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## Medical Office Pricing is at a Premium

From Q1 2016 to Q1 2021, medical office cap rates averaged 20 basis points lower than suburban offices.

By **Les Shaver** | July 12, 2021

As investors moved toward real estate sectors with better growth opportunities, they turned towards the medical office sector. Now pricing is at a premium relative to suburban offices, **according** (<https://www.rcanalytics.com/spotlight-medical-office-2021/>) to Real Capital Analytics.

From Q1 2016 to Q1 2021, medical office cap rates averaged 20 basis points (bps) lower than suburban offices. However, in Q1 2021, that spread increased 25 bps, as medical office properties had a 6.5% cap rate across the US.

Suburban office and medical office haven't always diverged. For example, from 2002 to 2015, there was no discernable spread between cap rates for suburban offices and medical office buildings, according to RCA.

Not surprisingly, prices for medical offices have also held up better than suburban offices through the pandemic. While RCA CPPI for suburban offices declined at a 0.7% year-over-year pace into Q3 2020, it posted a 2.7% pace of growth into Q1 2021.

For medical offices, the volatility wasn't as great. The RCA CPPI for medical offices hit a low of 2.5% annual growth into Q3 2020 but stood at a 2.8% pace by Q1 2021.

"The investors have been more optimistic about the medical office sector, understanding that an aging population requires more medical intervention," according to RCA's Jim Costello.

Medical office deal volume was also more robust through the pandemic. In Q1 2020, medical office deal volume fell only 41% year-over-year. By comparison, suburban offices suffered a 64% decline.

While suburban office may not fare as well against medical office, it has outperformed urban office. Its growth accelerated to a 3.6% annual pace in March, while urban assets declined by 2.4% year-over-year, reflecting a continuing trend of suburban outperformance in the sector, according to a **separate analysis** (<https://www.rcanalytics.com/us-prices-march-2021-rcacppi/>) from Real Capital Analytics.

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