Intelligent Investment

2026
U.S. Real Estate Market Outlook

REPORT

NEW YORK CITY

CBRE RESEARCH
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Office Market Outlook

01

AGGRESSIVE OCCUPIER COMPETITION FOR TOP-QUALITY SPACE IN PRIME AREAS TO BOOST DEMAND IN SECONDARY MARKETS

- Strong demand from finance, law and resurging tech tenants has tightened prime and next-tier availability, creating intense competition for the few remaining quality blocks. As a result, Midtown's East Side and West Side are seeing increased demand, with new migration to Midtown South and Downtown to follow.
- Anchor commitments and new construction are expected to accelerate.
- An increase in renewal activity make leases more costly for many tenants.
- Midtown remains a key destination for occupiers, but aligning size, location and quality of assets is challenging.
- Midtown South leasing is expected to return to its pre-2020 levels, driven by AI sector growth.
- Downtown is poised for an uptick in tenant migration from other Manhattan markets, as available supply tightens elsewhere.

02

SHRINKING SUPPLY, STAGNANT LOW-QUALITY SPACE AND SELECT ASSET REVIVAL

- Strong demand will trigger new development and upgrades to existing assets, especially in the Midtown Core.
- Availability of quality space in secondary and tertiary markets will decline, further limiting tenant options.
- Conversions will cull obsolete buildings from the inventory.
- Commodity space will become further bifurcated: Challenged assets will remain unleasable, while properties with acceptable quality and stable ownership offer cost-effective options for price-sensitive tenants.
- Large blocks in transit-rich sections of Midtown South are largely absorbed, pushing occupiers to consider quality space in less well-connected areas.
- Newer or well-maintained Downtown assets with premium amenities will be the focal point for large users despite limited supply.

03

QUALITY ASSETS IN PRIME LOCATIONS WILL SEE STRONG RENT GROWTH WHILE COMMODITY PRICING REMAINS FLAT

- Pricing remains highly polarized: Rents for best-in-class assets are hitting record highs, while well-located quality properties are also seeing gains.
- Commodity space will see minimal pricing movement amid weaker demand.
- High concessions will persist, yet strong rent gains in top-tier assets will push net effective rents above trough levels.

Key Takeaways

FOR OWNERS

- Owners should expect steady demand and greater pricing power at highly-occupied properties. Top-tier, amenity-rich assets in prime locations will have the strongest rent growth.
- The scarcity of high-quality space and a constrained development pipeline may leave large tenants with limited choices, making renewals a practical option.
- Tenant growth needs may force relocations from existing premises or cause split operations. Owners who can provide flexible options within a building or portfolio are well-positioned to capture this demand.

FOR TENANTS

- With limited available supply, tenants are entering the market earlier than usual, intensifying competition for quality space. Small tenants are being displaced as owners cater to the growth needs of larger occupants.
- Tenants looking to renew should expect increased pricing due to limited relocation options.
- Remaining top-quality options in the best locations will command record-high rents. In addition to raising rents, landlords are expected to reduce concessions, particularly on renewals and expansions, to maximize net effective rents.
- Tenants still have strong options in commodity product but improving market fundamentals and the removal of obsolete inventory may give some owners of low-quality assets a false sense of pricing power.

Retail Market Outlook

01

DESPITE SUSTAINED INTEREST, LEASING VOLUME MAY SLOW DUE TO REDUCTION IN PRIME SUPPLY AND HIGHER COSTS

- The rising cost of capital expenditures, along with rental price increases in prime neighborhoods, will impact demand.
- Demand is expected to shift to next-tier neighborhoods, such as the Meatpacking District, since prime corridors like SoHo and Madison Avenue have little availability.
- Luxury retailers will face stiff competition in prime markets with limited availability.
- Increased leasing is expected from essential goods providers and service retailers in secondary markets.
- Demand is expected to grow for second-generation space in markets near transit hubs and affluent residential districts.

02

AVAILABILITY IN PRIME MARKETS IS SCARCE CAUSING "NEXT-TIER" NEIGHBORHOODS TO TIGHTEN

- Prime retail markets face limited availability after sustained strong leasing.
- Availabilities on prime corridors such as SoHo and Madison Avenue have fallen to levels not seen since 2015.
- Turnkey spaces are the most desirable due to the high costs to fit out space.
- Some tenants will purchase space, which will further reduce options in the leasing market.
- The lack of new development in prime and secondary locations will prolong supply constraints.

03

STEADY RENT GROWTH EXPECTED IN BROAD MARKET, ACCELERATED GROWTH IN PRIME MARKETS

- The sharp pricing divide between prime corridors and other areas will grow.
- Limited availability of top-quality spaces will drive rents to record highs in select neighborhoods. For example, SoHo asking rents have increased to levels not seen since 2016.
- Strong demand and price tolerance from upscale luxury brands is the norm in premier, high-street locations.
- Demand within secondary markets should keep pricing stable. As spillover demand from prime markets increases, areas like Meatpacking, Flatiron and Williamsburg (Brooklyn) are the next markets poised for rent growth.

Key Takeaways

FOR OWNERS

- Owners of quality retail assets in premier, high-street markets should see increased demand and improved pricing power.
- Offering competitive concession packages, flexible lease terms and creative deal structures will remain necessary for finalizing deals.
- Improved market fundamentals are attracting investors to prime retail assets.
- Owners of large spaces may see steady demand, but are expected to offer large concession packages and flexible lease terms to offset the high costs of fit-outs.

FOR TENANTS

- Few quality options in prime markets should make availabilities in secondary markets more attractive.
- Increased competition and bidding wars are expected for second-generation and white-box spaces.
- A handful of large spaces recently vacated by big-box retailers and distressed national chains in secondary markets present opportunities for new tenants and for innovative configurations.

Capital Markets Outlook

01

OFFICE INVESTMENT BUILDS MOMENTUM BEHIND RECORD LEASING LEVELS

– Strong leasing demand has brought confidence back into the office sector as an investment class.
– Constrained ground-up development enhances value for existing assets, giving upside to value-add opportunities.
– Distressed sales and office-to-residential conversions are reshaping the bottom tier.
– Rent growth in high-quality assets is attractive.
– Compelling fundamentals are bringing more investor types into the market. Early movers will gain advantage before cap rates compress.

02

MULTIFAMILY INVESTMENT SALES ATTRACTIVE DUE TO TIGHT INVENTORY

– Demand for housing remains strong in Manhattan with the residential rental vacancy rate estimated at less than 2%.
– Rising prices for construction materials and regulatory requirements have added costs to current and proposed projects while weighing on supply.
– Private buyers remain dominant in Manhattan; however, institutional and public buyers have become more active and are expected to remain so.

03

AVAILABILITY OF FINANCING HAS IMPROVED BUT RATES STILL CAUSE CHALLENGES

– Financing across various channels has improved and is expected to remain available.
– The ten-year Treasury rate, expected to stabilize around 4% to 4.5%, will allow some certainty but not ease the flow of capital.
– Multifamily lending will follow the strong fundamentals. Lenders are becoming more amenable to office as demand returns and vacancy subsides. The right opportunities will yield more aggressive terms.

Key Takeaways

FOR OFFICE

— More investors will enter the market, increasing office sales volume and adding competition for high-end, distressed and conversion opportunities.

— New York's improving fundamentals and robust leasing are giving investors confidence and outweighing the macro headwinds.

FOR RESIDENTIAL

— Tight residential vacancy and a thinning pipeline of new housing units could increase the desirability of existing inventory, especially those assets that do not have rent-stabilized units.

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