



2024 National Market Report - Medical Office

Prepared by Ryan Buckner, Nick De Leon, Elijah Heath, Henry Jurgovan, Katie Kane

Medical Office Overview

Medical office real estate is experiencing significant growth in 2024, driven primarily by two key factors: **job growth** and an **aging population**. These forces are particularly strong in cities that are becoming hubs for healthcare innovation, attracting healthcare providers, and retirees alike. The demand for healthcare services has resulted in expanding medical office spaces, lower vacancy rates, and increasing rents.

Notable Cities

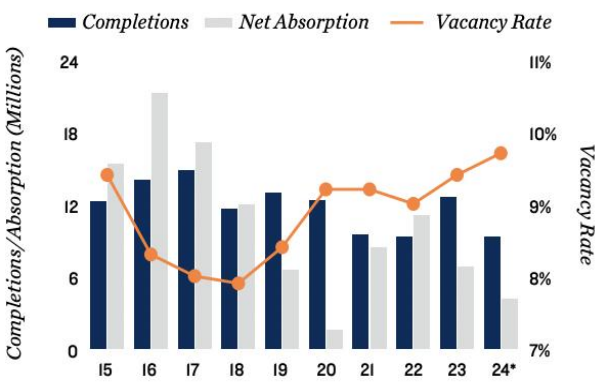
Houston, TX

- **Key Trends:** Houston ranks **#1** in the U.S. for net absorption year-over-year, with a remarkable **1.8 million square feet** of positive absorption. This reflects the city's robust demand for medical office space. Additionally, vacancy rates have decreased by **50 basis points** over the past year, signaling a tightening market.
- **Pipeline:** Houston is also a future growth leader, hosting **22%** of the national medical office pipeline for upcoming projects. This makes it a critical hub for healthcare-related real estate expansion.
- **Aging Population:** The city has the **third-largest** increase in its population aged 65 and older, further fueling the demand for healthcare services. *(Sources: Colliers, Marcus & Millichap)*

Miami/Tampa, FL

- **Demographic Drivers:** Florida, particularly **Miami and Tampa**, is witnessing surging demand for medical office space due to its **large retiree population** and an influx of new residents. In Florida, **42%** of the total state population, or about **nine million residents**, are aged 50 or older. This aging population is a key driver of healthcare demand.
- **Economic Impact:** Healthcare is the **third-largest** employer in Florida and contributes significantly to the state's GDP, making medical office space vital to the economy. *(Source: Matthews)*

National Supply and Demand Trends



Source: Marcus & Millichap Medical Office National Report

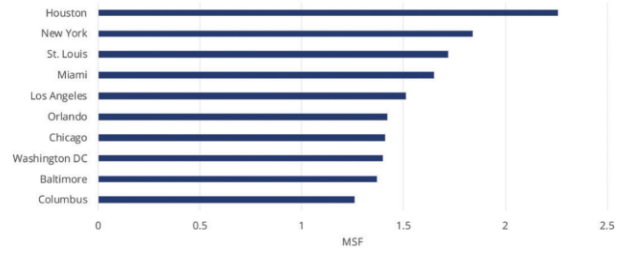
Medical Office: Supply & Demand (MSF) *



Source: Revista *Top 100 markets

Source: Colliers:2024 Healthcare Market Place Report

Medical Office: Leading Markets For Construction

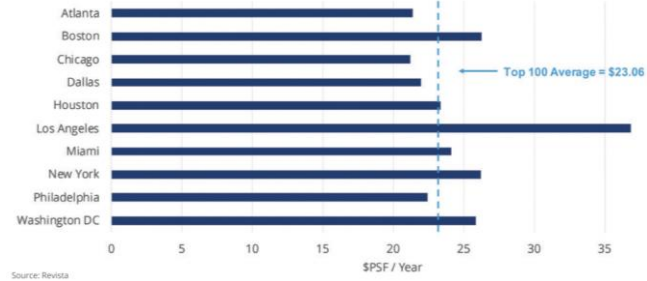




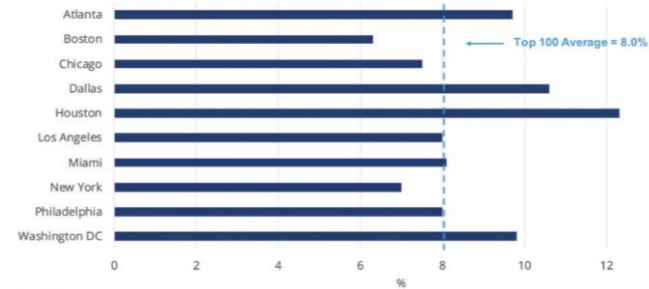
Trends

- **Behavioral health:** Rising demand for behavioral health services has led to increased interest in medical office spaces tailored to mental health care, with more practices seeking smaller, flexible facilities for therapy and outpatient care.
- **Aging population:** The growing elderly population is driving demand for medical office spaces that specialize in geriatric care, assisted living, and chronic disease management, creating opportunities for developers to focus on senior-friendly facilities.
- **Outpatient demand increasing:** As healthcare shifts toward outpatient care, there's increased demand for medical office buildings (MOBs) near residential areas, emphasizing accessibility and convenience for patients seeking routine procedures and follow-ups.
- **Long Leases Terms:** Many leases are with large hospital groups who often have great credit and sign long term leases, making for a safe environment for investors and lenders
- **Low vacancy rates:** Medical office spaces are experiencing historically low vacancy rates due to the stability and high demand of healthcare services, making them a resilient asset class in real estate.

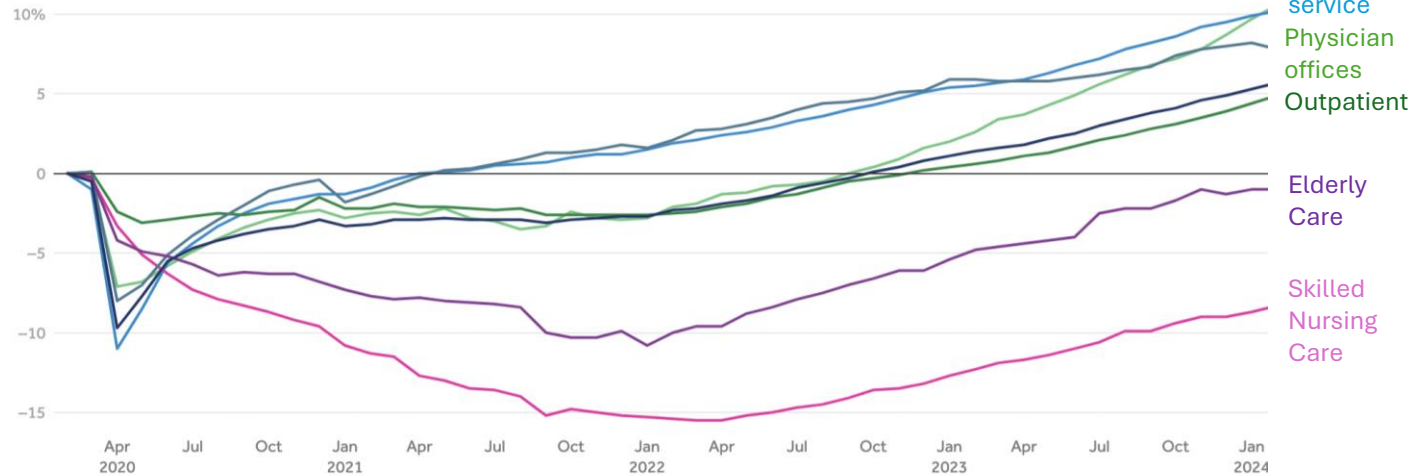
Medical Office: Top 10 Metros - Average NNN Rents



Medical Office: Top 10 Metros - Vacancy Rates



Cumulative % Change in Health Sector Employment by Setting



Source: Bureau of Labor Statistics Current Employment Statistics (CES)

Risks

- **Healthcare labor costs have steadily risen.** Providers are grappling with rising operational costs, including staffing shortages and increased labor expenses, which can affect their financial performance and ability to meet rent obligations. (Source: JLL)
- **Elevated costs for materials** and labor have made new medical office developments more expensive. This surge in construction costs can lead to project delays and reduced profit margins for developers and investors (Source: Commercial Property Executive)
- **Technology Implications:** The rise of telemedicine and other technological innovations are shifting some healthcare services away from traditional office settings. 94% of American hospitals reported being impacted by cyberattacks; industry experts predict increased costs in cyber security could lead to "cost cutting" in different sectors, including CRE holdings