

Medical Office Tailwinds Support Healthy Diagnosis for Future Property Performance

Deliveries remain measured, particularly in high-growth markets. Compared with the traditional office sector, which has faced elevated vacancy and a sharp pullback in development since the pandemic, medical office construction has been more consistent and better aligned with demand. Total U.S. deliveries are expected to be about 10 million square feet again in 2026, broadly consistent with the prior decade. At the state level, Texas is set to add roughly 2 million square feet, followed by Florida at about 1 million, while California, Arizona, and Ohio will each deliver about 500,000 square feet. This distribution underscores the continued concentration of development especially in migration-driven markets with strong population growth.

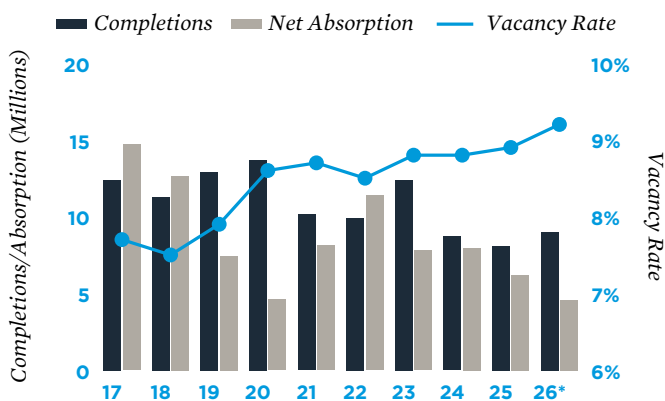
Early signs of moderating space demand emerge. While population hubs such as Houston, Orlando, and Chicago recorded the strongest absorption in 2025, other major metros, including Los Angeles, Miami, Portland, and Philadelphia, posted notable net space relinquishment. Weakness in coastal regions likely reflects ongoing out-migration trends. Yet, even in growth markets such as Austin, vacancy increases exceeded 100 basis points, suggesting that supply pressures and softer demand are beginning to converge. The national vacancy rate is projected to reach 9.2 percent by year-end — the highest level in a decade. Improving fundamentals are most evident in Midwest markets such as Columbus, Detroit, Kansas City, and Minneapolis-St. Paul. These metros all saw vacancy declines of more than 100 basis points in 2025, highlighting the growing role of affordability and cost-driven migration, alongside aging demographics, in shaping demand growth.

Medical Office Investment Highlights

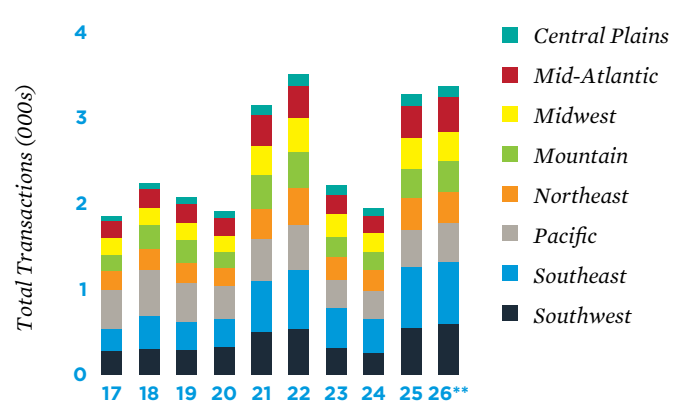
Institutional investment gaining traction. Transaction velocity for medical office assets increased by roughly 33 percent over the last 12 months ended in March. Although sub-\$10 million deals still account for most of the trades, institutional participation is expanding, with transactions above \$10 million rising more than 67 percent and deals exceeding \$20 million doubling over the same period. This shift reflects growing interest from REITs, institutions, healthcare-focused funds, and health systems pursuing owner-user strategies. Private buyers are also expected to remain active, supported by the sector’s relative resilience to economic volatility. Pricing fundamentals remain conducive to trades, with the national average cap rate holding near 7.5 percent, while post-2000 assets in well-located areas continued to trade in the 6 percent range. At the same time, the average price per square foot increased to \$313, indicating sustained investor interest and confidence.

Sales activity expanding across most major metros. Only a few markets saw transaction activity decline over the past 12 months ended in March. These include Las Vegas and Phoenix, where vacancy remains above 10 percent following rapid supply growth, as well as Riverside-San Bernardino and San Diego, where slower in-migration has tempered demand despite an aging population. In contrast, transaction velocity in Houston, San Antonio, Boston, and Denver more than doubled, supported by their roles as major healthcare centers, particularly in Houston and Boston. Continued inflow of medical talent is helping these areas outperform even the major metros in Florida, where migration-driven expansion has slowed.

National Supply and Demand Trends

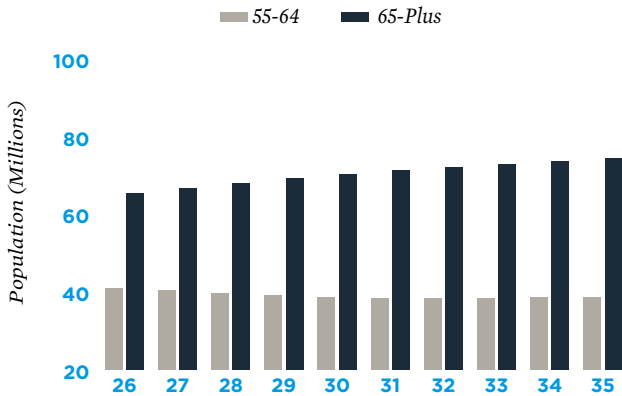


Medical Office Trades by Region

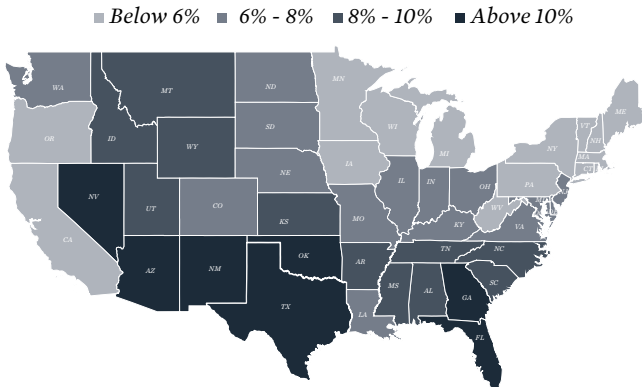


* Forecast; ** Trailing 12 months through 1Q

Population Forecast by Age



Percent of Uninsured Population By State



Near-Term Policy Risks Temper an Otherwise Solid Long-Term Outlook

Heightened policy uncertainty emerges as a meaningful headwind.

The debate over extending enhanced Affordable Care Act (ACA) premium tax credits has elevated healthcare policy as a central political issue, with downstream implications for coverage and utilization. Recent analyses indicate that when the tax credit expired at the end of 2025, average net premiums for ACA marketplace enrollees increased by about 50 percent, contributing to roughly 1.2 million fewer plan selections in 2026. Looking ahead, the Congressional Budget Office estimates that the loss of enhanced subsidies could result in 4.2 million additional uninsured individuals in the coming years, with that population rising by another 10 million by 2035 due to other broader federal spending reductions under the One Big Beautiful Bill Act. Rising uninsured rates are likely to disproportionately reduce demand for office-based and preventive care, while shifting some utilization toward emergency and higher-acuity hospital settings. At the state level, this pressure should be most pronounced in historically high-uninsured states such as Texas, Florida, and Arizona. Still, lower-uninsured states may also experience modest declines in patient volumes as affordability constraints intensify, even with some state-backed relief measures in place.

Aging population and AI adoption bode well for future growth.

The U.S. population aged 65 and older reached 64 million in 2025 and is projected to approach 75 million by 2035, increasing demand for outpatient services that should partially offset declines tied to coverage losses. Healthcare employment growth remains robust, with the education and healthcare sector adding more than 650,000 jobs over the 12 months ended in March, accounting for most of the net job gains nationally. At the same time, AI adoption across healthcare delivery is accelerating, with tools focused on documentation, workflow automation, and clinical decision support improving operational efficiency and enabling higher patient throughput. While AI-enabled triage may absorb a portion of low-acuity visits, these technologies are more likely to augment — rather than displace — in-person care. As a result, the net effect of technological advancement should be neutral to modestly positive for medical office demand over the medium term.

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Sources: IPA Research Services; American Hospital Association; Bureau of Labor Statistics; Center on Budget and Policy Priorities; Census Bureau; Congressional Budget Office; CoStar Group, Inc.; KFF; Moody's Analytics; Real Capital Analytics

Price: \$500