The second quarter of 2017 came to a close with 18 sales, considerably short of the first quarter’s strong haul of 31 transactions which was the strongest first quarter we have seen in the last 18 years. This brings the first half of the year to 49 total deals. That said, the first half of the year was only 4 transactions shy of tying 2014 for the most prolific first half we have ever recorded.

Total Q2 sales volume was approximately $69.5 Million. The bulk came from the year’s largest sale to date, a ±105,257 SF office/industrial building at 71 S. Los Carneros Rd. which sold for $24 Million. At the midyear point, overall sales volume is slightly higher at approximately $203 Million in comparison to $201 Million during the same period last year.

**Trends**

We remain at the mercy of limited inventory so quality and/or unique properties are getting the most attention and cap rates, for the most part, are staying in the 4–5% range for leased properties. Interestingly no one property category dominated as sales were almost equally divided between industrial, office, retail and even land. Driving factors continue to be an improving economy, low interest rates and high demand with investors leading the charge accounting for 67% of transactions followed by owner-users accounting for 33% of transactions this quarter. These fundamentals remain strong so look for momentum to continue into Q3.

Hotels are still showing mixed results measured month-to-month in comparison to last year, but overall Transient Occupancy Tax (TOT) is up roughly 3% from July 2016 to June 2017. We should see some interesting results over the next few months as the 121 room Californian Hotel comes online.

**Notable Q2 Sales**

**71 S. Los Carneros Rd., Goleta | $24,000,000**

This ±105,257 SF freestanding Office/R&D building which sits on 10.2 acres was formerly occupied by Allergan, who spent millions on tenant improvements before abruptly vacating. The property is in excellent condition, comprises 255 parking spaces and offers one of the best office/R&D locations on the South Coast. The project known as Campus Pointe was purchased by local investors in May for $228/SF.

Apeel Sciences, a natural plant-based technology company, signed a sublease for the entire building in April (the quarter’s largest lease). Launched out of UC Santa Barbara, Apeel designs and manufactures odorless, tasteless and invisible coatings out of food particles that protect produce from pests, water loss and oxidation and extend their shelf life. In December, the company closed a Series B funding round led by Andreessen Horowitz and Tesla backer DBL Partners, netting $33 million. Apeel now has room to grow and roughly $10 million of new lab equipment to power that growth.
Continued from P.1

6402 Cindy Ln., Carpinteria | $16,952,946
This ±57,413 SF office building which sits on 3.5 acres was purchased by LinkedIn Corporation in April for $295/SF with an in-place CAP Rate of 5%. LinkedIn, who signed a lease for ±25,665 SF of the property in Q1 2016, decided to purchase the property almost one year later. The purchase price was reduced by a Tenant Improvement Allowance owed to LinkedIn. The property is rumored to be a future recreation facility for employees.

635 E. Gutierrez St., Santa Barbara | $2,577,000
The ±7,534 SF industrial property was purchased in early June by a local investor in a 1031 exchange transaction that garnered $342/SF. The corner location allows access to both Gutierrez and Quarantina Streets.

South County
Not much (if anything) has changed over the last few months in the Multifamily investments sector, with the 2nd Quarter continuing the trend of historically low availability despite high demand for apartment properties. Exchange buyers remain eager for large assets and there is really no product. In the 5+ unit category, for example, there are only a handful of buildings available. Overall sales for the quarter totaled 27 with just two properties larger than five units, bringing the total of 5+ unit sales to eight. In contrast, there were 17 sales of 5+ unit properties during the same time last year.

In the rental market we are seeing “luxury” units enter the market fetching mortgage payment-type rents. The Marc on upper State Street, for example, started leasing their luxury apartments at the beginning of the year, offering one, two and three bedroom units. These units are on the small side as the focus is on common area amenities such as outside seating areas, resident lounge and fitness center.

The American dream of owning a home has shifted for Millennials and really isn’t as much of a priority as the ability to move freely from place to place without being tied to a mortgage. Baby Boomers, along with empty nesters, are also among those likely to downsize to enjoy more flexibility. All of this is fueling the rental markets.

Santa Barbara continues to have an incredibly low vacancy rate and we are seeing rents for a one bedroom/one bath unit running from approximately $1695 to $1975 depending on location.

Highlight Sales
• 316 W. Valerio St., Santa Barbara — $2,350,000, 8 units (6/16/17)
• 2676 Glendessary Ln., Santa Barbara — $2,270,000, 6 units (4/12/17)

Multifamily Sales Continued on P.3
Continued from P.2

• 1318 Alta Vista Rd., Santa Barbara — $2,080,000, 2 units (6/12/17)

It’s worth noting that the much sought after Isla Vista submarket had just two sales during the 2nd Quarter: 6670 Sueno Rd., $2,050,000, 2 units (6/30/17) and 6753 Sabado Tarde Rd., 2 units, $987,500 (6/30/17). We do expect to see more activity in Isla Vista during the third quarter.

North County
Activity in North County saw 13 sales in Guadalupe, Lompoc and Santa Maria during Q2, with eight of those sales in the 5+ units category. Investors and 1031 exchange buyers are finding their way to North County looking for product. Currently there are just four larger properties on the market.

Highlight Sales
• Valentine Court I, 280 E. New Love Dr., Santa Maria — $3,880,000, 35 Units (5/16/17)
• 4547 11th St., Guadalupe — $1,300,000, 10 units (4/21/17)

Ventura County
Apartments are on a roll as demand continues to hold strong, and like most areas, the supply just has not been there to satisfy investors. Just as with Santa Barbara County, exchange dollars are looking for places to park. For the quarter there were a total of 11 sales in the market with 10 in the 5+ unit range. Ventura’s rental vacancy is also extremely low, making the demand for apartments robust. Sales activity and values for quality assets are expected to remain strong and owners who have been holding on to their properties may want to think about a deal this year.

One of the largest sales in the county was a Simi Valley portfolio including The Villas (372 units) and the Overlook (132 units). Both properties are located in the Wood Ranch master planned community and were purchased by LA based Decron Properties. Decron has been actively acquiring value-add units and renovating these aging apartment communities in well located supply constrained markets.

Highlight Sales
• 241 & 649 Country Club Dr., Simi Valley (Portfolio Sale) — $141,400,000, 504 units (5/30/17)
• 1675 Chapel Dr., Camarillo — $7,725,000, 40 units (6/15/17)
• 10990 Del Norte, Ventura — $5,300,000, 27 units (6/30/17) Off Market
• 138 N. Crimea St., Ventura — $2,070,000, 8 units (5/31/17) Multiple-bid situation

The Villas & Overlook, Simi Valley, $141 Million
**Quick Stats**

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**Office**

Santa Barbara’s office vacancy remains consistent with a slight increase from 5.4% in the first quarter to 5.8% during the second quarter. The majority of vacancies remain below the 3,000 SF range. No new larger listings came online during the quarter, though the market did see an increase of approx. 22,400 SF of available office space bringing total available space in Santa Barbara to roughly 296,400 SF by the end of the quarter.

Average gross asking rates dropped slightly from $3.08/SF to $3.03/SF. Achieved rates averaged about $2.68/SF, with just under 88,000 SF of new leases signed during the quarter. We expect office leasing to remain consistent through the next quarter.

Three standout leases occurred in Q2 2017, all involving Logicmonitor who gobbled up just over 20,600 SF in April at 820 State St. on the first, third and fifth floors. The company is set to vacate their approx. 5,200 SF space at 12 E. Carrillo Street.

Stability has been the story for Goleta’s office sector for the last two years. Vacancy rates have remained between 7.5% and 9.0% while lease rates have hovered around $1.85/SF Gross. Standout leases in Q2 2017 were the 26,000 SF space Gavial Holdings leased at 869 Ward Dr. for $1.05/SF NNN and the 24,000 space taken by TrackR at 7410 Hollister Ave. for $1.55/SF NNN.

The Goleta office market will likely remain stable in the near term. While there are currently some larger leases in the works, that may be offset by some larger spaces that may come available in the next 60 days.

The stability of Goleta’s office sector is contrasted by the volatility of Carpinteria. Lease rates have increased 35% over the last two years and during the second quarter vacancy kicked up to 9.3% in Q2 from 5.4% in Q1. In Q2 2017 there were no new leases in this sector, though based on the size of Carpinteria’s office market this is not out of the ordinary. With a couple of buildings likely coming available in the next six months, look for the vacancy rate to rise.

**Industrial**

Santa Barbara’s industrial sector experienced a slight increase in vacancy over the last quarter, ticking up from 0.7% to 0.9% during Q2 as the quarter ended with roughly 8,000 SF more space available than the end of the first quarter. This small rise in vacancy did not have a significant effect on the average price per square foot as we saw an increase from $1.76/SF gross to $1.98/SF gross by the end of Q2.

We do not expect dramatic change to the existing vacancy for the next quarter. Continued scarcity of industrial space (both for sale and for lease) is expected.

On the other hand, Goleta (as expected) experienced a major drop in industrial vacancy, plummeting from 3.8% in Q1 to a low of 0.9% in Q2, matching Santa Barbara’s vacancy rate. With this drop we saw a positive absorption of 28.6% over last quarter. The drop in vacancy is largely attributable to the 105,257 SF sublease at 71 S. Carneros Rd. by the biotech firm Apeel Technology, Inc.

This represents one of the most significant swings in vacancy in years in any South Coast sector, as well as one of the largest industrial/R&D leases in the area in years. Still, there is an expectation that vacancy will climb over the next quarter as a few industrial buildings will be brought to market. Rates should be stable.
Continued from P.4

Over the last three quarters we have seen Carpinteria’s industrial vacancy hover around 2%. There is currently only one industrial vacancy in Carpinteria at 500 Maple with 2,000 SF, and there were no new leases of space signed during the quarter. In fact we may see vacancy shrinking even further as a result of lack of inventory in all three submarkets of Santa Barbara. We do not expect any major shifts in this market in the upcoming quarter.

Retail

Certainly one of the most talked about subjects in South Coast commercial real estate continues to be the state of State Street. While the market remains eager to see what becomes of the 141,000 SF anchor space vacated in April by Macy’s at the Paseo Nuevo Mall, not much changed in the market during the second quarter with retail vacancy ticking up only slightly from 3.0% in Q1 to 3.1% in Q2. While the average gross asking rate rose from $4.23 to $4.31/SF, average gross achieved rates lowered substantially from $3.87/SF to $3.35/SF.

Standout retail leases in Q2 included an 8,534 SF lease at 314 State St. by Arthrokinetic Institute, a specialized gym and workout center, and the lease of 4,901 SF in La Cumbre Plaza to Islands Restaurants.

The demise of brick-and-mortar retail across the country remains a touchy subject with many pointing to numerous factors including the Amazon Effect. For many landlords, especially on State Street and in the downtown area, uncertainty remains palpable with mixed opinions on causes and solutions to vacancy. Some in the community argue lower lease rates are the answer, while others believe the city needs to do more to entice new retailers to the downtown State Street corridor, including curbing the homeless issue. Certainly there remains a contingent of new office tenants who continue to pick up some of the slack of vacating retailers, but is that sustainable and will that marginalize the State Street retail experience making it even more difficult to lure new retailers?

We do expect vacancy to decrease in the coming months, but one thing is certain, the issue of retail in Santa Barbara and around the country will remain a developing story.

Q2 Leasing Highlights

**LEASED | 820 STATE ST., 1ST, 3RD & 5TH FLOORS**
OFFICE | APPROX. 20,600 SF TOTAL
Logicmonitor is set to occupy a large portion of this prominent State Street building with its recent leases of three floors in April.

**LEASED | 314 STATE ST., SANTA BARBARA**
RETAIL | APPROX. 8,534 SF
The former Sit N Sleep space adjacent to REI near the 101 was recently leased by Arthrokinetic Institute, a specialized gym and workout center.

**FOR LEASE | 701 STATE ST., SANTA BARBARA**
RETAIL | APPROX. 141,000 SF
All eyes are on the former Macy’s space in the Paseo Nuevo Mall at the corner of State and Ortega Streets in downtown Santa Barbara. The ailing retailer vacated the massive anchor space earlier this year.
Radius Doubles with Q2’s Top Sale & Lease at 71 S. Los Carneros Rd.

In the year’s largest commercial sale in the South Coast, The Radius Team brought it home for the buyer of this 105,000-plus sq. ft. R&D facility previously occupied by Allergan. The Goleta property, which was listed at $28 Million, was also recently subleased by a long term tenant in the biotech industry in the second quarter’s largest lease, also handled by Radius. Game over.

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