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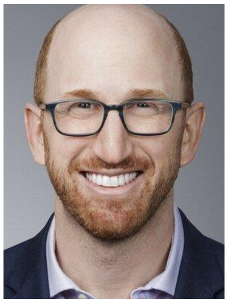
Occupier Contract Strategies For Locking In Expansion Rights

By **Josh Winefsky** (July 14, 2026, 4:51 PM EDT)



Josh Winefsky

New York City's office market recovery is nothing short of remarkable. It has been nearly 25 years since the Manhattan office market has registered more leasing activity in the first six months of a year than it did in 2026, according to a July report from Colliers, and many large tenants are realizing that the availability for expansion for them to grow organically that existed a few years ago is often no longer a reality.[1]

Lessees in tightening office markets eyeing potential office expansion opportunities to coincide with future company growth must confront a number of considerations, including how to chart their options for expansion in their lease agreements and how to exercise those options.

This article explores expansion provisions in lease agreements and strategies that can be employed by growth-oriented companies to structure and properly utilize them.

The office sector in New York is absorbing occupiers at scale, as companies continue to try to attract people to the workplace, and office tenants contend with a hypercompetitive market where quality space is becoming increasingly sparse and expensive.

A similar dynamic is playing out in San Francisco, which is seeing exponential growth and demand, and to a lesser extent in many smaller markets across the country.[2]

Tenants and landlords collectively face an inherent juxtaposition: Tenants often seek optionality to grow within a building, customarily through rights set forth in a lease, while landlords seek to balance the granting of such rights with the need for flexibility to fill space in their lease stacking plan around tenants with expansion rights.

From the occupier's perspective, the objective is to align the ability to grow within a building with the company's internal headcount projections over the length of its lease term.

For many tenants, the initial step in achieving this goal is to include rights to expand in the initial lease. The implementation of the strategy is more of an art than a science, and it can require fortunate timing and communication on structure from tenant representatives.

In many instances, no matter how strategic and forward-thinking an occupier is, critical decisions regarding expansion need to be made when an opportunity to grow presents itself, rather than when the headcount need arises.

Conviction is important, because the market is slowing down for no one. Manhattan leasing volume in the first half of this year reached 22.8 million square feet, the highest level in almost 25 years.[3]

Quality space is being leased at a premium[4] as record rent levels are being set,[5] fast-moving and growth-minded tech and artificial intelligence firms are shaking up the market with short-term leases, and prominent banks and financial services firms such as Bank of America, JPMorgan Chase, Blackstone and Ken Griffin's Citadel are doubling down on office space in major Manhattan submarkets due to hiring in the financial services sector.[6]

Moreover, minimal new office construction activity is expected over the next few years, while millions of square feet of office space have gone or are projected to go offline due to absorption and residential conversions.[7]

Some large tenants are taking action in the face of lively leasing velocity.

Three of the top five largest leases in the first quarter[8] and two of the top five in May alone in Manhattan were renewal expansions.[9] Among those in May were Versant Media's 249,054-square-foot contract at 229 West 43rd Street and Baker McKenzie's 121,833-square-foot **deal** at 10 Bryant Park.[10]

Contiguous space is important to large firms. Because of this, occupiers are starting to bank office space, agreeing to lease more than they need, especially if some of it could readily be subleased to offset some or all of the cost.

Demand exists for this strategy, as shown in falling sublet availability. Sublet supply in Manhattan contracted by nearly 25% year-over-year in May,[11] and the availability of Class A office space, in particular, fell for the eighth consecutive quarter in the first quarter of this year.[12]

Several proactive steps are essential for large occupiers. First, tenants should conduct a thorough audit of their existing lease agreements to identify and catalog all existing lease expansion options as well as the related deadlines to trigger them.

Second, they should assess their position relative to other neighboring, rights-holding tenants and evaluate the likelihood of those rights being exercised.

Third, tenants should monitor the sublease market as a potential interim solution for near-term space needs.

And finally, and critically, tenants should address their scheduled expansion exercise windows well ahead of time, since the cost of missing a deadline or failing to act can mean the permanent loss of the right to grow in place.

Fervent leasing demand calls for lessees and their counsel to proactively leverage the flexibility built out in their leases via a predefined expansion right or a right of first offer, or ROFO, when able, even if the timing feels premature.

Right of Expansion

An expansion option grants a tenant the ability to exercise a right to take additional, specific space after a certain number of years, allowing the tenant to plan its needs knowing an expansion is coming in the future. The terms of expansion, including how rent is determined as well as the conditions of the space being delivered upon expansion, will be outlined in the lease document.

The key aspect is that the tenant generally will have priority to lease the space at an agreed-upon time.

This certainty is not ideal for a landlord. The ripple effect of such a rigid option is that the landlord must then find one or more occupiers to take reserved expansion space during the interim period before the tenant's right to exercise the option is triggered.

Also, there is no assurance that the tenant will even exercise the option at all. Thus, the landlord will find itself negotiating deals for shorter-than-preferred lease terms to backfill space due to the possibility that the expansion option is exercised, while having to pass up opportunities to lease that same space for a longer term.

Given the inflexibility, landlords generally prefer to avoid granting an expansion right.

Expansion options are most likely to arise in situations where a tenant has meaningful leverage in lease negotiations, either due to the sheer amount of space it's taking or its creditworthiness, or because a landlord is determined to create leasing momentum and makes such a right available to attract the tenant.

This emphasizes the very real risk facing landlords that grant such an option: Once occupancy or interest in the building accelerates, a landlord could be left regretting the lack of flexibility for which it had bargained.

In fact, there may be instances where a landlord, having granted a tenant a burdensome expansion option, needs to buy back the right from the tenant in order to create the flexibility needed to secure a different tenant.

Right of First Offer

Separately, a ROFO is a more common and evenhanded right. Tenants with this provision in their lease agreements have a ROFO to lease certain space within the building as it becomes available.

In this dynamic, the landlord must notify the tenant when the specified space is opening and provide the option for the tenant to lease it.

Tenant priority and timing are the two main concerns with ROFO agreements. When a lease that includes a ROFO is signed, the landlord will specify which other tenants in the building, if any, have a priority right to the specified space; the current occupant of the space almost always will.

Ultimately, the landlord must honor the tenant's priority, but only when the space would otherwise be placed on the market for lease. This is a much less burdensome option for a landlord than the expansion right.

On the other hand, tenants and their counsel need to strategize and analyze when a specified ROFO space is potentially going to become available for occupancy. A ROFO provision figuratively comes with a "use it or lose it" tag, such that if the tenant rejects the ROFO, it will lose its right to that space in the future.

Given the uncertainty of when, if at all, ROFO space will become available to a tenant, it is more difficult to rely on than an expansion option for purposes of charting a company's growth.

Navigating Conflicting Rights Among Tenants

The various triggers, mechanisms and complexities that come with leasing Class A buildings or sharing space with other large, expanding occupiers can be disqualifying for some spaces, or it can be just a part of doing business to secure the right office footprint and location.

Negotiations of these growth rights, whether an expansion right or ROFO, include intel from the existing landlord on where a tenant falls in the queue, as well as a list and schedule of other rights-holding tenants in the building.

Tenants and their counsel should strategize around the likelihood of one or more tenants ahead of them in priority leaving or downsizing before exercising their right. If a tenant doesn't have a reasonable degree of confidence that it can grow in a building, due to the rights of existing tenants, it would likely move on to another opportunity.

Landlords might find themselves in a situation where they have to go back to a tenant they gave rights to and reconfigure the deal. The worst outcome for a landlord is a conflict of rights or a fallout that leaves it with one or more unmarketable floors in a hot market, so it's important that the various parties involved know what moves can be made without impediment.

There are creative structures that can be deployed, depending on the circumstances. One example is a situation where in order to get more space initially, a tenant can come into a building as a direct tenant of a landlord and a subtenant of an existing tenant sitting on extra space, whether intentional or not.

Communication among tenant representatives and the landlord and its representatives is critical to stay ahead of space needs and on top of opportunities.

In a market defined by record-setting demand, shrinking availability and rising rents, large occupiers cannot afford to be reactive. The tenants best positioned for long-term success are those that treat space planning as a strategic priority, auditing their existing rights, understanding the competitive landscape within their buildings, and engaging early and often.

The window to secure quality expansion space in Manhattan is narrowing, and for occupiers with growth on the horizon, the time to act is now.

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[1] "Strongest H1 Period of Leasing Demand Since 2002," Colliers, July 1, 2026.

[2] "Q1 2026 U.S. office market overview," Avison Young, 2026.

[3] "Strongest H1 Period of Leasing Demand Since 2002," Colliers, July 1, 2026.

[4] Elizabeth Cryan, "Third Avenue offices inch into the $100 psf club," The Real Deal, April 17, 2026. https://therealdeal.com/new-york/2026/04/17/third-avenue-offices-inch-into-the-100-psf-club/.

[5] Rich Bockmann, "Mexican billionaire is mystery tenant behind 9 West record office lease," The Real Deal, April 6, 2026. https://therealdeal.com/new-york/2026/04/06/mexican-billionaire-signed-record-9-west-57th-street-lease/.

[6] Greg David, "Big Business is Leasing Record Office Space in Mamdani's New York," The City Reporter, July 9, 2026. https://www.thecityreporter.nyc/2026/07/09/big-business-leasing-record-office-space-mamdani-new-york/.

[7] "Manhattan Office Market, 2Q26," Newmark, July 2026, 9-10.

[8] "Manhattan Office Figures Q1 2026"; "Leasing velocity reaches highest Q1 level since 2011," CBRE, April 8, 2026.

[9] "Manhattan Market Snapshot Report, 2026 May," Colliers; "Market Snapshot: New York City, Manhattan Office, May 2026" Colliers.

[10] Ibid., 2.

[11] Ibid., 1.

[12] "Manhattan, NYC Office Market Report, 2026 Q1," Colliers, April 2026.