The North Star Universal, LLC

NYC Vacancy & Cap-Rate Risk Report

Prepared for owners, investors, and lenders assessing NYC portfolio stability | July 2026

Executive summary

Vacancy and cap-rate compression are converging to reshape risk in NYC commercial real estate. City-wide office vacancy sits near 14.5% in Q1, and Manhattan vacancy has shown mixed signals, with one April reading at 16.2%. At the same time, cap rates for trophy and stabilized assets have compressed toward post-GFC levels (office ~7.7%, industrial ~6.4% nationally). The North Star Universal, LLC views this combination as both a warning and an opportunity: rising vacancy raises NOI and covenant risk, while compressed cap rates leave less room for error if the market corrects. Owners who stress-test both dimensions together — rather than in isolation — are best positioned.

Why vacancy matters

- Vacancy signals cash-flow stability, tenant default risk, and market sentiment — not just occupancy.
- A vacancy swing from 10% to 15% on a 200,000 sf office building can materially dent NOI, forcing a re-underwritten cap rate or accelerating lease rollover risk.
- Owners often underestimate how quickly vacancy swings trigger covenant defaults, insurance rate hikes, or refinancing stress.

Cap-rate compression: a double-edged sword

- Compression currently supports valuations and equity returns for trophy and stabilized assets.
- The risk: if cap rates are overly compressed, a market correction magnifies downside. A property priced at a 5% cap rate that re-prices to 6.5% on stalled NOI can see a value drop of roughly 23%.
- A 50 bps cap-rate shift on a $50M asset can move value by roughly $1M — underscoring why scenario testing, not base-case modeling alone, is essential.

Case studies

Asset	Exposure	DSCR shift	Mitigation
Midtown office (Class A)	150,000 sf rollover in 2026; 12% vacancy; 20% renewal-failure risk; 6-month downtime modeled	1.35x → 1.20x	Early tenant incentives; CapEx upgrades to stabilize asking rent
Brooklyn industrial	300,000 sf logistics facility; submarket vacancy at 10.2%, an 11-quarter high	N/A – lease-up delay modeled	Pre-negotiated options; 3% rental concession; adjusted exit window

Risk mitigation levers

- DSCR and covenant monitoring — bake vacancy fluctuations into lender scenarios.
- CapEx planning — tenant incentives, fit-out allowances, and amenity upgrades to reduce downtime.
- Exit strategy clarity — lean on validated NOI growth and rent escalators, not just current pricing.
- Valuation sensitivity modeling — test multiple cap-rate and leasing scenarios, not just the base case.
- Mitigation protocols — periodic tenant roll-analysis, conversion-readiness review, and insurance sized for extended vacancy.

Outlook and recommendation

Investor focus is shifting from whether leasing recovers to how quickly. With operational risks such as tenant churn, lease downtime, and amortization mismatch less visible than headline cap-rate trends, now is the time to run scenario planning, stress-test assumptions, and lock in mitigation protocols. We recommend owners and lenders with NYC exposure begin joint vacancy and cap-rate sensitivity reviews this quarter.