

Inland Research Report: 2025 Healthcare Sector Review

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Executive Summary

America is rapidly aging, with one-in-five Americans expected to be over the age of 65 by 2030¹, reshaping the demographic dynamics of the U.S.

In tandem, healthcare spending continues to rise, resulting in an aging nation spending more on healthcare-related services. This shifting landscape has created a compelling entry point for investors interested in healthcare real estate property types as they are likely to benefit from these long-term tailwinds.

For purposes of this paper, we will divide healthcare real estate into two subsectors: medical outpatient buildings (MOBs) and senior housing communities. Both sectors benefit from the demographic tailwinds driven by an aging baby boomer generation. The 65 to 84 and 85-plus age cohorts are the two oldest and the fastest growing tranches² requiring expanded infrastructure to support their needs as they age.

Healthcare Highlights

- Significant demographic shifts are expected with the continual growth of older generations (i.e. baby boomers).
- As the population of Americans with complex health needs and chronic conditions continues to grow, so does the demand for healthcare-related property types.
- Older generations are wealthier, with enough purchasing power to access premium healthcare services and living experiences.
- New construction for medical outpatient buildings (MOBs) and senior housing communities is expensive due to high land values, interest rates, and materials costs, limiting future new supply.
- Driven by advances in medical technology and evolving patient preferences, care is shifting from traditional inpatient settings to outpatient facilities, creating demand for MOBs.
- Highly experienced and qualified operators are critical to the long-term success of senior housing communities.
- We believe a favorable supply/demand dynamic and solid fundamentals position the healthcare sector well for future growth and opportunities.

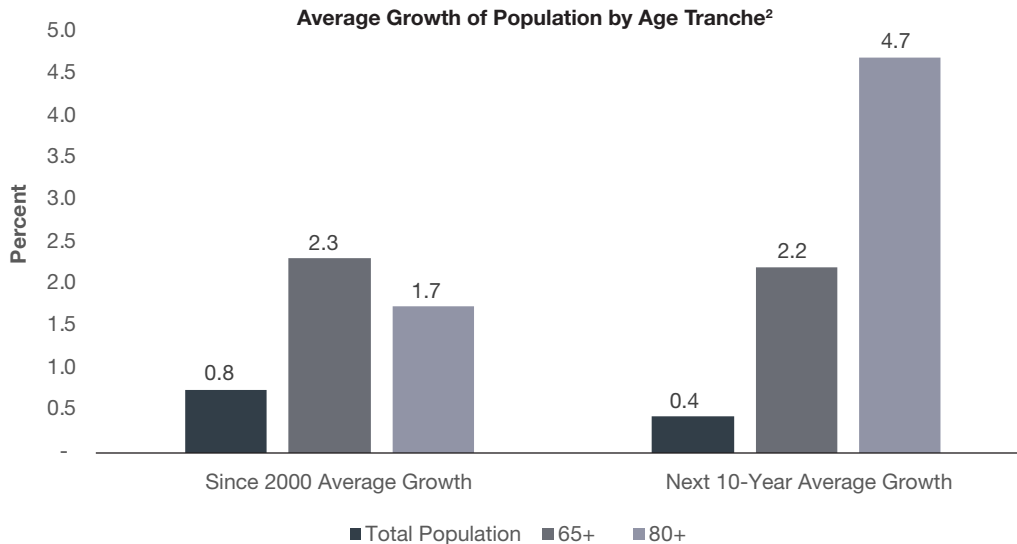
Overview

The United States is experiencing an unprecedented demographic shift, which is fundamentally reshaping healthcare demand and positioning the sector as a resilient and attractive investment opportunity. This report discusses the key demographic trends, and sector-specific factors that support the continued success of the healthcare sector. This report examines how strong fundamentals and evolving care needs can drive the continued growth of medical outpatient buildings (MOBs) and senior housing communities, considered subsectors of healthcare. Given the demographic projections, this trend likely has a long runway, providing opportunities for long-term investors to capitalize.

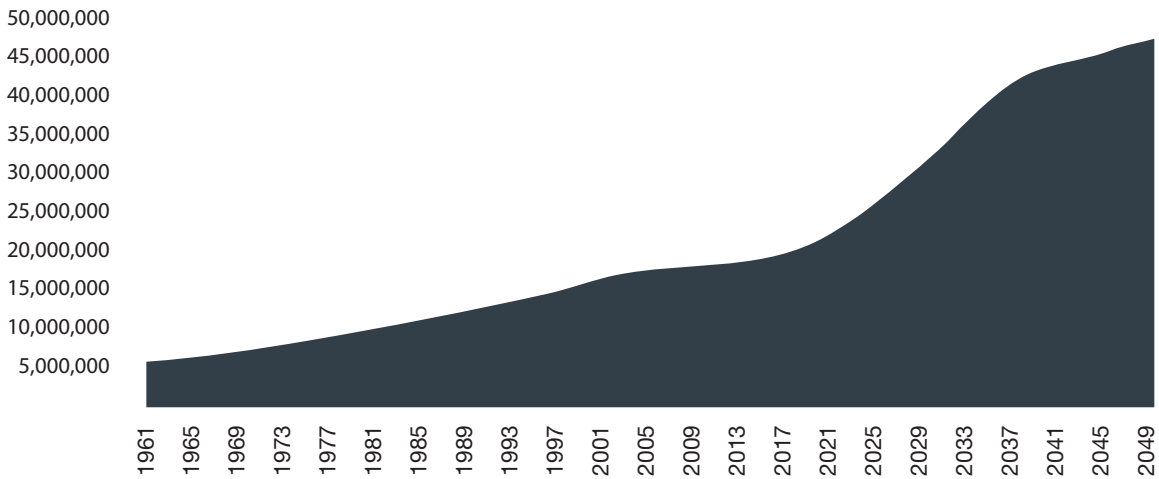
Demographic Changes

An Aging U.S. Population

The U.S. population, currently at approximately 337 million, has added 60 million people since the turn of the century and is projected to add nearly half of that number, 32 million, over the next 25 years. This expected annual growth of approximately 0.4 percent annually will also bring with it drastic changes to the composition of the population, as millions will be added to the 65-plus population, and the 80-plus cohort will grow at 4.7 percent annually. This change is also reflected in the country's median age, having risen from 34 in 2000 to a projected 42 by 2050.³ This aging demographic shift underscores the growing demand for healthcare related real estate to support an increasingly elderly population.

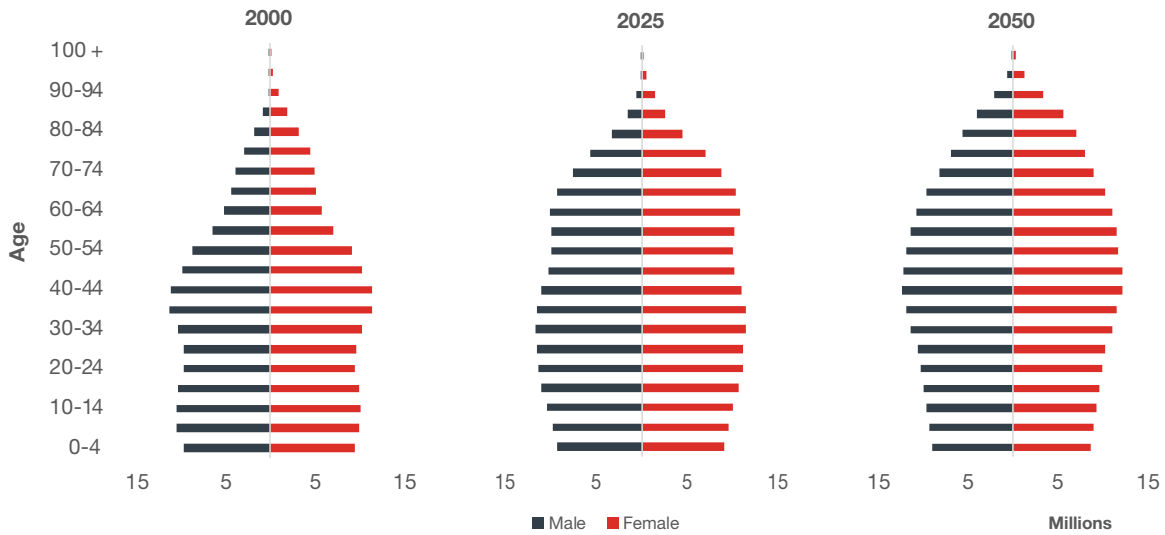


Cumulative Increase in the 75-Plus Population²



Population pyramids can inform one on the current makeup of a country. A classic expansionary shape of a growing country is what the U.S. resembled in 2000, as many young people are supporting the narrower older populations. Today's pyramid and the forecasted pyramid of 2050 show a population that continues to age.⁴ This is a typical path taken by maturing countries—their populations age, and their birth rates decline, leading to fundamental economic changes.

United States Population Pyramid Comparison⁴



Older populations tend to consume more and earn less, putting the burden of their support on younger generations. Income received by older generations is skewed toward social security, which is a transfer payment funded by taxes on the wages of younger workers. This trend creates a headwind to economic growth, but provides exciting opportunities in specific real estate sectors, such as healthcare, that experience increased demand as demographics shift in their favor.

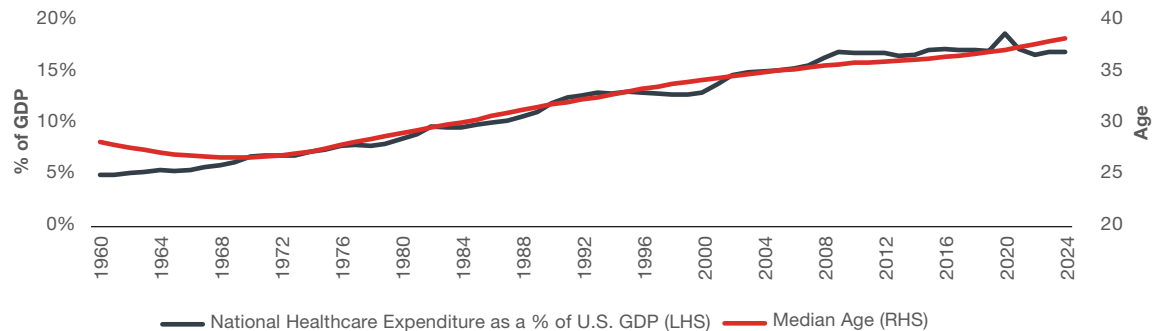
Demand for Healthcare Increases with Age

As Americans age, complex health needs and chronic conditions tend to increase, leading to more visits to specialists like geriatricians and orthopedic doctors. Increased visits come with increased costs. It is estimated that the 65-plus age cohort spends four times the amount of the 45 and younger age group on healthcare costs.⁵ National healthcare expenditures as a percent of U.S. gross domestic product (GDP) have grown from five percent in 1960 to 17 percent today and are expected to reach 20 percent by 2032.⁶ Much of that growth is concentrated in older adults. While the 65-plus population makes up only 17 percent of the total population, it accounts for 37 percent of healthcare spending.⁷ This remarkable growth trend has been correlated with the rising median age of the nation, leading to a strong, long-term tailwind that underpins the robust demand for healthcare real estate.

Annual Physician Office Visits and Healthcare Costs⁵

Age	# of Visits	Costs
< 45	2	\$ 5,100
45 – 64	4	\$ 11,300
65+	7	\$ 20,500

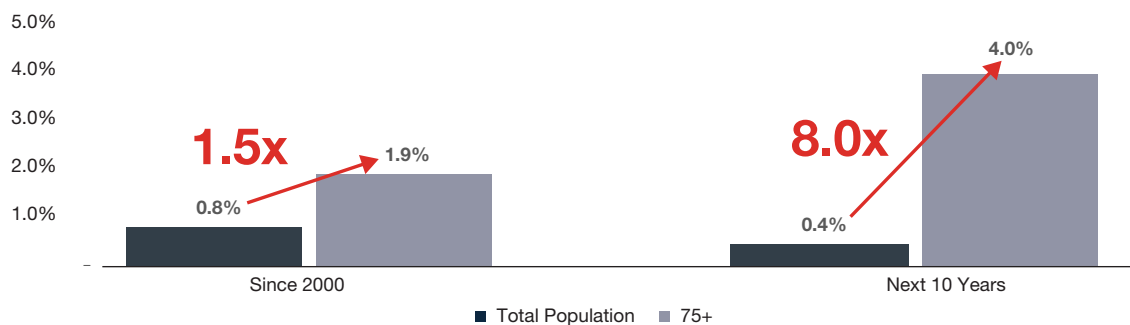
Healthcare as a % of U.S. GDP and Median Age⁶



More Seniors, More Housing

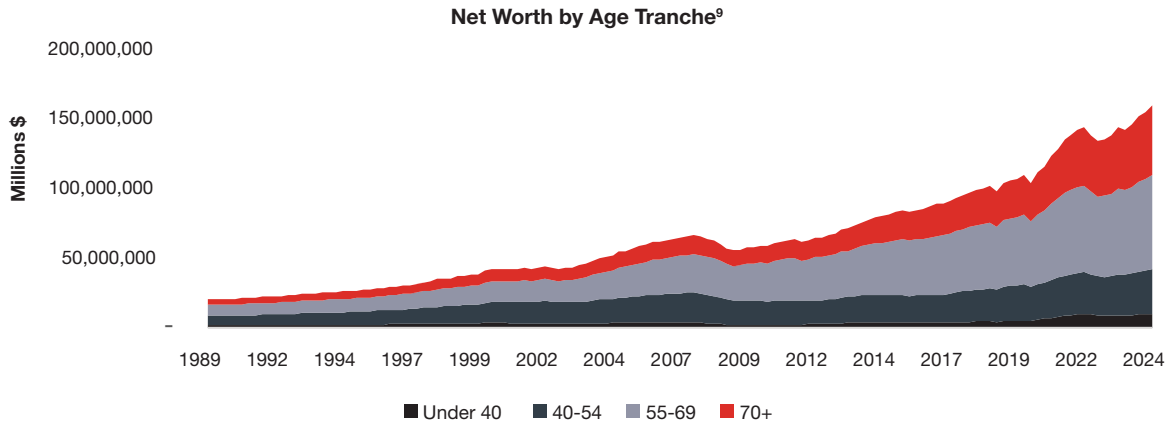
The relative share of the population 75 years and older is expected to grow nearly eight times faster than the rest of the population over the next ten years, at four percent annually.⁸ The accelerating growth of this cohort is a primary driver of demand for senior housing communities. As the number of Americans aged 75-plus grows, so will the need for purpose-built environments that cater to their wants and needs. This dramatic demographic shift is expected to fuel sustained demand for senior housing communities over the long-term.

Average Growth of Population by Age Tranche as of 2024⁸



Boomers are Wealthy Enough to Afford Care

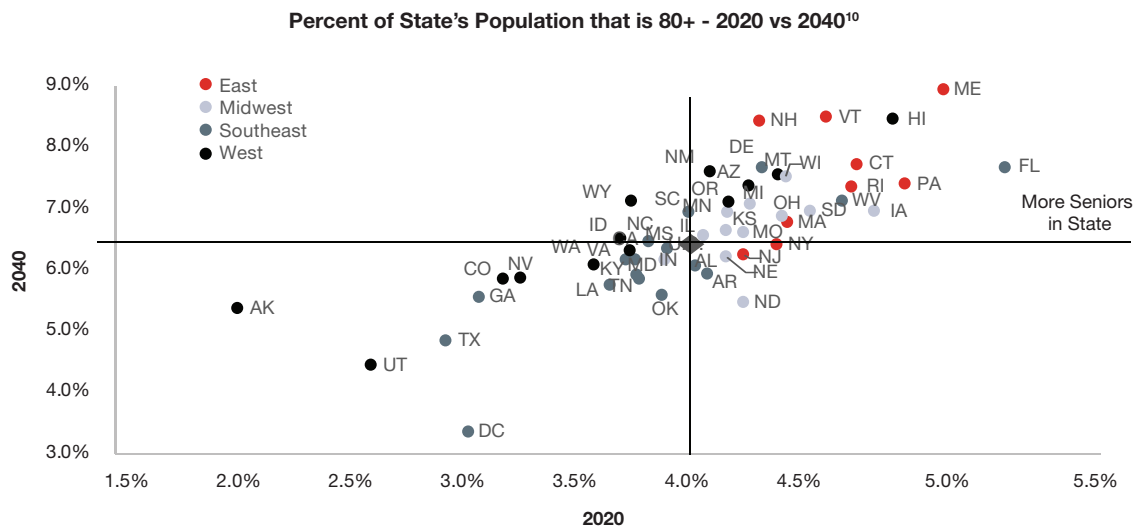
Older generations, specifically baby boomers, control a disproportionate share of U.S. household wealth. As they continue to age, much of this wealth is likely to be directed toward maintaining a high quality of life, including access to premium healthcare services housed at medical outpatient buildings, as well as exceptional living experiences within senior housing communities.



Geography of Aging: Where the Growth is Happening

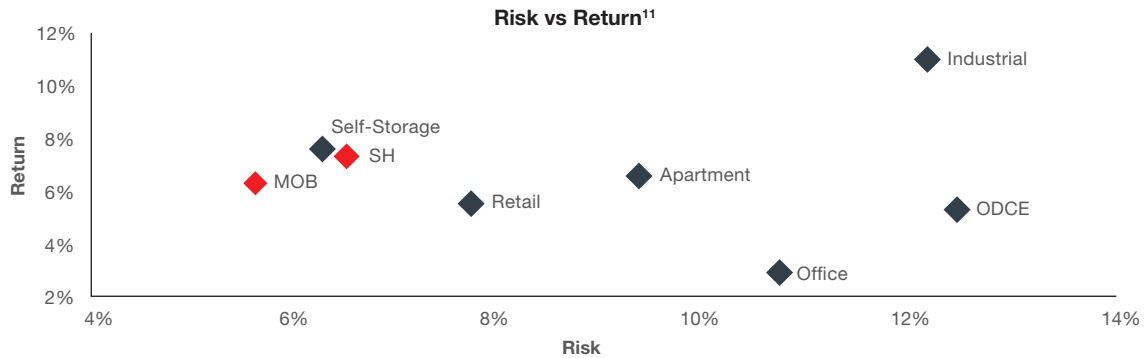
As of 2020, the top ten states with the largest 80-plus populations currently account for 54 percent of the total U.S. population aged 80 and older. In order, these states are California, Florida, New York, Texas, Pennsylvania, Illinois, Ohio, Michigan, New Jersey, and North Carolina.¹⁰

As some of the states are the most populous, their large share of the 80-plus population is expected. By examining the 80-plus population as a percentage of each state's total population, we find that Eastern states generally have, and are expected to have, a higher proportion of seniors, with a few states, like Florida and Hawaii, also displaying similar trends.¹⁰



Attractive Return Potential

While prior performance is not an indicator of future success, average annual returns for medical outpatient buildings and senior housing communities have outperformed other real estate sectors. With average returns since 2009 of 6.4 percent for MOB and 7.4 percent for senior housing communities, both sectors have beaten the NCREIF ODCE Index (index of the top 25 core real estate funds) by 100 bps, and 200 bps, respectively.¹¹



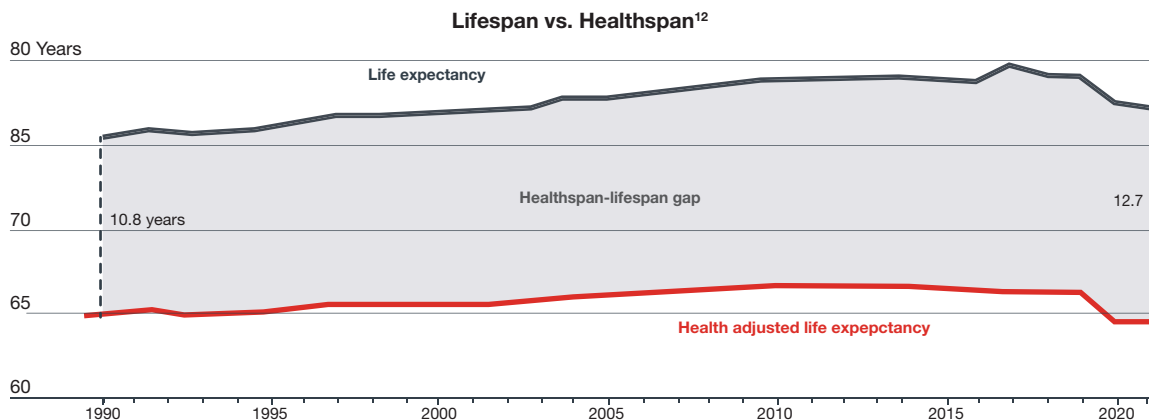
*Return is based on the returns reported in the NCREIF ODCE index. Risk is measured in terms of standard deviation from the mean based on those same returns. Private Real Estate –National Council of Real Estate Investment Fiduciaries (“NCREIF”) Fund Index - Open End Diversified Core Equity (“ODCE”). NCREIF NFI- ODCE is a capitalization-weighted, gross of fee, time-weighted return index of investment returns of the largest private real estate funds pursuing lower risk investment strategies utilizing low leverage and generally represented by equity ownership positions in stable U.S. operating properties diversified across regions and property types. Full details on NFI-ODCE index can be found here: <https://user.ncreif.org/data-products/funds/>. The index provides a broad representation of a particular asset class and is not indicative of any investment. The rates of returns shown do not reflect the deduction of fees and expenses inherent in investing.

Medical Outpatient Buildings

A medical outpatient building (MOB) is a facility designed to house medical practices, surgery centers, and other healthcare-related services. These properties are built to meet the specific needs of physicians, dentists, medical laboratories, and other healthcare professionals.

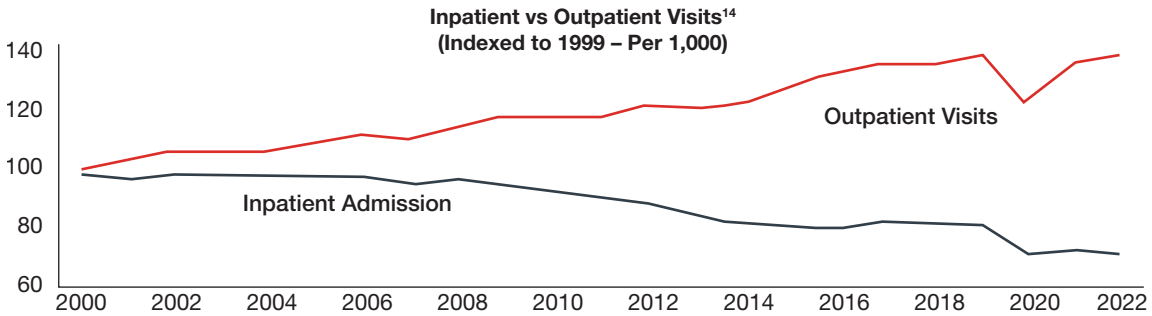
Healthspan Declining

The U.S. is not just aging, it is also becoming less healthy. This is seen in rising levels of chronic diseases, including diabetes, obesity, and cardiovascular and respiratory issues that have lowered the healthspan, or the number of years we live in good health, of the population.¹² The life expectancy of the U.S., currently at 78, has dropped well below the average for other developed countries, which is 83.¹³ This suggests a growing number of Americans will potentially require more frequent, specialized, and long-term care options, ultimately necessitating the need for more MOB where they can receive more direct care.



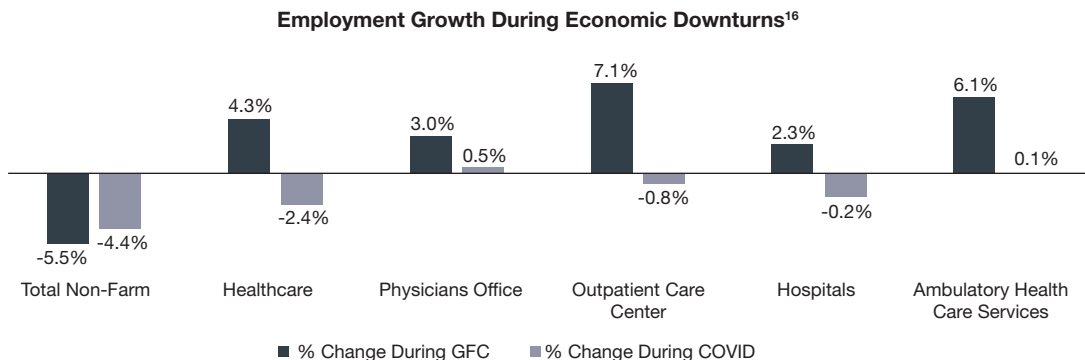
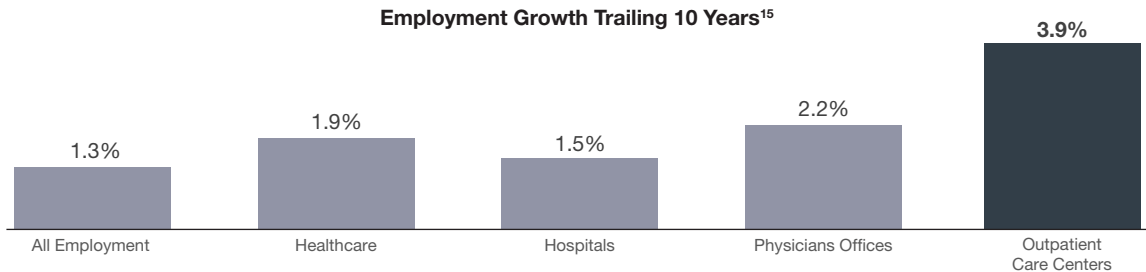
Shift From Inpatient to Outpatient Care

The shift in care settings has been driven by advancements in medical technology, particularly minimally invasive techniques, along with changing patient preferences for greater convenience and accessibility. Over the past decade, hospital admissions have declined by 15 percent, while outpatient visits have increased by ten percent.¹⁴ These innovations have enabled many procedures to move from inpatient to outpatient settings, fueling demand for MOBs. In fact, between 2018 and 2023, 59 medical procedures were approved for outpatient migration, further underscoring the need for MOBs.⁷



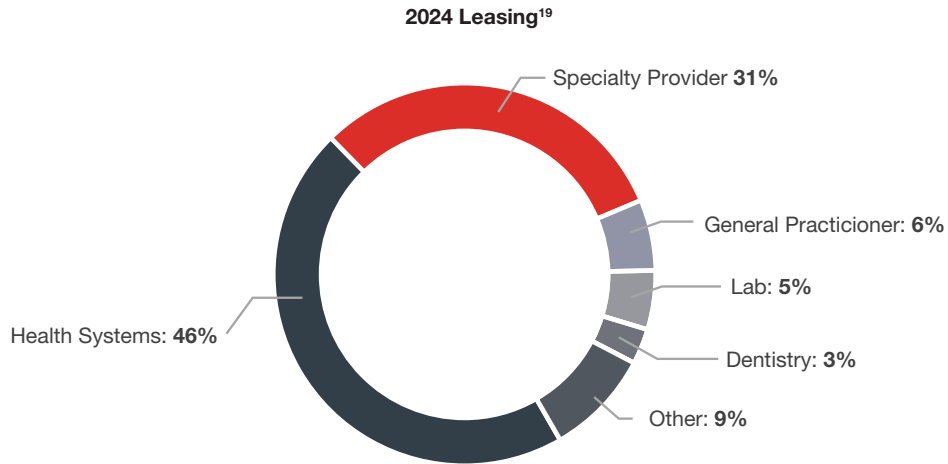
Stable Employment Growth

Healthcare industry employment has been one of the fastest growing segments in the U.S. When you bifurcate the data further, as demonstrated below, it reveals that employment for outpatient care centers has grown three times faster than non-farm employment over the last ten years.¹⁵ MOBs benefit from the trend of growing healthcare demand and are far less impacted by challenging market environments than other sectors. This resilience can be seen in employment data during the last two economic downturns (Great Financial Crisis and Covid-19 Pandemic), during which outpatient facilities saw an average of 3.2 percent growth, whereas total non-farm employment saw an average decline of negative five percent.¹⁶

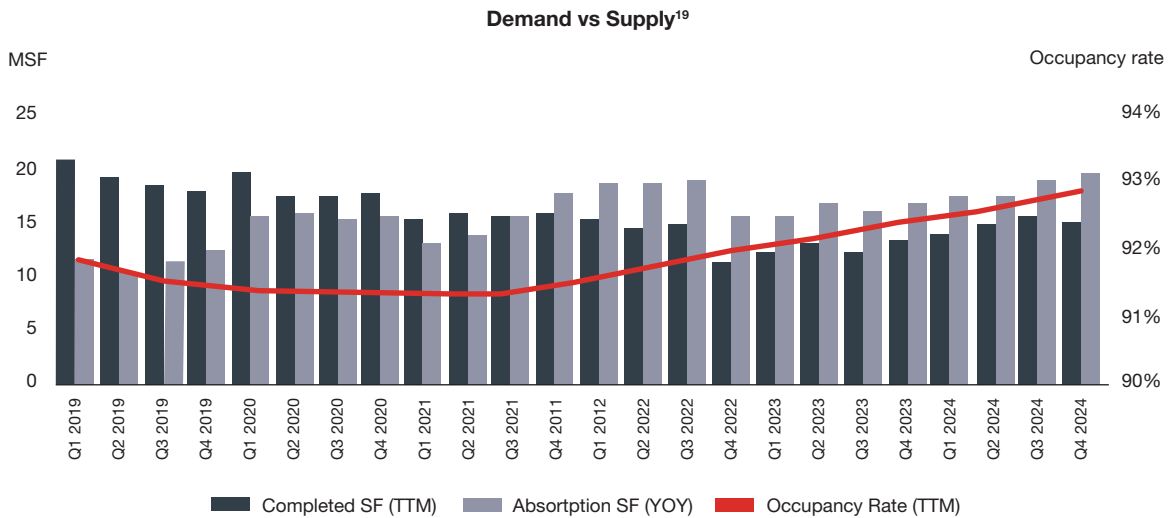


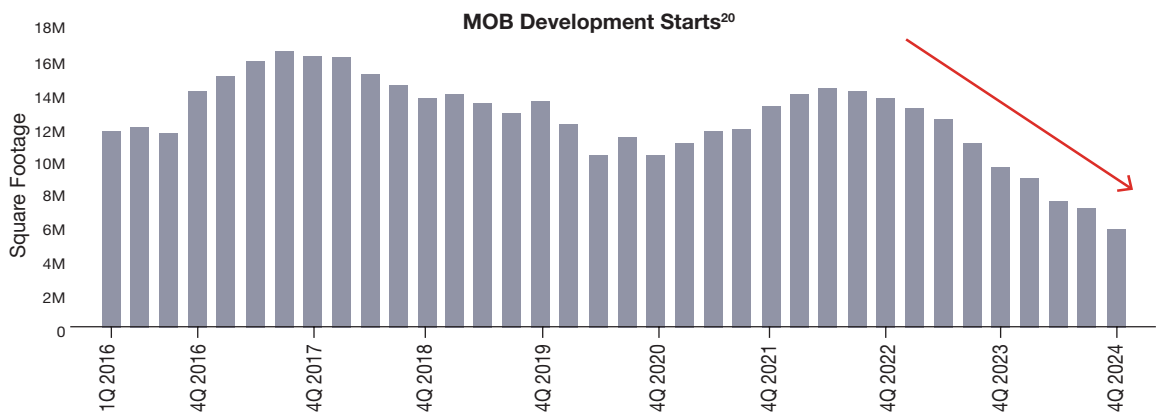
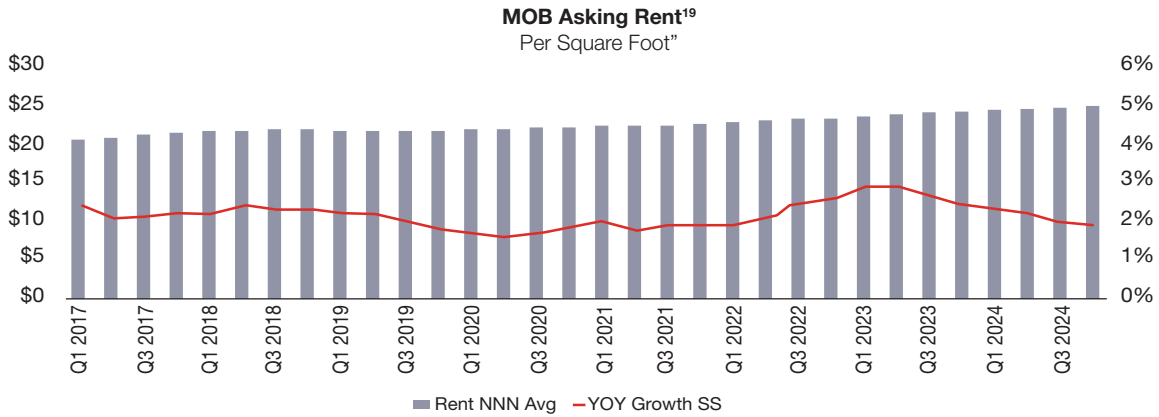
Strong MOB Fundamentals

Health systems dominated leasing in 2024 along with specialty providers (i.e., dermatologists, psychiatrists, ophthalmologists, orthopedics, gastroenterologists, and OBGYNs). As these services lead the way in MOB demand, occupancy has strengthened and is holding steady at 93 percent, up from the low of 91 percent seen during the pandemic.^{17,18}

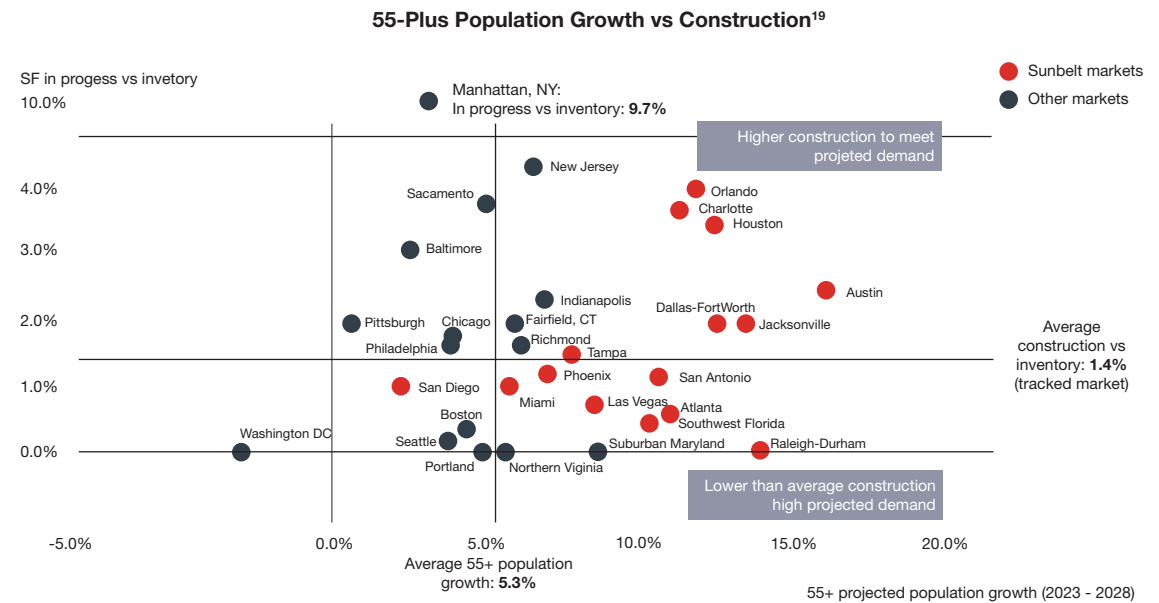


Over the last 14 quarters, absorption has outpaced new supply, highlighting the sector's strength. Rising healthcare demand and limited premium outpatient space have led MOB rents to achieve their high point near \$25 per square foot¹⁹ in Q4 2024. MOB tenants tend to be more anchored than other sectors due to significant buildouts and expensive, cumbersome equipment such as X-Ray machines, MRI machines, and exam tables.



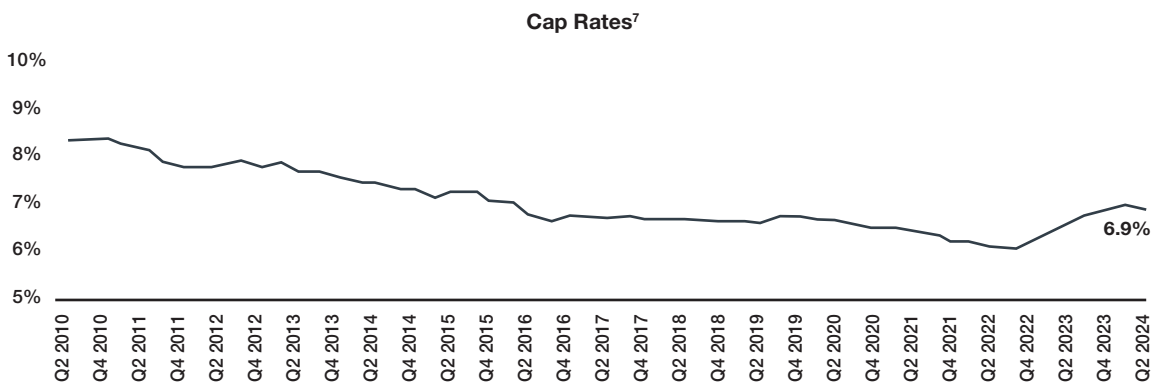
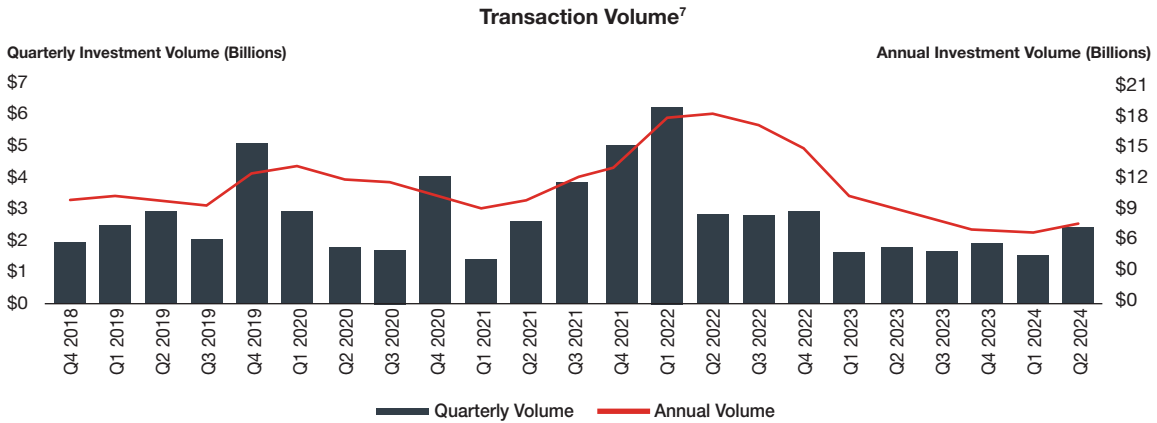


Nationally, new MOB starts have been decreasing since early 2022, due in part to rising construction costs. However, markets like New York and New Jersey are seeing the highest level of projects under construction. We anticipate that growing markets with limited new construction should outperform, as demand should outstrip new supply.



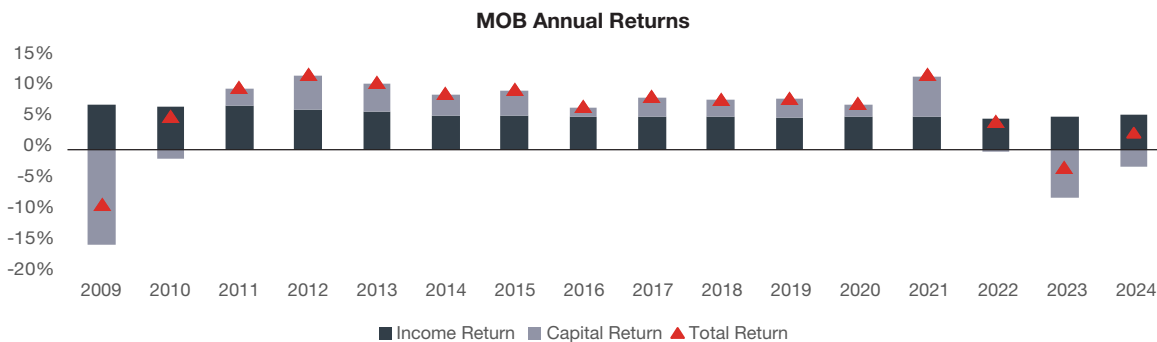
Investment Volume and Cap Rates

MOB transaction volume is on the upswing after falling precipitously following the highs of the ZIRP era.^{21, 22} Pricing for these deals has taken a respite as of late after cap rates expanded nearly 100 bps from pandemic lows, providing an interesting entry point as higher cap rates are lining up with strong long-term fundamentals.



Returns and Outlook²³

Medical outpatient buildings have been a stable outperformer for more than 15 years, averaging a 6.4 percent annual return since 2009. While the sector has struggled the last three years with burgeoning interest rates and inflation, if history is our guide, we believe strong performance can be expected following a downturn. After the Great Financial Crisis of 2008, the sector rebounded by averaging an annual return of 10.3 percent for the following five years.



Senior Housing

Senior housing refers to residential communities specifically designed to accommodate the needs of older adults, often offering a range of living options. These options generally include independent living for relatively healthy seniors, assisted living for seniors who need help with daily activities, and memory care facilities for seniors in need of consistent medical care. Others like 55-plus communities and skilled nursing facilities fall outside the scope of this paper. With each category, the cost increases, the average age of the tenants typically increases, and the level of care provided also increases. Senior housing communities combine a physical location with a substantial service component, which can lead to enhanced operational difficulty. Some communities will offer residents all three levels of care, while others strictly focus on one or two.

Types of Care²⁴

	Independent Living	Assisted Living	Memory Care
Total Units in US	760,000	745,000	270,000
Average Cost/Month	~\$3,800	~\$6,100	~\$7,900
NOI Margin**	~33%	~27%	~20%
Average Resident Age	83 Years	85 Years	85 Years
Average Length of Stay	~2.5 Years	~2 Years	~1.5 Years
Service Offered	Shelter	Real Estate Component	Real Estate Component
	Activities, Recreation		
	Transportation, Laundry	Services Component	Services Component
	Meals		
	ADL Assistance		
	Dementia Care		
	Skilled Nursing		

Tenant Preferences and Pay Structure

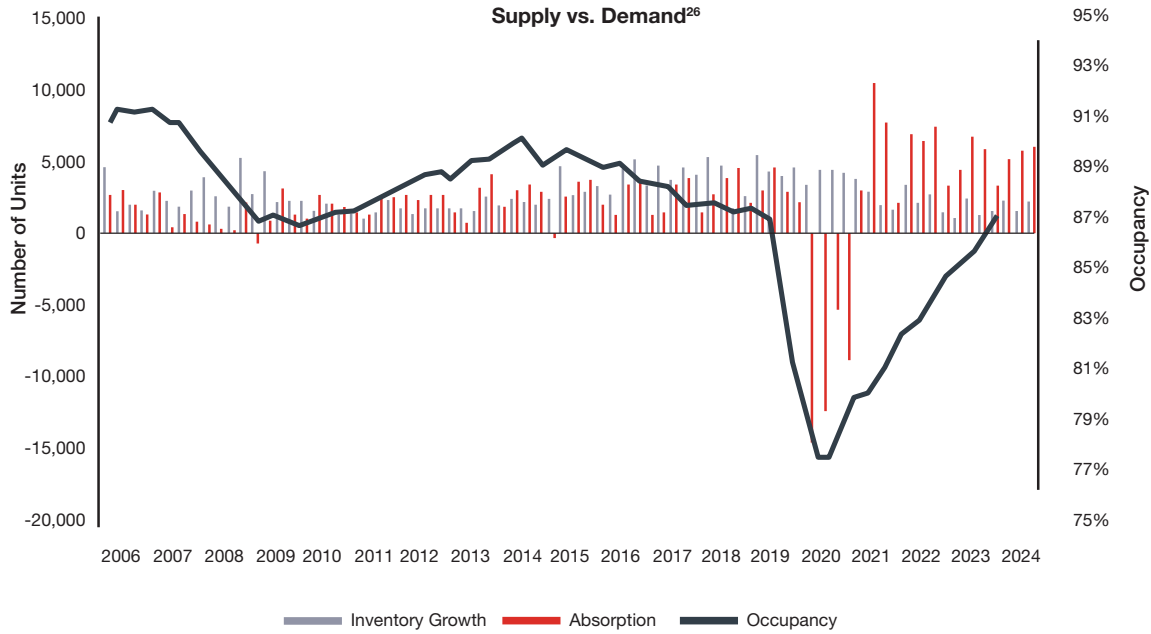
The vast majority, nearly 98 percent, of senior housing community residents pay out of pocket rather than relying on insurance.²⁴ When selecting a community, prospective residents are often most concerned about:

1. Care and wellness services, including multiple dining options
2. Safety and security
3. Cost and value

As seniors look ahead, most want stability with a recent study showing that 59 percent of seniors would like to stay in their current residence, 29 percent want to move closer to family, and nine percent want to live in a warmer climate.²⁵

Limited New Supply, Strong Demand, and Climbing Rents

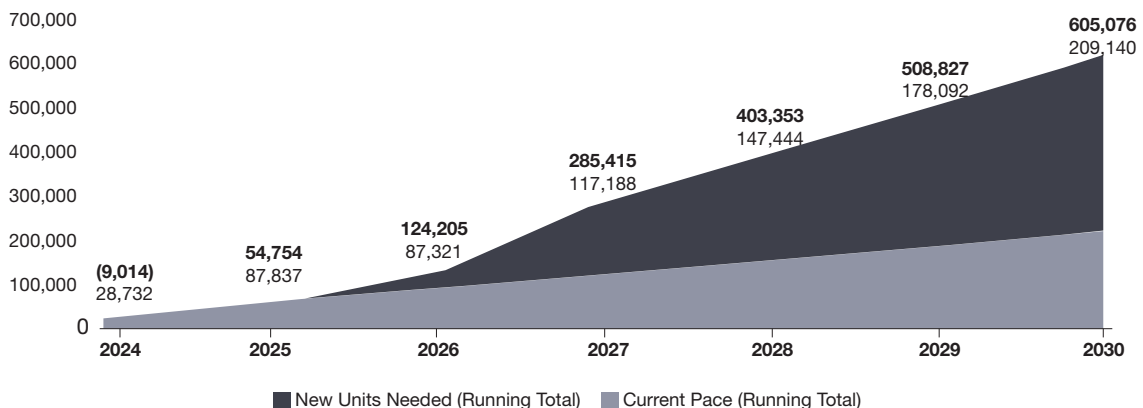
Demand has outpaced new supply over the last few years as occupancy has risen back to its pre-pandemic average, and as penetration rates have increased from a low of seven percent during 2020 to eight percent²⁴ today. Over this same period, rents have followed a similar pattern, recording strong rent growth north of three percent following the elevated new supply and uncertainty of 2020.²⁴



A Supply-Demand Mismatch²⁶

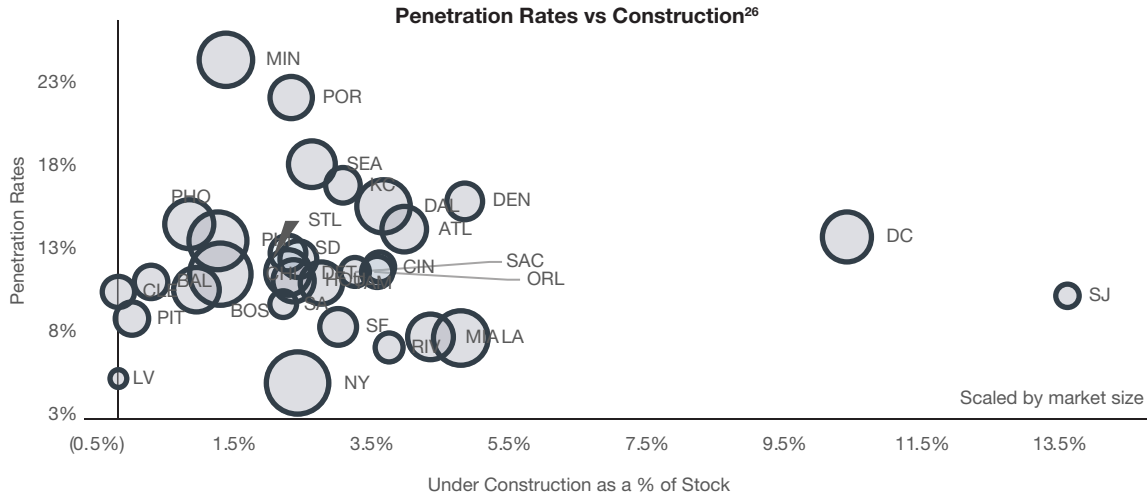
As the sector has normalized over the past 24 months, demand is expected to grow, along with decreased new supply, which will likely lead to a supply/demand mismatch. The National Investment Center (NIC) estimates that over 800,000 new units will need to be delivered to meet demand, and according to those same NIC estimates, the sector is on pace to deliver on 200,000, leaving a 600,000-unit shortage by 2030. As this trend continues, it is estimated that \$1 trillion in development will be needed to meet the anticipated demand by 2041, a number far outpacing current investment in the space.

Aggregate New Units Needed to Maintain 90% Occupancy Based on Current Penetration²⁶



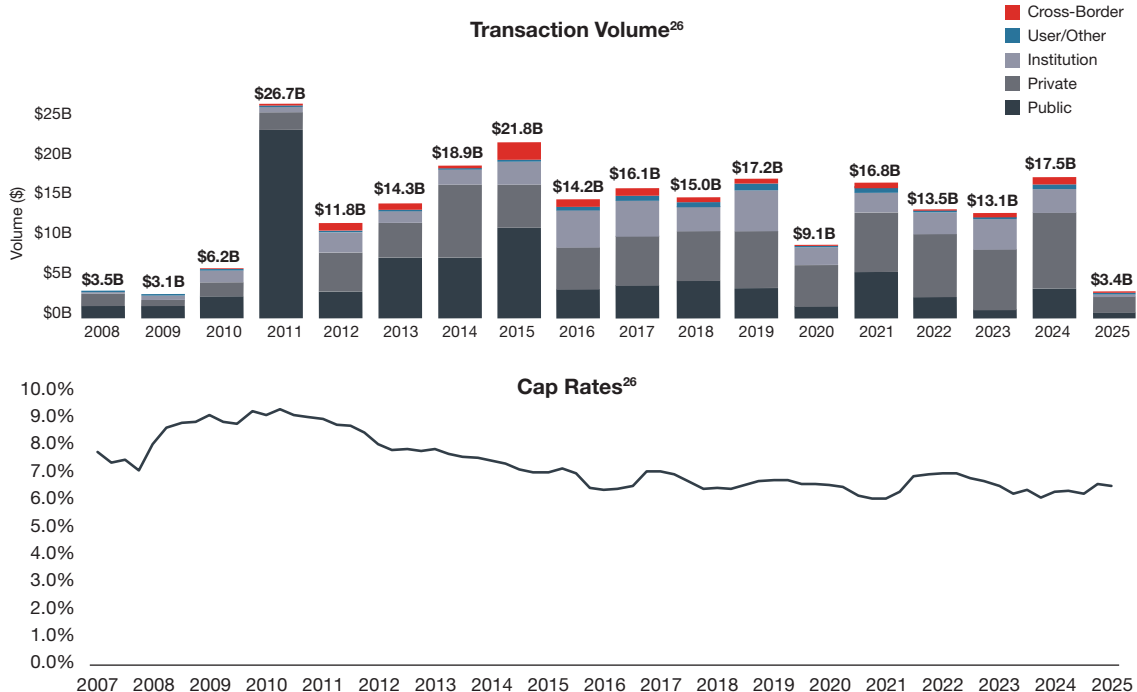
New Construction by Market

Construction costs to develop a senior housing community have risen a cumulative 42 percent since the beginning of 2020²⁷, compared to the Consumer Price Index (CPI) at only 24 percent. Rising construction costs, combined with rising rates, have in part kept developers from adding new stock as project returns have been difficult to justify. Most major markets in the U.S. are not seeing elevated levels of new construction. The two largest outliers with the most space under construction as a percentage of inventory are San Jose, CA and Washington DC.²⁶



Transaction Volume and Cap Rates

Unlike other real estate sectors, senior housing did not experience a post-pandemic surge in transaction volume, partly due to operational complexities, resulting in relatively stable activity over the past decade. Notably, 2024 marked the most active year since 2015. While cap rates broadly declined after the Global Financial Crisis, they remained steady through COVID as elevated operating challenges limited further compression, contributing to overall stability over the past 48 months.



Returns and Outlook²⁸

Senior housing has been one of the highest-returning real estate sectors since the GFC, averaging an annual return of 7.4 percent. Like MOBs, senior housing returns averaged a much higher rate following the 2008 to 2010 downturn, with a strong 12.9 percent annually.



Looking Ahead

Healthcare is likely to remain an attractive real estate sector into the coming decades, as it is uniquely positioned for sustained growth, fueled by demographic trends which are less tethered to broader market dynamics. As an aging U.S. population, that requires more specialized healthcare services and housing options in the future, continues to expand, so too does the demand for both MOBs and senior housing communities.

This dynamic, coupled with historically strong fundamentals—such as favorable long-term lease structures, and a pronounced supply/demand imbalance—underscores the sector’s strength and resilience. Additionally, the evolving care needs of older generations and a shift to outpatient care vs a traditional inpatient setting will also contribute to the increasing demand across the healthcare sector.

Understanding long-term structural changes allows investors to make well-informed decisions and potentially drive long-term outperformance. We believe these trends will create strong investment fundamentals in the healthcare sector.

- ¹ S&P Global. 1 in 5 Americans to be 65 years old or older by 2030. Nov 2024
- ² Worldbank.org – Population Estimates and Projections – 2024
- ³ <https://ourworldindata.org/grapher/median-age?country=~USA>
- ⁴ U.S. Census Bureau
- ⁵ Healthcare Realty – Investor Presentation
- ⁶ Centers for Medicare & Medicaid Services. NHE Fact Sheet 2023
- ⁷ CBRE – 2025 U.S. Healthcare Real Estate Outlook
- ⁸ Worldbank.org – Population Estimates and Projections – 2024
- ⁹ Federal Reserve – Distribution of Household Wealth in the U.S. Since 1989
- ¹⁰ University of Virginia, Weldon Cooper Center for Public Service. (2024). National and 50-State Population Projections. Retrieved from <https://coopercenter.org/national-population-projections>
- ¹¹ NCREIF – Data since 2009, Return = Average Total Return, Risk = Standard Deviation
- ¹² Wall Street Journal. Your Healthspan Is as Important as Your Lifespan—and It's Declining. January 2024
- ¹³ Health Systems Tracker. How does U.S. life expectancy compare to other countries? January 2025.
- ¹⁴ Nuveen. Medical outpatient buildings are well-positioned to outperform. August 2024
- ¹⁵ FRED – PAYEMS, CES6562000101, CES6562110001, CES6562140001, & CES6562200001
- ¹⁶ FRED – PAYEMS, CES6562000101, CES6562110001, CES6562140001, CES6562200001 & CES6562100001
- ¹⁷ Globe St. Medical Outpatient Occupancy Reaches 92.8% Amid Aging Population, Spending Surge. January 2025
- ¹⁸ HREI. Thought Leaders: U.S. medical office occupancy remains steady at 91.5% throughout the COVID crisis. October 2020
- ¹⁹ JLL. 2025 Medical Outpatient Building Perspective
- ²⁰ Healthcare Realty – Investor Presentation
- ²¹ JLL – 2025 Medical Outpatient Building Perspective
- ²² Zero Interest Rate Policy- March 2020-March 2022
- ²³ NCREIF Subscription Data
- ²⁴ Green Street Senior Housing 2025 Outlook
- ²⁵ U.S. News & World Report. Senior Living Experiences: 2024 Survey Report. May 2024
- ²⁶ NIC Map Data(R) powered by NIC MAP Vision
- ²⁷ NCREIF Subscription Data



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