

September
2019

DOWNTOWN MARKET REPORT

Rochester, NY



\$744.25 million being invested downtown in 2019, 20 housing projects in pipeline

Downtown Innovation Zone growing with 190 innovation and creative class enterprises now and more coming

Since 2014, 1.65 million square feet of commercial space removed from downtown market for conversion to housing

7,780 people living downtown, 2,300 more moving in BY 2023

2018 vacancy rate at 7.6% for 4,519 rental housing units downtown (8.0% for market-rate units)

Major landscape-changing projects planned and under construction — Inner Loop East housing projects, Neighborhood of Play, PlayWalk, ROC the Riverway, Parcel 5, and Alex Park

The Rochester Downtown Development Corporation (RDDC) is tracking \$744.25 million in downtown development underway in August 2019. New housing and innovation companies are fast-tracking the highly visible transformation underway in the center city.

Downtown Innovation Zone (DIZ)

Identified in November 2014, the DIZ is anchored by four centers of gravity — RIT's Center for Urban Entrepreneurship, NextCorps, the Luminate OPI Accelerator, and Roc Game Dev which are all up and running. *The Commissary*, RDDC's downtown kitchen incubator project, is slated to open in April 2020. The DIZ and its 190 innovation and creative class enterprises, new co-working spaces, and myriad of entrepreneurial support services are where bold new tenancy is happening.



Housing Story

A total of 56 downtown commercial buildings are being or have been converted to residential and mixed-use since the year 2000, and 11 new residential projects have been built. Downtown's residential population has grown to 7,780, adding 4,550 people since 2000. An additional 2,300 more will be moving in over the next three to four years with a total of 20 housing projects in downtown's pipeline, 10 of which are new construction.

Downtown has become one of the most diverse neighborhoods in the region, blending young professionals, artists, students, mid-career executives, senior citizens, lower income residents, and wealthy retirees. You now see people walking their dogs in the middle of the workday — a sign of an increasingly vibrant, 24/7 environment.

Big News

Large-scale, multi-dimensional projects are changing the urban landscape downtown. Governor Cuomo approved all 13 locally recommended projects for the \$50 million that NYS awarded for Roc the Riverway. These Phase One projects are part of a much larger vision, involving more than \$500 million in projects that will transform our riverfront.

The Midtown District continues to undergo major redevelopment, with multiple buildings on East Main between Clinton and St. Paul, continued expansion of CGI Communications, and the residential and mixed-use developments at The Metropolitan, The Linc, 88 Elm, and Parcel 2. Across the street, the Winn Companies' Sibley Square has become a major tech and education hub with incubators, housing, office space, and activated spaces on the ground floor.

The fill-in of the Inner Loop East and its museum expansion, housing, hotel, parking and mixed-use new construction projects occupy empty land, create the new Neighborhood of Play, and reconnect downtown to the surrounding neighborhoods. While the former Radisson hotel site is likely to be demolished and rebuilt, the five other downtown hotel projects in the pipeline are responding to changing market conditions and deepening the development story downtown.



HOUSING (December 2018)

A legitimate downtown housing boom has been taking place in downtown Rochester since 2000. Downtown has become a funnel point for people moving back into the city and is helping to increase the City population and tax base. Since 2000, 56 downtown buildings have been or are being converted from under-performing commercial uses to trendy lofts and apartments. RDDC estimates that more than 7,780 people are now living downtown in 4,670 units, and another 2,300 will be moving in over the next four years.

Rochester's downtown housing market is dominated by rental housing, which comprises 97% of all units. Owner-occupied ("for sale") housing makes up the remaining 3%. Each year, RDDC surveys downtown rental property owners and managers to collect information on vacancy rates, rental rates, and overall market demand.

- ◆ The **market-rate rental vacancy rate rose to 8%, up from a very low 3.3% in 2016**, due in large measure to the timing of a group of large projects opening for occupancy. Significant lease-up occurred within a few months of our survey date of December 2018.
- ◆ **Income-restricted rental vacancy is 6.7%**, virtually the same as in 2016. More than 23.5% of all downtown rental housing is income-restricted, totaling 1,063 units. The vacancy rate is heavily impacted by one building with new ownership that is undergoing significant renovation.
- ◆ The **wide variety of housing options** downtown is reflected in a 2018 rent range of \$500 - \$3,035 per month, and is nearly as varied within unit size categories (e.g., one-bedroom units).
- ◆ **Market demand remains strong.** In spite of the early stage lease-up of several newly opened projects, property managers reported that market demand remains strong. Of the 56 properties responding, 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, and it appears that larger units tend to be more difficult to lease.
- ◆ **Pets have become 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.

HOUSING PROJECTS IN THE PIPELINE, September 2019:

New Construction:

Inner Loop #4 & 5, 225 units
 Alex Park II, 202 units
 The Nathaniel, 119 units
 Inner Loop #2, 118 units
 Union Square, 66 units
 Charlotte Square on the Loop, 50 units
 Alex Park I, 48 units
 Liberty Landing (VOA), 33 units

Magic Maker Lofts, 33 units
 Parcel 2, 28 units

Conversions:

Liberty Lofts @ Sibley Square, 104 units
 Edwards Building, 95 units
 Cox, 70 units
 The Metropolitan, 61 units
 49 Stone, 21 units

Hiram Sibley, 21 units
 Mills @ HF III, 14 units
 186-194 East Main St., 12 units
 220-226 East Main St., 6 units
 10 Franklin, 3 units

Existing Major Rehabs:

Manhattan Square, 250 units
 Midtown Manor, 200 units
 Cox, 10 units

TOTALS: 10 New Construction Projects (922 units), 10 Conversion Projects (407 units), and 2 Existing Major Rehabs (450 units)



OFFICE SPACE (June 2018, June 2019 is underway)

The rise of the Downtown Innovation Zone (DIZ) is offering a whole new market for downtown space — technology-based and creative class tenants. RDDC is now tracking 190 innovation and creative class enterprises. Residential conversion projects planned, underway and completed in 2018 will remove more than 1.65 million square feet of office space from the downtown market, continuing the trend to adaptively reuse weak space. The Midtown District is being most impacted by this investment activity, also affecting the East End, St. Paul Quarter, Cascade District, and Alex Park neighborhoods.

In June 2018, Class “A” vacancy technically improved in both occupancy and absorption over 2017, and grew by over 21,000 square feet. However, these numbers do not account for Xerox Tower which went vacant a day after our survey period ended. Classes “A/R” and “Non-Traditional” saw vacancy decreases of 2.8% and 2.1%, respectively, and all three experienced positive absorption. Class “B” and “Medical” had increases in vacancy of 0.9% and 2.2%, respectively, and absorption ran negative. The Non-Competitive category lost nearly 314,400 s.f. since May 2017.

Slicing the downtown office market by neighborhood is also instructive. In June 2018, This year, Alexander Park, Washington Square, East End/Upper East End, Cascade District, and St. Joseph’s Park were the strongest neighborhoods for office space tenancy in 2018. Four neighborhoods saw significant drops in vacancy – Washington Square, High Falls, Midtown District, and St. Paul Quarter. Downtown neighborhoods recording the highest vacancy were the High Falls, Midtown District, and Manhattan Square neighborhoods.

Downtown’s commercial building inventory contains the region’s oldest office structures as well as its newest towers. In June 2018, RDDC tracked 9.7 million square feet in 117 office buildings. Of these, 89 are considered competitive buildings which total 6.7 million square feet and comprise 69% of all downtown space.

CLASS “A” MIXED. Class “A” space saw improvements in both occupancy and absorption between May of 2017 and June of 2018. Vacancy dropped to 20.4% (down 4.4%), and 138,042 more square feet of space was absorbed since last year. Class “A” space grew by 21,263 square feet, most of which occurred as more space came on the market at Tower280. These numbers do not account for Xerox Tower, which became 100% vacant the day after our survey period ended. When Xerox Tower’s vacancy is included, the vacancy rate jumps to 32.9% for all downtown competitive space, and to 41.2% for Class “A”.

CLASS “A/R” VACANCY DROPS AGAIN. Vacancy in Class “A/R” dropped to 15.8, down 2.8% over last year, the lowest rate in three years. Space in this category grew by 15,000 square feet, and 28,581 more square feet were absorbed since May 2017.

CLASS “B” REMAINS COMPLEX. After plummeting to a 22-year low in 2015, Class “B” vacancy rose again in 2018 to its highest rate ever – 33.2% – up nearly 1% over May 2017. Absorption is much improved over 2017, running a negative 11,311 square feet (down from a negative 233,743 in 2017).

NON-TRADITIONAL SPACE VACANCY DROPS. Vacancy in the “Non-Traditional” category dropped to 16.3% (down 2.1%), the second lowest vacancy rate recorded since the category was created in 2003. The category grew slightly by 1,000 square feet and absorbed 13,120 more occupied square footage than 2017. The least marketable non-traditional buildings have tended to undergo residential conversion over time, leaving the stronger and more leasable buildings in the office inventory.

MEDICAL SPACE DOING WELL. This category includes doctors’ offices, one of Rochester General’s Imaging Department locations, a pharmacy, and a University of Rochester medical clinic and blood lab. Vacancy is up again this year, but still remains low at 5.9%.

NON-COMPETITIVE CLASS CONTRACTS. Defined as buildings where the owner is the sole occupant, the 28 “Non-Competitive” buildings downtown (Class “N/C”) in 2018 totaled 2.97 million square feet, down 314,376 square feet since last year with the movement of Kodak’s Building 15 into the competitive market.



DOWNTOWN MARKET SNAPSHOT



<i>Downtown Rochester, NY</i>				
MARKET SNAPSHOT				
		<i>Percent</i>	<i>Change,</i>	<i>Number of</i>
OFFICE SPACE	<i>Square Feet</i>	<i>Vacant</i>	<i>2017-18</i>	<i>Buildings</i>
"A"	2,789,462	20.4%	-4.4%	12
"A/R"	586,502	15.8%	-2.8%	13
"B"	2,595,573	33.3%	+0.9%	35
"Non-Traditional"	576,065	16.3%	-2.1%	25
"Medical"	150,292	5.9%	+2.2%	4
SUBTOTAL, COMPETITIVE SPACE	6,697,894	24.3%	-1.8%	89
"Non-Competitive"	2,966,500	0.0%	n.a.	28
ALL SPACE	9,664,394	16.8%	-0.7%	117
HOUSING	<i>Existing Units</i>	<i>Percent</i>	<i>Change,</i>	<i>Units in Pipeline,</i>
		<i>Vacant</i>	<i>2016-18</i>	<i>2019</i>
Rental Only	4,519	7.6%	+2.2%	1,379
Market-Rate	3,456	8.0%	+4.7%	1,112
Subsidized/Affordable	1,063	6.7%	+0.1%	267
Owner-Occupied Only <i>(estimated)</i>	151	0%		0
Total Units	4,670			1,379
2019 INVESTMENT				
Total Investment	\$744,250,000			
Private	\$542,376,500			
Public	\$89,373,500			
Public/Private	\$112,500,000			
Investment by Project Type				
Major Institutions & Facilities	\$114,500,000			
Office & General Business	\$131,500,000			
Housing/Mixed-Use	\$422,500,000			
Streets & Public Properties	\$75,750,000			
DOWNTOWN POPULATIONS				
Employees <i>(estimated)</i>	48,000			
Residents	7,744			
Annual Visitors <i>(estimated)</i>	5,000,000 and 24,000 room nights			
College Students	4,000			
<i>RDDC - 9/12/19</i>				

FULL MARKET REPORTS AVAILABLE

The following RDDC downtown market reports are available on the www.rochesterdowntown.com website:

- ◆ Survey of Downtown Office Space, June 2018
- ◆ Downtown Housing Market Report, December 2018
- ◆ Strategic Center City Development, August 2019



ROCHESTER DOWNTOWN DEVELOPMENT CORPORATION
 Five Star Bank Plaza ♦ 100 Chestnut Street, Suite 1910 ♦ Rochester, NY 14604
 (585) 546-6920 (p) ♦ (585) 546-4784 (f) ♦ rddc@rddc.org
www.rochesterdowntown.com