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# Market Outlook 2023

Rochester Real Estate

CBRE RESEARCH



# 2023 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 2022
- 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 19 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 74,000 students with 18,000 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 2023

The rebound in brick-and-mortar retail sales this past year is expected to continue in 2023. Although high inflation, rising interest rates and labor shortages will remain headwinds, high construction costs and tight availability ensure that retail fundamentals will remain stable.

## Rochester Retail Market Overview

The Metropolitan Rochester retail market consists of 21.7± million square feet of space with approximately 90% 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

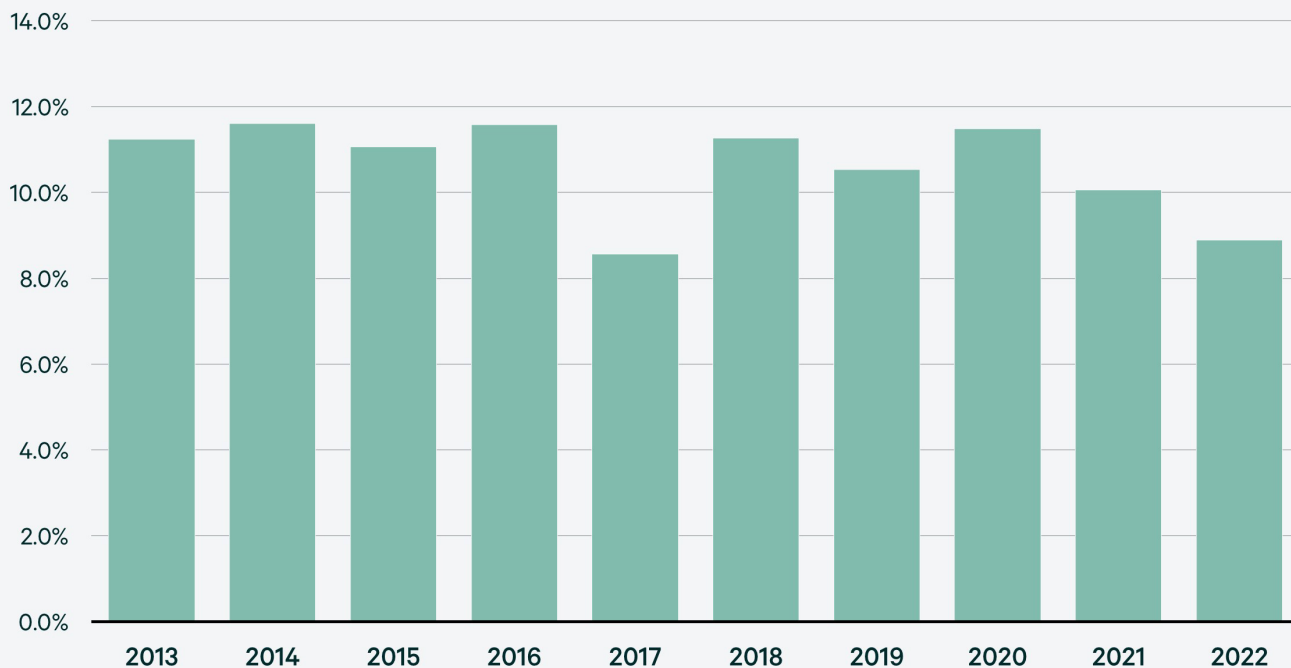
21.7

million square feet of retail space in the Rochester metro area

8.9%

Rochester retail vacancy rate year-end 2022

Retail Vacancy Rate



Source: CBRE Rochester Research, Q4 2022

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

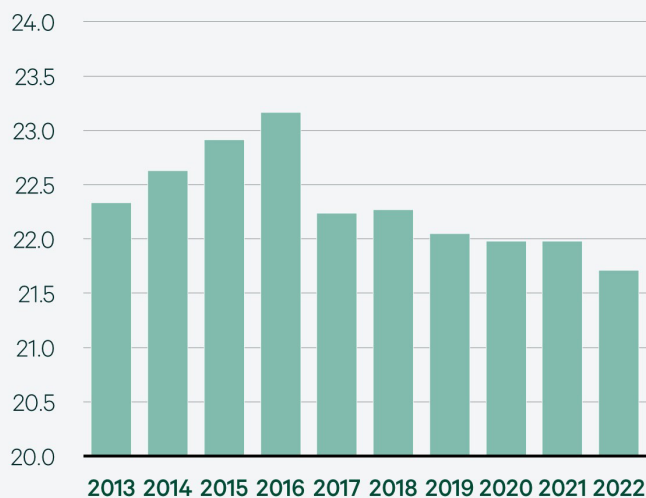
The reuse of big-box retail sites at both freestanding and mall anchor locations is having a significant impact on both the retail property sector, as well as non-retail sectors. While many of these locations are being tenanted by new retailers, an even greater number of properties are slated for redevelopment 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 alternative uses including: office, medical, self-storage, residential and light industrial.

A limited number of new retail deliveries are forecast for 2023. 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

- Following a lengthy development process, 2023 is expected to bring the opening of the Rochester area's first Whole Foods Market in the Town of Brighton. The 50,000 square foot grocery store will be the anchor tenant to a retail development which will also include approximately 32,000 square feet of inline and outparcel space. Additional tenants of the center include Starbucks, Fidelity Investments, WellNow Urgent Care, Chapter Aesthetic Studio and Jersey Mike's Subs.
- The transition of Marketplace Mall from a traditional retail setting to a mixed-use campus took several steps forward in 2022. The University of Rochester Medical Center (URMC) is nearing completion of its \$227 million, 330,000 square foot orthopedic and physical performance center. The new facility will include space that was previously an interior portion of the mall as well as a new multi-story building on the location of the former Sears department store. Elsewhere on the site, a 150 unit senior housing development is scheduled to break ground with a projected completion in Spring of 2024. Additionally, the former Macy's department store was demolished to make way for the development of a new warehouse-format building for Floor & Decor, a leading retailer of hard surface flooring.

## Retail Inventory (MSF)



Source: CBRE Rochester Research, Q4 2022

## Trends to watch

### Rise of Grocery Stores

The role of grocery stores will continue to evolve. Although food & beverage digital sales are rapidly growing, most of these orders are fulfilled at the store level through curbside pickup or third-party delivery. Grocers will transform their footprints to better suit multi-channel retailing.

### Lagging Consumer Confidence

Retailers will attempt to counter lagging consumer confidence by enhancing the customer experience. Sixty percent of respondents to a recent CBRE global consumer survey said they prefer an in-store experience. Retailers will adopt more technology to make the store experience more convenient, such as “walk-out purchasing” that eliminates the need to scan purchases and automatically charges customers for items when they leave the store.

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

# Office 2023

The slow and uneven recovery of the office market in the aftermath of the pandemic has created a deep divide between primary and secondary office buildings that will continue to widen in 2023. High-quality and well-located space will outperform in 2023 with space that helps attract workers back to the office becoming a priority in site selection.

15.0

million square feet of office space in the Rochester metro area

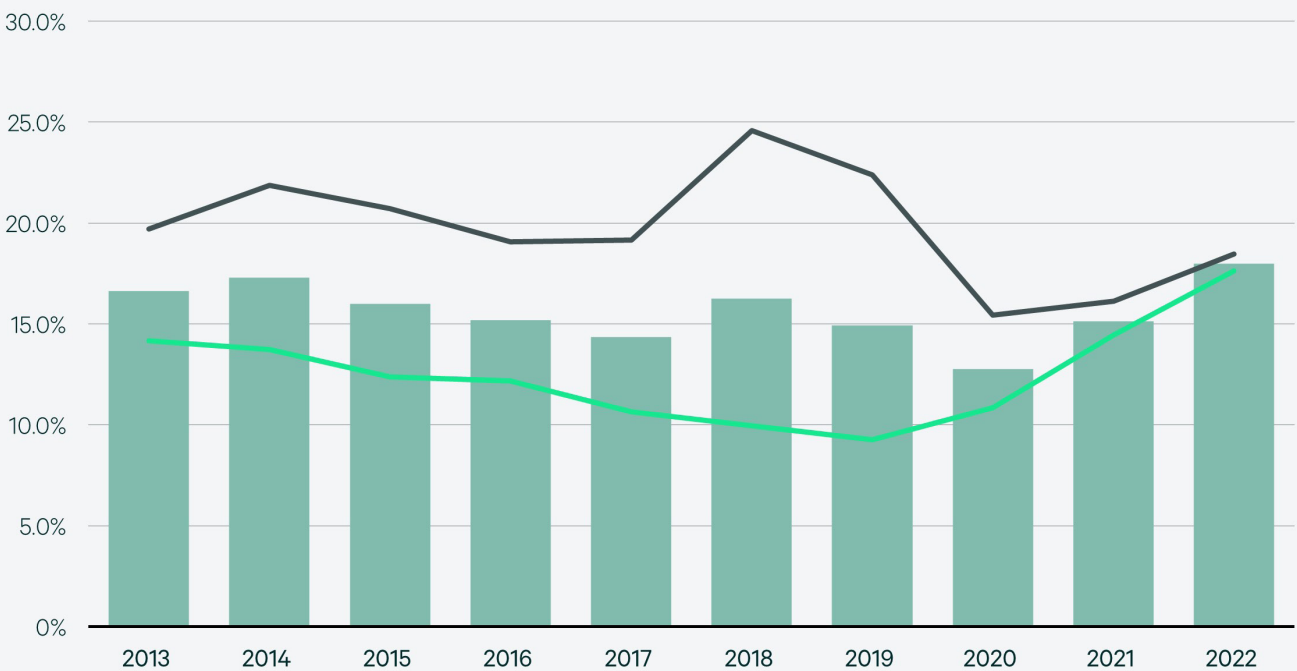
## Rochester Office Market Overview

The Metropolitan Rochester office market is comprised of approximately 15.0± 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.

18.0%

Rochester office vacancy rate year-end 2022

Office Vacancy Rate



Source: CBRE Rochester Research, Q4 2022

● Metro ● City ● Suburban

### THE CITY SUBMARKET

The City of Rochester is home to approximately 6.4± million square feet of office space. While changes in how companies are utilizing office space in the post pandemic environment continues to create uncertainty in all office markets, there is still reason for cautious optimism in Downtown Rochester. The office market 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 additions to the Class A market largely remaining paused, and the Class B inventory continuing to shrink as conversions to non-office use (primarily residential) continue to move forward. The overall office vacancy rate within the City was 18.5% at year-end 2022.

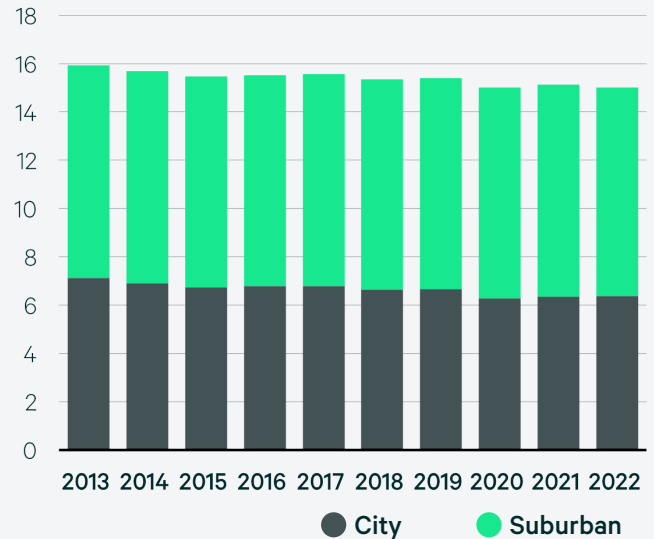
### THE SUBURBAN SUBMARKETS

Rochester’s suburban office inventory is comprised of approximately 8.6± million square feet of space primarily focused in the Southcentral and Southeast Submarkets. 2022 saw suburban vacancy increase to 17.6%.

### MARKET DEVELOPMENTS

- In response to shifting market demands Uniland Development is moving forward with a redevelopment at their CrossKeys Office Park in the Town of Perinton. 2023 will see the company break ground on a three building, 124 unit apartment complex on land previously occupied by four of the park’s office buildings. Uniland has previous experience with a similar office to residential conversion at their neighboring Perinton Hills Office Park.
- 2022 saw changes at several historic Downtown properties reflecting evolving trends in the office market. Rochester’s former City Hall, built in 1837, is being redeveloped into a mixed-use project including residential, office and retail spaces. Similarly the eight-story Ellwanger & Barry office building, built in 1888, is transitioning to a 64 unit apartment building with ground floor commercial space. A 1930 building previously home to Hart’s Local Grocers, was converted for office use. Now known as The Winthrop, the property’s anchor tenant is the CPA firm RDG+Partners. Renovations also began at the Aqueduct Building, a 170,000 square foot, multi-building campus dating back to 1890. Improvements are underway in preparation for occupancy by Constellation Brands which has announced they will relocate their headquarters to the property.

Office Inventory (MSF)



Source: CBRE Rochester Research, Q4 2022

## Trends to watch

### Hybrid Work and Office Utilization

Widespread adoption of hybrid work means workers are spending less time in the office and companies are assessing what to do with their underutilized space. Many have put up excess space for sublease, though others have held back as they plan for future growth and strive to increase office attendance

### Occupiers Focusing on Quality and Cost

Occupiers will strive to make long-term leasing decisions while navigating the uncertainties of hybrid work. Smaller and more agile corporate users will be the most active in 2023. Larger users facing lease expirations will seek efficiency and cost-saving opportunities. Many users likely will reduce their footprint but upgrade the quality of their space to better support new ways of working.

Source: CBRE Research, 2023 U.S. Real Estate Market Outlook

# Flex 2023

Flex market adapting to changing conditions in the office and industrial sectors. Limited new construction should help stabilize vacancy rates.

5.7

million square feet of flex space in the Rochester metro area

## Rochester Flex Market Overview

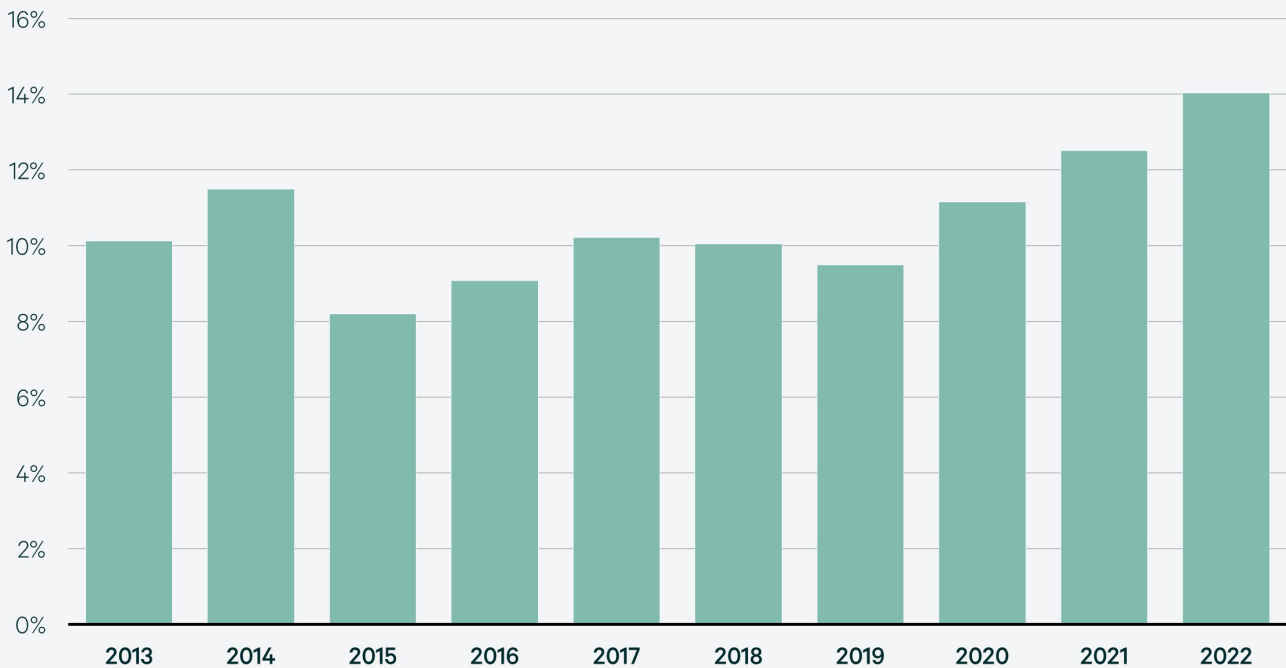
Metropolitan Rochester’s flex market is comprised of approximately 5.7± million square feet of competitive space. The primary submarkets for this property type are the South West, South Central, and South East which account for nearly 90% of the flex market. The Towns of Gates, Henrietta, and Victor possess the largest concentrations of space within the three primary submarkets.

14.0%

Rochester flex vacancy rate year-end 2022

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

Flex Vacancy Rate



Source: CBRE Rochester Research, Q4 2022

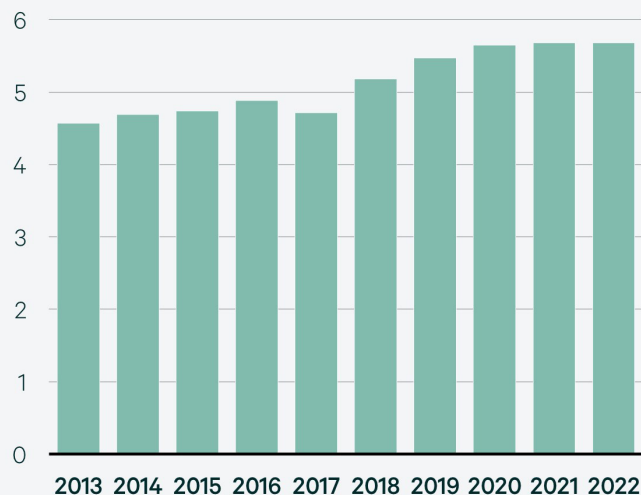
comparatively new with a significant percentage of the market's total inventory having been constructed over the last 20 years. This product type has performed well over time with much of the flex market's success being attributable to its unique ability to respond to the changing needs of business and 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.

As most of the area's landlords continue to focus on the leasing of existing product, 2022 saw minimal changes to the competitive inventory with few deliveries of new product or new construction starts. The Metro vacancy rate finished the year at 14.0%, up slightly from the prior year as flex product currently built out for office use will continue to feel the impact of post-pandemic uncertainty in how office occupiers will utilize space going forward.

## MARKET DEVELOPMENTS

- Sitework is underway at Ontario Gateway Business Park on the Route 332 corridor in the Town of Farmington. The mixed-use project is a joint venture of LeFrois Builders & Developers and Norry Management Corporation. Ultimately planned for 140,000 square feet, the development will include a mix of flex space as well as retail development with frontage on Route 96.
- Deliveries of new flex product were extremely limited in 2022, a trend which is expected to continue in 2023 with less than 75,000 square feet of flex space under active construction entering the new year. The reduced amount of flex construction reflects changing market demands as well as supply constraints within the industrial market. Recent construction in local business parks has seen some of the market's largest flex space developers adjust to accommodate pure industrial uses.

## Flex Inventory (MSF)



Source: CBRE Rochester Research, Q4 2022

## Trends to watch

### Market Demand Spurs Shift in Use

As occupier demand in the industrial market continues to outstrip supply, flex product will adapt to market conditions by shifting away from the uncertainties in the office market and move towards industrial use.

While industrial demand is expected to remain high, small businesses are the top occupier of light-industrial facilities (under 25,000 sq. ft.), a critical size for occupiers of flex space. Demand from small businesses fell by 20% year-over-year as of Q3 2022. A similar slowdown will occur in 2023 amid economic uncertainty and higher supply chain costs.

Source: CBRE Research, 2023 U.S. Real Estate Market Outlook

# Industrial & Logistics 2023

Industrial leasing activity is expected to moderate in 2023 as occupiers delay expansion plans and the post-pandemic need to hold additional inventory dissipates. Despite the slowdown, vacancy rates will remain well below the 10-year average.

80.6

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

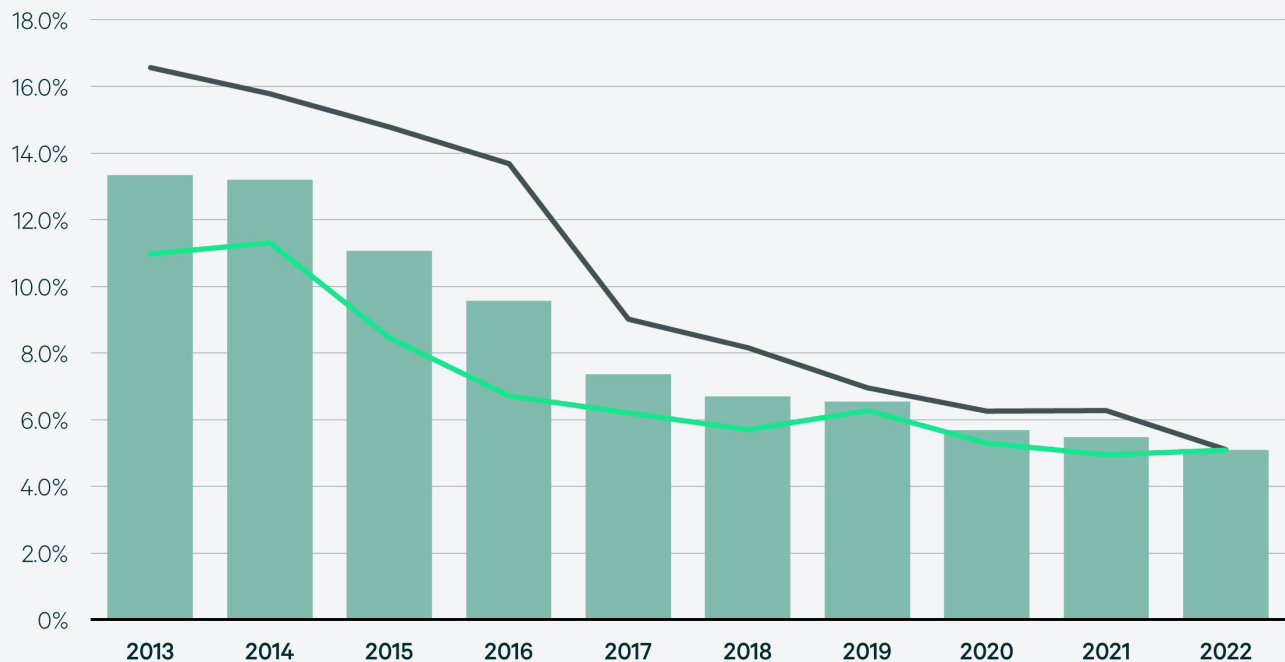
## Rochester Industrial Market Overview

The Metropolitan Rochester industrial market is comprised of approximately 80.6± million square feet of owner and tenant-occupied space. Approximately 39% of the market's inventory is located in the City of Rochester with the remaining 61% located in the suburban submarkets. Overall, 2022 saw the city, suburban and metro vacancy rates all converge at a record low 5.1%. Deliveries of new construction were also extremely high in 2022 at approximately 3.4 million square feet.

5.1%

Rochester industrial & logistics vacancy rate year-end 2022

Industrial Vacancy Rate



Source: CBRE Rochester Research, Q4 2022

● Metro ● City ● Suburban

## NEW CONSTRUCTION

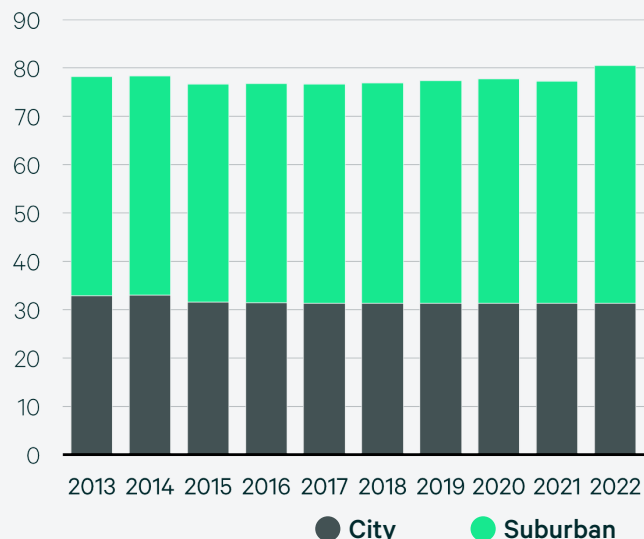
Over the past 20 years, a significant amount of the industrial product introduced into Rochester's competitive market has come from the repurposing of large, corporately owned facilities for use by third party tenants. (This contrasts with additions to competitive inventory by way of new construction.) 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 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.

## MARKET DEVELOPMENTS

- 2022 saw Amazon deliver a new 2.6 million square foot fulfillment center in the Town of Gates and a 280,000 square foot logistics facility in the neighboring Town of Ogden. Ramp up of occupancy at the new facilities will begin in 2023.
- C&M Forwarding Company, a Rochester based 3PL, continued to expand in 2022 delivering 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.
- CooperVision broke ground on a 150,000 square foot expansion to its' 240,000 square foot warehouse and distribution facility in Erie Station Business Park. The expansion is scheduled for delivery in 2023.
- Development at the new Wiregrass Business Park in the Town of Henrietta made significant progress in 2022 with the delivery of its first two buildings. Premier Packaging opened their new 100,000 square foot facility and MS International (MSI) began operating in their new 86,000 square foot home.

## Industrial Inventory (MSF)



Source: CBRE Rochester Research, Q4 2022

## Trends to watch

### 3PLs will Lead Leasing Activity

U.S. industrial leasing activity is expected to decline by 10%-15% in 2023, finishing in the 725 - 750 million- sq.- ft. range. Demand will be led by Third Party Logistics (3PLs), as companies outsource at a greater clip to avoid a lack of inventory, labor shortages, rising transportation costs and other supply chain challenges. 3PLs' leasing market share will reach 40% by midyear 2023.

### Plummeting Construction Starts in 2023

U.S. industrial groundbreakings will fall by more than half in early 2023 due to construction financing challenges and economic uncertainty. The reduction in construction starts will lead to completions dropping to around 250 million sq. ft. in 2024, and a return to record-low vacancy rates at a time when many companies will reenter the market.

Source: CBRE Research, 2023 U.S. Real Estate Market Outlook



Rochester Submarkets

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