

2014 QUARTERLY VACANCY COMPARISON

Q1 '14 Q2 '14

Office/R&D

Santa Barbara 4.3% ▲ 4.4%

Goleta 10.3% ▼ 7.6%

Carpinteria 11.4% ▲ 13.4%

Industrial

Santa Barbara 1.2% ▼ 0.7%

Goleta 3.2% ▼ 1.9%

Carpinteria 1.8% ▼ 1.0%

Retail

Santa Barbara 2.3% ▼ 2.1%

Figures above represented in
percentage points.

COMMERCIAL SALES SUMMARY

*...we are quite possibly on pace
to end the year with total sales
transactions in the high 90's...*

It seems the market cannot get any hotter, at least with regard to commercial sales.

The second quarter of 2014 came to a close with 27 sales, edging the very strong performance of 25 transactions during the first quarter, and bringing the first half of the year to 52 deals total.

This is the most prolific first half of a year on record, and we are quite possibly on pace to end the year with total sales transactions in the high 90's, which would also be the greatest number of annual sales we have seen since Radius began keeping records about 17 years ago.

Repositioned properties that were bought in the downturn for large profits are now being resold. This is creating an even more frothy market as the number of 1031 exchange buyers increases.

Two prime examples of properties that were bought within the last couple years and recently resold are the "Starbucks center" at 1046 Coast Village Rd. in Montecito and the "Citibank building" located at 3757 State St.



6550 Hollister Ave., Goleta
39,875 SF | 6.77 CAP Rate
Quietly marketed at \$14.2 Million

This fully renovated, corner office building at Hollister Avenue and Los Carneros Road recently traded for an undisclosed amount. The property, which remains fully leased for six more years to Cottage Hospital, was one of several purchased by a 1031 exchange buyer.

The Starbucks center had last been sold in December of 2012 for \$10.2 Million, and this April it was resold in an off-market transaction after anchor tenant Starbucks renewed at market rate. The \$14.5 Million resale marks the largest sale ever of commercial property on Coast Village Road according to our records.

The Citibank building on upper State Street in the Whole Foods shopping center was also purchased in 2012 by a local investor, and at the time it had 30% occupancy. The buyer then completely renovated both the interior and exterior of the building prior to inking any leases.

Continued on Page 2

COMMERCIAL SALES

Continued from Page 1

By the time the building renovation was completed, the vacant spaces had been leased to four different tenants and the building was then 100% occupied. Shortly thereafter the property was sold in an off-market transaction for \$9.8 million.

Another noteworthy sale involved the Class A office building located at 6550 Hollister Ave. The property was 100% occupied by Cottage Hospital and was one of several purchased by a 1031 exchange buyer coming out of a very large exchange in San Diego.

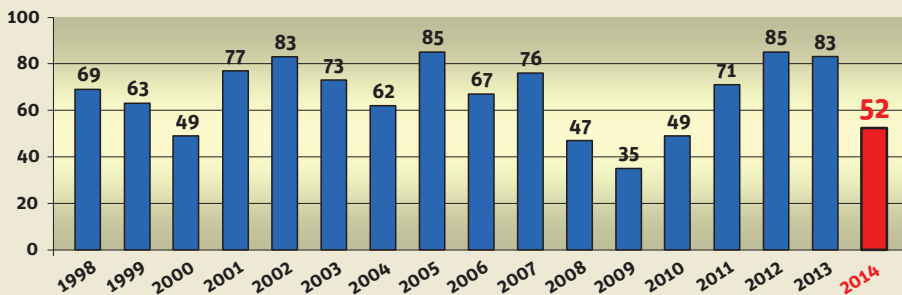
The big question is will interest rates hold?

If the 10 year treasury stays between 2.5%–3.0%, we are confident we will see the greatest number of commercial transactions recorded in Santa Barbara in the last 17 years.

Alternatively, if rates break 3% we will see a slow-down in the market similar to what we experienced in May of 2013. Time will tell, but we remain optimistic about the continued success of the South Coast as a prime investment opportunity market.

2014 Year-to-Date South Coast Commercial Sales Transactions

(Excluding Apartments)



The first quarter's 25 commercial sales combined with the 27 recorded in the second quarter represent the most deals in the first half of a year in the 17 years Radius has been keeping tabs on the market.



The Starbucks Center
 1046 Coast Village Rd., Montecito
 Retail | 29,800 SF | \$14.5 Million

Largest commercial sale ever recorded on Coast Village Road



The Citibank Building
 3757 State St., Santa Barbara
 Office | 20,000 SF | \$9.8 Million

Largest sale of office property on upper State Street since 2005

MULTIFAMILY SALES

SOUTH COUNTY

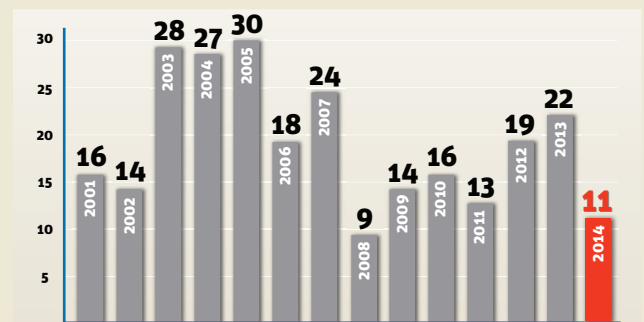
Sales of 5+ units were slightly quieter in the second quarter, but overall activity has remained very strong. By the end of June there were just three closed deals on the South Coast, yet there were 11 properties in escrow. Given that there are only 14 properties on the market overall, that means that by the end of Q2 there were only three properties with 5+ units available in the entire South County.

Highlight sales include the 23-unit Riviera Apartments at 813 E. Anapamu St., which was listed at \$6.5 Million, and two properties in Isla Vista, a 20-unit complex at 6631 Picasso Rd. and 36 units at 6754 Abrego Rd., which sold in an off market sale.

Year to date, there have been 11 sales of 5+ units along the South Coast. The average CAP rate has drifted slightly upward to 4.72% based on recent sales in Isla Vista weighting the average. Year over year there was more activity during Q2 2014: in 2013 there had been just eight sales of 5+ units, so 2014 has seen a nearly 50% increase in the first half of the year. We expect there to be between 8 and 10 sales during Q3 with CAP rates continuing to average between 4.6% and 4.8%.

Rental rates continue to rise along the South Coast based on strong demand and low vacancy. The vacancy rate continues to average around 1% for the Santa Barbara area compared to the national apartment vacancy rate of around 4.1% (based on reports from REIS). Santa Barbara rental rates continue to be the strongest, averaging between \$1,400 and \$1,800 for a one bedroom apartment depending on location.

YTD 2014 South County Multifamily Sales — 5+ Units



NORTH COUNTY

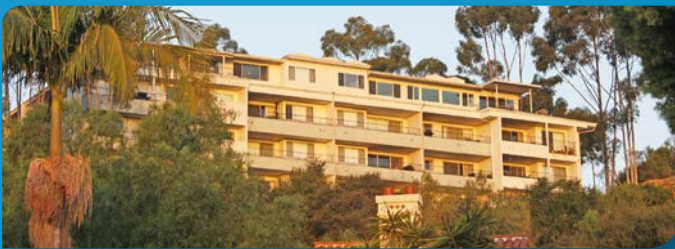
The northern part of Santa Barbara County slowed down in the second quarter because of the lack of inventory available. The only sale was a 20 unit complex at 710 W Alvin in Santa Maria. The property sold for \$2,025,000 and it was a situation where the complex will be remodeled and updated. There have been 7 sales for the year through the second quarter. Currently, there are 11 properties of 5+ units on the market and 4 of those are in escrow.

As 2014 progresses we expect further development with some new projects being built. This could help buffer rental rates as these will be higher-end projects in Santa Maria. Expect overall vacancy rates to remain in the low 4% range as the new units should be absorbed quickly if they come online in 2014. The market will remain active as there is a strong interest in the northern Santa Barbara market.

VENTURA COUNTY

The Ventura market saw four sales of 5+ units in Q2, same as Q1. There are about 12 properties on the market, four of which are in escrow. The market is similar to Santa Barbara County with more buyers than sellers, and a lack of good inventory means fewer sales with CAP rates dropping. CAP rates are ranging from the mid 4–5% range, which varies from market to market, higher in areas like Santa Paula and Oxnard and lower in Ventura.

Ventura County's vacancy rate is still below 3% and should hold steady through 2014. Rent growth is strong with an annualized rate of 5% from Q2 2013 to Q2 2014. Ventura, Simi Valley, Thousand Oaks/Westlake and Camarillo are seeing the highest growth. We expect 2014 to continue in this fashion, with more difficulty finding inventory and new supply muted. Several projects are either coming online or in the works but they should not have an appreciable effect on demand for rental housing in the area.



Riviera Apartments
813 E. Anapamu St., Santa Barbara
23 Units | Listed at \$6.5 Million

This four-story complex traded in one of the largest apartment transactions in Santa Barbara this year. The property, which sits at the base of the Riviera with stunning ocean and city views, received 17 offers from across the country, ultimately selling to a local investor with no contingencies.

LEASING

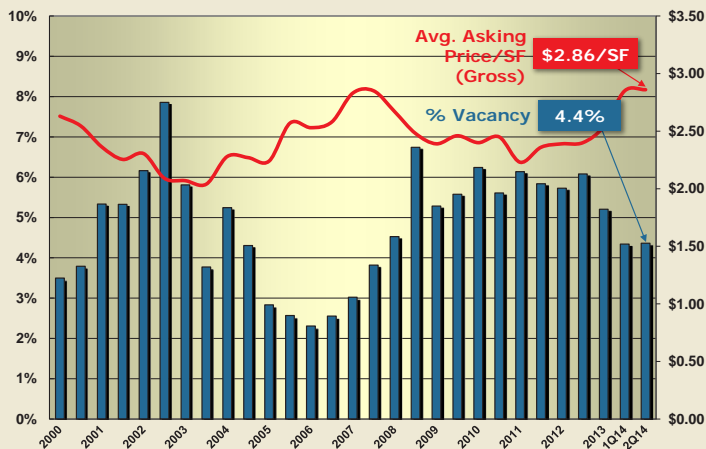
SANTA BARBARA OFFICE

Santa Barbara's office market remains virtually unchanged from Q1 with vacancy increasing slightly from 4.3% to 4.4%. Gross average asking rates rose slightly from \$2.85/SF to \$2.86/SF. The market has clearly been headed in the right direction since the 6.1% vacancy and the \$2.40/SF average asking rate reported a year ago in Q2 2013.

We continue to see tenants filling quality spaces of all sizes, and some that sat vacant for some time are receiving greater interest. The 9,800 SF building at 21 E. Carrillo St. was leased in a 33 year term to Monterey Building LLC who sees the opportunity to address the increasing need for small office space downtown. The Word of Life Church leased the 10,800 SF former El Puente School to take advantage of current rates.

If the market continues to tighten and rates continue to increase in Santa Barbara, it may be a good sign for Carpinteria and Goleta as tenants look to those markets to stay on budget.

Santa Barbara Office | Q2 2014 Price vs. Vacancy Rate



Largest Available Spaces

Address	Size (SF)	Vacated By
801 Garden St.	22,400	Sonos
4183 State St., 2nd Flr.	7,900	Service Master
200 E. Carrillo St., 202 & 203	7,700	Multiple Tenants
111 W. Micheltorena St.	5,700	Multiple Tenants

Q2 Largest Leases

Address	Size (SF)	Leased By
430 E. Gutierrez St.	10,800	Word of Life Church
21 E. Carrillo St.	9,800	Monterey Building LLC
1111 Chapala St., 300	7,500	Mission Wealth Management
360 S. Hope Ave., C200 & C210	5,900	Select Staffing



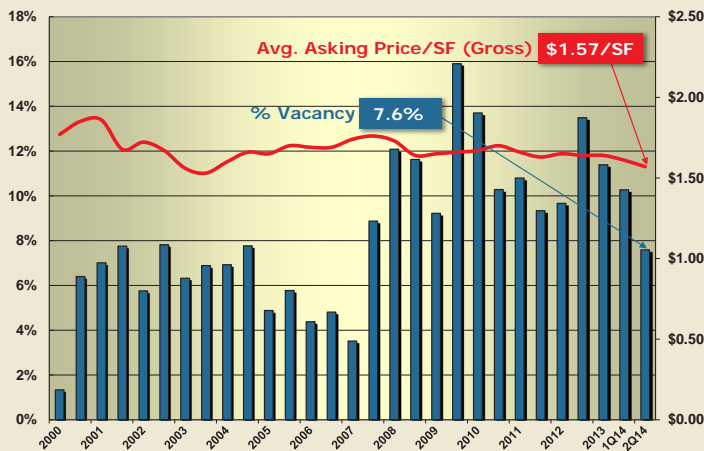
5390 Overpass Rd., Goleta

Industrial | 42,800 SF | Mammoth Moving & Storage

6800 Cortona Dr.
GoletaOffice
40,400 SF
Toyon Research Corp.21 E. Carrillo St.
Santa BarbaraOffice
9,800 SF
Monterey Building LLC6868 Cortona Dr.
GoletaOffice
29,500 SF
Isolite Systems530 State St.
Santa BarbaraRetail
11,500 SF
Samy's Camera

LEASING

Goleta Office | Q2 2014 Price vs. Vacancy Rate



GOLETA OFFICE

Goleta's office vacancy rate continued its descent to levels not seen since 2007.

Still, this reduction in vacancy will likely be short lived as there are a number of larger buildings coming available in the near future. FLIR will be vacating 85,000 SF on Castilian and Raytheon now plans to vacate 73,000 SF on Robin Hill in November of 2015.

Also, the approved office buildings in the Cabrillo Business Park will likely not have a major effect on vacancy as construction will not commence until they are leased or sold to owner-users.

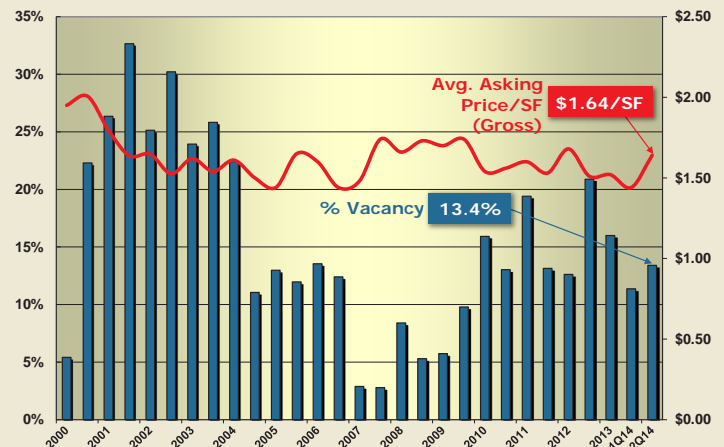
Largest Available Spaces

Address	Size (SF)	Vacated By
495 S. Fairview Ave., A & B	52,200	Deckers
120 Cremona Dr., B & C	26,900	Multiple Tenants
41 Aero Camino, A, B & C	20,300	CMC Rescue
5385 Hollister Ave.	17,900	Citrix Online

Q2 Largest Leases

Address	Size (SF)	Leased By
6800 Cortona Dr.	40,400	Toyon Research Corp.
6868 Cortona Dr.	29,500	Isolite Systems
420 S. Fairview Ave., 200	20,200	Sientra
111 Castilian Dr.	10,200	Packet Photonics

Carpinteria Office | Q2 2014 Price vs. Vacancy Rate



CARPINTERIA OFFICE

Carpinteria's office market was quiet in the second quarter with only one small lease for just under 600 SF of space located at 550 Maple St.

After some positive absorption due to Procore's growth on the bluffs, we saw the vacancy rate reverse direction, rising from 11.4% in Q1 to 13.4% in Q2, due to a new vacancy at 6185 Carpinteria Ave for about 12,350 SF. This space was vacated by Planned Member Services who remains in the building after reducing their square footage.

Further down the road, the approximately 70% vacant, 52,000 SF of office building at 5464 Carpinteria Ave. recently sold so we expect to see aggressive marketing efforts/terms to draw Santa Barbara based companies to Carpinteria.

Additionally, in early July CKE completed a two year lease renewal at 6307 Carpinteria Ave. in which they will retain only 50% of their 88,000 SF space. This should dramatically increase the vacancy rate given the market's relatively small supply of inventory.

Largest Available Spaces

Address	Size (SF)	Vacated By
5464 Carpinteria Ave.	26,100	Microsoft
6185 Carpinteria Ave.	12,350	Planned Member Services
1005 Mark Ave.	9,300	Celerus Diagnostics, Inc.
6398 Cindy Ln.	8,100	lynda.com

Q2 Largest Leases

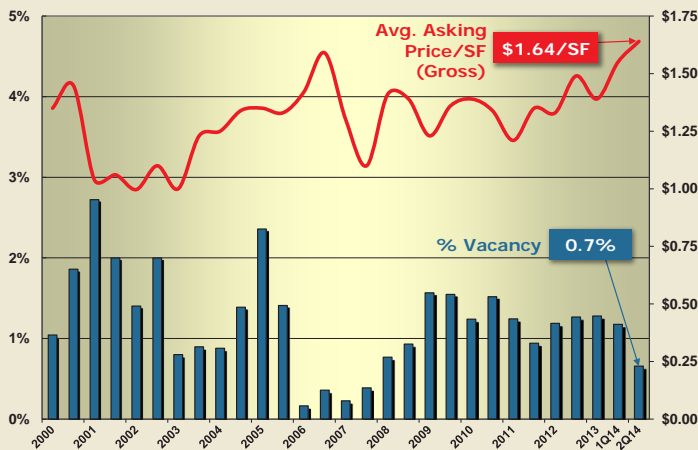
Address	Size (SF)	Leased By
550 Maple St., B	600	Dylan Chappell

LEASING

SANTA BARBARA INDUSTRIAL

The trend of little to no vacancy continues in Santa Barbara's tight industrial sector. Vacancy rates have now dropped from the first quarter's 1.20% to .7% in the second quarter. As a result of such little inventory and an increase in demand in a growing economy, average asking rates have jumped from \$1.55/SF to \$1.64/SF Gross. With little to no industrial development in Santa Barbara, we expect to see rates increase over the summer as the demand reaches new levels, driving more and more activity to Goleta or Carpinteria.

Santa Barbara Industrial | Q2 2014 Price vs. Vacancy Rate



Largest Available Spaces

Address	Size (SF)	Vacated By
619 Olive St.	8,200	Tileco
734 Cacique St.	6,000	Armstrong Marble
314 Edison Ave.	4,300	Owner
35 N. Calle Cesar Chavez	3,800	Muneno Tomio Woodworks

Q2 Largest Leases

Address	Size (SF)	Leased By
460 Ward Dr.	8,200	Arthrex
740 Cacique St.	8,100	Johnstone Supply
27 E. Cota St.	5,200	Sonos
412 N. Nopal St.	3,600	Architectural Millwork of SB

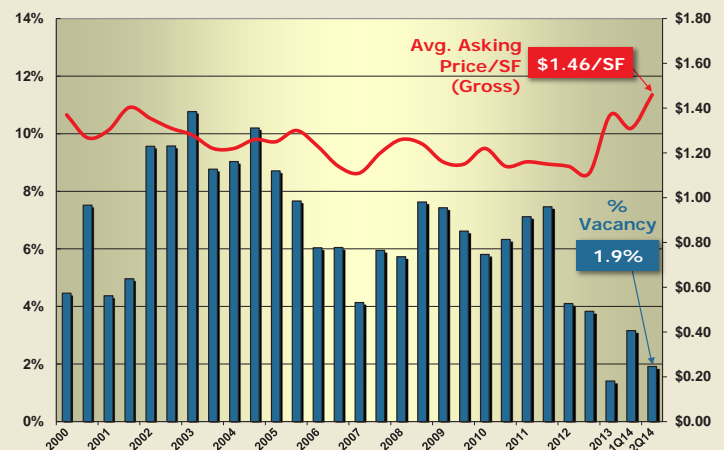
GOLETA INDUSTRIAL

Goleta's industrial sector remained below 2% vacancy during the second quarter of 2014, and as the rules of supply and demand would dictate, there has been a marked increase in the lease rates for industrial property.

A prime example is a 5,000 SF industrial building on Cortona Drive—which had previously been leasing at around \$0.75/SF NNN—just recently leased for \$1.10/SF NNN.

Each year industrial inventory on the entire South Coast shrinks as buildings are repositioned. Look for vacancy rates to remain at incredibly low levels for industrial space across the South Coast.

Goleta Industrial | Q2 2014 Price vs. Vacancy Rate



Largest Available Spaces

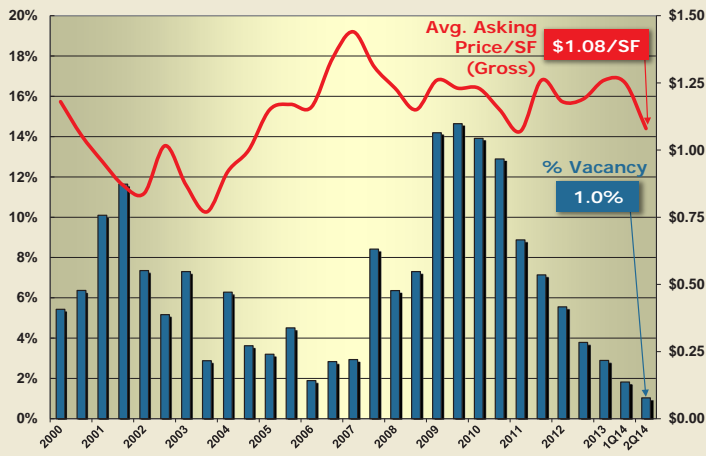
Address	Size (SF)	Vacated By
460 Ward Dr., D1, D2, E2, F	35,500	Superconductor Technologies
6860 Cortona Dr., B	12,400	GE
6780 Cortona Dr.	11,800	DuPont
163 Aero Camino	10,500	Kidde

Q2 Largest Leases

Address	Size (SF)	Leased By
5390 Overpass Rd.	42,800	Mammoth Moving & Storage
5737 Thornwood Dr.	8,500	Mahneke Enterprises, Inc.
163 Aero Camino	6,000	Amphenol Thermometrics, Inc.
6860 Cortona Dr., C	5,000	M Special Holdings, LLC

LEASING

Carpinteria Industrial | Q2 2014 Price vs. Vacancy Rate



CARPINTERIA INDUSTRIAL

There are just two vacant industrial spaces in Carpinteria that are currently available for leasing, driving the vacancy rate down to 1%, the first time it has been this low since tracking this market.

Only one industrial lease was executed this quarter for about 4,350 SF at 1030 Cindy Ln., taken by Santa Barbara Staging.

We expect this market to remain stable. However, there will be over 60,000 SF of space for lease on Cindy Lane coming available in 2015, and that will drive the vacancy rate back up. We expect to continue strong leasing demand in this market through the remainder of 2014.

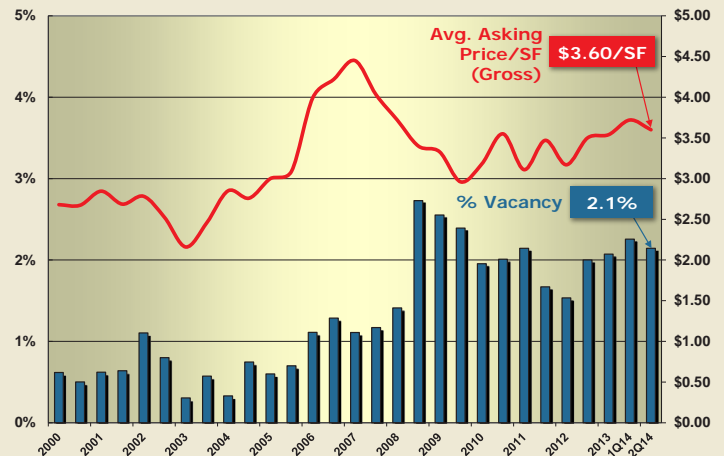
Largest Available Spaces

Address	Size (SF)	Vacated By
1010 Cindy Ln.	8,100	Matson
1030 Cindy Ln., B	5,400	Biosphere Industries

Q2 Largest Leases

Address	Size (SF)	Leased By
1030 Cindy Ln., C	4,400	SB Staging

Santa Barbara Retail | Q2 2014 Price vs. Vacancy Rate



SANTA BARBARA RETAIL

The retail vacancy rate and average asking rates have remained very stable from a year ago, rising slightly from 2.0% to 2.1% and from \$3.50/SF Gross to \$3.60/SF Gross respectively.

At the end of Q2 there were 77 spaces / 225,100 SF vacant and available for lease, with 69 in Santa Barbara and eight in Montecito and Summerland. The Mill project at Laguna and Haley alone comprised 14 availabilities.

The most telling statistic is the seven retail spaces leased during Q2, a 53% drop from Q1's 15 leases. The most significant deal involved the 11,450 SF space at 530 State St. leased by Samy's Camera.

In the near term, we see a continued trend of limited retail leasing and the increase of regional and national retailers that can afford to pay the higher rents to be located along prime retail corridors such as State Street.

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

Q2 Largest Leases

Address	Size (SF)	Leased By
530 State St.	11,500	Samy's Camera
528 Anacapa St.	3,300	Sleep Fit Corporation
911 State St.	2,200	Gold Elements

Reprinted from Pacific Coast Business Times Friday, July 11, 2014

Pent-up demand drives surge of deals on Chapala Street

With highly coveted square footage virtually unavailable on State Street in downtown Santa Barbara, many companies trying to stay in the market are gobbling up space on the nearby Chapala Street corridor.

There have been 29 deals on Chapala Street in the past 18 months, with 15 sales and 14 leases, according to data from Radius Commercial Real Estate & Investments. Seven of those deals closed in the first quarter of the year, on par with the eight deals that closed in the same period in 2013.

“Chapala has always been an attractive corridor. Activity was slowed down by the recession, but interest in space there started before the recession,” said Austin Herlihy, a broker with Radius who has negotiated a number of the deals on Chapala. “Prior to that it used to be a ghost town there.”

Credit for the Chapala corridor surge goes to the emergence of Santa Barbara’s Funk Zone, a food, wine and art hotspot that continues to grow, and the development of a handful of multifamily residential projects, he said.

At 517 Chapala St., a fully entitled eight-unit condo project recently went into escrow. “We could not sell that type of project five or six years ago,” Herlihy said. The 11,500-square-foot property was listed for about \$2.7 million, according to Loopnet.

And most of the [commercial] condo units at 401 Chapala St., known as Sevilla, have also been sold.

Music gear maker Sonos has leased more than 30,000 square feet of office and R&D space on Chapala Street. Further up the road, the new Santa Barbara Public Market and adjacent Alma Del Pueblo condominiums are generating a lot of buzz and foot traffic.

All of that activity has been instrumental in driving interest to the corridor, and that’s fueled even more leases for infill office space from other tech industry firms, commercial real estate insiders say.

Over the past 15 months, tech-related companies including Sonos, Tapjoy, Invoca, Affinity Biosensors and Anasys Instruments have accounted for approximately 32,888 square feet of the 43,709 square feet of commercial space leased. Sonos and Tapjoy accounted for more than 10,000 square feet of the 14,200 square feet leased in the first quarter of 2014.

The leasing of the various-sized spaces has had a big impact on vacancy in Santa Barbara’s overall downtown core. At the beginning of 2013, the downtown vacancy rate was 6.3 percent. The most recent figure sits at roughly 4.3 percent, according to Radius data.

Declining vacancy has pushed gross asking rates to \$2.85 per square foot, the highest level since 2007.

Asking rates remained relatively flat between 2009 and the beginning of 2013 but have been on a steep upward trajectory since then. For neighboring markets, that could be good news. Radius brokers believe that higher rents in Santa Barbara could help drive interest in lagging ancillary markets as some tenants look for cheaper space in Goleta and Carpinteria.

“The first quarter of 2014 was undoubtedly the strongest first quarter we have seen in three years. The 23 commercial sales recorded easily trumps the first quarter of 2012’s 11 deals and the first quarter of 2013’s 14 transactions,” [Radius said in a statement]. “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.”

Of the 27 commercial sales recorded in the second quarter of 2014, Radius was instrumental in 17, more than any other brokerage.



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