



TRANSWESTERN

COMMERCIAL REAL ESTATE

U.S. MARKET | Medical Office

Q4 2023

THE VIEW FROM HERE



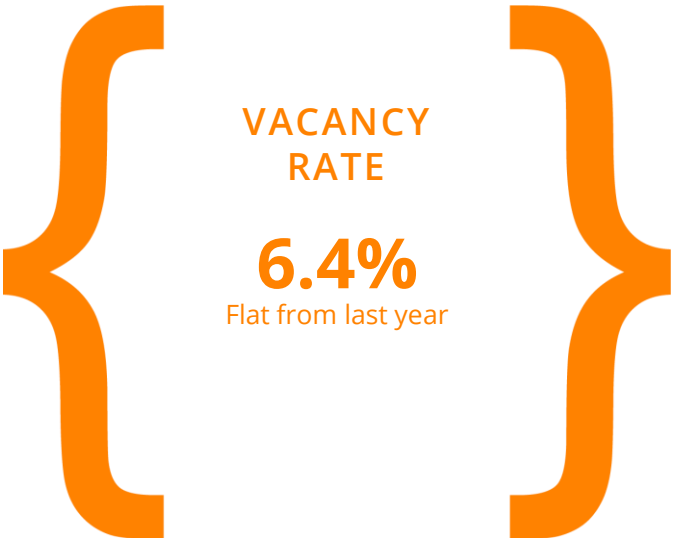
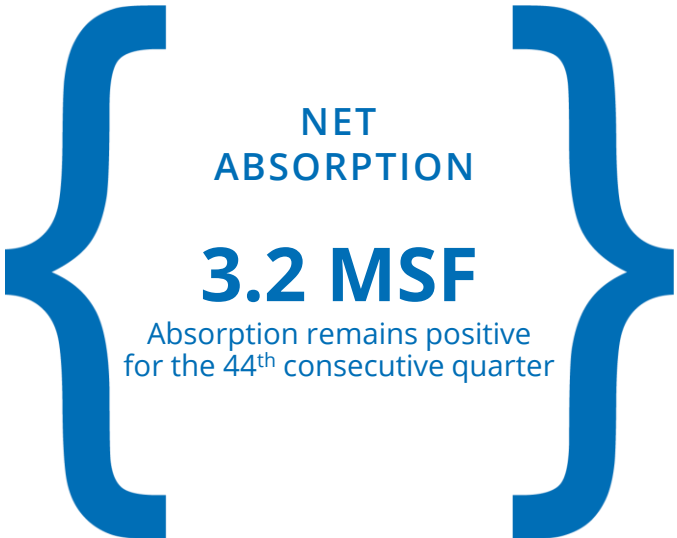

A demographic tailwind provides a strong secular driver for demand in the foreseeable future.



Demand remains elevated in the fastest growing regions of the country, notably the sunbelt.



Occupancy remains extremely high compared to other property sectors, drawing a broader swath of investors.

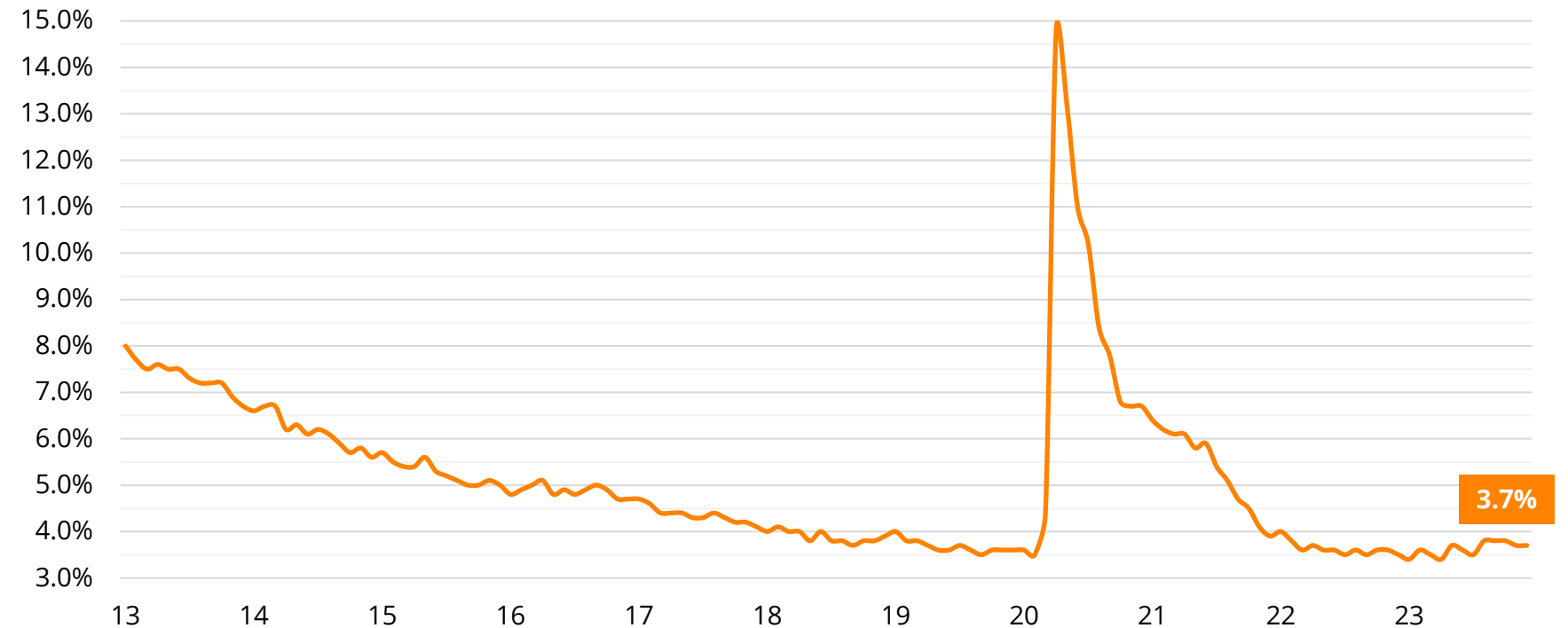


ECONOMIC HIGHLIGHTS

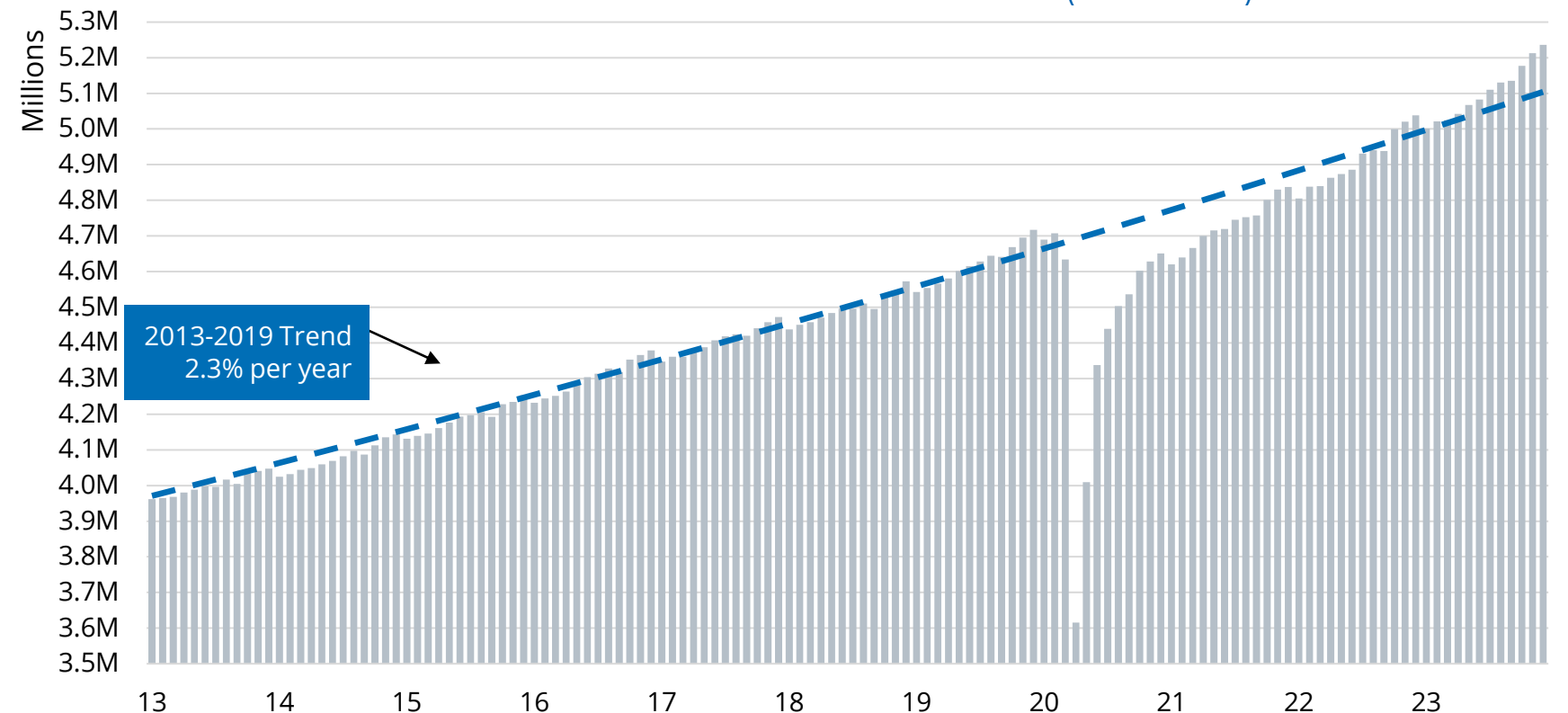
- U.S. unemployment remains below average at 3.7%. 774,000 more workers have become employed full-time over the last 12 months.
- Over the last year, leading sectors for job growth have been healthcare and social assistance (+969,000), government (+688,000), and leisure and hospitality (+558,000).
- Healthcare employment increased by 692,000 jobs over the last 12 months. Overall employment in the sector is now 886,000 jobs, or 5.4% above pre-pandemic levels.
- Medical office-using jobs—physicians, dentists, and ambulatory health care practitioners—grew by 179,600 jobs, or 3.6% YoY.
- Medical office-using employment has completely recovered from pandemic-related declines and is now outpacing the pre-pandemic growth trend.
- Employment in freestanding ambulatory surgical centers and emergency care centers is now 14,200 jobs, or 8.5% above pre-pandemic levels.
- Employment in hospitals grew by 163,200 jobs, or 3.4% over the last 12 months. Hospital employment is now 191,000 jobs above pre-pandemic levels.
- Employment in skilled nursing facilities grew by 67,000 jobs, or 4.9% over the last year. Nevertheless, employment remains 9% below pre-pandemic levels.

HISTORICAL

UNEMPLOYMENT RATE



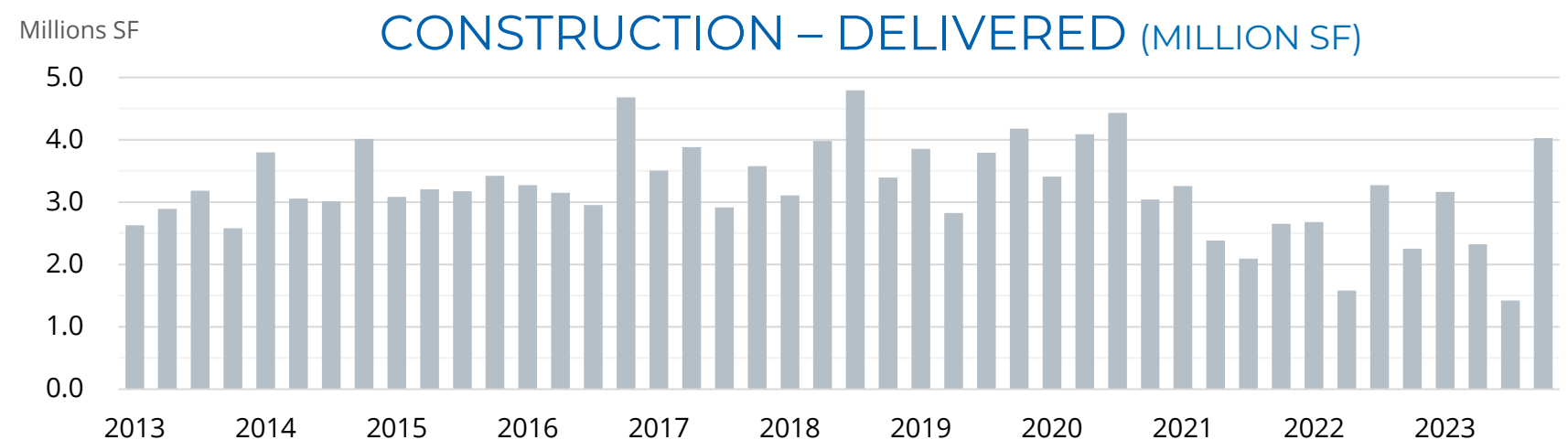
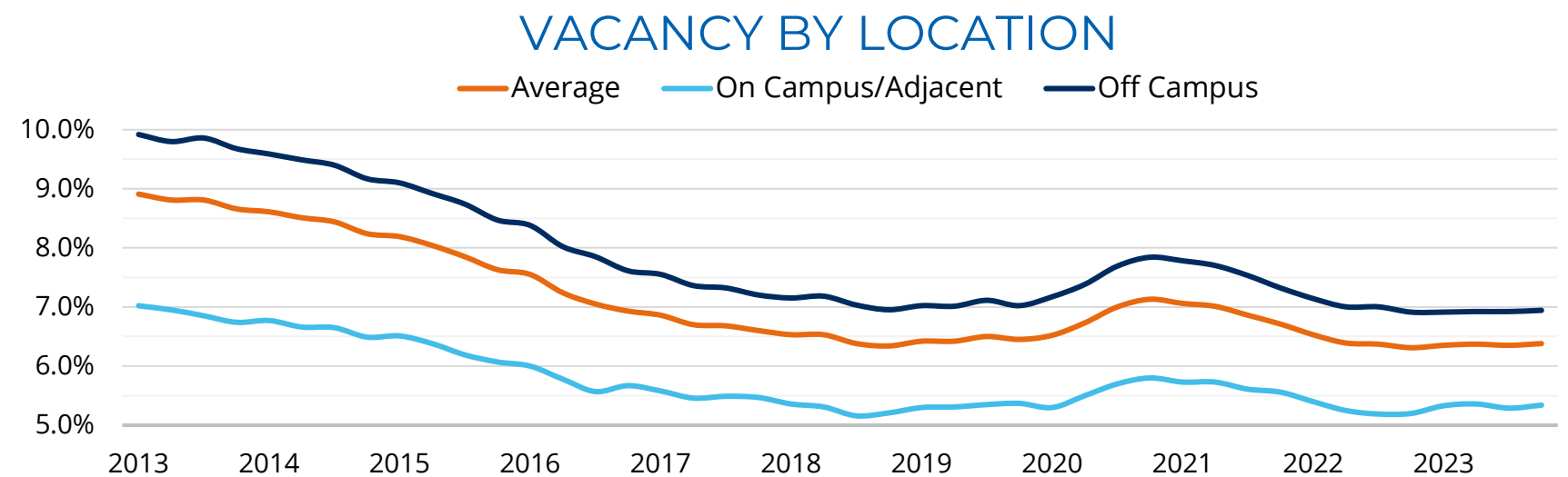
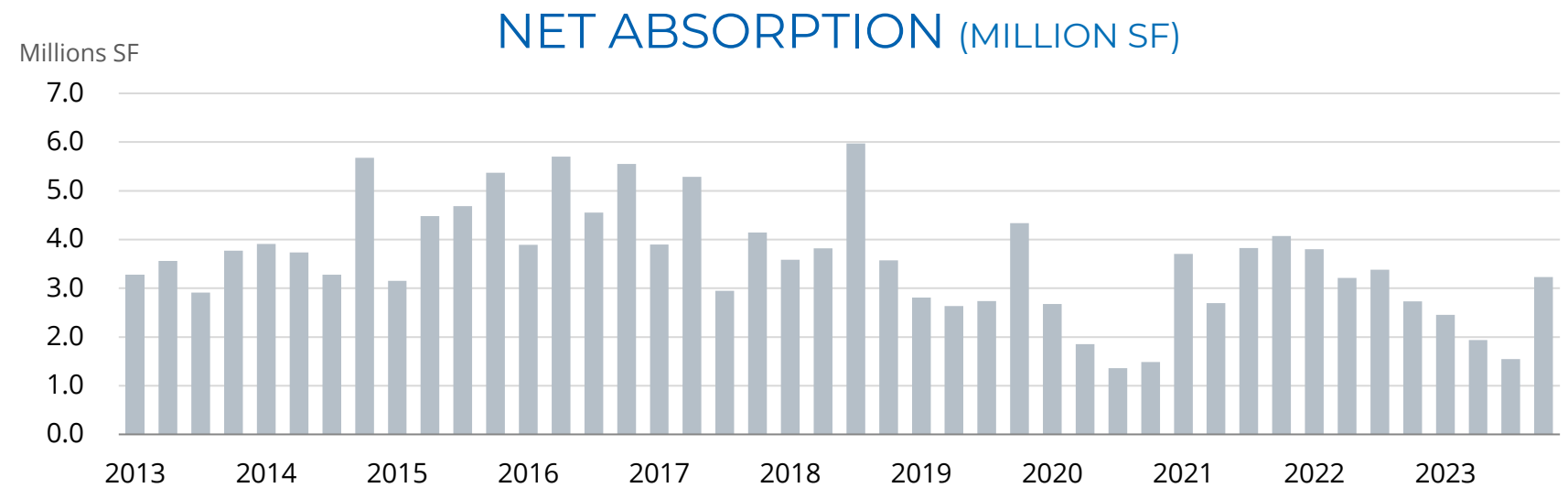
MEDICAL OFFICE-USING JOBS (MILLIONS)



MARKET HIGHLIGHTS

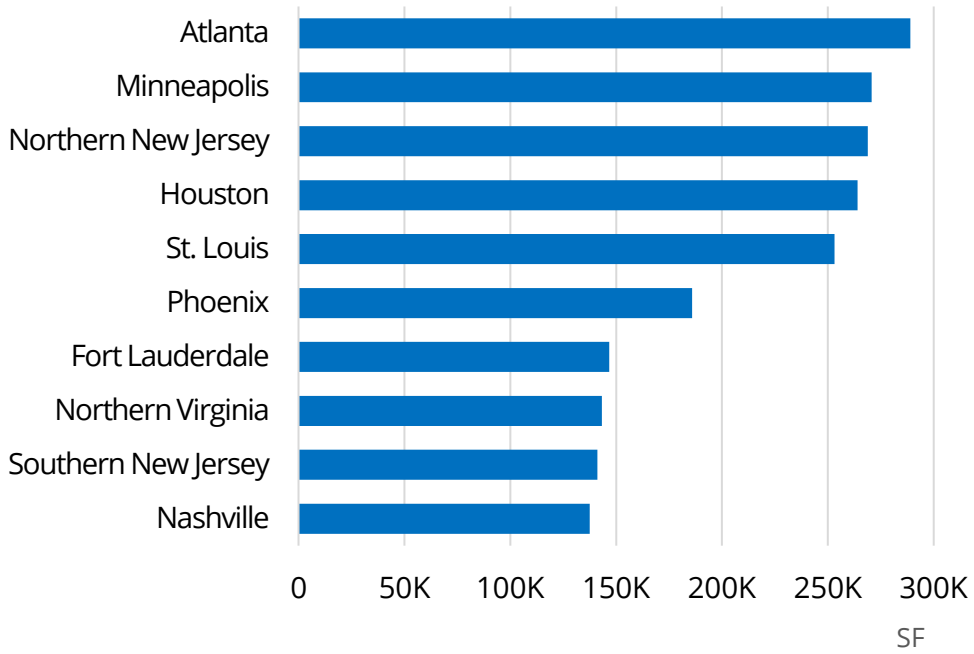
- Overall, healthcare real estate remains in a state of shortage. Medical office-using employment has fully rebounded beyond growth trends, but development has not kept pace.
- Absorption reached positive 3.2 million SF this quarter, largely due to pre-leased deliveries.
- Net absorption over the last 12 months reached positive 9.2 million SF, or 0.8% of stock.
- Vacancy remained flat at 6.4%, in line with pre-pandemic lows.
- Vacancy in on campus and campus adjacent properties remains extremely tight at 5.3%.
- Asking rents are rising or stable in every market. A scarcity of space and higher tenant improvement allowances are contributing to rent growth.
- Construction has continued tapering. Healthcare systems continue driving new construction, while speculative projects have been constrained by financing and pre-leasing requirements.
- Demand for new space remains healthy. Active construction remains pre-leased at a rate of 82%.
- Despite strong investor interest, higher interest rates continue to encourage owners to delay dispositions until rates fall and cap rates compress again.

HISTORICAL



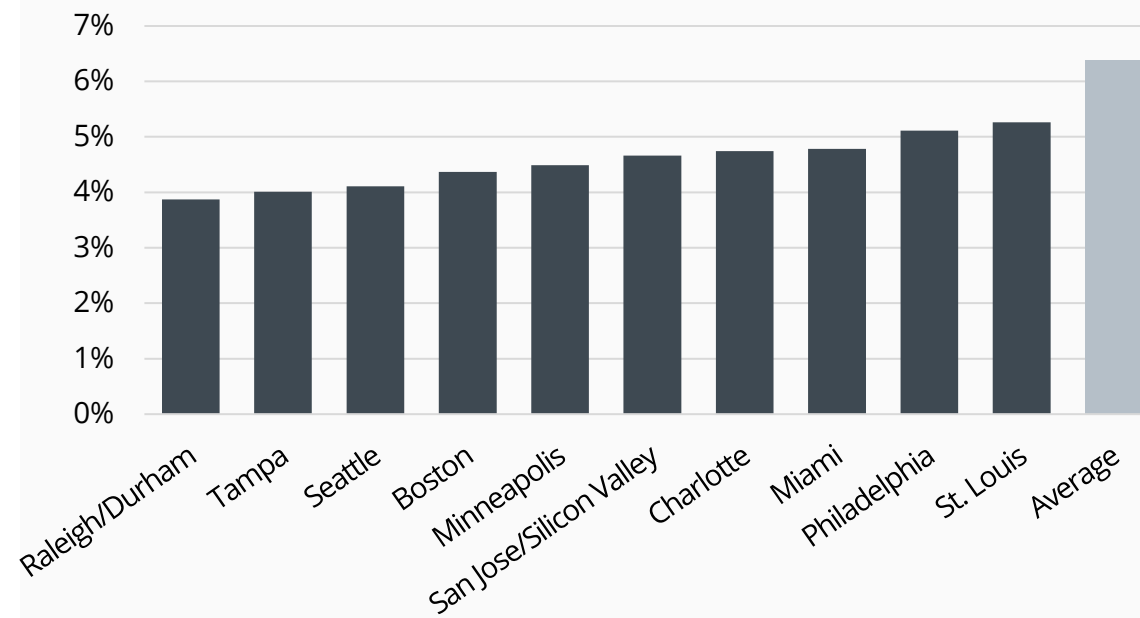
NET ABSORPTION

Net Absorption - Q4 2023



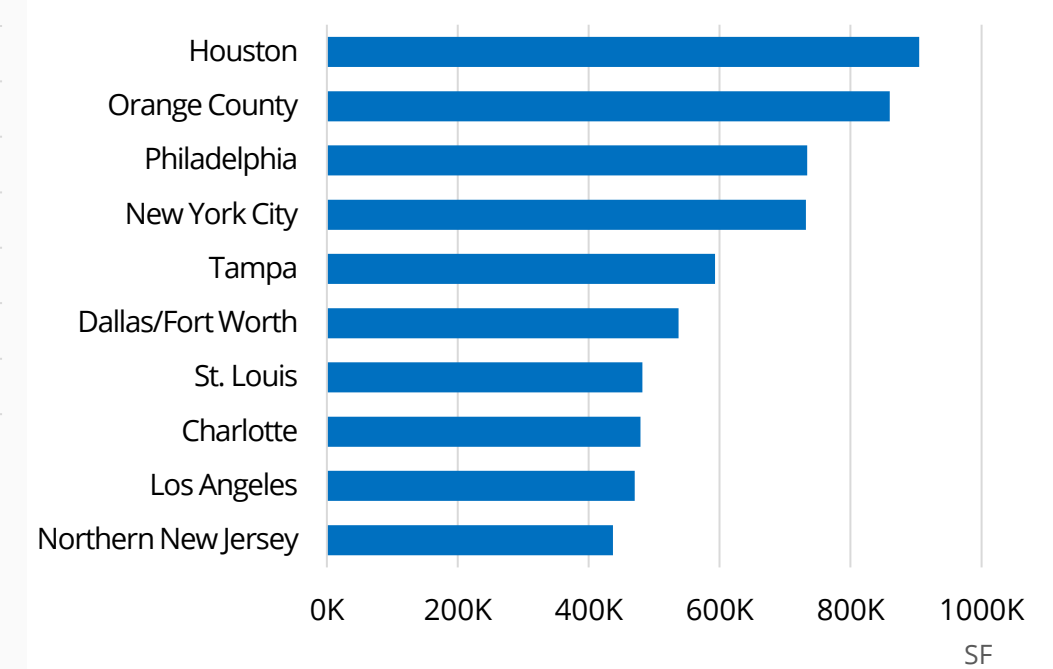
VACANCY/ASKING RENTS

Vacancy Rate - Q4 2023

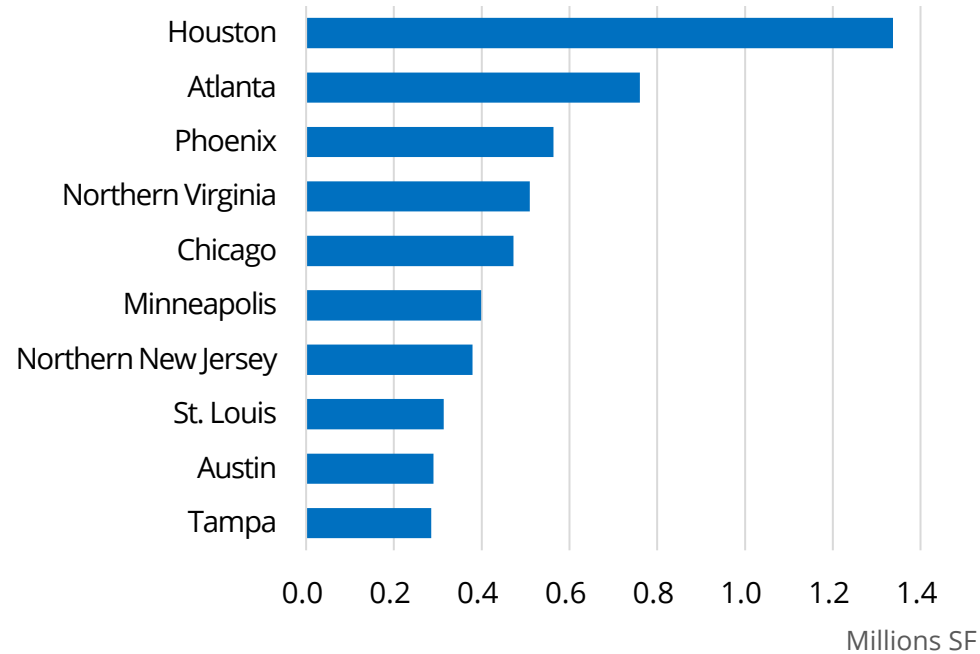


CONSTRUCTION

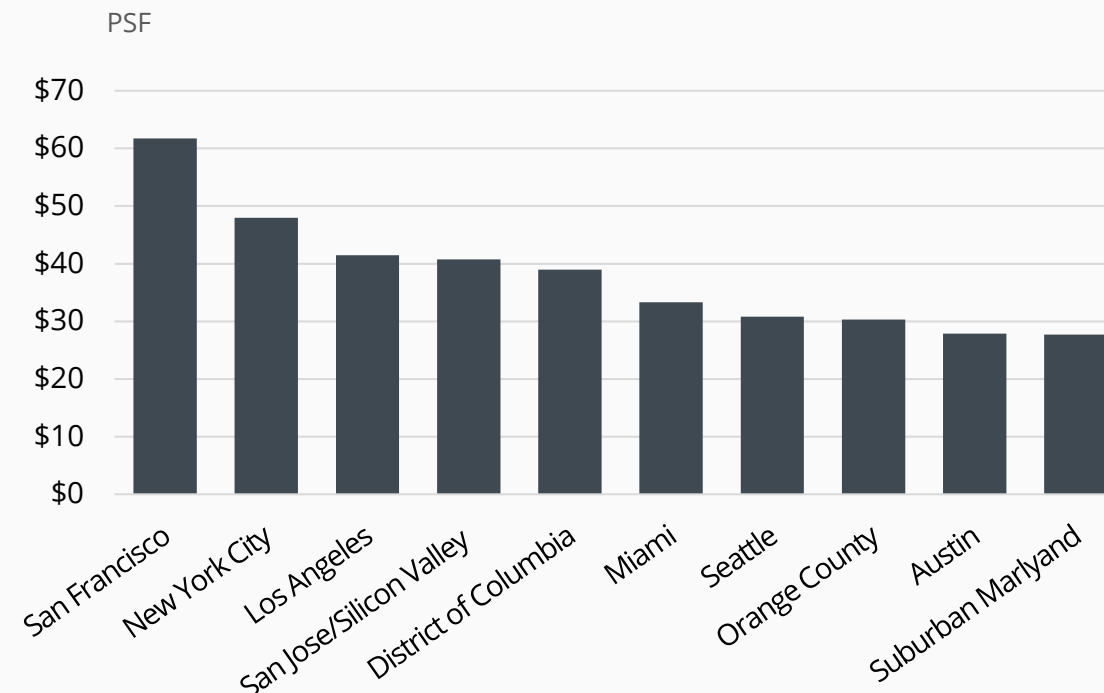
Total SF Under Construction - Q4 2023



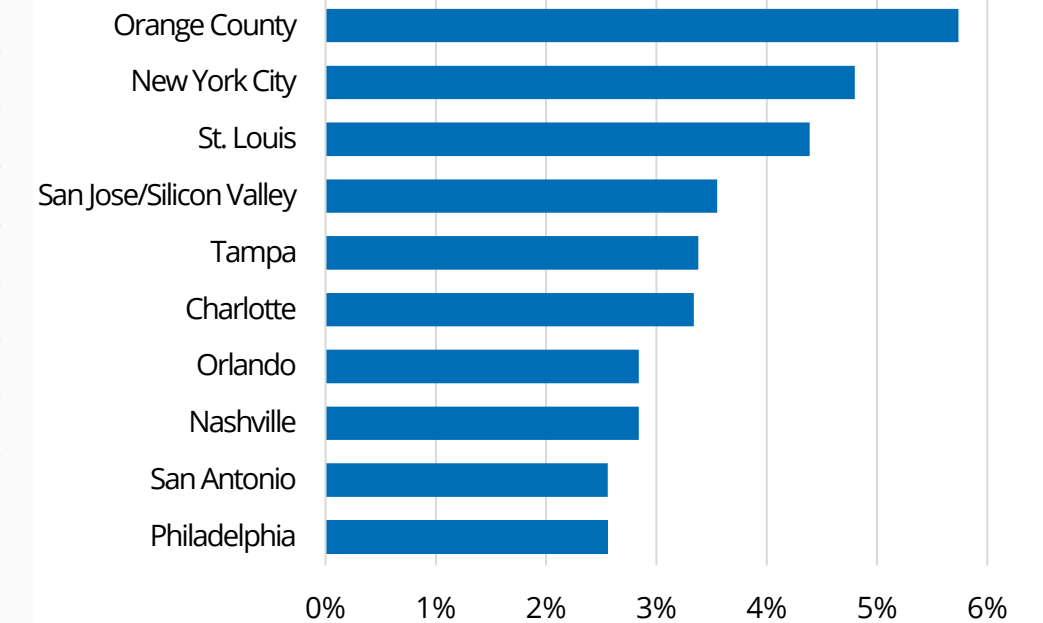
Trailing 12-Month Net Absorption



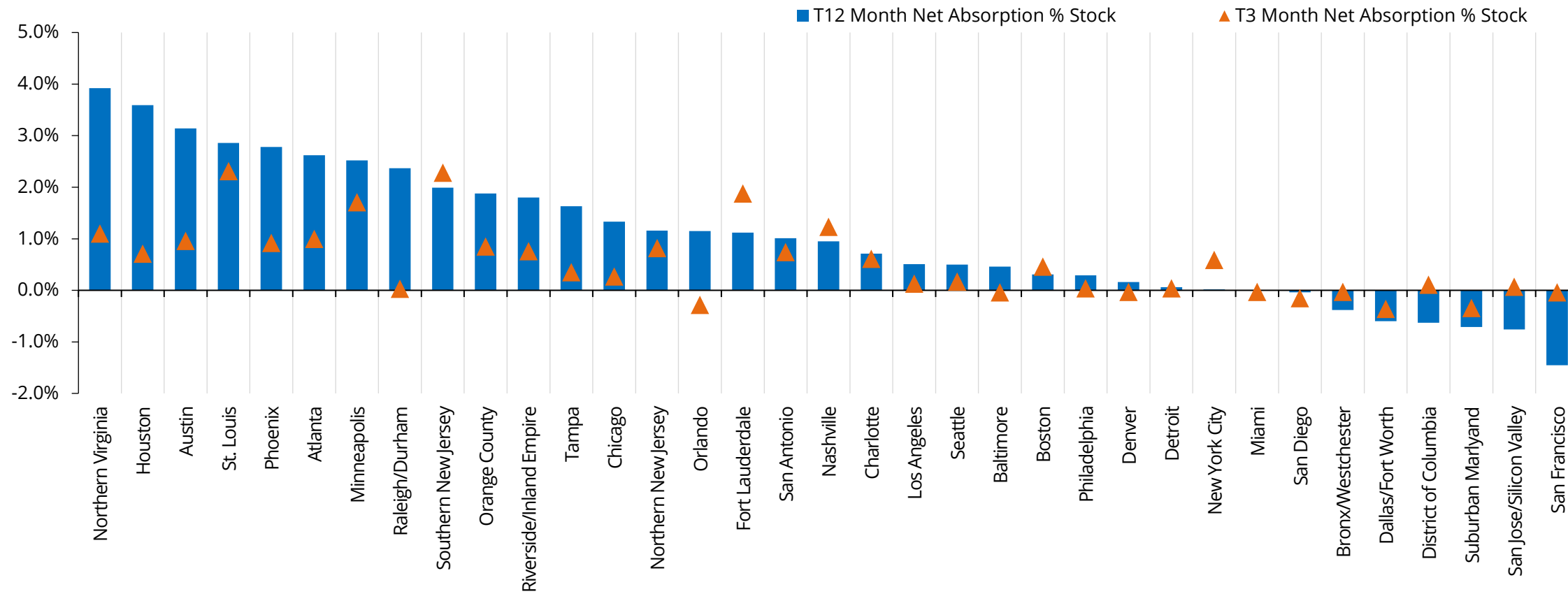
Net Asking Rents - Q4 2023



Construction As % of Stock - Q4 2023

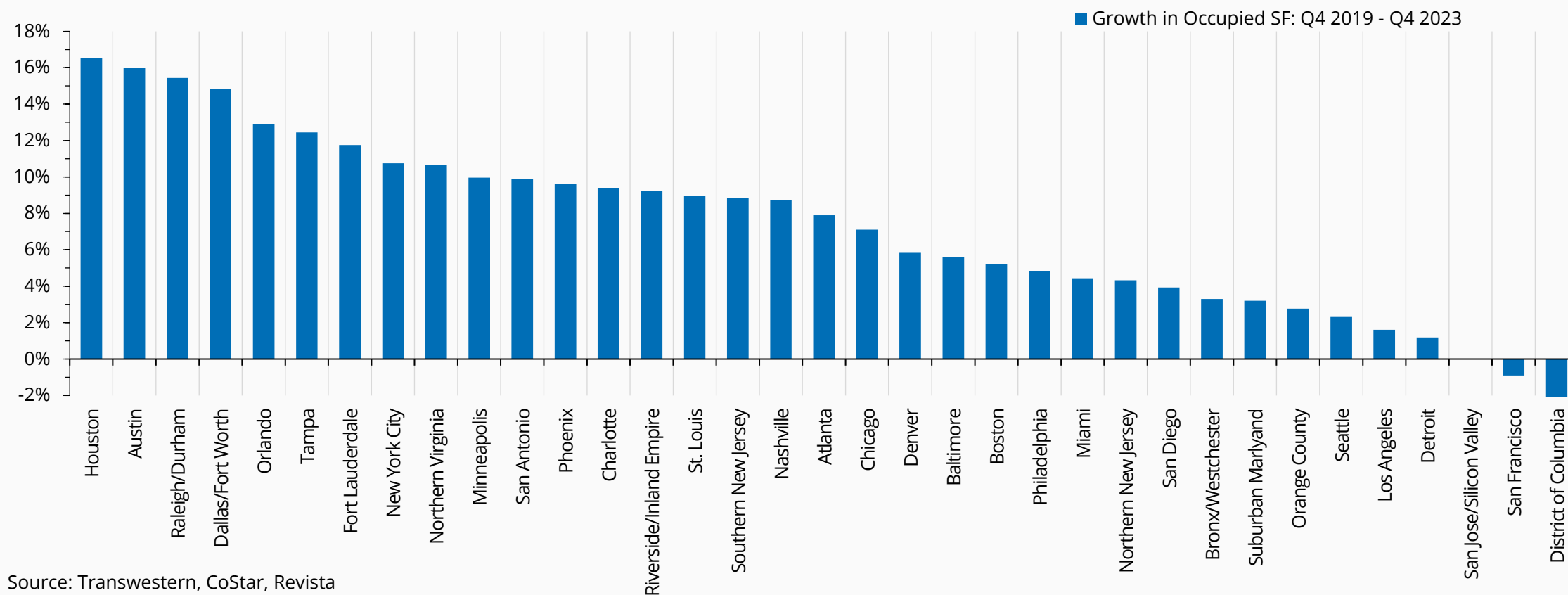


NET ABSORPTION % STOCK



- This graph shows net absorption as percent of stock over the last quarter and 12 months.
- Net absorption has remained positive in most markets due to deliveries. In markets where the construction pipeline is trailing off, net absorption has softened with tenant demand.
- High build-out costs and strong rent growth have led some healthcare systems and providers to reconsider opening new facilities in the short term.

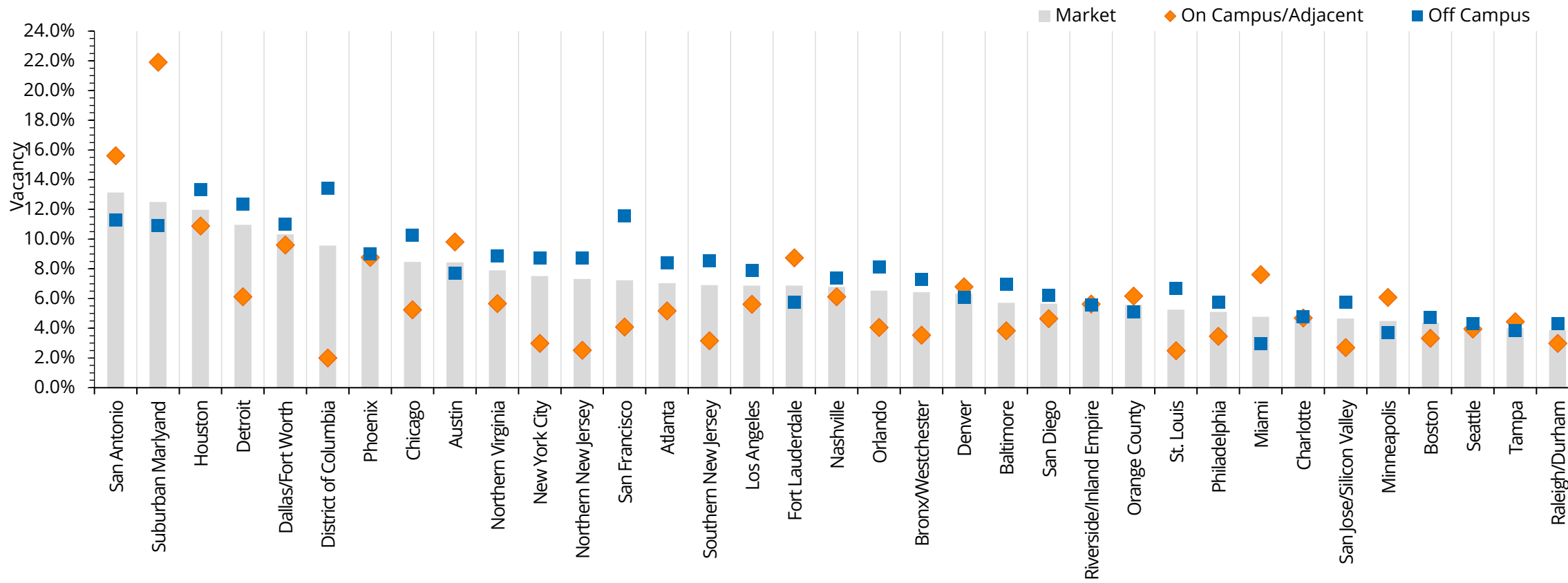
HOTTEST MARKETS FOR DEMAND



- This graph shows the growth of occupied space over the last four years.
- Sun Belt markets have experienced the hottest growth in demand as systems and providers open new locations to serve rapidly growing populations.
- New York City is a notable coastal outlier due to the number of large facilities purpose-built for healthcare systems such as Memorial Sloan Kettering, New York-Presbyterian, and Maimonides Health.

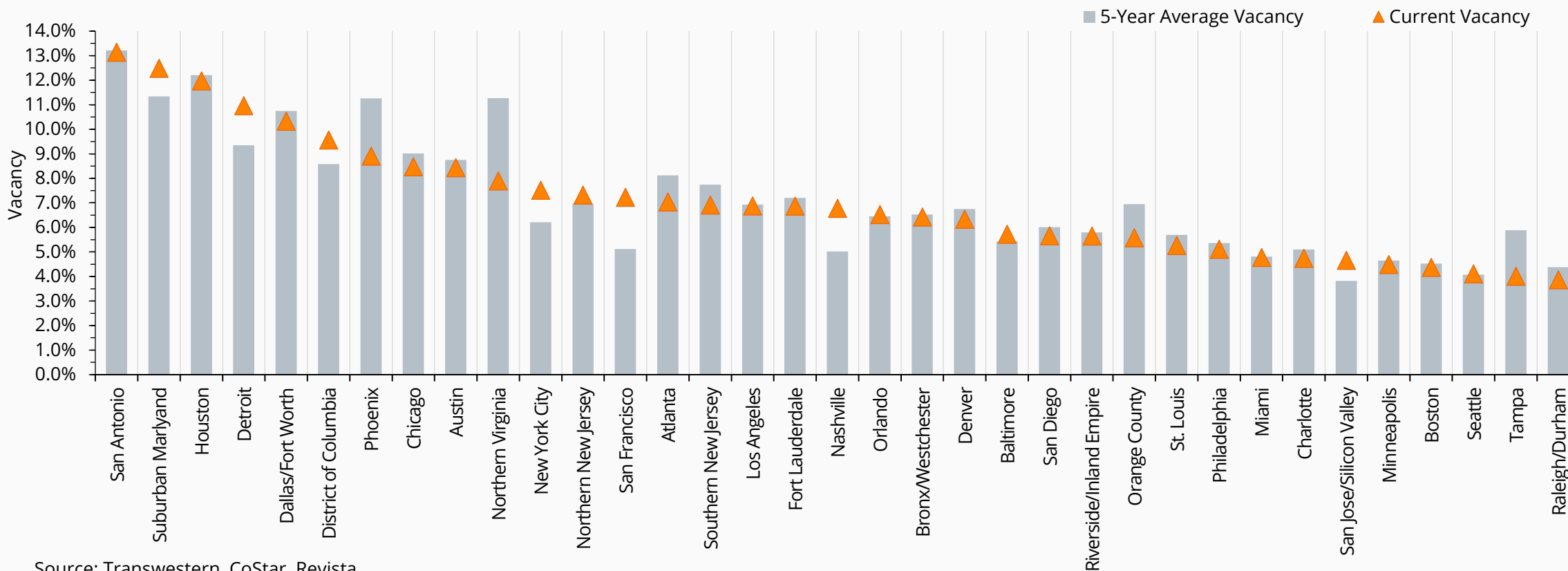
KEY PERFORMANCE INDICATORS

VACANCY BY LOCATION



- This graph shows vacancy for each market and the spread between on campus/adjacent and off campus properties.
- Vacancy in on campus/adjacent properties is generally lower than market averages, reflecting the dominance of healthcare systems in these spaces and greater desirability for referring providers.
- Markets where on campus/adjacent vacancies exceed market averages reflect new buildings in lease-up. For example, Suburban Maryland is elevated due to delivery of Ella at Carillon, a 125,000 SF speculative building adjacent to UM Capital Region Medical Center.

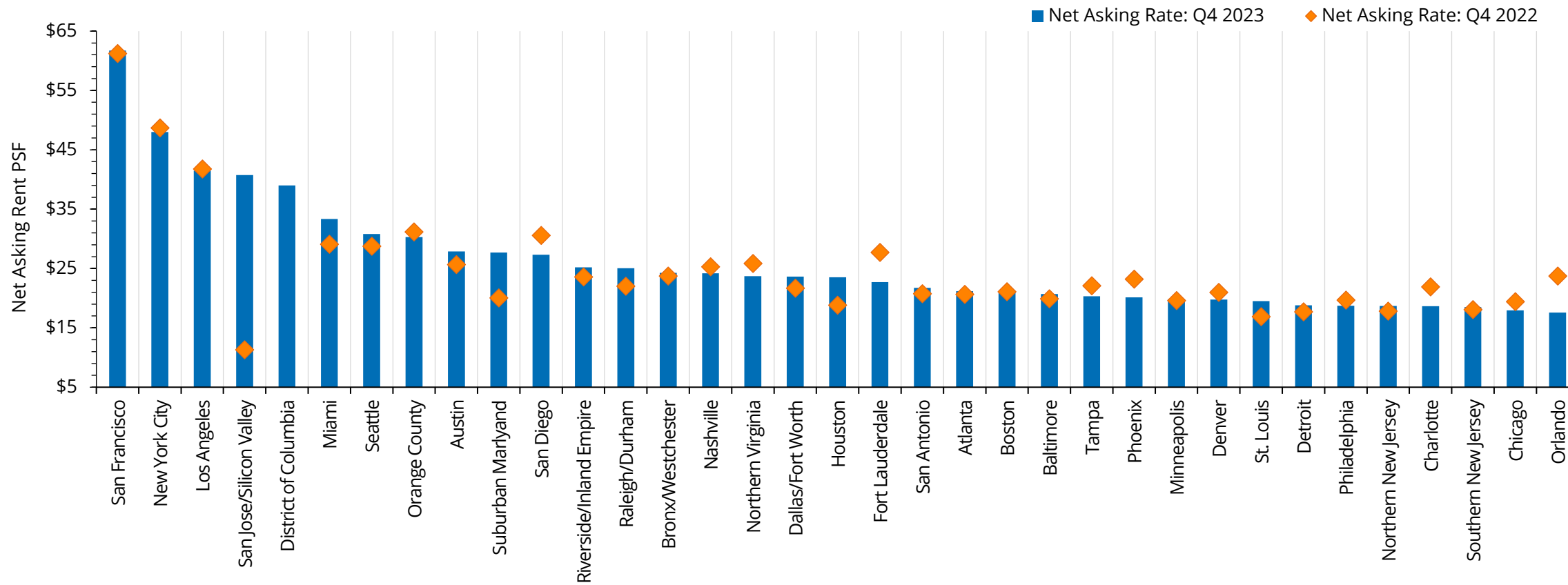
CURRENT VACANCY VS HISTORICAL NORM



- This graph indicates the relative scarcity of space in each market, comparing the current vacancy rate to the five-year average.
- Vacancy remains below the five-year average in a large majority of markets.

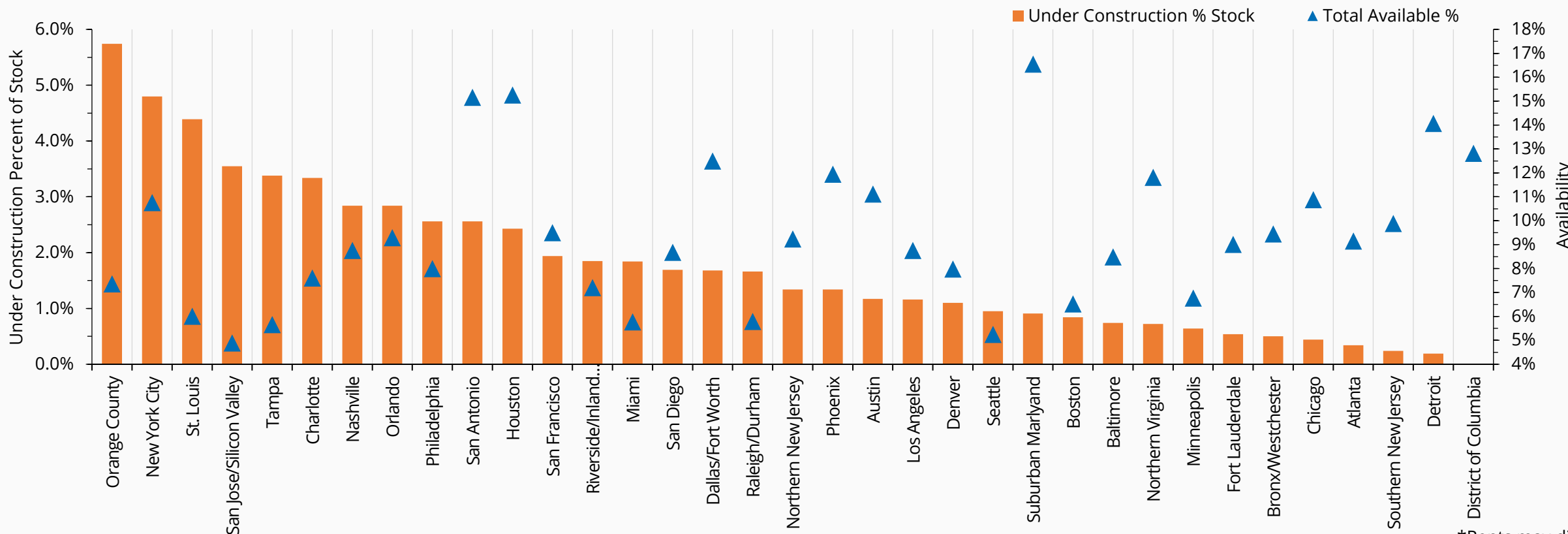
KEY PERFORMANCE INDICATORS

RENTAL RATES*



- This graph shows net asking rents during the current quarter and previous year.
- Rents are stable and growing in every market due to tight vacancies and higher build-out costs and tenant improvement allowances.
- Rent growth has been felt most acutely in newer buildings due to the large increase in construction costs since 2020.

CONSTRUCTION AND AVAILABILITY



- Under construction percent of stock is indicative of future market expansion. Combined with availability percent of stock, it can be a potential determinate of softening or tightening vacancy within a market.
- Healthcare systems lead construction in markets with the largest amount of construction as percent of stock.
- Construction is 82% pre-leased, indicating future deliveries will do little to alleviate tight vacancy rates.

*Rents may display unusual growth or decline due to small sample size.

MARKET SUMMARIES

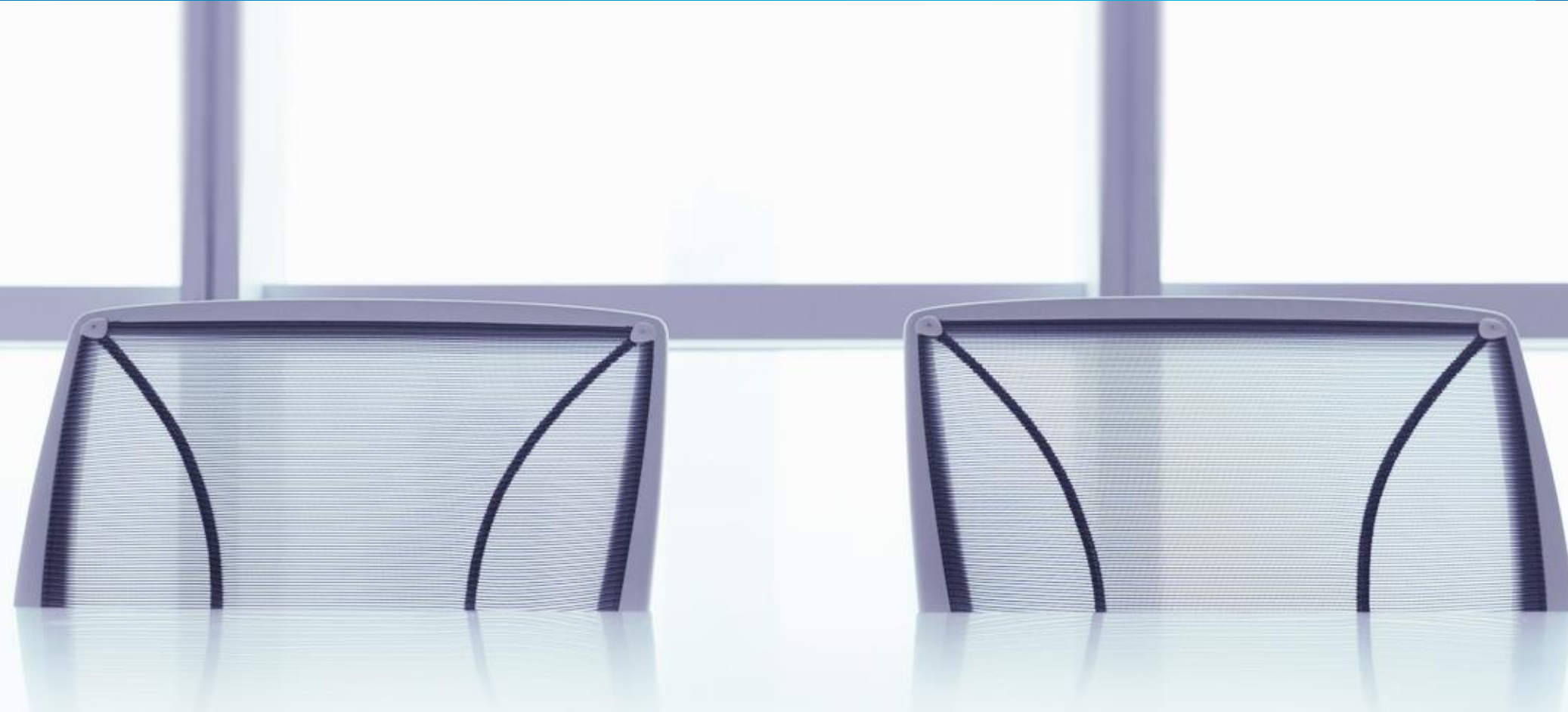
Market	Inventory SF	Market Vacancy	On Campus/ Adjacent	Off Campus	Net Absorption	12-Month Net Absorption	NNN Asking Rent*	Prior Year Asking Rent	Under Construction
Atlanta	29,028,429	7.0%	5.2%	8.4%	288,950	760,201	\$21.17	\$20.64	100,000
Austin	9,234,976	8.4%	9.8%	7.7%	88,431	289,978	\$27.88	\$25.63	107,918
Baltimore	13,007,189	5.7%	3.8%	6.9%	(5,390)	59,343	\$20.68	\$19.87	96,000
Boston	26,792,490	4.4%	3.3%	4.7%	122,184	83,889	\$21.08	\$21.08	224,000
Bronx/Westchester	18,520,943	6.4%	3.5%	7.3%	(5,146)	(70,200)	\$24.26	\$23.70	93,321
Charlotte	14,329,487	4.7%	4.7%	4.8%	87,060	101,374	\$18.67	\$21.87	478,955
Chicago	35,526,376	8.5%	5.2%	10.3%	94,343	472,106	\$17.95	\$19.40	156,450
Cincinnati	8,935,163	3.8%	3.0%	4.5%	6,656	53,874	\$16.40	\$15.03	176,507
Cleveland	14,286,078	4.9%	1.6%	6.7%	(69,374)	75,562	\$17.25	\$14.20	412,000
Columbus OH	11,264,855	6.3%	3.9%	7.7%	1,656	(110,148)	\$14.88	\$14.58	198,720
Dallas/Fort Worth	31,993,071	10.3%	9.6%	11.0%	(114,126)	(191,614)	\$23.64	\$21.66	536,971
Dayton	4,453,215	5.0%	1.1%	7.0%	10,968	108,931	\$14.27	\$12.59	0
Delaware	3,824,789	4.1%	1.1%	4.8%	(14,350)	34,908	\$18.41	\$18.92	0
Denver	19,854,353	6.3%	6.8%	6.0%	(6,563)	32,728	\$19.75	\$20.97	217,699
Des Moines	3,192,946	2.8%	0.3%	5.2%	(6,651)	(18,264)	\$16.20	\$15.02	0
Detroit	22,891,096	11.0%	6.1%	12.4%	8,108	14,606	\$18.81	\$17.68	43,485
District of Columbia	2,311,197	9.6%	2.0%	13.4%	2,644	(14,468)	\$39.00	-	0
East Bay/Oakland	9,505,834	5.4%	3.0%	6.6%	32,659	30,655	\$26.70	\$28.64	137,025
Fort Lauderdale	7,817,413	6.9%	8.7%	5.7%	146,711	87,398	\$22.71	\$27.68	42,000
Hampton Roads	7,770,617	6.7%	4.6%	8.2%	(24,798)	(79,958)	\$21.20	\$19.94	107,725
Houston	37,277,497	12.0%	10.9%	13.3%	264,096	1,337,095	\$23.51	\$18.79	904,641
Indianapolis	12,767,327	5.5%	4.5%	6.3%	6,112	(58,608)	\$14.27	\$13.77	308,000
Jacksonville	7,053,207	6.8%	2.5%	11.9%	(78,779)	(47,057)	\$17.60	\$18.91	321,320
Kansas City	10,749,945	8.0%	8.1%	8.0%	94,334	164,095	\$18.76	\$17.83	260,000
Las Vegas	9,216,821	9.2%	8.7%	9.5%	29,381	100,913	\$16.95	\$19.40	159,310
Long Island	12,652,991	5.9%	1.6%	7.1%	(31,993)	(126,083)	\$30.97	\$31.16	85,000
Los Angeles	40,537,629	6.9%	5.6%	7.9%	53,866	207,389	\$41.49	\$41.74	470,000
Miami	11,204,591	4.8%	7.6%	2.9%	(3,219)	305	\$33.33	\$29.08	205,829
Milwaukee	9,358,657	4.1%	2.8%	4.5%	93,451	108,126	\$15.85	\$14.10	40,288

*Rents represent a weighted average of available space. Tight market conditions may lead to unusual growth or decline due to small sample sizes. Sources: Transwestern, CoStar

MARKET SUMMARIES

Market	Inventory SF	Market Vacancy	On Campus/ Adjacent	Off Campus	Net Absorption	12-Month Net Absorption	NNN Asking Rent*	Prior Year Asking Rent	Under Construction
Minneapolis	15,837,539	4.5%	6.1%	3.7%	270,614	399,045	\$19.83	\$19.59	101,040
Nashville	11,183,062	6.8%	6.1%	7.4%	137,538	106,706	\$24.21	\$25.27	317,927
New Orleans	5,039,771	2.3%	1.9%	3.5%	363	(12,406)	\$17.84	\$26.96	126,000
New York City	15,233,537	7.5%	3.0%	8.7%	89,440	2,444	\$48.00	\$48.68	731,971
Northern New Jersey	32,602,919	7.3%	2.5%	8.7%	268,811	379,010	\$18.69	\$17.79	436,750
Northern Virginia	13,004,290	7.9%	5.7%	8.9%	143,182	509,287	\$23.72	\$25.84	93,000
Oklahoma City	7,273,921	8.1%	7.1%	9.2%	66,023	(66,553)	\$18.51	\$20.42	17,016
Orange County	14,984,881	5.6%	6.2%	5.1%	126,662	281,724	\$30.31	\$31.15	860,000
Orlando	12,225,775	6.5%	4.1%	8.1%	(34,659)	141,040	\$17.59	\$23.72	347,406
Palm Beach	7,985,561	4.7%	5.7%	4.3%	15,691	35,017	\$22.31	\$20.23	252,000
Philadelphia	28,601,214	5.1%	3.4%	5.8%	12,413	83,997	\$18.72	\$19.64	733,534
Phoenix	20,251,137	8.9%	8.8%	9.0%	185,948	563,312	\$20.14	\$23.20	271,828
Pittsburgh	9,664,831	6.2%	1.3%	8.6%	(12,106)	(83,899)	\$15.16	\$21.40	24,200
Portland	11,348,710	3.3%	1.5%	4.6%	(7,022)	(82,029)	\$28.31	\$27.13	15,377
Raleigh/Durham	10,882,704	3.9%	3.0%	4.3%	3,474	257,473	\$25.06	\$21.99	180,328
Riverside/Inland Empire	12,730,657	5.7%	5.6%	5.6%	96,812	228,815	\$25.20	\$23.56	235,000
Salt Lake City	10,256,721	3.0%	0.8%	4.4%	(1,860)	108,397	\$19.12	\$16.89	172,400
San Antonio	12,366,523	13.1%	15.6%	11.3%	91,901	124,935	\$21.74	\$20.73	317,000
San Diego	13,301,154	5.7%	4.7%	6.2%	(20,509)	(5,727)	\$27.31	\$30.56	225,000
San Francisco	7,379,896	7.2%	4.1%	11.6%	(2,631)	(106,680)	\$61.72	\$61.18	143,100
Seattle/Puget Sound	6,521,768	4.7%	2.7%	5.7%	4,634	(49,885)	\$40.74	\$11.28	231,579
South Bay/San Jose	17,442,200	4.1%	3.9%	4.3%	29,065	87,530	\$30.83	\$28.73	165,000
South Bend/Mishawaka	2,832,260	8.2%	4.8%	9.7%	(52,212)	(124,411)	\$13.40	\$12.47	0
Southern New Jersey	6,202,740	6.9%	3.2%	8.6%	141,174	123,271	\$18.49	\$18.06	15,000
St. Louis	10,973,649	5.3%	2.5%	6.7%	253,136	313,387	\$19.52	\$16.87	481,750
Suburban Maryland	12,394,061	12.5%	21.9%	10.9%	(42,531)	(87,557)	\$27.69	\$20.04	113,138
Tampa/St Petersburg	17,534,029	4.0%	4.4%	3.9%	61,468	284,950	\$20.34	\$22.08	592,845
Tulsa	5,848,866	0.9%	0.0%	2.2%	35,970	73,913	\$13.91	\$13.71	0
Totals/Average	1,089,910,087	6.4%	5.3%	6.9%	3,232,509	9,174,167	\$21.28	\$21.25	17,543,216

*Rents represent a weighted average of available space. Tight market conditions may lead to unusual growth or decline due to small sample sizes. Sources: Transwestern, CoStar



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ABOUT THE TRANSWESTERN COMPANIES

Four dynamic, integrated companies make up the Transwestern enterprise, giving us the perspective to think broadly, deeply and creatively about commercial real estate. Clients and investors rely on us for expertise that spans institutional and opportunistic investment, development, hospitality, and brokerage and asset services. Our award-winning, collaborative culture empowers team members with resources and independence to work across boundaries in pursuit of innovative solutions, reinforcing a reputation for service excellence that translates to measurable results. Through offices nationwide and alliance partners around the globe, we positively impact the built environment and our communities while fostering a work climate that champions career vitality for all. Learn more at transwestern.com and [@Transwestern](https://twitter.com/Transwestern).

RESEARCH METHODOLOGY

The information in this report is a compilation of medical office and outpatient healthcare properties 10,000 SF and larger located in select U.S. metropolitan areas. Government-owned, life sciences, and standard office buildings are excluded from analysis. Unless otherwise specified, "Vacancy" refers to direct vacancy with immediate availability and "Rents" refer to Triple Net asking rents.