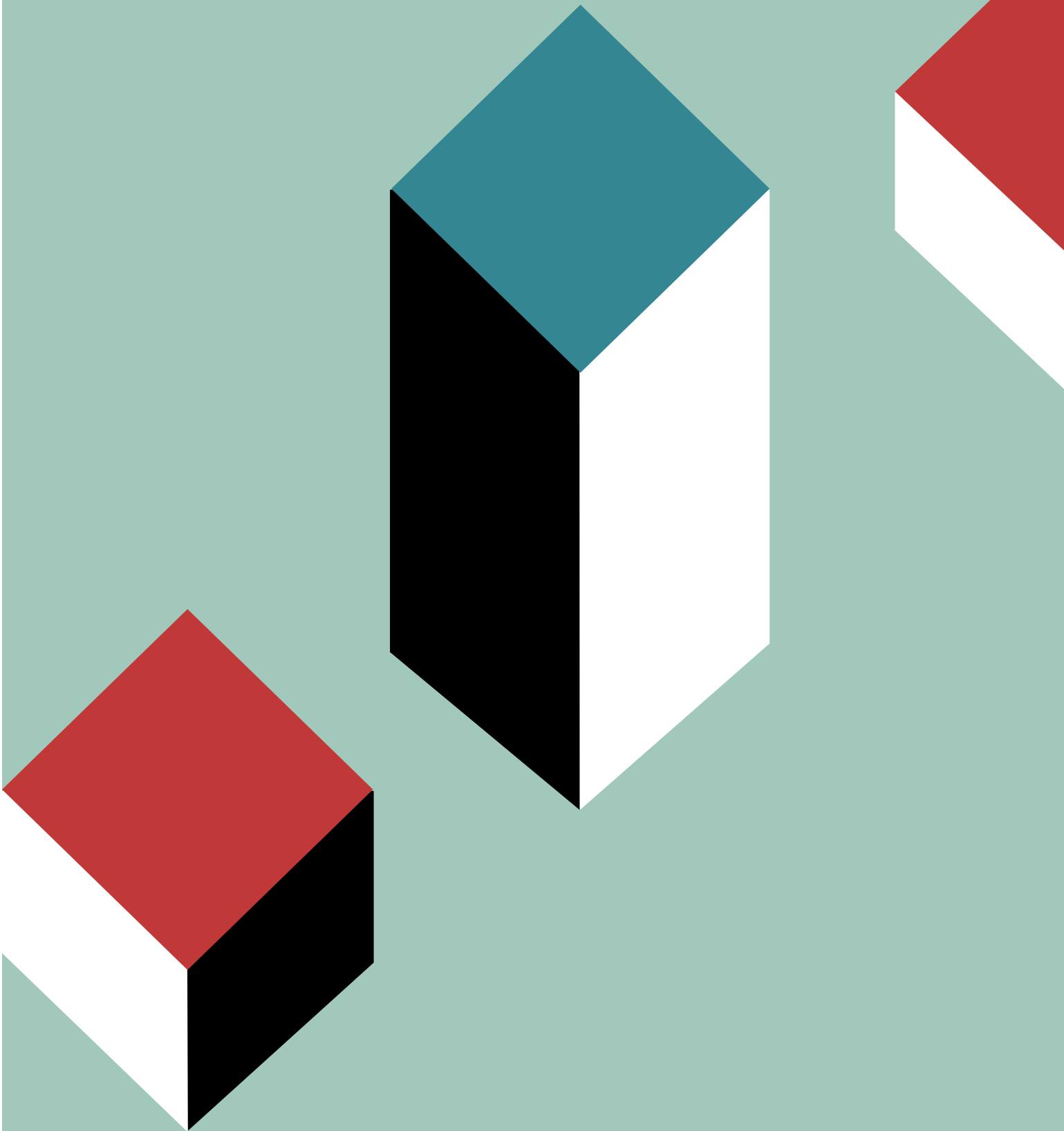


NYC OFFICE RECOVERY



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A boom is building in New York's office market, where rising demand, limited supply, and discounted pricing have made the physical infrastructure of human capital one of the most compelling investment opportunities of this cycle.

THE VALUATION DISLOCATION AND THE NEXT BUILDING BOOM

While investor attention has been fixated on the AI boom and digital infrastructure, a quieter, less obvious bull market has been unfolding in one of the most overlooked sectors globally: New York City office. Although bifurcation remains a defining feature of the new normal, the rebound is broadening beyond trophy assets to include high-quality Class A buildings.

The recovery is well underway, with vacancy for New York prime office assets approaching single digits, and net effective rents are growing at double-digit rates. Crucially, with WFH being replaced by RTO, tenant demand is now clear—both in volume and in the specific, modern requirements tenants are seeking. In turn, this dynamic is catalyzing significant opportunity to invest through several defined strategies.

Strengthening occupier demand, coupled with years of constrained new supply, has led to rents and cap rates now supporting the required returns to make new development economically viable. These conditions place New York City on the doorstep of the next “building boom,” which will create a new generation of modern office assets, and create a compelling investment opportunity for select new development, where the ability to create premium space in prime locations is achieving exponential pricing power.

Outside the trophy and newer-vintage segments of the office market, capital markets continue to lag, providing an investment window. The next tier—high-quality Class A buildings—remain approximately 30% below pre-COVID valuations and roughly 50% below replacement cost.¹ This discount represents an attractive entry point into the office market, even when assuming a structurally higher exit cap-rate regime. As the market recovery broadens, the investment opportunity will also expand to include value-add and renovation plays, focusing on modernizing and amenity-rich upgrades to bring well-located, structurally sound assets into the modern era.

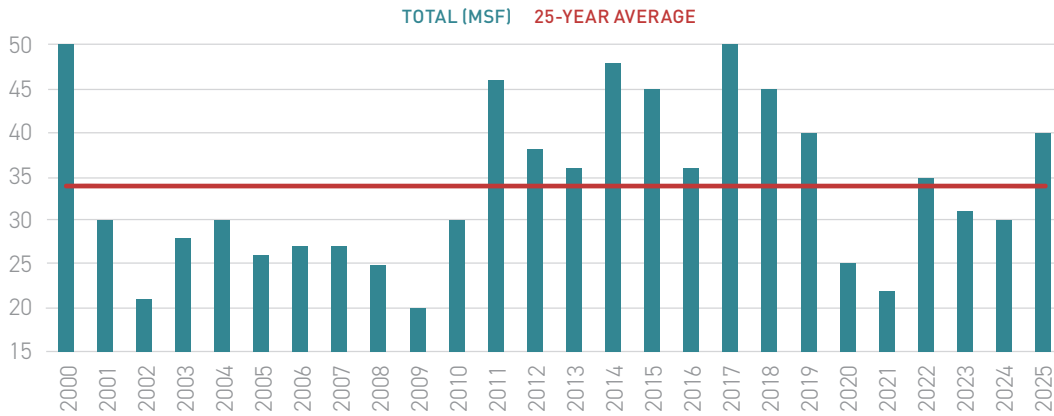
As digital infrastructure develops, the physical infrastructure for human intelligence is just as important. In many ways, Manhattan's office towers are the original data centers—the physical architecture where complex ideas are exchanged, creativity is processed, and large-scale, coordinated human capital is deployed. In this new age of AI, the indispensable value of both human and digital infrastructure presents an opportunity for investors to profit from the essential physical layer where innovation, the fuel of the digital age, is generated.

DEMAND NORMALIZES—CLARITY REPLACES DISTORTION

The post-pandemic office debate was dominated by extrapolation. A short but extreme labor-market shock was extended into a permanent structural thesis where office assets were painted with the same brush, often without adequate attention to geography, asset quality or tenant demand. The market did undergo a prolonged pause in occupier decision-making, but New York City never ceded its role as a global command center for finance, law, professional services, media, and technology.

Following a period of recalibration in which tenants reduced footprints, prioritized quality, delayed commitments, and waited for clarity on attendance norms, the market is now in recovery mode, with Manhattan recording approximately 23.2 million square feet of leasing in the first nine months of 2025—the strongest pace in nearly two decades.²

EXHIBIT 1: NYC OFFICE LEASING (2000-2025)

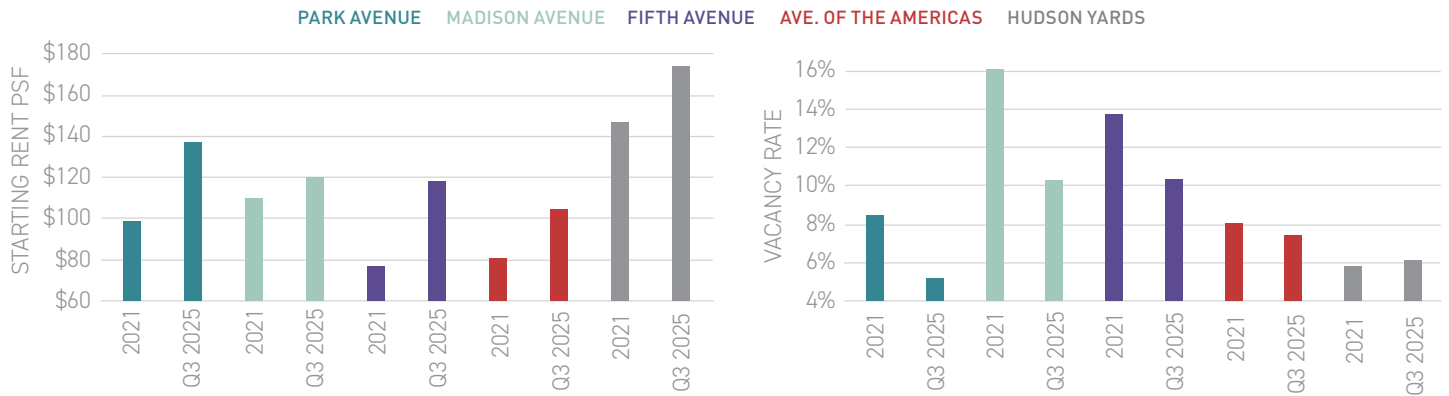


Source: JLL Research Q3 2025; Avison Young Research Q2 2025

This recovery is not national. While overall US office vacancy remains elevated, gateway markets account for a disproportionate share of leasing activity, with Manhattan representing the single largest contributor to US demand.³ Manhattan vacancy has declined by around 350 bps from its peak as of Q3 2025, marking the first time since 2014 that the rate decreased for six straight quarters.⁴

One of the most important post-pandemic shifts has been the renewed premium on location and transit efficiency. As employers reassert in-office expectations, employees have become acutely sensitive to commute time and reliability. In New York, one-seat-ride accessibility has re-emerged as a structural advantage for transit proximate assets.

EXHIBIT 2: VACANCY RATE AND STARTING RENT PER SQUARE FOOT (SELECT NYC SUBMARKET)



Source: JLL Research Q3 2025, RXR estimates based on proprietary analysis of competitive set

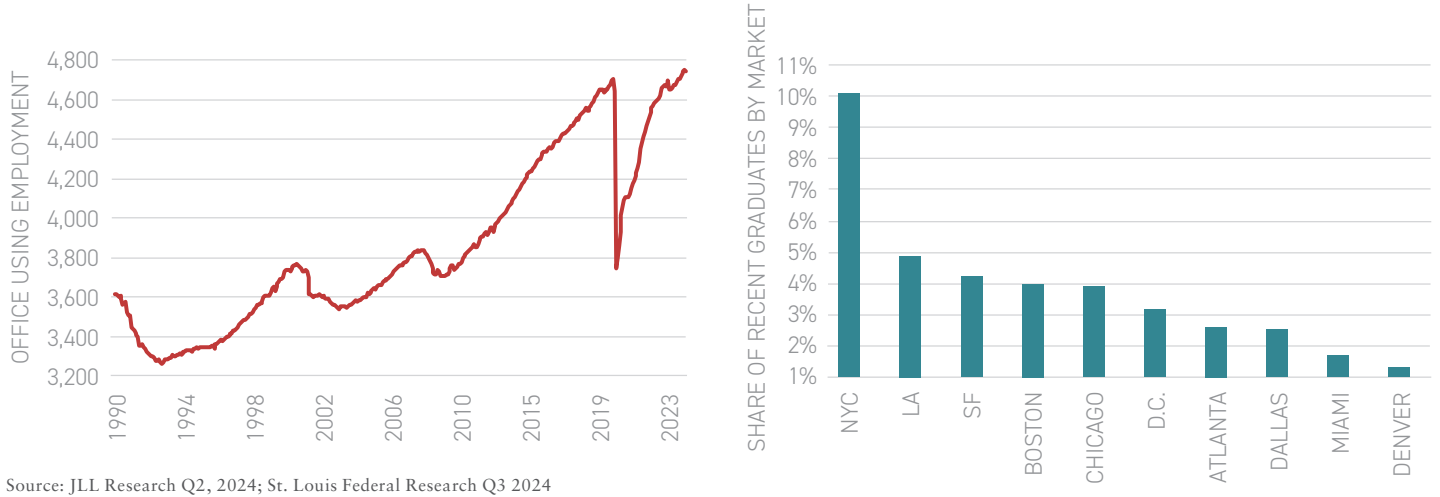
New York's resilience reflects the same forces that sustained its dominance through prior technological transitions: deep labor pools, proximity to capital, institutional expertise, and unmatched network density.

HUMAN INTELLIGENCE STILL CLUSTERS

AI value creation depends not only on compute power, but on people power—the dense human networks responsible for deploying, financing, regulating, and commercializing technology. AI has accelerated productivity and automated standardized tasks. It has not replaced judgment, leadership, trust, or coordinated decision-making. As repeatable work is absorbed by machines, the marginal value of differentiated human capital increases—and that capital continues to cluster spatially. New York's resurgence has coincided with the rise of AI, reflecting the same forces that sustained its dominance through prior technological transitions: deep labor pools, proximity to capital, institutional expertise, and unmatched network density.

New York sits at the center of this ecosystem. Since the pandemic, New York's tech sector has grown at a rate far exceeding that of the broader city economy, accounting for a disproportionate share of new jobs.⁵ While other parts of the country have certainly grown, New York City is in a league of its own. Since 2021, nearly 500,000 recent college graduates have chosen to locate in New York City—more than any other US city—with roughly one in seven relocating workers nationally moving to New York.⁶

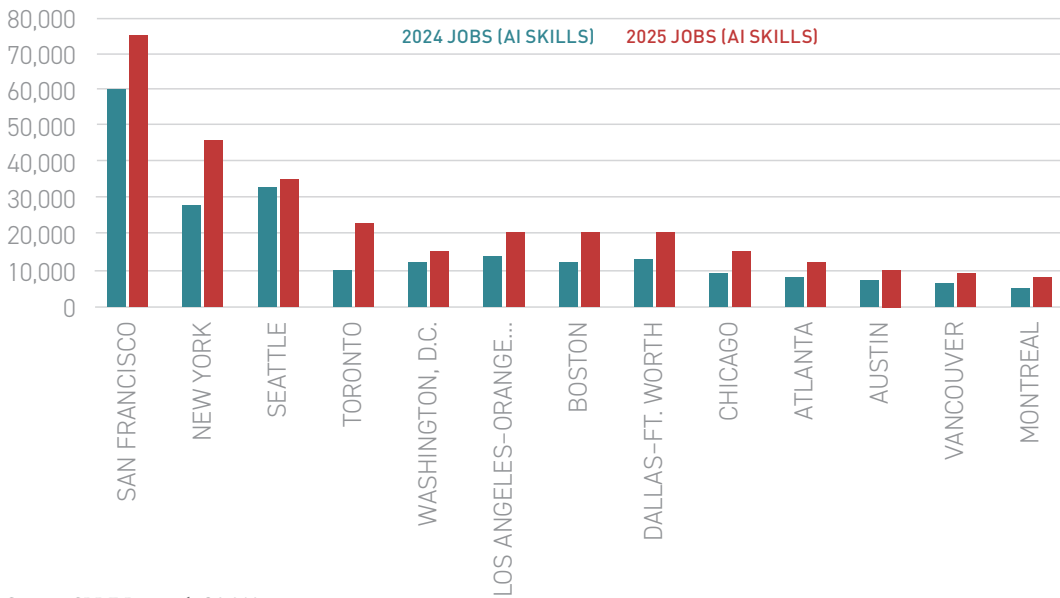
EXHIBIT 3: NYC OFFICE USING EMPLOYMENT AND RECENT GRADUATE MIGRATION BY MARKETS



Source: JLL Research Q2, 2024; St. Louis Federal Research Q3 2024

Leasing data also corroborates the trend. Through the third quarter of 2025, AI-focused firms leased approximately 486,000 square feet of Manhattan office space—already surpassing full-year 2024 totals and nearly doubling 2023 activity.⁷ These firms overwhelmingly prefer Class A environments that support in-person collaboration.⁸

EXHIBIT 4: NORTH AMERICA AI SKILL JOB GROWTH



Source: CBRE Research Q3 2025

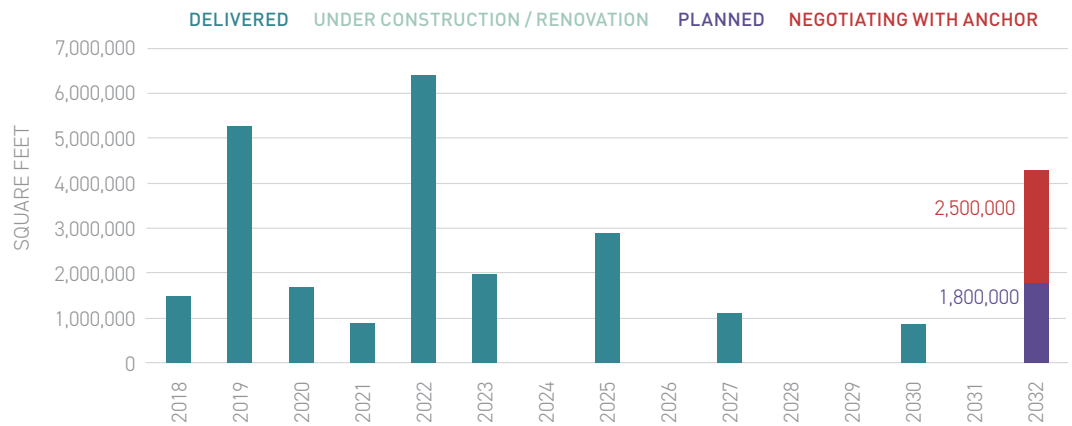
THE NEXT OFFICE CYCLE BEGINS WITH SCARCITY

One defining feature of the next New York office cycle is that demand is returning into a situation of scarcity. The development pipeline that historically refreshed Manhattan's inventory has shrunk dramatically. At the same time, a number of office-to-residential conversions are permanently removing functionally obsolete space. The scale is meaningful: current and contemplated conversions are equivalent to approximately five percentage points of vacancy reduction across Manhattan, accelerating tenant migration toward modernized and newly built assets.⁹

Demand is therefore strengthening into a market without the traditional release valve of new supply—a dynamic that historically precedes development cycles.

As a consequence, the seeds of the new development cycle are being sown today, with a cohort of new assets slated for the end of this decade and into the beginning of the next.

EXHIBIT 5: NYC OFFICE DELIVERY PIPELINE



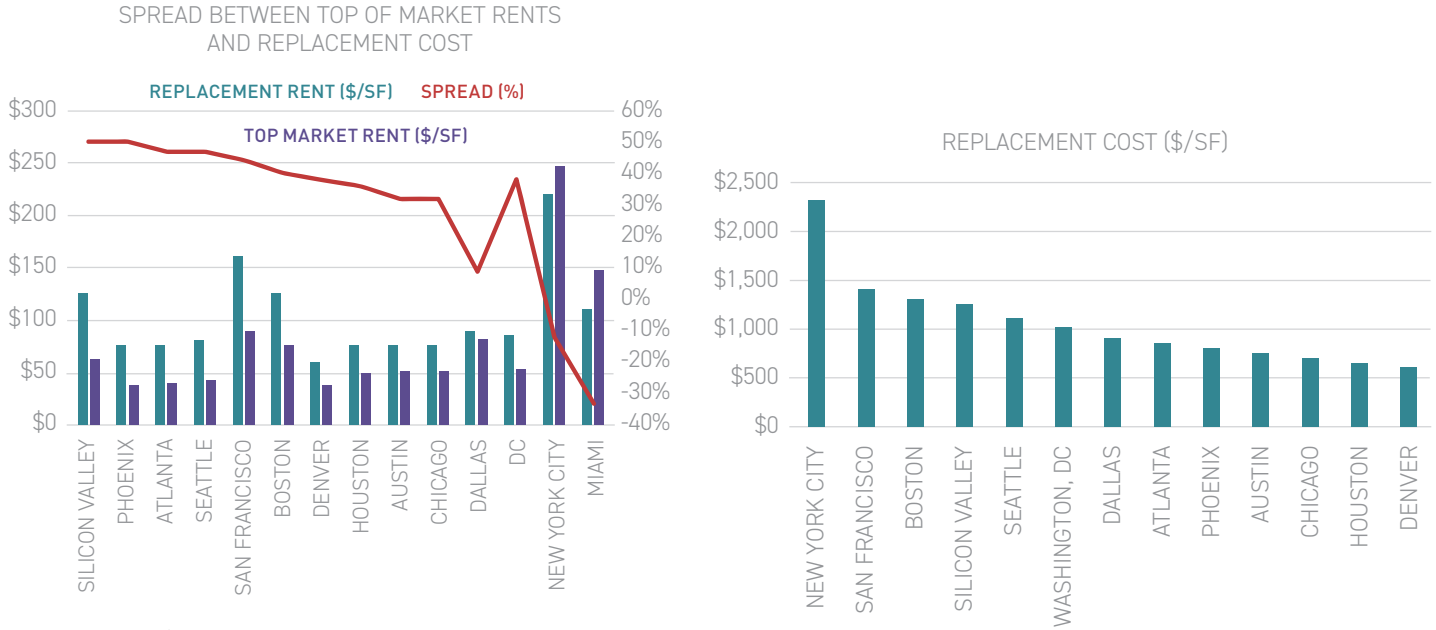
Source: JLL Research Q3 2025

WHY DEVELOPMENT WILL RETURN

Development is returning to the New York office conversation because the fundamental economics have aligned. The prolonged period of supply constraint, coupled with the clear rebound in premium demand, has reset the financial feasibility equation, with the scarcity of top-tier space now supporting rents well in excess of \$200 per square foot for the best sites, while cap rates for well-located new assets are consistently below 5%. This renewed feasibility provides institutional investors with a critical opportunity to deploy large amounts of capital into high-quality assets at scale, satisfying the need for durable, long-term value in a market with visible demand durability.

The second key driver is crystallized demand. Tenant requirements have become clearer, making the choice of physical attributes and location far more certain for developers. Modern systems, sustainability credentials, transit adjacency, flexible layouts, curated amenities, and architectural distinction are now prerequisites. This clarity about what tenants want simplifies development choices while creating a structural need that much of the existing inventory cannot meet economically. The high-rent threshold required to justify new construction, therefore, functions as a structural governor on supply, ensuring that only best-in-class projects proceed and are insulated from competition in the lower-tier market.

EXHIBIT 6: SPREAD BETWEEN TOP OF MARKET RENTS AND REPLACEMENT COST AND REPLACEMENT COST PER SQUARE FOOT



Source: JLL Research Q3 2025

CAPITAL MARKETS LAG FUNDAMENTALS, PRESENTING OPPORTUNITY

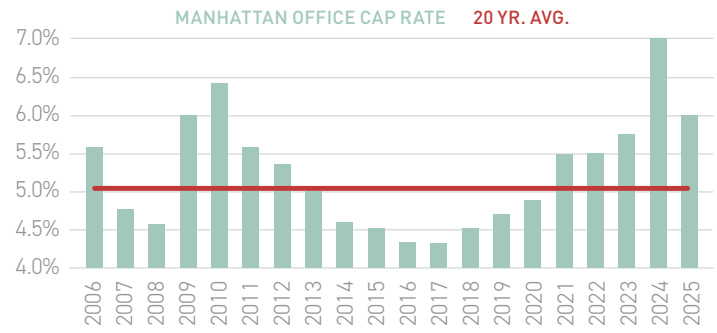
Despite improving operating metrics, capital markets have been slower to reprice New York office. Transaction volumes remain below historical norms, bid-ask spreads persist, and financing remains selective. This lag is precisely what creates opportunity.

Pricing data confirms a transition from paralysis to price discovery. While commercial real estate values declined materially from mid-2022, they have begun to recover. US office values are up approximately 5.4% over the past twelve months¹⁰—one of the first sustained periods of positive price movement since the downturn began—suggesting values are beginning to put in a cyclical bottom, particularly for higher-quality assets.

Debt markets are reinforcing this transition. Office lending spreads tightened through 2025, particularly for low-leverage loans. Senior office debt at conservative loan-to-value levels is now pricing just north of 200 bps over the 10-year Treasury, signaling growing lender confidence at the top of the capital stack.¹¹

The largest remaining uncertainty lies in exit cap rates. However, current pricing already embeds a substantial adjustment. Underwriting to 5–6% exit cap rates for Class A assets—roughly 100–150 bps wider than historical norms—still generates attractive risk-adjusted returns.¹² These Class A assets will continue to benefit from replacement costs that have moved structurally higher, providing an opportunity for value-add investment and rent growth.

EXHIBIT 7: NYC OFFICE CAP RATES (2006–2025)



Source: Newmark Research, RXR estimates based on proprietary analysis of market comparables

As values stabilize, investor underweights are consequential. After several years of underperformance, many institutional investors reduced office exposure materially relative to benchmarks. Once prices begin rising, the focus will shift from a comfortable consensus underweight to the acknowledgement of opportunity, with capital flows and repricing are likely to follow.

THE "MAMDANI DISCOUNT" PROVIDES OPPORTUNITY

While the New York City office market resurgence flies under the radar, the election of Democratic Socialist Zohran Mamdani as mayor has dominated headlines. His far-left platform has sparked concern regarding taxes, rent regulation, and public safety.

Mamdani has proposed policies requiring significant funding, including free buses, universal childcare, and city-owned grocery stores, funded by tax hikes on the wealthy and corporations. However, real-world limitations constrain this rhetoric. Unlike in Los Angeles or San Francisco, New York's Governor exerts significant control over city operations and tax policy. Governor Kathy Hochul remains steadfast in her opposition to tax increases, citing the risk of capital flight.

Headlines regarding a "rent freeze" similarly lack attention to detail. The Mayor's control is limited to rent-regulated apartments (roughly one-third of supply) via appointments to the Rent Guidelines Board. Even if rents are "frozen" for this segment, they are already heavily regulated, averaging only 2.5% annual increases over the last five years. While affordability goals are admirable, price controls historically reduce supply, driving market-rate rents higher.

Notably, some of the Mayor's housing measures are encouraging, including incentives for new development. Regarding public safety, Mamdani is retaining the NYPD Commissioner, under whose leadership crime rates remain low.

On the ground, real estate fundamentals continue to power ahead. Leasing volumes are at post-COVID records, and luxury Manhattan home sales are up 25% month-over-month. While capital markets show a temporary impact—such as a 25-basis-point expansion in multifamily cap rates—we believe this "Mamdani discount" is an opportunity. NYC has weathered political changes before and continued to thrive long-term.

CONCLUSION

The recovery of the New York City office market is in full swing, yet it is not a simple return to prior norms; it is the emergence of a stratified, supply-constrained market where quality, location, execution, and operational capability matter most.

The central investment opportunity arises from a fundamental valuation dislocation. Operating metrics for high-quality Class A buildings are recovering with tightening vacancy, and double-digit rent growth, yet capital markets lag. These assets remain significantly below pre-COVID valuations and dramatically below replacement cost, providing a rare entry point into essential physical infrastructure.¹³

This recovery is reinforced by structural scarcity. Prospective deliveries for development have collapsed, and permanent inventory removal is driving demand into limited, high-quality supply. This dynamic sets the stage for the next building cycle, with best-in-class new developments commanding premium rents.

Crucially, Manhattan's office towers are the necessary physical layer for managing human intelligence—the irreplaceable architecture for deploying and commercializing AI. The New York market is serving as the organizational platform for the digital economy.

As AI reaches ever high valuations, the physical infrastructure enabling human intelligence is quietly repricing. For opportunistic investors ready to underwrite this new paradigm, New York City office offers a rare combination of discounted entry, improving demand visibility, and long-term strategic relevance.

A boom is building in New York office—not indiscriminately, but in the places where scarcity, talent, and capital still converge—it's important not to miss it.

ABOUT THE AUTHOR

Scott Crowe is the head of investment strategy and capital formation at RXR, where he collaborates with partners to develop and implement the firm's investment and corporate strategies, and oversees the Equity Capital Markets team while serving on the RXR Investment Committee. Prior to joining RXR, he was the President and Chief Investment Strategist at BNY Mellon's CenterSquare, and previously held senior roles at Cohen & Steers, and UBS. Scott holds a Bachelor of Commerce and an Honors Degree in Finance, along with a Certificate of Real Estate Development from Cornell University.

NOTES

¹ RXR estimates based on proprietary analysis of recent transactions

² JLL Research Q3 2025

³ JLL Research Q3 2025

⁴ Colliers Research Q3 2025

⁵ Center for Urban Future (CUF), "New York's Tech Sector: Driving the City's Post-Pandemic Jobs Recovery"

⁶ JLL Research Q2 2024

⁷ Savills Research, Q3 2025

⁸ Ibid.

⁹ CBRE Research Q2 2025

¹⁰ Trepp Data Q4 2025

¹¹ Trepp, "Office Commercial Real Estate Spreads Hit 2025's Lowest Level as Lender Optimism Returns"

¹² RXR proprietary analysis

¹³ RXR estimates based on proprietary analysis of recent and historic transactions