



ORANGE COUNTY MEDICAL
OFFICE MARKET REPORT
THIRD QUARTER 2015

PMRG | PM Realty Group





ANNUAL JOB GROWTH

OC created a net 48,500 new jobs in the 12 months ending August 2015, led by gains in Education & Health Services (9,500 jobs), Leisure & Hospitality (8,400 jobs), and Professional & Business Services (7,700 jobs).

48.5k
jobs

12-MO DIRECT NET ABSORPTION

The medical office market experienced 202,599 sq. ft. of direct absorption growth over the prior 12 months. West County accounted for the bulk of the quarterly gains with 94,910 sq. ft. of positive absorption.

203k
square feet

DIRECT VACANCY RATE

The countywide direct vacancy fell 110 basis points compared to a year ago. West County and Central County have experienced the largest reduction in vacancy, recording 3.7% and 2.0% decline respectively.

9.3
percent

OVERALL RENTS

Average triple net asking rents have improved in every submarket except for North County over the prior year, with the largest rent growth occurring in Central County, which saw rents jump by 9.7% over the prior 12 months.

\$2.33
per square foot

UNDER CONSTRUCTION

Construction has slightly increased this year with Snyder Langston breaking ground on Hoag Health Center Irvine, which consist of three fully-leased 50,000 sq. ft. ambulatory centers slated to deliver in early 2016.

150k
square feet

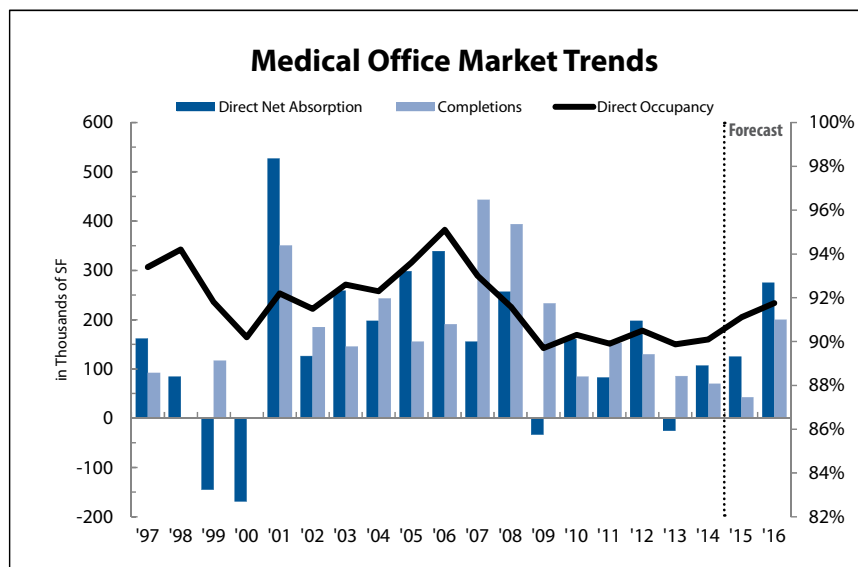
**Arrows represent change from previous 12 months*

MOB BOASTS LOWEST VACANCY RATE SINCE '09

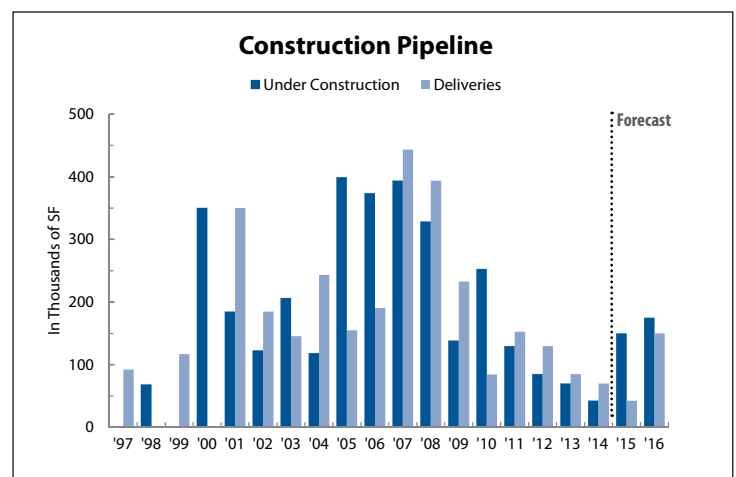
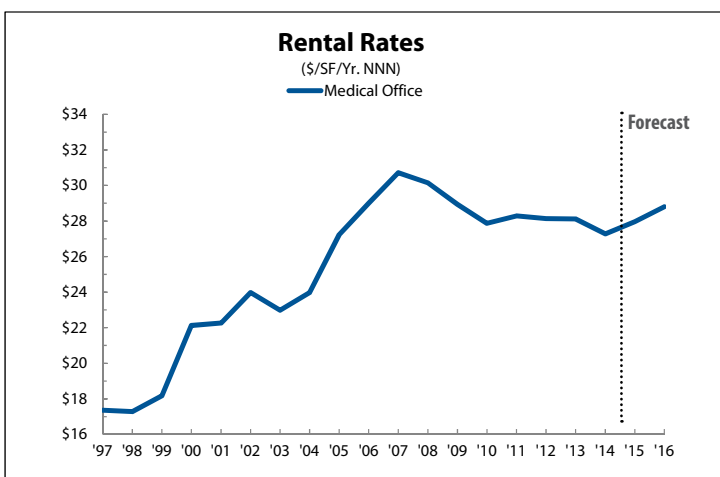
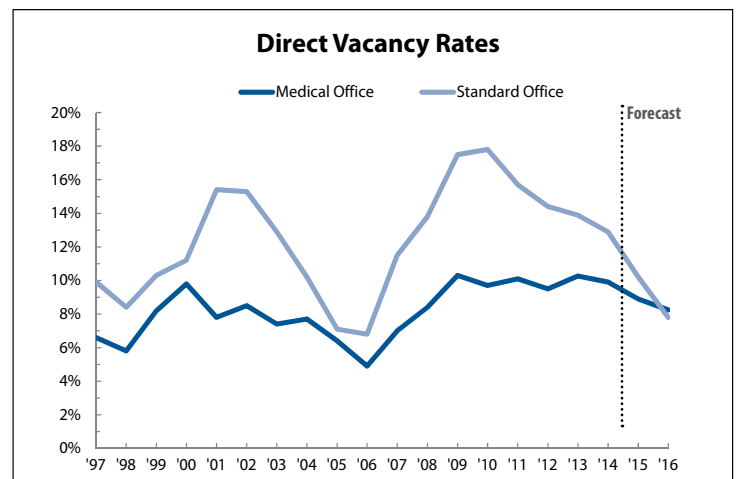
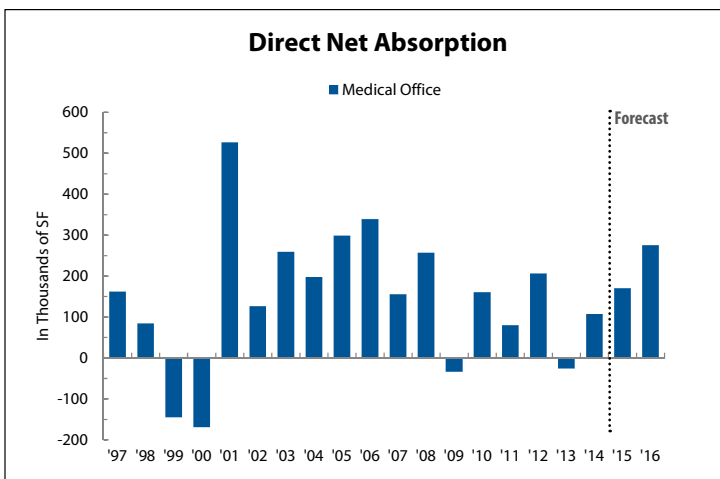
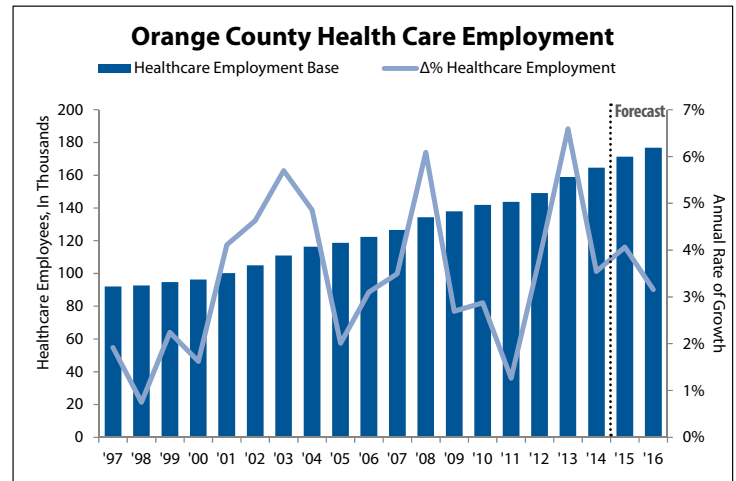
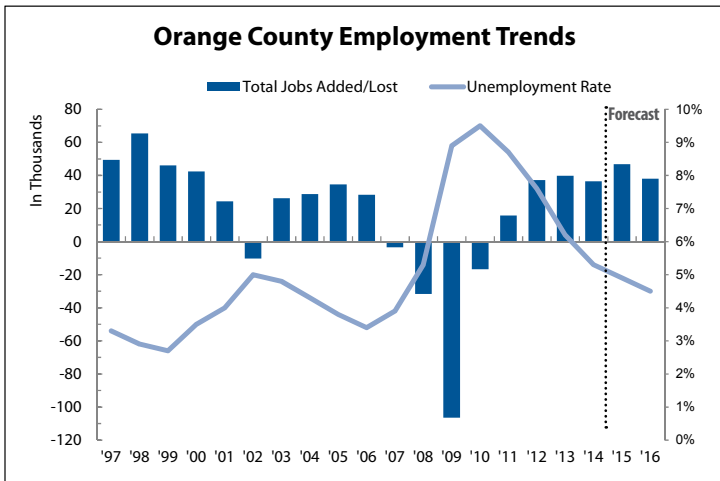
Orange County's economic expansion is well underway driven by consumer spending, investment and a strengthening housing market. OC has gained 48,500 jobs over the past 12 months ending in August 2015, representing a 3.2% increase, with the Education & Health Services sector accounting for nearly 20% of the annual growth. Although Orange County's total non-farm employment levels have temporarily dipped 7,100 jobs below its peak recorded earlier this year due to seasonal variations, the overall employment picture remains healthy. The economic outlook for Orange County remains upbeat as employment payrolls are projected to increase by 46,800 jobs in 2015, followed by a strong addition of 38,000 jobs in 2016, according to Moody's Analytics.

Orange County's medical office leasing market witnessed 127,465 sq. ft. of occupancy gains during the third quarter, increasing the trailing 12-month direct net absorption total to 202,599 sq. ft. The South and West County submarkets accounted for a combined 77.2% of the quarterly absorption gains. Due to the strong leasing gains, the countywide direct vacancy rate has declined 110 basis points to 9.3% within the past 12 months, and remains significantly below the standard office direct vacancy rate of 11.3%. Overall asking rents have improved 1.2% to \$2.33 per sq. ft. over the past 12 months, with the largest annual rent growth taking place in Central County (9.7%) and West County (8.9%).

As the shift towards wellness and preventative care continues to grow, the more the market is seeing non-emergency uses being brought outside of traditional hospital campuses. The healthcare industry has seen the supply of patients grow significantly due to the Affordable Care Act as well as the aging generation of Baby Boomers. As a result, there has been a major push within the industry to become more convenient and accessible to the new crop of patients, resulting in some clinics opening up within office buildings to offer services to employers and workers. The technology sector within the industry has been looking for smaller, more efficient spaces; while health insurance companies and administrative firms have been taking much larger spaces. Health service providers have also been considering retail centers for their office space needs. In response to the shifting needs in the industry, several healthcare groups – such as Hoag and MemorialCare – have recently begun developing healthcare campuses to accommodate non-emergency healthcare providers within the community. While demographic shifts will boost demand for healthcare in the years ahead, escalating operating expenses and a growing regulatory environment is expected to drive some consolidation within the healthcare industry.



HISTORICAL TRENDS & FORECAST



SUBMARKET STATISTICS

Submarket	Total Inventory SF	TOTAL SPACE AVAILABLE		DIRECT VACANCY RATES		DIRECT NET ABSORPTION		OVERALL RENTAL RATES (NNN)		
		Direct Available	Sublease Available	Direct Vacancy	Y-O-Y Change	Current Qtr.	Trailing 12-Months	Avg Rents PSF/Mo.	Avg Rents PSF/Yr.	Y-O-Y % Change
Airport Area	3,090,244	248,774	7,606	6.1%	-0.4%	(12,680)	13,084	\$3.18	\$38.14	3.3%
Central County	3,164,453	359,194	4,363	8.7%	-2.0%	21,372	62,319	\$2.36	\$28.30	9.7%
North County	1,969,545	246,857	326	11.6%	1.0%	20,426	(20,454)	\$2.19	\$26.25	-2.9%
South County	3,496,321	420,712	18,038	11.1%	-0.4%	56,496	52,740	\$2.29	\$27.50	0.3%
West County	2,507,021	344,608	108,851	9.6%	-3.7%	41,851	94,910	\$2.18	\$26.21	8.9%
Overall	14,227,584	1,620,145	139,184	9.3%	-1.1%	127,465	202,599	\$2.33	\$27.94	1.2%



METHODOLOGY

Total Inventory: The total inventory includes all single and multi-tenant leased 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.



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.

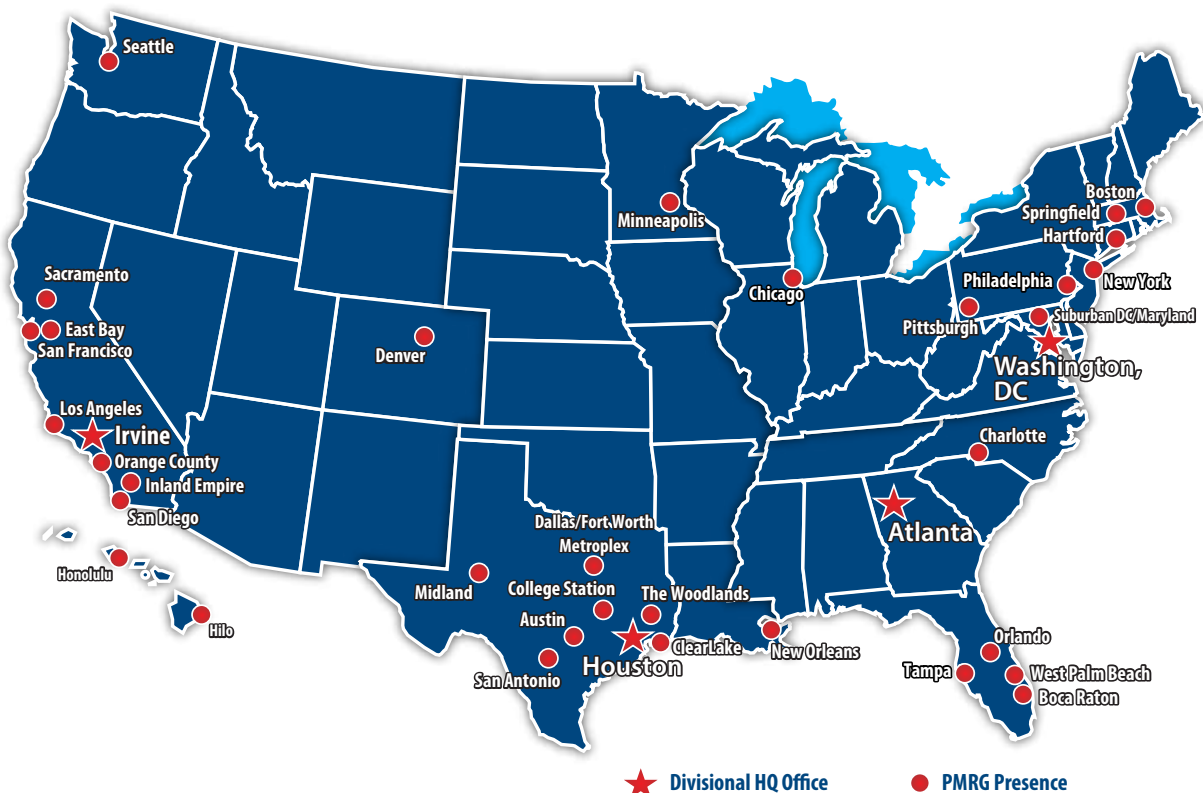
PMRG's portfolio, including projects managed for third parties, includes commercial office buildings, mixed-use centers, corporate headquarters, industrial buildings, medical facilities, high-rise multifamily buildings and re-appropriated military facilities.

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.

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