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Market Outlook 2022

Rochester Real Estate

CBRE RESEARCH



2022 Market Outlook

CBRE Rochester began publishing the Market Outlook Report in 2000 because we believe that deep market knowledge helps you use real estate to transform your business and find greater success. Our mission is to realize the potential of our clients, professionals and partners by building the real estate solutions of the future. From instilling confidence in today's decisions to re-imagining tomorrow's spaces, we thrive in complex and ever-changing environments.

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Rochester Overview

Located on the southern shore of Lake Ontario in the western region of Upstate New York, the Greater Rochester Area is the State's third largest metropolitan area, home to a population of 1.1 million. Situated on the I-90 (New York State Thruway) corridor, the community is centrally located in the Northeastern United States, within 500 miles of one-third of the U.S. and Canadian populations. Rochester enjoys close proximity to the global business centers of Toronto, New York City and Boston, while offering a lower cost of doing business and many quality of life advantages not found in its larger neighbors.

Economic Profile

The legacy of Eastman Kodak, Xerox, and Bausch & Lomb has traditionally led to Rochester being viewed as a big company town. Today these companies employ less than 2% of the area's total workforce, as Rochester has become home to a much more diversified and balanced economy. Some of the industry clusters for which Rochester is best known include healthcare, photonics, optics, digital & health imaging, precision manufacturing, telecommunications, information technology, higher education, and the biosciences.



Rochester, New York



The established strength of the area's high-tech industries and the continued investments that are being made in these industry sectors suggest a bright outlook for Rochester's future economy. A few of the most recent accolades for the Rochester business environment include:

- Business Facilities Magazine ranked Rochester's business climate to be among the top 10 for mid-sized metros in 2021
- The New Republic named Rochester "One of the most innovation-intensive metro areas in the country" and Atlantic magazine lists Rochester as one of its "35 innovations hubs in the country" based on the number of start-up companies, patents, and entrepreneurs.
- Rochester consistently ranks at or near the top in the U.S. for patents issued per 1,000 workers, and was recognized as one of the "25 most innovative cities in America" by 24/7 Wall St based on patent registration and advanced degrees.
- Scientific Reports ranked Rochester in its list of "The Top 20 World's Leading Science Cities".

Education and Industry

Education is a cornerstone of Rochester's economy. The region is home to 18 colleges and universities and Rochester is one of only six cities in the U.S. to have multiple research centers, including the University of Rochester and the Rochester Institute of Technology. Area

universities have a total enrollment of 80,000 students with 15,000 degrees conferred annually. Rochester ranks among the top locations nationally for degrees conferred in mathematics, physical sciences, biology, and engineering. These educational resources and the strong partnerships that exist between the academic and business communities are a critical component in sustaining Rochester's growth in the high-tech sector. Recent highlights include:

- Seven area schools were ranked in U.S. News and World Report's list of "top regional and national universities".
- The University of Rochester Medical Center's (URMC) Strong Memorial Hospital is consistently recognized in U.S. News and World Reports as one of "America's Best Hospitals" with multiple specialties ranking among the top programs in the country.

Quality of Life

Rochester enjoys a distinct four-season climate that is moderated by the City's proximity to Lake Ontario. Due to the unique geography of the region, there are a wide variety of activities and cultural amenities available to appreciate. Warmer months find people flocking to some of the area's 140 annual festivals as well as the numerous local waterways including Lake Ontario and the Finger Lakes (also home to the country's second largest wine region). Rochester takes pride in its quality of life, with a few recent highlights including:

- Rochester was named a 2020 All-America City by the National Civic League.
- Rochester ranked as a top 5 city in the country for remote workers in 2021.
- In 2021 Rochester's housing market was among the most affordable in the U.S. with the median sale price 49% more affordable than the national average.
- Rochester ranked #2 on CNN Money's list of "Least Stressed Out Cities", Kiplinger named Rochester the "best city in the U.S. for commuters" and Forbes magazine ranked the Rochester area the "3rd best metropolitan region in the country for raising a family".

And while Rochester's weather is often discussed...

- The Weather Channel named Rochester one of "The Safest Weather Cities in the U.S.".

Retail 2022

Retailers are using space more efficiently while adaptive reuse of properties and limited new development are reshaping and reinvigorating the retail market.

22.0

million square feet of retail space in the Rochester metro area

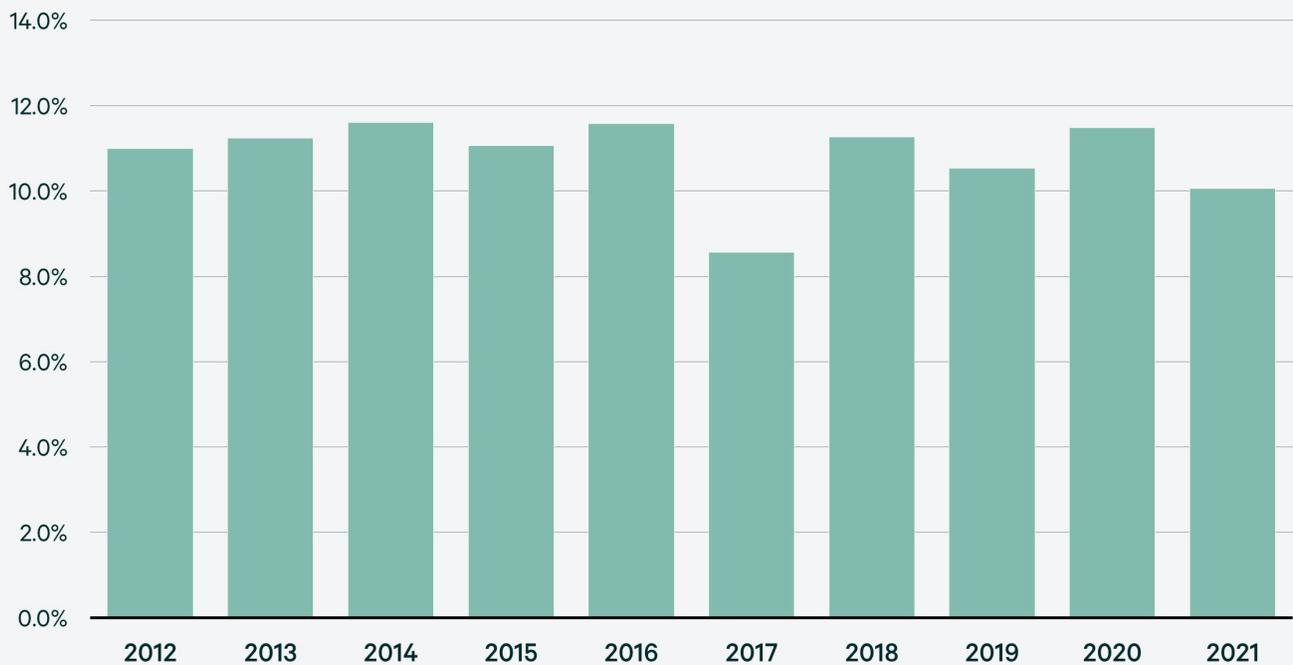
Rochester Retail Market Overview

The Metropolitan Rochester retail market consists of 22.0± million square feet of space with approximately 89% of the total inventory distributed evenly across four submarkets: the Northwest, Southcentral, Southeast and Northeast. The key towns in the Greater Rochester retail market are Greece, Henrietta, and Victor, due in large part to the historical influence indoor shopping malls had on retail development patterns. While the role of mall properties continues to evolve, these three locations have historically served as catalysts for significant growth and new

10.1%

Rochester retail vacancy rate year-end 2021

Retail Vacancy Rate



Source: CBRE Rochester Research, Q4 2021

retailers entering the Greater Rochester Area typically select one of these three trade areas as the location for their initial store.

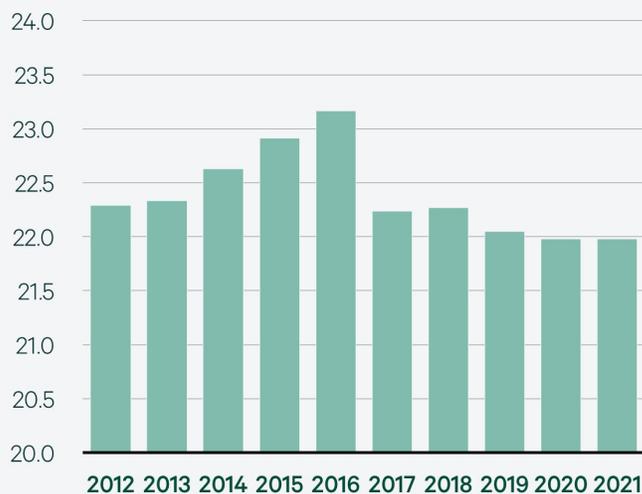
The reuse of big-box retail sites at both freestanding and mall anchor locations is having a significant impact on both the retail property sector, as well as non-retail sectors. While many of these locations are being tenanted by new retailers, an even greater number of properties are slated for redevelopment for non-retail uses. Drawn by their central location, abundant parking, open floor plans, and convenient access, these former retail sites are proving to be very attractive to office, flex, self-storage and light industrial users.

A limited number of new retail deliveries are forecast for 2022. Significant changes and activity within the market will largely focus on existing product, with the absorption or conversion of the aforementioned big-box and mall anchor space having the greatest potential impact.

MARKET DEVELOPMENTS

- 2021 saw construction begin on a new retail development anchored by the Rochester market's first Whole Foods. In addition to the 50,000 square foot grocery store, an additional 32,000 square feet of inline and outparcel space is also being built, with Starbucks already open on the site. Construction is projected to be completed in 2022.
- E-commerce sales exploded at the onset of COVID-19, rising to 21.6% of total retail sales in Q 2020, up from 16.2% in the previous quarter, and are still above pre-pandemic levels at around 20% as of Q3 2021 with additional expansion forecast for 2022 according to CBRE Research. This national trend is clearly having a significant impact on Rochester's retail space as well as the warehousing and logistics sector. On the retail front, this continued shift to e-commerce is manifesting itself with the rapid conversion of under-performing retail locations to non-retail uses. One such example is the University of Rochester Medical Center's (URMC) decision to build a 330,000 square foot orthopedic center at Marketplace Mall. Construction is underway of a new multi-story building on the location of the former Sears department store, and URMC will also occupy a wing of the mall. The project is scheduled for a phased opening beginning in 2022.

Retail Inventory (MSF)



Source: CBRE Rochester Research, Q4 2021

Trends to watch

Stores as a solution to supply chain issues

For the final “50 feet,” which remains one of the most expensive legs of the logistics process, physical stores will take on a greater role in 2022. Stores will make it easier for consumer to return goods, offer refunds and expand return locations.

Partnership between digital and traditional retail brands

Retailers are expanding their offerings, partnering with direct-to-consumer companies -- often via branded kiosks or within department stores -- that can add foot traffic for legacy stores and establish a physical presence for emerging retail brands.

Source: CBRE Research, 2022 U.S. Real Estate Market Outlook

Office 2022

Demand for office space will improve as more workers return to the office and occupiers take advantage of favorable market conditions. The shift to hybrid work will prompt more occupiers to redesign their spaces to enhance collaboration and employee well-being.

15.1

million square feet of office space in the Rochester metro area

Rochester Office Market Overview

The Metropolitan Rochester office market is comprised of approximately 15.1± million square feet of competitive, Class A and B office space. (An additional 4.5± million square feet of single-tenant, owner occupied space is classified as part of the non-competitive inventory and is not included in office statistics.) Of the competitive inventory, 42% is located in the City and 58% is located in the suburban submarkets.

15.2%

Rochester office vacancy rate year-end 2021



THE CITY SUBMARKET

The City of Rochester is home to approximately 6.3± million square feet of office space. Downtown's office market has gained significant momentum in recent years with new owners, expanding tenants, mixed-use conversions and new construction all contributing to an increasingly vibrant market. Current inventory trends are projected to continue with the Class A market seeing small, occupier driven additions, and the Class B inventory continuing to shrink as conversions to non-office use (primarily residential) also move forward. The overall office vacancy rate within the City was 16.1% at year-end 2021.

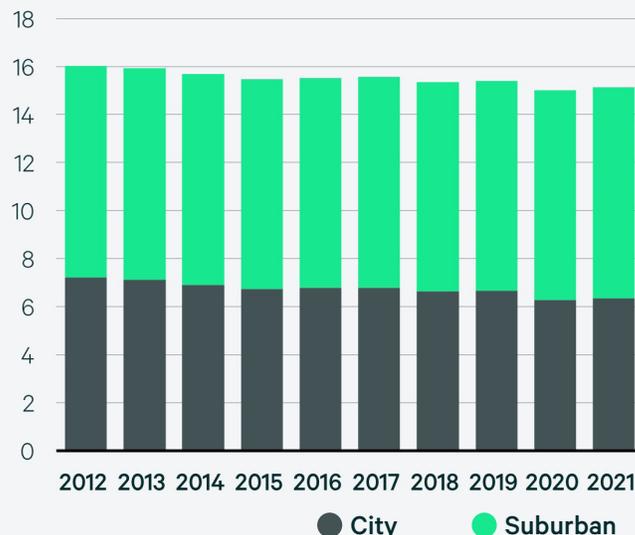
THE SUBURBAN SUBMARKETS

Rochester's suburban office inventory is comprised of approximately 8.8± million square feet of space and is primarily focused in the Southcentral and Southeast Submarkets. 2021 saw suburban vacancy increase to 14.4%.

MARKET DEVELOPMENTS

- 2021 saw media and communications firm Butler/Till move into their newly constructed Downtown headquarters building. The five-story mixed-use facility is approximately 100,000 square feet and was developed in partnership between Butler/Till and Buckingham Properties. In addition to the 54,500 square feet of office space, 10,800 square feet of street front retail, and 28 apartments are also a part of the project.
- Constellation Brands, a leading beverage alcohol company, has announced it will relocate its' headquarters to Downtown Rochester bringing 340 employees to the historic Aqueduct Building. The riverfront campus of five buildings totals approximately 170,000 square feet. Among the improvements planned for the site is a new parking structure as well as the restoration of several of the building's architectural features.
- A new 150,000 square foot building was completed in High Point Office Park in the Town of Victor. First American Equipment Finance is the building's first tenant, leasing approximately 85,000 square feet

Office Inventory (MSF)



Source: CBRE Rochester Research, Q4 2021

Trends to watch

The Rise of Hybrid Work

Workplace flexibility will become even more embedded in corporate business models in 2022. CBRE Research suggests the average U.S. office employee will spend 24% less time working in the office and 87% of large companies plan to adopt a hybrid work approach.

Occupier-favorable market conditions to persist

Although office demand is projected to grow in 2022, the U.S. office market will continue to contend with the highest vacancy in nearly three decades and lower rental rates for much of the year.

Source: CBRE Research, 2022 U.S. Real Estate Market Outlook

Flex 2022

Flex market quick to respond to changing conditions in the office and industrial sectors. Limited new construction should help drive down vacancy.

5.6

million square feet of flex space in the Rochester metro area

Rochester Flex Market Overview

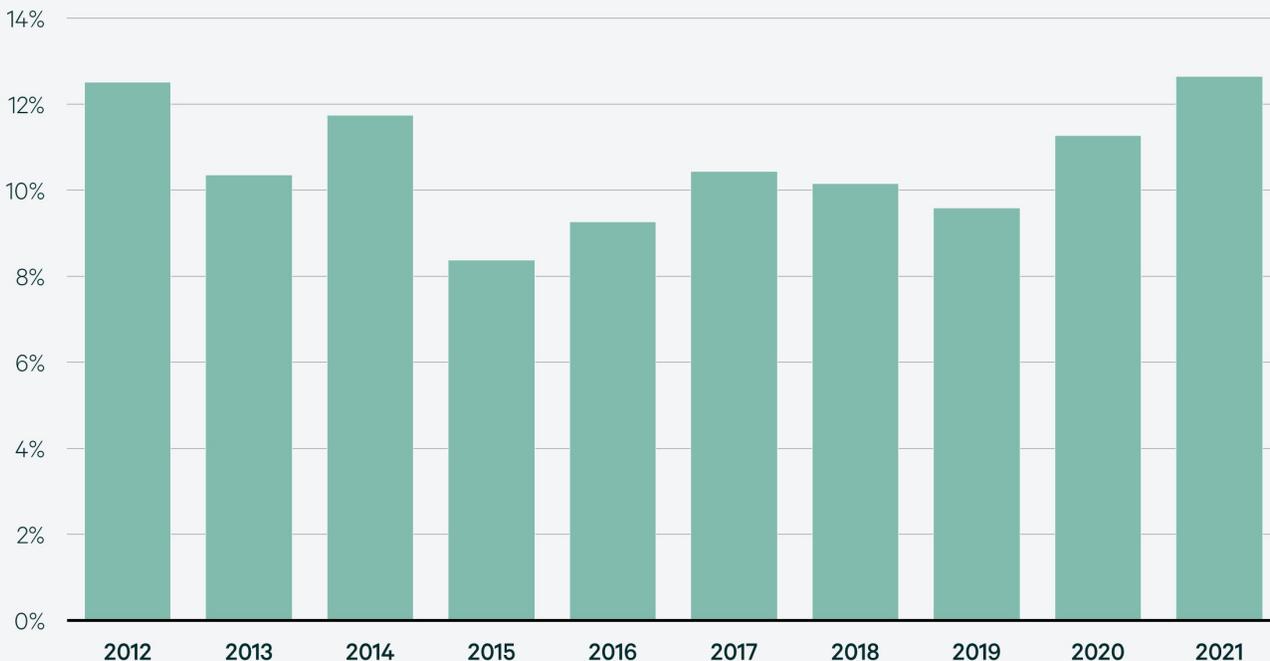
Metropolitan Rochester’s flex market is comprised of approximately 5.6± million square feet of competitive space. The primary submarkets for this property type are the South West, South Central, and South East which account for nearly 90% of the flex market. The Towns of Gates, Henrietta, and Victor possess the largest concentrations of space within the three primary submarkets.

12.7%

Rochester flex vacancy rate year-end 2021.

Relative to Rochester’s industrial and office inventories, the area’s flex market is

Flex Vacancy Rate



Source: CBRE Rochester Research, Q4 2021

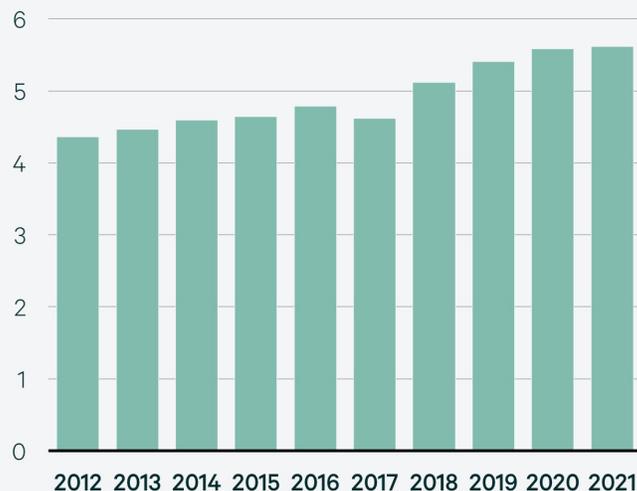
comparatively new with a significant percentage of the market's total inventory having been constructed over the last 20 years. This product type has performed well over time, consistently exhibiting positive annual net absorption. Much of the flex market's success is attributable to its unique ability to respond to the changing needs of business and quite literally its "flexibility" in satisfying the demands of a broad spectrum of uses, most notably light industrial and open plan office uses. Consequently, the flex market has had a notable impact on the traditional office and industrial markets.

2021 saw a modest increase in the competitive inventory with most of the area's landlords focusing on the leasing of existing product. The Metro vacancy rate finished the year at 12.7%, up slightly from the prior year. Absorption of space should gain traction in 2022 as the economy continues to grow and a limited number of construction starts will not result in a material increase in inventory.

MARKET DEVELOPMENTS

- One of Rochester's largest developers of flex space, LeFois Builders and Developers, began construction of its' new 70 acre Wiregrass Business Park. While much of the space LeFois has developed in its' Rochester area flex buildings has been built out for office use, often competing directly with traditional suburban office parks, the first two buildings in the new Wiregrass Park will both be industrial facilities a fact which underscores the constraints of that market. Nearing completion, a 100,000 square foot building for Premier Packaging and an 86,000 square foot facility for MS International (MSI) are both scheduled for delivery in Q1 2022,
- Deliveries of new flex product were extremely limited in 2021. Among the additions to inventory was a 30,500 square foot building by Swetman Properties in the Town of Farmington. Bristol Fabrication will occupy approximately 20,000 square feet in the new building which will serve as production and showroom space.

Flex Inventory (MSF)



Source: CBRE Rochester Research, Q4 2021

Trends to watch

Modest Development Pipeline

The construction pipeline for flex product remains modest heading into 2022. As supply chain issues continue to impact building materials, including delayed deliveries and higher overall costs, flex development will remain constrained.

Market Demand Spurs Shift in Use

As occupier favorable conditions within the office market are projected to persist through 2022, and occupier demand in the industrial market continues to outstrip supply, flex product will adapt to market conditions by shifting towards industrial use.

Industrial & Logistics 2022

Amid record demand, rent growth and investment activity, industrial real estate will stay hot in 2022. E-commerce’s expansion will fuel the need for more warehouse space both nationally and in Rochester.

77.3

million square feet of industrial & logistics space in the Rochester metro area

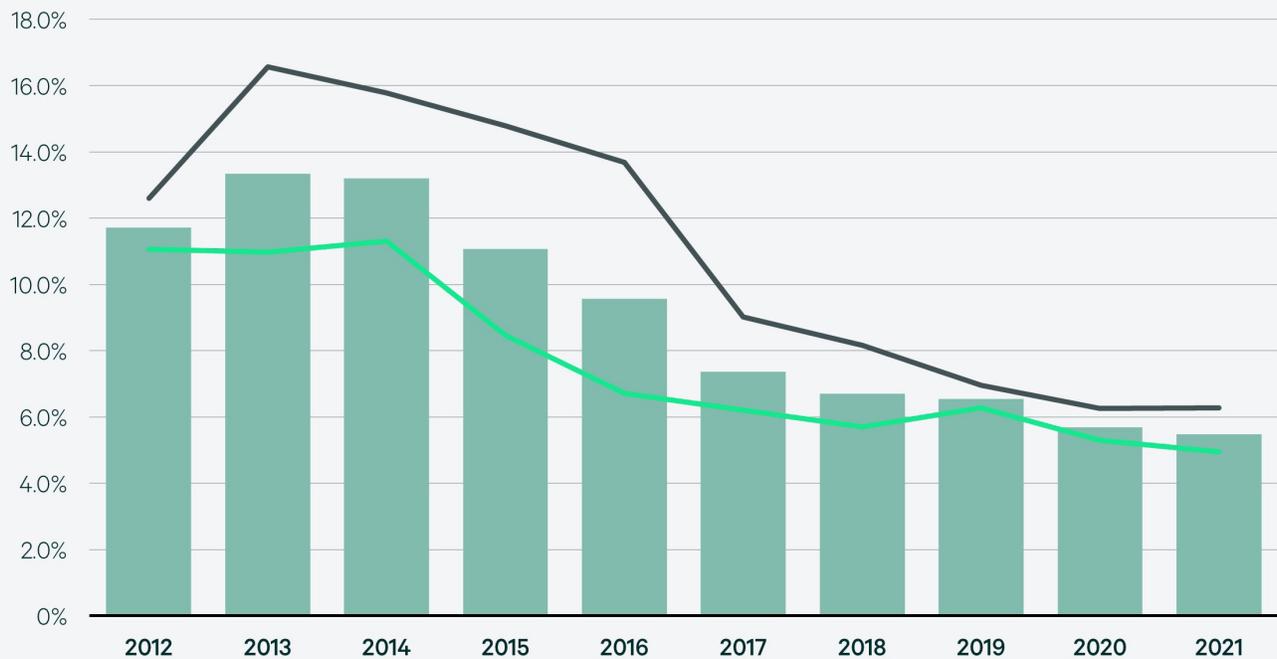
Rochester Industrial Market Overview

The Metropolitan Rochester industrial market is comprised of approximately 77.3± million square feet of owner and tenant-occupied space. Approximately 40% of the market’s inventory is located in the City of Rochester with the remaining 60% located in the suburban submarkets. Overall, 2021 saw the metro vacancy rate decrease to 5.5% led by the suburban submarkets which ended the year at 5.3%. Significant new deliveries in the suburbs are also forecast in 2022.

5.5%

Rochester industrial & logistics vacancy rate year-end 2021

Industrial Vacancy Rate



Source: CBRE Rochester Research, Q4 2021

● Metro ● City ● Suburban

NEW CONSTRUCTION

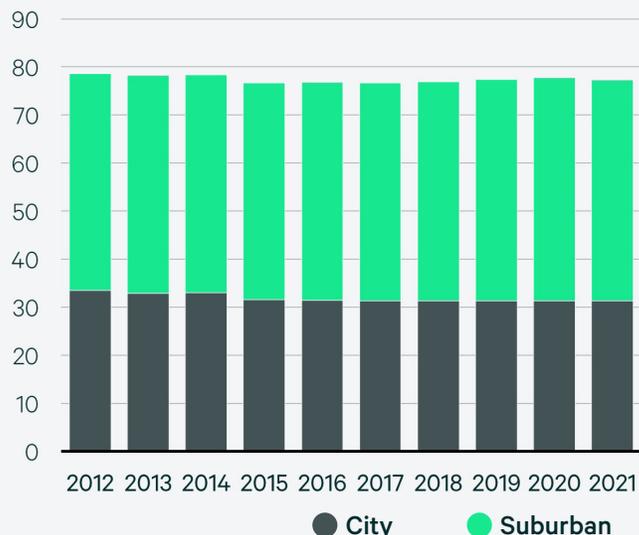
Over the past 20 years, a significant amount of the industrial product introduced into Rochester's competitive market has come from the repurposing of large, corporately owned facilities for use by third party tenants. (This contrasts with additions to competitive inventory by way of new construction.) While these formerly owner occupied facilities tend to be quite large, they are now multi-tenanted and have experienced extremely strong absorption. The remaining number of buildings which are good candidates for this type of conversion is rapidly dwindling.

Compounding this trend, much of the region's older industrial product has reached a point of functional obsolescence, and is no longer viable for supporting modern manufacturing and logistics requirements. As a result, the Rochester Area has seen a noticeable up-tick in new, ground-up construction of industrial (and flex/industrial) space in recent years, notably for larger requirements. Expansions of existing facilities are also on the rise as companies are finding it more challenging to satisfy space requirements through existing inventory. With multiple user-driven projects currently under construction, a record 3.4 million square feet of space is currently forecast for delivery over the next 12 months.

MARKET DEVELOPMENTS

- 2021 saw E-commerce giant Amazon begin the expansion of its Rochester real estate footprint in a significant way with the delivery of a new 180,000 square foot "final mile" distribution facility as well as the start of construction on a massive new 2.6 million square foot fulfillment center in the Town of Gates. An additional 280,000 square foot logistics facility was also begun in the neighboring Town of Ogden. Amazon is currently projecting to have the two new facilities completed in Q4 of 2022.
- C&M Forwarding Company, a Rochester based 3PL, broke ground on a new 300,000 square foot facility in the Town of Chili. The new building is adjacent to the 300,000 square foot building the company opened in 2019.
- Tessy Plastics Corp announced the purchase of 1.5 million square feet of space in three buildings located on Xerox's campus in the Town of Webster.

Industrial Inventory (MSF)



Source: CBRE Rochester Research, Q4 2021

Trends to watch

Supply chain volatility will drive demand

The top concern for occupiers in 2022 will be rising transportation costs and supply chain delays. The cost to ship goods via ocean freight increased more than 200% in 2021 and the cost for domestic freight increased over 40%. While rents will continue to rise, it will pale in comparison to rising transportation costs and companies will continue to lease more space to cut down on transportation costs.

Outsourcing to accelerate in 2022

Providers of Third-Party Logistics (3PLs) led industrial leasing activity in 2021 with a market share of 30%. 3PLs will expand further in 2022 as companies look to reduce direct logistics costs and avoid the hassle of finding space in record-tight markets with limited labor availability.

Source: CBRE Research, 2022 U.S. Real Estate Market Outlook



Rochester Submarkets

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