RADIUS
Commercial Real Estate & Investments

RADIUS INSIGHT

YOUR GUIDE TO SOUTH COAST COMMERCIAL REAL ESTATE | Q1 2016 REPORT

COMMERCIAL SALES SUMMARY

Amid Robust Q1, Seller's Market Marches On

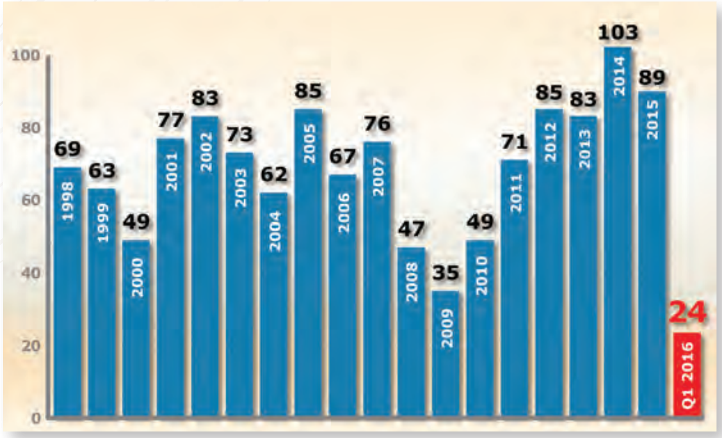
Statistically, first quarters tend to produce the fewest sales of the year. However 2016 got off to a solid start with 24 commercial sales during the first three months. To put it into perspective, first quarters over the past 18 years have averaged just 15 sales.

Furthermore, the 24 commercial deals closed in Q1 2016 represents the most prolific first quarter since 2011. Total sales volume for the quarter was approximately $129 Million compared to $49 million last year, though still below the $153 Million achieved in the first quarter of 2014.

Though it is too early to tell, if Q1 2016 is any indicator, the momentum that began in 2012 should continue and our sales forecast for 2016 remains promising.

Commercial Sales Continued on P.2

Q1 2016 South Coast Commercial Sales



*Excluding sales of apartments. **18-year average = 70 sales/year.*

2016 Quarterly Vacancy Comparison

	Q4 '15	Q1 '16
Office/R&D		
Santa Barbara	3.6%	3.6%
Goleta	7.7%	9.0%
Carpinteria	1.3%	1.0%
Industrial		
Santa Barbara	0.3%	0.4%
Goleta	5.1%	5.5%
Carpinteria	2.8%	2.5%
Retail		
Santa Barbara	1.3%	1.9%

Figures above represented in percentage points.

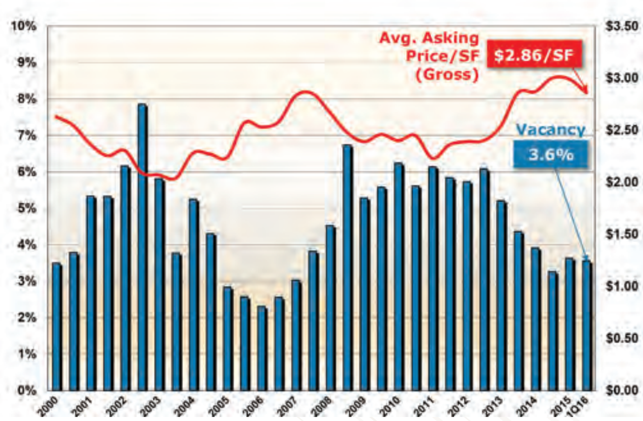
LEASING SUMMARY

Santa Barbara Office

As predicted, Santa Barbara's office vacancy remained flat at 3.6% at the end of the first quarter of 2016, still below the 16-year average of 4.7% vacancy. The largest office lease in the market was a 23,000 SF sublease to Kaplan International at 27 E. Cota St. Average asking rates dropped slightly from the end of 2015 yet remained close to all-time high levels at $2.86/SF Gross. It's worth noting that during the first quarter we continued to see a minimal amount of available/vacant spaces above 3,000 SF, while an increased number of spaces below 3,000 SF came available. We expect the second quarter to remain largely unchanged with average asking rates near $2.85/SF Gross and a slightly declining vacancy rate.

Leasing Continued on P.3

Santa Barbara Office | Avg. Asking Price & Vacancy Rate



COMMERCIAL SALES SUMMARY

Continued from P.1

Notable Q1 Sales

5198 Hollister Ave. & 1000 Casitas Pass Rd.* | *Est. $63.3 MM

March saw the combined sale of the Magnolia Center in Goleta and the Casitas Plaza Shopping Center in Carpinteria, purchased for an estimated $63.3 Million by R.O.I.C. (Retail Opportunity Investments Corporation; NASDAQ:ROIC), a REIT with corporate offices in San Diego. Excluding hotels, this was the largest transaction since 2002, surpassing the 2015 sale of the REI retail center on State Street that sold for $21,950,000.

214 State St.* | *$7.6 Million

This unique retail property located in the heart of the Funk Zone comprises approximately 8,584 square feet divided amongst two buildings. Current tenants include Yankee Noodle (formerly Union Ale), Reds Bar & Tapas, Kalyra Winery and Giessinger Winery. The property received multiple offers and ultimately sold above the asking price for $7.6 Million ($885/SF building) to an investor in a 1031 exchange. The property was sold at a 4.1% CAP rate.

915 E. Anapamu St.* | *$2,950,000

At just under an acre, 915 E. Anapamu Street is a residential development project adjacent to the Santa Barbara Bowl. The 40,946 SF parcel is permitted for 24 luxury apartment units to be built on the site based on the Average Unit Density (AUD) Program's Medium Density zoning which allows for 15–27 units per acre. The property sold to a local developer for $2,950,000 ($72/SF land) and the project is scheduled to break ground later this year.

SOLD | 5198 HOLLISTER AVE. (PICTURED) & 1000 CASITAS PASS RD. | EST. $63.3 MILLION

SOLD | 214 STATE ST. | LISTED AT $7,395,000

6750 Navigator Way* | *$12,750,000

This 46,430 SF multi tenant office building closed in February for $12,750,000 (6.5% CAP rate, $275/SF building). The building, also known as Cabrillo Business Park, houses Hewlett Packard, Texas Instruments, US Forest Service and Ergomotion. It was built in the early 1960's and fully remodeled in 2000 with an additional remodel in 2015.

324–336 N. Milpas St.* | *$8.2 Million

The 11,468 SF retail building was occupied by Fresh & Easy until the company went bankrupt in 2015. The vacant building was then leased to CVS who signed a 20 year lease in late 2015 and the building sold again in February, 2016. The property was sold for a 3.89% CAP rate and $715/SF building.

Transient Occupancy Tax

The most recent Transient Occupancy Tax (TOT) report showed the last two months have rebounded with TOT up 9.2% for February and 3.4% for March. While we had seen record TOT growth since 2011, the six months prior to February were down so two consecutive positive months is good news. The city attributed the 6 month decrease in TOT to a strong El Niño forecast, and predicted our upward trend will once again continue.

2016 Forecast

While we continue to observe record setting sales prices, fundamentals remain strong and interest rates continue to decline to new lows. According to The Alison Company, they have never seen interest rates on life insurance loans this low. Alison Company quoted one life insurance company's rates at 3.34% fixed for 10 years. With the combination of strong continued demand from 1031 exchange buyers and investors, low interest rates and slim supply, it appears this seller's market will continue to rumble on.

SOUTH COAST LEASING SUMMARY

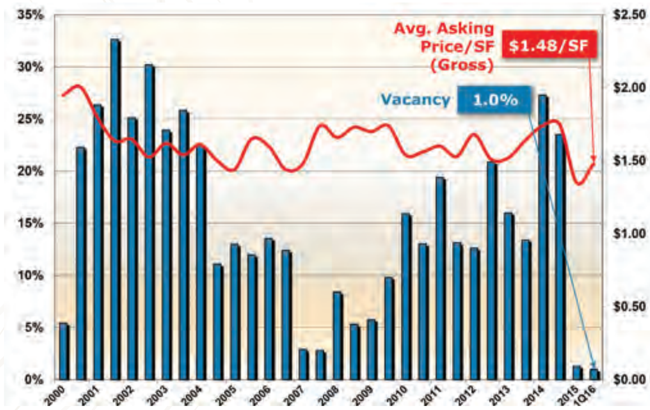
Continued from P.1

Carpinteria Office

For the second straight quarter Carpinteria's office vacancy remained extremely low at just 1% after the dramatic shift toward the end of 2015 that saw vacancy in the market plummet from around 25%. The large drop was due in large part to the conversion of nearly 52,000 SF at 5464 Carpinteria Ave. from Office to Senior Care. The tightening market was further compounded during the fourth quarter of 2015 and the first quarter of 2016 with the large leases of the former Salvation Army buildings in the Carpinteria Business Park. The run-down buildings had been unoccupied for the past seven years before the new tenant stepped in to lease the entire 59,000 SF project which is undergoing a complete renovation.

It was just a few years ago when the main concern in the market was CKE likely vacating 88,000 SF on the bluffs, potentially causing difficulty finding larger tenants to backfill the considerable space. Lured in part by more appealing lease rates in the Carpinteria area, construction management software company ProCore ended up signing leases to fill the space even prior to CKE vacating.

Carpinteria Office | Avg. Asking Price & Vacancy Rate



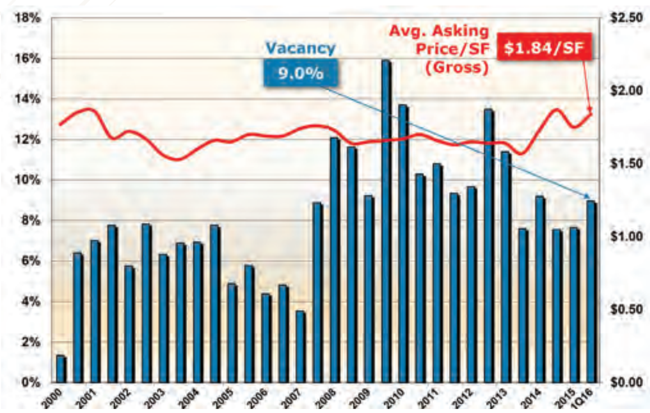
Goleta Office

Goleta's office vacancy rate increased to 9% during the first quarter of 2016. There was only one new lease over 10,000 SF signed during the quarter, with Coriant Advanced Technology Group taking approx. 10,500 SF of space at 30 S. La Patera Ln.

Activity for larger office spaces in Goleta remains slow, with nine spaces above 10,000 SF (totaling more than 285,000 SF) remaining on the market at the end of the first quarter. However, look for an owner/user to purchase 55 Castilian Dr. during the second quarter which will remove approx. 30,000 SF from the market.

Leasing Continued on P.4

Goleta Office | Avg. Asking Price & Vacancy Rate



LEASED | 6402 CINDY LN., CARPINTERIA | 25,665 SF

The second half of the former Salvation Army buildings leased this March, representing the second largest lease in the South Coast during the first quarter. The other building comprising 31,755 SF located at 1000 Mark Ave. leased last October to the same tenant. Both buildings are undergoing a complete renovation.

SOUTH COAST LEASING SUMMARY

Continued from P.3

Santa Barbara Industrial

The vacancy rate remained relatively unchanged in Q1. The big news versus this time last year is that average gross asking rates increased 15.5% to $1.71/SF. We expect rates to continue to increase, a trend which may also continue to displace tenants out of the market.

Carpinteria Industrial

Carpinteria's average gross asking rate shot up from $1.09/SF to $1.24/SF over the same period last year. At the time of this report there are only two industrial vacancies. There were just three leases in Q1 with the highlight being 25,665 SF at 6402 Cindy Ln. (former Salvation Army). Similar to Goleta and Santa Barbara, we forecast the continuation of extremely low vacancies and slowly rising rates.

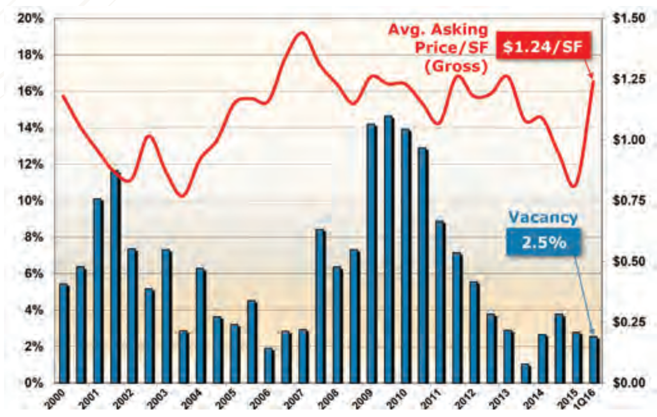
Goleta Industrial

Vacancy remained flat over last year at just 5.5% and the average gross asking rate ticked up to $1.57/SF. The largest vacancy is the Allergan sublease offering 105,000 SF. Other news includes the departure of Dupont from the market, vacating 33,000 SF at 600 Ward Dr. Still, the market remains healthy with numerous tenants unable to procure suitable space. Two highlight leases include a new technology company leasing 20,794 SF at 5756 Thornwood (formerly leased by FLIR) and Murray Construction leasing 17,200 SF at 749 Ward Dr. to facilitate Cottage Hospital's construction project. There are two pending industrial development projects off Pine and Kellogg Avenues that will eventually ease some of the demand, but they will not be complete for several years. We see little change in vacancy in 2016 with rents remaining stable with only slight increases.

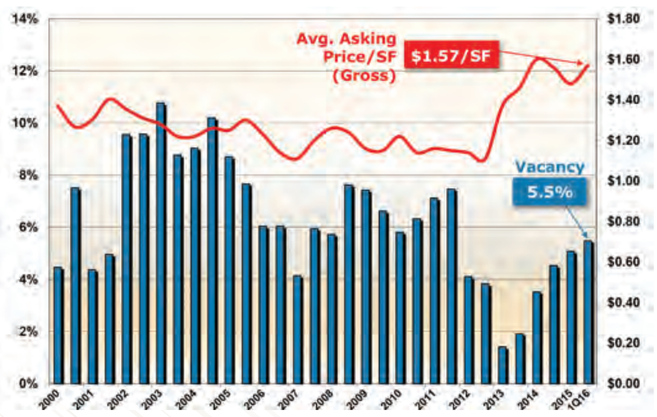
Leasing Continued on P.5

Santa Barbara Industrial | Avg. Asking Price & Vacancy Rate

Carpinteria Industrial | Avg. Asking Price & Vacancy Rate



Goleta Industrial | Avg. Asking Price & Vacancy Rate



LEASED | 1 N. CALLE CESAR CHAVEZ, CARPINTERIA
SUITES 21, 29, 31, 33 | 37,548 SF

SOUTH COAST LEASING SUMMARY

Continued from P.4

Santa Barbara Retail

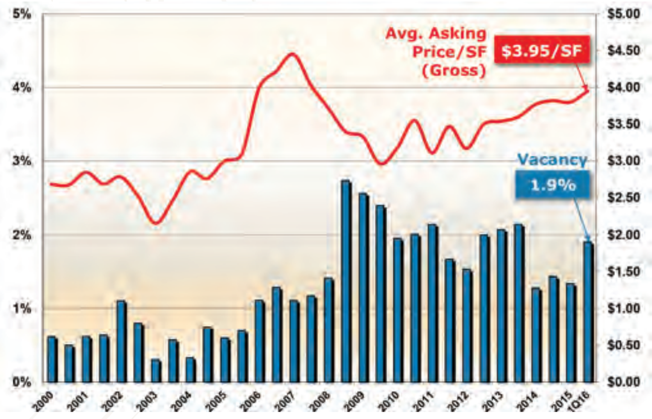
Though the vacancy rate for the retail sector in Santa Barbara, Montecito and Summerland sat at a healthy 1.9% by the end of Q1 2016, that figure was up from 1.3% at the end of Q4 2015. The market continued to struggle in the first quarter as the amount of available space for lease grew by 42%, rising from 140,500 SF to 199,900 SF. Currently there are more than 70 different locations for retailers to choose from in the area.

The average gross asking rate increased slightly from $3.80/SF at year end 2015 to $3.95/SF at the end of this first quarter. One reason for the increase in retail vacancy is owners pushing to increase retail lease rates.

There were just 14 leases signed during the quarter totaling 23,181 SF, with only three of those larger than 2,000 SF, perhaps illustrating that retailers remain cautious about opening new stores while many look to reduce their monthly rent and stay profitable by securing smaller spaces.

In the coming months we may see some landlords incentivized to reduce their asking rates to fill some of their vacancies, given the saturation of available space the market. Also look for more activity from national retailers entering the market to fill some of the more expensive spaces on State Street.

Santa Barbara Retail | Avg. Asking Price & Vacancy Rate



MULTIFAMILY SALES SUMMARY

South County

Q1 Quick Stats (5+ Units)

Avg. GRM's = 17x | Avg. CAP Rates = 3.58% | Avg. PPU = $340,000

Apartment financing remains readily available with several local banks competing for these loans.

We are off to a good start in 2016 in the South County's multi-family market. Many of the favorable trends we've seen recently will most likely continue through 2016. It is widely believed that high demand will continue to keep vacancies low, and the steady climb we have seen in rents across the board will also continue. The first quarter was extremely active with five sales of properties 5+ units in size and 13 transactions of 2–4 unit properties. Currently there are just three (3) 5+ unit properties available in Santa Barbara County with three more in escrow. The trend of historically low availability continues while we remain in one of the highest demand eras the market has ever seen. More and more off market deals are happening particularly to satisfy the 1031 exchange buyer. Additionally Isla Vista remains extremely strong. Despite just one closing in the first quarter, there are currently three properties in escrow including a 42 unit building at 910 Camino Pescadero.

Interest rates remain low at 3.25% – 3.875% and look to stay this way into at least the first half of 2016. CAP rates are averaging in the mid 3's to high 4's for 5+ units. The smaller properties in the 2–4 unit range are in the mid 2's to low 3's.

Rental rates continue to rise based on strong demand and low vacancy. The vacancy rate continues to average around 1.0% for the Santa Barbara area compared to the national apartment vacancy rate of 4.5% in Q1, according to REIS. This marks three consecutive quarters of national vacancy rate increases. Santa Barbara rental rates continue to be the strongest, averaging $1,750 –$1,950 for a one bedroom apartment depending on location.

Demand from millennials continues to impact the multi-family market. Those born between 1980 and 2000 now outnumber baby boomers and make up more than one-third of the country's population. This group is showing a preference for renting over home ownership. In fact, the rate of home ownership for Americans 36 and younger is at a historically low point. Even though rents have increased slightly every year, many professionals are choosing to rent rather than buy, preferring the financial flexibility.

Multifamily Continued on P.7

Q1 SALES TRANSACTIONS (5+ UNITS)

Q1 NOTABLE TRANSACTIONS

- ***156 Olive St., Summerland | 8 Units***
  Closed 3/17/16 for $$2,625,000
  $328,125/Unit | CAP Rate 2.19%
  Rents were low, this was a value add play
- ***234 S. Voluntario St., Santa Barbara | 20 Units***
  Closed 1/14/16 for $5,725,000
  $286,250/Unit | CAP 4.87%
- ***232 W. Yanonali St., Santa Barbara | 5 Units***
  Closed 1/26/16 for $2,442,500
  $407,073/Unit | CAP 2.34%
  Prime West Beach location; rents were low with a value add
- ***6740 Sabado Tarde Rd., Isla Vista | 2 Units***
  Closed 1/22/16 for $1,175,000
  $587,500/Unit

MULTIFAMILY SALES SUMMARY

North County

We are seeing more investors looking to the North County of Santa Barbara as new Senior developments are near completion. Santa Maria and Lompoc continue to see an increase in activity. North County tallied 10 transactions in the first quarter with two (2) 5+ units in size and eight (8) 2–4 units. CAP rates for 5+ unit properties range between mid. 4's to high 5's depending on size, location and quality. CAP rates for 2–4 unit properties average approximately 4.25%. Average price per unit has been $148,000. There are two notable properties for sale in Lompoc/Vandenberg Village, a 122 unit complex offered at $21,025,000, and a 14 unit condominium property at 375 Burton Mesa Blvd.

We expect North County rents to continue to rise for the same fundamentals as in South County: little to no construction and an influx of would-be homeowners becoming renters because they don't qualify for loans or prefer the flexibility of renting.

Investors continue to receive the benefit of investing in North County apartment buildings with very high levels of occupancy and no rent concessions.

West Ventura County

Demand for multifamily investments continues to hold strong in the Ventura market and like most areas the supply just has not been there to satisfy investors. The West County leads the way in Ventura County with the lowest vacancy rates in Q1, and the City of Ventura's overall vacancy rate of just 2.7% places it among the top 10 cities in California with one of the tightest rental markets. Rents are aggressively rising in accordance. Many owners are saying the market is the strongest they have ever seen. Landlords are also now requiring tenants to have renter's insurance and are charging a fixed monthly fee for water/sewer/trash, services which have been included in the base rent. The average overall rent has been about $1,759 for a one bedroom depending on location.

One of the largest sales in Ventura County was the off market sale of a 390-unit portfolio comprising two properties which traded in January 2016. Decron Properties Corp. acquired the properties from Prometheus Real Estate Group for $126.5 million. The properties are located at 550 Laurie Ln. and 300 Rolling Oaks Dr., both in Thousand Oaks. The LA based real estate company has been an active value-add multifamily investor in California over the last several months and has acquired more than 1,300 units totaling around $400 million. Decron's investment strategy is to acquire and renovate aging apartment communities in well-located, supply constrained markets with vibrant growth.

The average CAP rate for properties sold in Q1 ranged from 4.04% – 4.65% depending on location, asset quality and size. Price per unit ranged from $190,000 to $233,000. Total year to date transactions were four (4) 5+ unit properties and two (2) 2 – 4 units.

In Summary

Multifamily sales activity and values for quality assets are expected to continue to increase as individual and institutional investors compete for the most desirable properties. Multifamily activity will remain strong in 2016 and property owners who have been holding on to properties might want to think about selling this year. Given the fact that the number of buyers continues to far outweigh sellers, we are anticipating the current trends to continue.

VILLA DE LOS ROBLES APARTMENTS
300 ROLLING OAKS DR., THOUSAND OAKS
248 UNITS | $73.5 MILLION | $296,371/UNIT

Sold in January with the Marlowe Apartments located at 550 Laurie Ln., Thousand Oaks ($53.5 Million | $376,761/Unit), for a total of $126.5 Million.