VANTAGE POINT

MEDICAL OUTPATIENT BUILDINGS CAPITAL MARKETS MID-YEAR 2025 UPDATE

MOB Capital Markets

Introduction

The healthcare sector is not immune to the uncertainty that has impacted the overall commercial real estate investment market. Even as transactions continued to close in the first half of 2025, headwinds impacted the sector. These headwinds included lower investor sentiment driven by the current administration's announcements on tariffs and healthcare policy, lack of clarity from the Fed on interest rate cuts, and a shrinking pool of opportunities in the market. As a result, navigating this turbulent environment led to a noticeable slowdown in medical outpatient building (MOB) deal volume in the first half of 2025.

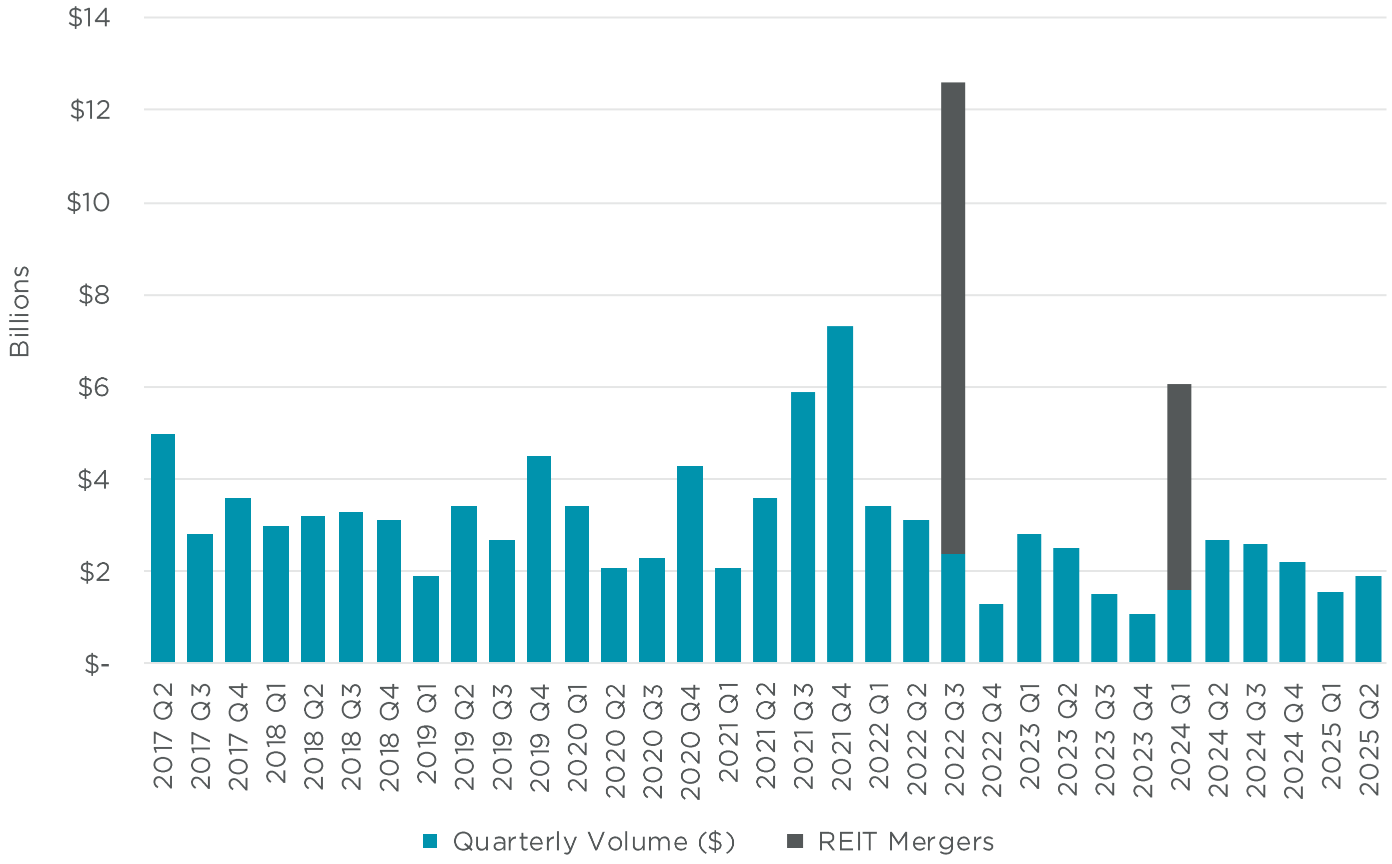
KEY TAKEAWAYS

- MOB transaction activity totaled $3.5 billion, a 19% year-over-year (YOY) drop. Single asset sales outpaced portfolio sales by 50%.
- MOB transaction cap rates fluctuated around 7% over the past two years, with a 30-basis point increase YOY in Q2 2025. The portfolio premium returned in late 2024 and widened to 72 basis points in 2025. The spread between on-campus and off-campus cap rates narrowed to 28 basis points, the lowest in five years.
- Alternative asset sales slowed to 8% of total market sales in H1 2025, with MOB assets comprising 17% of alternatives volume. Loan origination volume increased 31% YOY by Q2 2025 despite a 12% decline in MOB origination, reflecting strong lender capital willingness amid high interest rates.
- MOB total returns have outperformed major property types and other alternatives over the past decade, with a 6.3% ten-year return compared to 5.3% for the total NCREIF index. The sector's resilience and strong income returns continue to attract investors.

TRANSACTION ACTIVITY

Transaction Volume Slows

Volume fell 28% YOY in the first half of 2025



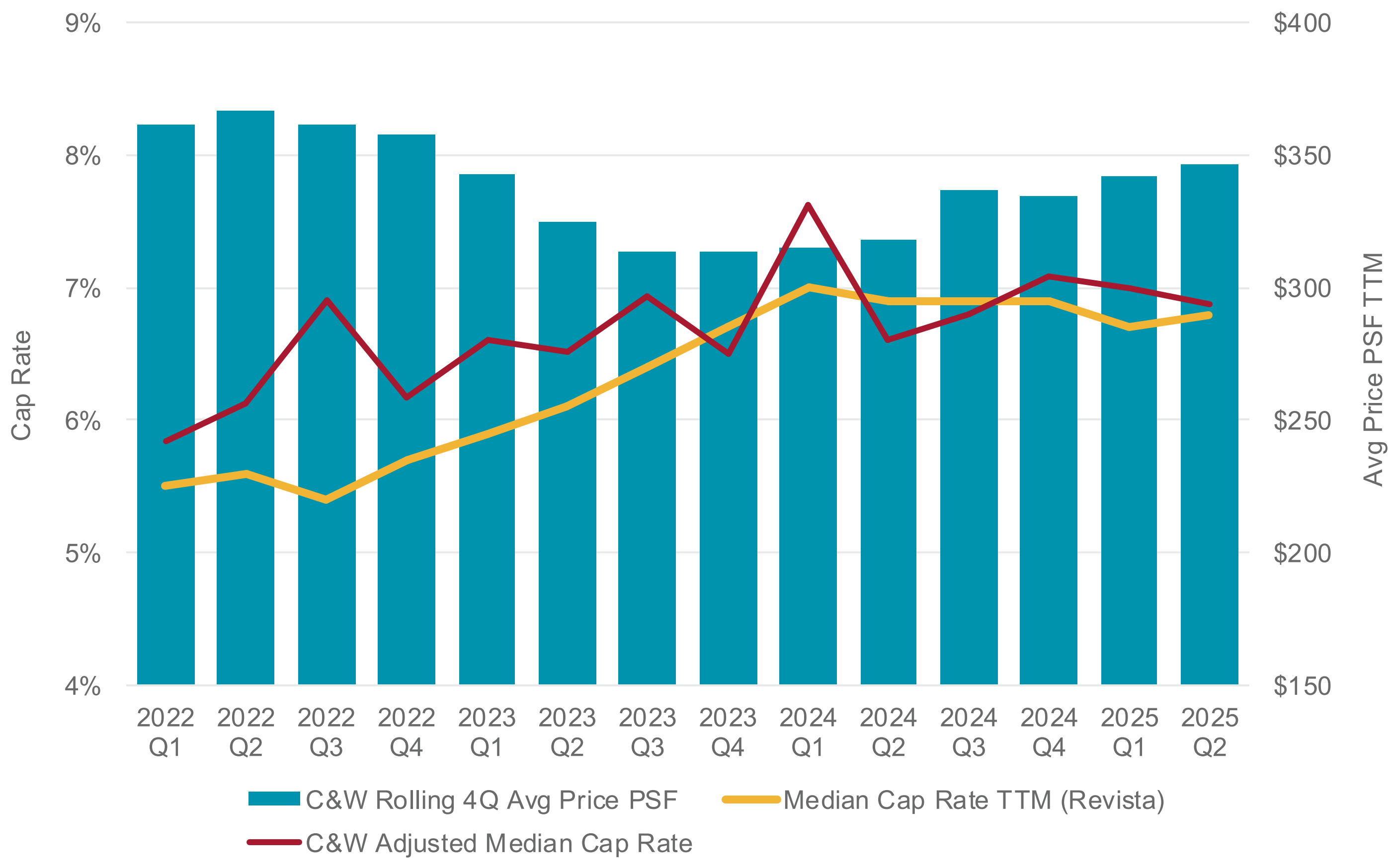
Source: Cushman & Wakefield Research; (data based on C&W's proprietary market intelligence on closed deals $5M+, buildings 10K SF+ and excluding entity level transactions), Revista Med used for reference

KEY TAKEAWAYS

- Transaction activity totaled $3.5 billion through the first half of 2025, a 19% drop year-over-year (YOY), when excluding REIT mergers. Increased economic uncertainty and potential upcoming policy impacts dampened deal activity as buyers and sellers grappled with higher-for-longer interest rates.
- Deal volume rebounded slightly in the second quarter of 2025, totaling $1.9 billion, up 21% over the first quarter. However, on a YOY basis, second quarter volume was down 30% from Q2 2024.
- The number of deals that closed in the first half of 2025 fell 23% YOY. Correspondingly, deal size fell to an average of $9.7 million per deal, -7% YOY.
- Alignment between buyers and sellers has been dislocated despite robust fundamentals fueling growth in the healthcare commercial real estate sector. The difficulty in underwriting deals in the current uncertain environment is evident as volume slipped from a strong second half last year.
- Buyers looking for core opportunities have to contend with owners choosing to hold on to income producing assets. Increased stabilization in pricing and valuation should help to provide sellers with confidence that the capital markets are opening up again.

MOB Cap Rates Expand

Cap rates have fluctuated around 7% in the last two years



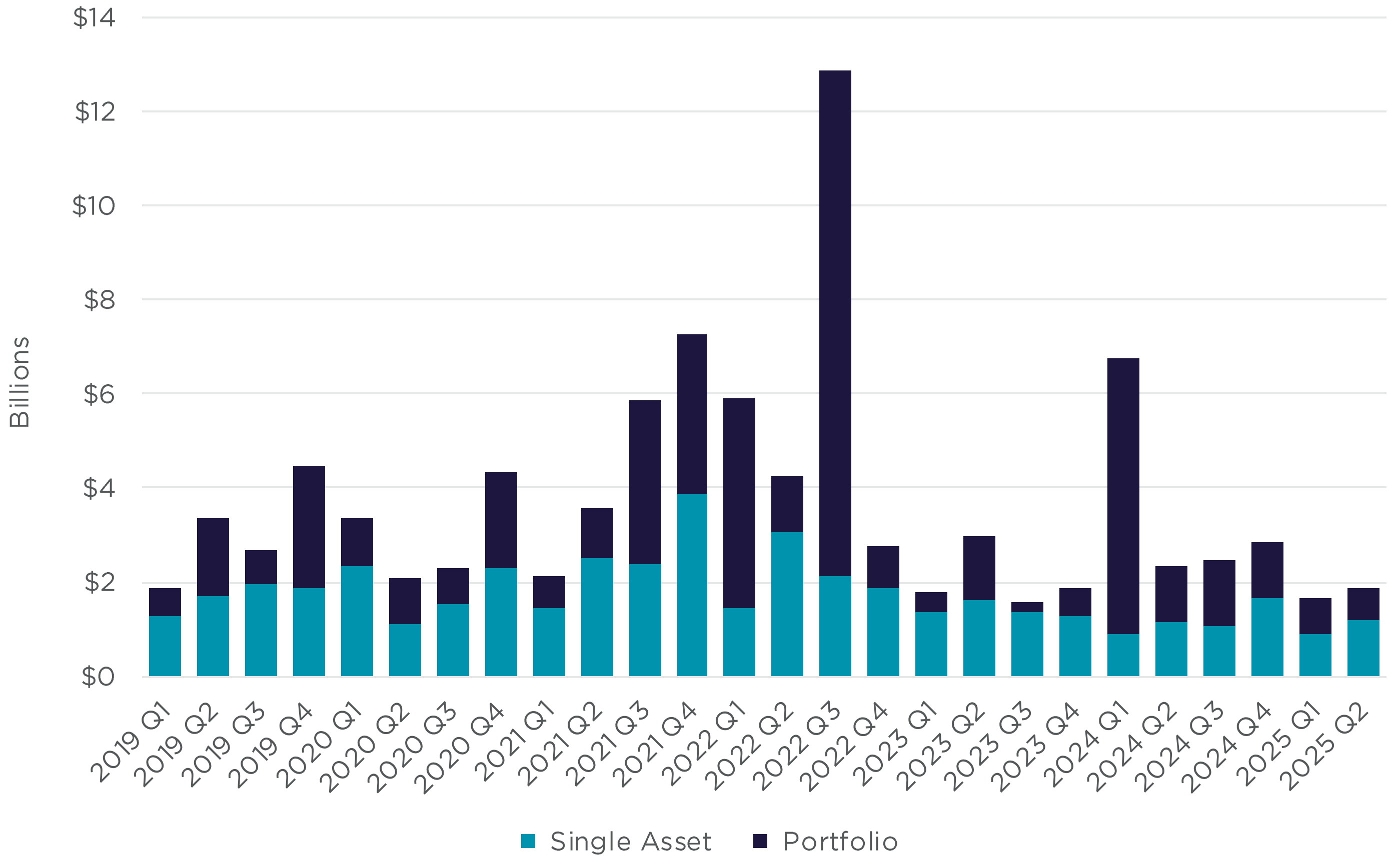
Source: Cushman & Wakefield Research (C&W data based on proprietary market intelligence on closed deals $5M+, buildings 10K SF+ and excluding entity level transactions; C&W Adjusted cap rates are based on deals with <10.0% & >5% cap rates), Revista Med used for reference

KEY TAKEAWAYS

- MOB transaction cap rates remained above the five-year average during the first half of 2025. Based on Cushman & Wakefield's adjusted cap rate data, the Q2 2025 cap rate of 6.9% was 10 basis points (bps) lower than the previous quarter.
- On a YOY basis, the adjusted cap rate expanded with a 30 bps increase over the second quarter of 2024.
- At year-end 2024, there were some expectations that interest rate cuts would be forthcoming. However, they remained absent in the first half of the year leading buyers and sellers to grapple with how to price deals amid this uncertainty.
- Pricing averaged $347 per square foot (psf) in the second quarter of 2025, up 1% quarter-over-quarter (QOQ) and 9% higher YOY. Pricing was also below the five-year quarterly average of $358 psf.

Single-Asset Sales Outpace Portfolios

Accounting for 71% of total sales volume in the first half of 2025



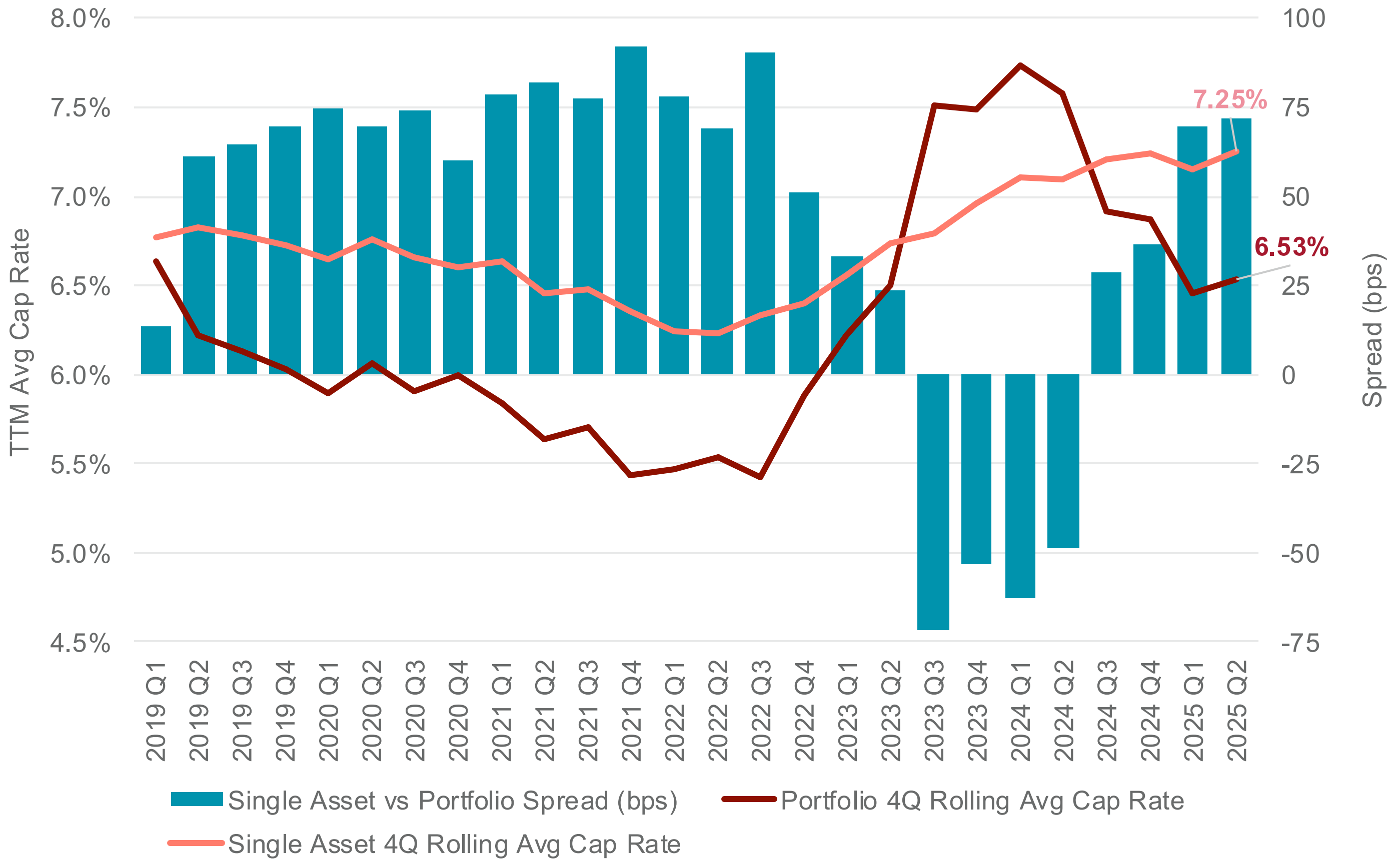
Source: RevistaMed, Cushman & Wakefield Research

KEY TAKEAWAYS

- Single-asset transaction activity totaled $2.1 billion in the first half of 2025, outpacing portfolio sales of $1.4 billion by 50%. This was a reversal of the first half of 2024 when portfolio sales volume was nearly four times stronger than single-asset transaction volume due in large part to the Healthpeak/ Physicians Realty merger. However, portfolios outpacing single-asset trades is the exception rather than the rule, so the market has shifted back to the norm.
- Despite outpacing portfolio sales in the first half of 2025, single-asset sales activity was down 2% from the same period last year.
- Portfolio deal volume was down more markedly in the first half of 2025; just one-tenth the volume tracked in the same period last year. However, excluding the Healthpeak/ Physicians Realty merger, volume is about half what it was in the first half last year.
- Although portfolio closings have been muted during the first half of 2025, there are several portfolio offerings currently in the market that could increase closings by the end of the year.

The Return of the "Portfolio Premium"

The "Portfolio Penalty" Reverses

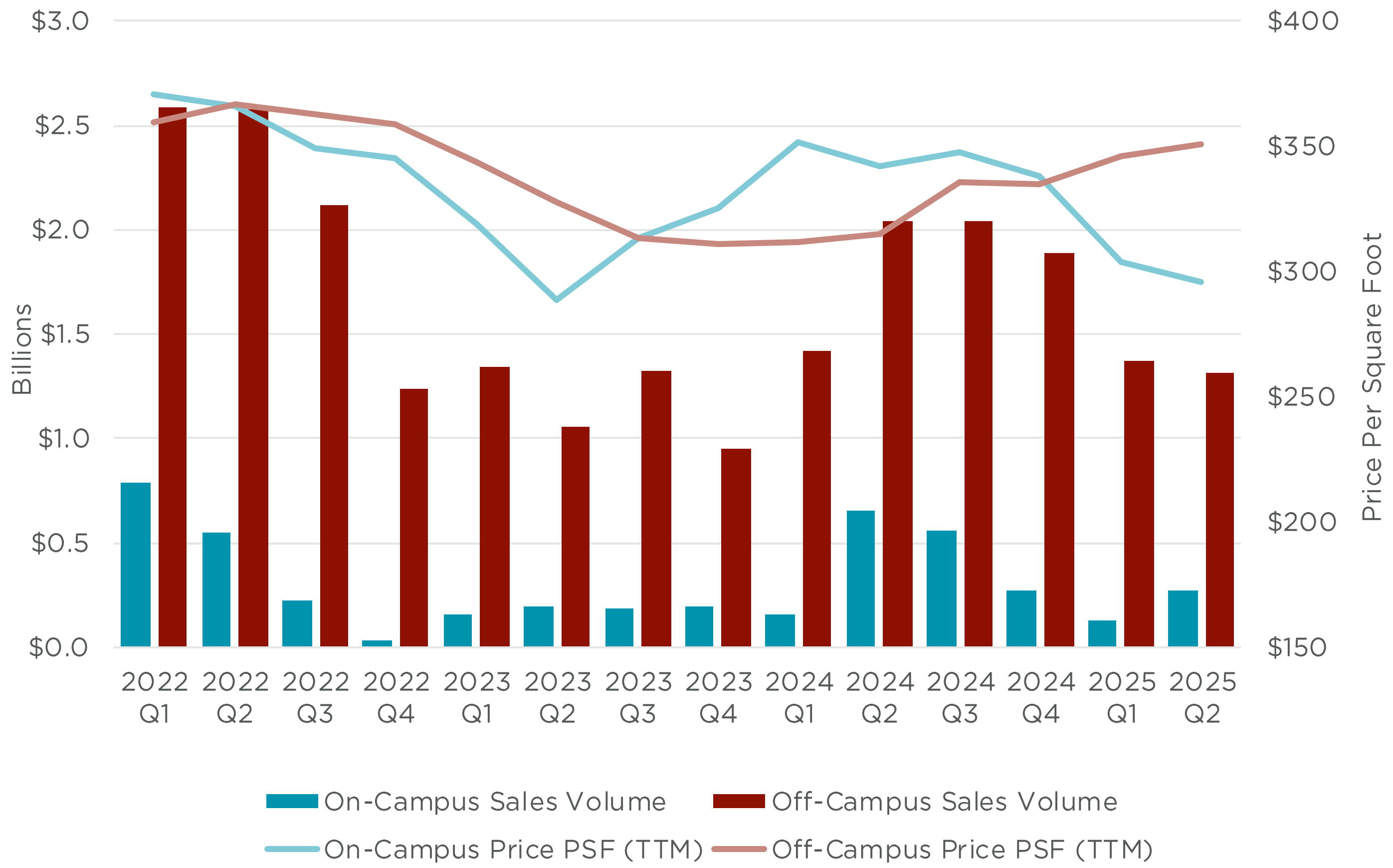


Source: RevistaMed, Cushman & Wakefield Research

KEY TAKEAWAYS

- Historically, portfolio transactions carry a premium when compared to single-asset sales. This trend reversed in the period between Q3 2023 and Q2 2024 when portfolios traded at a 'penalty' to single assets.
- That trend began to reverse in the third quarter of 2024 when the cap rate spread widened to 29 bps as portfolio cap rates began to compress.
- The expansion of single-asset cap rates in the first half of 2025 has further widened the cap rate spread between single asset and portfolio sales to 72 bps.
- Cap rates based on portfolio transactions in the first half of 2025 indicate that current portfolio deals are more focused on core assets, a shift from the value-add deals closed in the first half of 2024.
- Pricing uncertainty, which was fueled by a lack of interest rate clarity from 2023 to early 2024, led to many sellers sitting on the sidelines. This resulted in the portfolio penalty as pricing exploration took over. Now that this uncertainty has worked its way through the cycle, both sellers and buyers are returning to the market, and the portfolio premium is expected to persist moving forward.

Off-Campus Deals Outpace On-Campus

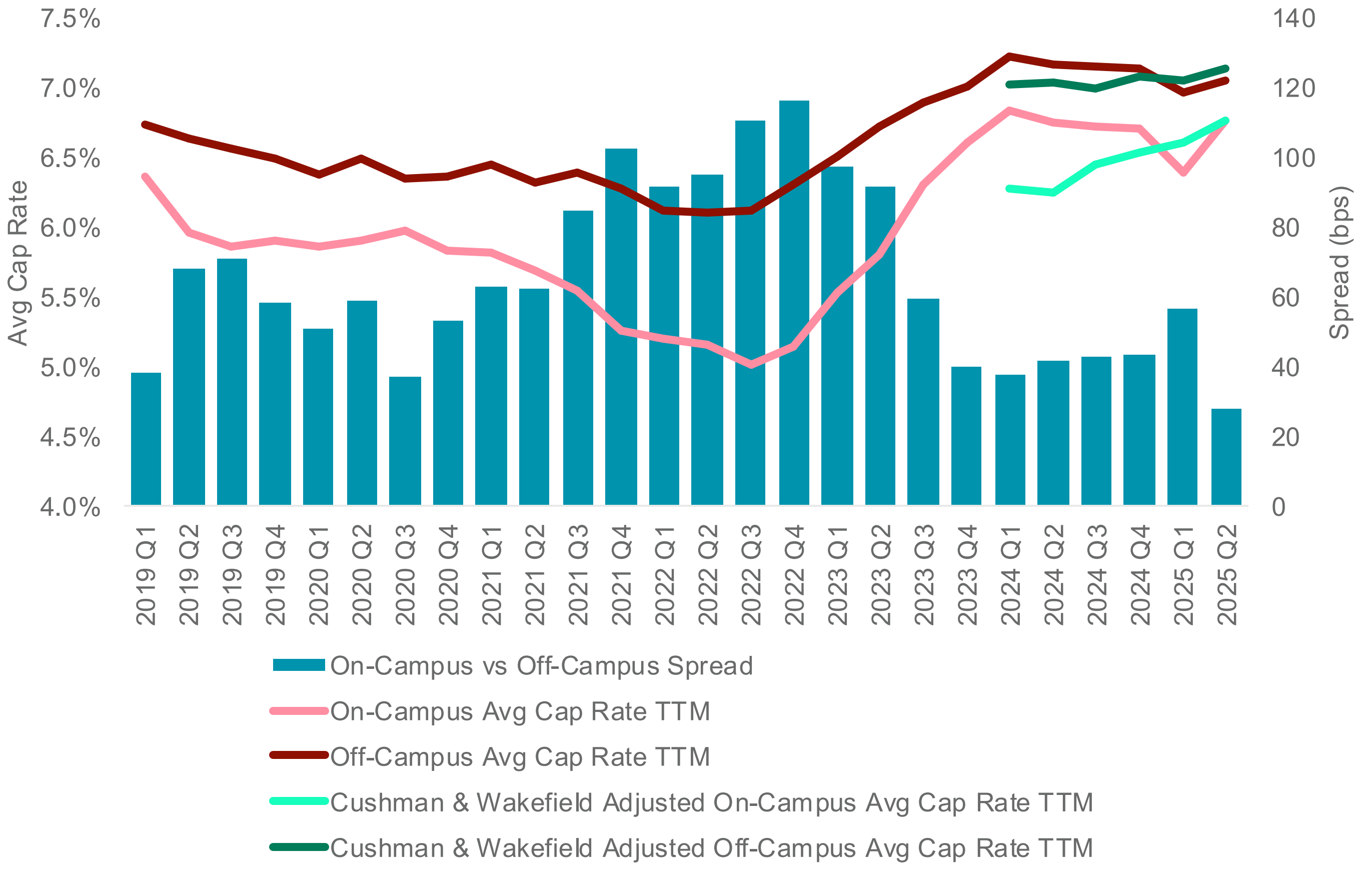


Source: Cushman & Wakefield Research Cushman & Wakefield Research (data based on C&W's proprietary market intelligence on closed deals $5M+, buildings 10K SF+ and excluding entity level transactions), Revista Med used for reference

KEY TAKEAWAYS

- Due to decreased transaction activity in the first half of 2025, both on-and off-campus deal activity fell YOY.
- Investment activity for on-campus deals totaled $400 million in the first half of 2025, down 50% from transaction activity during the same period in 2024. Off-campus sales were stronger at $2.7 billion, down 23% YOY.
- Pricing for on-campus deals averaged $296 psf as of the second quarter 2025, down 16% from a year ago.
- Off-campus pricing was 11% higher YOY at $351 psf as of the second quarter and was priced 16% higher than on-campus deals.

On-Campus vs Off-Campus Cap Rate Spread Narrows

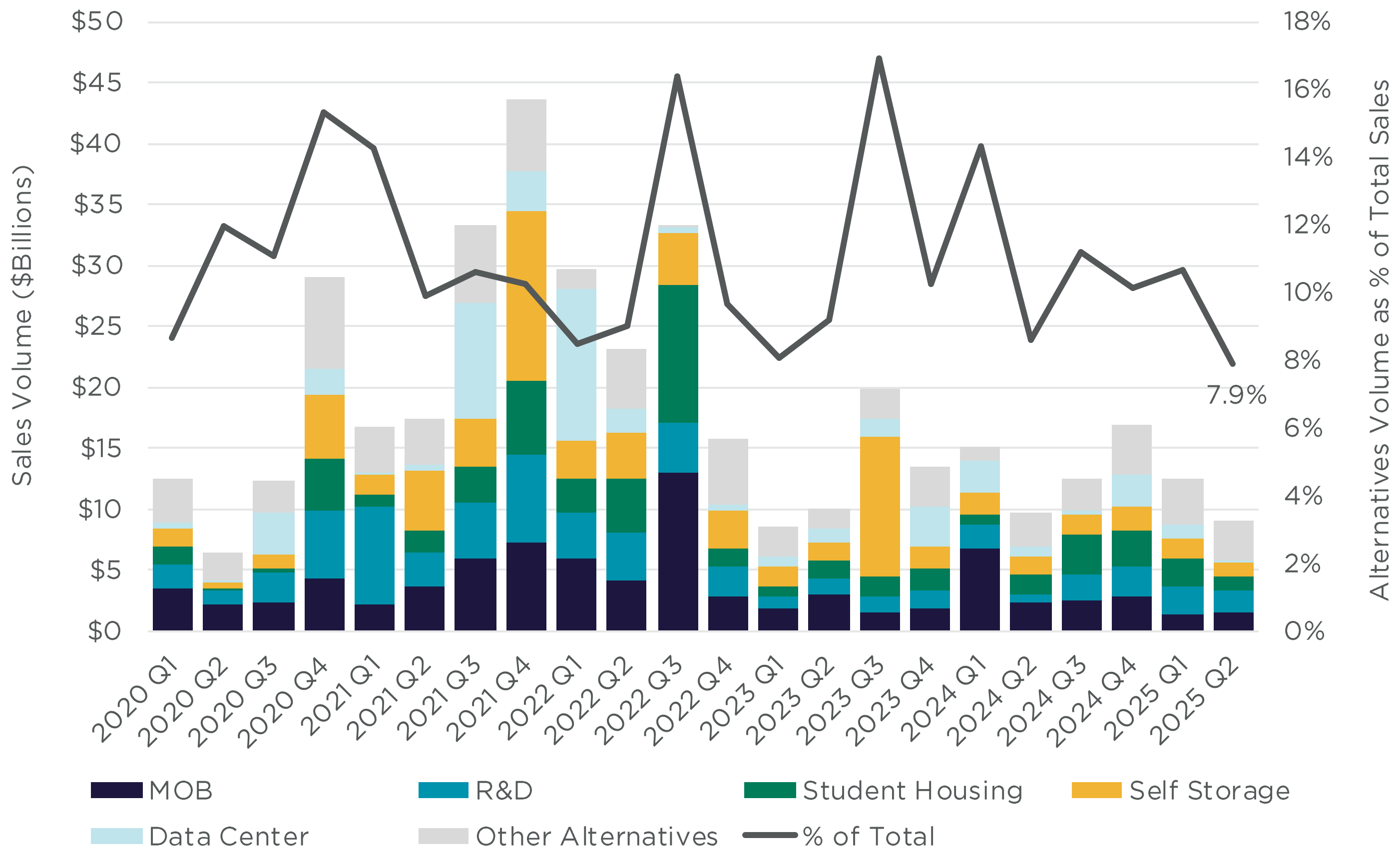


Source: Cushman & Wakefield Research (Cushman & Wakefield Adjusted cap rates are based on proprietary market intelligence and are limited to transactions with <10.0% & >5% cap rates), Revista Med (for historical on- and off-campus cap rates)

KEY TAKEAWAYS

- The on-campus premium remains intact albeit with a narrower margin.
- The spread between on- and off-campus cap rates remained in the low-40 bps through most of 2024 and ticked up to 56 bps during the first quarter of 2025. As of the second quarter 2025, the spread, 28 bps, is at the lowest level in the last five years as buyer preference for off-campus deals narrows the gap.
- C&W tracks MOB transactions in the market, and the data generally indicates that the spread is wider than what Revista's data shows. Currently, C&W's data indicates that there is a 37 bps spread, but that has also narrowed from 79 bps a year ago.
- On-campus MOBs will continue to achieve lower cap rates due to their unique demand drivers and high-barrier-to-entry characteristics.
- Pricing in the off-campus segment is driven by the quality of assets trading. Increased development of off-campus assets has more recently increased the investable stock in the market. As new assets are stabilized and traded, cap rates achieved reflect the newer core quality.

Alternatives Investment Activity Slows



Source: Cushman & Wakefield Research (data based on C&W's proprietary market intelligence on closed deals $5M+, buildings 10K SF+ and excluding entity level transactions), MSCI Real Capital Analytics

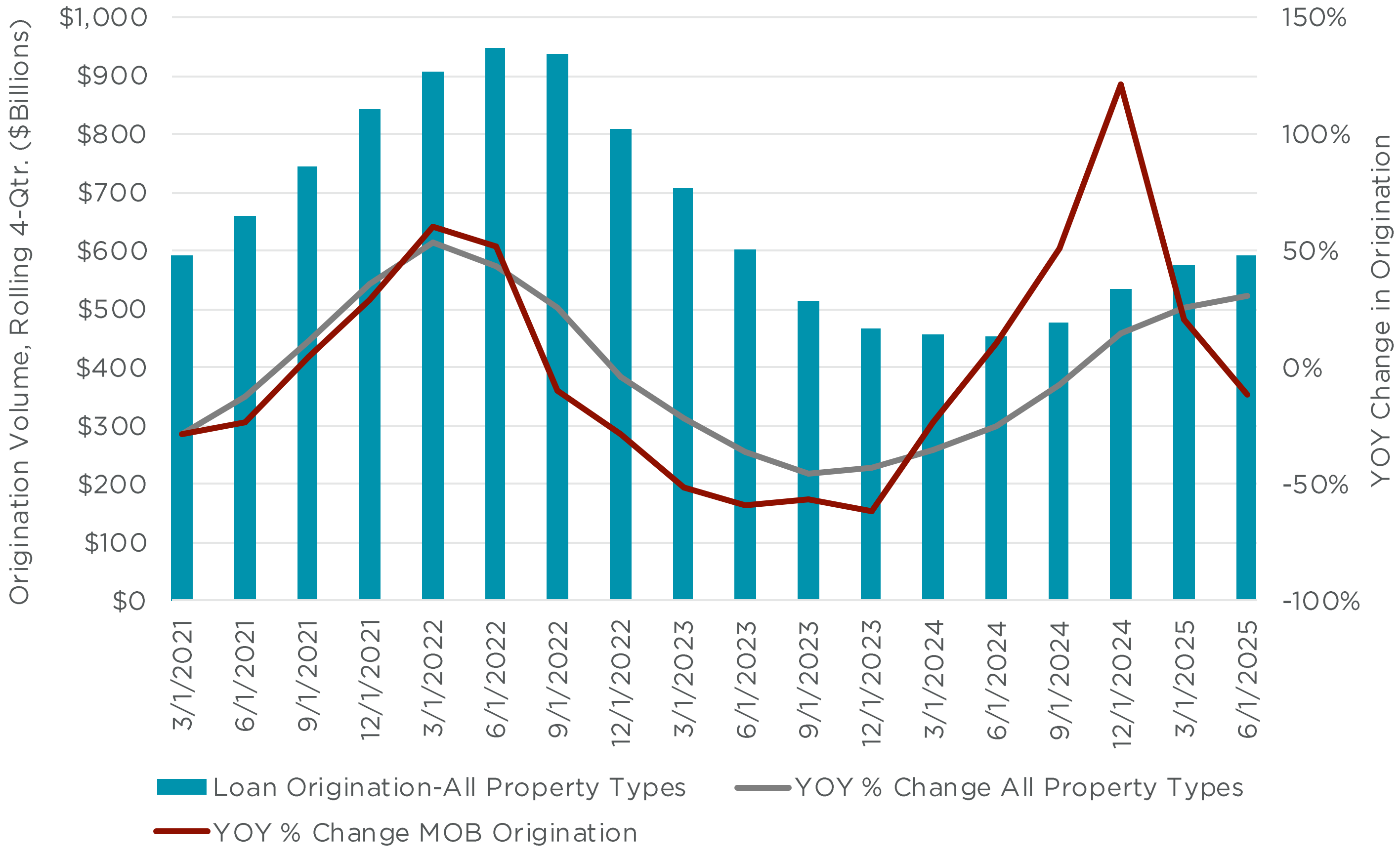
KEY TAKEAWAYS

- Over the last five years, sales of alternative assets have averaged 11% of total market sales. This share slowed in the first half of 2025 to 7.9% as alternatives deal volume fell 14% YOY to $21 billion.
- Sales of MOB assets have averaged 22% of total alternatives investment volume over the last five years. This slowed to 17% in the first half of 2025 as the share of MOB sales contracted. While fluctuations in share are common, this year saw other alternatives capturing a greater share of total sales volume due to a few large R&D transactions and healthy volume in the student housing sector.
- Alternatives have received outsized investor attention since many of them have counter-cyclical market dynamics that help insulate them from broader market movements. However, the recent uncertainty that impacted the overall capital markets sector has also resulted in a lower share of alternatives sales.

DEBT
MARKET

Total Loan Origination Trends Higher

CRE lender willingness to place capital remains strong



Source: MSCI Real Capital Analytics, Cushman & Wakefield Research

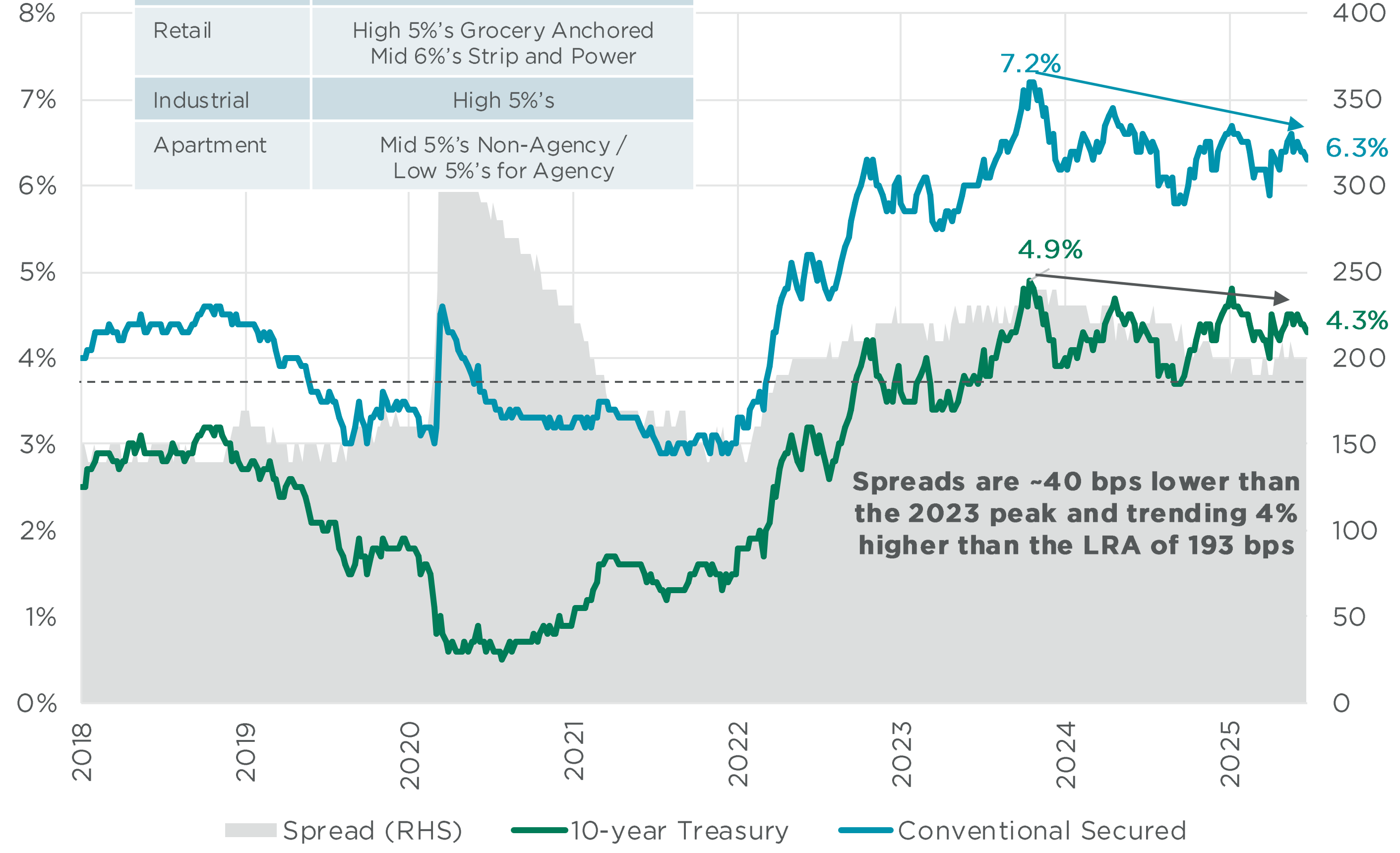
KEY TAKEAWAYS

- Total loan origination volume has continued to gain momentum after experiencing a recent lull. As of the second quarter 2025, the rolling four-quarter volume was up 31% YOY.
- Despite recent uncertainty, lender willingness to place capital remains strong. However, the continued higher-for-longer interest rate environment continues to dampen investor activity.
- The slowdown in MOB sales during the first half of 2025 is reflected in recent loan volume. YOY MOB origination was down 12% after ending 2024 up 121%.
- Expectations for interest rate cuts in the second half of 2025 have grown and may lead to stronger sales and lending activity.

Fixed Debt Cost Spreads Stabilize

To slightly above long-run average

Approximate Fixed Debt Costs by Type*	
Office	Low to Mid 7%'s
Retail	High 5%'s Grocery Anchored Mid 6%'s Strip and Power
Industrial	High 5%'s
Apartment	Mid 5%'s Non-Agency / Low 5%'s for Agency



Source: Green Street, Cushman & Wakefield Research; time series data updated July 10, 2025 (extends through June 27, 2025).
*Sourced from Cushman & Wakefield's July 2, 2025 Equity Debt and Structured Finance Team's Monthly Debt Matrix (US10Y at 4.3%).

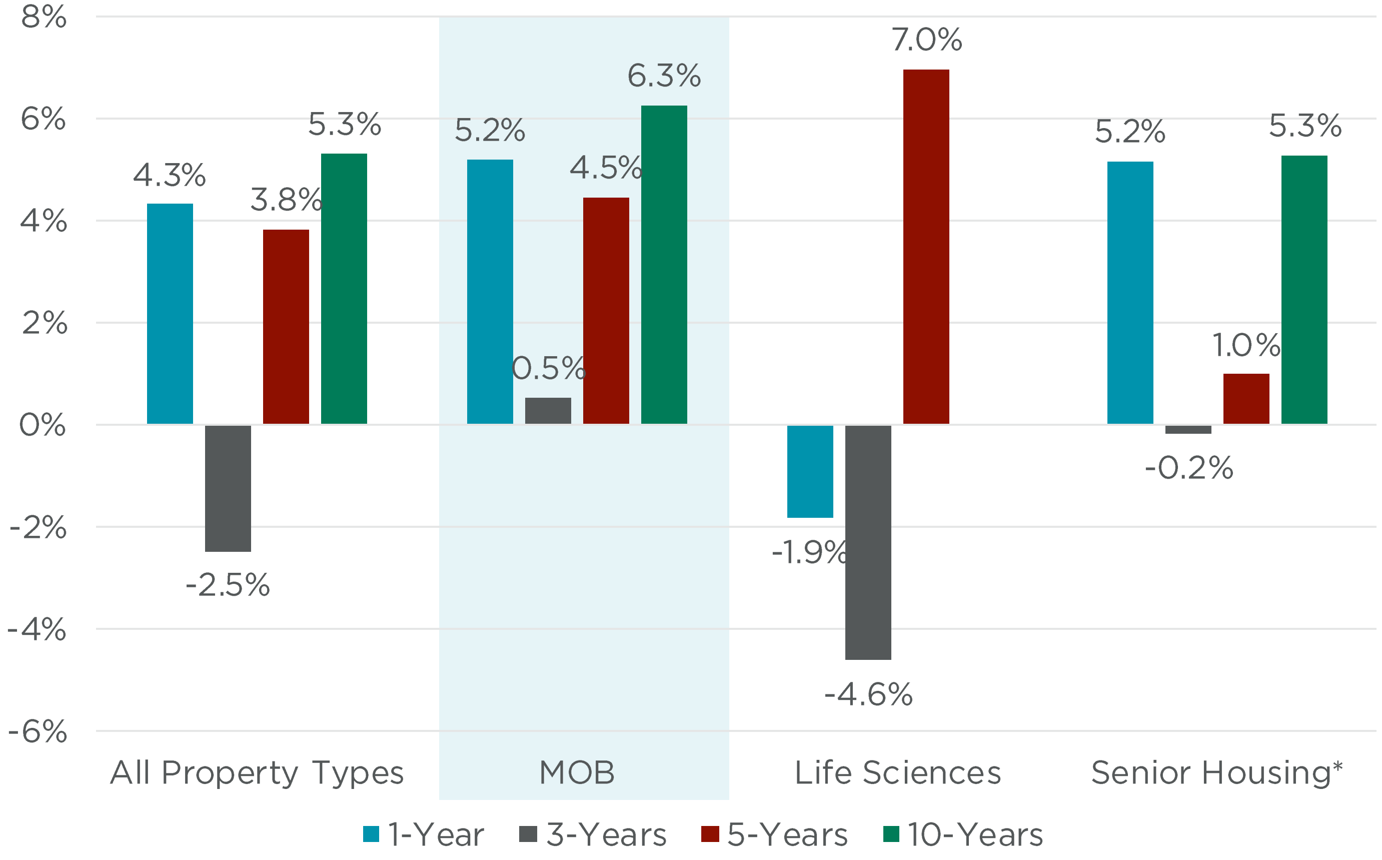
KEY TAKEAWAYS

- The cost of debt has improved across major property types and MOB.
- Debt costs have come down from recent peaks and positive leverage conditions will continue to improve as the short end of the curve comes in. This shift is also making floating-rate products a viable option for achieving positive leverage.
- Potential interest rate cuts by the Fed in the fall will further improve costs and will likely result in improved overall investor sentiment.

MOB RETURNS

MOB Total Returns Outperform

Over the last ten years

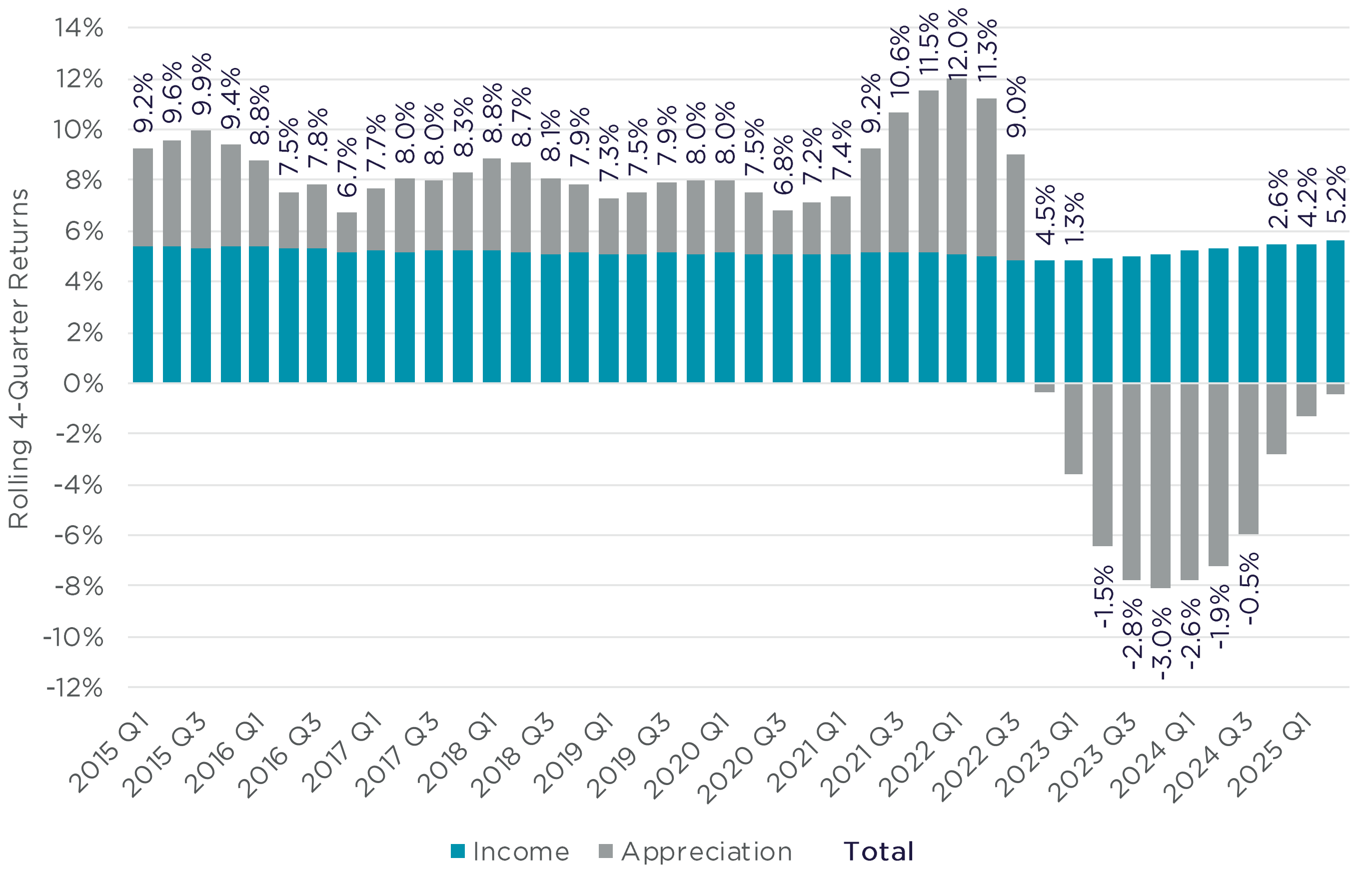


Source: NCREIF, Cushman & Wakefield Research; *Senior Housing includes only Assisted Living

KEY TAKEAWAYS

- MOB total returns, based on NCREIF's Q2 2025 report, have not only remained positive over the last ten years, but also continue to outperform major property types and complimentary alternatives.
- MOB total returns consistently outperform the broader NCREIF property index across multiple time periods. While the NCREIF all-property index posted a negative three-year return of -2.5%, MOB assets remained positive with a 0.5% return over the same period.
- On the ten-year long-term, MOB property returns of 6.3% have outperformed the total NCREIF index at 5.3% and are comparable to the NAREIT equity index (not shown) at 6.6%. Steady income growth averaging 5.3% has helped push total returns to 6.3%.
- This reinforces the investment thesis behind MOB which is one of slow and steady outperformance through market cycles. New investors continue to be attracted to this space for this reason.

MOB Income Returns Edge Up



Source: NCREIF, Cushman & Wakefield Research

KEY TAKEAWAYS

- Over the last ten years, MOB income returns have remained healthy, averaging 5.2%, outperforming some major property types and other alternative assets.
- As of Q2 2025, MOB income returns totaled 5.7%, outpacing the ten-year average.
- Appreciation returns are turning positive as valuation adjustments have been made and as the capital markets start to recover.
- There was positive appreciation in two of the last four quarters: +0.05% in Q4 2024 and +0.13% in Q1 2025. However, the four-quarter rolling total remains negative at -0.45%.
- The persistent strength of MOB income returns continues to make this sector a very attractive investment option for investors.

MOB Capital Markets

Conclusion

Despite prevailing headwinds, several green shoots are evident in the sector and will continue to make MOB assets an attractive investment class.

- Strong income returns will help the sector outperform other asset classes. As appreciation returns improve, buyer conviction will increase, and growing seller acceptance will allow for more traction in the capital markets broadly and throughout MOB.
- Although we anticipate that Medicaid cuts passed by Congress will likely impact health system and physician revenues, the underlying demographic fundamentals will continue to drive demand for healthcare services and thus provide growth opportunities to the sector.
- Demand for MOB space remains robust reinforcing the strength of underling fundamentals, including strong rent growth and high occupancy rates.
- Expectations for rate cuts in the second half of year have shifted considerably following recent labor market readings, with markets pricing in between 50-75 bps cuts by the end of the year. Absent a more significant economic recession—and assuming more stagflationary dynamics—these interest rate cuts should help support deal activity in the fall.

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