



# LOS ANGELES MEDICAL OFFICE MARKET REPORT

FIRST QUARTER 2015



#### ANNUAL JOB GROWTH

LA's economy has created 101,100 jobs in the 12 months ending February 2015. The Education & Health Services and Trade Transportation & Utilities sectors accounted for the largest annual gains with 27,400 and 19,600 jobs, respectively.

**101k**  
jobs

#### 12-MO DIRECT NET ABSORPTION

South Bay was the top performing submarket with 151k sq. ft. of occupancy gains over the past 12 months. Tri-Cities also contributed to the annual gains with nearly 40k sq. ft. absorbed.

**204k**  
square feet

#### DIRECT VACANCY RATE

The medical office direct vacancy fell slightly by 10 basis points to 10.8% over the prior 12 months, but remains 590 basis points higher than its cyclical low of 4.9% at mid-year 2007.

**10.8**  
percent

#### OVERALL RENTS

Overall asking rents have increased by 3.0% to \$2.68 per sq. ft. in the past year – but remains 6.4% below its 2008 pre-recession peak. Asking rents are expected to surpass their prior peak by 2016.

**\$2.68**  
per square foot

#### UNDER CONSTRUCTION

With six projects under construction, the construction pipeline is expected to deliver approximately 345,000 sq. ft. in 2015. The Ventana, an 118,000 sq. ft. Class A medical office building is the largest project slated to deliver by December 2015 and is already 70.4% pre-leased.

**315k**  
square feet

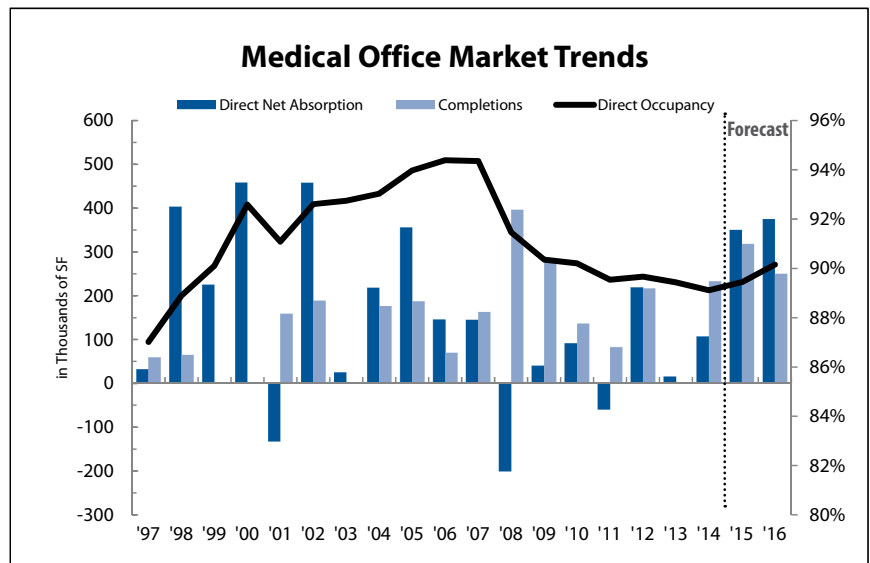
\*Arrows represent change from previous 12 months

## MOB SECTOR SHOWS STEADY IMPROVEMENT

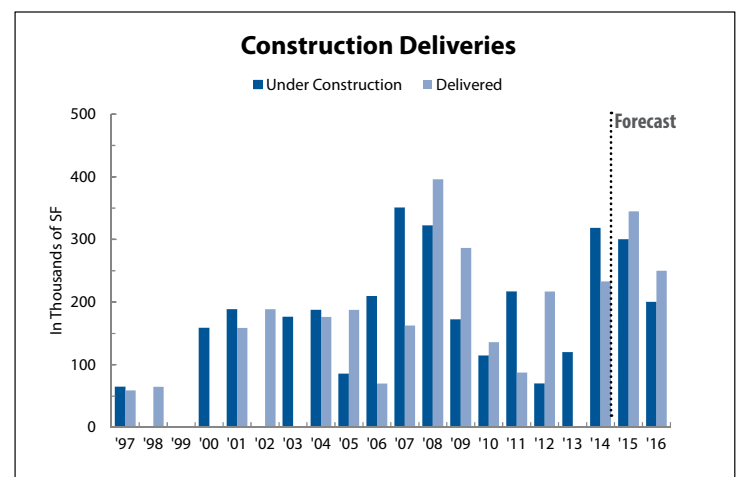
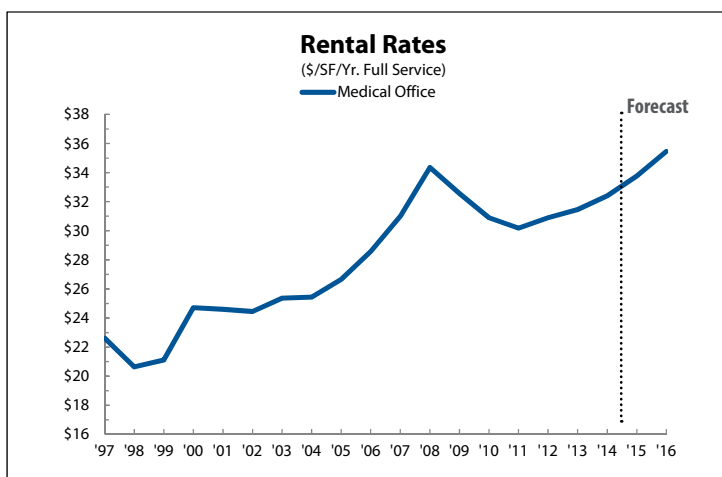
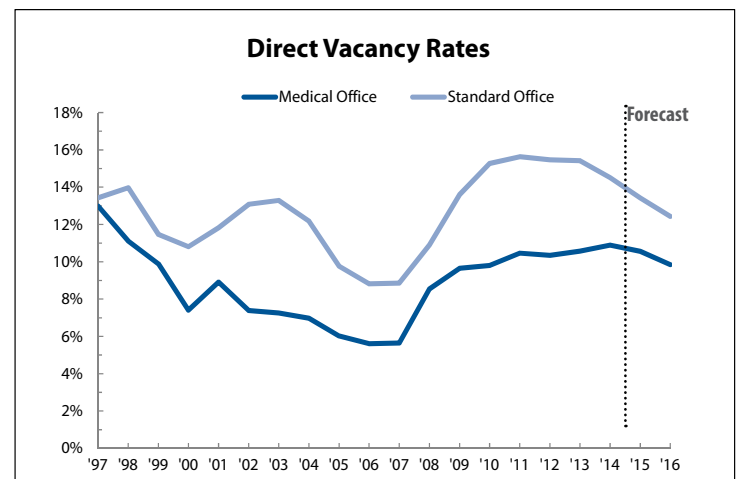
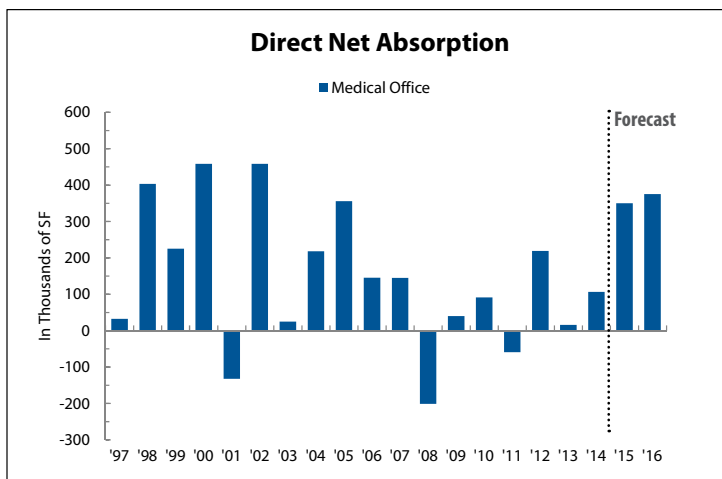
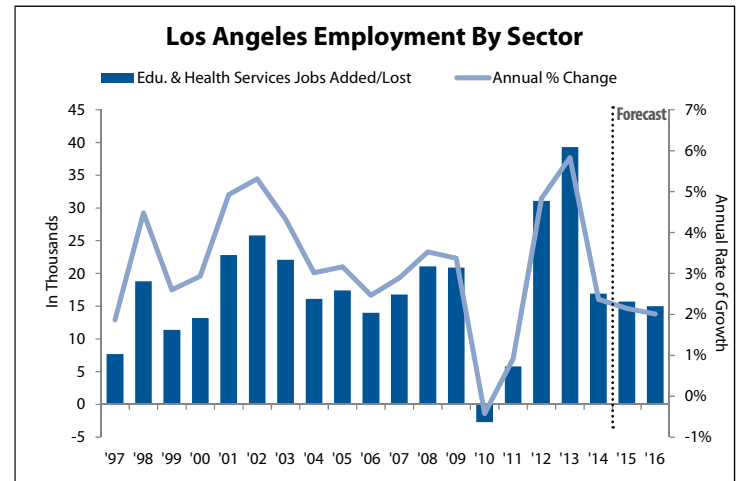
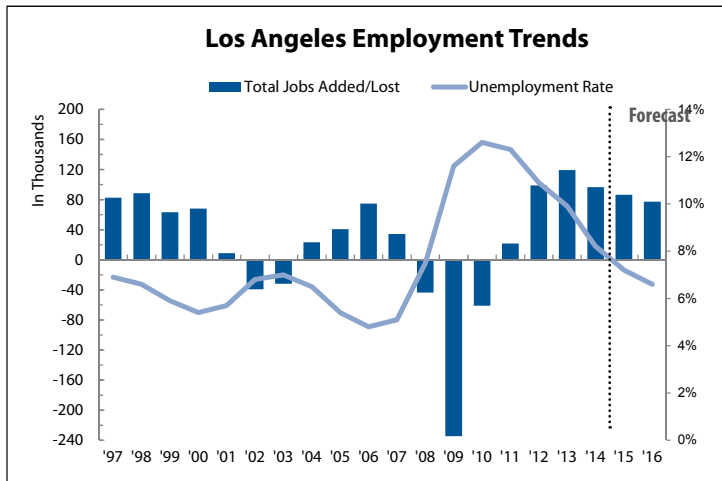
The Los Angeles metropolitan area's economy continues to recover, with a handful of industries hitting record employment levels within the past year. Most notably, employment growth within the Education and Health Services sector has accounted for 27% of the annual gains, which has translated into healthy occupancy gains in the most desirable submarkets. As a result of the steady job growth, the metro area's unemployment rate has dropped by 100 basis points to 7.7% within the past year. Los Angeles has remarkably created 433,500 jobs since its trough in 2010, and is on pace to finally surpass its 2007 pre-recession peak later this year. The economic outlook for Los Angeles remains bright with 70,000 jobs forecasted for 2015 followed by a strong addition of 70,000 jobs in 2016, according to the Los Angeles EDC.

The Los Angeles medical office market experienced a bump with 37,568 sq. ft. of positive absorption growth this past quarter, and 203,699 sq. ft. of occupancy gains over the past 12 months. Although MOB vacancy levels remain 210 basis points above their 10-year historical average, it remains a healthy figure considering the much higher vacancy rate for standard office space. The Class A property sector more than made up for its nominal gains and losses with 82,201 sq. ft. of absorption gains over the past 12 months, causing direct vacancy rates to decline by 70 basis points to 11.3%. Meanwhile, the Class B sector experienced 23,015 sq. ft. of positive absorption growth during the quarter, causing the trailing 12-month total to rise to 121,498 sq. ft. Despite the leasing gains, Class B vacancy rates have risen 40 basis points to 10.6% over the past year, largely due to new construction deliveries outpacing demand. The recovering economy has allowed owners to push Class A full-service gross asking rents up 1.7% to \$2.87 per sq. ft., while Class B rents appreciated by 3.7% to \$2.59 per sq. ft. over the past 12 months.

As the traditional medical office building transforms to enhance overall efficiency, future leasing demand for MOB space will be aided by the increase in medical procedures performed in satellite offices rather than traditional hospital settings. As health service providers are moving closer to their growing suburban patient base, this has prompted medical construction activity to nearly triple to just over 315,000 sq. ft. within the past year, which is currently 70% pre-leased. The long-term outlook for MOB properties will be continually shaped by advances in disease control, the aging baby boom generation, sweeping regulatory changes under the Affordable Care Act and more empowered consumers seeking healthcare services, which is creating 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
<b>Greater Downtown</b>	1,379,402	202,499	3,624	8.6%	0.4%	10,109	21,520	\$28.57	\$2.38	-0.24%
Class A	320,401	48,962	0	17.0%	2.7%	15,309	17,121	\$34.26	\$2.85	-0.38%
Class B	1,059,001	153,537	3,624	6.1%	-0.4%	(5,200)	4,399	\$27.57	\$2.30	1.96%
<b>Mid-Wilshire</b>	1,469,940	178,954	750	10.8%	0.7%	8,131	(10,170)	\$29.83	\$2.49	5.00%
Class A	484,313	79,361	0	15.8%	-0.7%	2,282	3,522	\$30.56	\$2.55	-1.04%
Class B	985,627	99,593	750	8.3%	1.4%	5,849	(13,692)	\$29.27	\$2.44	12.19%
<b>Mid-Cities</b>	1,006,653	169,909	1,091	15.6%	0.7%	10,627	(7,208)	\$23.53	\$1.96	-3.21%
Class A	84,879	32,883	1,091	34.8%	7.4%	0	(6,322)	\$23.97	\$2.00	-0.29%
Class B	921,774	137,026	0	13.8%	0.1%	10,627	(886)	\$23.43	\$1.95	-3.78%
<b>San Fernando Valley</b>	3,768,118	449,445	11,535	10.7%	0.3%	(32,815)	(10,311)	\$30.19	\$2.52	2.72%
Class A	1,503,466	98,254	4,607	5.7%	-0.5%	(10,691)	7,604	\$32.38	\$2.70	-1.19%
Class B	2,264,652	351,191	6,928	14.1%	0.8%	(22,124)	(17,915)	\$29.38	\$2.45	4.11%
<b>San Gabriel Valley</b>	1,228,467	130,051	1,237	4.4%	1.5%	6,114	18,843	\$26.38	\$2.20	5.48%
Class A	72,000	5,222	0	6.1%	6.7%	(1,534)	528	\$27.48	\$2.29	16.10%
Class B	1,156,467	124,829	1,237	4.3%	0.4%	7,648	18,315	\$26.36	\$2.20	5.06%
<b>Santa Clarita Valley</b>	448,195	84,303	0	15.2%	1.5%	1,866	(6,863)	\$38.89	\$3.24	6.29%
Class A	77,911	11,149	0	6.7%	6.7%	0	(5,257)	\$48.34	\$4.03	-
Class B	370,284	73,154	0	17.0%	0.4%	1,866	(1,606)	\$36.85	\$3.07	0.71%
<b>South Bay</b>	3,796,795	620,476	3,337	14.1%	-1.3%	(1,129)	151,469	\$26.03	\$2.17	4.66%
Class A	1,143,154	234,571	0	16.7%	-4.3%	(5,120)	49,676	\$25.01	\$2.08	3.69%
Class B	2,653,641	385,905	3,337	13.0%	0.1%	3,991	101,793	\$26.83	\$2.24	5.42%
<b>Tri-Cities</b>	2,550,344	230,160	10,829	8.0%	1.2%	13,803	39,921	\$34.98	\$2.91	-0.46%
Class A	839,651	56,200	3,000	6.5%	-1.2%	2,137	9,985	\$38.29	\$3.19	4.85%
Class B	1,710,693	173,960	7,829	8.8%	2.3%	11,666	29,936	\$33.90	\$2.83	-2.02%
<b>Conejo Valley</b>	755,524	83,819	5,869	10.9%	-0.2%	(1,291)	1,355	\$28.48	\$2.37	-0.18%
Class A	-	-	-	-	-	-	-	-	-	-
Class B	755,524	83,819	5,869	10.9%	-0.2%	(1,291)	1,355	\$28.48	\$2.37	-0.18%
<b>Simi Valley</b>	43,312	7,608	0	17.6%	7.9%	(732)	(3,432)	\$29.71	\$2.48	0.00%
Class A	-	-	-	-	-	-	-	-	-	-
Class B	43,312	7,608	0	17.6%	7.9%	(732)	(3,432)	\$29.71	\$2.48	0.00%
<b>Westside</b>	4,389,921	373,937	51,086	10.6%	-0.2%	22,885	8,575	\$49.49	\$4.12	1.68%
Class A	2,645,985	193,517	36,426	11.6%	-0.2%	12,170	5,344	\$49.92	\$4.16	1.48%
Class B	1,743,936	180,420	14,660	9.2%	-0.2%	10,715	3,231	\$49.04	\$4.09	2.23%

Los Angeles Totals	Total Inventory SF	TOTAL SPACE AVAILABLE		DIRECT VACANCY RATES		DIRECT NET ABSORPTION		OVERALL RENTAL RATES		
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Class A	7,171,760	760,119	45,124	11.3%	-0.7%	14,553	82,201	\$34.45	\$2.87	1.68%
Class B	13,664,911	1,771,042	44,234	10.6%	0.4%	23,015	121,498	\$31.04	\$2.59	3.71%
Overall	20,836,671	2,531,161	89,358	10.8%	-0.1%	37,568	203,699	\$32.16	\$2.68	3.01%

## 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.



# PMRG Market AT A Glance



## ABOUT PMRG

Headquartered in Houston, Texas, PM Realty Group (PMRG) is one of the nation's leading real estate companies focusing on comprehensive property services, development and acquisitions. With a strategic presence in 30 markets, PMRG provides the highest quality services to its clients and investors. PMRG's clients and investors include large financial institutions, advisors and high net worth individuals. By capitalizing on the team's experience and expertise, PMRG has the ability to undertake large and challenging management, leasing, development and acquisition projects.

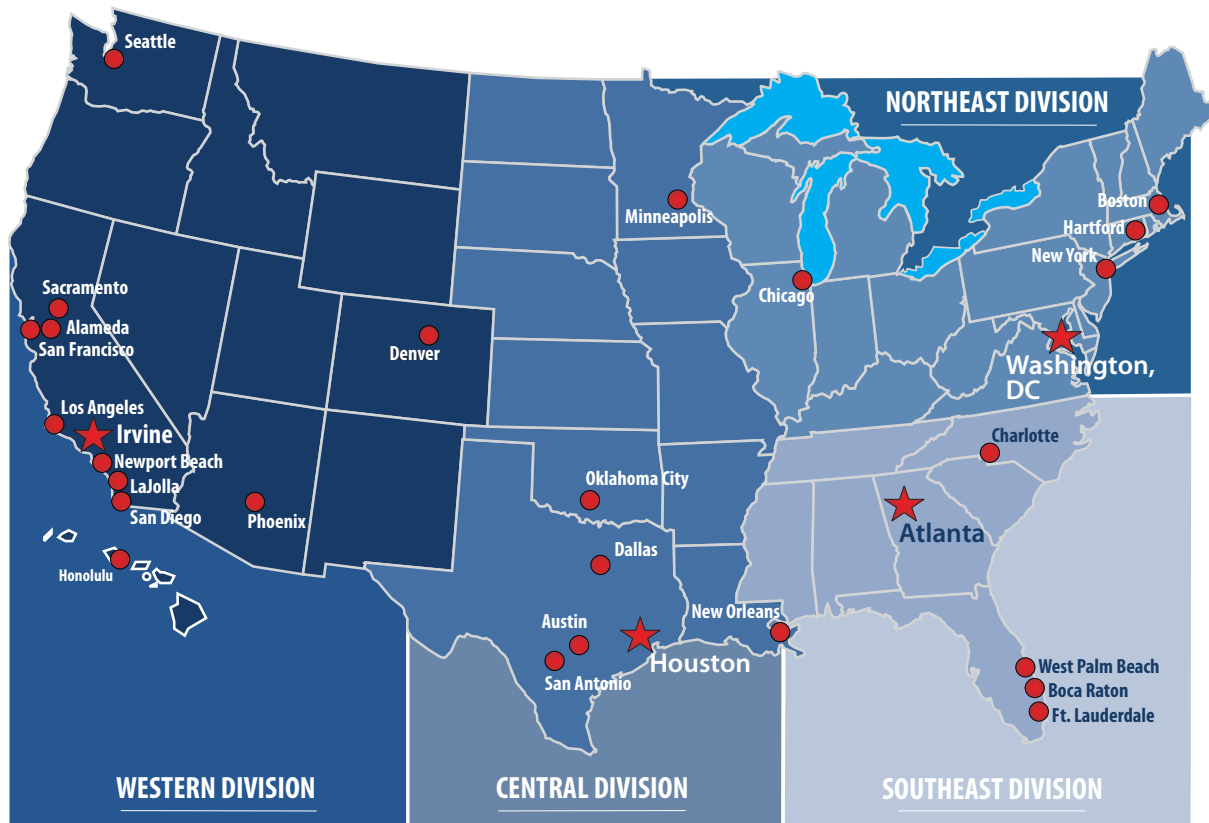
PMRG's portfolio, including projects managed for third parties, includes commercial office buildings, mixed-use centers, corporate headquarters, industrial buildings, medical facilities, high-rise multifamily buildings and re-appropriated military facilities.

Our goal is to generate exceptional returns for our clients and investors by focusing on real estate fundamentals. For additional information, visit [www.pmr.com](http://www.pmr.com).

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