

WASHINGTON METRO AREA MEDICAL OFFICE MARKET

Q3 2024



TRENDLINES

| | Q3 2024 | Q3 2023 | ONE-YEAR TREND | FIVE-YEAR AVERAGE | 12-MONTH FORECAST |
|------------------------------------|---------|---------|----------------|-------------------|-------------------|
| UNEMPLOYMENT RATE | 3.5 | 2.8 | ↑ | 4.0 | ↓ |
| NET ABSORPTION (Thousands SF) | (54.2) | (149.7) | ↑ | (36.6) | ↑ |
| DIRECT VACANCY RATE | 15.4% | 14.1% | ↑ | 13.4% | ↓ |
| DIRECT VACANT SF (MSF) | 8.4 | 7.6 | ↑ | 7.1 | ↓ |
| UNDER CONSTRUCTION (MSF) | 0.0 | 0.5 | ↓ | 0.3 | ↑ |
| ASKING RENT, FULL SERVICE (PSF) | \$30.45 | \$30.68 | ↓ | \$29.92 | ↑ |
| SALES VOLUME (Millions) | \$28.0 | \$2.4 | ↑ | \$76.6 | ↑ |

Source: Bureau of Labor Statistics, CoStar, Real Capital Analytics, Transwestern

MEDICAL OFFICE MARKET SOFTENS IN THIRD QUARTER OF 2024

The Washington metro area medical office weakened in the third quarter as net absorption totaled negative 54,200 SF and the vacancy rate increased 10 basis points to 15.4%. This was aided by a handful of move-outs in certain submarkets, with leasing transactions not being able to keep up and counteract. Asking rental rates compared to the second quarter increased 20 basis-points to \$30.45 PSF.

Market conditions will likely bounce back in the final quarter of 2024 as the demand for outpatient healthcare services continues to be a strong spot for the sector. With the Fed starting to lower interest rates, we should begin to see investment and leasing activity pick up over the next six months, a great sign for both medical and traditional office building owners. Inflation remains a challenge and will hold up new construction developments. As the U.S. population ages, the Washington metro area is anticipated to see a 2.4% growth in individuals aged 65+ years or older in the next decade, an increase of 220,072 people. This will have a notable impact on the medical office market and outpatient care.

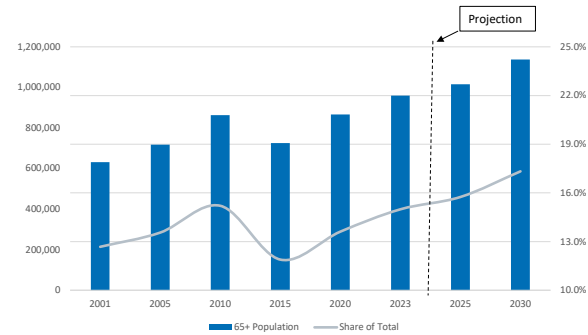


ECONOMY

Medical Office-Using Job Growth Decelerates

- The Washington metro area added 12,200 new jobs in the 12-months ending in August, making this the lowest year-over-year total since March 2021. In a 24-month period ending in August, there has been a total of 64,800 new jobs added to the market.
- Medical office-using jobs added 1,900 net new jobs in the 12-months ending in August. This continues the positive growth trend of medical office-using jobs; however, much like the rest of the overall Washington metro area, this marks the lowest year-over-year growth since March 2021. Over a 24-month period ending in August, medical-office using jobs have added 10,300 new jobs to the market.
- The unemployment rate for the Washington metro area experienced an increase in the quarter, vaulting 110-basis points to 3.7% in August. This is an 80-basis point increase year-over-year ending in August and is unchanged in a 24-month period. Arlington County has the lowest unemployment rate in the area, averaging 2.6% and Prince George’s County has the highest rate at 3.7% in August 2024.
- Medical office-using jobs are projected to grow at a 1.7% annual rate over the next five years, well ahead of all office-using jobs at 0.7%.

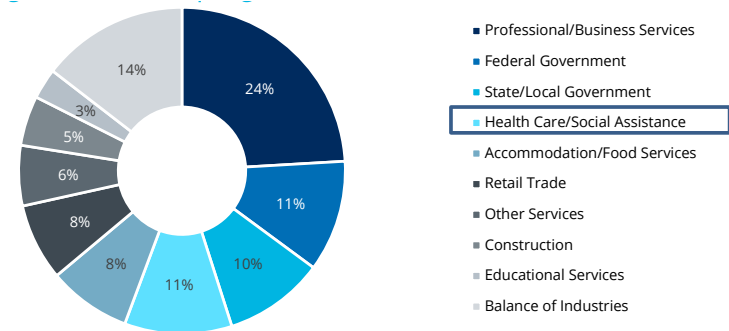
AGING DEMOGRAPHICS IN WASHINGTON MSA



Source: EMSI, Transwestern

SHARE OF EMPLOYEES BY INDUSTRY

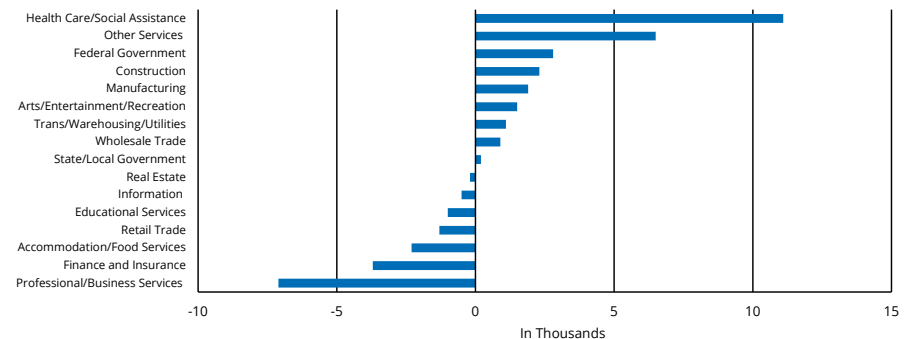
Washington Metro Area | August 2024



Source: Bureau of Labor Statistics, Transwestern

Y-O-Y CHANGE IN JOBS BY INDUSTRY

Washington Metro Area



Source: Bureau of Labor Statistics, Transwestern

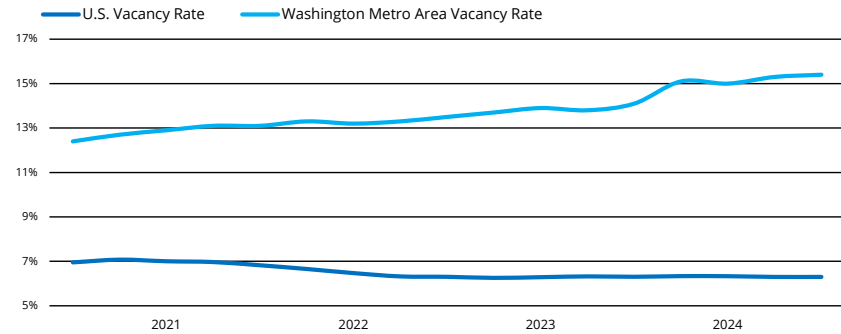


NET ABSORPTION AND VACANCY

Medical Office Absorption Negative in Third Quarter

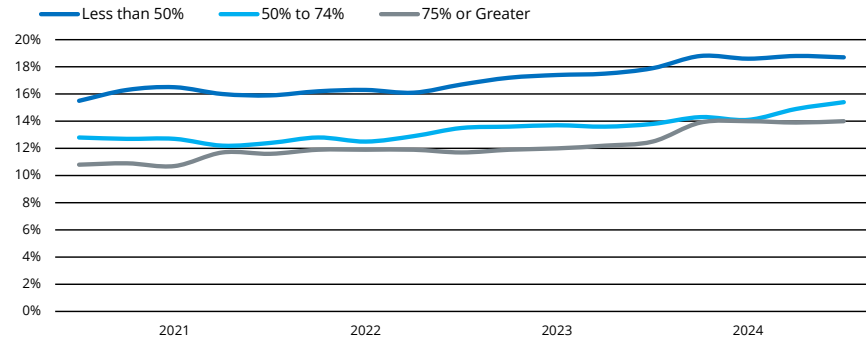
- Medical office net absorption totaled negative 54,200 SF. Montgomery County was the largest source with negative 53,200 SF due to moveouts exceeding lease signings.
- Anne Arundel County was the single largest source of positive absorption, totaling 31,900 SF, which was aided by Verbal Beginnings signing for 17,674 SF at 1750 Forest Drive.
- The direct vacancy rose 10 basis-points to 15.4% in the quarter and is up from 14.1% from one year ago. Arlington County continues to have the highest vacancy rate, averaging 24.3%. Anne Arundel County has the lowest vacancy rate in the market averaging 8.7%, a 60-basis point decrease.
- Buildings with 75% or greater medical occupancy saw a vacancy rate increase of 10-basis points to 14.0%. Buildings with less than 50% of medical tenants had a 10 basis-point decrease to 18.7%, and buildings that have 50% to 74% of medical tenants experienced an increase of 50-basis points to 15.4%.
- Buildings that have a higher presence of medical tenants are likely to have more stable vacancy rates during the balance 2024 and into 2025 as medical tenants are more resistant to economic pressures and will continue to demand medical office space.

DIRECT VACANCY RATE



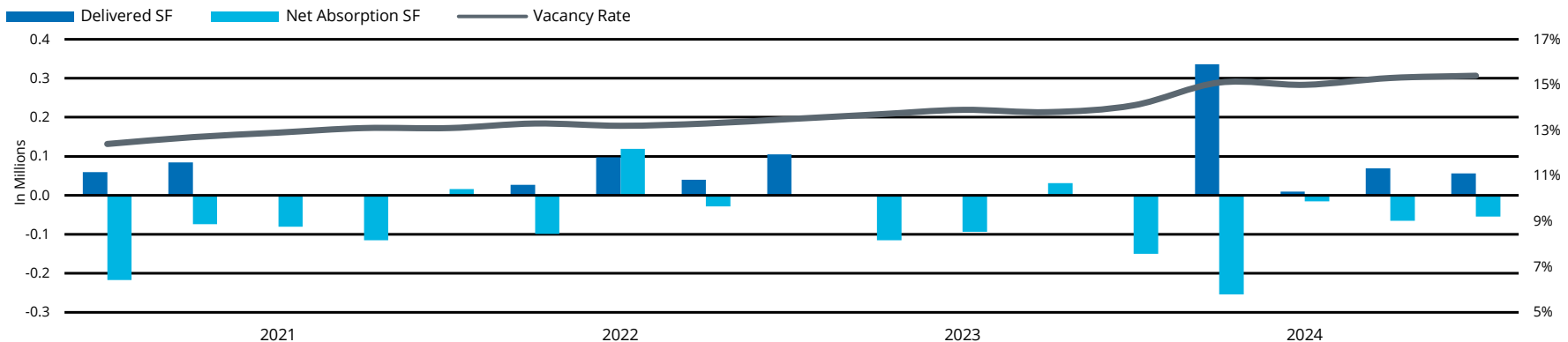
Source: CoStar, Transwestern

DIRECT VACANCY RATE BY MEDICAL-USING OCCUPANCY



Source: CoStar, Transwestern

DELIVERY IMPACT ON KEY INDICATORS



Source: CoStar, Transwestern

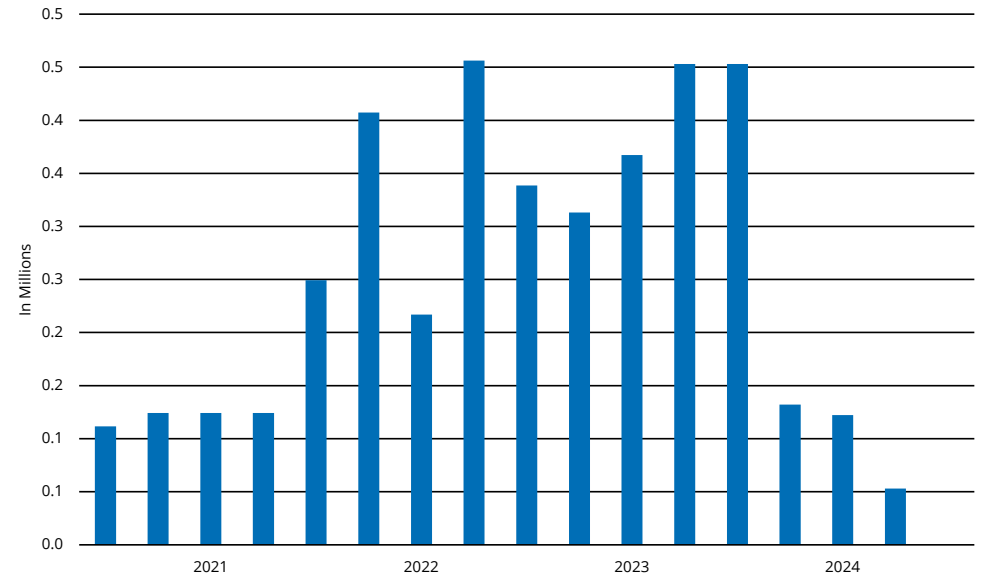


UNDER CONSTRUCTION

Medical Office Pipeline Empty as Final Projects Deliver in Q3 2024

- There were three deliveries in the third quarter. One of which was notable at 112 Thomas Johnson Drive, which delivered 53,138 SF of 0% leased space to the market in Prince George’s County. Another notable delivery was The Wellness Center at West Falls, a 125,000 SF medical office building in Falls Church. The other was a 3,502 SF building in Anne Arundel County. There were no additions to the pipeline in the quarter, which now puts the medical office construction pipeline at zero notable projects as of September 2024.
- There are four hospitals and health centers under construction including 13th Street – Cedar Hill Regional Medical Center which will be 300,000 SF in the District of Columbia. As well as 400 Fannon Street – Inova Oakville Ambulatory Center in Alexandria City which totals 93,000 SF and is anticipated to deliver in the fourth quarter of 2024. The others are Inova Alexandria at Landmark, a 1.1 million SF development in Alexandria, and Inova Franconia-Springfield Hospital, a 985,000 SF building in Prince William County, both of which will be delivered in 2028.
- The construction pipeline is likely to remain muted during the balance of 2024 and into 2025 as economic headwinds such as high inflation rates continue to give developers pause. However, select developers could break ground if a sizable tenant is in place.

UNDER CONSTRUCTION



Source: CoStar, Transwestern

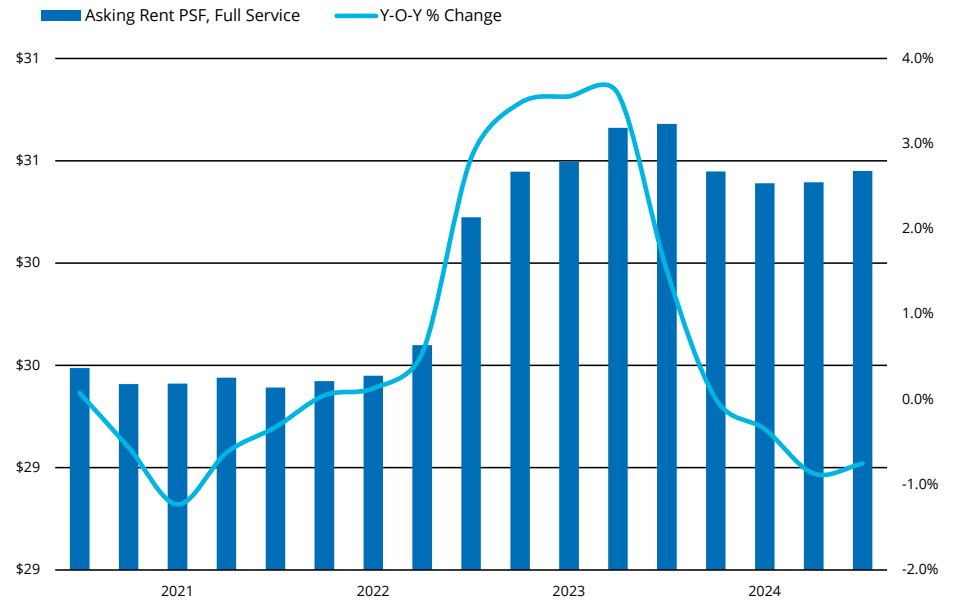


RENTAL RATES

Asking Rental Rates Increased in Third Quarter

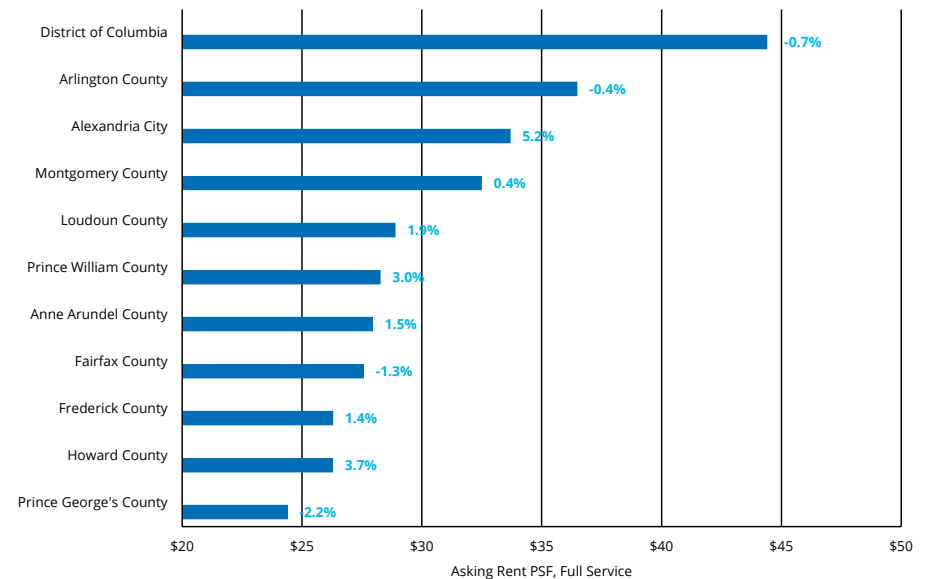
- The average medical office rent was higher in the third quarter, increasing 20 basis-points to \$30.45 PSF. When compared to this time in 2023, the year-over-year average is down from \$30.68 PSF.
- Frederick County had the largest decrease from quarter to quarter, sliding down 130-basis points to \$25.96 PSF. The District of Columbia had the second largest decrease, declining 80-basis points to \$44.05 PSF.
- Howard County experienced the largest increase in asking rental rate, rising 140-basis points to \$26.66 PSF, and remains up 380-basis points year-over-year when the average was \$25.70 PSF. Fairfax County had the second largest increase in the quarter, rising 120-basis points to \$27.93 PSF.
- Asking rental rates are likely to grow during the rest of 2024 and into 2025 as demand for healthcare services remains healthy. However, an elevated vacancy rate in select buildings may cause landlords to continue to pause rent increases in the short-run.

ASKING RENT



Source: CoStar, Transwestern

ASKING RENTS BY SUBMARKET AND Y-O-Y GROWTH



Source: CoStar, Transwestern

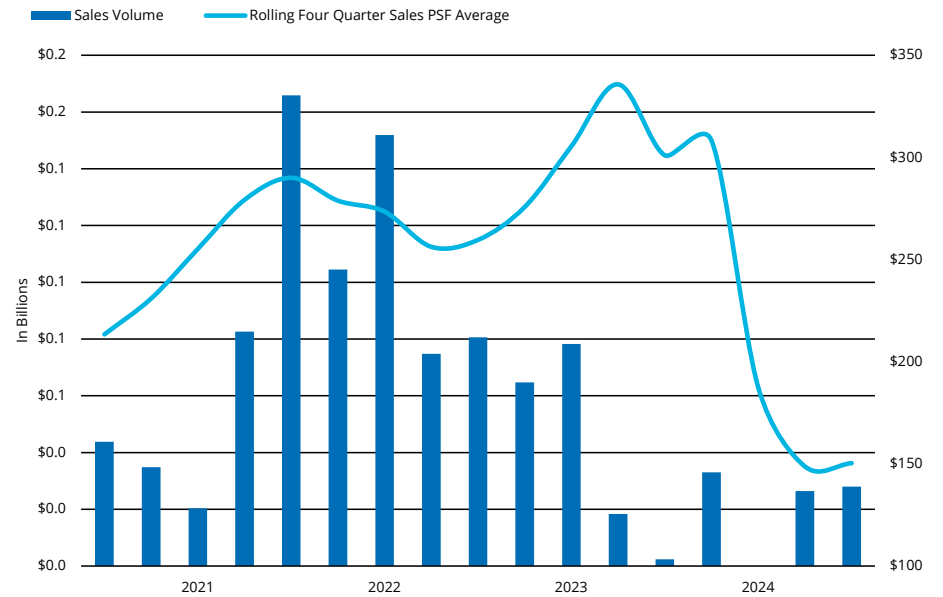


INVESTMENT SALES

Investment Sales Market Stays Active in Third Quarter

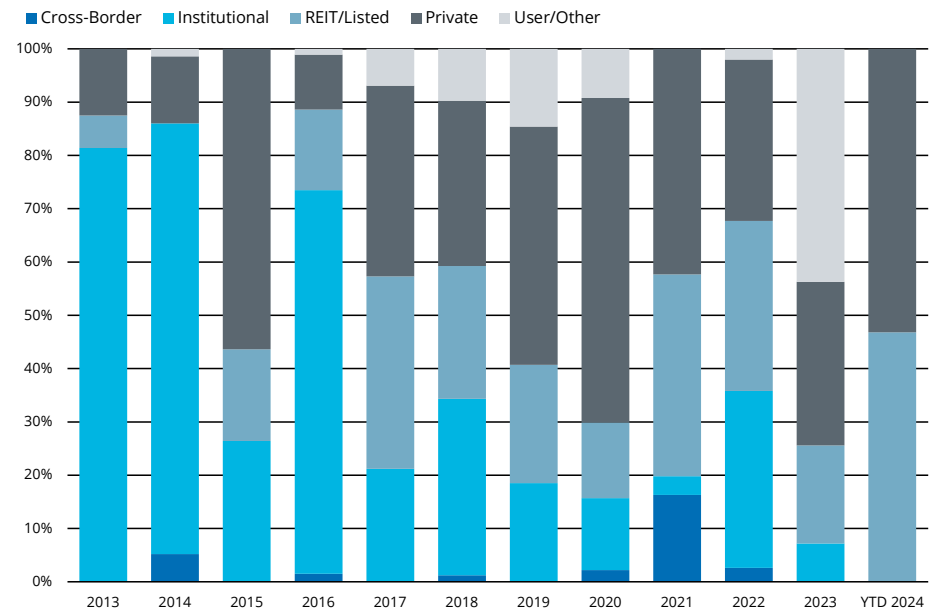
- There were three medical office properties that sold in the third quarter of 2024. This continues the momentum from the second quarter and disperses the nonexistent sales activity from the first quarter.
- One of the properties sold in Montgomery County, with the other two occurring in the District and Anne Arundel County. Gray Harbor Capital, LLC purchased 1500 Franklin Street, NE in the District of Columbia for \$10.5 million, or \$741 PSF. In Montgomery County, Leadfoot Group purchased 20500 Seneca Meadows Parkway for \$8.5 million, or \$132 PSF. Finally, in Anne Arundel County, Apg Media purchased 2200 Defense Highway, or \$137 PSF.
- Since the second quarter of 2023, there have been a total of 18 transactions for a total of \$134.8 million. A notable deal that occurred in that timespan include Hines purchasing 9850 Key West Avenue in Montgomery County for \$25.7 million, or \$357 PSF. The second largest deal, based on transaction volume, was 2221 Broadbirch Drive in Montgomery County which was purchased by Boyd Watterson Asset Management for \$17.1 million, or \$310 PSF.
- Medical office building sales will likely remain steady, but low during the remainder of 2024 and into 2025 as interest rates continue to be elevated.

SALES VOLUME



Source: CoStar, Real Capital Analytics, Transwestern

BUYER CAPITAL COMPOSITION



Source: CoStar, Real Capital Analytics, Transwestern

MARKET OBSERVATIONS

New Opportunities From Retail Healthcare Amid Consumer Behavior

- According to Commercial Property Executive, one trend taking notice in the medical office market is wellness. This is due to the aging population of baby boomers and them becoming more self-conscious with their health, causing the demand for holistic services to rise.
 - » Need based practitioners will likely start to lease more space over time with the aging population, as well as Gen X, needing more orthopedic procedures and joint replacements.
 - » Urgent centers are starting to slow down and are not expanding as swiftly as they once were in the years right after the pandemic started. With that being said, the younger population still favors this type of treatment in a retail type environment.

- Sky View Advisors notes that healthcare REITS are currently experiencing positive tailwinds in the market, driven by improving demand-supply dynamics and outpatient medical and research being a key growth driver, while they also are not ignoring potential headwinds, specifically involving the uncertainties with volatility and regional banking crises.
 - » The financial performance of REITS in the medical office sector indicates a stable and profitable leasing environment, with strong leasing activity supported by high tenant satisfaction.
 - » Healthcare REITS identify interest rate volatility being a concern and a challenge in the market moving forward, showing that there is a need for strategic resilience and ability to adapt.

- Plaza Companies notes that there is momentum towards outpatient care as healthcare providers prioritize convenience and cost-efficiency, and medical office buildings are becoming central to this shift.
 - » Even though patients still value face-to-face consultations and exams, the shift to telemedicine creates more flexibility for healthcare tenants and reduces their need for large waiting rooms and exam spaces as they can make room for virtual consultations.
 - » Medical office tenants are moving into high-traffic retail locations, such as shopping centers or mixed-use developments, offering patients easier access to care by combining healthcare with their everyday needs.



NOTABLE LEASES

| TENANT | ADDRESS | SUBMARKET | TYPE | SF LEASED |
|--------------------------------|---------------------|----------------------|-----------|-----------|
| VERBAL BEGINNINGS | 1750 Forest Dr | Anne Arundel County | New Lease | 17,674 |
| TERRIFIC INC. | 6940 Carroll Ave | Montgomery County | New Lease | 10,300 |
| CLEARWAY PAIN SOLUTIONS | 8505 Arlington Blvd | Fairfax County | New Lease | 6,720 |
| CLARITY HEALTH SERVICES | 6323 Georgia Ave NW | District of Columbia | New Lease | 4,453 |
| CEDAR WELLNESS | 170 Jennifer Rd | Anne Arundel County | Sublease | 3,566 |
| STEINER HOUCK | 1750 Forest Dr | Anne Arundel County | New Lease | 3,176 |

Source: CoStar, Transwestern

NOTABLE HOSPITALS AND MEDICAL OFFICE BUILDINGS UNDER CONSTRUCTION

| ADDRESS | NAME | BUILDING SF | SUBMARKET | DELIVERY YEAR |
|------------------------------------|--|-------------|----------------------|---------------|
| LANDMARK MALL REDEVELOPMENT | Inova Alexandria at Landmark | 1,100,000 | Alexandria | Q2 2028 |
| 13TH ST | Cedar Hill Regional Medical Center - GW Health | 300,000 | District of Columbia | Q1 2025 |
| WALKER LN | Inova Franconia-Springfield Hospital | 985,000 | Fairfax County | Q2 2028 |
| 400 FANNON ST | Inova Oakville Ambulatory Center | 93,000 | Alexandria | Q4 2024 |

Source: CoStar, Real Capital Analytics, Transwestern



MARKET INDICATORS

All Classes of Space | Third Quarter 2024

| SUBMARKET | INVENTORY SF | DIRECT VACANT SF | DIRECT VACANCY RATE | OVERALL VACANCY RATE | UNDER CONSTRUCTION SF | NET ABSORPTION SF | Y-O-Y NET ABSORPTION SF | ASKING RENT PSF, FULL SERVICE |
|------------------------|-------------------|------------------|---------------------|----------------------|-----------------------|-------------------|-------------------------|-------------------------------|
| DISTRICT OF COLUMBIA | 4,665,447 | 528,129 | 11.3% | 11.8% | 0 | 1,400 | (25,000) | \$44.05 |
| ARLINGTON COUNTY | 991,718 | 241,384 | 24.3% | 26.0% | 0 | (6,300) | (24,200) | \$36.36 |
| ALEXANDRIA CITY | 973,683 | 119,763 | 12.3% | 12.3% | 0 | (4,400) | (18,500) | \$33.85 |
| FAIRFAX COUNTY | 11,546,211 | 1,894,733 | 16.4% | 16.9% | 0 | (15,000) | (49,100) | \$27.93 |
| LOUDOUN COUNTY | 3,169,717 | 503,034 | 15.9% | 16.1% | 0 | 16,800 | (65,600) | \$29.16 |
| PRINCE WILLIAM COUNTY | 2,507,777 | 389,709 | 15.5% | 16.3% | 0 | (1,000) | (56,200) | \$28.51 |
| NORTHERN VIRGINIA | 19,189,106 | 3,148,623 | 16.4% | 16.9% | 0 | (9,900) | (213,600) | \$28.93 |
| MONTGOMERY COUNTY | 13,992,888 | 2,406,777 | 17.2% | 17.9% | 0 | (53,200) | (120,400) | \$32.50 |
| PRINCE GEORGE'S COUNTY | 6,413,153 | 936,320 | 14.6% | 15.1% | 0 | (32,100) | (25,900) | \$24.28 |
| FREDERICK COUNTY | 2,166,768 | 487,523 | 22.5% | 22.6% | 0 | 6,300 | (32,500) | \$25.96 |
| ANNE ARUNDEL COUNTY | 5,037,726 | 462,875 | 8.7% | 9.3% | 0 | 31,900 | 42,000 | \$27.96 |
| HOWARD COUNTY | 2,740,743 | 386,445 | 14.1% | 15.2% | 0 | 1,400 | (13,500) | \$26.66 |
| SUBURBAN MARYLAND | 30,351,278 | 4,679,940 | 15.4% | 16.1% | 0 | (45,700) | (150,300) | \$29.62 |
| TOTAL | 54,205,831 | 8,356,691 | 15.4% | 16.0% | 0 | (54,200) | (388,900) | \$30.45 |

Source: CoStar, Transwestern



MARKET INDICATORS

By Class of Space | Third Quarter 2024

| SUBMARKET | INVENTORY SF | DIRECT VACANT SF | DIRECT VACANCY RATE | OVERALL VACANCY RATE | ASKING RENT PSF, FULL SERVICE |
|----------------------|-------------------|------------------|---------------------|----------------------|-------------------------------|
| DISTRICT OF COLUMBIA | 1,177,251 | 264,844 | 22.5% | 22.5% | \$45.99 |
| NORTHERN VIRGINIA | 2,815,443 | 366,478 | 13.0% | 14.3% | \$33.28 |
| SUBURBAN MARYLAND | 4,639,411 | 628,428 | 13.5% | 14.2% | \$33.78 |
| CLASS A | 8,632,105 | 1,259,750 | 14.6% | 15.4% | \$35.28 |
| DISTRICT OF COLUMBIA | 2,670,858 | 200,383 | 7.5% | 7.6% | \$45.62 |
| NORTHERN VIRGINIA | 13,357,043 | 2,593,627 | 19.4% | 19.8% | \$29.88 |
| SUBURBAN MARYLAND | 20,313,899 | 3,703,727 | 18.2% | 16.5% | \$28.90 |
| CLASS B | 36,341,800 | 6,497,736 | 17.9% | 17.0% | \$30.74 |
| DISTRICT OF COLUMBIA | 817,338 | 62,902 | 7.7% | 10.0% | \$44.07 |
| NORTHERN VIRGINIA | 3,016,620 | 188,518 | 6.2% | 6.7% | \$26.34 |
| SUBURBAN MARYLAND | 5,397,968 | 347,785 | 6.4% | 6.9% | \$26.65 |
| CLASS C | 9,231,926 | 599,205 | 6.5% | 7.1% | \$28.09 |
| DISTRICT OF COLUMBIA | 4,665,447 | 528,129 | 11.3% | 11.8% | \$44.05 |
| NORTHERN VIRGINIA | 19,189,106 | 3,148,623 | 16.4% | 16.9% | \$28.93 |
| SUBURBAN MARYLAND | 30,351,278 | 4,679,940 | 15.4% | 14.4% | \$29.62 |
| TOTAL | 54,205,831 | 8,356,691 | 15.4% | 16.0% | \$30.45 |

Source: CoStar, Transwestern



MARKET INDICATORS

By Year Built | Third Quarter 2024

| SUBMARKET | INVENTORY SF | DIRECT VACANT SF | DIRECT VACANCY RATE | OVERALL VACANCY RATE | ASKING RENT PSF, FULL SERVICE |
|------------------------|-------------------|------------------|---------------------|----------------------|-------------------------------|
| DISTRICT OF COLUMBIA | 295,179 | 0 | 0.0% | 0.0% | \$67.50 |
| NORTHERN VIRGINIA | 1,189,171 | 101,262 | 8.5% | 8.7% | \$36.80 |
| SUBURBAN MARYLAND | 2,617,883 | 154,155 | 5.9% | 6.2% | \$40.73 |
| BUILT 2010 AND YOUNGER | 4,102,233 | 255,417 | 6.2% | 6.5% | \$41.52 |
| DISTRICT OF COLUMBIA | 4,370,268 | 528,129 | 12.1% | 12.6% | \$42.46 |
| NORTHERN VIRGINIA | 17,999,935 | 3,047,361 | 16.9% | 17.5% | \$28.41 |
| SUBURBAN MARYLAND | 27,733,395 | 4,525,785 | 16.3% | 15.2% | \$28.57 |
| BUILT PRIOR TO 2010 | 50,103,598 | 8,101,274 | 16.2% | 15.8% | \$29.73 |
| DISTRICT OF COLUMBIA | 4,665,447 | 528,129 | 11.3% | 11.8% | \$44.05 |
| NORTHERN VIRGINIA | 19,189,106 | 3,148,623 | 16.4% | 16.9% | \$28.93 |
| SUBURBAN MARYLAND | 30,351,278 | 4,679,940 | 15.4% | 14.4% | \$29.62 |
| TOTAL | 54,205,831 | 8,356,691 | 15.4% | 16.0% | \$30.45 |

Source: CoStar, Transwestern



RESEARCH METHODOLOGY

The information in this report is the result of a compilation of information on medical office properties located in the Washington metro area. This report includes single tenant, multi-tenant and owner-user properties 15,000 SF and larger, excluding those properties owned by a government agency.

ABOUT TRANSWESTERN

The privately held Transwestern companies have been delivering a higher level of personalized service and innovative real estate solutions since 1978. Through an integrated, customized approach that begins with good ideas, the firm drives value for clients across commercial real estate services, development, investment management, and opportunistic endeavors for high-net-worth investors. Operating from 33 U.S. offices, Transwestern extends its platform capabilities globally through strategic alliance partners whose unique geographic, cultural, and business expertise fuels creative solutions. Learn more at transwestern.com and [@Transwestern](https://twitter.com/Transwestern).

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