Intelligent Investment

2026 U.S. Real Estate Market Outlook Midyear Review

REPORT

NEW YORK CITY

CBRE RESEARCH
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Office Market Outlook

01

Sustained demand is driving aggressive competition for top-quality space across Manhattan.

Office leasing demand in Manhattan is running well ahead of other U.S. markets. Finance, law and technology companies are particularly active. Although future large-tenant requirements are more than 30% above the 2018-2019 average, available supply options may constrain leasing volumes. Midtown remains the primary location for occupiers, though the scarcity of large, high-quality space is pushing tenants toward mid-sized expansion deals and creative configurations—including split-floor and phased-relocation structures—to meet size, location and quality requirements. AI sector growth is expanding the demand base in Midtown South, where AI-related firms drove more than half of tech leasing in Q1 2026. Renewal activity is increasing, with tenants acting well before lease expirations—an indicator of occupier confidence and a signal that available options are expected to tighten further in H2 2026.

02

Availability of prime office space is tightening.

Anchor commitments by American Express at Two World Trade Center, Simpson Thacher at 570 Fifth Avenue and McDermott Will at 343 Madison Avenue demonstrate a strong tenant appetite for new development projects. The viability of new development sets Manhattan apart from most U.S. markets, where ground-up office construction remains limited. Conversion activity continues to remove obsolete inventory from total office supply. We have revised our previous projection of 1-percentage-point drop in Manhattan’s overall vacancy rate this year to between 2 and 2.2 percentage points. As quality supply tightens in prime locations, particularly for large blocks of 100,000 sq. ft. or more, spillover demand is expected to reduce availability in secondary and tertiary locations, including the peripheral Midtown districts, transit-rich parts of Midtown South and Downtown West. Commodity assets will bifurcate further: Distressed buildings will remain effectively unleasable, while those with stable ownership offering quality space will be a cost-effective option for price-sensitive tenants.

Key Takeaways

For Tenants

As availability of quality space tightens further, tenants should enter the market early. Waiting until a lease expiration is imminent reduces leverage and limits options in a competitive environment. Expect tougher negotiations on concessions, particularly on renewals and expansions in high-quality assets in the Midtown core submarkets of Park Avenue, Grand Central, the Plaza District, Sixth Avenue/Rockefeller Center and Fifth/Madison Avenue. Commodity space still offers real value for cost-conscious occupiers, but selectivity is essential since not all asking rents based on the high-end market's strength are justified.

For Owners & Investors

Pricing power is growing for owners of well-occupied, amenity-rich assets in prime locations, with further rent growth expected through year-end as large-block availability continues to fall. Overall market asking rent growth is expected to be between 5% and 6% by year-end 2026. Tenant expansion and relocation needs are increasingly complex. Owners with flexible space configurations or portfolio depth to accommodate phased or multi-floor requirements are best positioned to capture and retain growing tenants. Owners of underperforming or commodity assets should consider repositioning and renovation to capture demand that top-tier inventory cannot accommodate.

Office Market Outlook (cont.)

03

Top-tier inventory is achieving record-high rents.

Strong tenant demand and tightening supply have propelled outsized rent growth in the Manhattan market during H1, far exceeding that of other U.S. markets. Average Manhattan office rent has increased by 3% from 2025, with prime space demanding 10% to 15% higher rents. Rent growth is expected to continue at this pace in H2. For commodity assets, buildings in good condition with stable ownership in good locations are edging rents higher. Some commodity buildings in secondary locations are attempting to set asking rents off the strength of the quality market—a strategy unlikely to succeed as tenants still have many options for commodity space. Distressed buildings remain frozen regardless of broader market momentum. While elevated landlord concessions persist, strong effective rent gains in prime and well-leased next-tier assets are pushing net effective rents well above trough levels. The gap between asking and taking rents has narrowed, returning to pre-2020 levels.

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Retail Market Outlook

01

Demand remains robust as prime corridor scarcity redirects leasing to next-tier neighborhoods.

Tenant demand levels and broad-based industry makeup align with earlier predictions for Manhattan's retail market. Apparel and food & beverage (F&B) tenants leased nearly 650,000 sq. ft. in H1 2026, well-above other retail segments. Demand for quality locations has depleted available space in prime corridors like SoHo and Madison Avenue, prompting some tenants to evaluate next-tier neighborhoods such as the Meatpacking and Plaza districts. Demand for second-generation space near transit hubs and affluent residential districts continues to build as recovering office districts create more foot traffic.

02

Prime corridor availability is near multi-year lows amid demand for turnkey and second-generation space.

Availability in SoHo, Madison Avenue and other prime retail corridors is expected to fall further as strong tenant demand outpaces the limited inventory of quality space. Secondary and next-tier neighborhoods that have captured spillover demand are tightening, as evidenced by the Meatpacking District's record-low availability this year. Tenant preference for turnkey and second-generation space, driven by the high cost of fitting out raw space, is accelerating absorption of move-in-ready inventory and widening the premium between ready-to-occupy and unfinished options. Little new retail development in prime and secondary locations will prolong supply constraints through year-end and into 2027. Some tenants will pursue ownership rather than leasing space.

03

Rent growth is improving, with some prime corridors at record highs.

Strong demand and constrained availability in prime corridors are driving rent growth and expanding the pricing divide between prime and secondary assets. Limited availability of top-quality space is pushing asking rents to multi-year highs in select neighborhoods. SoHo asking rents have reached record levels, reflecting the depth of demand from upscale luxury brands in premier high-street locations. The spread between asking and taking rents has rebounded to 85-90% in SoHo and Madison Avenue. Luxury brands continued to tolerate high-pricing for premier locations, while spillover demand from prime markets is beginning to push rents higher in areas like the Meatpacking District and Williamsburg. Secondary markets are seeing steady pricing, with next-tier neighborhoods poised to see accelerating rent appreciation.

Key Takeaways

For Tenants

With rising prices and limited supply of quality options in prime corridors, tenants should move quickly. As competition for second-generation and white-box space intensifies, tenants who delay risk losing their preferred locations to faster-moving competitors. Those unable to secure space in prime markets should evaluate next-tier corridors where strong spillover demand is beginning to create its own competitive dynamic. A handful of large spaces recently vacated by big-box retailers and distressed national chains in secondary markets present opportunities for tenants willing to pursue innovative configurations.

For Owners & Investors

Owners of quality retail assets in premier high-street corridors are in a firmly landlord-favorable position, with limited availability and improving pricing power converging to support rent growth and firm deal terms through year-end. Owners of assets in next-tier neighborhoods should capture spillover demand from tightening prime markets while remaining competitive on flexible lease terms. Owners of large-format spaces should expect demand but may need to offer creative deal structures and substantial fit-out allowances to offset the high upfront costs for tenants.

Capital Markets Outlook

01

Office investment momentum is mounting as strong leasing fundamentals broaden buyer participation.

Office investment volume has returned to 2021-2022 levels but remains far below peak levels. Manhattan office investment fundamentals are improving, underpinned by robust leasing demand that has spread to Downtown Manhattan. New York's diverse tenant base—led by finance, law and technology companies—has reinforced office fundamentals. Future ground-up construction remains limited, improving the outlook for existing assets, while distressed sales and office-to-residential conversions are resetting the lower end of the market. More investors are deploying capital, with an expanding buyer pool that now includes high-net-worth individuals, private equity, REITs and institutional capital—the broadest participation seen in several years.

02

Tight vacancy, constrained supply and recovering pricing support multifamily investment.

Demand for housing in Manhattan remains strong, with the multifamily vacancy rate estimated at less than 2%. Rising prices for construction materials and ongoing regulatory requirements are adding costs to current and proposed projects, constraining new supply and maintaining pressure on rental supply. Manhattan multifamily sales volume has recovered, with prices per square foot up significantly over the past several quarters. Local operators with private-equity LP capital have been the most active buyers in New York City during this cycle, while foreign investors have recently reentered the market.

03

Financing conditions are improving as lender appetite broadens and rate expectations stabilize.

Financing across various capital sources has improved and is expected to remain available through H2 2026. The 10-year Treasury rate is expected to stabilize in the 4.2% to 4.4% range. This will provide some certainty for underwriting, though elevated rates will weigh on cap rate compression and limit the flow of capital relative to prior cycles. Multifamily lending remains broadly accessible. Lenders are becoming receptive to office-secured financing as demand returns and supply subsides, with the right opportunities attracting increasingly competitive terms as the macro environment stabilizes.

Key Takeaways

For Buyers

Office investment momentum is building as fundamentals improve and the buyer pool expands. Buyers who move ahead of the anticipated increase in core capital deployment will be competing for better-priced opportunities than those who wait for macro conditions to fully resolve. Manhattan's improving fundamentals and robust leasing activity are giving buyers confidence that outweighs current macro headwinds. While uncertainty around AI's long-term impact on office demand remains a consideration for core capital, investment in quality assets remains strong. Residential assets remain highly competitive, with tight vacancy and a thinning new supply pipeline supporting values for buyers willing to underwrite a supply-constrained market.

For Sellers

The gradual expansion of the buyer pool from high-net-worth investorsand syndicators toward private equity and institutional capital is creating a progressively favorable environment for well-positioned sellers as deal volume increases and pricing stabilizes. Sellers of high-quality office assets with strong leasing momentum are best positioned to capture the recovering market, as confidence in Manhattan fundamentals outweighs macro headwinds for more buyers. Residential sellers benefit from tight vacancy and a constrained supply pipeline that supports demand for existing inventory, particularly for assets without rent-stabilized units.

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