

## COMMERCIAL SALES SUMMARY

# Fundamentals Remain Strong Into 2nd Half of Year

The second quarter of 2016 came to a close with 23 sales, one short of the first quarter's strong haul of 24 transactions, and bringing the first half of the year to 47 deals total. In fact, the first half of the year was only 5 transactions shy of tying the first half of 2014, the most prolific first half of a year Radius has recorded.

Total sales volume for the quarter was approximately \$72 Million with the largest sale being an approximately 12.5 acre land property in Goleta that sold in April for \$13.5 Million. At the midyear point, overall sales volume was approximately \$201 Million in comparison to \$157 Million during the same period last year. This represents a 28% increase in total sales volume year over year.

Q2 2016 SOUTH COAST COMMERCIAL SALES



\*Excluding sales of apartments. \*\*18-year average = 70 sales/year.

[Commercial Sales Continued on P.2](#)

### 2016 Quarterly Vacancy Comparison

	Q1 '16	Q2 '16
<b>Office/R&amp;D</b>		
Santa Barbara	3.4% ▲	4.0%
Goleta	9.0% ▼	8.3%
Carpinteria	1.0% ▼	0.3%
<b>Industrial</b>		
Santa Barbara	0.4% ▼	0.1%
Goleta	5.5% ▼	4.4%
Carpinteria	2.5% ▼	1.5%
<b>Retail</b>		
Santa Barbara	1.9% ▼	1.4%

Figures above represented in percentage points.

### Santa Barbara Office

The office market in Santa Barbara remained largely unchanged during the second quarter of 2016 with the vacancy rate at 4.0% and the average gross asking rate at \$2.88/SF. The largest lease of office space in the quarter was a sublease of roughly 8,500 SF at 820 State St. with LogicMonitor subleasing from Sonos. The largest space currently available in the market is roughly 10,000 SF of modern, high tech office space at 10 E. Yanonali St. in the Funk Zone. There are a number of pending leases on larger spaces that should be signed during the start of the third quarter. It will be interesting to see how the opening of two office incubator complexes (Regus and Impact Hub) may affect the small office market.

[Leasing Continued on P.3](#)

## LEASING SUMMARY

SANTA BARBARA OFFICE | AVG. ASKING PRICE & VACANCY RATE



## COMMERCIAL SALES SUMMARY

*Continued from P.1*

Driving factors continue to be an improving economy, all-time low interest rates and high demand with 1031 exchange buyers leading the charge. These fundamentals remain strong so look for momentum to continue into the third quarter.

### Notable Q2 Sales

#### 6701 Hollister Ave. | \$7,255,500

This approx. 3.72 acre parcel in the Cabrillo Business Park adjacent to the Deckers campus was purchased in early April by the maker of footwear and outdoor gear who may have plans to eventually expand their operation into the vacant land.

#### 601-725 S. Kellogg Way | \$13,500,000

This approx. 12.5 acres parcel near old town Goleta was in escrow while the buyer City Ventures worked through the entitlement process. The property just received entitlements for 175 solar powered homes and subsequently closed per the contract as an entitled development.

#### 121 E. Arrellaga St. | \$6,200,000

Perhaps the highest profile sale and the least publicized was the May sale of the iconic boutique hotel, the Simpson House Inn. Built in 1874, the first class asset, considered one of the most distinguished Victorian Era estates in California, features a total of 13 guest rooms and a two bedroom managers quarters, including suites in the beautiful home, a restored carriage house from 1878 and four charming cottages on almost an acre of English gardens.

**SOLD | SIMPSON HOUSE INN**

**121 E. ARRELLAGA ST., SANTA BARBARA | \$6.2 MILLION**



**SOLD | 6701 HOLLISTER AVE., GOLETA | \$7,255,500**

#### 6351 Carpinteria Ave. | \$6,000,000

Often considered the entrance to Santa Barbara and Carpinteria, this approximately 21.5 acres bluff overlooking Rincon Point and the Pacific Ocean (once a proposed hotel development) apparently will forever remain open space. In June, the Land Trust for Santa Barbara County along with help from Citizens for the Carpinteria Bluffs purchased the property for \$6,000,000.

### National Real Estate Trends

Nationally, most real estate experts remain cautiously optimistic that current momentum will continue into 2017, perhaps even into 2018. According to Co-Star, the U.S. office vacancy rate ticked down another 15 basis points to 10.6% in the second quarter of 2016, well below the long-term historical vacancy rate of 11.3%. CoStar analysts expect the office vacancy rate to continue trending lower before bottoming out at around 10.2% in 2018, about the same as the lowest point of the last real estate cycle.

“Basically, we expect to have two more years of occupancy recovery in the office market,” noted Walter Page, CoStar’s director of office research. In our research, it appears many real estate experts feel confident about the current market citing strong fundamentals, after a six-year run of recovery, there also is a measured tone of cyclic expectancy and a gathering sense that a slowdown is a sign of a healthy market correction. Cycles aside, it seems as long as unemployment levels and interest rates remain low, and global economic uncertainty such as Brexit continues to attract foreign investors to the comparatively stable US economy, the commercial real estate outlook nationally remains positive into 2017.

*Source: CoStar*

SOUTH COAST LEASING SUMMARY

Continued from P.1

**Carpinteria Office**

Carpinteria’s office vacancy remained near zero for the second consecutive quarter, with a little more than 1,500 SF available in the market as of this report. In the near term it does not appear the vacancy rate will change dramatically. Hopefully the lack of expansion space does not force growing local companies to relocate elsewhere. The Goleta office market may become the beneficiary of the lack of space in Carpinteria.

**Goleta Office**

Much like Santa Barbara and Carpinteria, Goleta’s office market remained largely unchanged during Q2 with little notable activity. A few large vacancies continue to sit on the market and represent the majority of the vacancy rate. We do expect to see movement on some of the larger spaces in Q3 and Q4 as Carpinteria and Santa Barbara fill up and some companies look to expand into campus style office spaces.

**Santa Barbara Industrial**

Santa Barbara’s industrial market has traditionally maintained the lowest vacancy in the South Coast. It did not fail to impress with another drop in vacancy to 0.10% nearing 2014’s all time low. There is currently just one vacancy of 4,280/SF at 104 E. Haley. The largest notable lease of Q2 was 10,790 SF at 430 E. Gutierrez to Sun Potion, LLC. This low vacancy trend is not expected to change over the next quarter primarily due to continued strong demand by industrial users. We also continue to see pressure resulting from change of uses such as retail and residential development.

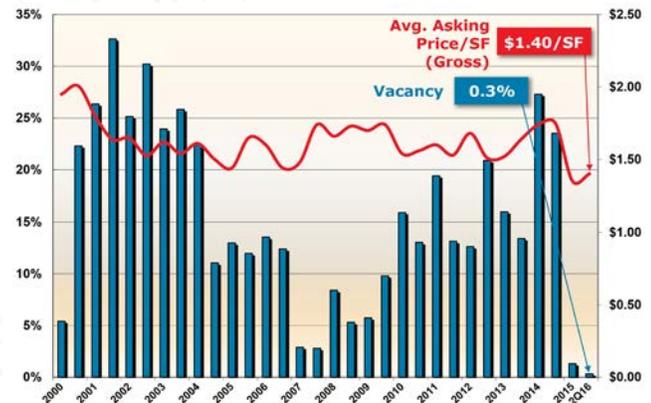
**Carpinteria Industrial**

Carpinteria’s industrial vacancy continued downward in Q2 to 1.5%. There were just three industrial leases during the quarter, the most notable occurring when Procore, one of Carpinteria’s larger office tenants, leased 28,800 SF of warehouse space at 6385 Cindy Ln., formerly occupied by Forms+Surfaces. There is no indication vacancy will change significantly for the remainder of the year.

Leasing Continued on P.4



CARPINTERIA OFFICE | AVG. ASKING PRICE & VACANCY RATE



GOLETA OFFICE | AVG. ASKING PRICE & VACANCY RATE



SANTA BARBARA INDUSTRIAL | AVG. ASKING PRICE & VACANCY RATE



LEASED | 6385 CINDY LN. BUILDING C  
CARPINTERIA | INDUSTRIAL 28,800 SF

One of the largest leases of the quarter involved this high bay warehouse, former home of Forms+Surfaces

SOUTH COAST LEASING SUMMARY

Continued from P.3

**Goleta Industrial**

Goleta's industrial market followed suit with the other South Coast sub-markets dropping in vacancy from 5.5% to 4.5% in Q2. There were four leases during the quarter, the largest at 132 Robin Hill where 8,282 SF leased to Graphicink. Currently there are just nine available spaces in the Goleta market ranging in size from 105,000 SF to 3,651 SF. In fact five of the existing spaces for lease are under 10,000 SF. With such low inventory and continued demand we do not anticipate vacancy will change over the next quarter.

**Santa Barbara Retail**

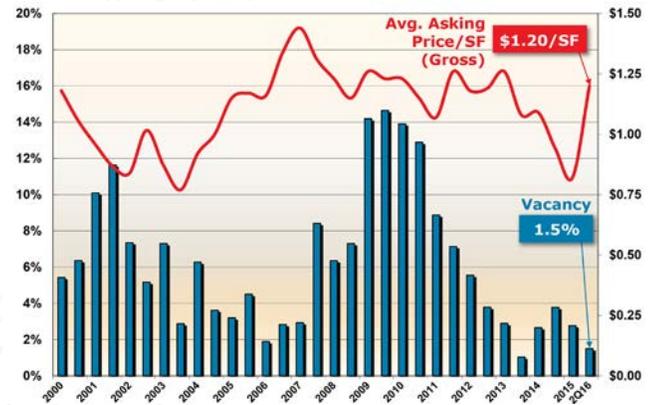
The retail sector has seen some improvements from a year ago. The amount of space available for lease has begun to decrease ever so slightly. There was 150,673 square feet of inventory at the end of the 2nd Quarter 2015, whereas that number has dipped to 143,120 square feet at the end of the 2nd Quarter 2016. The current inventory for lease represents 53 different locations for retailers to choose from.

The vacancy rate for retail in Santa Barbara (Montecito and Summerland included) has held steady at a very low rate of 1.4%, as it was a year ago. The Average Gross Asking Rate increased a healthy 10% from \$3.82/SF in 2nd Quarter 2015 to \$4.21/SF at the end of this 2nd Quarter.

There were 25 leases signed during 2nd Quarter 2016 for a total of 77,626 square feet. That's a whopping 79% increase in the number of leases signed from the previous quarter's 14 transactions. A major portion of the space absorbed was Trader Joe's 22,000 SF sublease from Fresh Market at 222 N. Milpas St.



CARPINTERIA INDUSTRIAL | AVG. ASKING PRICE & VACANCY RATE



GOLETA INDUSTRIAL | AVG. ASKING PRICE & VACANCY RATE



SANTA BARBARA RETAIL | AVG. ASKING PRICE & VACANCY RATE



SUBLEASED | 222 N. MILPAS ST., SANTA BARBARA  
RETAIL | 22,000 SF | TRADER JOE'S

## MULTIFAMILY SALES SUMMARY

## South County

## Q2 Quick Facts

CAP Rates 3.55–4.1% | 13 Sales of Properties 5+ Units | 50% of Sales Off Market | 9 Properties In Escrow  
 Apartment financing remains readily available with several local banks competing for these loans.

The 2nd Quarter of 2016 saw a flurry of activity as buyers took advantage of off market transactions across the South Coast. Almost 50% of the second quarter's 13 sales of properties 5+ units in size were for properties that were not being actively marketed. This is an uptick in a trend we've seen recently where buyers are not content to wait for something to come to market and face bidding against large numbers of buyers. They're proactively seeking potential deals, and owners that might be sellers are able to take advantage of situations where buyers are willing to work with sellers to give them extra time to find replacement properties to exchange into. Additionally, while interest rates remain at historic lows, we continue to see buyers willing to utilize an all cash option as a means of making their offers more attractive to sellers. All of these factors have helped keep CAP rates at approximately 3.55% to 4.1% on most sales for the 2nd Quarter.

With nine properties currently in escrow and only two properties currently available for sale it would be a safe bet this off market trend will continue as the appetite for product remains strong.

Vacancy rates remain low despite there appearing to be some impact on the market with the enforcement of the vacation rental ban by the City of Santa Barbara and other municipalities. There were some concerns that owners returning their properties to rental stock could impact prices in a downward direction. We saw a slight slowdown in late 2015 and early 2016, but since then rates have continued to inch upward and vacancies do not appear to be an issue. Vacancy for South County remains extremely tight with all areas remaining at or around 1%.

There have been a lot of concerns recently with what could happen with Santa Barbara's Average Unit Density (AUD) program that would allow an increase in the density of housing units built in certain areas of the city. It has been a very popular program so far. Research shows that there have been building permits issued for projects containing over 175 units with over 250 more in early planning stages. The city set an initial limit of 250 units so it will be up to the city to determine whether they extend that program. The large number of submittals is proof that there is a definite need for additional housing, especially workforce housing, in the area.

*Multifamily Continued on P.6*

Q2 SALES TRANSACTIONS (5+ UNITS)



Q2 NOTABLE TRANSACTIONS

- ⌘ **309 W. Canon Perdido St. & 301 Ocean Ave., Santa Barbara (2-Property Portfolio) | 35 Units**  
 Closed 5/3/16 for \$9,700,000  
 \$277,143/Unit | CAP Rate 3.41%  
 Off Market & Local Buyer
- ⌘ **222 W. Micheltorena St., 20 W. Valerio St. & 411 Corona Del Mar, Santa Barbara | 28 Units**  
 Closed 5/17/16 for \$7,795,000  
 \$278,393/Unit | Off Market & Local Buyer
- ⌘ **6509 Seville Rd., Isla Vista | 10 Units**  
 Closed 4/26/16 for \$3,425,000
- ⌘ **1407 Bath St., Santa Barbara | 6 Units**  
 Closed 5/26/16 for \$1,475,000

## MULTIFAMILY SALES SUMMARY

**North County**

The North County of Santa Barbara continues to attract buyers, particularly Santa Maria and Lompoc which both continue to see an increase in activity in 2016. The North County notched 13 total transactions in the second quarter with two (2) transactions of 5+ Units and (11) transactions of 2 – 4 units. CAP rates are averaging approximately 4.5%.

There are currently 136 units in Lompoc/Vandenberg Village which will be closing in the next quarter. Notable Q2 sales include 7 Units at 415 5th St., Lompoc, which sold for \$1,150,000, and 5 Units at 126 N. M St., Lompoc, which sold for \$475,000.

**West Ventura County**

The 2nd Quarter saw a slight slow down in the overall number of units sold in Ventura County. There were eight transactions of 5 units or more during the quarter with the largest sale being ten units at 5230 Driftwood St. near the shores in Oxnard for \$2,525,000.

Available inventory consists of 10 properties with three of them currently in escrow. Of those 10 properties, six are 20 units or more in size. There is very little available in the 5–9 unit range currently. The demand remains strong, but sellers in the Ventura area

seem to be even more averse to letting go than in the Santa Barbara area. We continue to see low vacancy rates in Ventura County, remaining below 3% overall for the area. We also continue to see CAP rates shrink as more and more investors from the Los Angeles area look northward to Ventura for better returns.

CAP rates continue to hover in the mid 4% range but the numbers will vary depending on the area of Ventura County where the majority of transactions occur. Ventura, Camarillo and the areas over the grade tend to have lower CAP rates while Oxnard and Port Hueme typically have rates between 50 and 100 basis points higher.

**In Summary**

Multifamily sales activity and values for quality assets are expected to continue to increase as individual and institutional investors compete for the most desirable properties.

Multi-family activity will remain strong in 2016 and property owners who have been holding on to properties might want to think about a deal this year. Given the fact that the number of buyers continues to far outweigh sellers, we are anticipating current trends to continue.

# Natural Fit.

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