



TRANSWESTERN

DALLAS+FORT WORTH MEDICAL OFFICE MARKET

Q4 2022



Vacancy Reaches Lowest Level Since 2016

The Dallas-Fort Worth medical office market finished the year with robust performance. Users continue drawing down space, particularly in quality MOBs, bringing vacancy to multi-year lows of 10.0%. Rent growth is accelerating, with some properties experiencing double-digit increases, as available space dwindles and inflation continues pressuring costs.

Tightening vacancy and rent growth are positive signs for new development, but rising interest rates and tightening credit conditions make financing challenging. As a result, construction levels have fallen to their lowest levels in over a decade.

That said, DFW's population will grow by over 430,000 over the next five years and generate demand for healthcare services. Greater demand for services will lead healthcare providers take down healthcare and medical office space. Overall market conditions may strongly support new development when capital market conditions improve.

TRENDLINES

	Q4 2022	ONE YEAR AGO	TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
Vacancy	10.0%	11.4%	↓	11.6%	↓
Quarterly Net Absorption	125,200 SF	134,500 SF	↓	144,700 SF	↑
12 Month Net Absorption	748,800 SF	856,100 SF	↓	578,600 SF	↑
Total Availability	12.8%	14.2%	↓	14.2%	↓
Gross Rents	\$32.24	+4.4%	↑	+3.2%	↑
NNN Rents	\$23.33	+2.4%	↑	+1.5%	↑
Under Construction	230,700 SF	445,500 SF	↓	628,200 SF	↑/→
12 Mo Deliveries	354,000 SF	367,400 SF	↓	581,800 SF	↑/→

Note: Vacancy and net absorption only include direct space.

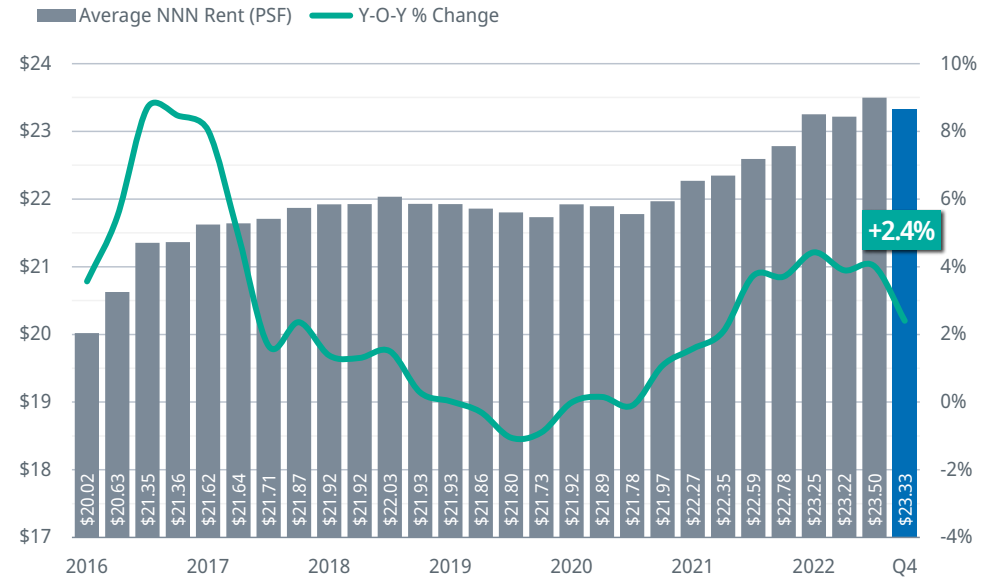
Sources: Transwestern Research, CoStar, ReVista

MARKET OVERVIEW

Rents Growth Continues In Tight Market

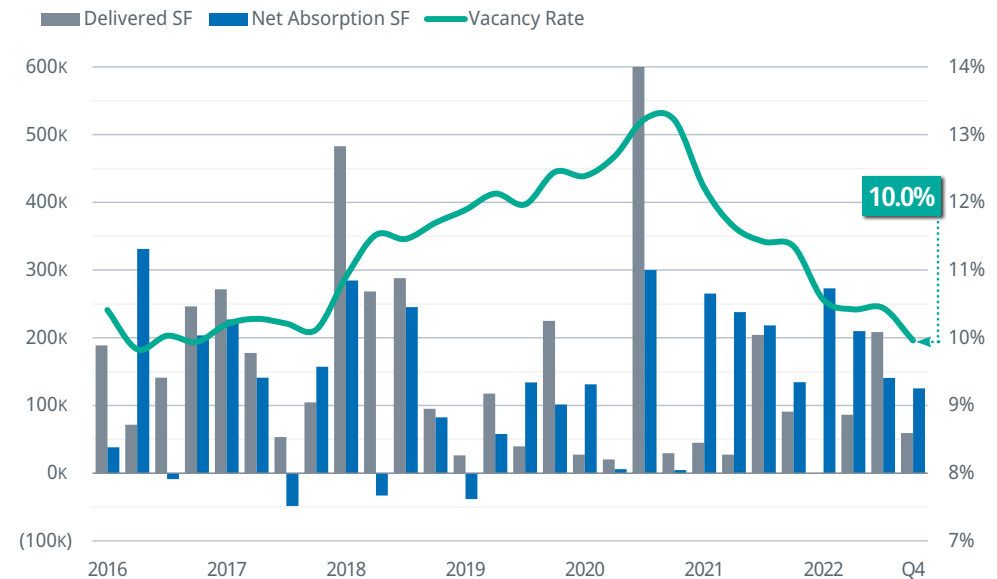
- ▶ In Dallas, employment has increased 5% year-over-year in hospitals and 4% year-over-year in other ambulatory service providers. In Fort Worth, hospital employment has increased 5% year-over-year.
- ▶ Net absorption continued its positive streak, reaching 125,200 SF this quarter. Over the last 12 months, users have absorbed 748,800 SF of space.
- ▶ Vacancy declined to 10.0%, its lowest level in over seven years.
- ▶ Total available space declined to 12.8%, well below average levels.
- ▶ Tight market conditions are supporting stronger rent growth with full service rents increasing 4.4% year-over-year. Some properties are executing leases with double-digit rent increases.
- ▶ The continued drought of new projects has led the construction pipeline to fall to 230,700 SF, its lowest level **since 2010**.
- ▶ Despite sustained demand, capital market conditions continue challenging underwriting for speculative projects.
- ▶ Altogether, Transwestern believes Dallas-Fort Worth remains structurally under-supplied. New projects will become easier to underwrite as vacancies tighten, rent growth continues, and capital markets eventually improve.

ASKING RENTS



Source: Transwestern Research, CoStar

DELIVERY IMPACT ON KEY INDICATORS



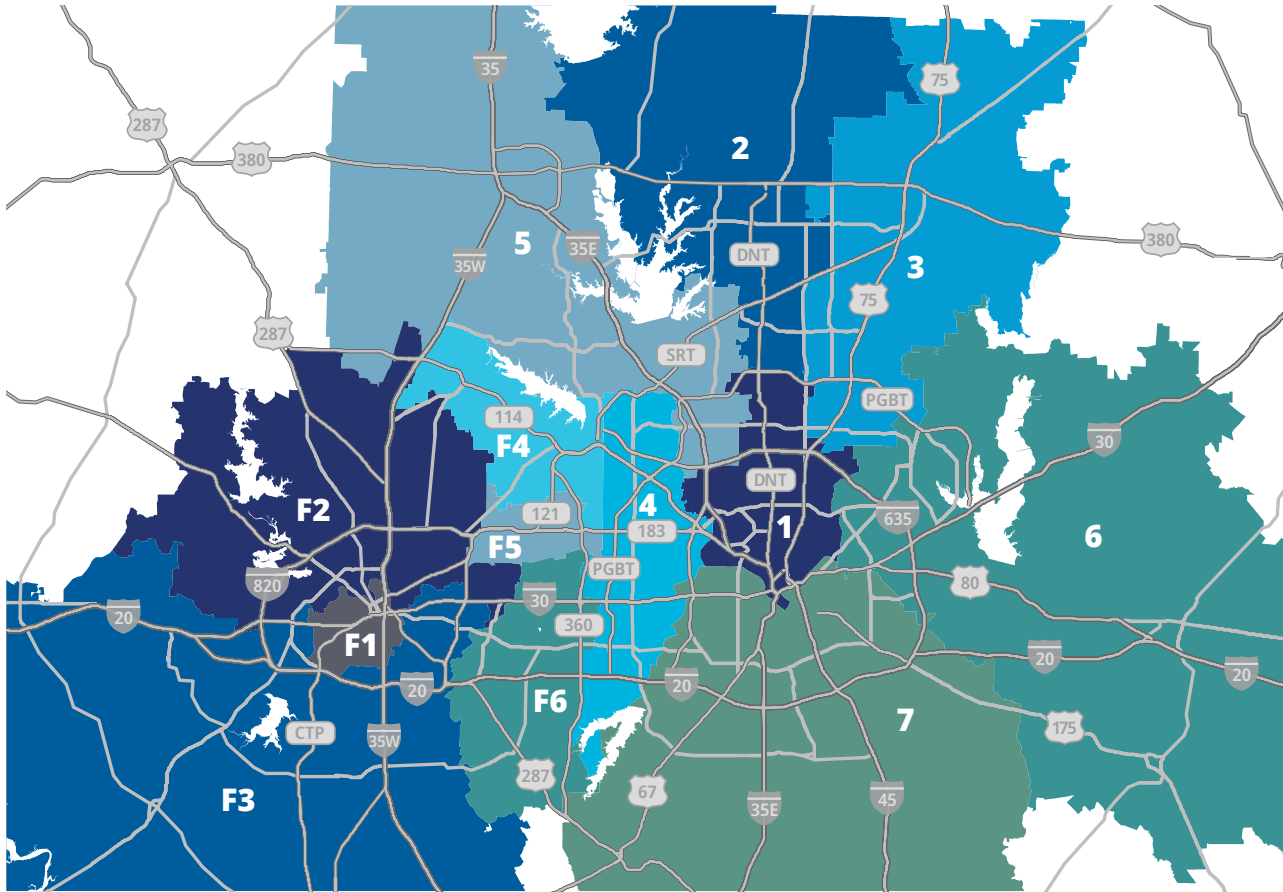
Source: Transwestern Research, CoStar

Market Indicators - Dallas

MARKET AREA	INVENTORY	DIRECT VACANCY		TOTAL AVAILABLE		QUARTERLY NET ABSORPTION	12 MONTH NET ABSORPTION	UNDER CONSTRUCTION SF	AVERAGE RENTS	
		TOTAL SF	TOTAL %	TOTAL SF	TOTAL %				GROSS RENT	NNN RENT
Intown Dallas	8,460,371	801,274	9.5%	1,074,837	12.7%	156,239	193,539	0	\$32.32	\$24.11
Legacy/Frisco	3,413,174	427,846	12.5%	541,483	15.3%	290	116,448	132,168	\$37.24	\$25.77
North Central Expressway	2,961,551	245,489	8.3%	394,188	13.3%	(16,940)	25,202	0	\$31.89	\$21.67
Irving/Grand Prairie	1,733,328	214,177	12.4%	280,663	16.2%	(7,028)	12,754	0	\$32.51	\$23.30
Interstate 35	2,139,916	309,058	14.4%	355,500	16.6%	(37,924)	(52,740)	0	\$27.90	\$19.50
East Dallas Suburbs	1,634,134	275,387	16.9%	302,010	18.5%	9,047	155,985	0	\$33.11	\$25.68
South Dallas	1,163,116	70,390	6.1%	97,765	8.4%	(10,286)	(3,602)	0	\$29.44	\$20.98
TOTAL - DALLAS	21,505,590	2,343,621	10.9%	3,046,446	14.1%	93,398	447,586	132,168	\$32.52	\$23.11

Market Indicators - Fort Worth

MARKET AREA	INVENTORY	DIRECT VACANCY		TOTAL AVAILABLE		QUARTERLY NET ABSORPTION	12 MONTH NET ABSORPTION	UNDER CONSTRUCTION SF	AVERAGE RENTS	
		TOTAL SF	TOTAL %	TOTAL SF	TOTAL %				GROSS RENT	NNN RENT
Intown Fort Worth	2,679,816	80,285	3.0%	140,318	5.2%	3,726	54,558	0	\$31.69	\$23.44
North Fort Worth	988,406	79,207	8.0%	86,507	8.8%	(7,314)	69,068	0	\$31.46	\$26.48
South Fort Worth	1,060,317	62,611	5.9%	137,291	11.9%	19,729	(12,731)	98,575	\$29.21	\$28.38
Grapevine/Southlake	935,014	178,872	19.1%	191,817	20.5%	17,194	66,847	0	\$33.80	\$23.32
Mid-Cities	835,878	121,845	14.6%	124,587	14.9%	(4,791)	21,702	0	\$31.57	\$24.38
Arlington/Mansfield	1,566,456	78,311	5.0%	78,311	5.0%	3,227	101,728	0	\$25.14	\$21.87
TOTAL - FORT WORTH	8,065,887	601,131	7.5%	758,831	9.3%	31,771	301,172	98,575	\$31.16	\$24.10



MARKET AREAS

- 1** Intown Dallas
- 2** Legacy/Frisco
- 3** North Central Expy
- 4** Irving/Grand Prairie
- 5** Interstate 35
- 6** East Dallas Suburbs
- 7** South Dallas
- F1** Intown Fort Worth
- F2** North Fort Worth
- F3** South Fort Worth
- F4** Grapevine/Southlake
- F5** Mid-Cities
- F6** Arlington/Mansfield

FOR MORE INFORMATION

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RESEARCH METHODOLOGY

This report includes investment grade medical office properties 20,000 SF and larger and competitive space in healthcare properties. Gross rents are calculated with Transwestern's proprietary research on property expenses.

Unless otherwise specified, "vacancy" refers to direct vacancy and "rents" are defined as asking rents for direct space.

ABOUT TRANSWESTERN

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