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The Quiet Achiever: MOBs Deliver Superior Risk-Adjusted Returns

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The Quiet Achiever: MOB's Deliver Superior Risk-Adjusted Returns

A Comparative Analysis of Return, Volatility, Drawdowns, and Operating Fundamentals

January 2026

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Executive Summary

Medical Outpatient Buildings are the quiet achievers of institutional real estate. They do not always make headlines, yet they consistently outperform through market cycles.

For every unit of risk, Medical Outpatient Buildings (MOBs) deliver more return; that is efficiency. This research, grounded in quantitative evidence, confirms that MOBs generate the most efficient risk-adjusted performance when compared to the four major property sectors. They deliver the highest return per unit of risk and exhibit shallow peak-to-trough drawdown.

In times of uncertainty, MOBs offer what institutional investors rely on: predictable cash flow, durable occupancy, and resilient compounding that holds firm through market cycles.

Why Risk-Adjusted Return Matters

Return is only half the equation; risk is the other half. In investing, return is the visible headline, while risk is the invisible cost of earning it. Volatility and downside exposure determine whether capital compounds smoothly or suffers setbacks. Consider two students with the same GPA: one earns steady grades, the other swings between highs and lows. Both average the same, yet only one is reliable. The same logic applies to investing. True efficiency reflects not only how much an asset earns, but how steadily it does so. Consistency, rather than amplitude, is what sustains compounding.

Institutional investors have long viewed Medical Outpatient Buildings (also known as Medical Office Buildings) as a low-volatility, steady performer supported by enduring demographic demand. The sector is widely assumed to offer strong risk-adjusted returns, though formal evidence has been relatively limited. This research provides that evidence. Using NCREIF Property Index (NPI) data, it measures returns, volatility, and drawdowns across major property sectors to evaluate comparative efficiency. It then incorporates CBRE's vacancy and Green Street's NOI growth data to further assess the underlying fundamentals that support this stability. The findings confirm that MOBs stand apart for their consistency and risk-adjusted returns.

Understanding Risk and Volatility in Real Estate

Risk is the possibility that actual investment outcomes will differ from what was expected. It is inherently forward-looking and encompasses both market-wide systematic forces and asset-specific idiosyncratic factors that can affect income and valuation.

Volatility, by contrast, is the historical footprint of that uncertainty. In performance measurement, it captures the magnitude of fluctuations in returns, income, occupancy, and asset values, providing an empirical record of how stability or instability has manifested through market cycles.

Although the two concepts are often conflated, they serve different purposes. Risk looks ahead while volatility looks back, yet understanding historical volatility has practical value. It reveals how consistently a sector has delivered on expectations and how severe its downturns have been. In real estate, volatility often serves as a practical proxy for predictability. The smoother the pattern of results, the greater the confidence in the persistent performance.

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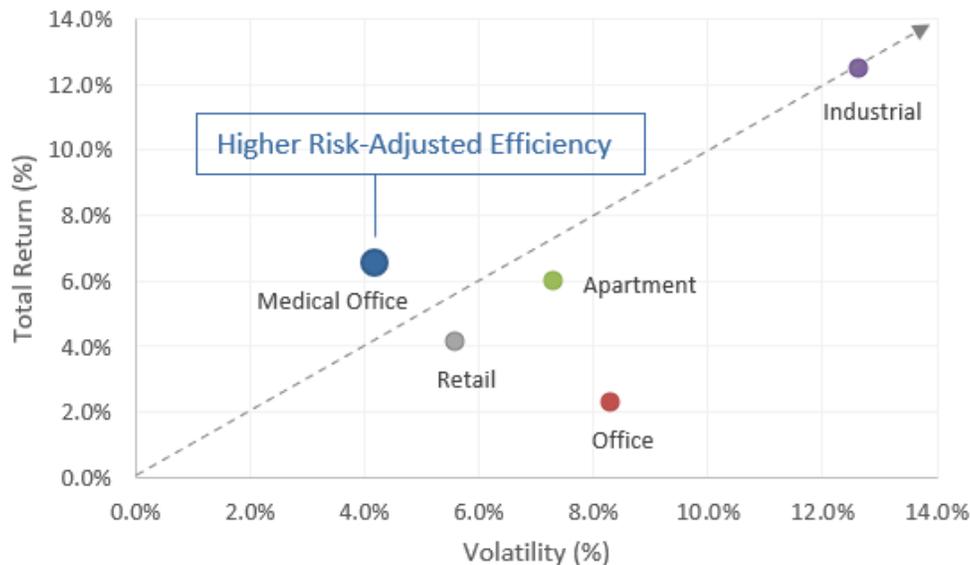
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Chart 1: Return vs. Volatility



Source: NCREIF Property Index (2014 Q3 – 2025 Q3).

Note: Total return reflects the geometric mean of quarterly total returns, compounded to an annual rate. Volatility represents the standard deviation of those quarterly returns, expressed on an annualized basis. NPI results are appraisal-based, so absolute volatility may be understated, though relative comparisons remain valid. MOB data first became available in 2011 Q2; however, the analysis begins in 2014 Q3, when the dataset reaches an adequate level of representation for reliable analysis within the Expanded NPI.

Total Return and Volatility

Measured using the NPI from 2014 Q3 to 2025 Q3, MOB's stand out for combining strong returns with the lowest volatility compared to the core property sectors. Their annualized total return averaged approximately 6.6 percent while annual volatility was 4.2 percent, which is significantly below any of the traditional core sectors.

Industrial properties delivered the highest absolute returns at roughly 12.4 percent but with about 12.7 percent volatility, nearly three times that of MOB's. This contrast highlights two different paths to performance. Industrial has benefited from strong growth periods but has also experienced sharper corrections. In contrast, MOB's grew steadily, allowing returns to compound more efficiently over time.

Apartments and Retail produced near four to six percent returns with five to seven percent volatility, while traditional Office trailed at roughly two percent return with more than eight percent volatility. In each case, MOB's outperformed on both dimensions: higher returns and lower volatility.

Since NPI results are appraisal-based, absolute volatility may be understated. However, relative comparisons remain valid. The comparative analysis confirms that MOB's deliver the most efficient relationship between return and volatility compared to the core sectors tracked by the NPI. Their performance reflects not only the level of return but also the consistency of the path taken to achieve it, reinforcing that long-term investment efficiency depends as much on stability as on magnitude.

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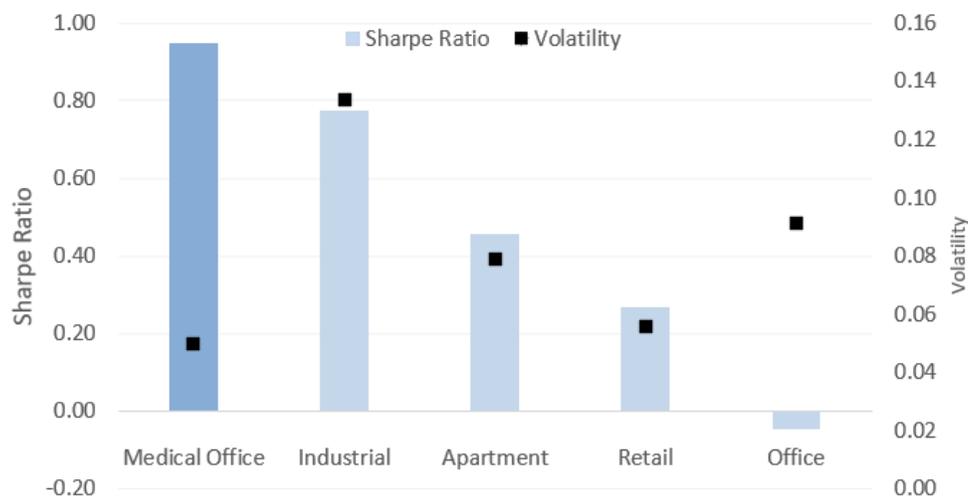
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Excess Return for Every Unit of Risk

The Sharpe ratio further highlights efficiency in excess-return terms by measuring how much return an investor earns above the risk-free rate for each unit of volatility. Excess return is calculated as the annualized NPI total return minus the annualized quarterly yield of the ten-year Treasury, converted to align with the NPI's reporting frequency. Volatility is the annualized standard deviation of quarterly total returns, and the Sharpe ratio is computed as excess return divided by this volatility.

MOBs recorded the highest Sharpe ratio when compared with the core property sectors, at nearly 0.95, reflecting the sector's ability to generate meaningful excess return with low volatility. Industrial properties, while producing higher absolute returns, showed lower efficiency at roughly 0.77 due to substantially greater volatility. Apartments and Retail recorded 0.45 and 0.27, respectively, while Office lagged at -0.04. The Sharpe ratio confirms that MOB's generate more excess return per unit of volatility than any core sector, underscoring the sector's distinct risk-adjusted strength.

Chart 2: Risk-Adjusted Returns by Sector



Source: NCREIF Property Index (2014 Q3 – 2025 Q3).

Note: Sharpe ratios are calculated as annualized excess returns divided by the annualized standard deviation of total returns. Excess returns are measured relative to the 10-year U.S. Treasury yield, converted to quarterly equivalents and compounded to an annual rate for consistency with NPI data.

Drawdowns and Downside Resilience

To evaluate MOB's ability to preserve value, the drawdown analysis focuses on NPI appreciation returns rather than total returns. By excluding the income component of the total return, the analysis isolates how property values respond during contractionary periods.

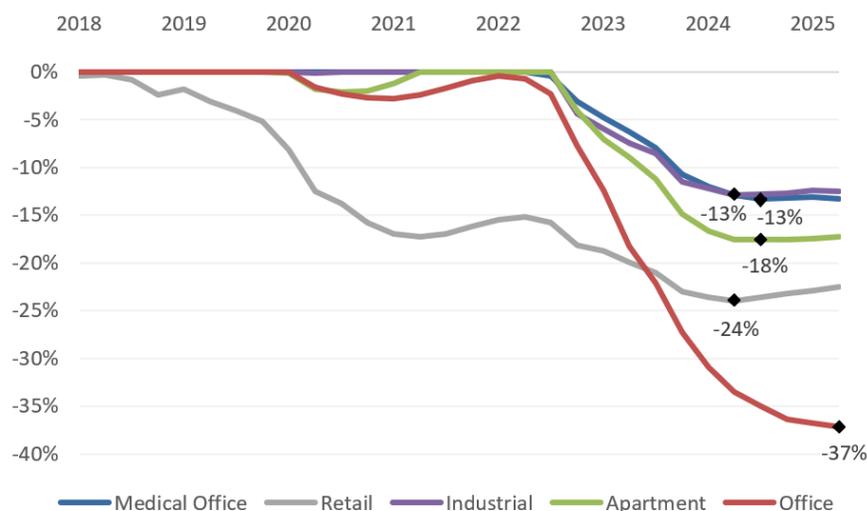
On this basis, MOB's experienced a peak-to-trough decline of roughly 13 percent, closely aligned with Industrial, which recorded a slightly smaller drawdown. Both sectors stand well ahead of the others in downside protection. Office and Retail registered declines of approximately 37 percent and 24 percent, while Apartments fell about 18 percent.

Even without the buffering effect of income, MOB's remain among the least volatile sectors in private real estate. The resilience of the sector is evident even when measured purely on price behavior.

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Chart 3: Maximum Value Drawdowns



Source: NCREIF Property Index (2014 Q3 – 2025 Q3).

Note: Drawdowns are calculated as cumulative declines from prior peaks in appreciation return, with markers indicating each sector's maximum drawdown. Values are derived from compounded quarterly appreciation returns. The chart begins in 2018, as no sector recorded a meaningful drawdown prior to that period.

Income Efficiency and NOI Stability

Return-to-volatility ratios, especially when income and appreciation are evaluated separately, reveal where efficiency originates. MOB's record the highest total return-to-volatility ratio at 1.6. This strength lies in income. The income return-to-volatility ratio for MOB's is 15.8, materially exceeding Industrial at 6.2, Office at 7.8, Apartments at 10.4, and Retail at 9.4. This exceptional stability in income is a defining feature of the sector's efficiency. In appreciation return-to-volatility, Industrial ranks first with a ratio near 0.6. MOB's follow at 0.3, surpassing Apartments, Retail, and Office. This underscores that the MOB sector's value performance remains steady even when evaluated separately from income.

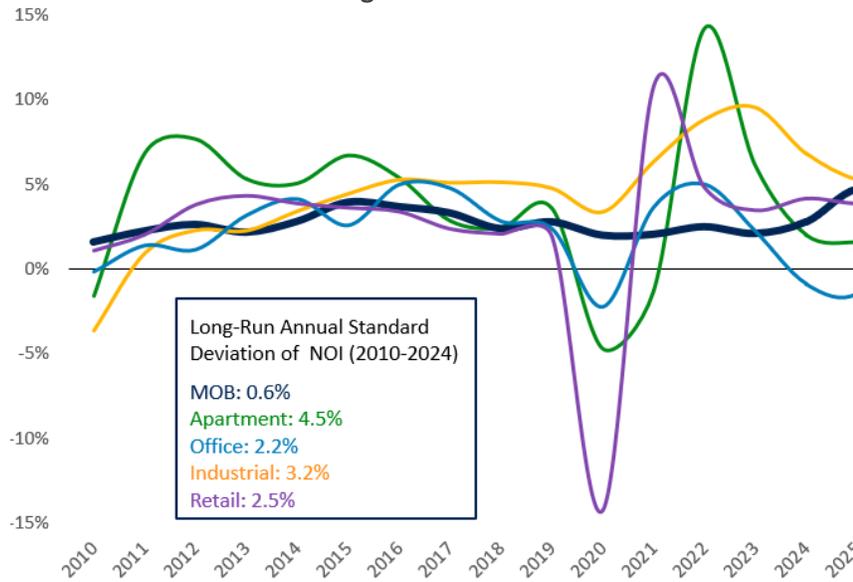
Chart 4: Return / Volatility Ratio

Sector	Total Return	Income Return	Appreciation Return
Medical Outpatient Buildings	1.6	15.8	0.3
Industrial	1.0	6.2	0.6
Apartment	0.8	10.4	0.2
Retail	0.7	9.4	-0.2
Office	0.3	7.8	-0.3

Source: NCREIF Property Index (2014 Q3 – 2025 Q3).

Public-market data reinforce this conclusion. According to Green Street's analysis of same-store NOI growth, MOB's exhibited the lowest volatility at approximately 0.6 percent annually between 2010 and 2024. This consistency evident in both private and public data confirms that the stability of MOB's reflects structural fundamentals rather than statistical effects.

Chart 5: Medical Office Building NOI Growth



Source: Green Street (2010 – 2025) as of December 9, 2025. Chart contributed by Heitman.

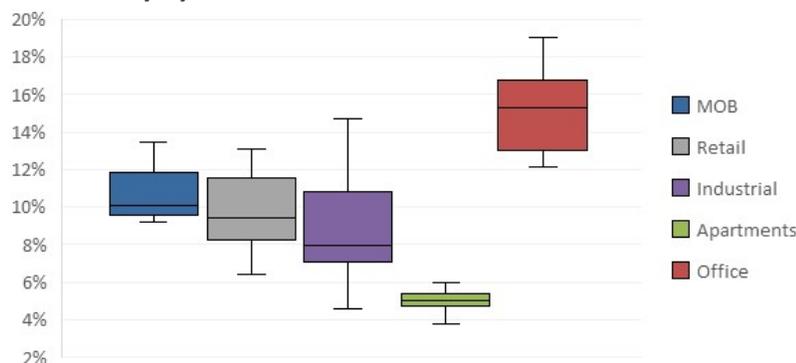
Note: Year-over-year percent increases (decreases) in Net Operating Income of REITs, averaged on an asset-weighted basis.

Occupancy Stability

Extending the analysis to occupancy, a core driver income stability, MOB's exhibit exceptional stability relative to other commercial sectors. From 2010 through mid-2025, MOB vacancy has remained within a narrow range of 9 to 13 percent. Furthermore, the standard deviation of MOB vacancy is 1.3 percentage points, well below Industrial at 2.8, Retail at 2.2, and Office at 2.2 percentage points. Apartments display the lowest volatility overall at 0.8 percentage points, reflecting the inherent stability of the residential sector. Among non-residential property types, MOB's remain the most stable.

This steadiness extends beyond vacancy levels to the pace of change itself. The standard deviation of quarterly vacancy changes for MOB's is only 0.16 percentage points, the lowest among all sectors, demonstrating consistent quarter-to-quarter conditions with virtually no short-term swings. This smooth behavior reflects long-term tenancy, necessity-driven utilization, and disciplined development that limits abrupt shifts in occupancy.

Chart 6: Vacancy by Sector



Source: CBRE (2010 Q1 – 2025 Q3).

Note: Chart shows distribution of quarterly vacancy rates by sector. Boxes represent the interquartile range (25th - 75th percentile); lines show the full range.

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Conclusion

Medical Outpatient Buildings are the quiet achievers of institutional real estate. They may not dominate headlines, yet they consistently deliver what matters most to investors: strong returns earned with remarkable consistency. Return is only half the equation; risk is the other half, and it is the steadiness of those returns that ultimately determines long-term efficiency.

Across every metric examined, including total return volatility, Sharpe ratios, appreciation drawdowns, income stability, and occupancy volatility, MOBs demonstrate superior consistency and performance relative to core property sectors. The sector combines competitive returns with the lowest volatility, shallow value declines, exceptionally stable income, and the most predictable occupancy among non-residential assets. Public-market data confirm this same structural steadiness.

Taken together, the results are clear. MOBs offer competitive returns with materially less risk, providing a more efficient path of compounding through market cycles. For institutional investors seeking dependable income, limited downside, and enhanced portfolio stability, MOBs provide a distinct and durable advantage.



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NPI data and CBRE vacancy data were provided courtesy of CBRE. Green Street's NOI growth chart was provided courtesy of Heitman. While it is believed to be accurate, no warranty is made as to its completeness or reliability, and readers are encouraged to conduct their own due diligence before making any investment decisions.

Special thanks to Ian Anderson of CBRE and Michael Carney of Heitman for their data contributions.