

2014 QUARTERLY VACANCY COMPARISON

Q4 '13 Q1 '14

Office/R&D

Santa Barbara	5.2%	▼	4.3%
Goleta	11.4%	▼	10.3%
Carpinteria	16.0%	▼	11.4%

Industrial

Santa Barbara	1.3%	▼	1.2%
Goleta	1.4%	▲	3.2%
Carpinteria	2.9%	▼	1.8%

Retail

Santa Barbara	2.1%	▲	2.3%
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Figures above represented in
percentage points.

Sales: Strongest Q1 since 2011

Leasing: Asking rates highest in Santa Barbara since 2007

Multifamily: \$33 Million sale
sets record for Santa Barbara

COMMERCIAL SALES SUMMARY

*...one major factor driving this
sales activity is the proliferation
of 1031 exchange transactions.*

As we predicted, the combination of limited supply and hungry buyers started the year with a bang.

The first quarter of 2014 was undoubtedly the strongest first quarter we have seen in three years. The 23 commercial sales recorded easily trumps Q1 2012's 11 deals and Q1 2013's 14 transactions.

If this pace continues—with inventory remaining low and investors poised to pounce—2014 could produce the greatest number of commercial sales in the South Coast in more than 17 years.

As we alluded in our 2013 year-end report, one major factor driving this sales activity is the proliferation of 1031 exchange transactions. We expect this practice to continue.

New buyers are absorbing the limited supply, driving prices ever higher and breaking off-market properties loose, forcing sellers to then exchange into new properties and continuing the cycle.



(Alex Drysdale / Pacific Coast Business Times photo)

Bekins/Sonos Building

25 E. Mason St., Santa Barbara

Asking Price: \$21.5 Million

The February sale of this landmark Funk Zone building marks the largest deal involving office/R&D property in Santa Barbara since 2007 when the El Paseo building at 820 State St. traded for more than \$25 million. Once the headquarters of Bekins Moving & Storage Company, the property now houses the R&D arm of wireless sound system giant Sonos, who occupies all 47,000 square feet on a 10-year lease.

New Development

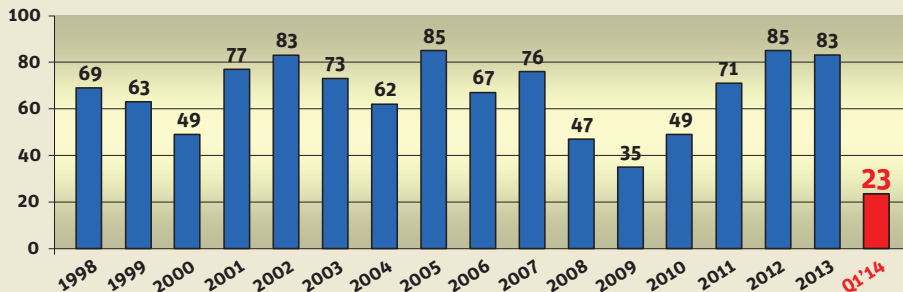
Several new development projects are beginning to take shape in different parts of Santa Barbara.

- ❖ The Alma Del Pueblo Public Market on Chapala and Victoria streets opened April 14th with much fanfare. The market offers a unique shopping and eating experience with an eclectic mix of upscale restaurants and artisanal shops selling wine, cheese, seafood, meat, fresh bread and many other pantry goods.

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COMMERCIAL SALES

Q1 2014 South Coast Commercial Sales Transactions
(Excluding Apartments)



2014 could shape up to produce the greatest number of commercial sales in more than 17 years.

Continued from Page 1

- ❖ In the Funk Zone, the freeway-visible Youth Hostel located at State Street and Freeway 101 is now under construction. Several new multifamily projects are also under construction including one complex on the corner of Olive and Canon Perdido streets in which a local developer is building 19 apartment units with ocean views attached to an existing 18,000 square foot office building. Additionally, the site at 1820 De La Vina St. is being graded in preparation for a 40-unit residential care facility to house Alzheimer's patients.
- ❖ The long awaited Entrada de Santa Barbara Hotel project is expected to break ground in June and the Prado Hotel located at 1601 State St. has also undergone a major renovation and is now flagged as a La Quinta Inn.
- ❖ The Sevilla condo development project at 401 Chapala St. downtown was completed in May and all of the commercial units are currently in escrow and a number of the residential units have already sold.

Will the market slow down?

The most logical obstacle to sales continuing at this pace would be a rise in interest rates.

Rates did jump dramatically in May 2013, yet 10-year treasury rates seem to be hovering right around 2.75%, and new Fed Chairwoman Janet Yellen appears to echo the views of Ben Bernanke, so it does seem unlikely that we will see a sharp jump in rates.

For the moment, it looks like the train may keep rolling unimpeded into 2015.



Hotel Oceana, 202 W. Cabrillo Blvd.
Hospitality | 122 Rooms | \$41,700,000



6500 Hollister Ave., Goleta
Office | 74,000 SF | \$20,450,000



52 N. Fairview Ave., Goleta
Retail | 5,700 SF | \$2,800,000

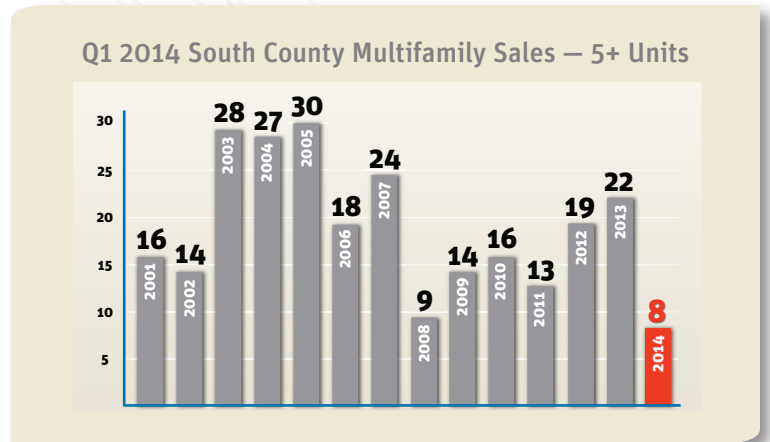
MULTIFAMILY SALES

SOUTH COUNTY

The year started strong with eight deals in the first quarter alone, the highlight being the record sale of the Harbor Heights Manor apartments in January. The 97 unit complex sold above the \$33 Million asking price and represents the largest ever sale of multifamily property in the city of Santa Barbara.

Year-to-date CAP rates for the market are averaging 4.43%. This speaks to the continuation of low interest rates which are readily available in the multifamily market, and there is little evidence rates will rise significantly this year. The ongoing issue remains finding ample inventory to satisfy strong demand.

Rental rates for the South Coast are on the rise as inventory of vacant apartments remains low and demand continues to be strong. The vacancy rate for the Santa Barbara area is just 1%, compared to the US national average of 4.9% at the end of 2013. Depending on the location, rental rates for a one bedroom in Santa Barbara can range from



\$1,400 to \$1,800. We've seen rents surpass our own previous estimates and we are confident that they will likely rise between 3–4% for the year.

NORTH COUNTY

Activity in the North County has remained strong with five sales between January and March. As in the South County, the issue continues to be a lack of available inventory to satisfy the many buyers looking for multifamily investments in the area.

The quarter's most notable deal was the sale of 122 units in a large project in Vandenberg Village between Lompoc and Santa Maria. This sale closed around \$107,000 per unit with a CAP rate of approximately 5.8%. This area of the North County is a more stable and attractive market than Lompoc and compares more favorably with Orcutt and higher end areas of Santa Maria.

Continuing into 2014, we expect rents to rise slightly as there are new projects looking to break ground or be completed in the coming year. These projects will serve a higher end of renters in Santa Maria which should impact the area in a positive manner.

We expect vacancy rates to remain steady around 4% as any new units that come to market should be absorbed fairly quickly. The rise in home prices has been a positive for the Santa Maria rental market as apartments remain a good value for many compared to trying to get a loan for a home. The market should remain active with the largest constraint being the available supply of properties for sale.



Harbor Heights Manor

801–831 Cliff Dr., Santa Barbara

97 Units | Asking Price: \$33 Million | CAP Rate: 4.53%

This highly coveted apartment complex was nabbed by a local investor in January for more than \$33 Million, setting the record for the largest sale of Multifamily property ever in Santa Barbara. The 97-unit complex, which occupies a sizable footprint on the doorstep of Santa Barbara City College, went on the market last August and quickly garnered numerous inquiries and more than a dozen offers from prospective buyers around the country.



Vandenberg Garden Apartments

Vandenberg Village

122 Units

Asking Price: \$14 Million

LEASING

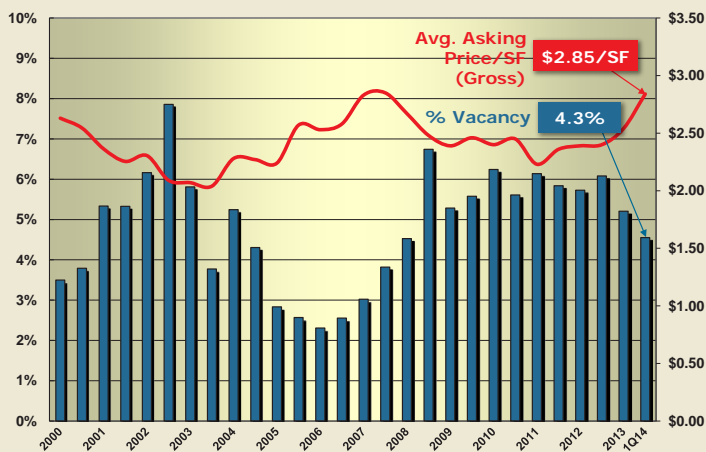
SANTA BARBARA OFFICE

There is a palpable shift in the market as vacancy downtown continues to tighten. At the beginning of 2013 the vacancy rate was 6.3%. A year later it has fallen to 4.3%, causing the average asking rate to climb to \$2.85/SF gross, its highest level since 2007 before the recession hit. Asking rates remained relatively flat between 2009 and the beginning of 2013 but have been on a steep upward trajectory since then.

Last year was largely about companies like Sonos and RingRevenue gobbling up many of the larger spaces downtown. Now we are seeing a number of tenants in-filling the quality office spaces and leasing various sized spaces, and this has noticeably chipped away at inventory.

This undoubtedly should impact Goleta and Carpinteria as tenants who cannot fulfill their office requirements downtown will open up their parameters in order to stay in the very coveted Santa Barbara market.

Santa Barbara Office | Q1 2014 Price vs. Vacancy Rate



Largest Available Spaces

Address	Size (SF)	Vacated By
200 E. Carrillo St., 101 & 202	10,700	Multiple Tenants
21 E. Carrillo St.	9,800	Hatch & Parent
4183 State St., 2nd Flr.	7,900	Service Master
1111 Chapala St., Ste. 300	7,500	Sheppard, Mullin, Richter...

Q1 Largest Leases

Address	Size (SF)	Leased By
7 W. Figueroa St.	7,200	Local Market Launch
901 Olive St.	7,200	Linear Technology Corp.
600 Chapala St.	6,100	Sonos
200 E. Carrillo St.	4,800	DigiFit


**901 Olive St.
Santa Barbara**

Office
7,200 SF
Linear Technology Corp.

**600 Chapala St.
Santa Barbara**

Office
6,100 SF
Sonos


**1 N. Calle Cesar Chavez
Suite 130
Santa Barbara**

Industrial
17,300 SF
Movegreen

**5201 6th St.
Carpinteria**

Industrial
26,300 SF


**1013 State St.
Santa Barbara**

Retail
2,400 SF
ZFolio Gallery

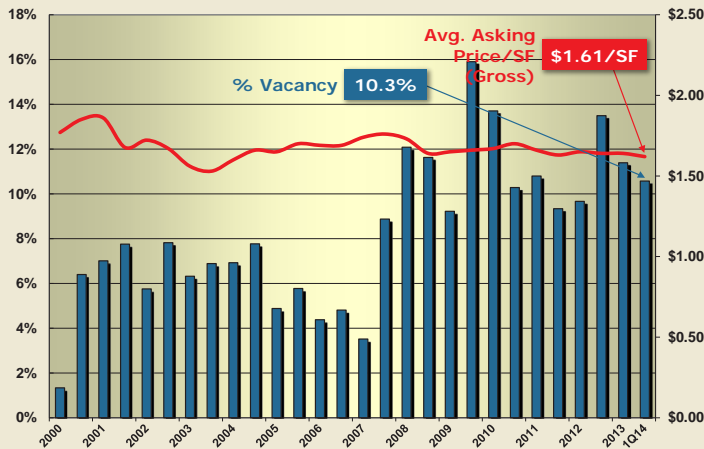
**165 Castilian Dr.
Goleta**

Office/Industrial
12,300 SF
TenCate Advanced Composites



LEASING

Goleta Office | Q1 2014 Price vs. Vacancy Rate



GOLETA OFFICE

Goleta's office vacancy rate decreased slightly during the first quarter. Look for the vacancy rate to continue to fall below 10% in the second quarter as leases of about 50,000 SF of available spaces are currently being finalized.

Interesting to note is that asking lease rates in this sector have essentially remained unchanged over the last decade despite more obvious fluctuations in vacancy.

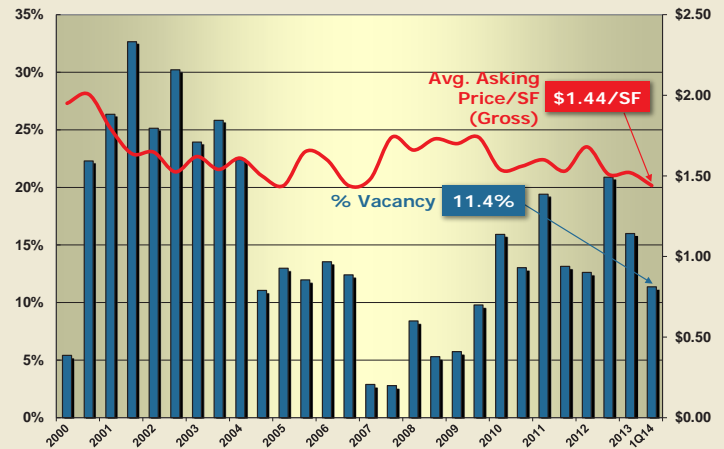
Largest Available Spaces

Address	Size (SF)	Vacated By
6868 Cortona Dr.	61,200	Calix, Inc.
495 S. Fairview Ave., A & B	52,200	Deckers
1 S. Los Carneros Rd., 1-4	50,400	Multiple Tenants
41 Aero Camino, A, B & C	20,300	CMC Rescue

Q1 Largest Leases

Address	Size (SF)	Leased By
26 Castilian Dr.	15,200	GE
6487 Calle Real, Ste. C	2,900	Starlights, Inc.
55 Castilian Dr., Ste. 144	1,900	Patchi
6489 Calle Real, Ste. B	1,300	Esportiko

Carpinteria Office | Q1 2014 Price vs. Vacancy Rate



CARPINTERIA OFFICE

Carpinteria's office market had just one lease during the first quarter and that was the 20,000 square foot expansion of Procore Technologies at 6305 Carpinteria Ave. Due to the size of the lease and Carpinteria's limited office inventory, the sector's relatively anemic vacancy rate dropped from 16% in Q4 2013 down to 11.4%.

While this is generally a positive shift, the issue for landlords remains the lack of prospective tenants in the market, and there are currently about 13 office listings totaling just under 60,000 SF available, some with asking rates below \$1/SF NNN.

Tenants should continue to have the advantage in the foreseeable future until there is more activity and further absorption of vacant space.

Largest Available Spaces

Address	Size (SF)	Vacated By
5464 Carpinteria Ave.	26,100	Microsoft
6307 Carpinteria Ave.	9,900	Clipper Windpower
1005 Mark Ave.	9,300	Celerus Diagnostics, Inc.

Q1 Largest Leases

Address	Size (SF)	Leased By
6305 Carpinteria Ave.	20,000	Procore Technologies

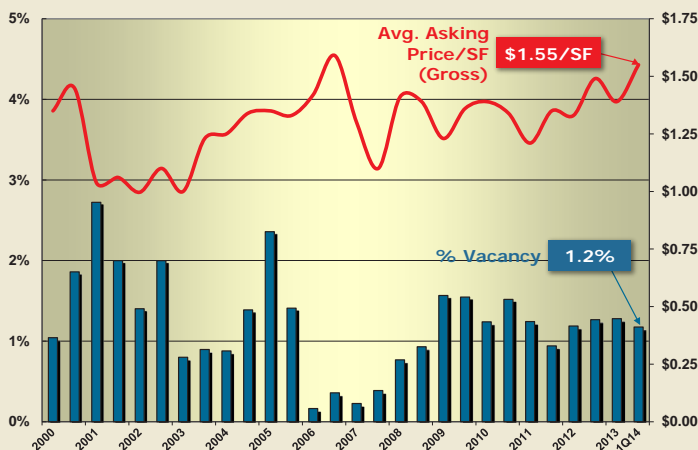
LEASING

SANTA BARBARA INDUSTRIAL

The trend of shallow vacancy continues in Santa Barbara's industrial market, dropping by just .1 percentage point since Q4 2013 to the current level of 1.2%. There were just two leases totaling 28,900 SF during the first quarter, both in the Vercal building at 1 N. Calle Cesar Chavez.

The average asking rate, which dropped to \$1.19/SF gross at the end of Q1 2013, has climbed to \$1.55/SF, its highest level since the summer of 2007. We may see rates continue to increase during the remainder of the year as demand for industrial space in Santa Barbara stays strong.

Santa Barbara Industrial | Q1 2014 Price vs. Vacancy Rate



Largest Available Spaces

Address	Size (SF)	Vacated By
734 & 740 Cacique St.	14,100	Armstrong Marble
301 S. Milpas St.	12,000	Dal Pozzo Tires
619 Olive St.	8,200	Tileco
4179 State St.	7,600	ServiceMaster

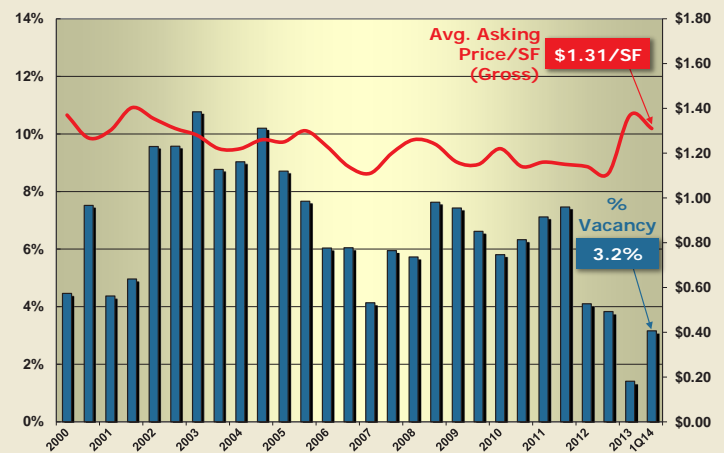
Q1 Largest Leases

Address	Size (SF)	Leased By
1 N. Calle Cesar Chavez, 130	17,300	Movegreen
1 N. Calle Cesar Chavez, 7	11,600	Town & Country Event Rentals

GOLETA INDUSTRIAL

No secret that Goleta's industrial market continues to remain very tight. Recently we have seen rates for industrial space rise as alternative-use tenants are seeking and obtaining approvals to occupy industrial space. Some of these alternative-use businesses include showroom/retailers, bakeries and breweries.

Goleta Industrial | Q1 2014 Price vs. Vacancy Rate



Largest Available Spaces

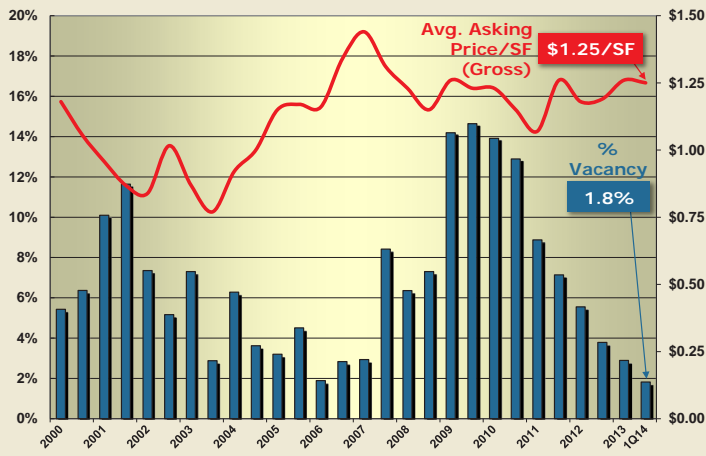
Address	Size (SF)	Vacated By
5390 Overpass Rd.	37,900	GBL Distributing Company
460 Ward Dr., D1, D2, E2, F	35,500	Superconductor Technologies
6860 Cortona Dr., B & C	17,400	GE & LCOGT
163 Aero Camino	16,500	Kidde

Q1 Largest Leases

Address	Size (SF)	Leased By
5756 Thornwood Dr.	21,300	FLIR Systems
315 Bollay Dr.	12,400	Calix, Inc.
165 Castilian Dr.	12,300	TenCate Advanced Composites

LEASING

Carpinteria Industrial | Q1 2014 Price vs. Vacancy Rate



CARPINTERIA INDUSTRIAL

Similar to Carpinteria's office market, the industrial sector has experienced positive movement, but that resulted from only one, sizable industrial lease: the 26,000 SF space at 5201 6th St., formerly occupied by Magellan's Travel.

Unlike the office market, the lack of industrial activity is less about the absence of prospective tenants and more about the lack of listings.

With a vacancy rate falling from 2.9% in Q4 2013 to 1.8% this quarter, there is currently only 23,000 SF and a half dozen industrial properties available. We expect the vacancy rate in industrial to remain low while lease rates gradually increase.

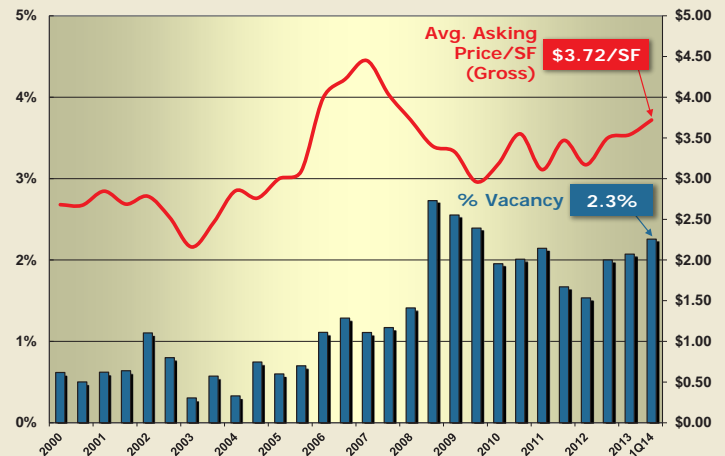
Largest Available Spaces

Address	Size (SF)	Vacated By
1030 Cindy Ln. Suites B & C	9,700	Multiple Tenants
1010 Cindy Ln.	8,100	Matson

Q1 Largest Leases

Address	Size (SF)	Leased By
5201 6th St.	26,300	Undisclosed

Santa Barbara Retail | Q1 2014 Price vs. Vacancy Rate



SANTA BARBARA RETAIL

Vacancy ticked up slightly from 1.7% a year ago to 2.3% in Q1, still very low compared to most retail markets. That said, the number of properties available for lease ballooned by nearly 20%, from 65 (217,000 SF) at the end of 2013 to 77 (237,000 SF) by the end of the first quarter.

The average asking rate rose to \$3.72/SF gross from \$3.42/SF a year ago, but Q1 activity was limited. Just 15 leases were signed, with only one space larger than 3,000 SF. Average space size was 1,584 SF in Q1, perhaps signaling that many are looking for smaller spaces to stay profitable, a challenge given high asking rents in Santa Barbara and on State Street.

We expect many retailers to continue to search for smaller, prime locations or affordable locations off State Street, with many turning to the internet to find new ways to drive customers into their stores.

Largest Available Spaces

Address	Size (SF)	Vacated By
350 Hitchcock Wy.	15,000	Mel Clayton Ford
530 State St.	11,500	Santa Barbara Consignment
1117 State St.	11,200	Rugs And More
1482 East Valley Rd.	9,600	Montecito Village Grocery

Q1 Largest Leases

Address	Size (SF)	Leased By
515 State St.	4,100	Patxi's Pizza
614 N. Milpas St.	2,700	The Attic
1013 State St.	2,400	ZFolio Gallery
631 Chapala St.	2,300	Future Technology Co.

OPINIONS OF VALUE



"Radius has been instrumental in our expansion. I was able to stay focused on my day to day operation while Radius worked to secure a quality warehouse downtown to serve Movegreen's Santa Barbara clients."

Erik Haney, CEO & Founder, Movegreen

"Our agent took the time to understand our unique challenges in finding the perfect home for our growing business. His tenacity paid off, and we are happily settled in our beautifully renovated facility and have a valuable new asset on the balance sheet."

Beth Henry, Chief Financial Officer, CMC Rescue, Inc.

"The Radius advantage is simple. They know the properties on the market today and the properties that will be on the market tomorrow."

Greg Robinson, President, Big Brand Tire Company

Buying, selling and leasing commercial property on your own can be a headache. Make one mistake and your bottom line may suffer as well. You need experts in your corner to alleviate the stress and steer you to success. While we can give many reasons why partnering with Radius is the best choice to ensure your competitive advantage, we believe it's what our clients have to say that matters most.

Even if you're not ready to sell, contact the Radius Team for a free Opinion of Value on your property.



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