Q3 2017

Third Quarter

RADIUS INSIGHT

CENTRAL COAST COMMERCIAL REAL ESTATE

MARKET REPORT

RADIUS COMMERCIAL REAL ESTATE & INVESTMENTS

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RADIUS®

Commercial Real Estate & Investments

71 S. Los Carneros Rd., Goleta | 105,257 SF

This large R&D facility was subleased in April by biotech firm Apeel Sciences in 2017's largest lease transaction to date in the South Coast. The property then sold in May to local investors for $24 Million, marking the region's largest non-hotel commercial sale of the year. See Page 13 for more details.

South Coast

LEASING

Gene Deering
Brad Frohling
Mike Chenoweth
Jim Turner
Rob Hambleton

Office

Santa Barbara's office vacancy rate remained stable with a slight decrease from 5.8% in the second quarter to 5.6% during the third quarter. The majority of vacancies remain below the 3,000 sq. ft. range, with leasing activity skewing heavily to smaller spaces: 48 new leases involving spaces under 3,000 sq. ft. over the past three quarters, versus just 18 new leases for spaces over 3,000 sq. ft. The largest lease during that time period was at 425 N. Milpas St. for 9,200 SF. But perhaps the most noteworty activity came in Q2 when LogicMonitor gobbled up more than 20,000 sq. ft. at 820 State St. (which includes 5,800 SF of former retail space on the first floor). The company is vacating 5,800 sq. ft. at 12 E. Carrillo St.

No new larger listings came online in Santa Barbara during the third quarter. The total available space in Santa Barbara currently stands at roughly 286,074 SF. The Average Gross Asking Rate for office remains completely unchanged at \$3.03/SF, while achieved rates for the quarter rose \$0.20 from \$2.68/SF Gross in Q2 2017 to \$2.88/SF Gross in Q3 2017, with 43,026 SF of new leases signed during the quarter. We expect leasing to remain consistent through the next quarter.

On the other hand, Carpinteria's sensitive Office market has continued its upward trajectory in vacancy rate, rising steeply from 1% to 10% over the last year. Typically when a submarket

820 STATE ST., SANTA BARBARA | 20,000+ SF

LogicMonitor acquired three spaces on three floors (including the ground floor) of this prominent State Street building during the second quarter.

So. Coast Leasing Quick Stats

Vacancy

		Q2|17	Q3|17
OFFICE	Santa Barbara	5.8%	5.6%
	Goleta	8.1%	7.9%
	Carpinteria	9.3%	10.0%
INDUSTRIAL	Santa Barbara	0.9%	1.0%
	Goleta	0.9%	2.6%
	Carpinteria	0.2%	1.0%
RETAIL	Santa Barbara	3.1%	3.9%

Quarterly Absorption (SF)

		Q3 AVAILABLE SPACE	ABSORPTION
OFFICE	Santa Barbara	286,100	*10,300*
	Goleta	337,300	6,400
	Carpinteria	46,700	*-3,300*
INDUSTRIAL	Santa Barbara	46,200	*-4,400*
	Goleta	108,400	-69,800
	Carpinteria	13,000	-11,000
RETAIL	Santa Barbara	405,800	*-87,000*

Avg. Gross Asking Rates ($/SF)

		Q2|17	Q3|17
OFFICE	Santa Barbara	\$3.03	\$3.03
	Goleta	\$1.85	\$1.86
	Carpinteria	\$1.92	\$1.78
INDUSTRIAL	Santa Barbara	\$1.98	\$1.98
	Goleta	\$1.64	\$1.61
	Carpinteria	\$0.90	\$1.38
RETAIL	Santa Barbara	\$4.31	\$4.09

Avg. Gross Achieved Rates ($/SF)

		Q2|17	Q3|17
OFFICE	Santa Barbara	\$2.68	\$2.88
	Goleta	\$1.90	\$2.01
	Carpinteria	NO LEASES	\$2.60
INDUSTRIAL	Santa Barbara	\$0.90	N/A
	Goleta	\$1.25	\$1.26
	Carpinteria	NO LEASES	\$0.90
RETAIL	Santa Barbara	\$3.35	\$5.08

7410 HOLLISTER AVE., GOLETA | 39,000 SF

Santa Barbara Tech startup TrackR signed two office leases for approx. 24,500 SF and 14,500 SF during the second and third quarters respectively, completing a sweep of the entire premises at this Hollister Business Park gem.

has 10% vacancy you expect to see some large vacant buildings, but "large" is relative to market size. In Carpinteria, for example, the vacancy shifted largely during the second quarter when the all-new first and second floor spaces at 1001 Mark Ave., sized 10,395 SF and 8,736 SF respectively, came to market. This illustrates just how easy it is to see seemingly dramatic vacancy fluctuations in this market.

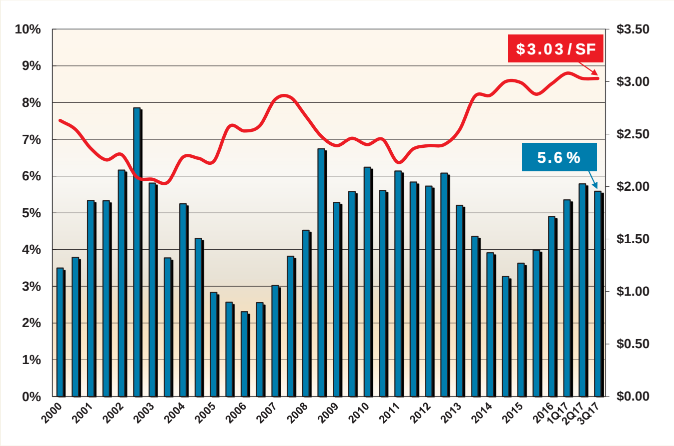
Lease rates have ticked down slightly as the market has softened. A few large tenants continue to dominate this small market. ProCore has continued to control the bluffs and Microsoft surprised many onlookers when they purchased 58,000 square feet committing to the area. Still the third quarter of 2017 saw only two office leases of 2,500 SF and 2,100 SF.

Moving on to Goleta, since 2014 the city's office market has remained perhaps the most stable South Coast submarket both in terms of lease rates and vacancy. During the third quarter the largest lease was by TrackR taking 14,500 square feet at the Hollister Business Park, following their second quarter lease of 24,500 square feet in the same building during the second quarter. The largest available space remains the 86,000 square feet FLIR vacated on Castilian when the company purchased another building. (At the time of this writing a deal is in the works for a large portion of that space.) There is also 51,000 square feet available at 175 Cremona, also vacated by another tenant that ended up purchasing a local building.

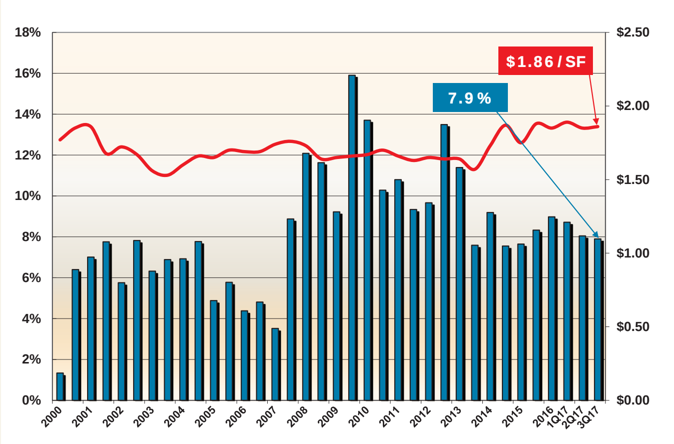
SO. COAST OFFICE VACANCY TRENDS

Average Gross Asking Prices & Vacancy Rates

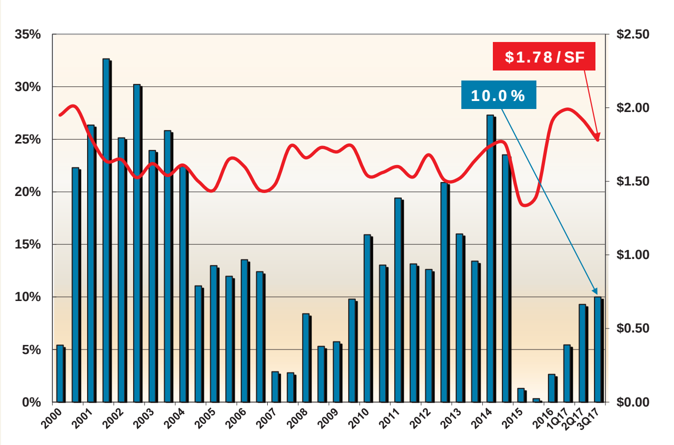
SANTA BARBARA



GOLETA



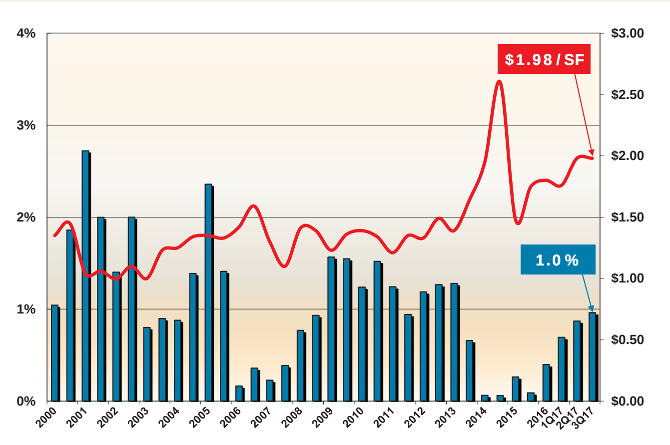
CARPINTERIA



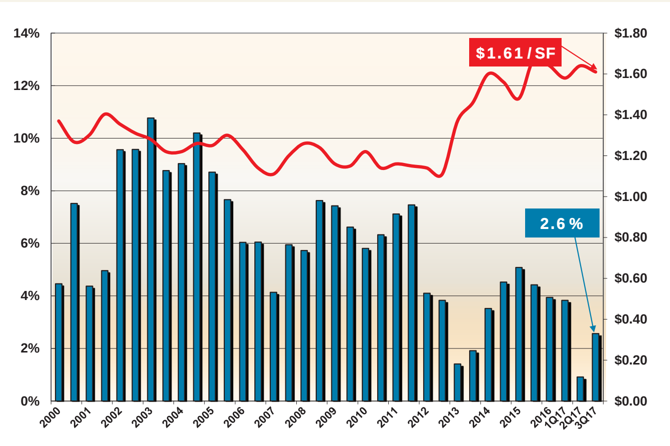
SO. COAST INDUSTRIAL VACANCY TRENDS

Average Gross Asking Prices & Vacancy Rates

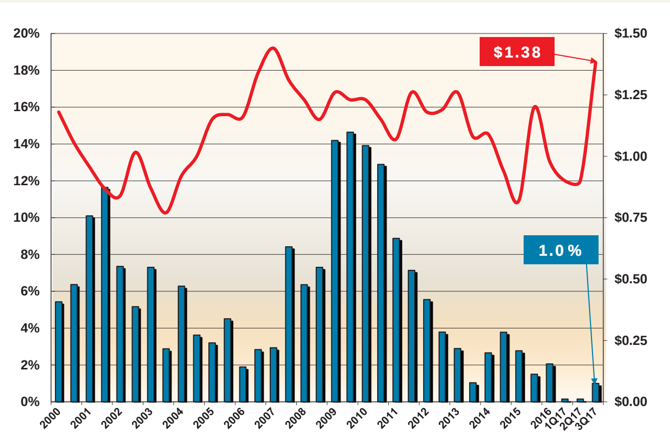
SANTA BARBARA



GOLETA



CARPINTERIA



Industrial

Santa Barbara's industrial vacancy rate essentially remained flat during the third quarter at about 1%, or approximately 46,000 sq. ft. With such limited inventory there was only one truly new lease that took place over the past few quarters, and it didn't involve an industrial client. The approx. 5,700 sq. ft. space at 116 Anacapa St. (former animal feed) leased to a new gym concept called The Base — that's retail use likely at a retail rate we estimate at above $3.50/SF NNN. In fact we have witnessed numerous industrial space conversions to retail or housing projects so this is another constraining factor on supply.

Again vacancy is currently at 1%, a very slight uptick from the last quarter although this is primarily due to an approx. 11,000 sq. ft. suite in the Vercal building for which there is a pending lease. With the shortage of availability some landlords have saw fit to reach well beyond historical rental averages and now we are at $1.98/SF Gross! We are not certain these rates are sustainable by industrial tenants, but once a few new industrial projects are constructed in Goleta we suspect this will ease some of Santa Barbara's supply constraint.

Goleta's industrial sector has certainly been more active than Santa Barbara with four new leases ranging in size from 2,300 SF to a sizable 21,000 SF, that being 879 Ward Dr. (former Channel Industries space) leasing to Sonatech at the end of July. We also saw the vacancy rate rise from 0.9% in Q2 to 2.6% by the end of Q3, and that was primarily due to three other 20,000+ sq. ft. spaces that came on the market during the quarter.

879 WARD DR., GOLETA | 21,000 SF

Leased by Sonatech in July

Still, the highest demand for Industrial in Goleta remains in that sub-10,000 sq. ft. range with no expected increase in inventory in the near term. Rates should remain stable. However, with the three larger vacancies, larger industrial tenants may have the advantage until those are absorbed. Goleta should see new industrial construction in 2018 in the Cabrillo Business Park bringing much needed high bay warehouse to the market. This should ease rates slightly and we could see a slight uptick in vacancy as tenants move from inferior spaces to newer buildings.

Carpinteria, the smallest industrial market, saw only one new lease during the third quarter, that being a sizable 14,500 sq. ft. space leasing to Bright Event Rentals. Vacancy is just below 1% but the so-called tide rises and falls faster in a small market like Carpinteria, and we are anticipating a new 20,000 sq. ft. vacancy so expect to see an increase in Q4. As a sidenote, local company Teecino recently looked to expand their industrial space in Carpinteria but with no options they leased 6,000 sq. ft. in Ventura instead.

For so long as the larger industrial users such as Nusil don't vacate space, the forecast is stable for this submarket.

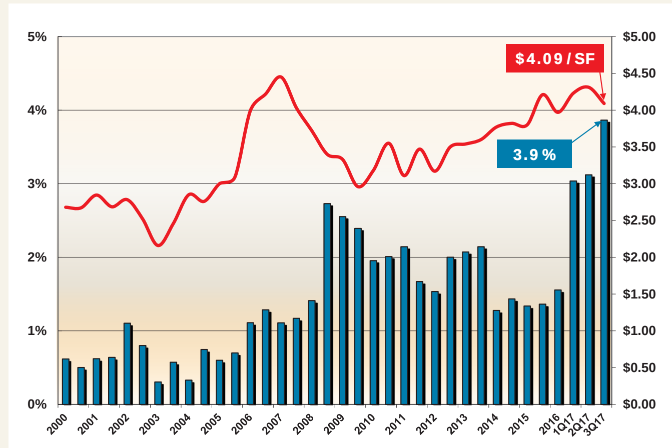
Retail

It goes without saying that vacancies on State Street in downtown Santa Barbara have gotten everyone's attention. Is it the "Amazon Effect", aggressive panhandling, rental rates that are just too high for retailers to be successful, or a combination of all of the above? For their part the City of Santa Barbara has taken notice and is making an effort to collaborate with property owners and retail tenants to improve conditions along our major retail corridor. But it's clear long term solutions are going to be a work-in-progress and all parties will be watching closely for opportunities to turn the tide.

Santa Barbara's retail vacancy rate jumped from 1.6% a year ago to 3.9% at the end of Q3 2017. That's almost two and a half times the vacancy rate from a year ago. Viewed another way, in terms of actual square footage there is currently 405,800 sq. ft. of vacant retail space compared to 143,100 sq. ft. just one year ago. While Macy's massive vacant space is clearly the main cause of this bump, in terms of downtown vacancies on State Street there are currently 31 properties available for lease between the beach and Victoria Street.

SANTA BARBARA RETAIL VACANCY TRENDS

Average Gross Asking Prices & Vacancy Rates



Despite this dramatic increase in available space, it's worth noting that the Average Gross Asking Rate slighlty increased from $3.97/SF a year ago to $4.09 at the end of Q3 2017.

Indeed recent news stories give the sense that the slowing of leasing activity is a relatively new phenomenon. Yet we can look back to late 2015 to see that there was much more square footage leased two years ago (Q4 2015 – Q3 2016) compared to square footage leased in the last twelve months (Q4 2016 – Q3 2017). There were 60 leases executed two year ago comprising 175,820 sq. ft. compared to 45 leases comprising 93,808 sq.ft. this past year.

Retail cont. on P. 8

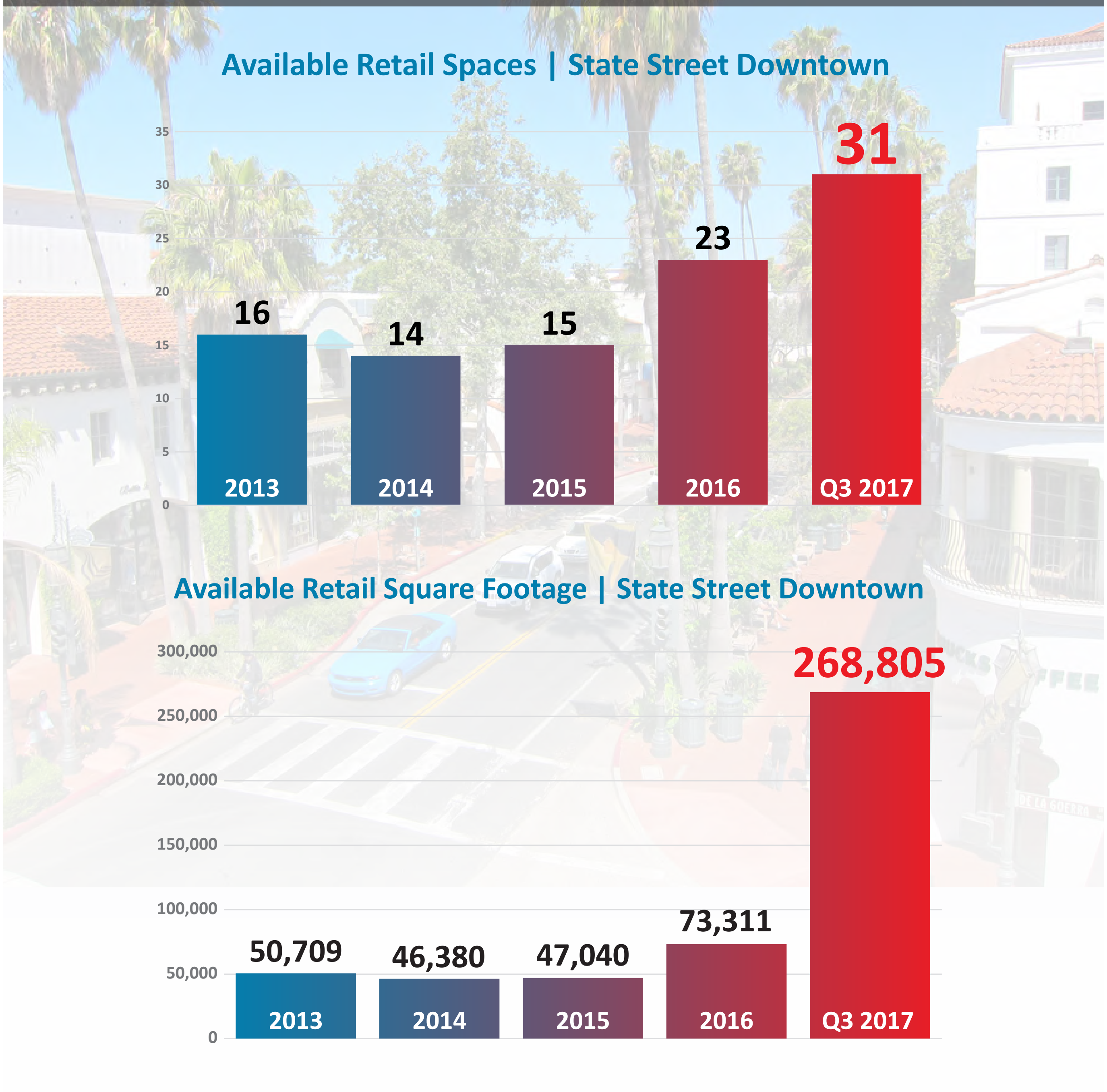
314 STATE ST., SANTA BARBARA | 8,500 SF

The former Sit N Sleep space adjacent to REI near the 101 was leased in June by Arthrokinetic Institute, a specialized gym and workout center.

Retail cont. from P. 7

In fact there were just eight new retail leases signed during the last quarter, comprising only 10,753 sq. ft. That said, it's interesting that the largest retail lease signed during the last quarter was 1,935 sq. ft. at 619 State St. leased by Blue Bee, the fashion designer/retailer who returns six years after abandoning their storefront due to the economic downturn that left many feeling the sting. While we don't know the company's motivation for re-opening shop, we will all be rooting for Blue Bee's success at a time when this community needs it most.

The State of State Street Retail in Two Simple Charts



Commercial

SALES

Chris Parker
Paul Gamberdella

Market Metamorphosis?

Despite Another Solid Year for South Coast Commercial Real Estate Sales, Changing Face of Retail Poised to Reshape the Conversation and State Street

From 2014 to 2016 we experienced the three strongest years of commercial sales on the South Coast since Radius began recording market activity in 1998. In fact 2014's record 103 transactions were nearly matched by last year's 101. And despite the fact that dollar volume dipped last year to $366 Million versus $437 Million and $439 Million in 2014 and 2015 respectively, 2016 was still a strong year by any standard.

Enter 2017 and, while we are on track for another strong year, we do appear to be in a bit of a transition period (call it transformation?) with some divergent storylines emerging, particularly involving industrial and retail properties in the downtown area.

First let's take a look at industrial properties which are selling at all-time high prices. The new average price per square foot for industrial properties in downtown Santa Barbara has soared to about $376/SF. To put this in perspective, downtown industrial properties are selling at a price per square foot which is similar to some prime State Street retail buildings. For example, 1207 State St., an approximately 6,000 sq. ft. retail building adjacent to Benchmark Eatery near the corner of State and Anapamu, is currently on the market for $396 per square foot.

Now diving into retail. Indeed the dilemma facing downtown Santa Barbara goes well beyond vacancy and price per square foot. Whether you're an existing tenant, a property owner or a potential investor, just about everyone has a stake in the success of the city's once-thriving, hallmark commercial corridor. But yes, from an investment standpoint, with a few exceptions retail properties downtown are not guaranteed to command the price point or the attention they once did.

Some might argue the almost daily press about the nation-wide dearth of brick-and-mortar retail has itself been a negative factor impacting sales of properties on our previously popular thoroughfare. Yes, there are certainly some properties which seem to be priced at all-time high prices and sell quickly. Yet others in similar locations sit on the market with limited attention.

Consider the trophy property located at 800 State St. (corner of State and De La Guerra, anchored by Starbucks) which traded this quarter after receiving multiple offers, ultimately selling over asking at $8,625,000 or $1,084/SF and a 4.5% CAP rate. Yet other prominent properties nearby have not felt the love. The three-story corner retail building at 1001 State St. is currently occupied by Saks OFF 5TH who will vacate early next year. It has been taken off the market but the asking price per square foot was $411 which is similar to industrial properties on Haley Street.

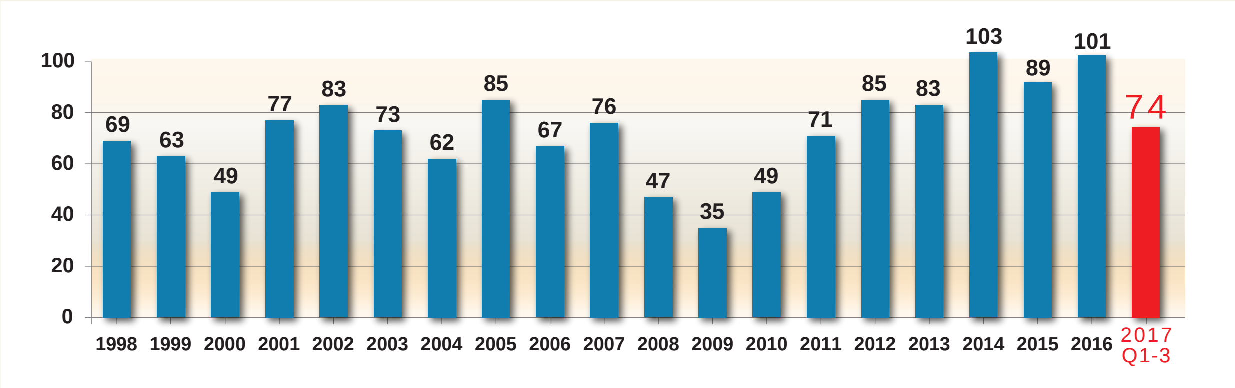
It's very clear that retail is evolving before our very eyes and the "Amazon Effect" is real. In Santa Barbara, retailers are no longer looking for the 3,000–5,000 sq. ft. spaces which are typical on State Street. The newer model is a leaner 800–1,500 sq. ft. footprint allowing for a smaller footprint with tighter inventory and greater margins.

From a broker's standpoint, these conflicting storylines make pricing properties a bit challenging. You never want to leave money on the table for your clients by pricing properties too low. You also don't want to over-price properties and watch them sit on the market looking to price reductions as the only incentive to attract attention.

We think there is opportunity for investors to creatively reshape State Street into a newer, healthier commercial

2017 SOUTH COAST COMMERCIAL SALES

Excluding Sales of Apartments



corridor, perhaps converting some retail square footage to office or residential use. Yes, that might change the complexion of State Street a bit. But for everyone who's invested in seeing downtown stay vibrant, having more bodies living, working and ultimately spending more money downtown would be a good thing.

Overall the South Coast market seems to be stabilizing or perhaps "normalizing" after what has been a very hot market for the past several years. Investors are once again focused on long term returns/CAP rates achieved by realistic current lease rates. Year to date we have seen 74 sales, just shy of the 78 sales during the same three quarters last year. In fact, Q3 2017 saw 21 sales which is an improvement over the second quarter's 19 sales, though certainly less impressive than the first quarter's 31 sales.

Heading into the fourth quarter we feel the market will continue to remain stable as the once large gap between sellers' and buyers' expectations continues to shrink.

So what does the future hold for the retail commercial real estate sector? One thing is certain, change is inevitable. Perhaps the better question is are we willing to let State Street take flight with new wings?

Q1–Q3 South Coast Commercial Sales Breakdown

Office — 29 Transactions

(24) Santa Barbara

$230/SF – $822/SF (Avg. $524/SF)

(4) Carpinteria

$261/SF – $643/SF (Avg. $390/SF)

(1) Goleta

$514/SF

Retail — 17 Transactions

$142/SF – $1,084/SF (Avg. $701/SF)

Industrial — 13 Transactions

(7) Santa Barbara

$199/SF – $797/SF (Avg. $409/SF)

(5) Goleta

$158/SF – $309/SF (Avg. $214/SF)

(1) Carpinteria

$217/SF

Land — 13 Transactions

Hospitality — 2 Transactions

74 Total Transactions

Notable 2017 Transactions

Q1 Sales

26 Castilian Dr., Goleta | $13,625,000 ***(Above)***

In an off market transaction, this approx. 75,239 SF two-story industrial building was purchased for $13,625,000 by an exchange buyer selling multiple properties. Radius helped the buyer time the various exchanges to provide the buyer equity consolidation as well as a more stable stream of income. The building provides some of the highest quality industrial space on the South Coast combined with two-story, fully leased office space.

222 E. Canon Perdido St., Santa Barbara
$5,306,700 ***(Right)***

This was a vacant 14,637 SF office building that was very cut up and many investors thought you would either have to tear it down or do a major renovation. Alternatively, a younger investor saw the need for small office space in Santa Barbara and purchased the property for $5,306,700 ($363/SF) in March. After cleaning up the property he was able to lease out 13,806 SF (94%) of the building in seven months to multiple small office tenants.

1820 De La Vina St., Santa Barbara
$18.6 Million

Oak Cottage of Santa Barbara Memory Care is a Senior Living Facility built in 2015. The recently constructed, 44-bed facility was sold in March of this year for $18.6 million by a California based operator.

Q2 Sales

71 S. Los Carneros Rd., Goleta | $24,000,000
(Below)

This ±105,257 SF freestanding Office/R&D building on 10.2 acres was formerly occupied by Allergan who spent millions on tenant improvements before abruptly vacating. The top-condition property offers one of the best office/R&D locations on the South Coast. The project know as Campus Pointe was purchased by local investors in May for $228/SF. In the second quarter's largest lease, Apeel Sciences, a natural plant-based technology company, subleased the entire building in April. Launched out of UCSB, 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.

6402 Cindy Ln., Carpinteria | $16,952,946 ***(Above)***

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 a year later.

Q3 Sales

800 State St., Santa Barbara *(Above)*
$8,625,000

Anchored by Starbucks, this trophy, multi-tenant retail/office building prominently situated on the corner of State and De La Guerra Streets sold to a local investor in August for $8,625,000 or $1,084/SF and a 4.5% CAP rate. Other properties on the once brimming commercial corridor have not seen the same level of interest from investors in recent months.

19–31 E. Canon Perdido St., Santa Barbara
$8 Million

The El Centro Building was purchased by a local investment group for $8 Million ($441/SF) on September 6. The property is a well located older office which was leased but at under market rents. The new investors plan to completely renovate the building but keep the small offices and lease to multiple smaller office tenants which seem to be more prevalent in the market place.

125 S. Calle Cesar Chavez, Santa Barbara *(Below)*

$6 Million

This approx. 2.41 acre property was purchased in August for $6 Million. The four contiguous parcels near Santa Barbara's East Beach represent one of the city's few remaining pieces of undeveloped, commercial industrial property in the city's thriving waterfront area.

The property was listed for $5 Million and had a number of challenges for prospective buyers to deal with (contamination, wetlands, likely need to accommodate a future bike path, parking easement, required setbacks, etc.). Despite these issues more than 30 qualified buyers requested due diligence material related to the offering prior to the offer deadline.

After receiving multiple offers at the offer deadline, the property sold for $1 Million above the asking price to an owner-user that owns property adjacent to the offering. The buyer had an immediate use for the land and felt confident in their ability to remediate the environmental issue and deal with other property related challenges in a timely manner.

The Hotel Californian

The most talked about development project on the South Coast over the past several years has been The Hotel Californian, so we would be remiss if we didn't address it in this report. Especially because on October 5th the long anticipated, 121-room hotel finally opened its doors to the public. The stately property straddles three of the four corners at State and Mason Streets with retail suites and hotel rooms on all three corners. The majority of the hotel rooms are located on the two corners south of Mason Street (split almost equally at approximately 60 on each side) with only the presidential suite on the third corner north of Mason Street.

The retail component to the development includes both hotel operated spaces and non-hotel operated spaces.

The two spaces which are currently open are the hotel owned, high-end restaurant Blackbird and the hotel owned bakery/coffee shop Goat Tree. The hotel owned gift shop is still under construction.

The property also includes six commercial spaces not leased/owned by the hotel, three of which have been leased with the others still available. New tenants include restaurant Finney's Crafthouse, Melville Winery and McConnell's Fine Ice Creams. Finney's will be an upscale gastropub located on the corner of State and Mason (formerly the famed Rocky Galentis). On the other side of the street across from the Indigo Hotel and the new Moxi Museum will be Melville and McConnell's.

Multifamily

Steve Golis
Lori Zahn
Brian Johnson

SALES

Breakpointe Apartments | 6672–6690 Abrego Rd., Isla Vista | $33.7 Million

The two largest South Coast multifamily sales to date in 2017 involved neighboring properties purchased in January as a package in an off market deal, combining for a 4.5% CAP and $347,651 PPU. The 94-unit Breakpointe Apartments at 6672–6690 Abrego Rd. sold for $33.7 Million while the 55-unit Coronado Apartments garnered $18.1 Million.

South Santa Barbara County

South County multifamily sales have continued this year well behind 2016's extremely brisk pace (there were a record 42 sales of 5+ unit properties last year), and the only reason we are not seeing more is pure lack of inventory. The trend of historically low availability continued through the end of Q3 2017, while demand remains high for apartments particularly in Santa Barbara and Goleta. Still, some sellers are beginning to loosen up on their holdings as they see we remain in a seller's market.

During Q3 2017 there were 11 sales of properties 5+ units in size, three more than the first two quarters combined. This brought the year-to-date total to 19 (versus 29 this time last year). Exchange dollars continue to drive sales. There are still properties in escrow so we should see more transactions in the 5+ unit range by year end. CAP rates continue to hover around the mid 3–4% range. The appeal to the South County still remains a blue chip investment.

Financial markets remain very positive for multifamily. Interest rates remain relatively low and lenders are very competitive in trying to garner business. We continue to see loans in the 4% range and we expect that to continue through the end of 2017. All of these factors combine to show a continued robust market for the multifamily sector. Overall, conditions we are seeing favor growth in the multifamily area.

Going forward the demographic makeup of our population will continue to support renting as baby boomers look to downsize, while millennials, estimated to represent a population of 70 million by 2024, would rather spend their earnings on travel and put off buying a home until later in life.

The national vacancy rate rose to 4.5% in Q3 2017. Locally it's another story. Once again we are seeing an extremely low vacancy rate for the City of Santa Barbara at around 1.2%, compared to 1.38% in Q4 2016. The vacancy rate for Goleta is around 2.28% and Isla Vista 2.14% (per the Dyer-Sheehan April 2017 Report). To the South of Santa Barbara, Carpinteria is seeing a low vacancy rate of 1.47%. Rents range from approximately $1,695 to $1,850 for a one bed/one bath apartment depending on location.

47 OCEAN VIEW AVE., SANTA BARBARA | 15 UNITS
Sold in August for $4,175,000 | 4.12% CAP Rate

Due to very limited inventory of available rental units in the South County, landlords have seen flat rents in 2017. We remain in an environment where too many people are chasing after too few available rentals, thus keeping our rents at a stable basis which makes the Central Coast so attractive to invest in.

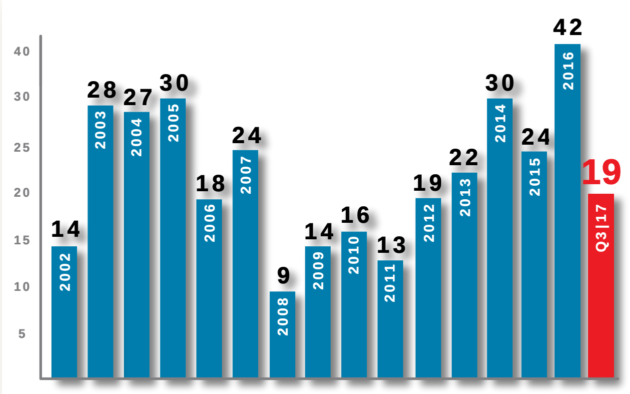
There has been a lot of talk about the AUD program being either a savior or bane to Santa Barbara's housing market. To date, we've not had enough time to determine which is the case. Currently, per a city website, we have had 1,052 new units that are pending, approved, have permits issued or have received a certificate of occupancy. That's huge!

However, what ends up getting approved doesn't always get built. Out of that 1,052 number there have only been 103 units that have received a certificate of occupancy and The Marc on upper State Street, which continues to rent luxury apartments at approximately $2,500+ for a one bedroom, accounts for 89 of those units. The result is that we've not seen a true impact yet on the housing market from the AUD program and to judge it based on one large project is unfair. A general rule of thumb is that approximately 30% of units that get permits will actually get built so we're only looking at an increase of approximately 300 units. That's well below what is needed in this area for new housing.

So why does Santa Barbara and the rest of the South Coast continue to be attractive to investors? A lack of housing combined with a small sales inventory means that buyers who can be flexible with their financing will see the greatest opportunities. We've seen the impact of new housing on downtown Los Angeles, for example, and it is driving investors into the outlying areas as vacancy rates have reached 12%. That's the highest level since 2000. Landlords are offering more and more concessions to fill vacancies.

That's not to say that parts of Santa Barbara haven't seen an impact from new construction. UCSB has been prolific in building in Isla Vista and there are more vacancies in that market currently than have been seen in some time.

2017 SOUTH COUNTY SALES | 5+ UNITS



Notable Q3 2017 South County Transactions

- *214 S.Canada St., Santa Barbara — 52 units (Mobile Home Park)*
  Sold 8/15/17 for $6,725,000 | 4.54% CAP
- *4002 Via Lucero, Santa Barbara – 18 units*
  Sold 8/10/17 for $5,200,000 | $288,888 PPU
- *47 Ocean View Ave., Santa Barbara — 15 units*
  Sold 8/18/17 for $4,175,000 | $278,333 PPU | 4.12% CAP
- *1223 Garden St., Santa Barbara — 11 units*
  Sold 7/31/17 for $4,200,000 | $381,818 PPU
- *6551 Del Playa Dr., Isla Vista – 9 Units*
  Sold 9/28/17 for $2,160,000 | $240,000 PPU

WOODSTONE APARTMENTS (NOW VINE BY VINTAGE)
401 W. PINE AVE., LOMPOC | 204 UNITS
Sold in March for $29 Million

North Santa Barbara County

Santa Maria and Lompoc experienced a slower year than the South County in recorded sales in Q3 2017 and that, again, is simply a result of supply and demand. Properties in Lompoc, Solvang and Santa Maria receive high attention upon coming to market and quickly enter escrow. During Q3, the North County saw just one transaction involving a property 5+ units in size with 323 Lolita Lane in Santa Maria (18 units) selling in July for $2,250,000. There were nine transactions of 2–4 unit properties. The largest sale of 2017 to date involved the 204-unit Woodstone Apartments (now Vine by Vintage) selling for $29 Million in March. Rents in North County remain stable. We expect investors to continue seeing the benefit of investing in North County apartment properties.

Ventura County

In Ventura County interest in multifamily assets continued to increase in 2017 but inventory simply has not been there. The county's multifamily housing market continues to remain extremely strong. The annual income needed to buy a home in Ventura County is $127,280, according to an MFE article. With vacancy rates approximately 2.66% (Dyer Sheehan Jan. 2017), demand should continue to outpace supply, especially as there will continue to be more mature "renters by choice" who are attracted to a low-maintenance lifestyle.

During Q3 there were only four sales of 5+ unit properties, including 443 E. Occidental Dr. in Oxnard (29 units) which sold for $4,150,000; and 1400 Edgewood Way, Oxnard (22 units) which sold for $3,100,000. We know of three 5+ unit properties currently in escrow. There was also a flurry of activity in the 2–4 unit range with 39 sales in Q3.

The Ventura market in particular has seen a sizable increase in permitted units and units under construction. Ventura and Camarillo have the largest numbers currently under construction and coming online soon. As a whole, the county has over 1,500 multifamily units approved in 2017 alone. This will translate to a much needed boost to their housing market.

In addition, there are thousands more single family homes in the pipeline which should help lessen the rise in rental rates we've seen over the last few years. Ventura does face an issue in attracting businesses as we've seen numerous large companies downsize or leave the area. The county must address this problem if it's going to keep all of those new homes and apartments full.

Summary

Interest in multifamily assets has remained strong this year throughout all our markets, despite a lack of inventory to satisfy demand. The appetite to own larger properties up and down the Central Coast has perhaps never been greater. In fact we are seeing a number of investors from outside the area chomping at the bit to enter this multifamily market.

As long as homes in our area continue to become less affordable, and more and more would-be buyers continue to opt for more flexibility as renters, we are going to see vacancy rates remain very low. Interest in multifamily investments will therefore remain high as you are hard-pressed to find a more solid commercial real estate category when it comes to ROI. Indeed owners who have been holding off just may see the value of entering the seller's market at this time.

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