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National Office Report

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Medical Office Maintains Stability

- With remote and hybrid work continuing to wreak havoc on the office sector, medical office buildings are increasingly seen as a safe haven, and for good reason. MOBs are remarkably consistent from year to year, shielded from many of the headaches the sector has dealt with since March 2020.
- Besides providing a safe harbor in the current office storm, a variety of factors make MOBs appealing going forward. The population is aging—the U.S. Census Bureau projects that by 2030 there will be more people 65 and older than under 18—which will increase the utilization of health-care services. Advances in medical technology and treatments have moved procedures that used to require a hospital stay to outpatient care. MOBs are also mostly insulated from recessions because people will continue to require healthcare.
- Medical office is not immune to the decline in sales volume seen across the office sector, but average sales prices have been remarkably consistent over recent years. Between 2017 and 2022, the average sale price of a property that is primarily used as medical office has sat between \$260 and \$290 per square foot. Through the first half of 2023, the average is \$296, nearly \$100 more per foot than the national average for all office buildings. Some well-located facilities can blow past that average, such as Park Street Building in New Haven. Yale New Haven Hospital spent \$101.2 million, or an average of \$723 per foot, on the building, which had long-leased space within. In Washington, D.C., Welltower paid \$78 million, or \$483 per foot, for an MOB at 2021 K St., N.W.
- Much like the average sale price, MOB construction starts have been unaffected by the pandemic, staying steady despite the overall decline in all other types of new construction. Between 7 million and 8 million square feet of new office space were started each year from 2018 through 2021, and last year saw 8.7 million square feet of MOB starts.
- We anticipate demand for medical office buildings to grow in coming years, with the biggest driver being the aforementioned demographic shifts. In coming years, building owners, especially those with properties near hospitals, may look to convert general offices into medical office. Telehealth services are a minor threat to medical office demand, but are more of a supplement to in-person health care than outright replacement.

