



PMRG
Market DATA Glance

ORANGE COUNTY MEDICAL
OFFICE MARKET REPORT
SECOND QUARTER 2015



PMRG | PM Realty Group



ANNUAL JOB GROWTH

OC created 50,700 net jobs in the 12 months ending May 2015, led by gains in Education & Health Services (12,100 jobs), Professional & Business Services (9,900 jobs), Construction (7,200 jobs) and Trade, Transportation & Utilities (5,500 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

The countywide direct vacancy remained unchanged compared to a year ago but has declined by 50 bps since its peak in 3Q14. Airport Area and Central County have experienced the largest drop in vacancy.



OVERALL RENTS

As a result of increased competition for medical tenants, overall asking rents have declined by 3.5% within the past 12 months. However, asking rents have stabilize and are expected to increase in the most desired submarkets in the year ahead.



UNDER CONSTRUCTION

Construction picked up slightly during the quarter with Pacific Medical Buildings 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.



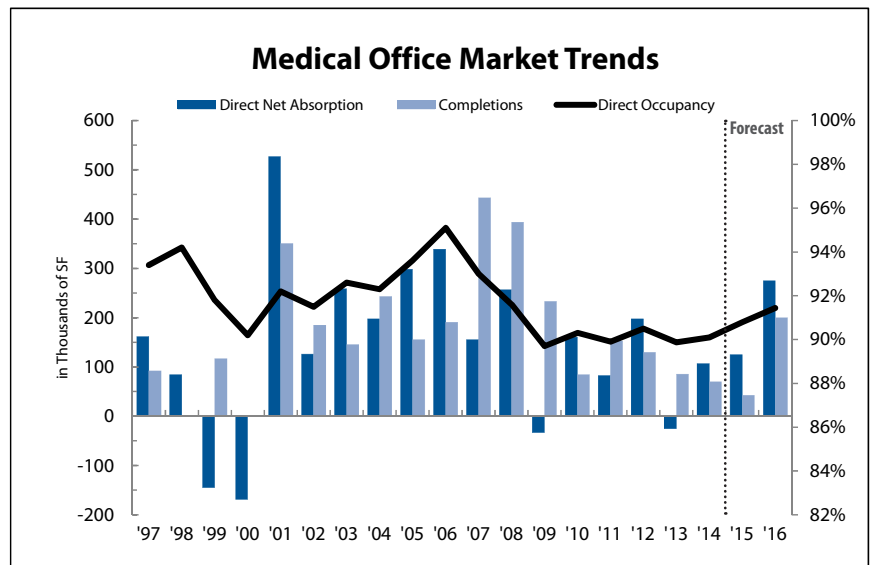
*Arrows represent change from previous 12 months

MOB SECTOR REFLECTS CHANGING DEMAND

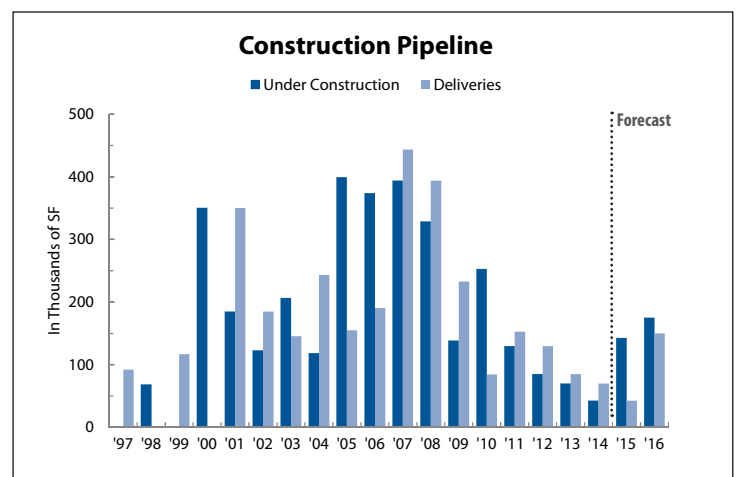
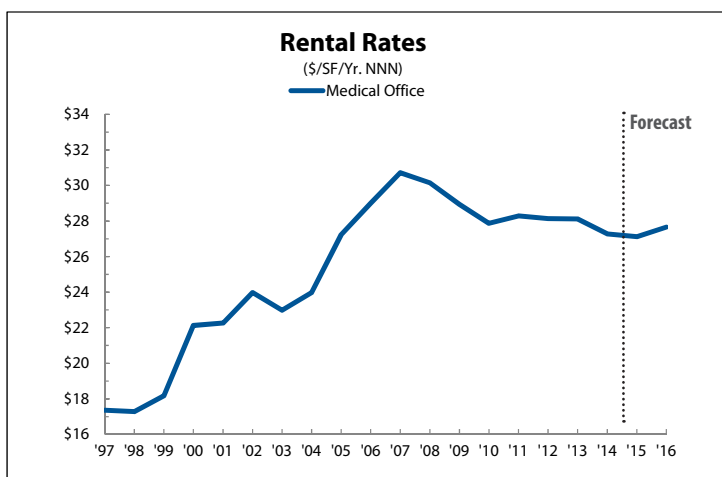
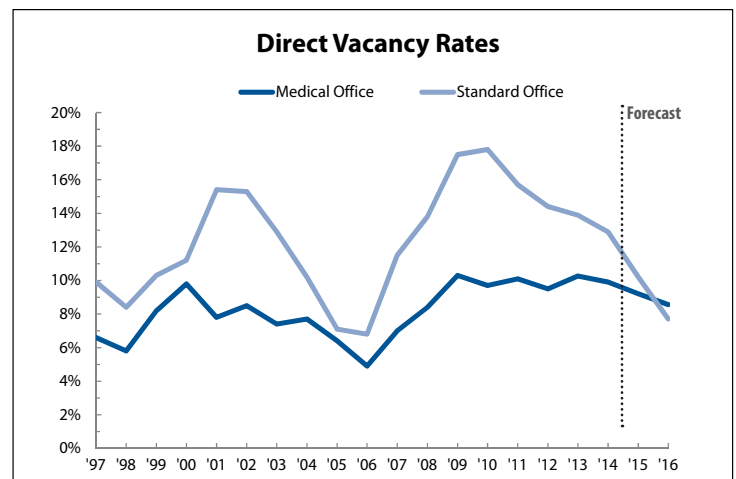
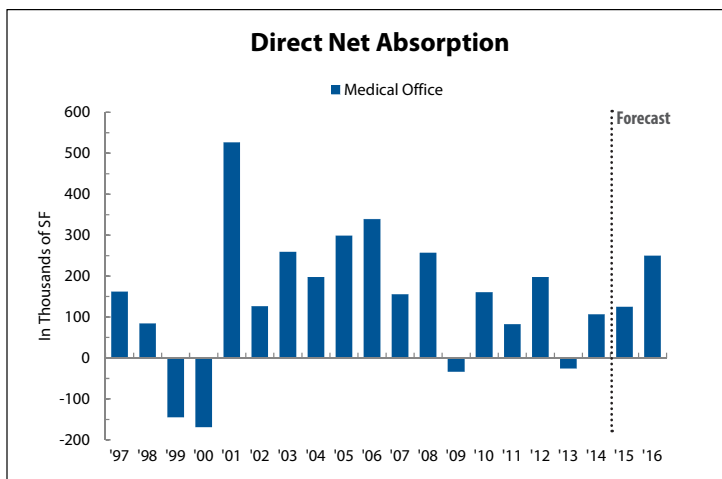
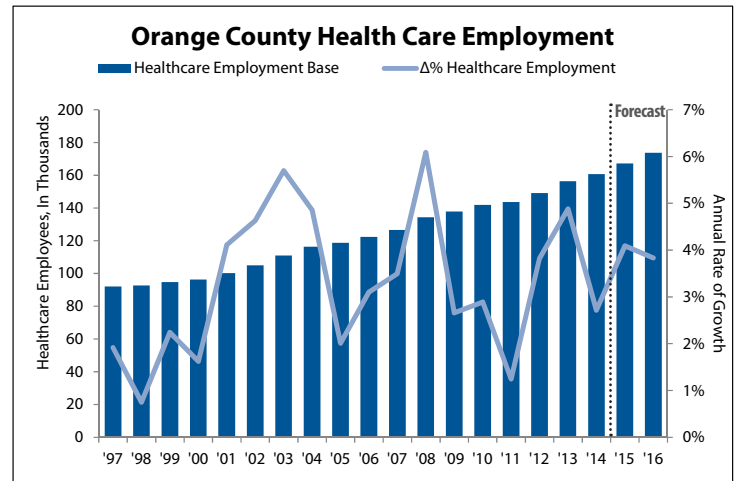
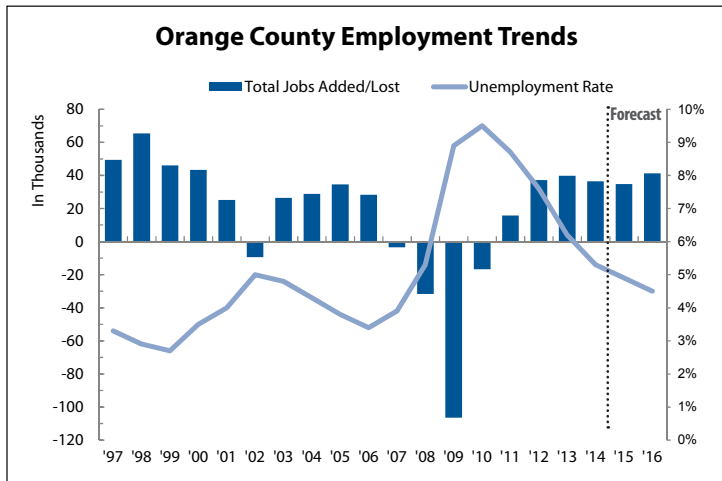
Orange County's economic expansion is well underway, driven by consumer spending, investment and a strengthening housing market. OC has impressively created 204,300 jobs since its trough in early 2010, and has fully recovered all jobs lost during the 2008 to 2010 economic downturn as of May 2015. The education & health services sector has lead in the recovery and accounted for 23.9% of the employment gains within the past 12 months. The outlook for Orange County remains bright as employment payrolls are projected to increase by 36,500 jobs in 2015, followed by an even stronger addition of 41,300 jobs in 2016, according to Moody's Analytics.

Orange County's medical office leasing market witnessed 10,991 sq. ft. of occupancy losses during the second quarter, bringing the trailing 12-month direct absorption total down to 65,872 sq. ft. Despite the positive leasing gain, the countywide direct vacancy rate has remained unchanged at 10% within the past 12 months, but remains significantly below the standard office direct vacancy rate of 12.2%. Although overall asking rents have declined over the past 12 months, rents appear to have stabilized and increased in the Airport Area and Central County by 4.0% and 2.9%, respectively.

As the movement 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, often being referred to as the Silver Tsunami. 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		
		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
Airport Area	3,063,325	243,479	11,516	5.7%	-1.5%	6,478	46,128	\$39.36	\$3.28	4.0%
Central County	3,126,626	376,886	3,852	9.5%	-1.1%	7,531	34,920	\$27.00	\$2.25	2.9%
North County	1,969,545	273,035	326	12.7%	2.1%	(20,804)	(42,256)	\$25.56	\$2.13	-6.2%
South County	3,404,792	435,768	23,968	11.8%	0.7%	5,593	(24,615)	\$27.12	\$2.26	-2.3%
West County	2,498,496	410,259	108,851	11.3%	0.4%	(9,789)	51,695	\$24.96	\$2.08	-4.1%
Overall	14,062,784	1,739,427	148,513	10.0%	0.0%	(10,991)	65,872	\$27.00	\$2.25	-3.5%



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.

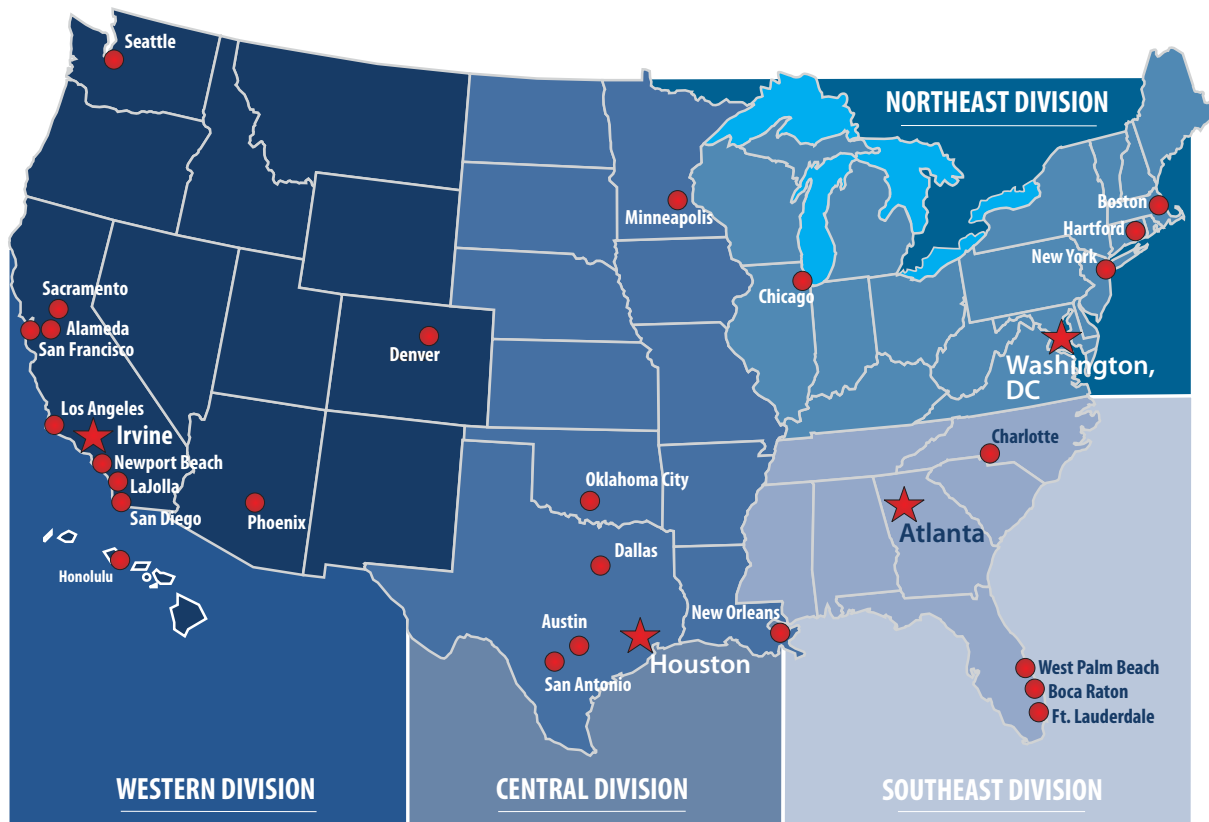
PMRG's portfolio, including projects managed for third parties, includes commercial office buildings, mixed-use centers, corporate headquarters, industrial buildings, medical facilities, high-rise multifamily buildings and re-appropriated military facilities.

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.

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- Construction Management
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