



NEW YORK CITY COMPTROLLER
BRAD LANDER

Spotlight

NYC's Office Market: Doom Loop or Boom Loop?

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Introduction

By the spring of 2023, as New York City’s economy was digging itself out of the pandemic-driven downturn, the one sector that was still in a severe slump was the office market. Remote work was still quite widespread, and demand for office space languished, having yet shown no sign of turning around—particularly in Manhattan’s central business districts. Because office property taxes have long represented a key component of New York City’s tax base, this prompted a great deal of concern about the economic and fiscal outlook. [One study](#) cautioned that there was some risk of a “doom loop” in which a reduced tax base would lead to cuts in services, compromising the quality of life, driving more residents and businesses away, thus creating a downward spiral.

Motivated by such concerns, this office conducted an analysis of these risks and a range of outlook scenarios, which formed our [June 2023 Spotlight report](#). We revisited the topic in our [May 2024 Spotlight](#), and found that office valuations appeared to be far out-performing the “doom loop” scenario but slightly lagging our baseline scenario. Now that 2½ years have passed since that initial report, we decided it would be useful to look back at how things actually played out. As it turns out, the city’s office market—as well as the corresponding tax revenue—has not only out-performed expectations, but it has also out-performed other major U.S. office markets.

Office Market Trends

The Economic Heft of NYC’s Office Market

The importance of the commercial real estate market, particularly the office market, to New York City’s economy cannot be overstated. The five boroughs are home to about 2.7% of the nation’s population but include 722 million square feet or 8.5% of the nation’s office space. Moreover, the market value of that space is estimated at roughly \$472 billion or just over 20% of the nation’s total office space¹. This reflects the fact that a disproportionate share of citywide employment is in office jobs—generally loosely defined as jobs in the Finance, Information, and Professional & Business Services sectors. The vast majority of these jobs are in Manhattan’s Central Business District (CBD). A tremendous share of the city’s economic activity and tax revenue is generated within the walls of these office buildings, not to mention the indirect effects on the range of businesses that serve office workers and supply goods and services. Thus gauging the strength and direction of the office market is important in assessing the overall economic and fiscal outlook.

¹ Based on Costar data as of October, 2025.

Overview of Office Market Indicators

A variety of metrics are widely used to gauge the strength of the office market. One such metric, leasing activity, can be misleading, as it does not always capture the underlying strength. Sluggish leasing activity, for instance, can reflect weak demand; but it can also reflect an extremely tight market with a dearth of supply (available space) and brisk demand. Thus, the three core metrics used to gauge the office market in this Spotlight are **availability rates, rents, and occupied space**. The **vacancy rate** is also a useful metric, but because it tracks closely with availability rates but with somewhat of a lag, we focus on the latter. The **Appendix** expands on what these indicators are and how they can be interpreted.

Because the office market, both in New York City and elsewhere, is far from homogenous, it is also important to distinguish the various tiers of office buildings, in terms of quality and amenities. Properties categorized by Costar as 5-star are considered the highest quality space and represent slightly over 10% of all office space across New York City, almost all in Manhattan’s central business district (i.e. south of 59th Street). A thorough explanation of Costar’s building rating system can be found at <https://www.buildingratingsystem.com>.

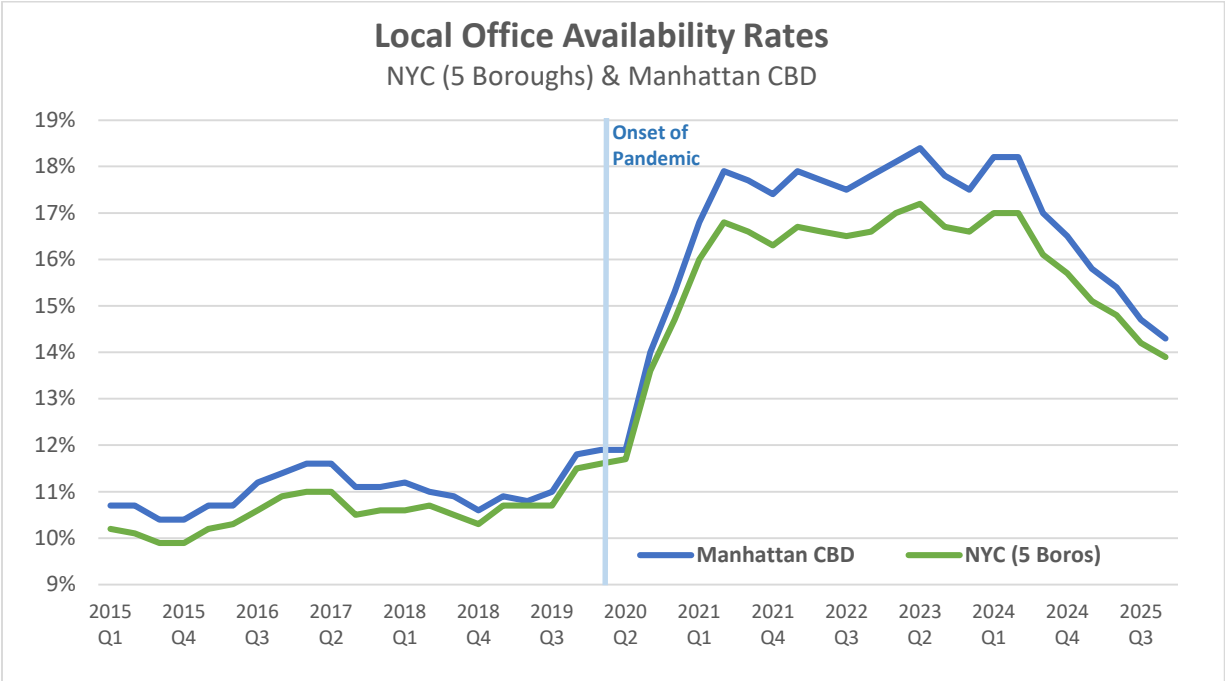
Geographically, almost 80% of New York City’s office space is in Manhattan south of 59th Street, and in terms of total asset values it accounts for roughly 87%. While there are some large office towers in the outer boroughs, most of the office space outside the CBD is in low-rise buildings.

NYC’s Office Market Before & After the Pandemic

In the decade leading up to 2020, New York City’s economy grew briskly, and the office market was robust, with rents at record highs and rising, and vacancy rates steady at fairly low levels. With the surge in remote work during the pandemic, office attendance plunged, while office availability and vacancy rates rose less sharply, as many of these buildings’ tenants continued to do business and had ongoing leases. As the pandemic receded in 2021 and 2022, office usage in New York and elsewhere began to rebound gradually, but office vacancy rates continued to trend up and office availability rates remained high, as commercial leases gradually expired and many were not renewed. Meanwhile, market rents began to edge up but were still far short of pre-pandemic levels—especially after adjusting for inflation. These dismal trends motivated researchers to warn of a potential “doom loop” in this 2022 paper, [Work From Home and the Office Real Estate Apocalypse](#). Later in this report, we look back at how various forecasts for the office market made back in our [June 2023 Spotlight](#) panned out.

Our [May 2024 Spotlight](#) focused on what some call a “K-shaped recovery” in the city’s office market: a strengthening market for high-end space, but continued deterioration in the market in lower-tier buildings. Starting around mid-2024, however, vacancy and availability rates finally started to show broader signs of recovering, as the market for lower-tier properties stabilized, buoyed by a combination of modestly rising demand and some reduction in supply due to renovations and commercial-to-residential conversions.

Chart 1

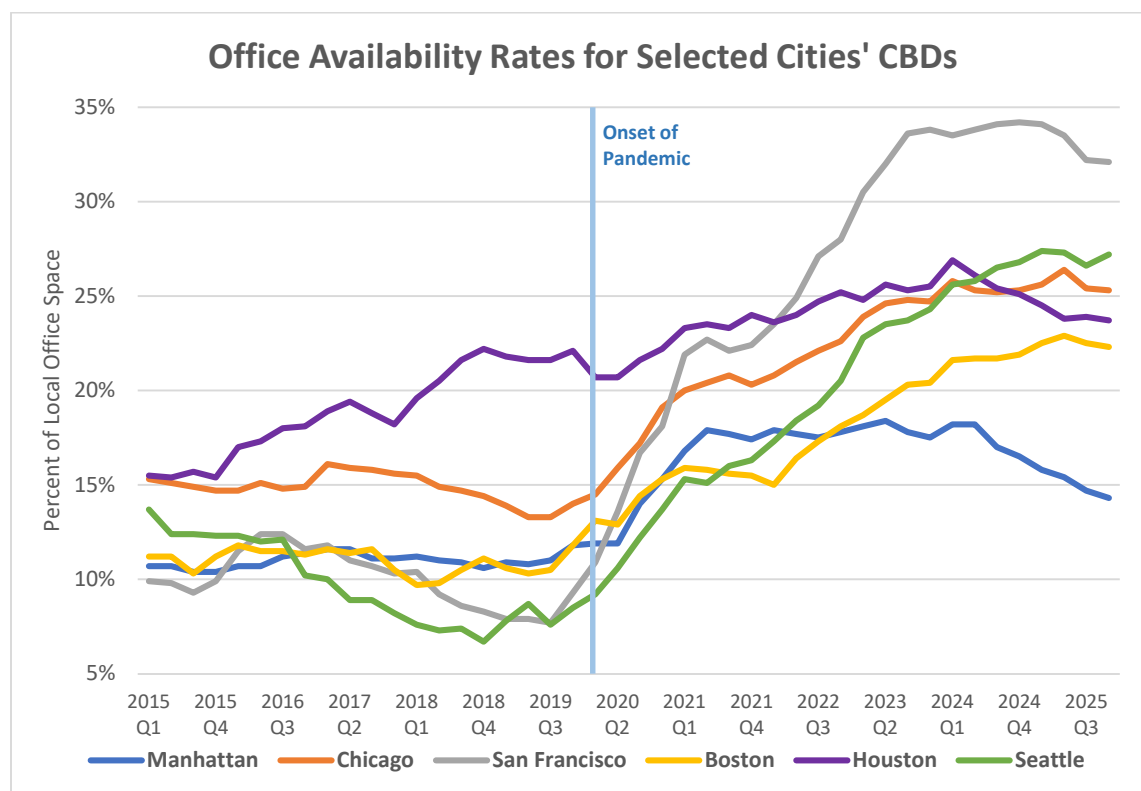


Sources: Costar, Office of the NYC Comptroller

Over the past year and a half, New York City’s office market has outperformed the nationwide market, as well as those in most other central cities. Prior to the pandemic, the office availability rate, both nationwide and in Manhattan’s CBD, stood at 12%. At mid-2024, Manhattan CBD’s office availability rate stood at 18%—moderately above the nationwide rate of 16%. In the nearly one and a half years since, the city’s rate has fallen 4 points to roughly 14%, while the nationwide has declined only marginally, to 15.7%. Chart 2 below shows trends in the local availability rate alongside five other cities’ CBDs², all of which rank among the nation’s leading urban office markets; Manhattan has clearly pulled away from the pack.

²These cities were selected because they were among the nation’s largest office markets, in terms of both footprint and total asset value, and because they had fairly dense central business districts.

Chart 2



Sources: Costar, Office of the NYC Comptroller

While availability rates appear to be headed back toward pre-pandemic norms, rents still lag considerably—especially when adjusted for inflation. Specifically, average gross asking rents in Manhattan’s CBD are still down by an estimated 16% from year-end 2019 levels, but after adjusting for overall inflation, they are down nearly 35%. This is noteworthy because the operating costs faced by building owners have increased.

Property Values & Tax Revenues

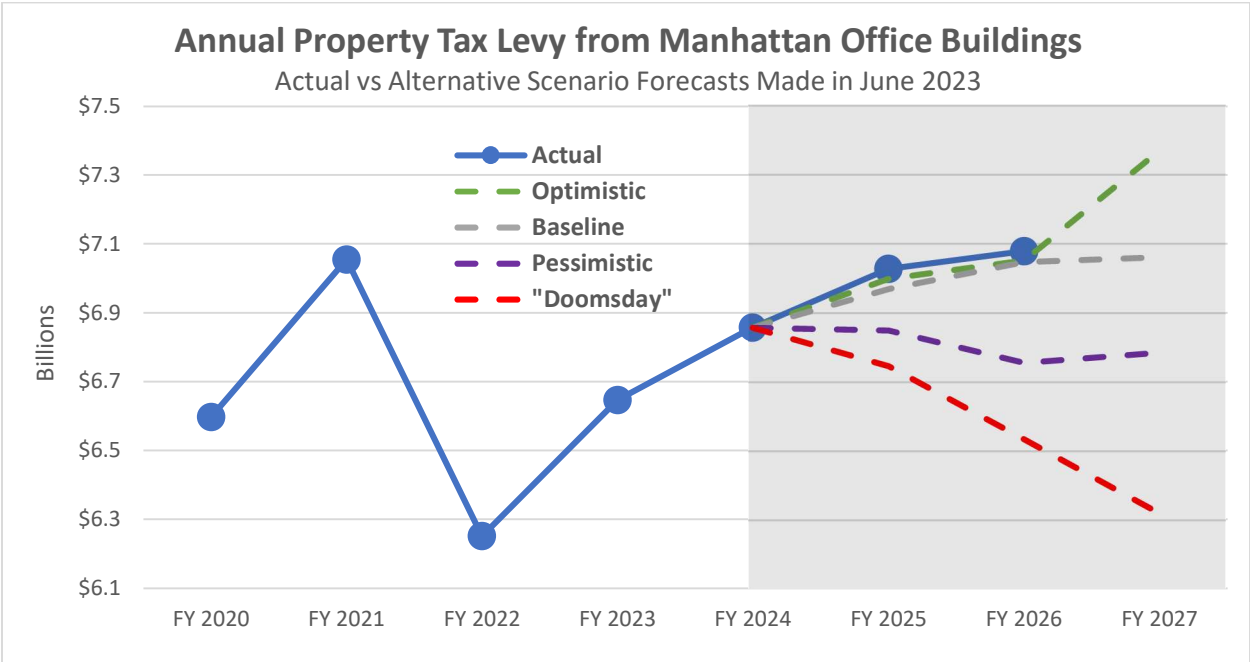
The Gradual Recovery of NYC’s Office Market

With rents still depressed, vacancy rates continuing to climb, and availability rates remaining stubbornly high through the first half of 2023, the market sale prices of commercial buildings languished, sparking concerns of a potential “doom loop”. Our June 2023 Spotlight report focused on the outlook for the city’s office market, providing a range of potential scenarios for assessed valuations and corresponding property tax levies. Because of the way the City’s DoF (Department of Finance) assesses the value of office buildings—explained in depth in [this 2022 IBO report](#)—and because valuations are based on income and expense fundamentals from two

years prior, these tax levies tend to adjust to changing market conditions with a lag. With tax levies for the upcoming fiscal year (FY2024) largely determined as of June 2023, a range of forecast scenarios were projected out three years up to FY2027.

Under our most pessimistic, “doomsday” scenario, assessed office valuations and tax levies were projected to trend down steadily for fiscal years 2025-27, with the latter shown by the red dashed line in Chart 3 below. In contrast, our optimistic scenario had valuations and tax levies rising moderately in the first two years and accelerating in FY 2027. While the actual outcome for FY 2027 has yet to be determined, actual tax levies for the FYs 2025 and 2026 have tracked closely with our optimistic scenario. [While beyond the focus of this Spotlight report, tax levies on residential property have also exceeded expectations.]

Chart 3



Sources: NYC Department of Finance, Office of the NYC Comptroller

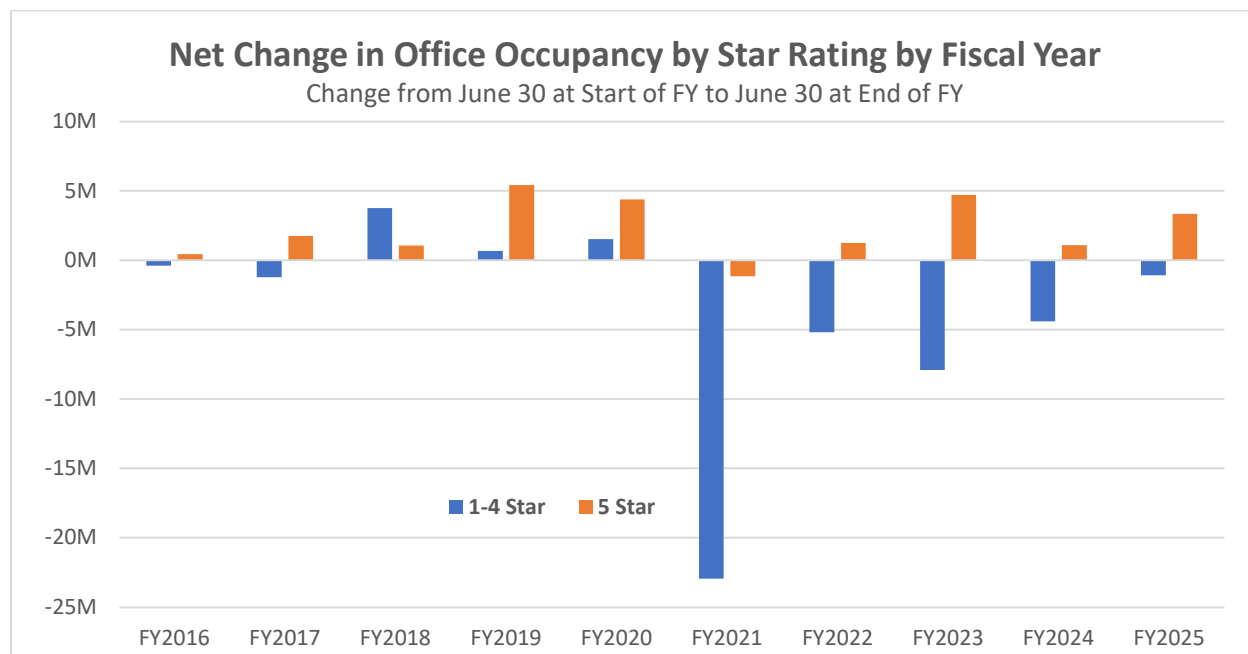
The Upscaling of Manhattan’s Office Market

While the rising valuations of office properties is reassuring, it may seem paradoxical, given that average rents have lagged behind pre-pandemic levels and availability rates (though recently improving) are still well-above pre-pandemic levels. Moreover, because assessments and tax levies are largely based on market conditions 1-2 years prior, the improvement in calendar year 2025 has yet to even be factored in—and won’t be until FY 2027.

This anomaly can be explained by the fact that, between 2019 and 2024, a substantial amount of new supply was added to the market, mainly at the high end (i.e. 5-star properties). Thus, two forces are driving the growth in office valuations. One is that much of the increase in vacant and available space reflects increased supply, as opposed to less actual occupied space (i.e. demand). The other is that there has been a substantial shift in occupied space, from lower-tier (and thus

lower-rent) properties to higher-tier buildings. This “upscaling” of the city’s office inventory, and especially space that is leased, has driven the rise in both office valuations and tax levies. Chart 4 below shows that, for 5-star properties in Manhattan’s CBD, occupancy has increased in each of the past four fiscal years, whereas occupancy in lower-tier properties has fallen in each year.

Chart 4



Sources: Costar; Office of the NYC Comptroller

Still A Glut of Lower-Tier Office Buildings

The slow but steady rise in office valuations and related tax revenues in recent years is encouraging, as is the more recent apparent pickup in leasing demand across the board. Still, the overhang of unused lower-tier office space remains substantial. The gradual whittling away of that supply with renovations and residential conversions—detailed in this [recent Fiscal Note](#)—is helping, but it is still striking that, as of the end of October, roughly 75 million SF or 15% of all 1-4 Star office space in the CBD was available for lease, and about the same volume of space was vacant. To put this in perspective, the volume of vacant 1-4 star space in the CBD exceeds the total amount of 5-star space (67 million SF).

In recent years, an average of roughly 2 million square feet of lower-tier office space has been removed from the market annually, and it is projected to average about 1.6 million in the years ahead³. Thus, this 67 million SF overhang of (largely unwanted) inventory would take decades to reduce without a significant pickup in demand.

³ Based on Costar estimates.

Looking Ahead

While New York City's office market has yet to fully rebound to its robust pre-pandemic state, it seems to be headed in that direction, as the recent upward trend in leasing—across a broad range of building classes—is encouraging. Whether it continues, however, is uncertain, depending not only on the overall economic outlook, but also on the future of urban workplace dynamics (i.e. remote work norms) and the attractiveness of New York City as an office hub. Another factor contributing to this uncertainty is the longer-term effect of AI (Artificial Intelligence) on office employment, which has the potential to either reduce or expand employment, as noted in our [August 2025 Spotlight](#). Regardless of these demand factors, whittling away the excess supply of lower-grade office space through residential conversions and renovations will clearly help.

Appendix: Office Market Metrics

This section details some of the key metrics used in this Spotlight, all of which are based on Costar concepts and terminology.

Vacancy & availability rates are basically measures of slack versus utilization.

The **vacancy rate** represents the percentage of total rentable office space that is currently not being occupied (regardless of any lease obligation on the space). Vacant space could be space that is either available or not available for lease. For example, sublease space that is currently being paid for by a tenant but not occupied by that tenant, would be considered vacant space. Likewise, space that has been leased but not yet occupied because of finish work being done would also be considered vacant space.

The **availability rate** represents the percentage of total rentable office space that is currently being marketed as available for lease or sale in a given time period. It includes any space that is available (including for lease at a future date or for sub-lease), regardless of whether the space is currently vacant or occupied. It includes buildings that are under construction or undergoing renovation.

The **market rent** is essentially an estimate of the annual rental income per square foot that a property would command in the open market. Because posted **gross asking rents** are only available for properties that are currently on the market, they may be skewed by the mix of properties currently available, as opposed to the mix of all properties. For example, if a large block of top tier (5-star) office space suddenly were to come on the market from one quarter to the next, the average asking rent might appear to have surged, even if nothing had really changed. The market rent estimate is derived from the asking rent, essentially by extrapolating asking rents for posted properties out to all properties. One caveat in both rent measures is that landlords often offer concessions that can have a substantial financial value but are not explicitly included in the rental income: for instance, one or more months of free rent, extensive capital/tenant improvements, lease buyouts, and moving allowances. Increases or decreases in

the prevalence of such concessions will lead to the reported rent to be, respectively, overstated or understated.

Star ratings (i.e. 5-Star) are based on the characteristics of a given building and are comparable across cities. Each star rating in this system represents a particular level of quality— focusing on the quality of the physical attributes of the property, independent of the location—with five stars indicating the highest quality buildings. For more detail, see <https://www.costar.com/costar-building-rating-system>

A glossary of these and other terms can be found at www.costar.com/about/costar-glossary.

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