



TRANSWESTERN

COMMERCIAL REAL ESTATE

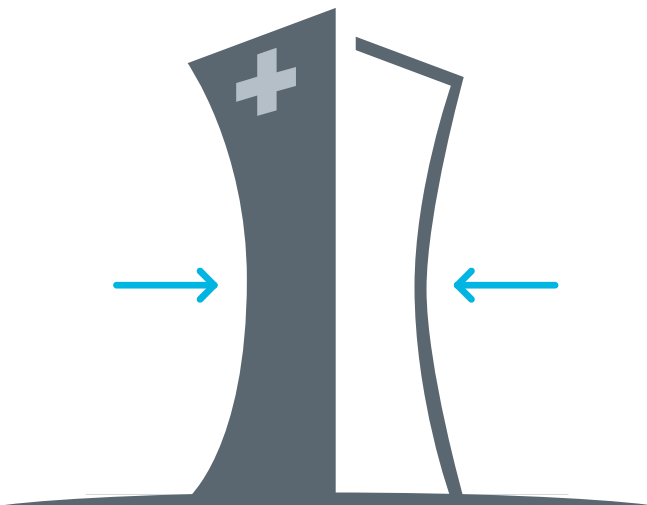
U.S. MARKET | Medical Office

Q4 2022

THE VIEW FROM HERE



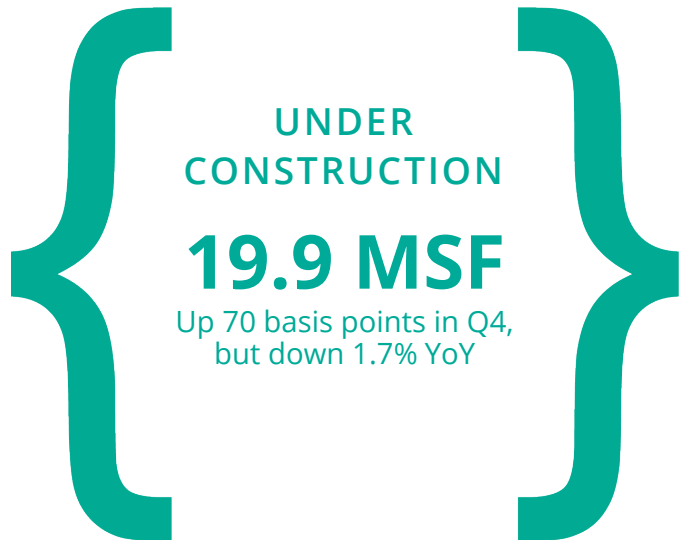
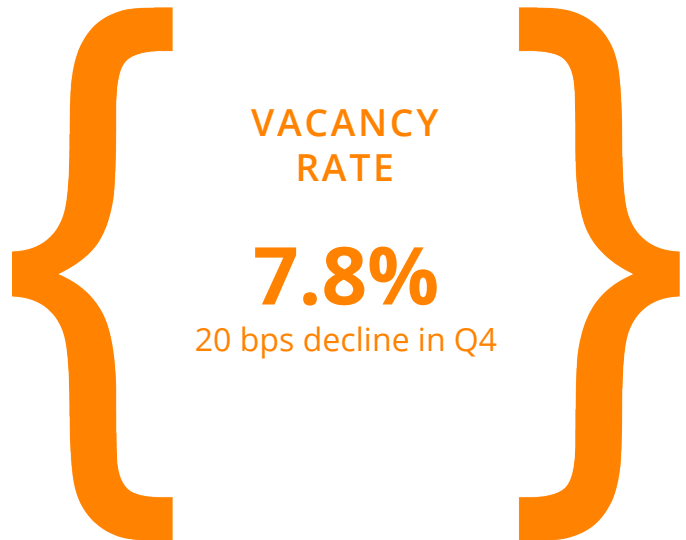
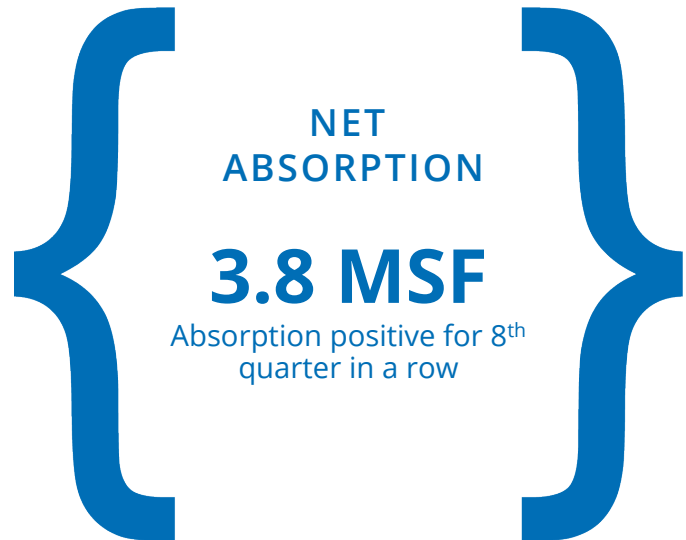

Aging seniors combined with millennials starting families will drive continued demand for healthcare real estate



Real estate fundamentals remain strong, though some urban and rural healthcare systems face profitability and staffing challenges



Demand for medical office fueled by growing omnichannel engagement and ambulatory care designed to meet patients where they live

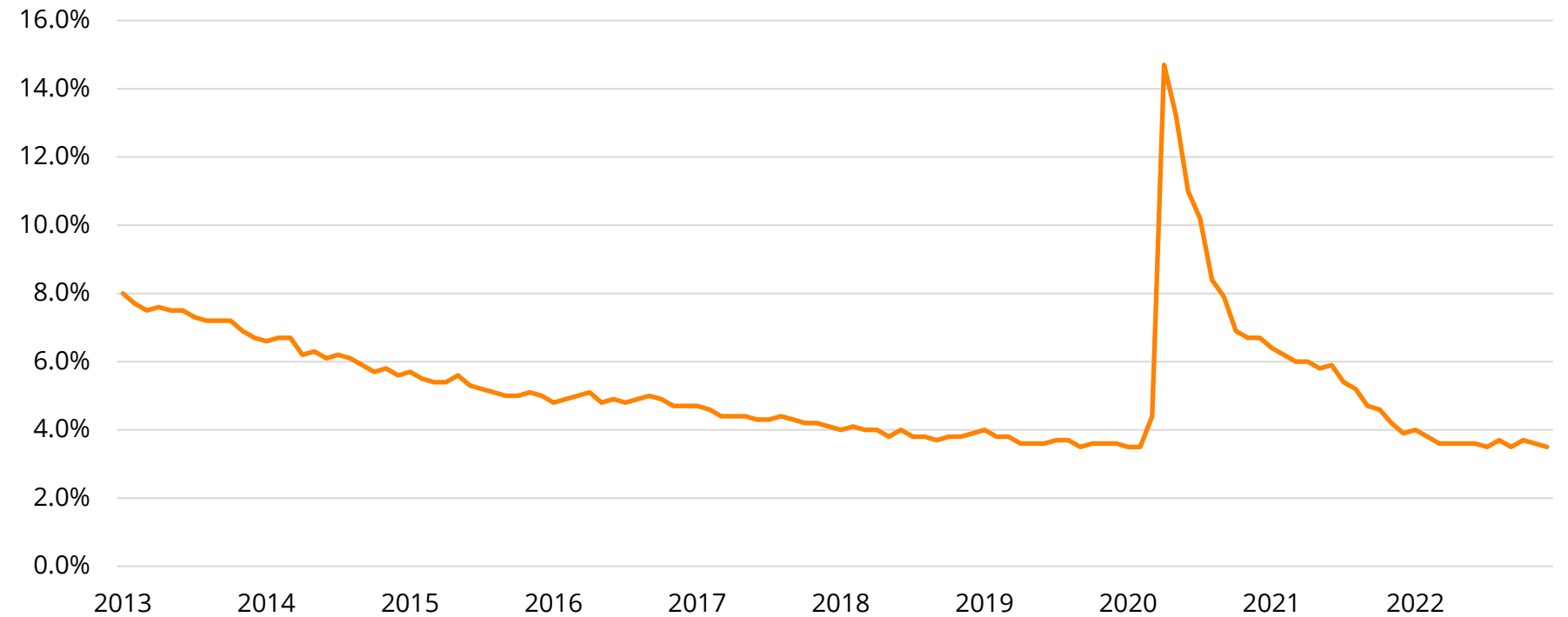


ECONOMIC HIGHLIGHTS

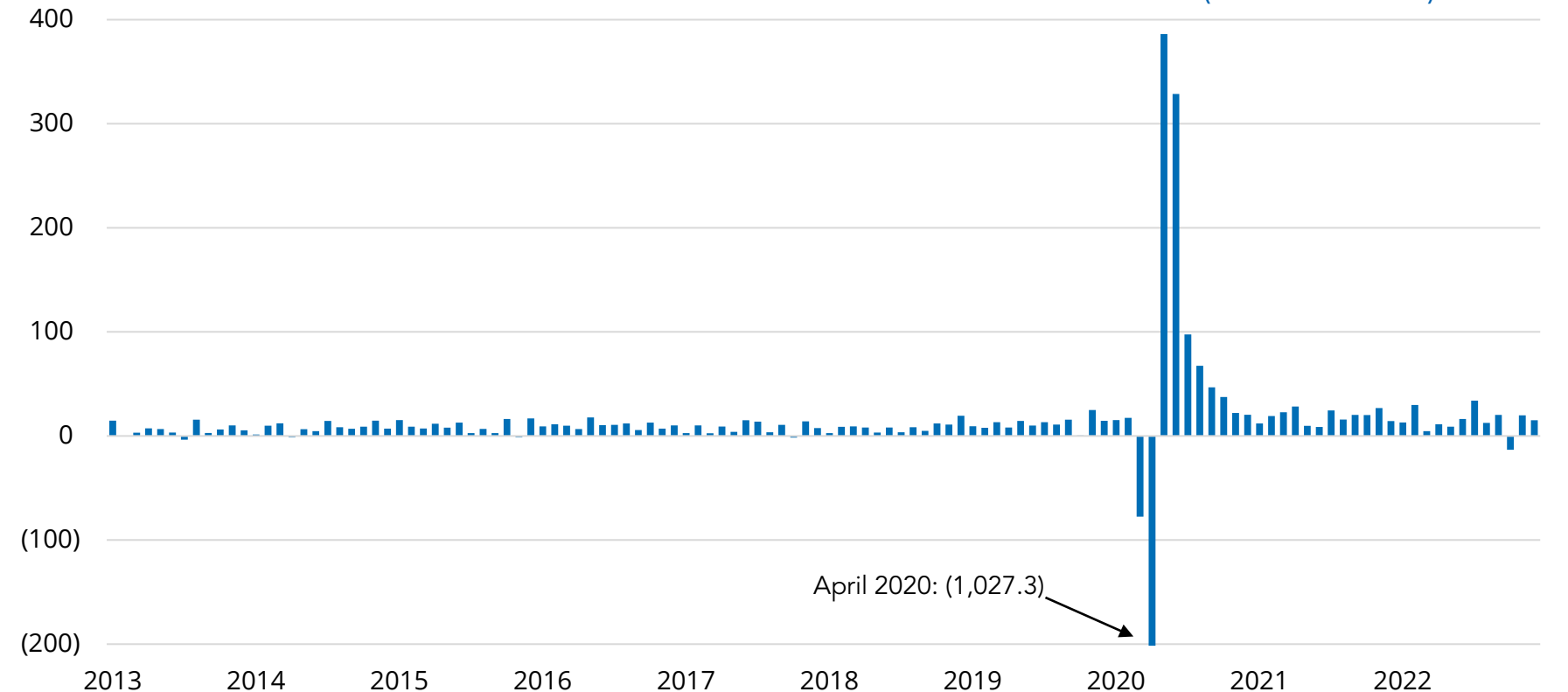
- U.S. total employment made gains since July totaling approximately 50.2 million jobs in December 2022, a gain of over the summer posting an increase of nearly 2.5 million new payroll jobs, keeping the unemployment rate at 3.5%.
- Nationwide employment is being led by gains in leisure and hospitality, professional and business services, and health care. Seasonal gains have occurred in government and retail, with losses in information.
- Health care employment rose by 54,700 new jobs during the final six months of 2022. Physician office employment rose by 32,000 while chiropractors, optometrists and mental health practitioners experienced softening during the period.
- Ambulatory health care services, which are primarily medical office-using jobs for doctors, dentists, and other specialists, rose by 118,100 since July and now totals a workforce of 8.3 million.
- The total share of medical office using jobs is 3.2% of the U.S. total or nearly 5.0 million at year-end 2022.

HISTORICAL

UNEMPLOYMENT RATE



CHANGE IN MEDICAL OFFICE-USING JOBS (THOUSANDS)

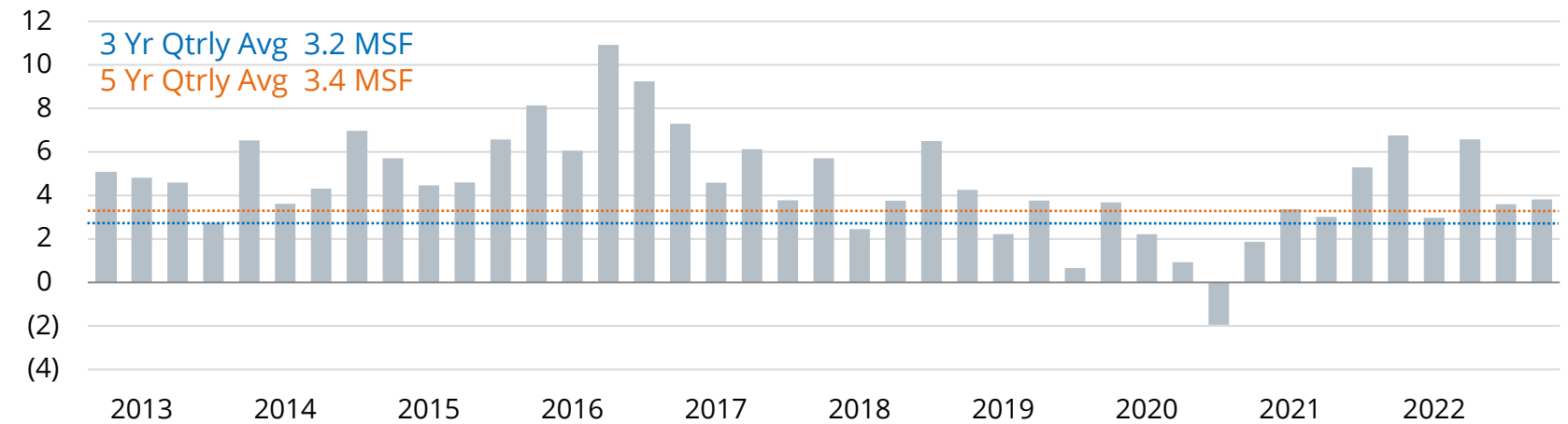


MARKET HIGHLIGHTS

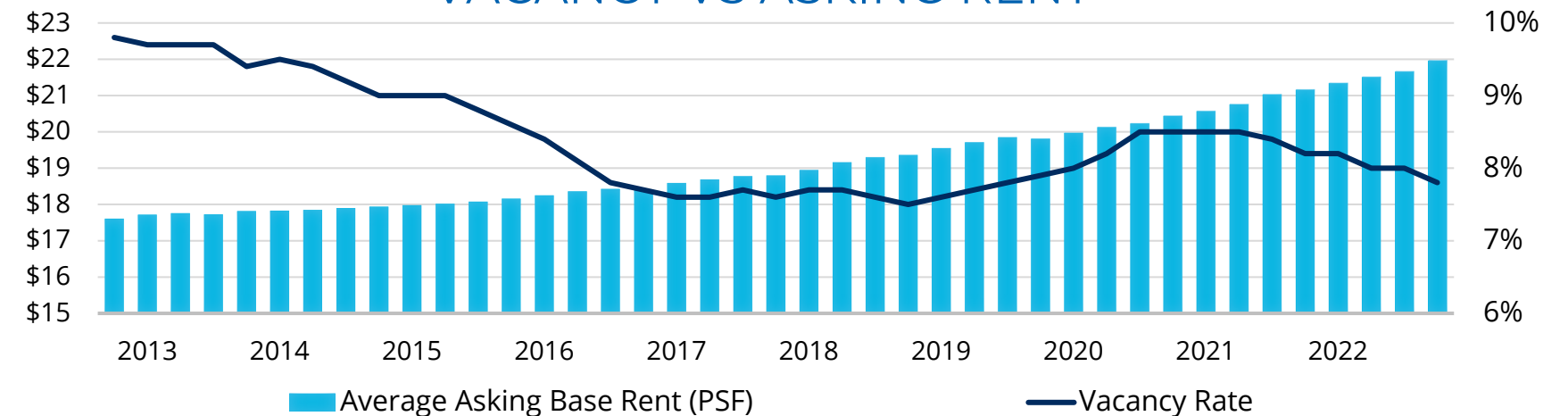
- Absorption continued its positive growth streak this reporting period with 7.4 million SF since midyear 2022 and clocking consecutive growth since Q3 2020, when the market last contracted by nearly negative 2.0 million SF coming off the height of the pandemic.
- Twenty out of the 26 tracked markets registered positive net absorption in Q4 led by Dallas-Fort Worth with 607,000 SF, Seattle with 213,000 SF and Atlanta with 154,000 SF.
- The vacancy rate declined 20 basis points to 7.8%, which is now at the lowest level since the pandemic began.
- Annual asking rents are up 3.8% YoY as a low vacancy rate and healthy demand encourage landlords to raise rates. Also, boosting the average rate is new construction coming online. At Q4, the asking rent for all classes of space averages \$21.96 PSF.
- Deliveries totaled 5.9 million SF since Q2, while the construction pipeline contains 19.9 million SF. The amount under construction increased 1.6 million square feet in the past six months with the largest amount now underway being in Houston with 2.8 million SF rising by more than 600,000 SF followed by Dallas-Fort Worth holding 1.1 million SF, an increase of more than 300,000 SF and New York-Manhattan which surged nearly 600,000 SF to 1.07 million SF since Q2 2022.

HISTORICAL

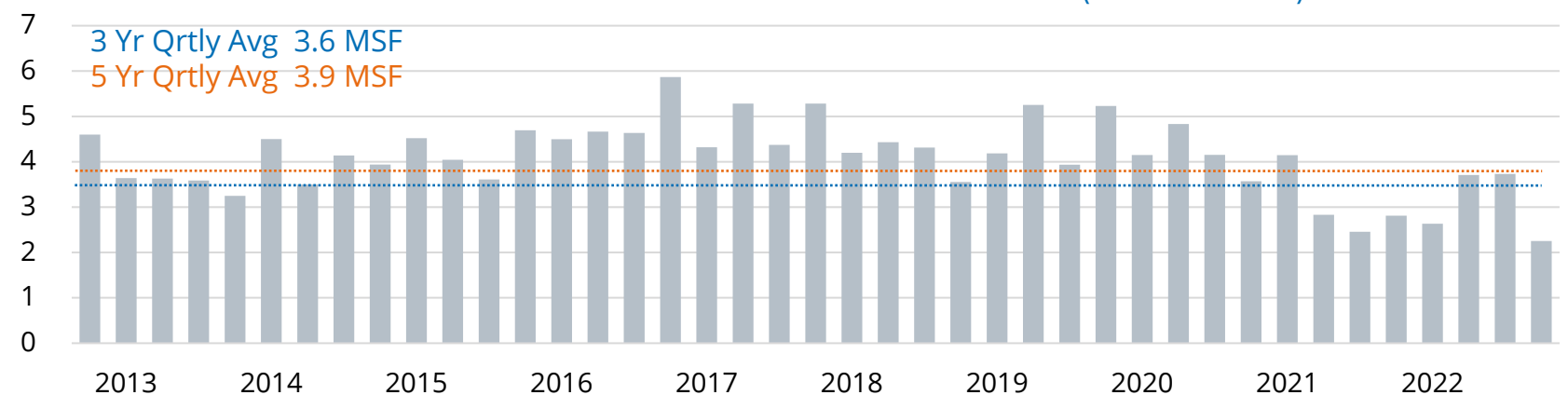
NET ABSORPTION (MILLION SF)



VACANCY VS ASKING RENT

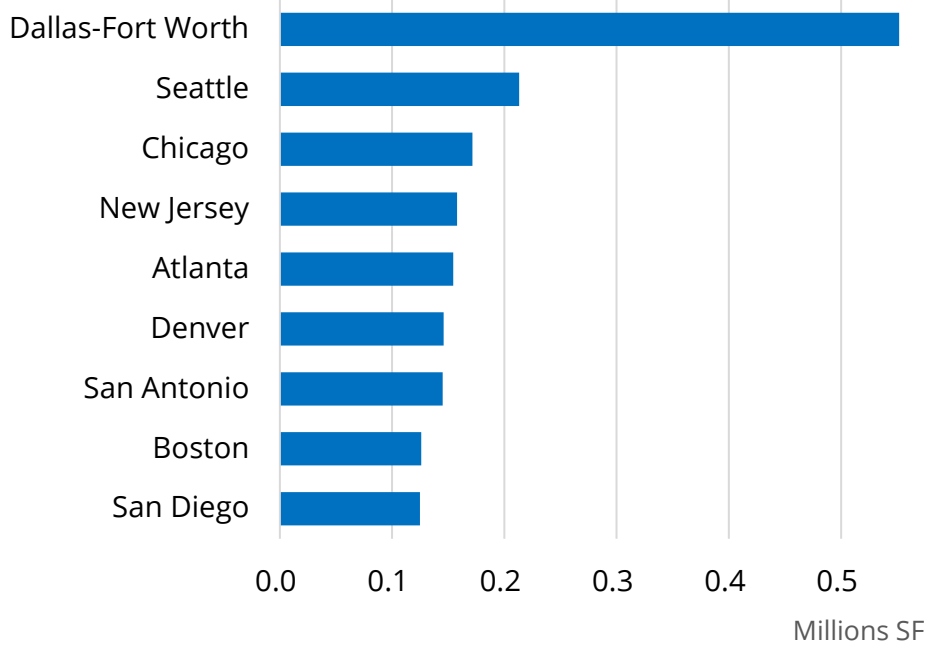


CONSTRUCTION – DELIVERED (MILLION SF)



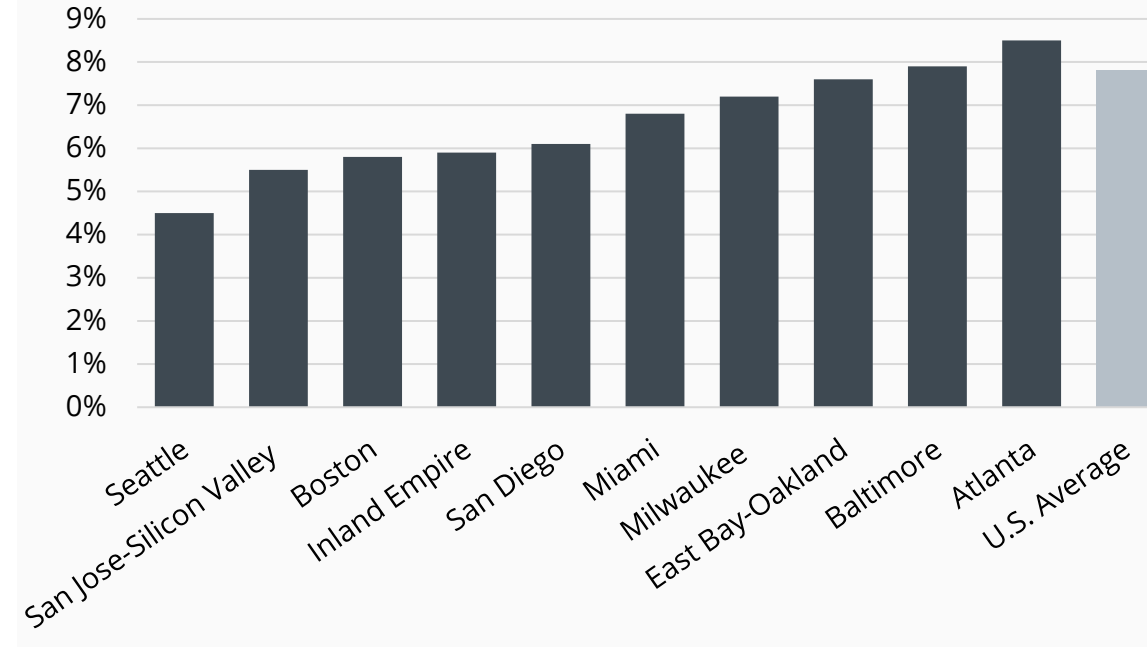
NET ABSORPTION

Q4 2022 Net Absorption



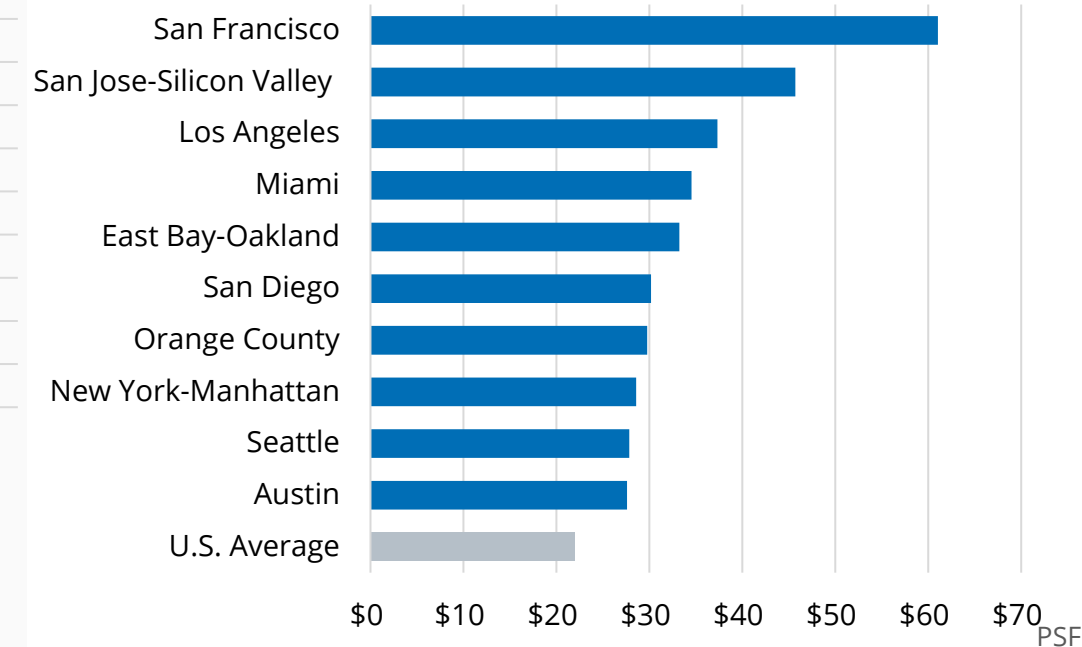
VACANCY/CONSTRUCTION

Q4 2022 Overall Vacancy Rate

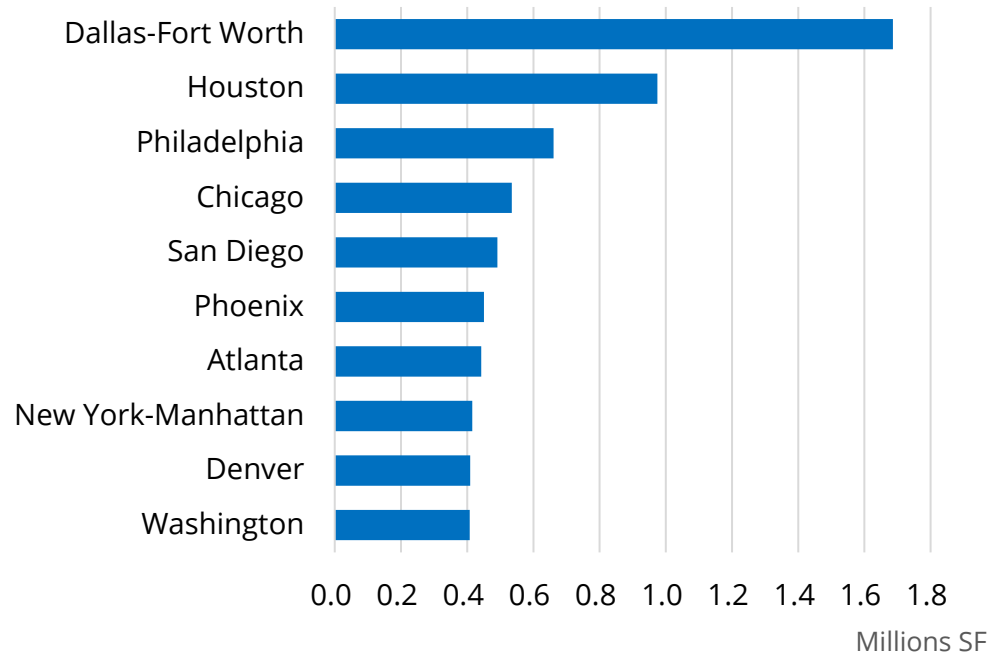


ASKING RENTS

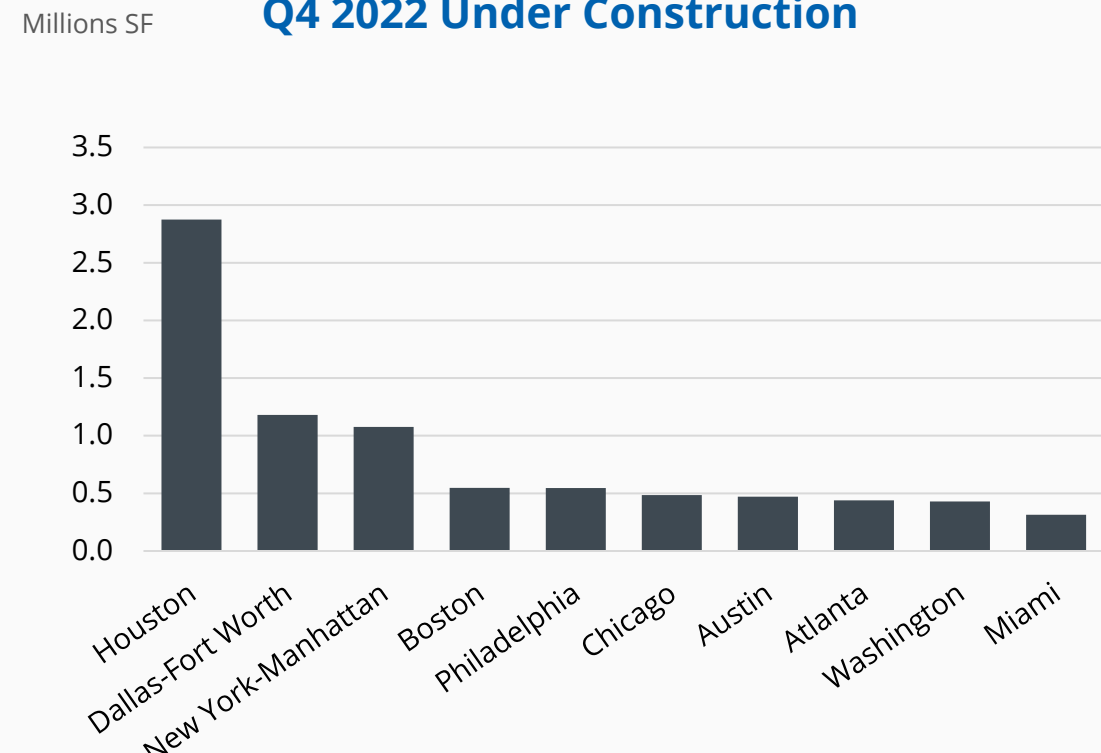
Q4 2022 Asking Rate (Base)



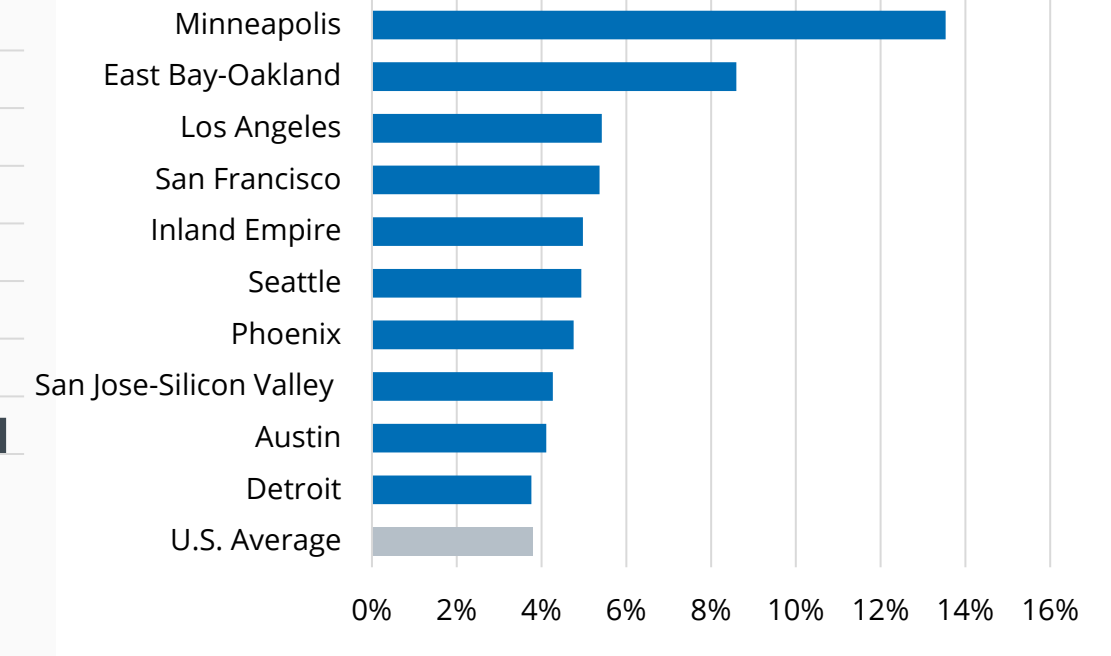
Trailing 4-Qtr Net Absorption



Q4 2022 Under Construction

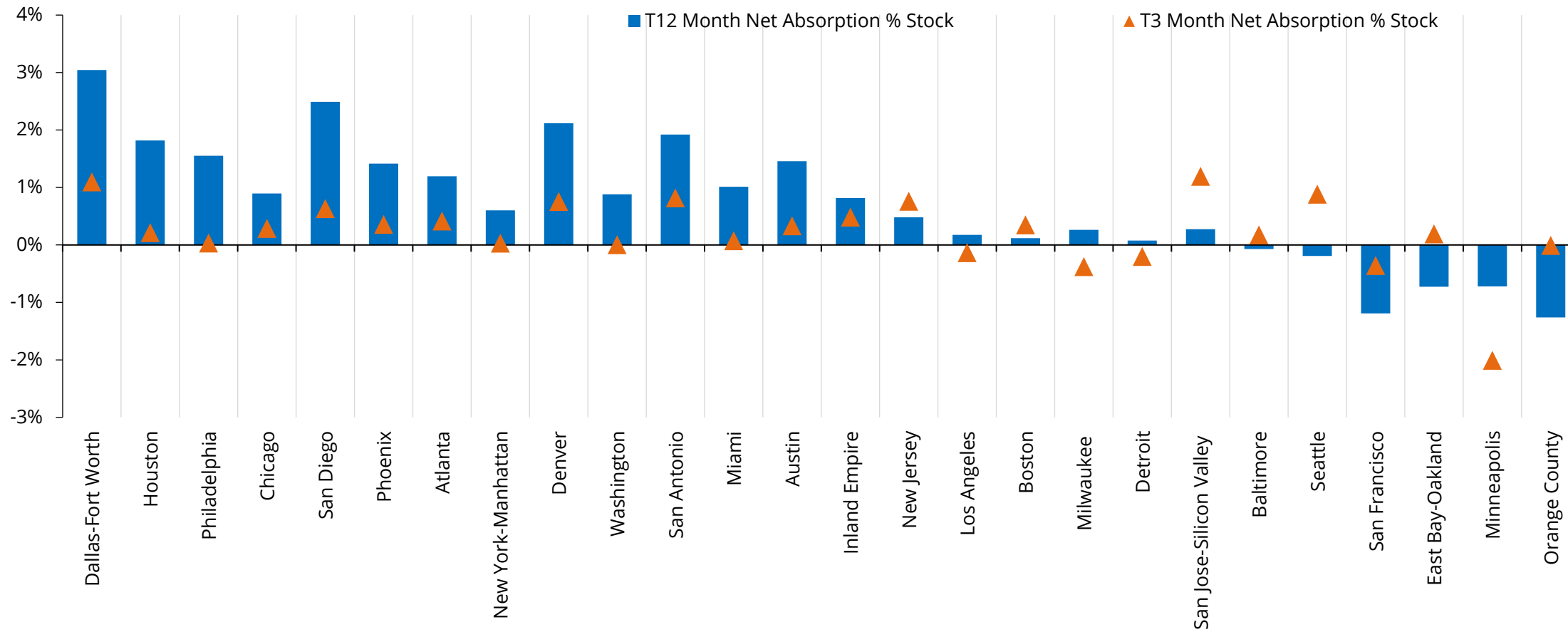


Year-Over-Year Rent Growth



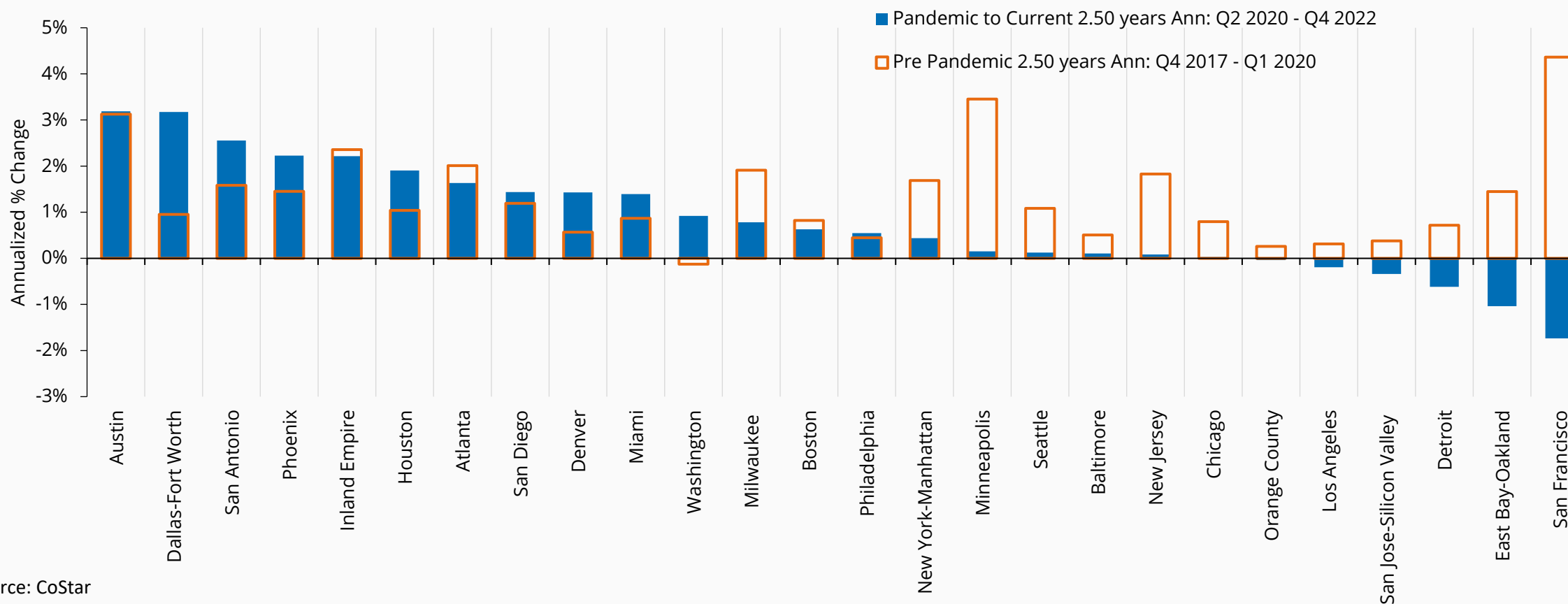
KEY PERFORMANCE INDICATORS

NET ABSORPTION % STOCK



- Twenty of the 26 tracked medical office markets saw positive net absorption over the past 12 months, led by Dallas-Fort Worth, Houston and Philadelphia, Phoenix, Atlanta, Denver, San Antonio and Miami all exceeding at least 1%. Orange County saw absorption pulling back by a negative 1.3% since Q4 2021.
- Fifteen markets saw growth since midyear, the largest was Dallas-Fort Worth which was the only market posting more than 1% to 1.1% of absorption as a percentage of stock.

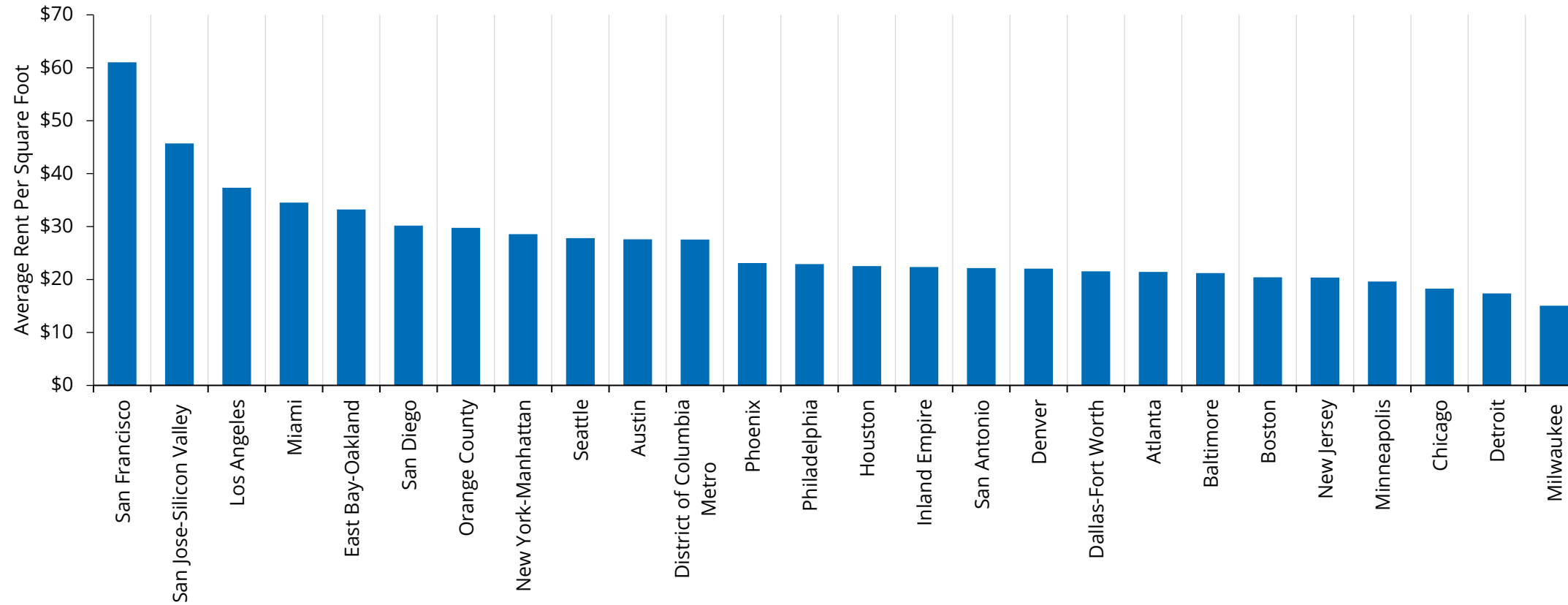
NET ABSORPTION % STOCK: PRE-PANDEMIC vs PANDEMIC to CURRENT



- This graph compares net absorption as a percent of stock annualized for the two and a half years preceding the start of the pandemic to the two and a half years since the pandemic began.
- Markets experiencing an expansionary trend before the pandemic that have also managed positive growth since the start of the pandemic may be in the best position, including, but not limited to all three Texas markets while two of the six California markets – Easy Bay-Oakland and San Francisco measured the slowest rates since the pandemic.

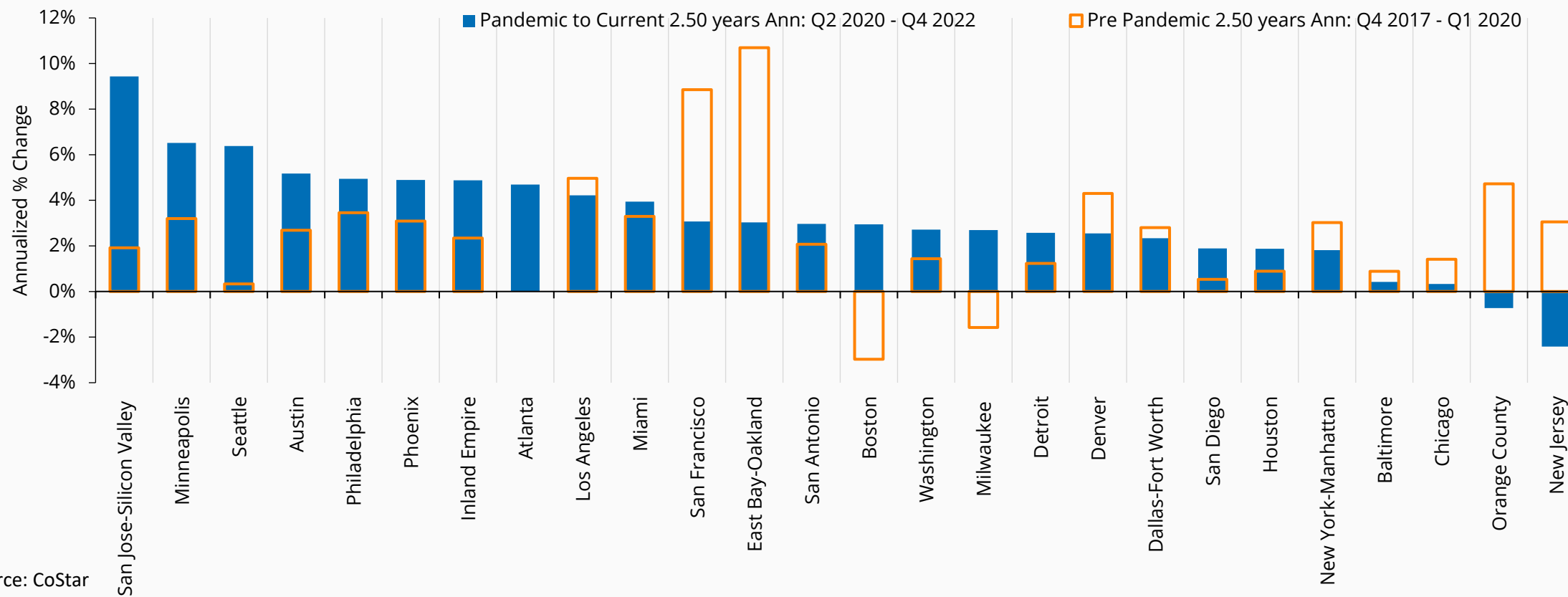
KEY PERFORMANCE INDICATORS

RENTAL RATES (BASE)



- The largest, densest and most developed markets have historically commanded significantly higher rental rates. However, markets undergoing rapid population expansion and new medical office construction are seeing asking rents rise at a steady rate.
- Seattle moved into the top ten rental markets during the Q4 reporting period over Q2 2022, causing Washington to rank in the 11th spot. Inland Empire rose from 18th to 15th and the lowest five markets saw shifts by New Jersey, Minneapolis and Detroit.

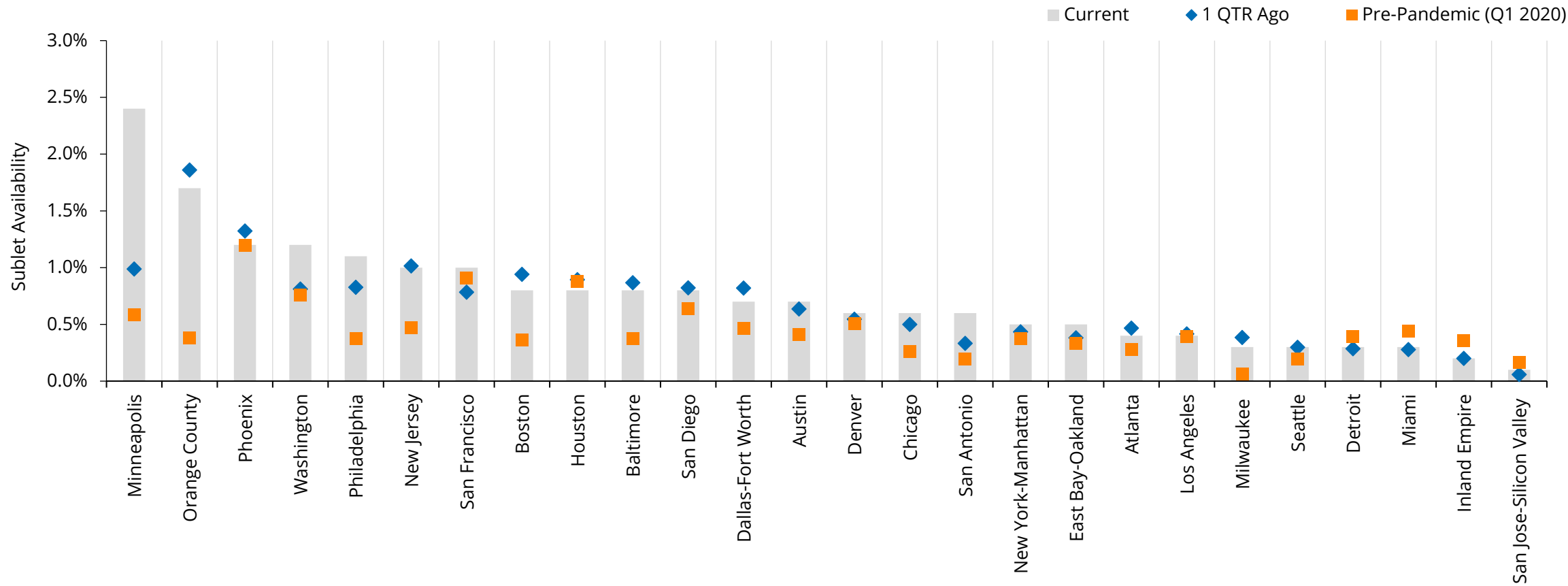
RENTAL RATE CHANGE: PRE-PANDEMIC vs PRE-PANDEMIC to CURRENT



- The highest rental rate growth since the start of the pandemic occurred in San Jose-Silicon Valley, Minneapolis and Seattle.
- Compared with pre-pandemic rental rate growth, markets experiencing the most relative lift include Phoenix, Inland Empire, Boston, Milwaukee and Atlanta.
- On the flip side, markets that have seen rents pull back since the start of the pandemic include San Francisco, East Bay-Oakland, Denver, Orange County and New Jersey.

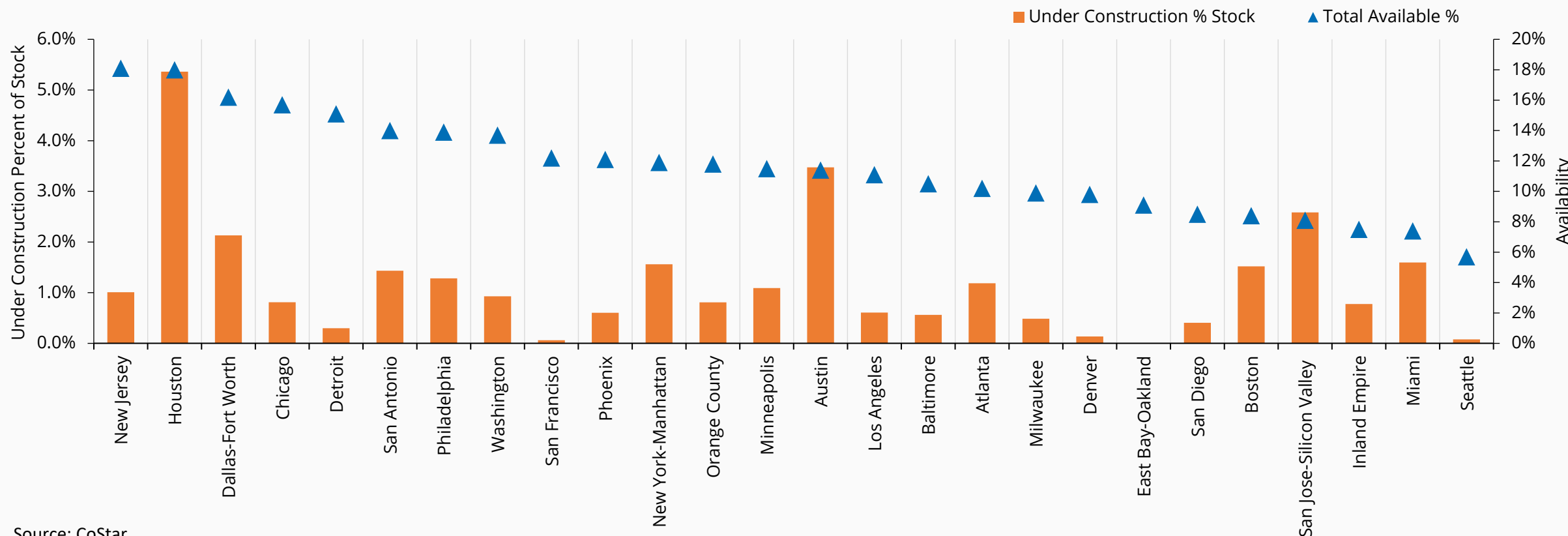
KEY PERFORMANCE INDICATORS

SUBLEASE AVAILABLE SQUARE FEET % STOCK



- This graph shows available sublet space as a percent of stock, which can react quickly to changes in demand.
- In Q4, noticeable movement was seen, with ten markets experiencing increases in sublease over midyear. The largest uptick was in Minneapolis which increased by 1.4% to 2.4%. Eight saw sublease tighten, led by Orange County by 20 basis points to 1.7%. Eight had no change.
- Sublet available SF has risen over pre-pandemic levels mainly in coastal markets with the exceptions being Phoenix and Houston, both Sunbelt metros with fast growing population.

CONSTRUCTION AND AVAILABILITY



- Under construction percent of stock is indicative of future market expansion. Combined with availability percent of stock, it can also be a potential determinate of softening or tightening within a market.
- Markets with particularly high construction and availability as a percent of stock include Houston, Austin, and San Jose-Silicon Valley.
- Future vacancy will depend on how demand matches supply, and at what rate this demand absorbs unleased space.

Market	Inventory SF	Overall Vacancy Rate	Direct Vacancy Rate	Net Absorption	12-Month Net Absorption	Asking Rent Base	Annual Rent Change	Under Construction
Atlanta	36,997,196	8.5%	8.2%	154,571	442,235	\$21.44	3.7%	438,424
Austin	13,536,527	9.4%	8.7%	45,248	197,261	\$27.60	4.1%	470,381
Baltimore	18,932,870	7.9%	7.4%	33,233	-13,533	\$21.21	-3.4%	106,288
Boston	36,029,497	5.8%	5.3%	125,991	42,016	\$20.42	1.5%	547,683
Chicago	59,759,736	13.4%	13.0%	171,647	534,465	\$18.27	0.7%	485,360
Dallas-Fort Worth	55,384,260	13.5%	13.0%	607,442	1,686,065	\$21.55	3.0%	1,180,296
Denver	19,321,457	8.6%	8.2%	146,019	409,092	\$22.05	0.6%	26,305
Detroit	38,669,259	11.1%	10.9%	-77,547	29,291	\$17.38	3.8%	115,549
Washington	46,246,848	10.6%	10.0%	2,256	407,346	\$27.55	3.7%	429,430
East Bay-Oakland	14,366,743	7.6%	7.1%	27,852	-104,432	\$33.23	8.6%	0
Houston	53,601,643	14.2%	13.7%	115,009	974,711	\$22.54	1.3%	2,874,771
Inland Empire	20,201,937	5.9%	5.9%	98,009	164,675	\$22.36	5.0%	156,640
Los Angeles	51,597,446	9.0%	8.8%	-69,335	90,353	\$37.33	5.4%	313,050
Miami	19,649,555	6.8%	6.6%	14,524	198,902	\$34.54	2.4%	313,653

Market	Inventory SF	Overall Vacancy Rate	Direct Vacancy Rate	Net Absorption	12-Month Net Absorption	Asking Rent Base	Annual Rent Change	Under Construction
Milwaukee	11,956,447	7.2%	7.1%	-44,981	31,262	\$15.05	3.4%	58,000
Minneapolis	24,175,262	9.0%	7.1%	-485,155	-174,578	\$19.63	13.5%	263,828
New Jersey	20,781,177	14.8%	14.0%	157,987	99,873	\$20.37	-7.1%	209,827
New York-Manhattan	68,946,753	9.1%	8.7%	22,044	415,277	\$28.58	3.0%	1,076,249
Orange County	22,498,243	9.3%	8.3%	-1,674	-283,696	\$29.77	3.0%	182,196
Philadelphia	42,584,486	9.8%	9.1%	14,859	661,002	\$22.91	3.0%	546,379
Phoenix	31,799,795	11.0%	10.2%	89,540	450,776	\$23.12	4.8%	192,000
San Antonio	17,697,390	11.8%	11.2%	145,040	339,962	\$22.17	1.0%	253,619
San Diego	19,723,608	6.1%	5.8%	124,808	490,958	\$30.18	0.7%	79,990
San Francisco	8,199,158	9.4%	8.4%	-29,151	-97,733	\$61.04	5.4%	5,000
San Jose-Silicon Valley	9,755,042	5.5%	5.4%	116,601	26,695	\$45.70	4.3%	252,185
Seattle	24,139,596	4.5%	4.3%	213,187	-46,102	\$27.83	4.9%	18,865
United States*	1,844,563,303	7.8%	7.5%	3,817,488	16,954,508	\$21.96	3.8%	19,920,734

*All U.S. markets



FOR MORE INFORMATION

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ABOUT TRANSWESTERN

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RESEARCH METHODOLOGY

The information in this report is a compilation of single and multi-tenant medical office properties located in select U.S. metropolitan areas. Government-owned buildings are excluded from analysis. All rents are reported as base, which are rents reflected irrespective of service type (Full Service, Plus Electric, etc.).