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Growing U.S. healthcare demand creates real estate opportunity

Why medical outpatient buildings deserve your attention now

Private commercial real estate continues to evolve, with investors increasingly exploring alternative subsectors that offer differentiated demand drivers and the potential to outperform core real estate sectors. Healthcare real estate, particularly medical outpatient buildings (MOBs), has quickly gained investor interest, for good reason.

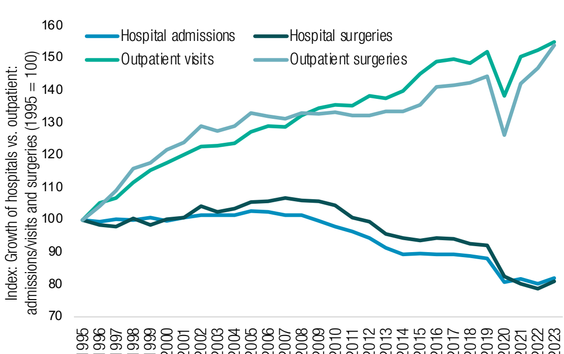
Medical outpatient buildings present a rare combination of strong fundamentals, demographic tailwinds and an attractive entry point. This sector has delivered superior risk-adjusted returns while maintaining remarkable resilience through economic cycles, creating what we view as a multiyear opportunity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

Macro forces driving demand

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

Healthcare delivery is increasingly moving toward outpatient care, driven by both convenience and significantly lower costs. This is not a temporary trend but a sustained transformation. Over the past decade, hospital admissions declined 10 percent, while outpatient visits increased 13 percent. This shift accelerates as high-deductible health plans become more prevalent and reimbursement cuts from Medicare and Medicaid make some procedures unprofitable for hospitals. 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



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

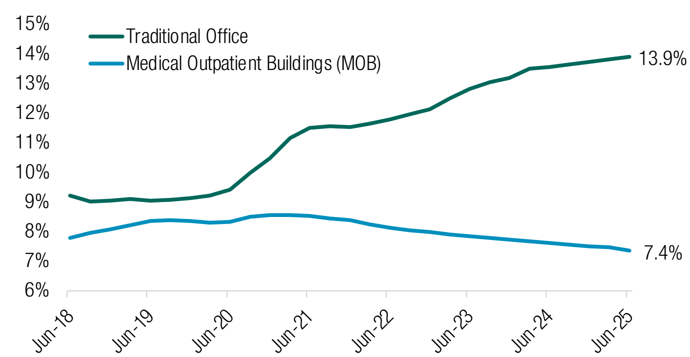
Note: Data is updated through year-end 2023.

Why MOBs 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 — specialized plumbing and electrical systems, higher floor load capacity, extensive parking, biohazardous waste management capabilities and purpose-built medical floorplans make conversion from other uses more difficult.

The performance divergence is striking and continues to widen. Medical outpatient vacancy rates have fallen to 7.4 percent while traditional office vacancy has risen to 13.9 percent — an unprecedented spread of 650 basis points 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 percent across the top 50 markets.

Figure 2. "Medical outpatient vacancy falling while traditional office steadily rises" — vacancy rate comparison



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, making previously viable development projects unattractive. This directly benefited existing property owners. Medical outpatient construction starts plummeted to half of 2022's level despite record-high occupancy and strong forward demand.[4] Construction costs simultaneously increased 31 percent, growing from $419 per square foot to $549 per square foot between mid-2022 and year-end 2024.[5]

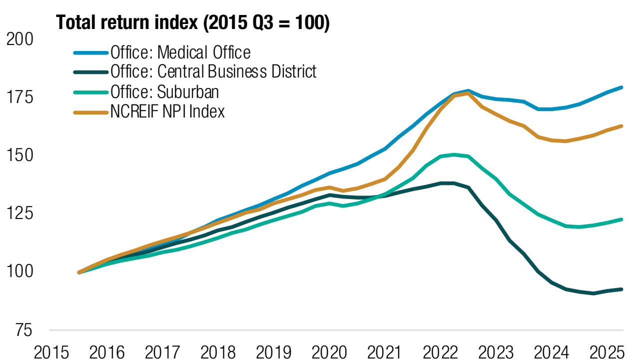
These supply constraints have created substantial value creation opportunities. The rent premium for new medical outpatient centers has widened from 20 percent in 2017 to 36 percent in 2024,[6] supporting investors with strong local partnerships who can navigate development challenges.

MOB provides rare combination of stability and returns

The sector's outperformance has been consistently demonstrated over the past decade.

Medical outpatient buildings delivered a 79.4 percent total return over 10 years, substantially outpacing the overall real estate index at 62.8 percent. This outperformance becomes even more impressive when compared with other office sectors, with suburban office gaining only 22.6 percent and central business district office losing 7.4 percent.

Figure 3. "Medical office has historically outperformed wider real estate market"



Source: NCREIF, NPI Index, as of second quarter 2025

Beyond total returns, the sector delivered superior risk-adjusted performance with 22 basis points higher average quarterly returns and 78 basis points 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 Federal Reserve began raising the target federal funds rates in early 2022. The 10-year Treasury rate increased from 1.5 percent at the end of 2021 to 4.1 percent as of early October 2025, causing average cap rates to rise 128 basis points since mid-2022. Sales volume has fallen 30 percent 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: record occupancy levels, sustained demand growth, limited new supply pipeline and demographic tailwinds that continue to strengthen.

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, establishing what Nuveen Real Estate expects to be a multiyear period of continued fundamental outperformance.

Notes

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 (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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Paul Leonard is a director for the Americas real estate research team at Nuveen. He manages office sector research initiatives for Nuveen Real Estate.

Prior to joining Nuveen in 2022, Paul was a principal consultant with CoStar Advisory Services where he managed consulting assignments for institutional real estate investors as well as the firm's office sector thought leadership. Prior to that, he was a research manager at JLL covering the Boston market. Paul brings 18 years of experience in commercial real estate research.

Paul graduated with a B.S. in Environmental Design/Urban Studies from the University of Massachusetts Amherst and received a professional certificate in Real Estate Finance and Investment from the NYU Schack Institute of Real Estate.

COMPANY OVERVIEW

Nuveen Real Estate is one of the largest investment managers in the world with $139 billion of assets under management.

Managing a suite of funds and mandates, across both public and private investments, and spanning both debt and equity across diverse geographies and investment styles, we provide access to a broad range of real estate investing opportunities.

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