Inland Real Estate Investment Corporation

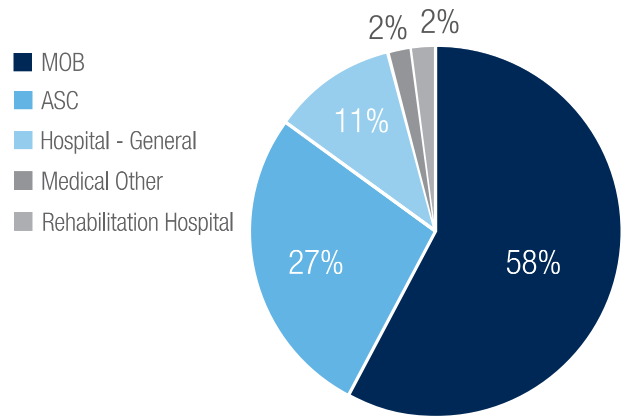
Inland Insights

Healthy Demographic-Driven Demand for Healthcare Properties

Sector demand driven by an aging population and shift to outpatient care vs. inpatient facilities

The healthcare sector is growing, despite economic headwinds, and its growth is predicted to continue in the coming years. The sector demonstrated its ability to navigate challenging markets in 2022 with notable performance across operating fundamentals. No matter the economic climate, people will always need to see a doctor or schedule an operation – highlighting the healthcare sector's strength, resilience, and attractiveness as a commercial real estate strategy.

2022 Transaction Volumes[2]



Source: Revista, www.revistamed.com

Increasing Transaction Volumes

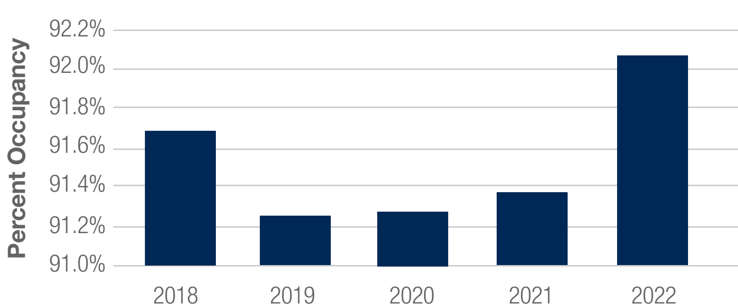
Transaction volumes reached an all-time high in 2022 with approximately $26 billion of capital invested into the sector. Medical office buildings (MOBs) made up the largest portion of healthcare real estate transactions at 58 percent; followed closely by ambulatory surgical centers (ASCs) at 26.8 percent.[1]

The Fundamentals – Occupancy | Rents | Construction

MOB fundamentals continue to be healthy amid inflationary pressures and rising interest rates, making it an attractive recession-resilient asset class compared to other core real estate sectors. With the high cost of building a ground-up medical office space, most medical office tenants tend to remain in the same space for a longer period of time, providing stable occupancy and the opportunity to increase rents regularly.

Occupancy rates since 2018 have remained steady at 91 to 92 percent year-over-year. Strong occupancy is mainly driven by the in-person nature of many medical services, an aging population, and the growing demand for outpatient treatment facilities.[2]

Occupancy Rates 2018-2022[2]

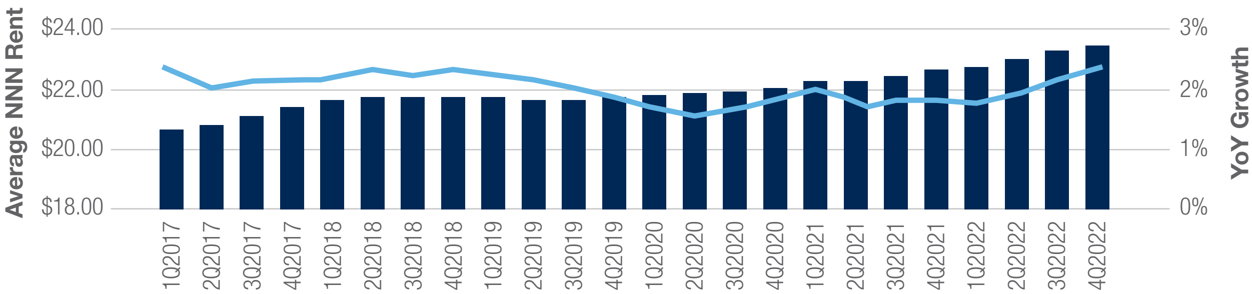


Source: Revista, www.revistamed.com

Healthcare rental rates are growing, transaction volumes are still strong, and demand is outpacing supply amid tight vacancy rates.

Driven by strong occupancy growth, **rental rates** for MOBs have averaged $22.68 per square foot since 2017 with growth increasing by two percent on average year-over-year.[2]

Rental Rates & YoY Growth 2017-2022

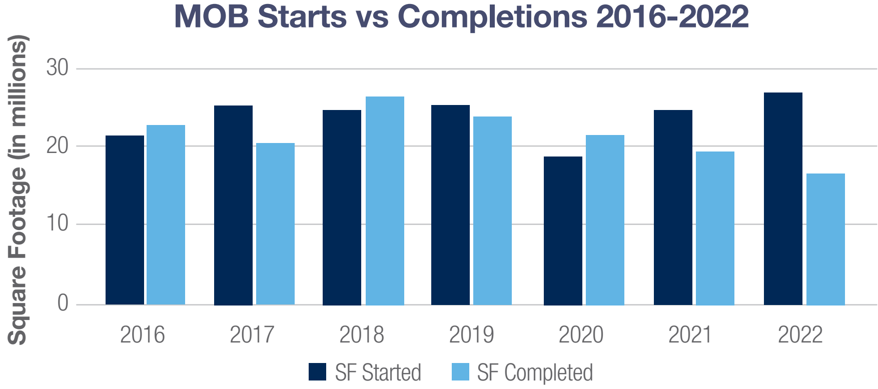


Source: Revista, www.revistamed.com

Despite a slow down across the construction industry primarily due to the COVID-19 pandemic, MOBs saw **an increase in new construction** starts in 2022 of nearly 3 million square feet over 2021, reaching a total of more than 26.7 million square feet.[2]

Aging Population & Shift to Outpatient Care
While several factors are driving the MOB demand growth, the aging U.S. population with higher rates of chronic health conditions is increasing the need for healthcare providers, facilities, and services. The United States Census Bureau has predicted that by 2030, all baby boomers will be older than age 65 – meaning that one in five Americans will be of retirement age. **By 2060, nearly one in four Americans will be 65 years old or older.**[3] Healthcare organizations may need to offer more services onsite or remotely, which could require multiple locations instead of relying on one large hospital or health system alone.

MOB Starts vs Completions 2016-2022



Source: Revista, www.revistamed.com

The trend toward outpatient care was accelerated by the COVID-19 pandemic and the importance of well-equipped and well-located healthcare facilities was underscored. Outpatient care helps reduce the strain on hospitals, allowing them to focus on treating patients that do not require hospitalization but must have a medical procedure. Additionally, outpatient facilities generally allow patients to access medical care at lower costs with better experiences than a traditional in-patient setting.

[1] JLL. Healthcare Investor survey and Trends Outlook. United States. 2023
[2] Revistamed. Custom Report. March 2023
[3] United States Census Bureau. The Graying of America: More Older Adults Than Kids by 2035. March 2018

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