

MEDICAL OFFICE MARKET



Healthcare Job Growth Tightens Market

More Office Buildings Converting to Medical Space

OVERVIEW

High Costs, Shortage of Doctors

Two of the biggest issues facing the healthcare industry is shortage of doctors and cost. According to the Association of American Medical Colleges, New Jersey could be short by as many as 2,800 doctors by 2020 and is trying to add more residency programs as a partial solution. Cost continues to rise, and while the State's healthcare improved over the past year, lawmakers continue to seek ways to make healthcare more affordable. To that extent, New Jersey is switching to a health insurance exchange in an effort to give its residents more affordable coverage.

JOB GROWTH

Less in Hospitals, More Outpatient

The healthcare industry continues to grow in the United States, adding 35,000 jobs in June 2019, and is expected to continue as the fastest growing sector as the population ages. The job growth is not occurring within hospitals, which continue to merge, but in outpatient centers and in-home health care. Physicians' offices are also adding jobs at a steady pace. In New Jersey, the Health Care and Social Assistance employment increased by 5,800 jobs year-over-year ending June 2019, accounting for 12.6% of jobs added within the State. Continued strong growth in the healthcare industry bodes well for office building owners who have the ability to convert all or part of their assets to support the growing medical office sector.

DEMAND

Solid Start to the Year

Following a strong second half of 2018, the medical office market continued to tighten, recording 121,455 square feet of positive net absorption during the first six months of 2019. During the past twelve months, 443,148 square feet was absorbed in total. Moreover, the market has experienced increasing occupancy levels for the past ten quarters. St. Joseph's Health highlighted activity during the past six months, signing a lease of 60,000 square feet in Totowa. The healthcare provider is developing a state-of-the-art ambulatory care center on the site which is owned by Community Health Care Associates (CHA).

TRENDLINES

5-YEAR TREND CURRENT QUARTER

HEALTHCARE JOB GROWTH



5,900 JOBS
Well ahead of 2018 pace

ABSORPTION



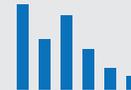
107,162 SF
Eight quarters of growth

VACANCY



11.8 %
Lowest in 10 years

UNDER CONSTRUCTION



77,688 SF
Conversions growing

RENTAL RATE



\$23.80 PSF
Highest in 12 months

VACANCY

Mixed-Bag

The overall vacancy rate continued to improve in the medical office sector, improving to 11.8%, its best level since Q1 2008. However, only half of the 12 counties studied recorded improved occupancy levels during the first six months of 2019.

SUPPLY AND DEVELOPMENT

Townships Executing Redevelopment Plans

Two redevelopment projects by CHA highlighted activity thus far in 2019. The St. Joseph's Health lease came as part of an ongoing plan in Totowa, as it is one of two new planned 60,000-square-foot buildings. In Plainfield, the planned Muhlenberg Medical Arts Complex is part of a half-billion-dollar plan.

RENTAL RATE

Tepid Growth

While not near the peak levels reached pre-recession, strong demand has resulted in a steady climb in asking rents during the past six years, an overall increase of nearly five-percent.

INVESTMENT SALES

Smaller Buildings Dominated Activity

Following a strong 2018, sales volume slowed during the first half of this year. National Business Parks acquired 131 Madison Avenue, a 52,000-square-foot fully-leased building in Morristown for \$15.5 million. This was one of only a few larger medical office building sales, as 70% of the trading took place in buildings that were less than 10,000 square feet in size.

OUTLOOK

Opportunities Increasing With Demand

Medical providers continue to await a national healthcare plan, keeping the industry a bit unsettled. In New Jersey, as market conditions tighten, it is anticipated that more office and retail property owners will offer vacant space as medical opportunities, especially in smaller office buildings and shopping centers.

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METHODOLOGY

The information in this report is the result of a compilation of information on medical office properties located in northern and central New Jersey. This report includes single-tenant, multi-tenant and owner-user medical office properties, 5,000 SF and larger.

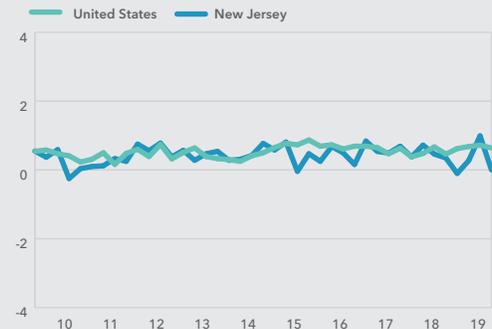
Unemployment Rate



SOURCE: Bureau of Labor Statistics

Job Growth

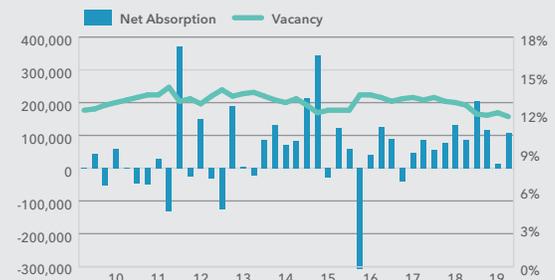
Healthcare and Social Assistance



SOURCE: Bureau of Labor Statistics

Net Absorption and Vacancy

New Jersey



SOURCE: Transwestern, CoStar

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