

Sales return to Earth in Q1

- **Bacara price tag keeps total sales volume hospitable**
- **Leasing: Office market bloated; Industrial inventory tight across South Central Coast**

QUARTERLY VACANCY COMPARISON

	2012 Q4	2013 Q1
Office/R&D		
Santa Barbara	5.7% ▲	6.3%
Goleta	9.7% ▲	12.4%
Carpinteria	12.6% ▲	14.1%
Industrial		
Santa Barbara	1.2% ▲	1.3%
Goleta	4.1% ▼	3.9%
Carpinteria	5.6% ▼	3.3%
Retail		
Santa Barbara	1.5% ▲	1.7%

Figures above represent percentage points.

What may seem to have been a somewhat pedestrian performance for first quarter commercial sales at just 14 total (down substantially from Q4 2012's stellar 35 transactions) was in reality not far off the 15-year average of 16 per quarter. Q1 2013 sales were higher than the 12 recorded in the first quarter of 2012. And thanks to one very large commercial transaction—the sale of Bacara Resort for between \$150–\$180 million—sales dollar volume was in line with previous quarters. Altogether a decent start to the year.

Leasing activity was a little more noteworthy with 66 direct lease transactions, though we did see vacancy rates creep up across the board with the exception of the industrial sectors in both Goleta and Carpinteria. Carpinteria's sustained drop in industrial vacancy is unlike any change in vacancy we've seen during the past 15 years, falling from 14.4% to 3.3% in just two-and-a-half years.

Other market observations...

- Goleta's office sector has jumped to double digit vacancy at 12.4%, underscoring the bloated office market across the south Central Coast.
- By contrast, availability of industrial space continues to tighten across the region, with va-



Highlight Sale

6267 Carpinteria Ave., Carpinteria

The 51,000 SF ocean-front "Venoco Building" sold to a local investor in March. At just under \$16.5 million asking price, it's one of the largest sales of office property in Carpinteria's history.

cancy in the low single digits in Santa Barbara, Goleta and Carpinteria.

- Not much change in the market's coveted retail sector with Santa Barbara vacancy at a low 1.7% and asking rates in turn continuing upward.
- Multi-family properties continue to be possibly the hottest buy around with 11 currently for sale and 6 of those in escrow. It's not uncommon to receive multiple offers over asking price.

SALES | COMMERCIAL

SO. COUNTY COMMERCIAL SALES — Q1 2013

As we predicted, the flurry of sales that closed at the end of last year (due largely to motivated sellers acting to avoid the 2013 capital gains tax increase and 3.8% real estate tax) hastened many deals that might otherwise have closed in the first quarter of 2013. Consequently, the first quarter ended with 14 total sales, two below the 15-year average of 16 per quarter.

Despite the decrease in number of sales, overall dollar volume was in line with previous quarters, thanks to the high ticket price of Bacara which likely sold for between \$150 and \$180 million. This single sale alone is close to the average quarterly sales volume of \$200 million.

Nowhere near the size of the Bacara deal, but perhaps more significant, is the sale of the “Venoco Building” located on the bluffs at 6267 Carpinteria Ave. The property, purchased by a local investor, was listed at just under \$16.5 million and is one of the largest transactions involving an office property in Carpinteria. Local oil company Venoco Inc. will remain as tenant after signing a 10 year lease extension.

Another notable transaction was the off-market sale of 427 E. Carrillo St., purchased by a local investor for \$464 per square foot. The property was in good condition and well located in the financial district of downtown Santa Barbara.

Notable owner/user sales include the sale of 3892 State St. which sold to a local physician and 1080 Coast Village Rd. which will be the new showroom for Menelli Tile. We expect the trend of owner/user sale transactions to continue into 2013 as attractive financing options remain plentiful and business owners continue to recognize the savings they can experience by purchasing versus leasing their space.

Q1 2013 Highlight Sales Properties

**Office**

427 E. Carrillo St., Santa Barbara
6,850 SF
Sold Price: \$3,175,000

**Office**

3892 State St., Santa Barbara
9,200 SF
Asking Price: \$2,750,000
Buyer: Upper State St. Professional Offices, LLC

**Retail**

1080 Coast Village Rd., Montecito
1,200 SF
Asking Price: \$1,500,000
Buyer: Menelli Tile

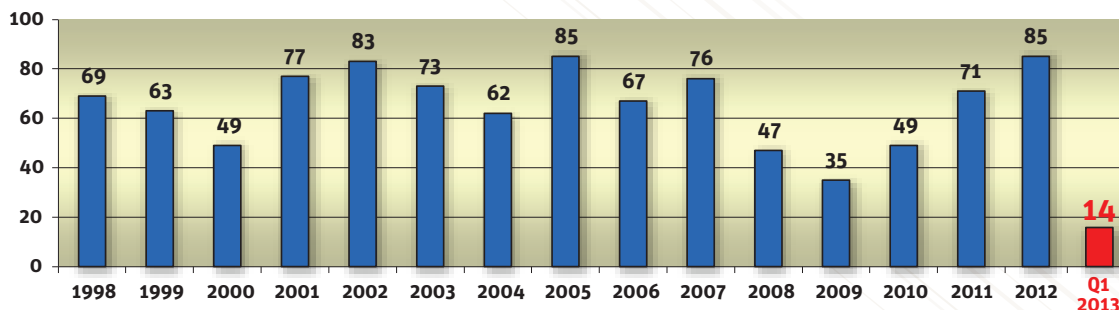
It's worth pointing out that even though the number of sales transactions has decreased compared to the previous quarter, the average sale price per square foot (excluding the Bacara Hotel sale) has increased from \$395 to \$421 per square foot.

So the question is where is the market going?

With a strong supply of willing buyers and for-sale inventory continuing to shrink, we predict steady transaction volume and rising sale prices as the market fundamentals continue to strengthen and the economy picks up steam.

Q1 2013 South County Commercial Sales Transactions

(Excluding Apartments)



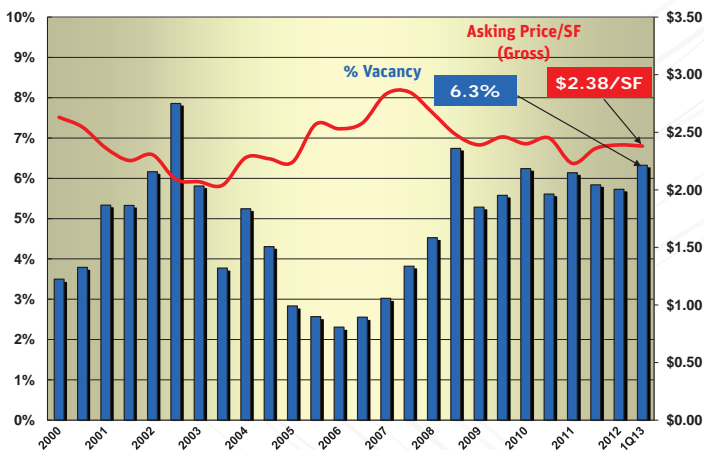
LEASING | OFFICE

SANTA BARBARA OFFICE — Q1 2013

Surprising as it may seem, Santa Barbara's office market remains at 2009 levels from a vacancy and lease rate standpoint. There are a number of larger leases that should be signed in the second quarter which will lower the vacancy rate to around 5%.

One project that has garnered considerable attention is the renovation of the Citibank building on upper State Street across from Whole Foods. The owner fully remodeled the 2nd and 3rd floors. At the time of this report, two spaces have leased and a third will be leased shortly leaving just one remaining space.

Santa Barbara Office | Q1 2013 Price vs. Vacancy Rate



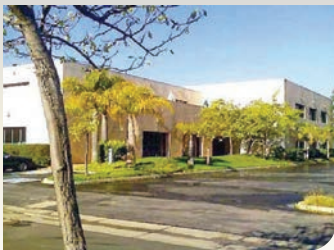
Santa Barbara Office | Largest Available Spaces

Address	Size (SF)	Vacated By
419 State St.	20,500	Territory Ahead
901 Olive St.	14,400	Multiple Tenants
118 E. Carrillo St. <i>Lease Pending</i>	10,600	Morgan Stanley
820 State St. <i>Lease Pending</i>	8,500	SB Asset Management

Santa Barbara Office | Q1 2013 Largest Leases

Address	Size (SF)	Leased By
1025 Chapala St., 1st Flr.	8,800	Ring Revenue, Inc.
4181 State St., 1st Flr.	8,200	EKI
2020 Alameda Padre Serra, Ste 125	7,300	Horny Toad Activewear, Inc.
419 State St.	6,500	Tapjoy, Inc.
3757 State St.	4,400	EKI

Q1 2013 South County Highlight Leases — All Commercial Sectors

**Industrial/Office**

6398 Cindy Ln., Carpinteria
19,100 SF
lynda.com

**Industrial**

1125 Mark Ave., Ste. 1135
Carpinteria
11,900 SF
Giati, Inc.

**Industrial**

1132 Mark Ave., Carpinteria
11,300 SF
Griplock Systems

**Office**

4181 State St., 1st Flr.
Santa Barbara
8,200 SF
EKI

LEASING | OFFICE

GOLETA OFFICE — Q1 2013

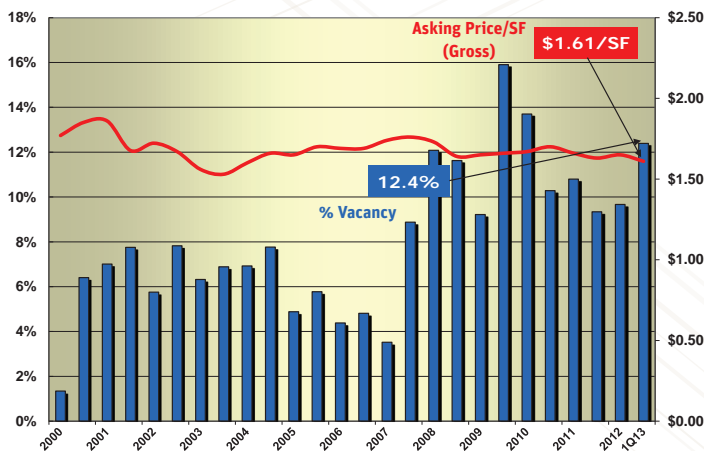
Goleta's office market no longer enjoys single digit vacancy having jumped from 9.7% at the end of last year to 12.4% at the end of the first quarter of 2013. Average asking rates fell slightly from \$1.65/SF Gross to \$1.61/SF Gross during that same period.

Leasing activity was relatively slow in Q1 with over 200,000 SF of high-end office space remaining vacant between Storke and Los Carneros Roads. The bloat has continued into this quarter with over 60,000 SF at 6868 Cortona Dr. coming to market as existing tenant Calix looks to downsize in the building or relocate altogether.

Demand for pure office space remains soft with few tenants in the market, though activity involving combined office and industrial/R&D space appears to be picking up. There is also talk of new growth requirements from some existing tenants in the area that may positively impact vacancy later this year. For now, pure office tenants should continue to have the advantage in lease negotiations.

The most visible addition to Goleta's office market is the new Deckers headquarters currently under construction at the Cabrillo Business Park.

Goleta Office | Q1 2013 Price vs. Vacancy Rate



Goleta Office | Largest Available Spaces

Address	Size (SF)	Vacated By
6868 Cortona Dr.	61,200	Calix, Inc.
90-150 Castilian Dr.	55,500	Multiple Tenants
5385 Hollister Ave.	24,500	Multiple Tenants

Goleta Office | Q1 2013 Largest Leases

Address	Size (SF)	Leased By
5901 Encina Rd., A-1	3,500	Psych Plan
130 Cremona Dr.	3,500	City of Goleta

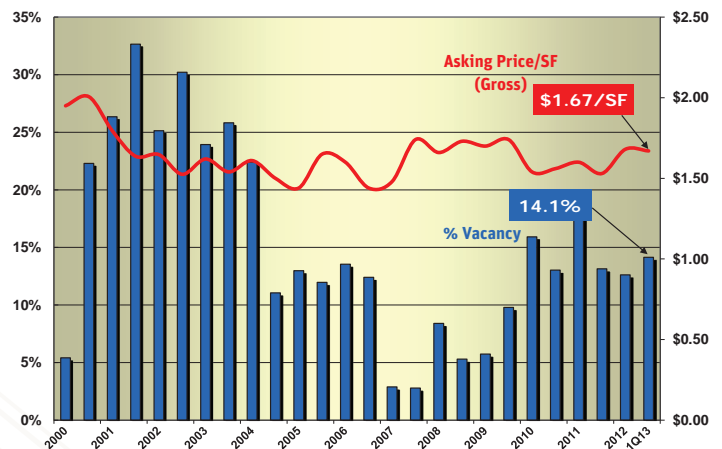
CARPINTERIA OFFICE — Q1 2013

Carpinteria's Office vacancy has ticked up marginally in the first quarter of the year, rising from 12.6% at the end of Q4 2012 to its current 14.1%. Despite this increase, the office vacancy rate, which can fluctuate easily in Carpinteria, is still lower than the 17.5% we observed this time last year.

A few tenants have recently left the market giving way to the increase in vacancy, including Celerus Diagnostics which vacated roughly 9,300 SF at 1005 Mark Ave. To compound matters, the only office lease during the first quarter involved a mere 635 SF space located at 5320 Carpinteria Ave.

The relatively small office market in the intimate beach community of Carpinteria has always differentiated itself from the much larger markets to the north, Santa Barbara and Goleta. With just 500,000 SF of office space, if just one of the larger office vacancies in the market had leased, it would have changed the overall vacancy to less than the previous quarter.

Carpinteria Office | Q1 2013 Price vs. Vacancy Rate



Carpinteria Office | Largest Available Spaces

Address	Size (SF)	Vacated By
5464 Carpinteria Ave.	28,300	Microsoft
6307 Carpinteria Ave.	9,900	Clipper Windpower
1005 Mark Ave.	9,300	Celerus Diagnostics, Inc.
4180 Via Real	7,700	Multiple Tenants

Carpinteria Office | Q1 2013 Largest Leases

Address	Size (SF)	Leased By
5320 Carpinteria Ave., Ste. K	635	Crystal Productions Co.

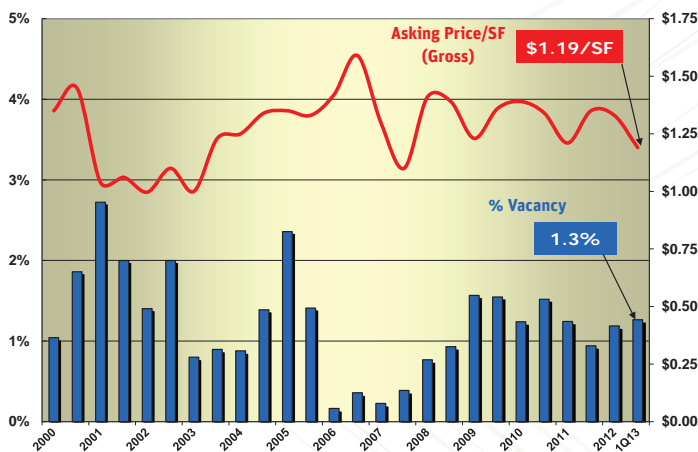
LEASING | INDUSTRIAL

SANTA BARBARA INDUSTRIAL — Q1 2013

Santa Barbara's industrial market continues to remain extremely tight, though the vacancy rate clicked up slightly from 1.2% at the end of the fourth quarter of 2012 to 1.3% during the first quarter of 2013. Asking rates decreased modestly from \$1.33/SF Gross on average at the end of last year to about \$1.19/SF in the first quarter of this year.

Parking and roll-up doors are at a premium in this market, and any property featuring either will continue to see a great deal of activity. For example, when Masco vacated 30 S. Calle Cesar Chavez, which has great ground level and dock high loading, Ergomotion signed a lease prior to Masco vacating the space.

Santa Barbara Industrial | Q1 2013 Price vs. Vacancy Rate



Santa Barbara Industrial | Largest Available Spaces

Address	Size (SF)	Vacated By
1 N. Calle Cesar Chavez #130	17,500	Bekins
1 N. Calle Cesar Chavez #7	11,100	The Futon Place
402 E. Gutierrez, Rear Bldg.	10,800	El Puente Community School
531 E. Cota St.	8,900	Haywards
Lease Pending		

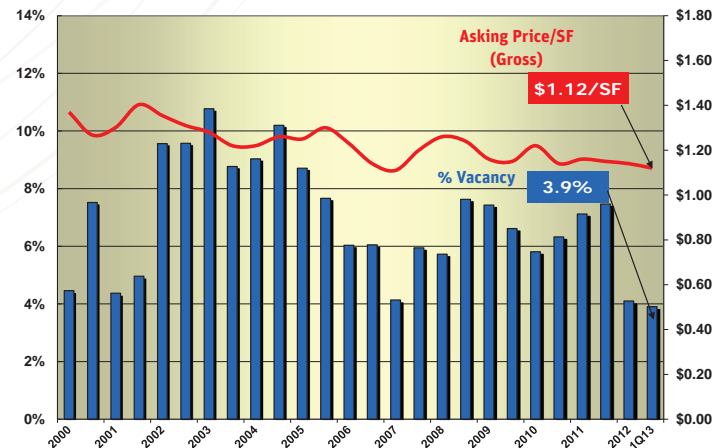
Santa Barbara Industrial | Q1 2013 Largest Leases

Address	Size (SF)	Leased By
30 S. Calle Cesar Chavez, Ste. B	10,600	Ergomotion, Inc.
4185 State St.	7,600	PL LLC
126 Powers Ave.	2,600	James Hughes Construction

GOLETA INDUSTRIAL — Q1 2013

Industrial leasing throughout the South Coast continues to trend well and Goleta is no exception. Goleta's industrial vacancy rate has continued to decline, dropping from 4.1% at the end of 2012 to 3.9% at the end of the first quarter. And though we see a glut of office space available, there is currently very limited industrial space to accommodate requirements in the market. We do not expect this trend to change any time soon as there are no plans to build additional industrial property in Goleta. We suspect that rates will slowly increase as vacancy stays low.

Goleta Industrial | Q1 2013 Price vs. Vacancy Rate



Goleta Industrial | Largest Available Spaces

Address	Size (SF)	Vacated By
7418 Hollister Ave.	86,300	Raytheon
6775 Hollister Ave.	81,100	DuPont
41 Aero Camino	19,900	CMC Rescue, Inc.
151 Castilian Dr.	15,500	Great American Records

Goleta Industrial | Q1 2013 Largest Leases

Address	Size (SF)	Leased By
5383 Hollister Ave.	11,700	Agilysis
36 Aero Camino	7,800	Delta Welding & Fabrication
495 Pine Ave., Ste. C	5,400	Bardex Corporation
5511 Ekwil St., Ste. A	2,800	Food Tools

LEASING | INDUSTRIAL

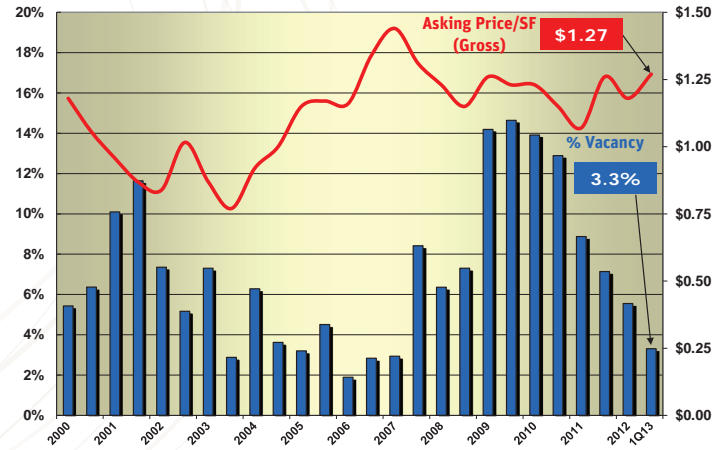
CARPINTERIA INDUSTRIAL — Q1 2013

Carpinteria's industrial market has seen a consistent decrease in vacancy over the past four quarters. In Q4 2012 vacancy sat at 5.6% and has dropped to its current level of 3.3%. In fact, we have not seen such a dramatic shift in vacancy in any sector in the market over the past 15 years, having dropped from 14.4% to 3.3% in about two-and-a-half years.

This smaller industrial market has seen continued expansion by one of its largest tenants, lynda.com, who despite recent layoffs leased an additional 19,100 SF at 6398 Cindy Ln. and shortly thereafter put the space back on the market for sublease. Other leases in the first quarter accounted for an additional 30,400 SF.

One of the compelling factors for industrial tenants looking for space in Carpinteria remains the attractive lease rates compared to higher rates in Santa Barbara and Goleta, with Carpinteria's lease rates now on par with those in other coastal markets to the south such as Ventura and Oxnard.

Carpinteria Industrial | Q1 2013 Price vs. Vacancy Rate



Carpinteria Industrial | Largest Available Spaces

Address	Size (SF)	Vacated By
5201 6th St.	26,300	Magellan
1105, 1115 Mark Ave.	10,200	Gigavac
6385 Rose Ln., A	7,200	Rode Microphones

Carpinteria Industrial | Q1 2013 Largest Leases

Address	Size (SF)	Leased By
6398 Cindy Ln.	19,100	lynda.com
1125, 1135 Mark Ave.	11,900	Giati Inc.
1132 Mark Ave.	11,300	Griplock Systems
6385 Rose Ln., B	7,200	Santa Barbara Glass Company

Q1 2013 Highlight Industrial Lease



30 S. Calle Cesar Chavez, Ste. B Santa Barbara

10,600 SF

Leased by Ergomotion, Inc.

LEASING | RETAIL

SANTA BARBARA RETAIL — Q1 2013

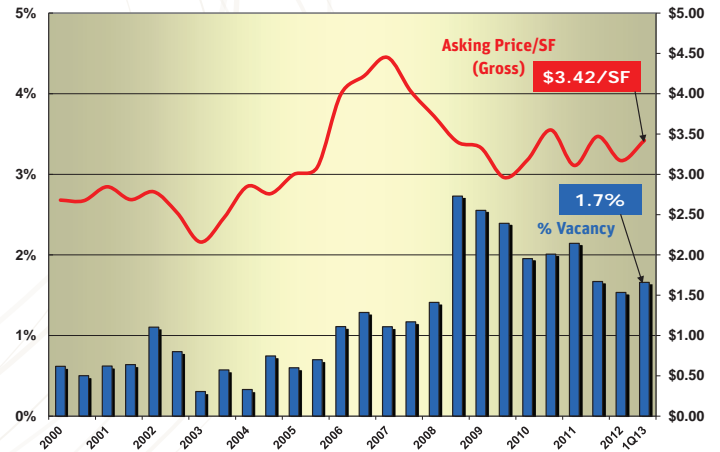
Santa Barbara's retail market remains very tight despite vacancy increasing slightly from 1.5% at the end of 2012 to 1.7% during the first quarter of 2013. As noted in previous reports, options for retailers less than 2,000 square feet continue to be extremely difficult to come by.

Average asking rates have crept up from \$3.17/SF Gross at the end of Q4 2012 to \$3.42/SF Gross in the first quarter of 2013.

One of the standout deals during the first quarter was CorePower Yoga's lease of the old Restaurant Nu space that had sat vacant for more than four years in the remodeled San Marcos Building at 1129 State Street.

Look for lease rates to continue rising as more tenants are actively pursuing the Santa Barbara market.

Santa Barbara Retail | Q1 2013 Price vs. Vacancy Rate



Santa Barbara Retail | Largest Available Spaces

Address	Size (SF)	Vacated By
350 Hitchcock Wy.	15,000	Mel Clayton Ford
1117 State St.	11,200	Rugs And More
15 S. Hope Ave.	10,100	Aga John Oriental Rugs
222 N. Milpas St.	8,100	Scolari's

Santa Barbara Retail | Q1 2013 Largest Leases

Address	Size (SF)	Leased By
1129 State St.	5,600	CorePower Yoga
714 State St.	2,500	Coalision USA, Inc.
1233 State St.	2,300	Onward Art & Design

Q1 2013 Highlight Retail Lease


**1129 State St.
Santa Barbara**

5,600 SF

Leased by CorePower Yoga

SALES | APARTMENTS

SOUTH COUNTY APARTMENTS SALES — Q1 2013

What happens when you have a limited supply of something that a lot of people want? Whether that's precious metals, tickets on the 50 yard line or well performing multi-family properties the outcome will be the same. The price is going to go up.

The South County is continuing to experience a relatively low supply of quality multi-family properties and this means that demand for off market deals continues to stay strong. As of the beginning of April there are 11 properties for sale along the South Coast from Goleta to Carpinteria. Of those 11, there are 6 in escrow. *(Please see the table below for a more detailed breakdown of these numbers.)*

Q1 2013 Multi-family Available vs. In Escrow

	5-9 Units	10+ Units
Currently Available	3	2
In Escrow	3	3

To illustrate just how hot the market currently is, there is a 23 unit property in escrow that received over 20 offers to purchase with multiple offers over the asking price. Another 9 unit property received 5 offers within 24 hours of coming to market, all at or over the asking price.

In addition to the 6 properties in escrow there were two other sales completed so far this year. The numbers are down compared to the beginning of 2012 but that's because there is so little product currently available for sale.

Rents grew during the first quarter of 2013 and we expect them to continue to rise modestly this year as the housing market seems to be improving. This could lead to a reduction in the supply of rental homes which would cause apartments to see more demand.

1Q 2013 Notable South County Apartment Sales



6656 Picasso Rd.

- 10 Unit property in Isla Vista adjacent to UCSB
- Property closed for \$2 million with 6.21% cap rate



6581 Trigo Rd.

- 6 Units in Isla Vista adjacent to UCSB
- Property closed for \$1.15 million at 4.68% cap rate

Frohling Newest Radius Partner

In February Radius announced the promotion of Brad Frohling to Partner, joining Co-Founders Steve Brown, Steve Golis and Bob Tuler and recently named Partner Paul Gamberdella at the helm of Santa Barbara's premiere commercial real estate brokerage firm.

Frohling was recruited by Radius in early 2002. "This is a tremendous honor to take a leadership position alongside some of the most respected commercial brokers in the region," he said. "Becoming a partner feels like a natural culmination after being a part of this team for more than 10 years."

One of 2012's top regional producers, Frohling credits his success to a simple tenet. "I'm blessed and grateful to love what I do, to be able to make a living in this town and to enjoy the company of the people I work with," he said. "There is a very positive culture at Radius and we take great pride in how we serve our clients. I'm eager to continue playing an important role in improving and elevating that high level of service."

"Brad combines a relentless work ethic with a knack for creatively identifying and structuring commercial sales and lease transactions. He has helped shape Radius into an industry and market leader, and he will continue to be instrumental in our success for years to come," said Bob Tuler.



Brad Frohling



Jim Turner

Turner joins Radius as Senior Associate

Jim Turner recently joined Radius as a senior agent. "Jim's reputation in the South Coast is second to none," said Steve Golis. "Bringing him into the fold further strengthens our commitment to providing the most diverse, experienced team in the market." Turner is a certified commercial investment member with a broad background in national and regional commercial real estate. Early in his career he specialized in retail leasing and sales with the national firm Grubb & Ellis, and in 1989 he became Vice President and Director of Acquisitions and Leasing for Investec. Turner was with Falcon Real Estate in New York, prior to joining Latitude Commercial Real Estate in Santa Barbara in 2003.



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