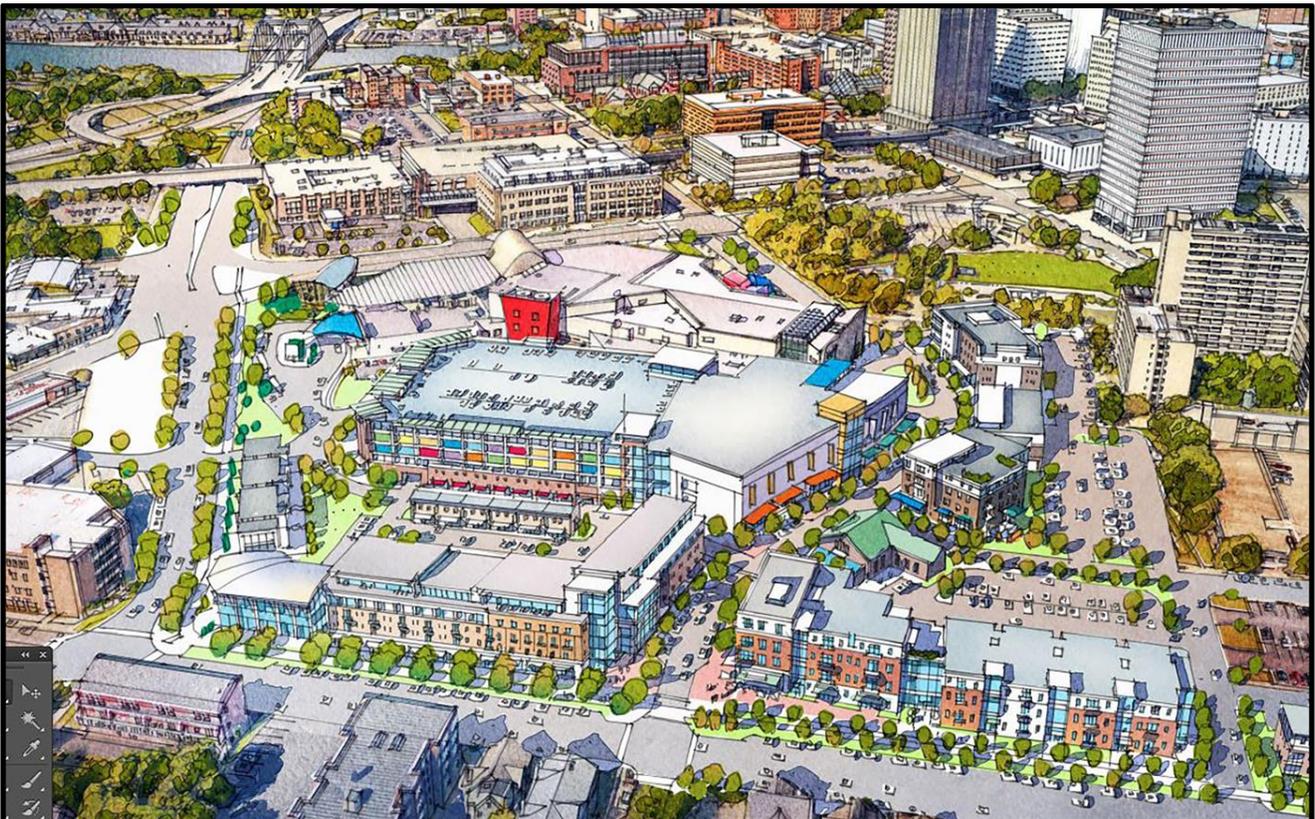




DOWNTOWN HOUSING MARKET REPORT

December 2018
(Revised, 8/9/19)



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EXECUTIVE SUMMARY

In Rochester, a downtown housing boom has been taking place since around the year 2000. According to RDDC estimates, downtown's population has more than doubled from 3,239 people in 2000 to 7,780 by the end of 2018. According to estimated U.S. census data, from 2010-17 the overall population of the City of Rochester shrunk by 1.2% – a major improvement over prior decades. Downtown has clearly become a funnel point for people moving back into the city, repopulating the center core, and growing the value of the urban tax base.

Since 2000, a total of 53 downtown buildings have been or are being converted from under-performing commercial uses to trendy lofts and apartments. In addition, a total of 14 new residential projects have been built.

Rochester has continued to follow a national trend of growth in downtown living that is helping to revitalize urban centers across the country. In Rochester, downtown represents the most diverse area in the city relative to incomes, race, lifestyles, and age – attracted by a more dense, vibrant and walkable environment, and unusual housing options.

Vacancy Up in 2018

A 5% vacancy rate is normal for a healthy apartment market, and downtown market-rate units have had vacancy rates below that figure from 2013 through 2016. This has resulted in significant market confidence and investment with 20 new housing projects currently in downtown's development pipeline.

However, the story in 2018 is more complex than it was two years ago, and vacancy rates on the whole downtown have risen since that time. A variety of factors appear to be resulting in higher vacancy rates in Rochester's downtown housing market since December 2016:

- A number of projects had recently come online when we conducted the survey
- December may be a less appropriate month to conduct the survey, as it appears to be a cyclical low point in the local rental housing market
- Location is always a factor and may be impacting leasing for several projects
- Particular properties appear to be experiencing management issues (e.g., absentee owners, historically problematic management), which likely impacts vacancy

Summary of Key Findings

RDDC tracks the portion of the city housing market that includes the area within the former Inner Loop territory *plus* High Falls, Upper East End, Alexander Park, and one project in Corn Hill (Corn Hill Landing).

Overall Market

- An estimated 7,780 people are now living downtown in 4,670 housing units, 4,519 of which are rental and 151 owner-occupied.
- The downtown housing market is dominated by rental units which comprise 96.8% of all units; only 3.2% is owner-occupied. Another 1,530 market-rate units are in the pipeline.

- Income-restricted units represent 22.8% of the downtown rental market, and the 798 units designated for seniors comprise 17%. Another 149 income-restricted units are in development.

Vacancy Rates

- The vacancy in all downtown rental units surveyed was 7.6% as of December 2018, up 2.2% over December 2016.
- Market-rate vacancy rate rose to 8.0% in 2018, up from a very low 3.3% in 2016.
- Vacancy for income-restricted units is 6.7%, virtually the same as the 6.6% rate in December 2016.

Rents

- The wide variety of housing options downtown is reflected in a rent range in 2018 that spans from \$408 - \$3,035 per month and is nearly as varied even within unit size categories (e.g., one-bedroom units).

HOUSING TYPE	Number of Units	Percent Vacant	Change Since 2016	2018 Occupancy
Rental Units (<i>surveyed units only</i>) *	3,496	7.6%	+2.2%	92.4%
Market-Rate *	2,459	8.0%	+4.7%	92.0%
Income Restricted *	1,037	6.7%	+0.1%	93.3%
Owner-Occupied Units **	151	0%		100%
TOTAL	3,647	100.0%		

* (One newer project, *The Linc*, was not included due to lack of more detailed data. When included, the number of units jumps to 3,626 and overall vacancy increases to 10.3% as this project goes through its initial absorption period.)

** (All owned units are assumed to be occupied.)

In addition to analyzing every building with significantly high vacancy, we also looked for any patterns that might explain the increased vacancy levels in December 2018, including:

- ➔ *When the project was built or last renovated*
- ➔ *When units came on the market relative to the timing of our December survey*
- ➔ *Neighborhood and location*
- ➔ *Asking rent levels*

Market-Rate Housing

Over 76% of downtown’s rental housing is classified as market-rate, totaling 3,456 units (74% of all downtown housing). The market-rate rental vacancy rate rose to 8.0% in 2018, up from a very low 3.3% in December 2016. Another 1,530 market-rate units are in development.

While the vacancy rates in both 2015 and 2016 were well below the 5% rate in a healthy apartment market, 2018’s figure was heavily impacted by the entry of eight new projects in late 2017 and throughout 2018. Totaling 577 units, these projects represented 23% of the market rate units

surveyed. As a group, they were 36% vacant as of December 2018. Notably, a number of these buildings were much more highly leased by the Spring of 2019.

Excluding two specific market-rate senior housing projects, the rent ranges for all other market-rate rental units are as follows:

- Studios - \$500 - \$1,735
- One-bedrooms - \$575 - \$2,355
- Two-bedrooms - \$725 - \$3,035
- Three-bedrooms - \$1,300 – \$3,006
- Four-bedrooms (*Corn Hill Landing*) - \$2,400

Despite some assertions in mid-2019 that luxury and higher-end market-rate housing might be saturated downtown, we found no evidence to support this concern as of December 2018. This assessment is bolstered by reports that a number of the newer, high vacancy buildings in their early absorption phase were substantially leased a few months after our survey was conducted, in the Spring of 2019.

Income-Restricted Housing

More than 23.5% of downtown’s rental housing is income-restricted (22.8% of all downtown housing), totaling 1,063 units. The vacancy rate for income-restricted units is 6.7%, virtually the same as the 6.6% rate in 2016. It is worth noting that this situation is being impacted by one significant building under relatively new ownership which will be undergoing a major upgrade. An additional 149 income-restricted units are in downtown’s development pipeline.

Rents for income-restricted units tend to be more complicated, generally ranging from \$604 - \$1,894. However, one project which constitutes 48% of all downtown’s income-restricted housing units (*Andrews Terrace*), holds its rents at 30% of tenant income. In general, vacancy in income-restricted units downtown does not appear related to whether rents are considered high or low for this category of housing.

Owner-Occupied Housing

Owner-occupied (“for sale”) housing represents 3.2% of the downtown housing market, totaling 151 units as of December 2018. New owner-occupied housing has increased slowly since 2000, beginning with *Sagamore on East* (2005) and continuing more recently with the addition of *Capron Street Lofts* (2011), *North Plymouth Terrace* (2012), *Windsor Gate Townhomes* (2013-17), and *Charlotte Square Townhomes* (2018). Even with relatively high rents for our region, the growth in downtown rental units continues to outpace that for owner-occupied housing. Therefore, owned units remain a very small segment of the overall downtown housing market.

Downtown Residents

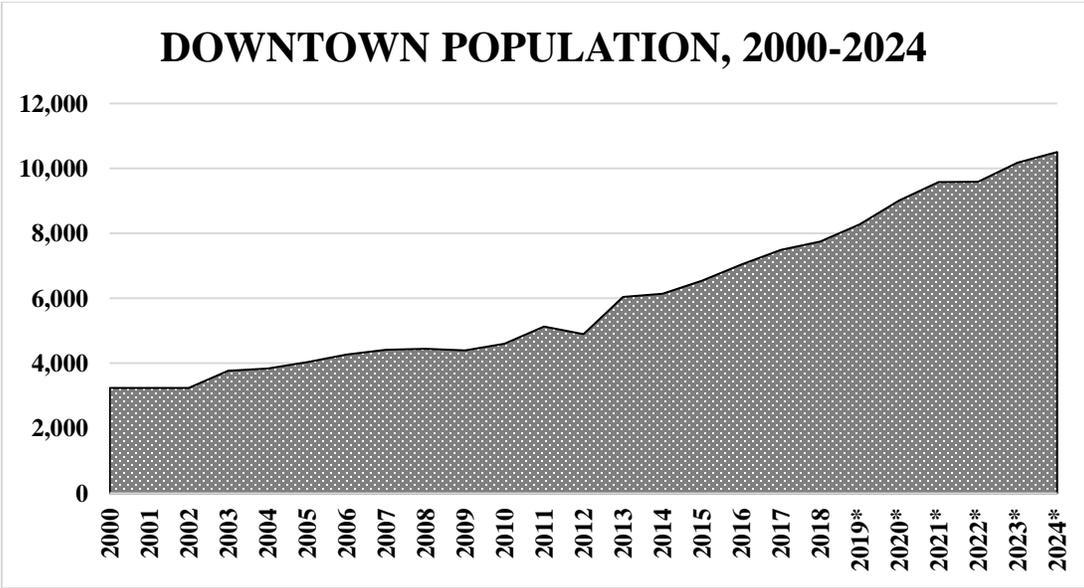
Extrapolating from the survey data, the chart below provides an overall picture for the downtown housing market as of December 2018, including an estimate of the number of people living downtown. This figure is calculated using the rental housing occupancy rates reported in the 2018 Survey, with an estimate of 1.8 persons per occupied unit.

HOUSING TYPE <i>(All downtown units)</i>	Number of Units	Change Since 2016	Percent of Market	2018 Occupancy	Estimated Population
Rental Units *	4,519	+ 586	97.0%	92.4%	7,516
Market-Rate	3,456	+ 519	74.2%	92.0%	5,723
Income Restricted	1,063	+ 67	22.8%	93.3%	1,785
Owner-Occupied Units *	151	+ 1	3.1%	100.0%	272
TOTAL	4,670	+ 587	100.0%		7,780

* (Includes all units tracked, whether or not they participated in the December 2016 & 2018 surveys.)

** (Population based on 1.8 persons per occupied unit; assumes all owned units are occupied; slight rounding errors are noted.)

RDDC estimates that downtown’s population has increased by 140% between 2000 and 2018, growing from 3,239 residents to 7,780. A total of 20 residential projects are planned or under construction as of December 2018, and – even at the higher vacancy rates in 2018 – are expected to grow the total downtown residential population to 10,500 by 2024.



(NOTE: Projected population estimates are based on the 2018 downtown rental housing occupancy of 92.4% for existing units and units in the pipeline, 100% occupancy for owner-occupied units, and an assumption of 1.8 people per unit. The “*” indicates projected population numbers.)

Market Demand Feedback

Property managers reported that market demand remains strong. Of the 56 properties responding to this question, 61% reported that vacancies are filled immediately, and 34% reported that it took less than three months to lease vacant units. In addition, 79% said they have more applicants than units available.

Demand for 1-bedroom units remains the strongest, with 57% reporting that these units lease most quickly. It also appears that the less expensive units in each category are easiest to lease. Two-bedroom units lease the least quickly according to 33% of the respondents.

It appears that in general, larger units are more difficult to lease. When asked to rank unit demand by size, 78% reported that units less than 1,000 square feet are the easiest to fill; 70% said that units between 1,000 and 2,000 square feet are second easiest to lease; and, 87% reported that units over 2,000 square feet are the hardest to fill.

Pets have become more important to renters in the downtown market. A total of 43 buildings now allow cats, 33 permit small dogs, and 21 allow larger dogs. All of the buildings that permit pets charge upfront fees and/or monthly “pet rent” in addition to basic rent and security deposits.

Vacancy By Neighborhood

Regarding the nine downtown neighborhoods for which we have 2018 data, three neighborhoods exhibited significantly lower vacancy rates in December 2018: Alex Park, Cascade District, and St. Paul Quarter. Notably, most of the remaining neighborhoods are where significant development is occurring, almost all of which are being impacted by projects recently coming on line and still in their initial absorption phase.

<i>Neighborhood</i>	<i>December 2018</i>		
	<i>Total Units</i>	<i>Vacant Units</i>	<i>Percent Vacant</i>
Alex Park	469	16	3.4%
Cascade District	107	0	0.0%
East End/Upper East End *	604	59	9.8%
Four Corners **	105	34	32.4%
Grove Place ***	79	14	17.7%
High Falls	N/A	N/A	N/A
Midtown District ****	670	158	23.6%
Manhattan Square *****	576	73	12.7%
St. Paul Quarter	880	20	2.3%
Washington Square	51	n.a.	n.a.

* (Very high vacancy in two of the nine buildings in the East End; remainder have very low vacancy rates.)

** (Very high vacancy in one of three buildings which is newer and still leasing up.)

*** (One property experiencing very high vacancy; remaining three properties are fully occupied.)

**** (Three new projects early in absorption process; vacancy drops significantly by June.)

***** (One of three large projects appears to be exhibiting larger management issues.)

Housing Development

RDDC is tracking \$1.1 billion in downtown investment in 2018, including a number of significant public and private projects that are planned and underway. These investments, combined with an

expanding residential market and the growing Downtown Innovation Zone, are transforming the center city.

The following housing developments are in downtown's pipeline:

→ **Under Construction (700 units)**

- Inner Loop Sites #4 & 5 (Konar), 225 units (new construction)
- The Nathaniel (Morgan), 119 units (new construction)
- Liberty Lofts (Winn), 104 units (residential conversion)
- Union Square (Home Leasing), 66 units (new construction)
- The Metropolitan (Gallina), 61 units (residential conversion)
- Charlotte Square on the Loop (Home Leasing), 50 units (new construction)
- Liberty Landing (VOC), 33 units (new construction)
- 49 Stone Street (Hudson Partners), 21 units (residential conversion)
- Hiram Sibley Building (DHD Ventures), 21 units (residential conversion)

→ **Planned/Announced (979 units)**

- Alex Park (Buckingham), 400 units (new construction)
- Rochester Riverside Project (Christa/Ingrassia), 200 units (new construction)
- Inner Loop Site #2 (Christa), 118 units, (new construction)
- Edwards Building (Fortified), 95 units (residential conversion)
- Cox Building (Zukerman), 70 units (residential conversion)
- Magic Maker Lofts (Fortified), 33 units (new construction)
- Parcel 2 (Buckingham), 28 units (new construction)
- Mills @ High Falls Phase III (Urban League), 14 units (residential conversion)
- 186-192 East Main Street (Fortified), 12 units (residential conversion)
- 220-226 East Main Street (Hopwood), 6 units (residential conversion)
- 10 Franklin Street (Stephanie Green), 3 units (residential conversion)

New residential projects completed in 2017 and 2018 include: Center Lofts at High Falls (5 units); Woodbury Place (26); Columbus Building (81); 88 Elm (36); North Plymouth Terrace Phase 3 (10); Spectra @ Sibley Square (104); The Metropolitan (64); Landmark @ Sibley Square (72); Charlotte Square Townhomes (10); 342-350 East Ave. (Metro Cowork) (13); Terminal Building (56); and, The Linc (130).

About the Survey

RDDC surveys the managers of all downtown rental housing properties every year or two to collect information on vacancy and rental rates as well as overall market demand. The 2018 Downtown Housing Survey reflects data and vacancy rates for rental housing collected as of December 2018.

A total of 57 buildings with 3,626 units participated, representing a response rate of 80.2% of all rental units tracked in the downtown market.