



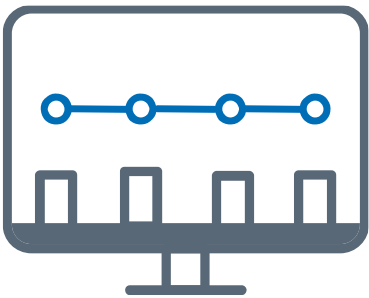
TRANSWESTERN

COMMERCIAL REAL ESTATE

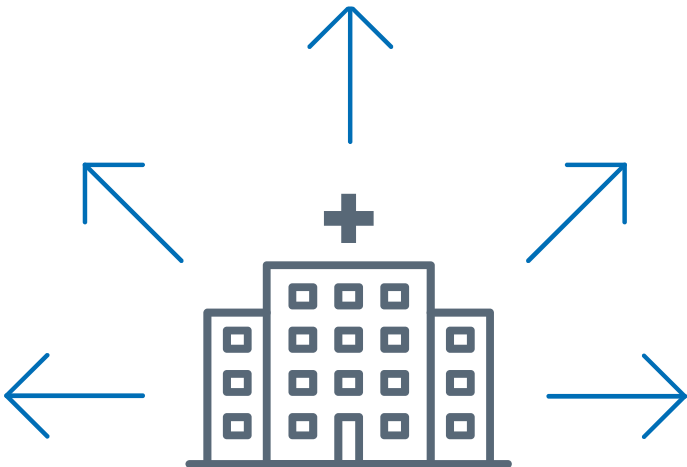
U.S. MARKET | Medical Office

Q2 2023

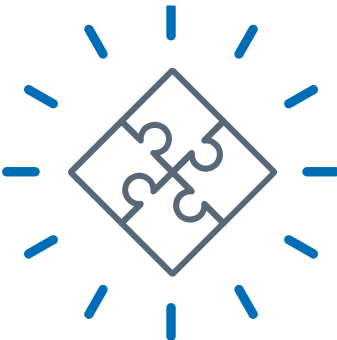
THE VIEW FROM HERE

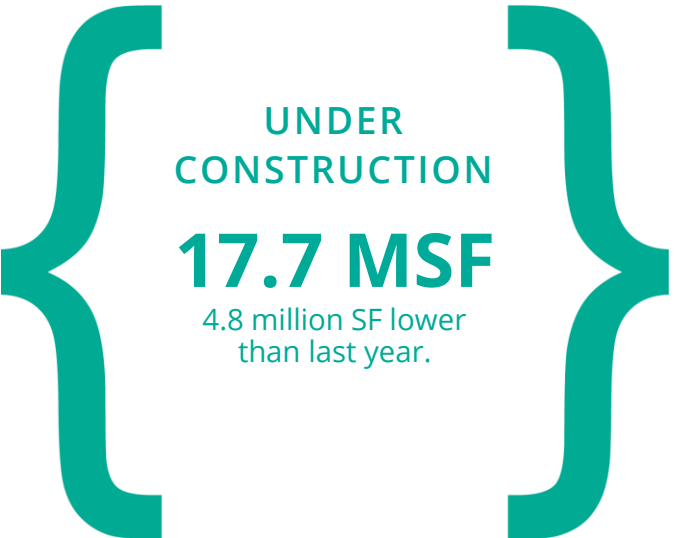
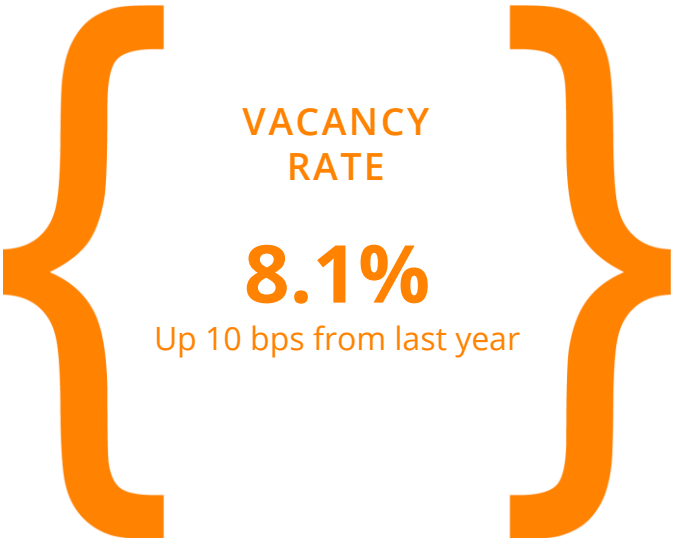
A stable vacancy rate
is attractive to investors and has been maintained due to strong fundamentals



Patient access and improved profitability
continue to shift services from in-patient facilities to MOBs



Portfolio optimization
is an opportunity for both investors and providers to improve their margins



ECONOMIC HIGHLIGHTS

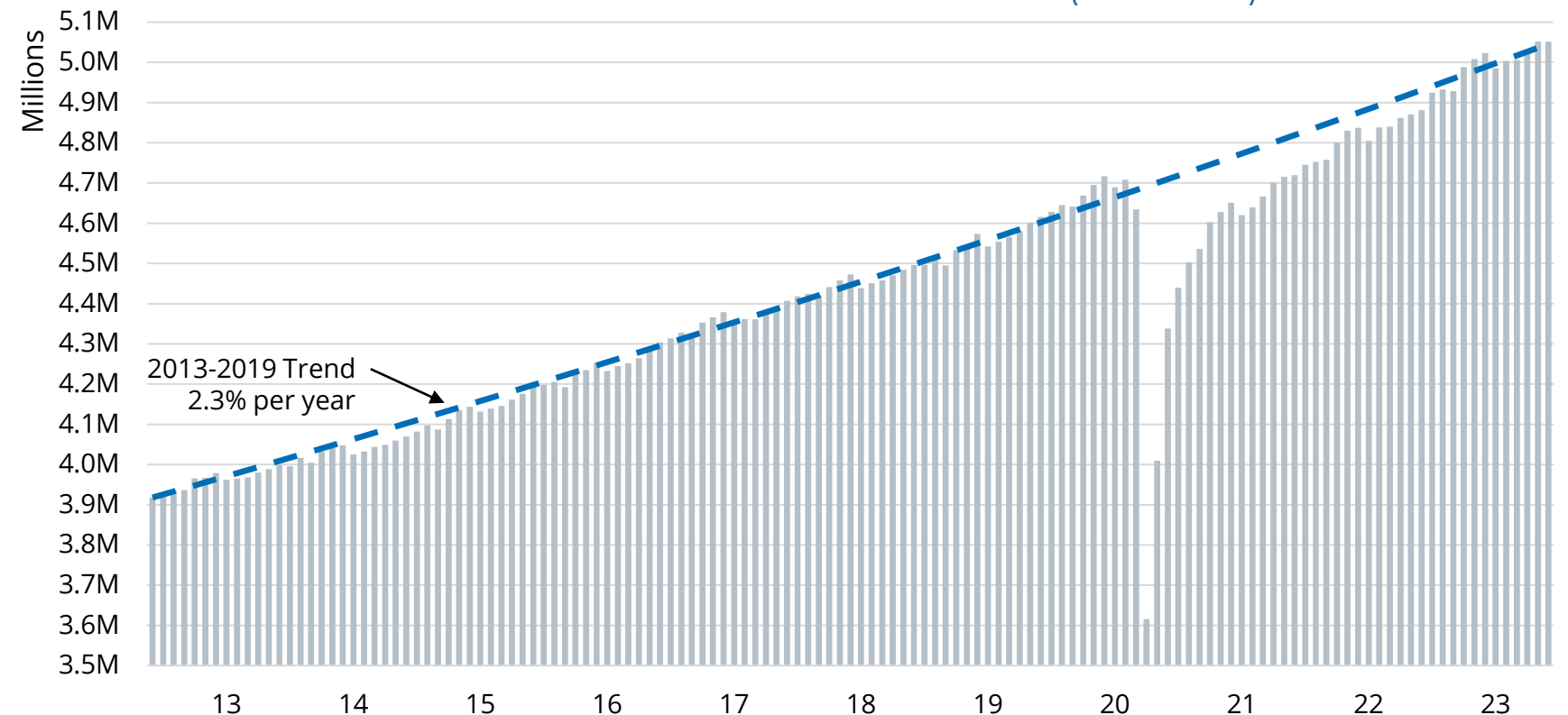
- U.S. unemployment remains below average at 3.6%. Labor force participation has slowly risen, and 2.3 million more workers have become employed full-time over the last 12 months.
- Over the last year, nationwide job growth has been led by the healthcare and social assistance (+866,000), leisure and hospitality (+772,000), and government (+611,000) sectors.
- Healthcare employment increased by 597,000 jobs over the last 12 months. Overall employment in the sector is now 357,000 jobs or 2.2% above pre-pandemic levels.
- Medical office-using jobs—physicians, dentists, and ambulatory health care practitioners—grew by 170,000 jobs or 3.8% year-over-year.
- Medical office-using employment has completely recovered from pandemic-related declines and caught up to the pre-pandemic growth trend.
- Employment in freestanding ambulatory surgical centers and emergency care centers is now 8,000 jobs or 4.0% above pre-pandemic levels.
- Employment in hospitals grew by 156,900 or 1.4% over the last 12 months. Hospital employment is now 72,000 jobs above pre-pandemic levels.
- Employment in skilled nursing facilities grew by 62,000 or 4.6% over the last year. Nevertheless, employment remains 11% below pre-pandemic levels.

HISTORICAL

UNEMPLOYMENT RATE



MEDICAL OFFICE-USING JOBS (MILLIONS)

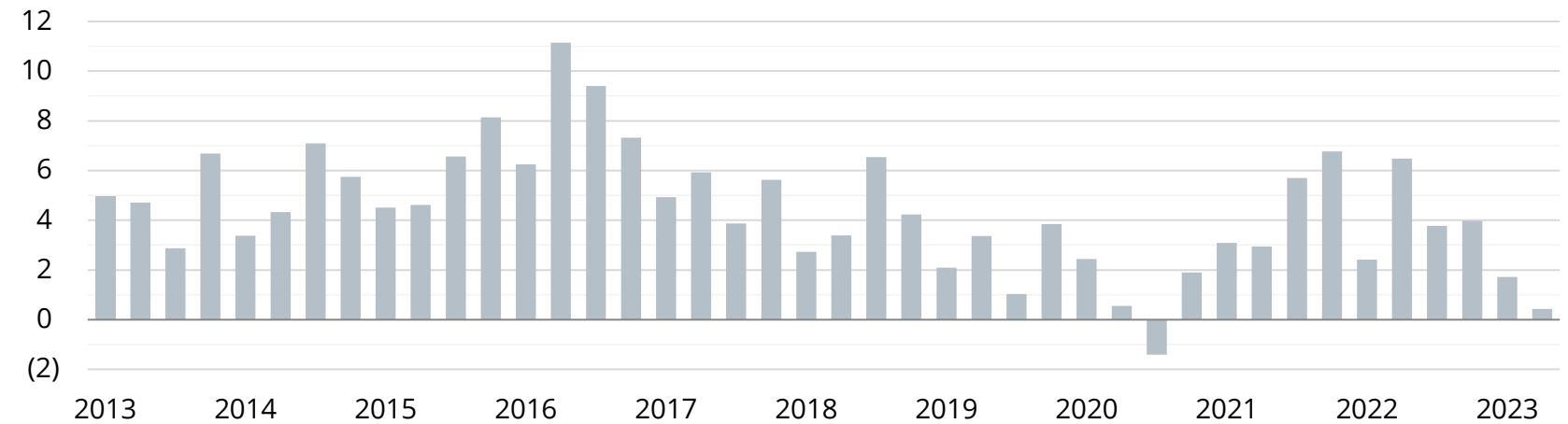


MARKET HIGHLIGHTS

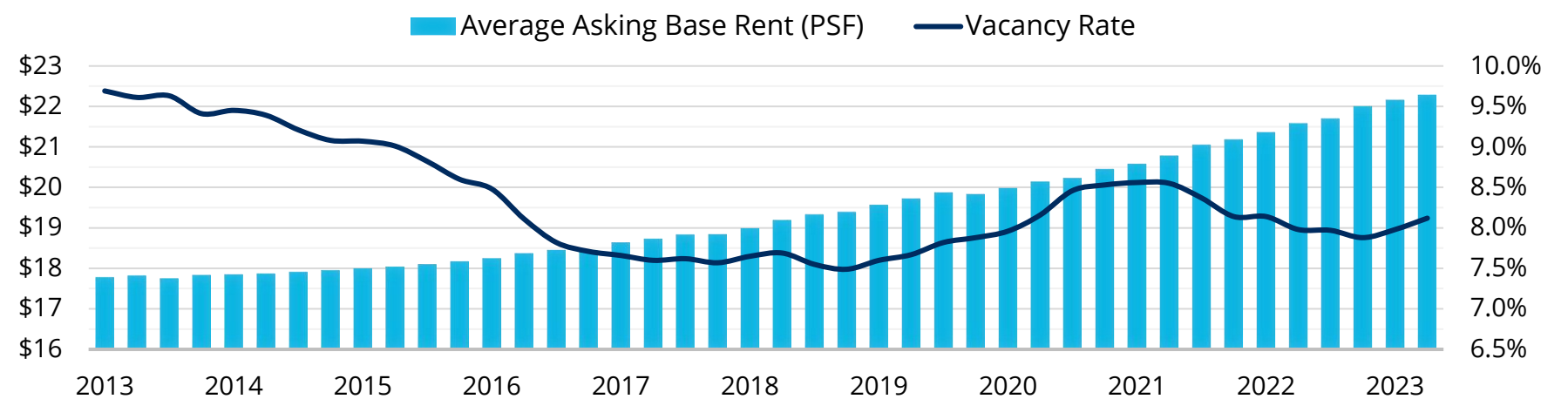
- Absorption softened to positive 184,000 SF, its lowest reading since 2020. Margin pressure, higher finish-out costs, and tighter credit conditions may be creating headwinds for demand.
- At the market level, net absorption was mixed: just 14 of 32 tracked markets registered positive net absorption this quarter. Leading markets include Washington DC, Chicago, and Phoenix.
- As a result of weaker demand, vacancy inched up to 8.1% or 10 bps above pre-pandemic levels.
- Annual asking rents are up 3.2% year-over-year. Better properties in certain submarkets are outperforming the national average due to flight to quality, higher operating expenses due to inflation, and larger tenant improvement allowances.
- Construction fell to 17.7 million SF, its lowest level since 2013. The development pipeline is shrinking as rent growth catches up to higher development costs and a higher cost of capital.
- Demand for new product remains healthy. Active construction remains pre-leased at a rate of 66%.
- YTD deliveries total 7.2 million SF, in-line with the 5-year average.
- Higher debt costs are creating headwinds for capital markets with softening prices and lower transaction volumes.

HISTORICAL

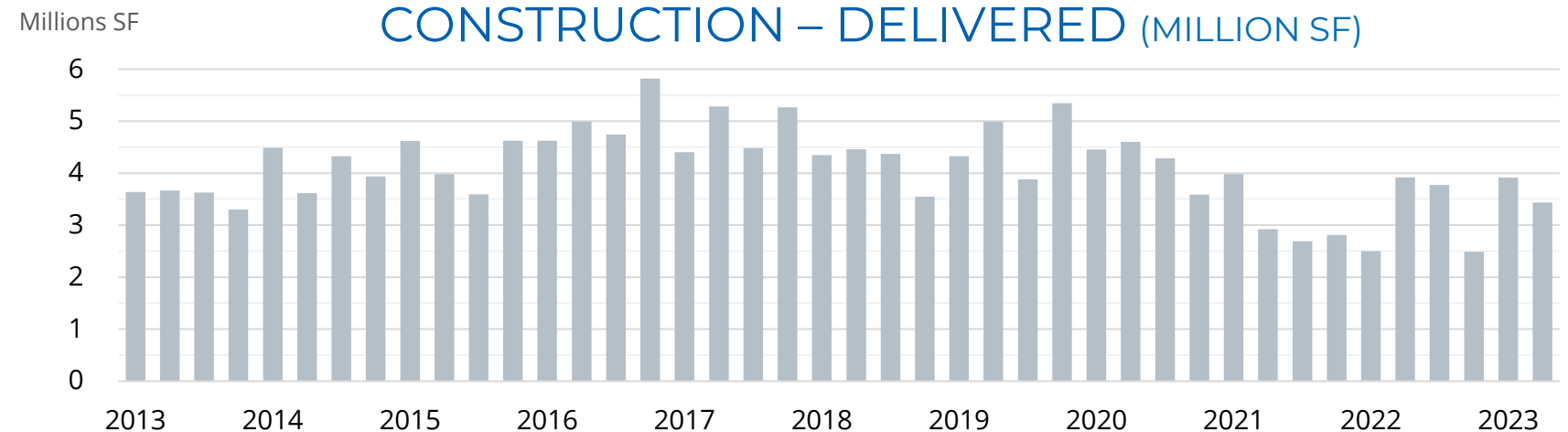
NET ABSORPTION (MILLION SF)



VACANCY VS ASKING RENT

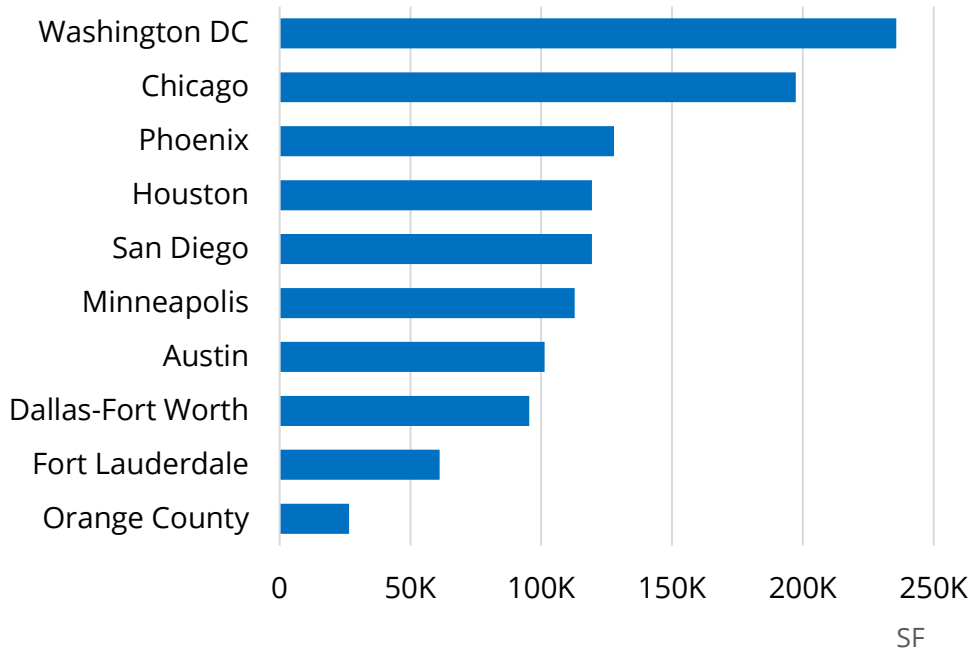


CONSTRUCTION – DELIVERED (MILLION SF)



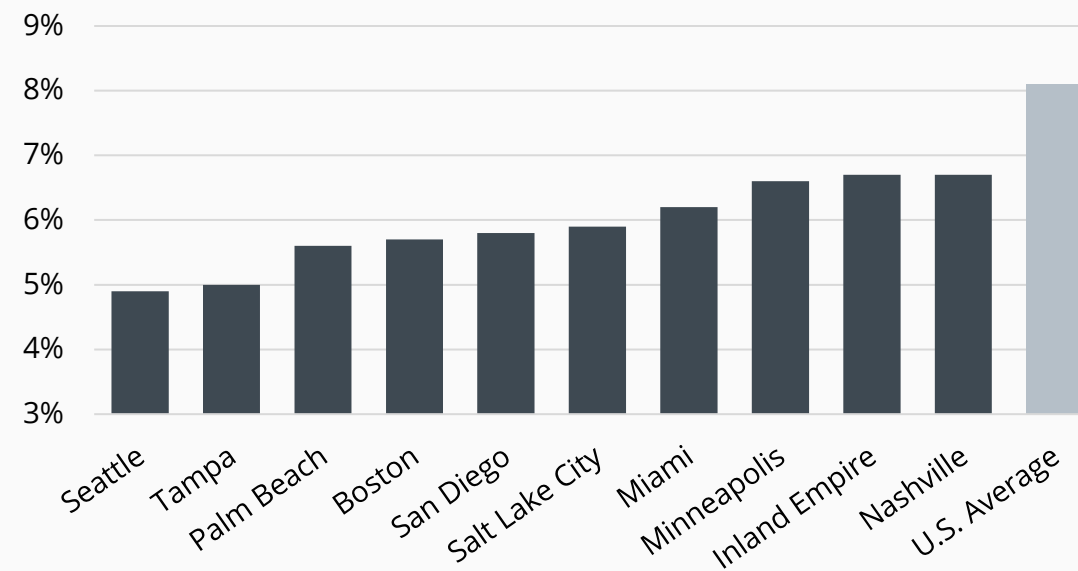
NET ABSORPTION

Q2 2023 Net Absorption



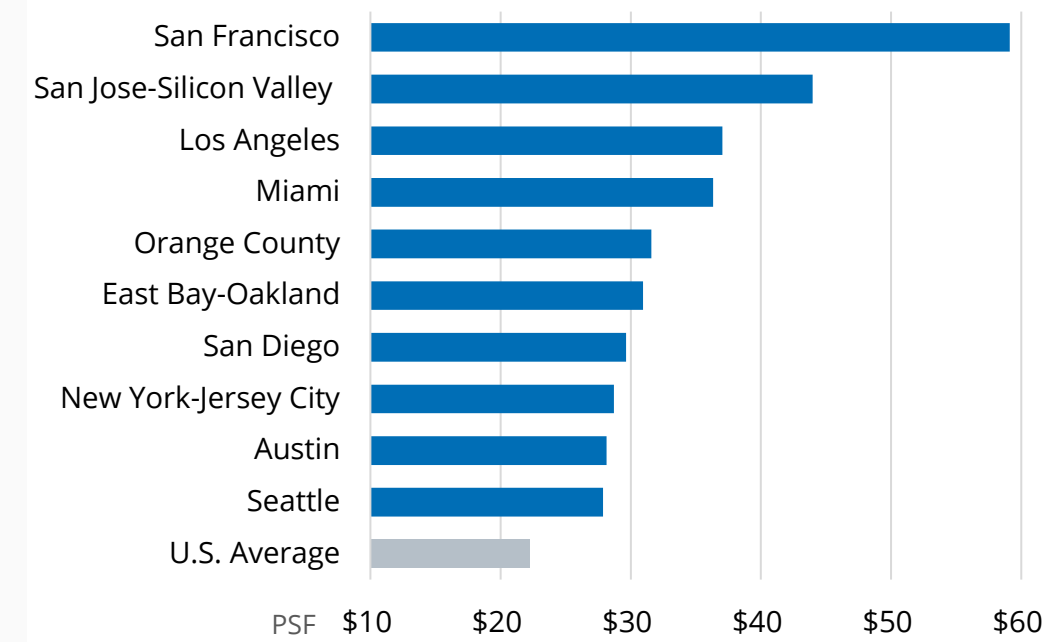
VACANCY/CONSTRUCTION

Q2 2023 Overall Vacancy Rate

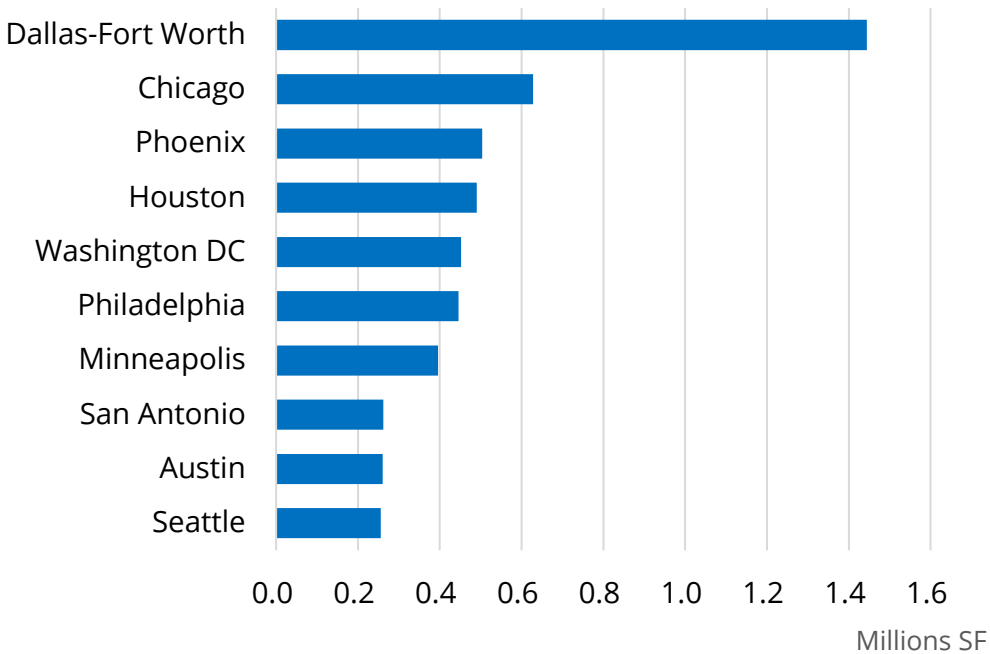


ASKING RENTS

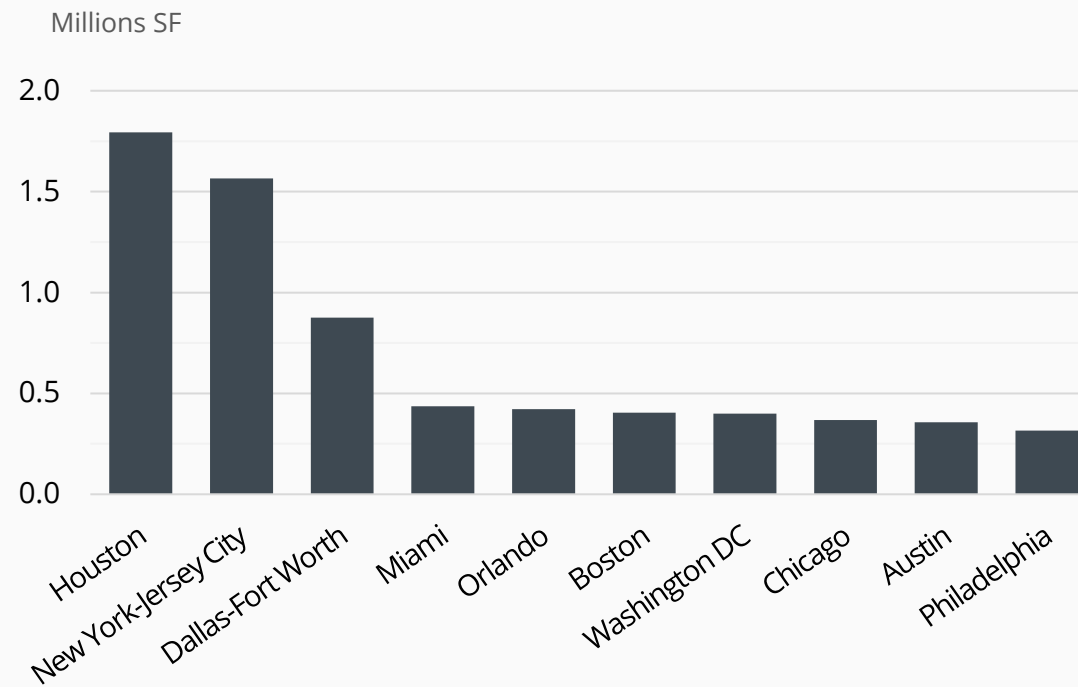
Q2 2023 Asking Rate (Base)



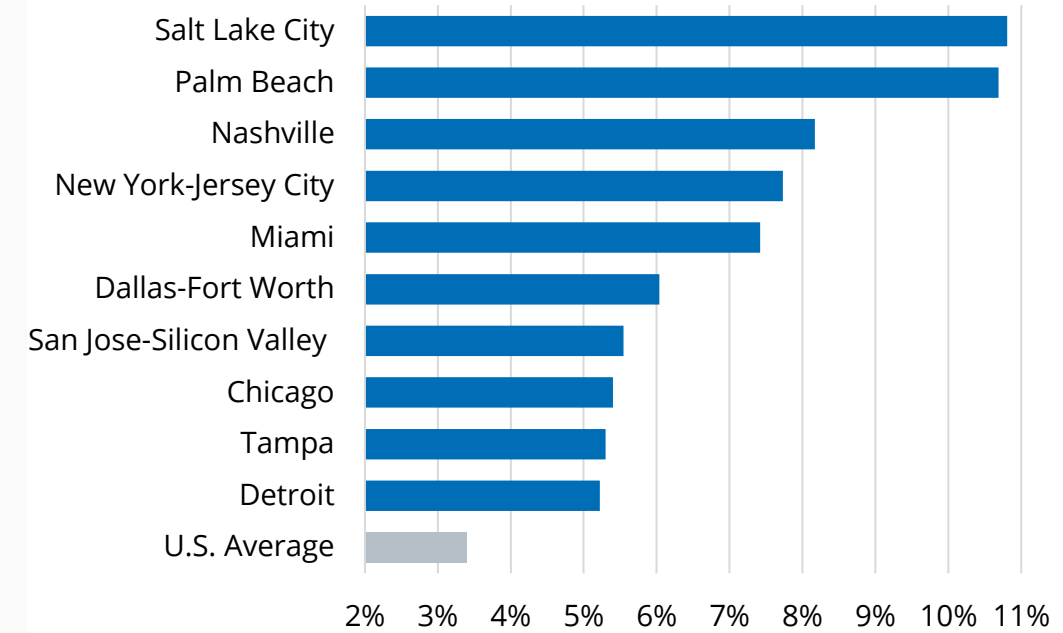
Trailing 4-Qtr Net Absorption



Q2 2023 Under Construction



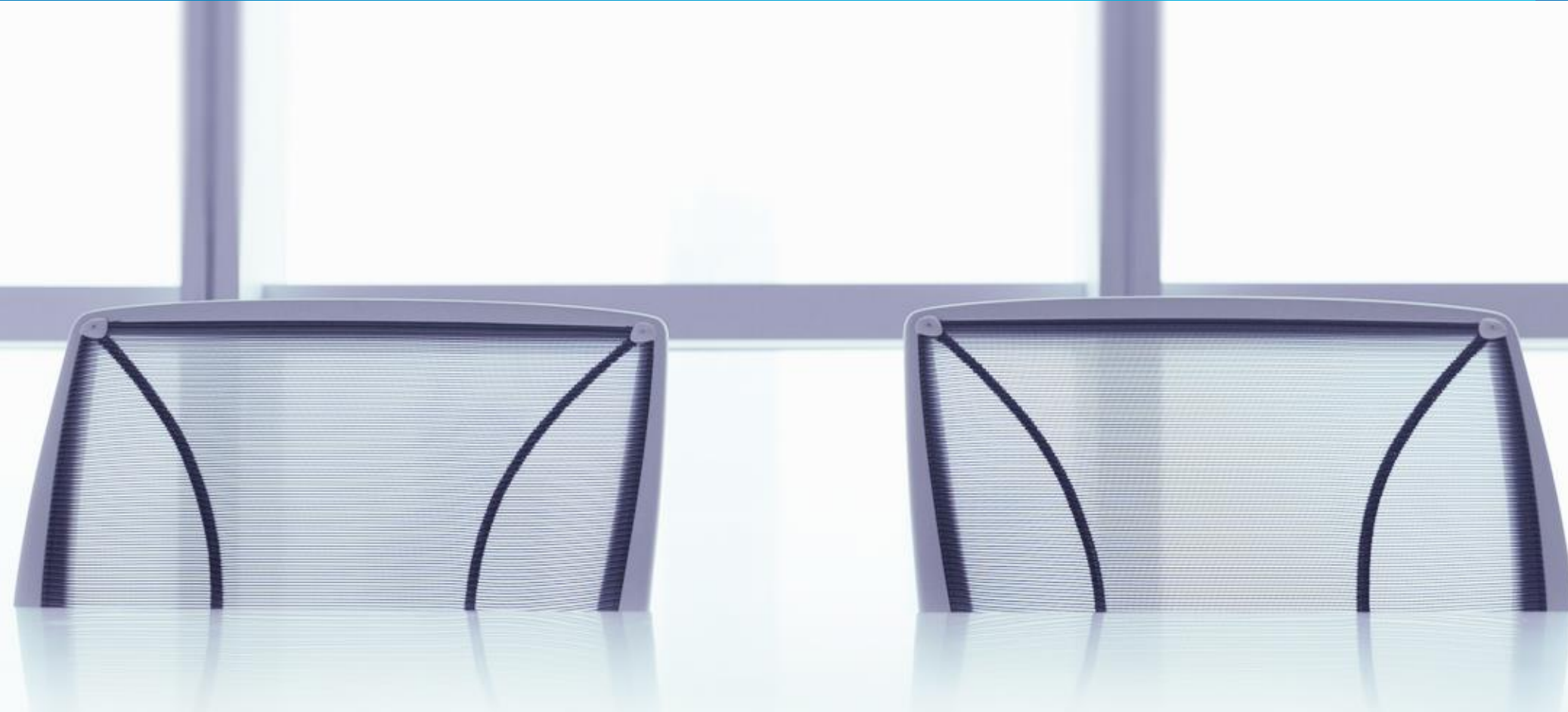
Year-Over-Year Rent Growth



| Market | Inventory SF | Direct Vacancy Rate | Overall Vacancy Rate | Net Absorption | 12-Month Net Absorption | Asking Rent Base | Annual Rent Change | Under Construction |
|-------------------|--------------|---------------------|----------------------|----------------|-------------------------|------------------|--------------------|--------------------|
| Atlanta | 39,897,631 | 8.8% | 9.5% | (82,313) | 116,315 | \$22.40 | +4.3% | 240,428 |
| Austin | 13,664,083 | 8.7% | 9.0% | 101,342 | 260,752 | \$28.13 | +4.6% | 356,281 |
| Baltimore | 18,543,423 | 7.9% | 8.3% | 6,203 | (11,988) | \$21.86 | +1.3% | 96,000 |
| Boston | 36,337,980 | 5.1% | 5.7% | (36,805) | 74,051 | \$20.53 | +0.8% | 404,000 |
| Chicago | 55,299,472 | 11.1% | 11.3% | 197,334 | 628,463 | \$19.35 | +5.4% | 367,902 |
| Dallas-Fort Worth | 53,815,700 | 10.6% | 11.2% | 95,468 | 1,444,302 | \$23.01 | +6.0% | 875,343 |
| Denver | 20,945,721 | 8.6% | 9.2% | (33,242) | 611 | \$22.68 | +2.3% | 223,004 |
| Detroit | 37,840,971 | 10.6% | 10.8% | 18,419 | (30,416) | \$17.53 | +5.2% | 53,009 |
| East Bay-Oakland | 14,767,305 | 7.4% | 7.8% | (44,785) | (11,428) | \$30.94 | +2.2% | 0 |
| Fort Lauderdale | 13,283,427 | 7.7% | 8.1% | 61,161 | 112,481 | \$24.97 | +2.0% | 75,000 |
| Houston | 52,460,306 | 14.1% | 14.8% | 129,073 | 520,910 | \$22.68 | +0.2% | 2,494,811 |
| Inland Empire | 20,918,888 | 6.5% | 6.7% | (69,975) | (131,936) | \$22.08 | +4.4% | 216,640 |
| Los Angeles | 53,397,839 | 8.4% | 8.7% | (156,812) | (520,278) | \$37.03 | -0.3% | 313,050 |
| Miami | 19,105,372 | 6.1% | 6.2% | (66,726) | 150,573 | \$36.34 | +7.4% | 436,329 |
| Milwaukee | 11,916,686 | 6.8% | 6.9% | (15,453) | 12,752 | \$15.11 | +1.5% | 98,288 |
| Minneapolis | 23,117,620 | 6.5% | 6.6% | 112,763 | 395,377 | \$17.70 | +2.4% | 226,158 |
| Nashville | 14,291,628 | 6.5% | 6.7% | (29,827) | 71,160 | \$25.95 | +8.2% | 193,281 |

| Market | Inventory SF | Direct Vacancy Rate | Overall Vacancy Rate | Net Absorption | 12-Month Net Absorption | Asking Rent Base | Annual Rent Change | Under Construction |
|-------------------------|----------------------|---------------------|----------------------|----------------|-------------------------|------------------|--------------------|--------------------|
| Northern New Jersey | 19,186,064 | 10.7% | 10.8% | (20,578) | 131,440 | \$20.32 | +1.1% | 226,000 |
| New York-Jersey City | 67,093,821 | 9.0% | 9.5% | (258,793) | (289,199) | \$28.70 | +7.7% | 1,566,179 |
| Orange County | 21,811,878 | 7.7% | 8.0% | 26,531 | 718 | \$31.57 | +4.1% | 191,121 |
| Orlando | 18,286,984 | 8.4% | 8.6% | 16,801 | 170,444 | \$23.88 | +4.7% | 422,272 |
| Palm Beach | 13,367,548 | 4.9% | 5.6% | (49,996) | 88,494 | \$25.99 | +10.7% | 92,902 |
| Philadelphia | 42,854,757 | 9.7% | 10.4% | (68,877) | 446,194 | \$23.17 | +3.3% | 316,473 |
| Phoenix | 32,392,137 | 10.6% | 11.6% | 127,808 | 503,589 | \$25.14 | +3.5% | 271,048 |
| Salt Lake City | 8,635,619 | 5.9% | 5.9% | (13,656) | 18,487 | \$21.84 | +10.8% | 0 |
| San Antonio | 17,942,444 | 11.6% | 12.1% | (11,211) | 262,080 | \$22.46 | +3.2% | 237,023 |
| San Diego | 19,917,619 | 5.5% | 5.8% | 119,343 | 245,469 | \$29.64 | +2.5% | 9,990 |
| San Francisco | 8,945,027 | 7.5% | 8.4% | (1,634) | 14,607 | \$59.12 | +0.0% | 5,000 |
| San Jose-Silicon Valley | 9,856,384 | 6.7% | 6.8% | (77,203) | (27,466) | \$39.89 | +12.0% | 231,579 |
| Seattle | 25,206,533 | 4.7% | 4.9% | (16,782) | 255,992 | \$27.88 | +1.6% | 0 |
| Tampa | 22,568,801 | 4.7% | 5.0% | 3,134 | 218,288 | \$22.65 | +5.3% | 291,897 |
| Washington DC | 46,159,168 | 9.8% | 10.2% | 235,740 | 452,401 | \$27.61 | +2.6% | 399,538 |
| United States* | 1,870,444,767 | 7.8% | 8.1% | 183,895 | 9,467,780 | \$22.28 | +3.2% | 17,635,264 |

*All U.S. markets



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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, life sciences, and standard office buildings are excluded from analysis. All rents are reported as base, which are rents reflected irrespective of service type (Full Service, Plus Electric, etc.).