



RADIUS INSIGHT

YEAR END REPORT

YOUR GUIDE TO SOUTH COAST COMMERCIAL REAL ESTATE | 2011

Annual Vacancy Comparison

	4Q'10	4Q'11
<i>Office/R&D</i>		
Santa Barbara	6.2% ▼	6.1%
Goleta	13.7% ▼	10.8%
Carpinteria	15.9% ▼	14.8%
<i>Industrial</i>		
Santa Barbara	1.2% ■	1.2%
Goleta	5.8% ▲	7.1%
Carpinteria	13.9% ▼	8.9%
<i>Retail</i>		
Santa Barbara	2.0% ▲	2.1%

All figures above represent percentage points.

Optimism for a year of Opportunity

As 2012 moves forward, it's worth taking another look back at a sluggish 2011 to gauge how the commercial market responds. All sectors are seeing improvements or signs of improvement, so it appears a slow recovery is underway. Only time will tell if the remainder of 2012 continues on a steady upswing, but one thing is certain: there are plenty of opportunities for growth.

money into improvements or rent concessions in order to win over the tenants that are in the marketplace today. We expect vacancy rates to remain at these current levels for the immediate future. We also expect Goleta and Carpinteria industrial vacancies to reduce, while Santa Barbara remains steady.

Leasing Overview

It was a year of two stories when it comes to leasing. The first six months of 2011 saw an extremely active market with approximately 65% of all leases completed during the year. With fewer leases being completed and more properties coming to market, in the 3rd and 4th quarters we saw vacancy rates for the office and retail markets rise across all geographic areas. Industrial vacancies increased slightly as well. Asking lease rates were lower across most sectors but not low enough to incentivize more transactions.

One factor playing a larger role in 2011 and 2012 is the number of owner/user sales. When possible, tenants are finding it beneficial to purchase, creating vacancies that have not been backfilled yet.

Lease rates began to see improvement in early 2011 but landlords will have to begin putting more

2011 South County Lease Highlight Properties



424 State St.
16,900 SF
Tenant: 99 Cent Stores



402 E. Gutierrez
26,300 SF
Rightscale, Inc.



801 Garden St.
20,000 SF
Tenant: Sonos, Inc.

205 E. Carrillo St., Suite 100
Santa Barbara, CA 93101
phone: 805.965.5500
fax: 805.965.5300
www.radiusgroup.com

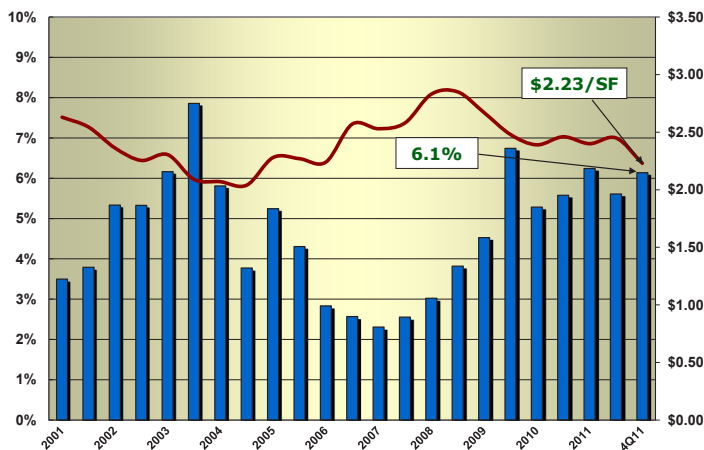


Leasing Office Space

Santa Barbara Office

Office vacancy in Santa Barbara ended the year up modestly from the 3rd Quarter from 5.4% to 6.1%, yet 2011 remained relatively flat from the previous year with a slight decrease from 6.2%. Asking prices, however, continued downward to \$2.23/SF from \$2.30 in the 3rd Quarter, and from \$2.40 at the end of 2010, perhaps a sign that the market is counteracting the economic picture. There are certainly strong opportunities for tenants to seize long term deals at very attractive rates. Additionally, leasing activity for the 4th Quarter was light with mostly smaller leases and renewals. Also worth noting, more than 75% of the office spaces on the market are currently under 4,000 SF.

Santa Barbara Office: Price vs. Vacancy Rate



Largest Available Office Spaces - Santa Barbara

Address	Size (SF)	Vacated By
801 Garden Street	20,000	Antioch Univ.
118 E Carrillo Street	10,600	Morgan Stanley
203 Chapala Street	9,700	Kaseya
901 Olive Street	9,600	SoftShare

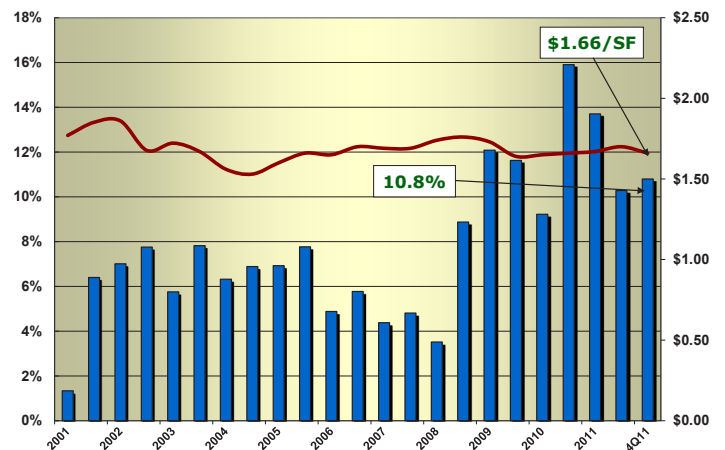
2011 Largest Office Leases - Santa Barbara

Address	Size (SF)	Leased By
4151 Foothill Road	59,800	Anonymous
610 Anacapa Street	26,600	Antioch Univ.
402 E. Gutierrez	26,300	Rightscale, Inc.
136 W. Canon Perdido	18,100	Tempest Telecom

Goleta Office

Office vacancy in Goleta peaked at over 16% near the end of 2009. The 2011 Goleta office leasing market witnessed strong activity. Although average gross lease rates have remained relatively stable at \$1.66/SF, overall vacancy dropped approximately 21% from where it was a year ago from 13.7% to the current level of 10.8%. Although Goleta office vacancy has dropped substantially from where it was a year ago, it still remains relatively high when looking at the vacancy numbers over the last 10 years. As such, we expect lease rates and vacancy to remain stable with possible downward pressure on lease rates as property owners seek to keep existing tenants or entice new tenants to their buildings.

Goleta Office: Price vs. Vacancy Rate



Largest Available Office Spaces - Goleta

Address	Size (SF)	Vacated By
7418 Hollister Avenue	86,300	Multiple Tenants
26 Castilian Drive	34,600	Network Hardware
50 Castilian Drive	28,800	Cottage Hospital
5385 Hollister Avenue	24,500	Multiple Tenants

2011 Largest Office Leases - Goleta

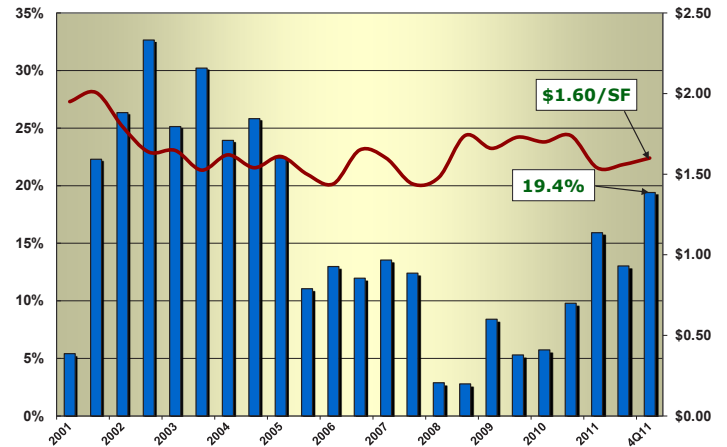
Address	Size (SF)	Leased By
6500 Hollister Avenue	41,200	Network Hardware
425 Pine Avenue	15,600	Yardi Systems
50 Castilian Drive	14,500	AppFolio
120 Cremona Drive	14,200	Deckers

Leasing Office Space

Carpinteria Office

Carpinteria's office market vacancy rate is the highest it's been in six years at 19.4%, up from 14.4% in the 3rd Quarter of 2011 and from 15.9% at the end of 2010. Activity continues to be slow in the South Coast's smallest market as there was only one office lease in the final three months of the year. Larger office spaces (more than 4,000 SF) continue to dominate the market while asking prices have not adjusted enough to draw tenants down from Santa Barbara and Goleta. Until rates drop enough to compete with similar spaces in the surrounding area the market will continue to drag. We expect light activity in the first quarter of 2012 as tenants continue to focus on making deals in Goleta.

Carpinteria Office: Price vs. Vacancy Rate



Largest Available Office Spaces - Carpinteria

<u>Address</u>	<u>Size (SF)</u>	<u>Vacated By</u>
6398 Cindy Lane	19,600	Giati Designs
5464 Carpinteria Ave	23,800	Microsoft
4180 Via Real	12,600	Multiple Tenants
1145 Eugenia Place	11,600	AGIA
6307 Carpinteria Ave.	9,900	Clipper Windpower

2011 Largest Office Leases - Carpinteria

<u>Address</u>	<u>Size (SF)</u>	<u>Leased By</u>
6420-6450 Via Real	22,800	lynda.com
1180 Eugenia Place	5,600	Pagliei
4690 Carpinteria Ave.	3,000	Redspin, Inc.

Leasing Industrial

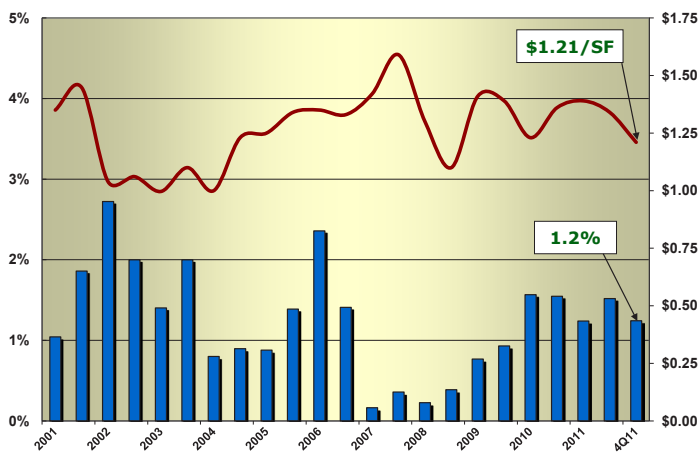
Santa Barbara Industrial

Industrial vacancy remained flat from the 3rd Quarter at 1.2%, with no change from 2010 to 2011 as well, as this range of 1-2% continues in Santa Barbara. With vacancy low, the number of transactions remains low.

Despite the nonexistence of new industrial properties, there is still demand for true industrial space. However, as previously cautioned, low asking rates in this sector may be problematic for smaller industrial tenants who find themselves pushed to other communities as commercial tenants gobble up such properties for commercial or retail use. Prices could also rise to offset higher rents in the future.

Ultimately, we forecast vacancies to remain below 1.5% for at least the 1st Quarter, 2012.

Santa Barbara Industrial: Price vs. Vacancy Rate



Largest Available Industrial Spaces - Santa Barbara

Address	Size (SF)	Vacated By
1 N Calle Cesar Chavez	17,500	Bekins
1 N Calle Cesar Chavez	15,300	Murray Plumbing
531 E Cota Street	8,900	Haywards
4185 State Street	7,600	24/7 Moving

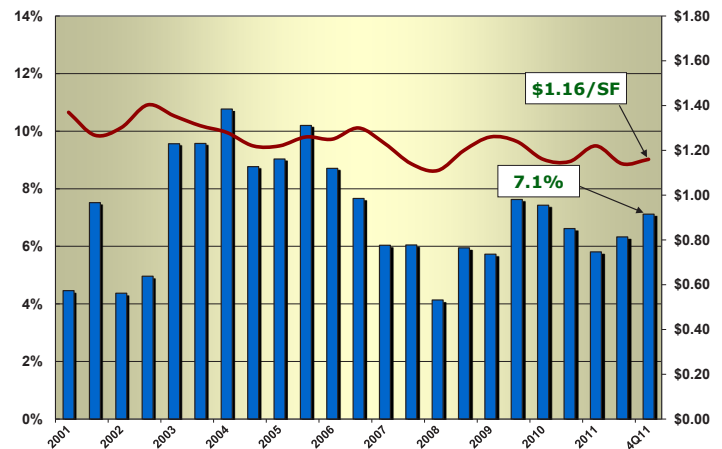
2011 Largest Industrial Leases - Santa Barbara

Address	Size (SF)	Leased By
820 Bond Avenue	7,500	Access Information Mgmt.
218 E. Cota Street	4,600	ASE, Inc.
125 N. Nopal Street	3,300	Augustine Painting
525 Garden Street	3,200	T.C. Kline & Charles Holland

Goleta Industrial

Goleta's industrial market remained steady, decreasing from 7.3% vacancy in the 3rd Quarter of 2011 to 7.1% in the 4th. There was only one transaction in all of the 4th Quarter. The bad news is vacancy rose by 18% year over year, up from 5.8% at the end of 2010. The good news is that the current 7.8% vacancy in 2012 is still a low number compared to other industrial markets. There are a number of larger industrial warehouse spaces which will likely remain available for most of 2012 based on the limited amount of warehouse tenants looking to expand or relocate to this area. Because of the increased supply of available Goleta industrial space and limited demand, we expect downward pressure on Goleta industrial lease rates during 2012.

Goleta Industrial: Price vs. Vacancy Rate



Largest Available Industrial Spaces - Goleta

Address	Size (SF)	Vacated By
6775 Hollister Avenue	81,100	DuPont
30 S La Patera	65,700	Multiple Tenants
7406 Hollister Avenue	43,000	Textron
25 Castilian Drive	23,400	Calient Networks

2011 Largest Industrial Leases - Goleta

Address	Size (SF)	Leased By
80 Coromar Drive	57,600	Network Hardware
5743 Thornwood Drive	29,400	Surgidev
26 Castilian Drive	20,400	24/7 Moving
75 Castilian Drive	16,000	Transphorm, Inc.

Leasing Industrial

Carpinteria Industrial

The industrial sector of Carpinteria continues to be the bright spot as the vacancy rate dropped from 10.2% to 8.9% in the fourth quarter. That's also down from 13.9% from this time last year. It is evident from the achieved lease rates that landlords are in a deal making mood as the market saw new deals completed at \$0.80/SF to \$0.90/SF on a modified gross basis. If these rates can hold up then we expect the vacancy rate to drop further in the first quarter.

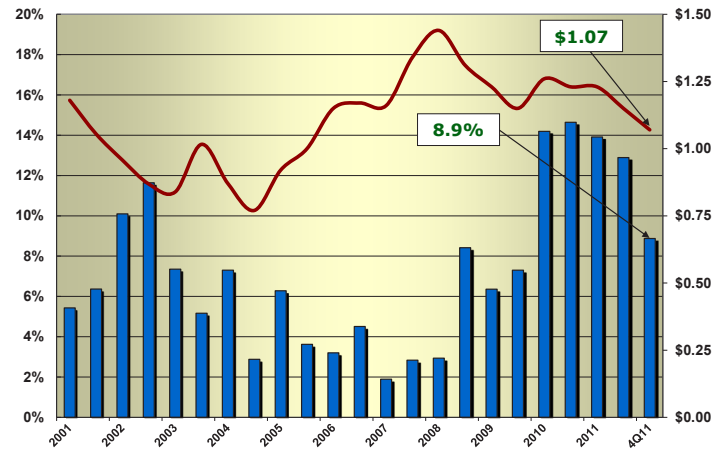
Largest Available Industrial Spaces - Carpinteria

Address	Size (SF)	Vacated By
1026 Cindy Lane	46,300	Multiple Tenants
6382 Rose Lane	39,100	Pacific Scientific
509 Maple Street	7,300	Earth Science
6385 Rose Lane	7,200	This Little Piggy

2011 Largest Industrial Leases - Carpinteria

Address	Size (SF)	Leased By
1026 Cindy Lane	22,100	Nusil
5040 6th Street	11,500	Serigraph Resortwear
1015 Cindy Lane	9,800	Teecino Caffè
1015 Cindy Lane	9,600	Biosphere Industries

Carpinteria Industrial: Price vs. Vacancy Rate



Leasing Retail

Santa Barbara Retail

Santa Barbara retail vacancy was up only slightly in the 4th Quarter and was almost the same as the end of 2010. Although the year was good with 49 leases completed, it was still not as good as 2010's 81 leases. We expect a better 2012 based on interest from more prospective national and regional tenants looking to expand into the area.

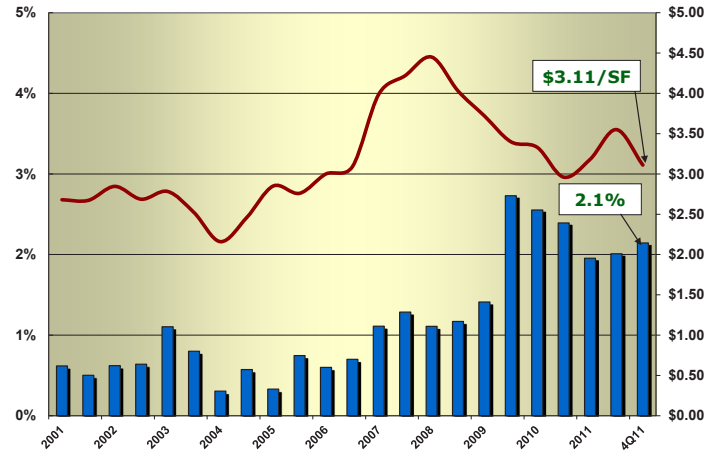
Largest Available Retail Spaces - Santa Barbara

Address	Size (SF)	Vacated By
314 State Street	16,500	Multiple Tenants
1117 State Street	11,200	Antica Rugs
111 State Street	7,100	Be-Bop Burger
34 W Carrillo Street	5,900	Greyhound

2011 Largest Retail Leases - Santa Barbara

Address	Size (SF)	Leased By
424 State Street	16,900	\$.99 Store
1114 State Street	6,200	El Cielito Restaurant
320 State Street	4,500	Indoor Adventures, Inc.
923 State Street	3,300	Kitson

Santa Barbara Retail: Price vs. Vacancy Rate



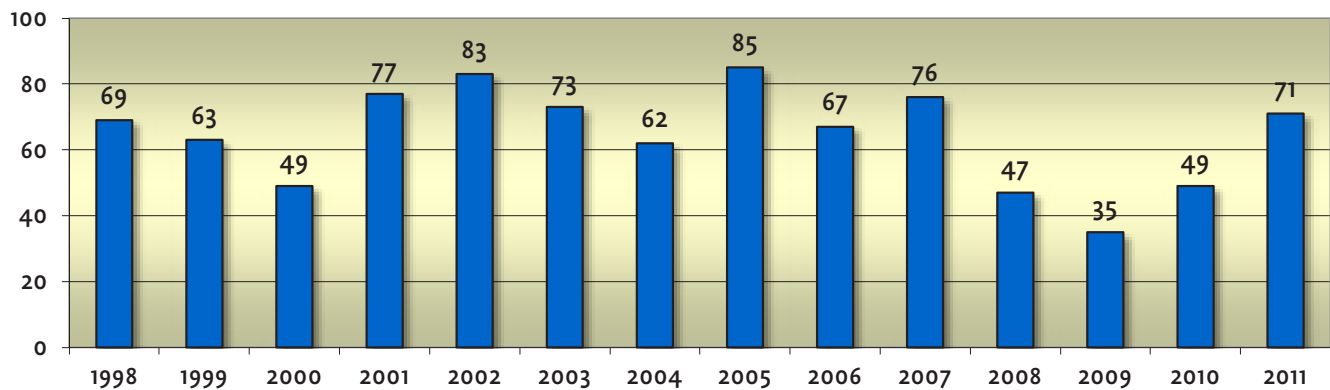
Sales Commercial

Sales Market Overview: Commercial Sales Turnaround

After three years of lackluster commercial sales figures, the South Coast posted the largest number of sales in 2011 since 2007 at 71. **In fact, sales in 2011 were at 110% of the 15-year historical average.** Additionally, the sales are split fairly evenly between investment sales and owner user properties. A couple of highlights from the fourth quarter include the sale of the property at the Cabrillo Business Park to Deckers Outdoors, Inc. for a little under \$20 million. Deckers plans to build a new 250,000 SF headquarters on the site in 2012-2013. Additionally, the Citibank building at 3757

State Street (next to Whole Foods) sold in early October to an investor. The building is approximately 20,000 SF. Finally, a 34,000 SF office/R&D building at 26 Coromar in Goleta sold in December to an owner/user. On investment sales, we are seeing capitalization rates between 5.5% and 7.5% (from 5.5%-6.5% for higher quality properties, and 6.5%-7.5% for secondary properties). We expect heavy activity to continue through the first quarter of 2012 as there were several properties in escrow at the end of 2011.

*South County Commercial Sales Transactions
(Excludes Apartments)*



15-year Average: 65 Commercial Sales/yr. (not including Apartments)

South County Sales Highlight Properties



5266 Hollister Avenue
49,300 SF
\$8,050,000



1424-1436 State Street
15,100 SF
\$7,600,000



35 State St. "La Entrada"
39,400 SF
\$5,000,000



203 Ladera Street
17,100 SF
\$4,650,000

Sales Apartments

South County Apartments

Multi-housing will continue to be a favored sector for commercial real estate investing this year, outperforming all others which should continue to feel the burden of a slower economy. Demand in the county continued to show positive signs since the 2nd quarter 2011, as South County sales increased with five additional sales bringing the year-to-date total to ten.

Apartment financing remains the most readily available loan to get. Several local banks are competing for these loans. We saw many loans below 4% annual interest. Financing stability from *Freddie* and *Fannie* will provide another advantage as access to agency debt sets this sector apart from others which have encountered more difficulty obtaining financing.

meant slightly positive growth for rents in 2011. With little if any new units coming on the market for lease, too many people are chasing after too few available rentals, thus keeping rents stable and making the Central Coast an attractive investment.

Rents above the average have made landlords rethink their positions and we have seen some of those rents soften. We believe these rents have stabilized.

Our forecast for 2012 is for rental rate appreciation to continue to ease on the South Coast though still to remain positive.

- 2011 Gross Rent Multipliers (GRM) in the South County averaged 12.45%
- 2011 Cap Rates in the South County averaged 5.21%
- 2011 Price Per Unit Average was \$196,123

2011 Sale Highlights

Heritage Oaks Villas

- 101 unit bank-owned property in Vandenberg Village used for Senior Housing.
- Property closed for \$11.5 million with 5.8% cap rate.

Laurel Townhomes

- 48 units: all two and three bedroom townhouse units.
- Property closed for \$4.65 million at 7% cap rate.

203 Ladera (across from Santa Barbara City College)

- 28 units: 26 one bedrooms and two studios; to be repositioned for international student housing.
- Property closed at the end of July for \$4.65 million with 5.25% cap rate.

Inventory remains relatively minimal with few available properties on the open market, though buyers appear eager for smaller, well-located properties priced within comparable ranges. These constituted the bulk of escrows in 2011.

The appeal to South County still remains as a blue chip investment. Prices appear to have stabilized and we forecast appreciation for this year as the demand for rentals seems to be raising rents.

Very limited inventory of available rental units on the South Coast

2012 Predictions

- Prices per unit for 10+ units will average between \$180,000-\$220,000 per unit. Smaller buildings (5-9 units) will sell between \$195,000-\$230,000 per unit.
- Cap rates have lowered for South County and will need to be above 5% for properties to sell. We expect the majority of sales to be between 5.1-5.7% on properties over 5 units.
- Gross rent multipliers will stay at or near 10.5-12.75X for 10+ units while 5-9 unit buildings will sell between 11-14X gross.
- Rents in Santa Barbara will increase modestly by 1-3%.
- Vacancy rates will remain stable at well under 5% and we predict they may further decrease as we muddle through the housing short sales trend where folks are rethinking whether to rent or own and the pendulum seems to be moving toward renting.
- Bright Spots: Sales activity and interest in purchasing a property in Isla Vista continues to remain very strong. However, we'll see demand for well-located properties in downtown Santa Barbara though not many choices are on the open market at this time. With this being stated the property has to have the economics.

Sales Apartments

North County Apartments

Two closings in Lompoc at the beginning of 2011 provided the lone bright spots in the North County during the first half of the year. There was one large property of note in escrow in Santa Maria toward the end of the year (in the early stages of escrow as of September 2011), the 460-unit La Vista Apartments.

Other than some larger transactions there were no other sales in Santa Maria and Lompoc in 2011 of properties over 5 units. That said, the rental market remained robust and healthy.

Rents in North County remained stable and improved in the latter part of the year with some complexes implementing rent increases. We expect rents to continue to rise for the same fundamentals as in Santa Barbara, with little to no construction, an influx of foreclosures (with these foreclosed homes selling at a brisk pace), and more would-be homeowners becoming renters because they don't qualify for loans.

Although the market in general slowed, the investment fundamentals for apartments actually improved over the previous year. Multifamily loans are very competitive with rates in the low to high 4% range, vacancy rates are compressing, rents are increasing, and there is little, if any, new construction to compete with existing properties. We expect investors to keep seeing the benefit of investing in North County apartment buildings. All of the properties we are involved with, whether with the brokerage

2012 Predictions

- Price per unit averages for 10+ units will stay at or near \$90,000 per unit the remainder of this year in Santa Maria while Lompoc should see averages over \$85,000 per unit as we forecast a slight increase from our forecast last year.
- CAP Rates will average between 6.0-7.0% depending on location, condition, quantity of units and rental income.
- Gross rent multipliers will stay at or near 8.5-11X gross rents.
- Rents in Santa Maria and Lompoc will remain positive with modest gains of 1-3%. The foreclosure of homes and short sales in these two areas seem to be sifting through the market. There are also signs of employment growth in Santa Maria as some companies experience hiring sprees.
- Vacancy rates will compress in both Santa Maria and Lompoc with Santa Maria averaging between 3-4% and Lompoc averaging 4-6%. Rents and Occupancies were strong through 2011 and shall continue that way in 2012

Note: the above forecasts are subjective. There are very few properties that have traded hands and in every market your dollars buy more than in the South County.

hat or the ownership side, are experiencing very high levels of occupancy with no rent concessions.

Ventura County Apartments

According to the *Dyer Sheehan July 2011 Ventura County report*, multifamily sales volume is on track to meet or exceed last year's 17 sales of 5+ units.

The average CAP rate for the properties sold (this year) is 5.9%, ranging from as low as 4.8% and as high as 7% depending on location, asset quality and size. Sales price per unit ranges from \$45,500 to \$246,649, with an average of \$143,313.

Multifamily sales activity and values for quality assets are expected to continue to increase as individual and institutional investors compete for the most desirable properties. While most of the recent activity has centered around high quality properties and locations, the limited amount of available inventory has prompted a trickle down of interest in "B" and "C" properties in secondary and tertiary markets.

Results-driven. Relentless. Radius.

Radius Commercial Real Estate & Investments is the Central Coast's go-to, full-service commercial real estate firm. Time and again, our brokers finalize an unmatched volume of sale and lease transactions by combining a unique team philosophy with sophisticated market analysis and proven expertise. We are relentless in anticipating opportunities, seizing competitive advantage and executing the best possible real estate strategy. Whether buying, leasing or selling, count on Radius to help you make the best decisions for your business.

Radius 2011 Highlights

Radius sold more than \$250 million in properties in 2011, more than our next three competitors combined.

Radius completed over 200 sale and lease transactions during the year.

Radius handled the largest new office lease in Santa Barbara at 59,770SF.

Radius boasted Santa Barbara's largest apartment sale at 203 Ladera Street – \$4.65 million.

In addition, Radius was a part of the three largest apartments sales in all of the South Coast (from Goleta to Carpinteria).



Commercial Real Estate & Investments

205 E. Carrillo St., Suite 100 | Santa Barbara, CA 93101
805.965.5500 | www.radiusgroup.com

Call one of our agents today or visit us online at www.radiusgroup.com.

STEVE BROWN

805.879.9607
sbrown@radiusgroup.com
lic. 00461986

MICHAEL CHENOWETH

805.879.9608
mchenoweth@radiusgroup.com
lic. 01213196

GENE DEERING

805.879.9623
gdeering@radiusgroup.com
lic. 01450943

BRAD FROHLING

805.879.9613
bfrohling@radiusgroup.com
lic. 01323736

PAUL GAMBERDELLA

805.879.9622
pgamberdella@radiusgroup.com
lic. 01267748

STEVE GOLIS

805.879.9606
sgolis@radiusgroup.com
lic. 00772218

ROB HAMBLETON

805.879.9611
rhambleton@radiusgroup.com
lic. 01858350

AUSTIN HERLIHY

805.879.9633
aherlihy@radiusgroup.com
lic. 01518112

BRIAN JOHNSON

805.879.9627
bjohnson@radiusgroup.com
lic. 01361925

DANIEL MCGREGOR

805.879.9626
dmcgregor@radiusgroup.com
lic. 01482600

CHRIS PARKER

805.879.9642
cparker@radiusgroup.com
lic. 01887788

JON STANDRING

805.879.9614
jstandring@radiusgroup.com
lic. 01893163

BOB TULER

805.879.9605
btuler@radiusgroup.com
lic. 00643325