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**12th Annual**

# RADIUS REAL ESTATE & ECONOMIC FORECAST

**In 2002, a handful of the market's top agents came together to form Radius and advance the commercial real estate industry on the South Coast. The idea was simple: We live and work here, and we know this market better than any out-of-market firm, so let's pool our knowledge, expertise and resources to give a leg up to the local guy.**

NOVEMBER 19

## 2019

Hilton Santa Barbara
Beachfront Resort

A few years and numerous success stories later, Radius took that commitment a step further, launching the first Radius Real Estate & Economic Forecast to provide even greater value to our clients with information and insight to ensure you stay ahead of the curve.

This year we are proud to celebrate our 12th time out the gate, having grown attendance at our signature event from dozens to hundreds, and expanding the program to include world-class thought leaders in a variety of fields to share their unique perspectives.

Today the Radius Forecast remains the only event of its kind in the region. Yet our proudest achievement? Every time we help our clients secure competitive advantage so you can move one step closer to reaching your own goals and milestones.

RADIUS®
Commercial Real Estate

# Contents


Keynote Address

## Christopher Thornberg, PhD

Economist, Founding Partner, Beacon Economics, LLC

One of the nation's premier economists, Chris Thornberg is an expert in forecasting, labor markets, economic policy and real estate analysis. He was one of the earliest predictors of the subprime mortgage market collapse that began in 2007 and the global recession that ensued.

Dr. Thornberg is founding partner of Los Angeles based Beacon Economics and Director of the Center for Economic Forecasting & Development at UC Riverside School of Business where he is also an adjunct professor.

Thornberg regularly presents to leading business, government and nonprofit organizations across the globe. He has also conducted research and developed analytic products for international clients that explore the trade and economic connections between the U.S. and the world, including a number of studies measuring the effect of important events on the economy such as the NAFTA treaty and the terrorist attacks of 9/11.

Thornberg holds a PhD in business economics from UCLA's Anderson School where he also served as senior economist.

Guest Presenter

## Laura Bode

Executive Director, Santa Barbara Rental Property Association

Laura Bode is Executive Director of the Santa Barbara Rental Property Association, which represents approximately 1,000 rental property owners and 20,000 rental units in Central California. Previously, Bode was the Chief Financial Officer of SSET, a publicly traded company. She subsequently founded a non-profit, iLIVE2LEAD, and provided leadership training on five continents to people from over 60 countries. Clients included the Clinton Global Initiative, Harvard University, Georgetown University, Google, United Bank Suisse, and the governments of the United States, China and Mexico. In addition, she founded and chaired the "Women Ambassadors' Roundtable" — a policy forum for the women ambassadors to the U.S.

Commercial Sales

## Paul Gamberdella

Principal, Radius Commercial Real Estate

Over the past 20 years, Paul Gamberdella has consistently been a top producer in the South Coast, amassing commercial transactions valued at nearly $1.5 Billion in total consideration. A specialist in office, R&D, industrial and retail properties, Gamberdella has represented property owners and tenants in many of the highest profile deals in the market. In 2018, the team of Gamberdella, Bob Tuler and Gene Deering completed 16 sale transactions and 56 lease transactions involving more than 770,000 sq. ft. and valued at more than $97 Million.

South Coast Leasing

## Gene Deering

Principal, Radius Commercial Real Estate

Gene Deering has specialized in the leasing and sale of all types of commercial property since 2004. While at Radius he has worked in tandem with Bob Tuler and Paul Gamberdella to complete over 820 transactions valued at more than $1.1 billion. Deering's energy and leadership at Radius propelled him to the role of Senior Vice President in 2017, then Principal in 2018.

Multifamily Investments

## Steve Golis

Principal & Co-Founder, Radius Commercial Real Estate

Since 1979 Steve Golis has been involved in the marketing and sale of primarily residential income properties in the Tri Counties. Over his 40-year career this has amounted to more than 13,000 units sold, with sales volume during the past decade alone exceeding more than $1 Billion, making Golis the overwhelming leader in apartment sales in the region. He has received numerous awards, including the Santa Barbara Association of Realtors Jack Kelly Award for Most Challenging 1031 Exchange (2013, 2018), and the Howard C. Gates Achievement Award recognizing the standout sale of the year (2018).

Master of Ceremonies

## Steve Brown

Principal & Co-Founder, Radius Commercial Real Estate

With more than 40 years in this industry, Steve Brown is widely respected as one of the area's premier experts in commercial real estate sales and analysis. One of Radius' original founders, Brown has earned the following of many of the community's most established investors and is often called upon as a trusted resource for industry and market information by lenders, colleges and fellow brokers.


**71 S. Los Carneros Rd., Goleta (Office)**
**Q1 2019 | 105,260 SF | Apeel Sciences**

In the largest office lease of the year to date, Apeel Sciences cemented their footprint in Goleta with a new 10-yr. lease on the former Allergan space.

Mike Chenoweth
Justin Diem
Brad Frohling
Rob Hambleton
Jim Turner

# Leasing

## SOUTH COAST

# Office

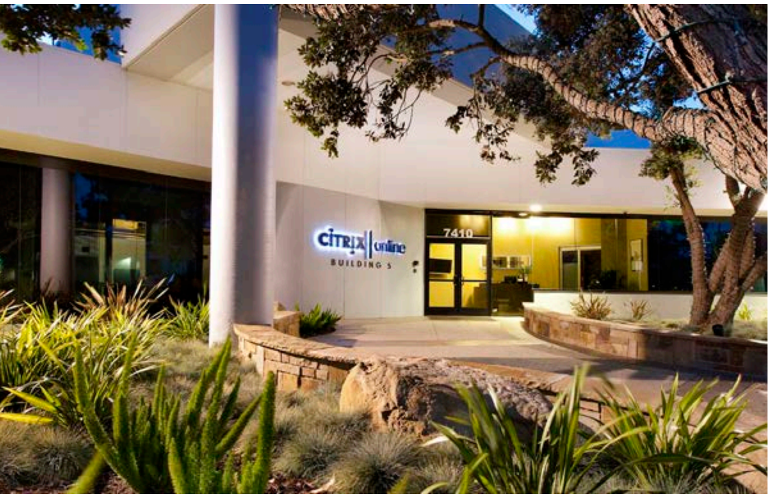
Not much has changed in Santa Barbara's office leasing market over the past few years, with the vacancy rate fluctuating between 5.6 percent and 7.4 percent from the third quarter of 2017 to date. In fact office vacancy dropped just slightly since the second quarter of 2019, going from 6.6 percent to its current 6.4 percent.

The largest office property on the market at this time is 402 E. Gutierrez St., available for sublease at approximately 26,339 square feet. Notably, of the roughly 120 spaces available for lease at the end of the third quarter (approx. 330,000 square feet total), only 13 are larger than 5,000 square feet, with the vast majority of spaces continuing to be smaller than 3,000 square feet. Indeed property owners with spaces in this size range in need of TLC may continue to see those spaces sit vacant.

While the average gross asking rate had a minor decrease from $3.16/SF in Q2 2019 to $3.11/SF in Q3, the average gross achieved rate rose substantially from $3.18/SF to $3.35/SF.

The largest new office lease of the quarter involved 111 W. Micheltorena St., suite 300, an approx. 6,147 SF space leased by Bragg Live Food Products, the world's top apple cider vinegar producer based in Santa Barbara and now partially owned by celebrity couple Katy Perry and Orlando Bloom. Yet perhaps the most notable development in the office sector involved a space leased last year. The converted retail property at 1001 State St. is now officially occupied by Amazon,

**7402 & 7410 Hollister Ave., Goleta (Office)**
**Q3 2019 | 45,200 SF | InTouch Health**




## 2019 SO. COAST LEASING QUICK STATS

### Vacancy

| | | Q2 | Q3 |
|---|---|---|---|
| OFFICE | Santa Barbara | 6.6% | 6.4% |
| OFFICE | Goleta | 5.2% | 4.9% |
| OFFICE | Carpinteria | 1.5% | 3.9% |
| INDUSTRIAL | Santa Barbara | 1.0% | 1.1% |
| INDUSTRIAL | Goleta | 5.4% | 6.2% |
| INDUSTRIAL | Carpinteria | 0.1% | 0.2% |
| RETAIL | Santa Barbara | 3.7% | 3.9% |

### Gross Absorption (SF)

| | | Q2 | Q3 |
|---|---|---|---|
| OFFICE | Santa Barbara | 65,900 | 56,700 |
| OFFICE | Goleta | 106,700 | 70,800 |
| OFFICE | Carpinteria | 0 | 0 |
| INDUSTRIAL | Santa Barbara | 11,000 | 2,900 |
| INDUSTRIAL | Goleta | 113,100 | 38,800 |
| INDUSTRIAL | Carpinteria | 31,300 | 0 |
| RETAIL | Santa Barbara | 37,600 | 30,600 |

### Avg. Gross Asking Rates ($/SF)

| | | Q2 | Q3 |
|---|---|---|---|
| OFFICE | Santa Barbara | $3.16 | $3.11 |
| OFFICE | Goleta | $2.10 | $2.08 |
| OFFICE | Carpinteria | $1.64 | $2.19 |
| INDUSTRIAL | Santa Barbara | $2.52 | $2.39 |
| INDUSTRIAL | Goleta | $1.58 | $1.63 |
| INDUSTRIAL | Carpinteria | $2.03 | $2.78 |
| RETAIL | Santa Barbara | $4.34 | $4.16 |

### Avg. Gross Achieved Rates ($/SF)

| | | Q2 | Q3 |
|---|---|---|---|
| OFFICE | Santa Barbara | $3.18 | $3.35 |
| OFFICE | Goleta | $2.04 | $2.09 |
| OFFICE | Carpinteria | No Leases | No Leases |
| INDUSTRIAL | Santa Barbara | $1.94 | $2.68 |
| INDUSTRIAL | Goleta | $1.53 | $1.58 |
| INDUSTRIAL | Carpinteria | $1.07 | No Leases |
| RETAIL | Santa Barbara | $3.25 | $4.24 |


**6550 Hollister Ave., Goleta (Office)**
**Q2 2019 | 39,900 SF | Cottage Health System**

continuing the trend of tech companies moving into the downtown area.

Moving on to Goleta, the office vacancy rate also declined slightly from 5.2 percent in the second quarter to 4.9 percent at the end of Q3.

Unlike Santa Barbara, this market continues to be driven by larger vacancies, with the largest of all being the 82,132-square-foot space at 125 Cremona Dr., which accounts for roughly 40 percent of the market's vacancy (210,000 square feet). The average gross asking rate also ticked down a little, from $2.10/SF to $2.08/SF from the second to third quarter. The average gross achieved rate saw a skip from $2.05 to $2.09/SF.

The most notable new leases of the quarter involved Intouch Health taking 28,025 square feet and 17,177 square feet at 7402 Hollister Ave. and 7410 Hollister Ave. respectively. While Goleta has a diverse mix of vacancies in different size ranges, we may expect to see quality spaces in the 2,500–3,000 square foot range dominate the leasing over the next quarter.

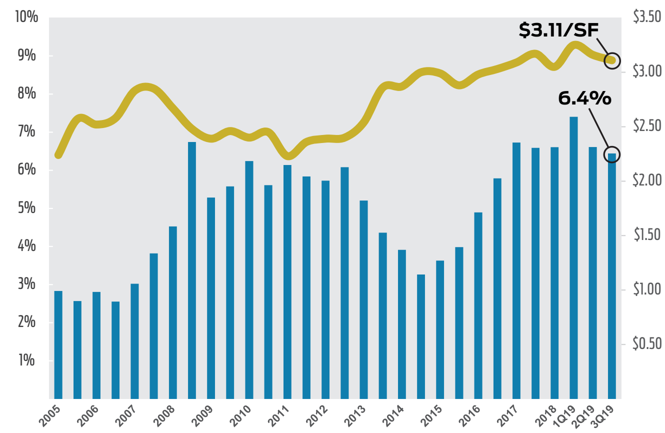
Down south to the Carpinteria market, the office vacancy rate increased dramatically in the third quarter from 1.5 percent to 3.9 percent. In such a small inventory market, it only takes a few vacancies to move the needle significantly and they all seem to be on Eugenia Place at the moment. Still, the largest vacancy is only 7,407 square feet at 1145 Eugenia Pl.

The average gross asking rate raised from $1.64/SF to $2.19/SF and surprisingly there were no new leases in Carpinteria last quarter. We do expect a few more vacancies to be filled this quarter, likely bringing the vacancy rate back near the 1.5 percent mark.

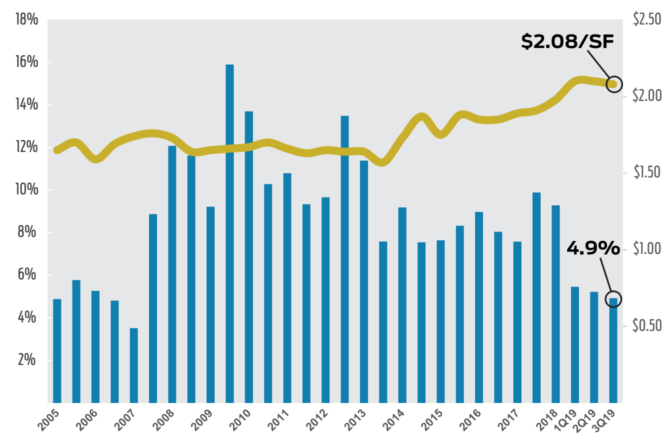
## SO. COAST LEASING TRENDS

*Average Gross Asking Prices & Vacancy Rates*

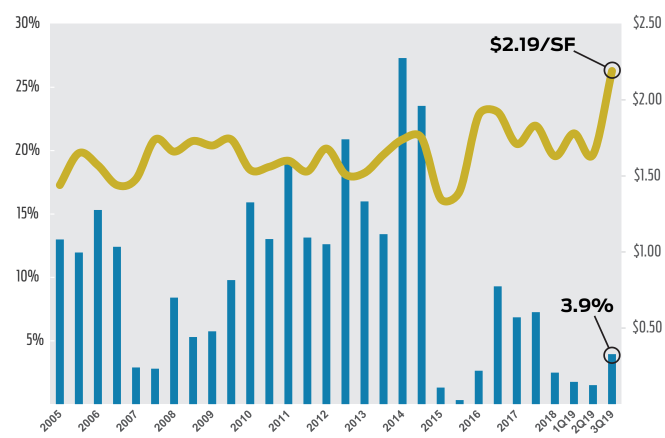
### Santa Barbara Office




### Goleta Office



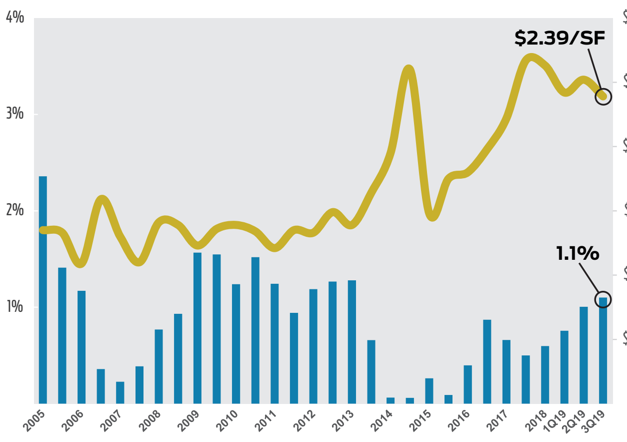

### Carpinteria Office



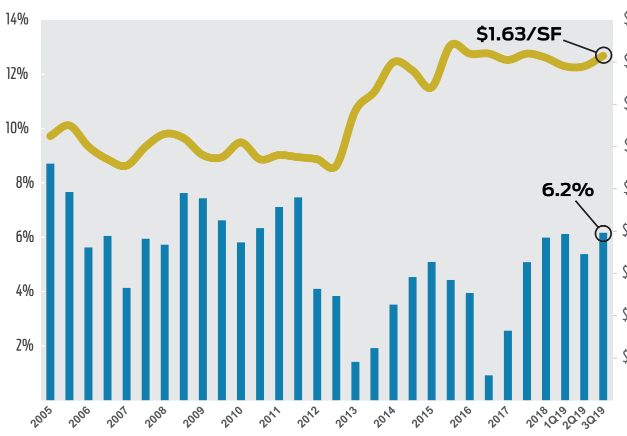
**SO. COAST LEASING TRENDS**

*Average Gross Asking Prices & Vacancy Rates*

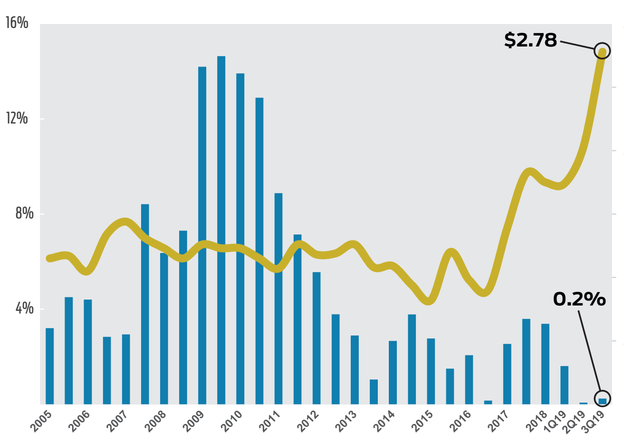
### Santa Barbara Industrial




### Goleta Industrial




### Carpinteria Industrial




## Industrial

The City of Santa Barbara's industrial vacancy rate has moved very little over the past few years, now sitting at just 1.1 percent. Indeed the market continues to be defined by a lack of industrial inventory.

As such, gross lease rates tend to vary with only a handful of transactions occurring each year. Rates will vary depending on size, parking and condition of each property.

Only two new leases were executed during the third quarter totaling 2,900 square feet, with an average gross rental rate of $2.68/SF. Currently there are 11 spaces on the market in Santa Barbara accounting for approximately 52,800 square feet and ranging in size from 1,204 square feet to 14,368 square feet.

Notably, Santa Barbara is a unique market that over the past several years has seen an influx of interest in different uses that began with the Funk Zone and quickly moved its way to the up-and-coming self proclaimed Lagoon District, the commercial and residential neighborhood centered around the Haley Street corridor and bound by Garden, Cota, Milpas, Montecito and Anacapa Streets. Commercial landlords have taken note of this demand for space and it appears a rent threshold has been reached. Traditional industrial uses are not able in many cases to justify current rental rates that are now often equal to office and retail rates in the market. So with industrial space in some areas even more scarce than it was before, landlords will need to remain realistic about what industrial users can agree to and sustain long term.

Moving north to Goleta, the industrial vacancy rate rose slightly from the previous quarter from 5.4 percent to 6.2 percent at the end of Q3. While this is actually more than double where we were two years ago when the vacancy rate was at 2.6 percent, vacancy is still in a healthy range and as a result rates have

**165 Castilian Dr., Goleta (Industrial)**
**Q3 2019 | 12,600 SF | Deployable Space Systems**

remained steady with the average gross achieved rate for Q3 at $1.58/SF and the average gross asking rate for available properties at about $1.63/SF.

There were just seven new leases signed during the third quarter comprising about 38,800 square feet, with the largest and most notable being Deployable Space Systems taking approximately 12,600 square feet at 165 Castilian Dr. There remains roughly 260,500 square feet of space on the market from just 18 listings.

We believe industrial lease rates in Goleta will remain level throughout the rest of the year. The greatest demand for space remains in the sub-15,000-square-feet range.

Meanwhile down in Carpinteria, the industrial market has seen very little movement since the start of the year, in fact there were no new leases signed during the third quarter. There are also currently only three spaces available in Carpinteria ranging from just 700 square feet to 1,450 square feet. Slim pickings, and this is the norm for the market. But there is some discussion that a potential mid-size industrial tenant may be exiting the market which may play out sometime in the next two quarters and would likely cause a spike in vacancy at the time given the sheer lack of inventory in the market.

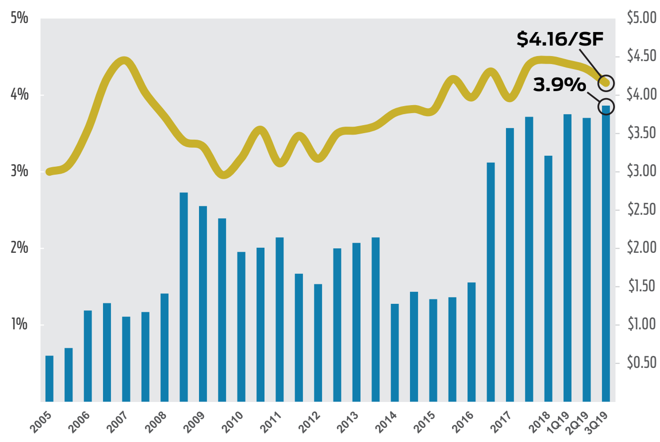
## Retail

This time last year we reported that we expected to see an increase in leasing activity with landlords getting more aggressive to secure tenants in the sluggish retail market. In fact there was a significant increase in retail leasing activity during the third quarter of 2019 versus Q3 2018, with 14 new leases signed comprising a total of 30,600 square feet. In third quarter 2018 we recorded just seven new leases totaling 9,687 square feet.

The average gross achieved rate during the third quarter was $4.24/SF compared to $3.99/SF a year ago. That said, this figure was propped up by four leases in Montecito which averaged $5.89/SF gross, so if you factor out Montecito then the average achieved rate for Santa Barbara drops down to $3.58/SF gross.

Moving on to inventory, at the end of the third quarter there were 86 properties on the market for lease totaling 405,664 square feet, with an average gross asking rate of $4.16/SF. This is similar to Q3 2018 when

**Santa Barbara Retail**




there were 89 properties available, yet lower total square footage at 380,431 square feet.

For the Santa Barbara retail market, which includes Summerland and Montecito, the vacancy rate has remained stable over the past year, increasing slightly during the third quarter, from 3.6 percent a year ago to the current vacancy rate of 3.9 percent.

Two final notes. First, there has been an increase in temporary or Pop-Up tenants on downtown State Street, which suggests more willingness on the part of landlords to sign short term leases. Secondly, due to the ongoing challenges that retail tenants in this market face when trying to obtain building permits for improvements, the City of Santa Barbara has hired a business liaison to help facilitate the permitting process. While it remains to be seen just exactly what steps will be taken to help facilitate prospective tenants in their efforts to set up shop, this move is encouraging as the community looks for leadership, vision and creativity among its key stakeholders to improve conditions for retail commerce throughout the city for the long haul.


**634 State St., Santa Barbara (Retail)**
**Q2 2019 | 4,000 SF | M.Special Brewing Co.**

# Downtown State Street Q3 Retail Vacancy Update

Radius conducts a monthly visual inspection and research of the downtown State Street corridor (400–1300 blocks). Vacancy rates are calculated based on State Street-facing storefronts only, excluding first floor office spaces fronting State Street. Some spaces may be leased and we are not aware. Pop-up shops are included in the vacancy rate given their short term status.

## State Street Retail Vacancy

| | Q2'19 | Q3'19* |
|---|---|---|
| Total Storefronts | 249 | 249 |
| Storefronts Available For Lease | 31 | 29 |
| Vacancy Rate of Storefronts Available For Lease | 12.45% | 11.65% |
| Vacant Storefronts | 22 | 20 |
| Perceived Vacancy Rate | 8.84% | 8.03% |
| Storefronts Still Occupied by Tenant | 6 | 4 |
| Pop-Up Shops | 3 | 5 |

*Report updated during Q4 on 11/4/2019*

## Summary

- **State-us quo continues:** There has been very little overall change since the start of Q3 with 29 available storefronts for lease and 20 of those being vacant (just two fewer than the second quarter) which equates to a 8.03% perceived vacancy rate.
- **New leases:** There were 5 new retail leases totaling 9,726 SF signed from the start of the third quarter to date:

  **509 State St.** — 2,824 SF (Pascucci / *Leased in Q4*)
  **907 State St.** — 2,250 SF (Retail & Wholesale Inc.)
  **714 State St.** — 1,917 SF (Luca B Styles)
  **430 State St.** — 1,450 SF (Insomnia Cookies)
  **802 State St.** — 1,285 SF (Thuy Dang)

- **New vacancies:** Four storefronts totaling 9,478 SF became vacant during the third quarter:

  **509 State St.** — 3,300 SF (Alito's / *Leased to Pascucci in Q4*)
  **833 State St.** — 2,500 SF (Wendy Foster / *Moved to 1220 State St.*)
  **801 State St.** — 1,860 SF (Brauthaus)
  **931 State St.** — 1,818 SF (LF Brand)


### VACANT STOREFRONTS BY THE BLOCK

*Vacant / Available Spaces* ○
*Available but Occupied Spaces* ●
*Short Term Pop-Up Shops* PU

**6410–6460 Via Real, Carpinteria (Office)**
**Sold September, 2019 | $30,411,162 ($349/SF)**

Steve Brown
Chris Parker

# Sales

COMMERCIAL

# The Goldilocks Effect, Again

It seems that 2019 commercial sales numbers are following the same script as 2018 in almost every aspect except for dollar volume.

Total sales for the first three quarters of 2019 were 58, just one more than the same period in 2018. Even the number of sales in each commercial use category (office, retail, industrial, land) are similar, with the only somewhat notable statistic being the decline in land sales. This may be attributed to dramatic increases in construction costs, but also to the dearth of land sales in general in our development-challenged South Coast environment.

### Q1–Q3 Sales Transactions & Volume

| 2018 | 2019 |
|---|---|
| 57 Transactions | 58 Transactions |
| $184.8 Million | $320.4 Million |

***Sales Volume Up***
***73.4%***

The big difference between 2019 and 2018, however, is the dollar volume to date. For Q1-Q3 2018 this figure was $184,833,720 with an average price per transaction of $3,243,000. But in 2019 this figure has soared to $320,445,000 total with an average price per transaction of $5,525,000.

Simply averaging the price per deal is, of course, a little misleading. Still, the trend seems to be a steady number of sales each year with prices increasing somewhat, accompanied by a disproportionate number of larger properties selling, leading us to believe that the market is still going strong and steady without flying off the handle.

When we dig deeper into the stats, however, we begin to see that the more interesting story is the number of sales to buyers intending to occupy the property (owner-users) is virtually equal to the number of sales to pure investors. This has essentially been true for both 2018 and 2019.

Since most owner-user sales have relied on leveraged financing, low interest rates have certainly contributed to this activity. Some of the investor purchases today may be viewed as hedges against a dramatic decline in the stock market. How else do you explain multiple offers and well-located assets that are priced in the mid-4% Cap Rate range?

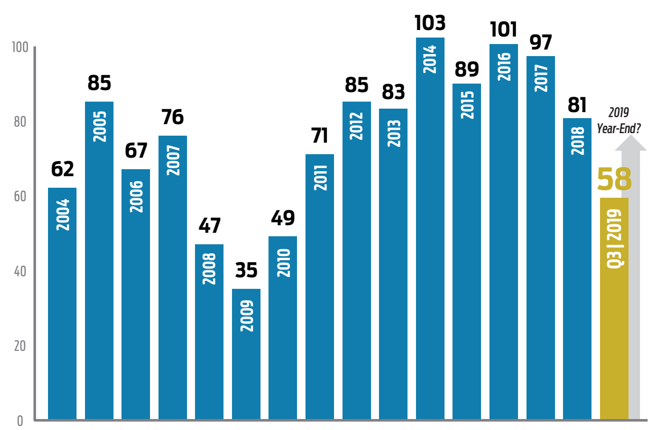
Overall the sentiment among investors seems to be that while the recession cloud seems to be ever-looming (at least according to the media), the outlook still seems positive for well-located, secure investments on the South Coast.

We think this fear of recession combined with a lack of inventory is what is creating a tale of two markets. Less risky leased investments with quality tenants are trading at premiums and vacant buildings with perceived risk are trading at discounts.

Some prime examples include 3793 State St. This

**SOUTH COAST COMMERCIAL SALES TREND**

*Excluding Sales of Apartments. Prior 15-year average = 75.4 sales/year.*




**6300 Hollister Ave., Goleta**
**$33,165,000 | Q3 2019**

property was leased to Fidelity and traded for $4,250,000 at a 4.8% Cap that translates to $949/SF, a big number for upper State Street. Similarly, 6300 Hollister Ave. in Goleta was a 100% leased office/R&D building that sold for $33,165,000, which was $312/SF and a 6.5%, Cap Rate. Finally, 6410-6460 Via Real in Carpinteria was purchase by the tenant, Microsoft, for $30,411,162, which was $349/SF. These are all historically huge prices per square foot pushed by low Cap Rates.

Alternative examples include downtown retail properties, which some perceive to be more risky investments. For example, the sale of 1013 State St. which was vacant and sold for $1,290,000 at $427/SF. Additionally 125 E. Victoria was a well-located vacant office building that sat on the market for 14 months, went through several price reductions and ultimately sold for $3,800,000 or $443/SF.

In the current market if a building has a meaningful amount of existing vacancy (or pending vacancy) and has deferred maintenance which will need to be addressed now or in the near future, unless those assets are priced very competitively they are sitting on the market for longer periods than in the past (often with multiple price reductions) as investors and owner-users are showing less of a propensity to "stretch" on valuation as they might have in the past.

## Q3 Sales Highlights

**Largest Sale of 2019**
**6300 Hollister Ave., Goleta (Office)**
**106,309 SF | $33,165,000 | $312/SF | 6.5% Cap**

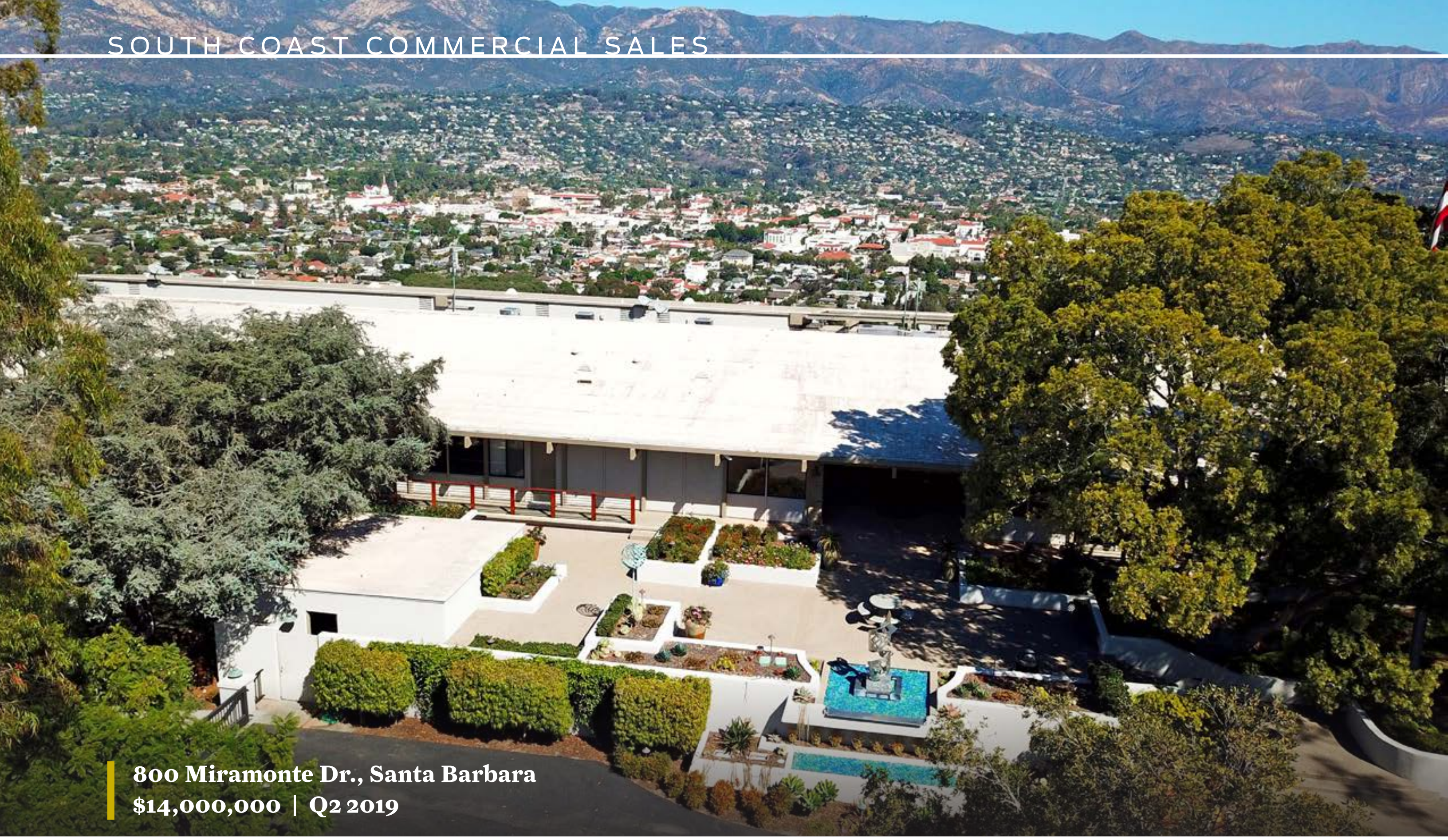
**6410-6460 Via Real, Carpinteria (Office)**
**87,138 SF | $30,411,162 | $349/SF | 5.44% Cap**

**827 State St., Santa Barbara (Retail/Office)**
**58,762 SF | $23,575,000 | $401/SF | 4.93% Cap**

**1486 E. Valley Rd., Montecito (Retail)**
**6,357 SF | $13,000,000 | $2,045/SF | 7.43% Cap**

**2323 Oak Park Ln., Santa Barbara (Office)**
**7,625 SF | $6,250,000 | $820/SF | 5.0% Cap**

**3793 State St., Santa Barbara (Retail)**
**4,477 SF | $4,250,000 | $949/SF | 4.8% Cap**



800 Miramonte Dr., Santa Barbara
$14,000,000 | Q2 2019

## Q2 Sales Highlights

**The Hampton Inn**
**5665 Hollister Ave., Goleta (Hospitality)**
98 Rooms | $28,550,000 | $291,327/Key

**420 S. Fairview Ave., Goleta (Office)**
72,200 SF | $22,855,000 | $317/SF | 6.75% Cap

**800 Miramonte Dr., Santa Barbara (Office)**
19,334 SF | $14,000,000 | $724/SF | 4.85% Cap

**834 State St., Santa Barbara (Office)**
23,373 SF | $7,100,000 | $304/SF | 3.05% Cap

**3376 Foothill Rd., Carpinteria (Land)**
397,703 SF Land (9.13 Acres) | $6,025,000
$15/SF Land ($660,000/Acre)

**220 N. La Cumbre Rd., Santa Barbara (Office)**
12,270 SF | $4,250,000 | $346/SF

## Q1 Sales Highlights

**4050 Calle Real, Santa Barbara (Office)**
60,225 SF | $30,520,000 | $507/SF | 5.0% Cap

**600 Pine Ave., Goleta (Industrial)**
83,479 SF | $21,500,000 | $258/SF | 7.6% Cap

**454 S. Patterson Ave., Goleta (Office)**
26,201 SF | $14,850,000 | $567/SF | 5.0% Cap

**6155 Carpinteria Ave., Carpinteria (Industrial)**
44,000 SF | $8,000,000 | $182/SF

**130 & 132 Robin Hill Rd., Goleta (Office)**
41,547 SF | $6,500,000 | $156/SF

**6384 Via Real, Carpinteria (Industrial)**
24,030 SF | $5,400,000 | $225/SF

## Q4 2018 Sales Highlights

**75 Robin Hill Rd., Goleta (Industrial)**
128,827 SF | $27,000,000 | $210/SF

**The Galleria (Target)**
**3891 State St., Santa Barbara (Retail)**
34,000 SF | $27,000,000 | $794/SF | 4.79% Cap

**Cabrillo Business Park**
**6700 Block of Hollister Ave., Goleta (Land/Industrial)**
494,962 SF (11.36 Acres) | $23,012,153 | $46/SF Land
5 Buildings entitled at 160,000 SF

**Mason Beach Inn**
**324 W. Mason St., Santa Barbara (Hospitality)**
45 Rooms | $15,300,000 | $340,000/Key

**730 E. Canon Perdido St., Santa Barbara (Office)**
27,000 SF | $11,600,000 | $430/SF

**128 W. Canon Perdido St., Santa Barbara (Office)**
18,054 SF | $8,000,000 | $443/SF | 5.61% Cap

**1283 Coast Village Circle, Montecito (Office)**
3,230 SF | $3,305,000 | $1,023/SF

3891 State St., Santa Barbara
$27,000,000 | Q4 2018


Cabrillo Business Park, Goleta
$23,012,153 | Q4 2018


4050 Calle Real, Santa Barbara
$30,520,000 | Q1 2019

**Robin Apartments, 1402-1404 San Pascual St., Santa Barbara**
**75 Units | Sold June, 2019 | $19,917,500**

Sharif Elseify
Steve Golis
Aneta Jensen

# Multifamily
## INVESTMENTS

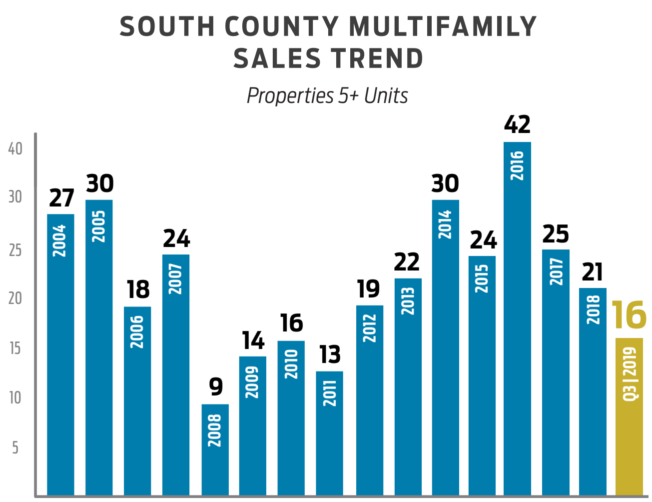

**1501 Santa Barbara St., Santa Barbara**
**8 Units | Sold January, 2019 | $4,394,000**

## South Santa Barbara County

The South Coast multifamily market continues to see unprecedented demand. With very little inventory, the market is extremely competitive and quality properties have garnered multiple offers with prices sometimes over asking and with very aggressive terms. With increased vacancy risk in other commercial property types, the buyer pool for multifamily buildings in our area has widened. Several trophy assets such as 1501 Santa Barbara St. have been purchased by 1031 exchange investors seeking stability, and with an already substantial amount of local and institutional investors desiring assets here, average cap rates are at record lows. Interest rates have also dropped to levels not seen since 2016, making more deals pencil out than in the last few years.

Although the market continues to chug along with sellers having no problem getting top dollar for their assets, the elephant in the room is AB 1482. While the impacts of this state bill have not yet been fully solidified, changes have already begun to occur. Owners who have recently purchased buildings are in some cases realizing that any rent increases they have made will have to be rolled back to March 2019 levels, negating the appeal of some purchases made on a pro-forma basis. Banks are already updating their underwriting standards due to the bill, and are underwriting assets at their rent effective March 31st, not current levels.

But despite the new rent control bill looming, Santa Barbara owners are not necessarily lining up to sell, and when they do, they are having no problem getting top dollar for their assets. The fact remains that the South



Coast will continue to be an extremely desirable place to live and work, and with barriers to entry remaining in place for additional housing, rents will continue to increase and vacancy will remain low.

The tightest of all Central Coast markets this year has been Isla Vista. A longtime favorite for local and institutional investors, this market has seen no inventory with only one sale at 6679 Abrego Rd. which was purchased by a local investor for $4,100,000. With the new rent bill in place, student housing could potentially provide a shelter against rent caps, since it is more common for students to relocate each year, leaving landlords open to increased rents. This could potentially make Isla Vista an even more attractive option for investors, increasing competition and prices for these assets.

The West Beach neighborhood also continues to shine with prices and yields generally well above the average for Santa Barbara. The proximity to the ocean, Funk Zone and Santa Barbara City College continues to drive demand for rentals, and many investors are focused on finding assets in that part of the city. The most recent sale was an 11 unit property which sold off market for $4,795,000 at a high 3% cap rate. Another property in a similar location was Montecito Gardens, which has commanded a great deal of attention from investors. With rents below market, it will be interesting to see how the investment pans out with AB 1482 now in place.

## 2019 Highlight Sales

**Robin Apts., 1402–1404 San Pascual St., Santa Barbara**
**75 units | $19,917,500 ($265,567 PPU) | 6/7/19**

**528 W. Los Olivos St., Santa Barbara**
**28 Units | $7,800,000 ($278,571 PPU) | 3.47% CAP | 8/1/19**

**High Tide Apts., 204 W. Yanonali St., Santa Barbara**
**11 units | $4,775,000 ($434,091 PPU) | 5/15/19**

**1501 Santa Barbara St., Santa Barbara**
**8 units | $4,394,000 ($549,250 PPU) | 1/16/19**

**28 W. Pedregosa St., Santa Barbara**
**14 units | $4,250,000 ($303,571 PPU) | 3.06% CAP | 7/18/19**

**6679 Abrego Rd., Isla Vista**
**14 units | $4,100,000 ($292,857 PPU) | 5/31/19**

**1032 E. Mason St., Santa Barbara**
**8 Units | $3,100,000 ($387,500 PPU) | 3/22/19**

**411 Corona Del Mar, Santa Barbara**
**7 units | $3,085,000 ($440,714 PPU) | 8/2/19**

**1511 Bath St., Santa Barbara**
**10 units | $2,398,950 ($239,895 PPU) | 7/19/19**

**219 E. Victoria St., Santa Barbara**
**7 units | $2,190,000 ($312,857 PPU) | 8/15/19**

**6679 Abrego Rd., Isla Vista**
**14 Units | Sold May, 2019 | $4.1 Million**

## North Santa Barbara County

The North Santa Barbara County markets of Santa Maria and Lompoc have been exceptionally strong. With a similar lack of inventory to the South County and slightly higher yields, cap rates have remained low compared to previous years. Within both Santa Maria and Lompoc, there is only one building larger than 10 units available, located at 826 W Cook St. That asset is priced at a 5% cap rate and has generated much interest from investors. Typically, cap rates for Santa Maria have been in the 5.5%+ range.

The largest sale in North County was that of 1735 Biscayne St., a 128 unit luxury apartment development that sold for $40,000,000, or $312,500/unit. Originally built as condominiums, the property features mainly 3 bedroom units which command relatively high rents for the area between $2,425 and $3,250 per unit. The property was purchased by an institutional investor with a portfolio of over $8 Billion throughout California, showing Santa Maria's appeal to largescale investors. In the future, look for strong demand and decreased cap rates for any buildings in the mid to large size range (15–100 units), as there simply isn't any inventory on the market, the area is improving and many local investors are looking for more yield outside of Santa Barbara proper.

### 2019 Highlight Sale

**1735 Biscayne St., Santa Maria** | 128 units | $40,000,000 ($312,500 PPU) | 4/25/19

**480 Avenue of the Flags, Buellton** | 22 units | $2,550,000 ($115,909 PPU) | 2/5/19


**1735 Biscayne St., Santa Maria | 128 Units**
**Sold April, 2019 | $40 Million**

## San Luis Obispo County

With a favorable setting and demographics similar to Santa Barbara, San Luis Obispo has been a very desirable place to live, and with more technology companies opening up shop and Cal Poly San Luis Obispo expanding its student base, housing has become more expensive, in turn increasing investment in the area by developers and buyers. While rents in the area are not quite at the level of Santa Barbara ($1,500 average for a 1 bedroom apartment versus $1,850 in Santa Barbara), the rents still have room to run.

San Luis Obispo has also been very attractive to local and institutional investors and has shown a similar lack of inventory to Santa Barbara. The prime area of interest for many investors is the area just outside of Cal Poly, San Luis Obispo. One such investment was College Gardens, a 35 unit building located in close walking distance to Cal Poly that sold for $9,855,000 to an investment group headquartered in the Bay Area. A very well located student housing complex also entered escrow at 1238 E. Foothill Rd., one of the only 5+ unit properties to hit the market so close to the University in recent years.

One slightly detrimental factor to the local student housing market in San Luis Obispo has been Cal Poly's recent completion of more than 1,400 student beds on campus, which has cut into the rental market and made it harder for some owners to get their units fully leased up. Despite the short-run implications of the new on-campus housing, enrollment is expected to increase 25 percent by 2035, making student housing investments close to campus a stable option for investors.

## Ventura County

Ventura County has seen 14 multifamily sales of 5+ units year to date, compared to the 21 sales completed in all of 2018. At this rate we may see the final tally settle below last year's numbers, showing the lack of inventory in the market which is what he have seen for the other regions within the tri-counties. With investors from Santa Barbara and Los Angeles both looking to this market for higher yields and overall appreciation, multifamily inventory has been hard to come by.

One highlight sale was a 58 unit building which traded for $15,350,000 at 3325–3373 Armada Dr. Larger properties in these markets that are in relatively good condition have been getting gobbled up quickly by investment companies, and any properties in the larger size range that are reasonably priced should fetch top dollar for investors. With increased investment and reinvigoration into Ventura County, look for these areas to see upside over the long-run.

### 2019 Highlight Sales

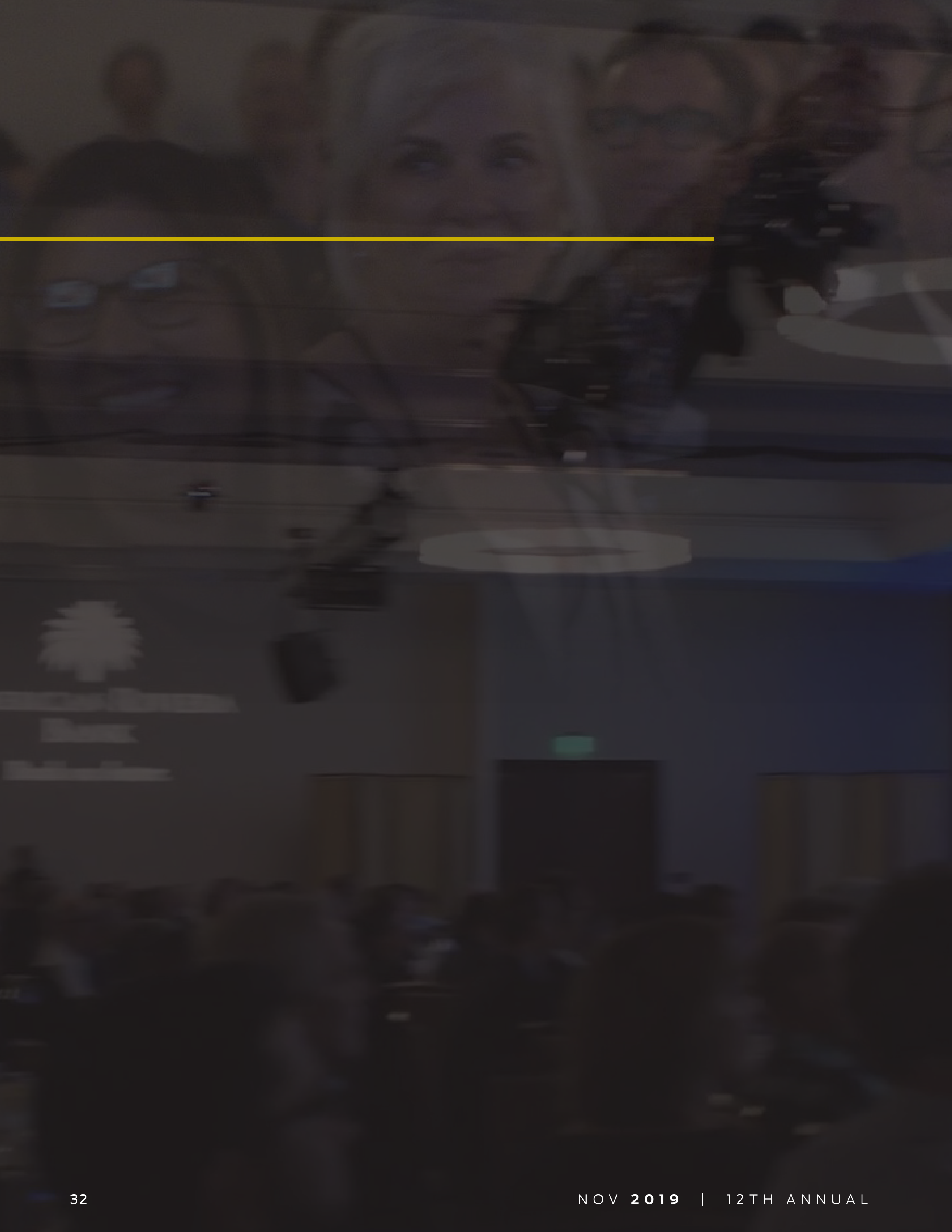
**Armada Apartments, 3325–3373 Armada Dr., Ventura | 58 units | $15,350,000 ($264,655 PPU) | 5/31/19**

**Casa de Ventura, 3098 Channel Dr., Ventura | 32 units | $7,404,500 ($231,391 PPU) | 3/22/19**

**4540 Apricot Rd., Simi Valley | 14 Units | $7,350,000 ($525,000 PPU) | 5/3/19**

**520 W. Channel Islands Blvd., Oxnard | 36 units | $5,600,000 ($155,556 PPU) | 3/1/19**

**Casa Valencia, 1950 Lantana St., Oxnard | 33 units | $2,553,072 ($77,366 PPU) | 4/16/19**



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## YEAR-END TAX PLANNING FOR INDIVIDUALS

As we closed out the 2018 tax filing season, we saw significant changes over the last year with most of the tax provisions in the Tax Cuts and Jobs Act (TCJA) taking effect. The last few months of 2019 will provide taxpayers with the opportunity for year-end tax planning as we enter another round of the tax reform era.

To recap, individual taxpayers generally saw a reduction in tax rates, a significant increase in exemption amounts for individual alternative minimum tax (AMT) and estate tax, an expanded availability of child tax credits to higher income earners, and a potentially large tax deduction for owners of qualified trades or businesses.

While itemized deductions prove favorable in many situations, the TCJA made them slightly less impactful than they used to be. Since tax rates on "ordinary income" generally went down, deductions will therefore provide lesser tax savings when rates are lower. Also, in many situations, tax itemized deductions were eliminated as a result of the reform. Uncovering other tax savings may offset any lowered deduction amounts. Be sure to work closely with your advisor on expiring provisions or fluctuating threshold amounts to best position your tax situation and leverage all possible opportunities.

### Medical Expense Deductions

As of this writing, one change we are seeing in 2019 is an increase in the threshold amount for itemized deductions on medical expenses. Unless Congress acts before the end of the year, the threshold amount reverts to 10% in 2019 (from 7.5% in 2017 and 2018). If your medical expenses exceed 10% of your adjusted gross income, you may claim a deduction for the amount above that threshold.

If you foresee undergoing elective medical procedures this year or into the future, it may be advantageous to group certain procedures together in order to reach the threshold amount and deduct your expenses.

Qualifying medical expenses include:

- Health insurance premiums
- Qualified long-term-care insurance premiums
- Medical and dental expenses
- Prescription expenses

### SALT Deductions

While the TCJA capped the deduction amount for state and local income, sales and property taxes to $10,000, there is no deduction limit on real estate tax paid on a trade or business or for the production of income. In addition, investment interest is not restricted by the SALT cap and can be deducted as an itemized deduction as related to net investment income.

Note that California did not conform to most of the changes under the TCJA, so tax deductions on your state returns are not limited to the same $10,000, and property taxes exceeding this amount will still lower state taxable income.

If your situation affords flexibility, such as nearing or in retirement, you may consider changing your primary residence to a state with a lower or no income tax like Alaska, Florida, Nevada, South Dakota, Texas, Washington and Wyoming.

### Avoid or Reduce AMT

In an effort to offset the SALT cap and provide relief, the TCJA raised the income level and threshold amount for those subject to the AMT. For 2019, the income level is $500,000 for individuals and $1 million for married individuals filing jointly. The top AMT rate under the TCJA is 28%, compared to the top ordinary rate of 37% under current law.

Taxpayers may be able to reclaim the AMT paid in prior years with the new higher income limits. Advisors may calculate prior years' AMT credit now and the taxpayers affected can reduce their withholding and take the benefit early.

While the TCJA has increased the exemption amounts through 2025 and fewer taxpayers are subject to the liability, many people are still at risk of triggering the AMT. If you forecast being subject to the AMT in 2019 or 2020, work with your advisor on proper planning opportunities and timing strategies may allow you to significantly reduce or avoid paying it.

Some income items that may produce or increase AMT liability are long term capital gains and dividend income (although similar tax rates apply); accelerated depreciation adjustments and related capital gain/loss differences when assets are sold; tax-exempt interest on specific private-activity municipal bonds; and certain incentive stock options.

If you foresee reaching the AMT threshold amount in 2019, you may wish to accelerate income and short-term capital gains in 2019 to take advantage of a lower maximum AMT rate, or you may consider preserving deductions that you cannot take this year and deferring expenses into 2020 that can be deducted under the AMT next year.

If you are in question of your AMT position for next year, you would do the opposite as mentioned above: defer income and sell of any assets that could be subject to the AMT.

### Estate and Gift Tax

Estate tax exclusion remains at a record high. The TCJA doubled the lifetime exemption under previous law, now allowing a lifetime exemption of $11.4 million per individual and $22.8 million for couples, indexed for inflation (these amounts increase to $11,580,000 and $23,160,000 respectively in 2019). With proper planning, taxpayers may transfer up to these amounts without being subject to estate or gift tax.

Remember that the gift tax exclusion does not carry over from year to year. You have a $15,000 ($30,000 for couples) non-taxed exclusion available, which needs to be allocated by Dec. 31, 2019.

### Charitable Planning

If you itemize deductions, you are eligible to fully deduct your charitable donations throughout the year. However, since the standard deduction nearly doubled over the last year, it may benefit some taxpayers to bundle their donations into alternating years in order to receive the federal tax benefit.

The maximum deduction for cash donations cannot exceed 60% of your adjusted gross income (AGI), up from the 50% limit under previous law. Any cash donations above 60% will be suspended and carried forward to future years.

If you are considering a large stock donation, one of the most flexible and beneficial charitable gifts is an appreciated publicly traded stock asset because you can deduct the fair market value. In addition, you can take advantage of tax savings by avoiding the capital gains tax that you would have had to pay if the asset was sold.

### Child Tax Credit

The TCJA changed the child tax credit in 2018 and will remain the same for the 2019 filing season as well. The reform doubled the deduction amount to $2,000 per qualifying child and allowed a refundable portion equal to 15% of earned income over $2,500, up to $1,400.

If you claim a dependent between the ages of 17 and 24, you may also qualify for a $500 credit. This credit also pertains to disabled or elderly dependents as well.

In addition, the child tax credit will phase out for high income earners married filing jointly at income levels of $400,000 and above.

### Proposed Retirement Plan Changes

Looking ahead, the Secure Act is a proposed measure that will provide overall expanded access to retirement plans. It plans to give part-time workers access into retirement plans, shift the minimum distribution age for retirement accounts from 70 ½ to 72 years old, eliminate withdrawal penalties for the birth or adoption of a child, and impose a 10-year time limit for RMDs on non-spouse beneficiaries inheriting IRAs, among other features.

The proposal has been approved in the House of Representatives (417-3 approval vote) and is awaiting approval in the Senate.

### Planning is Key

There are many planning opportunities that will reduce your tax liability. Be sure to fine tune your W-4 withholdings, review flexible spending accounts and use available funds by year-end, sell stocks that may produce a loss if you are predicting net capital gains, and be sure to keep a paper trail to ensure orderly records.

## YEAR-END TAX PLANNING FOR BUSINESSES

With most of the TCJA provisions for businesses taking effect for the 2018 tax year, corporations saw a substantial reduction in their tax rate from 35% to a flat 21%, and some owners of pass-through entities saw a large reduction in tax with the qualified business income deduction.

While the 2019 tax year doesn't bring massive tax law changes, businesses need to remain vigilant and take advantage of the planning opportunities that do exist.

Typically as year-end draws near, businesses can save money on taxes by appropriately timing strategies, by taking deductions and by allocating money on specific items. There are also a couple provisions expiring and changes occurring at the end of 2019 that businesses should be aware of.

### Paid Family Leave Tax Credit Expires

The TCJA includes a tax credit for businesses that provide paid family and medical leave benefits to employees beginning January 1, 2018 through the end of 2019. As an incentive to small businesses that are not required to have a Family Medical Leave Act (FMLA), the act encourages that businesses put an eligible policy in place before yearend to qualify for the tax credit.

### Bonus Depreciation

The IRS issued final regulations last month regarding the 100% bonus depreciation for qualified business assets, adopting the August 2018 proposed regulations with some modifications in response to comments. The 100% bonus depreciation for qualified business assets is set to expire after 2022, with declining percentages for 2023 through 2026.

Under these final regulations, the IRS includes clarifying guidance on the requirements that must be met for property to qualify for the deduction under Sec. 168(k), including used property. They also added rules for qualified film, television, and live theatrical productions. Lastly, the IRS outlined how the basis of property that is subject to the alternative depreciation system is determined when it otherwise qualifies for bonus depreciation.

As similar to last year's guidance, it is a good time to buy if you are considering purchasing new business assets, as the TCJA increased the Section 179 expense limit from $510,000 to $1 million and increased the threshold to $2.5 million. TCJA expanded Section 179 definition to include:

- Certain tangible personal property used primarily to furnish lodging.
- Certain improvements to nonresidential real property, such as roofs, HVAC, fire protection, and alarm and security systems.

### Opt for the Cost Segregation Study

Speaking of bonus depreciation, if a taxpayer has purchased or plans to purchase real estate by the end of the year to use as a rental property or to use for business purposes, a cost segregation study is now considerably more valuable in the TCJA era. A cost seg study can determine the bonus depreciation on external land improvements and internal building contents.

Often when constructing a new building, undergoing a major remodel or acquiring used property, a cost segregation study allows a taxpayer to identify assets that are being depreciated as 27.5 or 39-year property and reallocate them to five, seven or 15-year personal property. This reallocation accelerates depreciation deductions and reduces tax liability in the beginning phases of the real estate ownership.

### Section 199A Deduction

If you are an owner of a pass-through entity (partnerships, S corporations, and sole proprietors), you may be able to take advantage of new planning opportunities due to recently-passed final regulations under Section 199A. The 199A deduction could potentially reduce a pass-through owner's maximum individual tax rate from 37 percent to 29.6 percent, and with newly-issued regulations, owners could also potentially separate non-qualifying Specified Service Trade or Businesses (SSTBs) from qualifying trades or businesses. The lower tax rate could then be applied to the eligible activities that would have previously been reworked as a SSTB due to the associative nature of the activity.

It's important that taxpayers first determine the complex criteria needed to qualify for the Section 199A deduction during year-end tax planning and take into consideration entity choice post-tax reform.

### Review S-Corp Compensation Structure

It is always a good time of year to review the owner's salary of an S Corporation to ensure that it meets the "reasonable compensation" standard. If the owner has not yet taken a salary, it is important that it is done by Dec. 31.

### SALT Deduction

The new $10,000 deduction cap on state and local taxes greatly restricts many taxpayers in deducting the full amount of their property tax bill on their federal return. If possible, taxpayers should protect those real estate tax deductions by allocating them to a business return where applicable, as the general business deductibility rule is not affected by the SALT regulations.

### It's Time to Start Planning

The abovementioned planning strategies are only the tip of the iceberg, as there are a number of other opportunities that businesses can incorporate into year-end tax planning strategies. Contact BPW at (805) 963-7811 if you have any questions or would like to get started on your year-end tax planning.

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**Reicker, Pfau, Pyle & McRoy LLP** is Santa Barbara's premier business law and commercial litigation law firm. We represent the Central Coast community in their business, corporate, real estate, financial and securities transactions, estate planning, and related litigation. We strive to provide our clients with the finest legal representation available with an effective, efficient and cost-effective approach to solving problems.

Our transactional attorneys, **John Busby, Mark Carney, Bruce McRoy, Mike Pfau, Dan Reicker, Drew Simons, Russell Terry, Fernando Velez, Jr., Nick Behrman** and **Lauren Wideman** represent businesses and individuals in general business, corporate, real estate, land use, financial, securities, tax, intellectual property, franchises and other legal matters.

Our litigation attorneys, **Alan Blakeboro (Managing Partner), Robert Forouzandeh, Diana Jessup Lee, Tim Trager** and **Meghan Woodsome** concentrate on civil trials and appeals notably in the areas of corporate and partnership disputes, real estate and leasing, easements, construction litigation, contracts, landlord representation, debtor/creditor relations, intellectual property and employment and retirement law.

Our estate planning attorneys, **John G. Busby** and **Diana Jessup Lee** assist clients in developing and implementing clients' estate plans, wealth management and estate and gift tax minimization. They afford clients sophisticated planning techniques which can reduce taxation and accomplish the clients' wealth transfer desires. Our estate planning attorneys have extensive experience in representing both trustees and beneficiaries in trust and probate controversies and litigation.

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AMERICAN RIVIERA BANK
Bank on *better.*

**The Banking Industry remains strong —** The FDIC reported that FDIC-insured institutions reported aggregate net income of $62.6 billion in the second quarter of 2019, an increase of $2.5 billion (4.1 percent) from a year earlier. Improvement in quarterly net income was attributable to a higher net interest income and an increase in realized securities gains. Almost 60% of all banks reported annual increases in net income from the year-ago quarter, while less than 4% of banks were unprofitable during the second quarter.

**Community Banks remain strong representing 92% of insured institutions —** reporting net income of $6.9 billion in the second quarter of 2019, up $522.2 million (8.1%) from a year earlier. Growth in net interest income (up 5.1%), noninterest income (up 4.7%), and gains on securities sales (up 656.7%) drove the annual increase in net income.

Economic activity in the West expanded at a modest pace from mid-August through September. The labor market remained tight, employment growth was modest, and wages grew moderately. Reports on price inflation were mixed. Sales of retail goods increased modestly, and activity in consumer and business services expanded slightly. The pace of commerce in the manufacturing sector was little changed, and the agriculture sector slowed further. Activity in residential and commercial real estate markets was solid. Lending continued to grow.

Perhaps the most significant economic news that has occurred in the banking industry this year is the Federal Reserve's change of philosophy in their interest rate strategy. Recently, there has been a lot of noise regarding the interest rate market, our national economy, trade, and BREXIT, among a gamut of other uncertainties. These uncertainties, along with the continued absence of inflationary pressures, provided the Federal Reserve with the scope to cut the fed funds rate for the third time in a mid-cycle adjustment by a total of 75 basis points. The announcement of the most recent fed cut, cited a weakening in business spending and global developments as the drivers of their decision.

The number of banking institutions in California has gradually decreased from 2007 by over 35%. The tri-counties, (Ventura, Santa Barbara, and San Luis Obispo) have seen a significant decrease in banking institutions over the same period. On the central coast we continue to experience our share of mergers and acquisitions resulting in fewer banking choices for local businesses and consumers.

American Riviera Bank views this trend of the reduced number of community banking choices as our opportunity to shine as **the best choice in community banking.** We are focused on offering our clients big bank services with a community bank feel.

American Riviera Bank continues to experience significant growth, reporting $697 million in total assets as of September 30, 2019 and total deposits increased 20% from September 30, 2018 reaching $603 million at September 30, 2019.

Non-interest bearing demand deposit accounts increased $41 million, or 25% from the same reporting period last year, reaching $208 million at September 30, 2019.

American Riviera Bank reported strong loan growth, with gross loans increasing $59 million, or 12% from September 30, 2018, reaching $548 million at September 30, 2019, with no other real estate owned and no loans 30 days or more past due.

American Riviera Bank's net interest income increased by approximately $2.1 million, or 12% for the nine months ended September 30, 2019, compared to the same reporting period in the prior year. American Riviera Bank continues to have a strong capital position with a Tier 1 Capital Ratio of 12%; well above the regulatory guideline of 8% for well capitalized institutions.

American Riviera Bank continues to invest in the expansion of our Bank and consistently reports strong earnings. This is a direct result of our loan and deposit growth, expanded regional presence and the strength of our relationships throughout the Santa Barbara and San Luis Obispo Counties. Our commitment to community banking is unwavering and we take great pride in meeting the financial needs of the families and businesses in our area.

American Riviera Bank continues to grow geographically as well as financially. In Southern Santa Barbara County we have three branches (**Downtown Santa Barbara, Montecito, and Goleta —** all offering free parking). We began our expansion into San Luis Obispo County in August, 2017 with the opening of a loan production office in **Paso Robles.** We opened our full service office in Paso Robles March, 2018 and our local Paso team is already producing extraordinary results. We are proud to announce the opening of our **newest full service office** located in downtown **San Luis Obispo** on the corner of Higuera and Santa Rosa streets.

Our growth allows us to easily accommodate any business or consumer in the region. We are excited to continue building meaningful relationships and to serve the banking needs of the greater Santa Barbara and San Luis Obispo areas.

While opening additional offices to serve our community, American Riviera Bank also offers a full array of business and consumer services, along with state of the art technology. In addition, we provide a **full line of Mortgage products, and we are a preferred SBA lender.**

American Riviera Bank has been recognized for nine consecutive years for strong financial performance by the Findley Reports and in 2017 we were awarded a Super Premier performing designation which is the highest possible rating for a California community bank to attain. American Riviera Bank is also rated 5-Star for financial strength by BauerFinancial, Inc., the nation's leading bank rating firm. A 5-Star rating is BauerFinancial's highest rating. A 5-Star "Superior" rating indicates, among other things, that the institution has at least twice the capital that regulators require, is profitable, and has kept its delinquent loans in check. You'll find us on **Bauer's Recommended Bank Report.** We are publicly traded at ARBV.OTC and you can find out more about American Riviera Bank at www.AmericanRivieraBank.com.

*American Riviera Bank is your community bank; owned by its employees, customers and local shareholders — people just like you. Local shareholders with local deposits being re-invested in our community — That's American Riviera Bank. We know our customers and they know us. It's a different kind of relationship. It's better. Come visit a branch, you'll feel the difference when you walk in the door.*

***American Riviera Bank — Bank on Better***


## American Riviera Bank

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Goleta Branch
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805.770.1300

San Luis Obispo Branch & Lending Center
1085 Higuera St.
San Luis Obispo, CA 93401
805.540.6240

Paso Robles Branch
1601 Spring St.
Paso Robles, CA 93446
805.296.1690

## 2019 Property Insurance Trends

Property insurance has been dramatically affected by increased exposures to loss. These exposures include wildfire, water damage, increased liability from slip and fall as jury awards have skyrocketed. In addition in the habitation market habitability claims continue to be a sever exposure for property owners and a specific mitigation program should be installed. The hardening market has been building over the past decade as many areas of the country have seen close to 100% increases in premiums over that time period. While some owners are able to maintain smaller increases in their renewal premiums, the owners that are seeing the most increases are those with properties in areas that have exposure to wildfire, flood, hurricanes or tornadoes. California property owners are feeling the greatest effect from the wildfires that have generated historic levels of property damage over the last two years. Combine this with California's legal environment and many carriers are changing their underwriting guidelines and philosophy for properties in this area. The best way to mitigate the potential for increased premiums is to show the properties have best in class loss reduction measures.

## Climate Change effect on Insurance market

As the Santa Barbara community is now all too familiar with, climate change, and more specifically catastrophic natural disasters, can result in a significant impact effect on insurance premiums in an effected community. Munich Re, the world's largest reinsurer reported that the 2017/2018 CA wildfires resulted in $24B in losses.

Wetter and more humid winters leads to new forest growth, that then becomes kindling in years with especially high summer temperatures and unusual dryness. The annual wildfire losses in CA were consistently around $5B, but jumped to $20B in 2017 and 2018. While this jump is more than expected, climate models combining meteorological data with financial losses did predict a large spike.

In a recent NY Times article, Rostin Behnam, Commodity Futures Trading Commission, expressed concerns about the long term outlook this could pose to the financial marketplace as a whole. "If climate change causes more volatile frequent and extreme weather events, you're going to have a scenario where these large providers of financial products — mortgages, home insurance, pensions — cannot shift risk away from their portfolios."

## Impact of AB5 Legislation

The California approved a controversial new law that will reshape the way businesses across the state classify workers. While supporters of the bill have emphasized its impact on independent contractors, the bill also severely impacts legal obligations governing businesses that hire other businesses. In short, the law will make it much more difficult for many companies to treat workers in California as independent contractors, and more difficult for businesses to hire smaller, entrepreneurial businesses.

Businesses are required to pay taxes and benefits to employees (Workers' compensation insurance and health benefits). The industries hit the hardest will be shared economy (think Uber and Doordash), trucking, and agricultural operations.

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Hilton
SANTA BARBARA
BEACHFRONT RESORT

Welcome to AAA Four Diamond Hilton Santa Barbara Beachfront Resort, ideally situated on California's Central Coastline, steps away from pristine beaches with spectacular view of the Pacific Ocean and Santa Ynez Mountains.

Inspired by Santa Barbara's quintessential personality, the 24-acre resort offers 337 guest rooms and 23 spacious suites, stylishly appointed with ocean and sky-blue tones, driftwood inspired interiors, private balconies or patios.

The resort is a premier meetings and events destination with an expansive 60,000 sq. ft. of versatile indoor/outdoor meeting and event space including the 20,000 sq. ft. open-air Plaza Del Sol perfect for weddings, conferences and gatherings of any size.

Delicious dining starts with breakfast at The Roundhouse and ends at The Set with outdoor fire pits and ocean views. Resort amenities include an expansive outdoor pool, full-service spa and salon, fitness center, three outdoor tennis courts and on-site recreation.

Centrally located, the landmark property is a short walking distance to the local arts district, the Funk Zone, downtown Santa Barbara and popular shopping & wineries. The resort also offers complimentary shuttle service to/from the Santa Barbara International Airport.

The modernized property continues the legacy established by the Fess Parker family while paying homage to the resort's rich history, stunning location and the unique culture of Santa Barbara.

### Hilton Santa Barbara Beachfront Resort

www.hiltonsantabarbarabeachfrontresort.com

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Santa Barbara, CA 93103
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# BREAKING NEW GROUND.

Radius is always looking for opportunities to keep the chains moving forward. Growing our business and our expertise go hand in hand as we work to expand service and access in the communities we serve. In early 2021, we will move our South Coast headquarters to our newly constructed home at De La Guerra and Santa Barbara streets. And this past October we relocated our Ventura office to a larger space near The Collection at RiverPark in Oxnard. Both strategic moves are designed to provide our Team even greater flexibility to collaborate and innovate to benefit our clients.

Construction is underway at the new mixed-use development located at 214-226 E. De La Guerra St. With 26 apartments and 5,500 SF office space, The Radius/KIBO Group project is expected to be completed in early 2021.

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