



LOS ANGELES MEDICAL OFFICE MARKET REPORT

THIRD QUARTER 2015





ANNUAL JOB GROWTH

LA's economy has created a net 76,300 new jobs in the 12 months ending August 2015. The Education & Health Services and Trade, Transportation, & Utilities sectors accounted for the largest annual gains with 22,500 and 17,100 jobs, respectively.



12-MO DIRECT NET ABSORPTION

South Bay was the top performing submarket with 118K sq. ft. of occupancy gains over the past 12 months. Westside also contributed to the annual gains with nearly 92k sq. ft. absorbed.



DIRECT VACANCY RATE

The MOB direct vacancy fell 50 basis points to 9.6% over the prior 12 months, but remains 470 basis points higher than its cyclical low of 4.9% at mid-2007.



OVERALL RENTS

Overall asking rents have decreased by 1.01% to \$2.70 per sq. ft. in the past year and remain 5.8% below its 2008 pre-recession peak. Asking rents are forecasted to increase slightly over the next 18 to 24 months.



UNDER CONSTRUCTION

The construction pipeline will deliver 224,506 sq. ft. of space in the oncoming months among four buildings, 177,328 sq. ft. of which is expected to complete by year end 2015. Most notably the Ventana, which is 70.4% pre-leased, will add 118K sq. ft. to the market by the end of December 2015.



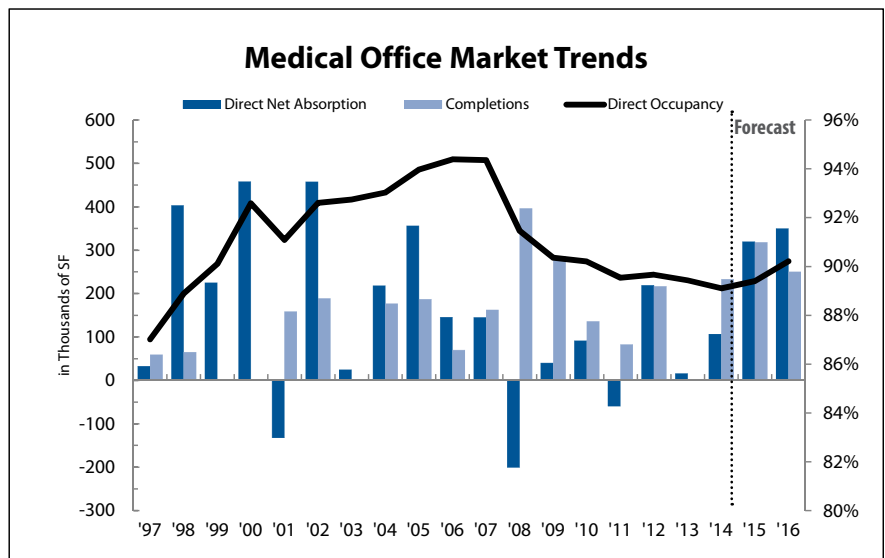
**Arrows represent change from previous 12 months*

STABLE REVIVAL IN THE MEDICAL OFFICE SECTOR

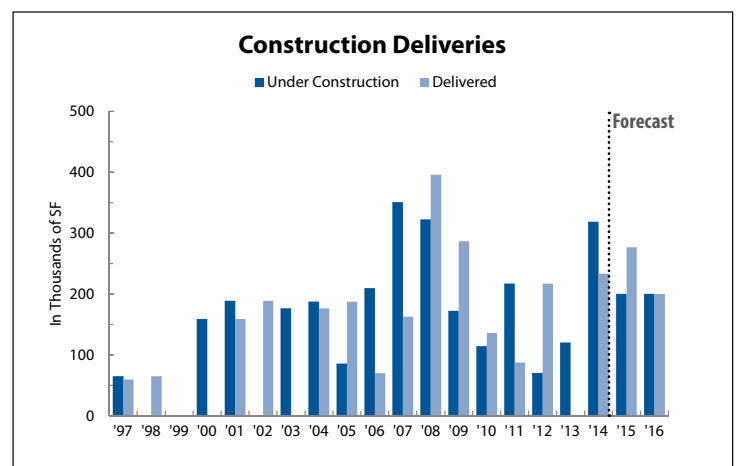
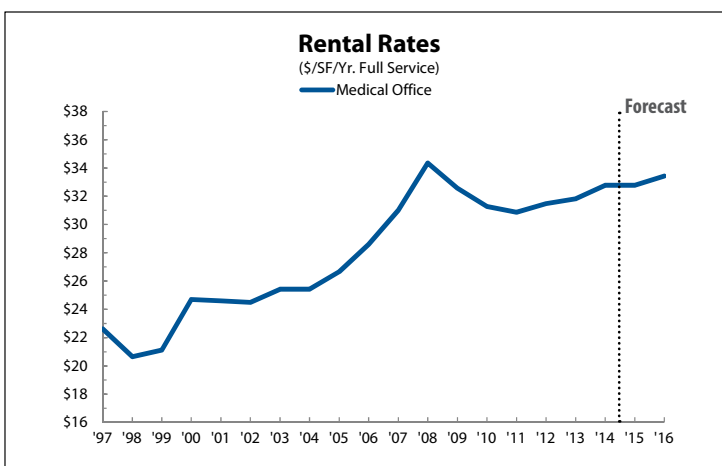
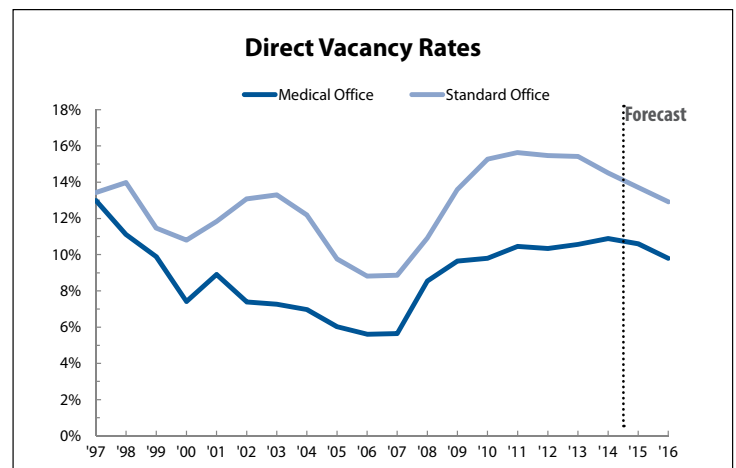
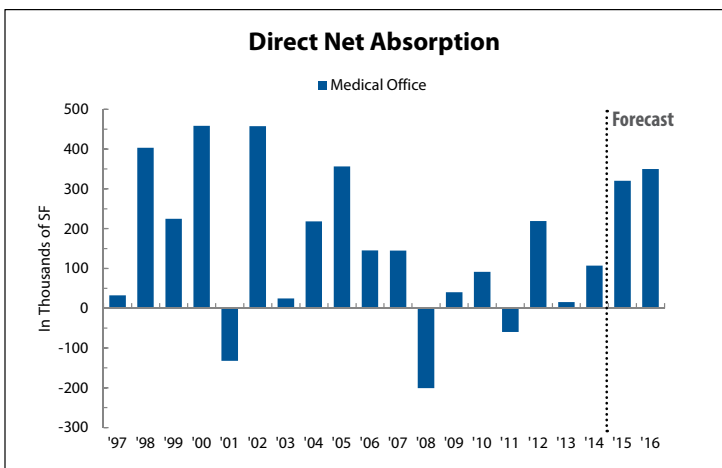
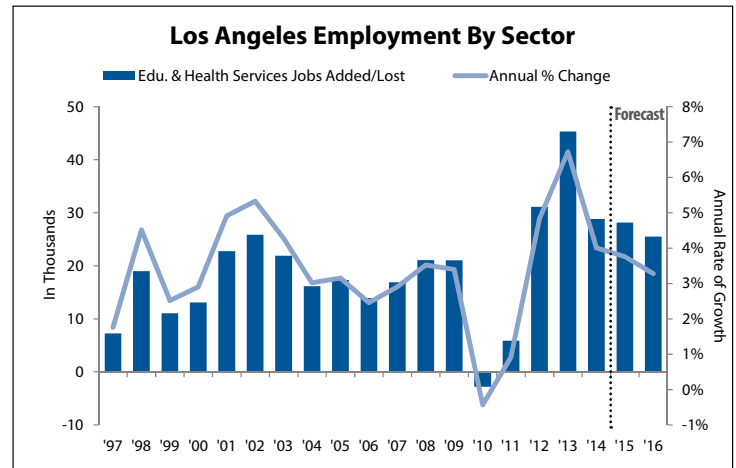
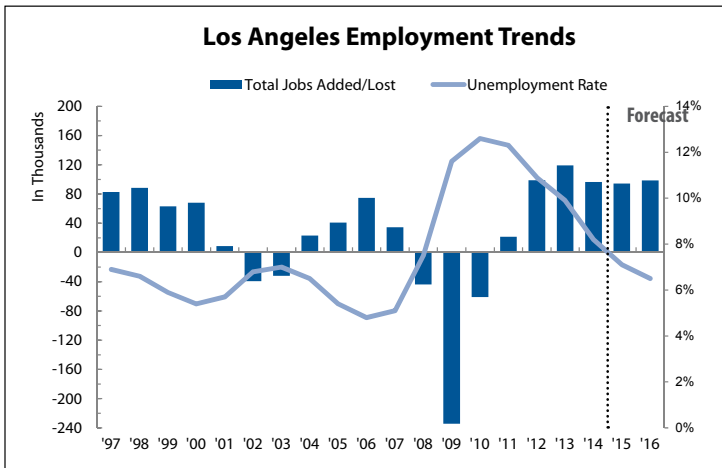
Steady improvement is the story of the Los Angeles metropolitan area's economy. The majority of key industry sectors saw sustained improvement over the past years, with some industries surpassing record employment levels. Education & Health Services led all sectors year over year, adding 22,500 jobs. The metro area's unemployment rate dropped by 160 basis points to 7.0% within the past year due to strong, steady job growth. Los Angeles has created an astounding net 445,200 new jobs since its trough in 2010, and the number of total jobs remain above their pre-recession peak in December 2007. Los Angeles' economic outlook remains positive with 94,400 new jobs forecasted in 2015, followed by a strong addition of 98,800 jobs in 2016, according to Moody's Analytics.

The Los Angeles medical office building (MOB) sector witnessed 27,171 sq. ft. of direct net absorption growth during the quarter, and 193,483 sq. ft. of occupancy gains over the past 12 months. MOB vacancy levels are 90 basis points higher than their 10-year historical average but remain significantly lower than standard office space vacancy levels. The Class A property sector recorded a loss of 26,328 sq. ft. during the quarter but has experienced a gain of 102,010 sq. ft. over the past 12 months. Meanwhile, the Class B sector experienced 53,499 sq. ft. of quarterly absorption growth, increasing its trailing 12-month total to 91,473 sq. ft. The Class B sector leasing gains helped lower overall year-over-year vacancy rates by 10 basis points to 10.0% as demand narrowly outpaced construction deliveries. Class A full-service gross monthly asking rents decreased 2.3% to \$2.97 per sq. ft., while Class B monthly rents have subsided by 1.2% to \$2.57 per sq. ft. over the prior 12 months. With new product projected to come online during the final months of 2015 and first quarter of 2016, overall rents are expected to slightly rise.

As the healthcare industry continues to experience change nationally, the Los Angeles medical office market has evolved in an effort to satisfy the needs and requirements from tenants requiring medical office space. Tenants seek space that is conveniently located to their patient population and offers amenities that include technological advances in medical care. Advances in disease control, the aging Baby Boomer generation, sweeping regulatory changes under the Affordable Care Act and more empowered consumers seeking healthcare services will continue to shape the industry and create a new health care economy.



HISTORICAL TRENDS & FORECAST



SUBMARKET STATISTICS

Submarket	Total Inventory SF	TOTAL SPACE AVAILABLE		DIRECT VACANCY RATES		DIRECT NET ABSORPTION		OVERALL RENTAL RATES		
		Direct Available	Sublease Available	Direct Vacancy	Y-O-Y Change	Current Qtr.	Trailing 12- Months	Avg Rents PSF/Yr	Avg Rents PSF/Mo.	Y-O-Y % Change
Greater Downtown	1,310,782	181,170	4,575	6.8%	-0.8%	5,989	9,890	\$28.79	\$2.40	4.88%
Class A	290,401	33,445	0	10.7%	-3.0%	1,541	8,749	\$34.80	\$2.90	5.45%
Class B	1,020,381	147,725	4,575	5.7%	-0.1%	4,448	1,141	\$28.64	\$2.39	4.68%
Mid-Wilshire	1,504,901	173,511	10,750	10.9%	-0.5%	(4,985)	7,694	\$30.32	\$2.53	1.78%
Class A	484,313	77,632	10,000	15.6%	-1.4%	(671)	7,054	\$31.28	\$2.61	2.52%
Class B	1,020,588	95,879	750	8.6%	-0.1%	(4,314)	640	\$29.50	\$2.46	0.99%
Mid-Cities	1,114,949	161,487	1,091	16.9%	4.1%	(16,719)	(44,904)	\$23.28	\$1.94	-2.72%
Class A	84,879	38,906	1,091	41.9%	9.5%	(6,023)	(8,079)	\$21.00	\$1.75	-12.43%
Class B	1,030,070	122,581	0	14.8%	3.6%	(10,696)	(36,825)	\$23.84	\$1.99	-0.29%
San Fernando Valley	3,809,782	442,972	27,663	10.3%	0.6%	(23,097)	(22,835)	\$28.56	\$2.38	-4.90%
Class A	1,545,125	111,314	4,113	6.8%	0.9%	(27,237)	(14,655)	\$30.26	\$2.52	-9.54%
Class B	2,264,657	331,658	23,550	12.7%	0.4%	4,140	(8,180)	\$27.81	\$2.32	-3.54%
San Gabriel Valley	1,229,291	123,444	0	4.0%	-1.7%	6,894	13,132	\$27.00	\$2.25	3.81%
Class A	72,000	4,511	0	6.3%	-6.7%	1,310	(54)	\$27.48	\$2.29	17.24%
Class B	1,157,291	118,933	0	3.8%	-0.7%	5,584	13,186	\$26.99	\$2.25	3.45%
Santa Clarita Valley	448,195	101,157	0	14.1%	-1.7%	(9,952)	7,705	\$38.43	\$3.20	-1.39%
Class A	77,911	11,149	0	0.0%	-6.7%	-	5,257	\$42.24	\$3.52	-
Class B	370,284	90,008	0	17.0%	-0.7%	(9,952)	2,448	\$37.87	\$3.16	2.35%
South Bay	3,817,705	624,760	3,337	13.5%	-1.0%	38,950	117,738	\$26.48	\$2.21	0.46%
Class A	1,073,274	252,955	0	17.4%	-4.8%	(4,386)	51,783	\$25.93	\$2.16	5.45%
Class B	2,744,431	371,805	3,337	11.9%	0.5%	43,336	65,955	\$26.78	\$2.23	-1.58%
Tri-Cities	2,550,344	204,512	9,670	7.3%	-1.3%	8,783	32,145	\$34.92	\$2.91	-4.51%
Class A	787,651	61,559	4,920	7.5%	1.8%	(2,901)	(13,983)	\$39.06	\$3.26	3.09%
Class B	1,762,693	142,953	4,750	7.2%	-2.7%	11,684	46,128	\$33.60	\$2.80	-7.26%
Conejo Valley	647,225	95,001	8,087	13.9%	3.1%	(9,466)	(20,285)	\$28.31	\$2.36	-2.61%
Class A	-	-	-	-	-	-	-	-	-	-
Class B	647,225	95,001	8,087	13.9%	3.1%	(9,466)	(20,285)	\$28.31	\$2.36	-2.61%
Simi Valley	43,312	5,975	0	13.8%	-2.1%	(1,799)	901	\$29.71	\$2.48	0.00%
Class A	-	-	-	-	-	-	-	-	-	-
Class B	43,312	5,975	0	13.8%	-2.1%	(1,799)	901	\$29.71	\$2.48	0.00%
Westside	4,276,188	357,926	60,565	6.1%	-1.3%	32,573	92,302	\$49.87	\$4.16	-0.26%
Class A	2,517,985	208,039	49,343	4.9%	-1.1%	12,039	65,938	\$50.08	\$4.17	-1.28%
Class B	1,758,203	149,887	11,222	7.8%	-1.5%	20,534	26,364	\$49.59	\$4.13	1.06%

Los Angeles Totals	Total Inventory SF	TOTAL SPACE AVAILABLE		DIRECT VACANCY RATES		DIRECT NET ABSORPTION		OVERALL RENTAL RATES		
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Class A	6,933,539	799,510	69,467	9.0%	-0.9%	-26,328	102,010	\$35.66	\$2.97	-2.30%
Class B	13,819,135	1,672,405	56,271	10.0%	-0.1%	53,499	91,473	\$30.82	\$2.57	-1.15%
Overall	20,752,674	2,471,915	125,738	9.6%	-0.4%	27,171	193,483	\$32.36	\$2.70	-1.01%

METHODOLOGY

Total Inventory: The total inventory includes all single and multi-tenant leased medical office buildings with at least 25,000 square feet of gross rentable square footage.

Total Space Available: Available space currently being marketed which is either physically vacant or occupied.

Direct Space Available: Space that is being offered for lease directly from the landlord or owner of a building. Under construction space is not included in space available figures.

Sublease Space Available: Space that has been leased by a tenant and is being offered for lease back to the market by the tenant with the lease obligation.

Direct Vacancy Rate: Direct space physically vacant divided by the total rentable inventory.

Direct Net Absorption: The net change in occupied direct space over a given period of time.

Under Construction: Office buildings which have commenced construction as evidenced by site excavation or foundation work.

Direct Asking Rents: The quoted full-service asking rent for available space expressed in dollars per sq. ft.

Los Angeles

Medical Office Market | Q3 2015

PMRG Market AT A Glance



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