

BRIEF | Intelligent Investment

Despite initial construction costs, medical outpatient buildings are in demand

ORANGE COUNTY AND INLAND EMPIRE

By Connor Wilde and Deepa Shah | September 2024

Complete build-outs for medical outpatient buildings (MOBs) can be a complex and expensive process, but they are worth the costs in Orange County (OC) and the Inland Empire (IE). The infrastructure to accommodate medical tenants are typically more extensive than what would be in general office buildings. MOBs are often subject to specific regulations and must comply with guidelines for the design and construction of outpatient facilities as well as provide additional parking required for tenants.

The cost to build-out a new medical outpatient building in Southern California ranges from \$200 to \$300 per sq. ft., compared to a much lower cost range of \$60 to \$155 per sq. ft. for building out a new general office building. These ranges vary depending on a few conditions such as fit and finish and type of medical use. The significant cost difference is largely attributed to the unique requirements impacting mechanical, electrical, and plumbing to meet the demand and code requirements for medical use.

FIGURE 1: Typical Medical Outpatient Building Requirements

Typical Requirement	Use
Increased HVAC	To ensure a safe and healthy environment for patients and healthcare workers.
Increased Plumbing	To allow for sinks in virtually every room with infection control, specialized equipment, regulatory compliance, and emergency preparedness.
Increased Parking	Due to the high utilization rate, visitor experience, accessibility, and ambulance and transport.
Zoning Differences	To comply with zoning laws and ensure that medical facilities are appropriately located, maintaining safe distances from incompatible land uses.
Elevator Access	To allow for people with limited mobility, transporting medical equipment, and emergency situations.

Note: Build-out costs are based on standard medical office clinical space and applicable to Southern California. Source: CBRE Project Management, August 2024; CBRE Research, August 2024.

Standard Build-Out Cost,
General Office

\$60/SF

Standard Build-Out Cost,
Medical Outpatient Building

\$200/SF

Best in Class Build-Out Cost,
General Office

\$155/SF

Best in Class Build-Out Cost,
Medical Outpatient Building

\$300/SF

OC and IE medical outpatient buildings outshine general office

The Orange County and the Inland Empire markets housed 130.1 million sq. ft. of inventory for general office space, compared to 16.9 million sq. ft. of MOB inventory in Q2 2024. Due to the lower supply and sustained demand, as well as specialized build-outs, longer leases, and relocation costs, MOB vacancy and availability rates were significantly lower than those of general office. Since Q1 2020, MOB asking rates increased by 16.5% while general office asking rates decreased by 6.3% in Orange County. The Inland Empire saw similar trends, with asking rates increasing 3.0% in MOB while only increasing 1.0% in general office. MOB space under construction in Q2 2024 was almost four times higher than that of general office space under construction. Healthcare services continue to be in demand regardless of economic conditions, making MOB investments more attractive.

There are several reasons why there is growing demand for healthcare services. MOB spaces often yield higher rental rates than standard offices do, which can result in a better return on investment for property owners. Healthcare tenants also tend to lease properties for longer periods, providing stable income while reducing turnover costs for landlords. Property owners contribute to the community's well-being by providing medical services, which can enhance the property's value and reputation. Despite the initial costs, the long-term benefits prove that medical outpatient buildings are a strong investment.

Medical Outpatient Construction,
Orange County & Inland Empire

666,000 SF

General Office Construction,
Orange County & Inland Empire

168,000 SF

Medical Outpatient Buildings Built
2020+ as % of Total Inventory,
Orange County & Inland Empire

3.9%

General Office Buildings Built
2020+ as % of Total Inventory,
Orange County & Inland Empire

1.6%

FIGURE 2: Medical Outpatient Building and General Office Statistics, Q2 2024

	ORANGE COUNTY		INLAND EMPIRE	
	MEDICAL	GENERAL	MEDICAL	GENERAL
Vacancy Rate	6.3%	14.7%	4.6%	8.5%
Availability Rate	9.8%	23.9%	5.3%	13.5%
Taking Lease Rate	\$3.11 NNN	\$2.28 NNN	\$2.32 NNN	\$2.23 NNN
Construction SF	592,696 SF	168,000 SF	72,999 SF	0 SF
Total Inventory	10,917,207 SF	104,731,846 SF	6,043,834 SF	25,386,213 SF

Note: Taking rates based on NNN direct deals signed since Q1 2020.

Source: CBRE Research, Q2 2024.

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