

1Q25

Raleigh-Durham Office Market Overview



NEWMARK

Market Observations

Economy

- The market’s unemployment rate declined by 17 basis points year over year to 3.0%, remaining below the five-year average of 4.0%.
- Employment growth decelerated by 92 basis points to 2.1% year over year, remaining ahead of the national average of 1.2%.
- Most sectors reported employment growth, with government leading the way, up 6.0% over the past year.
- Office-using employees in the market decreased marginally by 30 jobs from their all-time high to 215,000 jobs as of the end of February 2025.

Major Transactions

- LexisNexis signed the largest lease of the quarter when it took 65,300 SF at Venture Center III.
- There has been market activity from those firms seeking more than 25,000 SF and under 8,000 SF of space.
- All the first quarter of 2025’s notable deals were signed by companies wanting to move to or keep highly-amentiiized spaces to attract workers.

Leasing Market Fundamentals

- Annual full-service asking rental rates increased to a new historic high of \$31.08/SF, reflecting quarterly and yearly growth of 2.0% and 4.2%, respectively.
- Occupancy declined year over year, as the market continues to work through the new deliveries that have occurred in recent years, pushing overall vacancy rates up by 260 basis points to a historic high of 21.0%.
- The under-construction pipeline expanded to 103,624 SF under construction but remains well below historic averages as the impacts of higher financing and construction costs have slowed construction starts.
- Total leasing activity closed the quarter 34.2% below the 16-year first-quarter average of 1.2 MSF at 768,023 SF.

Outlook

- As leases signed pre-pandemic expire, more tenants are likely to shed underutilized space, opting for smaller footprints in higher-quality buildings. This coupled with the market’s recent historically elevated deliveries will push vacancy rates to new highs, until the market is able to absorb the new inventory that has recently delivered.
- Raleigh’s office space-users are perplexed about the Trump administration’s actions and how future economic policies and tariffs will impact their space utilization plans. They are delaying any major decisions, and this is expected to continue until there is certainty about what macroeconomic policy will be moving forward. As a result, it is likely that companies will pursue short-term lease extensions and those with term left on their leases will take advantage of such time remaining to slow down their decision-making process to evaluate the impacts of current policies.
- The office market is expected to remain tenant-friendly, with stagnant demand keeping overall asking rates flat or modestly declining.

1. Economy
2. Leasing Market Fundamentals

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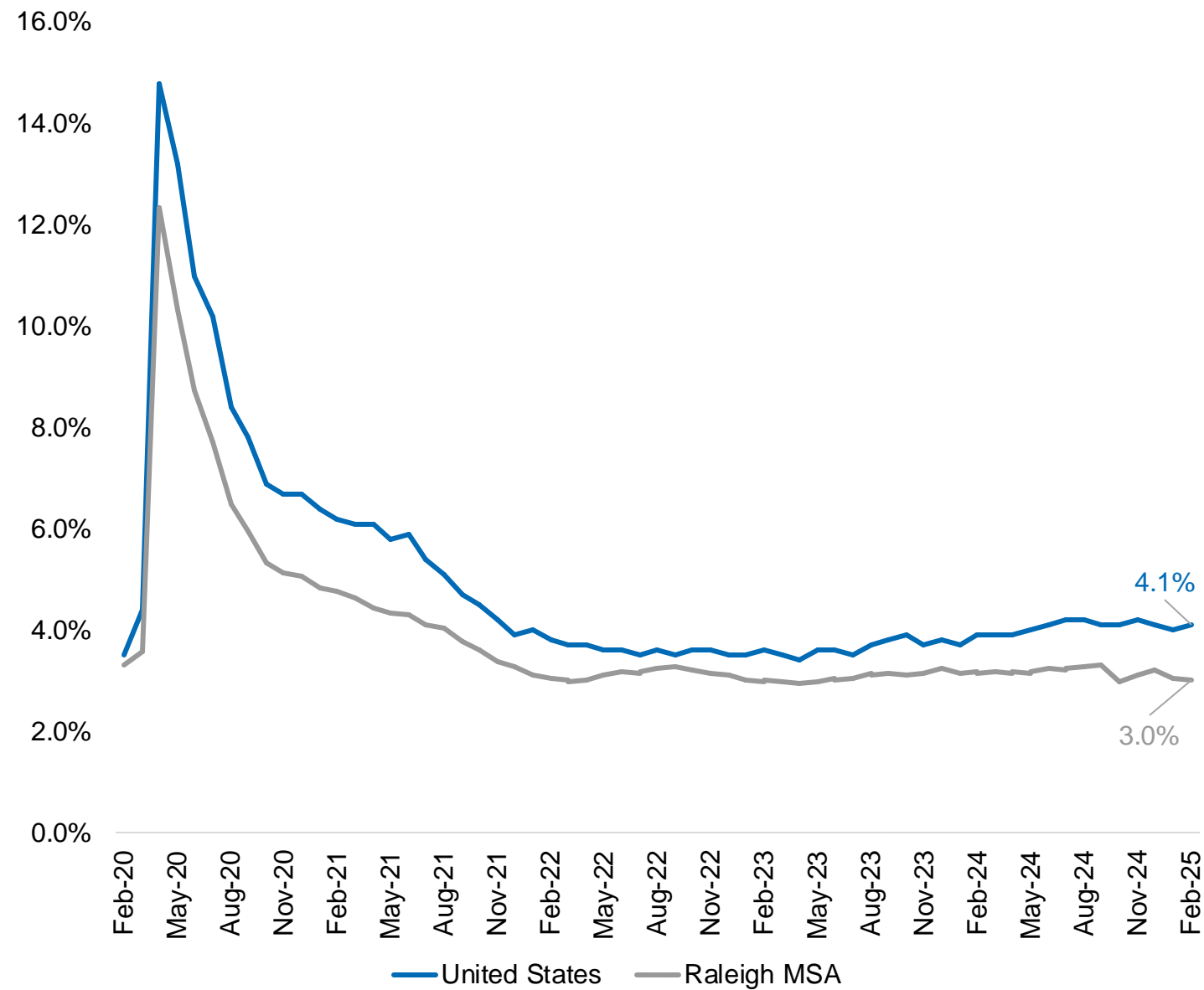
Economy



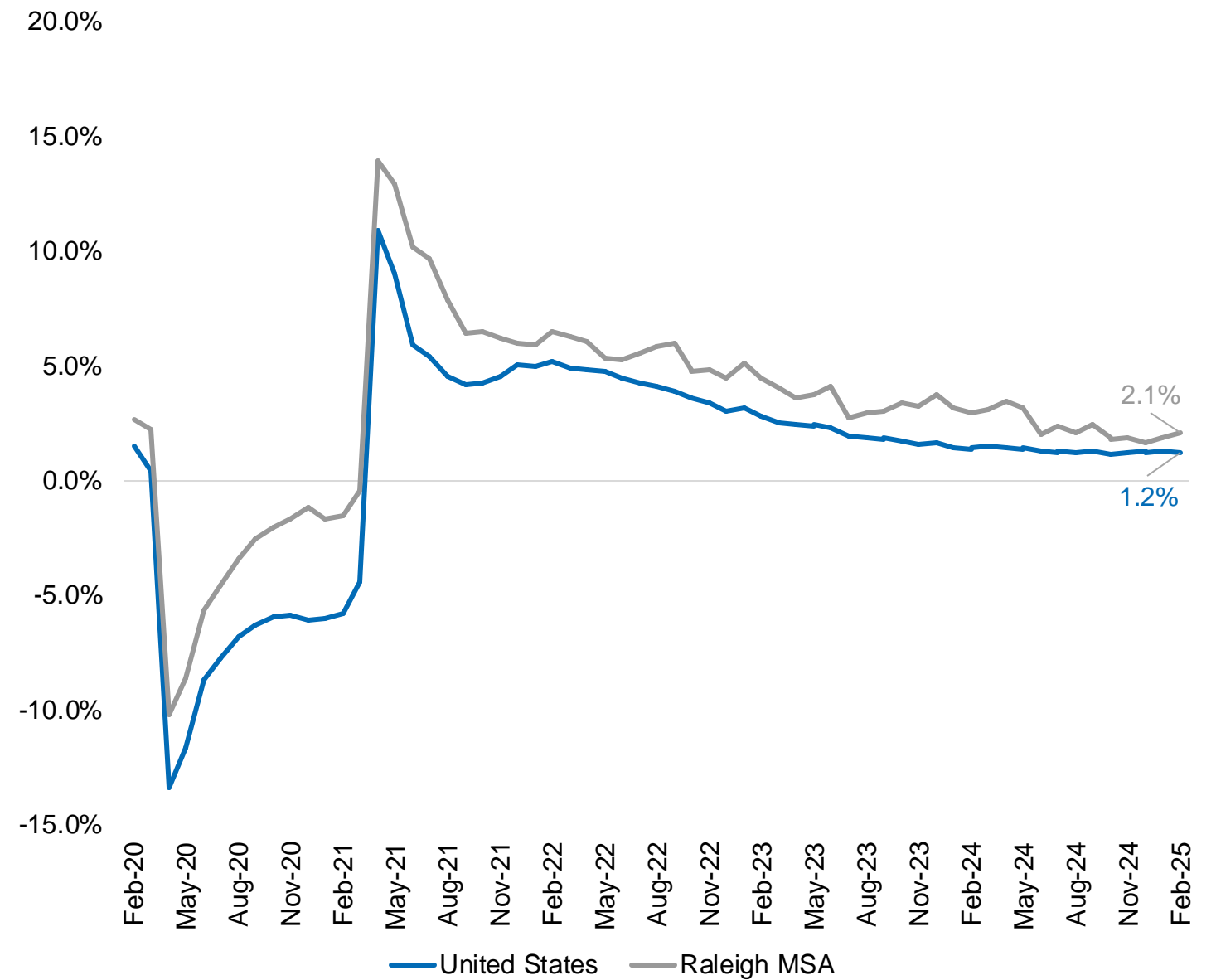
Raleigh Continues To Lead In Job Growth Despite Economic Slowdown

Raleigh has consistently reported lower unemployment rates compared to the national average, while being an outperformer in employment growth. This trend carried into the first quarter of 2025, with the market's unemployment rate inching down by 17 basis points year over year to 3.0%, well below the U.S. average of 4.1%. The region's seasonally adjusted nonfarm payrolls also outperformed the national average, with a year-over-year decline of 92 basis points, resulting in a 2.1% growth rate.

Unemployment Rate, Seasonally Adjusted



Nonfarm Payroll Employment, Seasonally Adjusted, 12-Month % Change

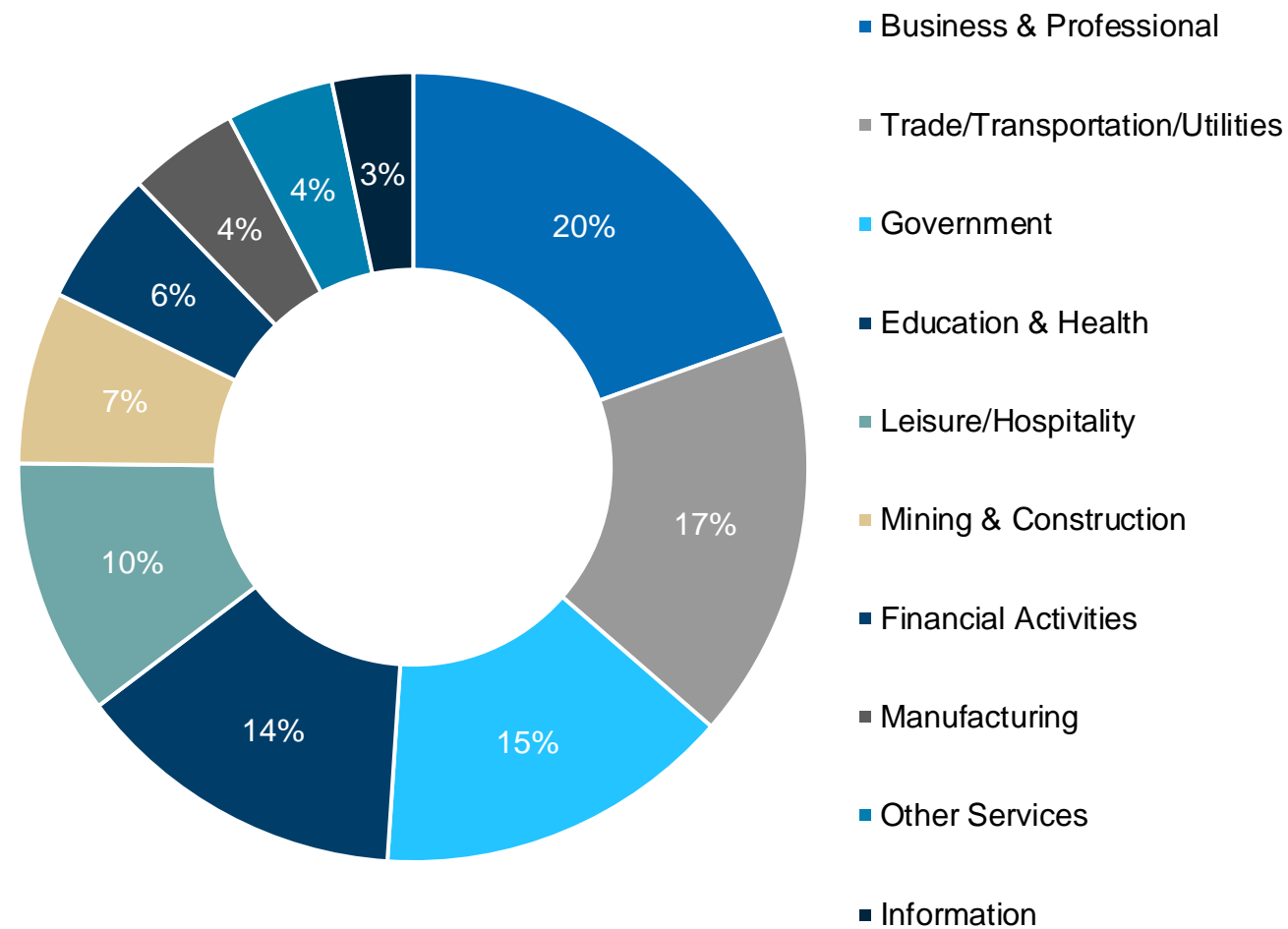


Source: U.S. Bureau of Labor Statistics, Raleigh MSA

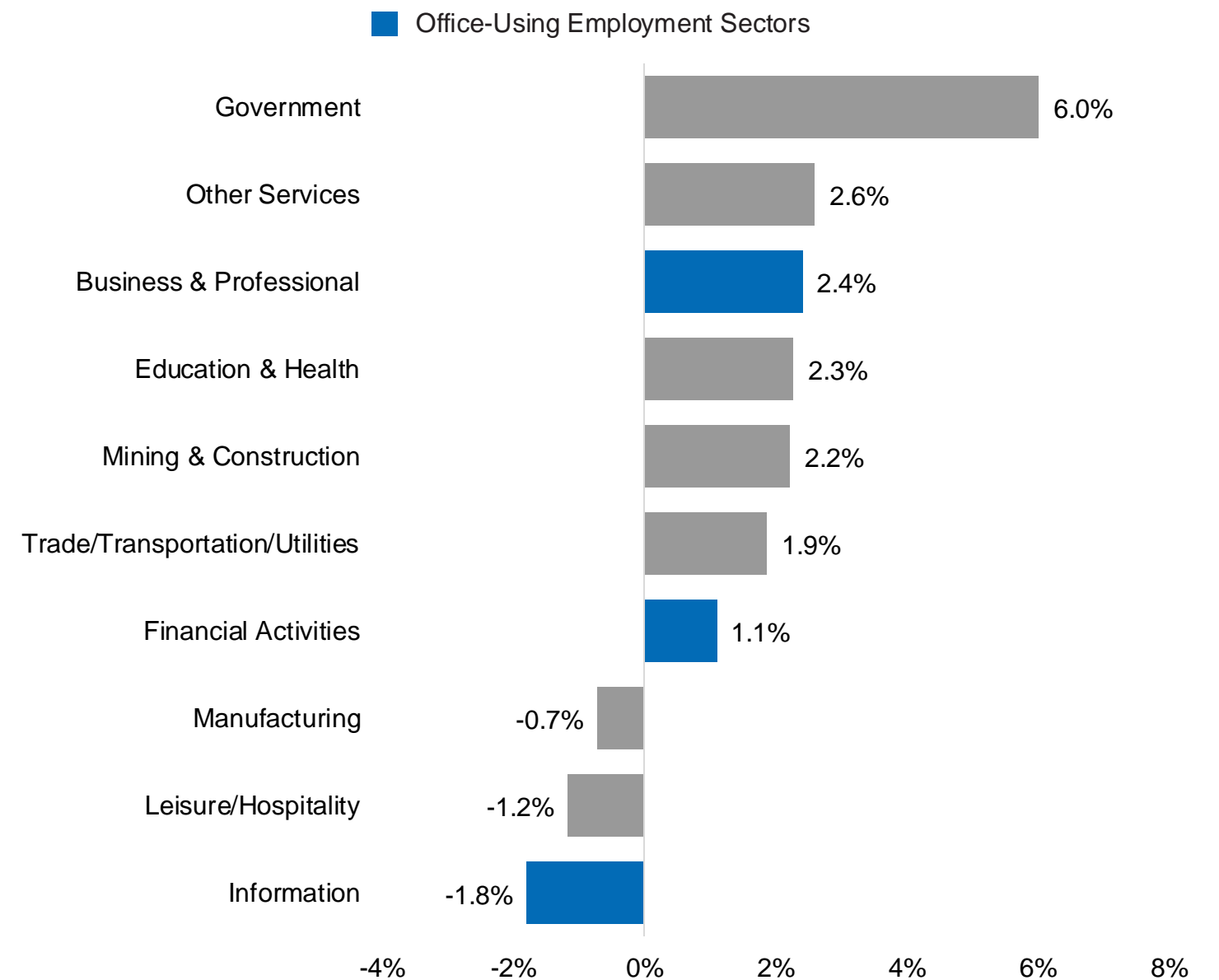
Office-Using Jobs Show Mixed Yearly Job Growth

Raleigh's tech-forward market is driven by its top two employment industries: business and professional services and trade/transportation/utilities, which account for 36.4% of total local jobs. The business and professional sector, Raleigh's largest office-based employment industry, makes up 19.5% of the market. Most sectors, aside from manufacturing, leisure and hospitality and information, experienced year-over-year job growth. Office-using industries such as business and professional services and financial activities reported yearly growth of 2.4% and 1.1%, respectively. Meanwhile, the information sector declined by 1.8% year over year.

Employment by Industry, February 2025



Employment Growth by Industry, 12-Month % Change, February 2025

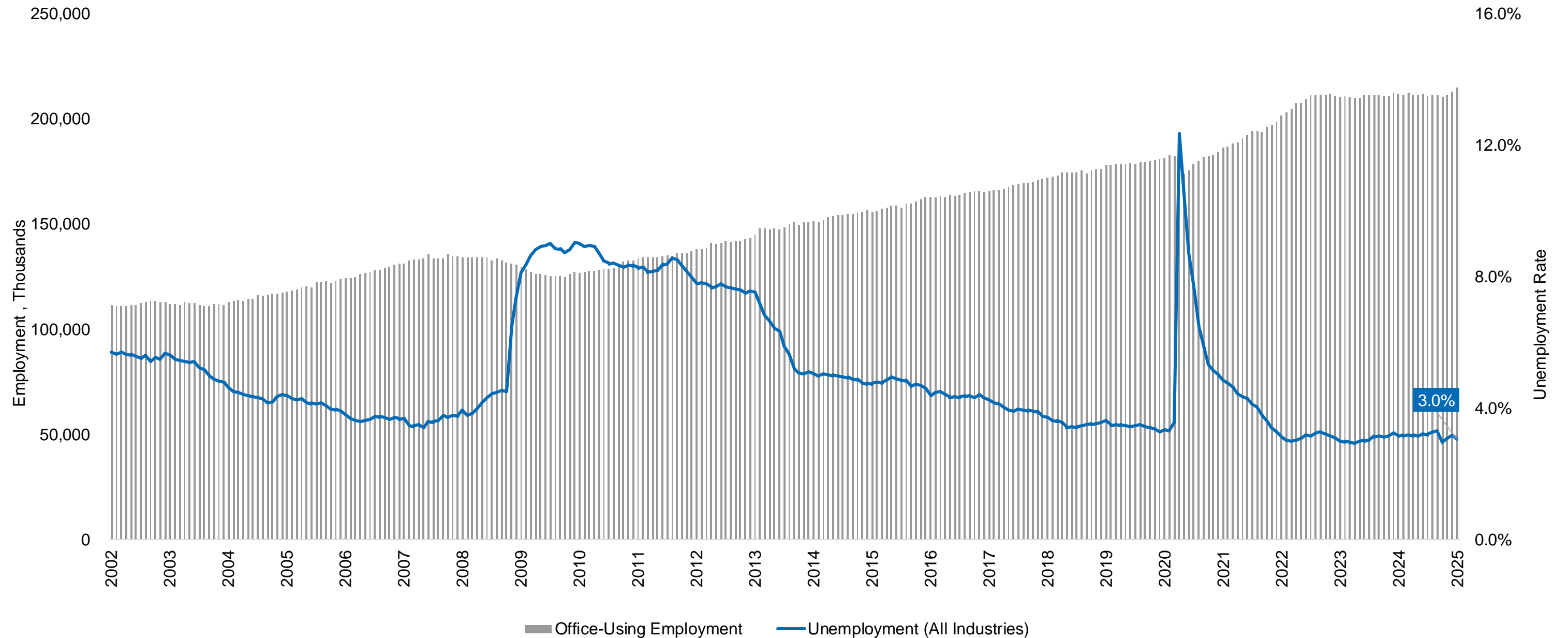


Source: U.S. Bureau of Labor Statistics, Raleigh MSA

Overall Office-Using Employment Drops Marginally From Record Set During Quarter

Raleigh's office-using employment recorded a new historical high of 215,030 office-using employees at the end of January 2025. As of February 2025, office-using employment dropped marginally by 30 jobs. Currently, the seasonally adjusted unemployment rate stands at 3.0%, and is 45 basis points lower than the 3.5% average levels reported in 2019. Although jobs declined from their all-time high on a monthly basis, overall quarterly job growth in business and professional services and financial activities sectors was sufficient to outpace job losses reported in the information sector.

Office-Using Employment* and Unemployment Across All Industries



Source: U.S. Bureau of Labor Statistics, Raleigh MSA

*Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.

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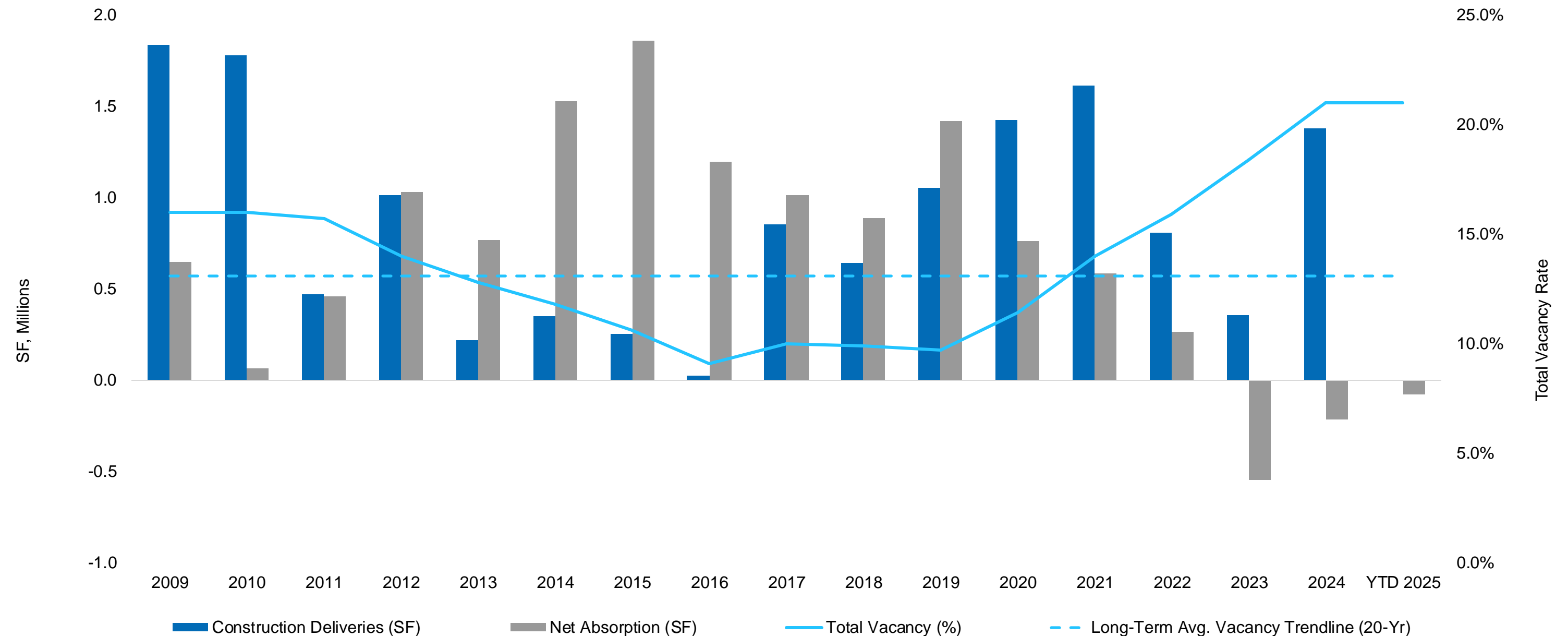
Leasing Market Fundamentals



Decline in Deliveries and Slightly Negative Absorption Stabilize Vacancy

The Raleigh office vacancy rate climbed 260 basis points year over year to 21.0% in the first quarter of 2025, well above the 20-year average of 13.1%. Since the fourth quarter of 2019, vacancy rates have generally increased in the market. That trend was broken this quarter as the vacancy rate stabilized at 21.0%, unchanged from the fourth quarter of 2024. This can be attributed to several factors, including continued historically elevated levels of direct and sublet availability, a surge in recent deliveries of vacant office buildings and recent periods of negative yearly absorption. Vacancy is expected to remain elevated as the market absorbs the new deliveries that have occurred over the past several years and corporations continue to shed space to “right size” their office footprints.

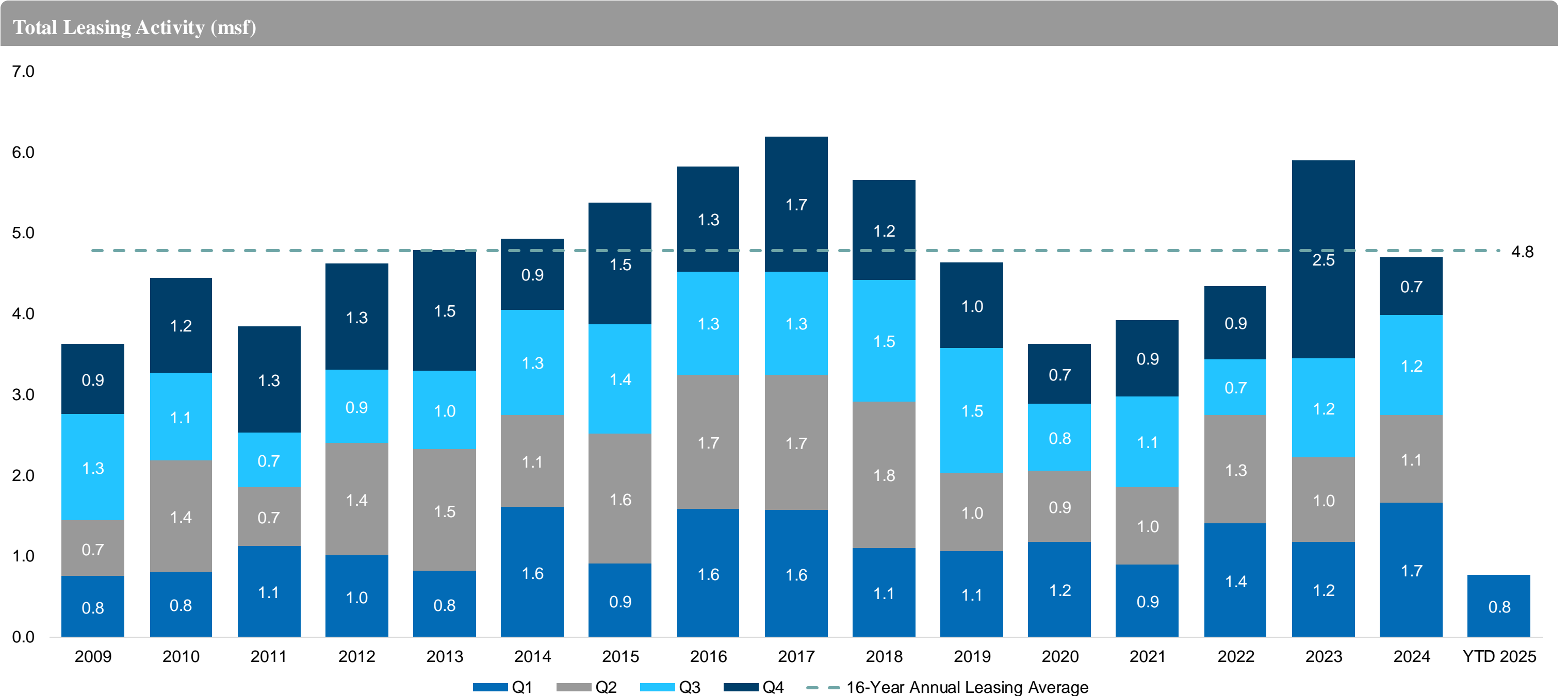
Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research, CoStar

Economic Uncertainty Keeps Leasing Activity Below 16-Year Historic Average

Leasing activity in the first quarter of 2025 in the market increased by 53,818 SF when compared with the fourth quarter of 2024 and decreased by 897,559 SF when compared with the first quarter of 2024. The quarter's leasing activity of 768,023 SF remains below the 16-year quarterly leasing average of 1.2 MSF. This decline in leasing activity is likely driven by companies reevaluating corporate office space needs amid corporate downsizings and hesitancy to lease space in an uncertain economic environment marked by stubborn inflation and looming tariffs.

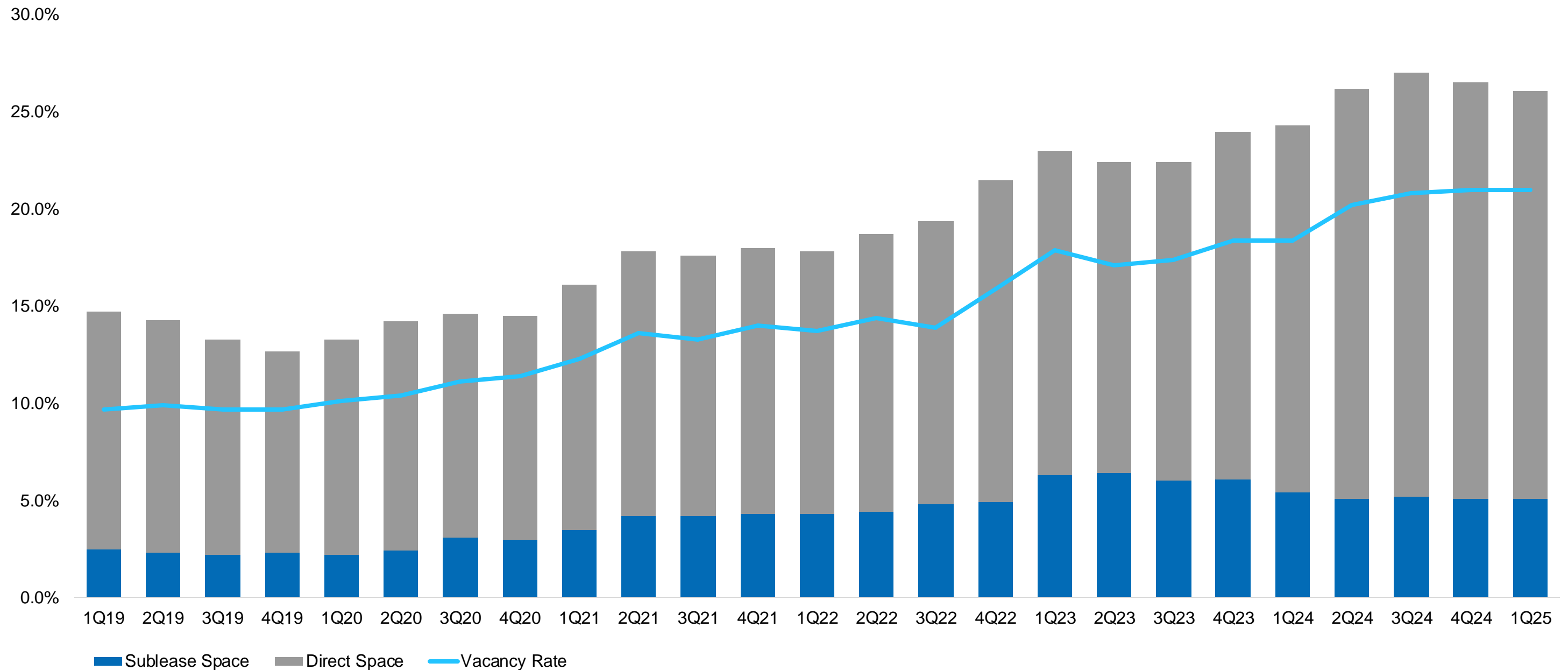


Source: Newmark Research, CoStar

Near Record Direct Availabilities Leaves Vacancy at Historic High

Sublease availabilities in Raleigh, which recorded 5.1% in the first quarter of 2025, were unchanged from the fourth quarter of 2024. However, sublease availabilities are 30 basis points lower than the first quarter of 2024. Meanwhile, direct availability decreased 40 basis points quarter over quarter and increased 210 basis points year over year. The yearly increase in direct space availabilities pushed overall vacancy up by 260 basis points year over year to a historic high of 21.0%, while remaining unchanged from the previous quarter.

Available Space as Percent of Overall Market

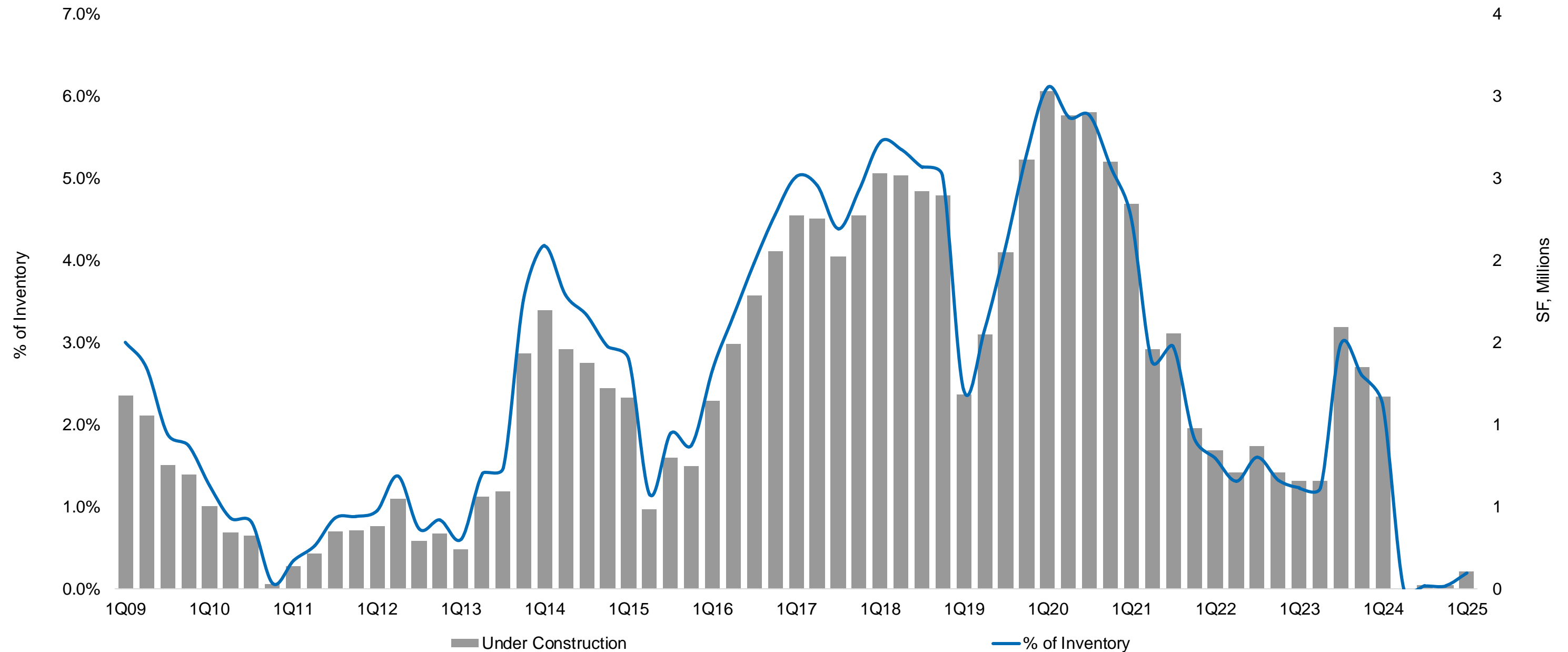


Source: Newmark Research, CoStar

Construction Activity Picks Up; Remains Near Historic Lows

Recent construction activity surged and peaked in the third quarter of 2023, driven by strong office demand by the technology and biotechnology sectors. However, the under-construction pipeline, impacted by the effects of elevated inflation and a higher cost of debt, steadily declined in each subsequent quarter through the second quarter of 2024, before the trend reversed. The construction pipeline grew during the first quarter of 2025, as it expanded to 103,624 SF. Raleigh's under-construction inventory only accounted for 0.2% of the market's total inventory as of the end of the first quarter of 2025.

Office Under Construction and % of Inventory

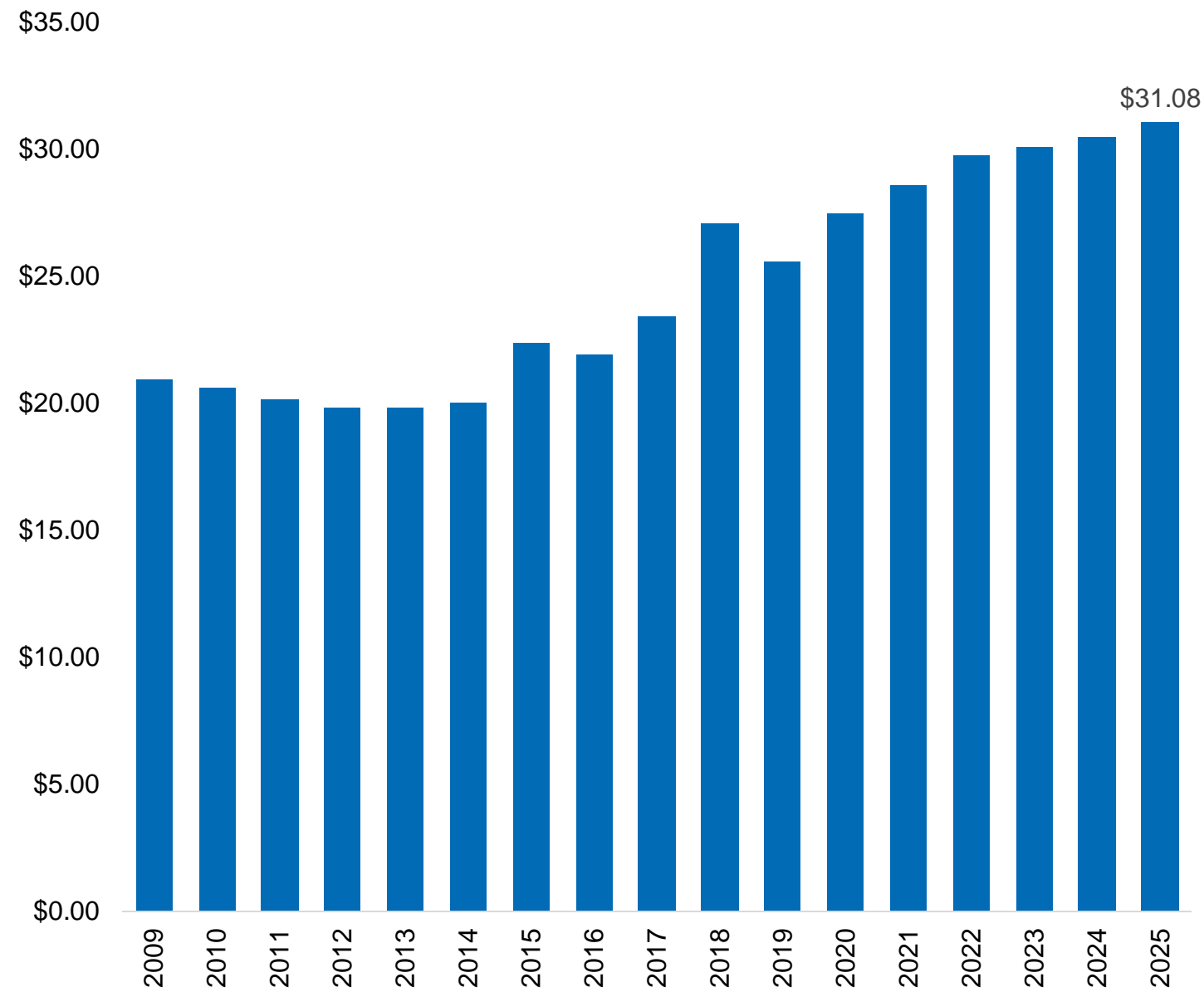


Source: Newmark Research, CoStar

Asking Rents Increase on Quarterly and Annual Basis to Record High

First-quarter asking rents increased by 2.0% quarter over quarter and 4.2% year over year to \$31.08/SF. Raleigh has reported positive yearly asking-rent growth since 2020, however recent years have been more subdued. Rental growth has re-accelerated as landlords compensate for higher costs due to elevated inflation and input costs but remains lower than levels seen during 2020. This recent rental growth flattening is driven by several factors, including generally rising vacancy in recent years, historically low leasing activity, and several recent quarters of subdued demand for space due to macroeconomic uncertainty. While new high-quality space deliveries and higher inflation-driven costs have pushed rents higher, historically high vacancy levels, stemming from low leasing activity and net absorption, have tempered overall growth.

Office Average Asking Rent, \$/SF, FS



Year-over-Year Asking Rent Growth Rate

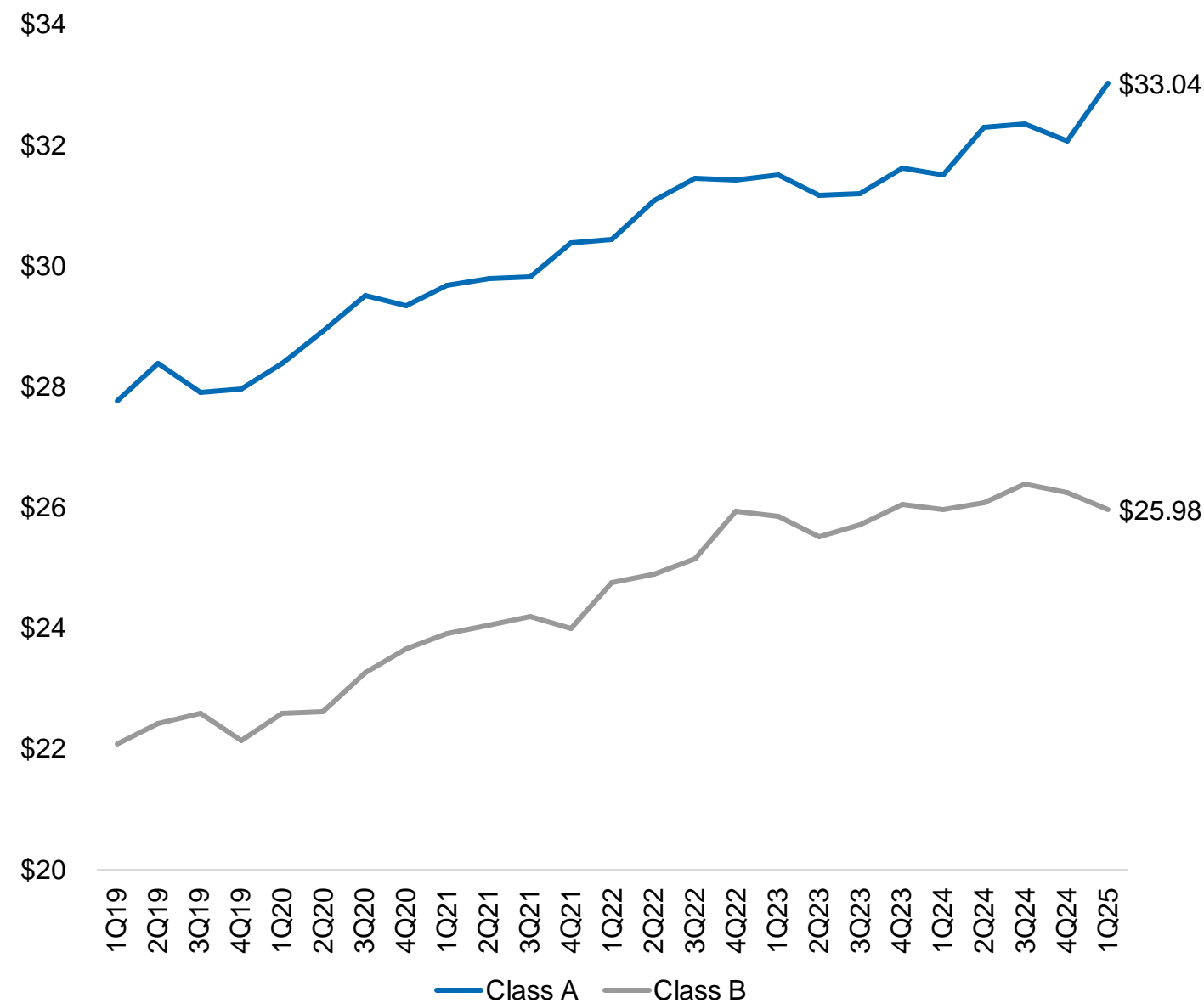


Source: Newmark Research, CoStar

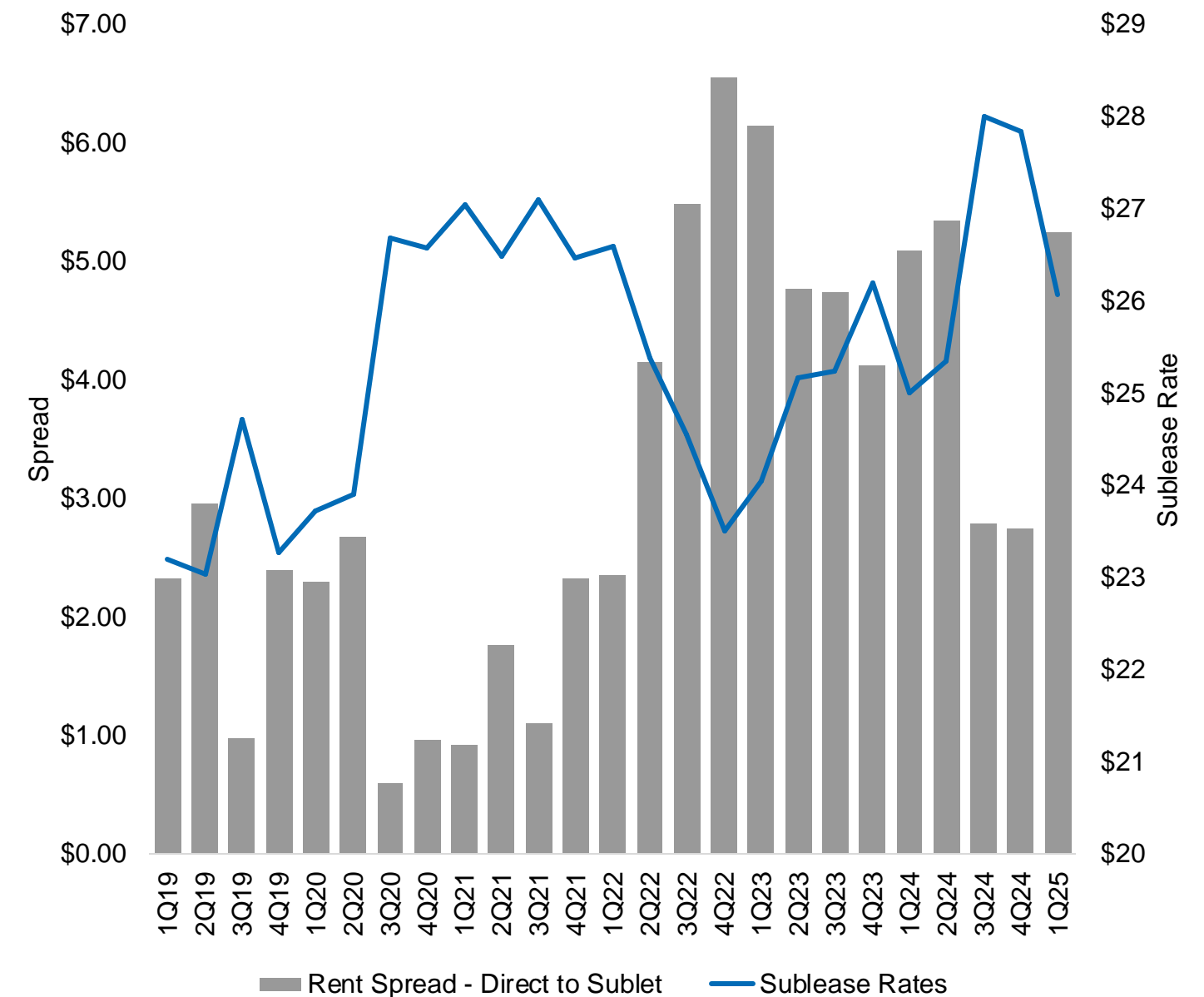
Class A and Class B Asking Rents Show Mixed Quarterly Results

As of the end of the first quarter of 2025, Class A rents increased and Class B rents declined to \$33.04/SF and \$25.98/SF, respectively. This reflects a difference of \$7.06/SF. The difference in rents between the two assets represents a 21.1% spread increase since the fourth quarter of 2019. The widening divergence between Class A and Class B assets is expected to push tenants to downsize in lower-quality buildings and opt for smaller spaces in higher-quality, amenity-rich properties. In conjunction, the rent spread is likely to increase as Class B office owners look to lower asking rates to entice tenants to lease space. First-quarter asking sublease rates decreased by 6.4% quarter over quarter, but remain 4.2% higher year over year.

Class A and Class B Asking Rents



Sublease Rates



Source: Newmark Research, CoStar

Uncertainty Sows Confusion in Leasing Decisions

Raleigh's office space-users are perplexed about the Trump administration's actions and how future economic policies and tariffs will impact their space utilization plans. So far, they are delaying any major decisions, and it is expected that this will continue until there is certainty about what macroeconomic policy will be moving forward. As a result, it is expected that companies will pursue short-term lease extensions and those with term left on their leases will take advantage of such time remaining to slow down their decision-making process to evaluate the impacts of current policies. There has been market activity from those firms seeking more than 25,000 SF and under 8,000 SF of space. All the first quarter of 2025's notable deals were signed by companies wanting to move to or keep highly-amenitized spaces to attract workers.

Notable 1Q25 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
LexisNexis	Venture Center III	West Raleigh	New Lease	65,300
<i>Legal and risk-management technology provider LexisNexis inked the largest deal of the quarter when it took 65,300 SF at 900 Main Campus Drive.</i>				
Caterpillar	Centre Green Office Park	Cary	New Lease	46,200
<i>Multinational construction and mining equipment manufacturer Caterpillar leased 46,200 SF of space at 1000 CentreGreen Way in Cary.</i>				
Smith Debnam	The Landmark at North Hills	Six Forks/Falls of Neuse	Renewal	32,900
<i>Law firm Smith Debnam signed a 10-year renewal for its space at 4601 Six Forks Road.</i>				
Genesys	Horseshoe at Hub RTP	Research Triangle	New Lease	31,500
<i>Technology company Genesys signed a 31,500 SF lease at 3151 Elion Drive, which delivered in 2024. Genesys will be their first office tenant.</i>				

Source: Newmark Research, CoStar



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