



LOS ANGELES MEDICAL OFFICE MARKET REPORT

SECOND QUARTER 2015



ANNUAL JOB GROWTH

LA's economy has created 100,500 jobs in the 12 months ending May 2015. The Education & Health Services and Trade Transportation & Utilities sectors accounted for the largest annual gains with 30,100 and 20,800 jobs, respectively.

101k
jobs

12-MO DIRECT NET ABSORPTION

South Bay was the top performing submarket with 219K sq. ft. of occupancy gains over the past 12 months. Westside also contributed to the annual gains with nearly 30k sq. ft. absorbed.

292k
square feet

DIRECT VACANCY RATE

The medical office direct vacancy fell 50 basis points to 10.6% over the prior 12 months, but remains 570 basis points higher than its cyclical low of 4.9% at mid-2007.

10.6
percent

OVERALL RENTS

Overall asking rents have decreased slightly by 0.7% to \$2.67 per sq. ft. in the past year – and remain 6.9% below its 2008 pre-recession peak. Asking rents are forecasted to surpass their prior peak within the next 18 to 24 months.

\$2.67
per square feet

UNDER CONSTRUCTION

With four projects under construction, the construction pipeline is expected to deliver 224,506 sq. ft. in 2015. The Ventana, a 118,000 sq. ft. Class A medical office building is the largest slated to deliver by December 2015 and is already 70.4% pre-leased.

225k
square feet

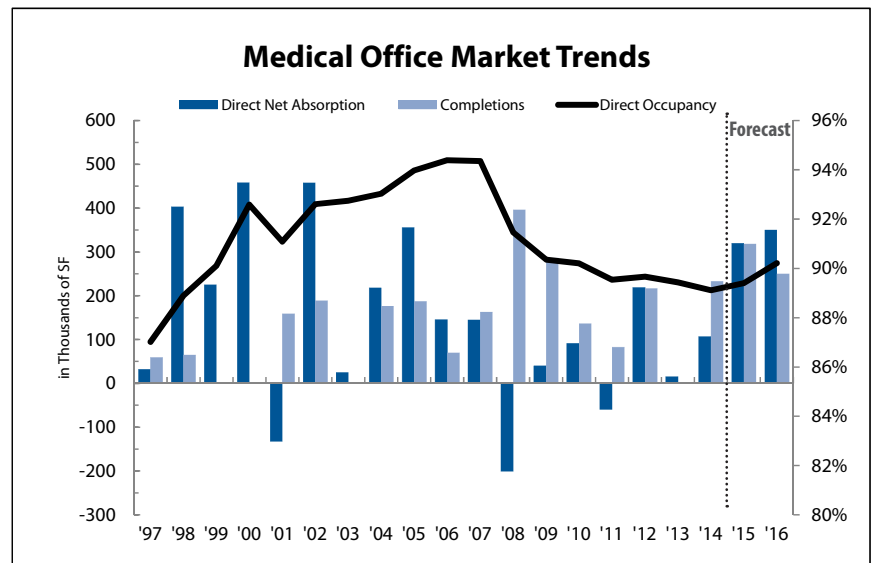
**Arrows represent change from previous 12 months*

MOB SECTOR DISPLAYS SIGNS OF STABLE REVIVAL

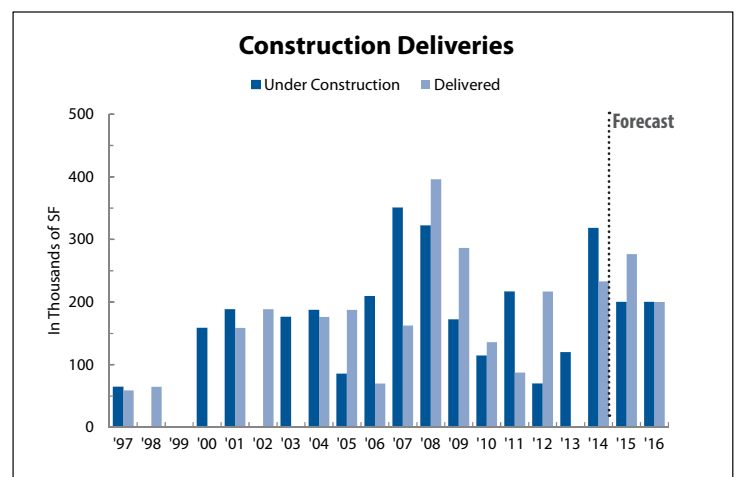
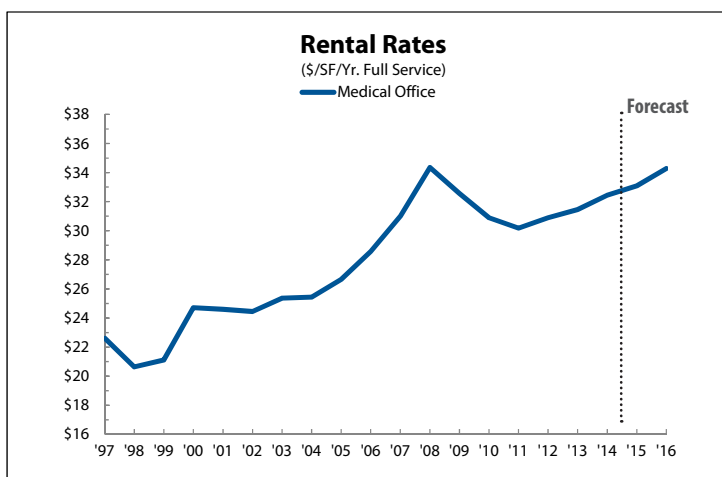
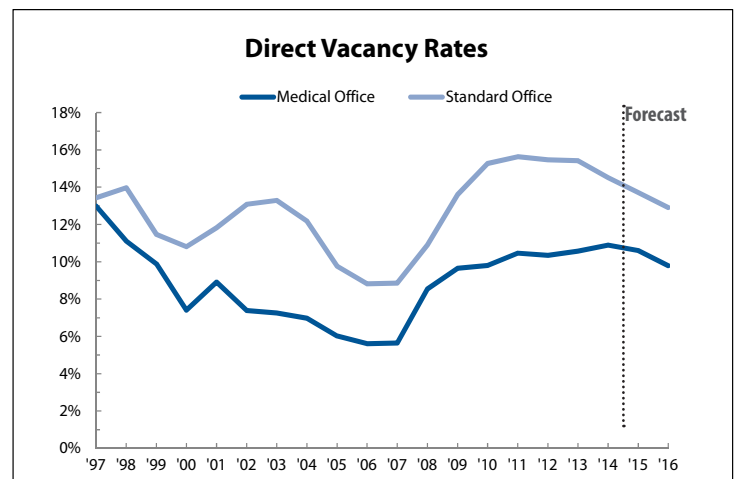
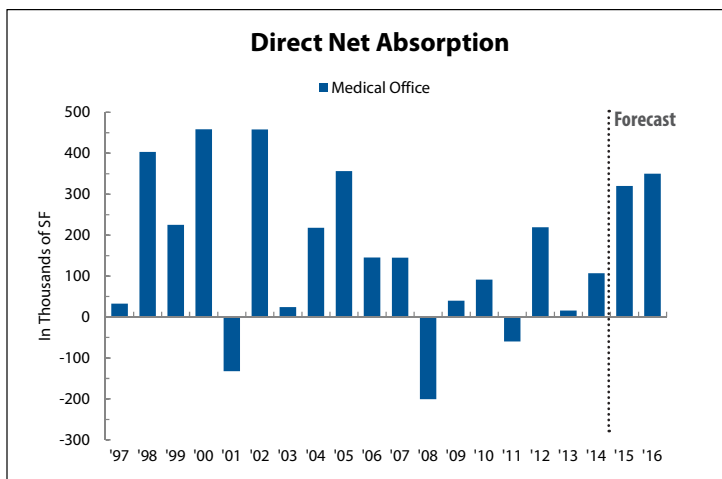
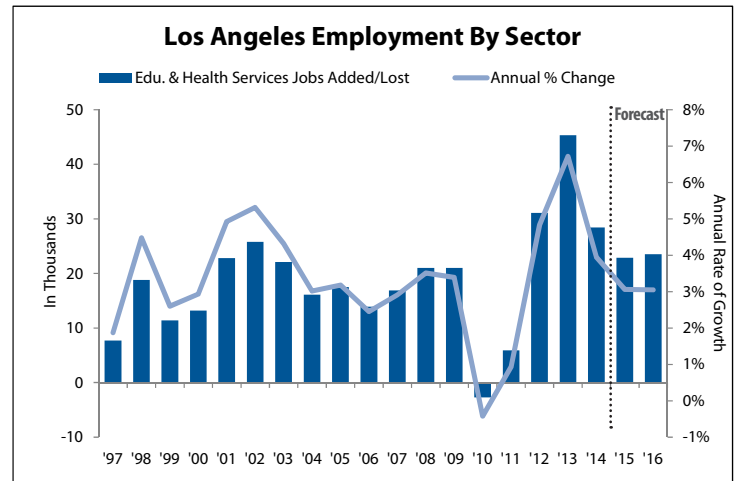
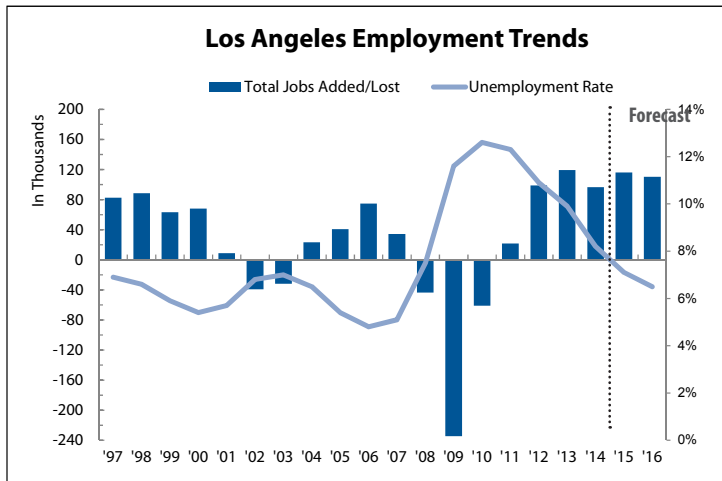
The Los Angeles metropolitan area's economy continues to show steady improvement, with a handful of industries hitting record employment levels within the past year. Hiring has increased across most key industry categories, led by a 30,100-job increase in education and health services, which has translated into healthy occupancy gains in the most desirable submarkets. Los Angeles has remarkably created 474,400 jobs since its trough in 2010, and has officially surpassed its pre-recession peak as of March 2015. The economic outlook for Los Angeles remains bright with 115,900 jobs forecasted for 2015 followed by a strong addition of 110,400 jobs in 2016, according to Moody's Analytics.

The Los Angeles medical office building (MOB) sector experienced an improvement of 86,892 sq. ft. of direct absorption growth during the quarter, and 292,112 sq. ft. of occupancy gains over the past 12 months. Although MOB vacancy levels remain 190 basis points higher than their 10-year historical average, they remain at a healthy level considering the much higher vacancy rate for standard office space. The Class A property sector recorded 27,323 sq. ft. of absorption gains during the quarter and 104,550 sq. ft. over the past 12 months, lowering direct vacancy rates by 140 basis points to 10.8%. Meanwhile, the Class B sector experienced 59,569 sq. ft. of quarterly absorption growth, increasing the trailing 12-month total to 187,562 sq. ft. Despite the leasing gains, Class B vacancy rates have returned to 10.6% after minor fluctuations over the past year, largely due to new construction deliveries outpacing demand. As overall vacancy rates remain elevated, Class A full-service gross monthly asking rents have declined 2.43% to \$2.85 per sq. ft., while Class B monthly rents have subsided by 0.23% to \$2.57 per sq. ft. over the past 12 months. Despite the recent decline, we expect overall rents to stabilize and rise in the coming quarters with newer product slated to come online.

Mirroring the changes in healthcare experienced nationwide, the Los Angeles medical office market has seen an increase in medical procedures being performed in satellite offices rather than traditional hospital settings. This transformation to overall efficiency has pulled health service providers closer to their growing suburban patient base, prompting medical construction activity to increase to just under 225,000 sq. ft. within the past year – 80% of the space is already pre-leased. Advances in disease control, the aging Baby Boomer generation, sweeping regulatory changes under the Affordable Care Act and more empowered consumers seeking healthcare services will continue to shape the industry and create a new health care economy.



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
Greater Downtown	1,350,758	186,770	3,624	7.1%	-0.3%	7,979	3,901	\$29.54	\$2.46	2.93%
Class A	290,401	34,597	0	11.2%	-2.5%	6,615	7,208	\$34.32	\$2.86	-0.49%
Class B	1,060,357	152,173	3,624	5.9%	0.3%	1,364	(3,307)	\$28.51	\$2.38	4.89%
Mid-Wilshire	1,504,901	172,490	750	10.5%	-0.3%	28	4,096	\$29.16	\$2.43	3.22%
Class A	484,313	76,961	0	15.4%	-1.6%	1,748	7,725	\$30.48	\$2.54	-0.10%
Class B	1,020,588	95,529	750	8.2%	0.4%	(1,720)	(3,629)	\$28.12	\$2.34	7.70%
Mid-Cities	1,006,653	180,274	1,091	16.6%	2.2%	(10,365)	(22,128)	\$22.67	\$1.89	-5.15%
Class A	84,879	32,883	1,091	34.8%	7.4%	0	(6,322)	\$21.00	\$1.75	-12.65%
Class B	921,774	147,391	0	14.9%	1.7%	(10,365)	(15,806)	\$23.05	\$1.92	-3.48%
San Fernando Valley	3,809,777	475,292	30,365	10.3%	-0.2%	16,124	8,985	\$28.81	\$2.40	-2.50%
Class A	1,545,125	115,784	6,515	5.0%	-1.5%	8,068	22,773	\$30.36	\$2.53	-9.16%
Class B	2,264,652	359,508	23,850	13.9%	0.6%	8,056	(13,788)	\$28.01	\$2.33	-0.64%
San Gabriel Valley	1,229,291	79,742	0	4.5%	-4.4%	(2,014)	4,803	\$27.37	\$2.28	6.00%
Class A	72,000	6,665	0	8.1%	-6.7%	(1,443)	(1,364)	\$27.48	\$2.29	17.24%
Class B	1,157,291	73,077	0	4.3%	-3.9%	(571)	6,167	\$27.37	\$2.28	5.68%
Santa Clarita Valley	448,195	80,893	0	11.8%	-4.4%	15,010	19,520	\$38.04	\$3.17	0.66%
Class A	77,911	11,149	0	0.0%	-6.7%	5,257	5,257	\$45.84	\$3.82	-
Class B	370,284	69,744	0	14.3%	-3.9%	9,753	14,263	\$36.77	\$3.06	-0.65%
South Bay	3,817,705	623,325	3,337	14.5%	-1.1%	35,059	218,727	\$26.44	\$2.20	0.11%
Class A	1,073,274	252,055	0	17.0%	-5.0%	8,743	53,326	\$25.23	\$2.10	3.78%
Class B	2,744,431	371,270	3,337	13.5%	0.7%	26,316	165,401	\$27.38	\$2.28	-1.33%
Tri-Cities	2,550,344	205,315	7,218	7.7%	-1.0%	9,615	25,158	\$34.91	\$2.91	-2.73%
Class A	839,651	63,319	3,889	7.5%	1.2%	(8,147)	(10,461)	\$38.88	\$3.24	6.23%
Class B	1,710,693	141,996	3,329	7.8%	-2.1%	17,762	35,619	\$33.40	\$2.78	-6.18%
Conejo Valley	647,225	84,229	8,087	12.4%	1.0%	2,047	(6,542)	\$28.77	\$2.40	-2.80%
Class A	-	-	-	-	-	-	-	-	-	-
Class B	647,225	84,229	8,087	12.4%	1.0%	2,047	(6,542)	\$28.77	\$2.40	-2.80%
Simi Valley	43,312	4,176	0	9.6%	-13.6%	3,432	5,900	\$29.71	\$2.48	2.70%
Class A	-	-	-	-	-	-	-	-	-	-
Class B	43,312	4,176	0	9.6%	-13.6%	3,432	5,900	\$29.71	\$2.48	2.70%
Westside	4,389,921	390,874	63,276	10.4%	-0.7%	9,977	29,692	\$50.52	\$4.21	0.94%
Class A	2,645,985	220,762	49,724	11.3%	-1.0%	6,482	26,408	\$51.11	\$4.26	2.32%
Class B	1,743,936	170,112	13,552	9.0%	-0.2%	3,495	3,284	\$49.84	\$4.15	-0.70%

Los Angeles Totals	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
Class A	7,113,539	814,175	61,219	10.8%	-1.4%	27,323	104,550	\$34.16	\$2.85	-2.43%
Class B	13,684,543	1,669,205	56,529	10.6%	0.0%	59,569	187,562	\$30.83	\$2.57	-0.23%
Overall	20,798,082	2,483,380	117,748	10.6%	-0.5%	86,892	292,112	\$31.99	\$2.67	-0.68%

METHODOLOGY

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



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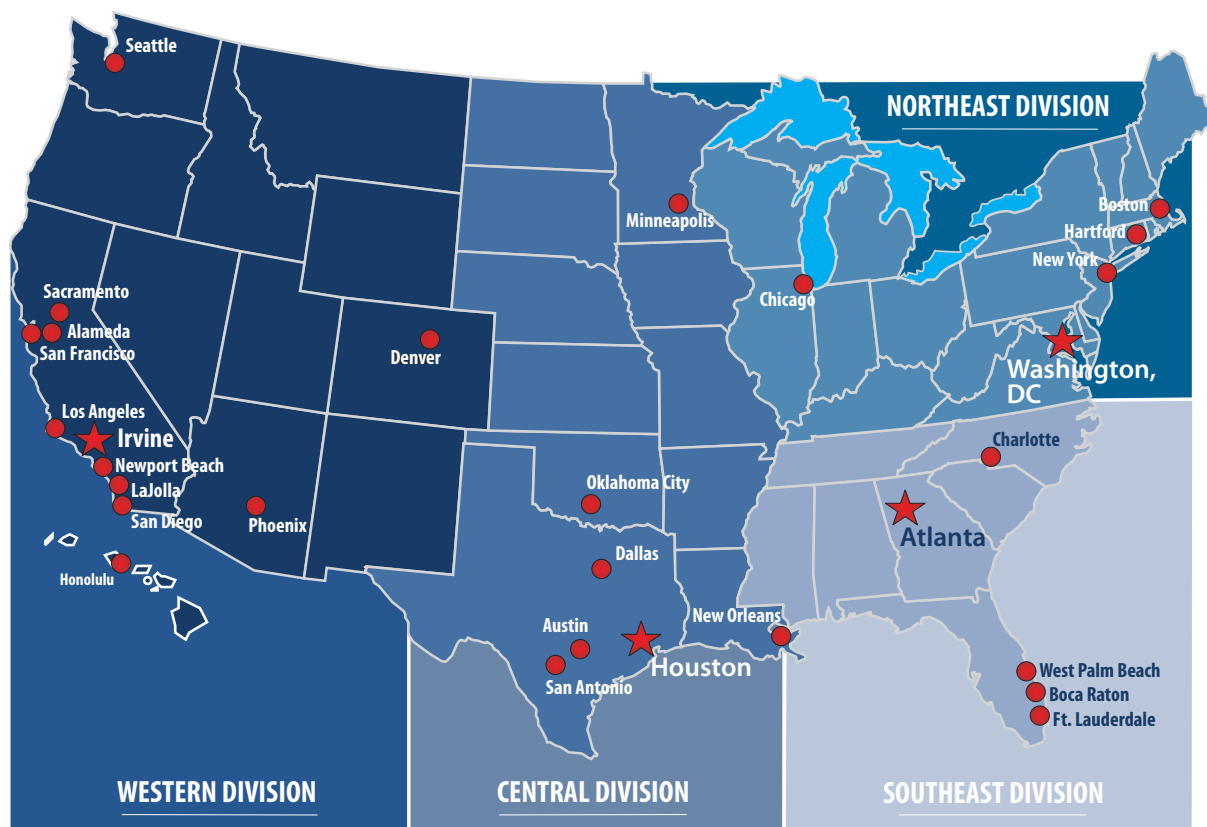
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Our goal is to generate exceptional returns for our clients and investors by focusing on real estate fundamentals. For additional information, visit www.pmr.com.

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