



Yardi[®] Matrix

National Office Report

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Medical Office Building Resilience

- Medical office buildings have been gaining increased attention from investors and developers since the start of the pandemic. MOBs have been a resilient office subsector through the pandemic and are seemingly recession proof. While COVID-19 did lead to the cancellation or delay of nonessential surgeries and elective procedures during its early stages, rates rebounded by the end of 2020, according to Stanford Medicine research.
- There are more than 16 million square feet of properties currently under construction that will include medical office utilization in at least some capacity, according to Yardi Matrix. Many of the properties that are exclusively medical office are located on the campuses of hospitals or universities, such as the 750,000-square-foot Duke University Health Complex in Raleigh-Durham or the Jack and Sheryl Morris Cancer Center, a 12-story, 510,000-square-foot building at the Robert Wood Johnson University Hospital in New Brunswick, N.J. However, many smaller properties in the new-supply pipeline are suburban medical office centers targeted at offering specialized services in an off-campus location.
- Institutional investors and REITs are taking notice. National Real Estate Advisors and Catalyst Healthcare Real Estate, in a joint venture, spent \$420 million on two MOB portfolios totaling 1.2 million square feet and 40 properties. Thomas Park and Artemis formed a \$500 million joint venture just last month, and began by purchasing three MOBs in the Northeast totaling \$40 million and 92,000 square feet. First-time buyers, like Lionstone Investments, are also entering the MOB market. Lionstone paid \$125 million for the fully leased, 146,510-square-foot Newport Lido Medical Center in the Orange County market.
- Demand for MOBs will only grow in the future due to demographic tailwinds. By 2030, the U.S. is projected to have more people 65 and older than 18 and younger, according to the Census Bureau. As the aging population seeks health services closer to home, we expect to see increased demand for MOBs in non-campus settings. This could drive conversions of vacant suburban office buildings into MOBs, although there are specific requirements—relating to the likes of ceiling heights, parking and HVAC, as well as building codes for outpatient care—that will keep the list of potential conversion candidates short.

