

Medical Office: Defensive Real Estate Sector Supported by Structural Growth Tailwinds

August 2026

IN A NUTSHELL

- Medical office buildings (MOBs) offer one of the most attractive risk-adjusted return profiles in commercial real estate, supported by durable healthcare demand and long-term demographic tailwinds.
- Structural demand continues to strengthen while new construction remains constrained, supporting high occupancy, stable rent growth and resilient cash flows.
- Unlike traditional office, medical office demand is driven by healthcare utilization rather than office employment, resulting in lower vacancy, stronger tenant retention and reduced exposure to economic cycles and remote work.
- Improving capital market conditions should support near-term transaction activity as investors increasingly allocate capital toward defensive sectors with durable income characteristics.

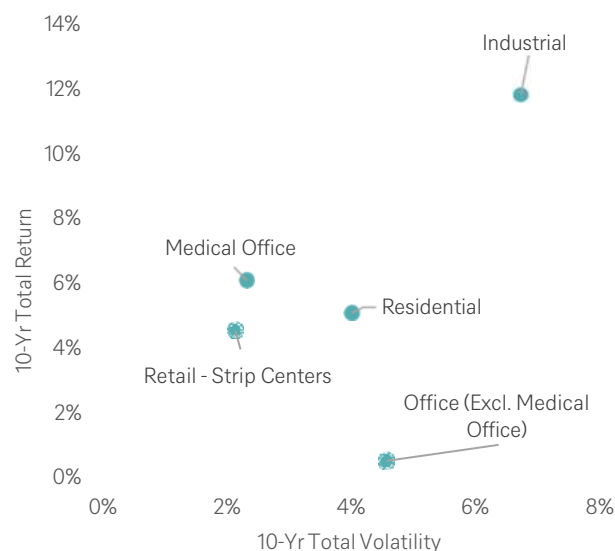
Overview

The U.S. medical office sector offers one of the more attractive risk-adjusted return profiles in commercial real estate, in our view. The sector combines resilient operating fundamentals with powerful secular demand drivers, producing stable income streams and attractive risk-adjusted returns across market cycles.

The sector entered 2026 from a position of strength. National vacancies reached a record low, while average rents increased 3.3% annually.¹ Investment activity also accelerated, with medical outpatient transaction volume rising nearly 60% year-over-year to \$2.9 billion in the second quarter of 2026, pushing trailing four-quarter volume to \$16.2 billion.² Average cap rates compressed to approximately 7.1%, reflecting improving capital market liquidity and renewed investor conviction.

A simple return-to-volatility analysis positions medical office at an advantage relative to other major sectors. Medical office delivered 6.1% annualized total returns over the past

Exhibit 1: Total Returns vs. Volatility



Source: NCREIF, DWS. As of 2Q 2026.

¹ JLL. As of 4Q 2025.

² RCA. As of 2Q 2026.

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decade with minimal volatility (2.3% annualized volatility over the measured decade) (see Exhibit 1). Although industrial produced the strongest absolute returns, it also exhibited significantly higher volatility while residential and conventional office properties generated lower total returns with greater volatility.

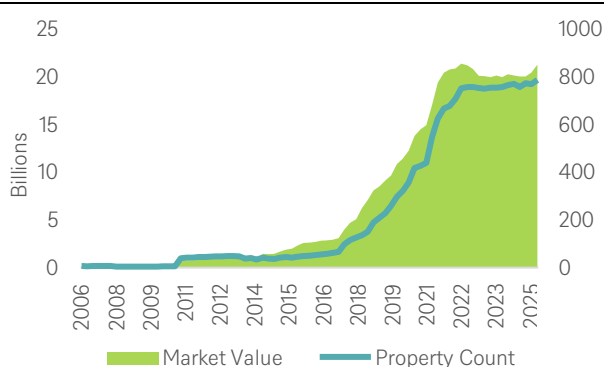
The operating outlook remains favorable, supported by growing demand and constrained new supply. The strongest long-term demand driver for medical office is the expansion of healthcare utilization and the secular shift toward outpatient care. Procedures performed in outpatient settings, often housed in medical offices, can reduce costs by an estimated 59%, according to recent studies.³ As the list of procedures eligible for outpatient delivery expands, so too should demand for the property type.

While the need for outpatient care facilities is clear, the supply pipeline remains muted, given the higher costs of development and the specialized nature of these developments. Nevertheless, it is anticipated that medical office will continue to outperform and provide a more durable income stream than most commercial property types, with near-term returns likely to be income-led.

Sector Landscape and Institutionalization

Medical office remains a niche within institutional real estate, but it has become materially more investable. Within the NCREIF Property Index (NPI), medical office expanded from a small base before 2010 to roughly \$21 billion market value by 2026 across 784 properties (equating to 1.1% of the index).⁴

Exhibit 2: NPI Property Count & Market Value



Source: NCREIF. As of 2Q 2026.

The sector is large enough to support specialized investment platforms and portfolio transactions, but still small enough that individual trades can materially influence reported market volume and pricing.⁵

Ownership has broadened from healthcare REITs and owner-users toward private real estate managers, specialist operators and institutional capital. Private buyers represented approximately 62% of 2026 year-to-date transactions volume, compared with 18% for institutional, 6% for REIT/listed and 15% for users or other buyers.⁶ Private capital also represented 54% of 2025 volume, suggesting that the sector has been increasingly attracting discretionary capital while public companies continue to recycle assets and optimize existing portfolios.⁷

Demand: Demographics, Spending and Outpatient Shift

The demographic case is compelling, in our view. An aging population reinforces demand for medical office as older people consume more healthcare than younger cohorts and require greater use of medical outpatient services.

The U.S. population aged 65 and older reached 61.2 million in 2024, equal to 18% of the population, and increased by 13% from 2020 through 2024.⁸ As Baby Boomers continue to age, there could be a surge in demand for post-acute care services. Moreover, older adults consume substantially more healthcare: CMS (Centers for Medicare & Medicaid Services) estimates that per-person personal healthcare spending for adults aged 65 and older was \$22,356 in 2020, almost 2.5 times spending for working-age adults, and the group accounted for approximately 37% of personal healthcare spending despite representing about 17% of the population at that time.⁹ This supports utilization in primary care, cardiology, oncology, orthopedics, ophthalmology, diagnostics and other services commonly delivered in medical offices.

Healthcare spending continues to outgrow the economy. CMS projects national health expenditures to grow 5.4% annually between 2025 and 2034, versus 4.1% nominal GDP growth, increasing healthcare's share of GDP from 18.0% in 2024 to 20.6% in 2034.¹⁰ Physician and clinical services spending is projected to grow 5.5% annually, while Medicare

³ Cohen & Steers. As of 2H 2026.

⁴ NCREIF. As of 2Q 2026.

⁵ NCREIF. As of 2Q 2026.

⁶ RCA. As of June 2026.

⁷ RCA. As of June 2026.

⁸ U.S. Census. As of July 2026.

⁹ CMS. As of July 2026.

¹⁰ CMS. As of July 2026.

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spending is expected to increase 7.7% annually.¹¹ BLS separately projects approximately 1.9 million healthcare job openings per year over the next decade.¹² While these figures may not translate one-for-one into real estate demand, they provide a durable top-down foundation for healthcare occupancy and tenant expansion.

Outpatient care is gaining share. Clinical technology, payer incentives and consumer preference continue to move care away from high-cost inpatient settings. There were about 6,400 ambulatory surgical centers in 2024 serving 3.4 million fee-for-service Medicare beneficiaries and performing 6.4 million procedures. The number of centers grew by roughly 2.3% annually from 2019 through 2023 and another 2.2% in 2024, while procedure volume per beneficiary increased 3.5% in 2024.¹³ In addition, ambulatory surgical centers payment rates are approximately 44% below hospital outpatient payment rates on average, supporting the economic rationale for lower-cost sites of care.¹⁴

Leasing data confirms this trend as medical office demand is becoming more specialized. Health systems accounted for 46% of tracked medical leasing in 2025 and specialty providers another 36%.¹⁵ The number of surgery-center leases increased by 145% between 2022 and 2025, while single-specialty leasing rose by 55%, diagnostic-lab leasing and behavioral-health leasing by 38% and 32%, respectively.¹⁶ Higher-acuity users generally require more infrastructure, pay higher rents and face greater switching costs, which can improve landlord retention and pricing power. The trade-off is greater build-out specificity and more severe residual-value risk if a specialized tenant vacates.

Operating Fundamentals and Performance

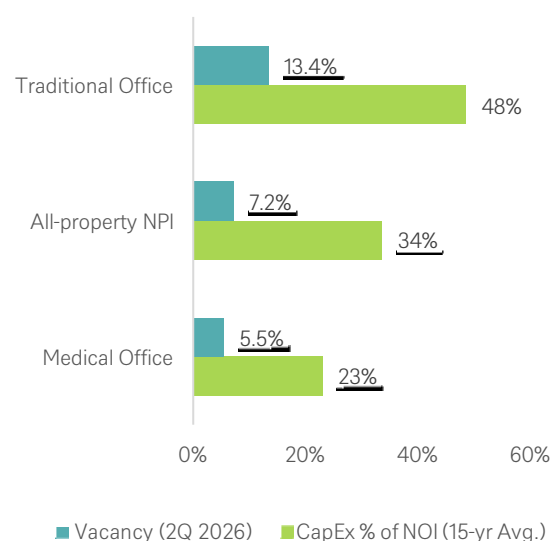
The operating context is the core of the investment case for medical office. Institutional grade medical office vacancy averaged 5.5% in 2Q 2026 according to NCREIF, versus 7.2% for the overall NPI and 13.4% for conventional office.¹⁷ Medical office vacancy has generally remained in a 4%–6% range since 2018 even as traditional office vacancy rose sharply after the pandemic, reflecting the need to deliver healthcare services in person, the scarcity of suitable space and the high cost of relocating specialized practices.

Supply remains constrained. According to JLL, medical office starts bottomed at approximately 1.0% of inventory in late 2024 and recovered only modestly to 1.1% in the second half of 2025.¹⁸ Health systems lead much of the

construction and occupy substantial portions of their own projects, leaving limited speculative inventory.

As of 1Q 2026, only 2.9 million square feet of medical office were under construction.¹⁹ At the same time, new construction rents were running at nearly twice in-place rents, demonstrating the gap between replacement cost and existing rent levels. While this supports the value of modern, well-located existing assets, it may also constrain tenant affordability and expansion at the margin.

Exhibit 3: Vacancy vs. CapEx as share of NOI



Source: NCREIF, DWS. As of 2Q 2026.

The sector's capital requirements are also favorable. Medical office capital expenditures were approximately 23% of NOI over the past 15 years, compared with roughly 34% for the all-property NPI index and 48% for traditional office, which helps explain the sector's strong performance.

Medical office has also shown better downside protection. During the global financial crisis, medical office total returns declined materially but less than the broad NPI and conventional office.²⁰ Moreover, during the 2022–2024 repricing cycle, medical office returns stayed near breakeven before recovering, while conventional office experienced a much deeper drawdown, reinforcing the sector's defensive characteristic.²¹

¹¹ CMS. As of July 2026.

¹² CMS, BLS. As of July 2026.

¹³ MedPAC. As of July 2026.

¹⁴ MedPAC. As of July 2026.

¹⁵ JLL. As of July 2026.

¹⁶ CBRE. As of July 2026

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¹⁷ NCREIF. As of 2Q 2026.

¹⁸ JLL. As of July 2026.

¹⁹ CBRE. As of July 2026.

²⁰ NCREIF. As of 2Q 2026.

²¹ NCREIF. As of 2Q 2026.

Investment Recommendation

Prospects for medical office appear attractive, in our view. Structural demand, drivers, including aging population, rising healthcare utilization and the continued expansion of outpatient care should continue to support occupancy, rental growth and cash-flow stability for the foreseeable future. At the same time, limited new supply provides a favorable backdrop for existing assets by reinforcing pricing power and reducing competitive pressure.

Relative to traditional office, medical office exhibits materially lower vacancy, stronger tenant retention, lower recurring capital expenditures and significantly less exposure to remote-work disruption. Compared with industrial and selected residential strategies, expected appreciation may be

more moderate, but cash flows are substantially more stable and less volatile.

The most attractive investment opportunities combine strong healthcare fundamentals with durable real estate characteristics. Preferred assets are located near leading health systems or established medical clusters, benefit from convenient patient access and visibility, maintain diversified specialty practices, include contractual rent escalations and possess acquisition costs below replacement value. Properties serving higher-acuity medical specialties should command superior long-term tenant retention and pricing power, provided they retain sufficient flexibility for future leasing.

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