

CRE Term: Subsectors and Specializations



A growing trend over the past few years has been rising investor interest in non-traditional property types. Specialist offerings, like medical office and data centers, have become breakout darlings of the industry, and seem set to continue driving investment volume this year.

With that in mind, here are some common sub-sector definitions.

Outlining Medical Office

The official definition for medical office buildings (MOBs) given in NAIOP's "Industry Terms and Definitions" guide is: "A structure with at least 75 percent of its interior built out to accommodate healthcare providers such as doctors and dentists or healthcare technicians who perform exams with specialized equipment."

NAIOP adds that medical office buildings need to have "robust" mechanical, electrical, and plumbing systems, and may need reinforced floors to accommodate heavy equipment.

In addition to "standard" MOBs, there are also growing opportunities in behavioral healthcare. Behavioral healthcare facilities are those that provide mental health and wellness services, as well as treatments for addiction. Key requirements for these buildings include adequate floor space (with some experts identifying 70,000-110,000 square feet as optimal), ample parking, and appropriate zoning.

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Delving into Data Centers

Another CRE asset type well worth being familiar with in 2024 is “digitally-driven” assets, like data centers and telecommunications towers.

Proptech platform Dealpath defines a data center as: “a facility designed to house and operate servers hosting data and web applications.” They add: “Precisely controlled HVAC [Heating, Ventilation, and Air Conditioning] systems regulate the air temperature, among other factors, to maintain optimal conditions, minimize latency and prevent downtime.”

Given the strides being made with AI, demand for data centers and other digital facilities is expected to grow strongly in the coming years. And though some of these facilities cater exclusively to big players like Google, many rent space to multiple tenants – a trend called co-location or simply “Colo.”

That’s just the tip of the iceberg though, so if your client is in the data center space, it may be worth delving into more detailed data center terminology.

Sizing Up Self-Storage

Our last entry on the list is more straightforward, but still, a sector that showed strong gains through most of 2023. Self-storage can be broadly defined as properties where multiple storage units are rented to individual tenants or businesses.

Storage options include climate-controlled units with built-in HVAC systems to manage temperature and humidity, or non-climate-controlled basic storage.

Like other CRE assets, self-storage facilities can be broken down into Class A, B, and C properties, based on location, age, and their degree of deferred maintenance. As with data centers, there’s a lot of additional storage terminology that may prove useful to know, so be sure to brush up when dealing with clients in this space.

