We're back.

13th Annual

RADIUS REAL ESTATE & ECONOMIC FORECAST

HILTON SANTA BARBARA BEACHFRONT RESORT
2.28.23

RADIUS® Commercial Real Estate

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On behalf of Team Radius & our esteemed Forecast sponsors, we are grateful you could join us today in the spirit of empowerment through knowledge. Our communities are only as strong as our collective leadership, and the partnerships we forge are integral to perpetuating a vibrant space for business to thrive in and around our South Coast. Thank you for your foresight and collaboration, and for the trust you place in us to safeguard your interests.

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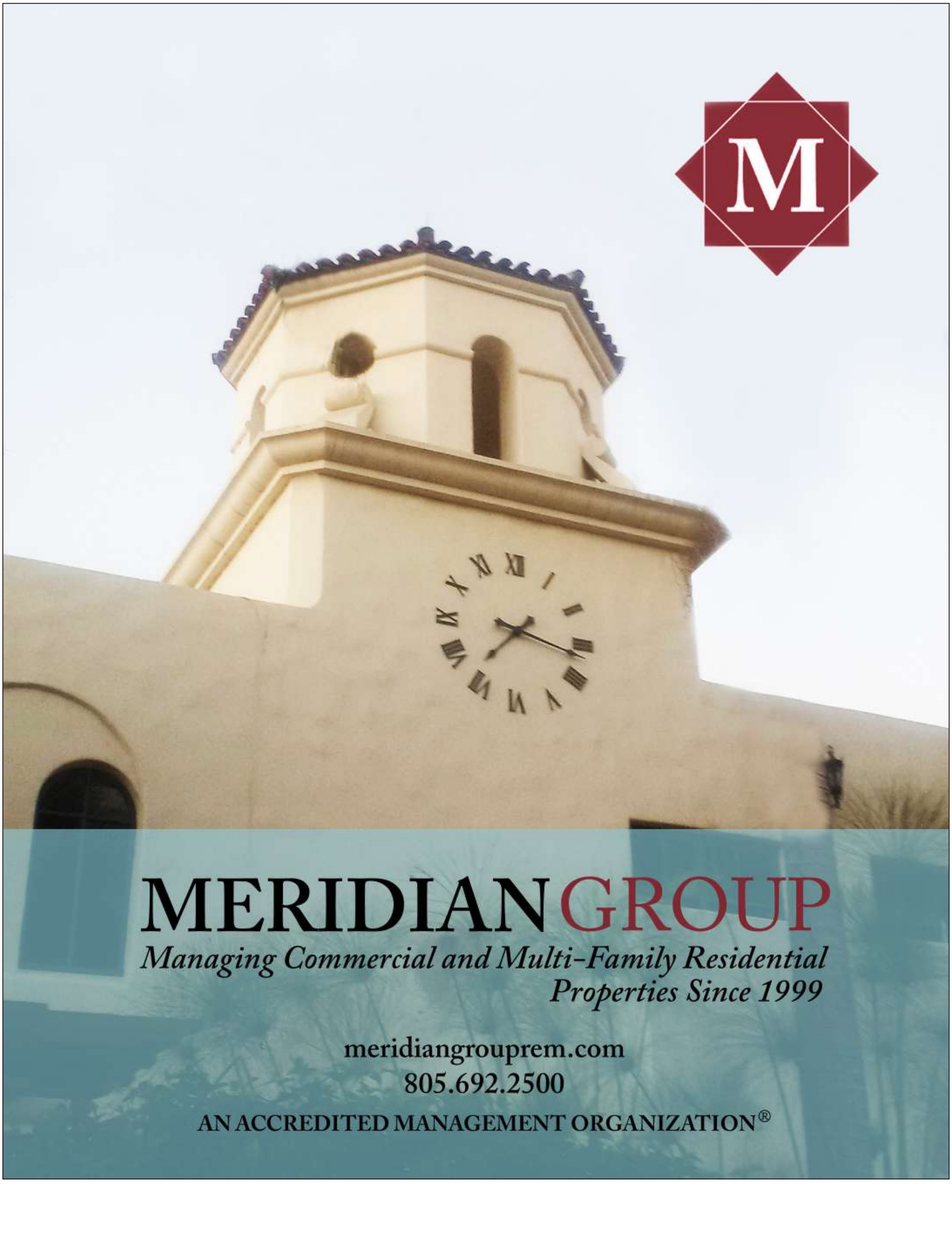
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RADIUS REAL ESTATE & ECONOMIC FORECAST 13th Annual

Keynote Address

Christopher Thornberg, PhD

Economist, Founding Partner, Beacon Economics, LLC

One of the nation's premier economists, Chris Thornberg is an expert in forecasting, labor markets, economic policy and real estate analysis. He was one of the earliest predictors of the subprime mortgage market collapse that began in 2007 and the global recession that ensued.

Dr. Thornberg founded Los Angeles based Beacon Economics in 2006, and in 2015 he also became the Director of the Center for Economic Forecasting & Development at UC Riverside School of Business where he is also an adjunct professor. Thornberg regularly presents to leading business, government and nonprofit organizations across the globe. He has also conducted research and developed analytic products for international clients that explore the trade and economic connections between the U.S. and the world, including a number of studies measuring the effect of important events on the economy such as the NAFTA treaty and the terrorist attacks of 9/11.

Thornberg holds a PhD in business economics from UCLA's Anderson School where he also served as senior economist.

The LineUp

2023 PRESENTERS

Contents

RADIUS® Commercial Real Estate

Commercial Sales

Gene Deering

Principal, Radius Commercial Real Estate

Over the past 17 years, Gene Deering has completed over 1,150 transactions valued at more than $1.6 billion, working in tandem with fellow Radius partners Bob Tuler and Paul Gamberdella. In 2022 the team completed 26 sales and 67 leases involving more than 640,000 sq. ft. and valued at more than $295 million, putting them atop the commercial leasing and sales leaderboard on the South Coast. A former college athlete, Gene's unrivaled energy and leadership skills propelled him to the role of Senior Vice President in 2017, then Principal in 2018.

South Coast Leasing

Brad Frohling

Principal, Radius Commercial Real Estate

Since joining Radius in 2002, Brad Frohling has completed more than $900 Million in local commercial real estate sale and lease transactions, specializing in the retail, office, development, and industrial sectors in the South Coast. Brad entered into commercial brokerage in 2000, representing a group of private investors and completing several off-market transactions that resulted in excellent returns in the Santa Barbara area. Prior to that he was instrumental in managing the Eastern United States for Oakley Corp. where he helped grow his sales division from $8 million in sales to $16.5 million in just three years and launched new product lines including footwear, outerwear and optical products.

Multi-Family Investments

Steve Golis

Principal & Co-Founder, Radius Commercial Real Estate

Since 1979, Steve Golis has been involved in the exclusive marketing and sale of primarily residential income properties in the Tri Counties. Over his 42-year career, Steve has amassed multi-family and commercial sales amounting to more than 14,000 units sold, with sales volume during the past decade alone exceeding more than $1 billion, making him the overwhelming leader in apartment sales in Santa Barbara County and the Central Coast. He has earned numerous awards during his career, including the Santa Barbara Association of Realtors Jack Kelly Award for Most Challenging 1031 Exchange (2013, 2018), and the Howard C. Gates Achievement Award recognizing the standout sale of the year (2018), the first time a commercial broker has ever achieved this distinction.

Master of Ceremonies

Steve Brown

Principal & Co-Founder, Radius Commercial Real Estate

With an illustrious career spanning more than 45 years in the South Coast commercial real estate market, Steve Brown is widely considered one of the region's premier leaders in CRE sales and analysis. He has earned the respect and following of many of the community's most established investors and is often called upon by lenders, colleges and fellow brokers as a trusted resource for industry and market information.

QAD Campus · 100–101 Innovation Pl., Summerland
122,925 SF Office Complex · $104,000,000 · $846/SF (6.22.22)

Steve Brown
Miles Waters
Jon Ohlgren

COMMERCIAL

Sales

RECORD SETTING YEAR DESPITE Q3-4 SOFTENING

On the heels of a record-setting 2021 and a robust first half of 2022 in which we witnessed the most Q1 commercial sales (31) in the past five years, and a stellar Q2 that produced the mammoth $104 million QAD Campus sale and total sales volume of $254 million, the market noticeably cooled during the third and fourth quarters. While 4th Quarter figures in particular came back down to Earth and were the lightest of the year, they reflect a more accurate picture of what's going on in the current market.

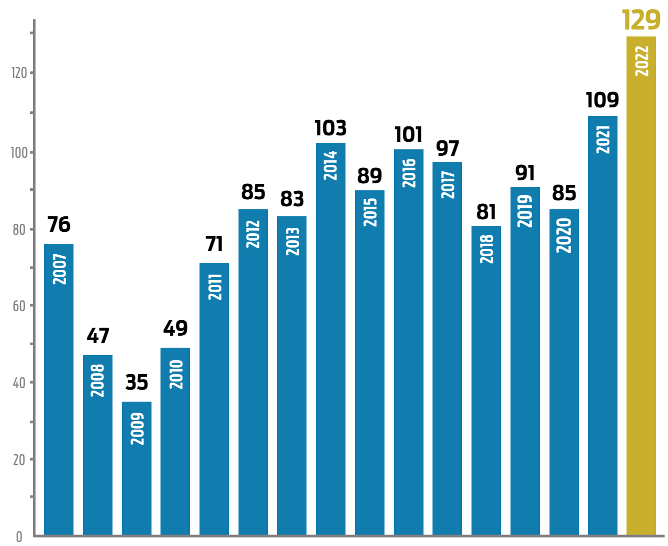
The second half of the year clearly underperformed when compared to the same period in 2021, with 58 commercial sales totaling $213 million in 2022 versus 76 sales totaling $424 million in 2021. In fact Q3-Q4 sales volume was even lower than in 2020 (the first year of the pandemic), which recorded $313 million on 52 sales.

Year-end softening aside, 2022 was an incredibly strong showing as the South Coast market amassed the most prolific haul on record—easily surpassing 2021's previous high bar in both number of sales and sales volume—achieving 129 commercial sales with cumulative dollar volume of $619 million (excluding hotel sales). By comparison, 2021 tallied 109 sales at $556 million in volume. (For perspective, the prior-15-yr. average was 80/yr., now bumped up to 83.7/yr. factoring in a complete 2022.)

Breaking down the 4th Quarter, there were 29 commercial sales accounting for $105 million in volume—equaling the 3rd Quarter's 29 but just under that quarter's $108 million—registering a huge drop from Q4 2021 which saw 43 sales at $335 million in volume.

Despite that massive year-over-year drop in sales volume, it's worth touching on the four South Coast hotels that traded during Q4 2022 (dollar volume

2022 South Coast Commercial Sales



15-year average = 80.1 sales/year. Excludes apartment sales.

from the hotel category is not factored into total sales volume for the market as these properties can often garner outsized price tags that would drastically skew sales volume statistics for the prime commercial categories office, retail & industrial). Most notable was the sale of the 358-key Bacara Resort which traded for $530 million in November (just under $1.5 million per key), pushing total hotel volume for the quarter to $569.1 million, a figure that lands just shy of the entire year's $619 million commercial sales volume. In fact, hotels on the South Coast continue to remain a hot commodity, extending the market's trend of multiple deals per quarter that we've seen throughout 2021 and 2022. As noted in previous reports, pent-up demand—particularly from domestic travelers—after numerous Covid lock-downs has helped make this corner of the commercial market a darling among investors. We do not see real signs of this trend easing any time soon, despite months of uncertainty caused by warnings of recession, as this category can more easily adjust to volatile economic conditions than others.

Interestingly, retail and office properties accounted for the bulk of the deals during the 4th Quarter—9 retail, 7 office, 6 land, 4 hotels, 2 industrial and 1 special purpose (the former St. Mary's Seminary). The retail and office sectors have been the worst performing assets from a leasing standpoint, but typically a slowdown in leasing can result in owners deciding to sell and transition into more desirable asset classes, which also can create opportunities for owner-users. Furthermore, opportunistic investors have been purchasing underperforming office and retail buildings with the intent of repositioning them to other uses such as multi-family or hospitality.

Further observations that stood out during Q4 include investors outpacing owner-users for the fifth straight quarter [23 investors (80%), 6 owner-users (20%)]), more State Street properties trading (6), one auction sale, and another property changing hands for the second time in three months (2275 Ortega Hill Rd., Summerland). Perhaps the most interesting observation is that 53% of the commercial sales during Q4 took place off-market—the most off-market deals of any quarter to date. We attribute this to a lack of inventory spurring buyers to aggressively seek out specific attractive properties for which they are willing to pay a premium.

Finally, while the market still seems relatively healthy and assets continue to trade, chatter of impending recession continues to swirl. At this moment, inventory has tightened even more, and some owners that may have been a seller last year have either recapitalized their assets at very favorable terms and are no longer incentivised to sell, or they are willing to wait until the current holding period passes. Ironically, the tightening of inventory has kept values strong due to lingering buyers in

CONTINUED ON PAGE 12

2022 Quick Stats

129

COMMERCIAL SALES

Most ever recorded in a single year
20 more than previous record set in 2021

$619MM

TOTAL SALES VOLUME VS. $556MM 2021

(Excludes Hotel Sales Volume)

64%

INVESTOR SALES (83) VS. OWNER-USER (46)

$104MM

LARGEST COMMERCIAL SALE

123,000 SF QAD Office Campus

$530MM

LARGEST HOTEL SALE

358-Key Bacara Resort

The Ritz-Carlton Bacara · 8301 Hollister Ave., Santa Barbara
358 Keys · $529,869,000 · Approx. $1,480,000/Key (11.3.22)

Santa Barbara Business Park · 315–346 Bollay Dr. & 320–340 Storke Rd., Goleta
194,625 SF Office/Industrial Complex · $50,675,000 · $260/SF (3.8.22)

CONTINUED FROM PAGE 11

1031 exchanges or investment groups that must allocate capital. Investor sentiment continues to be in a “wait & see” position. Rising Interest rates and more stringent financing terms are still the biggest factors affecting deal flow, especially magnifying the gap between seller and buyer expectations on asset pricing.

For the next several months expect this “wait & see” attitude to prevail until there are clearer signals from the Fed that we are either headed to a soft landing or are skipping a recession entirely.

Q4 Sales Highlights

2840 De La Vina St., Santa Barbara (Retail)
29,990 SF · $14,400,000 · $480/SF · 4.5% Cap

1290 Coast Village Rd., Montecito (Office)
7,545 SF · $9,500,000 · $1,259/SF · 4.3% Cap
1031 Exchange

1913–1921 State St., Santa Barbara (Medical Office)
25,972 SF · $9,275,000 · $357/SF
1031 Exchange

40 & 50 Los Patos Way, Montecito (Retail)
7,800 SF · $7,000,000 · $897/SF

825 State St., Santa Barbara (Retail)
14,184 SF · $4,365,000 · $308/SF

Q3 Sales Highlights

Riviera Business Park · 2020–2060 Alameda Padre Serra, Santa Barbara (Office Campus)
92,744 SF · $26,825,000 · $289/SF
Off-Market

801 Linden Ave., Carpinteria (Retail)
Single Tenant Rite Aid Property
7,300 SF · $4,850,000 · $664/SF · 4.51% Cap

2165 Ortega Hill Rd., Santa Barbara (Self-Storage)
41 Units · 7,850 SF · $4,350,000 · 2.5% Cap
Traded $500,000 Above Asking Price

Blue Sands Inn · 421 S. Milpas St., Santa Barbara (Hospitality)
12 Keys · $5,995,000 · $499,583/Key
Off-Market

Q2 Sales Highlights

QAD Campus · 100–101 Innovation Pl., Summerland (Office Complex)
122,925 SF · $104,000,000 · $846/SF

Las Aves · 1801 E. Cabrillo Blvd., Santa Barbara (Office/Retail Complex)
31,634 SF · $19,250,000 · $609/SF
1031 Exchange

1221–1224 Coast Village Circle, Montecito (Office/Retail Complex)
17,640 SF · $17,250,000 · $978/SF

Waterman Hotel · 12 E. Montecito St., Santa Barbara (Hospitality)
31 keys · $15,550,000 · $501,613/Key
1031 Exchange

The Hangar · 201 W. Montecito St., Santa Barbara (Creative Office/Auto Showroom)
12,700 SF · $8,900,000 · $701/SF · 5.4% Cap
1031 Exchange

Q1 Sales Highlights

Santa Barbara Business Park · 315–346 Bollay Dr. & 320–340 Storke Rd., Goleta (Office/Industrial)
194,625 SF · $50,675,000 · $260/SF · 6.0% Cap
Off Market

Kimpton Goodland Hotel · 5650 Calle Real, Goleta (Hospitality)
160 Keys · $33,000,000 · $206,250/Key
Off Market

Franciscan Inn & Suites · 109 Bath St., Santa Barbara (Hospitality)
53 keys · $22,000,000 · $415,094/Key

118 E. Carrillo St., Santa Barbara (Office)
10,627 SF · $7,500,000 · $706/SF · 4.4% Cap
Off-market

309 W. Quinto St., Santa Barbara (Medical Office)
3,528 SF · $3,800,000 · $1,077/SF · 3.6% Cap
Off-market


Riviera Business Park
2020–2060 Alameda Padre Serra, Santa Barbara
92,744 SF Office Complex · $26,825,000 (7.22.22)

The Franciscan Inn & Suites
109 Bath St., Santa Barbara
53-Key West Beach Hotel · $22,000,000 (3.10.22)


Las Aves · 1801 E. Cabrillo Blvd., Santa Barbara
31,634 SF Office/Retail Complex
$19,250,000 (5.3.22)


118 E. Carrillo St., Santa Barbara
10,627 SF Office Building
$7,500,000 (2.16.22)

BETTER THAN "GOOD YEAR" FOR VINEYARDS

It was a notably active year for Santa Barbara County agricultural land trading. In the category of Ag-zoned property 25 acres or larger in size, in all of 2022 there were 49 total transactions amounting to over 7,700 acres and $380 million in value (excluding partial interest sales, family transfers or related entity assignments, and properties with MT zoning).

The vineyard market was particularly robust, starting the year with a crusher of a sale. In January Kylix Vineyards purchased the 1,227-acre Rancho Sanja Cota property in the Santa Ynez Valley for over $62 million or approx. $50,500/acre. The property previously sold in 2017 for just over $34 million. Meanwhile Sran Vineyards purchased a 1,330-acre property outside Los Alamos previously owned by Treasury, for just under $32 million. The former Grevino Winery project, a 104-acre property to the southeast of Santa Maria, sold for $12.5 million to Full Circle Vineyards. Other notable transactions included the Mosby Winery & Vineyards, Le Bon Climat, Premiere and Vogelzang properties.

Notable sales of veggie ground include 147 acres at the intersection of Stowell and Blosser in Santa Maria which sold to an investment group for an impressive $70 million or approx. $476,000/acre. Another sale of prime row-crop ground just West of Orcutt, formerly the Allen Hwy 1 Ranch, sold for just under $14 million. At 220 acres that value lands in a more reasonable range for row crop ground at approx. $63,000/acre.

Things haven't slowed moving into 2023 wuith activity and interest in commercial agriculture remaining strong. Land in our area is viewed as a safe investment, especially in inflationary times. Additionally, the word is out that there are changes afoot at the County level which will result in the increased economic viability of Ag-zoned parcels in the unincorporated areas. The Agricultural Enterprise Ordinance and the Recreational Master Plan are both working their ways through the planning process (the Farmstay Ordinance Amendments have been incorporated into the Agricultural Enterprise Ordinance planning process). This is a moment of unique opportunity for existing owners and buyers of commercial ag land to submit projects while this process is occurring. The County is actively seeking land owner involvement, visit the websites below for more information:

https://www.countyofsb.org/728/Agricultural-Enterprise-Ordinance

https://www.sbcrecplan.com

Rancho Sanja Cota · Santa Ynez Valley
1,227 Acres · $62,000,000 · $50,500/Acre (6.22.22)

Justin Diem
Brad Frohling
Gene Deering

Leasing

SOUTH COAST

Office

Moving into 2023, Santa Barbara's office market has remained relatively tight, not surprising given the state of uncertainty surrounding the office sector around the country. By the end of the 4th Quarter the vacancy rate rose to 9.7%, up a percentage point from the 3rd Quarter's 8.8%. As has been the case ever since the department store chain left Paseo Nuevo, the largest space on the market remains the former downtown Macy's at the corner of State and Ortega Streets, with all 132,000 square feet of it now being marketed as office. That's significant given the first floor was previously leased to Aloha Fun Center roller rink for retail use and should have been open by now, but that deal went south in the latter half of 2022. That unfortunately put 45,000 SF of space in the available column for Santa Barbara's office sector given that, as mentioned above, it's now being marketed as office for lease.

But big spaces like that don't help much if you are an office tenant in need of Class A space in Santa Barbara less than 2,000 SF with parking... there are relatively few options. In fact the 4th Quarter saw limited leasing of larger space as the largest new lease was just 3,100 SF at 801 Garden St., with total absorption for the market at about 31,000 SF for the quarter. The largest transaction during the 4th Quarter was actually not a new lease as Charles Schwab renewed their 9,300 SF space at 902 Chapala St. for 10 years. Meanwhile average gross asking rates remained flat at about $3.31/

701 State St. Santa Barbara · The Ortega Building
Entire 132,500 SF now available as Office space

2022 So. Coast Leasing Quick Stats

VACANCY

		Q3	Q4
OFFICE	Santa Barbara	8.8%	9.7%
	Goleta	8.4%	9.8%
	Carpinteria	18.0%	26.0%
INDUSTRIAL	Santa Barbara	0.7%	0.1%
	Goleta	2.8%	3.0%
	Carpinteria	3.5%	1.2%
RETAIL	Santa Barbara	2.7%	2.7%

GROSS ABSORPTION (SF)

		Q3	Q4
OFFICE	Santa Barbara	39,900	30,600
	Goleta	16,300	6,300
	Carpinteria	6,000	2,600
INDUSTRIAL	Santa Barbara	27,500	31,900
	Goleta	36,800	6,100
	Carpinteria	10,000	63,600
RETAIL	Santa Barbara	18,000	25,000

AVG. GROSS ASKING RATES ($/SF)

		Q3	Q4
OFFICE	Santa Barbara	$3.30	$3.31
	Goleta	$2.08	$2.17
	Carpinteria	$2.51	$2.44
INDUSTRIAL	Santa Barbara	$2.73	$3.09
	Goleta	$1.89	$1.94
	Carpinteria	$1.93	$2.45
RETAIL	Santa Barbara	$4.42	$4.38

AVG. GROSS ACHIEVED RATES ($/SF)

		Q3	Q4
OFFICE	Santa Barbara	$2.97	$3.12
	Goleta	$1.94	$2.03
	Carpinteria	$1.96	No Leases
INDUSTRIAL	Santa Barbara	$2.10	$2.42
	Goleta	$1.82	$1.66
	Carpinteria	$1.58	$1.60
RETAIL	Santa Barbara	$3.15	$4.20

801 Garden St. Santa Barbara · Office
3,125 SF · Certis Capital (10.21.22)

SF to end the year, while the average gross achieved rate rose from $2.97/SF in Q3 to $3.12/SF in Q4.

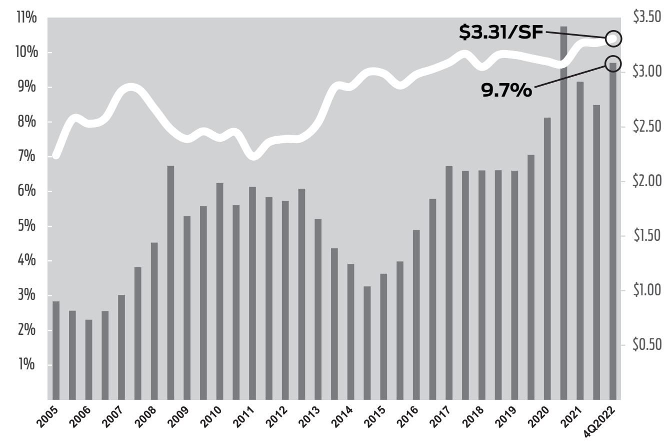
Moving on to Goleta, the news isn't much different on the office vacancy front as the vacancy rate rose to 9.8% by the end of Q4 2022, up from 8.4% in Q3, basically matching Santa Barbara. An example of how quickly the office market is changing can be seen in the building at 6750 Navigator Way. Prior to COVID, the building was fully leased yet now all 46,000 SF of it is available. Given the limited number of office tenants actively looking in the market we would not predict the vacancy rate will tick downward any time soon. Leasing activity was lackluster during Q4 with only four new office leases—the largest being just 2,600 SF—for a total of 6,300 SF. The largest office lease of the quarter was again a renewal, as Moog re-upped their 23,500 SF at 7406 Hollister Ave. The average gross asking rate climbed slightly from $2.08/SF in Q3 to $2.17/SF in Q4. Meanwhile the average gross achieved rate was $2.03/SF, up a bit from $1.94/SF in Q3.

Down to Carpinteria, the office market has gone through a remarkable change over the past 12 months. Back in Q4 2021 the vacancy rate sat at just 3.9%. By the end of Q4 2022 it ratcheted all the way up to 26%. Now those familiar with the market understand that given the limited amount of office product in Carpinteria, the vacancy rate can swing one way or the other quickly. But 26%! ProCore's desire to scale back has indeed had a significant impact on vacancy in the market. As of December 31, ProCore had 78,000 SF on the market for sublease! It also doesn't help that during Q4 there was just one office lease in Carpinteria, for 2,600 SF, and total available space climbed to 121,000 SF. For those office tenants in the Carpinteria marketplace it might be a good idea to discuss with your agent a "blend and extend" where you lower your current lease rate in exchange for adding additional lease term.

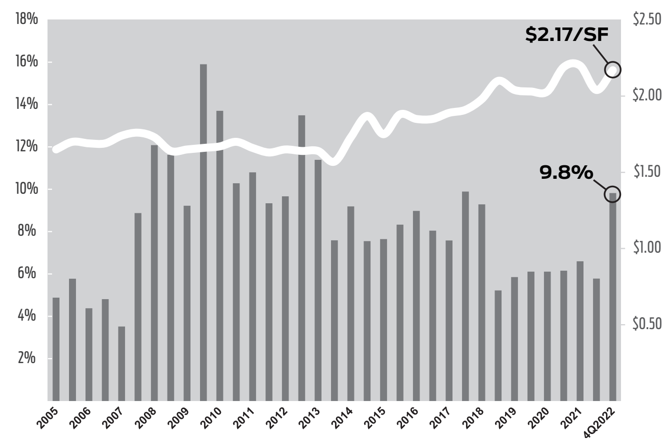
So. Coast Leasing Trends

Average Gross Asking Prices & Vacancy Rates

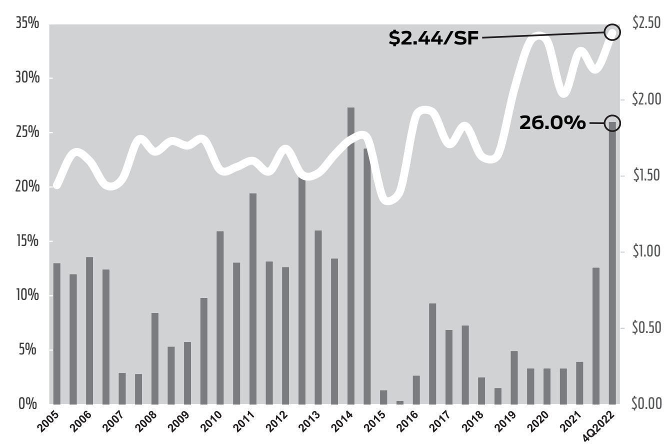
SANTA BARBARA OFFICE



GOLETA OFFICE



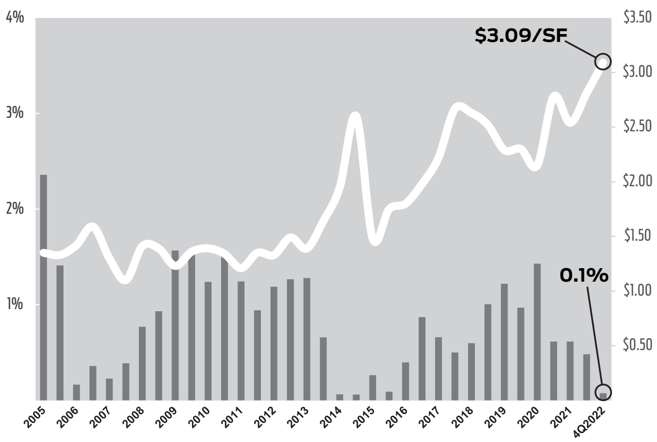
CARPINTERIA OFFICE



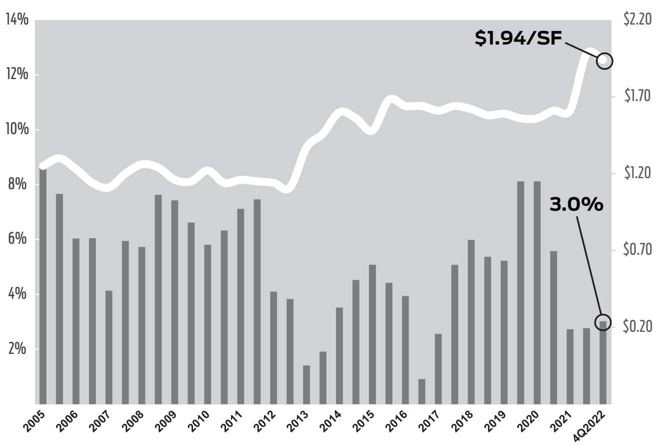
So. Coast Leasing Trends

Average Gross Asking Prices & Vacancy Rates

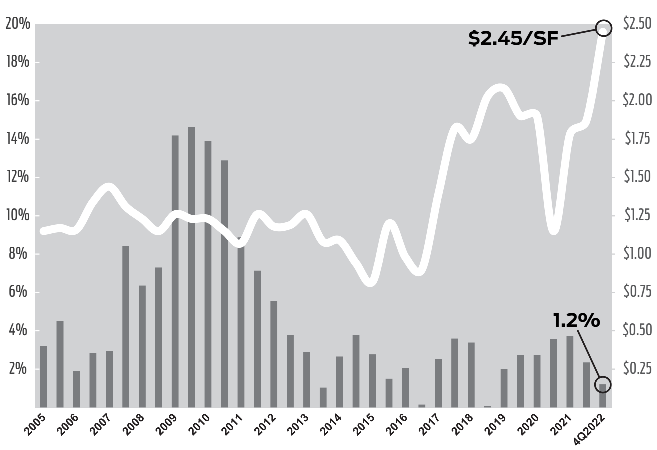
SANTA BARBARA INDUSTRIAL



GOLETA INDUSTRIAL



CARPINTERIA INDUSTRIAL



Industrial

The fourth quarter of 2022 was relatively active for industrial leasing with lease rates remaining mainly flat throughout the South Coast. Goleta did see a slight increase in its vacancy rate, moving from 2.8% in Q3 to just 3% in Q4 with six spaces over 10,000 SF currently available. Still there were only two new leases signed in Goleta during the quarter, totaling about 6,100 SF.

Carpinteria, meanwhile, currently has just one industrial vacancy at 6384 Via Real (15,600 SF), dropping its vacancy rate to just 1.2% in Q4 from 3.5% in Q3. This limited-inventory market had three notable leases involving growing companies and one new company to the market. Rincon Power leased 8,600 SF at 6381 Rose Ln.; Soil Organics leased a healthy 34,400 SF of former ProCore space at 6395 Cindy Ln.; and an undisclosed tech company leased 20,000 SF at 5251 6th St. While office space is plentiful in Carpinteria, industrial product is and will remain scarce for the foreseeable future.

Speaking of scarcity, let's talk about a 0.1% vacancy rate in Santa Barbara industrial. In fact the vacancy rate has rested below 1% since Q2 2021. That low vacancy rate was due to eight new leases totaling 32,000 SF during the quarter. Highlights include SRS Corporation (roofing supplier) leasing the newer 9,600 SF at 35 N. Calle Cesar Chavez while Haywards leased 7,100 SF at 726 Cacique St. A new-in-town company, Lymen Organics, leased 6,000 SF at 402 E. Gutierrez St. across from the Home Improvement Center.

In some cases the demand for quality industrial is driving up lease rates closer to some office and retail spaces. Demand for smaller industrial spaces (sub 10,000 SF) remains high throughout the South Coast. We will continue to see low vacancy with no dramatic changes anticipated in the coming quarters. We remain hopeful absorption of some of the larger spaces in Goleta will continue.

6395 Cindy Ln. Carpinteria · Industrial
34,400 SF · Soli Organics (10.4.22)

35 N. Calle Cesar Chavez Santa Barbara · Industrial
9,662 SF · Roofline, Inc. (10.21.22)

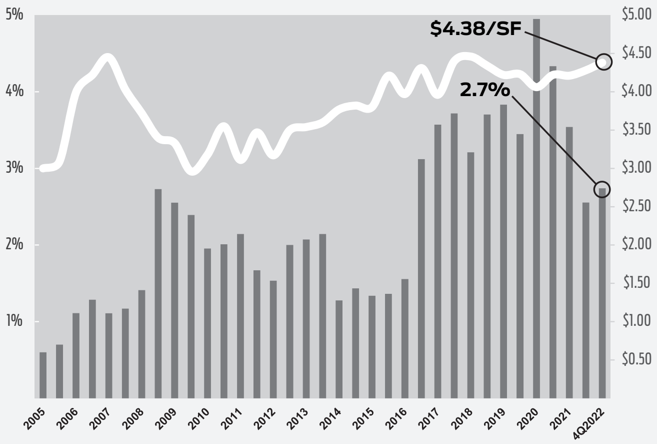
Retail

Although a walk along Downtown State Street or through La Cumbre Mall won't instill confidence in the Santa Barbara's retail sector, the City as a whole is showing some positive signs of a sustained post-pandemic market.

During the 4th Quarter there were 10 new retail leases signed totaling approximately 25,000 SF, a modest jump in absorption from 18,000 SF in Q3. These lease transactions ranged in size from a 530 SF space to a 5,046 SF space, the latter being a joint effort between the local teams of Lama Dog and Sama Sama who took the former La Rumba nightclub space at 3435 & 3441 State St. The building recently underwent a façade remodel, which will add a fresh appearance for the new businesses. Another Funk Zone favorite Brass Bear opened their Uptown location in the former Café Stella space off Las Posits Rd. Meanwhile Montecito retail continues to flourish with a confidential tenant set to take over the former Cava Space at 1212 Coast Village Rd., and the former Trattoria Mollie's space at 1250 Coast Village Rd. being leased to Montecito Fitness.

At year-end Santa Barbara's retail vacancy rate remained flat at 2.7% to match Q3. Asking rates for Santa Barbara retail are averaging $4.38/SF Gross Equivalent (Base Rent + NNN), slightly below $4.42/SF in Q3. Meanwhile achieved rates increased dramatically from Q3's $3.15/SF Gross Equivalent to $4.20/SF Gross Equivalent (Base Rent + NNN) in Q4. With limited number of lease transactions occurring, the achieved rate was pushed by the higher lease rates of the Coast Village Road leases.

SANTA BARBARA RETAIL



It's worth mentioning that on the sales front, there were nine retail buildings sold during Q4, which is surprising when only nine new leases were executed. Four of these sales were on State Street, which highlights the shakeup of Santa Barbara's main downtown commercial artery.

3435 & 3441 State St. Santa Barbara · Retail
5,046 SF · Lama Dog (12.7.22)

DOWNTOWN STATE STREET RETAIL VACANCY UPDATE

The year ended with an overall increase of available retail storefronts on downtown State Street, rising from 32 in Q2 to 36 in Q4. While not favorable news, an increase to 13 pop-up shops mitigated the negative appearance of a vacant storefront.

A new landscape is starting to emerge downtown as more retail buildings are removed from market for adaptive reuse projects. The former Sur La Table building at 821 State hosted the city's CREATE STATE workshop in early December as part of the State Street Master Plan outreach. Highlights included the initial plans for the conversion of the building to workforce housing, a key example for the city moving forward since it is one of many buildings on State suffering from functional obsolescence. A block over, Fashion Eyes at 730 State has closed as the building also sold for a reuse project. While these reuse projects will remain in the total count of storefronts until construction is complete, they are not counted as vacant since they are not available for lease.

A sizeable vacancy returned to our list as Aloha Fun Center failed to open at 701 State during its short lease. Although now marketed as office space, the prominent former Macy's buildings will remain as a retail storefront until a new use is confirmed for the first floor. Across the street at 710 State, it appears another large vacancy will be coming online soon as Restoration Hardware moves to take over the Lucca space at The Old Firehouse in Montecito's Upper Village.

With available storefronts increasing in Q4, the city will be pushed for decisions as it faces a plethora of challenges on State St. The community will need to welcome new businesses such as the drift hotel at 532 State which started taking reservations in February. Longoria Wines at the old Wine Therapy space at 732 State appears to be making visible progress with construction paper off the windows and finishes installed. Although the city plans to keep the street closed through 2023, the increase in vacancy highlights that the current state of State is not sustainable.

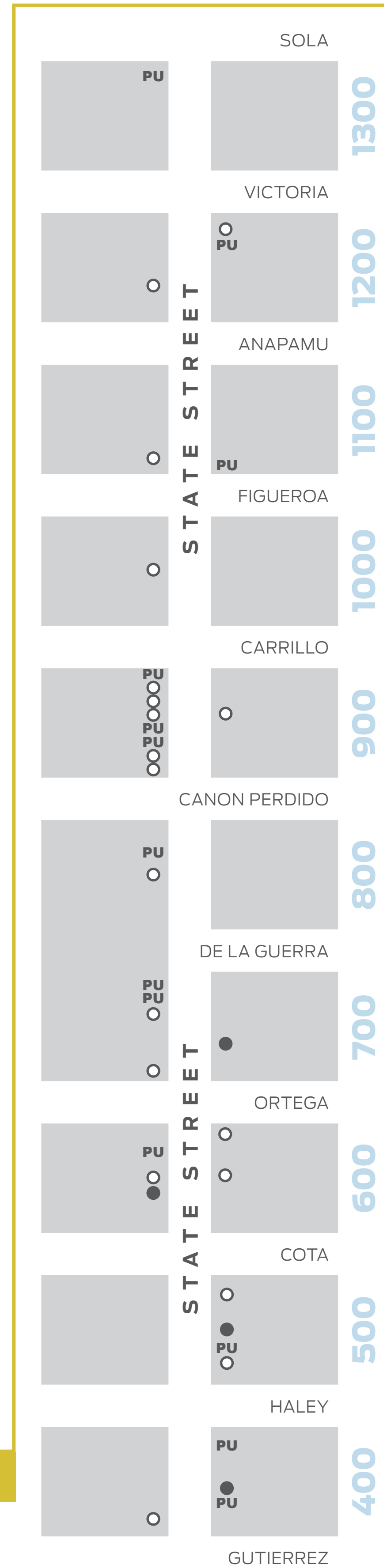
State Street Retail Vacancy

	Q3.22	Q4.22*
Total Storefronts	249	249
Storefronts Available For Lease	35	**36**
Vacancy Rate of Storefronts Available For Lease	14.06%	14.46%
Vacant Storefronts	21	19
Perceived Vacancy Rate	8.43%	7.63%
Storefronts Still Occupied by Tenant	4	4
Pop-Up Shops	10	**13**

*Radius conducts monthly research including visual inspection of the downtown State St corridor (400–1300 blocks). Vacancy rate calculated using State St facing storefronts. Some spaces may be leased and we are not aware. Pop-ups are included as vacant since they are short term (12 months or less). First floor State Street-fronting office/banks excluded in this count. *Report updated December 2022*

Notable Q4 Activity

- **623.5 State —** Sold (Nectar Clothing)
- **821 State —** Adaptive Reuse in Progress (Workforce Housing)
- **730 State —** Now Vacant (Fashion Eyes); Sold in Q2 for Hotel Reuse Project
- **825 State —** Approx. 14,200 SF Building Sold in Q4
- **1315 State —** Approx. 6,000 SF Building Sold in Q4
- **1236 State —** Approx. 4,000 SF Building Sold in Q4



Vacant Storefronts By The Block

Vacant / Available Spaces · *Available but Occupied Spaces* · PU *Short Term Pop-Up Shops*

Steve Golis
Mike Lopus
Aneta Jensen

Multi-Family

INVESTMENTS

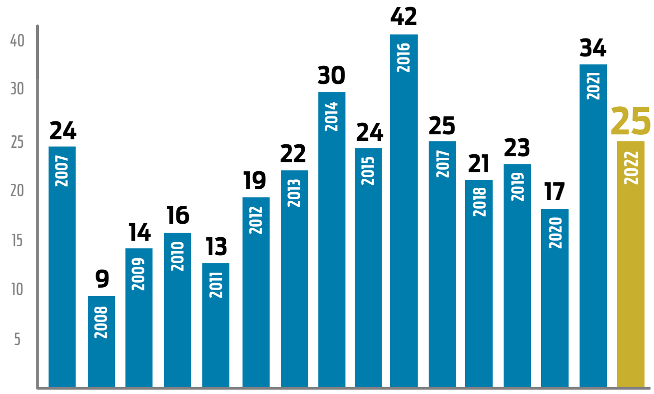
South Santa Barbara County

Throughout the 4th Quarter of 2022, we continued to see strong demand and interest for multi-family properties in South Santa Barbara County and very little inventory coming to the market. A total of eight investment properties 5+ units in size sold in South Santa Barbara County, the largest being Shepard Place Apartments at 1069 Casitas Pass Rd. in Carpinteria, a 55+ senior community complex. This 169-unit asset sold off-market at the end of December for just under $42 million and is one of the largest multi-family properties in Carpinteria, consisting of 11 separate buildings. Built in 1979 on 7.36 acres of land zoned as PRD-20, the complex features one and two-bedroom garden style units which bring in an average monthly rent of $2,620. The low price per unit of $247,840 coupled with its prime location creates a huge upside potential for the new owner.

We do still see the occasional off-market transaction such as this one, but properties that come to market are seeing a large amount of activity which ultimately benefits the sellers. A 17-unit property at 509 Fig & 514 Chapala St came on the market in December. Of the 17 units, only three were occupied. This property's condition created an ideal situation for a buyer to come in and have the ability to update 14 units to their standards and set the units to market rent after the updates. The property was listed at $4,500,000 and received over 15 offers and is expected to close in the $5,000,000+ range. This is a reflection of the competitive pool of buyers who are still looking for investment opportunities that have a strong upside potential. The looming concerns over new Rent Control guidelines in the City of Santa Barbara have not yet deterred investors in the market.

2022 South County Multi-Family Sales

Properties 5+ Units



The City of Santa Barbara's apartment rental vacancy is still very low, below 2% in Q4 of 2022. This is the lowest sustained vacancy rate that Santa Barbara has seen in recent years. Many factors have influenced this vacancy rate in 2022. One major impact was an influx of new residents, who, during this pandemic, were able to work from home and pay top end rent rather than living in high rent cities such as those in the Bay Area or LA / Southern California. This new demand that was driven by the out-of-town renters, coupled with the limited supply, created a situation where rental rates skyrocketed to new market highs.

Summerland had one transaction in Q4 at 2320 Banner Avenue. This 10-unit property traded off-market for $3,900,000 at $390,000 per unit.

Meanwhile in Isla Vista, 850 Camino Pescadero, an 11-unit student housing property located near UCSB, received over five offers to the benefit of the seller, ultimately closing in early November for $3,925,000 ($356,818/unit). The property had been very well

Shepard Place Apartments · 1069 Casitas Pass Rd. Carpinteria
169-Unit 55+ Community · $41,885,000 · $247,840/Unit (12.6.22)


16 W. Mission St. Santa Barbara
23 Units · $11,825,000 · $514,130/Unit (12.19.22)

maintained with a rental upside that posed a great opportunity for the buyer.

We also saw a portfolio come to market, 6712 Del Playa (2 units), 6509 Sabado Tarde (18 units) 6528 Sabado Tarde (4 Units) & 6529 Trigo (7 total units: 3 Commercial & 4 Residential) totaling 31 units. The portfolio was listed for $15,250,000 at a current CAP rate of 2.36% and a pro-forma CAP rate of 4.14%. This portfolio is expected to go under contract and close in Q1 of 2023.

Three other student housing assets in Isla Vista were listed in November and are now in the best-and-final stage of the sale process as of 1/26/23. The listing includes Tropicana Gardens, Villas & Del Norte totaling 208 units and 1,112 beds. We anticipate this property to be under contract and close during the first half of 2023.

Overall in 2022...

In South Santa Barbara County in 2022, we saw roughly 25 transactions of 5+ units, nine fewer than 2021 (34) but still a very strong year by all accounts. We still expect to have strong buyer interest throughout 2023, though investors will be more cautious in the current environment and put a greater emphasis on the buyer's investigation of the financials and physical condition of each specific property during this current market landscape moving forward in the near term.

Looking forward to the rest of 2023...

With the anticipated tightening of monetary policy and the gradual rising of interest rates, we foresee these factors having a noticeable impact on multi-family sales in the SLO, Santa Barbara and Ventura County.

Multi-family properties historically and currently are a great shelter against inflation relative to other investment options.

The Federal Reserve raised rates seven times in 2022, with the goal of slowing the economy and reducing inflation. Though inflation has eased recently, there still looks to be additional hikes to come in 2023. The Fed raised the target range for the fed funds rate by 25bps to 4.5%–4.75% in its February 2023 meeting, dialing back the size of the increase for a second straight meeting but still pushing borrowing costs to the highest since 2007. As a result of the continually increasing rates we are going to see a significant slowdown in the trading volume at a national level, which will ultimately trickle down to the local level.

We expect to see strong buyer demand for multi-family in 2023, but as has become the norm, there will be limited listings available. Market conditions such as this prove to be especially challenging for buyers coming out of a 1031 Exchange and looking for a replacement property. Many of these buyers end up having to pay the taxes or finding their replacement properties in different markets.

We expect about 25–35% fewer multi-family properties to trade in 2023 vs. 2022 along the Central Coast. With these factors at play, we will see a very limited vacancy which will only work to the advantage of current owners' property value if they were to entertain offers.

North Santa Barbara County

In Q4 of 2022, North Santa Barbara County saw two multi-family transactions. Both were in Santa Maria, located at 115–213 Mary Dr. (27 units) and 618 E. Mill St. (10 units), and were sold by the same seller. Both received multiple offers, with 115–213 Mary Dr. closing for $5,170,500 at $191,500/unit and a CAP rate of 3.75%; while 618 E. Mill St. sold for $1,585,000 at $158,500/unit and a CAP rate of 3.71%.

The vacancy rate in the Lompoc/Santa Ynez submarket has expanded moderately over the past year, but at 3.2% it remains slightly below the long-term average. Within the past 12 months, we saw the Lompoc and Santa Ynez region rents grow by a noteworthy 7.8%, which was right in line with the annualized rate over the past three years.

Meanwhile the vacancy rate in the Santa Maria submarket has expanded moderately over the past year, but at 3.7%, this aligns with the long-term average. While developers have been active in recent years, nothing has delivered over the past 12 months in the Santa Maria region of North County.

San Luis Obispo County

In the next county over, we saw one transaction of 5+ units in size in Q4 of 2022. Located at 3003 Rockview Place in San Luis Obispo, this 8-unit building sold for $2,900,000 at a CAP rate of 2.93%.

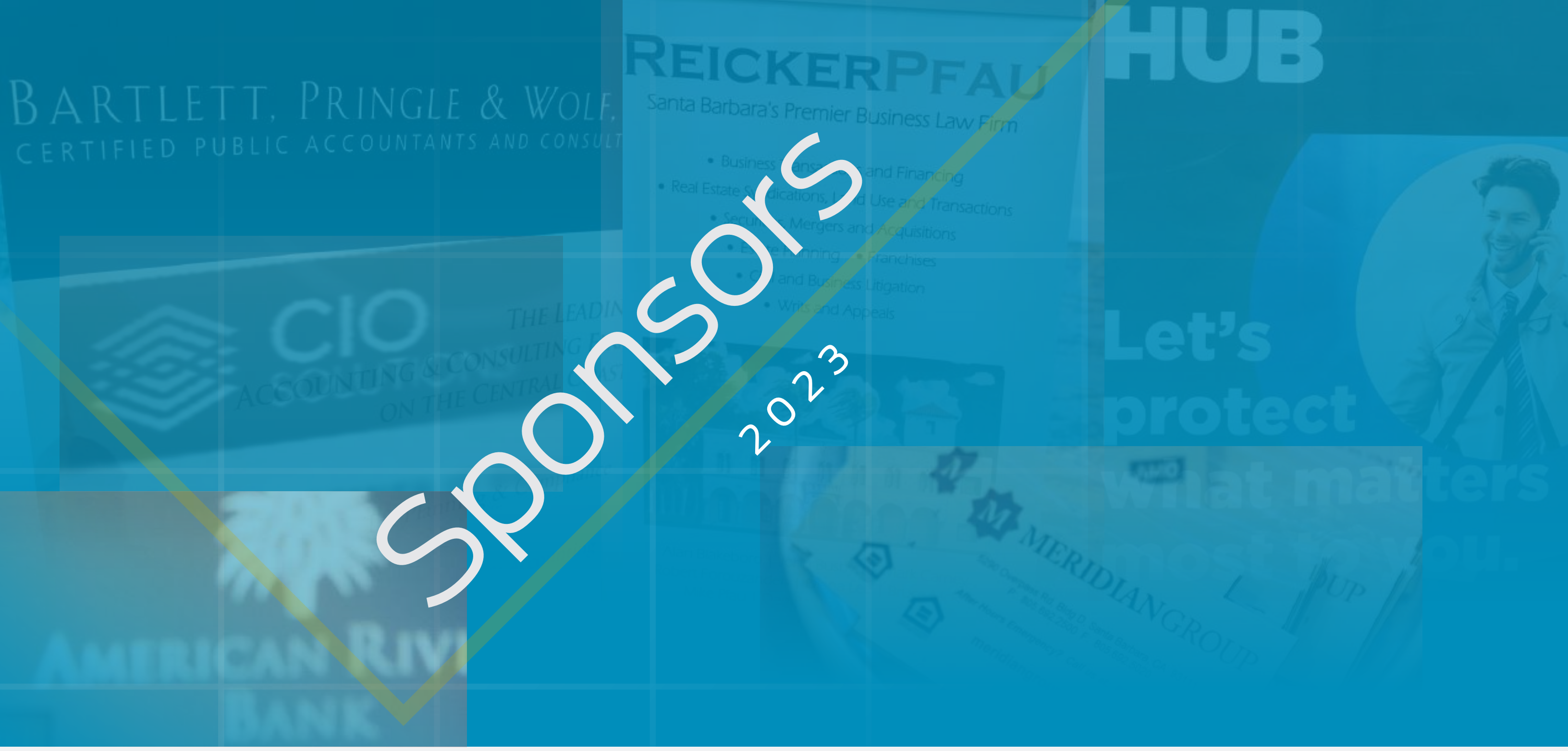
The vacancy rate in the South SLO submarket has remained stable over the past year, but at 2.1%, it is slightly below the long-term average. New development is common in this submarket: About 140 units have delivered over the past year, consistent with the five-year average. Development is set to continue, as roughly 48 units are underway, which will expand the existing inventory by 1.2%. Rents have increased by 2.8% over the past year. There remains very strong demand for student housing in this market space.

W. Ventura County

Down in West Ventura County, there were two larger transactions in Q4 of 2022, compared to 2021 which saw 14 transactions. 156 S. Laurel St. sold in early December off-market. This 30-unit property closed for $6,700,000 ($233,333/unit). The other transaction was at 123 S. D St. in Oxnard, a 9-unit property that sold for $2,925,000 or $325,000/unit with a 5.46% current CAP rate. The asset was originally priced at $3,100,00.

Comparing Q4 of 2021 to Q4 of 2022, we see a great example of the byproduct of the Fed rate hikes and their effects on transactions in the region. We are seeing buyers that still want to get into the market and purchase in the area but not able to come up to pricing that sellers have become accustomed to and saw during the low interest rate periods of 2021. Most owners as well as buyers are going through a “price discovery” process and the new normal where the high interest rates are going to affect their purchasing power.

The vacancy rate in the Ventura submarket has expanded over the past four quarters, and at 7.0%, it is somewhat above the long-term average. Rents have remained essentially unchanged over the past year but have posted an average annual increase of 4.6% over the past decade.



REICKER, PFAU, PYLE & MCROY

Reicker, Pfau, Pyle & McRoy, LLP was established in 1996 as a full-service law firm providing corporate, transactional, real estate, estate planning, and litigation legal services. Our goal was simple: to provide our clients with the finest legal representation available with an effective and efficient approach to solving problems. We are proud to have become the premier business law firm in the Santa Barbara community.

While we maintain a strong foothold in the Santa Barbara community, our clients are located throughout California, the United States, and the world. We represent individuals and business that include major developers of electronic, biomedical, technology hardware and software and other high-tech products, real estate and hotel development and management companies, financial institutions, pension funds, private equity and venture capital funds, and high net worth individuals, to name a few.

Our transactional attorneys, **John Busby, Mark Carney, Barton Clemens, Michael Pfau (Managing Partner), Daniel Reicker, Russell Terry, Fernando Velez, Jr., Nicholas Behrman, and Diane Byun** represent business and individual in general business, corporate, real estate, land use, financial, securities, tax, intellectual property, and other matters.

Our litigation attorneys, **Alan Blakeboro, Robert Forouzandeh, Kevin Nimmons, Tim Trager, Meghan Woodsome, Cory Baker, and Andrew Hazlett** concentrate on civil trials and appeals notably in the areas of corporate and partnership disputes, labor and employment issues, real estate and land leasing, easements, construction litigation, contracts, landlord representation, debtor/creditor relations, and intellectual property law.

Our estate planning attorney, **John Busby,** assists clients in developing and implementing clients' estate plans, wealth management, and estate and gift tax minimization. They afford clients sophisticated planning techniques which can reduce taxation and accomplish the clients' wealth transfer desires. Our estate planning attorneys have extensive experience in representing both trustees and beneficiaries in trust and probate controversies and litigation.

Our attorneys have worked in some of the largest law firms in the world, as in-house corporate counsel for major publicly-traded corporations, and as JAG officers for the United States armed forces. Our attorneys have also developed strong ties in the local community, by volunteering, serving on boards, and providing pro bono services to local non-profits, all in an effort to enhance the community that we live in.

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KEY TAX CONSIDERATIONS FOR REAL ESTATE INVESTORS IN 2023

With a number of unusual and unpredicted trends stemming from the pandemic, the economy is emerging with a long list of uncertainties as we head into 2023. On most people's mind is whether a recession is on the horizon after a year-long backdrop of inflation, rising interest rates, and geopolitical tensions and how it may impact the real estate market.

Among the economic impacts, real estate investors should also weigh important issues and changes in real estate taxation to strategically position their investments. Following, we highlight key tax considerations for real estate investors in 2023.

Business Interest Expense Deduction – Section 163(j)

Starting in 2022, Section 163(j) business interest deduction limits returned to the original Tax Cuts and Jobs Act (TCJA) rules, which impose a more restrictive limitation on deductions for capital intensive businesses and no longer allows the addback of depreciation, amortization, and depletion in calculating adjusted taxable income (ATI).

As rates are rising, this could have a larger impact on real estate investors and result in less deductions being available.

How It Works

Under Sec. 163(j), the amount of deductible business interest expense in a taxable year cannot exceed the sum of:

- *the taxpayer's business interest income for the year;*
- *30% of the taxpayer's ATI for the year;*
- *and the taxpayer's floor plan financing interest expense for the year.*

The deduction limit for business interest applies to businesses with three-year average gross receipts of $29 million or more for 2023 ($27 million or less for 2022).

Planning Opportunities

Discuss with your advisor whether your business may qualify for an exemption or if you are eligible to opt out. Certain real property and agricultural businesses are allowed to make a one-time irrevocable election to opt out of the limitation, but be sure to weigh your options before making an election.

Heavily leveraged businesses may also consider relying more on equity financing and less on debt or reclassifying certain revenue as interest income to offset interest expense.

Passthrough Entity Elective Tax (PEET)

On February 9, 2022, California revised its state and local tax (SALT) cap workaround to be more appealing for qualifying owners of passthrough entities. Senate Bill 113 modified certain technical aspects of the elective passthrough entity tax in Assembly Bill 150, significantly increasing and expanding the tax benefit to more qualified taxpayers.

How It Works

The SALT cap workaround allows S corporations and partnerships to elect to pay a 9.3% Passthrough Entity Elective Tax (PEET) on taxable income at the entity level to reduce the amount of federal taxable income passed through to each of the owners. Since the entity is not subject to the Tax Cuts and Job Act's $10,000 SALT cap, it can deduct a much higher amount than what their qualifying owners are eligible for on their personal returns.

This election does not reduce CA taxable income; however, the tax paid to California flows through to electing owners as a state tax credit on their California income tax return for their portion of the tax paid by the entity.

New for tax years beginning on or after January 1, 2022, the bill updates tax credit ordering rules to allow for the use of other state tax credits before the pass-through entity tax credit.

Additional coverage on this topic and a comprehensive webinar is available at bpw.com.

Planning Opportunities

Be sure to discuss entity formation—and what type may offer certain tax advantages for real estate investors—timing of election and payments, and other considerations with your advisor to determine what strategy makes sense for you and your business.

Sunsetting Bonus Depreciation

The sun has begun to set on 100% bonus depreciation, making 2022 the last year to leverage the full deduction amount on qualifying property. For tax years beginning after January 1, 2023, bonus depreciation is set to be reduced by 20% in subsequent years, eventually phasing out completely in 2027.

How It Works

In 2023, businesses have an opportunity to deduct 80% of qualifying assets with a recovery period of 20 years or less placed in service after Jan. 1, 2023, and before Jan. 1, 2024.

Qualifying new and used property may include:

- *Machinery and equipment*
- *New and used vehicles*
- *Computers and software*
- *Furniture and appliances*
- *Film, television, and live theatrical production*

Businesses can also pair Section 179 deductions—currently capped at $1.16 million—with bonus depreciation on most qualifying new and used property. Section 179 deductions are gradually phased out when expenditures exceed $2.89 million.

Planning Opportunities

Businesses could consider a cost segregation study to increase the value of bonus depreciation (especially while deductions are higher) and Section 179 expensing. Performed by a team of engineers, accountants, and construction professionals, a cost segregation study would be able to accurately identify, classify, and calculate all building assets that would be eligible for accelerated depreciation, therefore increasing cash flow and saving you money.

Note that California does not conform to bonus depreciation and §179 expensing is limited to $25,000. Therefore, California businesses will need to addback these special federal deductions when computing their California tax.

CA Proposition 19: Property Tax Transfers and Exemptions

We are only a couple years in with the passage of Proposition 19 and the resultant changes in the ability to transfer property without a property tax base adjustment. Since 2021, we've seen a flurry of estate planning activity since the new rules make inheriting family property more challenging than under previous law.

How It Works

Prop 19 makes two major changes to California's property tax system:

1. *Transfer of Property Tax Base: Homeowners ages 55 years and older, disabled, or victims of a natural disaster are now allowed to transfer their tax basis of their primary home to any other residence in CA up to three times.*
2. *Inheriting Property: A child or grandchild may now only inherit the lower property tax basis of their parents or grandparents if the property is the primary residence of the parent(s) and the recipient(s) make it their primary residence within one year. In addition, if the property is valued over $1 million more than its assessment, the property will be reassessed, but $1 million will be excluded from the reassessment.*

While Prop 19 brought good news for homeowners who transfer tax assessments, inheriting property now entails new tax consequences and makes retaining inherited property more difficult.

Under previous law, parents or grandparents were able to transfer property to their heirs and retain the property's tax basis under new ownership, but now with Prop 19, inherited primary residences will now be reassessed for its ad valorem tax basis.

Planning Opportunities

A traditional will or trust will not bypass Prop 19 and prevent a reassessment; however, real estate owned by an LLC, partnership, or corporation operates under a different set of rules. In a real estate holding, a tax reassessment will only be triggered if majority interest—51% and above—is transferred. This means, if a family plans to hold property for an extended period of time, implementing a multi-layered entity strategy to avoid tax reassessment may be an ideal long-term planning opportunity. Consult with your advisor to learn more about distributing assets within legal entities to plan around property tax reassessment rules.

At BPW

BPW's advisors are well-versed in real estate taxation strategies and will help you navigate tax planning opportunities, optimize real estate succession planning, and develop a comprehensive estate planning strategy to avoid costly oversights.

Visit bpw.com for more Insights & News or call our office at (805) 963-7811 to speak with Partner Bridget Foreman who leads the firm's real estate practice.

PROPERTY INSURANCE TRENDS, 2023

Property insurance marketplace conditions continue to decline in 2023. As a result of Hurricane Ian and other catastrophic events reinsurance rates continue to rise, subsequently increasing the rate that the consumer experiences. According to the Council of Insurance Agents and Brokers, property rates rose by an average of 11.2% in Q3 2022[1]. Several carriers withdrew from the marketplace in 2021 and 2022, resulting in decreased availability of insurance capacity and more selective deployment by insurers. Underwriters no longer have authority to quickly quote and place insurance. Instead, they must elevate to their management for approval. The management decisions are based on concentration of risk, zoning, and property characteristics. Rising inflation lends to increase scrutinization of building replacement costs by underwriters, leading to importance of accurate building values when providing renewal submissions. "One size fits all" solutions continue to be common for smaller property owners, while specialized approaches such as high deductibles or self-insurance are suitable for those in high wildfire, flood, earthquake, or wind categories. Property owners should focus on risk mitigation tactics and improvement of their core building systems, investing in resilient construction types and roofing materials as well as sprinkler systems.

Impact of Cyber Insurance on Businesses

Hybrid work contributed to an increase in cyber related claims over the last three years. Social engineering and ransomware were some of the most common instances of cyber claims and will continue to be common in 2023. Cyber attacks are becoming more sophisticated while international instability continues to drive claims. Demand for cyber insurance is increasing as a result while some insurers are leaving the marketplace altogether leading to reduced available capacity. Underwriters are now more than ever judicious in their approval of coverage, especially in the Medical, Education, and Financial Institution spaces, leading to a downstream average increase for insureds of 20%[2].

The high frequency and severity of these claims has resulted in severe insurer responses. Actions taken by insurers to protect their books of business have been felt by businesses over recent years but do look to be having a positive effect. Implementation of strict protocols as a contingency of coverage have incentivised stronger cybersecurity protocols for organizations, leading to reduced claims activity. Multi-Factor Authentication (MFA) has become a standard requirement for almost all Cyber insurers, while Endpoint Detection Response (EDR) and Remote Desk Protocols (RDP) are beginning to be added to the list of requirements[5]. Vulnerability scans are a commonplace proactivity that nearly all businesses buying this insurance can expect.

To prepare for their Cyber renewals, businesses should begin to look to their renewal as early as six months away from renewal dates. Start early in the implementation of controls to avoid last minute scrambles by IT Teams. Use third party outside assessments to test the strength of your Cybersecurity infrastructure. Finally, consider deep review of your insurer applications by your broker or third-party services to ensure that they are more likely to receive favorable underwriter responses.

Directors and Officers Liability Insurance Developments

The Directors and Officers Liability marketplace was in a so-called "hard market" from 2018 to 2021[7]. This was driven by SPAC-related litigation, COVID-19 Related Securities Class Action suits, and international instability's influence on domestic and global supply chains[6]. In 2022, the "hard market" became more workable as strict underwriting and increased rates leveled out many insurers' books of business. Q3 of 2022 saw average rate increases for D&O of 7.3%[3], while Q3 of 2021 saw increases of 13.6%[4]. More insurers have entered the directors and officers liability space in the last year, resulting in more competition. While many of the listed factors above are still an influence on claim payouts and insurer underwriting approaches, organizations can hope to see minimal rate increases and perhaps savings as they look to purchase this coverage in 2023.

1 Council of Insurance Agents and Brokers Q3 2022 P/C Market Report, rate changes by line
2 Council of Insurance Agents and Brokers Q3 2022 P/C Market Report, rate changes by line
3 Council of Insurance Agents and Brokers Q3 2022 P/C Market Report, rate changes by line
4 Council of Insurance Agents and Brokers Q3 2021 P/C Market Report, rate changes by line
5 RPS 2023 Cyber Market Outlook
6 RT What to Watch in the World of DO
7 RT What to Watch in the World of DO

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With local offices across the U.S. and Canada, we offer our clients a depth of expertise, specialized industry knowledge, advanced risk assessment techniques, state-of-the-art technology and responsive service. We work only with top-rated carriers to provide our clients with top-notch coverage options. A local HUB advisor is at your service.

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CIO SOLUTIONS

IT MANAGEMENT & SECURITY CONSIDERATIONS

Since 1986, CIO Solutions has been enhancing the productivity of industry-leading businesses throughout Santa Barbara and beyond. Their model of full-service IT management with secure cloud computing solutions provides clients with the flexibility, security, and stability they need to thrive.

Over their 37 years in business, the leadership team at CIO Solutions has witnessed drastic changes in the industry. As security risks have evolved and business operations become more reliant on technology, expert IT management has become a necessity for companies of all sizes.

Industry Shifts

One of the biggest shifts in the industry today is an increasingly urgent emphasis on IT security. The security landscape has been steadily changing since as early as 2010. That pace increased exponentially the last few years.

Sophisticated hacking methods combined with increased organizational dependence on technology for key business operations has drastically changed the nature of risk. Before, a security breach might look like a virus infecting an individual's computer and preventing them from working. Now, gaps in a business' IT security posture can devastate the entire organization; operationally, financially, and reputationally.

With this increased risk, foundational security requirements have become more complex. It's no longer enough to simply have current anti-virus. Protecting a business now requires expert guidance and strategic security investments.

In 2023, any business that drives revenue using technology should prioritize their IT security.

In addition to managing the risk of external threats, business leaders must also consider internal risks. Today, companies have an unprecedented lack of control over their technology tools.

This is due in part to increased variability in applications and devices being used for business purposes. Data can be spread across personal devices that may be unsecured and through applications that may not be backed up. Not managing this properly presents a new internal risk to the business.

Implementing the right backup solutions, application management, and secure access requires forethought and expert guidance.

The Right Solutions

With the right technology solutions, the opportunities for businesses to increase their productivity are boundless. However, unless these tools are managed and secured properly, the risks will only continue to grow.

As industry standards continue to shift, tools that once were optional are becoming necessary. CIO Solutions' clients benefit from productivity and security enhancing solutions including Microsoft Office 365, secure Private Cloud Desktops, CrowdStrike Endpoint Detection & Response, Multi-Factor Authentication, Datto SaaS Protection solutions, and more.

As a trusted advisor and IT management partner to prominent Santa Barbara businesses, CIO Solutions is committed to helping their clients make strategic IT investments, manage their solutions, and adapt along with the changing world.

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CONTACT CIO SOLUTIONS TO EXPLORE YOUR OPTIONS FOR MANAGING & SECURING YOUR IT SOLUTIONS

American Riviera Bank provides comprehensive banking services to meet the diverse financial needs of both businesses and individuals throughout the Central Coast. A dedicated community bank, ARB offers a full range of lending and deposit products and services, designed to help its customers grow and thrive. By focusing on the needs of the local community, American Riviera Bank is committed to creating long-lasting relationships and playing an active role in the economic growth of the Central Coast.

ARB continues to grow a robust business and consumer banking profile and we are proud of our #1 market share status in SBA lending in Santa Barbara and San Luis Obispo Counties. In addition to SBA lending, ARB offers traditional commercial loans and lines of credit, with more than half of all loans of $1 million or less made to small business owners. In fact, in 2022, 49% of ARB's small business loans in the Santa Barbara County and 55% of small business loans made in the San Luis Obispo County were to small businesses with under $1M in revenue, with a total of almost $84 million in small loans to businesses in 2022 alone. As the leading SBA lender in the region, the Bank's team of experts focus on helping small businesses expand and run their operations, using their understanding of the unique needs of local businesses and the communities they serve.

The banking industry as a whole continues to experience growth. According to the FDIC September 2022 Quarterly Banking Profile[1], FDIC-insured institutions reported aggregate net income of $71.7 billion in the third quarter of 2022, which is $7.3 billion (11.3%) more than the second quarter. The increase in net income can be attributed to an increase in net interest income. Nearly 73.3% of all banks reported an increase in net income from the previous quarter. Additionally, community banks, which represent 91%[2] of insured institutions, continue to perform well. Community banks reported net income of $8.5 billion in the third quarter of 2022, up $1.0 billion (13.5%) from one quarter ago.

As well, American Riviera Bank continues to experience notable growth, expanding its impact with a new Santa Maria location which opened in early February 2023, with $1.28 billion in total assets at the end of 2022. The Santa Maria location, a new commercial banking center, is led by a seasoned team of SBA experts and designed to meet the diverse banking needs of a region experiencing rapid economic and community growth. Products and services support businesses, retail operations, mortgage and more.

The continued growth in the bank's loan portfolio, combined with the expansion into new markets at a time when many banks are downsizing demonstrates ARB's position in the Central Coast's financial market as well as showcases the Bank's ability to manage resources, foster customer relationships, and provide quality financial services. In addition, the Bank's impressive financial strength is reflected by its annualized return on average assets of 1.04% and return on average equity of 13.02%. The Bank's net income is up 60% year over year, Core Loans reflect 17% growth over the last year (excluding Paycheck Protection Program loans), and deposit growth of 38%, year over year. For the twelve months of 2022, American Riviera Bancorp, holding company of American Riviera Bank, reported unaudited net income of $13.5 million, an increase from the $11.8 million earned in the same reporting period of the previous year. Unaudited net income was $4.0 million for the three months ending December 31, 2022, compared to the $2.7 million earned in the same reporting period in the previous year. This increase in year-to-date unaudited net income in 2022 compared to the previous year can be attributed to loan growth, increased interest income on liquid assets, and a strong deposit base. Return on average assets for the fourth quarter, ending December 31, 2022, was 1.14%, an increase from 1.08% in the previous quarter and 0.84% in the same quarter last year. Total loans, excluding PPP loans, reached $907.6 million at December 31, 2022, an increase of $21.5 million from the prior quarter end and $154.1 million from December 21, 2021.

Regionally, the Central Coast is flourishing, with many robust and rapidly expanding communities. Santa Maria has seen tremendous growth in the past 19 years, with a 40.1%[3] population increase in 2020, and is projected to have the largest population increase in the county by 2050[4] with the cities of Lompoc and Buellton following. Santa Maria is expected to continue to grow, with plans for 16,000[5] new housing developments to accommodate over 50,000 additional residents by 2040.

On a national level, the banking industry has a heightened focus on inflation and rising interest rates. To contain inflation, the Fed increased the federal funds rate 7 times in 2022 and will continue, most likely at a slower pace, this year. In response, many banks are ramping up their financial education efforts, including building awareness around the impact of higher interest rates to mortgages, credit cards, and a wide range of financial products. This increased education creates powerful banking relationships, positioning customers to plan for loans and other financial needs.

Banks are also continually innovating to provide customer convenience and security and technology continues to support these efforts. As American Riviera Bank has already implemented, fully digitized loan and deposit records, remote deposit capture, and online banking capabilities are at the forefront of banking consumer demand. As customer protection is paramount to the banking industry, technology plays a key role by flagging suspicious activity and providing fraud protection, a benefit to businesses and individuals alike.

American Riviera Bank believes that beyond the products and services it provides, there is also power in the collective strength of its team; and the ARB team embodies the spirit of true community banking – it is the organization's mission. ARB proudly donates a minimum 3% of net profits each year to support local nonprofits and community organizations and, in 2021, over 25% of employees volunteered time to local nonprofits. Additionally, 60% of the Bank's combined Executive Team and Board of Directors also serve on boards of local nonprofits and other organizations supporting economic development.

ARB has been recognized for strong financial performance by the Findley Reports for 12 consecutive years. The Bank has received the highest "Super Premier" rating from Findley every year since 2016, a testament to its consistent commitment to financial excellence. In 2020, the Federal Deposit Corporation (FDIC) acknowledged the Bank's exceptional performance under the Community Reinvestment Act, bestowing upon it the "Outstanding" rating.

1 https://www.fdic.gov/analysis/quarterly-banking-profile/qbp/2022sep/
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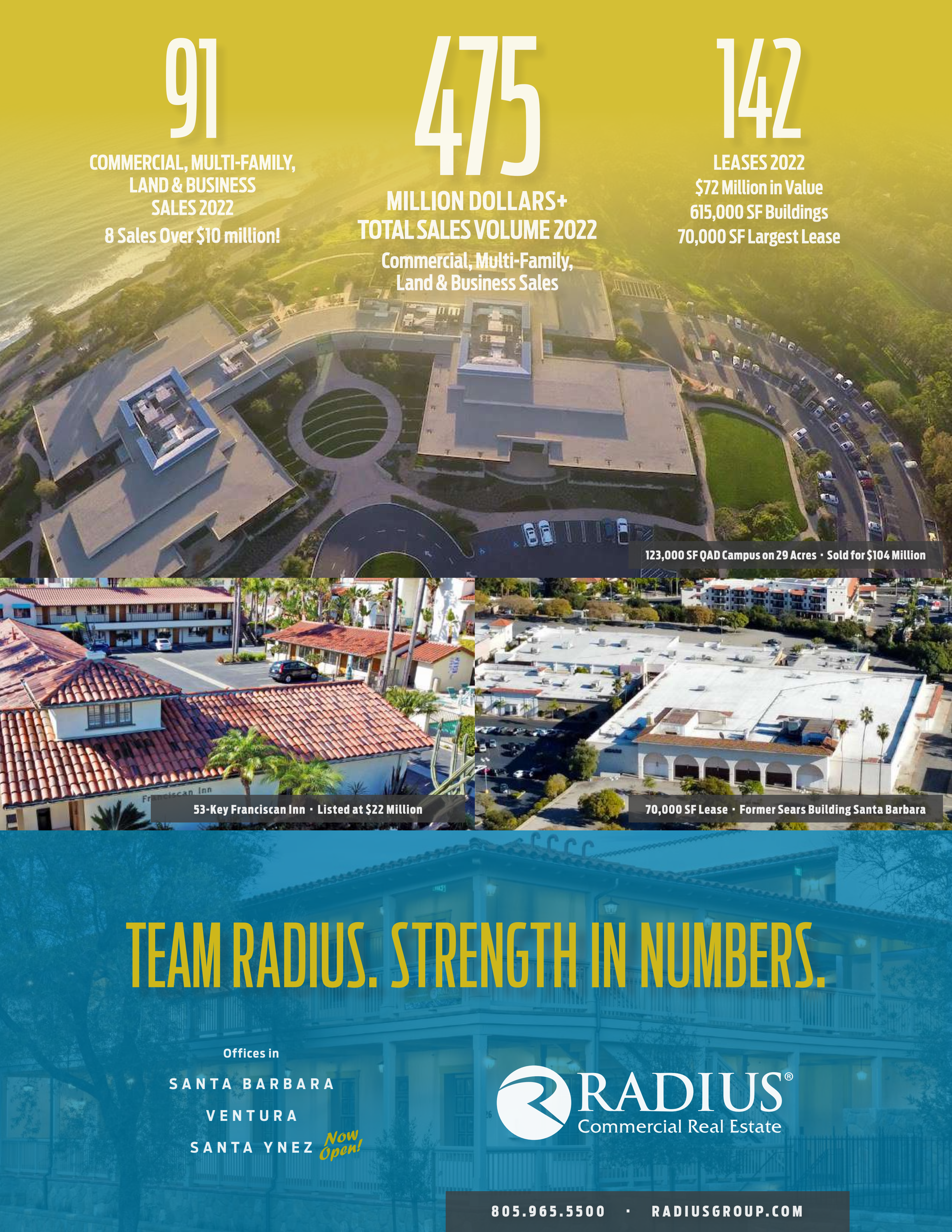
3 https://santamariatimes.com/news/local/population-growth-in-northern-santa-barbara-county-outpacing-south-coast/article_32f47c2a-8414-5e43-84e5-9197affc4b9b.html
4 http://www.sbcag.org/uploads/2/4/5/4/24540302/regional_growth_forecast_2050.pdf
5 https://santamariatimes.com/news/local/santa-maria-must-plan-for-16k-new-housing-units-more-than-50k-additional-people-expected/article_dca0e0ba-bcbb-5d8c-a9b7-10053d790d9b.html



91
COMMERCIAL, MULTI-FAMILY, LAND & BUSINESS SALES 2022
8 Sales Over $10 million!
475
MILLION DOLLARS+ TOTAL SALES VOLUME 2022
Commercial, Multi-Family, Land & Business Sales
142
LEASES 2022
$72 Million in Value
615,000 SF Buildings
70,000 SF Largest Lease
123,000 SF QAD Campus on 29 Acres · Sold for $104 Million
53-Key Franciscan Inn · Listed at $22 Million
70,000 SF Lease · Former Sears Building Santa Barbara
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