

# POWERED BY PARTNERS

A DEEPER RESEARCH DIVE INTO COMMERCIAL REAL ESTATE

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## MEDICAL OFFICE PROPERTIES IN THE MAJOR TEXAS MARKETS

### Increasing demand for healthcare services to continue to drive growth in medical office market

The medical office market is expected to grow at a healthy rate in the coming years. The aging population and increasing demand for healthcare services are driving this growth. In addition, the increasing popularity of telemedicine is expected to lead to more demand for medical office space.

The medical office market is a relatively stable investment, as healthcare services are essential and demand is relatively inelastic. However, the market is also relatively fragmented, which can make it difficult to find good investment opportunities.

Investors who are interested in the medical office market should carefully consider their investment objectives and risk tolerance. The market is a good option for investors who are looking for a stable investment with the potential for good returns.

Here are some of the factors that are expected to drive the growth of the medical office market:

- The aging population: The aging population is expected to lead to an increase in demand for healthcare services. This is because older adults are more likely to need medical care than younger adults.
- The increasing demand for healthcare services: The increasing demand for healthcare services is expected to come from a number of factors, including the rising cost of healthcare, the growing prevalence of chronic diseases, and the increasing popularity of telemedicine.
- The increasing popularity of telemedicine: Telemedicine is the use of technology to provide healthcare services remotely. The increasing popularity of telemedicine is expected to lead to more demand for medical office space, as telemedicine providers will need to have offices to provide services from.

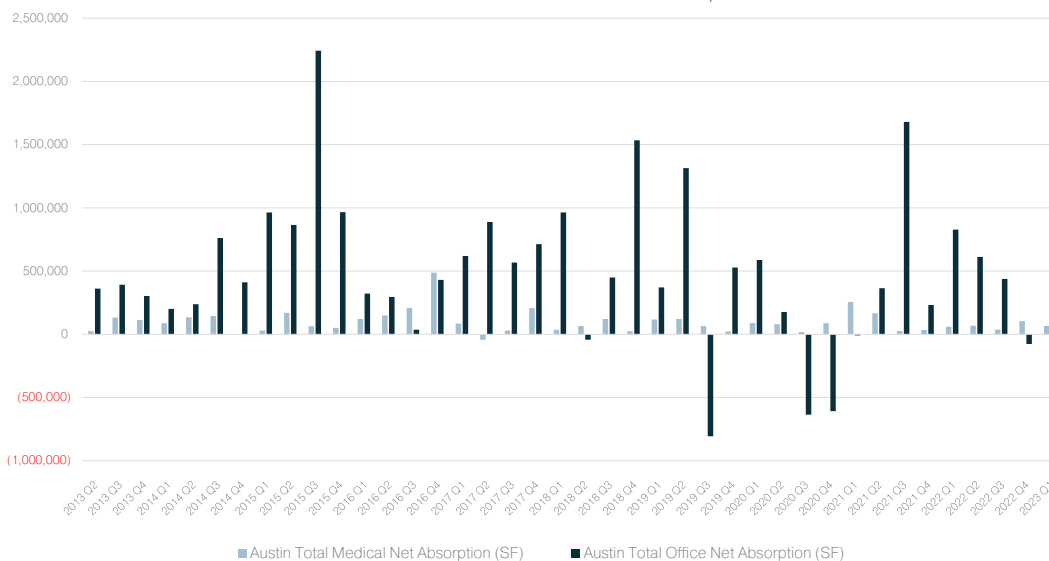
These factors are expected to lead to a healthy growth in the medical office market in the coming years.

There are a few reasons why medical office properties get higher rates than traditional office properties.

### NET ABSORPTION FOR MEDICAL OFFICE PROPERTIES

**TENANT DEMAND:** Medical office properties are in high demand, as there is a growing need for healthcare services. Net absorption for medical office properties remains much more stable and positive, especially in comparison to the overall office market. This demand is driven by the aging population, the increasing prevalence of chronic diseases, and the increasing popularity of telemedicine.

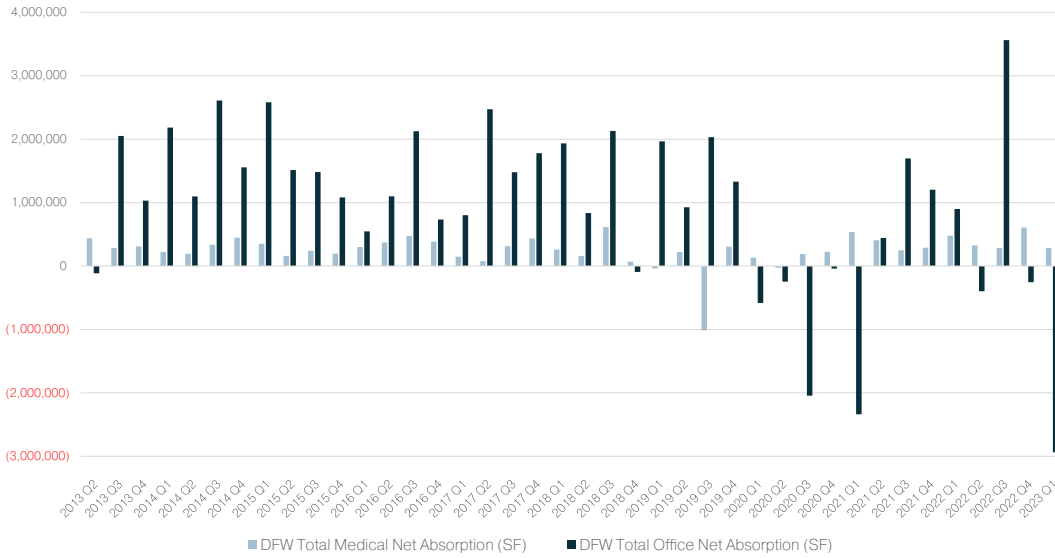
Austin Medical vs Office Net Absorption



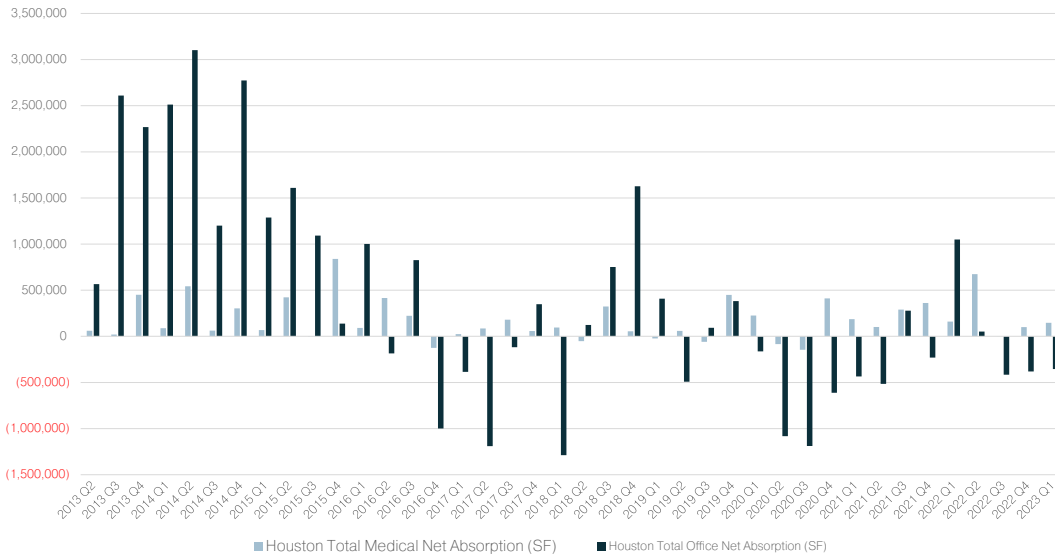
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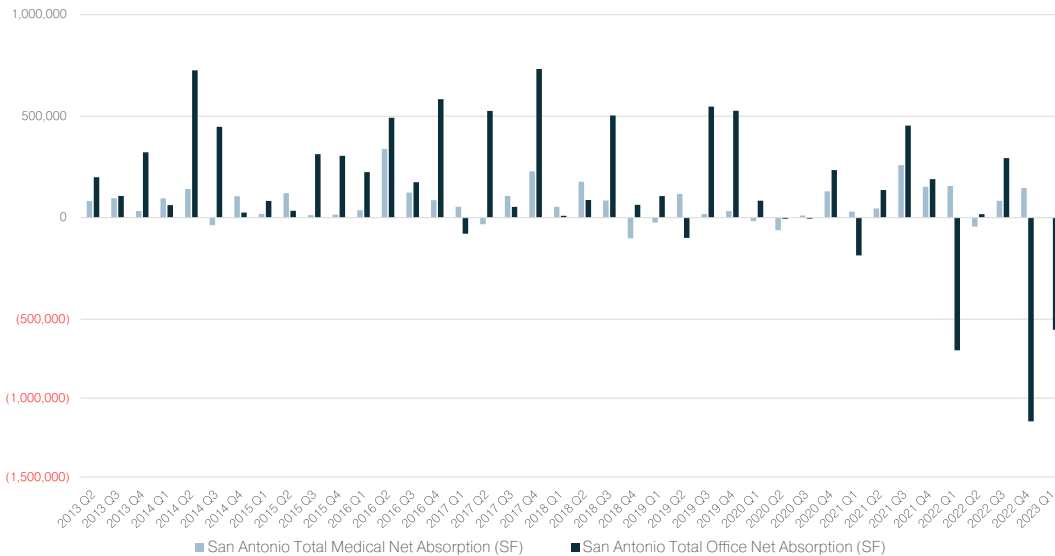
### DFW Medical vs Office Net Absorption



### Houston Medical vs Office Net Absorption



### San Antonio Medical vs Office Net Absorption



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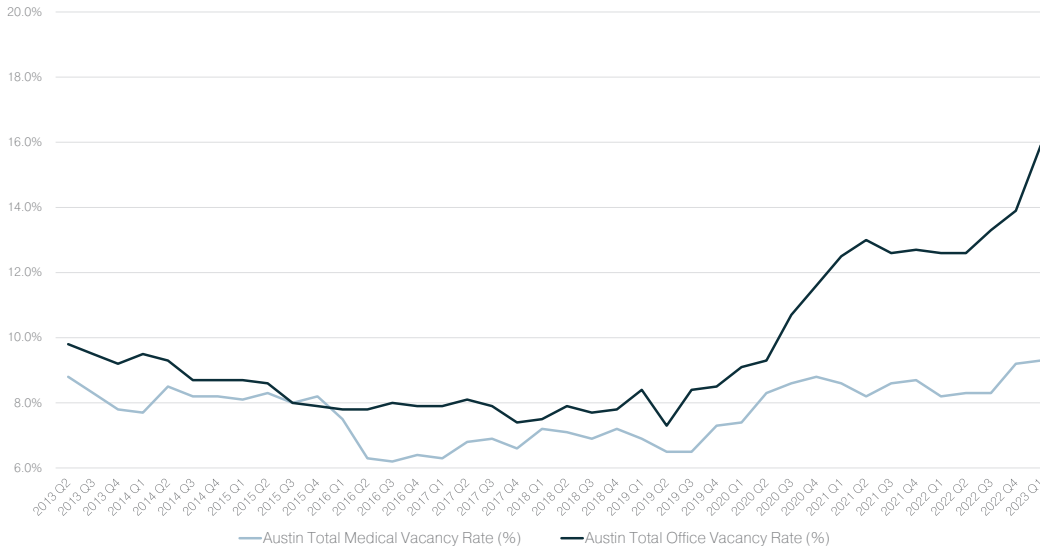
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**LONG-TERM LEASES:** Medical office properties typically have long-term leases, which provide investors with a more stable income stream.

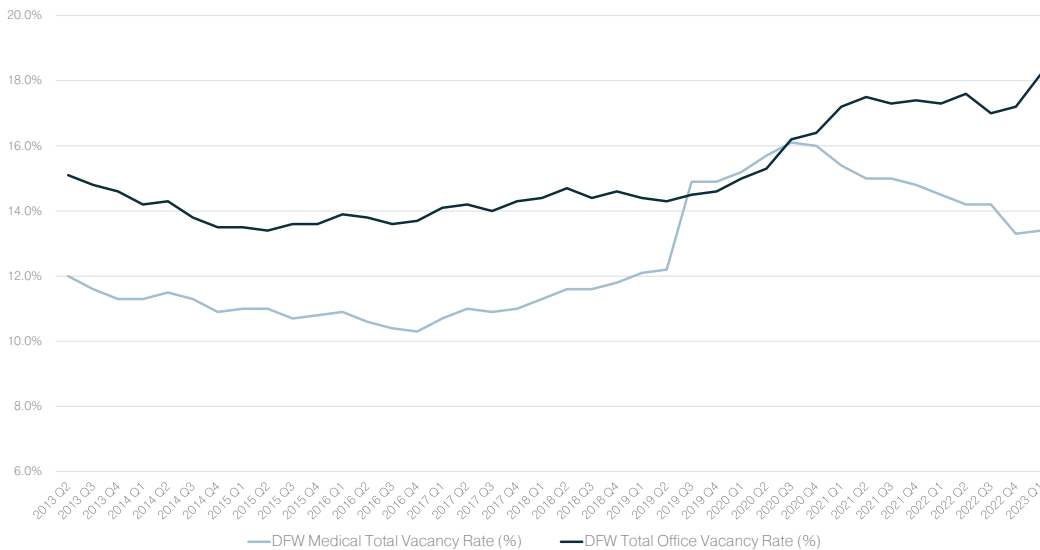
## TOTAL VACANCY RATES FOR MEDICAL OFFICE PROPERTIES

**LOWER VACANCY RATES:** Medical office properties tend to have lower vacancy rates than traditional office properties. This is because medical office tenants are often willing to pay more for space that is located in a convenient location and that has the features they need.

### Austin Medical vs Office Total Vacancy Rates



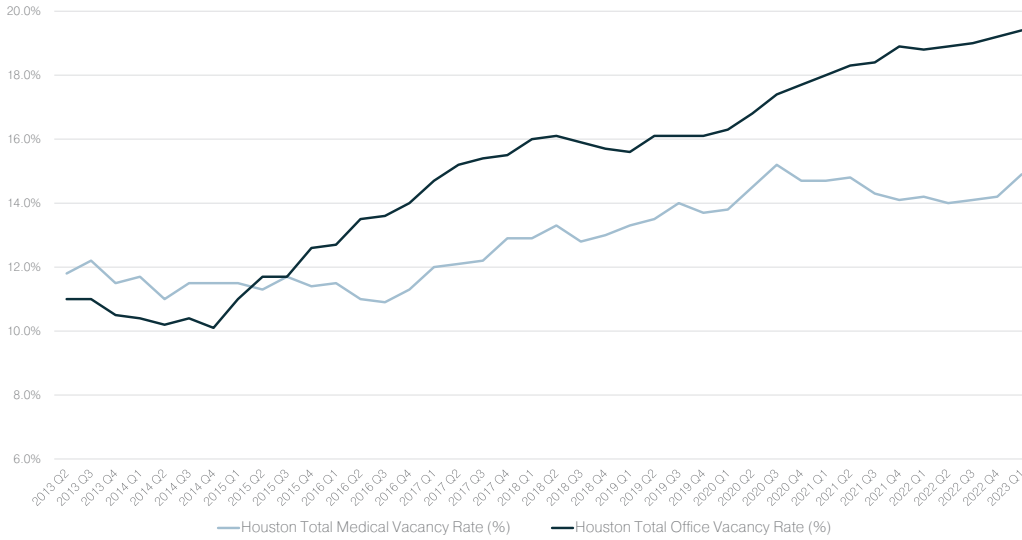
### DFW Medical vs Office Total Vacancy Rates



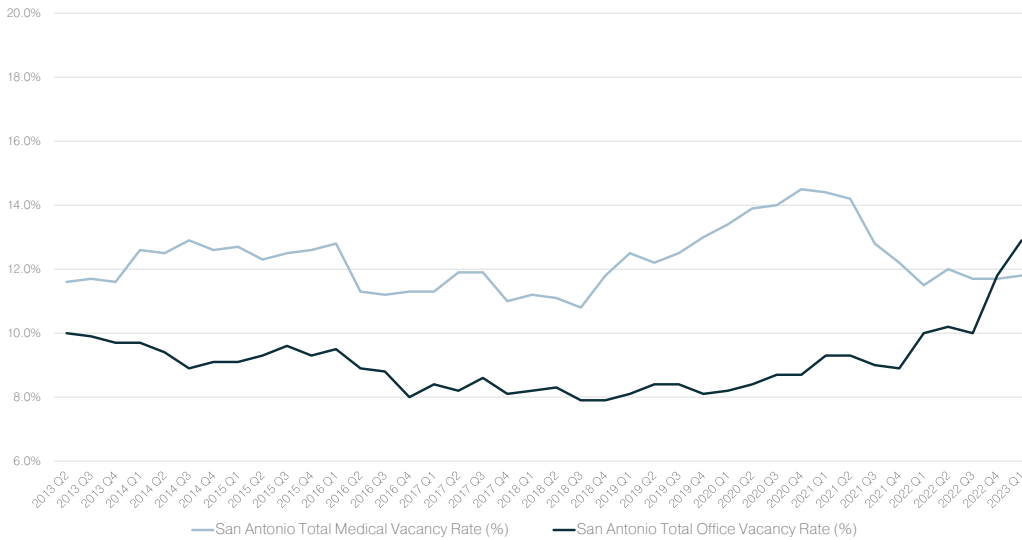
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Houston Medical vs Office Total Vacancy Rates



San Antonio Medical vs Office Total Vacancy Rates



**HIGHER CREDITWORTHINESS OF TENANTS:** Medical office tenants are often considered to be more creditworthy than traditional office tenants. This is because medical office tenants are typically businesses that provide essential services.

All of these factors contribute to typically higher rates that medical office properties get, when adjusting for property Class and Age.

Medical office properties require additional plumbing for things like exam rooms, surgery centers, and imaging equipment. This additional plumbing can be expensive to install and maintain, which can add to the cost of medical office properties.

Medical office growth is strongest in the sunbelt. The sunbelt is a region of the United States that includes the states of Florida, Georgia, North Carolina, South Carolina, Texas, Arizona, California, Nevada, New Mexico, and Colorado. The sunbelt has been experiencing rapid population growth in recent years, and this growth is driving demand for medical services. In addition, the sunbelt has a relatively low cost of living, which makes it an attractive location for medical providers.

The top 5 markets for medical office growth over the past few years were all located in the sunbelt. The top 5 markets were:

	INVENTORY	UNDER CONSTRUCTION (2023)
Austin	13.8 million SF	400K SF
Dallas-Fort Worth	56.4 million SF	1.1 million SF
Houston	54 million SF	2.5 million SF
San Antonio	17.8 million SF	260K SF
Phoenix	32.7 million SF	200K SF

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The sunbelt is expected to continue to be the fastest growing region for medical office growth in the near future. This is due to a number of factors, including the region's continued population growth, its relatively low cost of living, and its attractive climate.

The growth of medical office space in the sunbelt is having a number of positive impacts on the region. First, it is creating jobs and stimulating economic growth. Second, it is making it easier for patients to access quality healthcare. Third, it is helping to improve the quality of life for residents of the sunbelt.

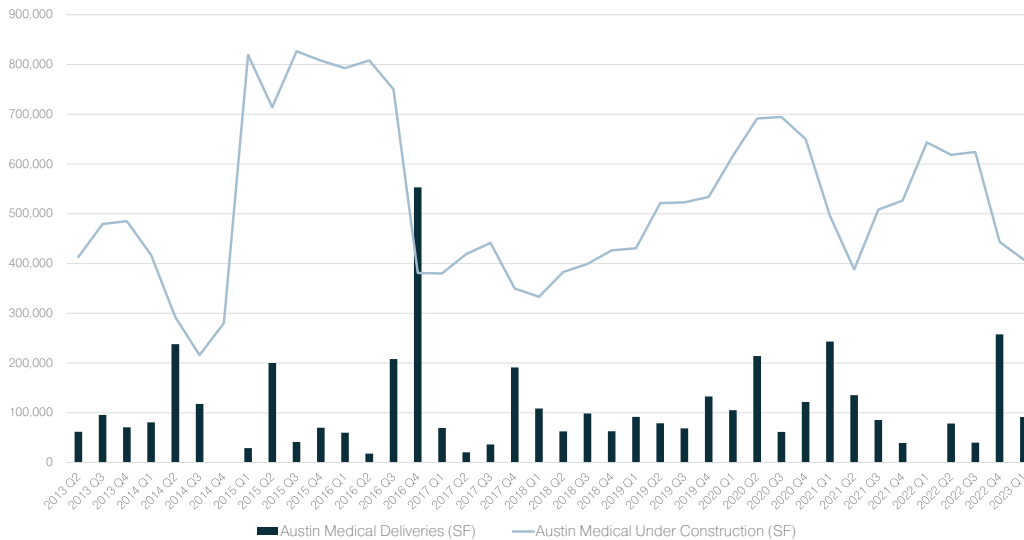
The sunbelt not only has higher population growth, but many of the states are also a destination for older folks to retire to. The sunbelt states offer a number of advantages for retirees, including:

- Mild winters: The sunbelt states have milder winters than many northern states, which can make it easier for older people to get around and enjoy the outdoors.
- Low cost of living: The cost of living in the sunbelt states is generally lower than in many northern states, which can help retirees stretch their retirement savings.
- Accessible healthcare: The sunbelt states have a large number of hospitals and clinics, which can make it easy for retirees to access healthcare.
- Active lifestyles: Many sunbelt states offer a variety of activities and amenities for retirees, such as golf courses, swimming pools, and hiking trails.

As a result, the sunbelt states are becoming increasingly popular retirement destinations.

## MEDICAL OFFICE NEW DELIVERIES AND UNDER CONSTRUCTION PIPELINE

### Austin Medical New Deliveries and Construction Pipeline



### DFW Medical New Deliveries and Construction Pipeline



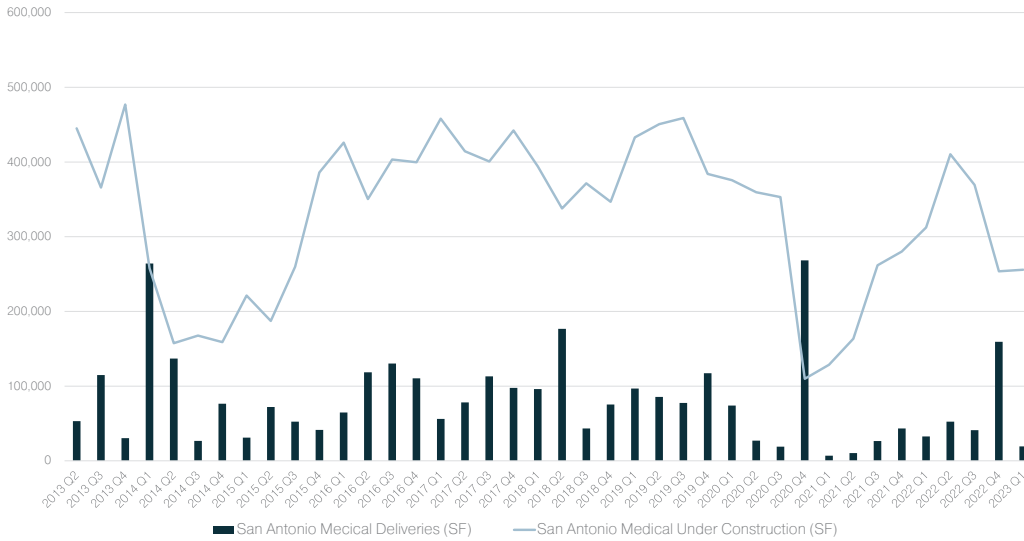
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### Houston Medical New Deliveries and Constructon Pipeline



### San Antonio Medical New Deliveries and Construction Pipeline



## MEDICAL OFFICE PROPERTIES AND 1031 EXCHANGES

On average medical office properties are smaller than more traditional office properties, which is one of the reasons they are often good candidates for 1031 tax exchanges.

When choosing a medical office property for a 1031 exchange, it is important to consider the following factors:

- The location of the property
- The size of the property
- The condition of the property
- The tenant mix
- The rent roll
- The potential for future growth

It is also important to work with a qualified professional to ensure that the exchange is completed properly.

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Here are some of the benefits of using a 1031 exchange to sell a medical office property:

- **DEFER CAPITAL GAINS TAX.** Capital gains tax can be a significant expense, especially if you have a large profit from the sale of an investment property. A 1031 exchange allows you to defer paying this tax until you sell the new property. This can free up cash that you can use to invest in other properties or to improve your current properties.
- **DIVERSIFY YOUR PORTFOLIO.** A 1031 exchange can be a great way to diversify your real estate portfolio. If you sell a property that is no longer a good investment for you, you can use the proceeds to buy a property in a different location or with a different type of tenant. This can help you to spread out your risk and protect your investment portfolio.
- **TAKE ADVANTAGE OF THE CURRENT MARKET CONDITIONS.** If you are selling a property at a time when the market is hot, you may be able to get a good price for it. However, you may also have to pay a lot of capital gains tax. A 1031 exchange can allow you to defer paying this tax until the market cools down. This can help you to get a better price for your property and to avoid paying as much tax.

## IN CONCLUSION:

Medical office properties can be a great investment, especially in comparison to more traditional office properties. They are a stable asset class with a strong track record of appreciation. They are also in high demand, as the population ages and the demand for healthcare services increases.

Key reasons why medical office properties are a good investment:

- **STABLE INCOME STREAM.** Medical office properties typically generate a steady stream of income from rent payments from tenants. This income can be used to cover finance payments and other expenses, and can also provide a profit for the investor.
- **APPRECIATION POTENTIAL.** Medical office properties have historically appreciated more consistently over time. This is due to the strong demand for healthcare services and the limited supply of medical office space.
- **TAX BENEFITS.** There are a number of tax benefits available to investors in medical office properties. These include depreciation deductions, which can reduce the investor's tax liability, and capital gains tax deferral, which allows the investor to defer paying capital gains tax on the sale of a property.

If you are considering investing in medical office properties, it is important to do your research and to work with a qualified real estate investment professional.

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