2014 RADIUS REAL ESTATE & ECONOMIC FORECAST

RADIUS®

Commercial Real Estate & Investments

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As a market and industry leader, we believe it is our responsibility to play a vital role in the economic health of our community. As such, we strive to inform our clients, partners and the public about important economic and demographic trends from a variety of sources and perspectives that impact the commercial real estate industry. We hope you will gain valuable insights from this report to share with key stakeholders in your own business.

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By Steve Brown & Chris Parker
Radius Commercial Real Estate & Investments

INTRODUCTION

What's The Big Deal?

This time last year we were questioning whether we had truly come out of our economic slump and now we can answer with an affirmative—at least it certainly seems so here on the South Coast.

While world dynamics continue to impact our daily lives more and more, the economics of sleepy Santa Barbara are holding their own. In fact, 2014 is already shaping up to be The Year of The Big Deal.

The residential market, a critical component of our economy, has continued to improve, albeit at a slower pace than last year. Standing inventory for single family homes and condos is currently a three and a half month supply based on current sales activity. A six month supply is considered the norm, so this portends well for a continuing stable market. Furthermore, sales of downtown condominiums — which were jump started earlier this year by the Sevilla project on Lower Chapala Street and the Alma del Pueblo on Victoria Street—seem to be holding steady with strong activity. This has translated into rising median sales figures for condos as a result of these new, higher-end offerings.

Well located real estate ... has returned to 2007 prices and in some instances has surpassed those levels.

The real question now is whether we are back to the peaks of real estate sales and values we experienced in the heydays of 2002–2007. By most accounts, it seems so.

Well located real estate, be it commercial or residential, has returned to 2007 prices and in some instances has surpassed those levels.

For example, if you own property on State Street downtown or Coast Village Road or the Funk Zone (that area between the freeway and the beach, for those of you who have been out of town for the last 5 years) or around Cottage Hospital, your values are back and then some. This momentum invariably influences the values of commercial development in the surrounding areas, but the pace is a little slower.

Notable sales since our last forecast will be covered in the Commercial Sales section but, suffice it to say, we are on track for a banner year in number of sales, dollar volume and average deal size.

What is particularly noteworthy is that we have seen more deals over $10 Million than any time during the past 12 years since we started tracking this data. Why? Well, as noted last year, there is always cash looking for well located properties, financing is still well below historic averages and there's a combination of new blood coming to Santa Barbara and the beginning of a changing of the guard. More recently, however, many of these larger sales are a result of formerly reluctant sellers taking advantage of an improving market and cashing in some of their chips or trading up, and it's evident from our data that we're definitely seeing an increase in 1031 exchanges fueling the number and size of our deals.

Some of these big deals include three office properties and one industrial property in Goleta, a three story office building on upper State Street, a retail center on Coast Village Road and a five story R&D building in the Funk Zone. While all were fully leased at the time of sale, two of the Goleta properties were ultimately purchased by owner-users. One note, however, is that the owner-user trend has not been as prevalent this year primarily due to the competition from investors for well located, economically viable properties.

Sales of downtown condominiums—which were jump started earlier this year by the Sevilla project on Lower Chapala Street and the Alma del Pueblo community (right) on Victoria Street—seem to be holding steady with strong activity.

In spite of this activity, cap rates for stable, leased investments have compressed only marginally to the 5–5.25% range with some sub-5% exceptions for those properties that have upside in rents, are ripe for re-positioning or are just trophy properties.

In Santa Barbara sale prices per square foot are ranging from $350–$525/SF for office, from $450–$1,000/SF for retail (the upper end of the range is prime State Street and Coast Village Road) and from $200–$290/SF for industrial. These numbers all represent increases of roughly 5%–10% over last year's averages.

While sales appear limited only by anemic inventory, office leasing activity is still not robust. There is still an abundance of office inventory and the demand has not recovered to pre-2007 years. The bright side, however, is that lease rates are firming up for quality properties, primarily in Santa Barbara, due to a slowly shrinking supply.

Additionally, we are seeing some influx of new businesses relocating to town, as well as the maturation of some local operations that have incubated here and are now starting to impact our market. The City of Santa Barbara is still their prime target location for office and retail because of the vitality and services within easy access. Goleta is starting to get a little more traction, but Carpinteria is still waiting for some love.

Alternatively, industrial and retail vacancies continue to be at all time lows with demand outpacing supply in most cases for Santa Barbara, Goleta and Carpinteria.

As reported last year, hospitality occupancies and bed tax revenues continue to improve. According to recent figures released by the City of Santa Barbara, bed tax revenues are up 14.7% over this time last year. Even more impressive, they are up over 31% from 2011. This has attracted the attention of some of the major players in the industry, notably Kimpton Hotels (Canary and former Goleta Holiday Inn), Orient Express (El Encanto), Summit Hotel Properties (Hampton Inn), Makar Properties (Holiday Inn), Texas investment firm Pacific Hospitality Group (Bacara), and Woodridge Capital Partners who intend to break ground this fall on the the 123 room former Entrada project.

Overall, we are certainly back in full swing in commercial real estate sales and apartment sales are off the chart with sub-4% cap rates for some South Coast units. The primary looming question for real estate investors is whether the market will adjust when interest rates are allowed to increase. According to investment and development experts at the October 2014 ICSC Convention in San Diego, current cap rates should not increase much even if interest rates increase 1–1.5%. While this doesn't seem intuitive, the feeling is that historical spreads between cap rates and lending rates are at an all time high and the banks can absorb the adjustment.

Furthermore, the current imbalance between supply and demand and the returns on alternative investments will keep pressure on any appreciable increase in cap rates. Only time—and the feds—will tell if this is true.

LEASING

By Paul Gamberdella, Bob Tuler & Gene Deering
Radius Commercial Real Estate & Investments

LEASING

CKE Not Bluffing (as much) Any More

For months the South Coast waited patiently for news from long-time Carpinteria staple CKE about its plans to stay or leave its headquarters on the bluffs. This year the fast food giant finally revealed its cards and while opting to extend its lease of approximately 42,000 SF of prime office space, the company has decided to vacate a nearly equal size space in its campus.

LEASING

420 S. FAIRVIEW AVE. | 20,197 SF
Leased in April by Sientra, Inc.

Office

In Santa Barbara, both the vacancy percentage and lease rates show the Office market is doing well. Currently at $2.90/SF Gross, average asking rates continue at all time highs with no visible signs of dropping any time soon, though it's worth noting that achieved rates averaged about $2.41/SF in the third quarter. Vacancy currently sits right around the 10 year average at about 4.7%, though it has increased modestly since the first quarter when it stood at 4.3%.

Even so, we continue to see a curious phenomenon in which a number of quality Office spaces have been on the market for 6–24 months, while other listings have leased immediately.

We expect lease rates and vacancy to remain stable in the coming months, with high quality downtown spaces boasting parking and ample windows being highest in demand.

Goleta's Office market, on the other hand, is about to experience a dramatic increase in vacancy. While vacancy is just about the lowest it's been since 2007 at 7.3%—down from 12.2% this time last year—over the course of the next 6–12 months a whopping 450,000 additional square feet of quality space will become available.

Long-time major tenants like Allergan, Raytheon and Mentor, all in the midst of significant organizational changes, are consolidating their operations. FLIR and Karl Storz are moving into larger properties while also vacating their existing buildings.

It's clear that landlords in Goleta will stay locked in fierce competition for limited tenants in the marketplace, which could put increased pressure on asking rates.

Moving on to Carpinteria, the past 15 years have shown us that things can turn on a dime, and such was the case this past quarter.

Given limited inventory, Carpinteria's office market is subject to dramatic shifts in vacancy. One major tenant leaving the market can cause vacancy to swiftly swing the other direction. By the end of the third quarter vacancy had jumped to 25.2% from 13.4% in the second quarter.

	VACANCY RATES* (%)					AVG. ASKING PRICES ($/SF GROSS)				
	Q3|13	Q4|13	Q1|14	Q2|14	Q3|14	Q3|13	Q4|13	Q1|14	Q2|14	Q3|14
Office/R&D										
Santa Barbara	5.20%	5.20%	4.30%	4.40%	4.70%	$2.46	$2.54	$2.85	$2.86	$2.90
Goleta	12.20%	11.40%	10.30%	7.60%	7.30%	$1.67	$1.64	$1.61	$1.57	$1.58
Carpinteria	16.00%	16.00%	11.40%	13.40%	25.20%	$1.52	$1.52	$1.44	$1.64	$1.74
Industrial										
Santa Barbara	1.20%	1.30%	1.20%	0.70%	0.50%	$1.59	$1.39	$1.55	$1.64	$1.68
Goleta	1.40%	1.40%	3.20%	1.90%	4.40%	$1.25	$1.37	$1.31	$1.46	$1.51
Carpinteria	3.70%	2.90%	1.80%	1.00%	5.90%	$1.21	$1.26	$1.25	$1.08	$1.00
Retail										
Santa Barbara	2.10%	2.10%	2.30%	2.10%	2.00%	$3.58	$3.54	$3.72	$3.60	$3.73

**Vacancy rates represented in percentage points*

CKE is giving up 40,000 SF on the bluffs, while also extending their lease of their remaining 42,000 SF. Lynda.com, who purchased 57,000 SF from the Salvation Army, then decided not to occupy the space and sold it soon after. The company's expansions last year accounted for much of the activity in Carpinteria, but now that activity has gone quiet.

Despite the third quarter's big bump in vacancy, office space coming on the market appears to be soft for the near term. Additionally, much of the existing space on the market is in good condition and landlords will continue to compete for limited prospective tenants.

We do look for lease rates to decline to compensate for this rise in vacancy. With that, it's interesting to note that the cost per square foot of Santa Barbara's Industrial sector is now approaching the cost per square foot of Carpinteria's Office sector.

Industrial

Santa Barbara's Industrial market is undoubtedly the tightest commercial sector on the South Coast. We have seen rents increase dramatically as available inventory has become almost non-existent with vacancy at just 0.5%, down from 0.7% in the third quarter. Much of this can be attributed to the continued trend of office and retail tenants coveting the "industrial look", taking advantage of

SOUTH COAST OFFICE VACANCY

Average Gross Asking Prices & Vacancy Rates

SANTA BARBARA

GOLETA

CARPINTERIA

5390 OVERPASS RD. | 42,770 SF

Leased in May by Mammoth Moving & Storaage

SOUTH COAST INDUSTRIAL VACANCY

Average Gross Asking Prices & Vacancy Rates

SANTA BARBARA

GOLETA

CARPINTERIA

the high ceilings and open collaborative spaces offered by such properties. These tenants are also passing on more traditional, lower-rent spaces in Goleta for the amenities and appeal of downtown Santa Barbara, in an effort to continue to attract and keep top talent.

Look for the vacancy rate to drop even lower, below 0.4% in the next two quarters. Indeed the days of finding warehouse space in Santa Barbara for less than $1.00/SF Gross may be a thing of the past.

In Carpinteria the Industrial sector saw vacancy increase in the third quarter to 4.4% from a very low 1.9% at the end of the second quarter. A majority of this space (63,000 SF) came from Forms and Surfaces putting their buildings on the market for lease. Technically they will not be vacating the space until November of 2015, so a more realistic vacancy number is about 1.03%, the lowest on record.

It's worth a reminder that Carpinteria's Industrial sector is dominated by Lynda.com and Nusil who occupy nearly 40% of the market. Large companies like this can swing the vacancy rate either direction should they make significant operational changes.

Similar to Santa Barbara, Goleta's Industrial sector is on fire. Lease rates are nearing all time highs, and were it not for Allergan trying to sublease 105,000 square feet of space, the vacancy rate would remain below 2%.

Q3|14 NET ABSORPTION (SF)

	Q2 AVAIL. SPACE	Q3 AVAIL. SPACE	Q3 NET LEASED
Office/R&D			
Santa Barbara	223,300 SF	240,200 SF	*(16,900 SF)*
Goleta	324,100 SF	309,600 SF	14,500 SF
Carpinteria	69,600 SF	131,000 SF	*(61,400 SF)*
Industrial			
Santa Barbara	31,600 SF	24,100 SF	7,500 SF
Goleta	80,900 SF	186,200 SF	*(105,300 SF)*
Carpinteria	13,500 SF	76,700 SF	*(63,200 SF)*
Retail			
Santa Barbara	225,100 SF	206,700 SF	18,400 SF

Based on the lack of any new industrial product being constructed on the South Coast for the last 25 years and none in the pipeline, owners of industrial property are well positioned moving forward.

Santa Barbara Retail

While most retail markets across the nation may have fluctuated wildly over the course of the Great Recession, Santa Barbara's market has remained relatively steady. Average vacancy has hovered around 2.1% over the past several quarters, and average asking rates have risen moderately to their current $3.73/SF Gross.

Certainly the Funk Zone expansion has pushed these retail lease rates and brought a new tenant mix to the adjacent areas looking to capitalize on close proximity to up-and-coming projects like the Entrada, for example.

The concept of small retail spaces clustering together to create synergy seems to be expanding around town. The Santa Barbara Public Market, Montecito Country Mart and a new renovation project on Haley called The Mill have had success employing this strategy, achieving higher prices per square foot in the process.

SANTA BARBARA RETAIL VACANCY

Average Gross Asking Prices & Vacancy Rates

2015 SOUTH COAST LEASING PREDICTIONS

- *Expect Goleta's Office Vacancy to increase significantly.*
- *Industrial Vacancy throughout the South Coast will likely remain near all time lows.*
- *Lease Rates for Industrial properties will continue to rise.*
- *The construction of La Entrada will further the excitement surrounding the Funk Zone.*
- *Alternative uses will continue to pursue Industrial buildings.*
- *Retail leasing will remain strong and lease rates will rise.*

Smart & Final Extra to Anchor New Hollister Village Plaza

In May, grocery chain Smart & Final Extra signed on as an anchor tenant in the new Hollister Village Plaza located at 7000 Hollister Ave. at Storke and Glen Annie Roads. The grocer will occupy about 24,757 SF of the 76,000 SF neighborhood shopping center—expected to be completed in 2015—which will also include an adjacent 266 unit apartment community.

COMMERCIAL SALES

By Steve Brown & Chris Parker
Radius Commercial Real Estate & Investments

COMMERCIAL SALES

Historic Funk Zone Building Sold in All-Cash Exchange

The iconic Bekins Moving & Storage building—fully leased by sound system giant Sonos—sold in February for $19.15 Million which marks the largest transaction involving office/R&D property in Santa Barbara since 2007. The 47,000 SF building is not only the tallest structure in the Funk Zone waterfront, its direct adjacency to the up-and-coming Entrada Hotel project made it a rare investment opportunity impossible to pass up.

COMMERCIAL SALES

The first three quarters of 2014 have put up a record breaking 77 commercial sales which is the greatest number recorded for the first nine months of a year in the past 16 years. This includes 12 industrial sales, 17 retail sales, 34 office sales, 11 land sales and three hospitality sales. By comparison, at last year's forecast we reported 58 sales during the same time period, roughly 30% less than this year.

Notable sales for the first three quarters of the year include the re-sale of the Starbucks Center on Coast Village Road for $14.5 Million, the sale of 1 N. Los Carneros (formerly Santa Barbara Bank & Trust now Union Bank) for $29.5 Million, the sale of 75 Coromar (home to Raytheon) for $26.4 Million, the sale of 6500 Hollister (Network Hardware Resale, rebranded as Curvature) for $20.45 Million, the sale of 6550 Hollister (leased by Cottage Hospital) for $13.95 Million, the sale of 25 E. Mason St. (leased by Sonos) for $19.15 Million, and the sale of 3757 State St. (Citibank Building) for $9.8 Million.

The third quarter produced yet another 20-plus quarter finishing with 24 total sales. In 2013 the third and fourth quarters notched 29 and 25 sales respectively, which actually helped boost last year's haul to 83, just two shy of the 16-year high of 85 sales recorded in both 2012 and 2005. The momentum continued with 26 and 27 sales respectively in the first and second quarters of 2014, and it does not appear this run will slow anytime soon. In fact, the last 2.75 years have been so productive that the 16 year average has increased to 17 sales per quarter.

One interesting recent trend is the number of larger sales. The past three years have produced an average of nine $10 Million-plus sales per year. Prior to 2012 the average was approximately five per year. This year in the first three quarters alone there have been eight sales above this mark. With multiple $10 Million properties in escrow and scheduled to close before year end, we could very well see the annual total push into the low double digits breaking the previous record high in 2012.

What is causing this spike in larger sales?

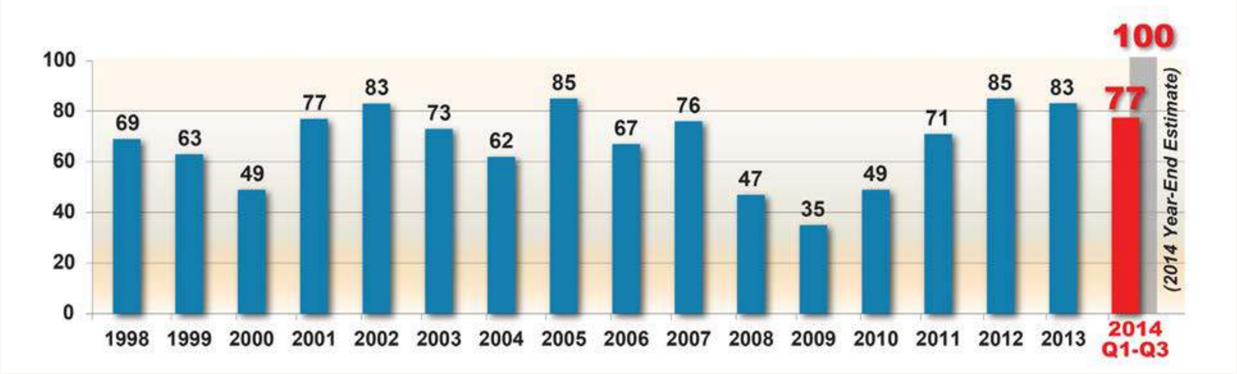
While the overall number of owner-user buyers has certainly decreased from the high in 2012, we did see several of the $10 Million plus sales go to owner-users looking to take advantage of low interest rates and solidify their home in Goleta. In January, Curvature (formerly Network Hardware Resale)bought the 73,000 square foot building they had been occupying at 6500 Hollister Ave. for $20.45 Million. Additionally, the biotech company Karl Storz bought a 102,000 square foot building located at 1 S. Los Carneros Rd. for $29.5 Million.

No surprise though, the main reason behind many of these large transactions is an increase in 1031 exchange buyers. While the brokerage community's favorite phrase of the recession seemed to be "perfect opportunity for an owner-user", the phrase of the recovery has certainly been "ideal for a 1031 exchange buyer".

One notable 1031 exchange in the third quarter was the sale

SOUTH COAST COMMERCIAL SALES

Excluding Sales of Apartments



"STARBUCKS CENTER"
1046 COAST VILLAGE RD.
13,800 SF

Sold in April for $14.5 Million, setting a new record as the largest ever sale of commercial property on Coast Village Rd.

of 75 Coromar Dr. which was pocketed by a local investor for $26.4 Million. The tenant, Raytheon, has 5 years remaining on their lease. Another notable exchange sale was 5464 Carpinteria Ave. which also sold to a local investor. After a lengthy bankruptcy process, the 70% vacant office building sold for $8.2 Million cash.

On the opposite side of the spectrum, there has also been an increase in the number of commercial condos that have sold this quarter. Year to date, there have been 11 commercial condos sold including six in the sold-out Sevilla development at 401 Chapala St., plus several medical condos that have been on the market for a number of years.

In the market as a whole, at least 12% of those sales were up legs for 1031 exchanges. Another 7% were all cash deals and the rest involved some type of financing. While owner-user transaction were responsible for a significant number of sales over the last 3–4 years, this year only 16 (21%) of the 75 sales to date were acquired by the end user of the property. While 21% might seem high, in the second quarter of 2012 approximately 70% of the properties sold were purchased by owner-users.

How do we see this year rounding out?

Historically, the fourth quarter has typically been the strongest, accounting for an average of 33% of annual sales. If this year keeps pace, it is very possible we will see more than 100 sales which will far surpass the 2005 record of 85 sales and the 16 year average of 67 sales per year.

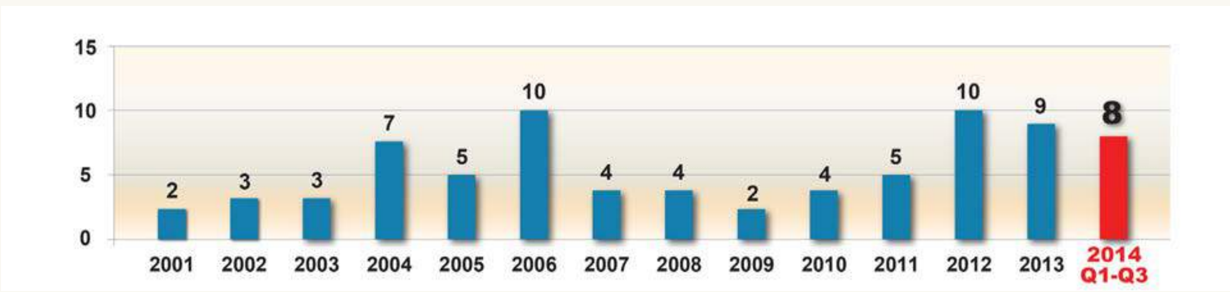
2015 COMMERCIAL SALES PREDICTIONS

- *1031 Exchange Buyers will push previous highs and account for a larger and larger share of the market.*
- *Interest rates will begin to rise slowly as the Fed's QE3 bond buy-back program end this month.*
- *CAP rates should remain low and even compress slightly for the harder to find choice trophy assets in prime locations as investors look for alternative investments to the volatile stock.*
- *Development projects that were unfinanceable during the recession will sell and/or begin breaking ground.*
- *Lack of supply and strong demand will force buyers to look at properties in secondary locations.*

6550 HOLLISTER AVE. | 40,000 SF

This fully renovated office property was sold in May in an off market deal for $13.95 Million. It remains fully leased for six more years to Cottage Hospital.

$10+ MILLION SALES BY YEAR



COMMERCIAL SALES

1031 Exchange

By Judy Egenolf
Founder and CEO of Amherst Exchange Corporation

Dust Off Your Tax-Deferred Exchange

Now that the market has heated up and selling property will possibly produce a taxable gain, it is a good idea to get the facts straight about 1031 requirements and options. You likely remember that from the close of the sale of Relinquished Property the taxpayer has 45 days to identify (ID) potential Replacement Property, and from the same start date, 180 days to complete the exchange.

To avoid the payment of any tax, three elements must be considered: Cash, debt relief and property value. Taxpayer must utilize all exchange funds and replace all debt relief in the new property. If there is unspent cash ("cash boot") and/or unreplaced debt relief ("debt relief boot"), tax is paid only on the boot. The balance of the exchange remains tax-deferred.

When strategizing an exchange, the structures available are: 1) Simultaneous or Concurrent Exchange: the purchase closes the day of, or the first business day following, the close of the sale; 2) Deferred Exchange: 45 days to identify replacement property and 180 days to complete the exchange; 3) Part-exchange/part-sale of personal residence: sell a percentage of property as an exchange if it has been held for productive use in a trade/business or for investment; and 4) Improvement or Construction Exchange: Qualified Intermediary (QI) takes title to replacement property and pays for improvements managed by the client using exchange funds. The improved property is transferred to the client within the 180-day exchange period; 5) Reverse Exchange: the replacement (new) property can be purchased before the relinquished property is sold. The client must have adequate liquidity to loan funds to the Exchange Accommodation Titleholder (EAT) for the purchase by EAT of either the relinquished or replacement property, without the benefit of sale proceeds since the sale has not yet closed. The warehoused property in a Reverse Exchange can also be improved.

Converting Use from Commercial to Personal

When a taxpayer decides to move into a property purchased in an exchange, 24 calendar months has become the mantra holding period in the 1031 realm. Any less time prior to conversion of use from commercial to personal should be discussed with a tax advisor. The same consistency of use is true of converting a personal residence into a rental.

Vacation homes are deemed personal use (non-qualifying for exchange treatment), unless they are rented most of the time and are personally used no more than 14 days/year or 10 percent of the number of days the property has been rented, whichever is greater.

Continued on Next Page

5464 CARPINTERIA AVE. | 52,500 SF
Sold in July for $8.2 Million in an all-cash, 1031 exchange transaction

Excerpt from Santa Barbara Sentinel

Continued from Page 20

There are three primary Identification Guidelines: 1) List three properties of any value; 2) If more than three properties are listed, Safe Harbor 2 states that you may list any number of properties so long as their combined fair market values (FMVs) do not exceed 200 percent of the value of the Relinquished; and 3) If you ID more than three properties and their combined FMVs exceed 200 percent of the value of the Relinquished Property, you must purchase 95 percent of the properties identified. The ID letter must be dated and signed by all parties.

Political Danger Zone for 1031 Exchanges

As most of you know, 1031 exchanges always seem to be on the tax reform "hit list." They have escaped the ax because they are so integral to real estate investment. Political winds are again blowing strong and Congressman Dave Camp, House Ways and Means chairman, recently proposed a bill that essentially eliminates exchanges altogether. The administration's current concept limits their use to defer a maximum of $1,000,000 in gain.

The underlying mood in Congress is the most threatening to Exchanges in history. This time around, the Republican controlled House, where all tax bills must originate in the Ways and Means Committee, has a nearly single-minded goal of reducing the corporate tax rate. To accomplish that goal, the revenue that would be lost must be recovered by closing other tax incentives so the new tax reduction is essentially "paid for."

The other tax incentives that are being considered are called the "pay fors." Because the revenue loss that would result from a reduction of the corporate tax rate is substantial, all possible "pay fors" are truly on the table.

This is an election year, so no significant tax legislation will be considered until 2015, but since the Republicans are likely to continue their majority in the House and the Senate may well be GOP controlled, too, the landscape for major tax legislation in 2015 is significant.

"CITIBANK BUILDING" 3757 STATE ST. | 19,000 SF
Sold in May for $9.8 Million as a part of a 1031 exchange transaction

Some of the most influential lobbies have traditionally protected the real estate industry, and they will certainly wield their considerable influence to turn the tide. With such important items as the mortgage interest deduction also on the cutting block, they are indeed gearing up as we write.

The ability to restructure your investment without the imposition of a tax is one of the best incentives to invest in commercial real estate. Given that we have only recently begun our climb out of the great recession of the 21st century, and further given that a vibrant real estate economy is critical to recovery, it would seem foolhardy to even consider such a change right now. Even though Congress is rarely influenced by rational thoughtful actions, one can hope such a drastic step is not in our future.

Where Are We Headed and Will the Market Slow Down?

The most logical obstacle to sales continuing at this pace would be a rise in interest rates.

Rates did jump dramatically in May 2013, yet more recently 10-year treasury rates have come down significantly to 2.50% range and the new Fed chairwoman Janet Yellen appears to echo the views of Ben Bernanke, so it does seem unlikely that we will see a sharp jump in rates.

For the moment, it looks like the train may keep rolling unimpeded into 2015.

MULTIFAMILY

MULTIFAMILY SALES

By Steve Golis
Radius Commercial Real Estate & Investments

MULTIFAMILY

South Coast Multifamily Soars to New Heights

Amid nationwide interest, the 97-unit Harbor Heights Manor located at 801 Cliff Dr. in Santa Barbara was nabbed in January by a local investor at a sale price of more than $33 Million, setting a record for Santa Barbara, and also marking the largest Multifamily transaction on the South Coast since 2010. The property occupies a sizable footprint on the doorstep of nationally ranked Santa Barbara City College, offering a major selling point of distinction.

MULTIFAMILY

1502 SAN PASCUAL ST. | 45 UNITS
Sold in August for $12.5 Million

South County

Apartment sales clicked into high gear after the first quarter this year, and the third quarter was particularly active with 16 sales of properties 5 units or more in size on the South Coast. This accounts for over half of all transactions year to date as the total for 2014 now sits at 27. In contrast, through the third quarter of 2013 there were just 15 multifamily sales closed total.

Currently there are only five 5+ unit properties available for sale with two of those in escrow, so you can consider that only three active availabilities, the same number that were available at the end of the second quarter. This continues a period of historically low availability while we remain in one of the highest demand eras we've ever seen.

> ***2014 South County Sales Stats***
>
> *Transactions — 27 (5+ Units)*
>
> *Avg. CAP — 4.6% (10+ Units)*
>
> *Avg. GRM — 14.5 (10+ Units)*
> *13.0 (5-9 Units)*
>
> *Avg. PPU — $223,244 (10+ Units)*

Interest rates remain low and appear to stay this way into at least the first quarter of 2015. CAP rates are averaging in the mid 4% range at 4.6% for the year. That's down slightly from the second quarter's 4.72% average, but it's in line with the same period in 2013.

Highlight transactions include the record-setting sale of Harbor Heights Manor near Santa Barbara City College for more than $33 Million, the sale of a 5 property, 55 unit portfolio in Isla Vista for almost $19 million, the sale of a 45 unit property at 1502 San Pascual St. in Santa Barbara for $12.5 million to the Turner Foundation, a local non profit, and the $7 Million sale of a 28 unit complex at 203 Ladera St. in a prime neighborhood for City College students. Also noteworthy is the sale of 14 units located at 118 E. Sola St., directly across from Alameda Park. The property was listed at $4.2 million and garnered over a dozen offers before selling for $500,000 over asking price to an all cash buyer.

Rental rates continue to rise along the South Coast based on strong demand and low vacancy. The apartment vacancy rate continues to average around .69% for the Santa Barbara area compared to the national vacancy rate of around 4.1% (according to REIS). Santa Barbara rental rates continue to be the strongest, averaging between $1,400 and $1,900 for a one bedroom apartment depending on location.

Financing for apartment properties remains the most readily available loan to get. Several local banks are competing for these loans. We're consistently seeing loans around 4.6% for 7 years, and the 4% range for 5 year.

Notable 2014 Transactions

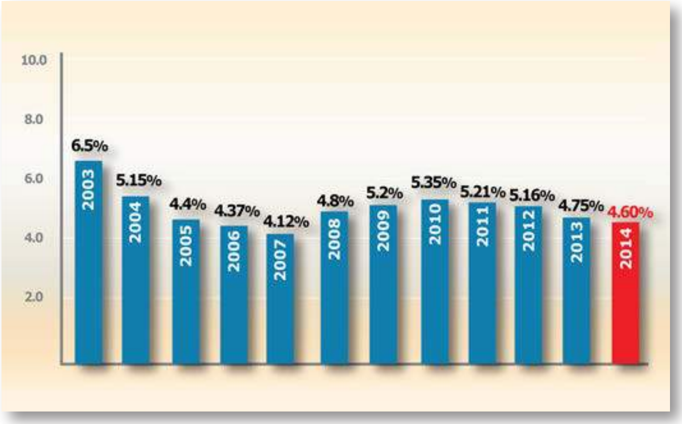
- *1502 San Pascual St., Santa Barbara — 45 Units; Sold Aug. 28, 2014 for $12.5 Million; $277,777 PPU; CAP Rate 4.14%; GRM 14.12*
- *203 Ladera St., Santa Barbara — 28 Units near Santa Barbara City College; Sold Sept. 12, 2014 for $7 Million; $241,379 PPU; CAP Rate 5.35%; GRM 12.45*
- *801 Cliff Dr., Santa Barbara — 97 Units near Santa Barbara City College; Sold Jan. 24, 2014 for $33.5 Million; $345,360 PPU; CAP Rate 4.52%; GRM 13.53*
- *118 E. Sola St., Santa Barbara — 14 Units in downtown near Alameda Park; Sold Aug. 7, 2014 for $4.75 Million; $339,285 PPU; CAP Rate 3.50 %; GRM 18.0*
- *5-Property Isla Vista Portfolio — (6563 Trigo Rd., 6588-6598 Trigo Rd., 828 Embarcadero Del Mar; 6640 Abrego Rd.); 55 Units walking distance to UCSB; Sold July 11, 2014 for $18.75 Million; $340,909 PPU*

2014 SOUTH COUNTY MULTIFAMILY TRENDS

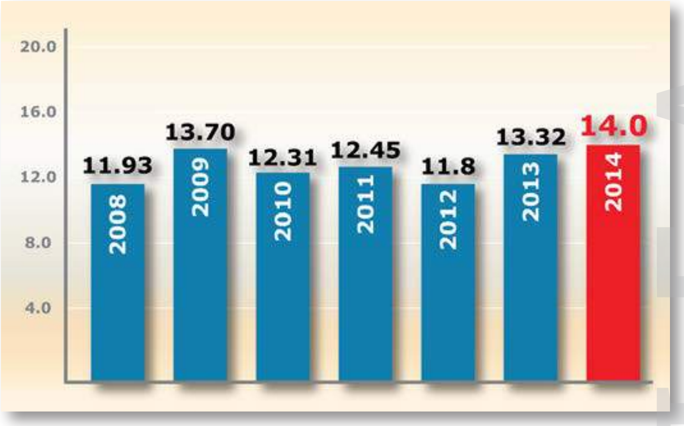
SALES TRANSACTIONS (5+ UNITS)

VACANCY RATES

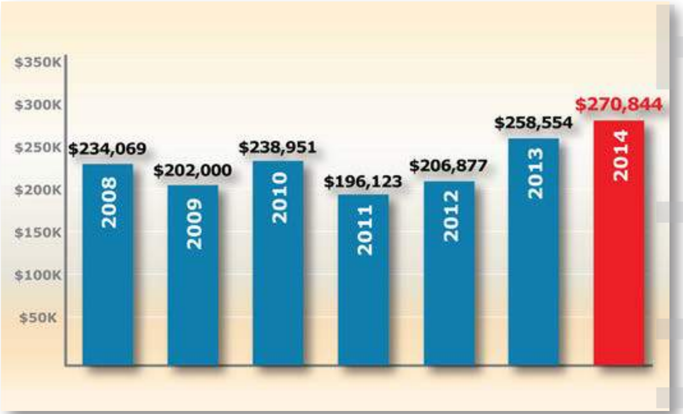
CAP RATES



GRM



PPU (5+ UNITS)



118 E. SOLA ST. | 14 UNITS

Sold in August for $4.75 Million

MULTIFAMILY

2015 SOUTH COUNTY MULTIFAMILY PREDICTIONS

- *Price per unit for properties 10+ units in size will average $223,000–$275,000.*
- *Cap rates will move down just a click and we forecast sales will trade in the mid 4's to mid 5's.*
- *GRM's will stay at our near 13x for 5–9 units and 14.50x for 10+ units.*
- *Rents in Santa Barbara will increase 5–8%.*
- *Vacancy rates will remain stable and will be well under 2%. While mortgages are tougher to get for homes, the rental market will continue to remain strong. The number of young adults aged 20–40 years old (millennials) will continue to contribute significantly to the demand for rentals.*

North County

Santa Barbara's North County has seen more activity in 2014 with Santa Maria and Lompoc leading the way. Through the third quarter there have been 10 transactions involving properties 10+ units or more in size. The average price per unit is $109,514 with CAP rates averaging approximately 5.66%.

Rents in the North County have remained stable and improved in the last quarter with some complexes implementing rent increases. We expect rents to continue to rise due to the same fundamentals that exist in Santa Barbara: little to no construction, an influx of foreclosures (with these foreclosed homes selling at a brisk pace), and more would-be homeowners becoming renters because they don't qualify for loans.

Multifamily loans are very competitive with rates in the low to high 4% range. While vacancy rates are compressing, rents are increasing, and there is little, if any, new construction to compete with existing properties.

We expect investors to keep seeing the benefit of investing in North County apartment properties. All of the assets with which we are involved are experiencing very high levels of occupancy with no rent concessions.

Notable 2014 Transactions

- *Vandenberg Garden Apartments, Lompoc — (325 Burton Mesa Blvd., 3910 Mesa Circle Dr., 3986 Mesa Circle Dr.); 122 Units near Vandenberg AirForce Base; Sold March 20, 2014 for $13 Million; $106,557 PPU*
- *710 W. Alvin Ave., Santa Maria — 20 Units; Sold May 25, 2014 for $2.025 Million; $101,250 PPU; CAP Rate 5.75%; GRM 9.62*
- *619 Hummel Village Ct., Orcutt — 20 Units; Sold Aug. 22, 2014 for $3.25 Million; $162,500 PPU; CAP Rate 5.34%; GRM 10.78*

VANDENBERG GARDEN APARTMENTS | 122 UNITS
Sold in March for $13 Million

2015 NORTH COUNTY MULTIFAMILY PREDICTIONS

- *Price per unit for properties 10+ units in size will average at or near $106,000.*
- *CAP Rates will average between 5.40–5.85, depending on location, condition and income.*
- *GRMs for properties 5+ units in size will stay at or near 8.5X – 11X gross rents.*
- *Rents in Santa Maria will see significant increases in the 4–6% range.*
- *Vacancy Rates in Santa Maria will average below 4% and Lompoc should see vacancy levels in the 4–5% range*

Ventura County

Demand for Multifamily investments continues to hold strong in the Ventura market and like most areas the supply has not been there to satisfy eager investors. Countywide vacancy has been just 2.5% and rents are aggressively rising in accordance. Many owners have noted the market is the strongest they have ever seen. The average overall rent has been about $1,614.

The average CAP rate for properties sold in 2014 is 5.18%, ranging from as low as 4.65% to as high as 5.75% depending on location, asset quality and size.

Sales price per unit has ranged from $145,238 to $155,647. Total year to date transactions for properties 5+ units in size are 19, with an average number of units being 8.

By far the largest transaction of the year in Ventura County was the sale of the Pacific Gardens, a 309 Unit luxury apartment community centrally located on an 11 acre spread in Ventura. The complex sold in September for $55.62 Million.

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.

While most of the recent activity has centered on high quality properties and locations, the limited amount of available inventory has prompted a trickle down of interest in "B" and "C" properties in secondary and tertiary markets.

As the economy continues to recover, the rental market will remain strong. For owners that have been waiting to sell, 2014 may be the right time with investors remaining enthusiastic. Given that the number of buyers continues to far outweigh sellers, we are anticipating the current trends to continue.

PACIFIC GARDENS | VENTURA | 309 UNITS
Sold in September for $55.62 Million

Notable 2014 Transaction

- *Pacific Gardens, Ventura — 309 Units; Sold Sept. 25, 2014 for $55.62 Million; $180,000 PPU*
- *249 S. Hemlock St., Ventura — 35 Units; Sold Sept. 8, 2014 for $6.5 Million; $185,174 PPU; CAP Rate 5.0%; GRM 12.92*

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