

Growing healthcare demand creates real estate opportunity



Paul Leonard

*Director Research, Real Estate,
Americas*

WHY MEDICAL OUTPATIENT BUILDINGS DESERVE YOUR ATTENTION NOW

Private commercial real estate continues to mature and evolve. In recent years, investors have increased exposure to alternative sub-sectors within the asset class that offer differentiated demand drivers and the potential to outperform core real estate sectors. Healthcare real estate, which includes medical outpatient buildings (MOBs), has quickly gained investor interest, for good reason.

Medical outpatient buildings present a rare combination of strong fundamentals, demographic tailwinds and an attractive entry point. This sector has delivered superior risk-adjusted returns while maintaining remarkable resilience through economic cycles, creating what we view as a multi-year opportunity for outsized returns in this specialized real estate sector.

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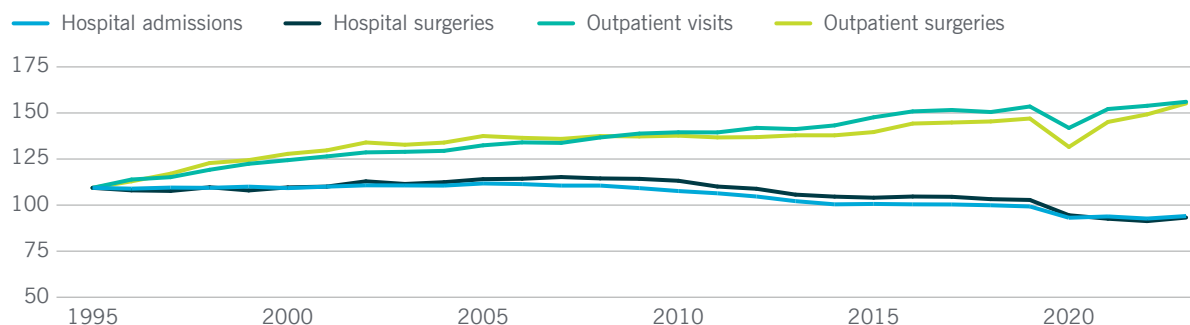
MACRO FORCES DRIVING DEMAND

U.S. healthcare spending now represents over one-sixth of gross domestic product (GDP) — significantly higher than peer nations.¹ This remarkable thriving and evolving sector is undergoing a fundamental transformation that directly benefits outpatient facilities. The demographic shift is equally compelling, with seniors expected to grow by 68% between 2024 and 2040, increasing from 8% to 12% of the total population.² This matters because seniors spend three times more on healthcare than younger cohorts, representing 37% of all healthcare spending despite being a smaller population segment.³

Healthcare delivery is increasingly moving toward outpatient care, driven by both convenience for patients and significantly lower costs for both providers and patients. As Figure 1 demonstrates, this is not a temporary trend but a sustained transformation. Over the past decade, hospital admissions declined 10%, while outpatient visits increased 13%. This shift accelerates as high-deductible health plans become more prevalent and some procedures become unprofitable for hospitals due to reimbursement cuts from Medicare and Medicaid. Health systems are strategically shifting routine services to outpatient facilities while reserving hospitals for complex, high-revenue procedures.

Figure 1: Patients are choosing outpatient care over hospital visits

Index: Growth of hospitals vs. outpatient: admissions/visits and surgeries (1995 = 100)



Source: Nuveen Real Estate; American Hospital Association, June 2025.

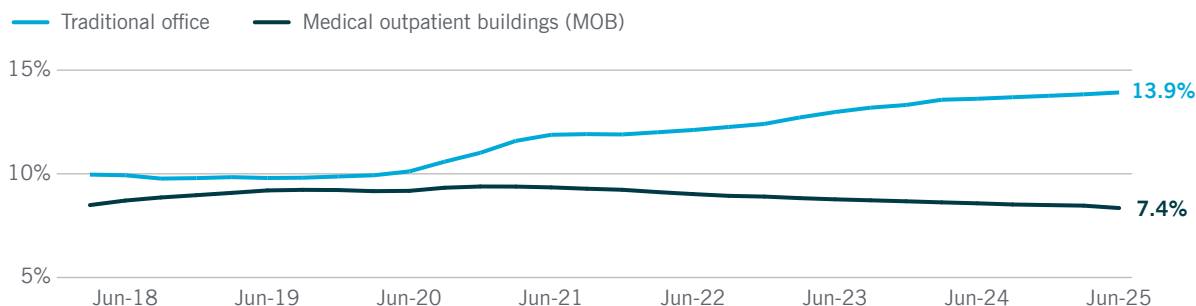
Note: Data is updated through year-end 2023.

WHY MOB'S OUTPERFORM TRADITIONAL OFFICE

Unlike traditional office buildings suffering from work-from-home trends, medical visits remain necessarily in-person. The physical requirements alone differentiate these properties, requiring specialized plumbing and electrical systems, higher floor load capacity, extensive parking ratios, biohazardous waste management capabilities and purpose-built medical floorplans that make conversion from other uses more difficult.

The performance divergence is striking and continues to widen. Figure 2 illustrates how medical outpatient vacancy rates have fallen to 7.4% while traditional office vacancy has risen to 13.9% — an unprecedented 650 basis point (bps) spread at the national level. While traditional office struggled post-pandemic, medical outpatient occupancy achieved record highs, with demand exceeding supply for 17 consecutive quarters and pushing occupancy to 93% across the top 50 markets.

Figure 2: Medical outpatient vacancy falling while traditional office steadily rises



Source: Nuveen Real Estate; Revista, CoStar Group, Inc., June 2025.

Note: CoStar data is used for traditional office vacancy and Revista data is used for medical outpatient buildings. Revista's Top 50 markets were used for both data sources.

SUPPLY CONSTRAINTS CREATE OPPORTUNITY

Rising interest rates since early 2022 created a construction financing squeeze leading to dilutive debt financing for previously viable development projects. This, in turn, directly benefited existing property owners. Medical outpatient construction starts plummeted to half of 2022's level despite record-high occupancy rates and strong forward demand expectations.⁴ Construction costs simultaneously increased 31%, growing from \$419 to \$549 per sq ft between mid-2022 and year-end 2024.⁵

These supply constraints have created substantial value creation opportunities. The rent premium for new medical outpatient centers has widened from

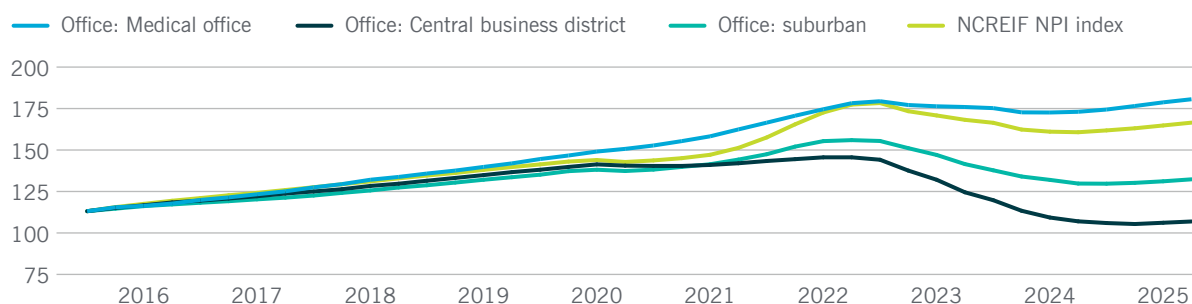
20% in 2017 to 36% in 2024⁶, supporting investors with strong local partnerships who can navigate development challenges.

MOB PROVIDES RARE STABILITY AND RETURNS COMBINATION

The sector's outperformance is not theoretical — it has been consistently demonstrated over the past decade. Figure 3 shows that medical outpatient buildings delivered a 79.4% total return over 10 years, substantially outpacing the overall real estate index at 62.8%. This outperformance becomes even more impressive when compared to other office sectors over the same period, with suburban office gaining just 22.6% and central business district office losing 7.4%.

Figure 3: Medical office has historically outperformed wider real estate market

Total return index (2015 Q3 = 100)



Source: NCREIF, NPI Index, as of the second quarter of 2025. Performance data shown represents past performance and does not predict or guarantee future results.

Beyond total returns, the sector delivered superior risk-adjusted performance with 22 bps higher average quarterly returns and 78 bps lower volatility than the overall index.⁷ This translates to nearly twice the return per unit of risk compared to the broader real estate market.

A FAVORABLE ENTRY POINT REMAINS OPEN

Like most commercial real estate sectors, medical outpatient pricing has reset since the U.S. Federal Reserve began raising rates in early 2022. The 10-year treasury rate increased from 1.5% at the end of 2021 to 4.1% as of early October 2025, causing average cap rates to rise 128 bps since mid-2022. Sales volume has fallen 30% below the 10-year average as uncertainty over future rate policy keeps many investors sidelined.⁸

However, this market reset creates opportunity rather than cause for concern. The recent price decline stems largely from rising capitalization rates responding to higher interest rates rather than fundamental deterioration. Strong underlying fundamentals remain intact across most markets, including record occupancy levels, sustained demand growth, limited new supply pipeline and demographic tailwinds that continue strengthening.

Even modest Federal Reserve rate cuts would provide market clarity, bringing sidelined investors back into the market. Meanwhile, the recent construction pullback means it will take several years for developers to catch up to demand, setting up what Nuveen Real Estate expects to be a multi-year period of continued fundamental outperformance.

For more information, please visit us at nuveen.com/realestate

Sources

- 1 OECD Data Explorer, Health Expenditure and Financing Percentage of GDP, September 2025
- 2 OECD Population Projections, 75+ year-old population figures, November 2024
- 3 Centers for Medicare & Medicaid Services, September 2024
- 4 Revista as of Q2 2025.
- 5 Revista as of Q1 2025.
- 6 "Rising Rents for Newly Built MOBs," [Lindsey, Stephen, RevistaMed.com](https://www.revistamed.com) (March 31, 2025)
- 7 NCREIF NPI Index over the past ten years as of the second quarter of 2025.
- 8 Real Capital Analytics as of Q2 2025

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