TRANSWESTERN

COMMERCIAL REAL ESTATE

U.S. MARKET | Medical Office

Q4 2024

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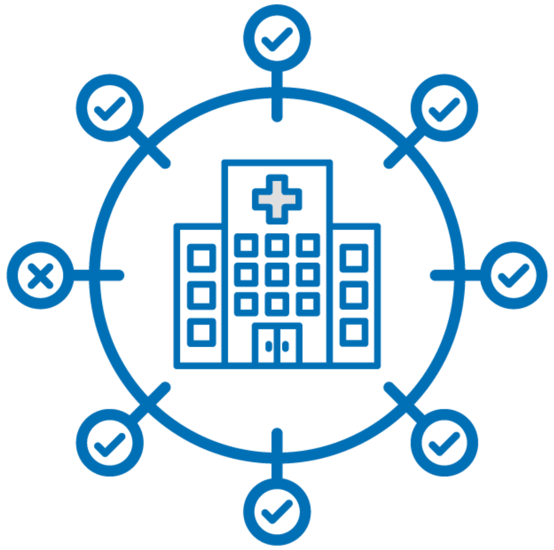
Healthcare

Q4 2024

THE VIEW FROM HERE

Expect healthcare jobs to rise with growing percentage of 75+ Americans.

High preleasing will boost absorption but will do little to alleviate supply need in tight markets.



Hospital-affiliated MOBs had higher occupancy rates and more expensive rental rates in 2024.

NET ABSORPTION

2.6 MSF

Avg positive absorption over the last 8 quarters is 2.4 MSF.

VACANCY RATE

5.9%

30 bps decline YoY.

UNDER CONSTRUCTION

10.5 MSF

7.4 million SF lower than Q4 2023

NET ASKING RENT

$22.78

0.5% annual growth over the last 4 years

ECONOMIC HIGHLIGHTS

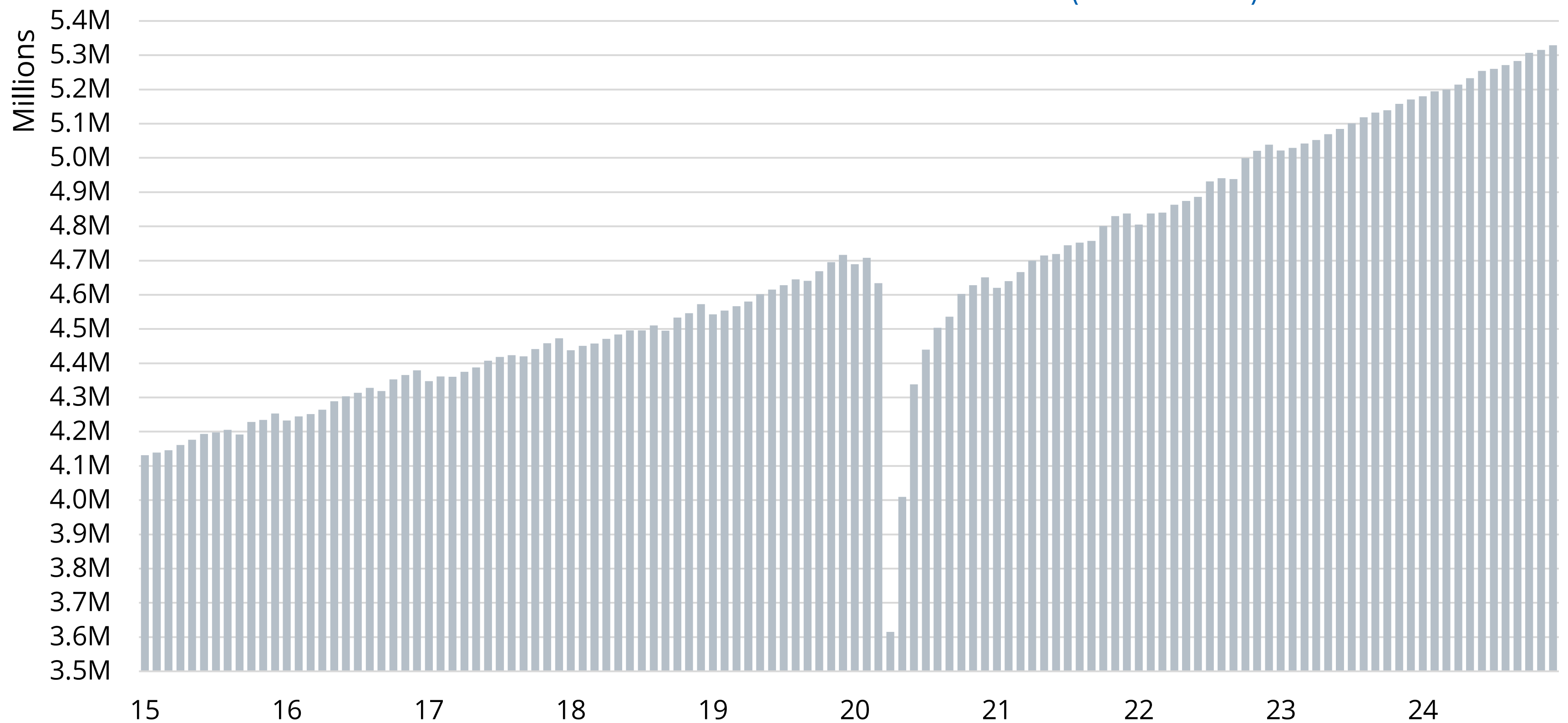
- After cutting by 50 bps in the final month of Q3, the Federal Reserve lowered interest by 25 bps in both November and December.
- In its initial reading, U.S. GDP grew 2.3% in Q4 2024, lower than anticipated due to decline in inventories, and down from 3.1% in Q3. Forecasts for 2025 growth ranged between 1.9% and 2.4%.
- The U.S. unemployment rate was unchanged during the quarter at 4.1%, closing the year 30 basis points higher than year-end 2023.
- Healthcare was one of the leading sectors for job growth in 2024, adding 661,200 jobs throughout the year. Other top sectors included government (+437,000), leisure and hospitality (+258,000), and construction (+178,000).
- Within the healthcare sector across 2024, ambulatory health care services saw a 3.8% (+325,100) increase in jobs, hospital jobs rose by 3.7% (+203,400), and jobs in nursing and residential care facilities saw a 4.1% (+132,700) rise.
- Medical office-using jobs (physicians, dentists, and ambulatory healthcare practitioners) grew by 3.1% in 2024, adding 221,200 jobs.
- From 2013-2019, medical office-using jobs grew at an average annual rate of 2.3%. The last three years has shown a complete recovery from the pandemic, with an average annual growth rate of 3.4%, outpacing the pre-pandemic growth.

Source: Transwestern, Bureau of Labor Statistics

HISTORICAL

UNEMPLOYMENT RATE

MEDICAL OFFICE-USING JOBS (MILLIONS)



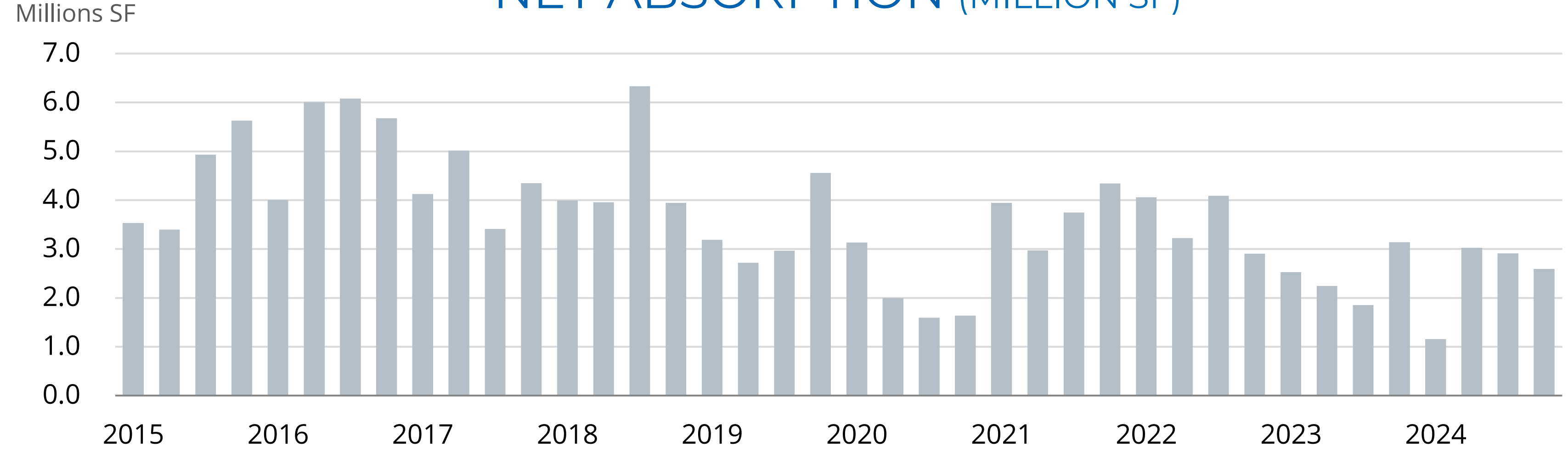
MARKET HIGHLIGHTS

- The rise of outpatient care, an increasingly aging population, and a full post-pandemic rebound of medical office-using jobs has resulted in strong leasing and lower vacancy.
- Net absorption has been consistently solid, with positive 2.6 MSF in Q4, and positive 9.7 MSF for the year.
- 27 of 35 markets registered positive net absorption in Q4 of 2024, the same number of positive markets one year ago.
- The direct vacancy rate (combining both on and off-campus properties) fell 10 basis points during Q4 and 30 basis points YoY. The 30 basis point decrease is right on the annual average vacancy decline for the last four years.
- On-campus MOBs saw a 20 basis point decrease in vacancy rate in 2024, while off-campus product had a 30 basis point decline.
- Asking rents have seen little movement in the last few years. Q4 saw a 0.2% increase, while YoY asking rents were down 0.2%.
- Construction levels are down significantly to 10.4 MSF underway, with 41.9% (over 7.5 MSF) less product under construction than a year ago. At its peak, the U.S. medical office market had 24.5 MSF underway in 2018.
- 7.1 MSF delivered across 2024. Philadelphia, Raleigh/Durham, and Phoenix led the way in outpatient deliveries.

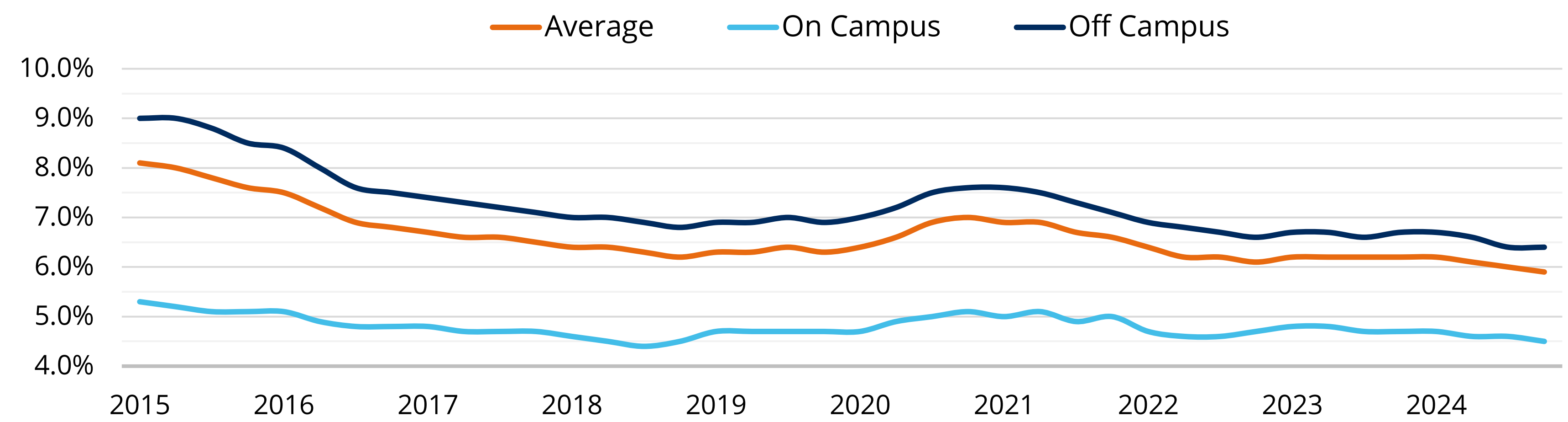
Source: Transwestern, CoStar, Revista

HISTORICAL

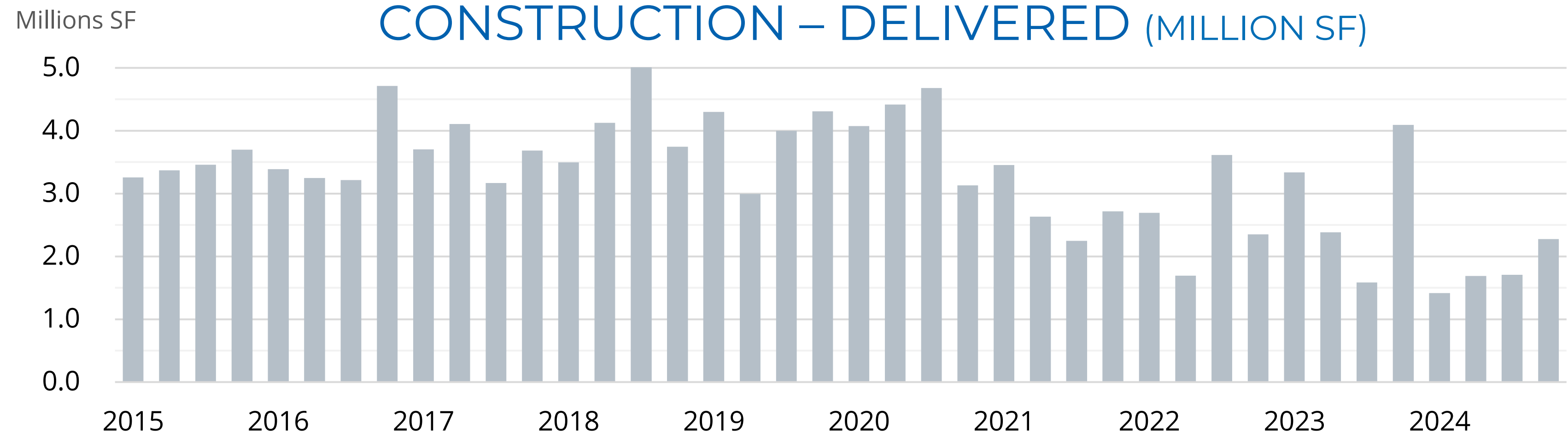
NET ABSORPTION (MILLION SF)



VACANCY BY LOCATION



CONSTRUCTION – DELIVERED (MILLION SF)



TOP-RANKED MARKETS BY INDICATORS

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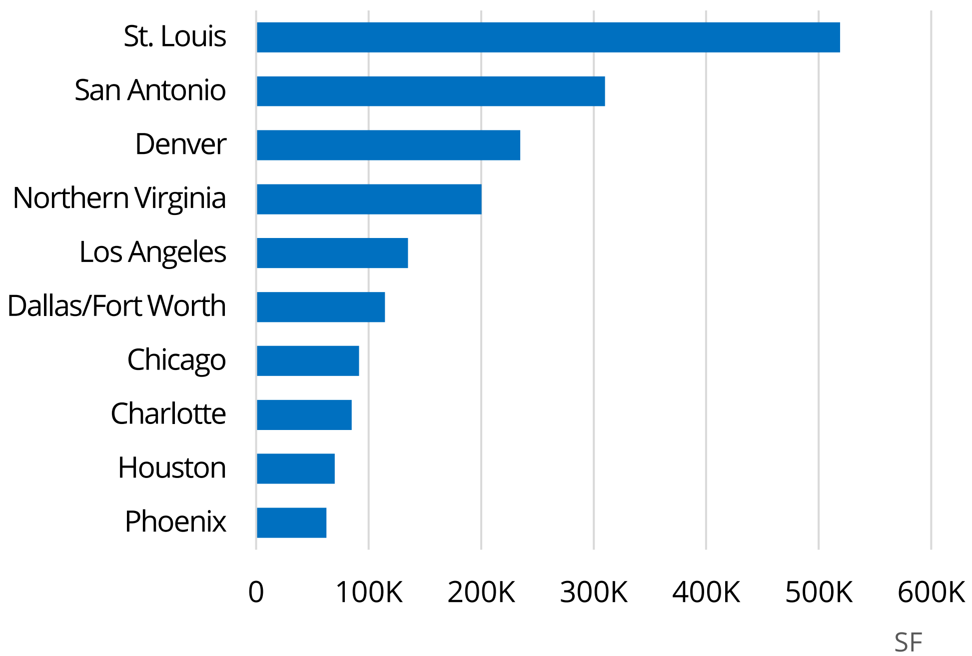
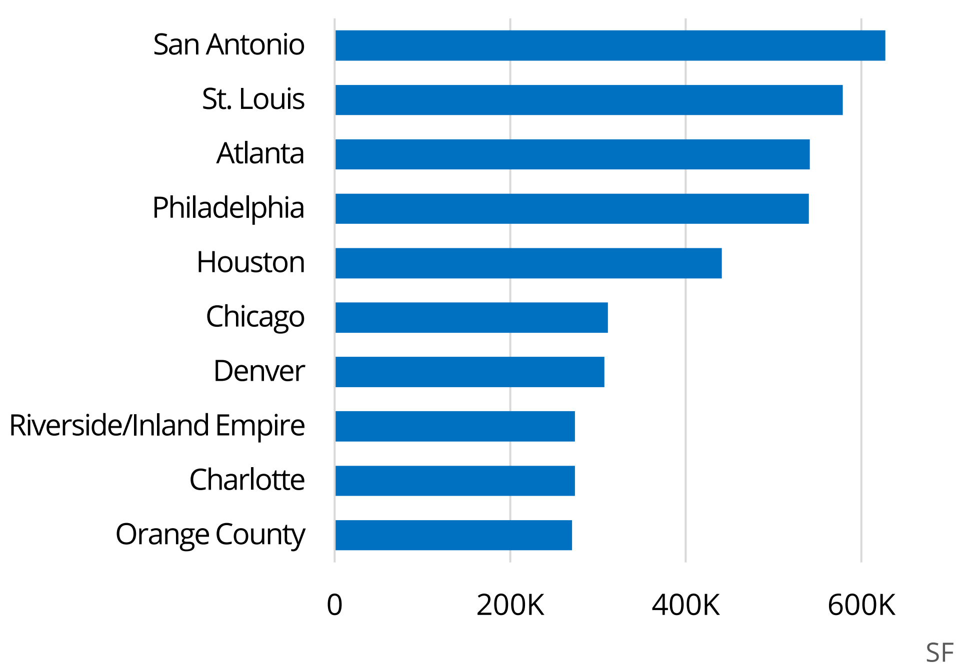
NET ABSORPTION

Net Absorption - Q4 2024

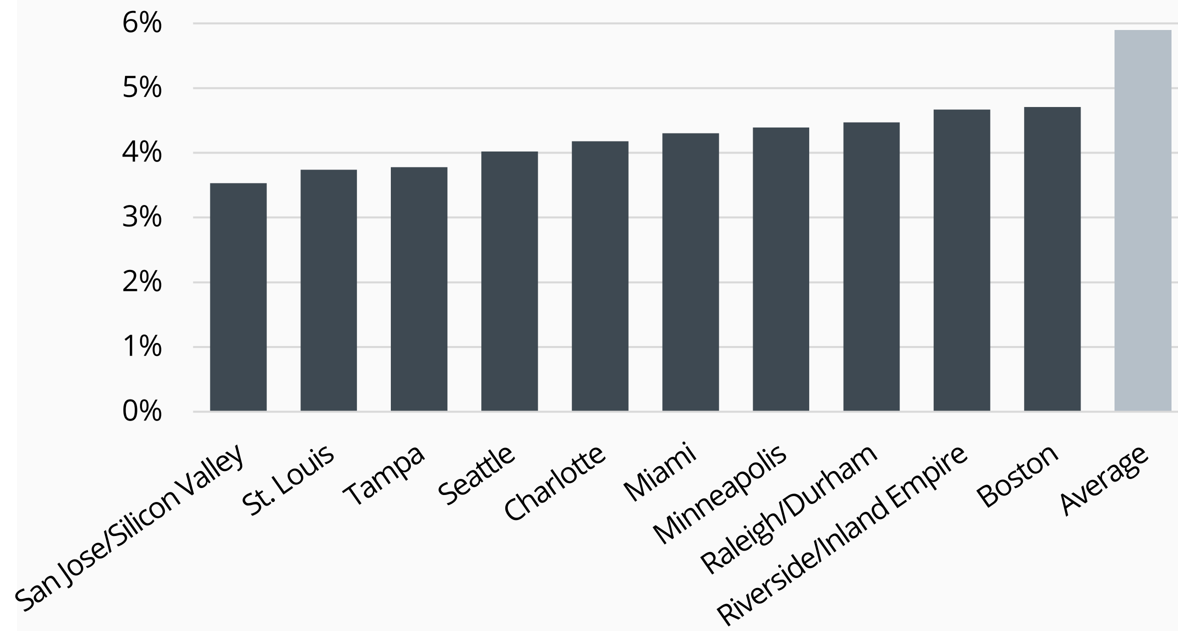


Trailing 12-Month Net Absorption

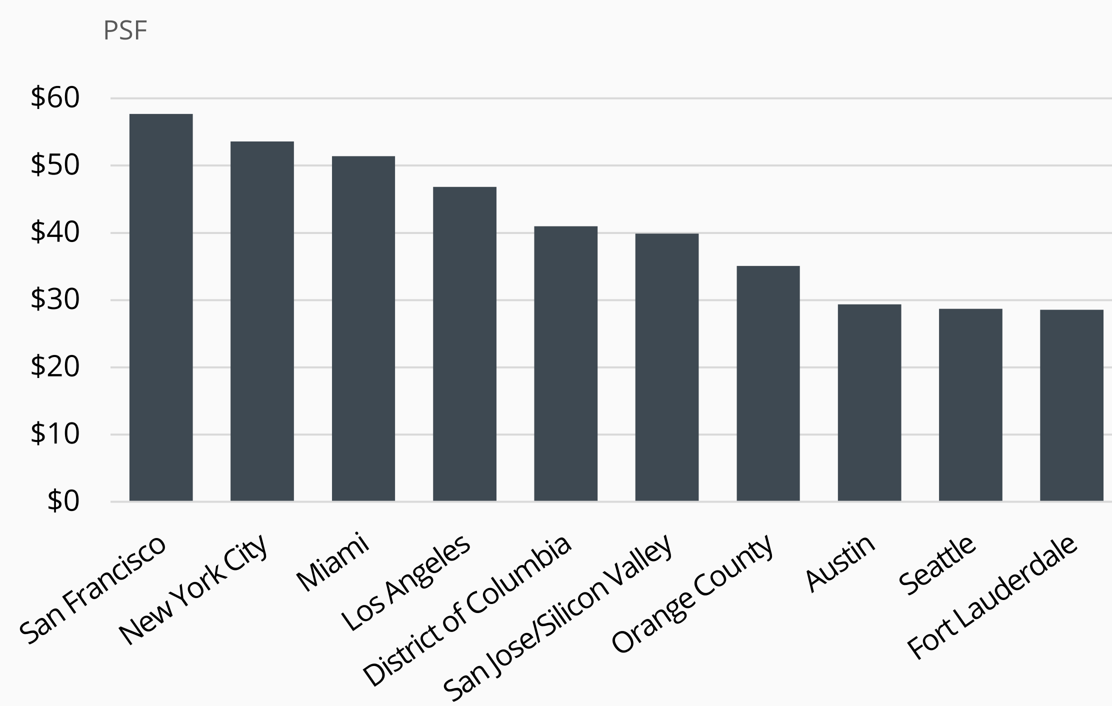


VACANCY/ASKING RENTS

Vacancy Rate – Q4 2024

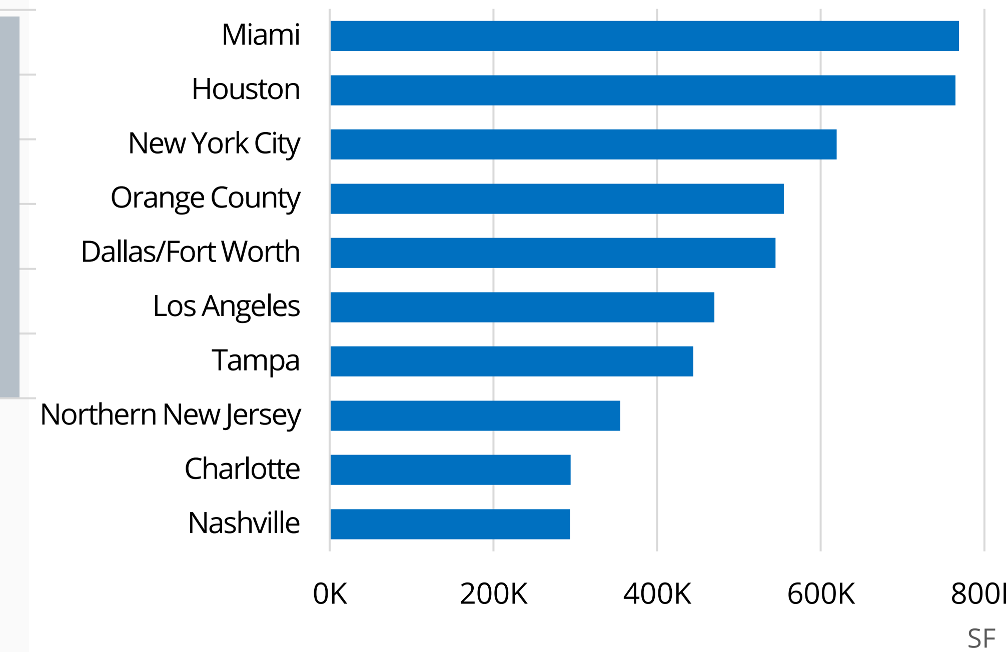


Net Asking Rents – Q4 2024

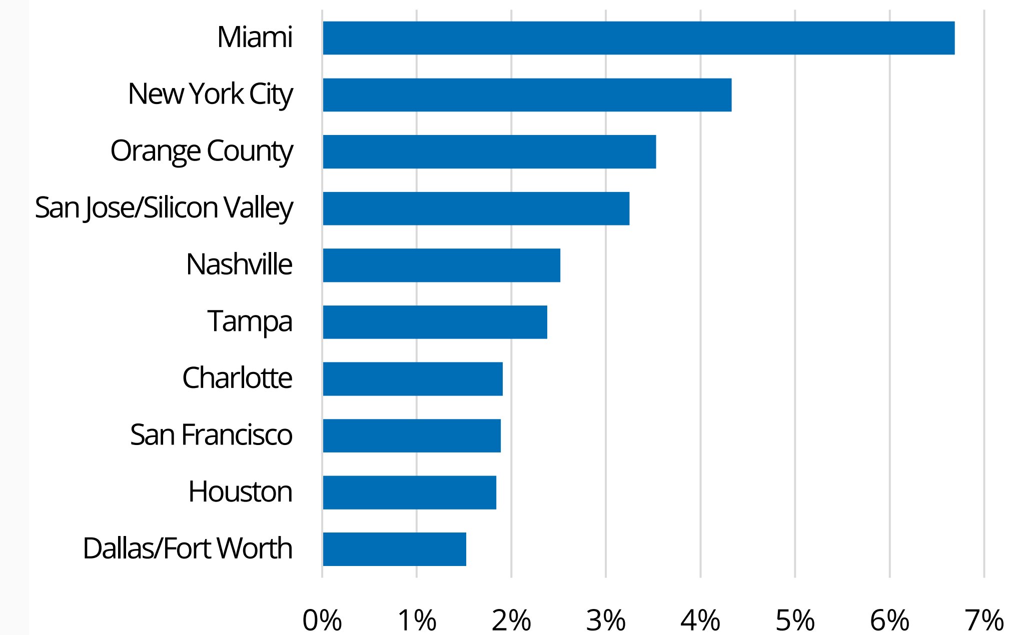


CONSTRUCTION

Total SF Under Construction – Q4 2024



Construction As % of Stock – Q4 2024



Source: Transwestern, CoStar, Revista

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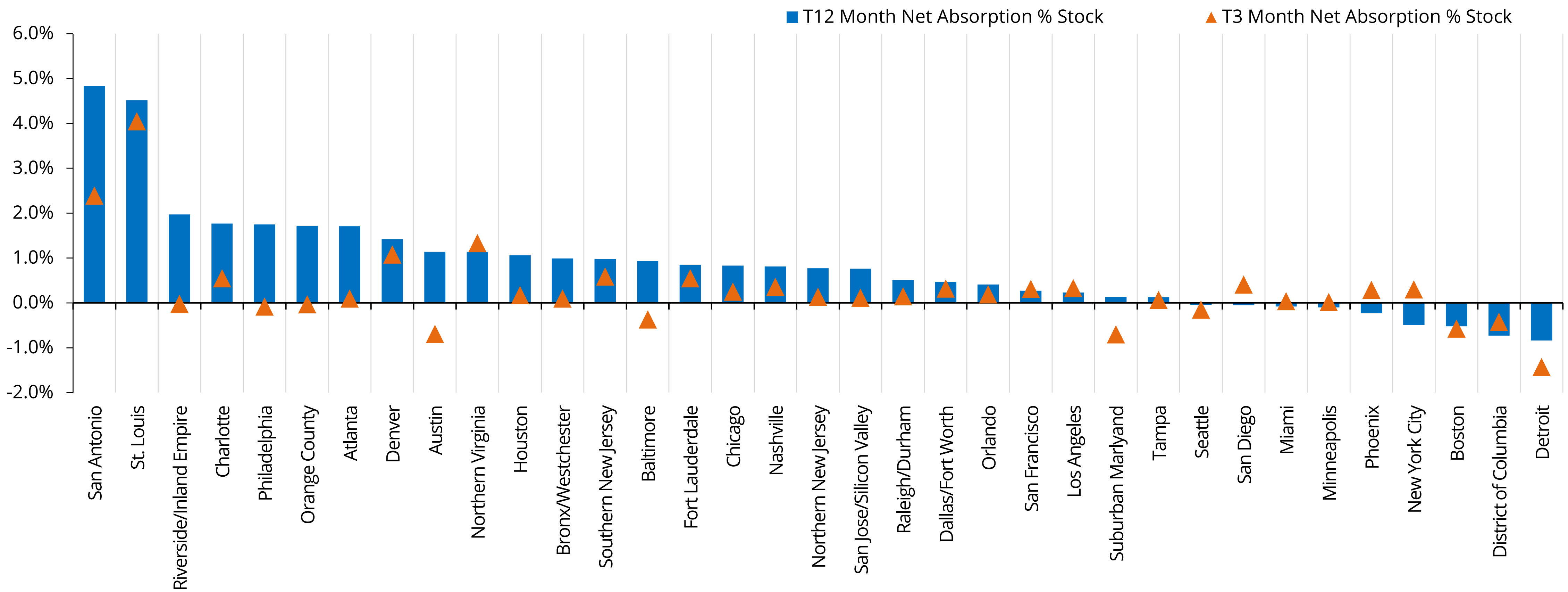
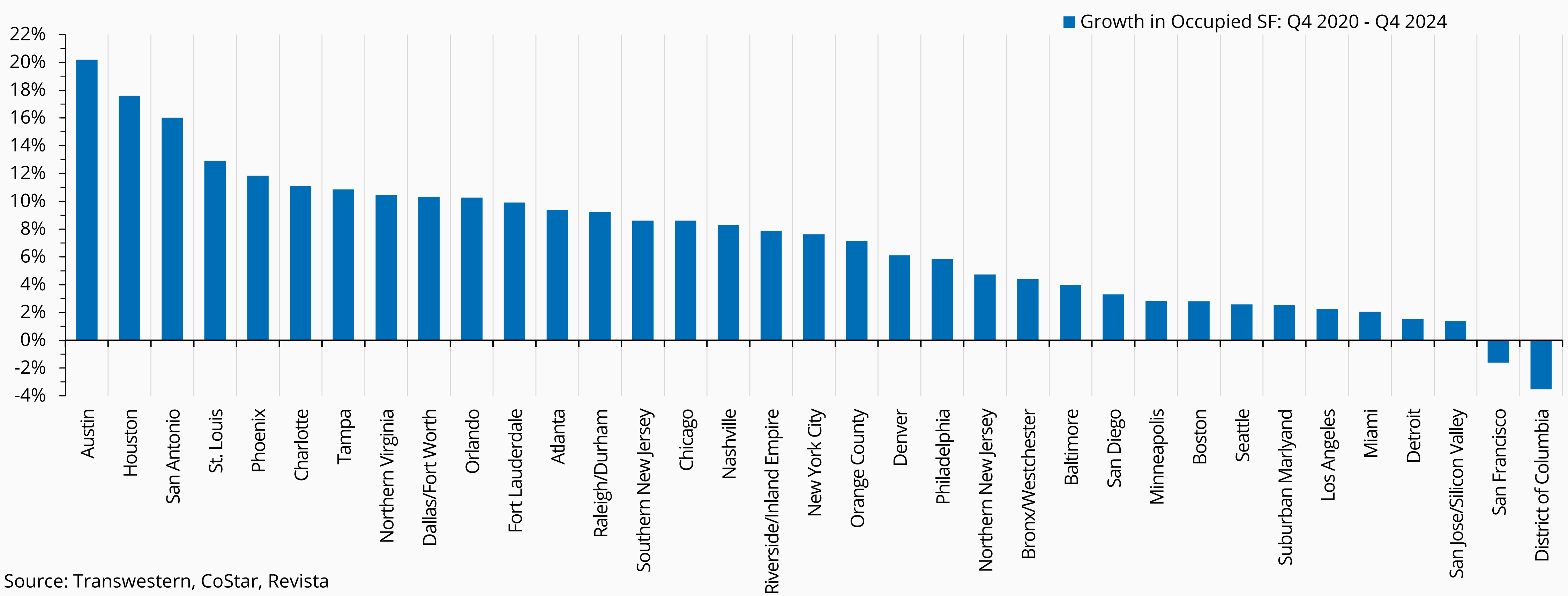
NET ABSORPTION % STOCK



- This graph shows net absorption as a percent of stock over both the last quarter and 12 months.
- Positive net absorption was reported in 27 of 35 markets over the past 12 months.
- Top markets for trailing 12-month net absorption that also saw positive net absorption for the quarter include San Antonio, St. Louis, and Charlotte, among other.

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 as systems and providers follow population trends and open new locations in rapidly growing areas.
- Three Texas markets lead the way, with Austin, Houston, and San Antonio all exceeding 16% growth.
- This growth can be attributed in part to the delivery of new inventory in markets with a strong leasing appetite. Austin has seen 9.4% of its existing inventory deliver in the last four years.

Source: Transwestern, CoStar, Revista

*Charts display select markets

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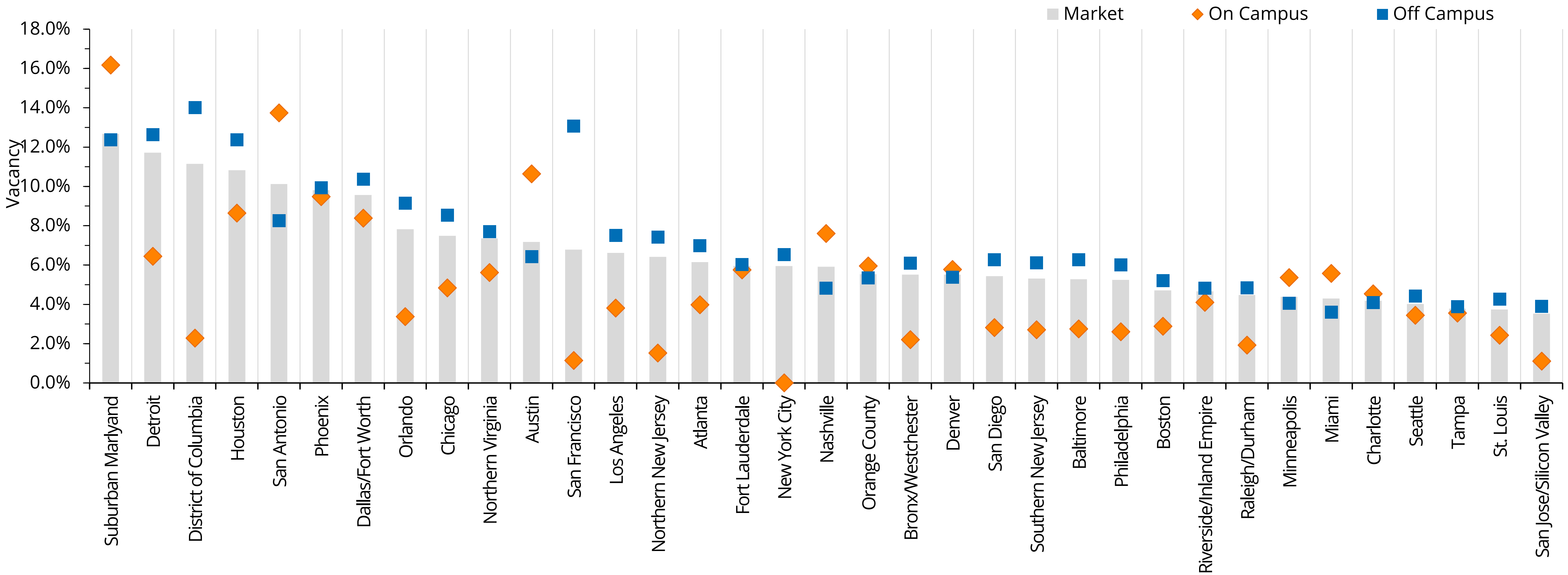
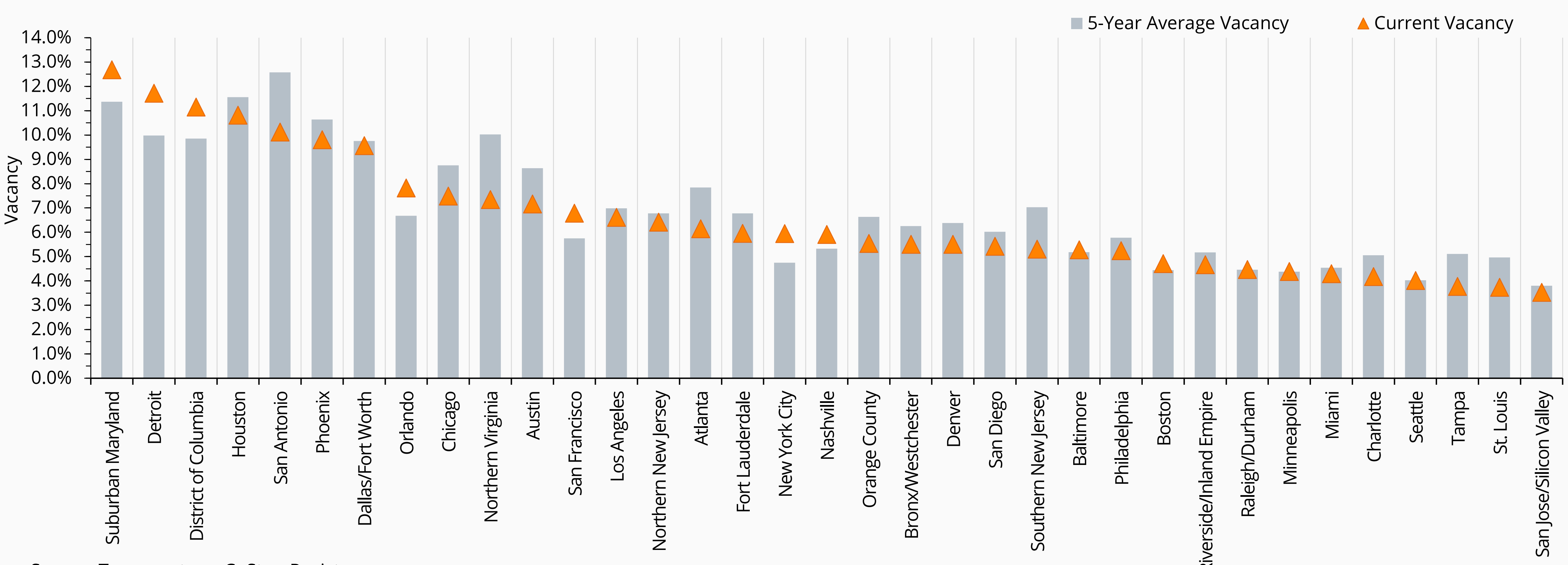
VACANCY BY LOCATION



- This graph shows vacancy for each market and the spread between on campus and off campus properties.
- Vacancy in on campus properties is generally lower than market averages, reflecting the dominance of healthcare systems in these spaces.
- Markets where on campus vacancies exceed market averages often reflect new buildings in lease-up. Suburban Maryland, San Antonio, and Austin, among others, are currently experiencing this inversion.

CURRENT VACANCY VS HISTORICAL NORM



Source: Transwestern, CoStar, Revista

- This graph indicates the relative scarcity of space in each market, comparing the current vacancy rate to the five-year average.
- Vacancy sits below the five-year average in 26 of 35 markets.
- Currently Northern Virginia, San Antonio, and Southern New Jersey have the lowest vacancy rates relative to their five-year averages.
- Detroit, Suburban Maryland, and the District of Columbia sit the furthest above their five-year averages. These three markets also have the highest current vacancy rates overall.

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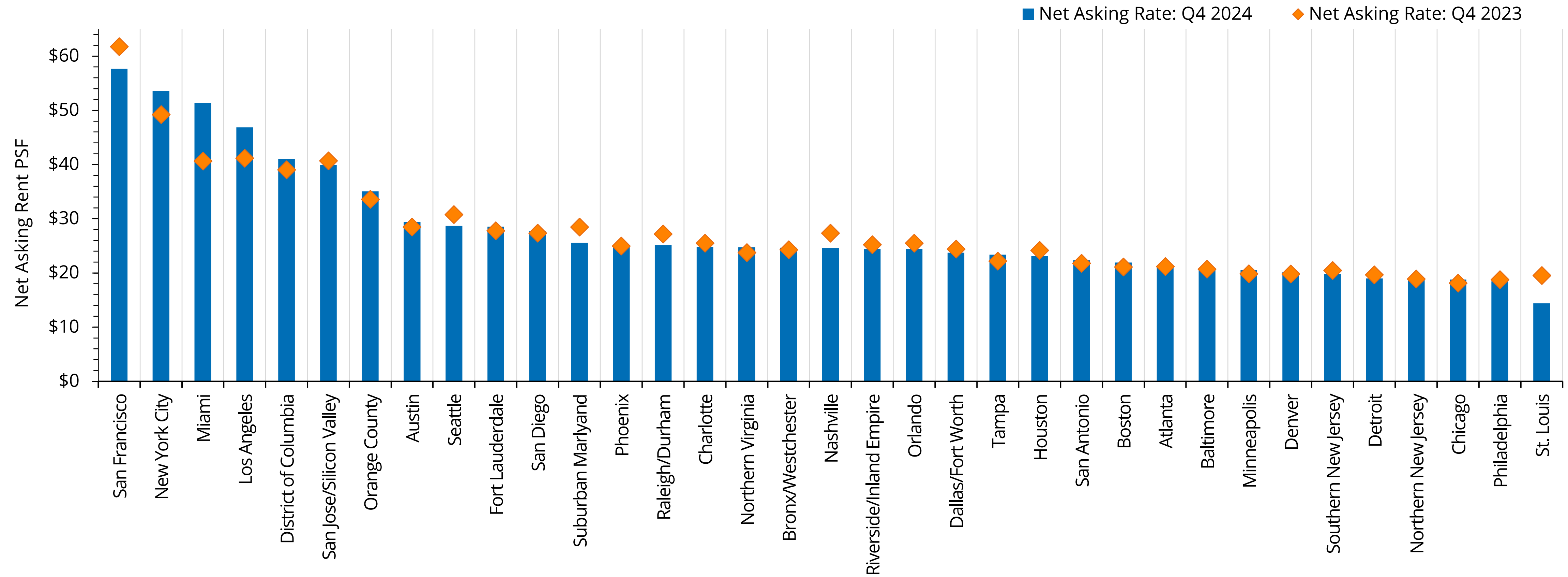
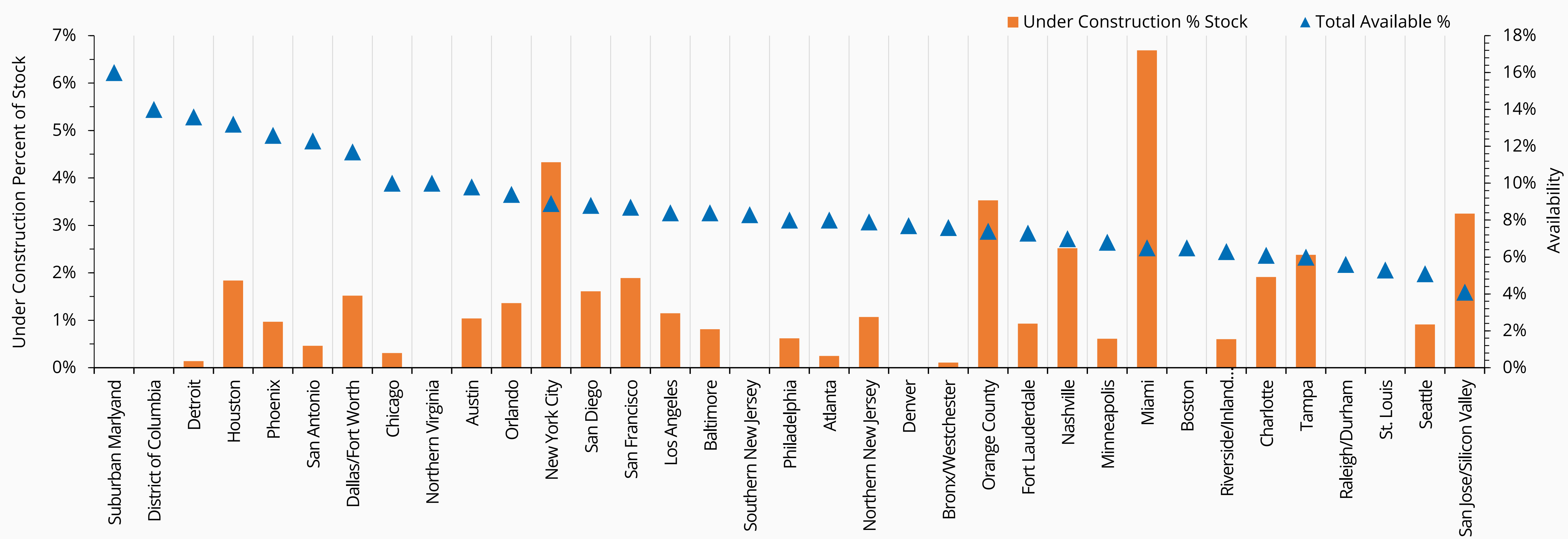
RENTAL RATES*



- National NNN rents have remained relatively flat over the past three years, with a 0.2% decline in average asking rents in 2024.
- New product has been able to push rates higher, with a 1.4% YoY increase in asking rents among properties built in the last four years.
- Overall, 19 of 35 markets saw rental rate growth in 2024.
- The markets with the largest YoY rent growth are Miami (+26.5%), Los Angeles (+13.8%), and New York City (+8.9%).

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.
- 86.8% of space currently under construction is pre-leased. Future deliveries will boost absorption but do little to alleviate vacancy rates in tight markets.
- Miami, New York City, and Orange County lead the way as markets with a high percentage of space under construction.

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

Market	Inventory SF	Direct Vacancy Rate	On Campus	Off Campus	Net Absorption	12-Month Net Absorption	NNN Asking Rent*	Prior Year Asking Rent	Under Construction
Atlanta	31,661,211	6.2%	4.0%	7.0%	31,432	541,358	$21.24	$21.14	80,000
Austin	10,238,767	7.2%	10.6%	6.4%	(70,663)	116,287	$29.37	$28.44	106,128
Baltimore	13,540,955	5.3%	2.8%	6.3%	(50,533)	125,293	$20.69	$20.68	110,000
Boston	28,013,647	4.7%	2.9%	5.2%	(160,847)	(146,152)	$21.93	$21.08	0
Bronx/Westchester	18,993,100	5.5%	2.2%	6.1%	18,487	188,489	$24.67	$24.26	21,000
Charlotte	15,475,734	4.2%	4.5%	4.1%	84,998	273,841	$24.80	$25.45	294,950
Chicago	37,272,158	7.5%	4.8%	8.5%	91,486	311,045	$18.76	$18.11	114,450
Cincinnati	9,128,766	3.8%	1.2%	5.3%	(619)	(5,123)	$16.27	$16.18	176,507
Cleveland	15,035,357	4.6%	0.2%	6.4%	(1,434)	428,899	$18.74	$17.25	0
Columbus OH	11,811,419	5.1%	1.6%	6.6%	(15,552)	313,402	$15.61	$14.88	0
Dallas/Fort Worth	35,722,238	9.6%	8.4%	10.4%	114,393	166,183	$23.75	$24.37	544,692
Dayton	4,946,093	3.6%	0.8%	4.5%	17,247	41,966	$13.36	$14.27	0
Delaware	3,895,681	4.5%	0.0%	5.0%	(16,678)	(12,325)	$20.77	$18.18	0
Denver	21,687,862	5.5%	5.8%	5.4%	234,638	307,334	$20.17	$19.77	0
Des Moines	3,253,116	1.6%	0.9%	2.0%	70,084	35,893	$19.67	$16.20	0
Detroit	24,127,353	11.7%	6.4%	12.6%	(344,455)	(202,600)	$18.98	$19.64	33,485
District of Columbia	2,496,633	11.2%	2.3%	14.0%	(10,580)	(18,166)	$41.00	$39.00	0
East Bay/Oakland	10,010,892	5.2%	3.0%	6.0%	(4,922)	137,957	$25.62	$26.70	0
Fort Lauderdale	8,070,004	6.0%	5.7%	6.0%	44,089	68,402	$28.54	$27.75	75,000
Hampton Roads	8,364,602	5.2%	3.4%	5.8%	8,431	227,973	$21.32	$21.20	0
Houston	41,471,027	10.8%	8.6%	12.4%	69,987	440,890	$23.09	$24.14	764,475
Indianapolis	13,044,547	5.2%	4.2%	5.7%	(4,889)	22,763	$14.84	$14.27	60,000
Jacksonville	7,592,625	6.2%	2.4%	9.0%	56,692	41,045	$21.77	$24.08	379,980
Kansas City	11,338,791	8.5%	8.4%	8.7%	39,012	17,329	$20.19	$21.01	71,000
Las Vegas	10,000,565	7.7%	9.2%	7.3%	46,939	92,598	$22.37	$22.58	85,576
Long Island	12,937,891	6.0%	0.0%	6.9%	27,542	(19,410)	$30.94	$30.97	0
Los Angeles	41,030,179	6.6%	3.8%	7.5%	134,938	94,473	$46.84	$41.15	470,000
Miami	11,492,918	4.3%	5.6%	3.6%	5,022	(9,071)	$51.39	$40.62	768,829
Milwaukee	9,809,074	5.0%	2.9%	5.5%	(54,020)	(11,448)	$16.05	$15.85	0

*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	Inventory SF	Direct Vacancy Rate	On Campus	Off Campus	Net Absorption	12-Month Net Absorption	NNN Asking Rent*	Prior Year Asking Rent	Under Construction
Minneapolis	16,569,272	4.4%	5.4%	4.1%	3,114	(16,623)	$20.52	$19.83	101,040
Nashville	11,643,953	5.9%	7.6%	4.8%	41,969	94,382	$24.63	$27.32	293,465
New Orleans	5,250,051	2.1%	1.9%	2.3%	(822)	12,681	$16.74	$17.84	126,000
New York City	14,296,209	5.9%	0.0%	6.5%	43,256	(69,395)	$53.59	$49.20	619,328
Northern New Jersey	33,304,596	6.4%	1.5%	7.4%	48,068	257,184	$18.80	$18.86	355,000
Northern Virginia	15,000,718	7.4%	5.6%	7.7%	200,253	170,622	$24.75	$23.72	0
Oklahoma City	8,019,196	6.9%	5.0%	8.1%	(32,470)	101,578	$18.99	$20.77	0
Orange County	15,706,205	5.5%	6.0%	5.3%	(4,133)	270,603	$35.06	$33.57	555,000
Orlando	13,116,357	7.8%	3.4%	9.1%	25,034	54,226	$24.41	$25.45	177,990
Palm Beach	8,175,532	4.7%	5.5%	4.5%	42,018	8,462	$26.02	$26.77	210,000
Philadelphia	30,778,917	5.2%	2.6%	6.0%	(23,954)	540,056	$18.44	$18.72	189,990
Phoenix	21,854,959	9.8%	9.5%	9.9%	62,431	(50,286)	$25.16	$24.94	213,000
Pittsburgh	9,950,456	5.8%	0.1%	8.2%	14,335	48,937	$19.35	$18.46	0
Portland	12,256,476	3.3%	1.3%	4.3%	(63,034)	(8,286)	$28.58	$29.18	0
Raleigh/Durham	11,172,416	4.5%	1.9%	4.8%	17,002	56,808	$25.11	$27.17	0
Riverside/Inland Empire	13,907,506	4.7%	4.1%	4.8%	(2,189)	273,868	$24.44	$25.20	82,990
Salt Lake City	10,900,038	2.9%	1.8%	3.5%	(46,570)	120,723	$21.86	$22.00	32,000
San Antonio	12,991,083	10.1%	13.7%	8.3%	309,968	627,284	$22.32	$21.74	60,000
San Diego	13,977,429	5.4%	2.8%	6.3%	57,931	(6,953)	$27.69	$27.31	225,000
San Francisco	7,553,815	6.8%	1.1%	13.0%	23,618	20,202	$57.66	$61.72	143,100
San Jose/Silicon Valley	7,116,650	3.5%	1.1%	3.9%	8,437	54,082	$39.90	$40.65	231,579
Seattle	18,207,969	4.0%	3.4%	4.4%	(26,668)	(7,727)	$28.68	$30.73	165,000
South Bend/Mishawaka	3,064,610	8.9%	6.6%	9.7%	(12,754)	(42,475)	$14.30	$13.40	0
Southern New Jersy	6,508,635	5.3%	2.7%	6.1%	38,409	63,841	$19.79	$20.42	0
St. Louis	12,816,407	3.7%	2.4%	4.3%	519,028	578,854	$14.40	$19.52	0
Suburban Marlyand	13,569,815	12.7%	16.2%	12.4%	(94,429)	19,319	$25.56	$28.44	0
Tampa	18,688,620	3.8%	3.6%	3.9%	13,200	24,790	$23.37	$22.18	444,075
Tulsa	5,976,061	0.9%	0.0%	1.8%	17,690	(400)	$12.74	$13.91	0 U.
U.S. Total	**1,147,579,038**	**5.9%**	**4.5%**	**6.4%**	**2,590,772**	**9,681,413**	**$22.78**	**$22.84**	**10,456,999**

*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

PRIMARY AUTHOR

Spencer Papciak
Director of Research – Southeast
National Healthcare Research Leader
Spencer.Papciak@transwestern.com
404 842 6585

FOR MORE INFORMATION

Elizabeth Norton
Sr. Managing Director
Research Services
Elizabeth.Norton@transwestern.com
202 775 7026

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.

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.