

COMMERCIAL SALES SUMMARY

Super Mighty Start to 2017

South Coast commercial sales for the first three months of 2017 were the strongest we have seen in the last 18 years.

During the first quarter there were 30 commercial sales, twice as many as the 18-year average of 15 for Q1 sales. We even surpassed the 24 sales closed in Q1 2016 which was another strong opening quarter.

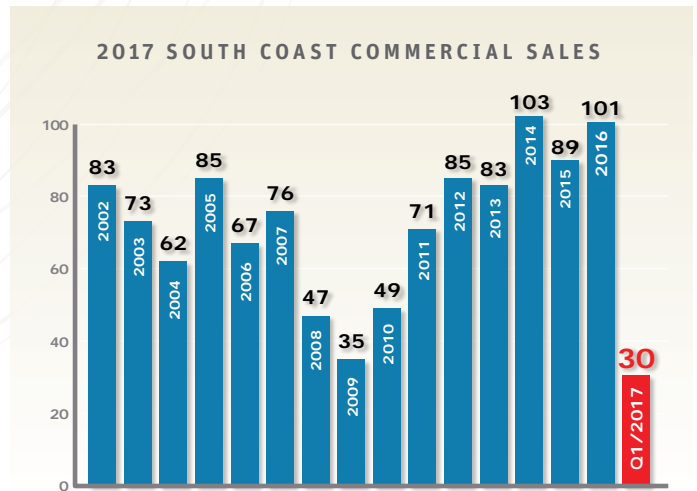
Total sales volume for the first quarter was \$134 million, up slightly from 2016's \$129 million and completely overshadowing the \$49 million closed in Q1 2015.

The driving force behind each sale was different, but 1031 exchanges accounted for about 25% of the transactions, while owner/users are still in the field accounting for 20% of the sales.

2017 Forecast

Although 2017 started out hot, it is difficult to forecast where the year will end. In Santa Barbara, for example, there seem to be two different stories running concurrently.

Retail in the Funk Zone is on fire with a rumored seven new restaurants looking to open in the near future, while the buzzword for State Street retail is VACANCY!



Excluding sales of apartments. Prior 15-year average = 74 sales/year.



SOLD — OFF MARKET | 26 CASTILIAN DR., GOLETA
INDUSTRIAL | APPROX. 75,239 SF | \$13,625,000

*Two-story building purchased by an exchange buyer selling multiple properties.
 Mix of high quality industrial and fully leased office space.*

Over the last couple of months we have noticed a gap in listing prices versus selling prices where buyers and sellers are not seeing eye-to-eye. There seems to be a slight correction occurring in the marketplace but the fundamentals remain strong. As a result we are looking at slow to mild growth through the remainder of the year.

TOT Tax

Transient Occupancy Tax (TOT) has been up-and-down for the City of Santa Barbara as of late.

While the last couple of months in 2016 reported strong growth in TOT, above average rainfall in both January and February seemed to curtail visits to Santa Barbara which resulted in a decline in gains.

And while March revenue numbers have not yet been released, we can assume the month likely will also be down for the same reason. Thus far in fiscal year 2017, starting July 2016 to date, TOT tax is up slightly by 2.8% over the same time period last year. This is good news when you consider TOT was flat (0.0% growth) for all of fiscal year 2016.

Commercial Sales Continued on P.2

COMMERCIAL SALES SUMMARY CONT.

Continued from P.1

Notable Q1 Sales

26 Castilian Dr., Goleta

In an Off Market transaction, this approx. 75,239 SF industrial building was purchased for \$13,625,000 by an exchange buyer selling multiple properties. Radius helped the buyer time the various exchanges to provide the buyer equity consolidation as well as a more stable stream of income. The building provides some of the highest quality industrial space on the South Coast combined with two-story, fully leased office space.

1820 De La Vina St., Santa Barbara

Oak Cottage of Santa Barbara Memory Care is a Senior Living Facility built in 2015. The recently constructed, 44-bed facility was sold in March of this year for \$18.6 million by a California based operator.



SOLD | 1820 DE LA VINA ST., SANTA BARBARA
OAK COTTAGE OF SANTA BARBARA SENIOR LIVING FACILITY
44 BEDS | \$18.6 MILLION

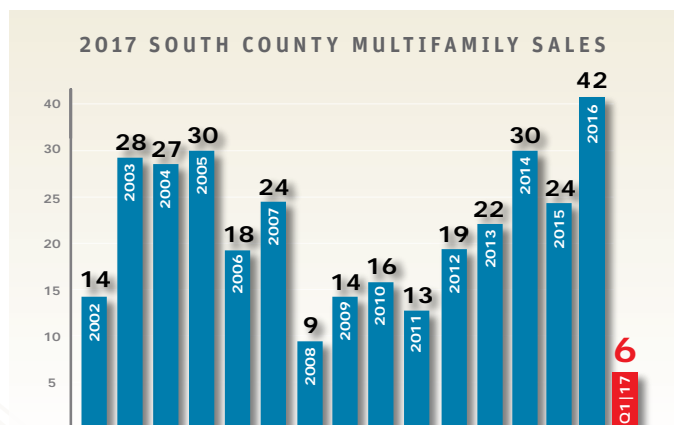
MULTIFAMILY SALES SUMMARY

South County

The multifamily investments market continues to outperform other commercial sectors. So far in 2017 the trends of recent years remain unchanged in the South County: exchange dollars are driving a majority of the sales, and there remain a large number of buyers vying for a shortage of inventory. In the 5+ unit category there are only a handful of properties available for sale.

In the South County, there were 25 total first quarter sales: six sales of properties 5+ units in size and 19 sales of 2-4 unit properties. Entering Q2 we will see even more activity. Rental rates are softening a bit while vacancy remains low.

National employment and housing trends continue to paint a rosy picture for Multifamily. Roughly 95,000 jobs were created in the US this March, while the country's unemployment rate dipped to 4.5%, according to the Bureau of Labor Statics. The reported apartment vacancy rate was 4.3% in Q1, up from 4.2% in Q4 2016 and virtually unchanged from 4.3% this time last year. Rising home prices and higher mortgage rates will most likely delay home buying by many Gen-Xers and prolong their tenure as renters. A significant number of the nation's 67 million Baby Boomers are poised to downsize into more easily managed rental units, further impacting the multifamily sector.



Q1 Highlight Sales

- **6672-6690 Abrego Rd., Isla Vista (Breakpointe)** — 94 units, \$33,700,000 (1/25/17)
- **6626 Picasso Rd., Isla Vista (Coronado)** — 55 units, \$18,100,000 (1/26/17)
- **6549 El Colegio Rd.** — 16 units, \$3,000,000, \$187,500 PPU (1/12/17)
- **1514 Eucalyptus Hill Rd.** — 6 units, \$1,795,000, \$299,167 PPU, 4% CAP (2/2/17)
- **2019 Alameda Padre Serra** — 3 units, \$1,400,000, \$466,666 PPU (3/28/17; Off Market)

Both properties sold to the same buyer for a total of \$51,800,000, \$347,651 PPU, 4.5% CAP

Multifamily Sales Continued on P.3

MULTIFAMILY SALES SUMMARY CONT.

Continued from P.2

Sitting on some of the region's most beautiful real estate, Isla Vista remains the blue chip community for multifamily investments. A new record was set with UCSB receiving 81,782 applications from prospective freshmen, an increase of more than 6% over last year, further underscoring the popularity of the university and the continued strength of the neighboring rental market. During the first quarter there were a total of five transactions in Isla Vista including the three largest South County sales of the quarter. Two neighboring properties were purchased in January as a package in an off market deal, combining for a 4.5% CAP and \$347,651 PPU. The 94-unit **Breakpointe Apartments** sold for \$33.7 Million while the 55-unit **Coronado Apartments** garnered \$18.1 Million.



SOLD | 6672-6690 ABREGO RD., ISLA VISTA
BREAKPOINTE APARTMENTS | 94 UNITS | \$33.7 MILLION

North County

Like the South County, the North County markets are still going strong into the first half of 2017. Lompoc and Santa Maria recorded 10 total Q1 transactions: seven sales of 5+ unit properties and three sales of 2-4 unit properties. Activity continues to hold steady. Recently a notable three-property portfolio totaling 55 units sold to the same buyer in March.

Q1 Highlight Sales

- 601-613 W. Ocean Ave., Lompoc — 24 Units, \$2,727,272 (3/7/17)
 - 210-218 N. M St., Lompoc — 18 Units, \$2,045,454 (3/7/17)
 - 723-728 N. 4th St., Lompoc — 13 Units, \$1,477,272 (3/7/17)
- All three properties sold as one portfolio totaling \$6,250,000, \$113,636 PPU, 4.18% CAP
- 736 N E Street, Lompoc — 18 Units, \$2,155,000, \$119,7822 PPU, 6.67% CAP (1/26/17)
 - 401 W. Pine (Woodstone) Lompoc — 204 Units, \$29,000,000 (3/28/17)

W. Ventura County

To the south, the story remains consistent with apartment demand continuing to outweigh inventory in Ventura County. There were just two sales of 5+ unit complexes during the first quarter with the highlight sale at **1400 Azalea St., Oxnard**. The 13 unit property sold in January for \$2,050,000, \$157,692 PPU. There were 13 sales in the 2-4 unit range.

We are seeing multiple-offer situations in Ventura. Most recently a listing for an 8-unit property near midtown Ventura was on the market for about five days and is now in escrow after receiving multiple offers.

The demand for apartment rentals remains robust in Ventura with a low vacancy of just 2.66%. The tightest rental market in the county is Ojai with a vacancy rate of 0%, followed by Fillmore at 1.33% and Oxnard/Pt. Hueneme at 1.88%, according to Dyer Sheehan. Rent growth has been modest in Ventura County and it remains one of the strongest markets. There is a bit of relief on the horizon with some apartment development in the local area this year as several new projects come online this fall. However, we do not expect multifamily will become over-built as many of these developments will be luxury units.

LEASING SUMMARY

Quick Stats

Vacancy

		Q4 16	Q1 17
OFFICE	Santa Barbara	4.9%	5.4% ▲
	Goleta	9.0%	8.7% ▼
	Carpinteria	2.6%	5.4% ▲
INDUSTRIAL	Santa Barbara	0.4%	0.7% ▲
	Goleta	3.9%	3.8% ▼
	Carpinteria	2.1%	0.2% ▼
RETAIL	Santa Barbara	1.6%	3.0% ▲

Quarterly Absorption (SF)

		AVAILABLE SPACE	ABSORPTION
OFFICE	Santa Barbara	274,000	-23,400
	Goleta	372,300	11,200
	Carpinteria	25,400	-13,100
INDUSTRIAL	Santa Barbara	33,300	-14,200
	Goleta	161,900	4,600
	Carpinteria	2,000	24,800
RETAIL	Santa Barbara	318,800	-155,400

Avg. Gross Asking Rates (\$/SF)

		Q4 16	Q1 17
OFFICE	Santa Barbara	\$2.98	\$3.08 ▲
	Goleta	\$1.85	\$1.89 ▲
	Carpinteria	\$1.90	\$1.99 ▲
INDUSTRIAL	Santa Barbara	\$1.80	\$1.76 ▼
	Goleta	\$1.64	\$1.58 ▼
	Carpinteria	\$0.98	\$0.90 ▼
RETAIL	Santa Barbara	\$3.97	\$4.23 ▲

Avg. Gross Achieved Rates (\$/SF)

		Q4 16	Q1 17
OFFICE	Santa Barbara	\$2.76	\$3.17 ▲
	Goleta	\$1.67	\$1.56 ▼
	Carpinteria	\$1.15	N/A ■
INDUSTRIAL	Santa Barbara	\$2.55	\$1.98 ▼
	Goleta	\$1.45	\$1.57 ▲
	Carpinteria	\$1.08	\$0.70 ▼
RETAIL	Santa Barbara	\$4.02	\$3.87 ▼

Office

Santa Barbara's office vacancy rose slightly from 4.9% at the end of 2016 to 5.4% during the first quarter of 2017 with approx. 274,000 sq. ft. on the market for lease, roughly 23,400 sq. ft. higher than the end of 2016. Contributing to this uptick, a few larger properties on lower Chapala Street came to market during the quarter including approx. 18,800 sq. ft. of space at 530 Chapala St. / 25 W. Cota St., and a roughly 9,900 sq. ft. space at 506 Chapala St.

Additionally, there was only one new lease during the quarter larger than 5,000 sq. ft.: San-sum Clinic leased approx. 6,300 sq. ft. at 3916 State St. in March. The quarter also saw a drop in the number of transactions compared to Q1 2016.

The majority of vacancies on the market remain in the 1,000–3,000 SF range with the average gross asking rate rising slightly from \$2.98/SF Gross at the end of 2016 to \$3.08/SF Gross by the end of Q1 2017. Achieved rates also rose modestly to about \$3.17/SF Gross.

In a bit of a surprise, the vacancy rate in Goleta's office sector fell slightly to 8.7% during the quarter. We had been predicting some larger spaces were going to come available pushing vacancy up toward 10%. At this point additional larger spaces have not yet hit the market. During Q1 there were only three new office leases, all less than 5,000 sq. ft. There are currently four available spaces in excess of 25,000 sq. ft. The largest space remains the 86,000 sq. ft. space vacated by FLIR at 70 Castilian Dr. Asking rates remained stable at \$1.89/SF gross.

Carpinteria's office market remains the most volatile commercial sector on the South Coast. The first quarter saw the vacancy rate increase from 2.6% to 5.4%. Based on the limited size of the market (approx. 500,000 sq. ft. of product) and limited vacancy, it is no surprise there were no completed deals during the quarter. Currently there are only 10 available spaces and none are spaces larger than 7,000 sq. ft. The average gross asking rate increased to \$1.99/SF Gross which surpasses the previous high. We feel office rents in Carpinteria have found a "new normal" and should hover around \$2.00/SF gross (remaining higher than archrival Goleta).

Industrial

The industrial sector remains sluggish with vacancy rates at or near historic lows, simply due to lack of supply. We don't expect to see any relief for hungry tenants in the next 1–2 years. However, three much anticipated industrial projects are on the horizon, including the City's airport property, the Cabrillo Business Park project and some undeveloped land in Old Town Goleta.

Another threat that may further impact industrial scarcity is in the City of Santa Barbara where the political will is behind new housing with very little preservation efforts to ensure that our industrial market remains. Continued rising lease rates are pushing industrial tenants to the north and south, further agitating local jobs and traffic.

During Q1 2017 we saw Goleta vacancy remain at just under 4%, but that number is expected to reduce dramatically with the second quarter sublease of an approx. 106,000 sq. ft. space located 71 S. Los Carneros.

Santa Barbara vacancy ticked up slightly to .07% primarily due to one larger 12,000 sq. ft. space coming to market. There remain only a handful of vacant industrial spaces in the City and we do not expect to see this lack of supply change anytime soon. The largest industrial lease of the quarter was a build-to-suit at 35 N. Calle Cesar Chavez where Stock Building Supply signed a long term lease for lumberyard that entails the owners building new buildings on

Leasing Continued on P.5

LEASING SUMMARY CONT.

Continued from P.4

a 28,000 sq. ft. site.

Carpinteria is really no different from Santa Barbara with virtually no inventory available. There was only one new lease during the quarter for 7,300 sq. ft. at 509 Maple Ave.

Retail

Undoubtedly the big news heading into 2017 was that Macy's would be closing their massive 141,000 sq. ft. anchor location in the Paseo Nuevo Mall this Spring. The store is now closed. With 48 years remaining on their lease with the City of Santa Barbara, the retailer is in the process of deciding what to do with the property. Macy's is able to transfer the lease to another retail tenant as long as a minimum of one floor is dedicated to retail use. A potential tenant could be either another large retailer or a mixed use project. Through the lease language, the City doesn't have much control over the type of retail tenant.

Another prominent department store, Saks Off 5th at 1001 State St. at the corner of State and Carrillo streets, is also available for lease, though the Saks lease does not expire until early 2018 and the retailer still has an option they may exercise. The approx. 47,000 sq. ft., 3-story building is also offered for sale at \$21 Million.

The Macy's news coupled with the continued widespread dearth of brick and mortar retailers remains a major issue for the downtown retail corridor. At the end of 2016 there was approximately 163,400 sq. ft. of retail space available for lease. With Macy's exit and a few other mid-size spaces entering the market, at the end of Q1 2017 available inventory rose to 63 properties comprising an astounding 318,849 sq. ft.

As of the end of Q1 2017, the Average Gross Asking Rate had increased slightly from \$3.95/SF a year ago to \$4.23/SF. The vacancy rate jumped from 1.9% a year ago to 3.0% currently. That may not seem like much of an increase, but it is the retail sector's highest vacancy since 1992.

During Q1 2017 only eight new leases were executed comprising a total of 18,660 sq. ft. That's a 57% decrease from the 14 leases signed a year ago. The average contract lease rate for those first quarter leases was \$3.87/SF Gross. The most notable lease of the quarter was Rabobank's new 5,533 sq. ft. bank location at 3757 State St.



**FOR LEASE | 630 CHAPALA ST., SANTA BARBARA
RETAIL | APPROX. 12,600 SF**

Santa Barbara's Volkswagen dealership shuttered earlier this year leaving the second largest available retail space in the city (next to Macy's), further adding to a burgeoning vacancy rate of 3.0%.



How'd Your Team Do?

\$80 Million March

Nothing to see here. Just another record performance from your bracket busters at Radius Commercial Real Estate & Investments. Your Team ran the table this March with \$80 Million in sales and leasing transaction value, another record performance for the crew that never quits. With results like this, the only madness is picking someone else to play point with your commercial real estate needs.

*The Radius Team.
MVP Performance. MVP Results.*

