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CBRE Upstate NY

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Market Outlook 2025

Rochester Real Estate

CBRE RESEARCH



2025 Market Outlook

CBRE Upstate NY began publishing the Rochester 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 2024
- 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 ranks in the top 5 major metros 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 71,000 students with 17,000 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 colleges 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 ranked as one of the top 10 cities in the U.S. for quality of life in 2023 by U.S. News & World Report.
- 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 2024 Rochester's housing market was among the most affordable in the U.S. with sale prices 36% 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 climate is often discussed...

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

Retail 2025

Retail fundamentals are expected to remain steady in 2025 due in part to the scarcity of new deliveries. Outparcels and other freestanding locations are the retail property type that will see the most new construction . Potential store closures in centers that generate more foot traffic could provide space that is sought-after by tenants.

21.8±

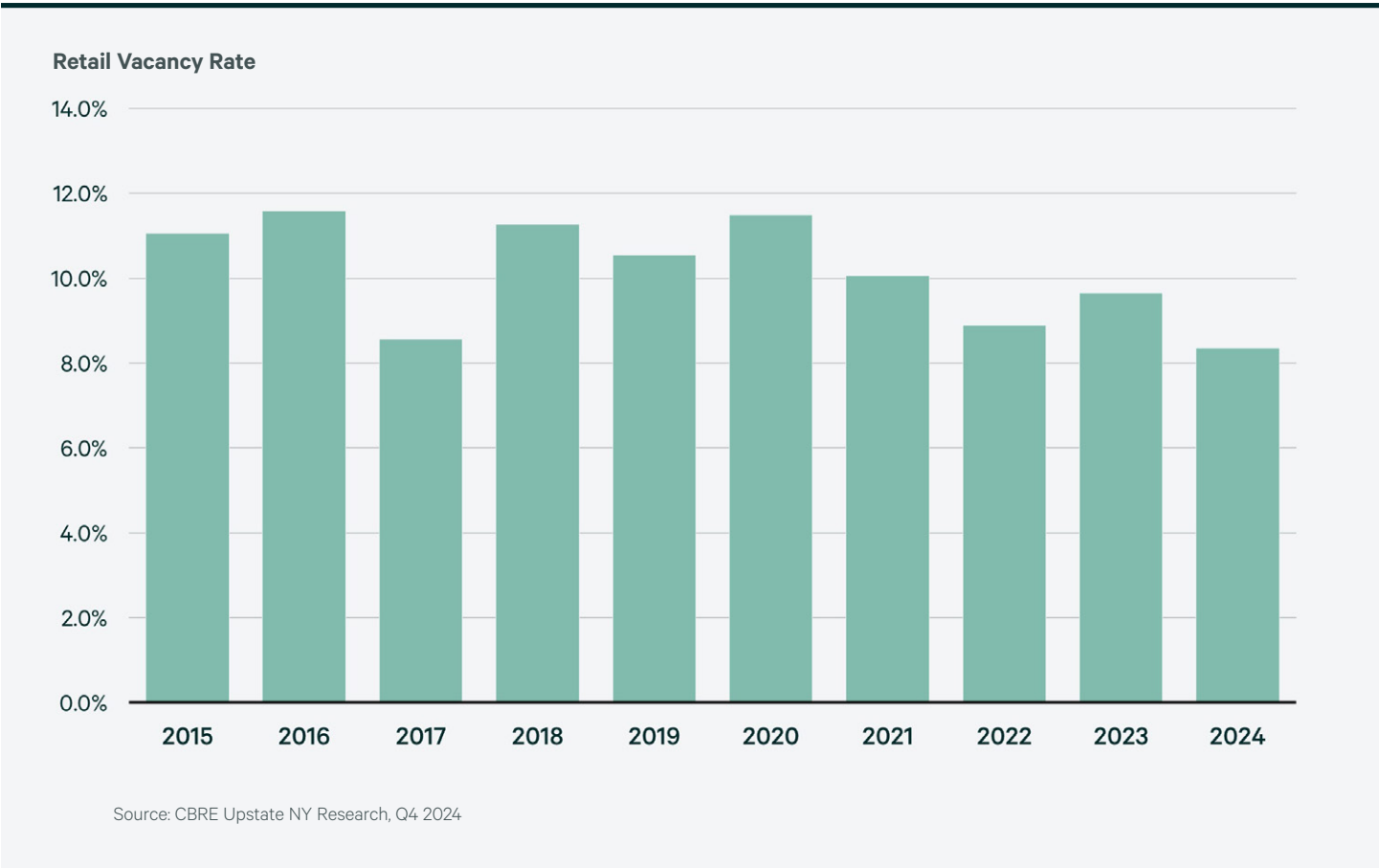
million square feet
of retail space in the
Rochester metro area

Rochester Retail Market Overview

The Metropolitan Rochester retail market consists of 21.8± 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

8.4%

Rochester retail
vacancy rate year-end
2024



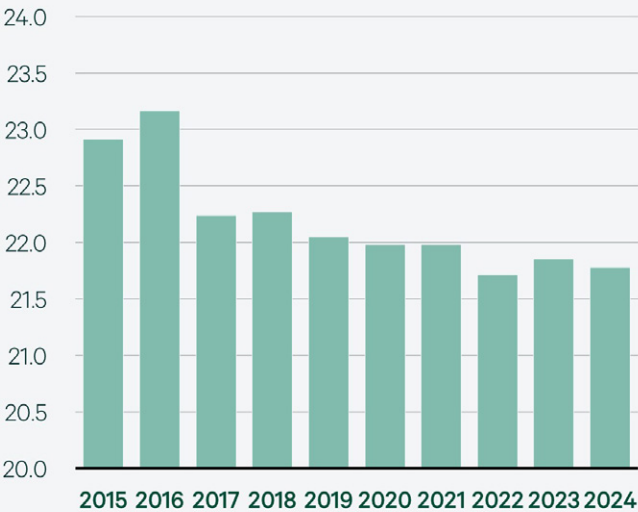
three locations have historically served as catalysts for significant growth and new retailers entering the Greater Rochester Area typically select one of these three trade areas as the location for their initial store.

The conversion of retail buildings for non-retail uses is having a significant impact on the retail and non-retail sectors alike. Drawn by their central location, abundant parking, open floor plans, and convenient access, many non-retail occupiers are finding former retail sites to be very attractive for alternative uses including: office, medical, self-storage, residential and light industrial. While prime locations will continue to be re-tenanted by new retailers, those properties which are challenged by: 1) shifting demographics, 2) changing development patterns or 3) the desirability of alternative retail formats, are finding new life with non-retail uses.

MARKET DEVELOPMENTS

- Plans for Upstate New York’s first Topgolf are continuing to take shape at CityGate. The proposed 18-acre entertainment complex includes a 48,000 square foot facility with 80 hitting bays, a restaurant, sports bar and music. Rochester based DelMonte Hotel Group is also proposing two new hotels on 12 acres to the south of CityGate. A 76-room Element by Westin and a 115-room AC Hotels by Marriot would both be new concepts to the market. Element is an extended-stay brand focusing on sustainability and wellness, while AC Hotels by Marriott is a select service brand targeting solo and business travelers.
- The evolution of the anchor positions at the area’s malls continues as several traditional department store retailers have reduced the number of stores in the market, or simply no longer exist. While some of these locations have been backfilled in relatively straightforward retail-to-retail changes, others have been more dramatic, such as the University of Rochester Medical Center constructing a new 330,000 square foot orthopedic center at Marketplace Mall. 2024 saw the former Sears location at The Mall at Greece Ridge reopen as True Storage, a 1,000-unit self-storage facility. With that transition complete, Greece Ridge will see more change in 2025 as Macy’s has announced their intention to close this location along with their Macy’s Home Store.

Retail Inventory (MSF)



Source: CBRE Upstate NY Research, Q4 2024

Trends to watch

Consumer Shifts Alter Site Selection

The growth of e-commerce continues to reshape the retail landscape as the online share of total retail sales is expected to exceed 30% by 2030. As consumers increasingly favor online options, some retailers are consolidating locations. Open-air neighborhood, community & strip centers will see increased demand as retailers focus more on facilitating pickups and returns of online purchases.

Experiential Retail’s Rise

Retailers are focusing on experiential retail strategies to attract and retain customers. Brands are focusing on optimizing their existing spaces to offer unique, immersive experiences that differentiate them from their competitors and appeal to a more experience-oriented consumer base. This “retailtainment” trend combines shopping with other elements like dining, entertainment and activities, creating spaces that provide more immersive brand engagement.

Source: CBRE Research, 2024 U.S. Real Estate Market Outlook

Office 2025

The U.S. office market is set for a pivotal shift in 2025, with stabilization paving the way for a new cycle. With office attendance reaching a steady state and a soft landing for the economy, occupiers can conduct portfolio planning with increased confidence.

15.0±

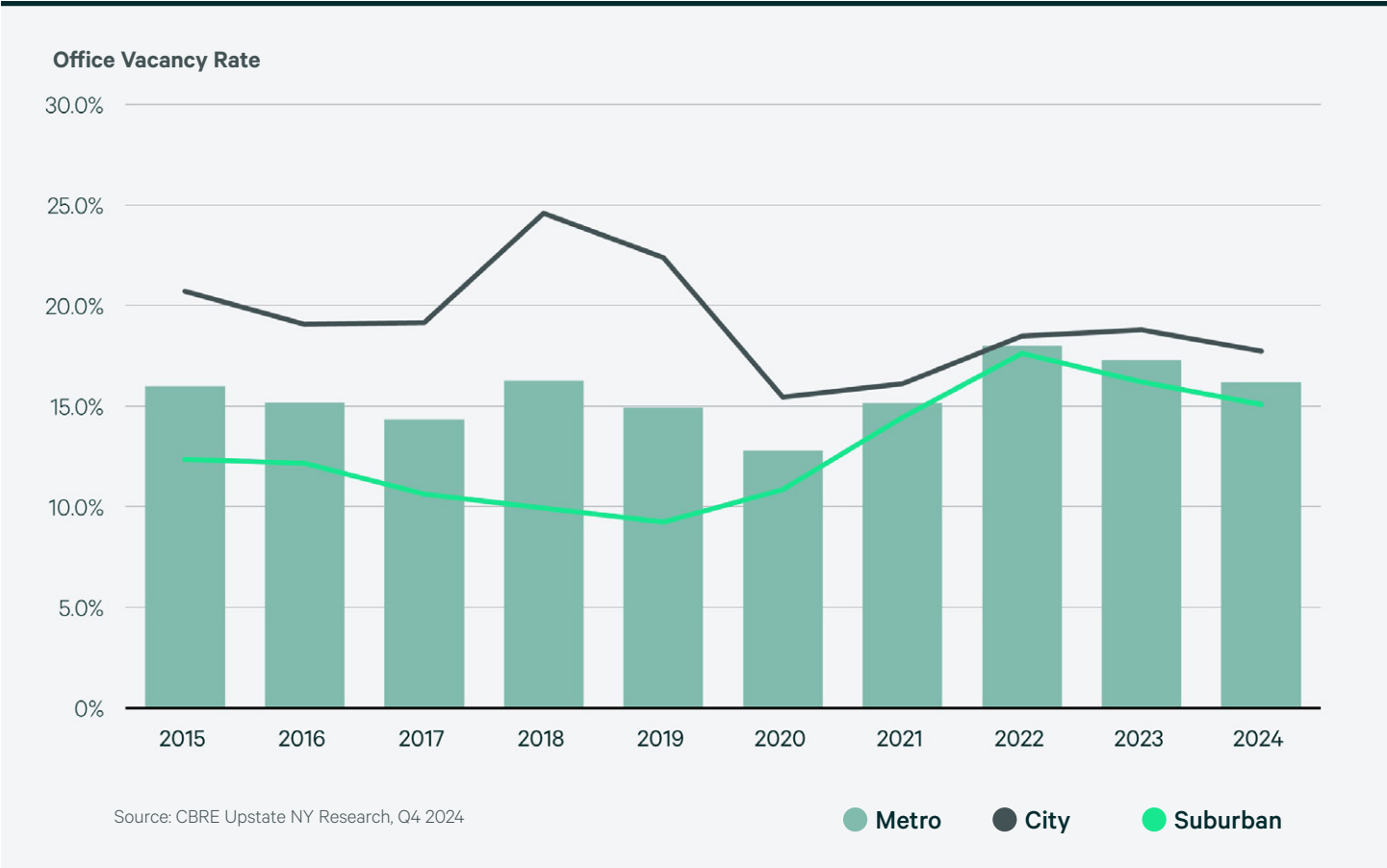
million square feet of office space in the Rochester metro area

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. (Single-tenant, owner occupied space is classified as part of the non-competitive inventory and not included in office statistics.) Of the competitive inventory, 42% is located in the City and 58% is located in the suburban submarkets. Overall vacancy for the metro region closed 2023 at 16.2%, down 1.1% year-over-year.

16.2%

Rochester office vacancy rate year-end 2024



THE CITY SUBMARKET

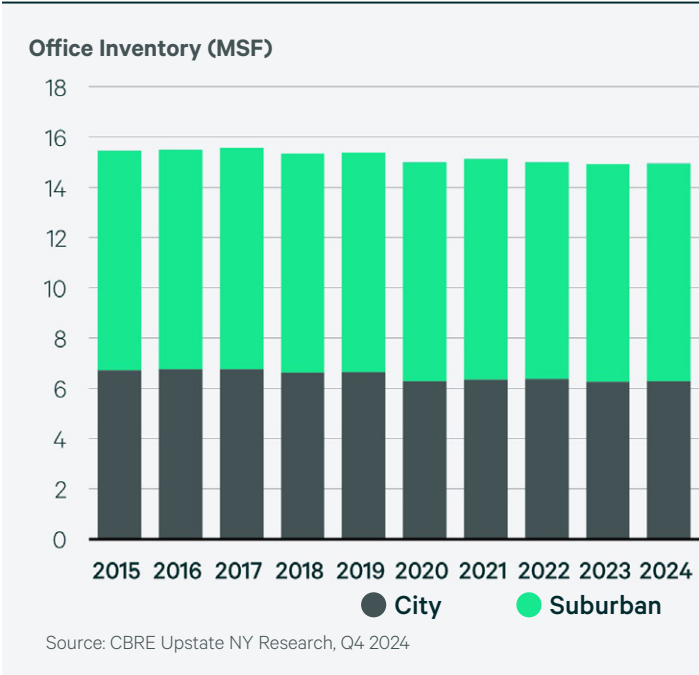
The City of Rochester is home to approximately 6.3± million square feet of office space. At year-end 2024 overall office vacancy rate within the City was 17.7%. The Downtown market is continuing to evolve as new owners, mixed-use conversions and new construction are changing how we interact with many buildings and neighborhoods within the Downtown market. Buildings which lack the amenities or infrastructure to attract office tenants are converting to non-office uses (primarily residential), and continuing to shrink the Downtown office inventory. Individual properties and small pocket districts located in the City, but outside of the traditional Downtown, are also finding success.

THE SUBURBAN SUBMARKETS

Rochester’s suburban office inventory is comprised of 8.7± million square feet of space primarily focused in the Southcentral and Southeast Submarkets. 2024 saw suburban vacancy decrease to 15.1%. New office construction in the suburbs is projected to be limited in 2025 as portfolio optimization by many corporate users, and the broad adoption of hybrid work has reset overall demand with many users requiring less space.

MARKET DEVELOPMENTS

- Constellation Brands, Inc. (NYSE: STZ), a leading beverage alcohol company, took occupancy of their new global headquarters at the historic Aqueduct Building campus in downtown Rochester. The 170,000 square-foot riverfront campus dates back to 1890 and went through a multi-year renovation prior to Constellation’s move. The location is at the heart of one of the major cornerstone projects of the city-sponsored ROC the Riverway initiative which consolidates more than two dozen transformational projects along the Genesee River to restore and contemporize Rochester’s riverfront as a destination hub for entertainment, businesses, and outdoor recreation.
- The transformation of another historic Downtown office property was completed when the former Gannett building reopened as The Edmond, a 94-unit multifamily apartment and commercial complex. The 150,000 square foot facility was home to Rochester’s daily newspapers from 1928 until relocating to a new Downtown property in 2016. The building, which was also home to the publisher’s printing presses, will also feature 500 self-storage units.



Trends to watch

Office Demand Tailwinds & Headwinds

Tailwinds for the office sector include optimism surrounding interest rate reductions, greater corporate confidence in a soft landing for the economy, deregulation and office-using employment at a record level. There also will be a mild increase in office attendance rates. Against these positives will be lower future growth of office jobs due to labor shortages and the use of artificial intelligence for certain jobs.

Market Divide

The divide between high-quality and lower-quality office assets will widen in 2025. High-quality assets in mixed-use districts will continue to attract tenants. Prime spaces will become more scarce due to the slowdown in new construction. By conservative estimates, vacancy in prime buildings is expected to return to its pre-pandemic rate of 8.2% by 2027.

Source: CBRE Research, 2024 U.S. Real Estate Market Outlook

Flex 2025

New construction in the flex market will remain limited while demand is projected to remain consistent, notably from smaller, light-industrial occupiers.

6.0±

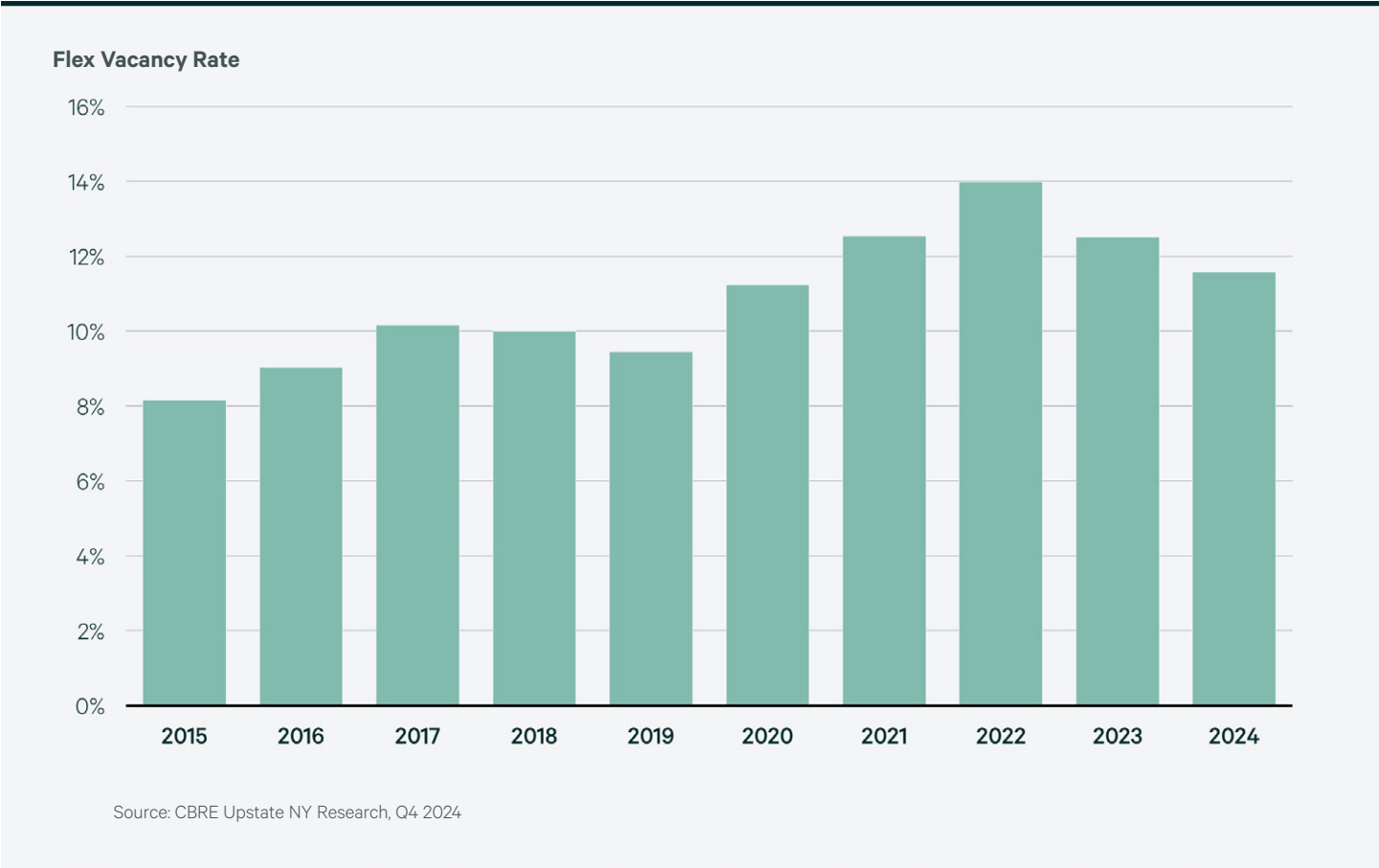
million square feet of flex space in the Rochester metro area

Rochester Flex Market Overview

Metropolitan Rochester’s flex market is comprised of approximately 6.0± 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.

11.6%

Rochester flex vacancy rate year-end 2024

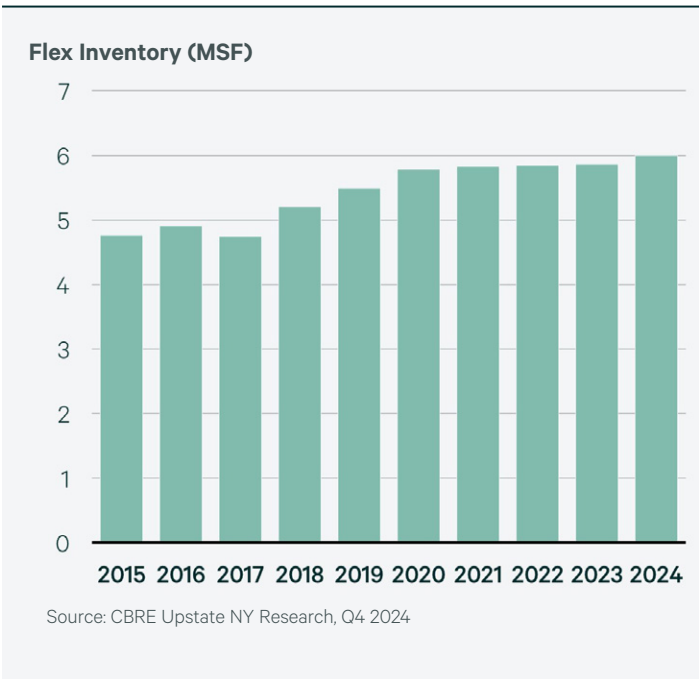


Relative to Rochester’s industrial and office inventories, the area’s flex market is comparatively new with a significant percentage of the market’s total inventory having been constructed over the last 25 years. This product type has performed well over time with much of the flex market’s success being 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.

2024 saw minimal additions to inventory as most of the area’s landlords continue to focus on the leasing of existing product. With inventory stable, the Metro vacancy rate closed 2024 at 11.6%, a 0.9 percentage point decrease from the previous year. A limited number of construction starts are currently being tracked for 2025 which should allow property fundamentals to remain strong.

MARKET DEVELOPMENTS

- Gallina Development completed a new 33,900 square foot flex building at the company’s Elmgrove Crossings development in the Town of Gates. Delivered in 2024 the building occupies one of the final sites at the 140 acre park, which began development in 1999 and is now home to over 20 buildings.
- 2024 saw the Genesee Valley Regional Market Authority continued to develop its’ 80 acre flex park in the Town of Chili with the delivery of the first building in the third phase of the project. The 20,000 square foot flex building was completed and is now fully leased. Delivery of the second building is scheduled to occur in 2025 with the remaining two buildings scheduled for delivery in 2026 and 2027.
- The fourth of five planned buildings at Panorama Landing was completed in Q4 of 2024. The 24,000 square foot flex building welcomed Panorama Pediatrics as the lead tenant who will occupy approximately 15,000 square feet at the property.



Trends to watch

Adapting To Market Demand

Occupier demand in the industrial market has consistently outstripped supply since 2020, causing a shift in the use of flex product away from the office market, and the uncertainties accompanying it, and towards light industrial uses.

With the pandemic-driven demand for industrial space now waning, some softening within the industrial market is taking place. That said, much of the industrial space that is becoming available is in larger buildings and in blocks that may not be conducive to satisfying the needs of smaller industrial occupiers (under 25,000 sq. ft.). As flex properties are well suited to take on these smaller industrial requirements, continued demand for flex space is expected to come from this segment.

Industrial & Logistics 2025

The U.S. industrial market will enter a new cycle in 2025 with a return to pre-pandemic demand drivers. Industrial occupiers will focus on longer-term strategies to improve warehouse efficiency, ensure supply chain resiliency and meet the needs of an evolving consumer base. Demand for newly constructed space will drive up the vacancy rate of older buildings.

Rochester Industrial Market Overview

The Metropolitan Rochester industrial market is comprised of approximately 81.2± 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. 2024 saw the metro vacancy rate finish the year at 5.1%, a 0.7% increase over the prior year's record low of 4.4%. Despite this increase, the market remains exceptionally tight, with industrial users having a limited number of space alternatives.

81.2±

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

5.1%

Rochester industrial & logistics vacancy rate year-end 2024



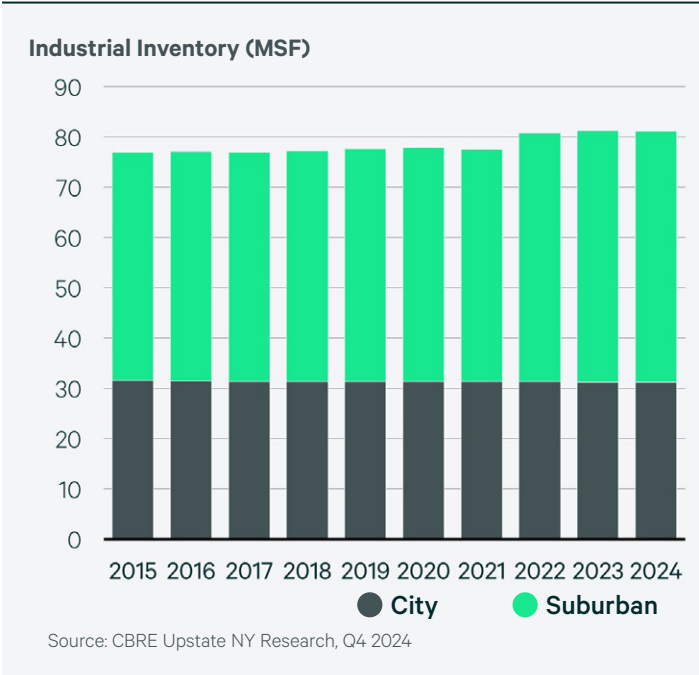
LEGACY PROPERTIES VS. NEW CONSTRUCTION

Over the past 25 years, a significant amount of the industrial product introduced into Rochester’s competitive market has come from the repurposing and multi-tenanting of large, corporately owned facilities. (This contrasts with additions to competitive inventory by way of new construction.) While these formerly owner occupied facilities 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.

With limited available space in the market, many of the area’s industrial occupiers have, either by choice or necessity, pursued new construction or expansions to existing facilities. While these occupier driven projects have contributed significantly to inventory, purely speculative construction has remained virtually non-existent.

MARKET DEVELOPMENTS

- Fairlife, Inc, a subsidiary of Coca-Cola Company which produces a line of ultra-filtered milk products, broke ground on a new 745,000 square foot production facility on a 106-acre site in the Town of Webster. The \$650 million project, which is scheduled for completion in 2025, will include a milk processing plant, warehouse, logistics, and support space. Upon completion the location will be the largest dairy production facility in the northeast, and capable of processing 5 to 6 million pounds of raw whole milk per day. The investment is expected to create 250 jobs while also providing employment to an untold number of cows.
- The future of a project for Li-Cycle, a global lithium-ion battery recycling company, is beginning to come into focus. Construction was paused on their North America Hub in late 2023 due to rapidly increasing development costs. While a 275,000 square foot warehouse and administration was completed, over 300,000 square feet of additional space was also under construction. Late in 2024 Li-Cycle finalized a loan from the U.S. Department of Energy for resumption of construction on the Rochester Hub.



Trends to watch

Focus On Third-Party Logistics

Demand for new space will grow the most from third-party logistics (3PL) providers. Retailers and wholesalers outsource their distribution operations for three primary reasons: import flexibility, capital preservation and a focus on core competency.

Labor disruptions, extreme weather events and geopolitical conflicts have led companies to diversify import locations. Utilizing 3PLs allows for more inventory flexibility, a key component to retailer success in times of uncertainty. It also allows companies to focus on core business competencies that drive revenue, such as product development, sales and customer service. The increase in outsourcing will keep 3PLs’ share of overall industrial leasing activity at or near 35% in 2025.

Source: CBRE Research, 2024 U.S. Real Estate Market Outlook



Rochester Submarkets

Contacts

Angelo Nole

Managing Director | Rochester
 CBRE Upstate NY
 +1 585 784 3637
angelo.nole@cbre-rochester.com

Jonathan Murray, CMA

Director of Marketing & Research | Rochester
 CBRE Upstate NY
 +1 585 784 3641
jonathan.murray@cbre-rochester.com

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CBRE Upstate NY

1350 University Ave, Ste 100
 Rochester, NY 14607
 +1 585 240 8080

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