

## COMMERCIAL SALES SUMMARY

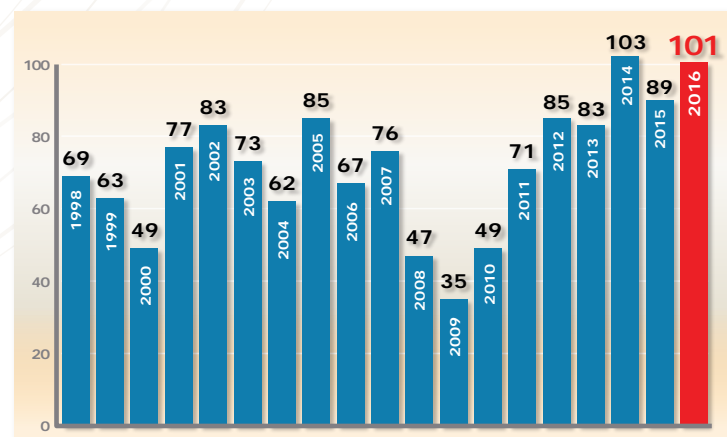
### Ho hum, just another (almost) record year

Based on Radius records going back to 1998, 2016 was another impressive year for commercial sales on the South Coast. The year came to a strong close with 101 sales transactions, just two shy of 2014's record 103 sales. In spite of a slow recovery from the Great Recession, commercial sales on the South Coast for the past half decade have not fallen below 83 deals for each of the last five years, reinforcing the region's status as a relatively safe haven for real estate investments.

That said, despite 11 more transactions in 2016 than in 2015, total sales volume and average sale size fell off pace. For example, 2016 saw total transaction volume of \$366 Million, compared to \$437 Million in 2015 and \$439 Million in 2014. While this certainly does not suggest that property values are dropping, individual deal sizes are. A possible trend to monitor, but probably more of an anomaly due to the fact that inventory size and quality vary from year to year.

In fact the story of deal size is the same as in previous year's reports: we are almost always out of balance between limited supply and exuberant demand, especially for quality assets. In light of the South Coast continuing to be an extremely stable market with a number

2016 SOUTH COAST COMMERCIAL SALES



\*Excluding sales of apartments. \*\*19-year average = 72 sales/year.

*Commercial Sales Continued on P.2*

### South Coast Leasing | Vacancy Rate & Avg. Gross Asking Rate Comparisons

		VACANCY RATES (%)					AVG. ASKING PRICES (\$/SF GROSS)				
		Q4 15	Q1 16	Q2 16	Q3 16	Q4 16	Q4 15	Q1 16	Q2 16	Q3 16	Q4 16
Office/R&D	Santa Barbara	3.60%	3.40%	4.00%	4.10%	4.90%	\$2.99	\$2.87	\$2.88	\$3.01	\$2.98
	Goleta	7.70%	9.00%	8.30%	8.50%	9.00%	\$1.75	\$1.84	\$1.88	\$1.82	\$1.85
	Carpinteria	1.30%	1.00%	0.30%	1.80%	2.60%	\$1.35	\$1.48	\$1.40	\$2.14	\$1.90
Industrial	Santa Barbara	0.30%	0.40%	0.10%	0.10%	0.40%	\$1.48	\$1.71	\$1.75	\$1.86	\$1.80
	Goleta	5.10%	5.50%	4.40%	3.80%	3.90%	\$1.48	\$1.57	\$1.68	\$1.71	\$1.64
	Carpinteria	2.80%	2.50%	1.50%	4.70%	2.10%	\$0.82	\$1.24	\$1.20	\$1.07	\$0.98
Retail	Santa Barbara	1.30%	1.90%	1.40%	1.60%	1.60%	\$3.80	\$3.95	\$4.21	\$3.97	\$3.97

## COMMERCIAL SALES SUMMARY

*Continued from P.1*

of well capitalized local and out-of-town investors still wanting to buy here, we expect deal size to continue to be as strong as inventory will allow.

### Interest Rates on the Rise

The real story for all investors, real estate or otherwise, continues to be the increase in interest rates which was precipitated in part by the Fed move in December.

This leads us to the buzz about the squeeze between borrowing rates and cap rates becoming a real concern for some investments, especially as some gateway, class-A markets (LA, NY, SF) become even more overheated. This was a cautionary note pointed out in our early 2015 report. Currently, there is little indication that this first rate hike will be followed by any appreciable increase in cap rates for prime properties. However, this will most likely change in the event of further rate increases.

Assuming the demand for yield stays strong, one of two things will happen as rates increase: cap rates for core properties will increase to offset the loss of returns or buyers will head to secondary markets and weather the risk for higher returns. This is usually an indication that the market has started to top out.

### Development

Most of the development projects identified in previous reports are well underway and/or coming to conclusion. Namely the 89 unit apartment project, The Marc, on upper State Street, which

**SOLD | ST. MARY'S SEMINARY**  
1964 LAS CANOAS RD., SANTA BARBARA | \$11 MILLION



THE HOTEL CALIFORNIAN, SANTA BARBARA

is currently taking rental applications; the 123 room Hotel Californian (formerly Entrada de Santa Barbara) which is expected to be completed this Summer; the MOXI/Wolf Museum which is opening at the end of January 2017; two Goleta hotels, the 138 room Hilton Garden Inn and the Residence Inn by Marriott, both of which have broken ground and are well underway; the 465 unit Village at Los Carneros and the Estancia (former Sandman) 72 unit condominiums.

Additionally, there are a slew of apartment units throughout the City of Santa Barbara that are either in the application, approval or construction stages that are hoping to be developed under the auspices of the City's Affordable Unit Density (AUD) overlay that allows higher density in predominantly urban in-fill locations. Parenthetically, that policy is currently undergoing some serious scrutiny due to its popularity. Go figure.

### Notable Q4 2016 Sales

**1964 Las Canoas Rd., Santa Barbara | \$11 Million**

October saw the close of this 35+ acre property formerly known as St. Mary's Seminary. The ±55,223 SF complex sold to an investor who intends to reposition the property into a rehabilitation center. This was the first change of ownership in over 40 years.

*Continued on P.3*



## COMMERCIAL SALES SUMMARY

*Continued from P.2*

### Notable 2016 Sales (cont.)

#### 126 E. Haley St., Santa Barbara | \$8,167,500

This property sold in an off-market transaction this past December. The 30,299 SF building sold for \$269/SF with an in-place CAP Rate of 4.58%. The two story commercial building consists of ground floor industrial/retail space and second floor office suites. The buyer intends to do a major renovation modernizing the property and enhancing the tenant experience.

#### 700 Linden Ave., Carpinteria | \$5.2 Million

The ±19,700 retail building located in the heart of Carpinteria closed in November and is one of the biggest retail buildings to have traded on Linden Avenue in recent years. The property is vacant, was sold off market and is currently available for lease. The landlord will be pursuing entitlements to redevelop the property into a mixed-use project.

#### 1936 State St., Santa Barbara | \$4,950,000

This building on the corner of Mission and State Streets was built in 2013 and leased to 7-Eleven and Subway. The ±3,427 multi-tenant retail building sold for an astonishing \$4,950,000 (\$1,444/SF) in December with an in-place CAP Rate of 3.85%.



SOLD OFF MARKET | 126 E. HALEY ST., SANTA BARBARA  
30,299 SF INDUSTRIAL | \$8,167,500

## LEASING SUMMARY

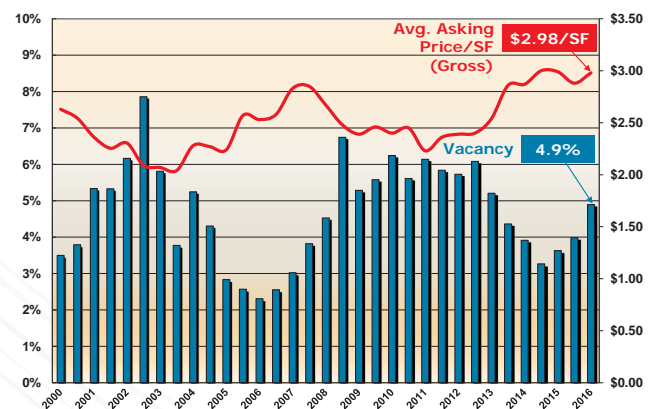
### Santa Barbara Office

Santa Barbara's office sector remained relatively stable in 2016, finishing the year with a modest increase in vacancy rate to 4.9% due primarily to downtown vacancies, the largest being the 14,148 SF former Rabobank building at 33 E. Carrillo St. that came on the market in November. In fact the average vacancy rate for the last 10 years is 4.9%, with a high of 6.3% (2010) and a low of 3.0% (2007). Average gross asking rates for the fourth quarter were nearly unchanged at \$2.98/SF.

The market remained driven primarily by large renewals and lease expansions with no new leases in the fourth quarter over 5,500 SF. The largest lease of the year came in the first quarter with Kaplan University taking approx. 23,000 SF of space vacated by Brooks Institute at 27 E. Cota St. Another notable lease occurred in September with Impact Hub taking approx. 10,000 SF of high tech open office space at 10 E. Yanonali St. in the Funk Zone.

As the market in Carpinteria has tightened and Goleta remains stable, look for some of the larger vacancies downtown to be filled by tenants that may have landed in Goleta or Carpinteria and the vacancy rate to head back down to around 4%.

SANTA BARBARA OFFICE VACANCY



*Leasing Continued on P.4*

## SOUTH COAST LEASING SUMMARY

*Continued from P.3*

### Goleta Office

In contrast to Carpinteria, Goleta's office sector has remained relatively consistent over the last two years. We have previously discussed the impending increase of available office space in Goleta but that inflow of product has yet to arrive or has been backfilled by growing local companies. The headline lease of the fourth quarter was Pacific Design expanding into 38,000 SF at 6300 Lindmar Dr. Other than this large lease many of the deals were less than 10,000 SF. There remain a few larger vacancies in Goleta, so if a couple of larger deals take place in the first quarter of 2017, we could see the vacancy rate tick down below 8%.

### Carpinteria Office

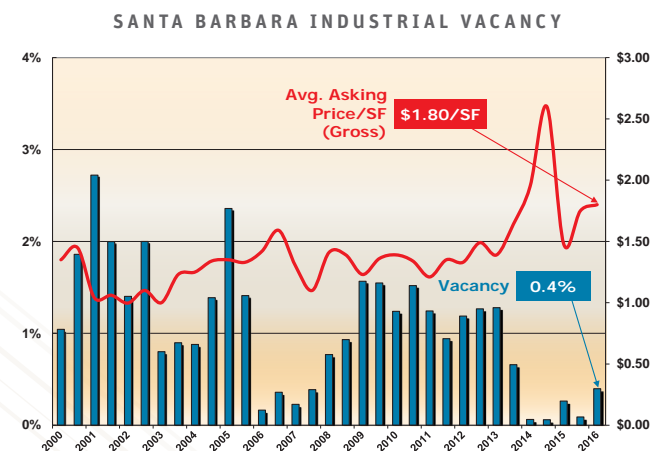
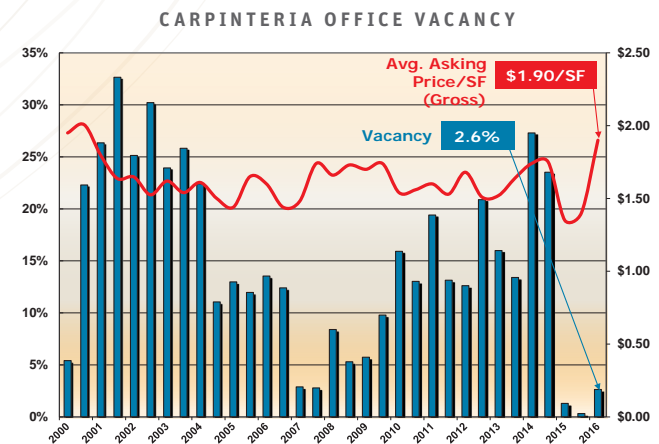
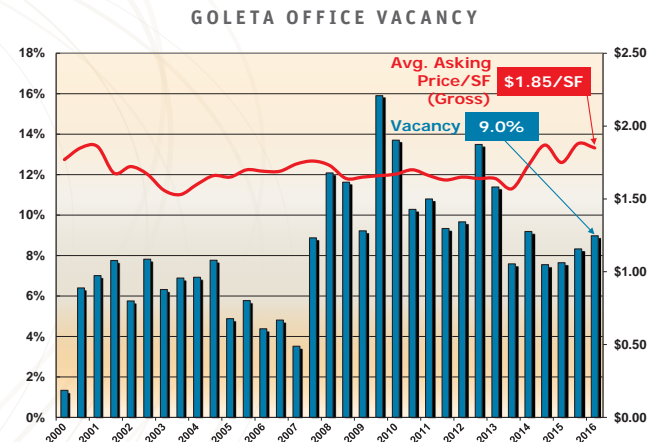
For the past 15 years Carpinteria's office sector was the more affordable option compared to Goleta. This changed over the past year with Carpinteria tightening and surpassing Goleta in average asking rates. Just a few years ago leases on Eugenia in Carpinteria were happening at \$1.15/SF NNN and we recently saw a 35,500 SF lease with ProCore for \$1.85/SF NNN.

The year ended with the vacancy rate ticking up slightly from 1.3% at the end of 2015 to 2.6% in the fourth quarter of 2016. A few spaces came on-line offering at least a few available options for potential expanding tenants. With the continued success of ProCore, Microsoft and LinkedIn, it would seem this market should remain relatively tight for the foreseeable future.

### Santa Barbara Industrial

Very little to say again about Santa Barbara's industrial leasing sector, which has historically been the tightest in the South Coast market. The vacancy rate increased slightly from zero percent in the third quarter to now just 0.4% with only two vacancies at the time of this report. We don't see any relief for industrial users as residential projects have compressed industrial land/buildings forcing many companies to the north or south.

*Leasing Continued on P.5*



LEASED | 10 E. YANONALI ST., SANTA BARBARA  
OFFICE | APPROX. 10,000 SF

Impact Hub leased this high tech, open office space in the heart of the Funk Zone in the third quarter of 2016.



## SOUTH COAST LEASING SUMMARY

*Continued from P.4*

### Goleta Industrial

Goleta's industrial vacancy has steadily declined from 5.1% in the fourth quarter of 2015 to 3.9% by the end of 2016. There are eight existing vacancies available in the City of Goleta totaling 165,510 SF. There continues to be a great deal of market interest in a number of spaces. We expect vacancy to continue to decrease while gross lease rates begin to climb through 2017.

### Carpinteria Industrial

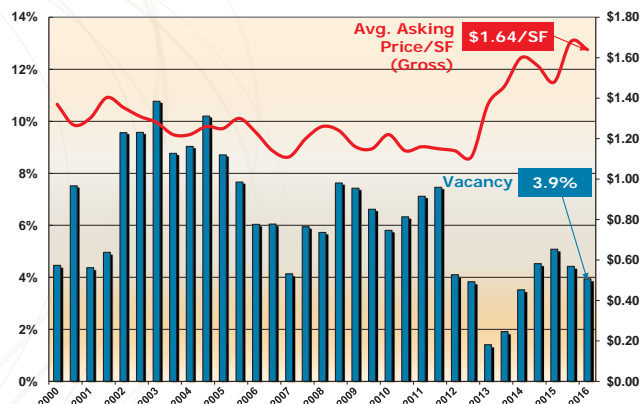
The Carpinteria industrial sector has continued to show signs of strengthening with vacancy dropping from 4.7% in the third quarter to now just 2.1%. Only three industrial vacancies remained by the end of the fourth quarter for a total of 26,814 SF, and two of those should have a lease signed shortly. This will bring the sum total of available space in Carpinteria to just 2,000 SF.

One notable deal was the Lease Assignment of 34,400 SF to Procore from Lucca Antiques. This transfer of lease is not intended for traditional industrial use, but will be used to increase parking, gym facilities and office area for the company. The lack of inventory over the last year has stabilized the lease rates over 2015 year and we will see an increase in rates as the year continues.

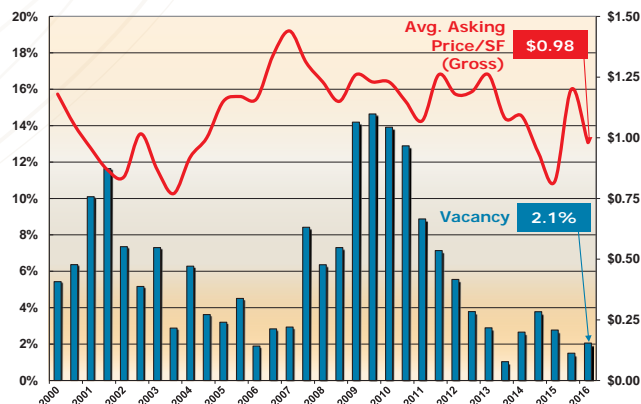
SUBLEASED | 6395 CINDY LN., CARPINTERIA  
INDUSTRIAL | 34,400 SF | PROCORE



GOLETA INDUSTRIAL VACANCY



CARPINTERIA INDUSTRIAL VACANCY



### Santa Barbara Retail

Of course the big news in Santa Barbara's retail sector is the impending closure of Macy's in the Paseo Nuevo Mall this Spring. That's 140,000 SF of space that will become vacant. Possible options going forward might be another department store or converting the property to mixed use, hotel or multi-tenant retail over the next few years. The recent news will further compound the discussion about the need to reinvent State Street once again.

While the vacancy rate for retail in Santa Barbara, Montecito and Summerland remains at a very low 1.6%, vacant spaces on State Street have the local business community very concerned. In the fourth quarter of 2016 there were 30 State Street properties available for lease, comprising over 89,000 SF. The local Downtown Organization has recently hired a consulting firm to prepare a report to

*Leasing Continued on P.6*

## SOUTH COAST LEASING SUMMARY

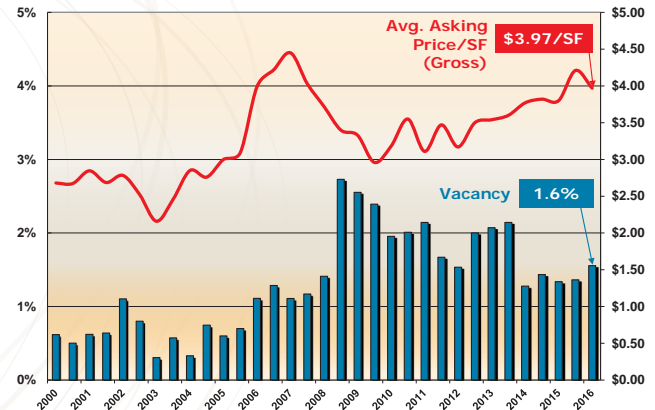
*Continued from P.5*

hopefully offer up some suggestions on how to improve the retail experience on State Street.

Average Gross Asking Rates increased slightly from \$3.80/SF at the end of 2015 to \$3.97 at by the end of 2016. Square footage available for lease also increased by about 16%, from 140,500 SF at the end of 2015 to 163,371 SF at the end of 2016.

During the fourth quarter there were 17 leases executed comprising a total of 35,111 SF. The average contract lease rate for those signed leases was \$3.70/SF Gross. The largest lease signed during the quarter was about 6,900 SF taken by Bluewater Grill at 15 E. Cabrillo Blvd., the old Rusty's Pizza location.

SANTA BARBARA RETAIL VACANCY



## MULTIFAMILY SALES SUMMARY

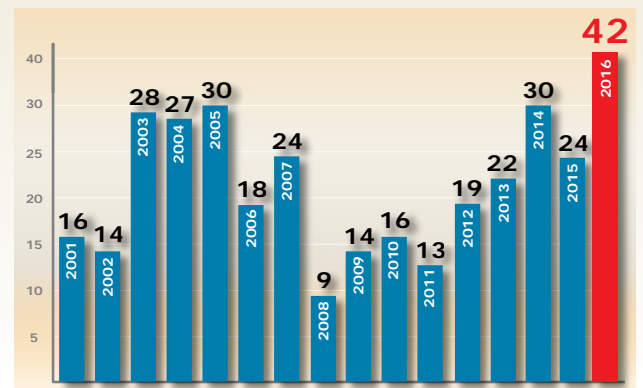
### South County

There were many surprises in the fourth quarter of 2016. Election results surprised many to say the least, and the bump in interest rates that occurred after definitely had an impact on real estate investors. The two weeks following the election resulted in the 30 year fixed rate mortgage receiving an increase of 50 basis points to a rate of 3.94%. However, we are still seeing what we witnessed throughout 2016 with the multifamily investment market along the South Coast holding steady.

Apartments remain extremely attractive to investors. According to data presented in Reis' Apartment Sector Preliminary Trends report, Q4 shows a 4.1% national vacancy rate down from 4.2% at the end of Q3 and from 4.3% at the end of 2015. Job growth should remain healthy and apartment demand will remain consistent.

The fourth quarter of 2016 saw 14 sales of multifamily properties 5 units or more in size. That means the year ended with 42 sales in the South County, a record-crushing year with 12 more than the previous high of 30 recorded in both 2005 and 2014. That's an incredible

2016 SOUTH COUNTY MULTIFAMILY SALES



performance considering the year started with just five sales of properties this size in the first quarter. Sales of multifamily properties in the 2-4 unit range are also doing very well, with 17 deals in the South County during the fourth quarter.

The largest sale of the year in Santa Barbara came at the end of the third quarter, with the 50-unit Villa Carrillo Apartments at 520 W. Carrillo St. selling for \$14,875,000 or \$297,500/Unit. Highlight sales for the fourth quarter include the \$6.5 Million sale of the 28-unit OHM Beach Apartments at 5615 Carpinteria Ave. in Carpinteria; the 42-unit property at 910 Camino Pescadero in Isla Vista

*Multifamily Continued on P.7*

**SOLD Q3 | VILLA CARRILLO APARTMENTS | 50 UNITS**  
**520 W. CARRILLO ST., SANTA BARBARA | \$14,875,000**





## MULTIFAMILY SALES SUMMARY

*Continued from P.6*

which sold for \$11.8 Million; the 24-unit property at 410 W. Anapamu St. in Santa Barbara which sold for \$5,925,000; and the 4-unit Miramar Cottages at 55 Eucalyptus Ln. which sold for \$4,550,000.

Coming online for lease this March on upper State Street is The Marc with a one-bedroom luxury unit in this new complex advertised at \$2,500/Mo. In fact the many class A units coming online are driving renters to B and C class buildings to try to get a reasonable rent and more bang for their buck.

Rents will continue to rise as the supply tightens with the South County vacancy rate around 1.68%.

### North County

The market in North County is hot, hot, hot! There were a total of eight sales for 5 units or more for a total of 403 units sold during the year. Sale activity is high in North County as buyers are finding value-add properties to augment their portfolios. The 2-4 unit properties saw a flurry of activity over the course of 2016 with five sales in the fourth quarter, bringing the total for the year to 28 2-4 unit sales and eight 5+unit sales for a total of 36 for the year. We see 2017 being another active year.

Highlight sales for the year include the 4-property portfolio of The Diplomat I, II and III properties and 375 Burton Mesa Blvd., which sold for a total of \$21,835,000. The largest sale of the year was the 208-unit Country Oaks Apartments which sold for \$37 Million.

Average PPU for 5+ unit properties over the last year was \$138,773 while CAP rates were around 4.5-5%. We will continue to see an increase in rents for the area with a very low vacancy rate around 2.8%.

### West Ventura County

Ventura vacancy rates will continue to remain low at about 3.1% county-wide with the region's population growth expected to increase 3.4% and exceed 885,000 by 2020. The city of Ventura is seeing a vacancy rate of less than 2% and Oxnard is right on their heels around 2%. The lack of new housing, either single family homes or apartments, has produced tightening in the market. This translates to higher rents and higher prices for single family homes. Home prices are expected to increase 5% in 2017 according to a California Economic Forecast report. We predict the high cost of home ownership will continue to keep people in the rental market for longer periods of time especially with rising interest rates.

Unemployment in Ventura is approximately 5.2% and is estimated

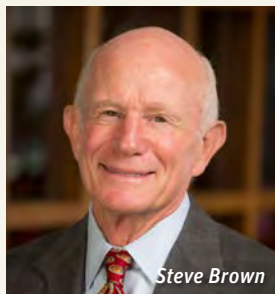


910 CAMINO PESCADERO, ISLA VISTA  
SOLD OCT. 2016 | 42 UNITS | \$11.8 MILLION

to shrink to 4.9% in 2017 as the economy continues to grow. We forecast rents will continue to increase even as new units come to the market. The majority of these luxury units will come with a hefty price tag. Additionally, the SOAR initiative has been renewed through 2050 limiting the development of new units. This will also serve to push rents higher and vacancies lower. In short, we see that there are simply not enough new units to provide for all of the new household formation that is happening.

Demand for Ventura County investments remains strong. At the end of the fourth quarter there were six sales of properties 5 units or more in size. Five of these sales were for properties 10 units or larger and three were for properties with 100 units or more. In all of 2016 there were 26 sales of properties with 5 or more units and five of those were for complexes of 100 units or larger. West Ventura County currently has 6 availabilities of properties 5+ units. Notable sales for the fourth quarter include the 168-unit Rancho Solana Apartments in Oxnard which sold for \$30.7 Million; the 170-unit Club Pacifica in Oxnard which sold for \$29,350,000; 11 units at 175 S. Ventura Ave., Ventura which sold for \$4,995,000; 36 units at 441 Cuesta Del Mar Dr., Oxnard which sold for \$3,650,000; and 14 units at 540 Cuesta Del Mar Dr. which sold for \$2.6 Million. There were a total of 19 sales of properties 5+ units in size in West Ventura County in 2016.

The average CAP rate for Ventura County is hovering right around 5.15%. Price per unit continues to average around \$200,000 but the range will vary wildly depending on location and quality. In the outer reaches of the county we are seeing prices as low as \$100,000/unit while in the best parts of Westlake Village and Thousand Oaks we see over \$300,000/unit.



Steve Brown



Mike Chenoweth



Gene Deering



Rob Devericks



Lisa Engel



Brad Frohling



Arick Fuller



Paul Gamberdella



Steve Golis



Bill Hagelis



Linda Hagelis



Rob Hambleton



Austin Herlihy



Brian Johnson



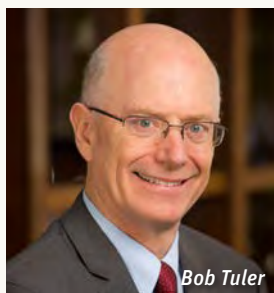
Jon Ohlgren



Chris Parker



Robert Rauchhaus



Bob Tuler



Jim Turner



*The Radius Team. Monumental Results. Again & Again.*

# 2016

## +\$255 MILLION

TRANSACTION VALUE

## 70

COMMERCIAL &  
BUSINESS SALES

## 125

LEASES | 534,400 SQ.FT.