3Q25

Raleigh-Durham Office Market Overview

Market Observations

Economy

- The market's unemployment rate of 3.2% declined by four basis points year over year and remained below the five-year average of 3.5%.
- Employment growth decelerated by 60 basis points to 1.5% year over year, remaining ahead of the national average of 0.9%.
- Most sectors, except manufacturing and information, reported employment growth, with education and healthcare leading the way at 3.1%.
- Office-using employees in the market decreased by 2,392 jobs from their all-time high to 215,416 jobs as of the end of August 2025.

Leasing Market Fundamentals

- Annual full-service asking rental rates increased by 0.5% on a quarterly basis to $30.49/SF, but remain 0.7% lower than the rents observed during the third quarter of 2024.
- Vacancy decreased by 12 basis points on an annual basis and 49 basis points on a quarterly basis to 20.3%, but remains well above the 13-year average of 13.0%.
- The under-construction pipeline declined to 69,977 SF as the impacts of higher financing and construction costs have curbed groundbreakings.
- Total leasing activity for the quarter was 989,587 SF, which is 10.1% below the 16-year third-quarter average of 1.1 MSF.

Major Transactions

- Engineering firm Hazen and Sawyer renewed and expanded their space at 4011 Westchase Boulevard, bringing their footprint to 85,000 SF.
- Healthcare company Baxter also completed a renewal and expansion deal during the quarter, expanding its total footprint to 80,000 SF at Palisades III.
- The West Raleigh submarket was home to the quarter's two largest leases, with the Raleigh CBD and Research Triangle submarkets rounding out the top four deals.

Outlook

- The third quarter of 2025 continued to report muted activity as tenants evaluate macroeconomic conditions and the future impact of economic policies.
- Activity is slowly picking up as tenants became more comfortable with their business outlook
- Even as momentum picks up steam, most of the activity remains concentrated in newer, better-amenitized assets that appeal to companies' return-to-office initiatives.
- Demand spillover has begun shifting from trophy properties to suburban Class A assets as vacancy decrease in top-tier availabilities.

TABLE OF CONTENTS

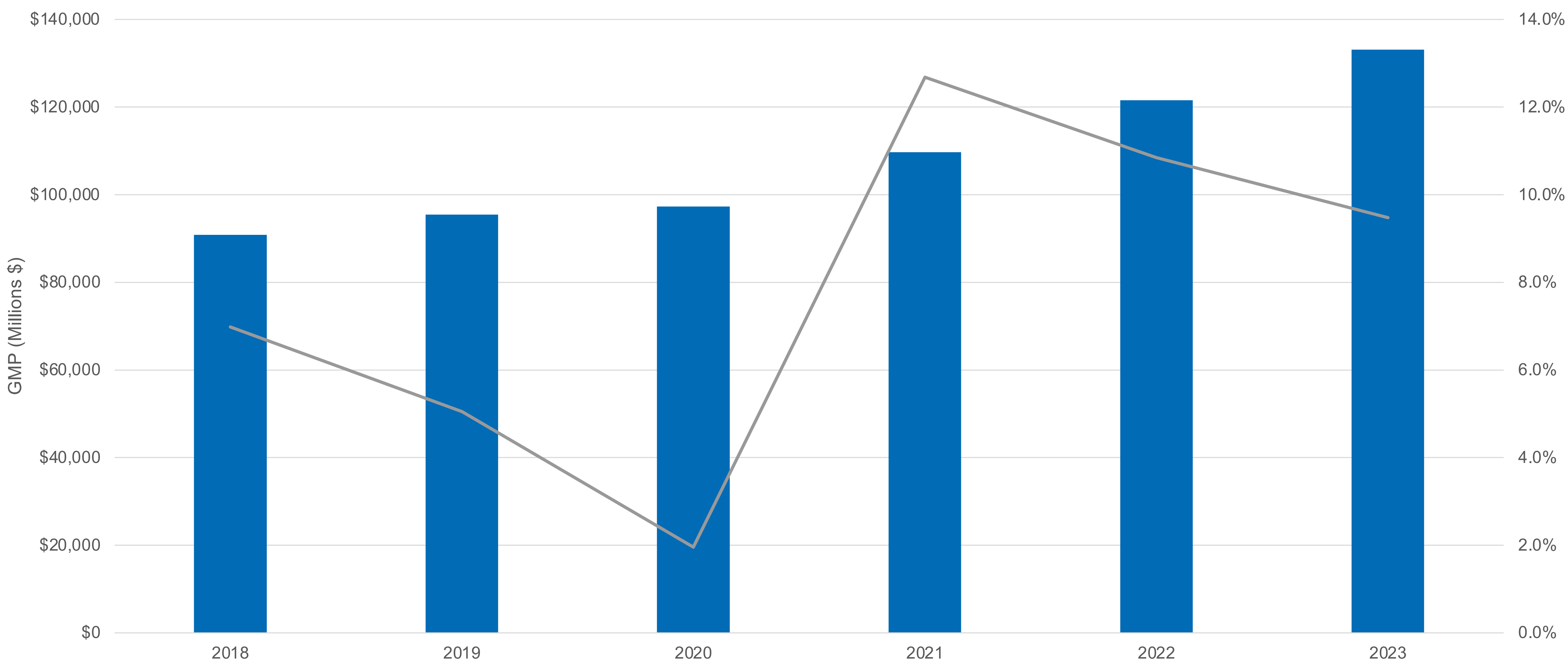
3Q25

Economy

Raleigh Gross Metropolitan Product

Raleigh's gross metropolitan product continues to increase despite economic headwinds, albeit at a slower rate. Most recently, the gross metropolitan product rose 9.5% year over year to reach a new all-time high of roughly $133 billion.

Economic Overview— GMP (Millions $) VS. YoY (%) Change

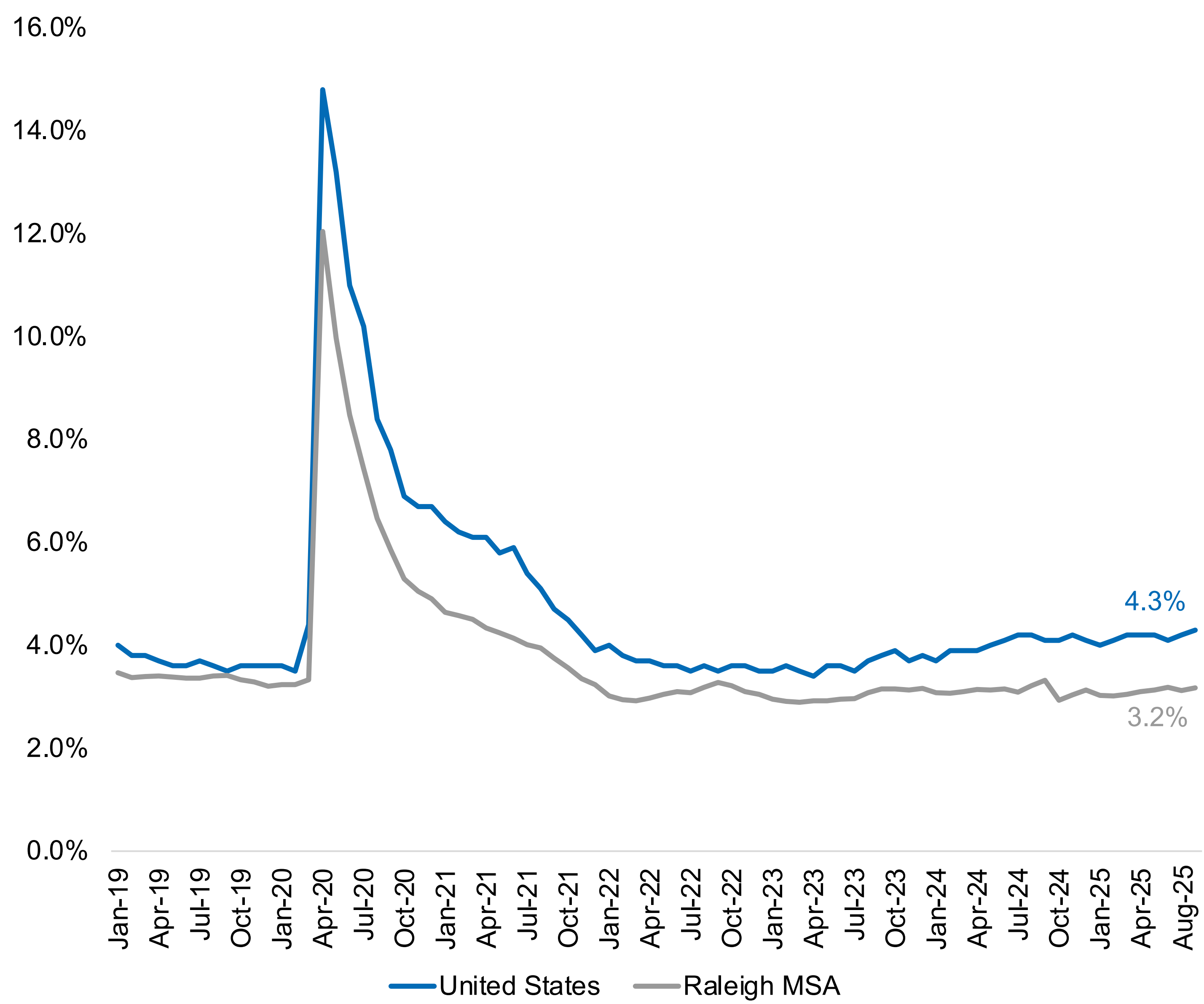


Source: Moody's Analytics

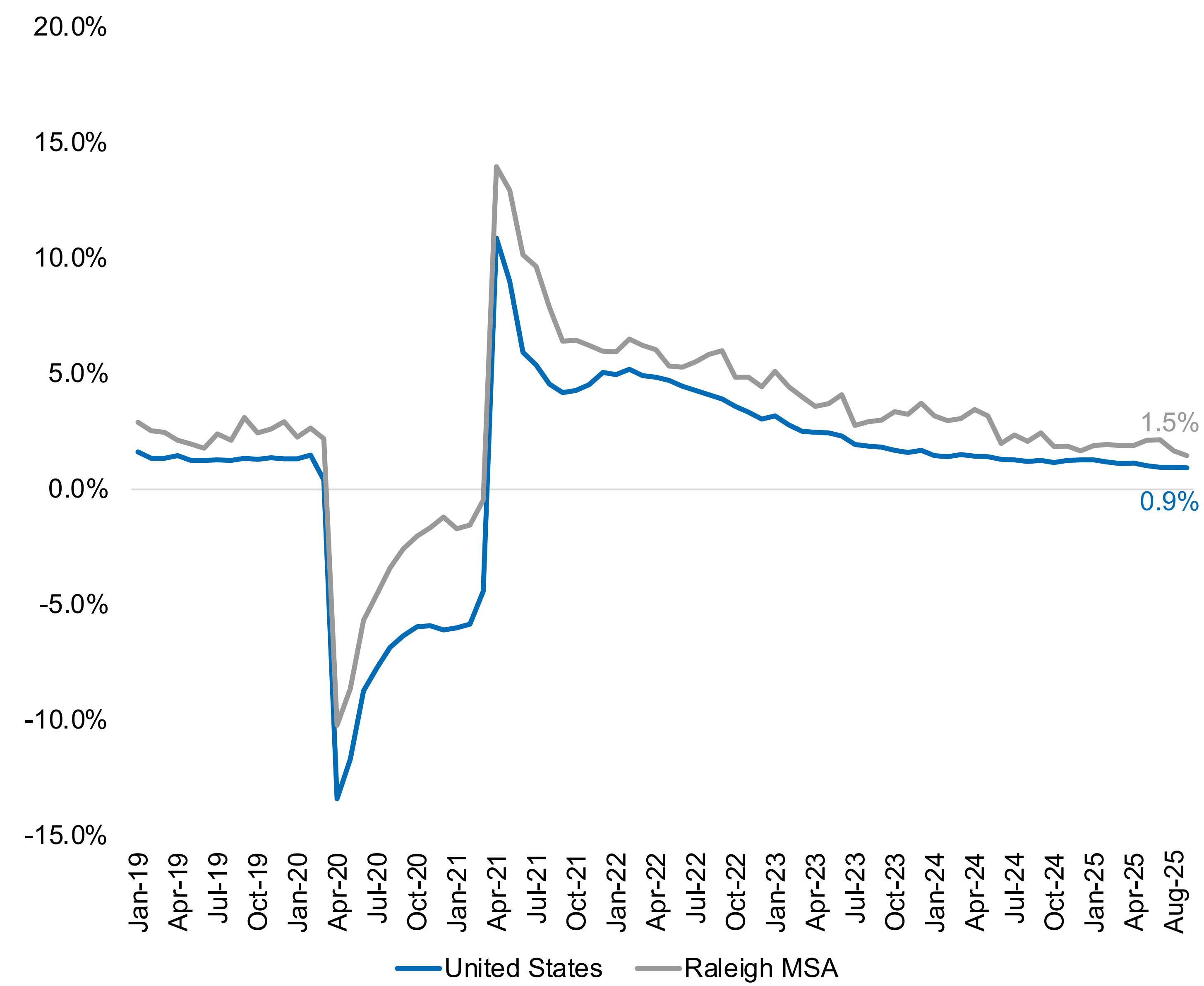
Raleigh Unemployment Defies Expectations Despite Economic Slowdown

Raleigh has consistently reported lower unemployment rates and higher employment growth when compared to the national average. Despite economic headwinds, this trend carried into the third quarter of 2025, with the market's unemployment rate of 3.2% ticking down four basis points year over year and remaining well below the U.S. average of 4.3%. The region's seasonally adjusted nonfarm payrolls also outperformed the national average, reflecting 1.5% growth year over year, although the pace of growth moderated by 60 basis points compared to the prior year.

Unemployment Rate, Seasonally Adjusted



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

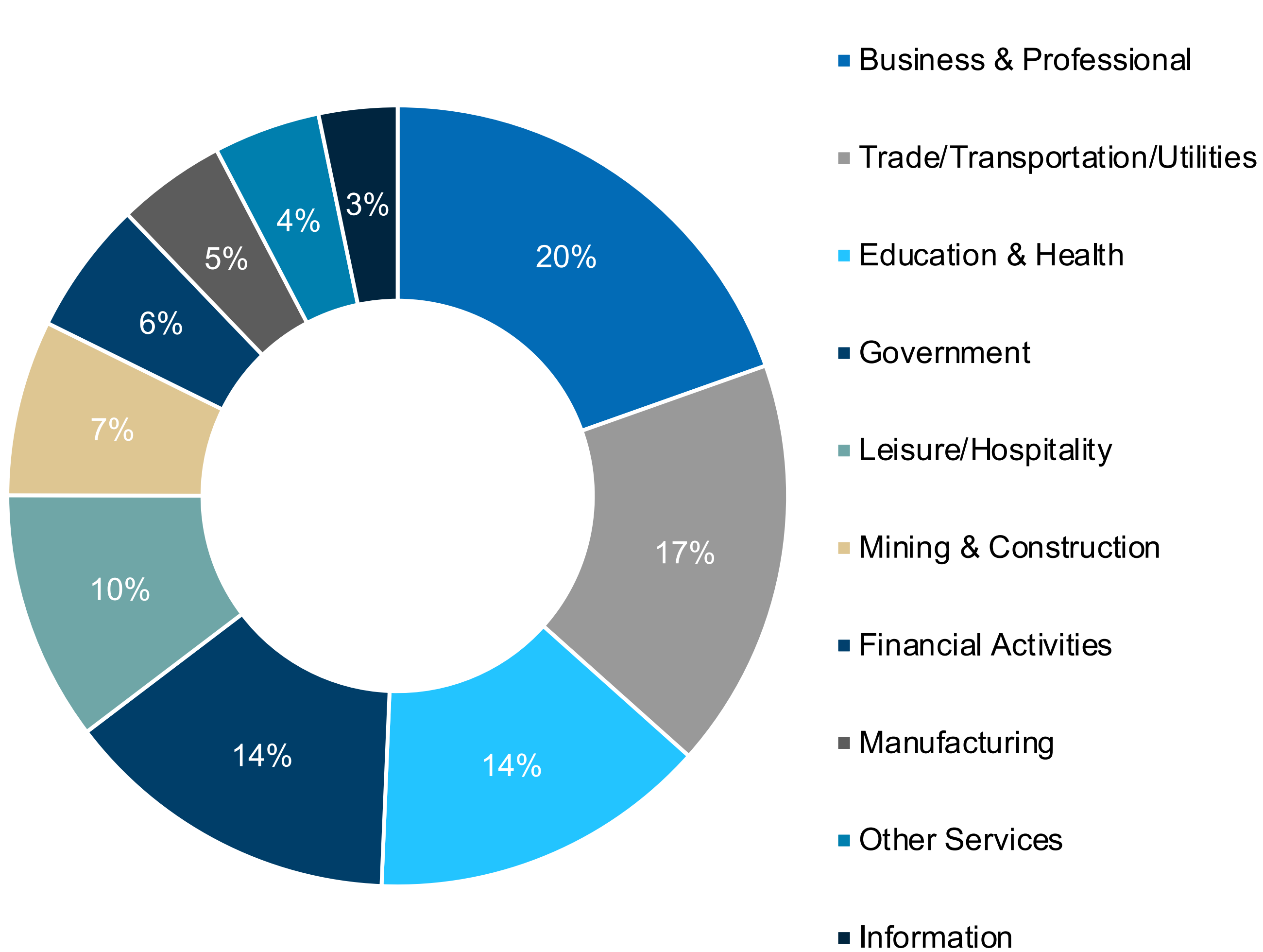


Source: U.S. Bureau of Labor Statistics, Raleigh MSA

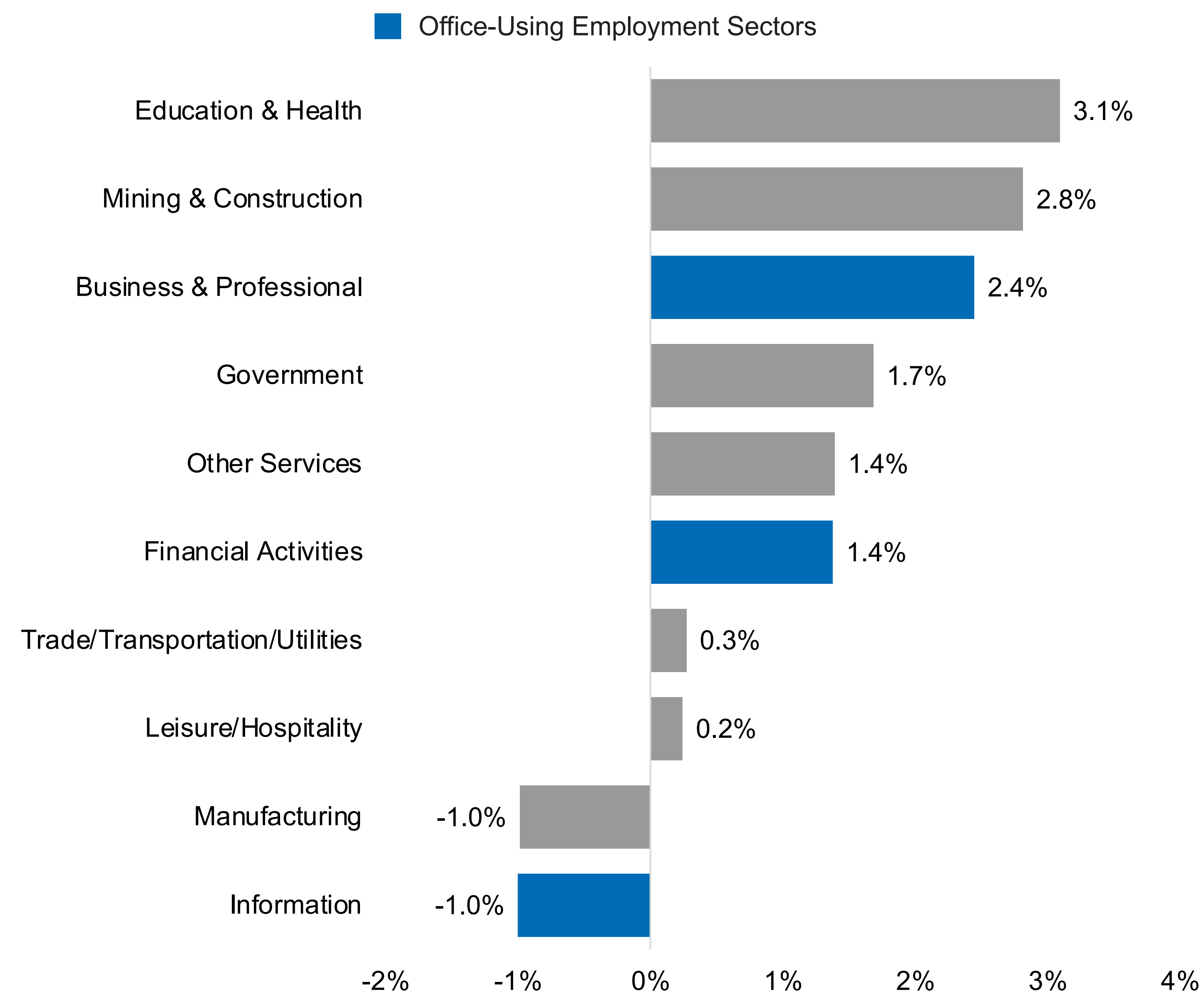
Yearly Job Growth Shows Mixed Results

Raleigh's tech-forward market is anchored by its top two employment industries: business and professional services and trade/transportation/utilities, which account for 36.6% of total local jobs. The business and professional sector, Raleigh's largest office-based employment industry, makes up 19.6% of the market. Most employment sectors in the market, except manufacturing and information, reported annual job growth. The office-using jobs growth showed mixed results as the financial activities and business and professional services sectors reported growth of 1.4% and 2.4% year over year, respectively. Meanwhile, information employment declined by 1.0%.

Employment by Industry, August 2025



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

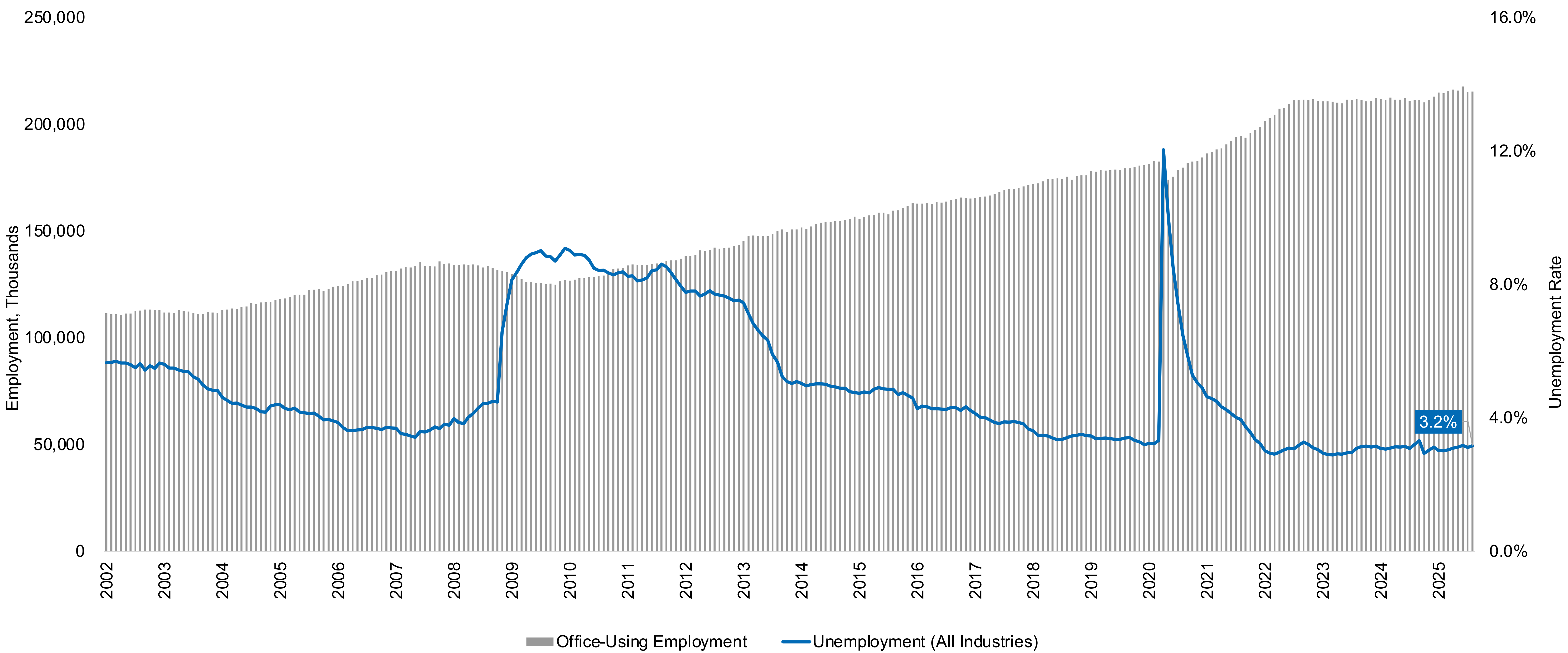


Source: U.S. Bureau of Labor Statistics, Raleigh MSA

Office-Using Employment Declines from Recent High but Remains Elevated

Economic uncertainty and the adoption of artificial intelligence into workflows caused the Raleigh market to shed 2,392 jobs in the third quarter of 2025 when compared to the historical high reached in June 2025. Despite the decline, office-using employment continue to remain elevated at 215,420 jobs at the end of August 2025, reflecting a 1.8% year-over-year growth. Currently, the seasonally adjusted unemployment rate stands at 3.2%, which is 19 basis points lower than the 3.4% average levels reported in 2019. The recent flattening unemployment rate coupled with increases in office-using employment since end of 2024 indicate that other non office-using sectors are likely driving job losses in the market.

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.

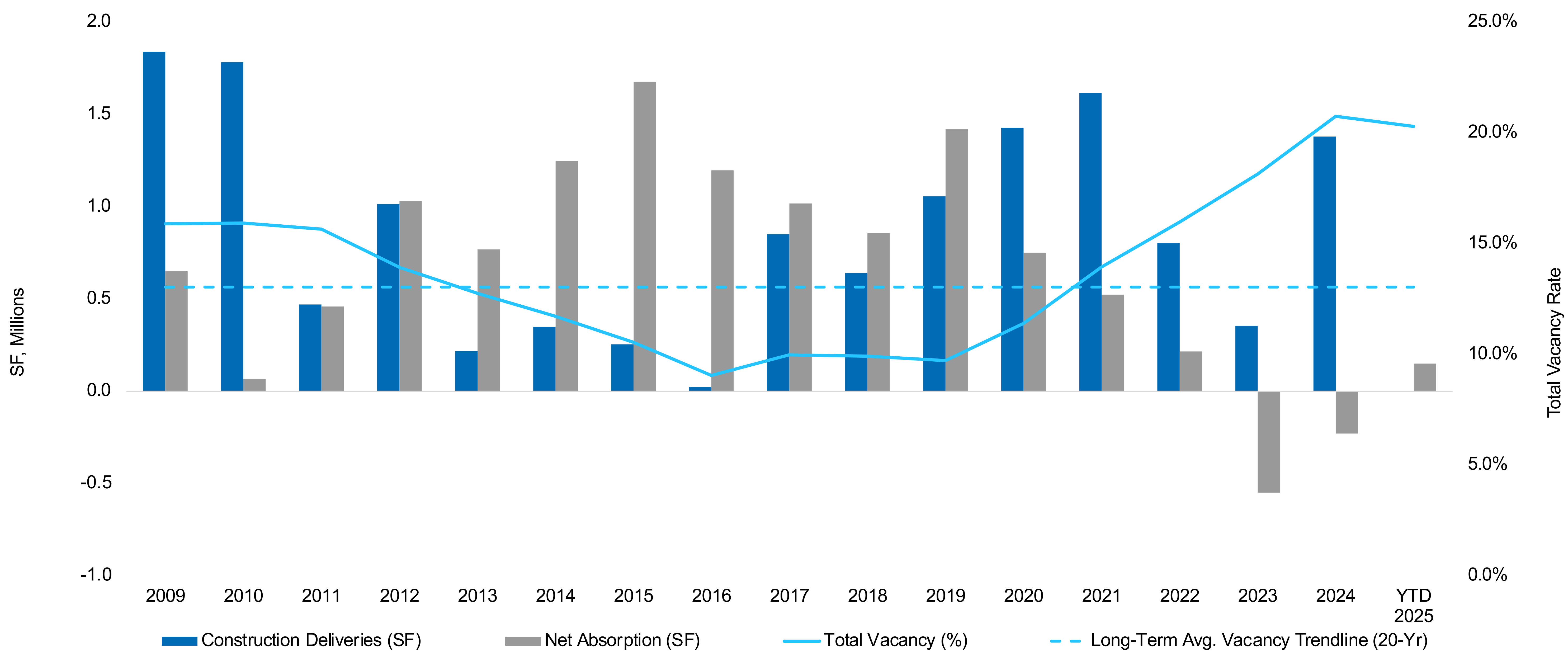
3Q25

Leasing Market Fundamentals

Vacancy Declines Driven by No New Supply

During the third quarter of 2025, Raleigh recorded 260,938 SF of positive net absorption, with no new supply delivered into the market. This demand outpacing supply contributed to a 49-basis-point decrease in the vacancy rate quarter over quarter, bringing vacancy to 20.3%, but remaining well above the 20-year average of 13.0%. Since late 2019, vacancy has trended upward, driven by elevated direct and sublet availability, a surge of newly delivered vacant office buildings, and periods of negative annual absorption. Vacancy is expected to remain elevated as the market continues to absorb recently delivered product and corporations downsize to right-size their office footprints.

Historical Construction Deliveries, Net Absorption, and Vacancy

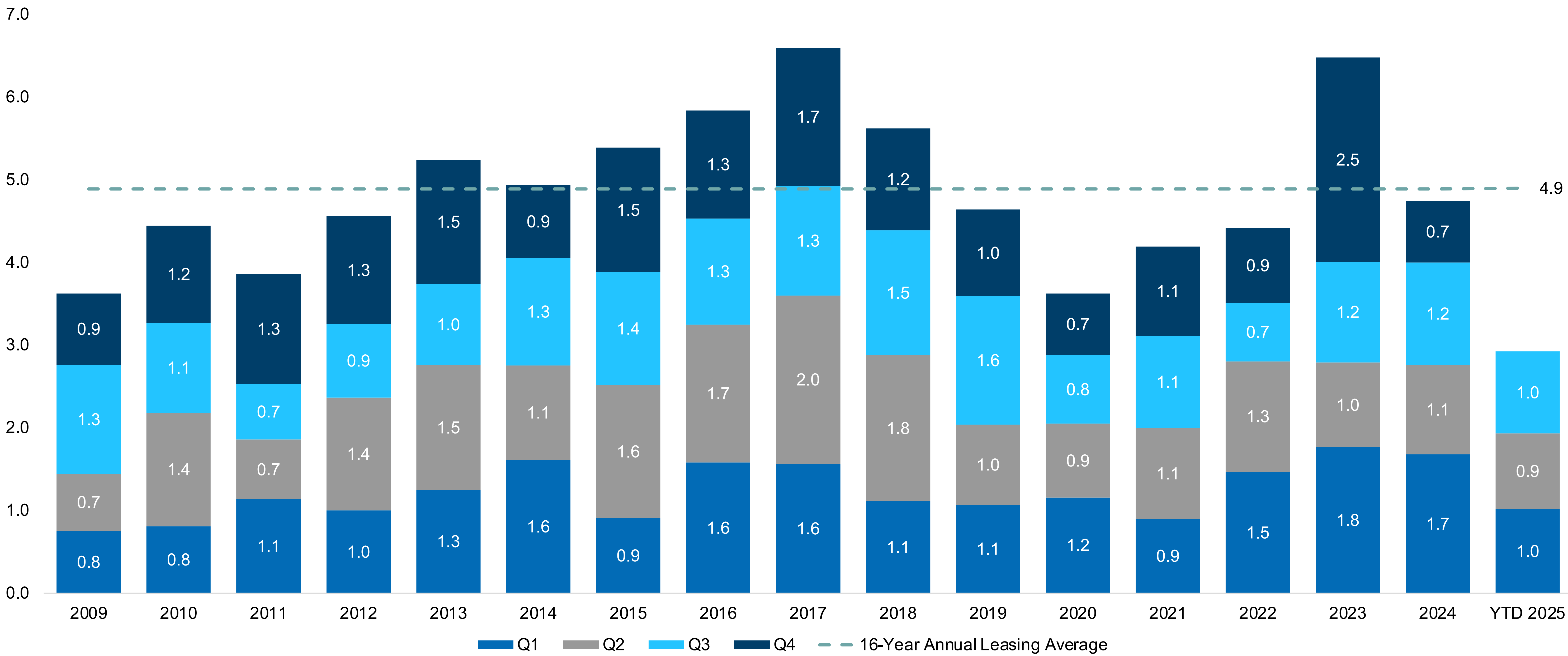


Source: Newmark Research, CoStar

Economic Uncertainty Keeps Leasing Activity Subdued

Leasing activity in the third quarter of 2025 in the market increased by 7.8% quarter over quarter but decreased by 20.2% year over year. The quarter's leasing activity of 989,587 SF remains below the 16-year quarterly leasing average of 1.1 MSF. The decline in leasing activity is likely driven by companies reevaluating corporate office space needs amid corporate downsizings and hesitancy to lease space in an economic environment marked by economic policy uncertainty and the risk of elevated costs from tariffs.

Total Leasing Activity (msf)



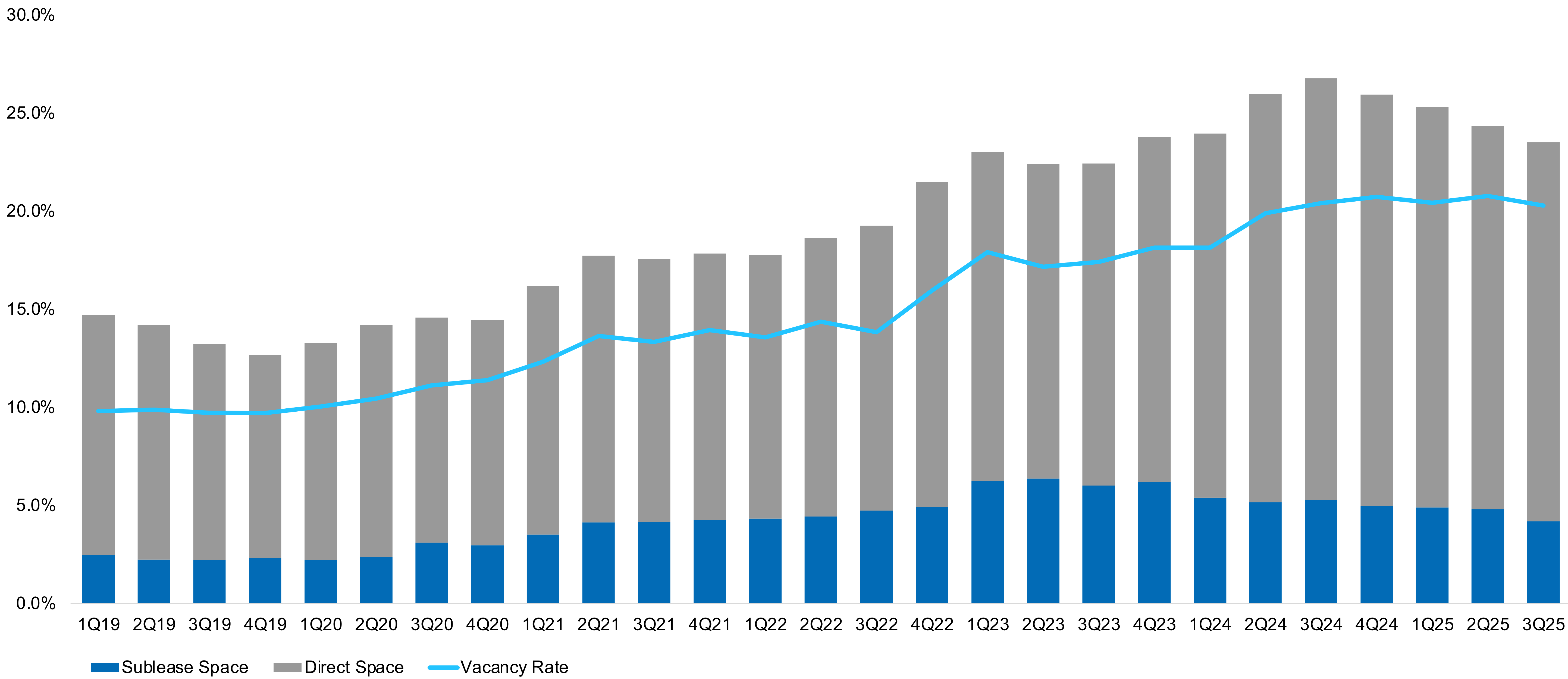
	Q1	Q2	Q3	Q4
2009	0.8	0.7	1.3	0.9
2010	0.8	1.4	1.1	1.2
2011	1.1	0.7	0.7	1.3
2012	1.0	1.4	0.9	1.3
2013	1.3	1.5	1.0	1.5
2014	1.6	1.1	1.3	0.9
2015	0.9	1.6	1.4	1.5
2016	1.6	1.7	1.3	1.3
2017	1.6	2.0	1.3	1.7
2018	1.1	1.8	1.5	1.2
2019	1.1	1.0	1.6	1.0
2020	1.2	0.9	0.8	0.7
2021	0.9	1.1	1.1	1.1
2022	1.5	1.3	0.7	0.9
2023	1.8	1.0	1.2	2.5
2024	1.7	1.1	1.2	0.7
YTD 2025	1.0	0.9	1.0	

Source: Newmark Research, CoStar

Quarterly and Annual Declines in Direct and Sublet Availability Push Vacancy Down

Sublease availability in Raleigh-Durham has been steadily declining since the fourth quarter of 2024, with the most recent quarter reflecting declines of 62 basis points quarter over quarter and 108 basis points year over year, to 4.2%. Direct availability has also been declining since the fourth quarter of 2024, with the third quarter of 2025 reflecting quarterly and annual decreases of 18 and 219 basis points, respectively, to 19.3%. The continued downward trajectories of direct and sublet availabilities has pushed overall vacancy down by 49 basis points quarter over quarter and 12 basis points year over year to 20.3%.

Available Space as Percent of Overall Market

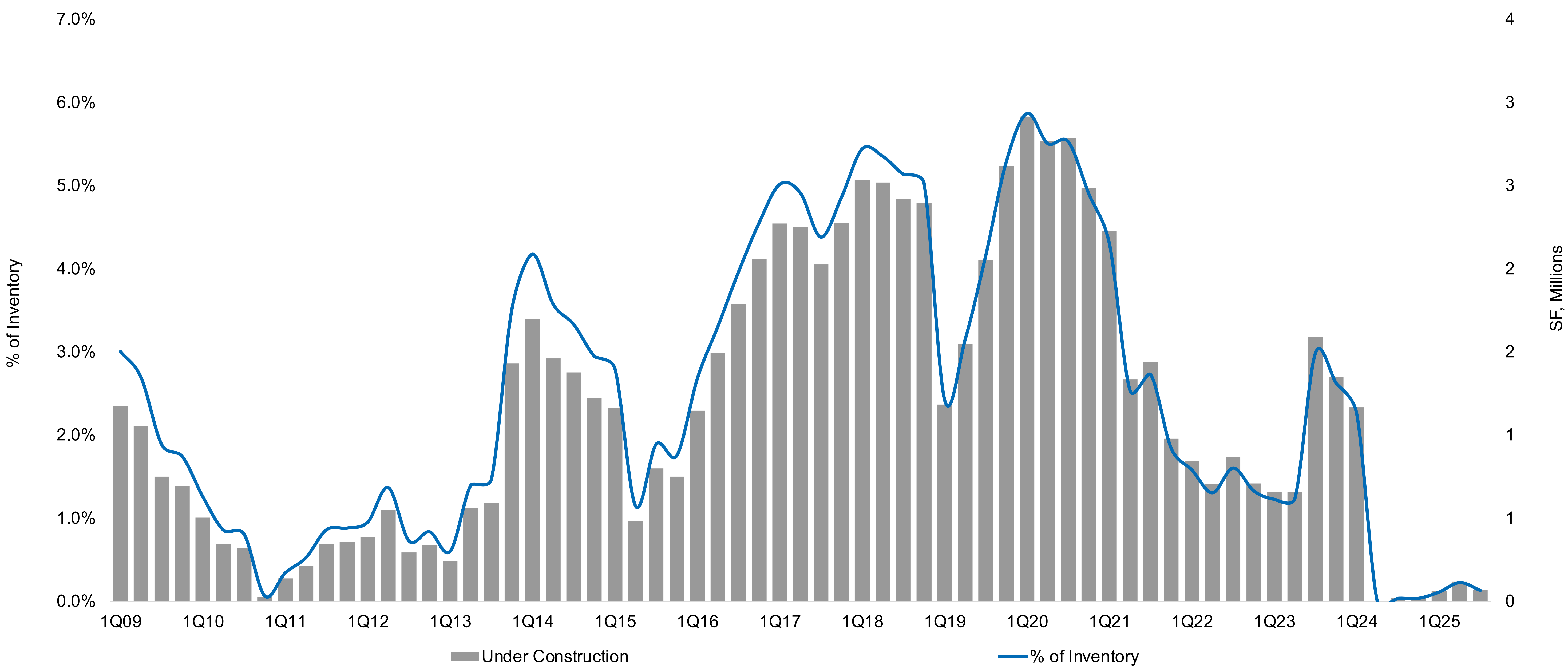


Source: Newmark Research, CoStar

Construction Activity Declines to Near Historic Low

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 building costs and a higher cost of debt, has generally declined to its lowest levels in recent years. The construction pipeline contracted by 41.6% quarter over quarter to 69,977 SF, reflecting 0.1% of total inventory at the end of the third quarter of 2025.

Office Under Construction and % of Inventory

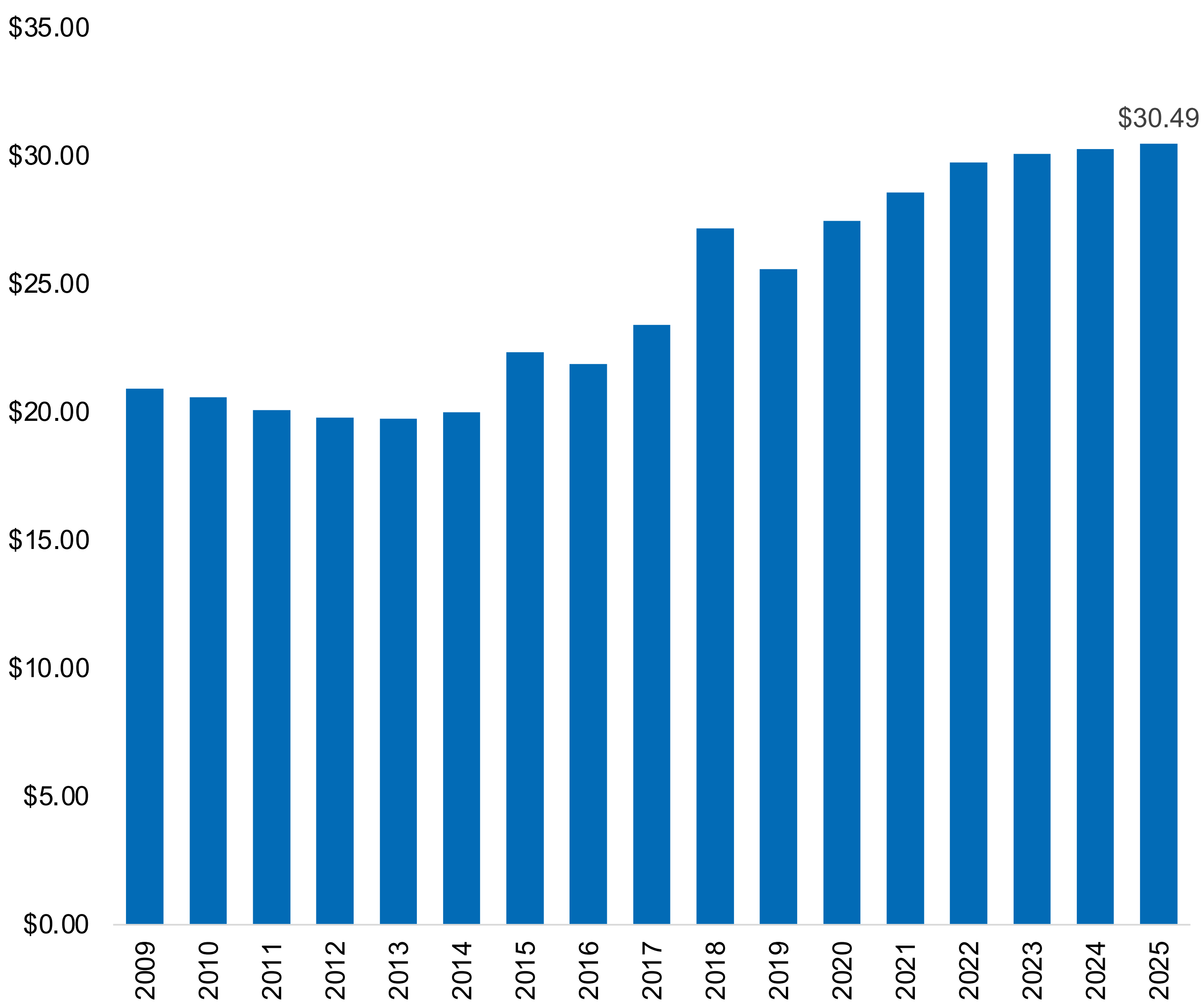


Source: Newmark Research, CoStar

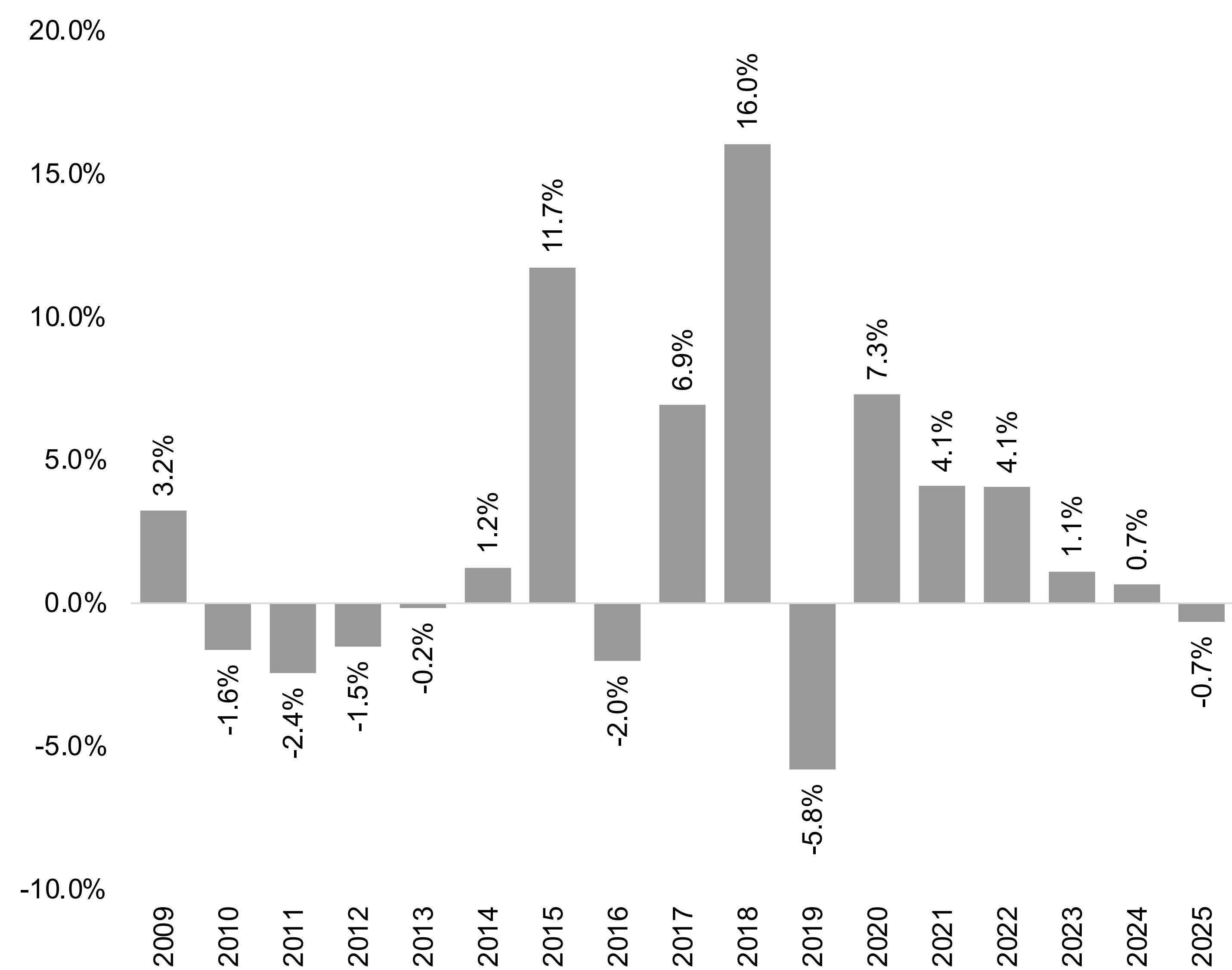
Asking Rents Tick Up on Quarterly Basis

Third-quarter asking rents increased by 0.5% quarter over quarter to $30.49/SF. While Raleigh has generally reported positive yearly asking-rent growth since 2020, the pace of growth has moderated, with the third quarter of 2025 reflecting a 0.7% year-over-year decline as landlords lower rates to compete for tenants. While new high-quality deliveries and rising inflation-driven costs had previously placed upward pressure on asking rents, sustained elevated vacancy, historically low leasing activity and several quarters of subdued demand have tempered growth in recent quarters.

Office Average Asking Rent, $/SF, FS



Year-over-Year Asking Rent Growth Rate

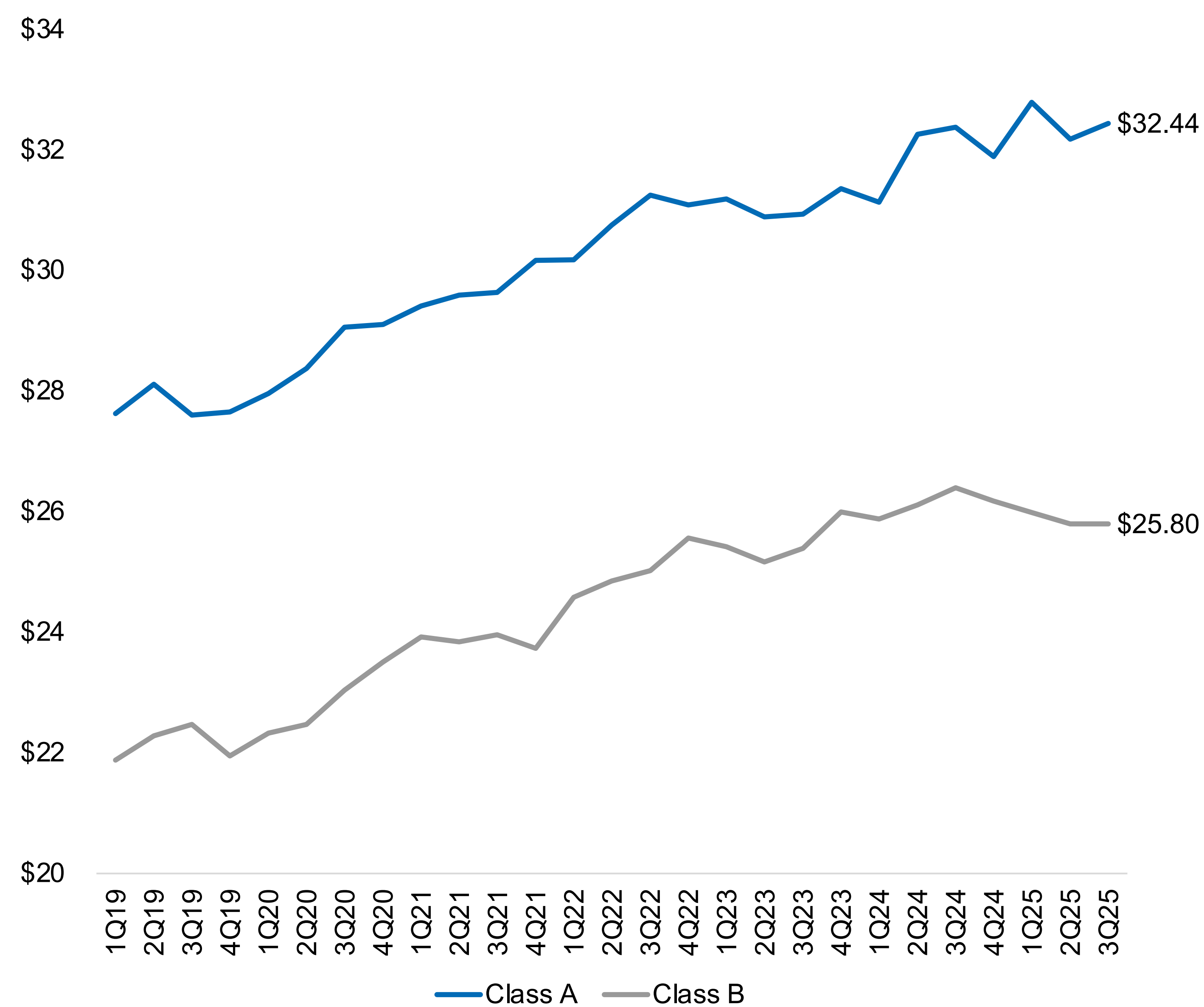


Source: Newmark Research, CoStar

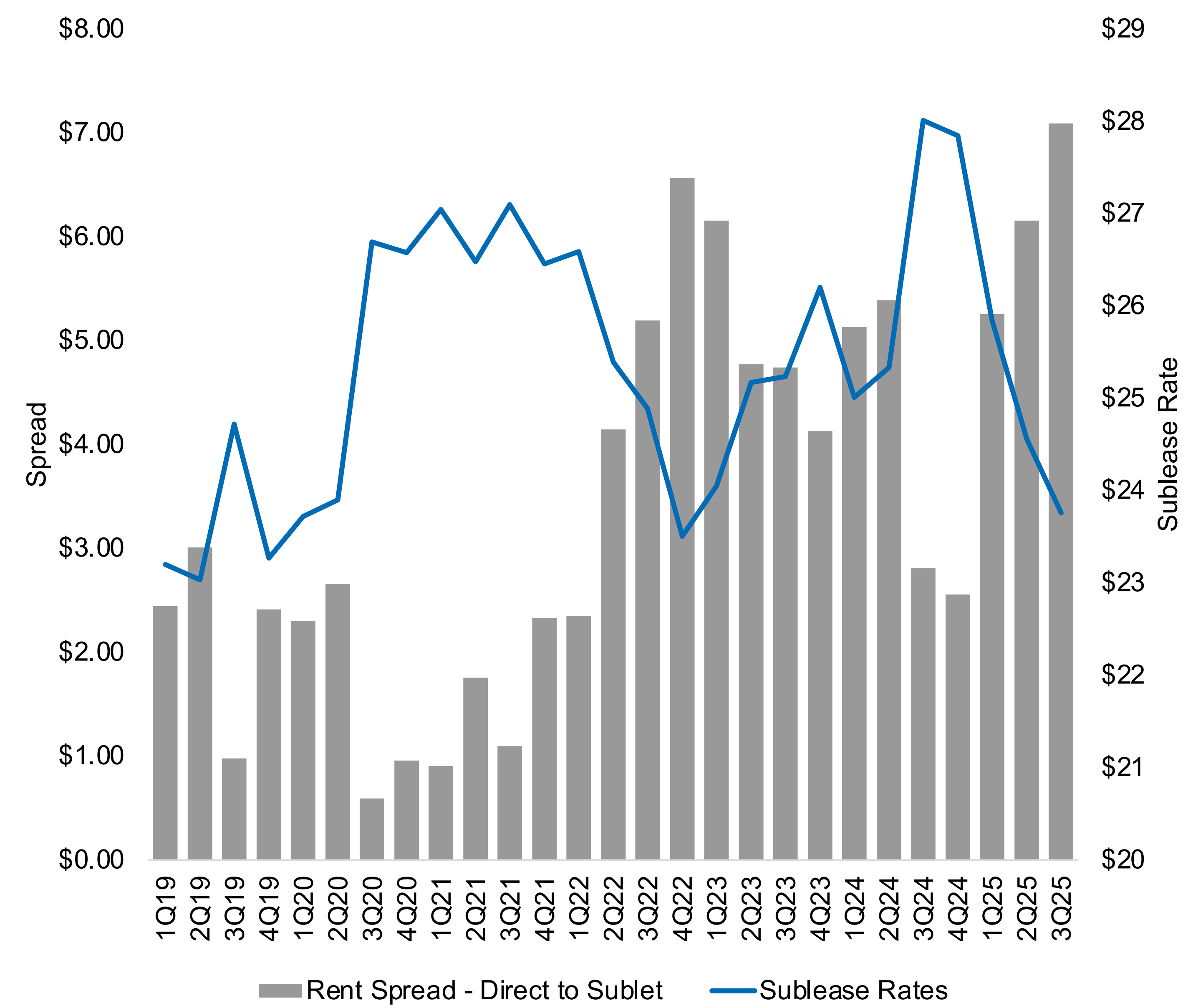
Class A Rents Grow While Class B Rents Stagnate

As of the end of the third quarter of 2025, Class A and Class B showed mixed quarterly results. Class A rents increased by 21 basis points to $32.44/SF while Class B rents remained unchanged at $25.80/SF over the same period. The $6.64/SF rent spread reflects a 17.9% increase since the fourth quarter of 2024. The widening gap suggests tenants are leaving lower-quality properties while seeking smaller, amenity-rich office spaces. The trend may persist as Class B landlords reduce rents to attract demand. Sublease asking rates decreased 3.2% quarter over quarter and 15.2% year over year to $24.56/SF, reflecting continued softness in the sublease market relative to direct space.

Class A and Class B Asking Rents



Sublease Rates



Source: Newmark Research, CoStar

Top Leases Led by Expansion/Renewal Deals

Leasing held firm in the third quarter amid ongoing macro uncertainty. While there are sizable tenants looking in the market, few have finalized their new locations, which should lead to prominent deals announced in coming quarters. Leasing activity continues to be concentrated in well-located, amenitized, and newer assets, with spillover beginning to occur as top-tier buildings fill their vacancies first.

Notable 3Q25 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Hazen and Sawyer	WestChase III	West Raleigh	Expansion/Renewal	85,000
Engineering firm Hazen and Sawyer renewed and expanded their lease at 4011 Westchase Boulevard. The company now occupies 85,000 SF.				
Baxter	Palisades III	West Raleigh	Expansion/Renewal	80,000
Baxter, a multinational healthcare company, renewed and expanded its office footprint by 20,000 SF at 1501 Nowell Road. The company now occupies 80,000 SF.				
Light & Wonder	One Glenwood	Raleigh CBD	Sublease	25,731
Light & Wonder sublet SEPI Engineering's former headquarters. The Las Vegas-based cross-platform games company is a new to the Downtown Raleigh submarket.				
North Carolina Department of Health and Human Services	Park City East	Research Triangle	Direct New	19,772
The department did a 10-year deal for approximately 25% of the east building in Park City.				

Source: Newmark Research, CoStar

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