



The Tenant's Perspective

Transformation played a major role in 2023 as the healthcare sector reacted to shifts in care due to the lingering impacts of the Covid-19 pandemic. Artificial intelligence is better predicting clinical outcomes and creating other admin efficiencies. A personal and convenient approach through medical office buildings and ambulatory surgical centers (ASC) are highlighting a shift to outpatient care vs. inpatient facilities.

Healthcare Trends Impacting the Commercial Real Estate Sector

- Medical office buildings (MOBs) fundamentals remain strong, outperforming traditional office buildings with longer term leases and steady rent growth..
- Labor shortages driven by limited talent pipelines, demographic shifts and burnout will require more intentional hiring and ongoing support services and site optimization to attract and retain talent.
- The role of social care is increasing as the traditional health care model of treating illnesses after they occur is shifting towards a holistic approach that addresses social determinants of health.

Healthcare Sector

Spring 2024

Healthcare Trends

Trends Impacting the Healthcare Sector



Virtual Health

Covid-19 demonstrated new ways that remote interactions can improve patient care and lower costs for providers.



Health Equity

Health organizations are rethinking how to address disparities in age, location, gender, income, race and ethnicity.



Labor

By 2030, the global health care sector will need an estimated 80 million more workers to meet demand.



Digital Transformation

New technologies such as tele-medicine and electronic health records (EHRs) allow providers to address healthcare demands.



Sustainability

Climate change is a universal risk to human health and well-being, providers face the challenge of maintaining the quality of care.

Sources:

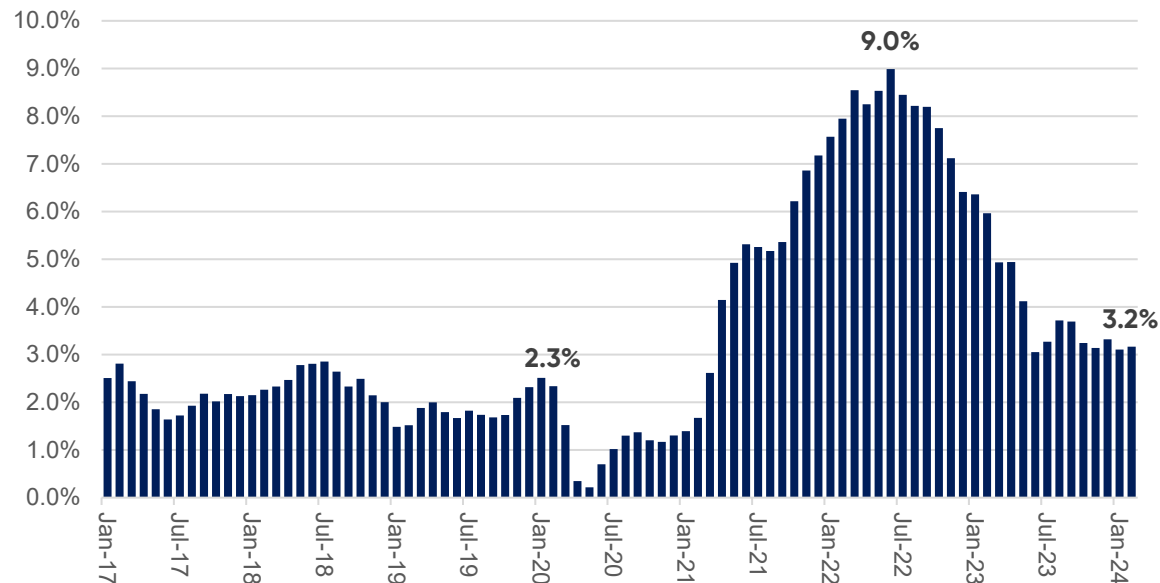
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<https://www.pwc.com//health-industries/>
<https://www.ey.com/health-equity-outlook-report>
<https://www.mckinsey.com/industries/healthcare/what-to-expect-in-us-healthcare-in-2023-and-beyond>

Economy

Inflation Levels Off Post-Pandemic, But Remains Above Historic Levels

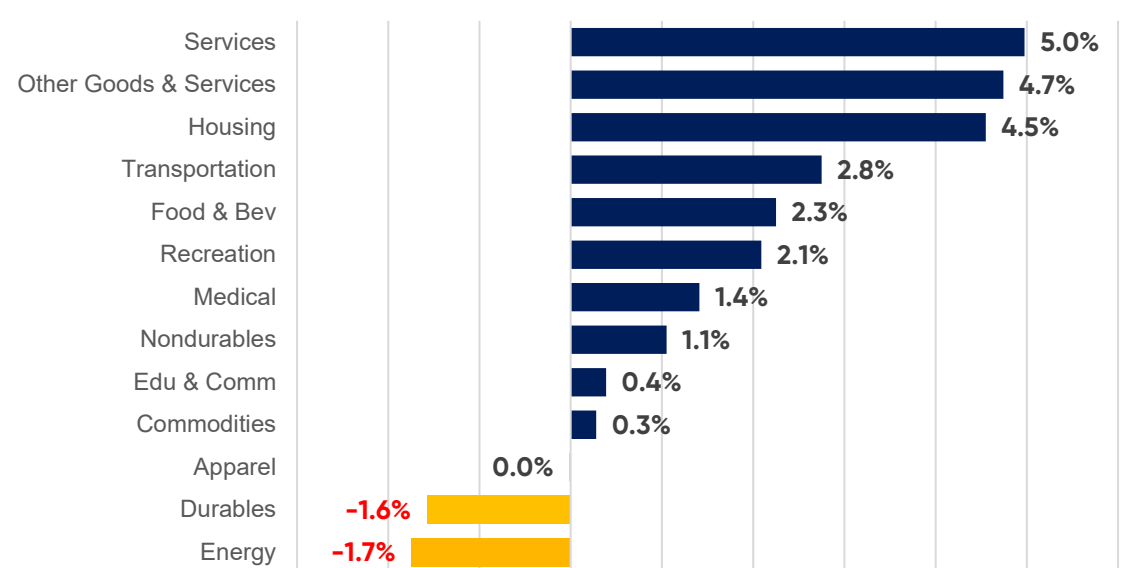
Driven by consumer demand, supply chain disruptions, and a tight labor market, inflation pushed prices higher throughout 2022 and early 2023. Inflation flattened throughout the past year, aided by rising interest rates. Goods and services have increased the most over the past year, while the energy costs retreated. The medical sector has been relatively flat over the past 12-months.

Consumer Price Index (12-Month Change)



Source: U.S. Bureau of Labor Statistics, <https://bls.gov>, Consumer Price Index (CPI)

Consumer Price Index by Sector (12-Month Change)



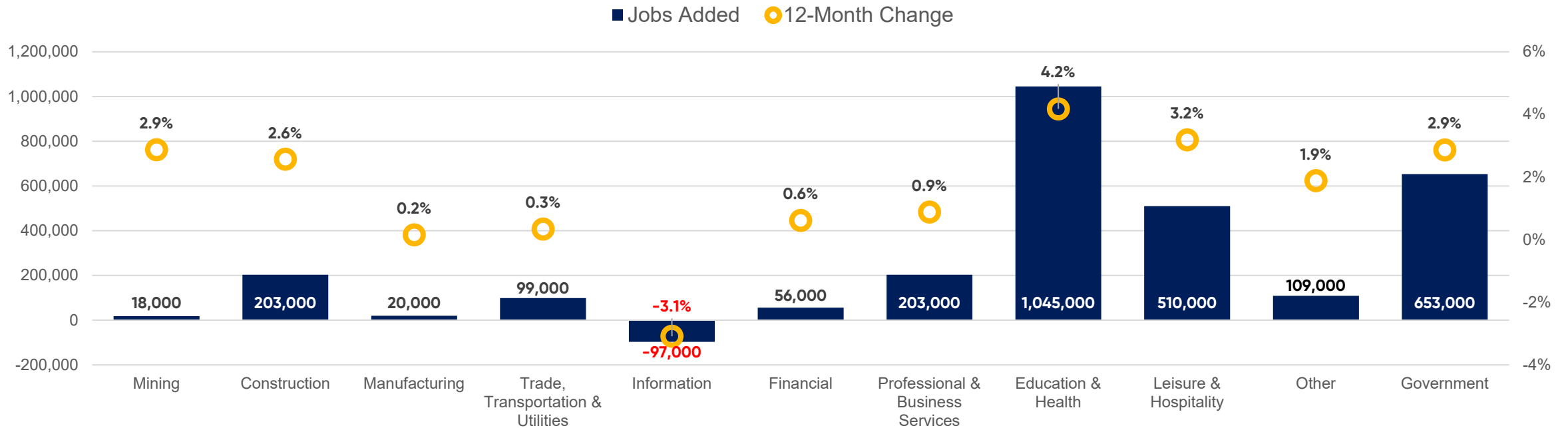
Source: U.S. Bureau of Labor Statistics, <https://bls.gov>, Consumer Price Index (CPI)

Labor

Education/Healthcare Add Over a Million Jobs in the Past Year

Pent-up demand leads to increases in education/health and leisure/hospitality sector jobs. The jobs being added are not concentrated in traditional office-occupying sectors, either declining or remaining flat in the past year. Education/healthcare grew by over 1 million jobs in the past 12-months, growing 4.2 percent.

Job Creation by Sector (12-Month Change)

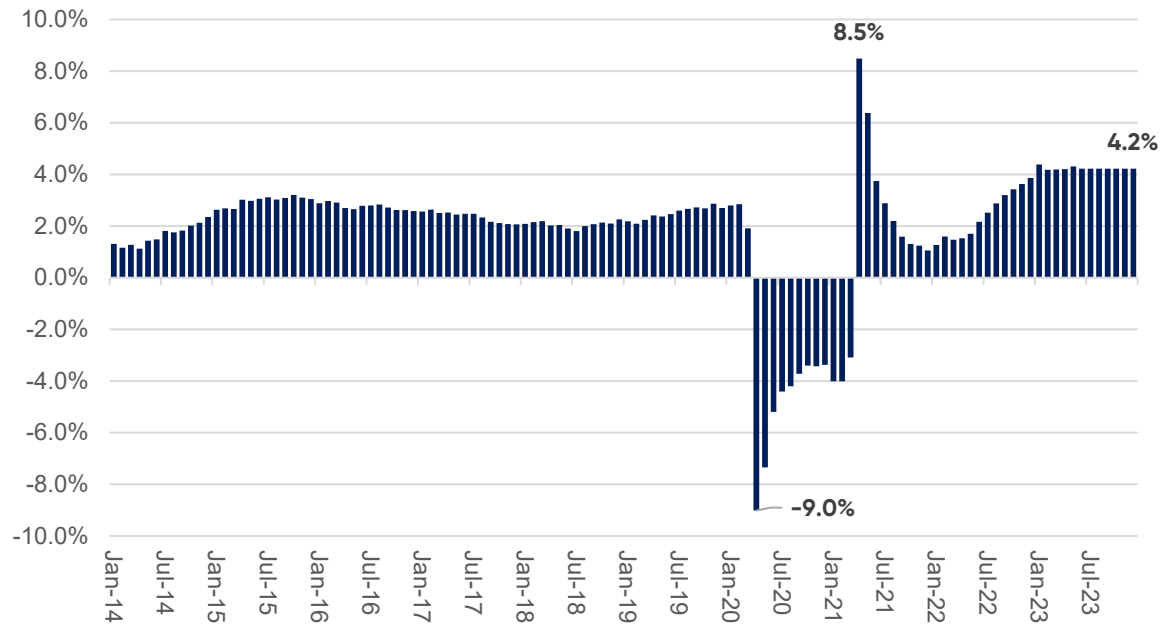


Labor

Healthcare Job Recover Quickly and Continue to Outperform Other Sectors

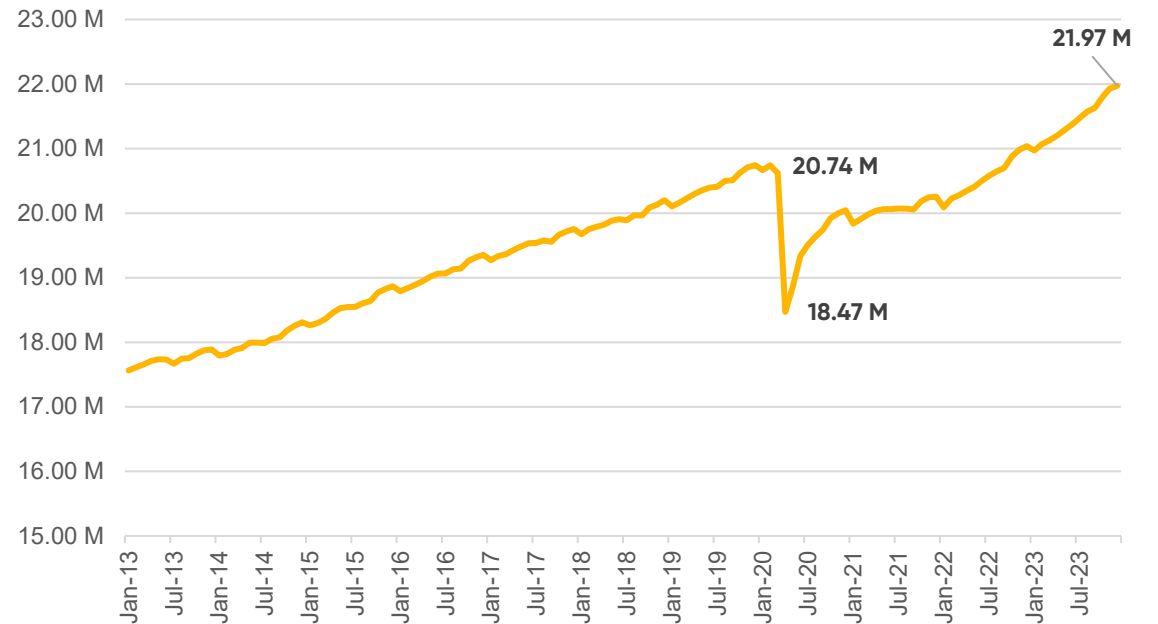
Healthcare and social assistance sector jobs have grown steadily over the past decade. Like most sectors, healthcare dropped quickly after the start of the pandemic, but jumped higher and regained the jobs initially lost within 18-months. The healthcare sector has added 3.5 million jobs back since the lowest point of the pandemic and is **1.23 million jobs higher than pre-pandemic levels**.

Healthcare & Social Assistance (12-Month Change)



Source: U.S. Bureau of Labor Statistics, <https://bls.gov>

Healthcare & Social Assistance Jobs



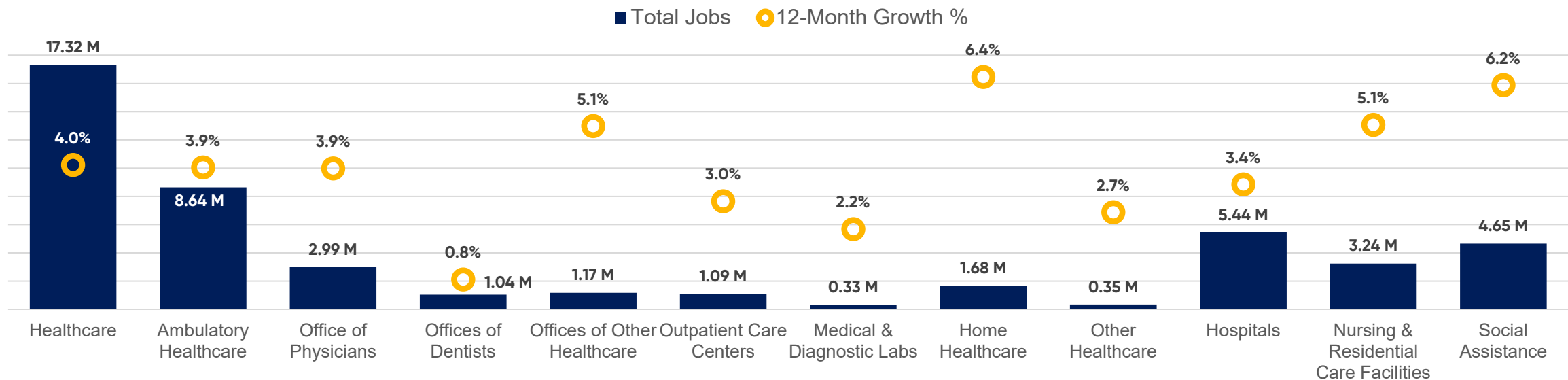
Source: U.S. Bureau of Labor Statistics, <https://bls.gov>

Labor

Ambulatory Healthcare and Hospitals Add the Most Jobs in the Past Year

The healthcare sector has seen strong job growth in the past 12-months. The home healthcare and nursing & recreational care facilities sectors have seen substantial growth, as the pandemic creating a rising demand for home care and an aging baby boomer generation need specialized care. Hospitals, social assistance, outpatient care centers, ambulatory healthcare, and offices of physicians also experienced growth over three percent in the past year.

Healthcare Sector Total Jobs & 12-Month Change



Healthcare Real Estate Trends

Despite recessionary fears in the past year, the economy continued to expand driven by strong consumer spending. The Medical Office Building (MOB) sector slowed its outsized growth in 2023 but is still underpinned by strong fundamentals with steady rent growth and occupancy above 90 percent in most markets. Demand has generally been met by a robust development pipeline, but this is beginning to taper due to rising costs and economic volatility. Labor challenges and the rise of tele-health and other technologies are still providing hurdles for many occupiers in projecting future demand needs, but a more stable 2024 may provide more clarity moving into the new year.

Tenant View

- The trend of opening complimentary medical offices and medical services in satellite locations will require healthcare systems to think critically about aligning growth/ business plans with site optimization of new facilities.
- The weak traditional office market and strong demand in the healthcare sector has provided opportunities for conversion to medical/healthcare uses.
- Healthcare development slows due to increasing construction costs, diminishing risk tolerances and elevated interest rates.



**Healthcare Sector Well-Positioned
for Steady Growth**

Spring 2024

Real Estate Trends

Medical Office Buildings – Top 10 Largest Metros: Fast Facts

The US medical office building (MOB) market has experienced solid fundamentals in the past year, while traditional office markets have dropped quickly. Remote and hybrid work have been the driving factor that has led to decreased demand and 15-straight quarters of negative absorption. Meanwhile, the MOB market has seen steady rent growth, more than 90 percent occupancy, and positive absorption. After several years of new deliveries, new construction for medical office buildings is beginning to cool as costs and rising rates curb starts.

Market	Inventory SF	Asking Rent (\$/SF)	Rent Growth (12 mo.)	Occupancy Rate	Absorption SF (12 mo.)	Deliveries SF (12 mo.)	Under Construction SF
US	1,544,360,160	\$28.25	3.9%	91.0%	4,963,832	11,599,197	14,257,771
New York	64,092,507	\$39.12	3.2%	88.8%	(178,077)	457,558	1,086,148
Los Angeles	46,236,550	\$37.76	-1.5%	89.9%	(244,247)	150,205	100,000
Chicago	50,944,299	\$25.07	3.8%	86.2%	497,282	783,251	95,450
Houston	51,869,661	\$30.12	-0.5%	84.4%	1,152,973	1,750,379	1,897,520
Dallas	44,682,454	\$30.78	1.3%	84.2%	267,184	757,042	902,721
Washington, DC	46,403,699	\$31.28	-0.5%	88.0%	(65,282)	344,692	113,138
Philadelphia	38,577,729	\$28.16	4.1%	88.1%	299,041	908,173	175,000
Atlanta	32,516,070	\$27.65	6.9%	89.9%	341,029	511,859	176,195
Phoenix	25,736,649	\$29.54	6.9%	87.2%	483,778	228,202	308,329
Miami	17,752,640	\$48.02	6.1%	94.3%	270,550	43,824	309,829

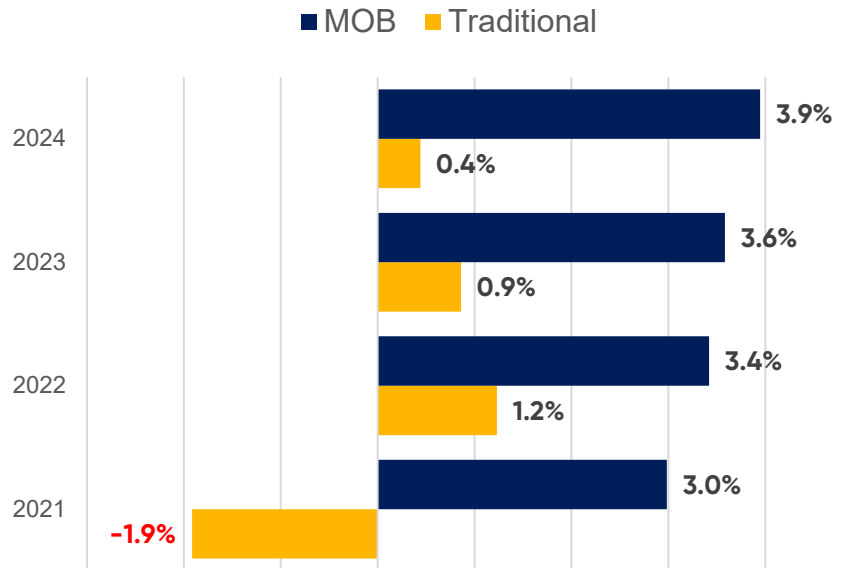
Source: CoStar, Cresa thru Q1 2024; Base rent does not include operating expenses

Real Estate Trends

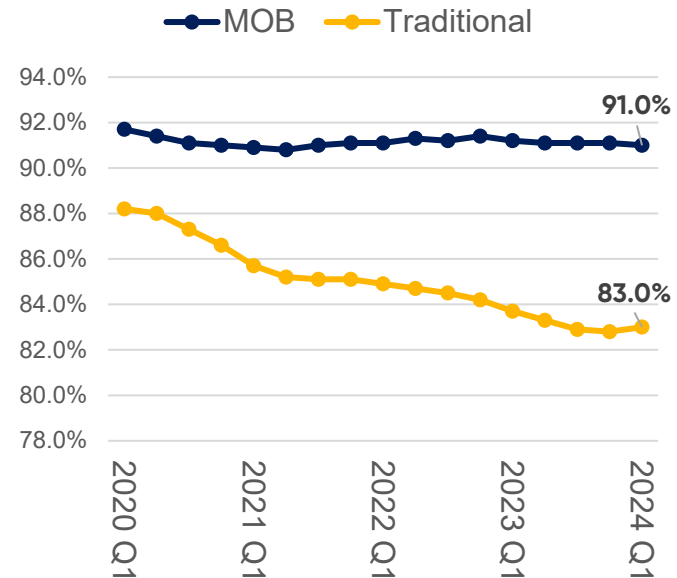
Traditional Office Buildings v Medical Office Buildings (MOB)

Market	Rent Growth (12 mo.)	Occupancy Rate	Net Absorption SF (12 mo.)	Deliveries SF (12 mo.)	Under Construction SF	Under Construction as % of Inventory	Average Cap Rate
MOB	3.9% ↔	91.0% ↔	4,963,832 ↑	11,599,197 ↔	14,257,771 ↔	0.91% ↓	6.55%
Traditional	1.9% ↔	83.8% ↓	(60,201,548) ↓	67,470,827 ↓	119,333,297 ↓	1.04% ↓	7.28%

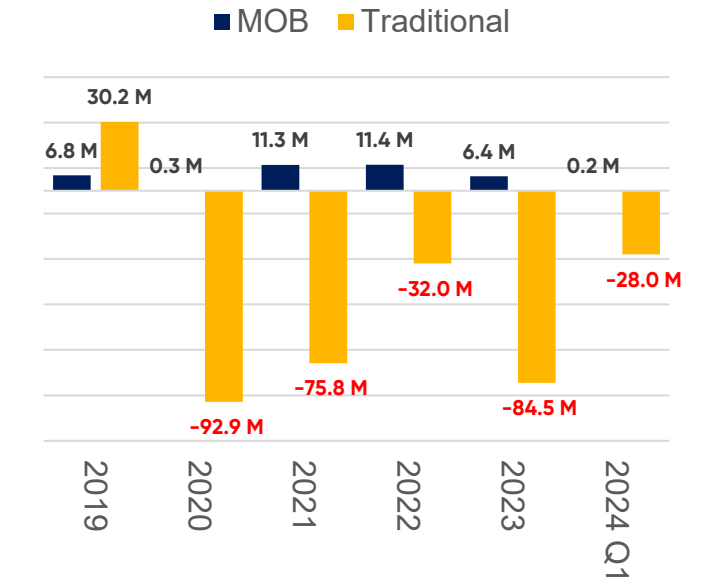
Annual Rent Growth



Occupancy



Net Absorption

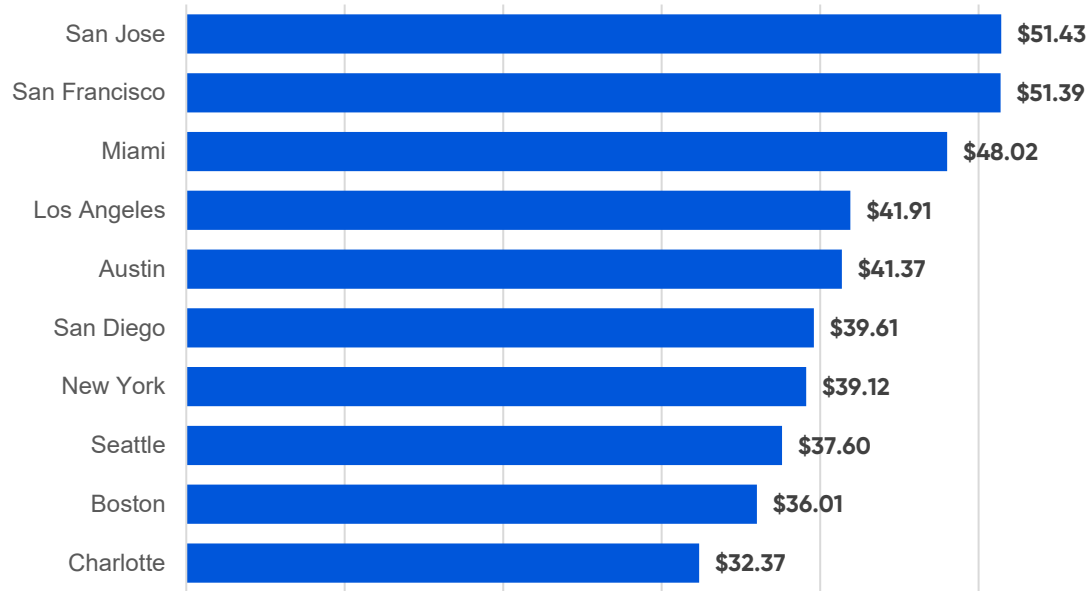


Real Estate Trends

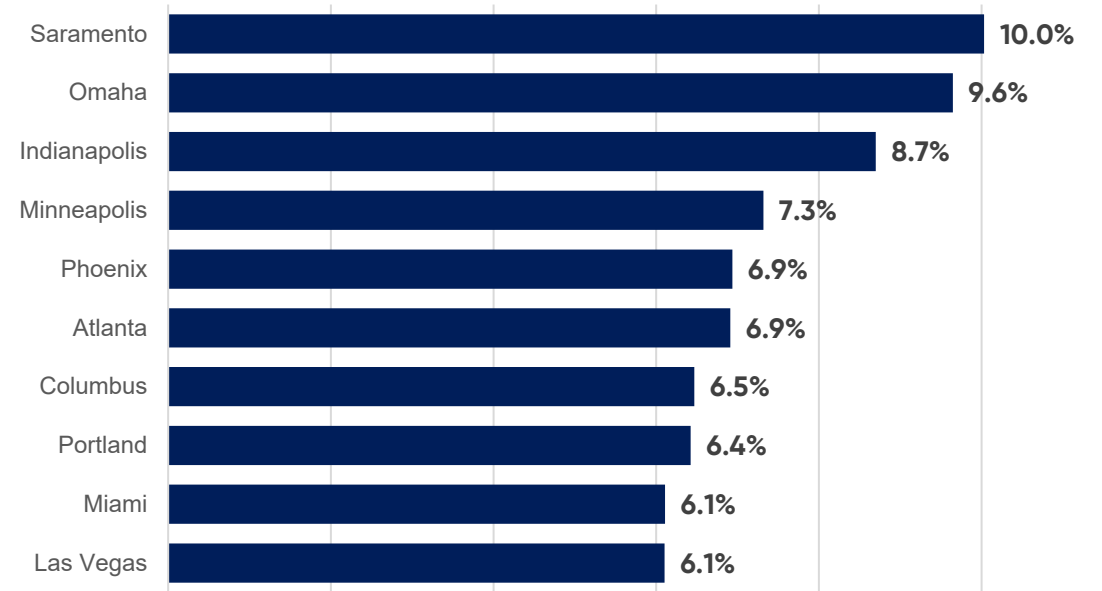
Medical Office Buildings – Top 10 Markets: Highest Asking Rent and Highest Rent Growth

The highest MOB market rents are located in gateway cities, with six of the highest rents located within west coast metros. At the same time, many tertiary cities, like Omaha, Columbus and Indianapolis experienced some of the highest rent growth percentages in the past 12-months.

Highest Rent – Q4 2023



Highest Rent Growth – 12-Month Change

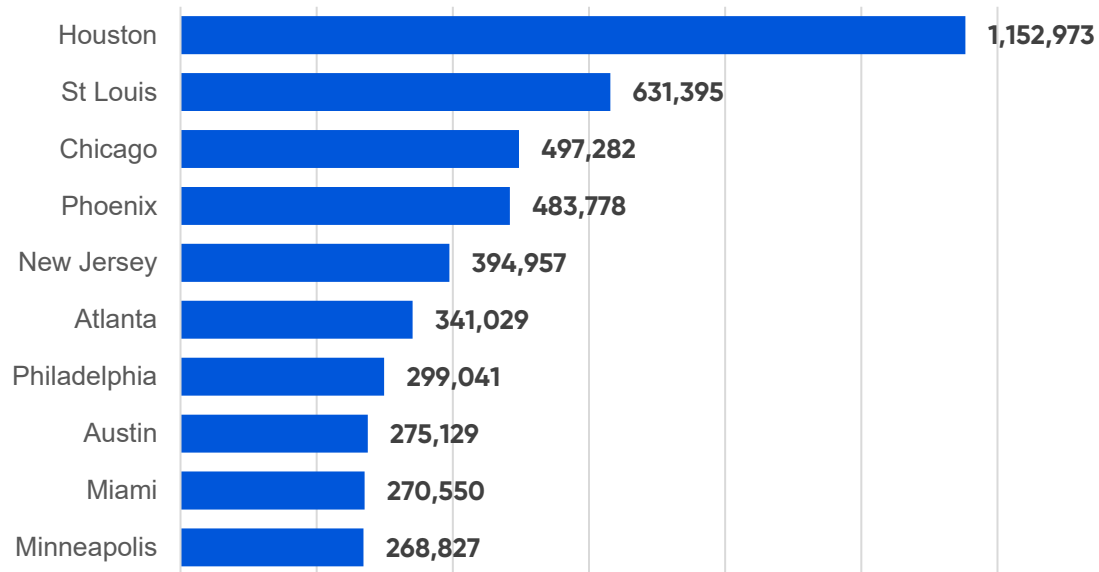


Real Estate Trends

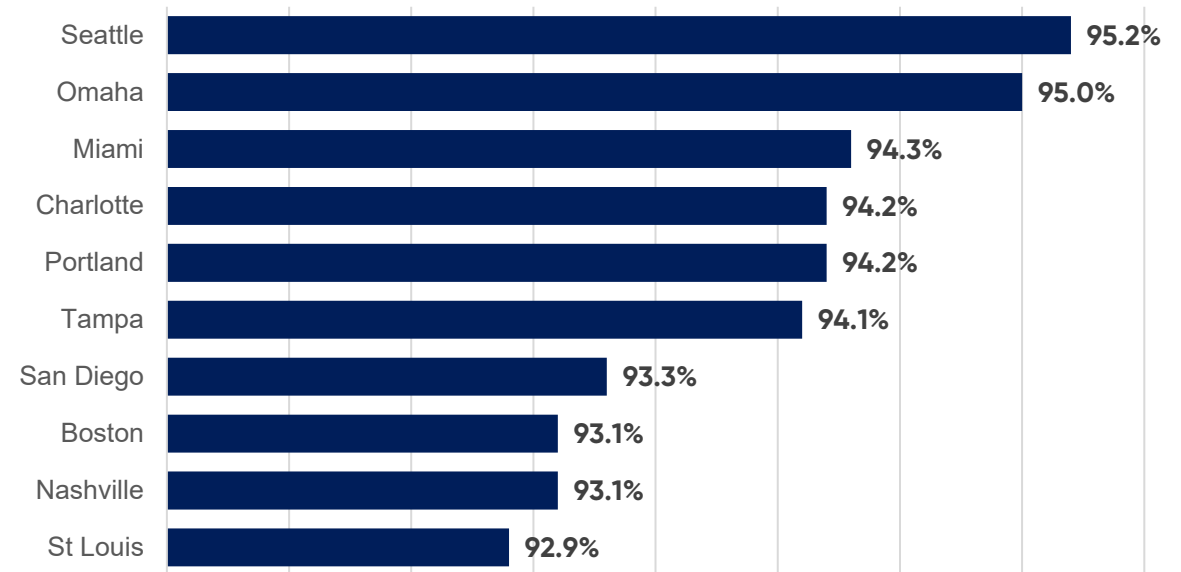
Medical Office Buildings – Top 10 Markets: Absorption and Highest Occupancy

Sunbelt markets lead in the amount of demand for MOB, with five of the top 10 markets (in terms of net absorption) located in southern and southwestern states. While occupancy remains high in most markets, Seattle recorded the highest occupancy levels, followed closely by Omaha in the past year.

Highest Net Absorption – Past 12 Months



Highest Occupancy – Q4 2023

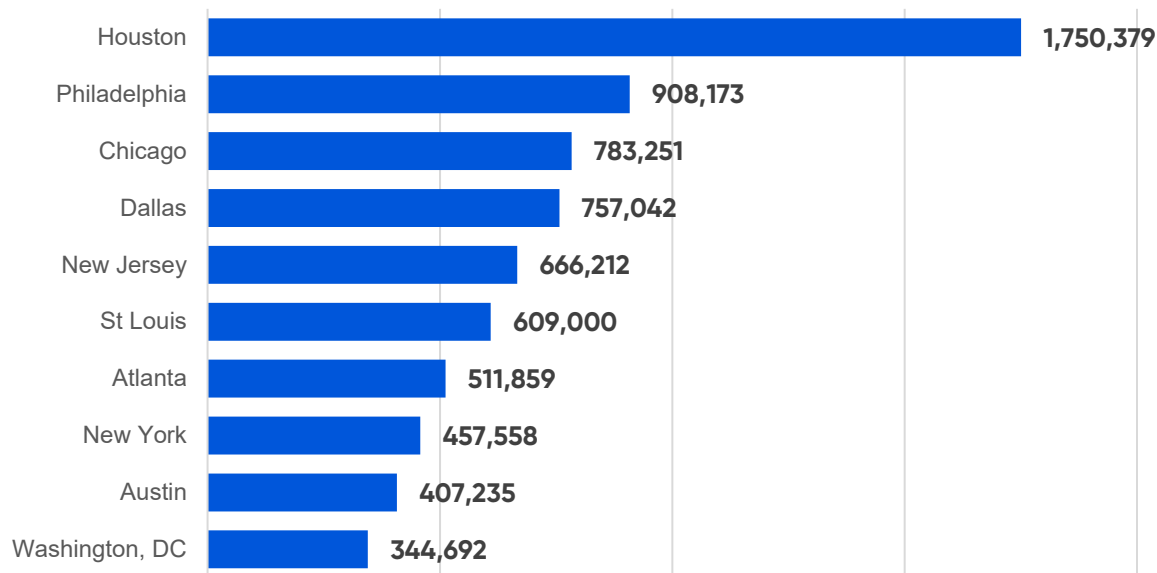


Real Estate Trends

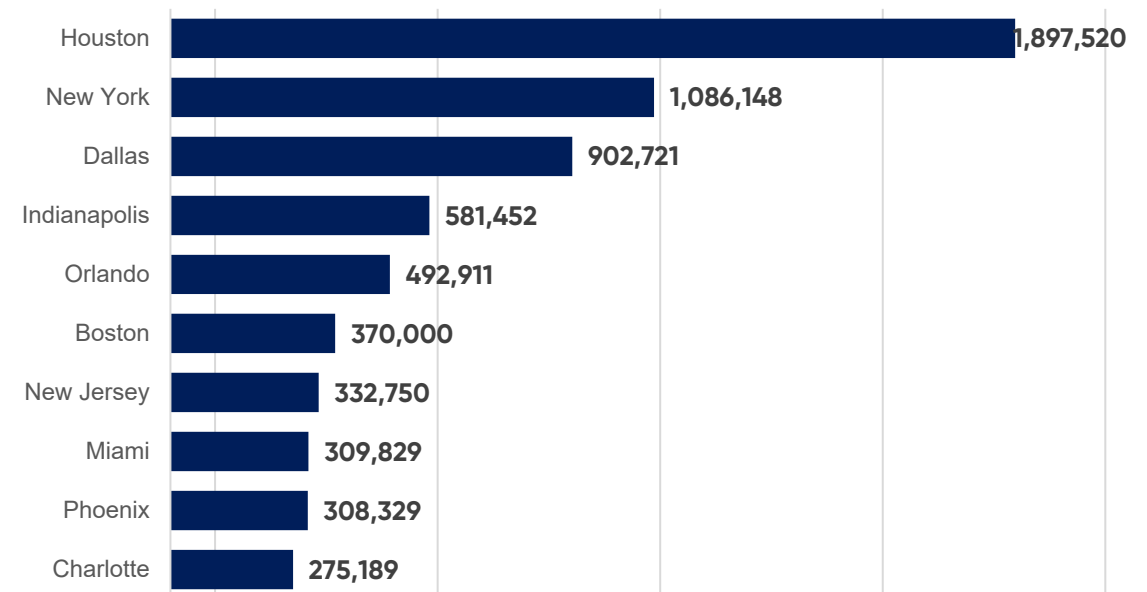
Medical Office Buildings – Top 10 Markets: Construction Pipelines

Three of the top 10 markets with the highest volumes of deliveries – in terms of square feet – were located in Texas. Houston is the hottest MOB market in the country with the most deliveries in the past 12-months and the most square footage currently under construction, at nearly 2 million square feet. Smaller midwestern markets like Indianapolis and St. Louis were well-represented with more than 500,000 square feet either delivered or under construction.

Deliveries – Past 12 Months



Under Construction – Q4 2023

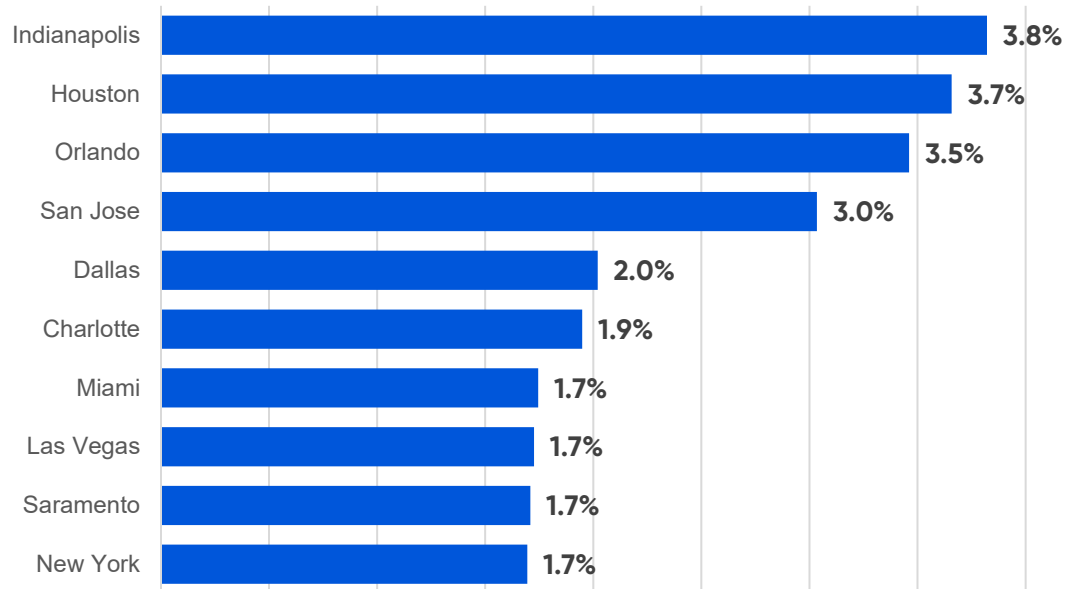


Real Estate Trends

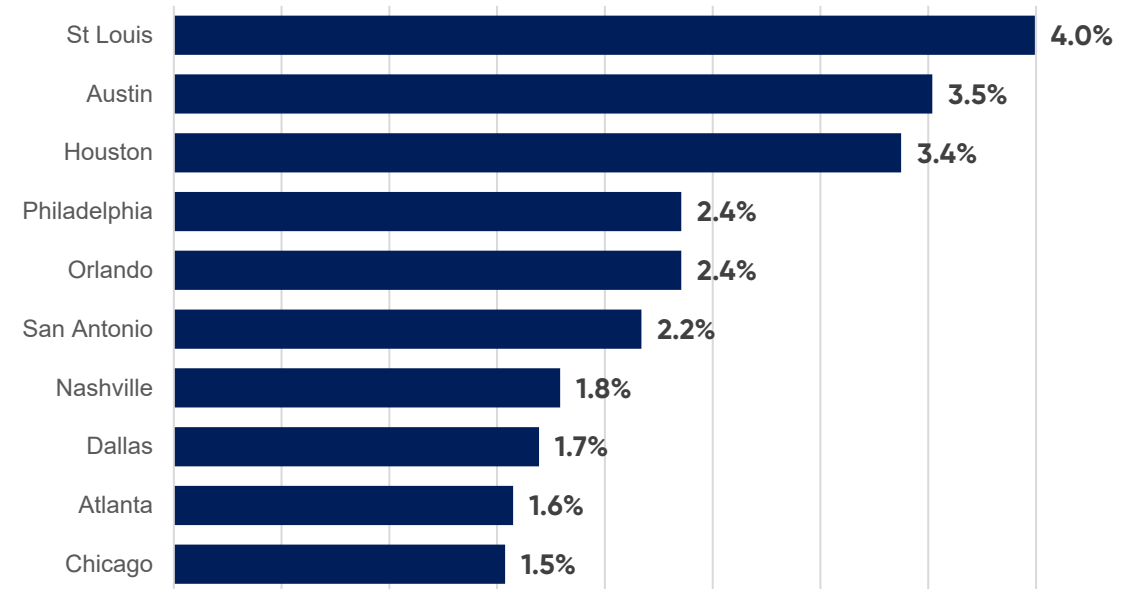
Medical Office Buildings – Top 10 Markets: Active Construction Markets

The most active MOB markets in terms of construction and deliveries as a percentage of inventory were Indianapolis and St. Louis. Florida and Texas both have several MOB markets in the top 10. Historic averages are typically in the 1.5 percent or lower range.

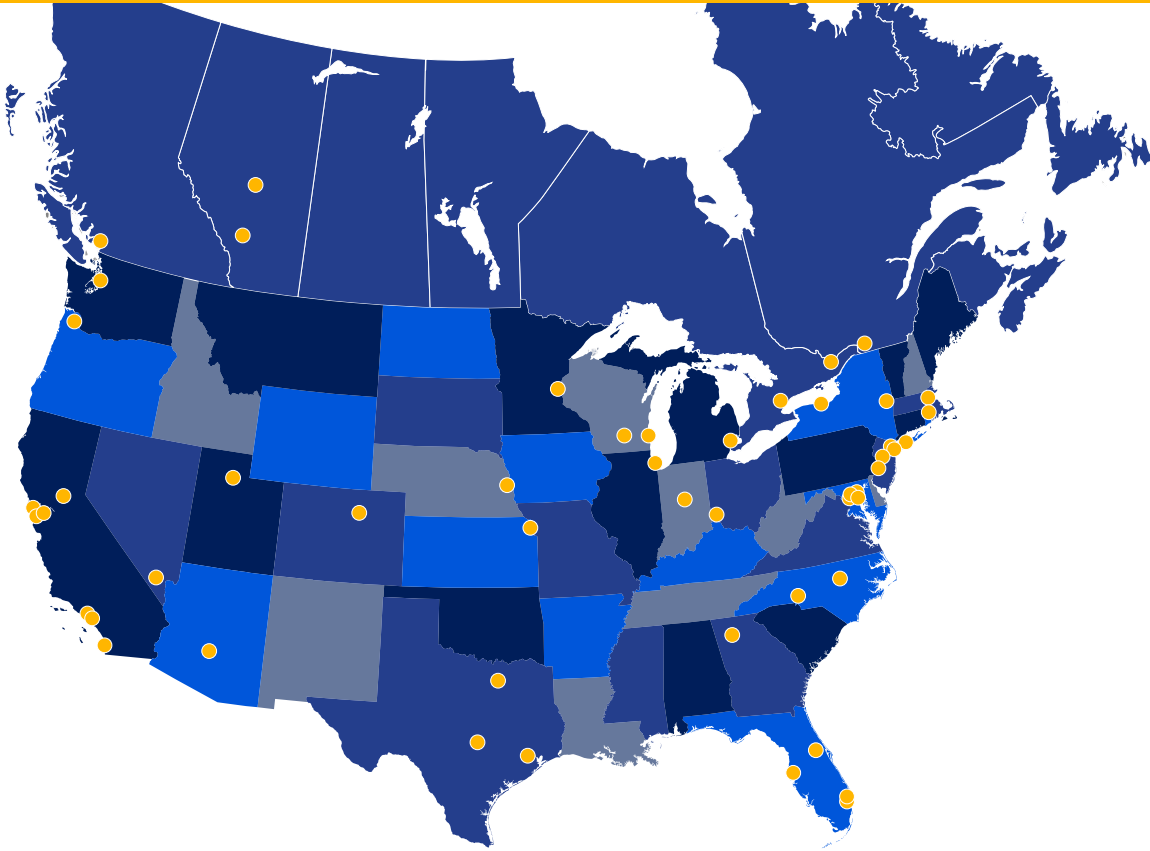
Under Construction as Percentage of Total Inventory



Deliveries (12-Months) as Percentage of Total Inventory



About Cresa



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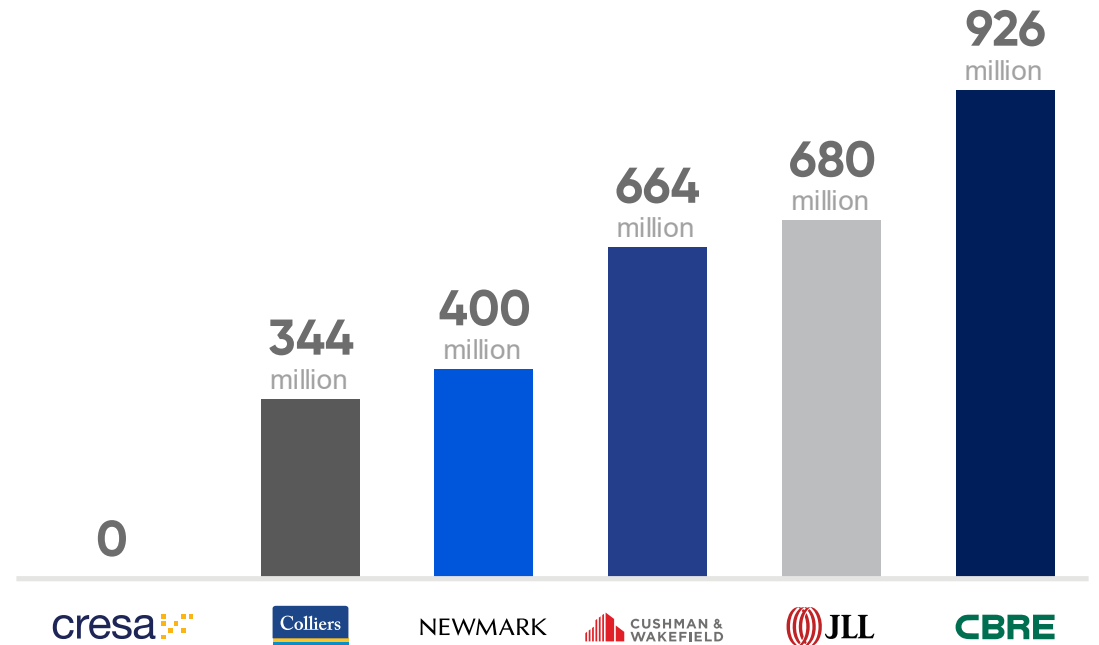
70+
Industries

900+
Cities Globally

2.1K+
Clients

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Our competitors represent billions of square feet of commercial space on behalf of landlords nationally.





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About the Author



Craig Van Pelt
Head of Research
cvanpelt@cresa.com