

# Property Deep Dive: US Medical Office

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## Introduction

The US medical office sector - commonly referred to as Medical Office Buildings (MOBs) - comprises outpatient healthcare facilities such as specialist clinics, imaging centres and ambulatory surgery facilities. These assets are typically located either on hospital campuses or within community-based settings and are leased to healthcare providers under long-term agreements. Unlike traditional office, MOBs are highly specialised and require significant tenant investment in fit-out, equipment and regulatory compliance. This creates a structurally more stable demand profile, with tenants closely tied to their locations and exhibiting higher retention rates. The US medical office sector offers a defensive, income-oriented exposure to real estate, providing stable cashflows, high tenant retention and attractive long-term growth potential. The analysis below incorporates insights from Kayne Anderson Real Estate, the largest private non-hospital owner/operator of medical office buildings in the US.

## Why the sector is attractive

Medical office real estate is widely regarded as a defensive segment within commercial property.

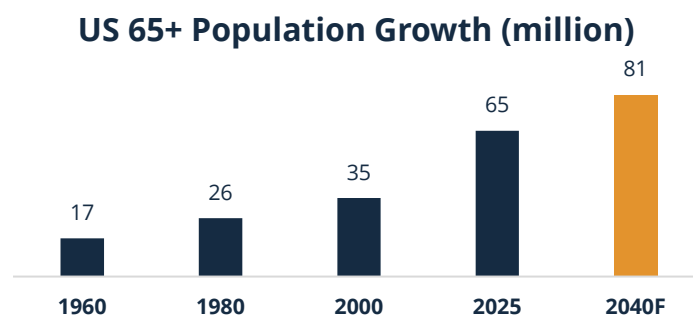
Demand for healthcare is **non-discretionary**, supporting stable occupancy, rent collection and low default rates across economic cycles. Tenant stickiness is high, driven by significant upfront capital investment and the need to remain close to established patient bases. Retention rates are around 80%, materially higher than traditional office (*Source: Kayne Anderson, GlobeSt*).

Leases are typically long-dated and include **contractual rent increases**, with a growing focus on larger, creditworthy tenants such as hospital systems and scaled healthcare operators.

The sector also benefits from **high barriers to entry**, including regulatory complexity, specialised design requirements and the need for integration with healthcare networks. These factors limit new supply and support long-term rental growth.

## Structural demand drivers

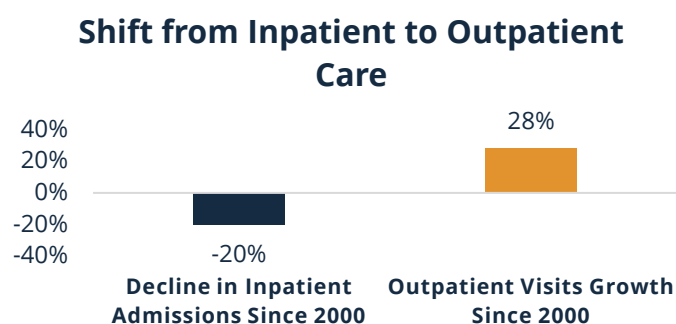
The sector is supported by strong, visible demand drivers.



*Source: Kayne Anderson, The Organization for Economic Co-operation and Development, as of February 2025.*

The US population is ageing rapidly, with around 11,000 people turning 65 each day (*Source: Kayne Anderson, The Organization for Economic Co-operation and Development*). The 65+ cohort is expected to reach ~81 million by 2040 and utilises healthcare services at a significantly higher rate than younger populations.

At the same time, there is an ongoing **shift from inpatient to outpatient care**. Advances in technology and cost pressures are driving procedures out of hospitals and into lower-cost outpatient settings. Outpatient volumes are expected to continue growing ahead of overall population growth, directly supporting demand for medical office space.



*Source: Kayne Anderson, JLL as of December 2021.*

## Current market dynamics

- **Outpatient-led growth** – Continued shift towards outpatient care is driving strong demand for facilities near population centres and integrated with health systems.
- **Healthcare consolidation** – Acquisition of physician practices by larger hospital and corporate groups is improving tenant credit quality and supporting demand for institutional-grade assets.
- **Relative resilience** – Medical office has remained stable compared to traditional office, which continues to face headwinds from remote work and oversupply.
- **Fragmented ownership** – A highly fragmented market creates opportunities for specialist operators to unlock value through leasing, repositioning and operational improvements.

## Risks and considerations

As with all real estate sectors, there are risks to be mindful of.

Key risks include tenant credit variability (particularly among smaller operators), reimbursement risk from government funding programs, and the importance of location within established healthcare ecosystems. Assets may also require ongoing capital investment to remain clinically relevant.

We believe specialist managers are well positioned to assess and manage these risks through disciplined underwriting, tenant selection and active asset management.

## Conclusion

The US medical office sector offers a defensive, income-oriented exposure to real estate, underpinned by ageing demographics and the structural shift towards outpatient care. In an environment where traditional office faces ongoing challenges, MOBs provide stable cashflows, high tenant retention and attractive long-term growth potential.

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