



ANNUAL JOB GROWTH

Orange County created 17,900 new jobs in the 12 months ending August 2014. Nearly 31% of the annual gains occurred in the education & health services industry sector.

17.9k
jobs

12-MO DIRECT NET ABSORPTION

Airport Area was the only submarket to record occupancy gains during the quarter with 20,364 sq. ft., bringing the trailing 12-month total to 40,660 sq. ft. South County accounted for the majority of quarterly occupancy losses recording over 20K sq. ft. of negative absorption.

-44k
square feet

DIRECT VACANCY RATE

Office direct vacancy increased 80 basis points to 10.4% over the year to surpass its historical five-year vacancy average. Central County and West County have accounted the majority of the increase in vacancy within the past 12 months.

10.4
percent

OVERALL RENTS

As a result of sluggish leasing demand and increased competition, overall asking rents have declined by \$0.04 since year-end 2013. However, asking rents have begun to stabilize and are expected to increase in the most desired submarkets in the year ahead.

\$2.30
per square feet

UNDER CONSTRUCTION

Although medical office construction has primarily been limited to build-to-suit and owner/user development within the past few years, construction activity has declined with only 70,000 sq. ft. delivered for the year.

70k
square feet

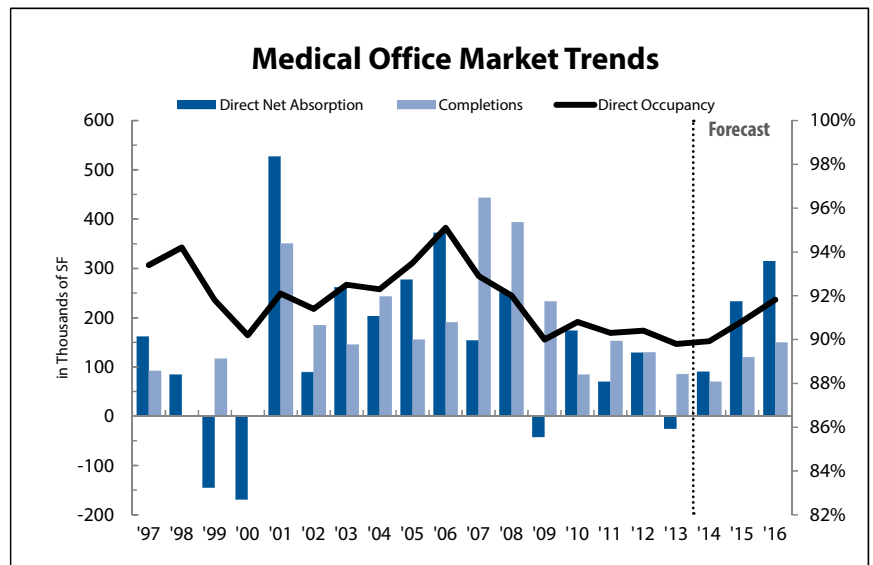
**Arrows represent change from previous 12 months*

MOB LEASING DEMAND REMAINS SLOW

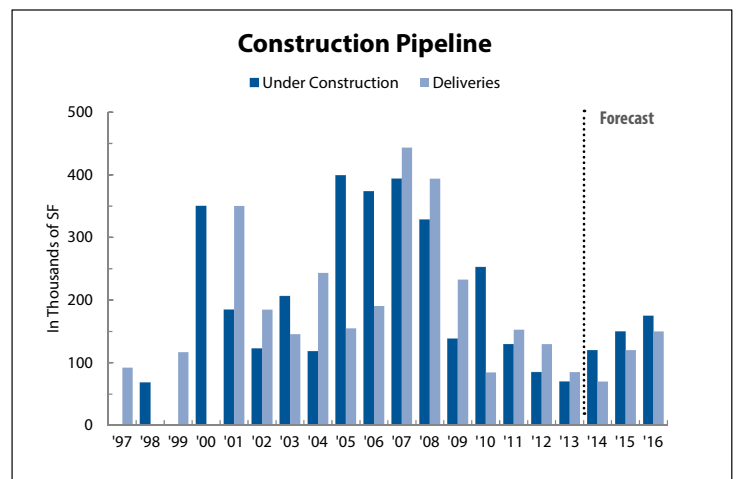
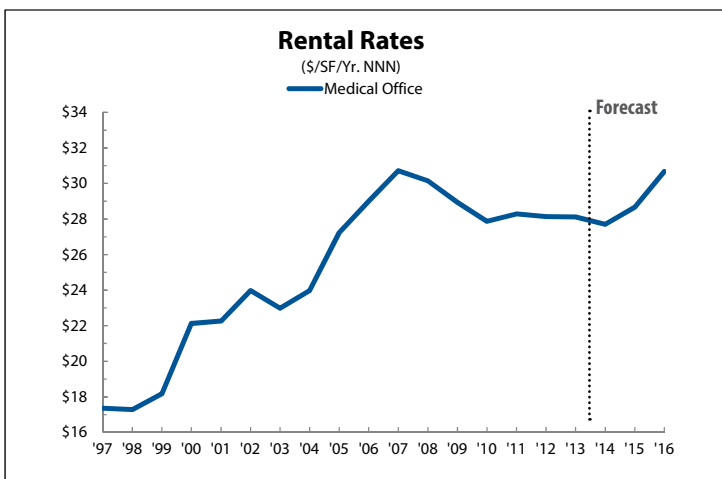
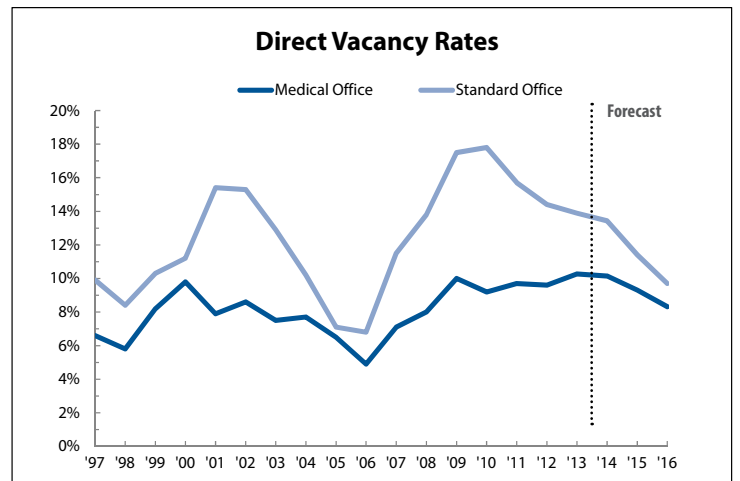
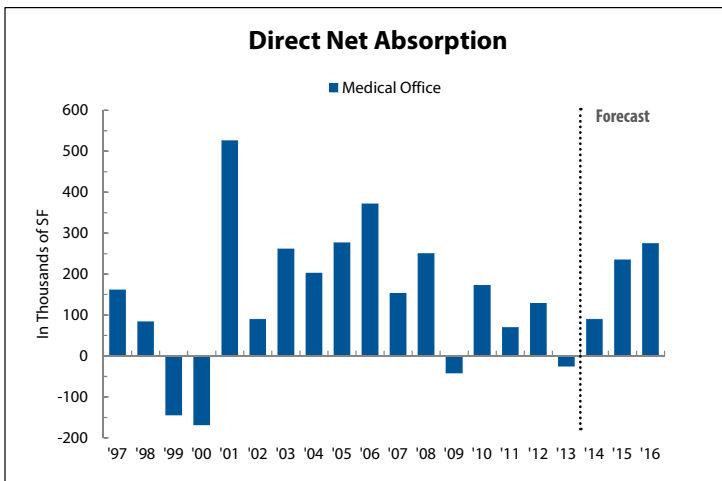
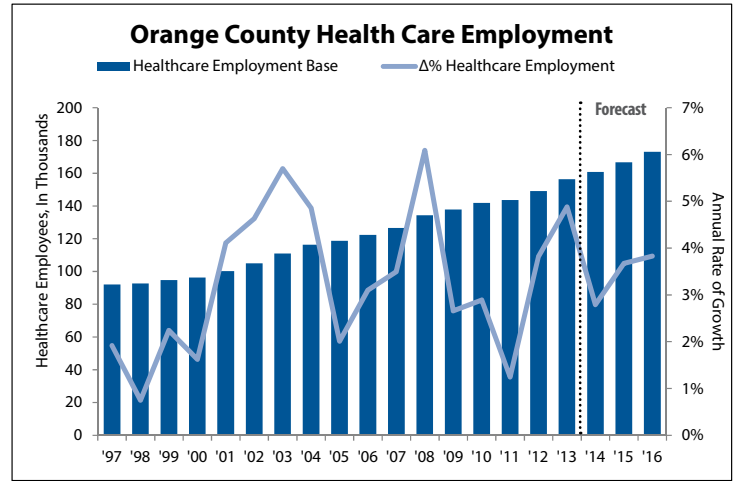
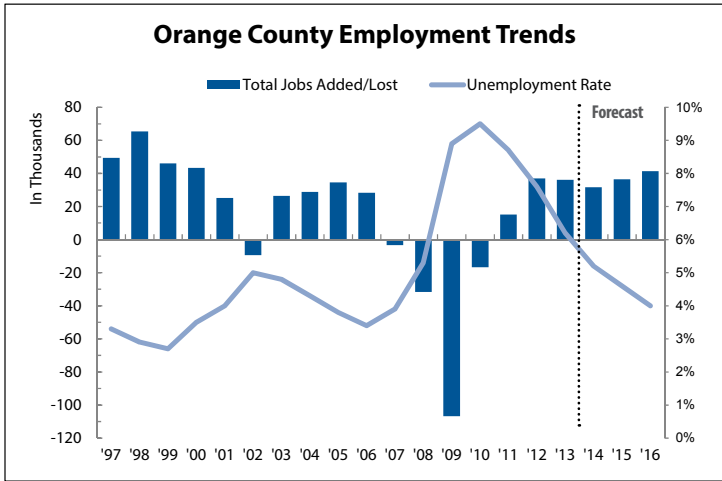
Orange County's economy – driven by consumer spending and investment coupled with a strengthening housing market – continued to expand with steady job growth and falling unemployment rates. The county's unemployment rate has dropped by 100 basis points to 5.4% within the past year to a six-year low, and remains one of the lowest in the state. Even though Orange County has created 125,800 jobs since its post-recessionary trough in early 2010, the current employment levels still remain 75,000 jobs below their pre-recessionary peak recorded at year-end 2006. According to Moody's Analytics, employment payrolls are projected to increase by 31,600 jobs in 2014, followed by an addition of 36,500 jobs in 2015.

Despite exhibiting signs of a turnaround in the prior quarter, Orange County's medical office leasing market witnessed 9,262 sq. ft. of occupancy losses following its strongest quarterly gain experienced since early 2012. Even with the recent successes in the second quarter, the rolling 12-month direct absorption total remains in negative territory with 44,162 sq. ft. of occupancy losses. During the third quarter, the direct vacancy rate increased by 80 basis points to 10.8%, which exceeds its 5-year historical average, but remains significantly below the standard office direct vacancy rate of 13.6%. The quarterly jump in the medical office vacancy rate was largely due to PMB Real Estate Services delivering their 70,000 sq. ft. Los Alamitos Medical and Wellness Pavilion during the quarter. As a result of healthcare reform, more medical office tenants are moving away from the acute-care setting and are now considering retail centers for their medical office space needs. As a result of the increased competition for these tenants, landlords have pulled back on rents. Monthly quoted rental rates have slightly declined by \$0.04 to 2.30 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. Health service providers are moving closer to their growing suburban patient base, and the long-term outlook for MOB properties is continually shaped by advances in disease control, health care and insurance reform, and the aging baby-boomer generation. Although demographic shifts will boost demand for healthcare in the years ahead, escalating operating expenses and a growing regulatory environment will drive consolidation, resulting in larger and often-hospital affiliated practices becoming attractive to young healthcare professionals.



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.	Rolling 12-Month	Avg Rents PSF/Yr	Avg Rents PSF/Mo.
Airport Area	2,977,667	258,767	24,870	6.7%	-1.4%	20,364	40,660	\$36.93	\$3.08
Central County	3,125,418	385,189	2,802	10.8%	1.6%	(6,027)	(49,617)	\$25.81	\$2.15
North County	1,844,647	202,893	1,594	9.3%	0.2%	(1,376)	(3,269)	\$27.06	\$2.26
South County	3,420,683	470,170	13,063	11.8%	0.2%	(20,859)	(6,223)	\$27.40	\$2.28
West County	2,499,151	444,628	1,120	13.4%	3.6%	(1,364)	(25,713)	\$24.02	\$2.00
Overall	13,867,566	1,761,647	43,449	10.4%	0.8%	(9,262)	(44,162)	\$27.62	\$2.30



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

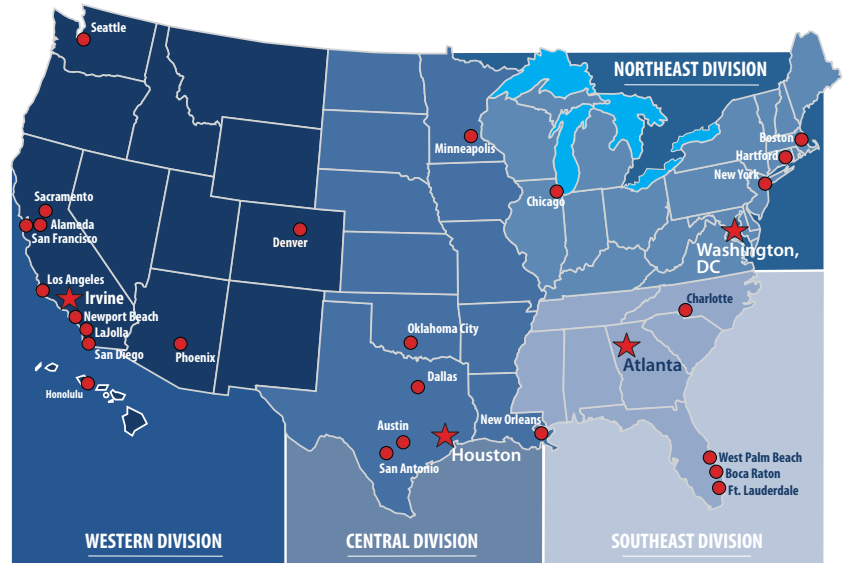
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