



DOWNTOWN HOUSING MARKET REPORT

**December 2018
& October 2019 Update**



ROCHESTER DOWNTOWN DEVELOPMENT CORPORATION

100 Chestnut Street, Suite 1910 ~ Rochester, New York 14604 ~ (585) 546-6920

rddc@rddc.org ~ www.rochesterdowntown.com

~

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 8,000 by the beginning of 2020. Downtown has 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 56 downtown buildings have been or are being converted from under-performing commercial uses to trendy lofts and apartments. In addition, a total of 22 newly constructed residential projects have been built or are now planned or under construction.

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 Story – December 2018 & October 2019

December 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 an additional 17 housing projects currently in downtown's development pipeline, which will add 1,183 new units to the inventory.

The story as of December 2018 proved to be more complex than in our last survey, and vacancy rates on the whole downtown recorded higher since that 2016 survey. A variety of factors appear to have resulted in higher vacancy rates in Rochester's downtown housing market by the end of 2018:

- A number of projects had recently come online when we conducted the December 2018 survey
- We received feedback that December is a less appropriate time 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 appeared to have been experiencing management issues at that time (e.g., absentee owners, historically problematic management), which likely also impacted vacancy rates

October 2019. We conducted a more limited update in October 2019 to test whether occupancy in the downtown housing market might have improved. While the survey update included only 29% of the market-rate rental units downtown, the results were significant. The 33 market-rate buildings responding in both 2018 and 2019 recorded a dramatic drop in vacancy, going from 14.8% to 6.8% by October 2019. When one specific new conversion project was removed, the figures went from 4.3% in 2018 to 3.3% in 2019. That project alone went from 83.8% vacant in December 2018 to 30% in October 2019, as its units continued to be absorbed in the market. Between the beginning of 2018 and the end of 2019, six downtown market-rate projects totaling 314 units have come on line.

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 8,000 people are now living downtown in 4,771 housing units, 4,620 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 1,183 units are in the pipeline in eight conversion and nine new construction projects, 978 of which are market-rate units.
- Income-restricted units represent 22.8% of the downtown rental market, and the 798 units designated for seniors comprise 17%. Another 205 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; when a smaller subset was surveyed in October 2019 (34 buildings, 1,048 units, 30% of all market-rate units), vacancy went from 14.8% to 6.8%. Removal of one new project still being absorbed yielded a change from 4.3% in December 2018 to 3.3% in October 2019.
- Vacancy for income-restricted units was 6.7% in December 2018, virtually the same as the 6.6% rate in December 2016.

Rents

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

2018 HOUSING TYPE	Number of Units	Percent Vacant	Change Since 2016	2018 Occupancy
Rental Units (<i>surveyed units only</i>) *	3,376	6.5%	+1.1%	93.5%
Market-Rate *	2,339	6.4%	+3.1%	93.6%
Income Restricted *	1,037	6.7%	+0.1%	93.3%
Owner-Occupied Units **	151	0%		100%
TOTAL	3,527	100.0%		

* (Three projects were not included as units came online in late 2018 – *The Linc, The Metropolitan, and the Terminal Building*). When included, the number of units jumped to 3,626 and overall vacancy increased to 10.3% as these projects went through lease-up. Occupancy improved significantly by mid-2019.)

** (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 6.4% in December 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. Totalling 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. Our October 2019 Update continues to support this contention.

Income-Restricted Housing

More than 23.5% of downtown's rental housing was income-restricted in December 2018 (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 205 income-restricted units are in downtown's development pipeline as of February 2020.

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 December 2018 survey data, the chart below provides an overall picture for the downtown housing market, 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.

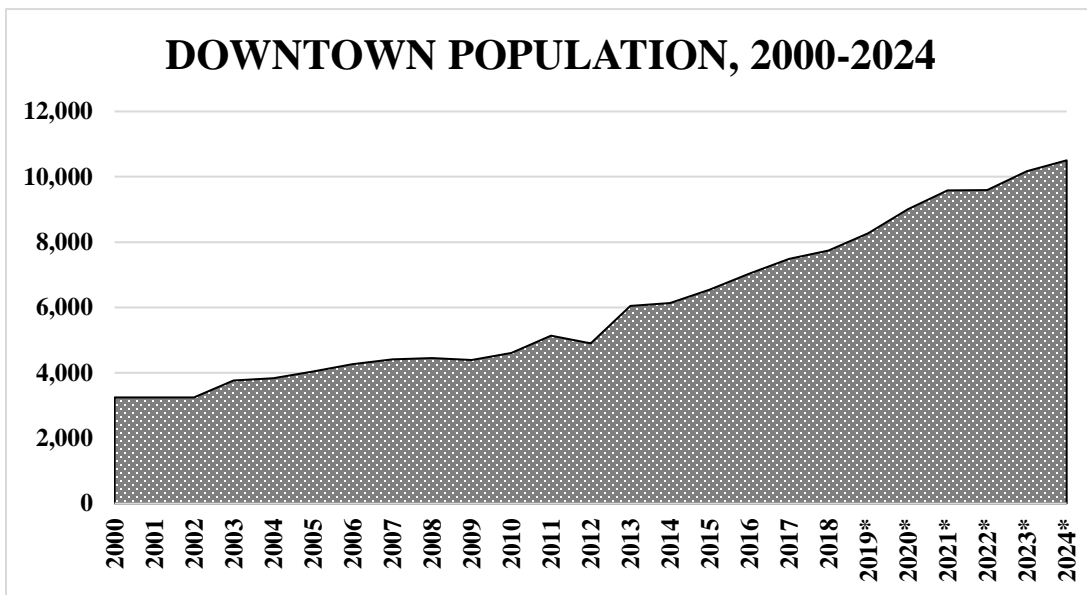
HOUSING TYPE <i>(All downtown units)</i>	Number of Units	Change Since 2016	Percent of Market	2018 Occupancy	Estimated Population *
Rental Units **	4,519	+ 586	97.0%	92.4%	7,516
Market-Rate ***	3,456	+ 519	74.2%	92.0%	5,723
Income Restricted	1,063	+ 67	22.8%	93.3%	1,785
Owner-Occupied Units *	151	+ 1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

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

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

*** (Occupancy rate includes The Metropolitan and Terminal Building, but not The Linc which entered the market in late December 2018.)

RDDC estimates that downtown’s population has increased by 140% between 2000 and 2018, growing from 3,239 residents to 7,780. Given the projects open for occupancy since December 2018, the 17 residential projects in the pipeline as of February 2020, and assuming the higher vacancy rates of 2018, downtown’s residential population is expected to grow 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

In December 2018, property managers reported that market demand remains strong. Of the 56 properties responding to this question in 2018, 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 more complete 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 online and still in their initial absorption phase (as of the end of 2018).

<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 came on the market in late December 2018.)

*** (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 have larger management issues.)

Housing Development

RDDC is tracking \$770 million in downtown investment as of February 2020, 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.

Seventeen housing developments are in downtown's pipeline as of February 2020, totaling 1,183 units. Of those, approximately 978 units are market-rate and 205 are income-restricted. The list of projects includes:

➔ Under Construction (693 units)

- VIDA Apartments & Townhomes (Konar Properties), 237 units in five buildings (new construction)
- The Nathaniel (Morgan Management), 119 units (new construction)
- Liberty Lofts (WinnDevelopment), 104 units (residential conversion)
- Union Square (Home Leasing), 66 units (new construction)
- The Metropolitan (Gallina Development Corporation), 50 units (residential conversion)
- Liberty Landing (Veterans Outreach Center), 33 units (new construction)
- Parcel 2 (Buckingham), 28 units (new construction)
- 49 Stone Street (Hudson Partners), 21 units (residential conversion)
- Hiram Sibley Building (DHD Ventures), 21 units (residential conversion)
- Open Sky Lofts (Nolan Properties), 14 units (new construction)

➔ **Planned/Announced (490 units)**

- Alex Park (Buckingham), 202 units (new construction)
- Inner Loop Site #2 (Christa), 118 units, (new construction)
- Edwards Building (Fortified), 95 units (residential conversion)
- Inner Loop #7 (PathStone/Geva), 54 units (new construction)
- 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 2018 and 2019 include: The Linc (130); Landmark @ Sibley Square (72); The Metropolitan (64); Terminal Building (56); Charlotte Square on the Loop (50); The Residences at Alex park (48); 342-350 East Ave. (Metro Cowork) (13); Charlotte Square Townhomes (10); and, Hive Andrew (3).

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.

The October 2019 Update represents 998 market-rate units in 33 responding buildings, comprising 29% of the market-rate units in the downtown market. A full assessment of the downtown housing market will be conducted again in October 2020.