

COMMERCIAL SALES SUMMARY

The Momentum Continues

The high annual transaction volume that started in 2014 continues. Last year was another strong year with 97 total sales, just six short of 2014's record 103. The majority of commercial properties sold in 2017 were office buildings (37) followed by retail (24). Though not for lack of demand, industrial and land sales totaled just 17, while there were also two hotel sales. The 4th Quarter's 22 sales were down from Q1's high of 31, yet still above the 17 sales-per-quarter average and in line with 2nd Quarter (19) and 3rd Quarter (25).

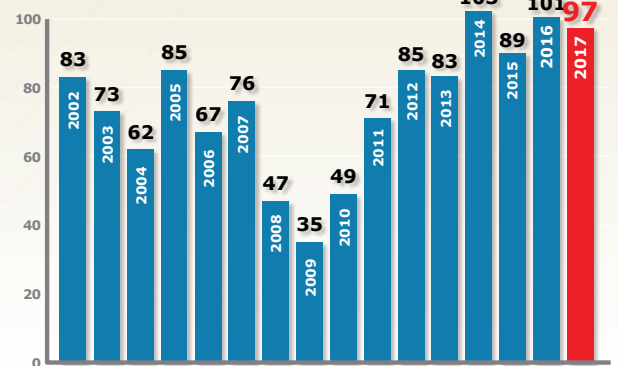
Total sales volume for the year remained strong at \$354 million compared to \$366 million in 2016, \$437 million in 2015 and \$439 million in 2014. While it's clear that annual sales volume has steadily been on the decline since 2014, it's worth noting the exclusion of one monstrous transaction which would have more than doubled 2017's figure, painting a rather inaccurate picture of the year's true sales activity. The former Bacara Resort & Spa, now part of the Ritz-Carlton family, reportedly traded in late September for a whopping \$375 million!

The "Tale of 2 Markets" continues...

While State Street and, in general, retail sales and leasing continue to struggle, on the opposite side of the spectrum industrial buildings in Santa Barbara continue to set new record highs. In 2017 the average price per square foot (PSF) for industrial buildings in downtown Santa Barbara was \$413. Compare this to the two Q4 State Street buildings that sold at 1811 State St. (office; \$482 PSF), and 3891 State St. (the Galleria; \$366 PSF). Additionally, there are retail buildings on State Street in escrow that should close below \$400 PSF in Q1 2018. While there is a clear discrepancy in the PSF paid for leased buildings with good tenants (such as 800 State St., occupied by Starbucks and selling in the 3rd quarter for \$1,084 PSF) and vacant buildings on State Street, we do think there are good deals on State Street if buyers are willing to take the risk of repositioning vacant buildings.

In general, for assets above \$4 million we are seeing CAP rates starting to rise. It seems we have seen the bottom of CAP rate compression in our market and we expect CAP rates for larger assets to rise congruently with 10-year treasury rates.

2017 SOUTH COAST COMMERCIAL SALES



Excluding sales of apartments. Prior 15-year average = 74 sales/year.



SOLD — 8301 HOLLISTER AVE., GOLETA (THE BACARA)
HOTEL | 358 RMS / 78 ACRES | \$375 MILLION

Notable 4th Quarter Sales

Bacara Hotel Sale

After selling in 2013, the Bacara hotel traded again in 2017. The REITs, Carey Watermark Investors Inc. and Carey Watermark Investors II Inc., are said to have paid \$375 million (including FF&E), or \$1.05 million/room, for the resort, which sits on 78 acres and has been rebranded as a Ritz-Carlton.

Galleria Sale

The Galleria building located at 3891 State St. was purchased by Gryphon Capital, LLC in December for \$12.55 million. It was then announced that Target will be occupying the building, slated to open in October 2018.

414-420 E. Carrillo St

414-420 E. Carrillo sold in November for \$8,475,000. The project consisted of 16,995 SF of office space split between two office buildings. While the

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COMMERCIAL SALES SUMMARY CONT.

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property was sold with entitlements to build 21 apartments per the AUD program (would require the smaller 5,127 SF office building to be torn down) the new buyer does not intend to build the entitled project.

AUD Development

After the initial hype there has been a lull since the first AUD project, the Marc, received their certificate of occupancy last year. However, this year proves to be an exciting year as we anticipate the completion of the first AUD projects in downtown Santa Barbara. Thus far, according to the City of Santa Barbara's website, building permits have been issued to construct 62 high density units between two properties (33 units at 1330 Chapala St. next to the Arlington Theater; 29 units at 604 E. Cota St. near Santa Barbara Junior High), with both projects near completion. An additional 311 units have been approved and another 285 units are still pending approval. While the numbers seem high, we anticipate a significant percentage of properties in the pipeline will not see the light of day. According to local architects, roughly 30% of entitled projects actually get built. Only time will tell how many units actually get constructed.



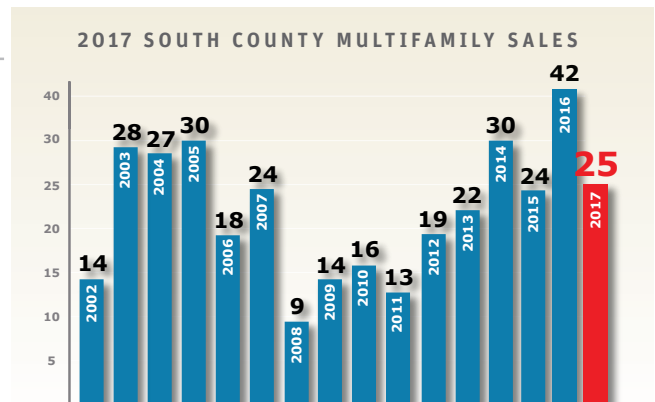
SOLD | 3891 STATE ST., SANTA BARBARA (THE GALLERIA)
RETAIL | APPROX. 34,272 SF | \$12,550,000

MULTIFAMILY SALES SUMMARY

South County

We ended 2017 with moderate sales compared to 2016 due solely to lack of inventory. It's clear strong demand for multifamily isn't going to wane any time soon. While the Millennial population grows, they remain locked out of the home-ownership game. That means as Millennials continue to save for a down payment they must rent. This trend is expected to continue for the next few years.

For the first time, the U.S. population age 65 and older broke the 50 million mark in 2016 and that number is expected to reach 70 million by 2030, 83 million in 2050 (according to the U.S. census data). According to a report by Freddie Mac, the U.S. multifamily market will see continued strength in 2018.



Sales of Multifamily properties 5+ Units in size



SOLD — 6672-6690 ABREGO RD., ISLA VISTA (BREAKPOINTE/CORONADO)
94 UNITS | \$33.7 MILLION (Largest Multifamily sale of 2017 in Santa Barbara County)

The multifamily market saw a flurry of 2-4 unit properties sell during Q4 2017, and Santa Barbara still remains the most desirable option for eager investors. The reported national apartment vacancy rate in Q4 was 4.5%.

We continued to see stagnation of 5-9 unit properties in Q4 along with no inventory for 10+ units. There were just six sales of 5+ units (compared to 11 in Q3) for a total of 25 for the year, well off 2016's 42, while there were 28 sales of 2-4 units (compared to 22 in Q3). We are seeing rental rates soften a bit and for the most part remain flat while the vacancy rate remains low.

Highlight Sales – Santa Barbara

- 120 N La Cumbre Rd. — \$11,950,000, 48 units, 10/5/17 (Land Lease, \$743/SF Land)

Multifamily Sales Continued on P.3

MULTIFAMILY SALES SUMMARY CONT.

Continued from P.2

- **215 Castillo St.** — \$4,160,000, 15 units, \$277,333 PPU, 11/27/17
- **1114 Garden St.** — \$4,250,000, 15 units, \$283,333 PPU, 10/6/17 (*off market*)
- **55 Ocean View** — \$4,275,000, 11 units, \$388,636 PPU, sold (*off market*)

Isla Vista remains the blue chip area for multifamily sales. A new record was set with UCSB receiving 109,803 applications for 2017 from prospective freshmen, further underscoring Isla Vista's highly desirable multifamily market. Q4 ended with only three sales of 2–4 units and no sales of 5+ to report in Q4 simply due to no inventory. However, we know of one very large asset in escrow and another that closed in early January, 2018. We expect to see more activity during the first half of the year. Santa Barbara County's largest sale of 2017 was the Breakpoint/Coronado Apartments for \$33.7 million.

Highlight Sales – Isla Vista

- **Breakpoint Apartments, 6672–6690 Abrego Rd.** — \$33,700,000, 94 Units, 1/25/17
 - **Coronado Apartments, 6626 Picasso Rd.** — \$18,100,000, 55 Units, 1/25/17
- (*This was an off market deal and these were purchased together as a package with a 4.5% CAP and 347,651 PPU*)

North County

There remains little to nothing available in Lompoc and Santa Maria, with just seven total sales in Q4, two of which were 5+ units. North County continues to draw investors looking for more bang for their buck. The largest sale of the year was Woodstone Apartments at \$29,000,000 for 204 Units.

Highlight Sales

- **601–613 W. Ocean Ave., Lompoc** — 24 Units, \$2,727,272, 3/7/17
 - **210, 214, 218 N M St., Lompoc** — 18 Units, \$2,045,454, 3/7/17
 - **723–728 N 4th St., Lompoc** — 13 Units, \$1,477,272, 3/7/17
- (*All three sold as one portfolio, \$113,636 PPU, 4.18 CAP*)
- **Woodstone, 401 W. Pine, Lompoc** — 204 Units, \$29,000,000, 3/28/17

Ventura

Both Ventura and Santa Barbara Counties were struck by devastating wildfires at the end of 2017, followed by mudslides in Santa Barbara County. Many neighborhoods were affected and thousands of homes and structures were destroyed throughout Ventura. Now it is a matter of supply and demand and there is less supply and more demand in the rental market.

There were a total of eight sales of 5+ complexes during Q4 for a total of 25 sales for the year, with 18 sales of 2–4 units during Q4.

Highlight Sales

- **Allure at Camarillo** — 165 Units, \$59,500,000, \$360,606 PPU, 12/1/17
- **Monte Vista I** — 52 Units, \$11,800,000, \$226,923 PPU, 11/22/17 (*off market*)
- **Monte Vista II** — 27 Units, \$5,300,000, \$196,296, 6/30/17 (*off market*)
- **808–9413 Petit Circle** — 10 Units, \$3,000,000, 10/25/17 (*4 prop. portfolio*)



SOLD | ALLURE AT CAMARILLO
165 UNITS | \$59.5 MILLION

SOUTH COAST LEASING SUMMARY

Quick Stats

Vacancy

		Q3 17	Q4 17	
OFFICE	Santa Barbara	5.6%	6.7%	▲
	Goleta	7.9%	7.6%	▼
	Carpinteria	10.0%	6.9%	▼
INDUSTRIAL	Santa Barbara	1.0%	0.7%	▼
	Goleta	2.6%	2.6%	■
	Carpinteria	1.0%	2.5%	▲
RETAIL	Santa Barbara	3.9%	3.6%	▼

Quarterly Absorption (SF)

		Q4 AVAILABLE SPACE	Q3-4 ABSORPTION
OFFICE	Santa Barbara	344,500	-58,400
	Goleta	323,900	13,400
	Carpinteria	32,000	14,700
INDUSTRIAL	Santa Barbara	31,700	14,500
	Goleta	108,300	100
	Carpinteria	33,000	-20,000
RETAIL	Santa Barbara	375,000	30,800

Avg. Gross Asking Rates (\$/SF)

		Q3 17	Q4 17	
OFFICE	Santa Barbara	\$3.03	\$3.09	▲
	Goleta	\$1.86	\$1.89	▲
	Carpinteria	\$1.78	\$1.71	▼
INDUSTRIAL	Santa Barbara	\$1.98	\$2.22	▲
	Goleta	\$1.61	\$1.61	■
	Carpinteria	\$1.38	\$1.39	▲
RETAIL	Santa Barbara	\$4.09	\$3.96	▼

Avg. Gross Achieved Rates (\$/SF)

		Q3 17	Q4 17	
OFFICE	Santa Barbara	\$2.88	\$2.69	▼
	Goleta	\$2.01	\$1.64	▼
	Carpinteria	\$2.60	\$2.04	▼
INDUSTRIAL	Santa Barbara	NO LEASES	\$1.24	
	Goleta	\$1.26	\$1.36	▲
	Carpinteria	\$0.90	NO LEASES	
RETAIL	Santa Barbara	\$5.08	\$4.36	▼

Office

Santa Barbara's office vacancy rate has been slowly increasing since 2014 bringing the current vacancy rate to 6.7%, the second highest level we have seen over the last 17 years. It would be realistic to expect lease rates to level off or decrease, likely driving vacancy rates back toward 5%.

The highlight lease in the 4th quarter was WorkZone expanding at 351 Paseo Nuevo, for a total of 14,300 square feet of collaborative office space in the second floor of the Paseo Nuevo Mall. This is noteworthy as it shows the depth of the collaborative office environment in the city. Santa Barbara currently has two Impact Hubs, WorkZones, Regus, Synergy and other shared office operations. It will be interesting to see if this commercial sub-sector keeps expanding.

Goleta's office vacancy ticked down slightly from 7.9% in Q3 to 7.6% in Q4, with an average asking rate \$1.89 PSF Gross. Surprisingly, the largest lease in Q4 was merely 5,554 SF at 150 Castilian Dr. The largest vacancy in this area by far remains the 86,000 SF of available space at 70 Castilian Dr. in the Castilian Tech Center. Due to a favorable changing corporate tax structure, we could expect some larger vacancies in Goleta to be filled in 2018 and look for the vacancy rate to drop noticeably.

The Carpinteria office vacancy has fluctuated significantly in the past few years. The vacancy rate at the end of Q4 was 6.9%, a solid increase from the 2.6% rate at the end of 2016. Given the very limited amount of inventory in this market, a large deal or vacancy can cause the market to swing either direction. Still, we can expect the vacancy rate to decline throughout the year. The highlight lease for the 4th quarter was the 8,736 SF space at 1001 Mark Ave. taken by Brown & Brown Insurance. Interestingly the same building also houses Carpinteria's largest vacant office space at 10,395 SF on the first floor.

Industrial

Santa Barbara's industrial vacancy has dropped to below 1% at just 0.7% by the end of Q4. We do not expect dramatic change to the vacancy rate over the course of 2018 as the city's industrial sector has remained lower than 3% vacancy for the last 18 years. This being the case, we will continue to see a slow and steady rise in lease rates.

In Goleta vacancy has remained level from the 3rd quarter of 2017 to the 4th quarter at 2.6%. There is an expectation that vacancy will drop over the next year as there are several tenants actively looking to lease in this market. Because of lack of inventory and drop in vacancy we may see a slight rise in lease rates over 2018. The caveat to all of this is three 20,000 SF vacant spaces came available which could create a small spike in vacancy.

From the 3rd quarter to the 4th, in Carpinteria we have seen a jump in vacancy from 1.0% to 2.5%. Limited inventory in the market allows for a small number of spaces to enter the market and cause a dramatic change in the percentage of occupancy. This is seen where one vacancy came onto the market at 550 Linden Ave. at 20,000 SF and individually made a dramatic shift in vacancy. With currently only three industrial availabilities in the market we will most likely see the vacancy shrink in 2018 as there is a continued lack of inventory in all three submarkets of Santa Barbara.

Leasing Continued on P.5

SOUTH COAST LEASING SUMMARY CONT.

Continued from P.4

Retail

The biggest impact on the local retail business during the 4th quarter was undoubtedly the Thomas Fire. California's worst fire in history occurred during the holiday season, which for most retailers is their busiest time of year. Because of the smoke and ash, a lot of Christmas shoppers elected to stay home and shop online. This event has created a hardship for many retailers, forcing some to close their doors.

The vacancy rate jumped from 1.6% at the end of 2016 to 3.6% at the end of 2017, representing a major increase. In terms of square footage, it went from 171,600 sq.ft. a year ago to a current inventory of 375,000 sq.ft. Of course this included 141,000 sq. ft. of retail space coming to market in March, 2017 after Macy's vacated their long-time space in the Paseo Nuevo Mall. Overall the available inventory encompassed 79 properties available for lease throughout the Santa Barbara area. Even with this increase in vacancies, the rental rate has remained stable at \$3.96 per sq.ft. Gross vs. \$3.97 per sq. ft. in Q4 2016.

In terms of leasing activity, while there were just five new leases signed during the 4th quarter comprising 13,167 sq. ft. total, nearly all of the leased space was on State Street in downtown Santa Barbara at 12,177 sq. ft. The largest of these leases was the 4,925 SF restaurant space at 214 State St. in the Funk Zone.

Q4 Leasing Highlights



LEASED | 1001 MARK AVE., 2ND FLOOR
OFFICE | APPROX. 8,736 SF

Brown & Brown Insurance took this large office space in the completely remodeled building. 10,395 SF remains available on the first floor.



LEASED | 1 N. CALLE CESAR CHAVEZ STE 11, SANTA BARBARA
INDUSTRIAL | APPROX. 11,683 SF

Abatex took this large industrial space in Santa Barbara's largest commercial building.



LEASED | 351 PASEO NUEVO, SANTA BARBARA
OFFICE | APPROX. 14,300 SF

WorkZones expanded its presence in the Paseo Nuevo Mall to 14,300 SF, further underscoring the impact of the collaborative workspace sub-sector in the Santa Barbara market.



LEASED | 214 STATE ST., SANTA BARBARA
RETAIL | APPROX. 4,925 SF

This large restaurant space in the heart of Santa Barbara's popular Funk Zone leased in early October.



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With 69 commercial, apartment and business sales valued at more than \$237 Million in volume, plus 135 leases totaling over 766,000 square feet, Radius Commercial Real Estate & Investments once again delivered for our clients in 2017. Thank you for partnering with The Radius Team. We look forward to continuing to serve your diverse real estate interests.

+237

MILLION DOLLARS IN SALES VOLUME

69

COMMERCIAL, MULTIFAMILY
& BUSINESS SALES

135

LEASES TOTALING 766,000+ SF



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