U.S. MEDICAL & LIFE SCIENCES REPORT

FALL 2025 | BERKADIA RESEARCH

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MEDICAL & LIFE SCIENCES

OVERVIEW

The medical and life sciences industries encompass a broad range of sectors involved in the research, development, manufacturing, and delivery of healthcare technology, products, and services.

Medical and life sciences investors and developers continued to curb activity in the first half of 2025 as they held out for the promise of reduced interest rates. Additionally, increased construction costs slowed medical outpatient building and life sciences development. The period of slower construction activity among these two asset types should benefit occupancy rates and rent returns, which will attract investors and bolster sales prices as interest rates continue to drop.

- LIFE SCIENCES VENTURE CAPITAL DEALS TRENDED LARGER BUT FEWER AS INVESTORS ARE WILLING TO PAY A PREMIUM FOR FASTER EXIT TIMES
- THE SLOWER PACE OF MEDICAL OUTPATIENT BUILDING CONSTRUCTION BOOSTED OCCUPANCY AND REVENUE PER OCCUPIED SQUARE FOOT
- THE HOSPITAL CONSTRUCTION PIPELINE INCREASED AS MANY DELAYED PROJECTS FOR EXPANSIONS AND RENOVATIONS ARE UNDERWAY
- ELEVATED INTEREST RATES AND CAP RATES CONTINUED TO SUPPRESS HOSPITAL AND MEDICAL OUTPATIENT BUILDING TRANSACTIONS

DEBT MARKET

3Y SOFR SWAP RATE
3.3%
As of 10/30/2025

5Y SOFR SWAP RATE
3.4%
As of 10/30/2025

CURRENT SOFR
4.2%
As of 10/31/2025

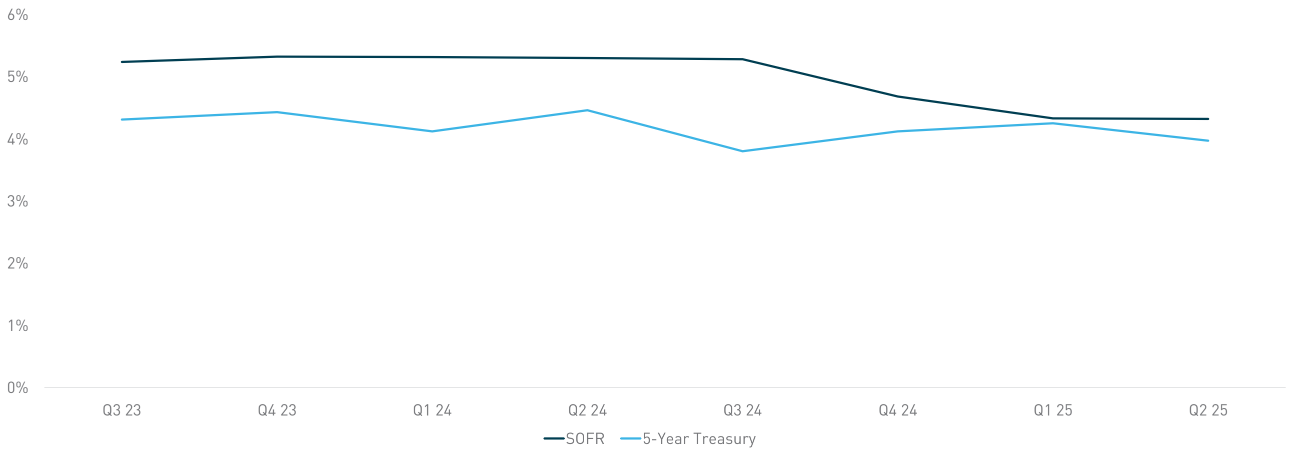
CURRENT 5Y TREASURY
3.7%
As of 10/30/2025

FIRST HALF OF 2025 LARGEST MOB LENDERS

Lender	Lender Group
Bank of America	Bank
Capital One	Bank
First Citizens	Bank
Citigroup	Bank
Provident Bank	Bank
South State Bank	Bank
Bank of Tampa	Bank
Live Oak Bank	Bank
Park National Bank	Bank
US Bancorp	Bank

Source: MSCI Real Capital Analytics

U.S. DEBT MARKET



Source: The Federal Reserve & Chatham Financial

REVENUE & OCCUPANCY

Q2 25 TRAILING 12 MONTHS

REVENUE PER OCCUPIED SQUARE FOOT

$36.89

Up 3.2% annually

OCCUPANCY RATE

91.3%

Up 50 bps annually

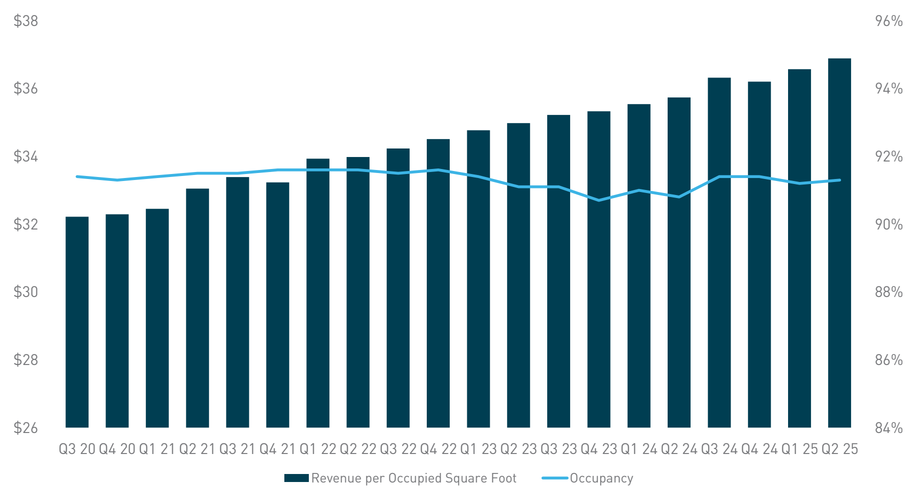
RETENTION RATE

86.1%

Up 170 bps annually

With a more measured pace of construction and stable demand, the trailing 12-month average occupancy rate of medical outpatient buildings in the U.S. rose 50 basis points year over year in the second quarter of 2025. During this period year-over-year absorption outpaced 12-month completions by nearly 2.3%. Demand is strong for outpatient and ambulatory surgery centers, as health systems target growing suburban communities where hospitals are either understaffed or nonexistent, and shift outpatient procedures from hospitals for greater cost and timing efficiency.

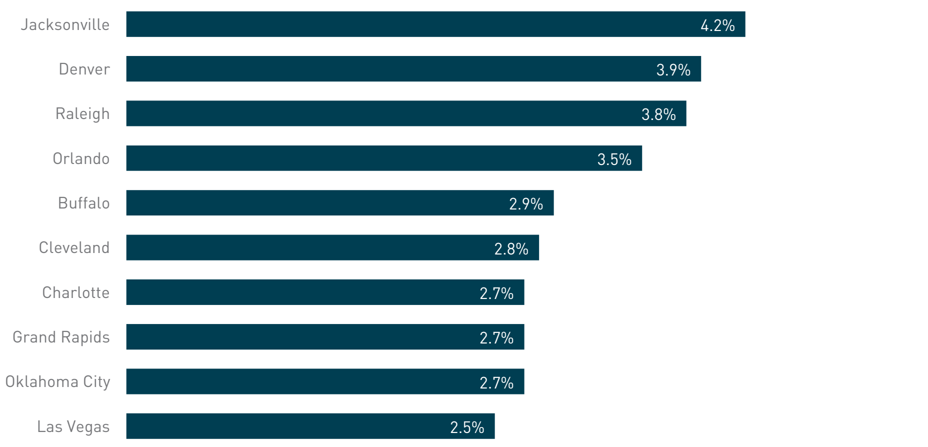
MOB SECTOR TRENDS*



*Trailing 12 months

Source: RevistaMed

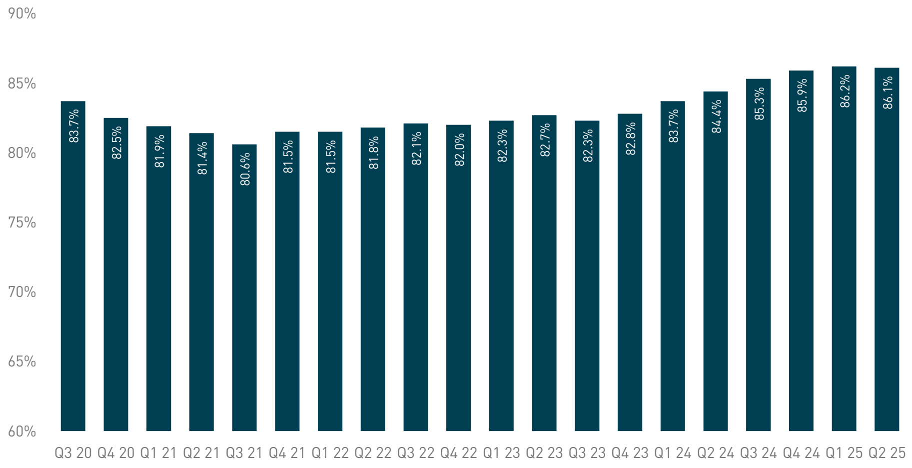
TOP 10 ANNUAL RENT GROWTH MARKETS Q2 25*



*Trailing 12 months among the top 50 metros by MOB SF

Source: RevistaMed

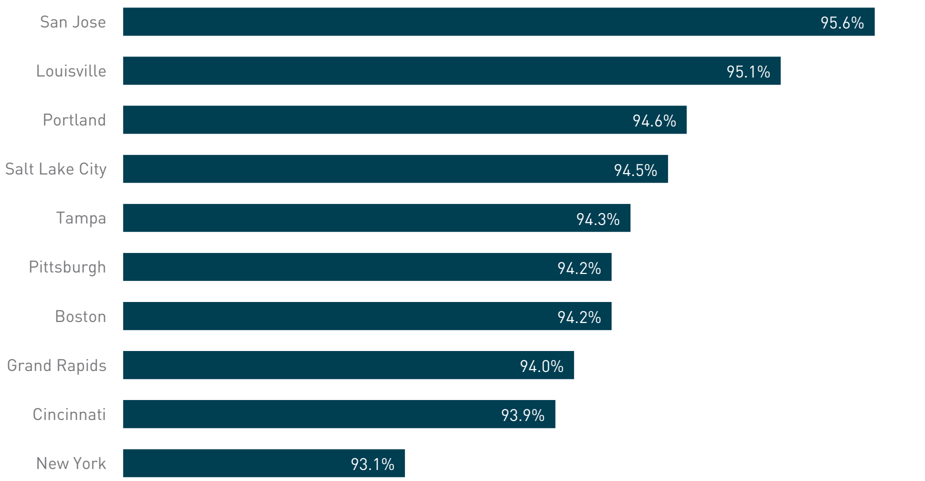
MOB RETENTION RATE*



*Trailing 12 months

Source: RevistaMed

TOP 10 OCCUPANCY MARKETS Q2 25*



*Trailing 12 months among the top 50 metros by MOB SF

Source: RevistaMed

HEALTH SYSTEM PERFORMANCE

Increased patient volumes and patient revenue, along with more stabilized staff wages boosted healthcare provider operating and profit margins last year. During fiscal year 2024, the average net operating profit margin of the 10 largest health systems (by net patient revenue) outperformed the national benchmark (2% loss) by 490 basis points. Hospitals with a larger number of staffed beds have historically trended higher than the national average. Seven of the 10 health systems improved their net operating profit margin year over year, pushing the average up 540 basis points from fiscal year 2023 to 2.9%. Ascension Health fell to an operating loss during this period due to a ransomware attack that lasted two months. All but two health systems among the top 10 improved their net income margins in fiscal year 2024, pushing the average up 370 basis points year over year to 9.6%, which is 260 basis points above the national average.

TOP HEALTH SYSTEMS FY24 AVERAGE NET OPERATING PROFIT MARGIN

2.9%

Up 540 bps annually

NATIONAL NET OPERATING MARGIN PROFIT BENCHMARK

(2.0%)

During FY24

TOP HEALTH SYSTEMS FY24 AVERAGE NET INCOME MARGIN

9.6%

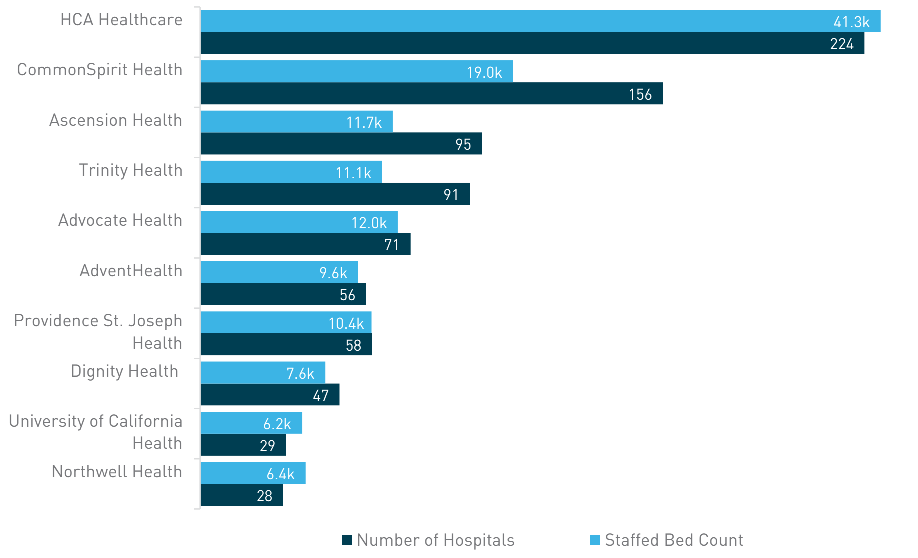
Up 370 bps annually

NATIONAL NET INCOME MARGIN BENCHMARK

7.0%

During FY24

TOP 10 HEALTH SYSTEMS NUMBER OF HOSPITALS & STAFFED BED COUNT



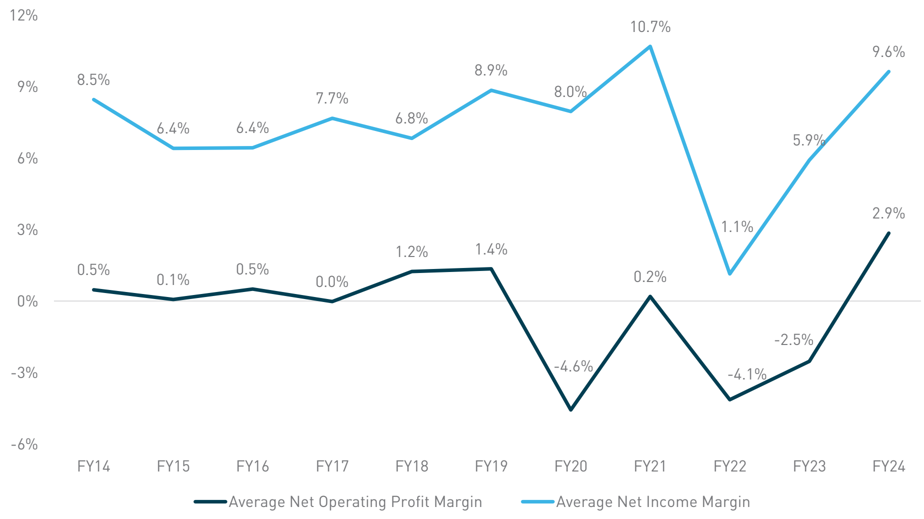
Source: Definitive Healthcare

TOP 10 HEALTH SYSTEMS SELECTED FY24 PERFORMANCE METRICS

Rank by Net Patient Rev.	Healthcare System	Net Patient Revenue	Net Patient Revenue Growth	Net Operating Profit Margin
1	HCA Healthcare	$57.8B	6.9%	27.1%
2	CommonSpirit Health	$29.8B	6.6%	(14.0%)
3	Advocate Health	$24.0B	13.1%	6.6%
4	University of California Health	$21.8B	8.9%	(3.1%)
5	Providence St Joseph Health	$20.4B	5.0%	(9.6%)
6	Trinity Health	$18.9B	0.6%	(4.8%)
7	Northwell Health	$18.7B	7.2%	16.9%
8	AdventHealth	$18.1B	9.2%	8.9%
9	Ascension Health	$16.7B	2.7%	(0.8%)
10	Dignity Health	$16.3B	7.4%	1.3%

Source: Definitive Healthcare

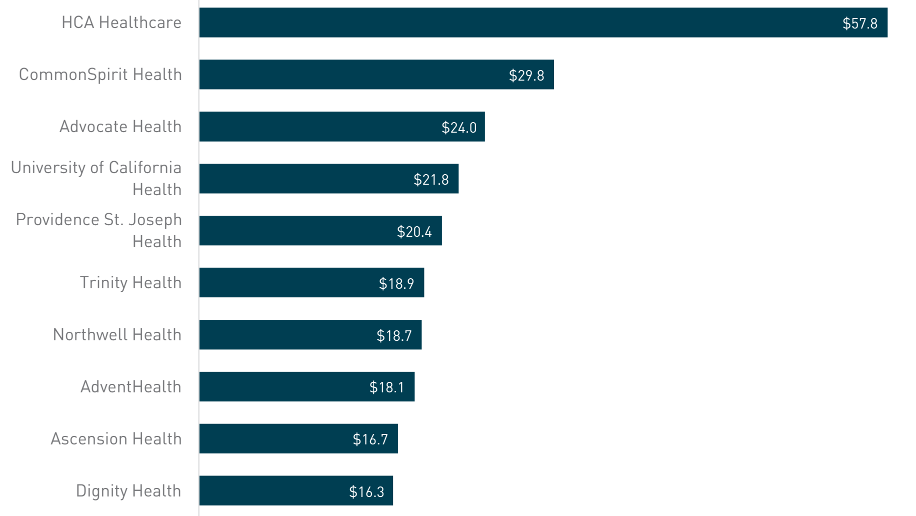
TOP 10 HEALTH SYSTEMS AVERAGE NET OPERATING MARGIN & NET INCOME MARGIN



Source: Definitive Healthcare

TOP 10 HEALTH SYSTEMS RANKED BY FY24 NET PATIENT REVENUE

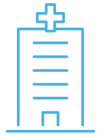
Dollar value shown is in billions



Source: Definitive Healthcare

CONSTRUCTION

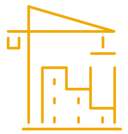
Population growth drove both hospital and medical outpatient building construction trends in many of the top metros over the 12 months that ended in the second quarter of 2025. The number of hospital starts over the past year increased as starts for new medical outpatient space decreased. The increase in hospital construction over this time is also a result of providers starting facility upgrades that were delayed from the pandemic and expanding care capacity for complex cases and to attract top talent. However, preliminary data for the third quarter suggests the boom in hospital construction will be short lived, as the volume of new square feet started during the trailling 12 months declined year over year. Although providers continue to shift routine services to outpatient facilities, medical outpatient developments are costly, with the average cost per square foot increasing 36% since the first quarter of 2022. These rising costs, consistently high interest rates, and conservative lending have curtailed outpatient expansion plans for many health systems.



$998 PSF

Average Hospital Construction Cost

Up 7.5% annually



$539 PSF

Average MOB Construction Cost

Up 6.1% annually

Q2 25 TRAILING 12-MONTH HOSPITAL SF IN PROGRESS

78.2 million

Q2 25 TRAILING 12-MONTH HOSPITAL SF STARTED

26.7 million

Q2 25 TRAILING 12-MONTH MOB SF IN PROGRESS

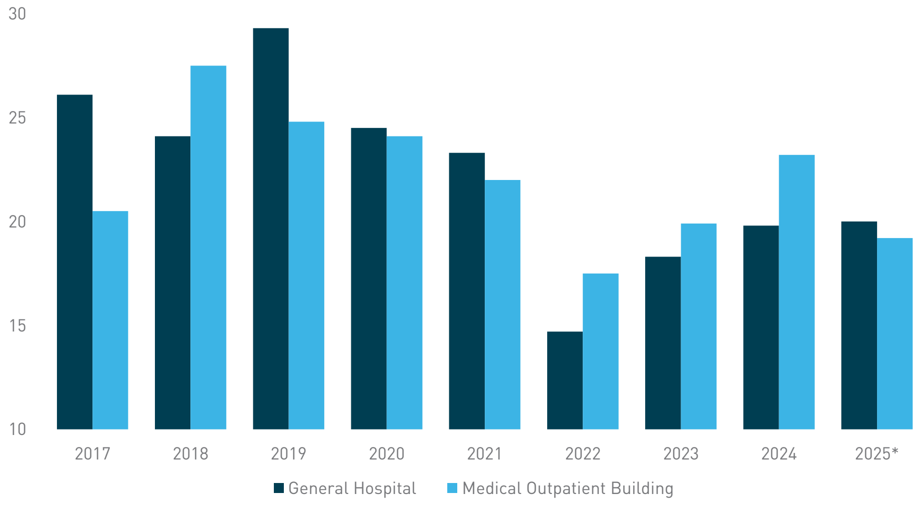
33.1 million

Q2 25 TRAILING 12-MONTH MOB SF STARTED

16.2 million

U.S. HOSPITAL & MOB COMPLETIONS (SF)

Square feet (SF) shown are in millions

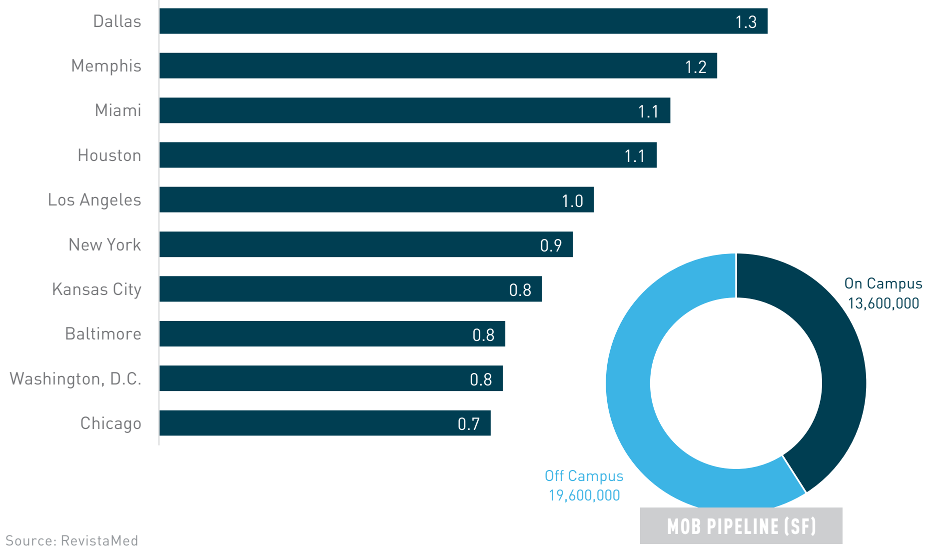


*Trailing 12 months through Q2

Source: RevistaMed

LARGEST MOB PIPELINES BY METRO (SF)

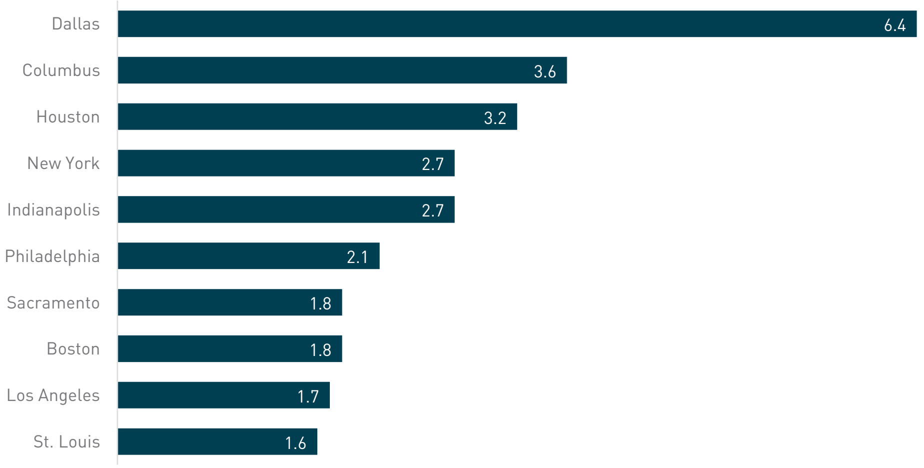
Square feet (SF) shown are in millions



Source: RevistaMed

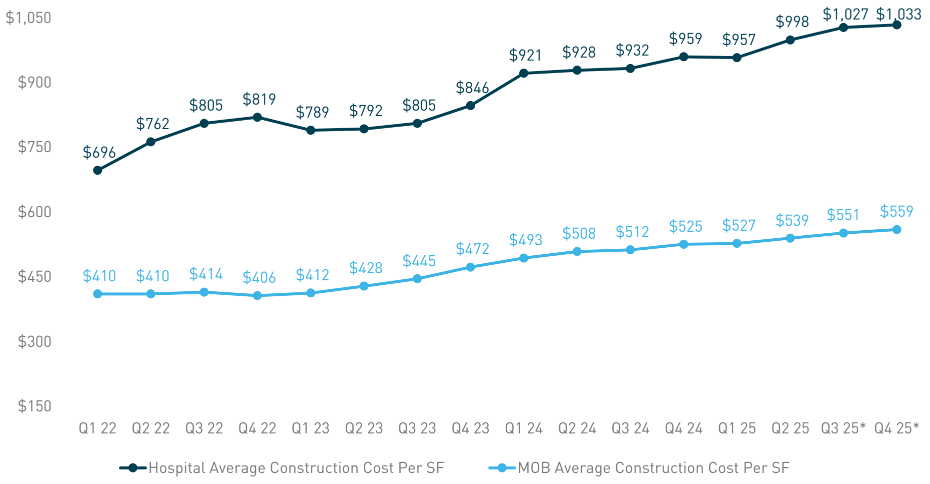
TOP 10 HOSPITAL PIPELINES BY METRO (SF)

Square feet (SF) shown are in millions



Source: RevistaMed

AVERAGE CONSTRUCTION COST PER SF



*Projected

Source: RevistaMed

SALES

Q2 25 TRAILING 12 MONTHS

MOB SALES VOLUME

$9.1 billion

Down 27.8% annually

MOB AVERAGE CAP RATE

7.0%

Down 40 bps annually

HOSPITAL SALES VOLUME

$5.4 billion

Down 36.1% annually

HOSPITAL AVERAGE CAP RATE

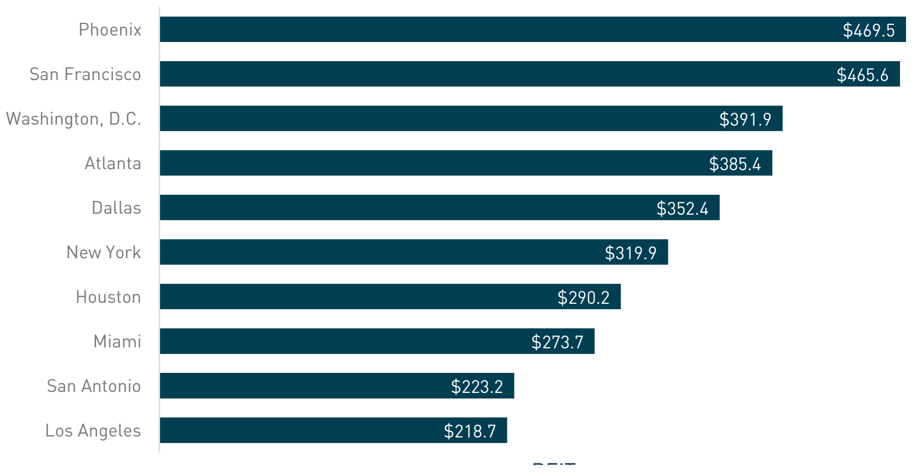
7.5%

Up 20 bps annually

As investors held out for interest rates to drop, deal volumes for medical outpatient buildings (MOB) and hospitals declined 27.8% and 36.1% year over year, respectively. Among medical outpatient buyers, only private investors increased their 12-month trade volume from the previous year. Private investors, less constrained by public stakeholders, may be more willing to make 'bold' trades given the strong demand for medical outpatient space. Preliminary data for the third quarter indicates 12-month transaction volumes will stay below 2024 and that private investors will remain the top buyers of medical outpatient space.

Q2 25 TOP METROS FOR MOB SALES BY VOLUME*

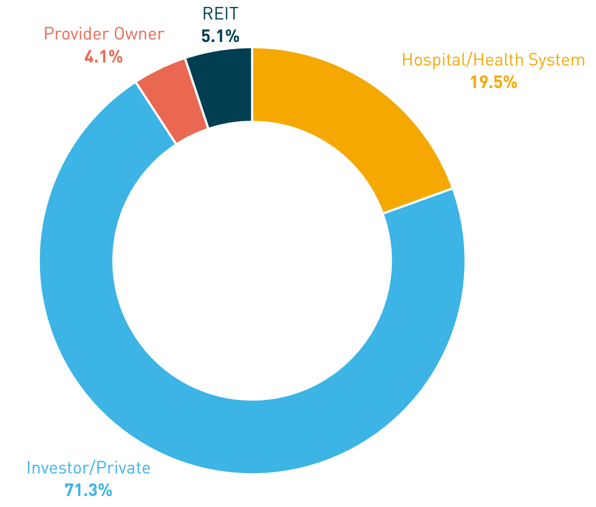
Dollar values shown are in millions



*Trailing 12 months through Q2 2025

Source: RevistaMed

MOB BUYERS BY VOLUME*

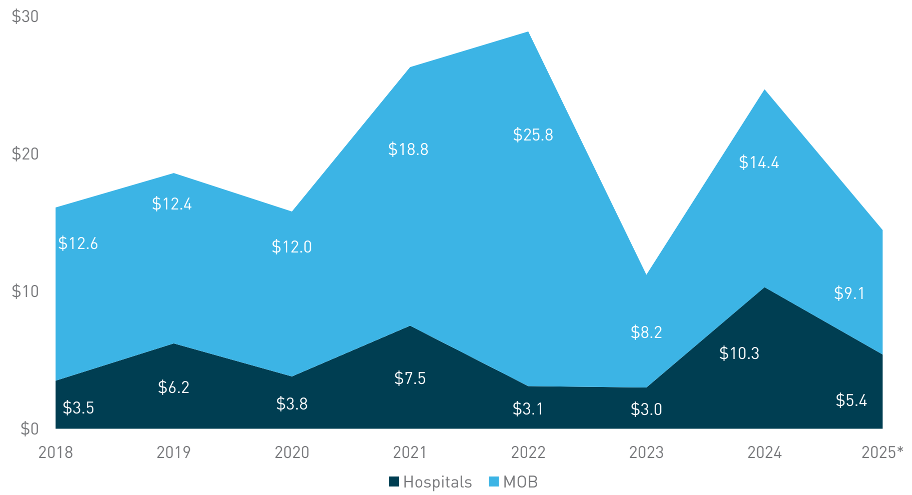


*Trailing 12 months through Q2 2025

Source: RevistaMed

SALES TRENDS

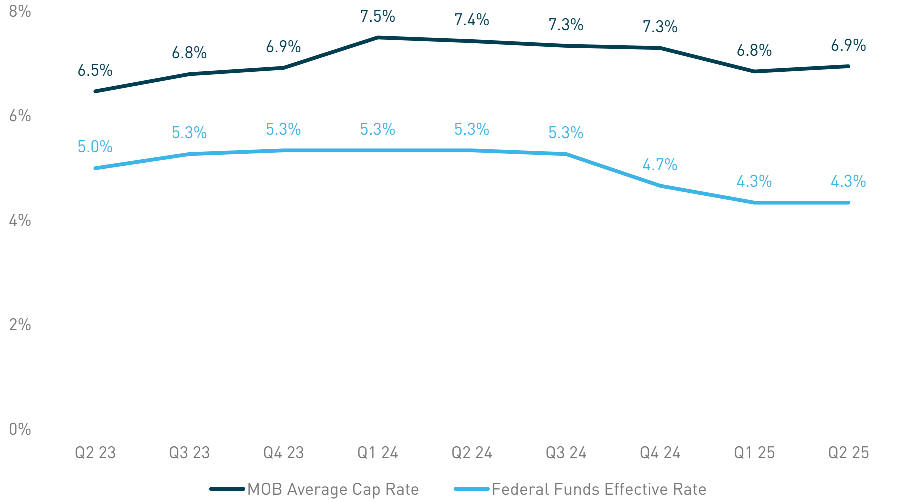
Dollar values shown are in billions



*Trailing 12 months through Q2

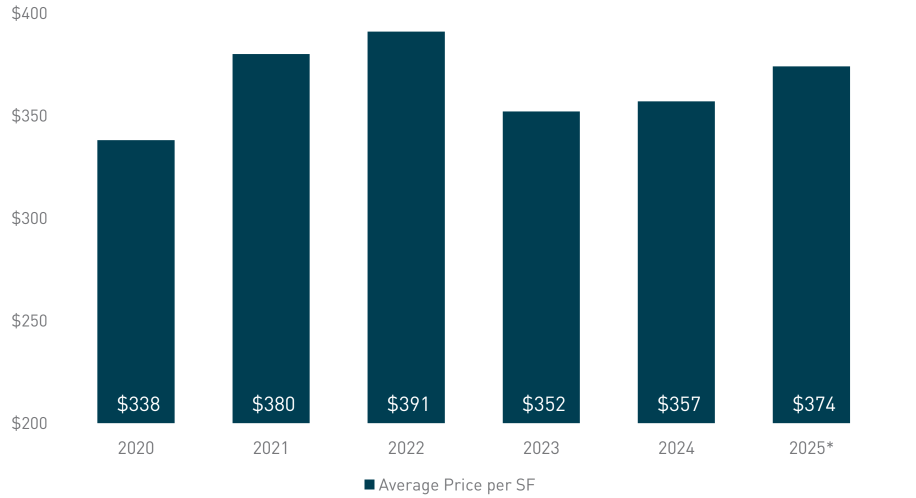
Source: RevistaMed

MOB AVERAGE CAP RATE VS INTEREST RATE



Source: RevistaMed

MOB AVERAGE PRICE PER SQUARE FOOT



*Trailing 12 months through Q2

Source: RevistaMed

LIFE SCIENCES

High construction costs and weak demand caused the volume of new life science space in development to wane after 2022. The amount of space delivered over the 12 months that ended in the second quarter of 2025 dropped 20.2% year over year. Limited new supply should ultimately bolster occupancy rates, especially as more companies, such as Novartis and AstraZeneca, reshore their manufacturing efforts to the U.S. to avoid tariff burdens. However, existing oversupply combined with high vacancies are expected to delay recovery. For example, Alexandria Real Estate Equities (NYSE: ARE), the largest owner of life sciences real estate and a key bellwether for the sector, saw the occupancy of its operating portfolio fall from 94.7% one year prior to 90.6% at the end of the third quarter.

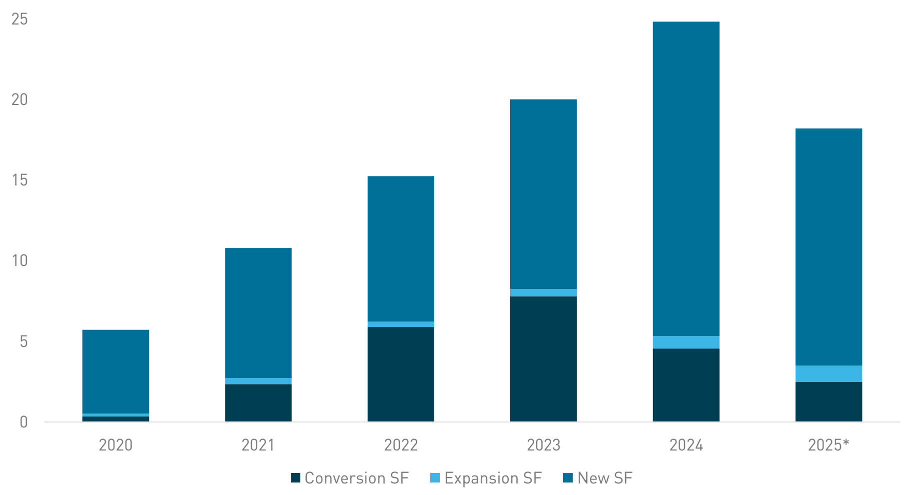
The trailing 12-month transaction volume for life sciences properties dropped 2.5% year over year to $3.9 billion in the second quarter of 2025. The third quarter 12-month transaction volume is projected to continue to decline compared to last year.

Late-stage venture capital investments continued to dominate the life sciences sphere, as investors favored strong paths to commercialization. In the first half of 2025, approximately 830 life science venture capital deals totaled nearly $16.1 billion, down 19.6% year over year. Within the entire healthcare sector, investors favored healthcare technology systems, devices, and supplies through the first half of 2025, as these types of products are relatively easier to bring to market compared to pharmaceuticals.

The National Institute of Health's (NIH) funding for research centers dropped 2.9% year over year in fiscal year 2024 to just under $2.9 billion. Biotechnology grants represented around 2.1% of total research center grants. However, apart from FY24, the amount has depleted each year since FY17, as grants for specialized, comprehensive, and core centers have gained larger portions of the budget.

LIFE SCIENCES SUPPLY

Square feet (SF) shown are in millions

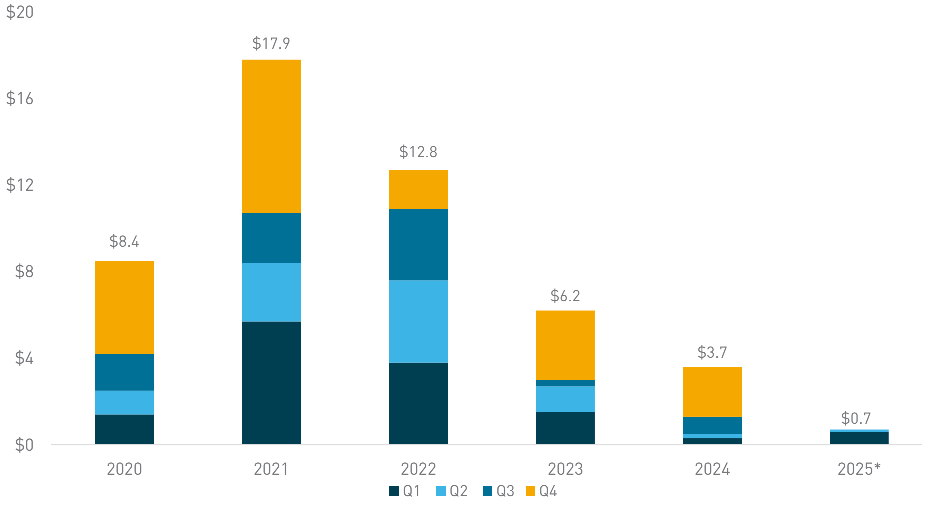


*Trailing 12 months through Q2 2025

Source: RevistaLab

LIFE SCIENCES TRANSACTION VOLUME

Dollar values shown are in billions

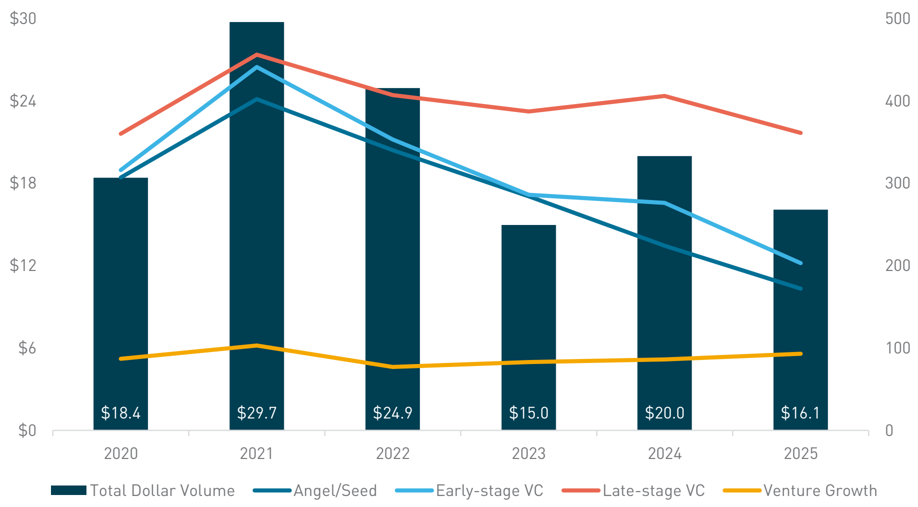


*YTD through Q2

Source: RevistaLab

H1 LIFE SCIENCES VC ACTIVITY BY STAGE

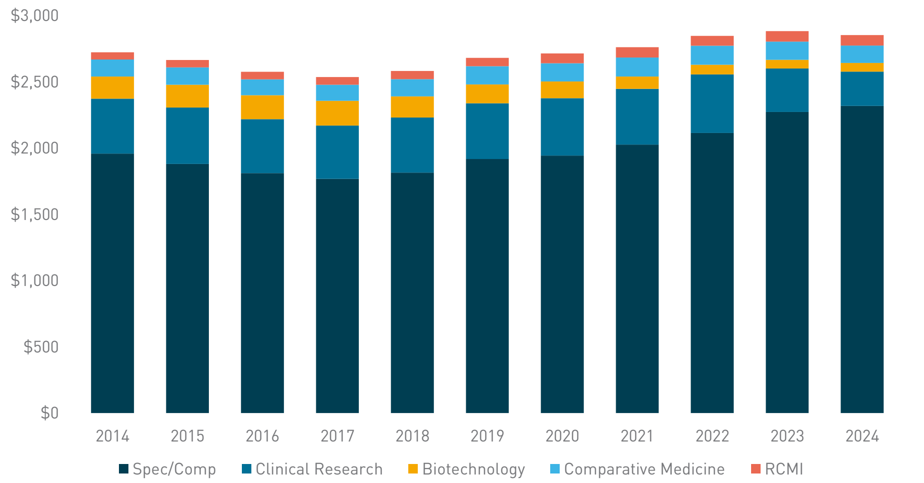
Dollar values shown are in billions



Source: Pitchbook

NIH RESEARCH CENTER BUDGET BY FISCAL YEAR

Dollar values shown are in millions



Source: National Institute of Health

LEGISLATION

One Big Beautiful Bill Act

The One Big Beautiful Bill Act passed in July 2025 involved the most significant cuts to Medicaid and ACA since their enactment in an effort to reduce federal spending by an estimated $325 billion over 10 years. Notable provisions of the bill related to healthcare include:

- Starting in 2027, Medicaid work requirements will be phased in, calling for most "able-bodied" recipients between the ages of 19 and 64 to spend at least 80 hours per month working, volunteering or enrolled in school
- Reduced federally matched funds for state Medicaid programs and provider taxes
- Delayed or prohibited multiple Centers for Medicare and Medicaid Services (CMS) rules issued in 2024 aimed at streamlining Medicaid enrollment and setting a minimum requirement for nursing home staff levels
- Changed ACA Marketplace provisions to reduce the open enrollment period to 45 days, eliminate the special enrollment period for people at or below 150% of the federal poverty line, and include special enrollment period verification requirements
- Prohibited use of Federal Medicaid and Children's Health Insurance Fund Program (CHIP) funds in certain gender-affirming care procedures
- Expansion of access to HSAs and direct primary care, as well as permanent pre-deductible telehealth coverage for high-deductible plans

Inflation Reduction Act Provisions

In 2025, several provisions to the Inflation Reduction Act (passed in 2022) were made that capped annual out of pocket prescription drug costs at $2,000 for Medicare recipients

Public Law 119-4 (H.R. 1968 / PL 119-4)

Public Law 119-4 involves continuing appropriations/full-year funding for fiscal year 2025 and extensions of many health programs through statutory language, such as community health centers, National Health Service Corps, Teaching Health Center Graduate Medical Education (THCGME), and more. The extensions preserved core program funding and payment adjustments that affect community health centers, rural hospitals, and THCGME.

Affordable Care Act (ACA) Expiration

In December 2025, the Affordable Care Act will expire, ending the enhanced premium tax credits introduced in 2021 and extended through 2025. Currently, about 92% of the 24 million people enrolled in the Marketplace receive these enhanced credits. While many will still qualify, some may lose eligibility and face increased premiums starting in 2026. The Congressional Budget Office estimates that 4 million people will lose Marketplace coverage and become uninsured. Additionally, new enrollment barriers are projected to cause another 3 million people to lose coverage.

For those who remain on Marketplace plans, insurance companies are expected to raise rates by nearly 20% on average, marking the largest premium hike since 2017. These changes are expected to disproportionately affect Black and Latino individuals, those with low incomes, and residents of states without Medicaid expansions. Self-employed individuals may also face higher premiums. Other changes that may negatively impact Marketplace enrollees include the 2.7% increase in net premiums after APTC and higher maximum out-of-pocket limits; the end of 60-day extensions to the 90-day period to resolve data inconsistencies; the end of credit repayment limits for people who project lower income than their taxes report the following year.

Lawmakers are at an impasse on how to address the impending loss of health insurance coverage, resulting in a government shutdown in October 2025.

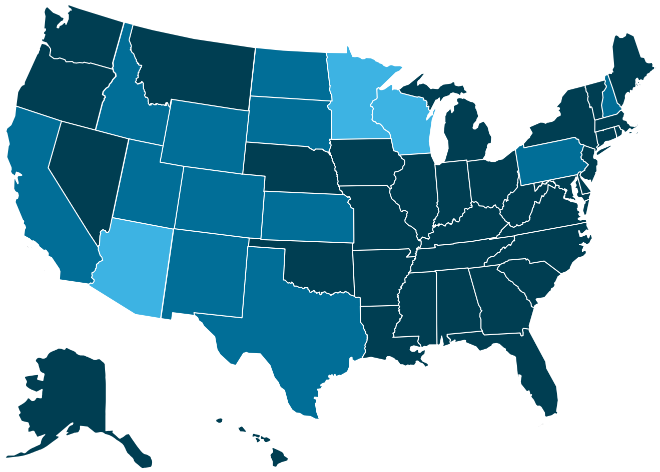
Certificate of Need Programs

As of this year, 38 states and Washington, D.C., operate certificate of need (CON) programs. These regulations are required for approving major capital expenditures and projects for certain healthcare facilities. Arizona, Minnesota, and Wisconsin do not officially operate a CON program, but these states have approval processes similar to CON. During 2024, Georgia and Tennessee modified their CON laws. Georgia's (HB) 1339[1] modified two major exemptions for single specialty and joint venture ambulatory surgical centers (ASCs), among other items. Key changes in Tennessee's HB 2269[2] removed the need for CONs to establish satellite emergency departments with restrictions and removed the CON requirement for ASCs so long as they participate in TennCare and charity care.

1. HB 1339: Single-specialty ASCs owned and operated by an individual or single practice in a single specialty are exempt if their capital expenditures are under $2.5 million or if it is the only single-specialty in the county owned by the practice with no more than two operating rooms. Additionally, definitions of single-specialty and joint-venture ASCs have been revised. Single specialty and joint venture ASCs allow physicians who aren't members of the practice that owns or partially owns a facility to perform surgeries if they are of the same specialty of the owner or joint owner.

2. HB 2269: Starting in July 2025, hospitals will not need to obtain a certificate to establish a satellite emergency department as long as it is within 10 miles of the main hospital campus and 10 miles from any other actively licensed acute care hospital. Another key change is that Tennessee removed the requirement for ambulatory surgery centers (ASC) to obtain a CON, but a new licensing requirement was added. Starting in December 2027, ASCs need to participate in the TennCare medical assistance program and provide care to patients the same as hospital-based ASCs would. Additionally, ASCs must also provide a comparable amount of charity care to hospital-based ASCs.

U.S. CON LEGISLATION BY STATE



- CON Enacted
- Modification of CON
- No CON

Source: National Conference of State Legislatures, Berkadia Research

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