



# ORANGE COUNTY MEDICAL OFFICE MARKET REPORT

FIRST QUARTER 2015

**PMRG** | PM Realty Group



#### ANNUAL JOB GROWTH

OC created 55,400 net jobs in the 12 months ending February 2015, led by gains in Professional & Business Services (13,000 jobs), Education & Health Services (8,800 jobs), and Leisure & Hospitality (7,300 jobs).



#### 12-MO DIRECT NET ABSORPTION

The medical office market experienced 180,857 sq. ft. of direct absorption growth over the past 12 months. Airport Area accounted for the majority of quarterly gains with 58,857 sq. ft. of positive absorption.



#### DIRECT VACANCY RATE

Office direct vacancy decreased 90 basis points to 9.7% over the previous 12 months, its lowest level since mid-year 2013. The Airport Area and Central County accounted the majority of the reduction in vacancy within the past 12 months.



#### OVERALL RENTS

As a result of increased competition for medical tenants, overall asking rents have declined by 3% within the past 12 months. However, asking rents have begun to stabilize and are expected to increase in the most desired submarkets in the year ahead.



#### UNDER CONSTRUCTION

The San Juan Medical Center is slated to deliver 42,551 sq. ft. by April 2015, 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.



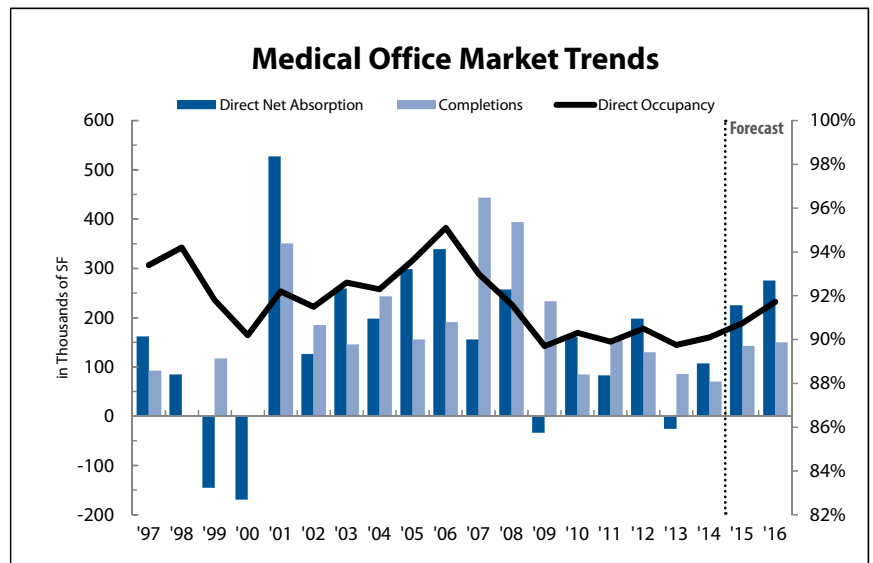
*\*Arrows represent change from previous 12 months*

## MOB VACANCY DIPS BELOW 10% MARK

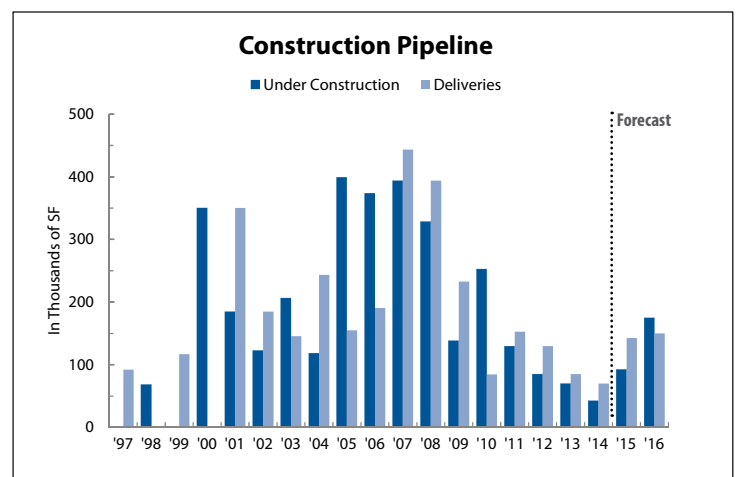
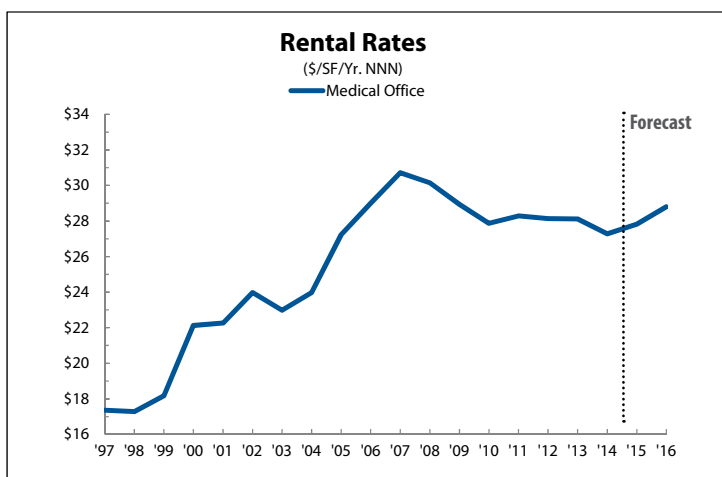
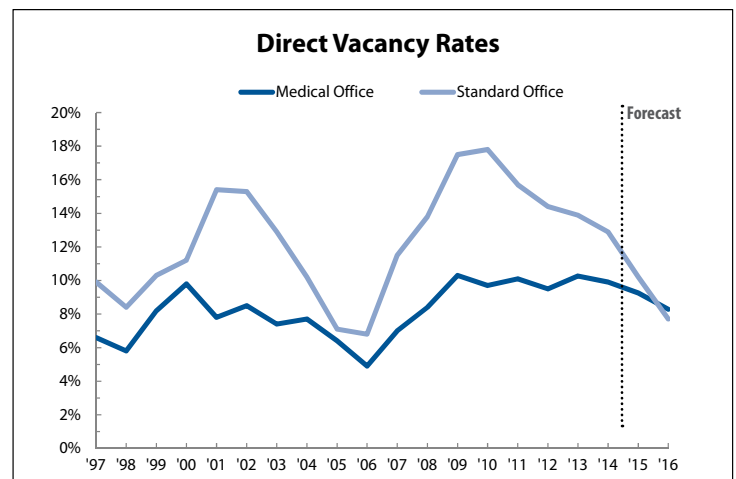
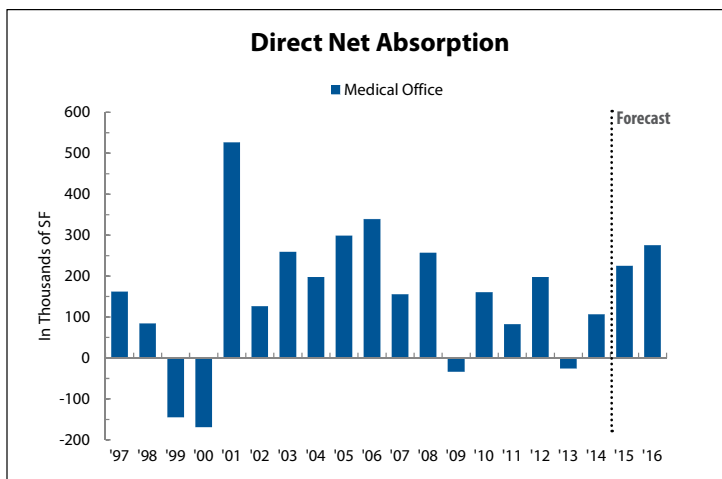
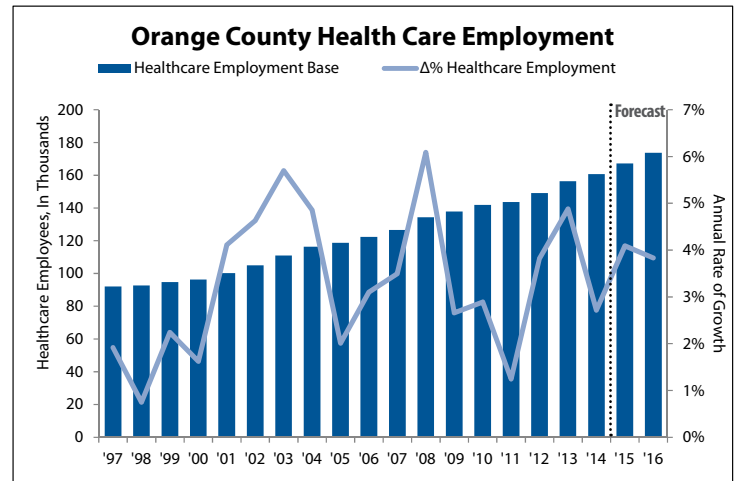
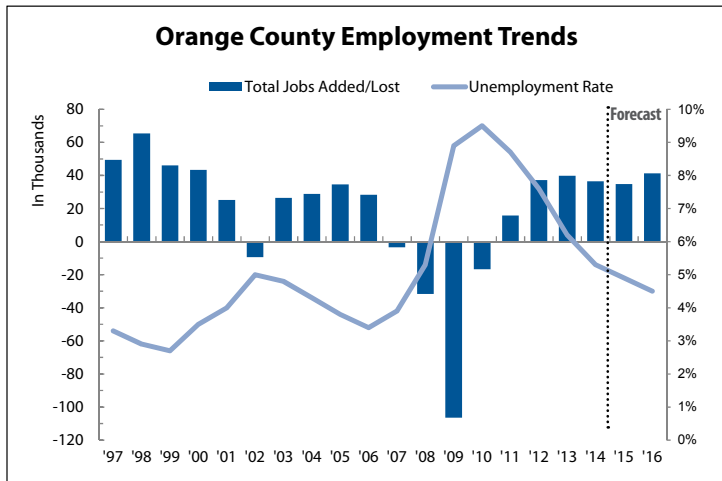
Orange County's economy continues to advance briskly with steady job growth and falling unemployment rates. OC has remarkably created 179,400 jobs since its trough in early 2010, with the healthcare & social services sector accounting for 15% of the cumulative employment gains. OC's economic outlook looks even brighter as employment payrolls are projected to increase by 34,765 jobs in 2015, followed by an even stronger addition of 41,160 jobs in 2016, according to Moody's Analytics. Most notably, job growth within the healthcare sector is expected to improve and account for 17.1% of the employment growth through 2016, averaging 6,500 jobs per year, which will benefit the medical office market.

After experiencing a brief dip in the prior quarter, Orange County's medical office leasing market witnessed 33,851 sq. ft. of occupancy gains during the first quarter, bringing the trailing 12-month direct absorption total to 180,857 sq. ft. As a result, the countywide direct vacancy rate has declined by 90 basis points to 9.7% since 12 months ago, and remains significantly below the standard office direct vacancy rate of 12.8%. Although overall asking rents have declined by 3% to \$2.26 NNN per sq. ft. over the past 12 months, rents appear to have stabilized and slightly increased in the Airport Area and West submarkets.

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. Health service providers are also now considering retail centers for their space needs, which has increased competition within the healthcare real estate market. As the industry grows, healthcare organizations are also forming partnerships to expand their reach and control costs. New affiliations recently formed include Hoag Memorial Hospital Presbyterian and USC Norris on cancer; UC Irvine Health and Corona Regional Medical Center; Memorial Care and Anthem Blue Cross; Kaiser and Target Stores on clinics; and St. Joseph Hoag Health with Children's Hospital on accountable care organization. The long-term outlook for MOB properties will be 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. Although demographic shifts will boost demand for healthcare in the years ahead, escalating operating expenses and a growing regulatory environment will likely 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
<b>Overall</b>	<b>13,891,816</b>	<b>1,733,998</b>	<b>148,438</b>	<b>9.9%</b>	<b>-0.3%</b>	<b>66,996</b>	<b>106,769</b>	<b>\$27.28</b>	<b>\$2.27</b>



## 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.





### 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.

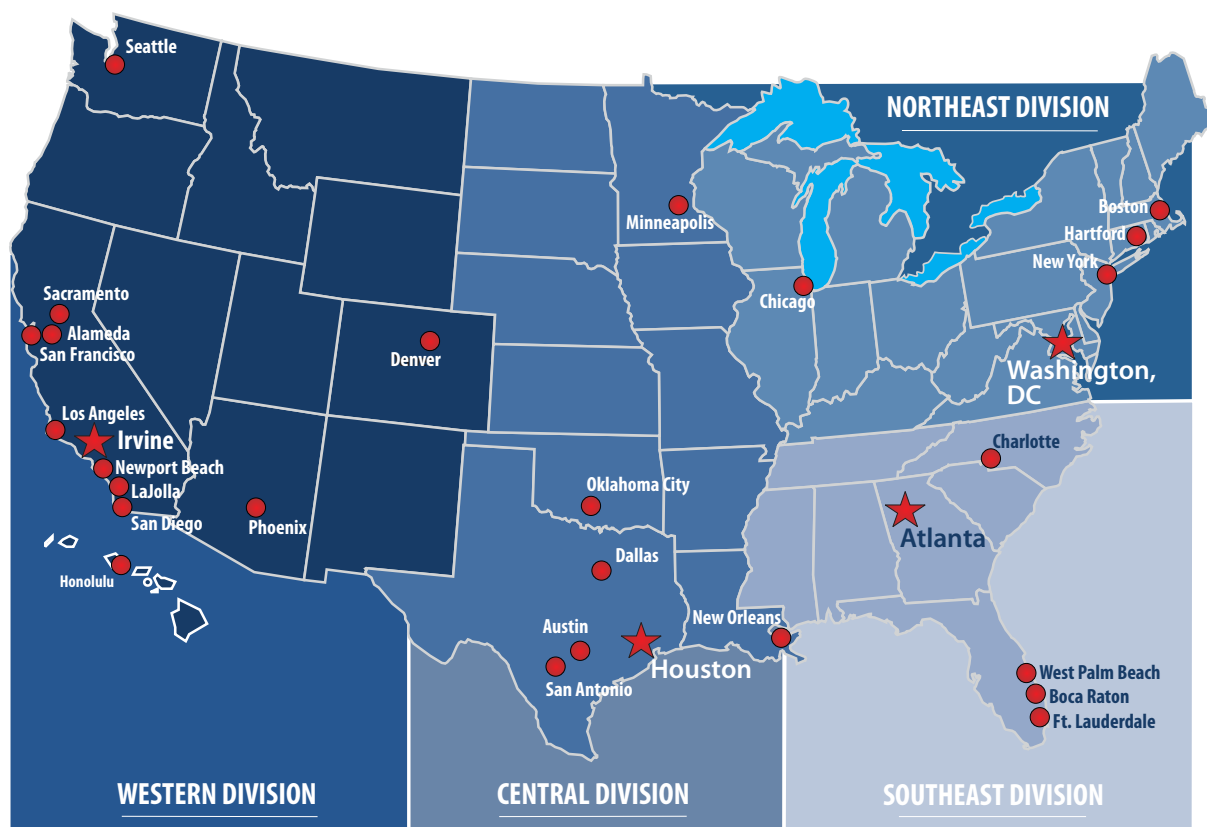
PMRG's portfolio, including projects managed for third parties, includes commercial office buildings, mixed-use centers, corporate headquarters, industrial buildings, medical facilities, high-rise multifamily buildings and re-appropriated military facilities.

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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