QuickTake BY NORTHMARQ

Northmarq
NATIONAL HEALTHCARE GROUP

Healthcare's Vital Signs *Part 3*

Real-Time Market Insights for Healthcare Developers

A 38% rent premium for new space, hospital starts at a series low, and three straight years of absorption outpacing completions have created a rare opening for developers. The constraint is capital cost, not demand, and sponsors who solve for it now deliver into a market with almost no competing supply.

Market Truth #1

Tenants pay a 38% premium, **and no one is building.**

- New medical space commands a 38% premium because it barely exists and competing developers have stepped back.
- The discipline lies in choosing the path to deliverable space that actually pencils.

Market Truth #2

Expansion is the priciest square footage, **so price it honestly.**

- Expansion averaged $730 PSF from 2024 to 2026, the costliest route to new medical space and 27% above ground-up.
- Adding to an existing asset must clear a higher rent hurdle than most sponsors underwrite, and knowing that up front keeps a good project from stranding.

Market Truth #3

Starts are falling on capital cost, **not demand.**

- Hospital starts have dropped to a series low of 14.8 MSF on a 12-month trailing basis.
- The constraint is capital cost and health system balance sheets, not weak demand.
- Sponsors who solve for cost of capital and pre-lease deliver into the gap everyone else left open.

Opportunity #1

The $9.63 premium **is the clearest signal in the market.**

- New medical office buildings command $35.06 PSF triple net against $25.43 for existing product, a 38% premium that has widened every year since 2017.
- Tenants pay it because modern, efficient, well-located space is scarce.
- That premium is the return on solving the supply problem.

Opportunity #2

Conversion went mainstream, **and it costs 28% less.**

- Conversions tripled from 4% of medical office deliveries in 2019 to 12% in 2026, at an average cost of $415 PSF versus $574 for ground-up.
- In supply-constrained infill markets, conversion is now the fastest, lowest-basis route to deliverable medical space.

Opportunity #3

Deliver in 2027 **and you deliver into a vacuum.**

- Supply growth sits at 1.1%, hospital starts are at a series low, and absorption has outpaced completions for three years.
- Projects breaking ground now arrive with almost no competing delivery, and health systems that paused construction become real build-to-suit candidates.

Opportunity #4

Texas, Florida and Nashville **are where the pipeline points.**

- Texas holds the largest combined medical office and hospital pipeline in the country.
- On a percentage basis, Nashville (3.9%), Jacksonville (3.4%) and Miami (3.2%) are adding supply fastest relative to inventory.
- These can be useful as target markets and as a read on where competitive delivery concentrates.

Learn how Northmarq's National Healthcare Group helps healthcare and medical office developers navigate today's market.

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