

ROCHESTER, NEW YORK MARKET OUTLOOK 2014



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2012 WORLDWIDE BUSINESS ACTIVITY

Offices.....	433 ^a
Employees.....	42,050 ^b
Countries.....	63 ^c
Total Transaction Value.....	\$189.8 billion
Property Sales (# of Transactions).....	17,575
Property Sales (Transaction Value).....	\$116.9 billion
Property Leasing (# of Transactions).....	51,900
Property Leasing (Transaction Value).....	\$72.9 billion
Property & Corporate Facilities Under Management.....	3.3 billion sq. ft. ^d
Loan Originations.....	\$22.4 billion ^e
Loan Servicing.....	\$125.1 billion ^f
Investment Assets Under Management.....	\$92.0 billion
Development in Process.....	\$4.2 billion ^g
Valuation & Advisory Assignments.....	118,400
Project Management Contract Value.....	\$22.3 billion ^h

^a includes affiliate offices

^b includes approximately 5,000 affiliate employees

^c includes 21 countries covered through affiliate offices

^d includes 0.24 billion square feet managed by affiliate offices

^e includes loan sale advisory

^f includes loans serviced GEMSA, a joint venture between CBRE Capital Markets and GE Capital Real Estate

^g includes \$1.2 billion of Long-Term Operating Assets (projects that have achieved a stabilized level of occupancy or have been held 18-24 months following shell completion or acquisition)

^h includes \$13.2 billion of projects that were in process as of December 31, 2012

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- Investment Brokerage
- Corporate Services
- Research and Consulting
- Valuation & Advisory
- Facilities Management

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CONTACTS

For more information, please contact:

Michael Frame
Managing Broker
CBRE|Rochester
120 Corporate Woods
Suite 210
Rochester, NY 14623
t: +1 585 784 3622
e: michael.frame@cbre-rochester.com

Jonathan Murray, CMA
Director of Marketing & Research
CBRE|Rochester
120 Corporate Woods
Suite 210
Rochester, NY 14623
t: +1 585 784 3641
e: jonathan.murray@cbre-rochester.com

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ROCHESTER MARKET OVERVIEW

2014 ROCHESTER MARKET OUTLOOK

INTRODUCTION

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 and New York City while offering a lower cost of doing business and quality of life not found in its larger neighbors.

ECONOMIC PROFILE

The presence of the Eastman Kodak Company, Bausch & Lomb and Xerox Corporation has traditionally led to Rochester being viewed as a big company town. Today these companies employ approximately 3% of the area's total workforce, as Rochester has become the home to a much more diversified and balanced economy. Some of the industry clusters for which Rochester is best known include photonics, optics, digital & health imaging, precision manufacturing, telecommunications, information technology, and the biosciences. The established strength of the area's high-tech industries and the continued investments that are being made in this sector suggest a bright outlook for Rochester's future economy. A few of the most recent accolades for the Rochester business environment include:

- The Brookings Institute ranked metro Rochester's economy as **"one of the 50 best economies in the world and 3rd best in the U.S."**, trailing only Houston and Dallas. (January 2012)
- The New Republic named Rochester **"One of the most innovation-intensive metro areas in the country"** (March 2012)
- The Brookings Institute ranked Rochester **13th for patents issued per million residents**, stating "San Francisco, Boston, Austin, Seattle and Rochester are in the upper tier of large metros that produce patents at high volumes and rates". (February 2013)



- On a per capita basis, Rochester is **among the top 25 major metropolitan exporting regions in the country.** (International Trade Administration 2012)

EDUCATION AND INDUSTRY

The area's 18 colleges and universities, including the research powerhouses of the University of Rochester and the Rochester Institute of Technology, are a cornerstone of Rochester's economy. 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, engineering, and the University of Rochester's medical programs as well as the Simon School of Business are consistently recognized as being among the best in the country. 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 education highlights include:

- Rochester placed in the top 10 for **"best mid-sized metro area college towns in the U.S."** by the American Institute for Economic Research. (2010-2011 College Destination Index)

ROCHESTER MARKET OVERVIEW

2014 ROCHESTER MARKET OUTLOOK

Chart 1: Rochester Area Population By County

County	Population	% of Total
Monroe	747,813	63.5%
Ontario	108,519	9.2%
Wayne	92,962	7.9%
Livingston	64,810	5.5%
Genesee	59,977	5.1%
Orleans	42,836	3.6%
Seneca	35,305	3.0%
Yates	25,344	2.2%
Total	1,177,566	100.0%

Source: U.S. Census Bureau, 2012 Estimates, Rochester CSA

Chart 2: Rochester Employment By Industry (000's)

Industry	2012	2013
Education & Health Services	117.7	118.1
Trade, Transportation & Utilities	82.6	83.9
Government	81.4	82.0
Professional & Business Services	65.6	65.7
Manufacturing	59.6	56.2
Leisure & Hospitality	42.6	43.7
Financial Activities	20.9	21.8
Construction	19.4	21.5
Other Services	20.5	20.9
Information	8.9	8.7
Mining & Logging	0.5	0.5
Total Nonfarm Employment	519.7	523.0

Source: U.S. BLS, Current Employment Statistics, Reported 12/05/13

- Bloomberg Businessweek ranked the U of R's Simon School of Business the **"top private U.S. business school for return on investment"** (January 2011); and The Scientist magazine ranked the U of R as **"one of the 25 best places in the world for scientists to work in the field of life sciences"**. (August 2012)
- Seven area schools were ranked in U.S. News and World Report's list of **"top regional and national universities"**. (September 2013)
- Rochester was named the **"13th brainiest city in America"** by The Atlantic Cities (June 2012) and the **"7th brainiest large metro in the nation"** by Luminosity (2013).
- U.S. News and World Report ranked **11 area high schools in the top 5% in the U.S. Two area schools were ranked in the top 100.** (April 2013)

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 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, the Genesee River, the Erie Canal, Irondequoit Bay, and the Finger Lakes (also home to the country's second largest wine region). The Rochester area is home to numerous championship golf courses, most notably Oak Hill Country Club, and Rochester was ranked as one of the 10 Best Golf Cities in America by Golf Magazine. Rochester takes pride in its quality of life. A few of the awards Rochester has received include:

- Bloomberg Businessweek ranked Rochester among **"America's 50 Best Cities"** based on factors including leisure attributes, educational attributes, economic factors, crime, and air quality. (September 2012)
- Kiplinger named Rochester as **"The 5th Best City For Families"** based on top-ranked schools, a good economy, and strong employment. (July 2012)

- MSN rated Rochester, NY the **"#1 most livable bargain market in the U.S."** stating "Rochester provides a lot of bang for your buck. It has big-city culture, a highly educated population, picturesque scenery, affordable housing, and an expanding high-tech job base." (July 2011)
- Kiplinger named Rochester the **"best city in the U.S. for commuters"** based on our community's low congestion cost (a measurement of wasted time and fuel calculated by the Texas Transportation Institute) along with average length of commute, local gas prices, yearly delays per commuter, and public transit use. (March 2011)
- Numerous publications have named The Strong among the top children's museums in the country. The facility is also home to the National Toy Hall Of Fame.
- Forbes magazine ranked the Rochester area the **"3rd best metropolitan region in the country for raising a family"** based on: cost of living, prevalence of home ownership, median household income, housing costs, commute time, crime and high school graduation rates. (June 2010)
- The Finger Lakes Region was listed among **"Top 10 Lakeside Vacations that Have it All"** by Yahoo Travel (April 2013); as well as ranking #16 on Business Insider's list of **"50 trips you have to take in the U.S."** (March 2013) and the **"Top lakeside retreat in the world"** by Shermans Travel (August 2009)

And while we are frequently asked about our weather...

- The Weather Channel named Rochester one of **"The Safest Weather Cities in the U.S."** (August 2012)

Market Developments: **Rochester**

- Construction at area universities continues at a brisk pace as 2013 saw over 150,000 square feet of new deliveries, including a new 84,000 square foot home for RIT's Golisano Institute for Sustainability. Progress is also continuing on an additional 500,000 square feet of on campus construction projects which are currently underway, including the 245,000 square foot University of Rochester Golisano Children's Hospital and the 110,000 square foot Gene Polisseni Center which will be the new home to RIT's Division 1 hockey teams.
- Work continued on the 87,000 square foot, \$50 million RTS Transit Center. Completion is scheduled for early 2015, and the facility is projected to serve 20,000 passengers per day.
- The City of Rochester secured funding to convert an underutilized section of the Inner Loop Expressway into an at grade boulevard. The project will result in the creation of nine acres of new developable land. Construction is scheduled to begin in the Fall of 2014 and cost \$24 million.
- Oak Hill Country Club in the Town of Pittsford hosted the 2013 PGA Championship generating an estimated \$102.1 million for the Rochester area economy. 225,000 spectators attended the event. The club has now hosted three PGA Championships, three US Opens, and the Ryder Cup.
- Ground was broken at the Port of Rochester on a \$20 million project to include a new deep-draft marina basin and up to 157 boat slips. The project is scheduled for completion in Spring of 2015. Additional commercial development is planned for the surrounding area.
- In 2013 Downtown Rochester's streets were home to an unusually large number of taxi cabs, Daily Bugle delivery vans, and a stolen armored truck being chased by a phalanx of NYPD cars. Fortunately the police had Spider-Man with them. All of this was related to the filming of the upcoming Amazing Spider-Man 2 for which Rochester served as a stand in for New York City. The movie is scheduled for release in 2014.

RETAIL MARKET OVERVIEW

2014 ROCHESTER MARKET OUTLOOK

Chart 1: Retail Inventory by Year ('000 Sq.Ft.)

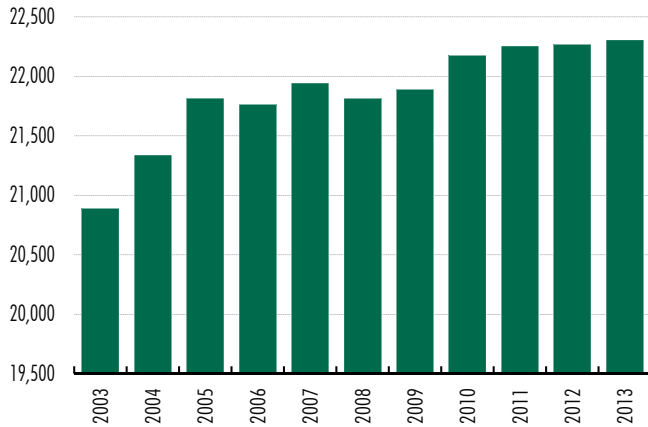


Chart 2: Retail Vacancy Rate by Year

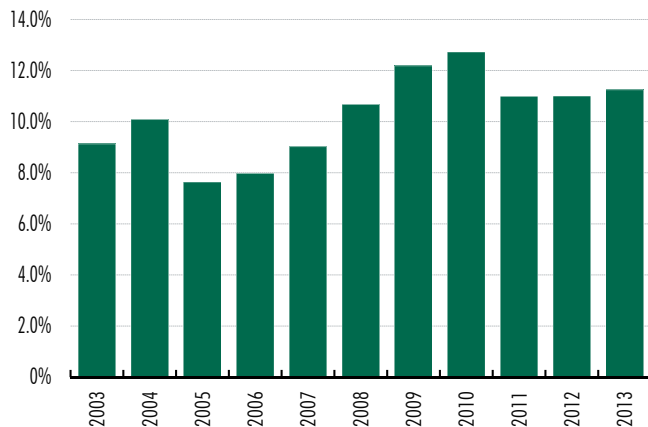
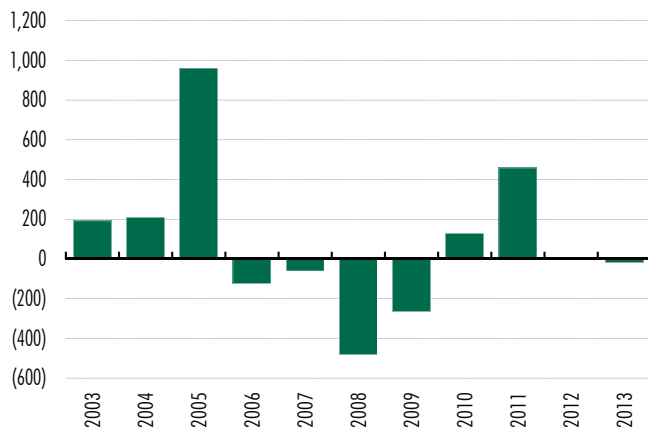


Chart 3: Retail Absorption by Year ('000 Sq.Ft.)



INTRODUCTION

The Greater Rochester retail market consists of 22.3± million square feet of space. (Please note that this survey tracks shopping centers that are 30,000 square feet and greater.) Approximately 91% of the total retail market is 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 to the influence of their superregional malls (The Mall at Greece Ridge Center, Marketplace Mall, and Eastview Mall, respectively). These malls have served as catalysts for significant growth well beyond the boundaries of the properties and new retailers entering the Greater Rochester Area typically select one of these three trade areas as the location for their initial store. Route 404 in the Northeast Submarket has also experienced rapid expansion, establishing it on the list of potential locations for retailers rolling out multiple stores across the metro area.

INVENTORY & VACANCY

While 2013 saw approximately 252,000 square feet of new retail space delivered to the market (notably Von Maur at Eastview Mall, and the East Avenue Wegmans) these additions were largely offset by the removal of a similar amount of square footage from inventory. As a result, the net increase to inventory for 2013 was approximately 41,000 square feet. Despite a reasonable amount of tenant movement and leasing activity, the net result of these changes was a year-end vacancy rate of 11.2%, a year-over-year increase of 0.2%, and net absorption was effectively zero for a second straight year.

Looking forward to 2014, several new deliveries are currently forecast including single tenant construction for Costco and multi-tenant projects at The University of Rochester College Town and Phase II of the Culver Road Armory. Redevelopment at Marketplace Mall and changes within the Tops Markets portfolio will likely yield offsetting statistical impacts. Continued stability may be reasonably forecast for inventory and vacancy, while new investment in existing inventory along with a limited amount of new construction will contribute to the overall health of the retail market.

OCUPIED
19.8M SF

VACANCY RATE
11.2%

DELIVERIES
252K SF

METRO CONSUMER CONFIDENCE
73.9 Q3

METRO UNEMPLOYMENT
6.7%

Arrows represent Y-o-Y trend unless otherwise noted.

Market Developments: **Retail**

- Costco has announced they will enter the Rochester market when they open their first Upstate New York location at the Costello Group's new CityGate development. The proposed 150,000 square foot store is scheduled to open in 2014 and will anchor the CityGate project which is also planned to include an additional 550,000 square feet of retail, office, hotel and residential development.
- Upscale department store Von Maur opened its first Northeast U.S. location with its new 140,000 square foot store at Eastview Mall. Other retailers joining Von Maur at the Wilmorite property in opening their first area stores included: Athleta, Brooks Brothers, Brighton, L'Occitane en Provence, Papyrus, Michael Kors, Art of Shaving, Tilly's, and Vera Bradley.
- The Mall at Greece Ridge Center, also owned by Wilmorite, saw the opening of the first stores within the new 32,000 square foot "State Street" renovation. The \$15 million upgrade, which is located on the site of the former BonTon department store, features a streetscape theme. Late in 2013 Wilmorite announced plans for a similar project at The Marketplace Mall to be built on the site of the former BonTon as well as a freestanding building most recently occupied by DSW.
- Construction is underway at the University of Rochester College Town, a mixed-use project being developed by a partnership of Fairmount Properties and Gilbane. Retail tenants which have been announced for the development include: Corner Bakery Café, Saxby's Coffee, Constantino's Market, Flight Wine Bar, and Insomnia Cookies. The project is scheduled for completion in the Fall of 2014 and will also feature office and residential components as well as a 136 Room Hilton Garden Inn and Conference Center.
- Wegmans opened its new 89,600 square foot East Avenue store in the second quarter of 2013. The store replaces the 43,000 square foot location which originally opened in the city neighborhood in 1962.
- The 40,000 square foot Phase II of the Culver Road Armory is under construction and is scheduled for a 2014 delivery. The project will include Class A office space as well as retail with Fleet Feet Sports and Arhaus the first tenants to have been announced.
- Tops Markets has announced that they will invest \$13 million in area stores. Of note the grocer is relocating the stores in Henrietta and Irondequoit. Other area locations will be remodeled and fuel service will be added to multiple stores.

Key Markets: **Henrietta, Victor, Greece**



OFFICE MARKET OVERVIEW

2014 ROCHESTER MARKET OUTLOOK

Chart 1: Office Inventory by Year ('000 Sq.Ft.)

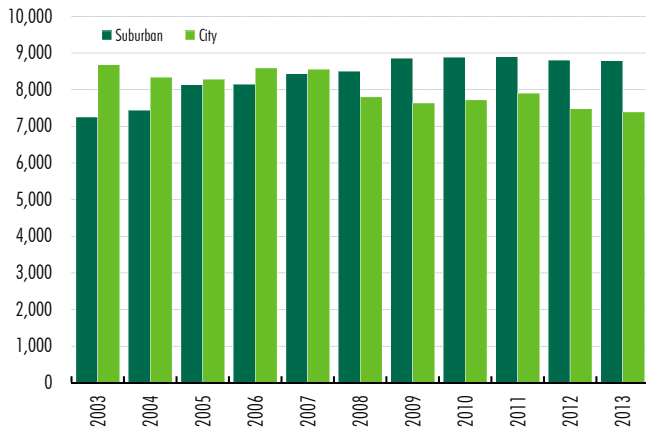


Chart 2: Office Vacancy Rate by Year

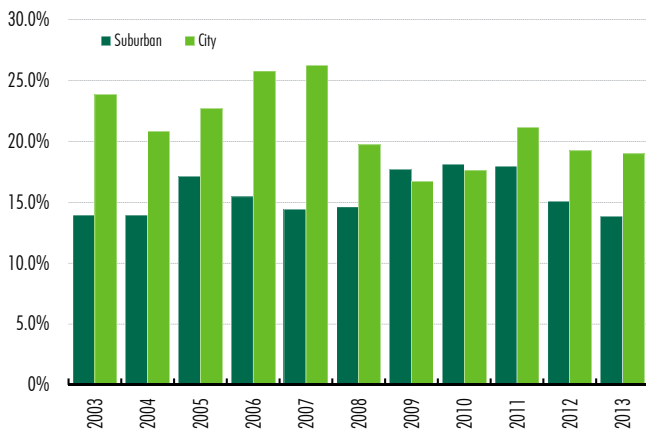
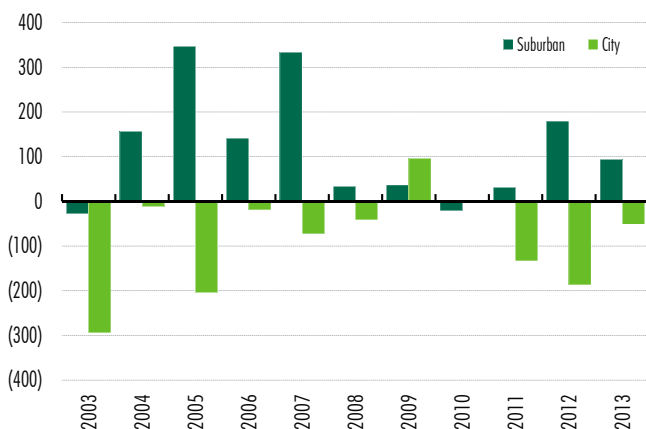


Chart 3: Office Absorption by Year ('000 Sq.Ft.)



INTRODUCTION

The Rochester office market is comprised of approximately 16.1 ± 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 inventory, vacancy or absorption figures.) Of the competitive inventory, 7.4 ± million square feet is located in the City and 8.8 ± million square feet is located in the suburban submarkets. Primary suburban submarkets include the Southcentral and Southeast with space concentrated in the Towns of Brighton and Perinton.

THE CITY SUBMARKET

The City of Rochester is home to approximately 3.1 ± million square feet of Class A office space and 4.3 ± million square feet of Class B space. The vacancy rate for City office space was 19.0% at year-end 2013, down slightly from year-end 2012, with Class A space at 21.6% and Class B at 17.0%. The City office market is going through a period of tremendous change with several significant office and mixed-use projects scheduled for delivery in the next 24 months. The redevelopment of the 8.5 acre Midtown block, the purchase of 562,000 square feet by Monroe Community College from Eastman Kodak for development of a Downtown Campus, and new ownership at the Sibley Building are reshaping Downtown's landscape. Outside of the City's center, continued development at Alexander Park and The Culver Road Armory, the 2014 delivery of the University of Rochester College Town and the start of construction at CityGate will all have a significant impact on the City's peripheral office development.

THE SUBURBAN SUBMARKETS

Rochester's suburban submarkets contain approximately 8.7 ± million square feet of space comprised of 5.1 ± million square feet of Class A space and 3.7 ± million square feet of Class B space. Inventory is split evenly between the Southcentral and Southeast Submarkets with each containing approximately 4.4 ± million square feet of space. Overall suburban office vacancy decreased to 13.8%, down 1.3 percentage points from the prior year, with the Class A vacancy rate decreasing to 11.3%.



Arrows represent Y-o-Y trend unless otherwise noted.

Market Developments: **Office**

- After several years of work, redevelopment of the 8.5 acre Midtown project reached a significant milestone in 2013 when Windstream Corp moved into 67,000 square feet of office space within the 100,000 square foot Seneca Building. Pike Development Company, the firm which handled the redevelopment of the Seneca Building, is also working on finalizing plans for a 66,000 square foot expansion of the building to accommodate the occupancy of Democrat and Chronicle Media Group and Gannett Co, Inc in approximately 42,000 square feet. Elsewhere on the site, new city streets have been installed establishing a variety of new public spaces and development sites on the former mega block. Buckingham Properties and Morgan Management also continue to move forward on the redevelopment of the 17-story Midtown Tower. The 357,000 square foot property will include approximately 150,000 square feet of office and retail space on the first several floors and 181 apartments on the upper floors.
- Monroe Community College closed on the purchase of a 562,000 square foot office building from the Eastman Kodak Company. The building will become the new home to the school's downtown campus.
- Downtown Rochester's Xerox Square was purchased by Buckingham Properties in a sale and leaseback transaction in the third quarter of 2013 for a reported price of \$40 million. The 850,000 square foot landmark property includes the 30-story tower, as well as a two-story annex building, four-story auditorium, and two levels of underground parking.
- Gallina Development delivered the final building in its Cambridge Place Office Park with the 2013 completion of a 34,000 square foot building. Elsewhere in Gallina's office portfolio, construction

was completed on a new 18,000 square foot medical office building for Unity Health System in the Village of Brockport.

- LeChase Construction purchased a 57,250 square foot office building in Canal Ponds Business Park from Boston based Commonwealth REIT in the second quarter of 2013. The location will serve as LeChase's new corporate headquarters.
- North Forest Office Space continued to expand their Rochester office portfolio with the completion of new buildings at Crosspointe Professional Park in the Town of Webster, and Penn Fair Office Park in the Town of Penfield.

Key Markets: **Rochester, Brighton, Perinton**



FLEX MARKET OVERVIEW

2014 ROCHESTER MARKET OUTLOOK

Chart 1: Flex Inventory by Year ('000 Sq.Ft.)

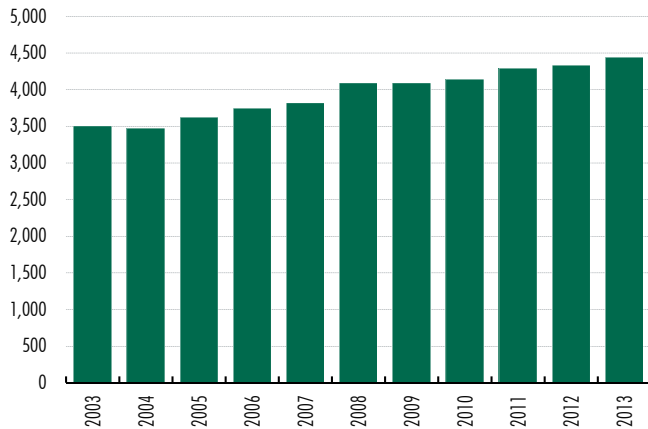


Chart 2: Flex Vacancy Rate by Year

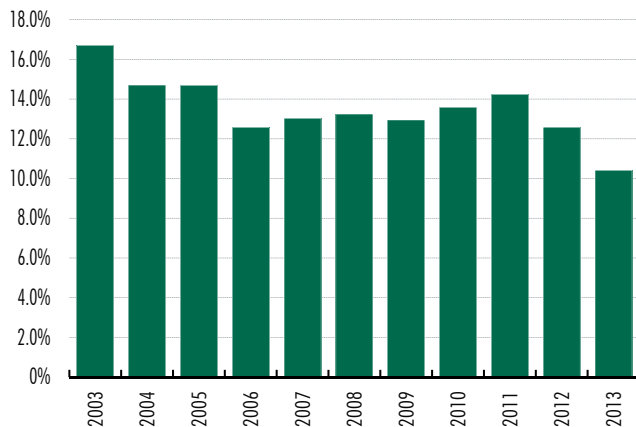
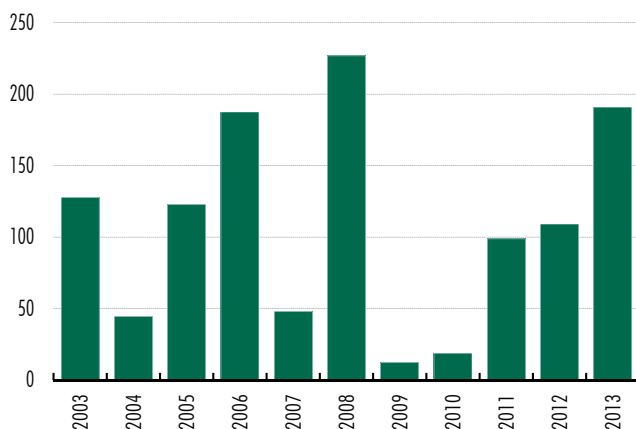


Chart 3: Flex Absorption by Year ('000 Sq.Ft.)



INTRODUCTION

The Greater Rochester flex market is comprised of approximately 4.4± million square feet of tenant-occupied space. The primary submarkets for this property type are the South West, South Central, and South East which account for nearly 90% of the tenant-occupied flex market. The Towns of Gates, Henrietta, and Victor possess the largest concentrations of space within the three primary submarkets.

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 since the year 2000. This product type has performed well over this time period owing much of its success to its unique ability to respond to the changing needs of business and quite literally be "flexible" in satisfying the demands of a broad spectrum of uses, most notably light industrial and lower cost, open plan office uses.

Ownership of the tenant-occupied market is extremely consolidated with two of the area's leading flex developers controlling approximately 50% of the inventory at year end. The limited number of flex owners is indicative of how new the flex market is, and also its relatively small size when compared to other property types.

INVENTORY AND VACANCY

2013 saw a limited number of additions to inventory with notable deliveries at Lehigh Crossing Business Park and Omnitech Business Park, both in the Town of Victor. This constraint of new supply combined with a continuation of the steady leasing activity which picked up in 2012 allowed the market vacancy rate to decrease to 10.4% by year-end 2013, a year-over-year decrease of 2.2 percentage points.

Looking ahead to 2014, the amount of flex space that is currently under construction and anticipated for delivery in 2014 is consistent with the volume experienced in recent years. As demand is not expected to slow in any material way, the market vacancy rate is expected to remain low.



Arrows represent Y-o-Y trend unless otherwise noted.

Market Developments: **Flex**

- A 22,500 square foot building for Finger Lakes Technologies Group was delivered in the second quarter of 2013 at Lehigh Crossing Business Park in the Town of Victor. The building is the first in the park. A second 20,000 square foot building is currently under construction and scheduled for delivery in 2014. The new park which is a joint venture of Gallina Development Corporation and Morrell Commercial, is ultimately planned to consist of 400,000 square feet in 12 buildings.
- MCA Group, the owner of Omnitech Business Park in the Town of Victor, completed construction on a new 37,000 square foot multi-tenant flex building in the fourth quarter of 2013. The building is the sixth in the park. Significant new tenancies in the park included the addition of Systems Maintenance Services (SMS) in approximately 17,000 square feet.
- Gallina Development Corporation purchased a 50,000 square foot building in the Village of East Rochester in the second quarter of 2013 and is in the process of converting the facility into the area's second Total Sports Experience (TSE), a sports complex featuring turf playing fields and other training areas. The original TSE is located in Gallina's Elmgrove Crossings flex park in the Town of Gates.
- New Cov Manufacturing, a company specializing in precision metal machining, moved into a portion of the new 38,000 square foot flex building developed by Konar Properties' at Erie Station Business Park. A second 38,000 square foot building is planned for the adjacent site. Elsewhere in the Park, ground was broken on a new 36,000 square foot headquarters building for eHealth Technologies, a medical records retrieval and delivery business. Delivery of the building is scheduled for early 2014.
- New York City based Garrison Investment Group purchased a 22 property, multi-market portfolio from Boston based CommonWealth Reit. Included in the portfolio were six Rochester area properties comprised of five flex buildings totaling 166,000 square feet and a 30,000 square foot office building.
- LeFrois Development has begun construction on a 15 acre parcel on the recently completed John Street Extension in the Town of Henrietta. While two new flex buildings are currently proposed, the first building under construction at the site is a 70,000 square foot industrial facility which will be the new home to Outdoor Group LLC. It is scheduled for delivery in mid-year 2014.

Key Markets: **Gates, Henrietta, Victor**



INDUSTRIAL MARKET OVERVIEW

2014 ROCHESTER MARKET OUTLOOK

Chart 1: Industrial Inventory by Year ('000 Sq.Ft.)

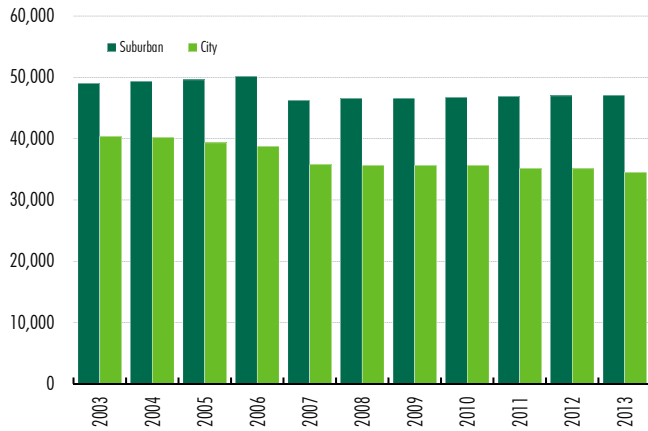


Chart 2: Industrial Vacancy Rate by Year

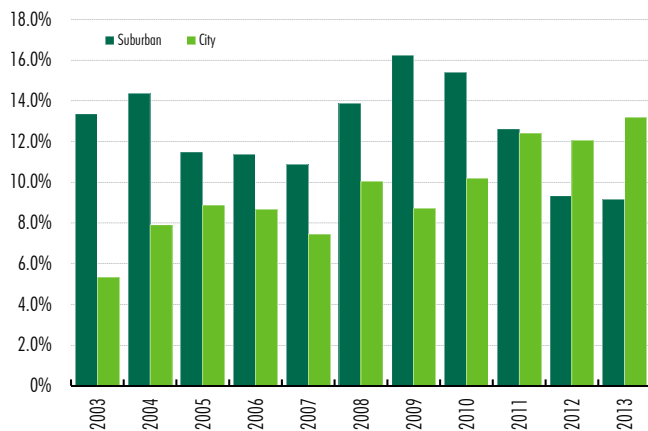
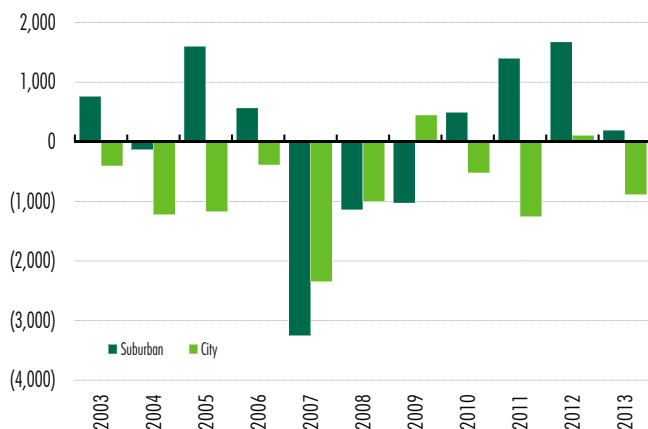


Chart 3: Industrial Absorption by Year ('000 Sq.Ft.)



INTRODUCTION

The Greater Rochester industrial market is comprised of approximately 81.7± million square feet of both owner and tenant-occupied space. This figure includes the roughly 19± million square feet of space owned by Eastman Kodak and Xerox. Xerox's Rochester operations are located primarily in the northeast suburb of Webster and Eastman Kodak's main facility, Eastman Business Park (formerly Kodak Park), occupies space in both the City of Rochester and the Town of Greece.

INVENTORY AND VACANCY

Overall, 2013 saw minimal changes to the industrial inventory with the vacancy rate also remaining relatively stable, ending the year at 10.9%, a 0.4 percentage point increase from the previous year-end.

The suburban industrial market consists of 47.1± million square feet of owner and tenant occupied space. Suburban inventory experienced a net increase of approximately 121,000 square feet in 2013. The suburban vacancy rate decreased to 9.2%, a decrease of one-tenth of a point from the prior year-end.

A considerable portion of the total industrial market, approximately 34.5± million square feet or 42% of the total market, is located within the City of Rochester. The City's vacancy rate increased to 13.2%, an increase of 1.2% from the previous year.

Over the past 15 years, a significant amount of the industrial product introduced into the competitive market has come from the sale of owner-occupied facilities to developers, or through the leasing of owned facilities to 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 in terms of square footage, they have experienced strong absorption in recent years. With minimal vacancy in these facilities, and the remaining number of buildings which are good candidates for this type of conversion dwindling, new ground-up construction is once again taking place.



Arrows represent Y-o-Y trend unless otherwise noted.

Market Developments: **Industrial**

- Construction was completed on a new 124,000 square foot distribution center in the Town of Chili for American Tire Distributors, Inc., the nation's largest tire distributor. The new facility represents a 40,000 square foot expansion for the company in the Rochester area.
- Outdoor Group LLC, the parent company of seven manufacturing subsidiaries involved in the production of high-end bow hunting and target archery equipment, has broken ground on a new 70,000 square foot facility in the Town of Henrietta. The new building will be used for production, research and development, as well as sales and administration. Delivery is anticipated mid-year 2014.
- Trellis Earth Products Inc., a maker of sustainable food-service products, announced plans to relocate its manufacturing operations from China to Rochester Tech Park. The company has also indicated they will relocate their Portland, Oregon headquarters to Rochester. The company has begun renovations and plans to be operational in 80,000 square feet by the second quarter of 2014.
- LiDestri Foods' rapid expansion continued in 2013 with the purchase of 125 acres of development land from Eastman Kodak and a second 400,000 square foot former Kodak facility. The company had previously purchased a twin 400,000 square foot building in 2012 as well as a 625,000 square foot Kodak facility in 2009.
- 2013 saw Muller Quaker Dairy, a joint venture of PepsiCo and German dairy giant Theo Mueller, officially open its new 350,000 square foot, \$206 million facility in Batavia. The new plant is one of the largest yogurt manufacturing facilities in the U.S.
- Xerox began a \$35 million expansion to its emulsion aggregation toner plant in the Town of Webster. The project will increase the size of the plant from 100,000 square feet to 155,000 square feet. The anticipated completion of the project is February 2015. Xerox has invested \$100 million in the current 5-story plant which opened in 2007 and is one of only a handful of its kind in the world.
- As part of a \$250 million investment to increase manufacturing capacity of Corning Inc.'s diesel emissions control products, the company announced plans for a 94,000 square foot expansion of its Steuben County diesel facility. The project is expected to be operational in 2015.

Key Markets: Rochester, Greece, Gates, Henrietta, Webster



INVESTMENT MARKET OVERVIEW

2014 ROCHESTER MARKET OUTLOOK

Chart 1: Federal Funds Rate

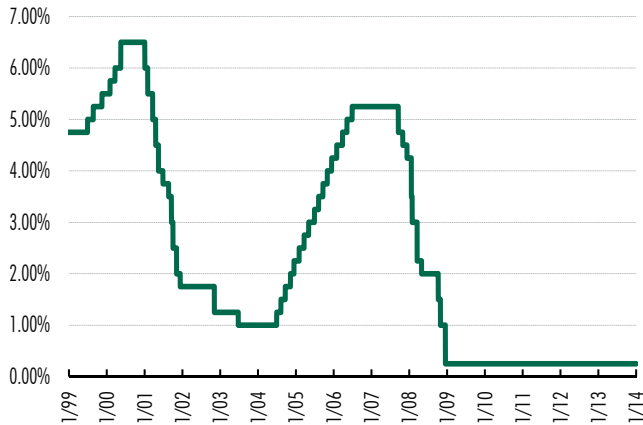


Chart 2: National Inflation Rate

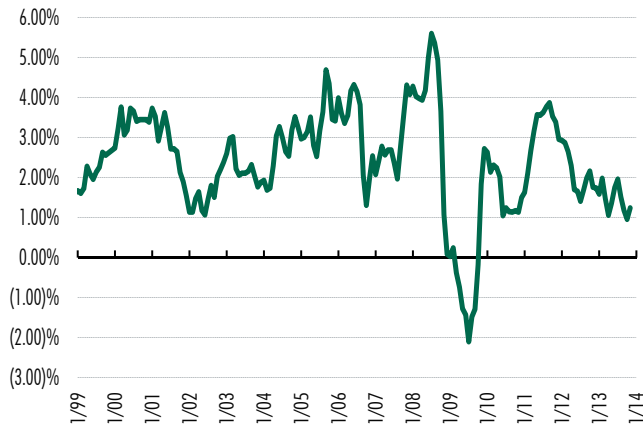
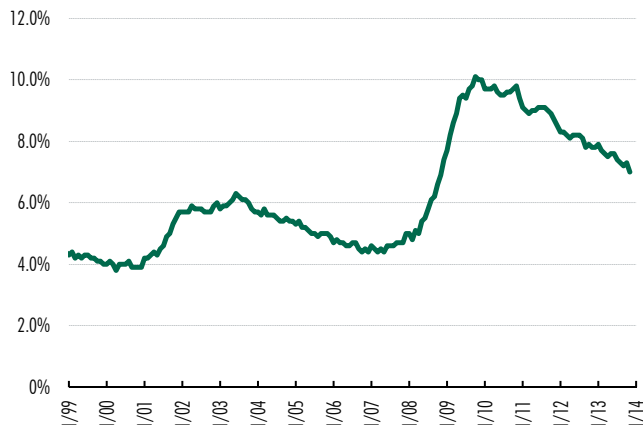


Chart 3: National Unemployment Rate



INTRODUCTION

The U.S. real estate market continues to present an attractive investment opportunity. Despite a series of tests which could have negatively impacted the economy in 2013 (the partial federal government shutdown, debt ceiling drama, complications with the rollout of the Affordable Care Act) the U.S. economic recovery remains intact with some analysts referring to it as a “Goldilocks” economy - not too hot, not too cold. While moderate growth may not make for the most exciting headlines, it offers the benefits of being more sustainable while helping to avoid some of the excesses which contribute to an eventual bust. That said many signs point to the economy accelerating over the next 24 months.

PROPERTY FUNDAMENTALS

Moderate economic growth has allowed for relatively good absorption across most property types, while not triggering unwarranted increases to inventory. This supply demand relationship is now contributing to rent growth. Over time, these recovering fundamentals will spur more construction, however, the current development pipeline does not call for robust additions in the near term.

QUANTITATIVE EASING AND INTEREST RATES

With the economy showing more promise, the Federal Reserve is expected to begin tapering its quantitative easing (QE) program, which will lead to a gradual rise in interest rates. Most analysts currently believe that the commercial real estate market is in a strong position to withstand an orderly rise in interest rates, and an increase will not trigger a one-to-one rise in cap rates.

SECONDARY MARKET ACTIVITY

Commercial property transaction volume is continuing to increase and the availability of debt and equity capital is also on the rise. As is typically the case in a recovery, much of the initial activity was focused on the primary markets or “Global Gateway” cities. As activity in those markets has pushed pricing higher, many analysts and investors are now looking to secondary or non-gateway markets to achieve desirable returns. Entering 2014, the evidence suggests that this shift in investing preferences is already underway.



INFLATION RATE
1.2%



GDP Growth
+4.1% Q3



METRO HOME PRICES
+0.8% Q3 Y-o-Y



STATE UNEMPLOYMENT
7.4%



METRO UNEMPLOYMENT
6.7%

Arrows represent Y-o-Y trend unless otherwise noted.

Market Developments: **Investment**

- The Max and Marian Farash Charitable Foundation sold 16 multi-family complexes in 2013 with more than 3,200 apartments and townhouse units. The Farash Foundation was formed by prominent Rochester real estate developer, the late Max Farash, and his wife Marian to fund community organizations.
- Park Pointe, a 300 unit, 918 bed, student housing complex developed at RIT in 2008 by Wilmorite transferred in the fourth quarter of 2013. The property, which also includes a Barnes & Noble and additional retail space, was acquired by Austin, Texas based American Campus Communities for \$100.3 million.
- Agree Realty Corp, a publicly traded REIT based in Michigan and focused on retail properties, entered the Rochester market with the purchase of a 45,000 square foot LA Fitness which was built in 2012 in the Town of Irondequoit. The transaction closed in the third quarter of 2013 and transferred for \$10.3 million.
- Perinton Square Mall, a 193,000 square foot shopping center in the Town of Perinton was purchased by The Dimarco Group in the first quarter of 2013. The developer is planning to expand the Tops anchored center with the addition of multiple new outparcel buildings.
- Downtown Rochester's Xerox Square was purchased by Buckingham Properties in a sale and leaseback transaction in the third quarter of 2013 for a reported price of \$40 million. The 850,000 square foot property includes the 30-story tower, as well as a two-story annex building, four-story auditorium, and two levels of underground parking.
- In January 2013, California based Realty Income Corp, a publicly traded REIT, acquired American Realty Capital Trust and their 593 property portfolio. Included in this transaction were several Rochester area properties including: two Walgreens in the Town of Greece, a Tops grocery store in Canandaigua, and the FedEx Freight warehouse in the Town of Chili. Realty Income Corp also acquired a Rite Aid in the Town of Greece in June of 2013 for \$6.3 million from Ellicott Development.
- New York City based Garrison Investment Group purchased a 22 property, multi-market portfolio from Boston based Commonwealth Reit. Included in the portfolio were six Rochester area properties comprised of five flex buildings totaling 166,000 square feet and a 30,000 square foot office building.
- Frontier Management purchased the 120,000 square foot Suburban Plaza in the second quarter of 2013. This is the second retail center the firm has purchased in the Town of Henrietta in the past 24 months. Frontier also owns 15 apartment complexes in the Rochester area.
- Several area hotel properties changed hands in 2013 including the 118-unit Hampton Inn in the Town of Greece which was purchased by Baywood Hotels for \$5.8 million. Baywood is a privately held company based in suburban Washington, DC. Their hotel portfolio largely is focused in the eastern United States. Also selling in 2013 was the 280-unit Holiday Inn Rochester Airport in the Town of Gates. The property was purchased by Inner Circle Capital for \$4.1 million. Florida based Inner Circle specializes in turning around distressed assets and plans to make a significant investment in the property.

DEFINITIONS

MARKET COVERAGE

Retail: Centers greater than 30,000 sq.ft.
Office: Buildings greater than 10,000 sq.ft.
Industrial: Buildings greater than 10,000 sq.ft.
Flex: Buildings greater than 10,000 sq.ft.

VACANT SPACE

Space that is both unoccupied and does not have a lease in place.

NET ABSORPTION

The net change in occupied sq.ft.

NORMALIZATION

Due to reclassifications in the market, the number and square footage of buildings of previous years may be adjusted to match the current base. Vacancy figures for those buildings have been adjusted for previous years.

CONTACTS

For more information about the CBRE|Rochester 2014 Market Outlook, please contact:

Michael Frame

Managing Broker
CBRE|Rochester
120 Corporate Woods
Suite 210
Rochester, NY 14623
t: +1 585 784 3622
e: michael.frame@cbre-rochester.com

Jonathan Murray, CMA

Director of Marketing & Research
CBRE|Rochester
120 Corporate Woods
Suite 210
Rochester, NY 14623
t: +1 585 784 3641
e: jonathan.murray@cbre-rochester.com

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