



Yardi® Matrix

National Office Report

July 2023



Medical Office Maintains Stability

- With remote and hybrid work continuing to wreak havoc on the office sector, medical office buildings are increasingly seen as a safe haven, and for good reason. MOB's are remarkably consistent from year to year, shielded from many of the headaches the sector has dealt with since March 2020.
- Besides providing a safe harbor in the current office storm, a variety of factors make MOB's appealing going forward. The population is aging—the U.S. Census Bureau projects that by 2030 there will be more people 65 and older than under 18—which will increase the utilization of health-care services. Advances in medical technology and treatments have moved procedures that used to require a hospital stay to outpatient care. MOB's are also mostly insulated from recessions because people will continue to require healthcare.
- Medical office is not immune to the decline in sales volume seen across the office sector, but average sales prices have been remarkably consistent over recent years. Between 2017 and 2022, the average sale price of a property that is primarily used as medical office has sat between \$260 and \$290 per square foot. Through the first half of 2023, the average is \$296, nearly \$100 more per foot than the national average for all office buildings. Some well-located facilities can blow past that average, such as Park Street Building in New Haven. Yale New Haven Hospital spent \$101.2 million, or an average of \$723 per foot, on the building, which had long-leased space within. In Washington, D.C., Welltower paid \$78 million, or \$483 per foot, for an MOB at 2021 K St., N.W.
- Much like the average sale price, MOB construction starts have been unaffected by the pandemic, staying steady despite the overall decline in all other types of new construction. Between 7 million and 8 million square feet of new office space were started each year from 2018 through 2021, and last year saw 8.7 million square feet of MOB starts.
- We anticipate demand for medical office buildings to grow in coming years, with the biggest driver being the aforementioned demographic shifts. In coming years, building owners, especially those with properties near hospitals, may look to convert general offices into medical office. Telehealth services are a minor threat to medical office demand, but are more of a supplement to in-person health care than outright replacement.



Listing Rates and Vacancy: Submarket Variance High in Denver

- The national average full-service equivalent listing rate in June was \$37.82, according to Yardi Matrix, an increase of 0.6% over the previous year.
- The national vacancy rate in June was 17.1%, an increase of 180 basis points year-over-year.
- Vacancy rates in Denver have increased 310 basis points in the last 12 months, and vacancy currently sits at 20.4%, one of the highest figures among the top 25 markets.

Denver also has one of the highest rates of remote work, according to data from the Census Bureau's American Community Survey. Recently, the city government joined other cities in paying an outside consulting firm to study the feasibility of converting largely vacant towers in the CBD into housing. Not every area in the market is struggling to fill space, however—the CBD's 31.7% vacancy rate is more than double those of more in-demand submarkets like Lower Downtown and Cherry Creek.

Listings by Metro

Market	Jun-23 Listing Rate	12-Month Change	Total Vacancy	12-Month Change	Top Listing	Price Per Square Foot
National	\$37.82	0.6%	17.1%	180 bps		
Boston	\$48.28	22.8%	10.6%	90 bps	Kendall Center-255 Main Street	\$126.34
San Diego	\$46.83	12.6%	15.5%	270 bps	One La Jolla Center	\$69.00
Philadelphia	\$30.92	6.3%	12.9%	-20 bps	Two Liberty Place	\$53.50
New Jersey	\$34.51	5.5%	17.3%	10 bps	10 Exchange Place	\$55.30
Twin Cities	\$27.25	5.5%	17.5%	350 bps	Tractor Works Building, The	\$40.71
Orlando	\$24.50	4.6%	14.2%	-30 bps	Heritage Park	\$42.00
Atlanta	\$30.68	4.1%	19.4%	-100 bps	300 Colony Square	\$52.00
Seattle	\$38.68	3.4%	20.1%	420 bps	1208 Eastlake Avenue East	\$95.00
Phoenix	\$27.73	2.9%	18.8%	490 bps	Camelback Collective	\$55.00
Washington DC	\$40.57	1.7%	14.6%	10 bps	455 Massachusetts Ave NW	\$76.00
Denver	\$30.62	1.6%	20.4%	310 bps	1144 Fifteenth Street	\$63.50
Los Angeles	\$42.18	0.4%	13.4%	30 bps	100 Wilshire	\$108.00
Chicago	\$27.40	0.4%	18.9%	-70 bps	300 North LaSalle Drive	\$59.46
Nashville	\$30.27	0.0%	17.5%	-90 bps	Three Thirty Three	\$44.38
San Francisco	\$63.61	0.0%	21.1%	360 bps	Sand Hill Collection-The Quad	\$195.60
Tampa	\$27.92	-0.1%	14.8%	100 bps	Water Street Tampa-Thousand & One	\$59.00
Austin	\$42.23	-0.4%	19.9%	300 bps	Indeed Tower	\$82.34
Houston	\$30.39	-0.4%	23.4%	-30 bps	Texas Tower	\$60.90
Miami	\$46.93	-0.6%	12.7%	80 bps	830 Brickell	\$137.50
Manhattan	\$70.56	-2.8%	17.2%	330 bps	550 Madison Avenue	\$210.00
Portland	\$28.71	-4.3%	15.7%	170 bps	12th & Morrison	\$47.01
Bay Area	\$53.62	-5.6%	18.2%	260 bps	325 Lytton Avenue	\$160.20
Dallas	\$27.16	-7.1%	17.5%	-30 bps	Rosewood Court	\$58.43
Brooklyn	\$44.47	-8.1%	12.8%	-400 bps	200 Kent Avenue	\$75.00
Charlotte	\$30.69	-8.3%	11.8%	-260 bps	Rotunda Building, The	\$44.42

Source: Yardi Matrix. Data as of June 2023. Listing rates are full-service or "full-service equivalent" rates for spaces available as of report period. National listing rate is an average of the top 50 markets.

Supply: Austin Pipeline Remains Large

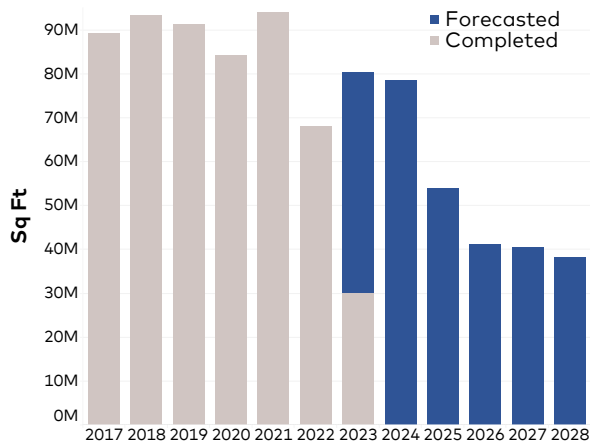
- Nationally, 115.8 million square feet of office stock are under construction. The under-construction pipeline has shrunk steadily this year, as projects are completing faster than new ones are starting. Only 15.7 million square feet were started in the first two quarters, half of what had been started during the same period last year.
- Nearly two-thirds of all starts in 2023 have been in just 10 markets, primarily those located in the Sun Belt or life science hubs.
- More than 6 million square feet are under construction in Austin, nearly 7% of stock. Much of that is due to The Republic, a 48-story tower with more than 800,000 square feet along Fourth Street. While the market has added office jobs at a faster rate than any other market in the country and has the highest office utilization in Kastle's Back to Work Barometer, there are still oversupply risks. Nearly 7 million square feet of office space are under construction (6.9% of stock), and 4.4 million square feet have been delivered since the start of last year (4.8% of stock). Over the past 12 months, vacancy rates have increased by 300 basis points.

Supply Pipeline (by metro)

Market	Under Construction	Under Construction % Stock	Plus Planned % Stock
National	115,821,573	1.7%	5.5%
Austin	6,202,639	6.9%	24.2%
Boston	15,127,684	6.2%	12.3%
Nashville	3,375,433	5.9%	13.3%
San Diego	5,228,627	5.6%	10.8%
San Francisco	8,469,687	5.4%	13.0%
Seattle	6,786,370	4.9%	13.7%
Charlotte	3,033,625	3.9%	9.5%
Brooklyn	1,131,039	3.1%	5.0%
Miami	2,013,560	2.8%	11.9%
Bay Area	5,280,456	2.6%	11.7%
Orlando	1,165,970	2.1%	7.8%
Manhattan	9,156,645	2.0%	3.9%
Dallas	4,796,741	1.7%	9.5%
Atlanta	3,321,551	1.7%	4.8%
Philadelphia	3,050,154	1.7%	5.2%
Denver	2,662,883	1.7%	5.8%
Washington DC	4,034,510	1.1%	3.3%
Houston	2,722,136	1.1%	3.0%
Portland	565,714	1.0%	6.0%
New Jersey	1,745,938	0.9%	2.3%
Phoenix	1,276,616	0.9%	4.9%
Chicago	2,325,227	0.8%	4.4%
Los Angeles	1,342,769	0.5%	3.3%
Twin Cities	546,369	0.5%	2.4%
Tampa	261,154	0.3%	3.6%

Source: Yardi Matrix. Data as of June 2023

National New Supply Forecast

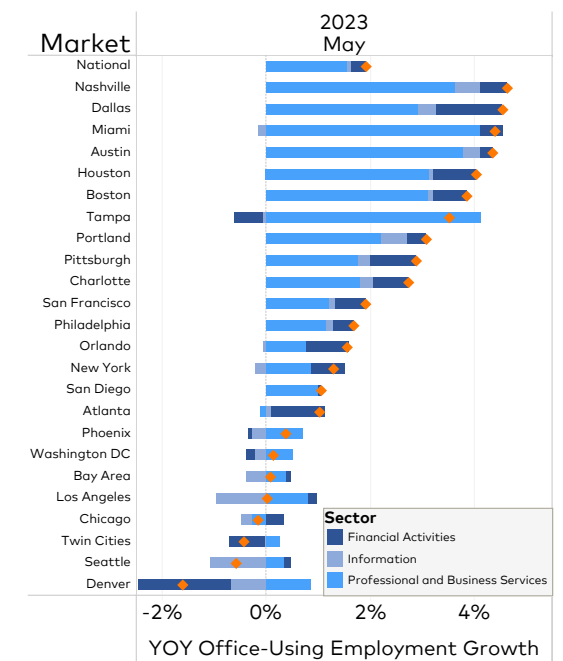


Source: Yardi Matrix. Data as of June 2023
Data in this chart includes owner-occupied properties

Office-Using Employment: Nashville Job Growth Continues in Slowing Labor Market

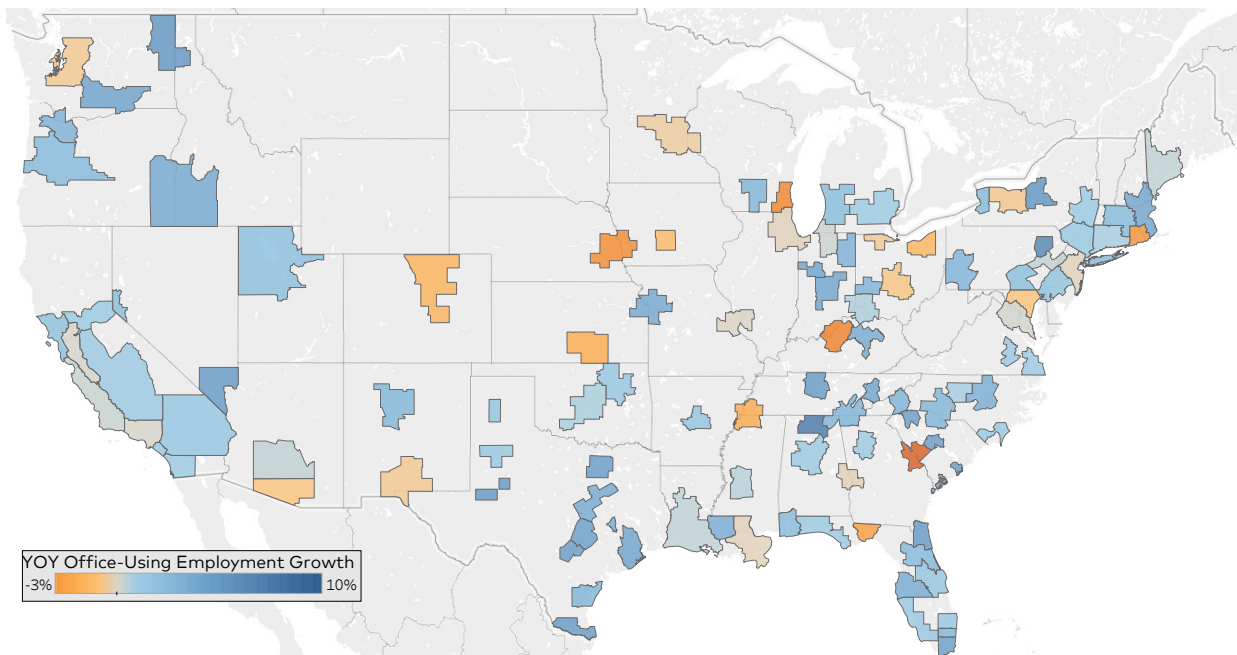
- Office-using sectors of the labor market added 31,000 jobs in the month of June, according to the Bureau of Labor Statistics, growing 1.7% year-over-year. Office-using sectors have decelerated this year, adding jobs at a slower rate than the labor market as a whole during every month in 2023.
- While the slowdown in office-using employment growth is seen nationally, metro employment data for May (which trails the national release) shows Sun Belt markets continuing to outpace the rest of the nation, with many markets growing more than 4% year-over-year.
- Nashville is one such market, adding more than 14,000 office jobs and growing 4.6% in the last year. The market has been one of the best performers since the recovery from the pandemic, adding 68,000 office jobs since April 2020. This is an increase of 27.3% since the pandemic trough, the seventh-highest mark among the top 50 markets covered by Yardi Matrix.

Growth by Sector



Sources: Bureau of Labor Statistics and Moody's Analytics

Office-Using Employment Growth

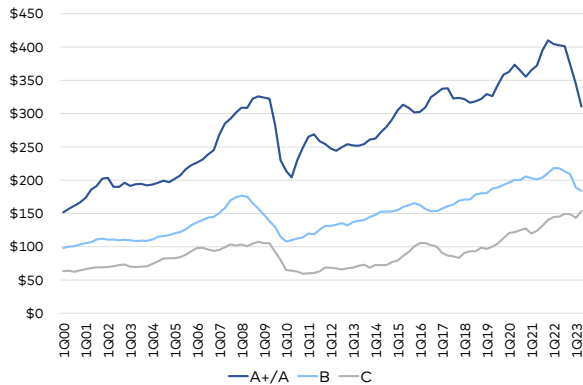


Sources: Bureau of Labor Statistics and Moody's Analytics

Transactions: Lab Space in Demand in New Jersey

- Yardi Matrix recorded \$14.8 billion in transactions during the first half of the year, with properties trading at an average of \$199 per square foot.
- New Jersey has been one of the more active markets for sales, with lab space behind much of the \$928 million in sales this year. The 2 million-square-foot, 108-acre former headquarters of Merck at 2000 Galloping Hill was purchased for \$187.5 million by a joint venture between Onyx Equities and Machine Investment Group. Many pharmaceutical companies are clustered in New Jersey, driving demand for lab space in the market.

Asset Class (price per sq. ft.)



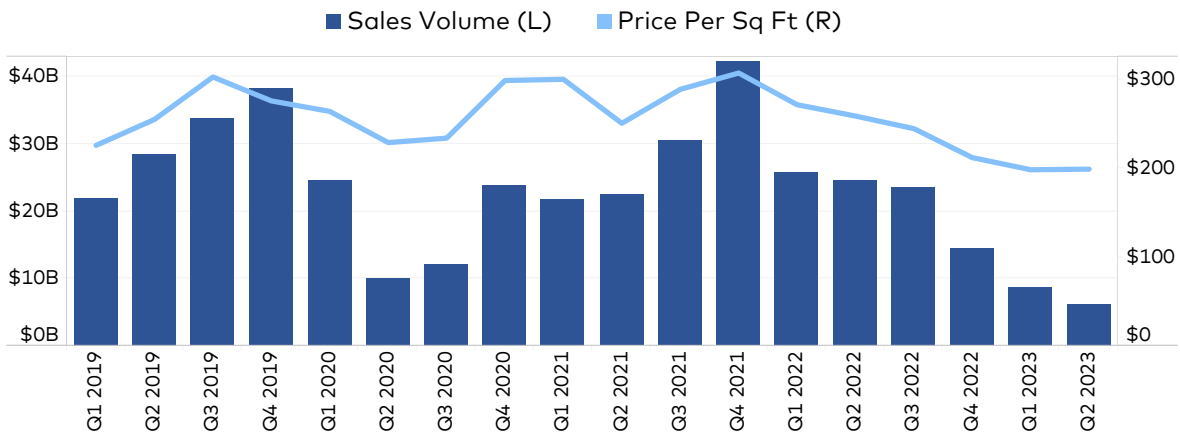
Source: Yardi Matrix; 12-month moving average. Does not include unpublished and portfolio transactions.

Sales Activity

Market	YTD Sales Price PSF	YTD Sales (Mil, as of 6/30)
National	\$199	\$14,759
Boston	\$455	\$1,278
Manhattan	\$645	\$1,269
Los Angeles	\$232	\$1,113
New Jersey	\$140	\$928
Washington DC	\$227	\$737
Houston	\$123	\$629
Chicago	\$106	\$624
Tampa	\$162	\$487
San Diego	\$398	\$482
Dallas	\$238	\$433
Phoenix	\$210	\$415
Bay Area	\$430	\$407
San Francisco	\$464	\$378
Philadelphia	\$177	\$358
Miami	\$261	\$286
Austin	\$320	\$281
Denver	\$207	\$255
Twin Cities	\$217	\$180
Atlanta	\$147	\$148
Charlotte	\$156	\$143
Portland	\$234	\$77
Nashville	\$261	\$75
Seattle	\$290	\$73
Orlando	\$150	\$23
Brooklyn	N/A	N/A

Source: Yardi Matrix. Data as of June 2023. Sales data for unpublished and portfolio transactions is estimated using sales comps.

Quarterly Transactions



Source: Yardi Matrix. Data as of June 2023

Definitions

This report covers office buildings 25,000 square feet and above. Yardi Matrix subscribers have access to more than 14,000,000 property records and 300,000 listings for a continually growing list of markets.

Yardi Matrix collects listing rate and occupancy data using proprietary methods.

- *Listing Rates*—Listing Rates are full-service rates or “full-service equivalent” for spaces that were available as of the report period. Yardi Matrix uses aggregated and anonymized expense data to create full-service equivalent rates from triple-net and modified gross listings. Expense data is available to Yardi Matrix subscribers. National average listing rate is for the top 50 markets covered by Yardi Matrix.
- *Vacancy*—The total square feet vacant in a market, including subleases, divided by the total square feet of office space in that market. Owner-occupied buildings are not included in vacancy calculations.

A and A+/Trophy buildings have been combined for reporting purposes.

Stage of the supply pipeline:

- *Planned*—Buildings that are currently in the process of acquiring zoning approval and permits but have not yet begun construction.
- *Under Construction*—Buildings for which construction and excavation has begun.

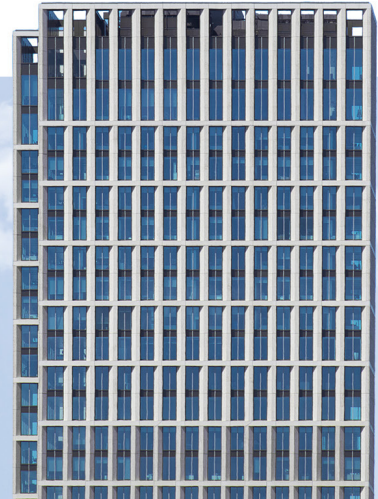
Office-Using Employment is defined by the Bureau of Labor Statistics as including the sectors Information, Financial Activities, and Professional and Business Services. Employment numbers are representative of the Metropolitan Statistical Area and do not necessarily align exactly with Yardi Matrix market boundaries.

Sales volume and price-per-square-foot calculations for portfolio transactions or those with unpublished dollar values are estimated using sales comps based on similar sales in the market and submarket, use type, location and asset ratings, sale date and property size.



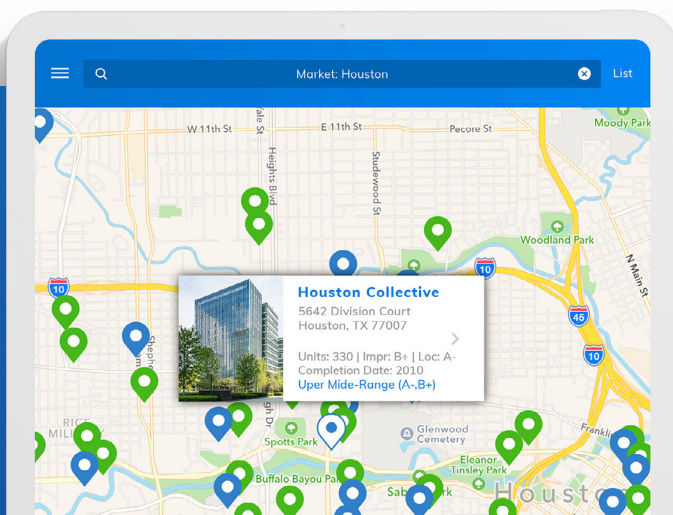
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OFFICE KEY FEATURES

- Active in 118 markets across the U.S. covering over 70,000 properties
- Find acquisition prospects based on in-place loans, maturity dates, lenders and originators
- Pierce the LLC with true ownership and contact info at the asset and portfolio level
- Gain new supply pipeline information at the asset, competitive set and market level
- Benchmark performance to similar assets



Yardi Matrix Office delivers detailed property-level information, allowing you to analyze current market conditions at the micro and macro level.



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