



ANNUAL JOB GROWTH

Orange County created 22,600 net jobs in the 12 months ending May 2014. Nearly 35% of the annual gains occurred in the professional & business services industry sector.



12-MO DIRECT NET ABSORPTION

West County was the only submarket to record occupancy losses totaling 10,118 sq. ft. during the second quarter. South County posted nearly 50,000 sq. ft. of gains, recovering its losses from the prior two quarters.



DIRECT VACANCY RATE

Medical office direct vacancy rates have increased by 50 bps to 9.9% over the year to match its five-year historical vacancy average. Central County and West County were the only submarkets to witness a reduction in vacancy rates within the past 12 months



OVERALL RENTS

Overall asking rents have stabilized and begun to increase in the most desired submarkets but there's a large deficit to overcome in order to restore rents to their pre-recessionary peak.



UNDER CONSTRUCTION

Medical office construction has primarily been limited to build-to-suit and owner/user development. Only two medical office construction projects totaling 85,200 sq. ft. delivered in 2013.



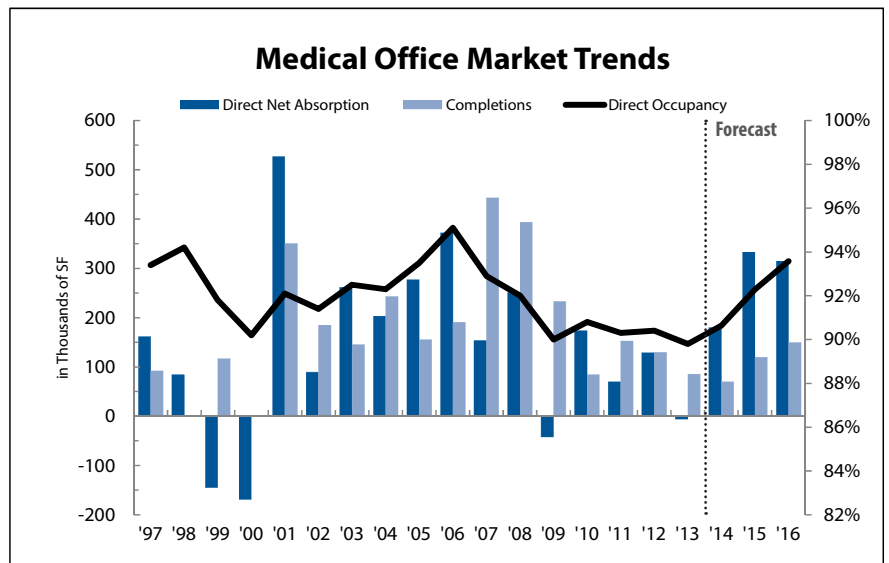
**Arrows represent change from previous 12 months*

MEDICAL OFFICE MARKET IS ON THE REBOUND

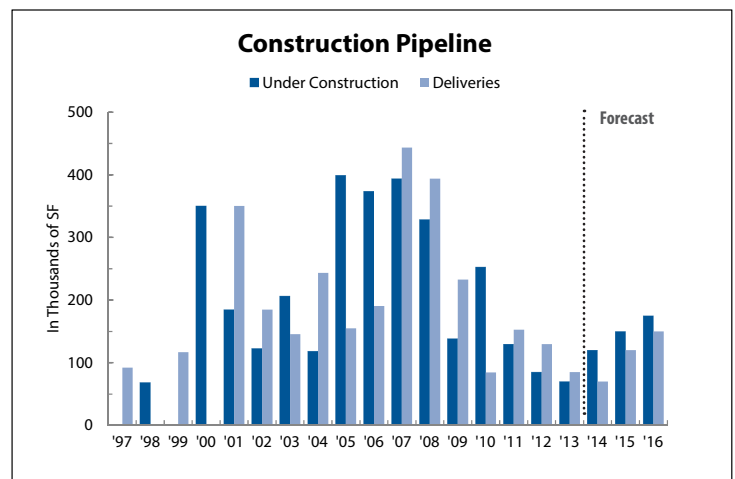
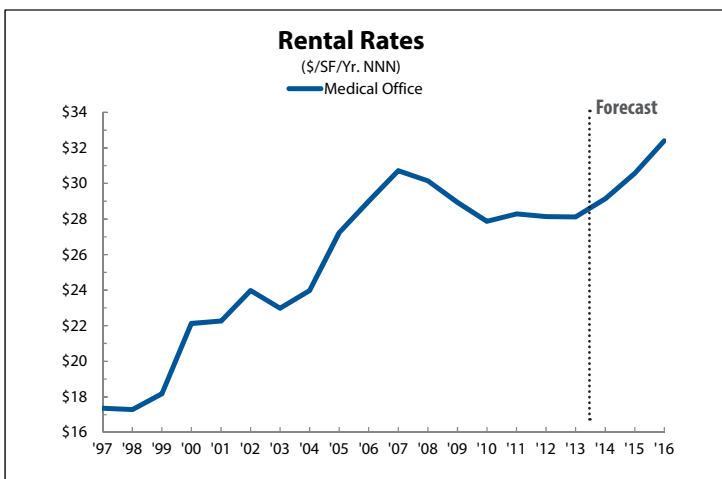
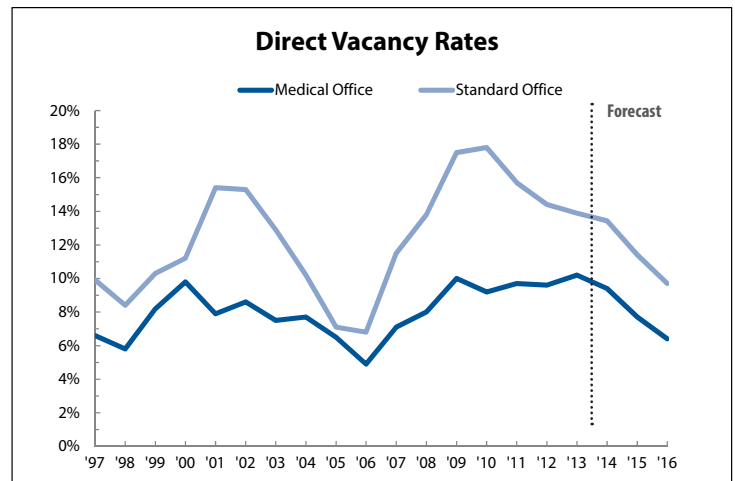
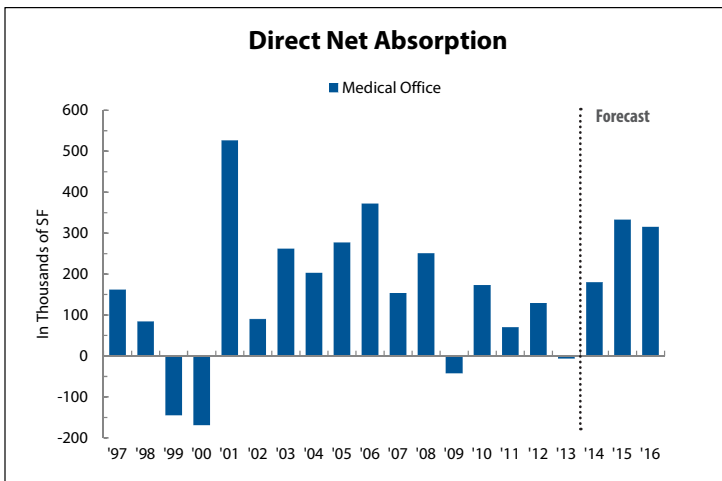
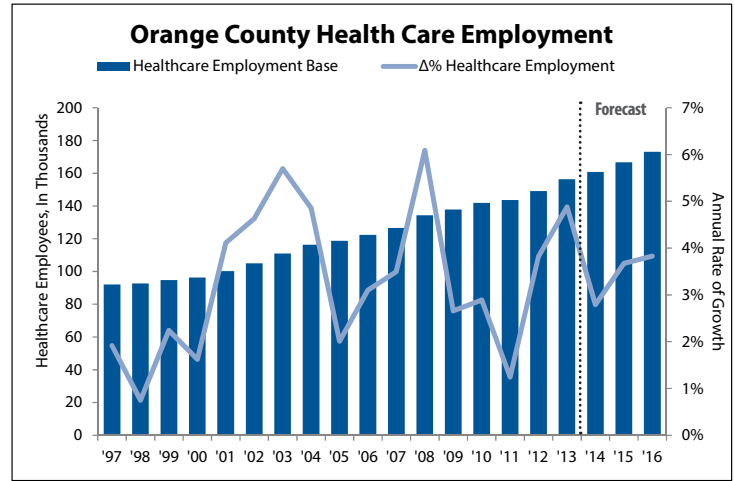
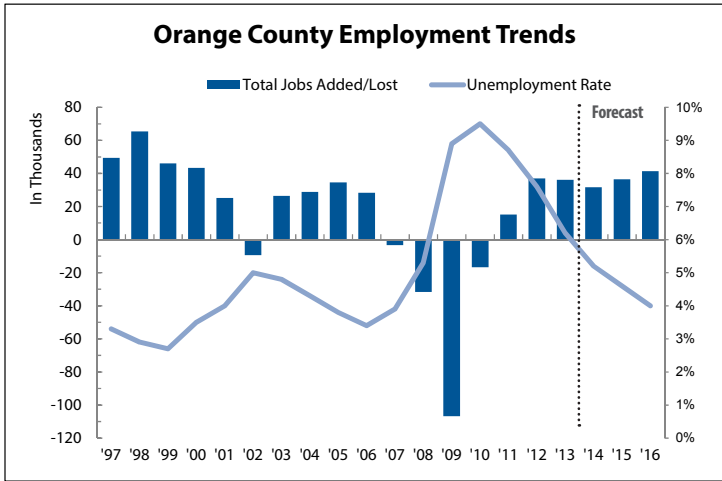
Orange County's economic recovery continued to expand at a respectable pace with steady job growth and falling unemployment rates, driven by improved consumer spending and a strengthening housing market. As a result of the steady job growth, the county's unemployment rate has dropped by 100 basis points to 4.9% within the past year to a six-year low, which remains one of the lowest in the state. Orange County has created 133,800 jobs since its post-recessionary trough in early 2010, but the current employment levels still remain 67,000 jobs below their pre-recessionary peak recorded at year-end 2006. Looking ahead, employment payrolls are projected to increase by 31,600 jobs in 2014, followed by an even stronger addition of 36,500 jobs in 2015, according to Moody's Analytics.

Orange County's medical office leasing market exhibited signs of a turnaround with 85,542 sq. ft. of gains following three consecutive quarters of occupancy losses. The quarterly occupancy gains were the largest recorded since the beginning of 2012. Even with the quarterly leasing gains, the rolling 12-month absorption count is still at negative 68,840 sq. ft. The direct vacancy rate declined 70 basis points to 9.9% during the quarter, which matches its 5-year historical average, and remains well below the standard office direct vacancy rate of 13.9%. Monthly quoted rental rates remained stable at \$2.33 NNN per sq. ft. during the quarter, but remains well 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 boom generation. Benefits vary across medical properties. 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 an increase in hospital and physician integration.



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	2,960,157	254,596	22,070	7.5%	-0.2%	15,274	6,346	\$37.86	\$3.16
Central County	3,124,397	390,077	2,802	10.6%	1.3%	12,709	(41,333)	\$26.24	\$2.19
North County	1,856,664	190,199	4,237	9.3%	-0.6%	18,673	10,754	\$27.24	\$2.27
South County	3,417,643	457,669	12,812	11.2%	-0.6%	49,004	19,437	\$27.77	\$2.31
West County	2,428,881	378,858	1,120	10.8%	2.6%	(10,118)	(64,044)	\$26.03	\$2.17
Overall	13,787,742	1,671,399	43,041	9.9%	0.5%	85,542	(68,840)	\$27.98	\$2.33



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

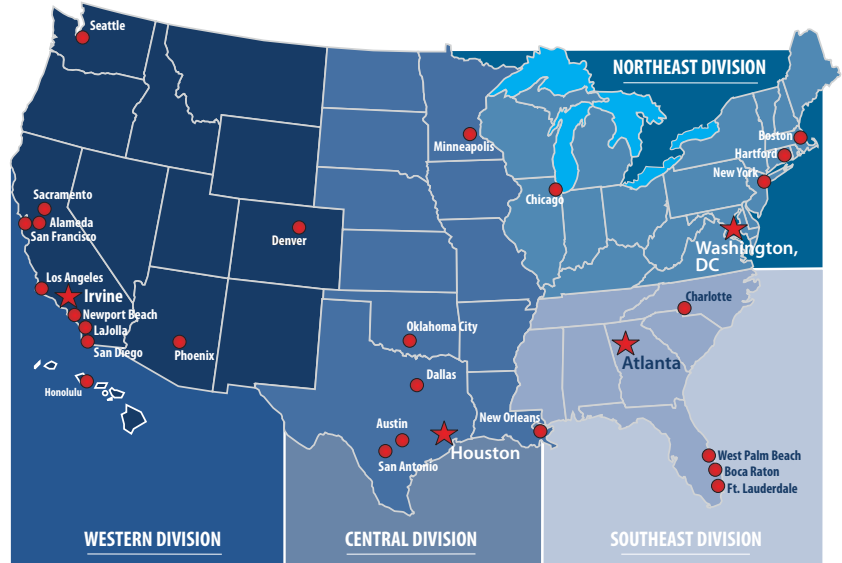
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