaces 3,000 – 5,000 sq. ft. – 13 percent of leased space;
- Office Spaces 5,000 – 10,000 sq. ft. – 24 percent of leased space;
- Office Spaces >10,000 sq. ft. – 21 percent of leased space;

Growth in New Economy sectors, as well as growth in the Healthcare, Educational, and Professional Services sectors has supported ongoing demand for office space throughout the county, as evidenced by near-constant positive net absorption since 2000. Inventory has grown consistently over this period.⁶²

⁶² See: *Burlington South End Market Study*, Hr&A, November 2014.

Burlington - Downtown Office Market

The Burlington office market includes a mix of institutional, credit tenants and fast growth technology firms. With 2.595 million square feet of office space city-wide, the demand for new, Class A space is high amidst the current sub-5% vacancy rate. However, the downtown has not hosted any new office projects of significance in recent years.

The city-wide office market in Burlington has been characterized by vacancy rates at 5.0 percent or less and corresponding rents averaging \$18/Sq. Ft. NNN over the past 24 months. Through 2015, the downtown submarket of Burlington exhibited an overall vacancy of 4.4%, indicative of a high level of demand and limited availability. The core downtown office submarket also outperformed the total market in terms of rents with Class A & B asking rents achieving between a 10% and 15% premium at over \$22/SF.

The following are key elements of the downtown office market:

- Burlington's office market is home to the highest rental rates achieved in the state; Burlington's highest office rents are achieved in the core downtown area;
- Burlington's downtown benefits from the trend of urbanization with tenants migrating to markets with live/work/play environments;
- The majority of Class A and B office users are located in the downtown area, resulting in shrinking vacancies, positive net absorption and increasing rental rates;

Due primarily to its barriers to entry (natural and regulatory), Burlington, and particularly the downtown core, has experienced little in the way of new office product delivered over the past decade with the last delivery consisting of 45,000 square feet completed in Q1 2012.

Office Summary

Several factors point to a solid market for the project's office space:

- **Location** - the project is centrally located in Burlington's core downtown area. The location will appeal to potential tenants that seek to be 'in the middle' of Burlington's business community, as well as those who seek a prestige location.

The project's location is also attractive from an employee perspective, offering walking access to all of downtown's services, restaurants and other attractions – as well as to the waterfront;

- **Parking** – the project's parking garage component will offer on-site parking, a key factor for employers seeking to attract workers;
- **Demand/Supply Imbalance** – minimal new office quality office development has occurred in the downtown in recent years, resulting in a low office vacancy rate and demand that exceeds supply;
- **Employment Trends** – as noted under 'Background Market Factors & Indicators' above, both the MSA and Burlington have/continue to experience strong employment increases in industries that create demand for office space: Professional & Business Services; Education & Health Services; Other Services. These ongoing trends point to continued demand for new office space.
- **Pre-Leasing** – a substantial component of the proposed office space is pre-leased or under a letter of intent. Specifically:
 - An executed Letter of Intent between the University of Vermont Medical Center and Devonwood Investors LLC commits the Medical Center to lease 110,000 square feet of office space at a triple net rent of \$[REDACTED] per square foot. The lease has a [REDACTED]-year term, with two [REDACTED] year options to extend.⁶³
 - Negotiations are underway for an additional 105,000 square feet of office space, at rents of \$[REDACTED] NNN.⁶⁴

As a result of these pre-leasing activities, a substantial portion of the net new office space to be offered by the project will be leased, leaving 80,000 sq. ft. of office space to be leased in the period before the space is available for occupancy.

The assessment of background trends in the regional office market indicates that the Chittenden County market has experienced an average of 150,000 to 190,000 sq. ft. of *net new* office space in recent years. Further, the strongest current demand for office space – coupled with the most restricted supply, is in the core downtown area.

⁶³ See: Letter of Intent – University of Vermont Medical Center to Devonwood Investors LLC, March 30, 2016.

⁶⁴ [REDACTED]

The project's new office space is expected to be available for occupancy in November of 2018, leaving approximately 25 months between the date of this writing and occupancy. Given the factors listed above in combination with market enthusiasm that a project of this scope will generate, we feel it is conservative to project that the project can capture 20 to 25 percent of the net new *regional* office demand during that 25 month period. On this basis, we have projected the rate of absorption as follows:

Office Space Absorption Projection

Annualized Net New Office Space Absorption - Chittenden County	170,000	Sq. Ft.
<i>X Project Market Capture Rate</i>	22.5%	Capture Rate
<i>Annualized Project Absorption</i>	38,250	Sq. Ft. (Annual)
<i>Monthly Project Absorption</i>	3,188	Sq. Ft. (Monthly)
Total Absorption (26 Months)	79,688	

The projection suggests that approximately 295,000 sq. ft. of the total 325,000 sq. ft. of new office space will be absorbed when the space becomes ready for occupancy at the end of 2018. The remainder of the available space would be absorbed over the following six months, with the expectation of a four percent vacancy rate going forward.

Based upon the negotiated lease and leases under negotiation and the time that will pass between now and initial office occupancy, the smaller size of remaining office units and the quality of the Class A space, we estimate lease rates to range from \$[REDACTED] to \$[REDACTED] NNN.

Parking

The project includes a complete reconfiguration of on-site parking, resulting in a total of 926 on-site parking spaces housed in a vertical garage configuration. With 575 parking spaces currently located on-site, the reconfiguration will result in a net increase of 400.

On-site parking will be allocated as follows:

- Approximately 526 parking spaces rented on a monthly basis. As of this writing, monthly fees are projected at \$[REDACTED];
- Approximately 400 parking spaces available to the public on transient/metered basis. Parking fees will be commensurate with market rates in other garage facilities in the downtown area.

Overall, the project developer indicates that the total parking demand for the entirety of the project is approximately 1,250 parking spaces. The city parking plan is expected to allow appropriate agreements between the city and the developer to handle this overage.

Parking Background

A recent analysis of downtown Burlington's public/private parking supply found that:⁶⁵

- On-street parking is the most well-utilized asset, with occupancy on certain street segments regularly exceeding 90%;
- In general, there seems to be a more-than-adequate supply of both public and private parking in downtown:
- There are localized instances of parking shortfalls. However, given the excess available capacity at peak, these shortfalls are a function of poor wayfinding to public off-street assets with available space or improper pricing of the on-street spaces.

And, regarding *Future Demand*:

⁶⁵ See: *Downtown Parking and Transportation Management Plan*, Burlington, VT., Desmond Design Management, December 2015.

- Ensuring all new parking capacity is shared in nature, and right-sized to the proposed development;
- Encourage master planning at a multi-block level to best utilize shared parking opportunities rather than requiring inefficient and suburban style on-site parking for every new development;
- Encourage more development downtown in order to make a more walkable, vibrant community.

Finally, regarding the Burlington Town Center project:

- The mall is in the zone that currently has the most significant excess of parking, and also has three significant garages (Lakeview, College, and the BTC garage.) Planning should incorporate this existing capacity.

Parking Summary

The 555 parking spaces rented on monthly leases (\$[REDACTED]/Month) will reach full occupancy and demand will remain at a high level. A small amount of vacancy 2.0+/- percent is projected for turnover.

For the metered spaces, occupancy levels are expected to stabilize at 50 to 60 percent occupancy, based on the prior downtown parking studies.

Absorption Projections & Project Feasibility

The following report section presents a core financial assessment of the project's major components, with the primary objective of proving – or disproving – the feasibility of the development. This includes:

- Analyses of the Income and Cost components of the project's major uses: Residential; Retail; Office; Parking to project Net Operating Income (NOI) for each component;
- A summary of total project cost and capital needs – as well as projected debt payments for permanent financing.
- A 'roll-up' of all project elements as an assessment of the overall feasibility of the project.

The analyses address the following financial aspects of the project:

- Project Cost – Hard & Soft Construction Costs – these estimates are based on values made available by the developer, the developer's contractor team and our review;
- Project Income – time-sensitive projections of project revenues based on rates of absorption of new space and projected rent levels;
- Project Operating Costs – Common Area Maintenance, Real Estate Taxes; Management Fees, etc. – the operating costs are assumed to vary in response to the level of absorption within the project's components; and are based on real world costs experienced by similar developments.⁶⁶
- Project Debt Service – combined Interest and Amortization payments based on the project's debt structure - these estimates are based on values made available by the developer and our review.

The assumptions and projections contained in the analyses are consistent with the findings summarized in the preceding sections of this report, particularly with respect to absorption of space and potential rent levels.

While the analyses present an accurate assessment of project feasibility, they are simplified with respect to the following:

⁶⁶ Sources: Devonwood Investors LLC; NAIOP – Commercial Real Estate Development Association.

- The pro-formas only assess the project's net new square footage and do not include income from ongoing operation of retail and office space; this adds a conservative element to the analysis that provides a more direct view of the feasibility of only the new commercial space to be developed
- The developer expects other miscellaneous income streams to accrue from the project – Storage Space; Vending; Percentage Income from retail tenants; etc. These additional income streams have not been included in the analyses;
- Project operating costs will include both fixed and variable components; for purposes of analysis, costs are assumed to be variable based on available leased space.

Project Cost and Loan Sources

The table on the following page summarizes total project costs and loan sources based on a review of data made available by the developer.

- A detailed construction cost estimate is included in Appendix A **[TABLE REDACTED]** to the report.
- The project cost total includes the \$21.9 million of the street improvements to be funded by the TIF.

[TABLE REDACTED]

Residential Projection

The table on the following page summarizes the projected five year return from the residential component of the project, including: Student Housing; Affordable Housing; and Market Rate Housing. The assumptions contained in the table are consistent with the findings summarized in this report:

- The projection assumes a 1.5 percent annual increase in unit rentals;
- The projection assumes a 1.0 percent annual increase in Operating Expenses;
- For purposes of projection, we have assumed a unit mix of: 28 – One Bedroom Units; 27 Two Bedroom Units.

[TABLE REDACTED]

Retail Projection

The table on the following page summarizes the projected five year return from the retail component of the project. Again, the projection does not include income from the existing retail space. The assumptions contained in the table are consistent with the findings summarized in this report:

- The projection assumes a 1.5 percent annual increase in per square foot rentals;
- The projection assumes a 1.0 percent annual increase in Operating Expenses;
- The retail rents are all triple net (NNN) – as such, all expenses related to operations will be reimbursed to the developer; this is shown in the pro forma as ‘Retail Reimbursement.’

[TABLE REDACTED]

Office Projection

The table on the following page summarizes the projected five year return from the office component of the project. Again, the projection does not include income from the existing office space. The assumptions contained in the table are consistent with the findings summarized in this report:

- The projection assumes a 1.5 percent annual increase in unit rentals;
- The projection assumes a 1.0 percent annual increase in Operating Expenses;

[TABLE REDACTED]

Parking Projection

The table on the following page summarizes the projected five year return from the parking component of the project. The assumptions contained in the table are consistent with the findings summarized in this report:

- The projection assumes a 1.5 percent annual increase in parking fees;
- The projection assumes a 1.0 percent annual increase in Operating Expenses;

[TABLE REDACTED]

Project Summary

The table on the following page summarizes the income and operating expenses of the project's major components in order to provide an estimate of Net Operating Income (NOI) for the combined undertaking. In addition, the table compares combined NOI with projected annual debt payments (Amortization & Interest) to provide a simple view of projected Net Cash Flow over the five year projection period.

[TABLE REDACTED]

- The estimates indicate that the project would result in a small Net Cash Flow in year 2018, and more substantial Net Cash Flows in the two subsequent years. The Net Cash Flow in Year 2020 would be \$[REDACTED].
- Based on these summaries, with the total year 2020 NOI of \$[REDACTED] and a total cost of \$[REDACTED], the development yield on total cost will be [REDACTED] (an economically acceptable yield for a development project).

Appendix A – Summary of Construction Costs

[TABLE REDACTED]