



ANNUAL JOB GROWTH

Orange County created 32,200 new jobs in the 12 months ending November 2014. Nearly 34% of the annual gains occurred in the education & health services industry sector.

32.2k
jobs

12-MO DIRECT NET ABSORPTION

The medical office market experienced 106,769 sq. ft. of direct absorption growth in 2014. Airport Area accounted for the majority of the annual occupancy gains with 64,838 sq. ft. of positive absorption.

106k
square feet

DIRECT VACANCY RATE

Office direct vacancy decreased 30 basis points to 9.9% over the year to break even with its historical five-year vacancy average. The Airport Area and Central County accounted the majority of the reduction in vacancy within the past 12 months.

9.9
percent

OVERALL RENTS

As a result of sluggish leasing demand and increased competition for medical tenants, overall asking rents have declined by \$0.07 since year-end 2013. However, asking rents have begun to stabilize and are expected to increase in the most desirable submarkets.

\$2.27
per square feet

UNDER CONSTRUCTION

Although construction has slowed down, there are still projects in the pipeline. In early 2015, the San Juan Medical Center is slated to deliver 42,551 sq. ft., and PMB Real Estate Services will be breaking ground on 50,000 sq. ft. for their Hoag Health Center Irvine project – which is already fully leased.

**Arrows represent change from previous 12 months*

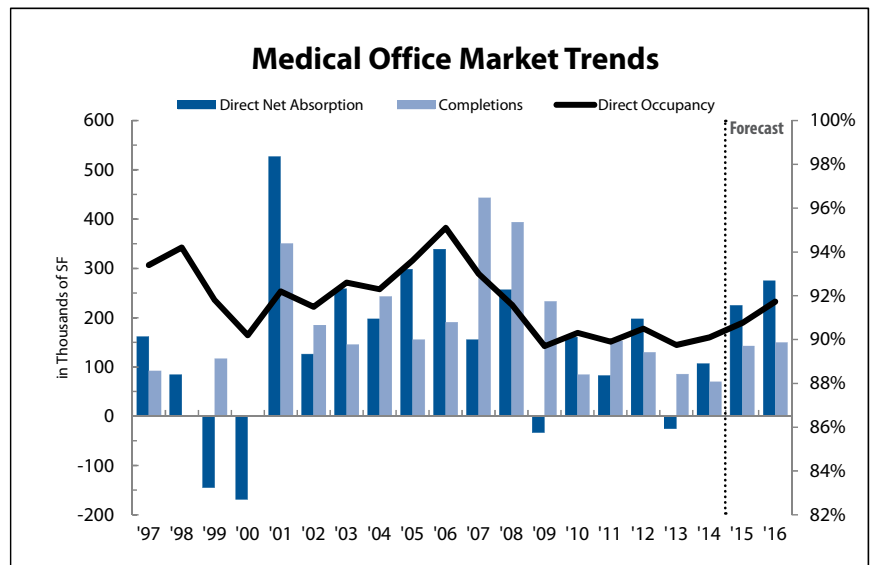
43k
square feet

MOB LEASING MARKET IN TRANSITION

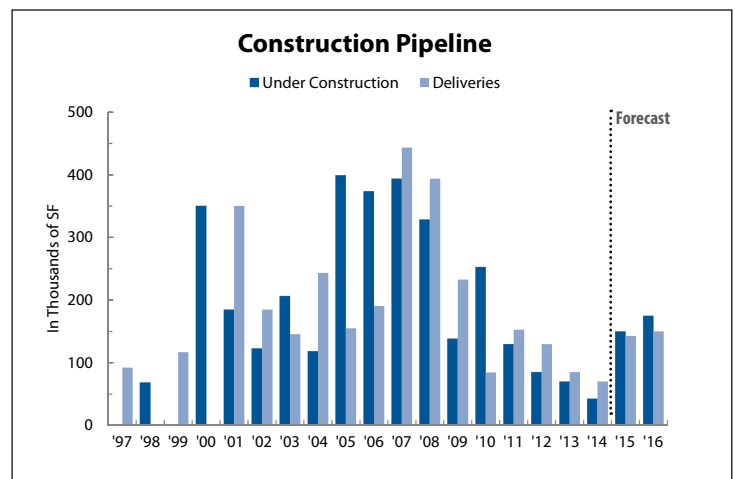
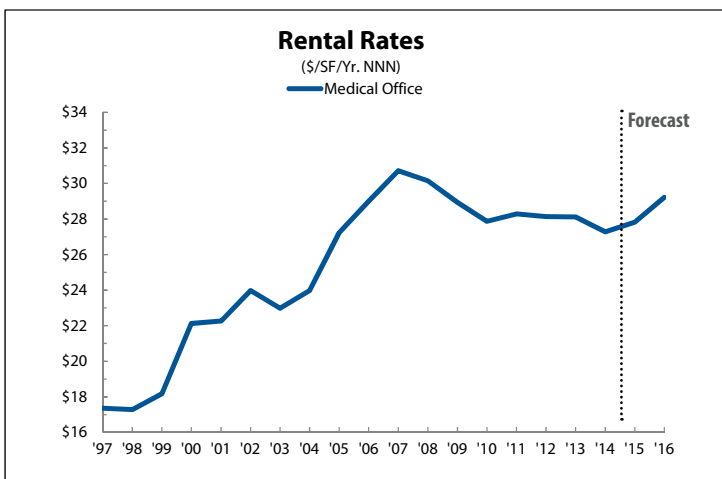
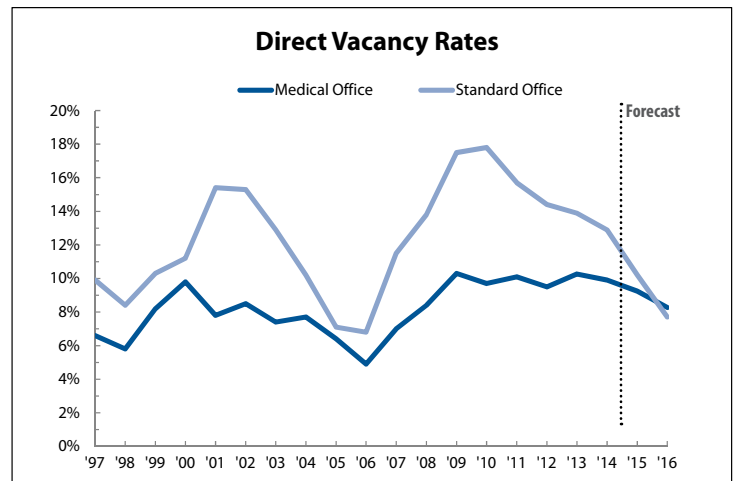
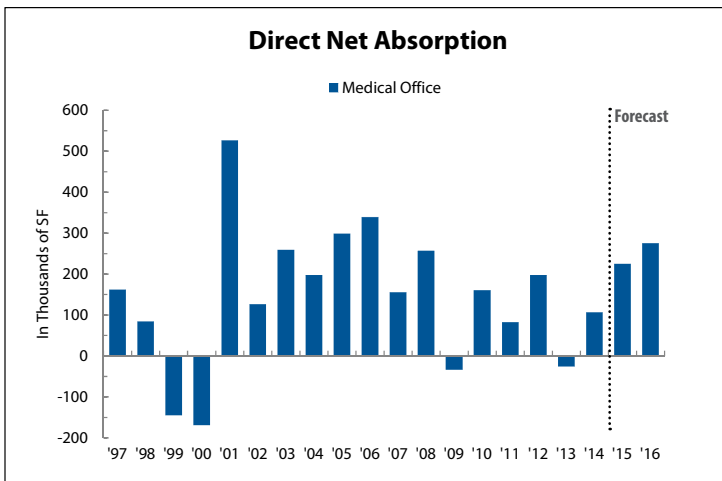
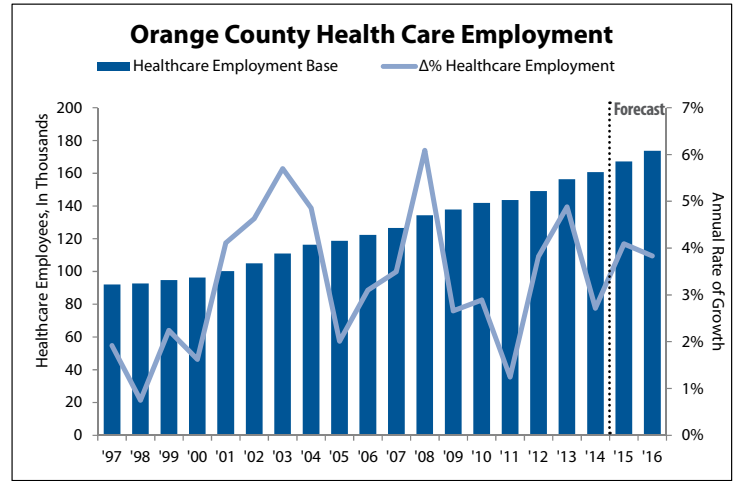
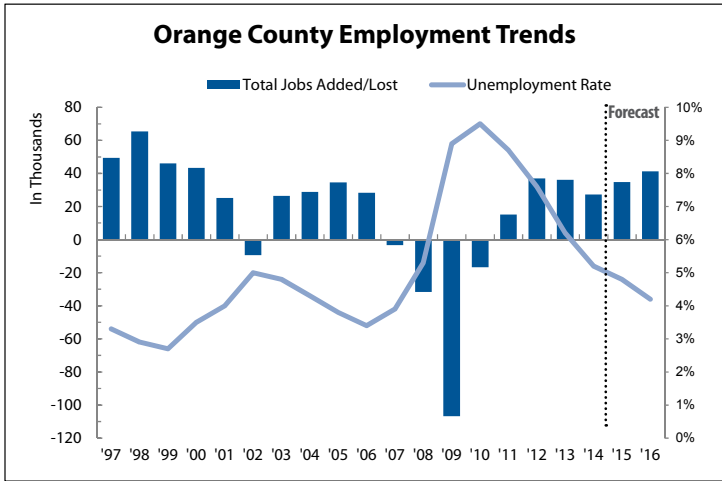
Orange County's economy – driven by consumer spending and investment coupled with a strengthening housing market – continued to expand with steady job growth and falling unemployment rates. The county's unemployment rate has dropped by 80 basis points to 5.0% within the past year to a six-year low, and remains one of the lowest in the state. Even though Orange County has remarkably created 166,800 jobs since its post-recessionary trough in early 2010, the current employment levels still remain 34,000 jobs below their pre-recessionary peak recorded at year-end 2006. According to Moody's Analytics, employment payrolls are projected to increase by 36,500 jobs in 2015, followed by an even stronger addition of 41,300 jobs in 2016.

After experiencing a brief dip in the prior quarter, Orange County's medical office leasing market witnessed 66,996 sq. ft. of occupancy gains during the fourth quarter, bringing the annual direct absorption total to 106,769 sq. ft. in 2014. As a result, the countywide direct vacancy rate has declined by 30 basis points to 9.9% since year-end 2013, and remains significantly below the standard office direct vacancy rate of 12.9%. As a result of tepid leasing demand coupled with increased competition with alternative space options, monthly rental rates have declined by approximately 3% to \$2.27 NNN per sq. ft. since year-end 2013, but remain above the average rents for standard office space.

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. Since today's consumers expect quickness and convenience in all services, urgent care centers are becoming a popular option for patients. This has also led health service providers to now consider retail centers for their office space needs, which has increased competition and diluted activity that was primarily funneled into medical office buildings. As a result, improvement in the separately-tracked MOB market does not accurately reflect the impact of Orange County's healthy healthcare industry. 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 healthcare economy. Although demographic shifts will boost demand for healthcare in the years ahead, escalating operating expenses and a growing regulatory environment will drive some consolidation within the industry.



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.
Airport Area	3,001,828	250,202	26,680	6.3%	-2.2%	10,772	64,838	\$37.90	\$3.16
Central County	3,125,418	352,990	6,011	9.8%	-0.9%	29,342	27,794	\$25.45	\$2.12
North County	1,856,147	204,984	1,594	9.0%	-0.1%	5,858	1,784	\$27.31	\$2.28
South County	3,408,683	462,611	9,778	11.7%	-0.3%	3,832	9,563	\$27.08	\$2.26
West County	2,499,740	463,211	104,375	12.7%	2.4%	17,192	2,790	\$23.70	\$1.98
Overall	13,891,816	1,733,998	148,438	9.9%	-0.3%	66,996	106,769	\$27.28	\$2.27



METHODOLOGY

Total Inventory: The total inventory includes all single, multi-tenant and owner-occupied medical office buildings with at least 10,000 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 triple net asking rent for available space expressed in dollars per sq. ft.

PMRG Market AT A Glance



ABOUT PMRG

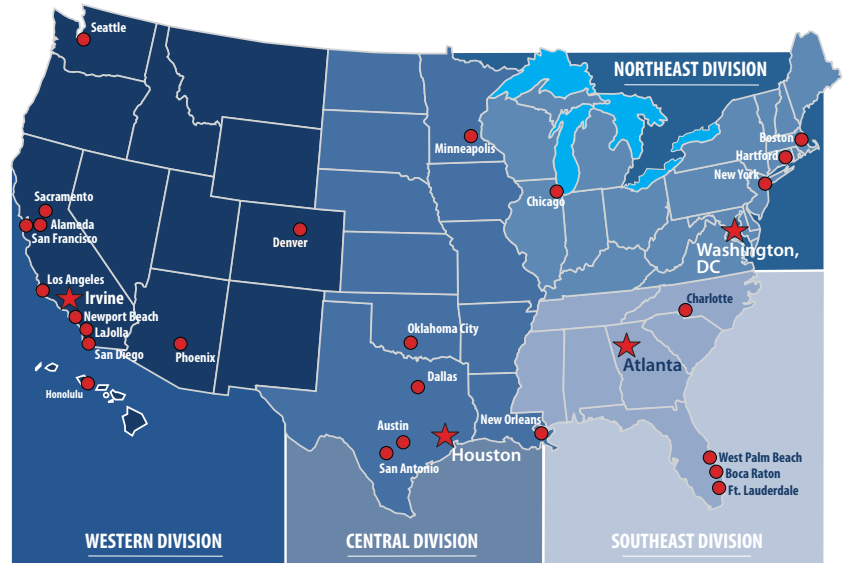
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