

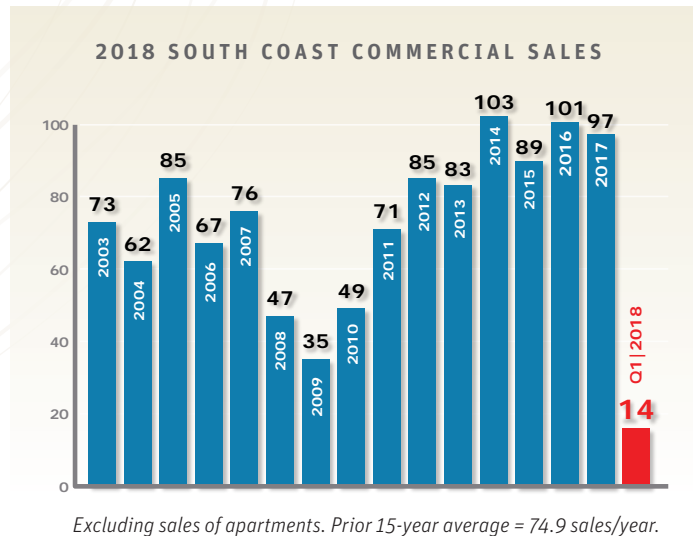
COMMERCIAL SALES SUMMARY

Natural Disasters and a Slow Start

Perhaps not surprisingly, sales during the first quarter of 2018 got off to a markedly slower start versus Q1 2017. Altogether the first quarter compiled 14 sales of commercial property totaling approximately \$53 Million in volume, not too far off the prior 15-year average of 18.7 sales per quarter but significantly fewer than Q1 2017's 30 sales and Q1 2016's 24 sales. In fact, Q1 2018 has been the weakest first quarter since 2013. So what is causing the slow start to the year?

While it is hard to say with certainty that this below average sales volume was a direct result of the recent Thomas Fire and Montecito mudslides, both January and February were very slow recording only three (3) sales each month. Still, March appeared to show signs of returning to normalcy with eight (8) sales and it seems like the market is settling back in. We also need to recognize that for the last 15 years the market has been averaging 74.9 sales per year, and over the last six (6) years straight we have exceeded that average setting new records for the region. (By contrast, between 2003 and 2011 the annual yearly average was exceeded only twice.) Perhaps a healthy sign for the market might be that sales return to earth a bit?

Exchange buyers remain a driving force in the marketplace, accounting for three (3) of the 14 sales in Q1 2018 or roughly 21% of the sales. While exchange buyers are pushing the market we are starting to see downward pressure on pricing as a result of rising interest rates. Moving forward, the limiting factor on deals seems to be debt coverage ratios (DCR) which become harder to meet as rates increase unless prices decrease or buyers are willing to come up with more capital to lower loan size.



SOLD | 1001 STATE ST., SANTA BARBARA (SAKS OFF 5TH BLDG)
RETAIL | 46,813 SF | \$18.5 MILLION

Notable 1st Quarter Sales

We have been talking about the “tale of two markets” in recent quarterly reports and we see this continuing into 2018. While leased assets are trading at all-time high price-per-square-foot (PSF), vacant buildings (particularly on State Street) continue to trade for very low PSF's. For example, in March 1101 Coast Village Rd. sold to an exchange buyer for \$7,700,000 (\$1,467 PSF) at a 4.7% CAP rate. The property was 100% leased with a credit tenant with eight (8) years remaining on the lease. While the CAP rate was high for Montecito, the property sold for an all-time high PSF for Coast Village Road.

Alternatively, 1001 State St. also sold in March for \$18,500,000 (\$395 PSF) and is leased to Saks Off 5th with only one (1) year remaining on their lease term. Clearly there remains a lot of uncertainty surrounding State Street retail (particularly the larger spaces), but from a pure economic standpoint buying a great corner property on State Street for \$395 PSF is a great deal.

Commercial Sales Continued on P.2

COMMERCIAL SALES SUMMARY CONT.

Continued from P.1

One other noteworthy sale occurred in early February when the former Macy's Building at 701 State St. in Paseo Nuevo was purchased by Pacific Retail Capital Partners, the managing partner of the mall. While no permanent plans for the three-story building have been announced, mall officials say it may use the space in the short term for pop-up shops and community and entertainment events.

Legal Weed a High Point for Local Commercial Real Estate?

You may be surprised to learn that Santa Barbara County has issued more temporary cannabis operation licenses by the state than any other county, pushing long-dominant pot capital Humboldt County to No. 2. The majority of licenses issued have been in the North County but in the South Coast we are seeing increased interest in Carpinteria.



SOLD | 701 STATE ST., SANTA BARBARA (FORMER MACYS)
RETAIL | APPROX. 135,000 SF | PRICE UNDISCLOSED

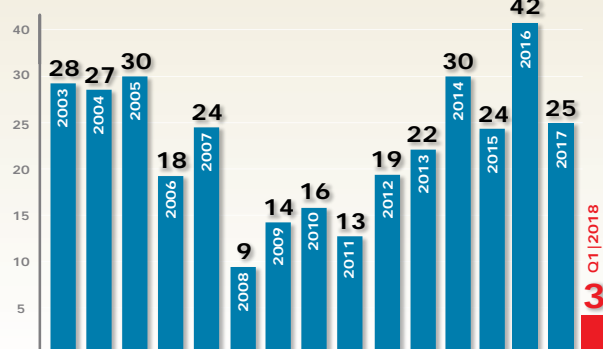
MULTIFAMILY SALES SUMMARY

South County

The national unemployment rate remained unchanged at 4.1% according to the *Bureau of Labor Statics* with approximately 103,000 jobs created in March 2018. The reported national apartment vacancy rate rose slightly to 4.7% in the first quarter 2018, up from 4.6% at the end of 2017.

Just as the Thomas Fire and Montecito mudslides may have impacted the South Coast commercial sales sector, the Multifamily sector also slowed during the first part of 2018, but resilient Santa Barbara is on the mend.

2018 SOUTH COUNTY MULTIFAMILY SALES



Sales of Multifamily properties 5+ Units in size



SOLD | 1045 ELM LN., CARPINTERIA (18 UNITS)
\$5,600,000, \$311,111 PPU, 4.61% CAP

The first quarter of 2018 saw just 19 total sales and only three (3) in the 5+ units range. That said, the outlook for the Multifamily market looks solid and sales activity should remain positive in 2018. Renters continue to make up a large portion of the Santa Barbara population keeping apartment vacancy rates low which continues to attract investors. We are seeing rental rates remain flat during the first part of 2018.

Highlight Sale – So. Santa Barbara County

• **1045 Elm Ln., Carpinteria (3/21/18)** – \$5,600,000, 18 Units, \$311,111 PPU, 4.61% CAP

Multifamily Sales Continued on P.3

MULTIFAMILY SALES SUMMARY CONT.

Continued from P.2

Isla Vista continues to be the darling of the multifamily sector, attracting tenants from all over wanting to live in this beautiful ocean side community. The University of California, Santa Barbara (UCSB) received 92,107 applications from prospective freshmen for the Fall of 2018, no surprise given USCB's No. 8 ranking in *U.S. News and World Report's* 2018 listing of the top 30 public universities nationwide. The university's popularity continues to be a major draw for students and student housing and rental housing in general in the area remains at a premium. Here again it comes down to supply and demand as we have investors waiting in the wings for opportunities to place their money, yet available inventory remains scarce. While there was just one large Multifamily property that sold during the quarter, we expect to see more activity to come in the second quarter.

North Santa Barbara County

It also remains a very tight market to the North in Lompoc and Santa Maria. There were a total of 16 sales in the first quarter, with just one (1) sale of a property 5+ units in size and 15 sales involving properties 2–4 units in size. Again supply and demand leaves a handful of smaller 2–4 unit properties currently available with two 5+ unit properties currently in escrow.

Highlight Sales – North County

- **409–415 Tiffany Dr., Santa Maria (2/23/18)** — \$1,015,000, 4 Units, \$253,750 PPU
- **225 S. Russell Ave., Santa Maria (1/19/18)** — \$799,100, 5 Units, \$159,820 PPU

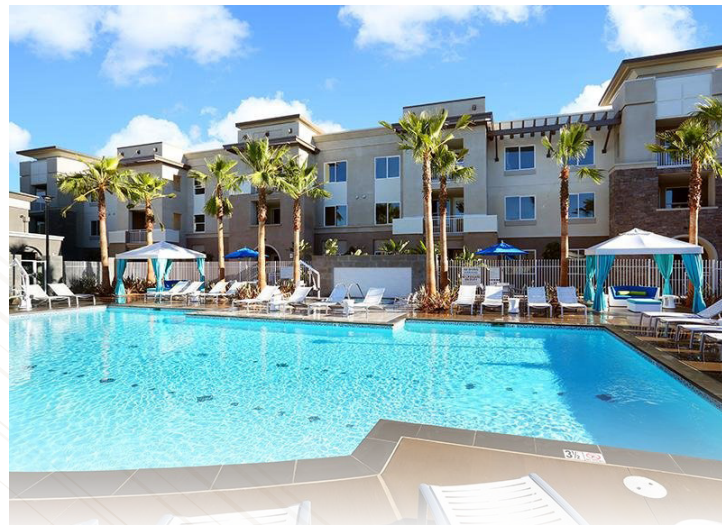
Ventura (West)

To the south, the demand for apartment properties continues to outweigh inventory in Ventura County. While there were five (5) sales of 5+ unit properties during the first quarter, two (2) were particularly notable in size at approximately \$75 Million and \$74 Million. There were also 11 sales of 2–4 unit properties. We continue to see multiple-offer situations in Ventura on larger buildings. Most recently a listing for a 12 unit property was on the market for about five (5) days and is now in escrow after receiving multiple offers. There are currently just four (4) active listings of properties 5+ units in size.

Ventura vacancy is hovering around 3% keeping the demand for rentals strong.

Highlight Sales – Ventura

- **Tempo at Riverpark, 470 Forest Park Blvd., Oxnard (3/13/18)** — \$75,250,000, 235 Units, \$320,213 PPU
- **Via Ventura, 930 Pacific Strand Pl., Ventura (2/20/18)** — \$74,000,000, 192 Units, \$385,417 PPU



SOLD | 470 FOREST PARK BLVD, OXNARD (TEMPO AT RIVERPARK)
235 UNITS | \$75,250,000 (\$320,213 PPU)

SOUTH COAST LEASING SUMMARY

Quick Stats

Vacancy

		Q4 17	Q1 18
OFFICE	Santa Barbara	6.7%	5.9% ▼
	Goleta	7.6%	7.8% ▲
	Carpinteria	6.9%	9.4% ▲
INDUSTRIAL	Santa Barbara	0.7%	0.4% ▼
	Goleta	2.6%	4.0% ▲
	Carpinteria	2.5%	1.5% ▼
RETAIL	Santa Barbara	3.6%	3.2% ▼

Quarterly Absorption (SF)

		Q1 AVAILABLE SPACE	Q4-1 ABSORPTION
OFFICE	Santa Barbara	299,500	45,000
	Goleta	333,900	-10,000
	Carpinteria	44,000	-12,000
INDUSTRIAL	Santa Barbara	20,400	11,300
	Goleta	169,600	-61,300
	Carpinteria	20,000	13,000
RETAIL	Santa Barbara	332,100	42,900

Avg. Gross Asking Rates (\$/SF)

		Q4 17	Q1 18
OFFICE	Santa Barbara	\$3.09	\$3.04 ▼
	Goleta	\$1.89	\$1.90 ■
	Carpinteria	\$1.71	\$1.86 ▲
INDUSTRIAL	Santa Barbara	\$2.22	\$2.38 ▲
	Goleta	\$1.61	\$1.63 ▲
	Carpinteria	\$1.39	\$1.40 ■
RETAIL	Santa Barbara	\$3.96	\$4.16 ▲

Avg. Gross Achieved Rates (\$/SF)

		Q4 17	Q1 18
OFFICE	Santa Barbara	\$2.69	\$2.93 ▲
	Goleta	\$1.64	\$1.98 ▲
	Carpinteria	\$2.04	\$2.02 ▼
INDUSTRIAL	Santa Barbara	\$1.24	\$1.92 ▲
	Goleta	\$1.36	N/A*
	Carpinteria	N/A*	\$1.50 ▲
RETAIL	Santa Barbara	\$4.36	\$3.53 ▼

*No new leases during the quarter

Office

As expected, Santa Barbara's office vacancy rate dropped slightly from 6.7% in Q4 2017 to 5.9% in the first quarter of 2018. Average gross achieved rates ticked up from \$2.69/SF to \$2.93/SF while average gross asking rates remain nearly unchanged at \$3.04/SF.

The highlight new lease of the first quarter was to a local accounting firm that took 12,882 SF at 104 W. Anapamu St. The largest vacancy on the market stands at 1020 State St. at 19,000 SF. We can expect vacancies to continue to be filled as we move into the summertime. Also we are seeing signs that tenants' appetites seem to be changing from a need for open layout space to a need for space that creates privacy with private offices.

Goleta's office vacancy nudged up slightly from 7.6% in Q4 2017 to 7.8% in the first quarter. Average gross achieved rates are up substantially from \$1.64 to \$1.98 while the average gross asking rate has been consistent in the past couple of quarters.

The largest office lease of the quarter was signed at 301 Mentor Dr., Stes 100 & 200 for 46,058 SF. The largest vacancy in this submarket remains approximately 86,246 SF currently available in the Castillian Tech Center located at 70 Castilian Dr. As Goleta's vacancy rate is driven by large spaces, we may see this submarket tighten substantially in Q2 given at least one very large lease in the pipeline.

Carpinteria's office vacancy increased from 6.9% to 9.4% in the past quarter. Vacancy numbers in Carpinteria's limited office market have fluctuated greatly over the past few years, however the average gross achieved rate and average gross asking rate remain virtually unchanged. The largest office lease was also the quarter's only lease, as 1,456 SF was leased to a yoga studio at 5320 Carpinteria Ave. The largest Carpinteria office vacancy is the 19,063 SF available at 6398 Cindy Ln.

Industrial

Santa Barbara industrial vacancy dropped slightly from .7% at the end of Q4 2017 to .4% by the end of Q1 2018. The influx of cannabis and existing industrial uses will continue to put downward pressure on Santa Barbara's industrial vacancy, which will also influence vacancy and lease rates in all other industrial sub-markets in Santa Barbara County. This sector has experienced a measurable increase in average lease rates.

Vacancy in Goleta ticked up from 2.6% last quarter to 4.0% at the end of Q1 2018. This increase is largely due to a few 20,000 sq.ft. buildings coming to market. But given the number of tenants in the market looking for a diversity of size and condition of buildings in the market we expect to see a drop in vacancy over the next year. The greatest demand continues in the sub 10,000 sq.ft. range. Even with the current increase of vacancy rate we believe lease rates will remain level over the rest of this year.

Carpinteria's industrial vacancy saw a decline from 2.5% during the last quarter to the current 1.5%, with just three lease transactions influencing the drop in vacancy. Two of the leases were in the 1,400 sq.ft. range while the third consisted of 13,509 sq.ft. at 525 Maple which leased to DSY Corporation. Due to the lack of inventory with no new pending projects, industrial space in Carpinteria should see continued rise in lease rates.

Leasing Continued on P.5

SOUTH COAST LEASING SUMMARY CONT.

Continued from P.4

Retail

In the retail leasing sector, we saw a direct impact on the market as a result of the Thomas Fire and Montecito disasters. Some retailers were forced to close up shop permanently because of these events while others are hanging on hoping to return to a sense of normalcy sooner than later.

But the quarter also offered a bit of optimism for Santa Barbara's struggling retail scene with the purchase of the former Macy's building in Paseo Nuevo Mall. As mentioned in the commercial sales section, future plans for the building may include some mix of smaller retail, pop-up shops and event space. Whatever direction the mall takes in filling out this massive space, an infusion of energy is sorely needed in the downtown corridor to help reverse the vacancy trend in the area. Also noteworthy was the sale of the Saks Off 5th building at 1001 State St. These two department store footprints combine for over 188,000 sq.ft. of retail space in downtown Santa Barbara.

At the end of Q1 2017, there were 63 retail spaces totaling 318,849 sq.ft. available for lease between Santa Barbara, Montecito and Summerland for a vacancy rate of 3.0%. Fast forward to Q1 2018 and inventory rose to 79 spaces or 332,057 sq.ft. producing a slight vacancy increase to 3.2%.

During Q1 2018, there were 11 new retail leases totaling 18,507 sq.ft., up slightly from 8 leases signed a year ago. The largest lease of the quarter was just over 2,600 sq.ft. The Average Gross Achieved Rate decreased about 9% from \$3.87/SF a year ago to \$3.53/SF at the end of Q1 2018.

Q1 Leasing Highlights



LEASED | 301 MENTOR DR., STE 100 & 200, GOLETA
OFFICE | APPROX. 46,058 SF

An undisclosed tenant leased a large portion of this Institutional quality office/R&D building in Goleta's thriving tech corridor. The property is the former home to Mentor who recently vacated.



LEASED | 7035 MARKET PLACE DR., GOLETA
RETAIL | APPROX. 30,147 SF

The former Sports Authority space in the Camino Real Marketplace leased in February to an undisclosed tenant.



LEASED | 104 W. ANAPAMU ST., STE A & B, SANTA BARBARA
OFFICE | APPROX. 12,882 SF

Local CPA firm Nasif, Hicks, Harris & Co. expanded into this high quality downtown space in March.



LEASED | 175 CREMONA DR., GOLETA
OFFICE | APPROX. 11,947 SF

Surgical Eye Expeditions International leased this large space at the University Business Center in January.



The Radius Team. We can handle it.

Seeking a high profile storefront or a spacious warehouse to grow your business? Maybe you're looking for a trophy investment or dreaming of owning your own ranch or vineyard? Or perhaps you hope to retire with a healthy return from the sale of your business and/or property? Chances are, we can help with all of that. Call on Radius today to put our broad range of brokering solutions powered by our diverse team of local experts to work for you. We can handle it.



Steve Brown



Mike Chenoweth



Gene Deering



Rob Devericks



Lisa Engel Shields



Brad Frohling



Arick Fuller



Paul Gamberdella



Steve Golis



Bill Hagelis



Linda Hagelis



Rob Hambleton



Austin Herlihy



Brian Johnson



Jon Ohlgren



Chris Parker



Robert Rauchhaus



Bob Tuler



Jim Turner