

QUARTERLY VACANCY COMPARISON

	2013 Q1	2013 Q2
Office/R&D		
Santa Barbara	6.3% ▼	6.1%
Goleta	12.4% ▲	13.5%
Carpinteria	14.1% ▲	20.9%
Industrial		
Santa Barbara	1.3% ■	1.3%
Goleta	3.9% ▼	3.8%
Carpinteria	3.3% ▲	3.8%
Retail		
Santa Barbara	1.7% ▲	2.0%

Figures above represent
percentage points.

Mid-year marks: Apartments steal more spotlight; Q1–Q2 sales remain steady

Despite a lack of “game-changer” headlines during the first two quarters, there are a handful of developing stories that merit attention. Perhaps none more noteworthy than the sustained surge in popularity of the multi-family (apartments) market.

Given a host of factors, including historically low vacancy rates, there are an increasing number of investors in the South Coast willing to put cash on the table to scoop up apartment properties as soon as they hit the market. While interest is showing no sign of letting up, declining inventory may cool things off (*see pages 9–10 for more detail*).

Sales of office, retail and industrial property are holding their own this year with 29 transactions to date (including 15 in Q2), compared to 24 sales for the same period in 2012. The more interesting story is the dramatic increase in price-per-square-foot (*read more on page 2*).

On the leasing side, there has been relatively little significant shift from Q1 activity. The office sector continues to bloat as vacancy has jumped in Goleta and Carpinteria, to 13.5% and 20.9% respectively. Conversely, industrial vacancy remains in the low double digits throughout the market, while the average industrial lease rate in Santa Barbara has pushed up to \$1.49/SF in Q2. But perhaps the most curious anomaly during the quarter is the lack of a single lease of retail space in Santa Barbara above 3,000 sq. ft., despite the availability of 21 properties in the market that are that size or larger (*see page 7 for more on this*).

Q2 Highlight Transaction



“The Old Firehouse”, Montecito

The historic building located at 1486 East Valley Rd. sold in June for approx. \$16 million or \$2,500/SF. Union Bank will remain the long term tenant.

Market Notes

■ Santa Barbara County’s unemployment rate rose to 6.3% in June, up from May’s 5.6%, yet below the year-ago estimate of 8.8% and 7.8% nationally. Between June ‘12–June ‘13, total employment rose by 3,400 jobs. Leisure and Hospitality added 400 jobs in Q2, while Construction and Manufacturing also experienced growth.

■ Santa Barbara received \$4.65 million in sales tax revenue for the quarter ended March 31, 6.1% growth over the same quarter last year. Data is reported a quarter in arrears. Despite solid growth, the city has not reached its peak level achieved in 2007.

■ The City of Santa Barbara collected about \$1.55 million in transient occupancy taxes in June, 10% growth over the same month last year and the most the city has recorded in any June. June marks the final month in the city’s fiscal year, and TOT finished the year at \$14.68 million with an overall growth rate of 7.4% for the year.

SALES | COMMERCIAL

SO. COUNTY COMMERCIAL SALES — Q2 2013

Commercial sales for the market during the first half of 2013 were just off the 15-year average of 16 per quarter since 1998, but the 29 sales recorded still outnumber the 24 transactions for the same time period in 2012. Additionally, the second quarter improved slightly from the first quarter with 15 sales total.

Of those 15 sales, three were off-market transactions and four properties were bought by owner-users. This may represent a shift from the past year's trend of owner-user purchases to investors looking to capitalize on the improving market, and we will be watching closely to see if this storyline develops further.

Also of note, comparing Q2 2013 with the same period last year, there was a considerable change in total sales volume jumping from \$47 million in Q2 2012 to \$130 million in total volume this past quarter.

It is no secret the market is continuing to improve. That said, we think the real story coming out of the second quarter is the huge increase in average sales price per square foot, which has risen to \$420. To put it into perspective, that represents a 25% increase from the \$336 average price per square foot we saw in the first quarter of 2013. This large increase in sales price per square foot is due in large part to three landmark sales in Montecito.

The historic Old Firehouse located in the Upper Village sold for an impressive \$2,517 per square foot. It was purchased by US 3N LLC, an international fund who was focused on buying an income stream guaranteed by a credit worthy tenant. The prominent building is now occupied by Union Bank, formerly Santa Barbara Bank & Trust, who maintains a long lease that insures tenancy for years to come.

Continued on p.3

Q2 2013 Highlight Sales Properties

**Retail**

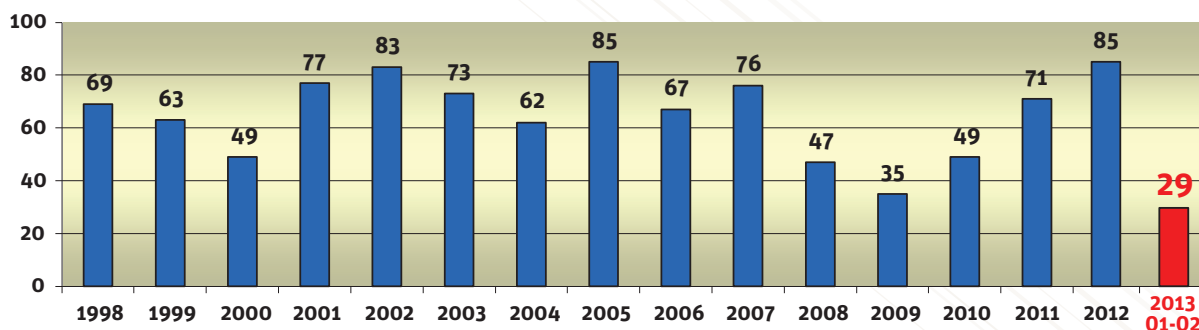
1101 Coast Village Rd., Montecito
5,366 SF
Asking Price: \$5,500,000

**Office**

1111 Coast Village Rd., Montecito
3,800 SF
Sold Price: \$3,190,000
Buyer: SLO Walnut LLC

Q2 2013 South Coast Commercial Sales Transactions

(Excluding Apartments)



SALES | COMMERCIAL

Commercial Sales, cont.

Additionally, the former Hayward building located at 1101 Coast Village Rd. sold for over \$900 per square foot to an LA investor who saw value in the irreplaceable asset. Radius is currently marketing the space for lease. A neighboring property located at 1111 Coast Village Rd., home to Smith Barney Morgan Stanley, also sold during the quarter to a local investor coming out of an exchange.

Beyond Coast Village Road and Montecito, notable sales this quarter include two hotels for a combined total of more than \$80 million. The larger was the sale of the Santa Barbara Hyatt for \$61 million, a deal that included the 200 room Hyatt (consisting of 171 hotel rooms on the main property, 24 rooms at the Parkside Inn and 5 apartments). Prior to the sale, Hyatt had completed a \$12 million renovation of the majority of its guestrooms and public spaces.

The other transaction involving hospitality property was the sale of a 160 room, full service hotel in Goleta for \$24 million. The hotel was sold without a franchise affiliation or management agreement included in the deal, although we have heard rumors the property will be managed by Kimpton Hotels.

Further south in Carpinteria, a revamped 1001 Mark Ave. sold for \$4.4 million at a 6.5% CAP rate. The office building had recently undergone \$1.7 million in renovations and is now occupied by lynda.com, an online video and tutorial company whose main corporate campus is located next door.

Even without the impressive Montecito sales, the average price per square foot was still up at \$345 per square foot compared to \$336 per square foot last quarter. As we predicted in the previous quarterly report, prices have been rising due to limited supply and high demand, which is just simple economics. Although we have seen price sensitivity due to the quick rise in interest rates that began in May, as we transition into Q3 we believe that the average price per square foot will continue to rise as the fundamentals remain strong.

Q2 2013 Highlight Sales Properties**Retail**

29-37 E. Victoria St., Santa Barbara

4,487 SF

Sold Price: \$2,600,000

Buyer: Tioga Holdings LP & Costa Villa LLC

**Industrial**

518 E. Haley St., Santa Barbara

9,572 SF

Sold Price: \$2,275,000

Buyer: Haley Partnership LLC

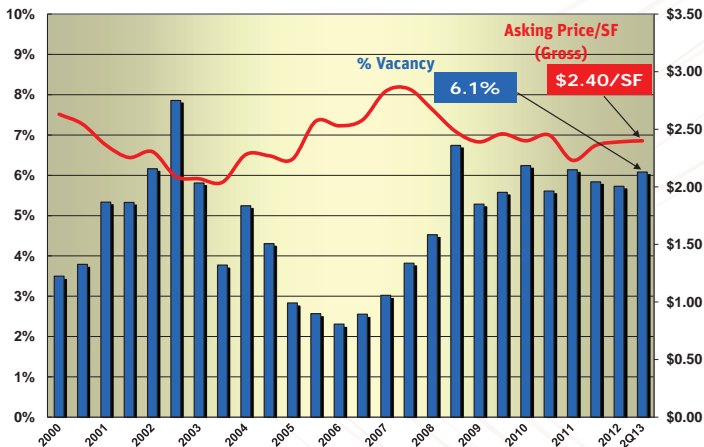
LEASING | OFFICE

SANTA BARBARA OFFICE — Q2 2013

While lease rates and vacancy remained relatively unchanged from the first quarter, the second quarter saw a number of larger office spaces lease after being on the market for a significant amount of time. Most notably Wells Fargo's lease of 118 E. Carrillo St. which had been on the market for nearly two years.

Another development is that a significant number of large, high-end office spaces became available during the second quarter. Right now if a tenant is looking for 5,000 to 8,500 square feet of space in the downtown area, they have 11 different spaces to choose from. For a market the size of Santa Barbara this is a great deal of space in this very tight category.

Santa Barbara Office | Q2 2013 Price vs. Vacancy Rate



Santa Barbara Office | Largest Available Spaces

Address	Size (SF)	Vacated By
419 State St.	27,100	Territory Ahead
901 Olive St.	14,400	Multiple Tenants
402 E. Gutierrez St.	10,800	El Puente Community Schl.
820 State St.	8,500	SB Asset Management

Santa Barbara Office | Q2 2013 Largest Leases

Address	Size (SF)	Leased By
118 E. Carrillo St.	10,600	Wells Fargo Bank
820 State St.	6,400	Axia
325 Chapala St.	5,300	Anasys Instruments Corp.
925 De La Vina St.	4,900	Nuveen Investments

Q2 2013 South County Highlight Leases — All Commercial Sectors



Office/Goleta
6144 Calle Real, 2nd Flr.
 14,200 SF
 Lessee: ALG, Inc.



Office/Santa Barbara
820 State St.
 6,400 SF
 Lessee: AXIA



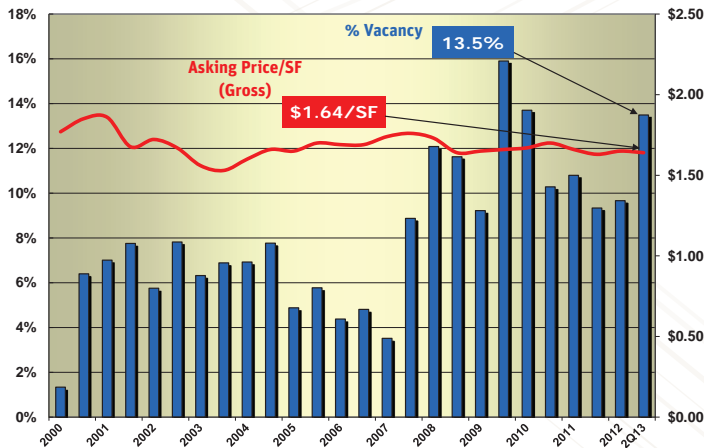
Industrial/Santa Barbara
1 N. Calle Cesar Chavez, #135
 8,200 SF
 Lessee: MoveGreen, Inc.

LEASING | OFFICE

GOLETA OFFICE — Q2 2013

Goleta's office market remained anemic with few new leases signed during Q2. Vacancy rose to 13.5% while average lease rates were flat. Market highlights remain the new 120,000 SF Deckers project in the Cabrillo Business Park and the Medtronic lease renewal of 82,000 SF at 125 Cremona Dr. With new vacancies coming online including Deckers' former 60,000 SF headquarters on the Fairview airport property and 20,000 SF of Yardi Systems space at 495 Fairview Ave., this rate is expected to climb in Q3. While there are a handful of tenants currently in the market for 2,000–5,000 SF space, there is an absence of pure office tenants for 10,000 SF+. Properties such as 6868 Cortona Dr. that also have industrial & R&D capacity should perform better versus pure office buildings such as the 86,000 SF building at 70 Castilian Dr. that Flir will be vacating in 2014. It is a trend nationally that office tenants are able to operate out of a smaller footprint with more open, collaborative space versus traditional private offices. With ample square footage on the market, tenants currently have the advantage and this is pressuring the average lease rate down.

Goleta Office | Q2 2013 Price vs. Vacancy Rate



Goleta Office | Largest Available Spaces

Address	Size (SF)	Vacated By
6868 Cortona Dr.	61,200	Calix, Inc.
1 S. Los Carneros Rd., 1-4	50,400	Multiple Tenants
30 S. La Patera Ln.	26,900	Multiple Tenants
420 S. Fairview Ave., 2nd Flr.	20,200	Yardi

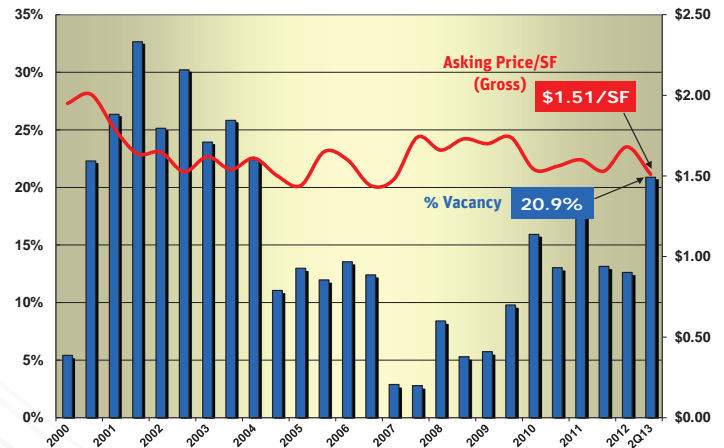
Goleta Office | Q2 2013 Largest Leases

Address	Size (SF)	Leased By
6144 Calle Real, 2nd Flr.	14,200	ALG, Inc.
26 Castilian Dr., A	5,500	AutoVitals, Inc.

CARPINTERIA OFFICE — Q2 2013

Carpinteria's office market comprises just over 500,000 SF, so the vacancy rate can change dramatically with the movement of one or two tenants. That is certainly the case now with Clipper Windpower vacating more than 32,000 SF of office space at 6305–6309 Carpinteria Ave. causing vacancy to jump to 20.9%. The market has also experienced a lull in new lease activity. The highlight office lease during the quarter was by Mission Control Tech for 2,100 SF at 5464 Carpinteria Ave. Other notable vacant space includes more than 26,000 SF (formerly occupied by Microsoft), also at 5464 Carpinteria Ave., which represents a significant opportunity for tenants to secure quality space at very favorable terms. Consequently, some Santa Barbara-based office tenants are exploring this market for expansion to take advantage of this value proposition. But with the absence of any large office tenants currently committing to new space, the vacancy rate of 20.9% could grow even higher in the coming quarters. We will continue to watch for signs of activity from other large tenants in the market such as CKE with their 80,000 SF+ headquarters on the bluffs.

Carpinteria Office | Q2 2013 Price vs. Vacancy Rate



Carpinteria Office | Largest Available Spaces

Address	Size (SF)	Vacated By
6305-6309 Carpinteria Ave.	32,800	Clipper Windpower
5464 Carpinteria Ave.	26,100	Microsoft
6307 Carpinteria Ave.	9,900	Clipper Windpower
1005 Mark Ave.	9,300	Celerus Diagnostics, Inc.

Carpinteria Office | Q2 2013 Largest Leases

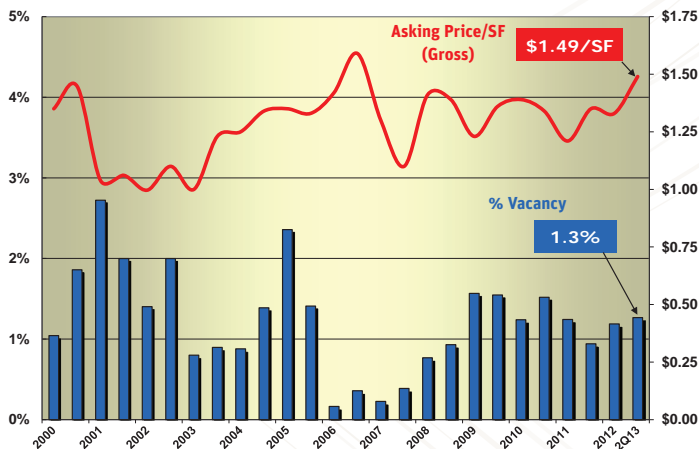
Address	Size (SF)	Leased By
5464 Carpinteria Ave., Ste. C	2,100	Mission Control Tech., Inc.

LEASING | INDUSTRIAL

SANTA BARBARA INDUSTRIAL — Q2 2013

During the 2nd Quarter Santa Barbara's Industrial sector saw lease rates increase to \$1.49/SF Gross. With limited inventory available or expected to come available in the near term, look for lease rates to hold steady. In addition to limited quantity, quality industrial space is just as sparse. A number of industrial tenants have been looking over a year without finding a suitable location to accommodate their growth. Appropriate access, parking, ceiling heights and loading remain challenges. Furthermore, the continued expansion of the Funk Zone will add even more stress to Santa Barbara's industrial sector as many industrial buildings continue to be converted into retail/tourist related businesses.

Santa Barbara Industrial | Q2 2013 Price vs. Vacancy Rate



Santa Barbara Industrial | Largest Available Spaces

Address	Size (SF)	Vacated By
734 & 740 Cacique St.	14,100	Armstrong Marble
1 N. Calle Cesar Chavez #7	11,100	The Futon Place
1 N. Calle Cesar Chavez #130	9,100	Bekins
617 N. Salsipuedes, Ste. B	6,600	Santa Barbara Glass Co.

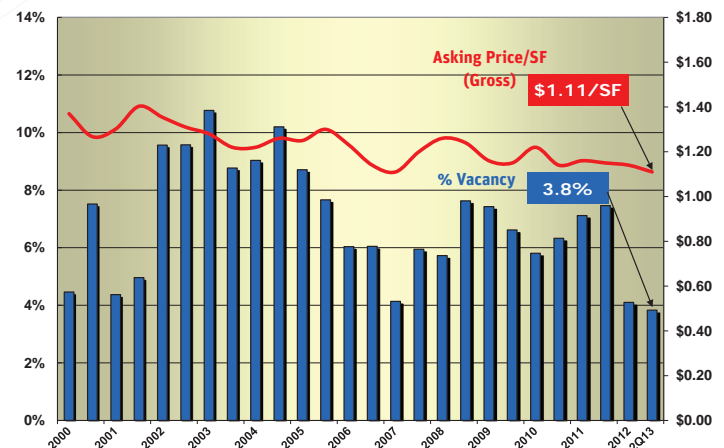
Santa Barbara Industrial | Q2 2013 Largest Leases

Address	Size (SF)	Leased By
531 E. Cota St.	8,900	Santa Barbara Dance Arts
1 N. Calle Cesar Chavez, #135	8,200	MoveGreen, Inc.
523 N. Milpas St.	5,000	Big Brand Tire Co.
118 E. Ortega St.	3,100	Sea Veas, Inc.

GOLETA INDUSTRIAL — Q2 2013

Unlike its office market, Goleta's industrial market is showing healthy signs with vacancy decreasing to 3.8% and stable average lease rates. Standout transactions in the industrial market this quarter include UCSB's expansion at 147 Castilian for 33,400 SF as well as Raytheon's lease renewal of 121,000 SF at 75 Coromar. With very few industrial spaces currently on the market, no other notable leases occurred during the second quarter. Currently there are numerous industrial tenants in the market for spaces 10,000–40,000 SF in size with very few options. While Cabrillo Business Park holds the only significant commercial project entitlements of pure office space, there is a clear shortage of industrial space in this market. We expect Goleta to remain stable with a slight increase of average lease rates. Demand may prompt new industrial developments with only a small handful of undeveloped parcels properly zoned for these uses.

Goleta Industrial | Q2 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
6725 Hollister Ave.	14,300	Multiple Tenants
475 Pine Ave.	11,800	Jds Uniphase Corp.

Goleta Industrial | Q2 2013 Largest Leases

Address	Size (SF)	Leased By
147 Castilian Dr.	33,400	UCSB

LEASING | INDUSTRIAL

CARPINTERIA INDUSTRIAL — Q2 2013

Carpinteria's industrial market performed well during the second quarter with a very similar narrative to the Goleta market. Highlight transactions include a new lease by Griplock Systems for 11,259SF at 1132 Mark Ave. and a lease renewal by Reality Carpinteria for 18,000SF at 5201 6th St. Large vacancies in the market include the 26,000SF former Magellan's distribution space at 5201 6th St. as well as 9,600SF at 1015 Cindy Ln. A slight uptick in the average lease rate to \$1.19 per square foot is positive news for industrial landlords. We expect this market to continue to be stable as long as there are no significant vacancies, and we do not expect any to occur in the coming few quarters.

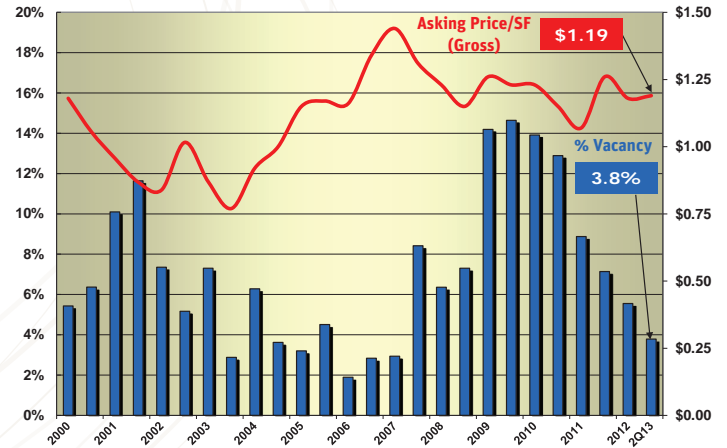
Carpinteria Industrial | Largest Available Spaces

Address	Size (SF)	Vacated By
5201 6th St.	26,300	Magellan
1105, 1115 Mark Ave.	10,200	Gigavac
1015 Cindy Ln.	9,600	Biosphere
1030 Cindy Ln., B	5,400	Unknown

Carpinteria Industrial | Q2 2013 Largest Leases

Address	Size (SF)	Leased By
550 Maple St., Ste. D	2,400	Kenny & Helen Ko

Carpinteria Industrial | Q2 2013 Price vs. Vacancy Rate



Q2 2013 Highlight Industrial Lease



147 Castilian Dr. Goleta

33,400 SF

Lessee: Regents of University of California, Santa Barbara

LEASING | RETAIL

SANTA BARBARA RETAIL — Q2 2013

Consider this: the second quarter of 2013 did not produce one single retail lease larger than 3,000 square feet in all of Santa Barbara. This is noteworthy as there are currently 21 retail spaces for lease in Santa Barbara larger than 3,000 square feet. That said, a number of large retail leases are currently in negotiation in the downtown corridor, and if a few of these leases are finalized soon we may see the vacancy rate tick below 2% during the third quarter. Even with Q2's limited activity there remains upward pressure on lease rates given the exceptionally tight market, so look for rates to continue to climb back toward 2007 levels.

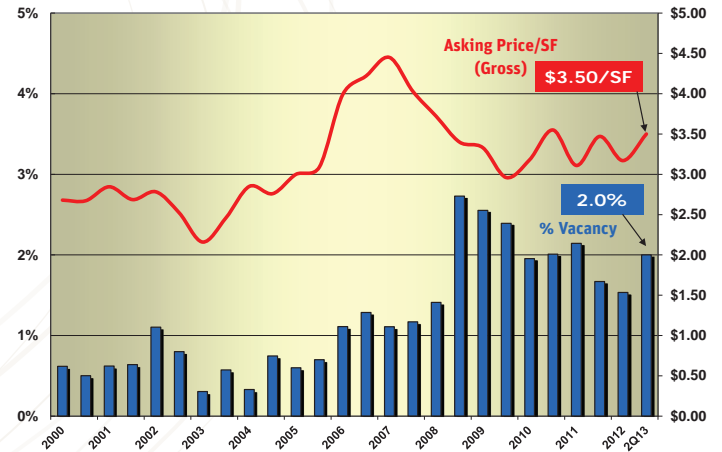
Santa Barbara Retail | Largest Available Spaces

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
1482 East Valley Rd.	9,600	Montecito Village Grocery

Santa Barbara Retail | Q2 2013 Largest Leases

Address	Size (SF)	Leased By
1221 Chapala St., 1st Flr.	2,800	The Orfalea Fund
4175 State St.	2,700	Marianna Sarkisova
1233 State St.	2,300	Onward Art & Design, LLC
3560 State St.	2,300	Little Rainbow Foot Spa

Santa Barbara Retail | Q2 2013 Price vs. Vacancy Rate



Q2 2013 Highlight Retail Lease



**4175 State St.
Santa Barbara**

2,700 SF

Lessee: Marianna Sarkisova

SALES | APARTMENTS

SOUTH COUNTY APARTMENTS SALES — Q2 2013

In the second quarter of 2013 the South Coast saw six multi-family transactions (5+ Units) involving a total of 117 units, compared to four transactions / 109 units during the same quarter in 2012.

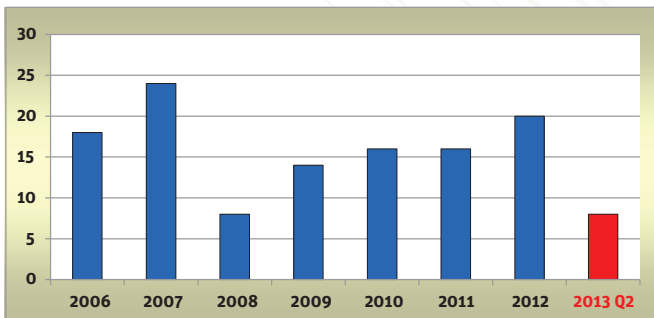
Overall activity in the market remains similar to the first quarter of 2013. There is little available and most of what is available is in escrow. Currently there are 12 properties on the market in the South Coast in the 5+ Unit category and six of those are in escrow.

Q2 South Coast Multi-family Sales Quick Stats

# Transactions (5+ Units)	6
# Units	117
Avg. \$/Unit	\$248,000
Avg. CAP	4.7%

For the six transactions during the 2nd quarter the average per unit price is approximately \$248,000 and the average CAP rate is about 4.7%. The CAP rate is indicative of the current market along the South Coast as the recent bumps in interest rates don't seem to be having negative impact on multi-family sales. However, we should watch closely as the second half of the year could see interest rates rise further, and depending on financing, buyers may see their options decrease when competing with the large number of cash buyers in the marketplace.

Q2 2013 South Coast Multi-family Sales Transactions



NORTH COUNTY APARTMENTS SALES — Q2 2013

Santa Barbara's North County has not experienced as much activity as the south, but that is largely due to a true lack of inventory. There was just one sale during the second quarter but five of the seven properties (5+ Units) currently on the market are in escrow.

Q2 2013 Notable Apartment Sales



6739 El Colegio Rd., The New Tahitian Apts.

- 63 Unit property in Isla Vista near UCSB
- Property closed for \$14.3 million with 5.65% cap rate and is the largest sale of a multi-family property in the market in 2013



1125 De La Vina St.

- 9 Units in Santa Barbara near downtown
- Closed for \$2.4 million at 4.63% cap rate



777-841 Boysen Ave., Boysen Square Apts.

- 36 Units in San Luis Obispo near Cal Poly
- Closed for \$5.8 million at 4.78% cap rate

As published in Noozhawk, the Pacific Coast Business Times and the Santa Barbara Independent

The New Tahitian changes ownership in rare Isla Vista sale

Notable transaction is largest multi-family sale in market this year. Investor demand for apartments remains at all-time high despite shrinking inventory in Isla Vista.

Santa Barbara, CA—The sale of the 63-unit New Tahitian Apartments located at 6739 El Colegio Rd. in Isla Vista closed June 13 for \$14.3 million, marking the largest sale by far of a multi-family property in the South Coast in 2013. The transaction is also the largest multi-family sale in Isla Vista since 2010.

“Apartments continue to be at the top of many real estate investors’ short list, but opportunities like this in Isla Vista are few and far between,” said Radius founder Steve Golis. Golis and Radius agents Brian Johnson and Jon Standring represented the seller of the New Tahitian. The buyer was represented by Evan Bank of Prudential California Realty, Monarch Beach Office.

Golis underscored The Tahitian’s close proximity to UCSB as one of the main selling points for the new owner, Capitoline Properties, LLC, a relatively new real estate investments company based in Santa Barbara with an office in Orange County.

“With UCSB’s large student population in the backyard, and Isla Vista’s high population density, second only to Manhattan, IV’s apartment vacancy tends to be among the lowest in California and the nation,” said Golis. “That translates to consistent rental income at premium rates, and that gets the attention of investors when a property of this size in this area comes to market.”

“We’re looking to build a portfolio throughout California,” said a representative from Capitoline. “We seized this opportunity because of its strong value add potential and the strength of the rental and real estate market as a whole.”

Shortly after the recession hit in late 2008, apartments became a hot ticket among investors and interest has remained strong. “It’s not uncommon to receive numerous offers from qualified buyers, including offers over the asking price and all cash,” said Golis.

“Apartments offer everything a conservative investor looks for,” said Golis, pointing to historically low vacancy rates (current vacancy in Santa Barbara County is just 0.94% according to the most recent Dyer Sheehan survey), attractive financing and a strong rental market.

And because of the popularity of the category, the market has tightened dramatically in the past few years. There have been just 11 multi-family sales in Isla Vista since January, 2011, versus 14 sales in 2010 alone, 11 in 2009 and 14 in 2008.

“Frequently commercial properties sell when there is vacancy in the building and owners aren’t generating any income to cover expenses,” said Golis. “There aren’t many apartments on the market right now because many are in a position where their properties are 100% leased and they are making money.”

The New Tahitian Apartments was built in 1962 and was branded as the New Tahitian Apartments in 2008 when it underwent an extensive \$1.6 million remodel.

“We plan on doing a full landscape as well as renovations to the pools and common areas,” noted the Capitoline representative.



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